

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 11.68 *per cent*. The projected population as of March 2023 was 12,33,000. 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 2018-19 to 2022-23.

Table 1.1 : Trends in GSDP compared to GDP

	(₹ in crore)				
Year	2018-19	2019-20	2020-21	2021-22 ²	2022-23 ³
INDIA					
GDP at current price	1,88,99,668	2,01,03,593	1,98,29,927	2,34,71,012	2,72,40,712
GVA	1,71,75,128	1,83,81,117	1,81,88,780	2,14,38,883	2,47,42,871
Growth rate of GDP over previous year (in per cent)	10.59	6.37	-1.36	18.36	16.06
Growth rate of GVA over previous year (in per cent)	10.77	7.02	-1.05	17.87	15.41
Per Capita GDP (in ₹)	1,42,424	149,915	1,46,301	1,71,498	1,96,983
MIZORAM					
GSDP at current prices	21,912	24,990	23,923	27,824	32,829
GVA	21,060	24,133	23,302	27,034	31,827
Growth rate of GSDP over previous year (in per cent)	13.03	14.04	-4.27	16.30	17.99
Growth rate of GVA over previous year (in per cent)	11.97	14.59	-3.44	16.02	17.73
Per Capita GSDP (in ₹)	1,84,756	2,08,594	1,97,710	2,27,875	2,66,257

Source: MOSPI⁴ data and Department of Economics and Statistics and State Government.

¹ Assam, Manipur and Tripura

² Provisional Estimates as of January 2024

³ Projected / Advance Estimates as of January 2024

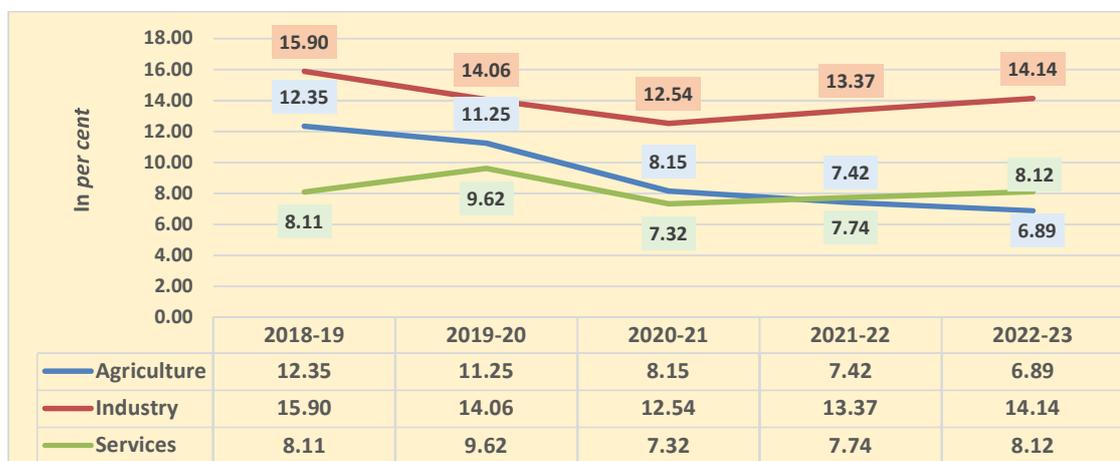
⁴ MOSPI – Ministry of Statistics and Programme Implementation, Government of India

The Gross State Domestic Product (GSDP) 2022-23 at current prices was ₹ 32,829 crore and the GDP in 2022-23 at current prices was ₹ 2,72,40,712 crore. Further, the per capita GSDP of the State for the year 2022-23 was ₹ 2,66,257 while that of the country was ₹ 1,96,983. Compared to GDP, GSDP grew at a higher rate during the period from 2018-19 to 2019-20, fell behind in 2020-21 and 2021-22 but surpassed GDP growth rate again in 2022-23. GSDP of Mizoram increased over the previous year by 17.99 per cent during 2022-23. Further, during 2022-23, the per capita GSDP (projected estimates) of Mizoram at current prices was ₹ 2,66,257 which was more than the North-Eastern and Himalayan States' average of ₹ 1,43,331 and all India average of ₹ 1,96,983.

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 2018-19 to 2022-23, there has been a significant decrease in the growth rate of the Agriculture sector in GSDP, from 12.35 per cent in 2018-19 to 6.89 per cent in 2022-23. The growth rate of the Industry sector fell from 15.90 per cent in 2018-19 to 14.14 per cent in 2022-23. The growth rate of the Services sector ranged between 9.62 per cent in 2019-20 to 8.12 per cent in 2022-23 during the period. Growth in all sectors has been declining along with the decrease in GSDP.

Chart 1.1 : Sectoral growth in GSDP



Source: Department of Economics and Statistics, Government of Mizoram

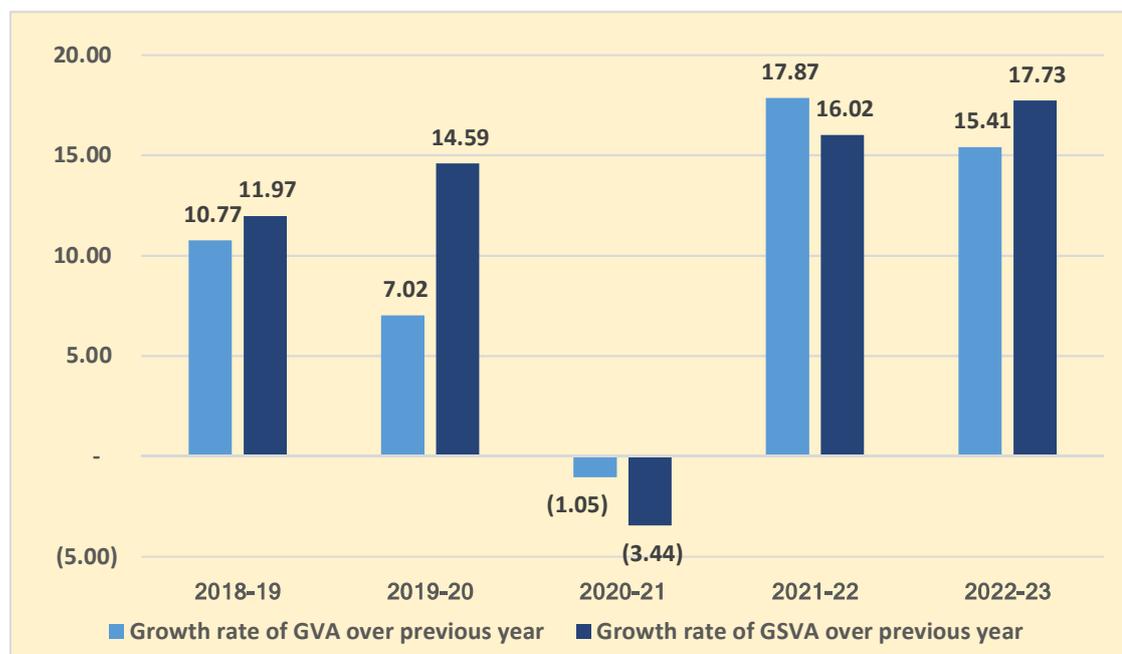
Gross Value Added (GVA)⁵ is used for economic analysis by Government of India (GOI) and international organisations like the International Monetary Fund (IMF) and World Bank as GVA is considered a better indicator of economic health than GDP. While GDP is computed as the sum of the various expenditures 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

⁵ $GVA = GDP - \text{taxes} + \text{subsidy}$

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 2018-19 to 2022-23 is shown in **Chart 1.2**.

Chart 1.2 : Growth rate of GVA vs GSVA (2018-19 to 2022-23)



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 (2018-23). During 2018-19 to 2019-20, the growth rate of GVA and GSVA showed an increasing trend while in 2020-21 there was negative growth. During 2021-22 the growth rate of GVA and GSVA again increased and during 2022-23 the rate of growth of GSVA was 17.73 per cent against the growth rate of GVA of 15.41 per cent.

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 V of the Report were discussed in the Exit Conference (January 2024) with the Principal 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:

- **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 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

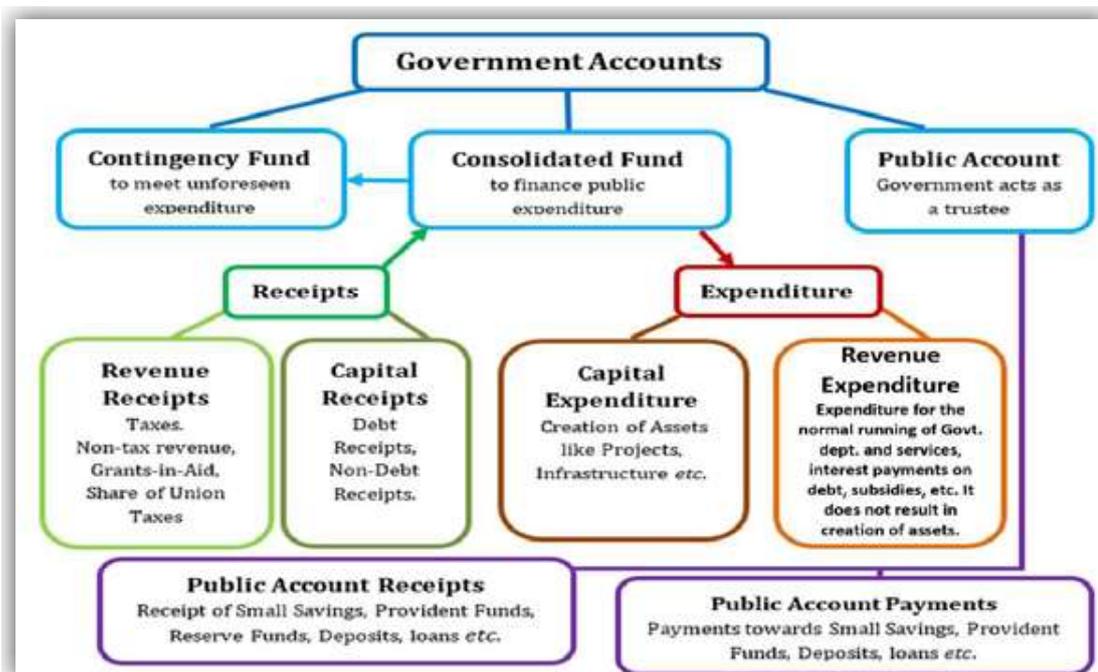
	Attribute of transaction	Classification
Standardised in LMMH⁶ by CGA⁷	Function- Education, Health, <i>etc.</i> /Department	Major Head under Grants (4 digits)
	Sub-Function	Sub Major head (2 digits)
	Programme	Minor Head (3 digits)
Flexibility left for States	Scheme	Sub-Head (2 digits)
	Sub scheme	Detailed Head (2 digits)
	Economic nature/Activity	Object Head-salary, minor works, <i>etc.</i> (2 digits)

⁶ LMMH : List of Major and Minor Heads,

⁷ CGA: Controller General of Accounts

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, “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 2022-23 and the actuals of 2021-22.

Table 1.3: Details of financial results for the year 2022-23

(₹ in crore)

Sl. No.	Components	2021-22 (Actuals)	2022-23		Percentage of Actuals to B.E.	Percentage of Actuals to GSDP
			(Budget Estimate)	(Actuals)		
1	Tax Revenue ^(a)	5,076.80	4,884.54	5,847.07	119.71	17.81
	(i) Own Tax Revenue	853.94	801.30	1,101.82	137.50	3.36
	(ii) Share of Union taxes/duties	4,222.86	4,083.24	4,745.25	116.21	14.45
2	Non-Tax Revenue	622.12	836.43	1,027.77	122.88	3.13
3	Grants-in-aid and Contributions	3,460.82	5,705.24	3,407.22	59.72	10.38
4	Revenue Receipts (1+2+3)	9,159.74	11,426.21	10,282.06	89.99	31.32
5	Recovery of Loans and Advances	32.17	33.60	26.49	78.84	0.08
6	Other Receipts	-	-	-	-	-
7	Borrowings and other Liabilities ^(b)	372.53	2,548.34	1,107.67	43.47	3.37
8	Capital Receipts (5+6+7)	404.70	2,581.94	1,134.16	43.93	3.45
9	Total Receipts (4+8)	9,564.44	14,008.15	11,416.22	81.50	34.77
10	Revenue Expenditure	8,557.49	10,006.51	10,092.17	100.86	30.74
11	Interest payments	450.64	462.14	493.88	106.87	1.50
12	Capital Expenditure ^(c)	1,004.38	2,663.14	1,321.86	49.64	4.03
13	Loan and advances	2.58	0.60	2.19	365.00	0.01
14	Total Expenditure (10+12+13)	9,564.45	12,670.25	11,416.22	90.10	34.77
15	Revenue Surplus (4-10)	602.25	1,419.70	189.89	13.38	0.58
16	Fiscal Deficit (-) {(4+5+6)-15}	-372.53	-1,210.44	-1,107.67	91.51	-3.37
17	Primary Deficit(-) /Surplus (+) (16-11)	78.11	-748.30	-613.79	82.02	-1.87

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 2022-23, Revenue Receipts (₹ 10,282.06 crore) fell short of the estimates (₹ 11,426.21 crore), which was compensated by Debt-Capital Receipts (₹ 4,045.88 crore) in excess of estimates (₹ 2,581.94 crore). As a result, total receipts for the year exceeded

budget estimates by about 2.28 *per cent*. Revenue Expenditure exceeded estimates by ₹ 85.66 crore and Capital Expenditure fell short of estimates for the year by ₹ 1,341.28 crore. As a result, total expenditure (₹ 11,416.22 crore) was 90.10 *per cent* of budget estimates (₹ 12,670.25 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 2021-22 and 2022-23 revealed the following:

- In terms of the absolute OTR, Mizoram generated the lowest revenue in both years with ₹ 853.94 crore in 2021-22 and ₹ 1,101.82 crore in 2022-23. The average OTR of North Eastern (NE) and Himalayan States during this period was ₹ 4,540.30 crore and ₹ 5,435.87 crore respectively.
- In terms of percentage of OTR to total Tax revenue, Mizoram was the second poorest performing state in the region with 16.82 *per cent* in 2021-22 and 18.84 *per cent* in 2022-23. The average of North Eastern (NE) and Himalayan States was 35.68 *per cent* and 29.06 *per cent* for the two years in the period.

The State had a Revenue Surplus of ₹ 189.89 crore which was less than the estimated ₹ 1,419.70 crore for the year. Additionally, Fiscal Deficit (₹ 1,107.67 crore) and Primary Deficit (₹ 613.79 crore) were both less than estimated at ₹ 1,210.44 crore and ₹ - 748.30 crore respectively.

With respect to GSDP, Revenue and Capital Receipts contributed 31.32 *per cent* and 3.45 *per cent* respectively for the year.

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 2023 *vis-a-vis* the position as on 31 March 2022.

Table 1.4: Summarised position of Assets and Liabilities

(₹ in crore)					
As on 31.03.22	Liabilities	As on 31.03.23	As on 31.03.22	Assets	As on 31.03.23
Consolidated Fund of the State					
5,002.62	Internal Debt	6,141.95	17,515.30	Gross Capital Outlay on Fixed Assets	18,837.16
771.16	Loans and Advances from Central Government	1,048.07	243.03	Loans and Advances	218.74
Contingency Fund					
0.10	Contingency Fund	0.10	0.00	Civil Advances	0.00
Public Account					
2,695.72	Small Savings, Provident Funds, etc.	2,443.93	65.69	Remittance Balances	0.00

As on 31.03.22	Liabilities	As on 31.03.23	As on 31.03.22	Assets	As on 31.03.23
1,844.17	Deposits	1,100.97	265.54	Cash Balance (including investment in Earmarked Funds)	327.17
680.96	Reserve Funds	722.53			
909.49	Suspense and Miscellaneous	1,422.64			
0	Remittance Balances	123.64			
6,185.35	Surplus on Government Account	6,375.24			
18,089.57	Total	19,379.07	18,089.57	Total	19,379.07

Source: Statement No. 1 of Finance Accounts

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 deficit/surplus 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 Statement⁸ (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 period of the Fourteenth Finance Commission has ended and 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.

The status of achievement vis-à-vis projections set during the period 2018-19 to 2022-23 is given in **Table 1.5**.

Table 1.5 : Compliance with provisions of State FRBM Act

Fiscal Parameters	Fiscal Targets	Achievement ⁹				
		2018-19	2019-20	2020-21	2021-22	2022-23
Revenue Deficit (-) / Surplus (+) (₹ in crore)	Revenue Surplus (Generation of Revenue Surplus)	1,533.91	204.31	-774.13	602.25	189.89
		✓	✓	✗	✓	✓
Fiscal Deficit (-) / Surplus (+) (as percentage of GSDP)	Targets (below):	-352.92	-1,224.29	-1,869.31	-372.54	-1,107.67
	2018-19 - 3 per cent	1.61	4.90	7.81	1.34	3.37
	2019-20 -8.34 per cent					
	2020-21 - 6.40 per cent	✓	✓	✗	✓	✓
	2021-22 - 5.20 per cent					
Ratio of total outstanding liability to GSDP (in per cent)	Projections (below):	33.39	34.73	41.30	37.99	33.42
	2018-19 - 34.19 per cent					
	2019-20 - 32.66 per cent					
	2020-21 - 27.85 per cent	✓	✗	✗	✗	✗
	2021-22 - 27.63 per cent					
	2022-23 - 31.81 per cent					

Source : Finance Accounts and State budget documents of various years

⁸ As required under Section 5(1)(a) of MZFRBM Act, 2006.

⁹ ✓ denotes targets achieved and ✗ denotes targets not achieved

Though the State achieved the target of achieving Revenue Surplus, the quantum of surplus suffered a drop from the previous year's Revenue Surplus of ₹ 602.25 crore to ₹ 189.89 crore in 2022-23. The Fiscal Deficit-GSDP ratio (3.37 per cent) was well within the FRBM target but the Debt-GSDP ratio (33.42 per cent) failed to meet the target of 31.81 per cent of GSDP¹⁰.

Principal Secretary, Finance Department during exit conference stated that non-achievement of targets for these indicators was mainly due to wrongful projected figures of GSDP in the calculation of indicators in preparing the Budget Estimates.

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 2022-23 are given in **Table 1.6**.

Table 1.6 : Actuals *vis-à-vis* achievements in respect of major fiscal aggregates for the year 2022-23

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	-5.10 ¹¹	3.60	0.71	5.81	-2.89
2	Fiscal Deficit (-) /GSDP	-3.50 ¹²	-3.07	-3.37	0.13	-0.30
3	Total outstanding liability/GSDP	35.60 ¹³	31.81	33.42	2.18	-1.61

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

During the year 2022-23, the Government had achieved Revenue Surplus although the XV FC had projected Revenue Deficit. Further, Fiscal Deficit-GSDP and total outstanding liability/GSDP ratios were within the levels projected by the XV FC. However, the State was unable to achieve the targets for Revenue Surplus-GSDP, Fiscal Deficit-GSDP and total outstanding liability/GSDP ratios set in the budget 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 2022-23 and actual achievement.

Table 1.7: Actuals *vis-à-vis* projections in MTFP for 2022-23

Sl. No.	Fiscal Variables	Projection as per MTFP	(₹ in crore)	
			Actuals (2022-23)	Variation (in per cent)
1	Own Tax Revenue	801.30	1,101.82	37.50
2	Non-Tax Revenue	836.43	1,027.77	22.88
3	Share of Central Taxes	4,083.24	4,745.25	16.21
4	Grants -in-aid from GoI	5,705.24	3,407.22	-40.28
5	Revenue Receipts (1+2+3+4)	11,426.21	10,282.06	-10.01
6	Revenue Expenditure	10,006.51	10,092.17	0.86

¹⁰ As required under Section 5(1)(b) of MZFRBM Act, 2006.

¹¹ Source : Table 10.3 of XV FC Report

¹² Source : Table 12.4 of XV FC Report

¹³ Source : Annexure 12.1 to Para 12.65 of XV FC Report

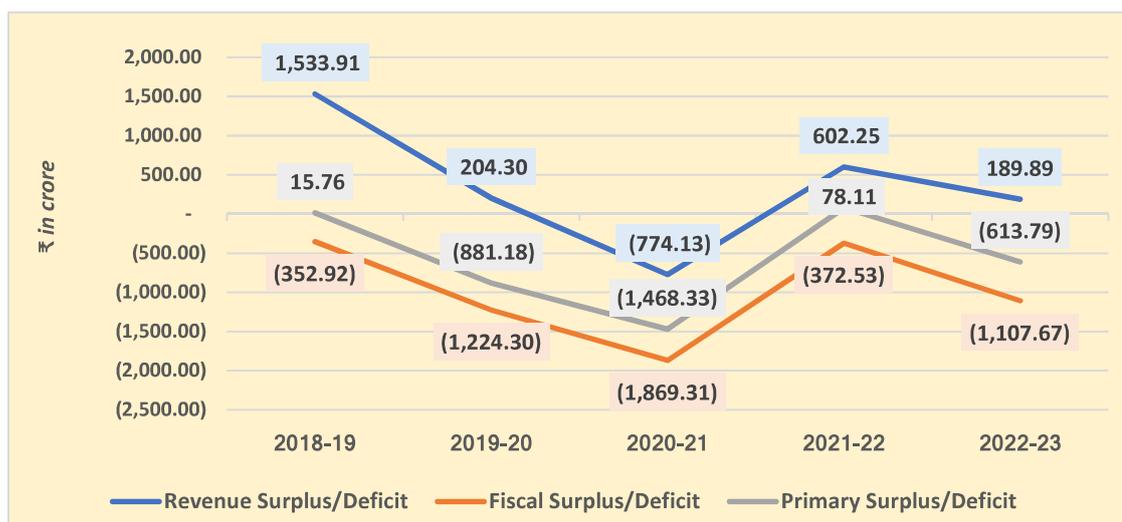
Sl. No.	Fiscal Variables	Projection as per MTFP	Actuals	Variation
			(2022-23)	(in per cent)
7	Capital Expenditure	4,001.64	1,321.86	-33.02
8	Revenue Surplus (5-6)	1,419.70	189.89	-86.63
9	Fiscal Deficit	-1,211.38	-1,107.67	-8.56
10	Debt-GSDP ratio (per cent)	31.81	33.42	5.06
11	GSDP growth rate at current prices (per cent)	3.91	17.99	360.10

Source: Finance Accounts and State budget documents

As can be seen from the table above, the projections made in MTFP relating to key fiscal variables showed significant variation from actuals for 2022-23 indicating lack of budgetary foresight. Accordingly, the State's Revenue Expenditure exceeded projected Revenue Expenditure by 0.86 per cent (₹ 85.65 crore). Additionally, Debt-GSDP ratio exceeded projections by 5.06 per cent indicating that the Government was forced to take on significantly more debt than expected to meet its liabilities.

The trend of deficit parameters over the five-year period from 2018-19 to 2022-23 is depicted in **Chart 1.4**.

Chart 1.4 : Trends in deficit parameters

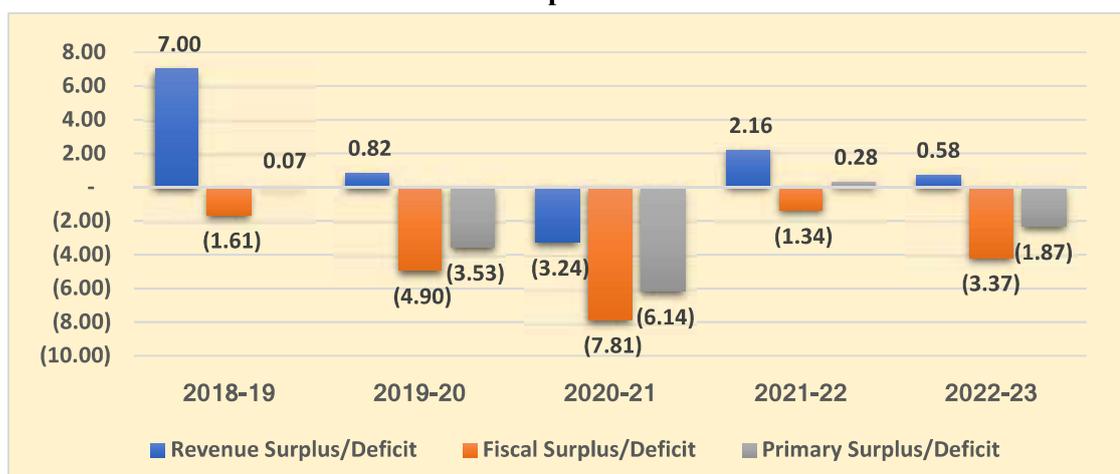


Source: Finance Accounts

The MTFP projected a Revenue Surplus of ₹ 1,419.70 crore for the State of Mizoram during 2022-23, however, Mizoram had a Revenue Surplus of ₹ 189.89 crore. Fiscal Deficit (FD) stood at ₹ 1,107.67 crore during 2022-23 against the projection in the MTFP of ₹ 1,211.38.

Chart 1.5 depicts the trends in surplus/deficit relative to GSDP over the five-year period 2018-19 to 2022-23.

Chart 1.5 : Trends in Surplus/Deficit relative to GSDP



Source: Finance Accounts

Revenue Surplus, which indicates excess of Revenue Receipts over Revenue Expenditure, decreased by ₹ 1,344.02 crores to ₹ 189.89 crores in 2022-23 (0.58 *per cent* of GSDP) from ₹ 1,533.91 crores in 2018-19 (7.00 *per cent* of GSDP). The revenue surplus as percentage of GSDP decreased in 2022-23 to 0.58 *per cent* from 2.16 *per cent* of GSDP as compared to previous year.

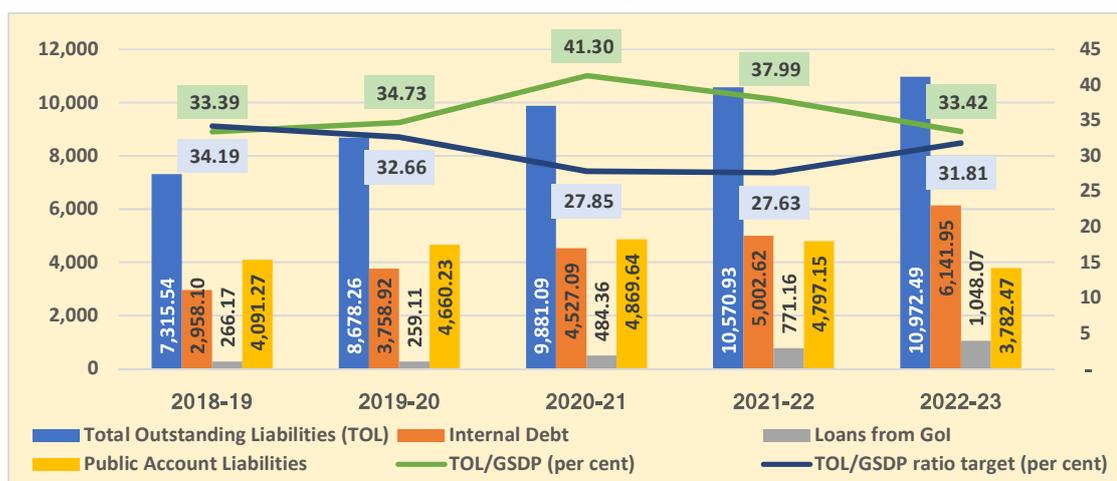
Fiscal deficit indicates total borrowings of the State, *i.e.* its total resource gap. It increased substantially to ₹ 1,107.67 crores (3.37 *per cent* of GSDP) in 2022-23 from ₹ 352.92 crores (1.61 *per cent* of GSDP) in 2018-19.

Primary deficit, the excess of primary expenditure (Total expenditure net of interest payments) over non debt receipts, was ₹ 613.79 crores (1.87 *per cent* of GSDP) in 2022-23.

As can be seen from the trends shown in the charts above, improvement in the status of deficits/surpluses in the previous year was lost indicating there was decreased economic prosperity of the State despite the resumption of normal economic activity after the COVID-19 pandemic.

Total outstanding liabilities (TOL) for the year was ₹ 10,972.49 crore which as a percentage of GSDP at 33.42 *per cent* failed to meet the target of 31.81 *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 ₹ 1,139.33 crore and ₹ 276.91 crore respectively while Public Account Liabilities decreased by ₹ 1,014.68 crore for the current year.

Principal Secretary, Finance Department during exit conference stated that non achievement of Revenue Surplus against the projection was mainly because of non-receipt of projected revenue receipts, especially under Prime Minister's Development Initiative for North Eastern Region (PM-DevINE) Scheme, Special Assistance to States for Capital Investment (SASCI) and also due to unforeseen increase in revenue expenditure as per the decision of the Government.

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	Impact on Revenue Surplus	Impact on Fiscal Deficit
Short Interest Payment	7.07	7.07	7.07
Short contribution to State Disaster Response Fund (SDRF)	43.56	43.56	43.56
Short contribution to State Disaster Mitigation Fund	15.89	15.89	15.89
Total Impact	66.52	66.52	66.52

Source: Finance Accounts

It may be seen from the preceding table that the State Government understated Revenue Expenditure by ₹ 66.52 crore through short payments of interest adjustment (₹ 7.07 crore), non-transfer of funds to State Disaster Response Fund (₹ 43.56 crore) and non-transfer of funds to State Disaster Mitigation Fund (₹ 15.89 crore). This had effected the Revenue Surplus and Fiscal Deficit. If the figures are adopted, the Revenue Surplus would be ₹ 123.37 crore and Fiscal Deficit of ₹ 1,174.19 crore (Reference 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 five years 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. At the time of preparation of this Report (October 2023) the State Government had accepted the report of the Commission but had only implemented the recommendations regarding fiscal devolution to local bodies and ADCs. As per the recommendations, 15 *per cent* of the

State's Own Tax revenue to be devolved to local bodies during the period up to 2019-20 with I MFC.

The State Government may take necessary action to fully implement the recommendations of the I MFC to enable the realisation of the benefits envisaged under the Constitution.

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.

The recommendations will be implemented and are to be effective from the next financial year *i.e.* 2023-24, the impact of their implementation could not be gauged at the time of finalization of SFAR for the year ended March 2023 (October 2023).

1.7 Conclusion

The growth rate of GSDP at current prices, during 2018-23 ranged between -4.27 *per cent* (2020-21) to 17.99 *per cent* (2022-23). During 2022-23, the GSDP (Projected Estimates) at current price increased to ₹ 32,829 crore, from ₹ 27,824 crore in 2021-22, an increase of 17.99 *per cent*. During the last five-year period from 2018-19 to 2022-23, there was a significant decrease in the growth rate of the Agriculture sector in GSDP, from 12.35 *per cent* in 2018-19 to 6.89 *per cent* in 2022-23. During the same period the growth in the Industry sector also declined from 15.90 *per cent* in 2018-19 to 14.14 *per cent* in 2022-23. The growth rate of GSVA during last five years showed a fluctuating trend. There was a positive growth of GSVA in 2022-23 and 2021-22.

The State Government achieved Revenue Surplus of ₹ 189.89 crore. Moreover, the Fiscal Deficit-GSDP ratio at 3.37 *per cent* of GSDP achieved the target during 2022-23 while the Debt-GSDP ratio at 33.42 *per cent* did not meet the target set under Mizoram Fiscal Responsibility and Budget Management (MZFRBM) Act as amended in October 2020.

The XV Finance Commission had projected a Revenue Deficit (RD) of 5.10 *per cent* of GSDP for the State of Mizoram, however, Mizoram had a Revenue Surplus of ₹ 189.89 crore. Fiscal Deficit (FD) stood at ₹ 1,107.67 crore during 2022-23.

During the year 2022-23, the Government had achieved Revenue Surplus, despite the deficit target set by the XV FC. The target of Fiscal Deficit-GSDP and total outstanding liability/GSDP set by XV FC were also achieved. However, Revenue Surplus-GSDP, Fiscal Deficit-GSDP and total outstanding liability/GSDP ratios were not within the targets set in the budget estimates.

The Second Mizoram Finance Commission (II MFC) submitted its report to the Governor on 20 July 2023 and the Report was laid before the State Legislature on 23 August 2023. The State Government accepted the recommendations of II MFC on 9 October 2023 which will be implemented from the financial year 2023-24.

As per the findings of audit, the State Government overstated Revenue Surplus and understated Fiscal Deficit by ₹ 66.52 crore due to non-provision of interests and non-contribution to designated Funds.

1.8 Recommendations

- *The State Government may take measures 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 implement the recommendations of the Second State Finance Commission.*