CHAPTER-I

OVERVIEW

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1.1 Profile of the State

The State of Manipur is located in the north-eastern part of India. The total geographical area of the State is 22,327 sq. km. comprising the central valley and the hills surrounding the valley. There are 16 districts in the State, of which, six districts are located in the valley and ten districts are located in the hills. As per Census of India 2011 Population Projections for India and States 2011-36, the State's population is projected to increase from 29.18 lakh on 1st March 2013 to 32.09 lakh on 1st March 2023, showing a decadal population growth of 10.45 *per cent* against National Decadal Growth rate of 11.68 *per cent*. As on 1st October 2022, out of the total projected population of 32.09 lakh, 10.38 lakh people (32.35 *per cent*) live in urban areas and 21.71 lakh (67.65 *per cent*) in rural areas. The density of population is 144.35 persons per sq. km as per projected population as on 1st March 2023. The details are given in ***Appendix 1.1*** **(Part C)**.

1.1.1 Gross State Domestic Product

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.

Trends in GSDP and Gross State Value Added (GSVA) compared to Gross Domestic Product (GDP) and Gross Value Added (GVA) respectively are shown in **Table 1.1** and sectoral contribution and sectoral growth in GSDP during the period 2018-19 to 2022-23 are depicted in **Chart 1.1** and **Chart 1.2**:

Table 1.1: Trends in GSDP compared to the GDP (at current prices)

(₹ in crore)

Year	2018-19	2019-20	2020-21	2021-22	2022-23
All INDIA					
GDP	1,88,99,668	2,01,03,593	1,98,29,927	2,34,71,012(Q)	2,72,40,712(A)
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	1,49,915	1,46,301	1,71,498	1,96,983
MANIPUR					
GSDP	27,388	29,813	29,776	36,594(Q)	40,662(A)
GSVA	26,282	28,441	28,445	34,513	38,349
Growth rate of GSDP over previous year (in *per cent*)	6.20	8.85	-0.12	22.90	11.12
Growth rate of GSVA over previous year (in *per cent*)	4.96	8.21	0.01	21.33	11.12
Per Capita GSDP (in ₹)	81,364	86,681	84,731	1,01,920	1,10,844

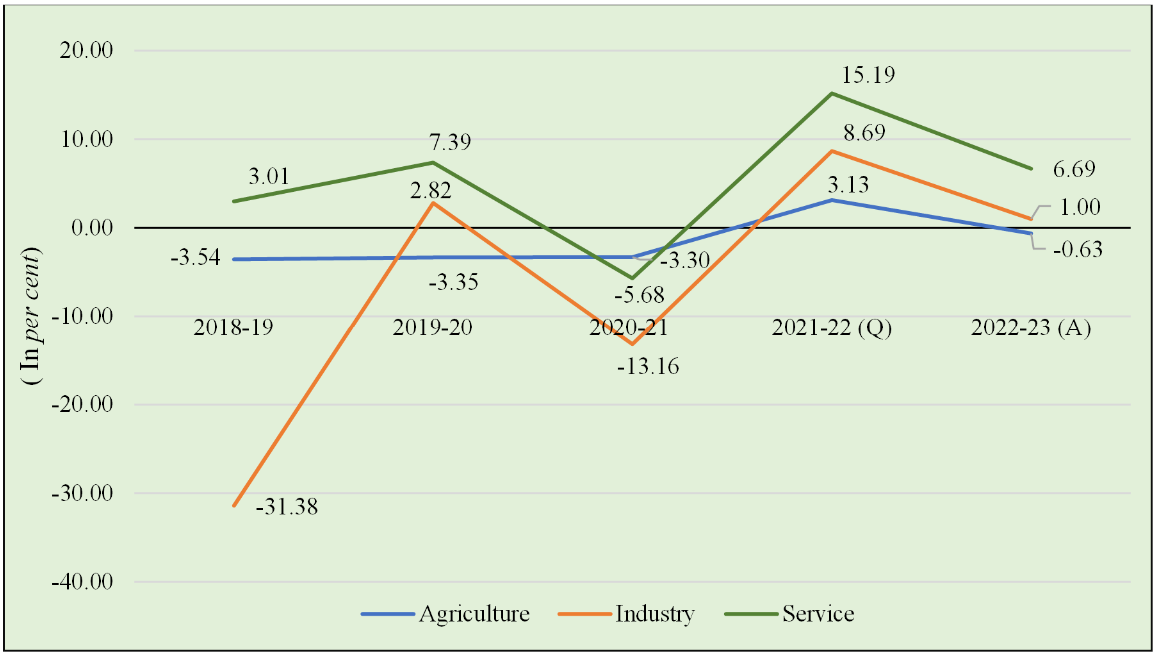
Source: Ministry of Statistics and Programme Implementation, GoI and Dept. of Economics and Statistics, Manipur; Q – Quick Estimates, A – Advanced Estimates.

The GSDP in 2022-23 at current prices was ₹ 40,662 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 ₹ 1,10,844 which was below North-Eastern and Himalayan State of ₹ 143,331 and All India average of ₹ 1,96,983.

The GSDP increased by ₹ 4,068 crore (11.12 *per cent*) from ₹ 36,594 crore in 2021-22 to ₹ 40,662 crore in 2022-23. The growth rate of GSDP showed a fluctuating trend during 2018-19 to 2022-23. As compared to 2022-23, growth rate has decreased from 22.90 *per cent* in 2021-22 to 11.12 *per cent* in 2022-23.

Changes in sectoral contribution to the GSDP is also important to understand the changing structure of economy. The economic activity is generally divided into Primary, Secondary and Tertiary sectors, which corresponds to the Agriculture, Industry and Service sectors respectively. A major sectoral analysis of GSDP of Manipur for the period 2018-23 is given in **Charts 1.1** and **1.2**.

Chart 1.1: Sectoral growth of State's GSDP for the years 2018-19 to 2022-23



Source: Department of Economics and Statistics, Manipur.
Q – Quick Estimates, A–Advanced Estimates.

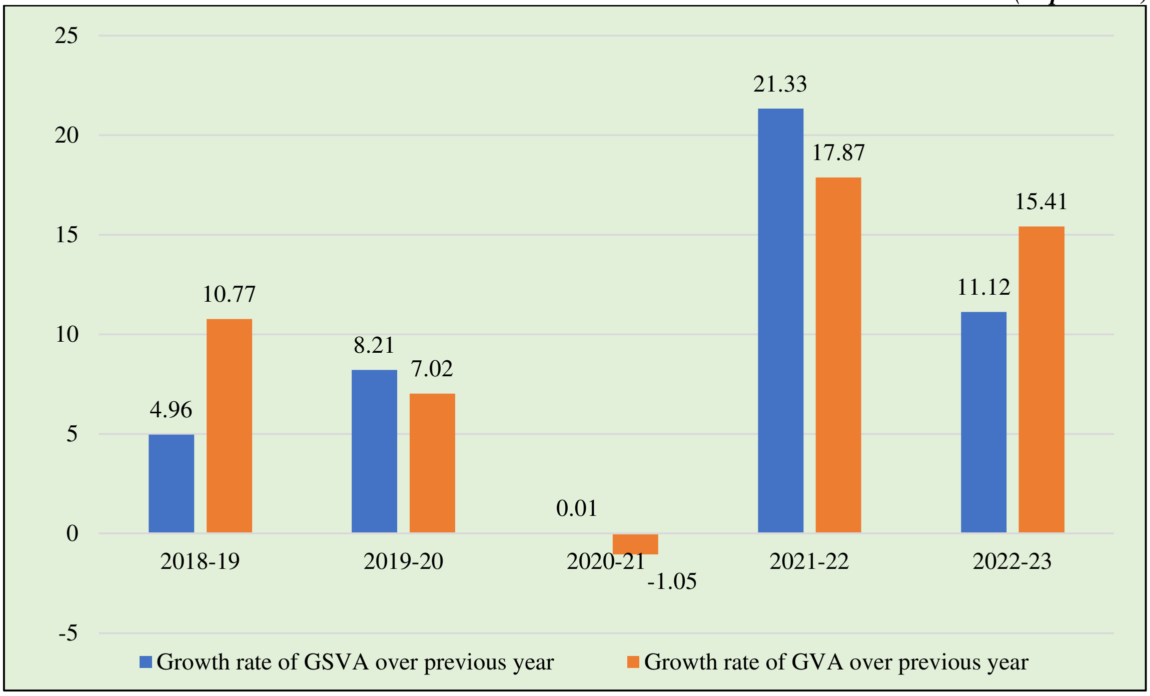
As can be seen from the chart above, Service Sector was the major contributor to GSDP during the period 2018-23 with a fluctuating trend which ranged from 60.09 to 61.86 *per cent*. Agriculture was the second largest contributor and has also shown a fluctuating trend in contribution during the period and there was a decrease (1.75 *per cent*) in the Industry Sector in 2022-23 as compared to 2018-19.

GVA is being used for economic analysis by GoI and international organisations like the International Monitory Fund (IMF) and the 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 can be and is also computed as the sum total of the various expenditures incurred in the economy including private consumption spending, government consumption and gross fixed capital formation or investment spending, reflecting essentially on the demand conditions in the economy, both measures have difference in treatment of net taxes as a result of which the inclusion of taxes in GDP may differ from the real output situation. From a policymaker's perspective, it is therefore vital to have a comparison of the GVA and GSVA data for better analysis and making policy interventions.

The trends of GVA and GSVA for the period from 2018-19 to 2022-23 is indicated in the Chart below:

Chart 1.2: Growth Rate of GSDP vs GSVA (2018-19 to 2022-23)

(in per cent)



Source: Directorate of Economics and Statistics, Manipur.
Note: In 2020-21 GSVA growth rate was 0.01 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 Legislature of the State. The State Finances Audit Report (SFAR) is prepared and submitted under Article 151 (2) of the Constitution of India.

Principal Accountant General (Accounts & Entitlements), Manipur prepares Finance Accounts and Appropriation Accounts of the State annually, from the vouchers, challans and initial and subsidiary accounts rendered by the Treasuries, State Government offices and departments responsible for keeping of such accounts, and statements received from the Reserve Bank of India. These accounts are audited independently by the Principal Accountant General (Audit) and certified by the CAG.

Finance Accounts and Appropriation Accounts of the State for the year 2022-23 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 Principal Accountant General (Audit);
- Other data with departmental authorities and treasuries (accounting as well as MIS);
- 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 Fourteenth Finance Commission (XIV FC), Fifteenth Finance Commission (XV FC), Manipur Fiscal Responsibility and Budgetary Management (MFRBM) Act, 2005, and best practices and guidelines of the Government of India (GoI).

The audit analysis/findings of Chapters I to V of the Report were discussed in the Exit Conference (27 February 2024) with the Additional Secretary, Finance Department Government of Manipur. Replies furnished in the meeting and those received from the State Government have been suitably incorporated in the Report.

This Chapter provides a broad perspective of the finances of the State of Manipur during 2022-23 and an analysis of critical changes in the major fiscal aggregates in comparison to the previous years, keeping in view the overall trends during the last five years (2018-23). The layout of Finance Accounts, methodology adopted for assessment of fiscal position, profile of the State, *etc*., are given in ***Appendix 1.1*** **(Part A to D)**.

1.3 Overview of Government Account Structure and Budgetary Processes

1.3.1 Structure of Government Accounts

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

I. 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 the 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 expenditure (Voted expenditure) is voted by the Legislature.

II. 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.

III. Public Account of the State (Article 266(2) of the Constitution of India)

Apart from 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 re-payables like Small Savings and Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and 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 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 expenditures 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 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.

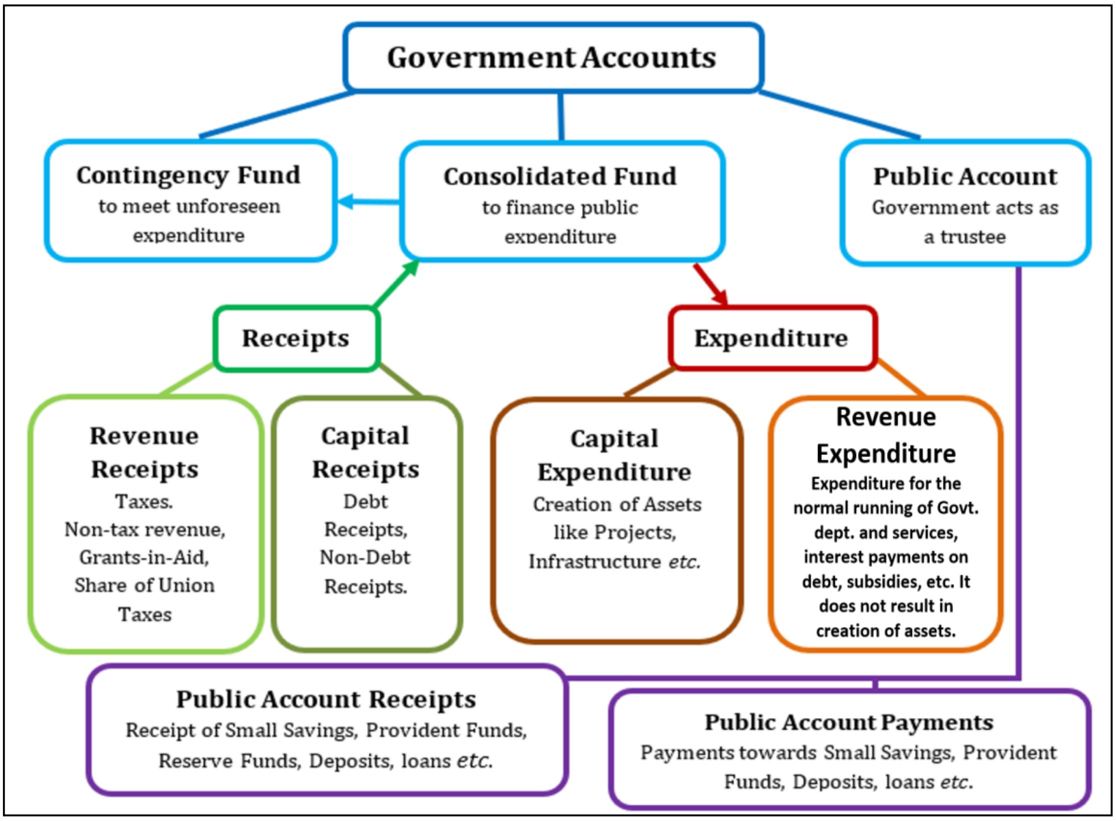
Capital expenditure includes expenditure on the acquisition of land, building, machinery, equipment and investment by the Government in shares of Public Sector Undertakings (PSU).

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

	Attribute of transaction	Classification
Standardised in List of Major and Minor Heads by CGA	Function - Education, Health, etc. /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, *etc*. (2-digit)

The functional classification lets us know 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, 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 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 Account 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 includes merely adjusting heads such as transactions 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 'Deposit and Advances' along with the transactions under major heads 6003 and 6004.

1.3.2 Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of State shall cause to be laid before the State Legislature, a statement of the estimated receipts and expenditure 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 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.

1.4 Snapshot of Finances

The following **Table 1.2** presents summary of the State's fiscal transactions during the year 2022-23 *vis-à-vis* Budget Estimates of 2022-23 and Actuals of the previous year 2021-22, while ***Appendix 1.2*** provides details of receipts and disbursement as well as the overall fiscal position during 2022-23.

Table 1.2: Snapshot of Finances

(₹ in crore)

Sl. No.	Components	2021-22 (Actuals)	2022-23 (Budget Estimate)	2022-23 (Actuals)	Percentage of Actual to B.E.	Percentage of Actuals to GSDP
1.	Tax Revenue	7,658.15	8,247.20	8,662.98	105.04	21.30
(i).	Own Tax Revenue	1,648.50	2,400.00	1,867.90	77.83	4.59
(ii).	Share of Union Taxes/Duties	6,009.65	5,847.20	6,795.08	116.21	16.71
2.	Non-Tax Revenue	108.13	399.99	457.59	114.40	1.13
3.	Grants-in-aid and Contributions	6,324.72	15,201.56	6,772.58	44.55	16.66
4.	**Revenue Receipts (1+2+3)**	14,091.00	23,848.75	15,893.15	66.64	39.09
5.	Recovery of Loans and Advances	2.39	3.79	1.10	29.02	0.00
6.	Other Receipts	0.00	0.00	0.00	0.00	0.00
7.	Borrowings and other Liabilities*	1,803.19	-264.30	1,756.55	-651.87	4.32
8.	**Capital Receipts (5+6+7)**	1,805.58	-260.51	1,757.65	-661.77	4.32
9.	**Total Receipts (4+8)**	15,896.58	23,588.24	17,650.80	74.69	43.41
10.	**Revenue Expenditure**	12,642.15	17,819.36	14,158.98	79.46	34.82
11.	Interest payments	690.80	964.00	874.19	90.68	2.15
12.	**Capital Expenditure**	3,252.79	8,729.69	3,484.24	39.91	8.57
13.	Loans and Advances	1.63	4.20	7.58	180.48	0.02

Sl. No.	Components	2021-22 (Actuals)	2022-23 (Budget Estimate)	2022-23 (Actuals)	Percentage of Actual to B.E.	Percentage of Actuals to GSDP
14.	**Total Expenditure (10+12+13)**	15,896.57	26,553.25	17,650.80	66.47	43.41
15.	**Revenue Surplus/Deficit (4-10)**	1,448.85	6,029.39	1,734.17	28.76	4.26
16.	**Fiscal Deficit {14-(4+5+6)}**	1,803.18	2,700.71	1,756.55	65.04	4.32
17.	**Primary Deficit (16-11)**	1,112.38	1,736.71	882.36	50.81	2.17

Source: Finance Accounts, Annual Financial Statement.

* *Sum of Net Public Debt, Net Contingency Fund, Net Public Account and Net Cash Balance.*

The following are the significant changes noticed during 2022-23 over the previous year:

- Revenue Receipts increased by 12.79 *per cent* (₹ 1,802.15 crore) over the previous year. The increase was mainly due to increase in State's Share of Union Taxes/Duties (₹ 785.43 crore) and Grants-in-aid and Contributions (₹ 447.86 crore). However, the State could not achieve the projections of Budget Estimates for Revenue Receipts. The actual receipts was 66.64 *per cent* against the budget provision. The State's Own Tax Revenue increased by 13.31 *per cent* over the previous year 2021-22.
- State's Share of Union Taxes/Duties increased by ₹ 785.43 crore (13.07 *per cent*) in comparison to the previous year. It was due to increase in Corporation Tax (₹ 596.90 crore) and Taxes on Income Other than Corporation Tax (₹ 372.44 crore).
- Revenue Expenditure increased by 12.00 *per cent* (₹ 1,516.83 crore) over the previous year. The increase was mainly due to increase in Social Services (₹ 850.73 crore), General Services (₹ 749.36 crore), and Economic Services (₹ 109.77 crore).
- Revenue Surplus increased by 19.69 *per cent* (₹ 285.32 crore) over the previous year mainly due to increase in State's Share of Union Taxes/Duties (₹ 785.43 crore) and Grants-in-aid and Contributions (₹ 447.86 crore) partly offset by increase in Revenue Expenditure on Pensions and other Retirement Benefits (₹ 441.26 crore), General Education (₹ 375.10 crore), Social Security and Welfare (₹ 289.45 crore) and Interest Payment (₹ 183.39 crore).
- Capital Expenditure increased by 7.12 *per cent* (₹ 231.45 crore) over the previous year expenditure. It was mainly due to increase in Capital Outlay on Other Special Areas Programmes (₹ 257.97 crore), Capital Outlay on Roads and Bridges (₹ 208.75 crore), Capital Outlay on Medical and Public Health (₹ 122.17 crore), Capital Outlay on Flood Control Projects (₹ 46.92 crore) and Capital Outlay on Major Irrigation (₹ 17.90 crore).
- Total Expenditure increased by 11.04 *per cent* (₹ 1,754.23 crore) over the previous year. It was due to increase in both Revenue Expenditure (₹ 1,516.83 crore) and Capital Expenditure (₹ 231.45 crore).
- Fiscal Deficit decreased by 2.59 *per cent* (₹ 46.64 crore) as compared to that of the previous year. It was mainly due to lower rate of increase in Revenue Receipt by 12.79 *per cent* as compared to the previous year.

1.5 Snapshot of Assets and Liabilities of the Government

1.5.1 Composition of Assets and Liabilities

Government accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. ***Appendix 1.3*** gives an abstract of such liabilities and assets as on 31 March 2022, compared with the corresponding position of previous year. The liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from public account and reserve funds, and the assets comprise mainly the capital expenditure and loans and advances given by the State Government and cash balances.

A summarised position of Assets and Liabilities for the years 2021-22 and 2022-23 is shown in **Table 1.3**:

Table 1.3: Summarised position of Assets and Liabilities for the years 2021-22 and 2022-23

(₹ in crore)

Liabilities					Assets				
		2021-22	**2022-23**	***Per cent* increase**			**2021-22**	**2022-23**	***Per cent* increase**
Consolidated Fund									
A	Internal Debt	9,967.15	11,149.50	11.86	a	Gross Capital Outlay	30,076.52	33,560.75	11.58
B	Loans and Advances from GoI	784.67	1,313.24	67.36	b	Loans and Advances disbursed	204.45	210.93	3.17
Contingency Fund		0.00	0.00						
Public Account									
A	Small Savings, Provident Funds, etc.	1,513.10	1,513.45	0.02	a	Advances	2.60	2.60	0.00
B	Deposits	1,464.38	1,380.79	-5.71	b	Remittance	695.67	820.18	17.90
C	Reserve Funds	1,624.69	1,788.98	10.11	c	Suspense and Miscellaneous	215.09	195.09	-9.30
D	Remittances	0.00	0.00	0.00		**Cash Balance (including investment in Earmarked Fund)**	1,073.19	1,004.11	-6.44
	Total	**15,353.99**	**17,145.96**			**Total**	**32,267.52**	**35,793.66**	**10.93**
E	**Surplus* in Government Account**	16,913.53	18,647.70						
Grand Total		**32,267.52**	**35,793.66**	**10.93**		**Grand Total**	**32,267.52**	**35,793.66**	**10.93**

Source: Finance Accounts.

** In the previous year, deficit in Revenue Account was shown instead of Surplus in Government Account.*

As could be seen from the table above, assets of the State Government during 1022-23 increased by ₹ 3,526.14 crore (10.93 *per cent*) over the previous year. The liabilities of the State Government also increased by 1,791.97 crore (11.67 *per cent*) over the previous year.

1.6 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.

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 entails 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 saving. 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 (State GDP) as a whole.

Government deficit can be reduced by an increase in taxes or reduction in expenditure. 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 individual State Governments have passed Fiscal Responsibility and Budget Management (FRBM) Act with the objective of ensuring prudence in 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 deficit measures and debt level.

The State Government enacted Manipur Fiscal Responsibility and Budget Management (MFRBM) Act in August 2005 to ensure prudence in fiscal management and fiscal stability by achieving sufficient Revenue surplus, reduction in Fiscal deficit, prudent debt management consistent with fiscal sustainability and greater transparency in fiscal operations of the State. As per Manipur FRBM Rules, 2005 (framed in December 2005 and modified thereafter) framed under the Act, fiscal targets of Revenue Surplus and Fiscal Deficit, *etc*. were fixed.

The targets under the Act and the Rules are given in ***Appendix 1.1*** **(Part D)**. The yearly targets are also set out in the Medium Term Fiscal Policy Statements (MTFPS) placed in the State Legislative Assembly. The targets for major fiscal variables provided in MFRBM Act and Rules, MTFPS and actual achievements there against are depicted in **Tables 1.4** and **1.5**:

Table 1.4: Trends in Major fiscal parameters/variables *vis-à-vis* targets for the years 2018-23

Fiscal Parameters		Achievement (₹ in crore)				
		2018-19	2019-20	2020-21	2021-22	2022-23
Revenue Deficit (-) / Surplus (+) (₹ in crore)	T	Revenue Surplus				
	A	812.99 ✓	445.53 ✓	554.18 ✓	1448.85 ✓	1734.17 ✓
Ratio of Fiscal Deficit (-) / Surplus (+) to GSDP (in *per cent*)	T	3 *per cent*				
	A	3.35 ✗	2.38 ✓	6.35 ✗	4.93 ✗	4.32 ✗
Ratio of total outstanding liability to GSDP (in *per cent*)	T*	MFRBM Act has not provided the targets after 2014-15				
		(41.43)	(41.35)	(42.71)	(46.88)	(44.74)
	A	38.21 -	38.26 -	44.28 -	41.96 -	42.17[1] -

* *Figures within the brackets for Outstanding Debt-GSDP Ratio are the XIV FC/XV FC projections.*
Source: Finance Accounts and Budget documents.

The targets set by 15th 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 1.5**:

Table 1.5: Targets *vis-à-vis* achievements in respect of major fiscal aggregates for the year

Fiscal Variables	Targets as prescribed by 15 FC	Targets in the Budget	Actuals	Percentage variation of actuals over	
				Targets of 15 FC	Targets in the Budget
Revenue Deficit (-) / Surplus (+) as *per cent* of GSDP	0.80	15.45	4.26	-432.50	72.43
Fiscal Deficit (-) /Surplus (+) as *per cent* of GSDP	-3.50	-6.50	-4.32	-23.43	33.54
Total outstanding liability/GSDP (*per cent*)	41.80	37.92	42.17	-0.89	-11.21

Source: 15 FC Report, Budget Documents and Finance Accounts.

Table 1.6: Actuals *vis-à-vis* projection in MTFPS during 2022-23

(₹ in crore)

Sl. No.	Fiscal Variables	Projection as per MTFPS	Actuals (2022-2023)	Variation (in *per cent*)
1.	Own Tax Revenue	2,260.00	1,867.90	-17.35
2.	Non-Tax Revenue	406.00	457.59	12.71
3.	Share of Central Taxes	5,246.00	6,795.08	29.53
4.	Grants -in-aid from GoI	15,256.00	6,772.58	-55.61
5.	Revenue Receipts (1+2+3+4)	23,168.00	15,893.15	-31.40
6.	Revenue Expenditure	20,748.00	14,158.98	-31.76
7.	Revenue Deficit (-)/ Surplus (+) (5-6)	2,420.00	1,734.17	-28.34
8.	Fiscal Deficit (-)/ Surplus (+)	-37.00	-1,756.55	4,647.43
9.	Debt-GSDP ratio (*per cent*)	28.00	42.17	50.61
10.	GSDP growth rate at Current prices (*per cent*)	17.00	11.12	-34.59

Source: Finance Department, GoM and Finance Accounts.

During the year 2022-23, the State Government could achieve the target fixed under MFRBM Act for maintaining Revenue Surplus. However, the State Government could not achieve the targets fixed for Fiscal Deficit-GSDP ratio. Further, the State Government did not fix targets for Outstanding Debt-GSDP ratio in the MFRBM Act after the year

1 Off-budget borrowing of ₹ 180.51 crore during the year 2022-23 has not been considered for calculation of ratio.

2014-15. However, outstanding Debt-GSDP ratio was within the limit of the XIV and XV Finance Commission's projections during 2018-19 to 2022-23.

The State Government could not achieve the projection of MTFPS in respect of Revenue Receipts by ₹ 7,274.85 crore (31.40 *per cent*) mainly due to under achievement of projection in Grants-in-Aid from GoI (₹ 8,483.42 crore) and Own Tax Revenue (₹ 392.10 crore).

Off-budget borrowings or off-budget financing generally refer to use of those financial resources by the Government for meeting expenditure requirements in a particular year or years, which are not reflected in the budget for that year/those years for seeking grant/appropriation, hence remaining outside legislative control. They are financed through Government owned or controlled public sector enterprises or departmental commercial undertakings, which raise the resources through market borrowings on behalf of the Government. However, the Government has to repay such debt and/or service the same from its budget. Therefore, off-budget borrowings/financing involve (i) payment of interest on recurrent basis and (ii) repayment of the borrowings from budget as and when it is due.

Audit analysis revealed that during the year 2022-23 two financial institutions[2] availed loan of ₹ 180.51 crore for implementation of various Government projects which was not reflected in the budget document. The borrowings by these Institutions had not formed part of the outstanding liabilities of the State Government during the year. During the year the State Government repaid ₹ 29.01 crore (Principal amount: ₹ 8.41 crore and Interest amount: ₹ 20.06 crore) from the State budget. Further, total repayments of ₹ 29.01 crore made during the year was serviced directly by the State Government. The details of loans availed by these institutions, purpose of the loans and repayment made during the year are given in the following table:

Table 1.7 Repayment of Off-Budget Borrowings through Budget during 2022-23

Name of the Institution	Bank/ Financial Institutions	Loans Borrowed (₹ in crore)	Period of Loan	Purpose of Loan	Repayment during the year (₹ in crore)		Heads of Accounts debited	Source of Repayment (Principal & Interest)
					Principal	Interest		
Planning and Development Authority	HUDCO	139.00	10 years	Civil Secretariat, VIP Guest House, Govt. quarters, Manipur Institute of Preforming Arts, Alternative Housing for resident of Tribal Colony	8.41	12.72	2217-01-800-41-00-35	State Budget
Manipur Police Housing Corporation	HUDCO	41.51	10 years	State Guest House Dwarka and PHQ	-	7.88	2055-00-001-18-02-36	State Budget
Total		**180.51**			**8.41**	**20.60**		

Source: Finance Department, Government of Manipur.

Payment of interest by debiting regular Major Head understated the interest payment head (Major Head 2049) which forms part of the committed liability of the State Government. Further, classifying the expenditure on repayment of loan (Principal) as Revenue

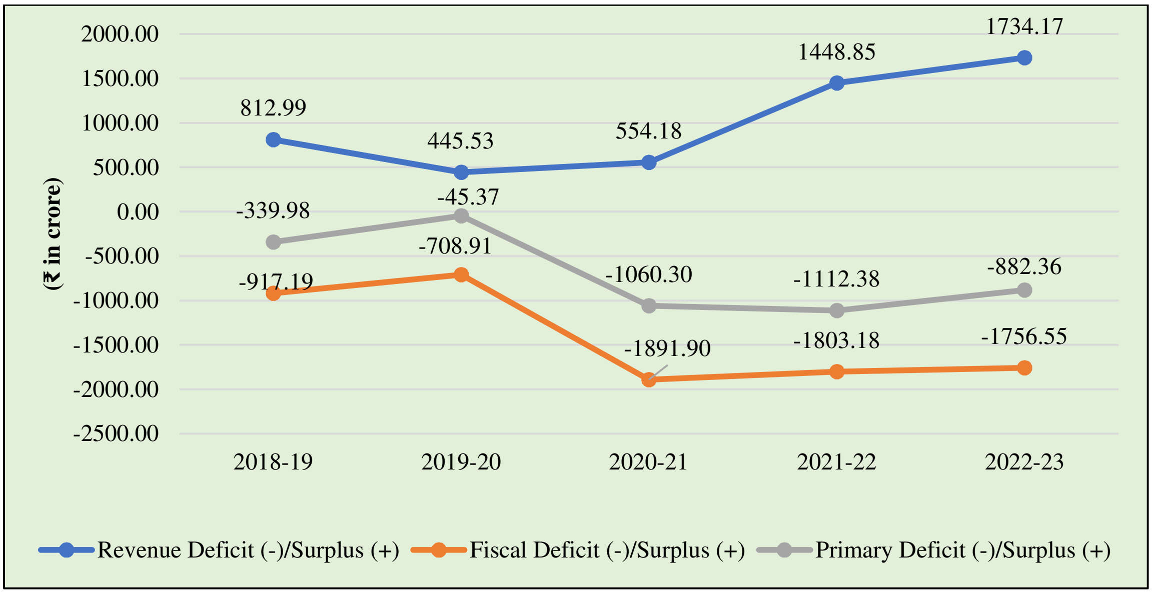
2 Planning and Development Authority and Manipur Police Housing Corporation.

Expenditure overstated the Revenue Expenditure to that extent. The repayment of off-budget borrowings (₹ 29.01 crore) was 1.25 *per cent* of own resources (Own Tax Revenue and Non-Tax Revenue) of the State (₹ 2,325.49 crore) and 0.20 *per cent* of Revenue Expenditure (₹ 14,158.98 crore) during the year 2022-23. The repayment of principal and interest resulted overstatement of Revenue Surplus and understatement of Fiscal Deficit to that extent. As these borrowings are not disclosed in the budget, the Legislature is unaware of creation of such liabilities. Non - disclosure of off-budget borrowings through the State budget led to an understatement of Government liabilities by ₹ 180.51 crore.

When a government spends more than it collects by way of revenue, it incurs a deficit. There are various measures that capture government deficit. Three key fiscal parameters *i.e.* Revenue, Fiscal and Primary deficit are usually used to indicate the extent of overall fiscal imbalance in the finances of the State during a specified period. The deficit/ surplus in the Government accounts represents gap between its receipts and expenditures. The nature of deficit/surplus is an indicator of the fiscal prudence of the Government. Further, the ways in which the deficit is financed and the resources mobilised are applied are important pointers to its fiscal health.

The following **Charts 1.4** and **1.5** present the trends in deficit parameters *i.e.* Revenue, Fiscal and Primary and trends in relation to GSDP during the period 2018-23.

Chart 1.4: Trends in deficit parameters during 2018-19 to 2022-23

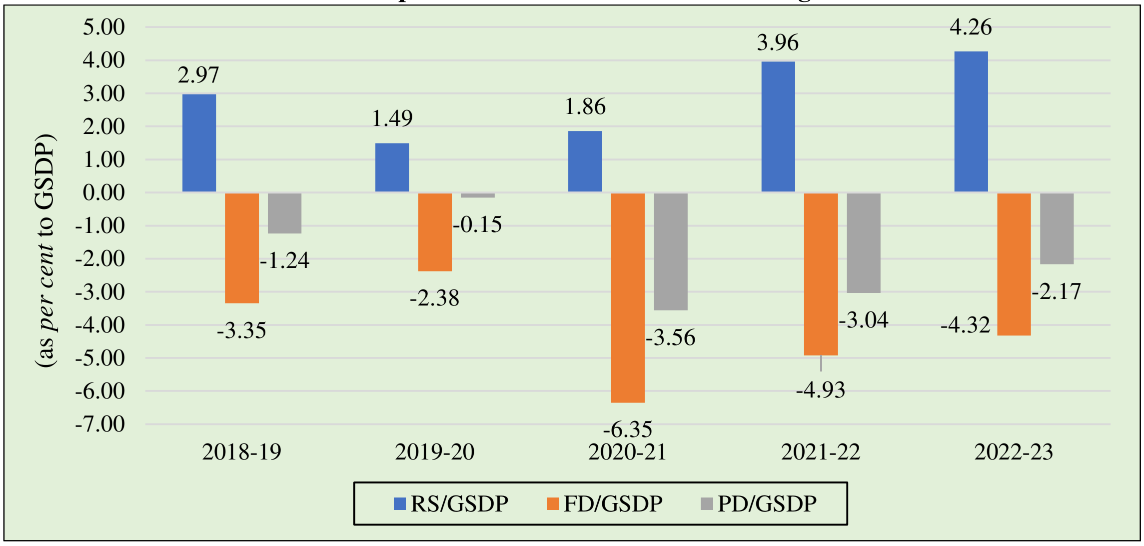


Source: Finance Accounts.

As can be seen from above chart, the State was able to maintain Revenue Surplus during the last five years 2018-23, ranging from ₹ 445.53 crore to ₹ 1,734.17 crore. As compared to 2021-22, Revenue Surplus increased by ₹ 285.32 crore in 2022-23 mainly due to increase in State's Share of Union Taxes/Duties (₹ 785.43 crore) and Grants-in-aid and Contributions (₹ 447.86 crore).

The Fiscal Deficit decreased by ₹ 46.63 crore (from ₹ 1,803.18 crore in 2021-22 to ₹ 1,756.55 crore in 2022-23) and the Primary Deficit during the year 2022-23 also decreased by ₹ 230.02 crore.

Chart 1.5: Trends in Surplus/Deficit relative to GSDP during 2018-19 to 2022-23



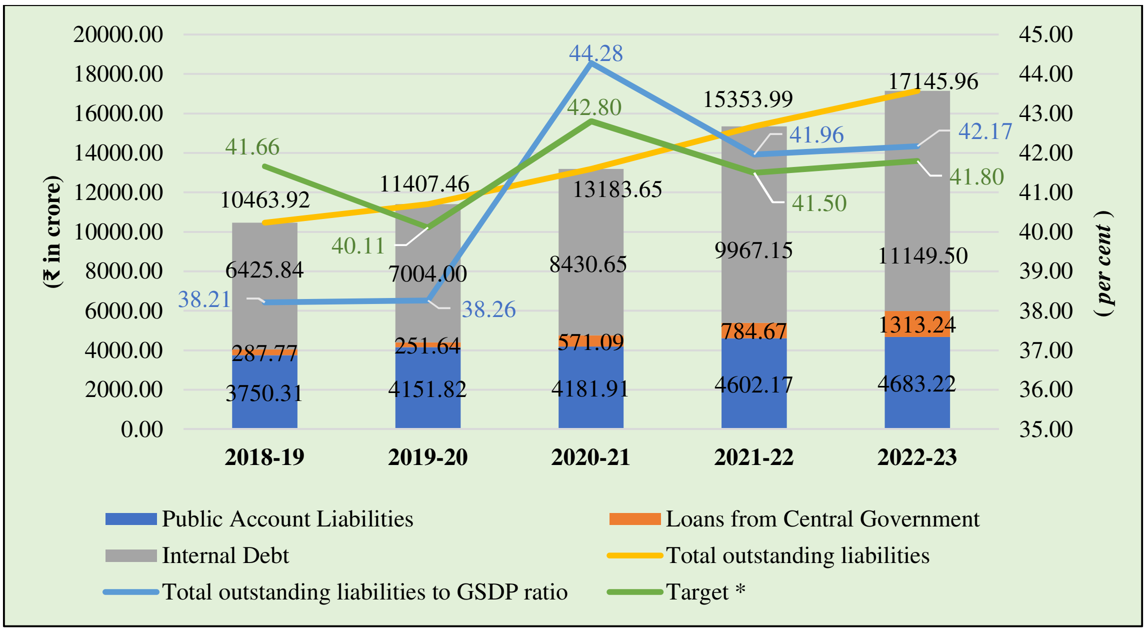
Source: Finance Accounts and Directorate of Economics and Statistics, Manipur.

As can be seen from the above chart, the Revenue Surplus-GSDP ratio depicted a fluctuating trend during 2018-23. The ratio increased by 0.30 *per cent* as compared to the previous year. Both Fiscal Deficit-GSDP ratio and Primary Deficit-GSDP ratio depicted a fluctuating trend. However, the ratios decreased in 2022-23 as compared to the previous year, indicating that the expenditure of the State increased at a lower rate as compared to the increase of GSDP of the State.

Fiscal Deficit is usually financed by way of borrowings by the State giving rise to government debt. If the Government continues to borrow year after year, it will lead to accumulation of debt. Government debt is mainly composed of Internal Borrowings (Market loans, Ways and Means Advances *etc*.), Loans and Advances from GoI and receipts on Public Account (Small savings, Provident fund, *etc*.).

Chart 1.6 depicts the trends in the components of liabilities.

Chart 1.6: Trends in Fiscal Liabilities and GSDP



**As per XIV/XV FC projections.*

The overall fiscal liabilities of the State increased steadily during 2018-19 to 2022-23, from ₹ 10,463.92 crore in 2018-19 to ₹ 17,145.96 crore in 2022-23 (excluding off-budget borrowings of ₹ 180.51 crore). Fiscal liabilities increased by 11.67 *per cent* (₹ 1,791.97 crore) in 2022-23 over the previous year which was mainly due to increase in Internal Debt (₹ 1,182.35 crore) and Loans and Advances from Central Government (₹ 528.57 crore). Such a trend puts pressure on the State Government for meeting the burden on repayment of debt and interest thereon.

1.7 Constitution and Implementation of State Finance Commission

Article 243 I of the Constitution of India makes it mandatory for the State Government to constitute a Finance Commission on expiry of every five years for reviewing the financial position of the local bodies, for boosting their financial conditions, distributing net proceeds of the taxes, fees, tolls and duties, and allocating funds from the State Consolidated Fund as part of devolution of fiscal and financial powers and financial resources.

The Fourth State Finance Commission (FSFC) was already due since April 2018, but it was constituted only in October 2019 after a delay of 18 months. The recommendations of the FSFC cover the five years period from 2021 to 2026.

1.7.1 Status of implementation of recommendations on fiscal devolution

As per the recommendations of the FSFC, the State Government is required to transfer 10 *per cent* of the State's Own Tax Revenue to the local bodies including the Autonomous District Councils (ADCs). Out of this allocation, 35.28 *per cent* was to be transferred to Panchayati Raj Institutions (PRIs), 22.49 *per cent* to the Urban Local Bodies (ULBs) and the remaining 42.23 *per cent* to the Autonomous District Councils (ADCs). The position of funds released under the Third SFC and Fourth SFC to PRIs, ULBs and ADCs during the five years' period 2018-19 to 2022-23 is shown in the following table:

Table 1.8: Statement showing funds released to ADCs, PRIs and ULBs under SFC

(₹ in crore)

Year	State's Own Tax Revenue	Amount to be released to Local Bodies including ADCs (10 *per cent*)	Amount to be released to PRIs (35.28 *per cent*)	Amount actually transferred to PRIs (*per cent* of short release)	Amount to be released to ULBs (22.49 *per cent*)	Amount actually transferred to ULBs (*per cent* of short release)	Amount to be released to ADCs (42.23 *per cent*)	Amount actually transferred to ADCs (*per cent* of short release)
2018-19	1046.05	104.61	36.90	33.46 (9.33)	23.53	21.33 (9.33)	44.17	40.05 (9.34)
2019-20	1201.12	120.11	42.38	38.74 (8.58)	27.01	24.69 (8.60)	50.72	46.37 (8.58)
2020-21	1294.49	129.45	45.67	46.73 -	29.11	29.79 -	54.67	55.94 -
2021-22	1648.50	164.85	58.16	46.73 (19.65)	37.07	29.79 (19.65)	69.62	55.94 (19.65)
2022-23	1867.90	186.79	65.90	0.00	42.01	0.00	78.88	0.00

Source: Finance Accounts, Government of Manipur and Finance Department, GoM.
Note: Figures in brackets indicate short release in per cent.

During 2022-23, the State Government did not transfer any fund to the ULBs, PRIs and ADCs. The State Government in their reply stated that the terms of all local bodies had come to an end during 2022-23 and no fund was transferred to these bodies. The reply of the State Government is not acceptable as it is mandatory to transfer the fund to PRIs, ULBs and ADCs as per the recommendations of the SFCs or as a part of fiscal devolution and component of local bodies. Further, it is evident from the above table that during the periods 2018-19, 2019-20 and 2021-22, actual release of funds by the State Government to the PRIs was lower than that recommended by the SFCs. Short release of fund to the PRIs ranged from 9.33 to 19.65 *per cent*. Similarly, there was short release of funds to ULBs ranging from 8.60 to 19.65 *per cent* during the same period. In the case of ADCs, the shortfall in the release of fund ranged from 8.58 to 19.65 *per cent* during the same period. Such shortfall would ultimately impede the development works in the PRIs, ULBs and ADCs of the State. However, during 2020-21, actual release to PRIs, ULBs and ADCs was more than the recommended amount.

1.8 Impact on Revenue and Fiscal Deficit, Post Audit

As per the FRBM Act, 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. Besides, Non-payment of interest in Defined Contribution Pension Scheme for Government Employees, Non-adjustment of interest on balances in State Compensatory Afforestation Fund, Short Transfer of Employer's share to Defined Contribution Pension Scheme, Non-transfer of Central share of SDRF to Public Account under MH 8121 *etc.* also impact the Revenue Surplus and Fiscal Deficit figures resulting in inaccurate surplus/deficit figure. **Table 1.9** shows the operation of the State which impacted Revenue Surplus and Fiscal Deficit during the year 2022-23.

Table 1.9: Impact on Revenue Surplus and Fiscal Deficit

(₹ in crore)

Sl. No.	Particulars	Impact on Revenue Surplus		Impact on Fiscal Deficit	
		Overstated (-)	Understated (+)	Overstated (-)	Understated (+)
1.	Misclassification between Revenue and Capital Expenditure	(-)0.59	(+)0.02	Nil	Nil
2.	Non-payment of interest in Defined Contribution Pension Scheme for Government Employees	(-)12.98	Nil	Nil	(+)12.98
3.	Non-adjustment of interest on balance in State Compensatory Afforestation Fund	(-)9.15	Nil	Nil	(+)9.15
4.	Non-payment of interest in 8336-Civil Deposits/ 800 - Other Deposit	(-)0.13	Nil	Nil	(+)0.13
5.	Non-payment of interest in State Disaster Response Fund	(-)4.75	Nil	Nil	(+)4.75
6.	Repayment of Principal and interest on off-budget borrowing	-	(+) 29.01	(-) 29.01	-

Sl. No.	Particulars	Impact on Revenue Surplus		Impact on Fiscal Deficit	
		Overstated (-)	Understated (+)	Overstated (-)	Understated (+)
7.	Short transfer of Employer's share to Defined Contribution Pension Scheme	(-)10.49	Nil	Nil	(+)10.49
8.	Non-contribution of State matching share in State Disaster Response Fund (SDRF)	(-)3.91	Nil	Nil	(+)3.91
9.	Non-transfer of Central share of SDRF to Public account under MH 8121	(-)35.20	Nil	Nil	(+)35.20
10.	Non-contribution to Consolidated Sinking Fund	(-)76.77	Nil	Nil	(+)76.77
11.	Non-transfer of the Manipur Building and Other Construction Workers' Welfare Cess	(-)0.82	Nil	Nil	(+)0.82
	Total Impact	**(-)154.79**	**(+)29.03**	**(-) 29.01**	**(+)154.20**
	Total (Net) Impact	**(-)125.76**		**(+)125.19**	

Source: Finance Accounts.

It is evident from the table above that Revenue Surplus was overstated by ₹ 125.76 crore and Fiscal Deficit was understated by ₹ 125.19 crore. If the figures are adopted, the correct figure of the Revenue Surplus would be ₹ 1,608.41 crore[3] and Fiscal Deficit would be ₹ 1,881.74 crore[4] for 2022-23 *(Reference Table no. 1.2)*.

1.9 Conclusion

- The GSDP increased by ₹ 4,068 crore (11.12 *per cent*) from ₹ 36,594 crore in 2021-22 to ₹ 40,662 crore in 2022-23. The growth rate of GSDP showed a fluctuating trend during 2018-19 to 2022-23.
- The GSDP growth rate for Manipur (11.12 *per cent*) was lower than the GDP growth rate (16.06 *per cent*) in 2022-23. Services Sector was the major contributor of GSDP during the year. Agriculture was the second largest contributor while Industry was the third largest contributor.
- The State's Revenue Receipts increased by 12.79 *per cent* (₹ 1,802.15 crore) over the previous year. The increase was mainly due to increase in State's Share of Union Taxes/Duties (₹ 785.43 crore) and Grants-in-aid and Contributions (₹ 447.86 crore). However, the State could not achieve the projections of Budget Estimates for Revenue Receipts.
- The State's Own Tax Revenue increased by 13.31 *per cent* over the previous year 2021-22.
- The State's Total Expenditure for the year which was ₹ 17,650.80 crore increased by 11.04 *per cent* (₹ 1,754.23 crore) over the previous year due to increase in both Revenue Expenditure (₹ 1,516.83 crore) and Capital Expenditure (₹ 231.45 crore).

3 ₹ 1,734.17 crore – ₹ 125.76 crore = ₹ 1,608.41 crore.
4 ₹ 1,756.55 crore + ₹ 125.19 crore = ₹ 1,881.74 crore.

- The State's Revenue Surplus which was ₹ 1,734.17 crore for the year increased by 19.69 *per cent* (₹ 285.32 crore) over the previous year mainly due to increase in State's Share of Union Taxes/Duties (₹ 785.43 crore) and Grants-in-aid and Contributions (₹ 447.86 crore).
- Fiscal Deficit decreased by 2.59 *per cent* (₹ 46.64 crore) as compared to that of the previous year. The Fiscal Deficit during 2022-23 was 4.32 *per cent* of GSDP and could not achieve the projection of the Manipur FRBM Act during the year.
- Post audit, the Revenue Surplus was overstated by ₹ 125.76 crore and Fiscal Deficit was understated by ₹ 125.19 crore due to non-contribution to Consolidated Sinking Fund, non-payment of interest in Defined Contribution Pension Scheme for Government Employees, non-adjustment of interest on balances in State Compensatory Afforestation Fund, short transfer of Employer's share to Defined Contribution Pension Scheme, non-transfer of Central share of State Disaster Response Fund to Public Account, *etc*.

1.10 Recommendations

- *The State Government needs to keep up the trend of Own Tax Revenue collection achieved during 2022-23 by focusing on other potential areas apart from SGST to have a sustained increase in Own Tax Revenue collection.*
- *The State Government needs to keep up the trend of increasing its Capital Expenditure and give more impetus to asset creation for sustained economic growth.*
- *The State Government needs to keep up the trend of achieving the projections on major fiscal parameters made in the Manipur FRBM Act through prudent financial management and increase their Revenue Surplus.*