

CHAPTER-1

OVERVIEW

Chapter 1: Overview

1.1 Profile of the State

Mizoram is situated in the North-Eastern Region (NER) of India bordering three of the eight States in the NER¹ and shares an international border with Myanmar and Bangladesh. It is the fifth smallest State of India in terms of geographical area (21,081 sq.km.) and second least populated State in the country. The population of the State increased from 8,88,573 in 2001 to 10,97,206 in 2011 at a decadal growth rate of 23.48 *per cent* which was higher than the National decadal growth rate of 11.26 *per cent*. The projected population as of March 2024 was 12,44,000². The State has eleven districts and three Autonomous District Councils (ADCs). General and financial data relating to the State are given in **Appendix I**.

1.1.1 Gross State Domestic Product of the State

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important indicator of the State's economy, as it denotes the extent of changes in the level of economic development of the State over a period of time.

Table 1.1 provides a comparison of GDP and GSDP for the period 2019-20 to 2023-24.

Table 1.1: Trends in GSDP compared to GDP

	(₹ in crore)				
Year	2019-20	2020-21	2021-22	2022-23 ³	2023-24 ⁴
INDIA					
GDP at current price	2,01,03,593	1,98,54,096	2,35,97,399	2,69,49,646	2,95,35,667
GVA	1,83,81,117	1,82,10,997	2,16,35,584	2,46,59,041	2,67,62,147
Growth rate of GDP over previous year (in <i>per cent</i>)	6.37	-1.24	18.85	14.21	9.60
Growth rate of GVA over previous year (in <i>per cent</i>)	7.02	-0.93	18.81	13.97	8.53
Per Capita GDP (in ₹)	1,49,915	1,46,480	1,72,422	1,94,879	2,11,725
MIZORAM					
GSDP at current prices	24,990	23,923	26,695	30,690	35,579
GSVA	24,133	23,302	25,879	29,565	34,153
Growth rate of GSDP over previous year (in <i>per cent</i>)	14.04	-4.27	11.59	14.97	15.93
Growth rate of GSVA over previous year (in <i>per cent</i>)	14.59	-3.44	11.06	14.24	15.52
Per Capita GSDP (in ₹)	2,08,594	1,97,710	2,18,634	2,48,908	2,86,004

Source: MOSPF data and Department of Economics and Statistics and State Government.

¹. Assam, Manipur and Tripura

². As per projected population figures provided by Department of Economics and Statistics, Government of Mizoram.

³. Provisional Estimates

⁴. Projected/Advance Estimates

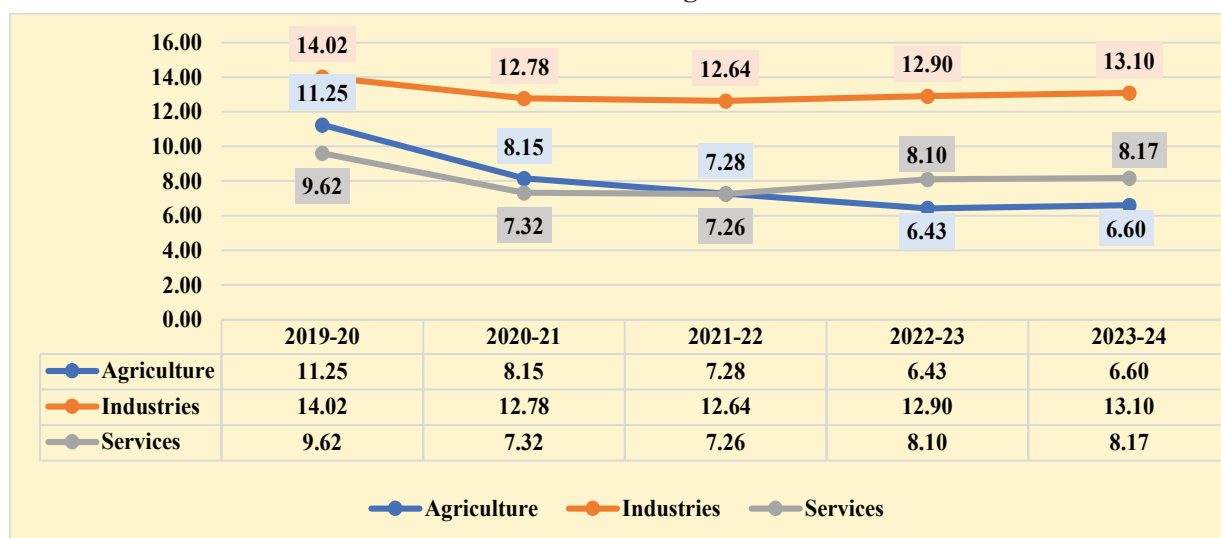
⁵. MOSPI – Ministry of Statistics and Programme Implementation, Government of India

The Gross State Domestic Product (GSDP) 2023-24 at current prices was ₹ 35,579 crore and the GDP in 2023-24 at current prices was ₹ 2,95,35,667 crore. Further, the per capita GSDP of the State for the year 2023-24 was ₹ 2,86,004 while that of the country was ₹ 2,11,725. Compared to GDP, GSDP grew at a higher rate during 2019-20, fell behind in 2020-21 and 2021-22 but surpassed GDP growth rate again in 2022-23 and 2023-24. GSDP of Mizoram increased over the previous year by 15.93 *per cent* during 2023-24. Further, during 2023-24, the per capita GSDP (projected estimates) of Mizoram at current prices was ₹ 2,86,004 which was more than the North-Eastern and Himalayan States' average of ₹ 2,01,137 and all India per capita GDP of ₹ 2,11,725.

Change in sectoral contribution to the GSDP is also important to understand the changing structure of the economy. The economic activity is generally divided into Primary, Secondary and Tertiary sectors, which correspond to the Agriculture and Allied Activities, Industry and Service sectors.

Chart 1.1 reveals that during the five-year period from 2019-20 to 2023-24, there has been a significant decrease in the growth rate of the Agriculture sector in GSDP, falling from 11.25 *per cent* in 2019-20 to 6.60 *per cent* in 2023-24. Similarly, growth rate of the Industry sector fell from 14.02 *per cent* in 2019-20 to 13.10 *per cent* in 2023-24 while the growth rate of the Services sector decreased from 9.62 *per cent* in 2019-20 to 8.17 *per cent* in 2023-24. However, the growth rate of the Industries and Services sectors has increased slightly along with the increase in GSDP in the last two years from 2021-22.

Chart 1.1: Sectoral growth in GSDP



Source: Department of Economics and Statistics, Government of Mizoram

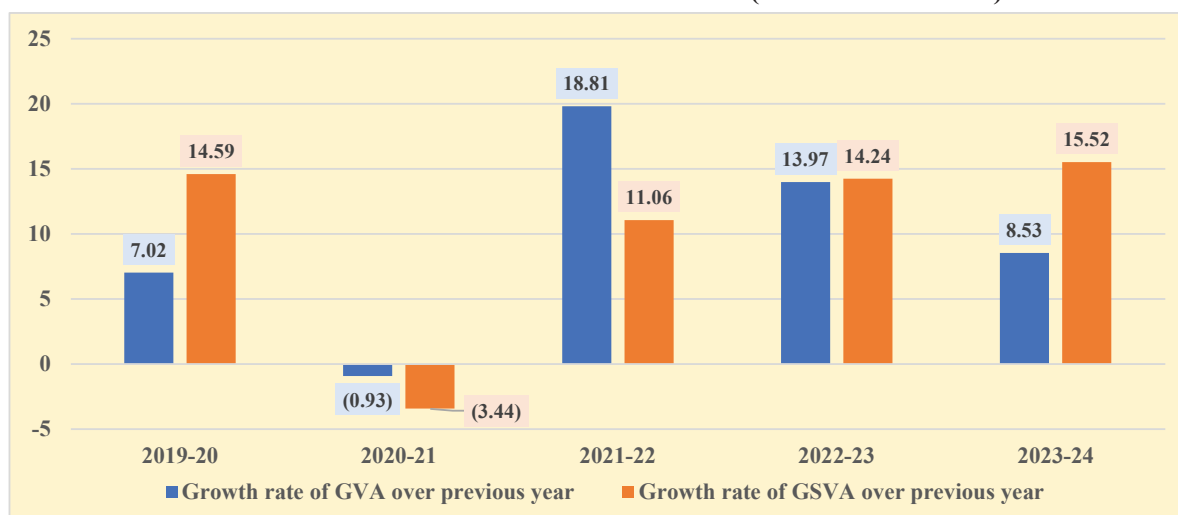
Gross Value Added (GVA)⁶ is used for economic analysis by Government of India (GOI) and international organisations like the International Monetary Fund (IMF) and World Bank as GVA is considered a better indicator of economic health than GDP. While GDP is computed as the sum of the various expenditures incurred in the economy, including private consumption spending, government consumption spending and gross fixed capital formation or investment spending reflecting the demand conditions in the economy, both measures have difference in treatment of net taxes as a result of which the inclusion of

⁶ $GVA = GDP - \text{taxes} + \text{subsidy}$

taxes in GDP may differ from the real output situation. From a policy maker's perspective, it is therefore vital to have a comparison of GVA and Gross State Value Added (GSVA) data for better analysis and making policy intervention.

The trend of growth of GVA vs GSVA for the period 2019-20 to 2023-24 is shown in **Chart 1.2**.

Chart 1.2: Growth rate of GVA vs GSVA (2019-20 to 2023-24)



Source: Department of Economics and Statistics, Government of Mizoram

It can be seen from **Chart 1.2**, the growth rate of GVA and GSVA had a fluctuating trend during the last five years (2019-24). During 2019-20, the growth rate of GVA and GSVA showed an increasing trend while in 2020-21 there was negative growth. The growth rate of both GVA and GSVA picked up in 2021-22 and thereafter, the growth rate of GSVA continued rising till 2023-24 whereas the growth rate of GVA kept falling during the same period.

1.2 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 State Legislature. The State Finances Audit Report (SFAR) is prepared and submitted under Article 151 (2) of the Constitution of India.

Accounts Wing of the Office of the Principal Accountant General, Mizoram prepares Finance Accounts and Appropriation Accounts of Government of Mizoram (GoM) annually, from the vouchers, challans and initial and subsidiary accounts rendered by the treasuries, State Government offices and Departments responsible for maintaining such accounts as well as statements received from the Reserve Bank of India. These accounts are audited independently by the Audit Wing of the Office of the Principal Accountant General and certified by the CAG.

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 its implementation and compliance with the relevant rules and prescribed procedures;

- Results of audit carried out by the Office of the Pr. Accountant General (Audit);
- Other data with Departmental Authorities and Treasuries (accounting as well as Management Information System);
- GSDP data and other State related statistics; and
- Various Audit Reports of the CAG of India.

The analysis is also carried out in the context of recommendations of the XV Finance Commission (FC), the State Financial Responsibility and Budget Management Act, best practices and guidelines of Government of India.

The audit analysis/findings of Chapters I to IV of the Report were discussed in the Exit Conference (28th February, 2025) with the Finance Commissioner and Secretary, Department of Finance, Mizoram. Replies furnished in the meeting and those received from the State Government have been suitably incorporated in the Report.

1.3 Overview of Government Accounts' Structure and Budgetary Processes

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 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 law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditure (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 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 advances to be made for meeting unforeseen expenditure pending authorisation of such expenditure 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 Account of the State (Article 266(2) of the Constitution)

Apart from the above, all other public moneys 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 repayables like Small Savings and Provident Funds, Deposits (interest-bearing and non- interest bearing), Advances, Reserve Funds (interest-bearing and non- interest bearing), 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 Legislature.

Budget Document

There is a constitutional requirement in India (Article 202) to present before the House or Houses of the Legislature of the State, a statement of estimated receipts and expenditure of the Government in respect of every financial year. This ‘Annual Financial Statement’ constitutes the main budget document. Further, the budget must distinguish expenditure on the Revenue account from other expenditures.

Revenue Receipts consist of Own Tax Revenue (OTR), Non-Tax Revenue (NTR), share of Union Taxes/ Duties, and Grants-in-Aid (GIA) 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** consists of:

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

Capital Expenditure includes expenditure on the acquisition of land, buildings, machinery, equipment, investment in shares and loans and advances by the Government to Public Sector Undertakings (PSUs) and other parties.

At present, we have an accounting classification system in government that is both functional and economic.

Table 1.2 : Classification of Accounts

	Attribute of transaction	Classification
Standardised in LMMH⁷ by CGA⁸	Function- Education, Health, <i>etc.</i> /Department	Major Head under Grants (4 digits)
	Sub-Function	Sub Major head (2 digits)
	Programme	Minor Head (3 digits)
Flexibility left for States	Scheme	Sub-Head (2 digits)
	Sub scheme	Detailed Head (2 digits)
	Economic nature/Activity	Object Head-salary, minor works, <i>etc.</i> (2 digits)

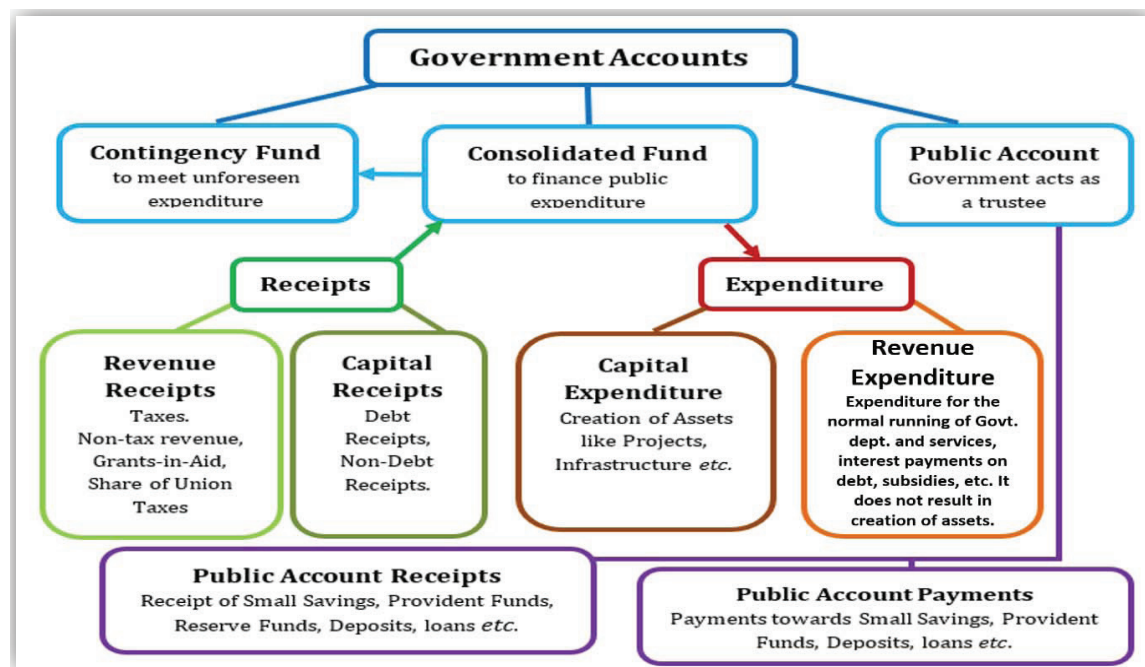
The functional classification gives information about the department, function, scheme or programme, and object of the expenditure. Economic classification helps organise these payments as revenue, capital, debt, *etc.* Economic classification is achieved by the numbering logic embedded in the first digit of 4-digit Major Heads. For instance, 0 and 1 is for revenue receipts, 2 and 3 for revenue expenditure, and 4 and 5 for capital 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,

⁷ LMMH: List of Major and Minor Heads

⁸ CGA: Controller General of Accounts

“construction” object head is capital expenditure. Object head is the primary unit of appropriation in the budget documents.

Chart 1.3: Structure of Government Accounts



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 the central government, *etc.* Figures under Major Heads 6003 (Internal Debt) and 6004 (Loans and Advances from GoI) have been taken into consideration for calculation of Public Debt.

Further, the transactions relating to the ‘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 money received or has a claim to recover the amounts paid. The transactions relating to Remittances and Suspense under Public Account includes merely adjusting heads such as remittances of cash between treasuries and currency chests and transfer between different accounting circles.

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 ‘Deposits & Advances’ and along with the transactions under Major Heads 6003 and 6004.

Budgetary Processes

In terms of Article 202 of the Constitution of India the Governor of State causes to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State, 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 Demands for Grants/Appropriations and after approval of these, 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 Budget Manual details the budget formulation process and guides the State Government

in preparing its budgetary estimates and monitoring its expenditure activities. Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are detailed in Chapter- III of this Report.

1.3.1 Snapshot of Finances

The following table provides the details of the financial actuals vis-a-vis the Budget Estimates for the year 2023-24 and the actuals of 2022-23.

Table 1.3: Details of financial results for the year 2023-24

(₹ in crore)

Sl. No.	Components	2022-23 (Actuals)	2023-24		Percentage of Actuals to B.E.	Percentage of Actuals to GSDP
			(Budget Estimate)	(Actuals)		
1	Tax Revenue ^(a)	5,847.07	6,191.55	6,843.06	110.52	19.23
	(i) Own Tax Revenue	1,101.82	1,084.30	1,195.59	110.26	3.36
	(ii) Share of Union taxes/duties	4,745.25	5,107.25	5,647.47	110.58	15.87
2	Non-Tax Revenue	1,027.77	897.00	1,084.93	120.95	3.05
3	Grants-in-aid and Contributions	3,407.22	4,398.08	3,486.06	79.26	9.80
4	Revenue Receipts (1+2+3)	10,282.06	11,486.63	11,414.05	99.37	32.08
5	Recovery of Loans and Advances	26.49	33.60	23.96	71.31	0.07
6	Other Receipts	-	-	-	-	-
7	Borrowings and other Liabilities ^(b)	1,107.67	1,247.21	677.71	54.34	1.90
8	Capital Receipts (5+6+7)	1,134.16	1,280.81	701.67	54.78	1.97
9	Total Receipts (4+8)	11,416.22	12,767.44	12,115.72	94.90	34.05
10	Revenue Expenditure	10,092.17	11,068.76	10,836.96	97.91	30.46
11	Interest payments	493.88	662.23	581.90	87.87	1.64
12	Capital Expenditure^(c)	1,321.86	1,696.68	1,253.78	73.90	3.52
13	Loan and advances	2.19	2.00	24.98	1,249.00	0.07
14	Total Expenditure (10+12+13)	11,416.22	12,767.44	12,115.72	94.90	34.05
15	Revenue Surplus (4-10)	189.89	417.87	577.09	138.10	1.62
16	Fiscal Deficit (-) {(4+5+6)-14}	-1,107.67	-1,247.20	-677.70	54.34	-1.90
17	Primary Deficit (16-11)	-613.79	-584.97	-95.80	16.38	-0.27

Source: Finance Accounts

(a) Includes State's share of Union Taxes.

(b) 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.

(c) Expenditure on Capital Account includes Capital Expenditure and Loans and Advances disbursed.

During 2023-24, Revenue Receipts (₹ 11,414.05 crore) fell short of the estimates (₹ 11,486.63 crore). Revenue Expenditure fell short of estimates by ₹ 231.80 crore and Capital Expenditure fell short of estimates for the year by ₹ 442.90 crore. As a result, total expenditure (₹ 12,115.72 crore) was 94.90 per cent of budget estimates (₹ 12,767.44 crore) for the year.

An analysis of the Own Tax Revenues (OTR) of Mizoram vis a vis those of the North Eastern (NE) and Himalayan States during 2022-23 and 2023-24 revealed the following:

- In terms of the absolute OTR, Mizoram generated the lowest revenue in both years with ₹ 1,101.82 crore in 2022-23 and ₹ 1,195.59 crore in 2023-24. The average OTR of North Eastern (NE) and Himalayan States during this period was ₹ 7,122.82 crore and ₹ 8,020.82 crore respectively.

- In terms of percentage of OTR to total Tax revenue, Mizoram was the second poorest performing state in the region with 18.85 *per cent* in 2022-23 and was the third poorest performing state in the region with 17.47 *per cent* in 2023-24. The average of North Eastern (NE) and Himalayan States was 44.00 *per cent* and 42.72 *per cent* for the two years in the period.

The State had a Revenue Surplus of ₹ 577.09 crore which was more than the estimated ₹ 417.87 crore for the year. Additionally, Fiscal Deficit (₹ 677.70 crore) and Primary Deficit (₹ 95.80 crore) were both less than the estimated ₹ -1,247.20 crore and ₹ - 584.97 crore respectively.

With respect to GSDP, Revenue Receipts and Capital Receipts contributed 32.08 *per cent* and 18.06 *per cent* respectively for the year.

The strengths of the State's finances are its strong growth in tax and non-tax revenues and the significant improvement in fiscal indicators, including fiscal and primary deficits. The State has also achieved higher revenue surplus than budgeted. The decrease in grants-in-aid and contributions compared to the previous year are a matter of concern as is also the reduction in capital expenditure and borrowings, which could impact developmental initiatives.

1.3.2 Snapshot of Assets and Liabilities of the Government

Government accounts capture the financial liabilities of the Government while the assets created out of the expenditure incurred, though comprehensive accounting of fixed assets like land and buildings owned by the Government is not done in the existing Government accounting system. The liabilities consist mainly of internal borrowings, loans and advances from Government of India (GoI), receipts into public account and reserve funds, and the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

Table 1.4 shows summarised position of Assets and Liabilities of the Government of Mizoram as on 31 March 2024 *vis-a-vis* the position as on 31 March 2023.

Table 1.4: Summarised position of Assets and Liabilities

(₹ in crore)					
As on 31.03.23	Liabilities	As on 31.03.24	As on 31.03.23	Assets	As on 31.03.24
Consolidated Fund of the State					
6,141.95	Internal Debt	6,929.10	18,837.16	Gross Capital Outlay on Fixed Assets	20,090.94
1048.07	Loans and Advances from Central Government	1,774.36	218.74	Loans and Advances	219.76
Contingency Fund					
0.10	Contingency Fund	0.10	0.00	Civil Advances	0.00
Public Account					
2,443.93	Small Savings, Provident Funds, etc.	1,963.50	0.00	Remittance Balances	150.06
1,100.97	Deposits and Advances	1,185.92	323.17*	Cash Balance	866.11
722.53	Reserve Funds	760.24		(including Investment in Earmarked fund)	
1,422.64	Suspense and Miscellaneous	1,761.32			
123.64	Remittance Balances	0			
6,375.24	Surplus on Government Account	6,952.33			
19,379.07		21,326.87	19,379.07		21,326.87

Source: Statement No. 1 of Finance Accounts

* Differs with last year's figure due to printing mistake in the last year's Report

On the Liabilities side, Internal Debt increased significantly from ₹ 6,141.95 crore in 2022-23 to ₹ 6,929.10 crore in 2023-24. This rise could indicate higher borrowing needs, possibly for funding government projects or managing fiscal deficits. Loans and advances from the central government increased from ₹ 1,048.07 crore in 2022-23 to ₹ 1,774.36 crore in 2023-24.

In public account liabilities Small Savings, Provident Funds, etc. declined from ₹ 2,443.93 crore in 2022-23 to ₹ 1,963.50 crore in 2023-24. Deposits and Advances: Increased marginally from ₹ 1,100.97 crore in 2022-23 to ₹ 1,185.92 crore in 2023-24. This indicates changes in citizen savings or government receipts held in trust.

Reserve Funds increased from ₹ 722.53 crore in 2022-23 to ₹ 760.24 crore in 2023-24, which reflects stronger reserves for contingencies or earmarked purposes. The surplus on government account rose from ₹ 6,375.24 crore in 2022-23 to ₹ 6,952.33 crore in 2023-24 which is a reflection of improvement in overall fiscal surplus.

On the Assets side, the gross capital outlay on fixed assets increased from ₹ 18,837.16 crore in 2022-23 to ₹ 20,090.94 crore in 2023-24. This reflects higher investments in infrastructure or capital assets, which is positive for long-term growth.

Loans and Advances showed a marginal increase from ₹ 218.74 crore in 2022-23 to ₹ 219.76 crore in 2023-24, thereby indicating a minor expansion in financial assistance provided by the government.

Cash Balance of the State increased significantly from ₹ 323.17 crore in 2022-23 to ₹ 866.11 crore in 2023-24. This improvement may suggest better cash management or higher liquidity levels.

Increase in Suspense and Miscellaneous balances from ₹ 1,422.64 crore in 2022-23 to ₹ 1,761.32 crore in 2023-24 could reflect unresolved transactions or temporary balances requiring reconciliation.

The State's Remittance Balances declined from ₹ 123.64 crore in 2022-23 to ₹ 0 in 2023-24. This suggests improved settlement of remittances or reclassification of balances.

Overall, the growth of the State's total assets from ₹ 19,379.07 crore in 2022-23 to ₹ 21,326.87 crore in 2023-24, indicates a positive trajectory in asset accumulation, especially in capital outlays and cash balance. However, this is balanced by a growth in Liabilities. The surplus on the government account has improved, but rising debt levels need to be monitored to ensure fiscal sustainability.

1.4 Fiscal Balance: Achievement of Deficit and total Debt targets

When a government spends more than it collects by way of revenue, it incurs a deficit. There are various measures that capture government deficit. Definitions of the three main types of deficits/surpluses discussed in this Report are given in **Appendix II**.

Deficits are financed by borrowing giving rise to government debt. The concepts of deficits and debt are closely related. Deficits can be thought of as a flow which add to the stock of debt. If the government continues to borrow year after year, it leads to the accumulation of debt and the government has to pay more and more by way of interest. These interest payments themselves contribute to the debt.

By borrowing, the government transfers the burden of reduced consumption on future generations. This is because it borrows by issuing bonds to the people living at present

but may decide to pay off the bonds some twenty years later by raising taxes or reducing expenditure. Also, government borrowing from the people reduces the savings available to the private sector. To the extent that this reduces capital formation and growth, debt acts as a 'burden' on future generations.

However, if government deficits succeed in their goal of raising production, there will be more income and, therefore, more savings. In this case, both government and industry can borrow more. Also, if the government invests in infrastructure, future generations may be better off, provided the return on such investments is greater than the rate of interest. The actual debt could be paid off by the growth in output. The debt should not then be considered burdensome. The growth in debt will have to be judged by the growth of the economy as a whole.

Government deficit can be reduced by an increase in taxes or reduction in expenditure. There has also been an attempt to raise receipts through the sale of shares in PSUs. However, the major thrust has been towards reduction in government expenditure. This could be achieved through making government activities more efficient through better planning of programmes and better administration.

The Central and State Governments have passed Fiscal Responsibility and Budget Management Act (FRBM) with the objective of ensuring prudence in fiscal management by eliminating revenue deficits, reducing fiscal deficits and keeping overall/ outstanding debt to acceptable levels, establishing improved debt management and improving transparency in a medium-term framework. In this context, the Act provides quantitative targets to be adhered to by the State with regard to deficit measures and debt level.

Government of Mizoram enacted the Mizoram Fiscal Responsibility and Budget Management (MZFRBM) Act, 2006 in line with the Union FRBM Act, 2003, to ensure stability and sustainability, improve efficiency and transparency in management of public finances, enhance the availability of resources by achieving sufficient revenue surplus, reduce fiscal deficit and remove impediments to effective conduct of fiscal policy and prudent debt management.

In line with the recommendations of Finance Commissions, the MZFRBM Act was amended thrice, with the latest amendment being in September 2020.

As per the provisions of the MZFRBM Act, 2006 the State Government is required to prepare every year, a Medium-Term Fiscal Policy Statement⁹ (MTFPS) showing the rolling fiscal targets, in addition to the Fiscal Correction Path (FCP). Due to this, the fiscal targets set by XIV FC have been adopted in the MTFPS laid before the Mizoram Legislative Assembly.

The Fifteenth Finance Commission (XV FC) was constituted by the President of India on 27 November 2017. The XV FC was initially expected to submit its reports by November 2019. However, with the creation of two new Union Territories by the Jammu and Kashmir Reorganisation Act, 2019, the Commission submitted an interim Report for the year 2020-21 which was substantially accepted by Government of India. The XV FC in its report for 2021-22 to 2025-26 did not recommend any significant change in fiscal reformation thereby implying that the architecture introduced by XIV FC is still relevant.

⁹ As required under Section 5(1)(a) of MZFRBM Act, 2006.

The status of achievement vis-à-vis projections set under the State FRBM Act during the period 2019-20 to 2023-24 is given in **Table 1.5**.

Table 1.5: Compliance with provisions of State FRBM Act

Fiscal Parameters	Fiscal Targets	Achievement ¹⁰				
		2019-20	2020-21	2021-22	2022-23	2023-24
Revenue Surplus / Deficit (-) / Surplus (+) (<i>₹ in crore</i>)	Revenue Surplus (Generation of Revenue Surplus)	204.31	-774.13	602.25	189.89	577.09
		✓	✗	✓	✓	✓
Fiscal Deficit (-) / Surplus (+) (as percentage of GSDP)	Targets (below):	-1,224.29	-1,869.31	-372.54	-1,107.67	-677.70
	2019-20 - 8.34 per cent	4.90	7.81	1.40	3.61	1.90
	2020-21 - 6.40 per cent					
	2021-22 - 5.20 per cent	✓	✗	✓	✓	✓
Ratio of total outstanding liability to GSDP (in per cent)	2022-23 - 4.10 per cent					
	2023-24 - 3.50 per cent					
	Projections (below):	34.73	41.30	39.60	35.75	33.96
	2019-20 - 32.66 per cent					
	2020-21 - 27.85 per cent					
	2021-22 - 27.63 per cent	✗	✗	✗	✗	✓
	2022-23 - 31.81 per cent					
	2023-24 - 37.84 per cent					

Source: Finance Accounts and State budget documents of various years

The Revenue Surplus rose by 203.91 per cent from ₹ 189.89 crore in 2022-23 to ₹ 577.09 crore in 2023-24. The Fiscal Deficit-GSDP ratio (1.90 per cent) and the Debt-GSDP ratio (33.96 per cent) were well within the target of 3.50 per cent of GSDP and 37.84 per cent of GSDP¹¹ respectively during the year 2023-24.

The targets set by the XV FC 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 **Table 1.6**.

Table 1.6: Actuals vis-à-vis achievements in respect of major fiscal aggregates for the year 2023-24

Sl. No.	Fiscal Variables (per cent)	Targets as prescribed by XV FC	Targets in the Budget	Actuals	Variation of actuals over	
					Targets of XV FC	Targets in Budget
1	Revenue Surplus (+) / Deficit (-) / GSDP	1.20 ¹²	1.17	1.62	0.42	0.45
2	Fiscal Deficit/GSDP	-3.0 ¹³	-3.50	-1.90	1.10	1.60
3	Total outstanding liability/GSDP	34.80 ¹⁴	37.84	33.96	-0.84	-3.88

Source: Finance Accounts, State budget documents and XV FC report

¹⁰ ✓ denotes targets achieved and ✗ denotes targets not achieved

¹¹ As required under Section 5(1)(b) of MZFRBM Act, 2006.

¹² Source: Table 12.4 of XV FC Report

¹³ Source: Table 12.4 of XV FC Report

¹⁴ Source: Annexure 12.1 (Para 12.65 of XV FC Report)

During the year 2023-24, the Government surpassed the projection of the XV FC of Revenue Surplus/GSDP ratio of 1.20 *per cent* by achieving Revenue Surplus/GSDP ratio of 1.62 *per cent*. Further, Fiscal Deficit-GSDP and total outstanding liability/GSDP ratios were within the levels projected by the XV FC and Budgetary estimates.

Similarly, the Medium-Term Fiscal Plan (MTFP) had set forth a three-year rolling target for the prescribed fiscal indicators. **Table 1.7** indicates the variation between projections made for 2023-24 and actual achievement.

Table 1.7: Actuals vis-à-vis projections in MTFP for 2023-24

(₹ in crore)

Sl. No.	Fiscal Variables	Projection as per MTFP	Actuals (2023-24)	Variation (in per cent)
1	Own Tax Revenue	1,084.30	1,195.59	10.26
2	Non-Tax Revenue	897.00	1,084.93	20.95
3	Share of Central Taxes	5,107.25	5,647.47	10.58
4	Grants -in-aid from GoI	4,398.08	3,486.06	-20.74
5	Revenue Receipts (1+2+3+4)	11,486.63	11,414.05	-0.63
6	Revenue Expenditure	11,068.76	10,836.96	-2.09
7	Capital Expenditure	1,696.68	1,253.78	-26.10
8	Revenue Deficit (-)/ Surplus (+)	417.87	577.09	38.10
9	Fiscal Deficit (-)/ Surplus (+)	-1,247.21	-677.70	-45.66
10	Debt-GSDP ratio (<i>per cent</i>)	37.84	33.96	-10.25
11	GSDP growth rate at current prices (<i>per cent</i>)	9.01	15.93	76.80

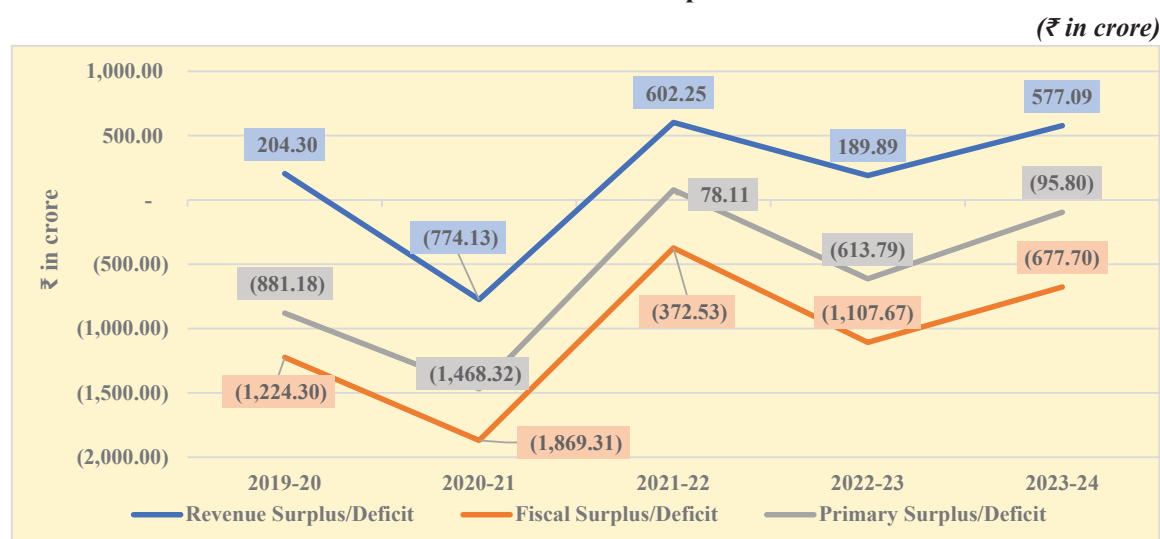
Source: Finance Accounts and State budget documents

As can be seen from the table above, the actuals of key fiscal variables for 2023-24 showed significant variation from the projections made in MTFP. Notably, the State's Revenue and Capital Expenditure were both lower than projected by 2.09 *per cent* (₹ 231.80 crore) and 26.10 *per cent* (₹ 442.90 crore), respectively. This indicated that the Government was able to take on significantly less debt than expected to meet its liabilities and as a result Debt-GSDP ratio was lower than projections by 10.25 *per cent*.

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.

The trend of deficit parameters over the five-year period from 2019-20 to 2023-24 is depicted in **Chart 1.4**.

Chart 1.4: Trends in deficit parameters

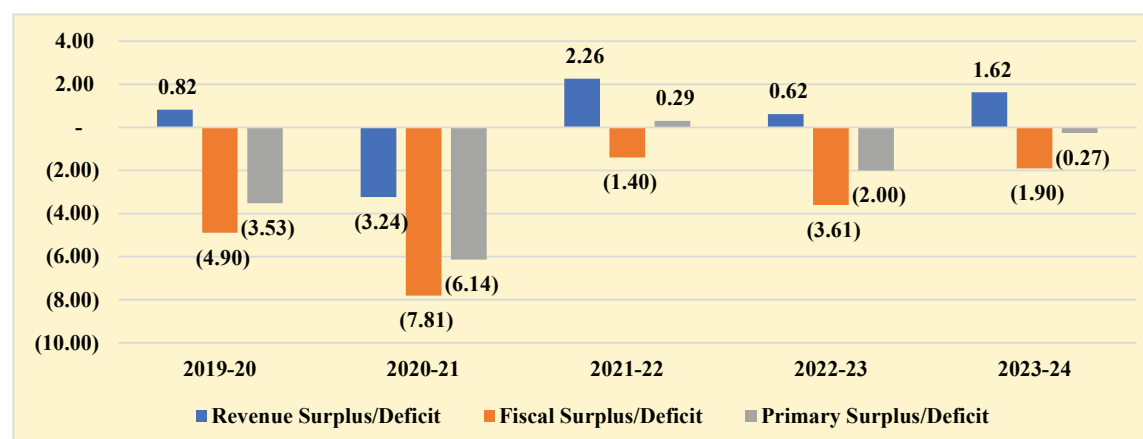


Source: Finance Accounts

The MTFP projected a Revenue Surplus of ₹ 417.87 crore for the State of Mizoram during 2023-24, however, Mizoram had a Revenue Surplus of ₹ 577.09 crore. Fiscal Deficit (FD) stood at ₹ 677.70 crore during 2023-24 against the projection in the MTFP of ₹ 1,247.20 crore.

Chart 1.5 depicts the trends in surplus/deficit relative to GSDP over the five-year period 2019-20 to 2023-24.

Chart 1.5: Trends in Surplus/Deficit relative to GSDP



Source: Finance Accounts

Revenue Surplus, which indicates excess of Revenue Receipts over Revenue Expenditure, increased from ₹ 189.89 crores to ₹ 577.09 crores in 2023-24 from the previous year. The revenue surplus as percentage of GSDP increased in 2023-24 to 1.62 per cent from 0.62 per cent of GSDP as compared to previous year.

Fiscal deficit indicates total borrowings of the State, *i.e.* its total resource gap. It decreased substantially to ₹ 677.70 crores (1.90 per cent of GSDP) in 2023-24 from ₹ 1,224.30 crores (4.90 per cent of GSDP) in 2019-20.

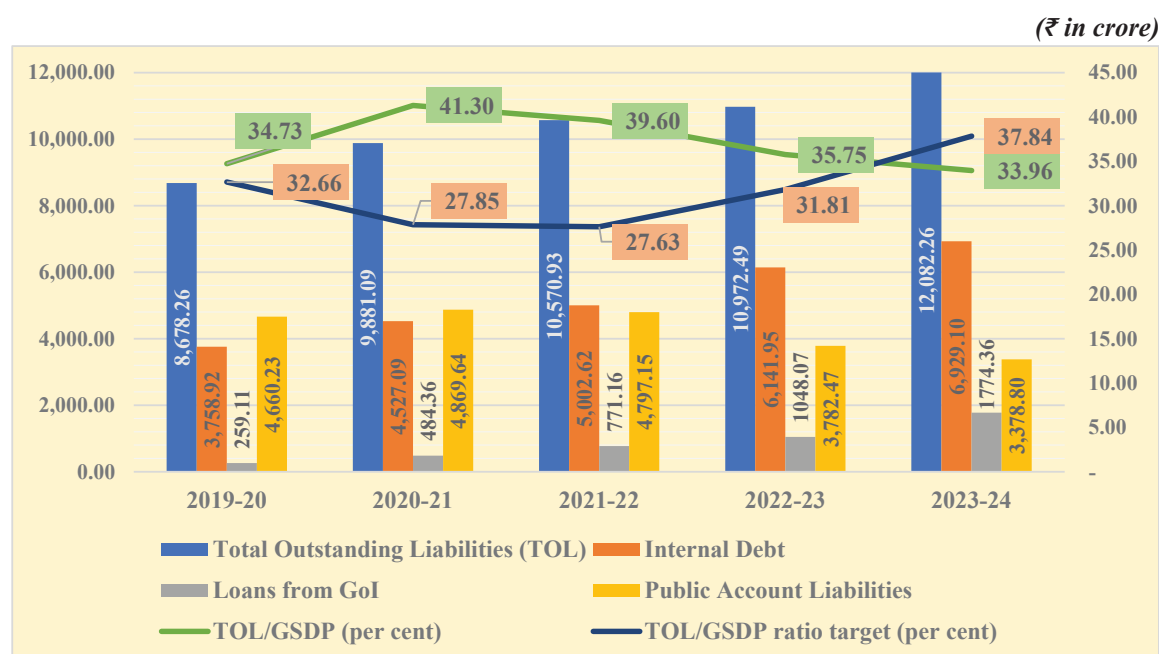
Primary deficit, the excess of primary expenditure (Total expenditure net of interest payments) over non debt receipts, was ₹ 95.80 crores (0.27 *per cent* of GSDP) in 2023-24.

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.

Total outstanding liabilities (TOL) for the year was ₹ 12,082.26 crore, which as a percentage of GSDP at 33.96 *per cent*, was below the target of 37.84 *per cent* set under the MTFP. **Chart 1.6** depicts the trends in fiscal liabilities relative to GSDP.

Chart 1.6: Trends in Fiscal Liabilities and GSDP



Source: Finance Accounts

Internal Debt and Loans from GoI increased by ₹ 787.15 crore and ₹ 726.29 crore respectively while Public Account Liabilities decreased by ₹ 403.67 crore for the current year.

1.5 Deficits and Total Debt after examination in Audit

In order to present a better picture of State Finances, there is a tendency to classify revenue expenditure as capital expenditure and to conduct off-budget fiscal operations.

1.5.1 Post audit - Revenue Surplus and Fiscal Deficit

As per the FRBM Act, 2003, the State government must ensure compliance to the targets fixed for the fiscal indicators such as Deficits, ceiling on debt and on guarantees, *etc.* The revenue deficit and the fiscal deficit as worked out for the State gets impacted due to various circumstances such as misclassification of revenue expenditure as capital expenditure and off budget fiscal operations. Besides, deferment of clear-cut liabilities, not depositing cess/royalty to Consolidated Fund, short contribution to New Pension Scheme, sinking and redemption funds, *etc.* also impacts the revenue and fiscal deficit figures. In order to arrive at actual deficit figures, the impact of such irregularities needs to be reversed.

The impact on Revenue Surplus and Fiscal Deficit of the State Government as per the findings of audit is given in the following table:

Table 1.8: Impact of Misclassification and impact on Revenue Surplus and Fiscal Deficit

(₹ in crore)

Item (Illustrative)	Understatement of revenue expenditure	Overstatement of capital expenditure	Impact on Revenue Surplus	Impact on Fiscal Deficit
Short payments of Interest	8.01	-	8.01	8.01
Classification of Guarantees invoked by the Government as Capital Expenditure	-	19.52		19.52
Short contribution of State Disaster Response Fund (SDRF)	46.22	-	46.22	46.22
Short contribution of State Disaster Mitigation Fund (SDMF)	17.00	-	17.00	17.00
Classification of expenditure under State Compensatory Afforestation Fund (SCAF) as Revenue Expenditure	-13.39	-	-13.39	-13.39
Non-transfer of Central Road and Infrastructure Fund (CRIF)	35.60	-	35.60	35.60
Total Impact	93.44	19.52	93.44	112.96

Source: Finance Accounts

It may be seen from the preceding table that the State Government understated Revenue Expenditure by ₹ 93.44 crore through short payments of interest adjustment (₹ 8.01 crore), non-transfer of funds to State Disaster Response Fund (₹ 46.22 crore), non-transfer of funds to State Disaster Mitigation Fund (₹ 17.00 crore), Classification of expenditure under State Compensatory Afforestation Fund (SCAF) as Revenue Expenditure instead of debiting SCAF and non-transfer of Central Road and Infrastructure Fund (₹ 35.60 crore). If the figures are adopted, the Revenue Surplus would be ₹ 483.65 crore.

Further, classification of Guarantees invoked during the year as Capital expenditure instead of debiting the Guarantee Redemption Fund (₹ 19.52 crore) led to understatement of Fiscal Deficit to that extent. If the figure is adopted, the Fiscal Deficit would be ₹ 790.67 crore. (Refer Table no 1.3).

1.6 Implementation of State Finance Commission recommendations

With a view to provide greater decentralisation and autonomy to local bodies, the Constitution of India empowered the States to establish State Finance Commissions (SFC), to be appointed after every 5 years, to recommend devolution of funds from the State Government to Local Bodies and suggest measures for augmenting their own resources.

In keeping with these provisions, the first Mizoram Finance Commission (I MFC) was constituted on September 30, 2011, in pursuance of sub-section (1) of section 3 of the Mizoram Finance Commission Act, 2010. The Commission was to submit its report by 31 October 2014. The term of the Commission was subsequently extended twice up to 31 March, 2015. The report of the First Mizoram Finance Commission was submitted on 19 February 2015 and covered a period of five years commencing on 1 April 2015 *i.e.* 2015-16 to 2019-20.

The Second Finance Commission (II MFC) had been constituted in the State in April 2021. The Commission submitted its report to the Governor on 20 July 2023 and the report was laid before the State Legislature on 23 August 2023 covering the period from 2021-22 to 2025-26.

1.6.1 State Government's compliance to I MFC Report

The I MFC made 94 recommendations as per the Terms of Reference (ToR). The recommendations included functioning and finances of local bodies and Autonomous District Councils, State Finances, devolution and deficit financing etc. However, although the State Government accepted the report of the Commission it only implemented one recommendation related to fiscal devolution to local bodies and ADCs. As per the recommendation, 15 *per cent* of the State's Own Tax revenue were devolved to local bodies during the period of the I MFC.

1.6.2 State Government's compliance to II MFC Report

In pursuance of the decision of the Council of Ministers and as per the Explanatory Memorandum as to the action taken on the recommendation made by the Second Mizoram Finance Commission the Governor of Mizoram issued a notification on the implementation of accepted recommendations of the II MFC on 9 October 2023. As the recommendations are to be implemented from the next financial year *i.e.* 2024-25, the impact of their implementation could not be gauged as yet.

The major accepted recommendations of the Second Mizoram Finance Commission are given below:

- **Vertical devolution of taxes:** 42 *per cent* of the net proceeds of the State's own tax revenue shall be devolved to Local Bodies. The projected amounts are ₹ 467.64 crore and ₹ 477.80 crore in 2024-25 and 2025-26 respectively.
- **Horizontal Devolution:** The revenue pool recommended above shall be horizontally devolved between Rural Local Bodies, Urban Local Bodies and Autonomous District Councils during 2024-25 and 2025-26.
- **Deficit Grants:** Besides the *inter se* provision for sharing of revenue pool, Autonomous District Councils have also been recommended a share of Post Devolution Revenue Deficit Grants. The recommended amount of grant is ₹ 182.87 crore for 2024-25 and ₹ 225.57 crore for 2025-26.
- **Devolution to Local Councils from share of Municipalities:** The Municipalities shall devolve 20 *per cent* of the tax devolution from the State Government to the Local Councils. The recommended devolution of grant is ₹ 5.10 crore in 2024-25 and ₹ 5.95 crore in 2025-26.

- **Book of Accounts and Asset Register for Village Councils:** Maintenance and submission of accounts and Asset Register to the District Local Administration Officer at the end of every financial year shall be the pre-requisite condition for release of grants recommended by the State Finance Commission.

1.7 Conclusion

During 2023-24, the GSDP at current price was ₹ 35,579 crore up from ₹ 30,690 crore in 2022-23, representing an increase of 15.93 *per cent* which was higher than that of GDP growth rate of 9.60 *per cent*.

During the five-year period 2019-24 there has been a significant decrease in the growth rate of the Agriculture sector in GSDP, falling from 11.25 *per cent* in 2019-20 to 6.60 *per cent* in 2023-24. Similarly, growth rate of the Industry sector fell from 14.02 *per cent* in 2019-20 to 13.10 *per cent* in 2023-24 while the growth rate of the Services sector ranged between 9.62 *per cent* in 2019-20 to 8.17 *per cent* in 2023-24. However, the growth rate of the Industries and Services sectors has increased slightly along with the increase in GSDP in the last two years from 2021-22.

During 2023-24, against an estimated Revenue Surplus of ₹ 417.87 crore, the State ended up with a Revenue Surplus of ₹ 577.09 crore and a Fiscal Deficit of ₹ 677.70 crore against the estimate of ₹ 1,247.20 crore.

Fiscal Deficit, at ₹ 677.70 crore, was 1.90 *per cent* of GSDP while the Debt-GSDP ratio stood at 33.96 *per cent*. The Government surpassed the projection of the XV FC of Revenue Surplus/GSDP ratio of 1.20 *per cent* by achieving Revenue Surplus/GSDP ratio of 1.62 *per cent*. Further, Fiscal Deficit-GSDP and total outstanding liability/GSDP ratios were within the levels projected by the XV FC and Budgetary estimates.

The actuals of key fiscal variables for 2023-24 showed significant variation from the projections made in the Medium Term Fiscal Plan (MTFP). Notably, the State's Revenue and Capital Expenditure were both lower than projected by 2.09 *per cent* (₹ 231.80 crore) and 26.10 *per cent* (₹ 442.90 crore), respectively. Total outstanding liabilities (TOL) for the year was ₹ 12,082.26 crore, which as a percentage of GSDP at 33.96 *per cent*, was below the target of 37.84 *per cent* set under the MTFP.

The State Government overstated Revenue Surplus by ₹ 93.44 crore and understated Fiscal Deficit by ₹ 112.96 crore due to non-provision of interests and non-contribution to designated Funds.

1.8 Recommendations

- *The State Government may continue to ensure compliance to the Fiscal Consolidation Roadmap as envisaged by the Mizoram Fiscal Responsibility and Budget Management (MZFRBM) Act, 2006 through prudent financial management.*
- *The Government may ensure payment of interest to the interest bearing securities and contribute its share to the designated funds so as to ensure that fiscal indicators are correctly depicted.*

