



**CHAPTER I  
OVERVIEW OF THE  
STATE FINANCES**



# Chapter I: Overview of State Finances

## 1.1 Profile of the State

This chapter provides a brief economic profile of the State and describes the basis and approach to the Report. The underlying data provides an overview of the structure of Government Accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position, including the deficits/ surplus.

## 1.2 Profile of the State

Arunachal Pradesh is a North-Eastern and Himalayan (NE&H) State<sup>1</sup>. Area-wise, it is the largest State in the North-Eastern Region (NER) with a geographical area of 83,743 square kilometres (sq. km.). It has an international border with Bhutan in the West (160 kms), China in the North and North-East (1,080 kms) and Myanmar in the East (440 kms). It also shares common boundaries with the States of Assam and Nagaland. According to the National Commission on Population, Ministry of Health and Family Welfare, population of the State for the year 2023-24 stood at 15,76,000<sup>2</sup>. Arunachal Pradesh has a lower density of population (18 per sq. km.), population below poverty line (34.67 *per cent*), infant mortality rate (21 per 1000 live births). The decadal growth of the population of the State (during 2014-2024) was 10.29 *per cent* which was higher than that of Himachal Pradesh (6.59 *per cent*), Meghalaya (10.28 *per cent*), Nagaland (10.28 *per cent*), Tripura (10.28 *per cent*) and Sikkim (10.14 *per cent*) and lower than that of other NE&H States (ranging between 10.31 and 12.09 *per cent*) and all India (11.26 *per cent*) as well. Literacy rate of the State was 65.40 *per cent* as compared to the All-India Average figure of 73.00 *per cent*. Details of General information of the State are highlighted in *Appendix 1.1 (Part C)*

### 1.2.1 Gross State Domestic Product and Gross State Value Added of the State

**Gross State Domestic Product (GSDP):** GSDP is market value of all the goods and services produced within the boundaries of the State in a given period of time.

**Gross State Value Added (GSVA):** GSVA is the value of output produced without including net on taxes on products against subsidies on products.

Growth of GSDP and GSVA is the most important indicator for measuring the economic growth of a State.

<sup>1</sup> NE&H States: Arunachal Pradesh, Assam, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Uttarakhand

<sup>2</sup> Male: 8,10,000 and Female: 7,66,000

Gross Value Added (GVA) is being used for economic analysis by GoI and international organisations like IMF and World Bank as GVA is considered a better indicator of economic growth compared to GDP, as it ignores the impact of taxes and subsidies. While GDP is computed as the sum of total of the various expenditures incurred in the economy including private consumption spending, government consumption spending and gross fixed capital formation or investment spending, it reflects essentially on the demand conditions in the economy. Both measures have difference in treatment of net taxes, and because of the inclusion of taxes in GDP it may differ from the real output situation. From a policymaker's perspective it is vital to have a comparison of the GVA and GSVA data for better analysis and for making better policy interventions.

This GSDP estimate, when analysed over a period, reveals the direction, extent, and speed of change in the level of economic development in a State. Trends in annual growth of the State of Arunachal Pradesh's GSDP and Gross State Value Added (GSVA) *vis-à-vis* Gross Domestic Product (GDP) and Gross Value Added (GVA) of the country are given in **Table 1.1**.

**Table 1.1: Trends in the growth rate of GSDP *vis-a-vis* GDP**

Particulars	2019-20	2020-21	2021-22	2022-23	2023-24
GDP at the current price (₹ in crore)	2,01,03,593	1,98,54,096	2,35,97,399	2,69,49,646 (FRE)	2,95,35,667 (PE)
GVA at the basic price (₹ in crore)	1,83,81,117	1,82,10,997	2,16,35,584	2,46,59,041	2,67,62,147
The growth rate of GDP over the previous year (in per cent)	6.37	(-) 1.24	18.85	14.21	9.60
Growth rate of GVA over the previous year (in per cent)	7.02	(-) 0.93	18.81	13.97	8.53
Per Capita GDP at current price (in ₹)	1,49,915	1,46,480	1,72,422	1,94,879	2,11,725
GSDP at the current price (₹ in crore)	30,024 (RE)	30,525 (RE)	34,775 (PE)	39,630 (QE)	43,992 (AE)
GSVA at basic price (₹ in crore)	28,330	28,563	32,705	37,904	41,736
Growth rate of GSDP over the previous year (in per cent)	18.51	1.67	13.92	13.96	11.01
Growth rate of GSVA over the previous year (in per cent)	18.16	0.82	14.50	15.90	10.11
Per Capita GSDP (in ₹)	1,98,701	2,00,035	2,25,810	2,54,855	2,80,380

Sources: GDP/GVA- A brief on the Finances of the States issued by Economic Division of Comptroller and Auditor General of India and Directorate of Economics and Statistics, Government of Arunachal Pradesh (GoAP)(as on 31 March 2024)

RE - Revised Estimates; PE - Provisional Estimates; AE - Advanced Estimates; QE - Quick Estimates and FRE – First Revised Estimates

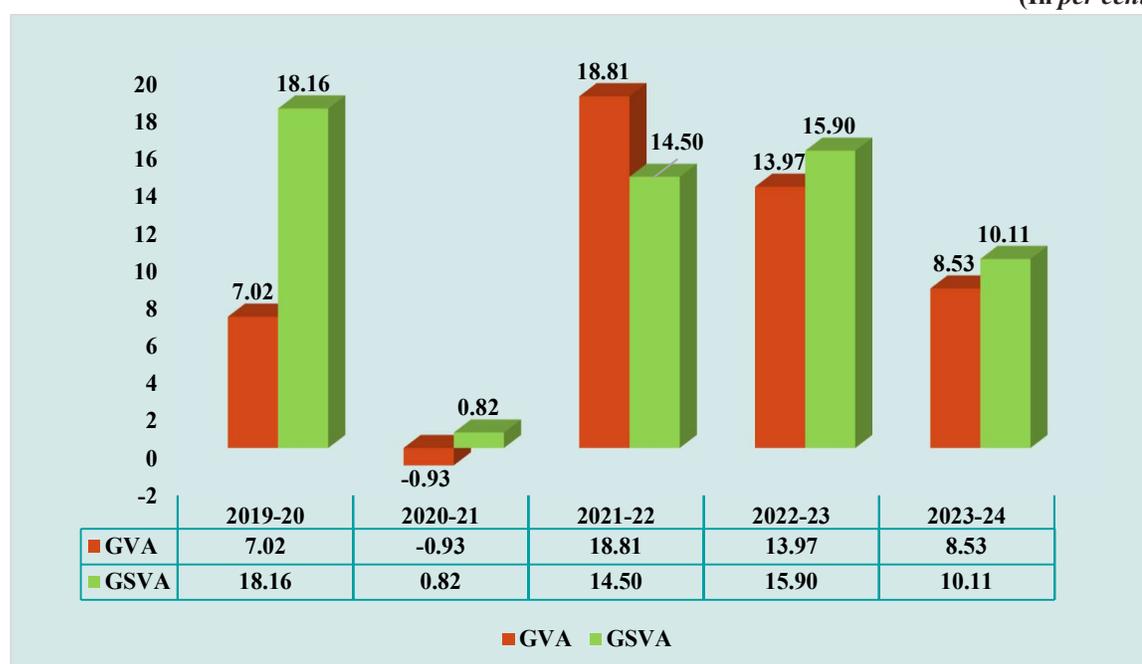
It can be seen from **Table 1.1** above, that Gross State Domestic Product (GSDP) (at current prices) grew at a CAGR of 10.02 *per cent* from ₹30,023.65 crore in 2019-20 to ₹43,991.61 crore in 2023-24. During 2023-24, GSDP increased by ₹4,361.66 crore (11.01 *per cent*) from ₹39,629.95 crore in 2022-23 to ₹43,991.61 crore in 2023-24. The growth rate of GSDP (at current price) and (GSVA at basic prices) during the period 2019-20 to 2023-24 have been showing inconsistent trends during the five-year periods. The deceleration in growth rate of GSDP and GSVA during the period 2020-21 over the previous year was due to the Covid pandemic. The growth rate of GSDP (at current prices) during 2023-24 was 11.01 *per cent* which was lower than the previous year's growth rate of 13.96 *per cent*. The decrease in GSDP during 2023-24 over the previous year can be attributed to the decrease in all the sectors of GSDP {Industry (26.28 *per cent*), Agriculture (9.60 *per cent*) and Tertiary sectors (16.17 *per cent*)}. During 2023-24, The growth rate of GSDP (11.01 *per cent*) was higher than that of the GDP (9.60 *per cent*). Moreover, the Compound Annual Growth Rate (CAGR) of per capita GSDP (8.99 *per cent*) during the period 2019-20 to 2023-24 was negligible less than the CAGR of per capita GDP (9.01 *per cent*) during the same period.

During 2023-24, the annual growth rate of GSDP was 1.01 *per cent* points higher than the XV FC projected annual growth rate of GSDP (12.00 *per cent*). The State Government in its Medium-Term Fiscal Plan (MTFP), for the year 2023-24, projected GSDP (at current prices) as ₹37,870.00 crore, while the actual GSDP was ₹43,991.61 crore.

Trends of GVA and GSVA for the period from 2019-20 to 2023-24 is indicated in the **Chart 1.1**.

**Chart 1.1: Trends of GVA and GSVA for the period from 2019-20 to 2023-24**

(In *per cent*)

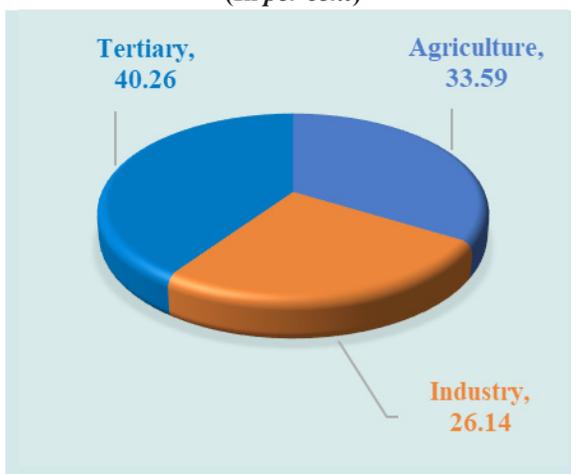


Source: GDP/GVA- GoI's Ministry of Statistics and Programme Implementation (as of 31 August 2024) and Directorate of Economics and Statistics, GoAP as on 31 March 2024

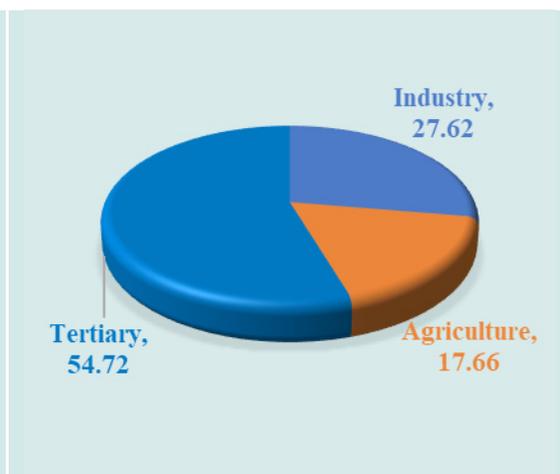
As can be seen from the above chart, the growth rate of the GSVA follows a fluctuating trend for the five-year period (2019-20 to 2023-24). During the period from 2019-20 to 2023-24, the growth rate of GSVA was higher in four years out of five years than that of GVA. During the year 2019-20, the growth rate of GSVA was significantly higher than that of GVA.

The sectoral contribution to the GSVA and GVA during 2023-24 is given in **Charts 1.2** and **1.3** respectively for comparison.

**Chart 1.2: Sector-wise GSVA for the year 2023-24 (In per cent)**



**Chart 1.3: Sector-wise GVA for 2023-24 (In per cent)**

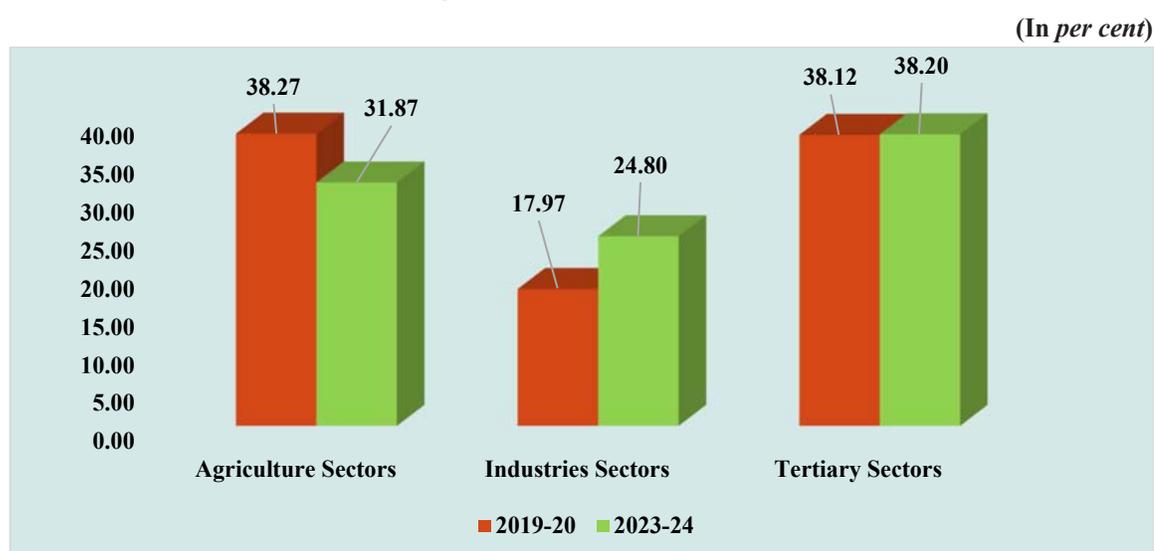


*Source: GDP/GVA- GoI's ministry of Statistics and Programme Implementation (as on 31 August 2024) and Directorate of Economics and Statistics, Government of Arunachal Pradesh (GoAP) as on 31 March 2024*

It can be seen from the above **Charts 1.2 and 1.3** that contribution of the services sector was higher in GSVA and GVA. Percentage contribution of the agriculture sector to GSVA was higher than the percentage contribution of the agriculture sector to GVA. Consequently, the percentage contributions of the industries and services sectors to the GSVA were less.

GSDP is the sum of value added (calculated without duplication) by different economic sectors (Agriculture, Industry, and Services- which form the three broad sectors) within the boundaries of the State during a year and taxes on products adjusted for subsidies. It is one of the most important measures of growth of a State's economy. It is compiled activity-wise as per the methodology prescribed by the Central Statistics Office (CSO), Government of India (GoI), and furnished by the Ministry of Statistics and Programme Implementation (MoSPI). Analysis of changes in sectoral contribution to GSDP is also important to understand the changing structure of the economy of the State. The economic activity of the State is generally divided into Primary, Secondary and Tertiary Sector, which corresponds to the Agriculture, Industry and Service sectors. The changes in sectoral contribution to GSDP for the period 2019-20 to 2023-24 is shown in **Chart 1.4**.

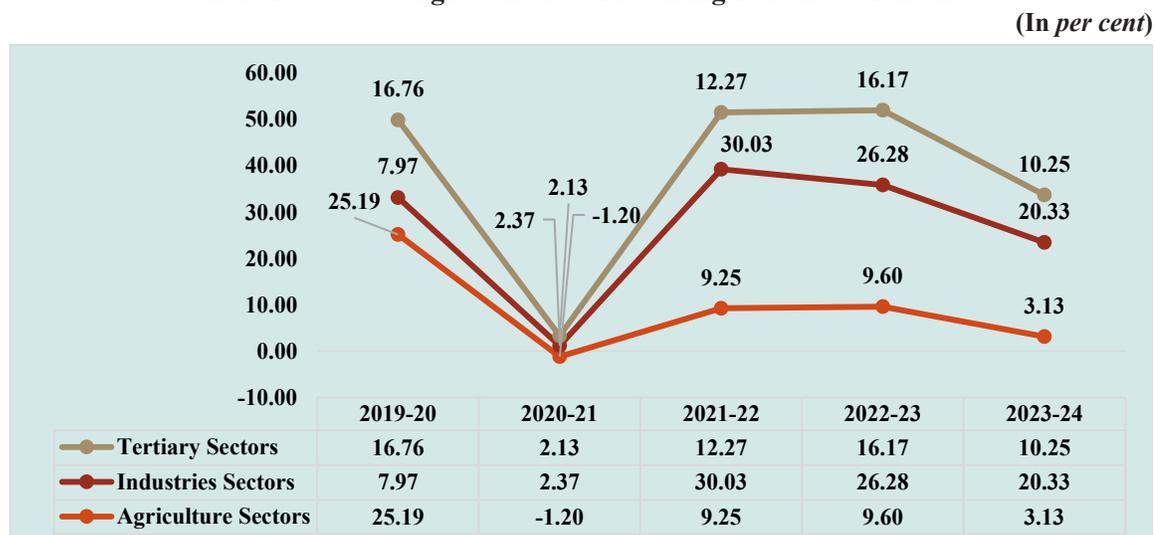
Chart 1.4: Change in the sectoral contribution of GSDP



Source: Directorate of Economics and Statistics, GoAP as on 31 March 2024

There was a decrease in the relative share of 'Agriculture to GSDP' during the period from 2019-20 to 2023-24. It reduced from 38.27 per cent in 2019-20 to 31.87 per cent in 2023-24. Consequently, there was an increase in the relative share of Industry and Tertiary sector to the GSDP as Industry Sector increased significantly from 17.97 per cent in 2019-20 to 24.80 per cent in 2023-24. The share of Tertiary sector increased marginally from 38.12 per cent in 2019-20 to 38.20 per cent in 2023-24. During 2023-24, the Service and Agriculture sectors continued to be the pivotal role for the socio-economic progress of Arunachal Pradesh as they contributed significantly to the growth of GSDP. The Individual Sectoral growths in GSDP are shown in **Chart 1.5**.

Chart 1.5: Sectoral growth of GSDP during 2019-20 to 2023-24.



Source: Directorate of Economics and Statistics, GoAP as on 31 March 2024

It can be seen from the above **Chart** that the growth rate of all the sectors showed a fluctuating trend during the five-years' period from 2019-20 to 2023-24 and reached at lowest growth rate in 2020-21 due to Covid pandemic. There was significant increase in growth rate of all the sectors of GSDP in 2021-22 which was attributed to recovery of

economic activities post Covid-19 pandemic. There was a steep decline in growth rate of all the sectors of GSDP during 2023-24 over the previous year. While in absolute term, all the sectors showed an increasing trend in comparison to previous year as indicated in **Table 1.2**.

**Table 1.2: Sector-wise details of contribution in GSDP during 2019-20 to 2023-24**  
(₹ in crore)

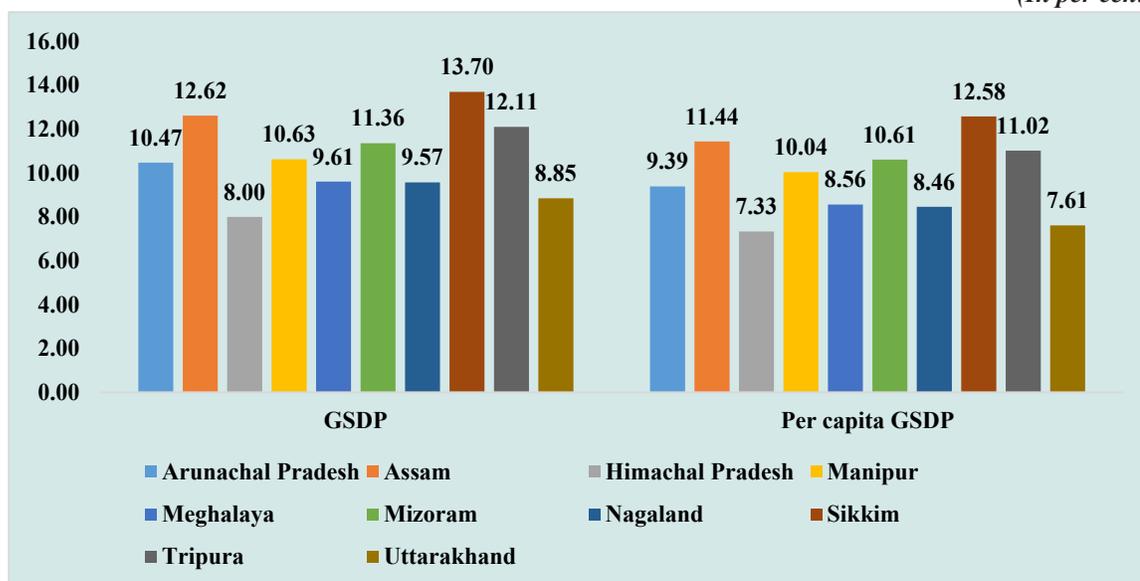
Sectors Name	2019-20	2020-21	2021-22	2022-23	2023-24
Agriculture	11,491.25	11,353.80	12,404.04	13,594.8	14,020.76
Industries	5,394.67	5,522.47	7,180.66	9,067.52	10,910.95
Tertiary	11,443.71	11,686.91	13,120.61	15,241.93	16,804.29

Source: information furnished by the Directorate of Economics and Statistics, GoAP as on 31 March 2024

It can be seen from **Table 1.2** that contribution of the services sector was higher in the last five years' period from 2019-2024.

As compared to the Average Compound Annual Growth Rate (CAGR) of the NE&H State during 2014-15 to 2023-24 were 10.06 and 8.89 *per cent* respectively registered for GDP and per capita GDP, the State witnessed the CAGR of 10.47 and 9.39 *per cent* respectively for GSDP and per capita GSDP. The decadal CAGR of the State *vis-a-vis* NE&H States is shown in **Chart 1.6**.

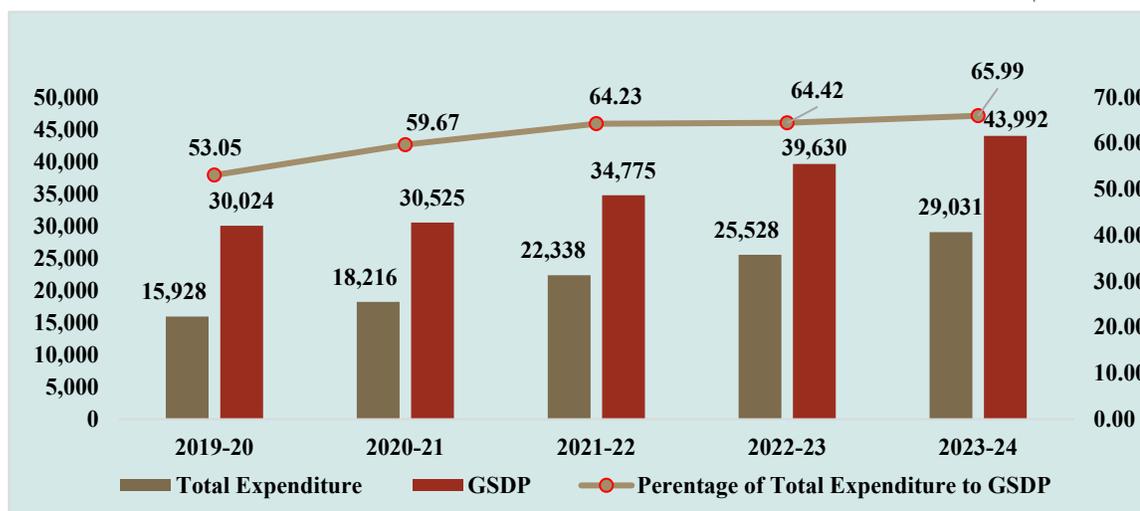
**Chart 1.6: details of decadal CAGR of the NE&H States**  
(In per cent)



Source: A brief on the finances of the States issued by Economic Division of Comptroller and Auditor General of India

The percentage of total State Government expenditure to GSDP shows an increasing trend during the period from 2019-20 to 2023-24. It steadily increased from 53.05 *per cent* in 2019-20 to 65.99 *per cent* in 2023-24. The trend of the percentage of Government Expenditure to GSDP for the period 2019-20 to 2023-24 is shown in **Chart 1.7**.

**Chart 1.7: Trends of Government Expenditure to GSDP for the period 2019-20 to 2023-24**  
(₹ in crore)



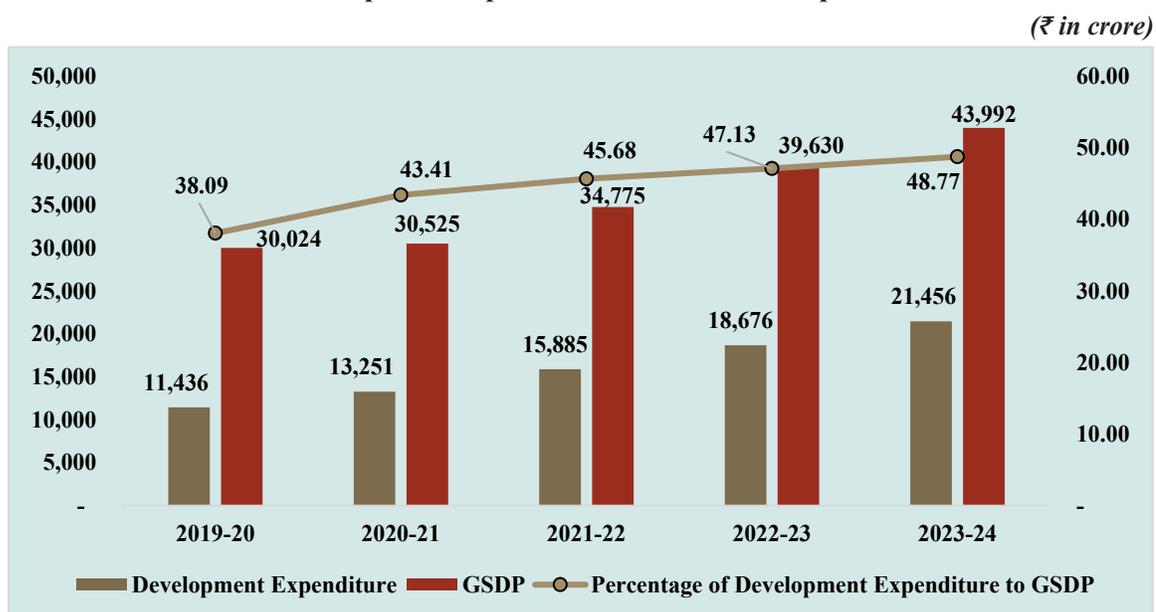
Source: Directorate of Economics and Statistics, Government of Arunachal Pradesh (GoAP) as on 31 March 2024 and Finance Accounts of the respective year.

The high *percentage* share of Government expenditure in GSDP indicates that the State is still heavily dependent on Government spending. The high dependence of the State on Government expenditure for its growth exposes it to vulnerabilities and hence this dependence must be reduced by necessary policy initiatives.

Government Expenditure is generally divided into Revenue and Capital Expenditure. Further, these two (Revenue and Capital) are classified into Developmental and Non-developmental Expenditures. Developmental Expenditures are expenditure on Economic services (Agriculture, Industry, Energy, Transport, Communication and Science and Technology) and Social services (Education, Health, Employment, Housing, Nutrition and Others) Non-Developmental Expenditures are expenditure on Administrative and Fiscal expenditures (Pension, Interest payments and Others).

Increase in Developmental Expenditures leads to multiplier effect on economic growth of the State. Contribution of Development Expenditure in GSDP for the period from 2019-20 to 2023-24 is shown in **Chart 1.8**.

Chart 1.8: Trends of Development Expenditure to GSDP for the period 2019-20 to 2023-24



Source: Directorate of Economics and Statistics, Government of Arunachal Pradesh (GoAP) as on 31 March 2024 and Finance Accounts of the respective year.

It could be seen from the above **chart** that relative share of Development Expenditure to GSDP for the State is showing an increasing trend from 2019-20 to 2023-24. This is healthy sign for economy and social development, as it could contribute to infrastructure development, employment growth and revenue generation for the State in future.

### 1.3 Basis and Approach to State Finances Audit Report

In terms of Article 151(2) of the Constitution of India, the reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the legislature of the State. The State Finances Audit Report (SFAR) is prepared and submitted under the Article *ibid* of the constitution of India.

Annual Accounts (Finance and Appropriation Accounts) are prepared by the Accounts Wing of the Office of Principal Accountant General, Arunachal Pradesh from the vouchers, challans and initial and subsidiary accounts rendered by the Treasuries, by the Offices and Departments responsible for keeping of such accounts functioning under the control of the State Government in addition to the advices received from the Reserve Bank of India. The Treasuries, Offices and/ or Departments functioning under the control of Government of Arunachal Pradesh (GoAP) are primarily responsible for the preparation and correctness of the initial and subsidiary accounts as well as ensuring the regularity of transactions in accordance with the applicable laws, standards, rules and regulations relating to such accounts and transactions.

### 1.3.1 Sources of the preparation of State Finances Audit Report

Finance Accounts and Appropriation Accounts of the State constitute the core data for this report. Other sources include the following:

- Budget of the State: for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of money spend and its compliance with the relevant rules and prescribed procedures.
- GSDP data and other State related statistics.
- Arunachal Pradesh State Financial Responsibility and Budget Management (APFRBM) Act.
- Recommendations of the Fifteenth Finance Commission (XV FC).
- Results of audit carried out by the Audit Wing of Office of the Principal Accountant General, Arunachal Pradesh.
- Other data (accounting as well as MIS) with Departmental Authorities and Treasuries.
- Best practices and Guidelines of the Government of India (GoI), and
- Various audit reports of the CAG of India.

The audit analysis/findings of Chapters I to IV of the Report were discussed in an exit meeting held on 03 April 2025 with the Commissioner, Department of Finance, Government of Arunachal Pradesh. Replies furnished in the meeting and those received from the State Government in April 2025 have been suitably incorporated in the Report.

### 1.3.2 Audit of Accounts and preparation of State Finances Audit Report

Audit of the Annual Accounts of Arunachal Pradesh is conducted independently by the Audit Wing of the Principal Accountant General, Arunachal Pradesh in accordance with the requirements of Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service Act, 1971) for expression of an opinion on these Accounts based on the results of such audit. An audit includes examination, on test basis, of evidence relevant to the amounts and disclosures in financial statements. The reports of the Comptroller and Auditor General of India relating to the Accounts of the State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State under Article 151(2) of the Constitution of India.

## 1.4 Overview of Government Account Structure

The Accounts of the State Government are kept in three parts:

### 1. Consolidated Fund of the State [Article 266 (1) of the Constitution of India]

This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans

from Financial Institutions, Special Securities issued to National Small Savings Fund, etc.), Ways and Means advances (W and MA) extended by the Reserve Bank of India and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance with the law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditures (e.g., salaries of Constitutional authorities, loan repayments etc.) constitute a charge on the Consolidated Fund of the State (Charged expenditure) and are not subject to vote by the Legislature. All other expenditures (Voted expenditure) are voted by the State Legislature.

## **2. Contingency Fund of the State [Article 267 (2) of the Constitution of India]**

This Fund is in the nature of an imprest which is established by the State Legislature by law and is placed at the disposal of the Governor to enable advance disbursements to be made for meeting unforeseen expenditures pending authorization of such expenditures by the State Legislature. The fund is recouped by debiting the expenditure to the concerned functional major head relating to the Consolidated Fund of the State.

## **3. Public Accounts of the State [Article 266 (2) of the Constitution]**

Apart from above, all other public money received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes repayable like Small Savings and Provident Funds, Deposits (bearing interest or not bearing interest), Advances, Reserve Funds (bearing interest or not bearing interest), Remittances and Suspense heads (both of which are transitory heads, pending final booking). The net cash balance available with the Government is also included under the Public Account. The Public Account is not subject to the vote of the State Legislature.

## **Budget Document**

In terms of Article 202 of the Constitution of India, a statement of the estimated receipts and expenditures of the State for the year in the form of an Annual Financial Statement is presented to the State Legislature. This 'Annual Financial Statement' constitutes the main budget document. Further, the budget must distinguish expenditure on the revenue account from other expenditures.

**Revenue Receipts** consists of Tax Revenue (Own tax revenue plus share of Union Taxes/ Duties), non-tax revenue and grants from Government of India.

**Revenue Expenditure** consists of all those expenditures of the government which do not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the government departments and various services, interest payments on debt incurred by the government, and grants given to various institutions (even though some of the grants may be meant for creation of assets).

The **Capital Receipts** consist of:

- **Debt Receipts:** Market Loans, Bonds, Loans from financial institutions, Net transaction under Ways and Means Advances, Loans and Advances from Central Government, *etc.*; and
- **Non-Debt Receipts:** Proceeds from disinvestment, Recoveries of loans and advances *etc.*

**Capital Expenditure** includes expenditure on the acquisition of land, building, machinery, equipment, expenditure on investment in shares and expenditure on loans and advances by the government to PSUs and other parties. At present, we have an accounting classification system in the Government that is both functional and economic.

	Attribute of transaction	Classification
Standardised in LMMH <sup>3</sup> by CGA <sup>4</sup>	Function- Education, Health, <i>etc.</i> / Department	Major Head under Grants (4-digit)
	Sub-Function	Sub Major head (2-digit)
	Programme	Minor Head (3-digit)
Flexibility left for States	Scheme	Sub-Head (2-digit)
	Sub-scheme	Detailed Head (2-digit)
	Economic nature/ Activity	Object Head-salary, minor works, <i>etc.</i> (2-digit)

The functional classification apprises us about the department, function, scheme or programme and object of the expenditure. Economic classification helps organise these payments as revenue, capital, debt, *etc.* Economic classification is achieved by the numbering logic embedded in the first digit of 4-digit Major Heads. For instance, 0 and 1 are for revenue receipts; 2 and 3 are for revenue expenditure, *etc.* Economic classification is also achieved by an inherent definition and distribution of some object heads. For instance, generally “salary” object head is revenue expenditure, “construction” object head is capital expenditure. Object head is the primary unit of appropriation in the budget documents.

**Public Debt and Public Liability:** In this Report, ‘Public Debt’ has been taken to comprise market borrowings, institutional loans, special securities issued to National Small Savings Fund (NSSF), loan given by Central Government *etc.* for this purpose, the major heads 6003 and 6004-Public Debt have been taken into consideration.

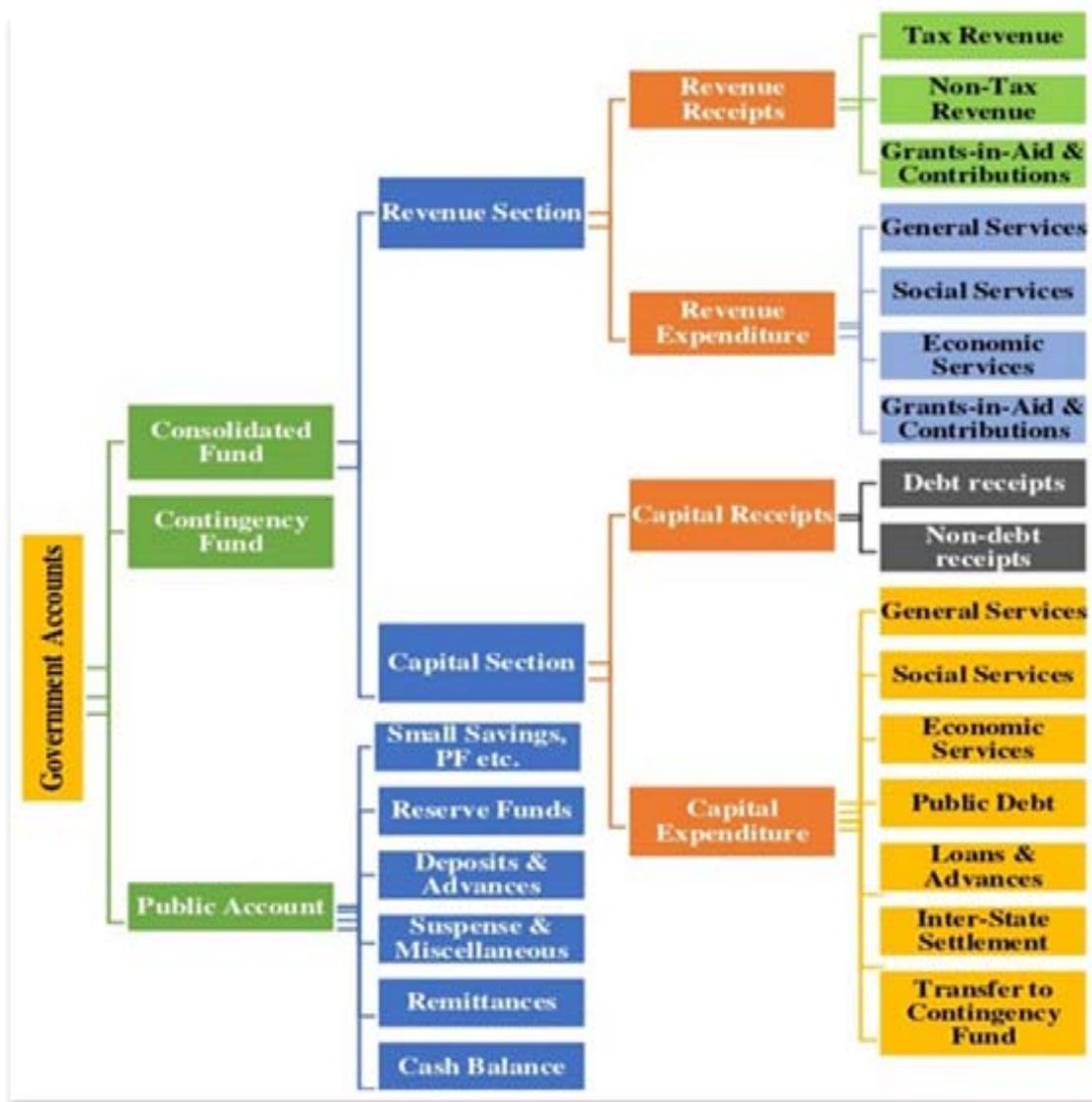
Further, the transactions relating to ‘Small Savings, Provident Fund, *etc.*’, ‘Reserve Funds’ and ‘Deposit and Advances’ under Public Accounts are such that the Government incurs a liability to repay the moneys received or has a claim to recover the amounts paid. The transactions relating to ‘Remittances’ and ‘Suspense’ under Public Account, including merely adjusting heads such as transactions are remittances of cash between treasuries and currency chests and transfer between different accounting circles.

<sup>3</sup> List of Major and Minor Heads

<sup>4</sup> Controller General of Accounts

In this report, 'Public Liability' has been taken to include the transactions under major heads 8001 to 8554 relating to 'Small Savings, Provident Fund, etc.' 'Reserve Funds' and Deposit and Advances' along with the transactions under major heads 6003 and 6004.

### Structure of Government Accounts



## 1.5 Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of State causes to be laid before the Arunachal Pradesh Legislature a statement of the estimated receipts and expenditures of the State for the year in the form of an Annual Financial Statement. In terms of Article 203, the statement is submitted to the State Legislature in the form of 79 Demands for Grants/ Appropriations. After approval of these grants, the Appropriation Bill is passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund. The State has more than one consolidated Budgets which are in the nature of sub-budgets like Gender Budget and Outcome budget.

Arunachal Pradesh Government did not have a Budget Manual to guide the State Government functionaries in preparing their budgetary estimates and to monitor the expenditure activities. In the absence of any Budget Manual, the Budget preparation exercise is done based on the General Financial Rules and the Budget circulars issued by the State Government from time to time. Results of audit scrutiny of budget 2023-24 and implementation of other budgetary initiatives of the State Government are detailed in **Chapter III** of this Report.

## 1.6 Snapshot of the Finances

Details of actual financial results for 2023-24 *vis-à-vis* Budget Estimates (BEs) for the same year and *vis-à-vis* actuals for the previous year, *i.e.*, 2022-23 are shown in **Table 1.3**. Time series data of the Finances of GoAP for the years 2019-20 to 2023-24 is given in **Appendix 2.2**.

**Table 1.3: Financial results *vis-à-vis* BEs**

(₹ in crore)

Sl. No.	Components	Actuals 2022-23	Budget Estimate 2023-24	Actuals 2023-24	Percentage of Actuals 2023-24 to GDP
1	Tax Revenue (i+ ii)	18,926.52	20,511.88	22,642.83	51.47
i	Own Tax Revenue	2,237.35	1,128.63	2,797.61	6.36
ii	Share of Union taxes/ duties	16,689.17	19,383.25	19,845.22	45.11
2	Non-Tax Revenue	1,017.87	847.77	900.92	2.05
3	Grants-in-Aid and contributions	3,843.75	4,798.00	3,897.25	8.86
4	Revenue Receipts (1+2+3)	23,788.14	26,157.65	27,441.00	62.38
5	Recoveries of Loans and Advances	4.86	10.00	5.96	0.01
6	Other Receipts	0.00	0.00	0.00	0.00
7	Borrowings and Other Liabilities (a)	1,735.40	-	1,583.39	3.60
8	Capital Receipts (5+6+7)	1,740.26	10.00	1,589.35	3.61
9	Total Receipts (4+8)	25,528.40	26,167.65	29,030.35	65.99
10	Revenue Expenditure	17,417.67	23,094.80	20,564.35	46.75
11	Interest Payments	834.64	891.86	858.03	1.95
12	Capital Expenditure	8,107.36	5,583.91	8,463.83	19.24
13	Loans and Advances	3.37	4.19	2.67	0.01
14	Total Expenditure (10+12+13)	25,528.40	28,682.90	29,030.85	65.99
15	Revenue Surplus ((4-10)	6,370.47	3,062.85	6,876.65	15.63
16	Fiscal Deficit (14-4-5-6) (-)/ Surplus (+)	1,735.40	-	1,583.89	3.60
17	Primary Deficit (16-11) (-)/ Surplus(+)	900.76	-	725.86	1.65

Source: Finance Accounts of respective years and Annual Financial Statement of GoAP of the respective year

(a) Borrowings and other Liabilities: Net (Receipts - Disbursements) of Public Debt + Net of Contingency Fund + Net (Receipts - Disbursements) of Public Account + Net of Opening and Closing Cash Balance.

During 2023-24, BE of the Tax Revenue was ₹20,511.88 crore while the actual receipts were ₹22,642.83 crore which was ₹2,130.95 crore (10.39 per cent) higher than the BE. The Own Tax Revenue (OTR) was ₹2,797.61 crore while the Budget Estimates was ₹1,128.63 crore. The actual receipts under Grants-in-Aid (GIA) contribution during 2023-24 was ₹3,897.31 crore against the Budget estimate of ₹4,798.00 crore resulting in less receipt GIA by ₹900.69 crore which was due to short/ non release of grants as per recommendation of XV FC by GoI as depicted in **Table 2.13**. The actual Revenue Surplus was ₹6,876.65 crore against the Budget Estimates of Revenue Surplus of ₹3,062.85 crore. A detailed analysis on the finances of the State Government is made in the Chapter II of this report.

## 1.7 Snapshot of Assets and Liabilities of the Government

Government accounts also capture the financial liabilities of the Government and the assets created out of the expenditure incurred. The liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from public account and reserve funds while the assets comprise mainly of the capital expenditure, the loans and advances given by the State Government and the cash balances as detailed in *Appendix 1.2*.

**Table 1.4: Summarised position of Assets and Liabilities**

(₹ in crore)

Liabilities			Assets		
	2022-23	2023-24		2022-23	2023-24
<b>(i). Consolidated Fund</b>					
Internal Debt	8,520.84	9,392.43	Gross Capital Outlay	52,518.20	60,982.01
Loans and Advances from GoI	2,243.43	4,581.44	Loans and Advances	90.07	86.78
Contingency Fund	0.05	0.05			
<b>Total (i)</b>	<b>10,764.32</b>	<b>13,973.92</b>	<b>Total (A)</b>	<b>52,608.27</b>	<b>61,068.79</b>
<b>(ii) Public Account</b>					
Small Savings, Provident Funds, etc.	3,117.55	3,273.34	Advances	502.38	506.54
Deposits	161.58	75.03	Remittance	293.96	367.35
Reserve Funds	3,867.58	4,788.57	Cash balance (including investment in Earmarked Fund)	4,346.15	6,908.83
Suspense and Miscellaneous	(-)1,280.03	(-)1255.74			
<b>Total (ii)</b>	<b>5,866.68</b>	<b>6,881.20</b>	<b>Total Public Account</b>	<b>5,142.49</b>	<b>7,782.72</b>
(iii) Surplus in Revenue Account	41,119.76	47,996.39	-	-	-
<b>Total (i to iii)</b>	<b>57,750.76</b>	<b>68,851.51</b>	<b>Total</b>	<b>57,750.76</b>	<b>68,851.51</b>

Source: Finance Accounts of respective year

## 1.8 Fiscal Balance: Achievement of deficit and total debt targets

Deficit indicators, revenue augmentation and expenditure management are major yardsticks for judging the fiscal performance of a government. Prudent financial

management involves generation of an annual Revenue Surplus (Revenue Receipts exceeding Revenue Expenditure). The Twelfth Finance Commission recommended States to enact their own Fiscal Responsibility and Budget Management (FRBM) Acts to ensure prudence in the fiscal management and fiscal stability by progressive elimination of Revenue Deficit, reduction in Fiscal Deficit and prudent debt management. Accordingly, the State Government enacted the Arunachal Pradesh Fiscal Responsibility and Budget Management Act (APFRBM), 2006 with an objective of ensuring prudence in the fiscal management by eliminating revenue deficit, reducing fiscal deficit and overall/outstanding debt to acceptable level, establishing improved debt management and improving transparency in a medium-term framework. In this context, the Act provides quantitative targets to be adhered by the State with regard to the deficit measures and debt level.

The XV Finance Commission recommended that the States should amend their FRBM Act so as to ensure that their Legislations are consistent with the fiscal sustainability framework put in place. Thus, the Government of Arunachal Pradesh amended its FRBM twice *i.e.* in April 2022 and in February 2024.

### 1.8.1 APFRBM targets on key fiscal parameters and achievement

Targets relating to the key fiscal parameters envisaged in the amended APFRBM Act for the period 2019-20 to 2023-24 respectively are shown in **Table 1.5**.

**Table 1.5: Compliance with provisions of APFRBM Act**

Fiscal Parameters	Fiscal targets set in FRBM and Actual for the year 2019-20 to 2023-24	₹ in crore)				
		2019-20	2020-21	2021-22	2022-23	2023-24
Revenue Deficit (-)/ Surplus (+) (₹ in crore)	Revenue Surplus	2,669.82	4,036.01	5,385.00	6,370.47	6,876.65
		✓	✓	✓	✓	✓
Fiscal Deficit as percentage of GSDP	Targets	3.00	3.00	4.00	3.50	3.00
	Actual	3.44	3.56	3.36	4.94	3.60
	Status of Achievement	✗	✗	✓	✗	✗
Ratio of total outstanding debt to GSDP (in per cent)	Targets	25.00	25.00	43.94	43.52	33.10
	Actual	40.41	44.87	39.50	39.48	44.58
	Status of Achievement	✗	✗	✓	✓	✗

Source: Finance Accounts of the respective year, MTFP and APFRBM

The State of Arunachal Pradesh was successful in maintaining Revenue Surplus as target set in APFRBM Act. However, the State failed to manage the Fiscal Deficit throughout the period (except in 2021-22) as the Fiscal Deficit as a percentage of GSDP exceeded the

limit prescribed in the APFRBM Act. Further, the State failed to succeed in anchoring the ratio of total outstanding debt to GSDP during 2019-20, 2020-21, and 2023-24 within the levels prescribed in APFRBM.

### 1.8.2 Achievement of projections made in Medium Term Fiscal Policy Statement

In compliance with the APFRBM Act, the State Government is required to lay before the House of Legislature (1) Macro Economic Framework Statement, (2) Medium Term Fiscal Plan Statement and (3) Fiscal Plan Strategy Statement, along with the Annual Financial Statement and the Demands for Grants. The Medium-Term Fiscal Plan (MTFP) is to set forth a three-year rolling target for the prescribed fiscal indicators.

Further, the Medium-Term Fiscal Policy Statement shall include a policy overview and outlook for the ensuing year on taxation, expenditure and borrowing. The aim of Medium-Term Fiscal Plan is to control revenue expenditure by cutting administrative costs by bringing austerity measures on the one hand and mobilizing additional resources by improving tax on other hand, so as to enhance investment in productive capital assets and social sectors in order to attain sustainable and equitable economic growth.

**Table 1.6** indicates the variation between the projections made for 2023-24 in MTFP presented to the State Legislature with the Annual Budget for 2023-24 and Actuals for the year.

**Table 1.6: Actuals vis-à-vis projection in MTFP for 2023-24**

(₹ in crore)

Components	Projections as per MTFP	Actuals	Variation
1	2	3	4 (3-2)
Own Tax Revenue	2,565.04	2,797.61	232.57
Non-Tax Revenue	847.77	900.92	53.15
Share of Union Taxes/ Duties	17,946.84	19,845.22	1,898.38
Grants-in-Aid from GoI	4,798.00	3,897.25	(-)900.75
Revenue Receipts	26,157.65	27,441.00	1,283.35
Revenue Expenditure	23,094.84	20,564.35	(-)2,530.49
Capital Expenditure	5,583.91	8,463.83	2,879.92
Revenue Surplus/ Deficit	3,062.85	6,876.65	3,813.80
Fiscal Surplus (+)/ Deficit (-)	(-)758.25	(-)1583.89	(-)825.64
Outstanding Debt Liabilities	20,084.12	19,610.17	(-)473.95
GSDP at current prices	37,870.00	43,991.61	6,121.61
Debt-GSDP ratio ( <i>per cent</i> )	53.03	44.58	(-)8.45
GSDP Growth Rate at Current Prices ( <i>in per cent</i> )	-	25.31	25.31

Source: MTFP Statement of FRBM and Finance Accounts 2023-24

The State was able to mobilise its own resources (Own Tax Revenue *plus* Non-Tax Revenue) as envisaged in its MTFP as the actual receipts were higher than the projections by ₹285.72 crore (8.37 *per cent*). The State succeeded in controlling the Revenue Expenditure within the projection of MTFP as actual Revenue expenditure was ₹20,564.35 crore against the projected Revenue expenditure of ₹23,094.84 crore in MTFP. The State was able to achieve Revenue Surplus projected in the MTFP. Actual Revenue Surplus was ₹6,876.65 crore which increased by ₹3,813.80 crore (124.52 *per cent*) over the Revenue Surplus projected in MTFP (₹3,062.85 crore). Further, the Revenue Surplus impacted the Capital expenditure of the Government which was meant for the improvement of infrastructure in the State. The actual Capital Expenditure during the current year was ₹8,463.83 crore which exceeded the projection made by State Government by ₹2,879.92 crore (51.58 *per cent*).

Arunachal Pradesh was not able to control Fiscal Deficit as actual Fiscal Deficit of the State during the current year was ₹1,583.89 crore while ₹758.25 crore was projected in MTFP for 2023-24. This was due to the significant increase in the actual Capital Expenditure than projected Capital Expenditure in MTFP.

Audit concludes that the State exhibited prudent revenue expenditure management, resulting in a higher-than-projected Revenue Surplus. Lower fiscal deficit suggests improved fiscal sustainability; however, the increase in the Debt-to-GSDP ratio is a concern for long-term fiscal health. Underperformance in tax and non-tax revenues indicates a need for better revenue mobilization efforts. GSDP growth rate being lower than expected signals economic slowdown, impacting overall fiscal planning.

## 1.9 Trends in Key Fiscal Parameters

Deficit financing done judiciously may be viewed as a prudent fiscal management by the Government. Two important pointers to the fiscal health to be seen are, how the deficit is financed and how the resources raised are applied. This Section presents trend, nature, magnitude and manner of financing these deficits and also the assessment of the actual level of revenue and fiscal deficits *vis-à-vis* targets set under APFRBM Act/ Rules for the year 2023-24.

### 1.9.1 What are Deficit and Surplus?

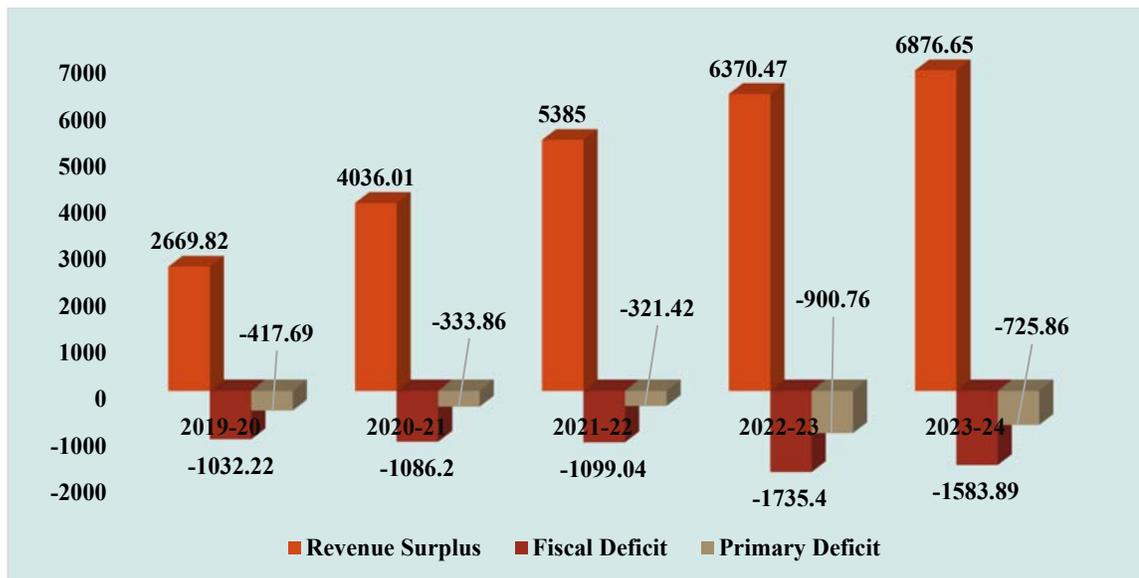
<b>Revenue Deficit/ Surplus</b>	<i>Refers to the gap between Revenue Expenditure and Revenue Receipts</i>
<b>Fiscal Deficit/ Surplus</b>	<i>This is the difference between the Revenue Receipts plus Non-debt Capital Receipts (NDCR) and the Total Expenditure. FD is reflective of the total borrowing requirements of Government</i>
<b>Primary Deficit/ Surplus</b>	<i>Primary Deficit is measured as Fiscal Deficit less interest payments</i>

### 1.9.2 Trends of Surplus/ Deficit

The trend of the Surplus/ Deficit indicators in the past five years are given in **Chart 1.9**.

Chart 1.9: Trends in Surplus/ Deficit indicators

(₹ in crore)



Source: Finance Accounts of respective year

**Chart 1.9** reveals that the State consistently maintained Revenue Surplus during the last five years' period during 2019-2024. During the last five years' period, there was a significant surplus in revenue account which could attributed to high increase in revenue receipts compared to the increase in revenue expenditure. The Revenue Surplus was showed an increasing trend during 2019-20 to 2023-24. The Revenue Surplus increased by ₹4,206.83 crore (157.57 per cent) from ₹2,669.82 crore in 2019-20 to ₹6,876.65 crore in 2023-24. During 2023-24, Revenue Surplus increased by ₹506.18 crore (7.95 per cent) over the previous year (₹6,370.47 crore).

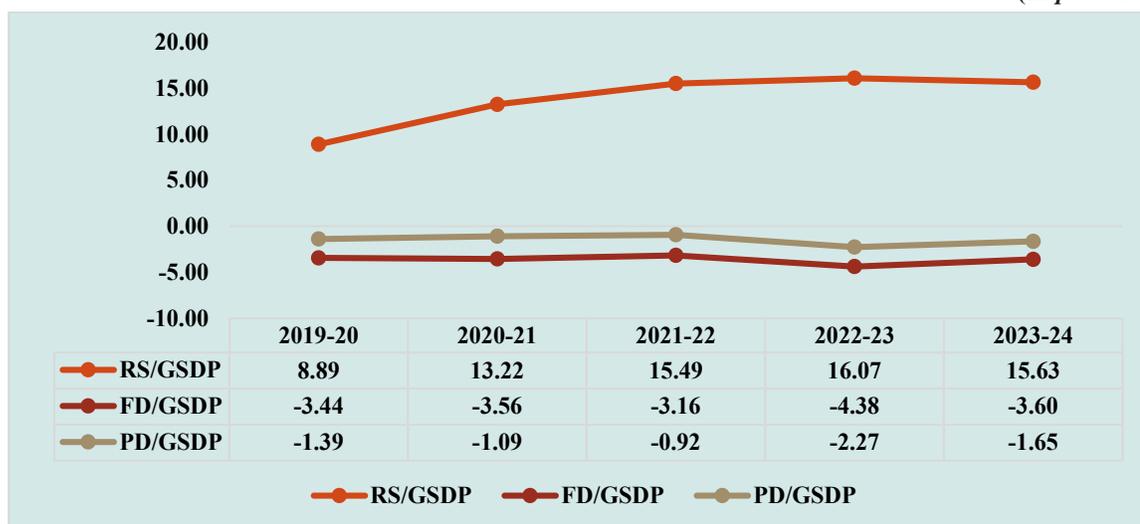
The Fiscal Deficit increased by ₹551.67 crore (53.44 per cent) from ₹1,032.22 crore in 2019-20 to ₹1,583.89 crore in 2023-24. During the current year, the Fiscal Deficit decreased by ₹151.51 crore (8.73 per cent) over the previous year (₹1,735.40 crore) which was due to an increase in the Total Expenditure over the previous year. Further, the actual Fiscal Deficit ₹1,583.89 crore during the current year was ₹825.64 crore higher than the projected Fiscal Deficit of ₹758.25 crore in the Budget Estimates.

As against the Budget Estimates of ₹133.61 crore for 2023-24, the Primary Deficit of the State was ₹725.86 crore which was higher by ₹592.25 crore (443.27 per cent). However, the PD declined by ₹174.90 crore (19.42 per cent) over the last financial year 2022-23. This reduction witnessed in Primary Deficit over the last financial year can primarily be attributed to improvement observed in fiscal balance of the State in 2023-24 compared to 2022-23.

The trend of these Surplus and Deficits as a percentage of GSDP over the five-year period from 2019-20 to 2023-24 is depicted in **Chart 1.10**.

Chart 1.10: Trends in Deficit/ Surplus relative to GSDP

(In per cent)



Source: Finance Accounts of respective year

The steady increase in Revenue Surplus as a percentage of GSDP shows improvement in the fiscal performance of the State and allowing more funds for Capital investment rather than funding recurring expenses through borrowing. It can be seen from **Chart 1.10** that the Revenue Surplus in absolute terms shows an increasing trend during 2019-20 to 2023-24. Similarly, the ratio of Revenue Surplus to GSDP shown an increasing trend during the period 2019-20 to 2022-23 while the ratio was decreased to 15.63 per cent in 2023-24 from 18.15 per cent in 2022-23 due to significant increase of GSDP in 2023-24 over the previous year.

Revenue Surplus growth is a positive sign, allowing more funds for capital investment rather than funding recurring expenses through borrowing.

Fiscal Deficit remains significant but has declined as a percentage of GSDP, indicating that borrowing is being managed relative to economic growth.

The rise in Primary Deficit suggests an increasing reliance on borrowed funds to meet non-interest expenditures, requiring a reassessment of expenditure priorities.

Prudent fiscal management is needed to ensure that debt-financed spending is focused on asset creation rather than recurring expenditures. A long-term fiscal consolidation roadmap should aim at sustaining Revenue Surplus while reducing Primary and Fiscal Deficits through enhanced revenue mobilization and expenditure efficiency

The targets set by XV Finance Commission and those projected in the State budget *vis-à-vis* achievements in respect of major fiscal aggregates with reference to GSDP during 2023-24 are given in the **Table 1.7**.

**Table 1.7: Targets vis-à-vis achievements in respect of major fiscal aggregates for the year 2023-24**

Fiscal Indicators	Targets set by XV FC	Targets projected in the Budget	Actuals (Status of achievement)	Percentage variation of actual over	
				Targets set by XV FC	Targets projected in the Budget
Revenue Surplus/ GSDP (in per cent)	12.30	8.09	(+) 15.63 ✓	3.33	7.54
Fiscal Deficit/ GSDP (in per cent)	(-) 3.00	(-) 2.00	(-) 3.60 ✗	0.60	1.60
Total Outstanding Liabilities to GSDP (in per cent)	36.90	53.03	44.58 ✗	7.68	(-) 8.45

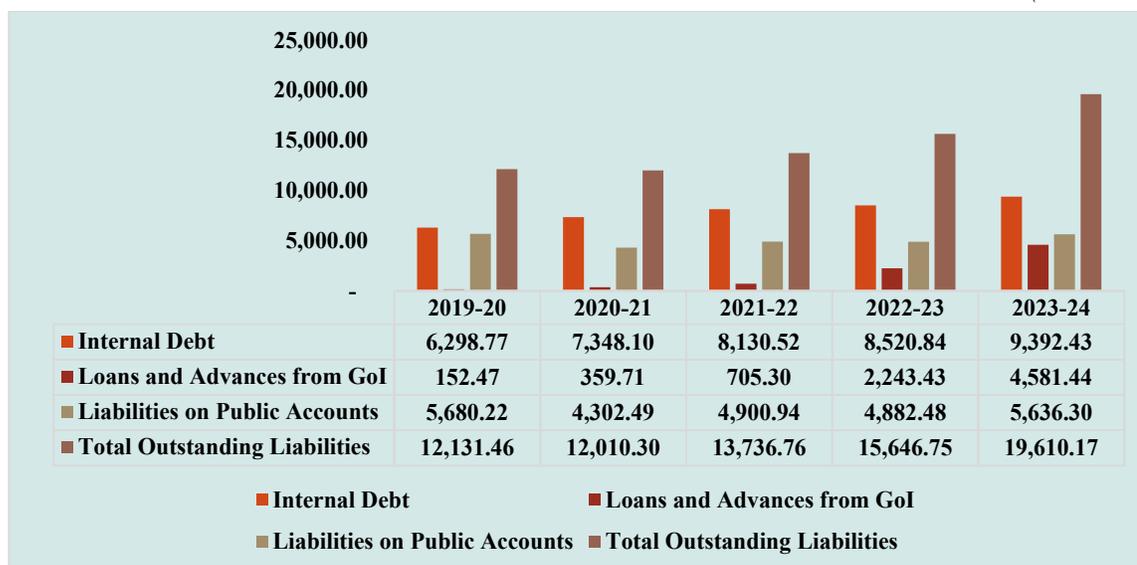
Source: XV FC, MTFP for the year 2023-24 and Finance Accounts, 2023-24

During 2023-24, the State surpassed the target of Revenue Surplus set by XV FC and MTFP. However, it has breached the indicative ceiling of Fiscal Deficit and outstanding liabilities given by the XV FC. The State has been able to keep the outstanding liabilities as proportion of GSDP within the target set in the MTFP.

Trend of Fiscal Liabilities during the period 2019-20 to 2023-24 is shown in **Chart 1.11**.

**Chart 1.11: Trends of Outstanding Liabilities**

(₹ in crore)



Source: Finance Accounts of the respective year

Total Outstanding Liabilities of the State increased by ₹7,478.71 crore (61.65 per cent) from ₹12,131.46 crore in 2019-20 to ₹19,610.17 crore in 2023-24. During the current year, Total Outstanding Liabilities increased by ₹3,963.42 crore (25.33 per cent) over the previous year (₹15,646.75 crore) and this was mainly due to an increase in the internal Debt by ₹871.59 crore (10.23 per cent), Loans from GoI by ₹2,338.01 crore (104.22 per cent) and Liabilities on Public Accounts ₹753.00 crore (15.44 per cent).

### 1.9.3 Performance of the State Government with respect to borrowings according to limits fixed by Government of India

Article 293 (3) of the Constitution of India, *inter alia*, provides that a State may not rise any loan without consent of Government of India, if any part of a loan which has been made to the State by GoI, is still outstanding.

As per Statement 6 of State Finance Accounts *viz.* statement of borrowings and other liabilities, State borrowed ₹3,775.00 crore during the financial year 2023-24. Net Borrowing ceiling of State was ₹1,319.75 crore (three percent of GSDP of ₹43,991.61 crore), while the actual net borrowing of the State was ₹3,209.60 crore which was higher than the recommended ceiling.

### 1.9.4 Post Audit Revenue Surplus and Fiscal Deficit

Excessive focus on the short-term objective of overcoming Fiscal Deficit encourages creative accounting and recourse to one-off deficit-reducing measures. **Table 1.8** assesses effective Surplus/ Deficit after taking into account the short-contribution/ non-contribution to funds and incorrect classifications/ booking by the State Government during 2022-23.

**Table 1.8: Actual Revenue Surplus and Fiscal Deficit**

(₹ in crore)

Particulars	Impact on Revenue Surplus	Impact on Fiscal Deficit
	Understated (-)/ overstated (+)	Understated (+)/ overstated (-)
Transfer of labour Cess to Arunachal Pradesh Building and Other Construction Workers Welfare Board	(-) 84.97	(-) 84.97
Non-discharge of Interest liabilities	(+) 59.05	(+) 59.05
Capital Expenditure booked under Revenue Expenditure	(-) 33.00	--
Revenue Expenditure booked under Capital Expenditure	(+) 27.43	--
<b>Total</b>	<b>(-) 31.49</b>	<b>(-) 25.92</b>

Source: Finance Accounts, 2023-24, volume-I

As can be seen from **Table 1.8** above, there was an understatement of Revenue Surplus of the State by ₹31.49 crore during the year. Considering that the overall Revenue Surplus depicted in the accounts was ₹6,876.65 crore, the State would have a Revenue Surplus of ₹6,908.14 crore during 2023-24 if adjustments in **Table 1.8** are made.

Similarly, the Fiscal Deficit during 2023-24 was found overstated by ₹25.92 crore if adjustments depicted in **Table 1.6** are affected. Considering **Table 1.6**, the State would have Fiscal Deficit of ₹1,557.97 crore during 2023-24 instead of Fiscal Deficit of ₹1,583.89 crore.

## 1.10 Conclusion

Gross State Domestic Product (GSDP) (at current prices) grew at a CAGR of 10.02 *per cent* from ₹30,023.65 crore in 2019-20 to ₹43,991.61 crore in 2023-24. During 2023-24, GSDP increased by ₹4,361.66 crore (11.01 *per cent*) from ₹39,629.95 crore in 2022-23 to ₹43,991.61 crore in 2023-24.

The FRBM Act/ Rules prescribes maintaining of revenue surplus, fiscal deficit, debt as a percentage of the GSDP. The State Government was successful in maintaining the Revenue Surplus throughout the five years' period during 2019-2024. The State could achieve in maintaining the Fiscal Deficit as per the prescribed *per cent* of GSDP in one out of five years during the period from 2019-20 to 2023-24. The State also succeeded in maintaining the ratio of total outstanding debt to GSDP during 2021-22 and 2022-23.

The gap between the Revenue Receipts and Revenue Expenditure results in Revenue Surplus. The gap between the total expenditure and total non-debt receipt of the State results in Fiscal Deficit. The State had a Revenue surplus of ₹6,876.65 crore which was 15.63 *per cent* of GSDP. Fiscal deficit was ₹1,583.89 crore during 2023-24 which was 3.60 *per cent* of GSDP and primary deficit was ₹725.86 crore, 1.65 *per cent* of GSDP.

Revenue Surplus increased from ₹6,370.47 crore in 2022-23 to ₹6,876.65 crore in 2023-24, mainly due to a significant increase in Revenue Receipts (15.36 *per cent*). Fiscal Deficit (₹1,583.89 crore) decreased by ₹151.51 crore (8.73 *per cent*) as compared to the previous year (₹1,735.40 crore). Based on the result of examination of misclassification during post audit, the Revenue Surplus will increase from ₹6,876.65 crore to ₹6,908.14 crore and Fiscal Deficit will decrease from ₹1,583.89 crore to ₹1,557.97 crore.

## 1.11 Recommendations

- State Government needs to make continued efforts to achieve in the coming years, the projections on deficit and debt parameters made in the Arunachal Pradesh FRBM Act.
- The State Government should adhere to the proper accounting norms and steps may be taken to transfer the amount to the appropriate head of accounts as per the accounting norms.
- The State Government should consider the actual transactions/ misclassification *etc.* while determining the Revenue Surplus/ Fiscal Deficit.