CHAPTER –I

FINANCES OF THE STATE GOVERNMENT

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1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account **(Appendix 1.1-Part A).**The Finance Accounts of the Government of Mizoram are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account. The lay out of the Finance Accounts is depicted in **Appendix 1.1 – Part B**.

1.1.1 Summary of Receipts and Disbursements

Table 1.1 summarises the finances of the State Government for the year 2006-07 covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed statements.

1.1: Summary of receipts and disbursements for the year 2006-07

(Rupees in crore)

2005-06	Receipts	2006-07	2005-06	Disbursements	2006-07		
					Non-Plan	Plan	Total
			Section – A: Revenue				
1653.65	1. Revenue Receipts	1968.95	1588.01	1. Revenue Expenditure	1121.49	595.81	1717.30
55.05	Tax revenue	67.62	541.64	General Services	597.38	19.53	616.91
120.09	Non- tax revenue	133.38	547.59	Social Services	278.01	314.89	592.90
225.83	Share of Union Taxes/Duties	288.05	498.78	Economic Services	246.10	261.39	507.49
1252.68	Grants from Government of India	1479.90	---	Grants –in-aid/ Contributions	…	…	…
			Section B : Capital				
--	II. Miscellaneous Capital Receipts	--	451.37	II. Capital Outlay	7.74	458.70	466.44
22.98	III. Recoveries of Loans and Advances	24.01	34.09	III. Loans and Advances disbursed	--	--	0.25
253.20	IV. Public Debt receipts [1]	236.56	98.50	IV. Repayment of Public Debt	--	--	110.95
--	V. Contingency Fund	--	…	V. Contingency Fund	-	-	-
1465.20	VI. Public Account receipts	1425.61	1208.61	VI. Public Account disbursements	--	--	1394.12
28.41	Opening Cash Balance	42.86	42.86	Closing Cash Balance	--	--	8.93
3423.44	**Total**	**3697.99**	**3423.44**	**Total**	**--**	**--**	**3697.99**

Following are the significant changes during 2006-07 over the previous year;

[1] *Includes net Ways and Means Advances and Overdraft*

- Revenue receipts grew by Rs.315 crore over the previous year. The increase was mainly contributed by grants-in-aid from Government of India (GOI) (Rs.227 crore), State's share of Union taxes and duties (Rs.62 crore) and Non tax revenue (Rs.13 crore).
- Revenue expenditure and capital expenditure increased by Rs.129 crore and Rs.15 crore respectively over the previous year.
- Public debt receipts decreased by Rs.16 crore over previous year mainly due to decrease in market loans by Rs.32 crore, borrowings from GOI by Rs 4 crore partly offset by increase in Ways and Means Advances under Internal Debt by Rs. 20 crore. Public debt repayments also increased by Rs.12 crore over previous year mainly due to increase in disbursement of loans and advances from Central Government by Rs. 12 crore .
- Loans and advances disbursed by the State government have decreased by 33.84 crore while their recovery improved marginally by Rs 1.03 crore in 2006-07 over the previous year.
- Public Account receipts decreased by Rs. 39 crore and Public Account disbursements increased by Rs.185 crore over the previous year.
- Cash balance of the State as a result of the inflows/outflows stated above, decreased by Rs.34 crore over the previous year.

1.1.2 Fiscal Position by Key Indicators

The fiscal position of the State Government as reflected by the key fiscal indicators during the current year as compared to previous year is given in ***Table 1.2***.

Table: 1.2

(Rupees in crore)

2005-06	Sl. No	Major Aggregates	2006-07
1654	1.	Revenue Receipts (2+3+4)	1969
55	2.	Tax Revenue	68
120	3.	Non-Tax Revenue	133
1479	4.	Other Receipts	1768
23	5.	Non-Debt Capital Receipts	24
23	6.	*Of which recovery of Loans*	24
1677	**7.**	**Total Receipts (1+5)**	**1993**
1045	**8.**	**Non- Plan Expenditure**	**1129**
1048	9.	On Revenue Account	1121
185	10.	*Of which Interest Payments*	229
(-) 3	11.	On Capital Account	8
--	12.	On Loans disbursed	--
1028	**13.**	**Plan Expenditure**	**1055**
540	14.	On Revenue Account	596
454	15.	On Capital Account	459
34	16.	On Loans disbursed	--
2073	**17.**	**Total Expenditure (13+8)**	**2184**
66	18.	Revenue Deficit (-)/Surplus (+) (1-9-14)	(+) 252
(-) 397	19.	Fiscal Deficit (-)/Surplus (+) (1+5-17)	(-) 191
(-) 212	20.	Primary Deficit (-)/ Surplus (+) (10-19)	(+) 38

During the current year revenue receipts increased by Rs.315 crore (19 *per cent)*, revenue expenditure increased by Rs.129 crore (8 *per cent)* over the previous year resulting in an increase of Rs.186 crore in surplus of revenue account. Given the incremental surplus in revenue account, an increase of Rs one crore in non-debt capital receipts accompanied by an increase of Rs.15 crore in capital expenditure and a decline of Rs 34 crore in loans and advances led to a fiscal deficit of Rs.191 crore in 2006-07 from the fiscal deficit of Rs.397 crore in the previous year. The decline in fiscal deficit along with an increase of Rs.44 crore in interest payments resulted in primary surplus of Rs.38 crore in 2006-07 from the primary deficit of Rs.212 crore in 2005-06.

1.2 Methodology adopted for the assessment of Fiscal Position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts were analysed wherever necessary over the period 2001-02 to 2006-07 and observations have been made on their behaviour. In its Restructuring Plan of the State finances, the Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States enact the Fiscal Responsibility (FR) Act and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of the State could be improved as committed in their respective FR Acts/Rules during medium to long run. The norms/ceiling prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Government in its FR Act and in other Statements required to be laid in the Legislature under the Act were used to make qualitative assessment of the trends and position of major fiscal aggregates during the current year. Assuming that Gross State Domestic Product (GSDP) is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current market prices. The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure etc, with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilisation of resources, pattern of expenditure etc, are keeping pace with the change in the base or these fiscal aggregates have also been affected by factors other than GSDP.

Table: 1.3 Trends in Growth of Gross State Domestic Product (GSDP)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
(GSDP) (Rs. in crore)	1924	1940	2091	2441	2694	2985
Rate of Growth of GSDP (in per cent)	8.79	0.83	7.78	16.74	10.36	10.80

Source: Department of Economics and Statistics, Government of Mizoram.

The key fiscal aggregates for the purpose have been grouped under four major heads: (i) Resources by Volume and Sources, (ii) Application of Resources, (iii) Assets and Liabilities and (iv) Management of Deficits **(Appendix 1.3 to 1.6).** The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix 1.1 Part C.**

1.2.1 The Fiscal Responsibility and Budget Management (FRBM), Act, 2006

The State Government enacted (November 2006) the Mizoram Fiscal Responsibility and Budget Management (MFRBM) Act, 2006 to ensure prudence in fiscal management and fiscal stability by progressive reduction of revenue deficit, prudent management consistent with fiscal sustainability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term fiscal framework and for matters connected therewith or incidental thereto.

The Act set the following fiscal targets for the State Government:

- Progressively reduce revenue deficit from the financial year 2006-07, so as to bring it down to zero by 2008-09 and generate revenue surplus thereafter;
- reduce fiscal deficit to 3 percent of the estimated GSDP by 2008-09;
- ensure that total outstanding debt, excluding public account , and risk weighted outstanding guarantees in a year shall not exceed twice the estimated receipts in the Consolidated Fund of the State at the close of the financial year;

Provided that revenue deficit and fiscal deficit may exceed the limits specified under this section due to ground or grounds of unforeseen demands on the finances of the State Government arising out of national security or calamity including famine relief or such other exceptional circumstances beyond the control of the State Government

1.2.1.1 Roadmap to Achieve the Fiscal Targets as Laid down in FRBM Act/Rules

As FRBM Act was enacted by the State Government in November 2006, no Medium Term Fiscal Plan could be laid in the Legislature along with annual budget 2006-07. The State Government has developed its Own Fiscal Correction Path (FCP) indicating the milestones of outcome indicators with target dates for implementation during the period from 2004-05 to 2009-10 **(Appendix-1.2)** keeping in view the fiscal targets laid down in the FRBM Act and/or the rules made there under and the anticipated annual rate of reduction of fiscal deficit of the State worked out by the GOI for the TFC Award. The

FCP was laid before the Legislature along with the Statement of Medium Term Fiscal Policy in March 2007 by the State Government.

1.2.1.3 Fiscal Performance

In terms of an incentive scheme of TFC, a reward for fiscal performance was built into the debt-write off package under DCRF[2]. According to the scheme, the quantum of write off of repayment of GOI loans after consolidation and reschedulement will be linked to the absolute amount by which revenue deficit is reduced in each successive year during the award period. In effect, if the revenue deficit is brought to zero, the entire repayment during the period will be written off. As a result of improved fiscal performance in terms of this criterion Mizoram Government received a debt waiver of Rs 12.93 crore during 2006-07.

The fiscal performance viewed in terms of key fiscal parameters vis-à-vis the State Government's projections in FCP for 2006-07 reveals that the State Government could maintain a revenue surplus of Rs. 252 crore in 2006-07 against the budget estimate of Rs 135 crore for the year. Fiscal deficit on the other hand at Rs 191 crore in 2006-07 was higher than it's BE of Rs 121 crore. Relative to GSDP, it was 6.4 per cent as against the projected level of 4 *per cent* in FCP for the current year. The total outstanding debt excluding public account, at Rs 1948 crore was also within the prescribed ceiling limit of twice the receipts in Consolidated Fund of the State during the year.

1.2.1.2 Mid-Term Review of Fiscal Situation

To enforce compliance with the fiscal principles and targets laid down in the FRBM Act, 2006, the State Finance Department is to review every half year the trends in receipts and expenditure including the fiscal indicator targets set for the current financial year and place before the State Legislature a statement containing the outcome of such a review. However, as FRBM Act was enacted by the State Government in November 2006, no mid-term review has been undertaken during the current year.

1.3 Trends and Composition of Aggregate Receipts

The receipts of the State Government consist of revenue and capital receipts. Revenue receipts consist of tax revenue, non-tax revenue, State's share of Union taxes and duties and grants-in-aid from the GOI. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market

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[2] In pursuance of recommendations of the TFC for fiscal consolidation and elimination of revenue deficit of the States GOI formulated a scheme "the Sates DCRF (2005-06 to 2009-10)" under which general debt relief is provided by consolidating and rescheduling the Central loans granted to States at substantially reduced rates of interest, on enacting the FRBM Act and debt waiver is granted based on fiscal performance, linked to the reduction of revenue deficit of the States.

loans, borrowings from financial institutions, commercial banks) and loans and advances from GOI as well as accruals from Public Account. ***Table-1.4*** shows that the total receipts of the State Government for the year 2006-07 were Rs.3,656 crore. Of these, revenue receipts were Rs.1,969 crore constituting 54 *per cent* of total receipts. The balance came from capital receipts, borrowings, receipts from Contingency Fund and Public Account **(Appendix – 1.6).**

Table-1.4: Trends in Growth and Composition of Aggregate Receipts

(Rupees in crore)

Sources of State's Receipts	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
I. Revenue Receipts	**868**	**1022**	**1371**	**1502**	**1654**	**1969**
II. Capital Receipts	**213**	**282**	**321**	**199**	**276**	**261**
Recovery of Loans and Advances	15	17	20	22	23	24
Public Debt Receipts	213	282	321	199	253	237
Miscellaneous Capital Receipts	-	-	-	-	-	-
III. Contingency Fund	**-**	**-**	**-**	**-**	**-**	**-**
IV. Public Account Receipts	**916**	**955**	**960**	**1169**	**1464**	**1426**
a. Small Savings, Provident Fund etc.	106	131	167	190	189	215
b. Reserve Fund	5	8	8	17	10	21
c. Deposits and Advances	220	246	294	304	295	234
d. Suspense and Miscellaneous	249	202	(-)112	6	52	24
e. Remittances	337	367	603	652	918	932
Total Receipts	**1997**	**2259**	**2652**	**2870**	**3393**	**3656**

The total receipts of the State increased from Rs.1,997 crore in 2001-02 to Rs.3,656 crore in 2006-07. The debt capital receipts which create future repayment obligation decreased from Rs.253 crore in 2005-06 to Rs.237 crore in 2006-07.

1.3.1 Revenue Receipts

Statement 11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. Overall revenue receipts, their annual rate of growth, ratio of these receipts to the GSDP and its buoyancy are indicated in ***Table-1.5.***

Table 1.5: Revenue Receipts – Basic Parameters

(Value in crore of Rupees)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Receipts (RR)	868	1022	1371	1502	1654	1969
Own Taxes *(per cent)*	19 (2)	28 (3)	34 (2)	40 (3)	55 (3)	68 (3)
Non-Tax Revenue *(per cent)*	45 (5)	53 (5)	58 (4)	76 (5)	120 (7)	133 (7)
Central tax Transfers *(per cent)*	44 (5)	95 (9)	130 (9)	156 (10)	226 (14)	288 (15)
Grants-in-aid (*per cent)*	760 (88)	846 (83)	1149 (84)	1231 (76)	1253 (76)	1480 (75)
Rate of growth of RR (*per cent)*	4.78	17.73	34.20	9.55	10.11	19.04
Revenue Receipts/GSDP (*per cent)*	45.10	52.66	65.55	61.51	61.38	65.96
Revenue Buoyancy (ratio) [3]	0.54	21.48	4.39	0.57	0.98	1.76
State's own taxes Buoyancy (ratio)	3.698	56.699	2.702	1.006	3.790	2.188
Revenue Buoyancy with reference to State's own taxes (ratio)	0.147	0.384	1.623	0.567	0.258	0.804
GSDP Growth (*per cent*)	8.79	0.83	7.80	16.74	10.36	10.80

General Trends:

The revenue receipts of the State increased from Rs.868 crore in 2001-02 to Rs.1,969 crore in 2006-07 at an annual average rate of 21 *per cent.* While 10 *per cent* of the revenue receipts during 2006-07 have come from State's own resources comprising own taxes and non-taxes, Central tax transfers and grants-in-aid together contributed 90 *per cent* of the total revenue. The sharp increase of Rs.315 crore in revenue receipts during 2006-07 over the previous year was mainly on account of increase in grants-in-aid from GOI (Rs.227 crore); State's share in Central taxes and duties (Rs.62 crore); tax revenue (Rs.13 crore) and non-tax revenue (Rs.13 crore).

The actual revenue receipts vis-à-vis assessments made by TFC and State Government are given below.

[3] *Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given charge in the base variable. For instance revenue buoyancy at 1.7 during 2006-07 implies that revenue receipts tend to increase by 1.7 percentage points if the GSDP increases by one per cent.*

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government in Fiscal Correction Path	Actuals
	(1)	(2)	(3)
Tax Revenue	79	63	68
Non-Tax Revenue	52	120	133

The tax revenue increased by eight *per cent* and the non-tax revenue by 11 *per cent* over the assessment made by the State Government. Although the actual realisation of non-tax revenue has exceeded the assessments made by the TFC by Rs.81 crore, the tax revenue fell short by Rs.11 crore.

Tax Revenue: The tax revenue has increased by 23.64 *per cent* during the current year (Rs.68 crore) over the previous year (Rs.55 crore). The revenue from sales tax not only contributed the major share of tax revenue (81 *per cent)*, but also increased by 29 *per cent* over the previous year. The increase in State Tax during 2005-06 and 2006-07 was due to implementation of Value Added Tax (VAT) by the State w.e.f 1st April 2005. State excise, taxes on vehicles and land revenue are the other major contributors in the State's tax revenue. ***Table 1.6*** below shows the trend of tax revenue during 2001-07.

Table 1.6: Tax Revenue

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Land Revenue	1.24	0.97	0.72	0.86	1.59	0.73
Stamps and Registrations	0.08	0.08	0.13	0.10	0.17	0.21
State Excise	1.36	1.29	1.36	1.40	1.46	1.65
Sales Tax	9.85	18.20	23.32	28.08	41.59	53.72
Taxes on Vehicles	2.10	2.56	3.38	3.80	4.35	5.01
Taxes on goods and Passengers	0.53	0.57	0.61	0.69	0.99	0.98
Other Taxes [4]	3.96	4.29	4.33	4.62	4.90	5.32
Total	**19.12**	**27.96**	**33.85**	**39.55**	**55.05**	**67.62**

Non Tax Revenue: The non tax revenue which constituted 6.8 *per cent* of the total revenue receipts, increased by Rs.13 crore from Rs 120 crore in 2005-06 to Rs 133 crore in 2006-07 recording a growth rate of 11 *per cent* over previous year. During 2005-06, the major contributors included power (Rs 82 crore); interest receipts including dividends (Rs 7 crore); State lotteries (Rs 5 crore); Water supply (Rs 5 crore) and forestry (Rs 4 crore). During the current year, the share of power was reduced to Rs 52 crore while receipts under

[4] Other taxes include taxes on duties on commodities and services.

Miscellaneous General Services contributed Rs 44 crore which is inclusive of Rs 13 crore. Other contributors during the year included interest receipts including dividends (Rs 9 crore); water supply (Rs 5 crore) forestry (Rs 4 crore) and other administrative services (Rs 4 crore).

Central Tax Transfers: The Central tax transfers increased by Rs.62.22 crore over the previous year and constituted 15 *per cent* of revenue receipts. The increase was mainly under Corporation tax (Rs.27.56 crore), Service tax (Rs.10.98 crore), Taxes on Income other than corporation tax (Rs.10.64 crore) and Customs (Rs.12.15 crore).

Grants-in-aid: The Grants-in-aid from GOI increased from Rs.1253 crore in 2005-06 to Rs.1480 crore in the current year. The increase was mainly under State Plan Schemes (Rs.117 crore), Centrally Sponsored Schemes (Rs.78 crore), Central Plan Schemes (Rs.1 crore) and Non-Plan grants (Rs.39 crore). The Non-plan grants (Rs.643 crore) to State constitute 43 *per cent* of total grants during the year of which, 87 *per cent* (Rs.557 crore) were primarily for meeting the Non-Plan revenue deficit due to the recommendation of TFC. The sharp increase in grants for State Plan Schemes from Rs.509 crore in 2005-06 to Rs.626 crore in 2006-07 was mainly on account of increase in Block Grant by Rs.87 crore, grant for Tribal Affairs by Rs.9 crore, and Grants under Article 275 (1) of the Constitution by Rs. 4 crore. Details of grants-in-aid from GOI are given in ***Table 1.7***.

Table 1.7: Grants–in-aid from GOI

(Rupees in crore)

	2001-02	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**
Grants for State Plan schemes	397	439	713	563	509	626
Non Plan grants	280	308	315	468	604	643
Grants for Central Plan Schemes	4	3	6	2	4	4
Grants for Centrally Sponsored Schemes	71	86	101	136	91	169
Grants for Special Plan Schemes	9	11	14	62	45	38
Total	**761**	**840**	**1149**	**1231**	**1253**	**1480**
Percentage of increase/decrease over previous year	10.80	10.53	36.79	7.14	1.79	18.12

1.4 Application of Resources

1.4.1 Growth of Expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. State raises resources to perform its sovereign functions, maintain its existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge its debt service obligations. The total expenditure of the State increased from Rs.1,305 crore in 2001-02 to Rs.2,184 crore in 2006-07. Total expenditure, its annual growth rate and ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in ***Table- 1.8***.

Table 1.8 Total expenditure – Basic Parameters

(Value in crore of Rupees and ratios in per cent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Total Expenditure (TE) [5]	1305	1354	1697	1759	2073	2184
Rate of Growth	7.23	3.75	25.33	3.65	17.85	5.35
TE/GSDP Ratio	67.83	69.79	81.16	72.06	76.95	73.17
Revenue Receipts/TE ratio	66.51	75.48	80.79	85.39	79.79	90.16
Buoyancy of Total Expenditure with						
GSDP (ratio)	0.825	4.518	3.256	0.218	1.723	0.495
Revenue Receipts (ratio)	1.513	0.212	0.741	0.382	1.766	0.281

The total expenditure during the current year has increased by Rs.111 crore (Plan: Rs.27 crore and Non-Plan: Rs.84 crore) over the previous year, of which, revenue expenditure shared Rs.130 crore (Plan: Rs.56 crore and Non-Plan: Rs.74 crore) capital expenditure contributed Rs.15 crore (Plan: Rs.5 crore and Non-Plan: Rs.10 crore) which was offset by Rs. 34 crore due to decrease in repayment of loans and advances. The buoyancy of total expenditure to GSDP stood at 0.49 in 2006-07 indicating for every one *per cent* increase in total expenditure, GSDP increased by 0.49 percentage point.

Trends in Total Expenditure by Activities: In terms of the activities, total expenditure could be considered as being composed of expenditure on General Services including interest payments, Social and Economic Services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in ***Table – 1.9***.

Table – 1.9: Components of Expenditure – Relative Share

(in per cent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
General Services*	30.75	30.60	28.25	29.87	26.77	29.35
Interest Payments	11.20	9.83	9.82	10.32	8.91	10.49
Social Services	36.34	35.51	32.99	31.51	30.75	32.74
Economic Services	29.96	31.33	36.57	36.66	40.84	37.91
Loans and Advances	2.95	2.56	2.19	1.96	1.64	---
Grants-in-aid	…	…	…	…	…	…

*includes interest payments

[5] *Total expenditure includes revenue expenditure, capital expenditure and loans and advances.*

The share of Social Services in total expenditure increased from 31 *per cent* in 2005-06 to 33 *per cent* in 2006-07 and its capital expenditure component has increased considerably during 2006-07 indicating the impetus being given to social growth. Payment of loans and advances decreased from 2.95 *per cent* in 2001-02 to nil of total expenditure in 2006-07. The share of expenditure on General Services has increased from 27 *per cent* in 2005-06 to 29 *per cent* in 2006-07. The expenditure on General Services and interest payments which are considered as non-developmental, together accounted for 29.35 *per cent* as against 26.77 *per cent* in 2005-06. On the other hand, development expenditure i.e., expenditure on Social and Economic Services together accounted for 70.65 *per cent* in 2006-07 as against 71.59 *per cent* in 2005-06.

1.4.2 Incidence of Revenue Expenditure

Revenue expenditure had the predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payments, for the past obligations and as such does not result in addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in ***Table – 1.10***.

Table 1.10: Revenue Expenditure – Basic Parameters

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Expenditure (RE) of which	1128	1131	1288	1396	1588	1717
Non- Plan Revenue Expenditure (NPRE)	746	777	917	976	1048	1121
Plan Revenue Expenditure (PRE)	382	354	371	419	540	596
Rate of Growth and Ratios *(per cent)*						
Rate of growth of NPRE	6.23	4.14	18.03	6.45	7.34	6.97
Rate of Growth of PRE	19.19	(-) 7.39	4.72	13.12	28.82	10.37
NPRE/GSDP *(per cent*)	38.77	40.06	43.86	39.99	38.90	37.55
NPRE as a *per cent* of TE	57.17	57.41	54.06	54.49	50.55	51.33
NPRE as a *per cent* of RR	85.99	76.07	66.91	65.01	63.38	56.93
Buoyancy of Revenue Expenditure with						
GSDP (ratio)	1.187	0.294	1.778	0.500	1.334	0.752
Revenue Receipts (ratio)	(-) 2.184	0.014	0.405	0.876	1.365	0.426

The revenue expenditure increased by 52 *per cent* from Rs.1128 crore in 2001-02 to Rs.1,717 crore in 2006-07. The NPRE which has increased by 7 *per cent* in 2006-07 over the previous year continued to share the dominant proportion varying from 65 to 71 *per cent* of the revenue expenditure. The growth in plan expenditure on the other hand displayed wide fluctuations in its rate of growth varying from a decline of seven *per cent* in 2002-03 to an increase of 29 *per cent* in 2005-06 and further to 10 *per cent* in the current year. The increase in NPRE during the current year was mainly due to increase in expenditure on salaries (Rs. 28 crore); interest payments (Rs 44 crore) and social welfare (Rs 15 crore) partly offset by decline in pension payments (Rs 12 crore) and water supply (Rs 14 crore). The increase in PRE by Rs.56 crore in 2006-07 over the previous year was mainly due to increase in Rural Development (Rs. 19 crore), Education, Sports, Art and Culture (Rs. 13 crore) and Special Area Programme (Rs.9 crore). Expenditure buoyancy at 0.8 during 2006-07 implies that revenue expenditure tends to increase by 0.8 *percentage* points for every one *per cent* increase in GSDP.

The actual NPRE *vis-à-vis* assessment made by TFC and the State Government are given below:

(Rupees in crore)

	Assessment made by TFC	**Assessments made by State Government in Fiscal Correction Path**	**Actual NPRE**
	(1)	**(2)**	**(3)**
Non-Plan revenue expenditure	938	1187	1121

NPRE during current year has exceeded the normative assessment of TFC by Rs. 183 crore but was contained within the projection made by the State Government in its FCP for 2006-07.

1.4.3 Committed Expenditure

1.4.3.1 Expenditure on Salaries and Wages

The trends in expenditure on salaries both under Plan and Non-Plan heads are presented in ***Table 1.11***.

Table – 1.11: Expenditure on salaries

(Rupees in crore)

	2001-02	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**
Expenditureon salaries & wages *of which	473	496	518	564	560	623
Non-Plan Head	383	404	419	461	445	473
Plan Head **	91	92	99	103	115	150
Total of Plan and Non-Plan	474	496	518	564	560	623
As a percentage of GSDP	24.63	25.54	24.77	23.11	20.80	20.87
As a percentage of Revenue Receipts	54.61	48.51	37.79	37.57	33.88	31.64

Source: The State Government furnished the figures of salary and wages from 2001-02 to 2004-05 and figures of 2005-06 and 2006-07 furnished by the AG (A & E) Mizoram.

** Represents salaries and wages only but excludes salaries & wages spent from grants-in-aid.*

*** Plan Head also includes the salaries and wages paid under Centrally Sponsored Schemes.*

Expenditure on salaries under Non-plan and Plan during the current year is Rs.473 crore and Rs.150 crore respectively. Expenditure of Rs.623 crore on salaries during 2006-07 was more by Rs.138 crore than assessed (Rs. 485 crore) by the State Government in its FCP. The salary expenditure is 44 *per cent* of revenue expenditure, net of interest and pension payment which is significantly higher than the norm of 35 *per cent* recommended by the TFC.

1.4.3.2 Pension Payments

Table 1.12 Expenditure on Pensions

(Rupees in crore)

Heads	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on Pensions	48	47	62	89	89	77
Rate of growth	20.83	(-) 1.42	31.30	43.49	0.43	(-) 13.48
As *per cent* of GSDP	2.48	2.43	2.96	3.64	3.31	2.58
As *per cent* of RR	5.51	4.61	4.51	5.91	5.39	3.91
As *per cent* of RE	4.26	4.16	4.81	6.38	5.60	4.48

**Source: Finance Accounts for 2005-06 and 2006-07*

Pension payments during the current year have decreased by Rs. 12 crore, i.e. (-) 13.48 *per cent* over the previous year, due to less expenditure under civil superannuation and retirement allowances; compensatory allowances and family pensions. Pension payments during 2006-07 constituted three *per cent* of GSDP, four *per cent* of revenue receipts and also four *per cent* of revenue expenditure. The comparative analysis of actual pension payments and the assessment/projections made by TFC and the State Government ***(Table 1.13)*** reveals that actual pension payments were lower than both the projections made by the State Government as well as the normative projections made by TFC as detailed below:

Table 1.13 Pension Payments vis-à-vis projections

(Rupees in crore)

	Assessment made by TFC	Assessment made by State Government in Fiscal Correction Path	Actual Expenditure on pensions
	(1)	(2)	(3)
Pension payments	128	105	77

1.4.3.3 Interest Payments

Interest payments, their ratio to revenue receipts and revenue expenditure during the period from 2001-07 are detailed in ***Table 1.14***.

Table 1.14 Interest Payments

Year	Total Revenue Receipts	Total Revenue Expenditure	Interest Payments	Percentage of interest payment with reference to	
(Rupees in crore)				Revenue Receipts	Revenue Expenditure
2001-02	868	1128	146	16.85	12.96
2002-03	1022	1131	133	13.02	11.77
2003-04	1371	1288	167	12.15	12.94
2004-05	1502	1396	182	12.08	13.01
2005-06	1654	1588	185	11.17	11.63
2006-07	1969	1717	229	11.63	13.34

Interest payments increased by Rs.44 crore (23.78 *per cent*) during 2006-07 over the previous year. The major sources of borrowings are Market loans at interest rates varying from 8.05 *per cent* to 8.65 *per cent*. The increase in interest payments was mainly due to increase in payment of interest on Market loans (Rs.29 crore) and State Provident Fund (Rs.8 crore). Interest payment of Rs.229 crore during the current year exceeded the assessments/projections made by TFC by Rs. 43 crore and State Government assessment by Rs.2 crore.

1.4.3.4 Subsidies

The trends in subsidies given by the State Government are given in ***Table 1.15***.

Table 1.15: Subsidies

(Rupees in crore)

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Subsidies	11.	10	10	1	2	Nil
Percentage of increase (+)/ decrease (-) over previous year	(+) 1	(-) 5	(-) 5	(-) 87	(+) 29	Nil
Percentage of subsidy in total expenditure [6]	0.87	0.79	0.59	0.07	0.08	Nil

Source: Information furnished by the Finance Department, for the years prior to 2005-06: for the years 2005-06 and 2006-07, figures of Finance Accounts of the State are adopted.

The State government has progressively reduced the subsidies and finally wiped out completely during the current year.

[6] Total expenditure excludes Loans and Advances

1.5 Expenditure by Allocative Priorities

1.5.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore, ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running the existing social and economic services efficiently and effectively would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP, better the quality of expenditure. ***Table 1.16*** gives those ratios during 2001-07.

Table 1.16: Indicators of Quality of Expenditure

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Capital Expenditure	139	188	372	330	451	466
Revenue Expenditure	1128	1131	1288	1396	1588	1717
Of which Social and Economic Services with	736	725	825	881	1046	1101
(i) Salary & Wage component	332	343	359	394	390	443
(ii) Non-salary & wage Component	404	382	467	487	657	658
As *per cent* of total expenditure (excluding loans and advances)						
Capital expenditure	10.93	4.25	22.40	19.10	22.13	21.35
Revenue expenditure	89.07	85.75	77.60	80.90	77.87	78.65
As *per cent* of GSDP						
Capital expenditure	7.20	9.69	17.77	13.50	16.75	15.61
Revenue Expenditure	58.63	58.29	61.58	57.16	58.95	57.52

Though no specific norms were laid down for prioritisation of capital expenditure, the capital expenditure has consistently increased with a steep increase of 37 *per cent* in 2005-06 over the previous year. Education, Sport, Art and Culture, Social Welfare and Nutrition, Health and Family Welfare under Social Services and Agriculture & Allied Activities and Irrigation and Flood Control under Economic services are the beneficiary sectors where capital expenditure was absorbed. The salary component of revenue expenditure incurred on social and economic services has in general indicated a an increasing trend during 2001-07 The share of non-salary and wage component as a result has gradually increased and reached the level of 60 *per cent* of revenue expenditure under Social and Economic services in 2006-07. These trends indicate improvement in the quality of expenditure and the impetus being given to asset formation as well as on their maintenance over the period.

1.5.2 Expenditure on Social Services

Given the fact the human development indicators such as access to basic education, health services and drinking water and sanitation facilities etc. have a strong linkage with eradication of poverty and economic progress; it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. ***Table 1.17*** summarizes the expenditure incurred by State Government in expanding and strengthening of Social Services in the State during 2001-07.

Table 1.17: Expenditure on Social Services

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Education, Sports, Art and Culture	213.89	204.25	218.35	250.41	291.46	317.43
Revenue Expenditure of which,	211.08	198.77	210.84	237.52	278.25	300.98
(a) Salary & Wage component	134.00	135.25	142.86	157.46	162.70	199.78
(b) Non-Salary & wage component	77.08	63.52	67.98	80.06	115.55	101.20
Capital Expenditure	**2.81**	**5.48**	**7.51**	**12.89**	**13.21**	**16.45**
Health and Family Welfare	72.26	70.45	91.65	78.11	77.01	82.60
Revenue Expenditure of which,	61.70	66.34	82.23	71.73	74.47	81.96
(a) Salary & Wage Component	46.73	48.78	49.89	54.58	53.91	58.08
(b) Non-salary & wage component	14.97	17.56	32.34	17.15	20.56	23.88
Capital Expenditure	**10.56**	**4.11**	**9.42**	**6.38**	**2.54**	**0.65**
Water Supply, Sanitation, Housing and Urban Development	104.14	110.19	156.47	114.59	146.32	158.08
Revenue Expenditure of which,	61.43	48.36	54.34	61.42	79.79	75.54
(a) Salary & Wage Component	14.30	14.74	15.46	17.56	16.39	17.22
(b) Non-salary & wage component	47.13	33.62	38.88	43.86	63.40	58.32
Capital Expenditure	**42.71**	**61.83**	**102.13**	**53.17**	**66.53**	**82.54**
Other Social Services	84.04	95.79	93.30	111.36	122.75	156.81
Revenue Expenditure of which,	83.72	93.06	88.08	105.83	115.08	134.42
(a) Salary & Wage Component	15.02	16.29	17.06	17.28	17.90	14.69
(b) Non-salary & wage component	68.70	76.77	71.02	88.55	97.18	119.73
Capital Expenditure	**0.32**	**2.73**	**5.22**	**5.53**	**7.67**	**22.39**
Total (Social Services)	**474.33**	**480.68**	**559.87**	**554.47**	**637.54**	**714.92 (33)***
Revenue Expenditure of which,	417.93	406.53	435.49	476.50	547.59	592.89
(a) Salary & Wage Component	206.75	211.52	221.66	243.00	247.14	289.77
(b) Non-salary & wage component	211.18	195.01	213.93	233.50	300.45	303.12
Capital Expenditure	**56.40**	**74.15**	**124.28**	**77.97**	**89.95**	**122.03**

**The figure in bracket against Total indicates the percentage of expenditure on social services to Total expenditure.*

The allocation of social sector increased from Rs.474 crore in 2001-02 to Rs.715 crore in 2006-07 indicating the Government commitment to improve social well being of the society. Expenditure on Social Sector during current year (Rs.715 crore) accounted for 33 *per cent* of total expenditure and 46 *per cent* of development expenditure. Expenditure on Education, Sports, Art and Culture increased by Rs.26 crore over previous year mainly due to more impetus given to Elementary education while the expenditure on Health and Family Welfare showed an increase of only Rs.6 crore over previous year. Recognising the need to improve the quality of education and health services, TFC recommended that the annual increase in salaries under non-plan salary expenditure under education and health and family welfare should not increase by more than five to six *per cent* while non-salary expenditure under non-plan head should increase by 30 *per cent* per annum during the award period. However, trends in expenditure (taking expenditure under both plan and non-plan heads) reveal that the salary and wages component under education sector increased by 15 *per cent* over 2005-06 while non-salary and wage component increased only by two *per cent*. Similarly, under Health and Family Welfare, the salary and wage component increased by seven *per cent* while non-salary and wage component increased by 16 *per cent*. These trends indicate the need for change in priorities in allocation of government outlays in ensuing years.

1.5.3 Expenditure on Economic Services

The expenditure on Economic Services includes all such expenditure as to promote directly or indirectly, productive capacity within the States' economy. The expenditure on Economic Services (Rs.828 crore) accounted for 38 *per cent* of the total expenditure and 54 *per cent* of the development expenditure ***(Table 1.18)***.

Table 1.18: Expenditure on Economic Services

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Agriculture, Allied Activities	108.05	133.78	149.62	166.86	183.73	198.26
Revenue Expenditure of which,	104.69	119.91	128.80	150.32	176.77	174.61
(a) Salary & Wage component	48.00	50.94	53.70	58.37	56.12	60.75
(b) Non-Salary & wage component	56.69	68.97	75.10	91.95	120.65	113.86
Capital Expenditure	**3.36**	**13.87**	**20.82**	**16.54**	**6.96**	**23.65**
Irrigation and Flood Control	**7.13**	**7.15**	**15.43**	**15.27**	**20.37**	**36.32**
Revenue Expenditure of which,	3.13	3.45	3.91	3.16	7.76	2.75
(a) Salary & Wage component	1.64	1.76	1.88	2.04	1.91	2.04
(b) Non-Salary & wage component	1.49	1.69	2.03	1.12	5.85	0.71
Capital Expenditure	**4.00**	**3.70**	**11.52**	**12.11**	**12.61**	**33.57**
Power & Energy	**180.01**	**193.13**	**325.24**	**275.95**	**431.67**	**205.27**
Revenue Expenditure of which,	80.20	80.82	130.31	111.56	154.53	137.07
(a) Salary & Wage component	21.59	22.95	22.92	26.22	24.82	26.57
(b) Non-Salary & wage component	58.61	57.87	107.39	85.34	129.71	110.50
Capital Expenditure	**99.81**	**112.31**	**194.93**	**164.39**	**277.14**	**68.20**
Transport	**77.44**	**74.93**	**153. 71**	**153.67**	**191.10**	**178.22**
Revenue Expenditure of which,	44.83	42.54	47.58	50.12	51.24	60.09
(a) Salary & Wage component	23.03	23.88	25.77	29.67	25.79	27.73
(b) Non-Salary & wage component	21.80	18.66	21.81	20.45	25.45	32.36
Capital Expenditure	**32.61**	**32.39**	**106.13**	**103.55**	**139.86**	**118.13**
Other Economic Services	**98.67**	**103.92**	**106.73**	**144.79**	**174.41**	**209.58**
Revenue Expenditure of which,	85.07	80.08	79.14	89.20	108.49	133.16
(a) Salary & Wage component	30.48	32.58	32.65	34.48	34.08	36.00
(b) Non-Salary & wage component	54.59	47.50	46.49	54.72	74.40	97.16
Capital Expenditure	**13.60**	**23.84**	**27.59**	**55.59**	**65.92**	**76.42**
Total (Economic Services)	**391.10**	**424.09**	**620.42**	**644.98**	**846.74**	**827.65 (38)**[7]
Revenue Expenditure of which,	317.92	318.80	389.74	404.36	498.78	507.68
(a) Salary & Wage component	124.74	131.49	136.92	150.78	142.72	153.09
(b) Non-Salary & wage component	193.18	187.31	252.82	253.58	356.06	354.59
Capital Expenditure	73.18	105.29	230.68	240.62	347.96	319.97

[7] *The figure in bracket against total expenditure shows percentage of expenditure on Economic Services to total expenditure*.

Out of the total expenditure on Economic Services during 2006-07, 25 *per cent* was incurred on Power and Energy, 24 *per cent* on Agriculture, Allied Activities and 23 *per cent* on Transport and four *per cent on* Irrigation and Flood Control. The trends in revenue and capital expenditure on Economic Services indicate that revenue expenditure consistently increased from Rs.318 crore (81 *per cent*) in 2001-02 to Rs.508 crore (61 *per cent*) in 2006-07, while capital expenditure increased from Rs.73 crore (19 *per cent*) in 2001-02 to Rs.320 crore (39 *per cent*) in 2006-07. The salary and wage component of revenue expenditure on economic services has increased from Rs 125 crore in 2001-02 to Rs 153 crore in 2006-07 at an annual rate of about 4 *per cent* per annum while non-salary component consistently increased from Rs.187 crore in 2002-03 to Rs.356 crore in 2005-06 at an average annual rate of 18 *per cent* per annum and marginally declined to Rs 355 crore in 2006-07. As a result, relative share of salary and non salary components in revenue expenditure have changed over the period, i.e. share of salary component has declined from 39 *per cent* in 2001-02 to 30 *per cent* in 2006-07, where as the share of non-salary component increased from 61 *per cent* in 2001-02 to 70 *per cent* in 2006-07 indicating allocative priorities towards their maintenance and better quality of services.

1.5.4 Financial Assistance by State Government to local bodies and Other Institutions

The quantum of assistance provided by way of goods and loans to local bodies and others during the six year period 2001-07 is presented in ***Table 1.19***.

Table 1.19: Financial Assistance to local bodies and other institutions

(Rupees in crore)

	2001-02	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**
Universities and Educational Institutions	--	35.75	37.94	37.39	43.77	27.00
District Council	50.03	52.76	51.11	61.29	66.46	71.05
Mizofed/Consumer Co-Operative Societies	0.90	0.15	0.23	0.96	0.74	2.10
Other institutions	8.51	9.52	12.11	16.97	11.45	28.22
Total	58.63	98.18	101.39	116.61	122.42	128.37
Percentage of increase over previous year	15.71	67.46	3.27	15.01	4.98	4.86
Assistance as a percentage of revenue expenditure	5.20	8.68	7.87	8.36	7.71	7.48

Source: Information furnished by A.G.(A & E)

Financial assistance extended to local bodies and other institutions has consistently increased from Rs 59 crore in 2001-02 to Rs 128 crore in 2006-07 at an annual average rate of around 19 *per cent* per annum over the period 2001-07. A steep increase of 67 *per cent* was observed in 2002-03 over the previous year and thereafter it increased at the moderate rate. It increased by 5 *per cent* to Rs.128.37 crore in 2006-07 from Rs.122.42 crore in 2005-06. Financial assistance to 'District Councils' continued to share the dominant proportion in the total assistance released by the State government during the period 2001-07. Financial assistance to 'Other institutions' has also increased sharply by Rs 17 crore (146 *per cent*) during 2006-07 over the previous year. This category in 2006-07 included in the sectors of food and civil supply (Rs 14.26 crore) and animal husbandry (2 crore) as well as the grants for urban local bodies for housing and urban development (Rs 6 crore).

1.5.5 Non-submission of Accounts

In order to identify the institutions which attract Audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Services) Act, 1971 (DPC Act), the Government/Heads of Department are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions. Information for the year 2006-07 was called for in May 2007 from 22 institutions, but the reply was awaited from 13 institutions as of November 2007.

1.5.6 Abstract of performance of the local bodies

The audit of accounts of the Mizoram Khadi Village Industries Board in the State has been entrusted to the Comptroller and Auditor General of India under section 19(3) of CAG"s (DPC) Act. 1971 up to 2011-12. The preparation and audit of accounts of the Institute are current.

1.6 Misappropriations, losses, defalcations, etc

The State Government reported 27cases of misappropriation, defalcation, etc, involving Government money amounting to Rs.1.19 crore upto the period March 2007 on which final action was pending. The department-wise break up of pending cases is given in **Appendix – 1.7**.

1.7 Assets and Liabilities

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix–1.4** gives an abstract of such liabilities and the assets as on 31 March 2007, compared with the corresponding position on 31 March 2006. While the liabilities consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets mainly comprise of the capital outlay and loans and advances given by the State Government and cash balances. **Appendix-1.6** depicts the time series data on State Government finances for the period 2001-2007.

1.7.1 Financial Analysis of Government Investments

1.7.1.1 Government Investments and Returns

As of 31st March 2007, Government had invested Rs.15 crore in Government Companies, Co-operative Societies, Banks etc. **(Table – 1.20)**. The return on this investment was nil in all the years, while the Government paid interest at the average rate of 6.52 to 8.84 *per cent* on its borrowings during 2001-07.

Table 1.20: Return on Investment

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Investment (Rs. in crore)	11.59	11.68	11.68	11.68	13.68	15.37
Return (Rs. in Crore)	--	--	--	--	--	--
Percentage of return	--	--	--	--	--	--
Average Interest Rate [8]	8.84	6.82	7.44	7.12	6.52	7.56
Differences between interest rate and return *(per cent)*	8.84	6.82	7.44	7.12	6.52	7.56

The investment of the State Government at the end of March 2007 included Rs.1.45 crore in two Government Companies viz. Mizoram Small Industries Development Corporation Limited (Rs.0.25 crore) and Public sector and other Undertakings (Rs.1.20 crore) and Rs.13.92 crore in 11 Co-operative Societies. However, none of the Companies/Co-operatives declared divided during the current year.

1.7.1.2 Loans and Advances by State Government

In addition to investment in Co-operative societies, Government Companies and Banks, Government has also been providing loans and advances to many of these institutions/organisations. Total outstanding loans and advances as on 31 March 2007 were Rs.270 crore **(Table-1.21)**. Interest received as per cent to average outstanding loans remained negligible during the period 2001-07 as against the average rate of interest paid varying between 6 to 9 per cent during the period.

[8] Average interest rate is defined as the percentage of interest payment made to, average financial liabilities of the State during the year.

Table 1.21 Average interest received on loans advanced by the State Government

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Opening Balance	212	236	254	271	283	294
Amount Advanced during the year	39	35	37	34	34	__
Amount repaid during the year	15	17	20	22	23	24
Closing Balance	236	254	271	283	294	270
Net Addition	24	18	17	12	11	(-)24
Interest Received	1.45	2.43	2.10	2.62	3.24	4.31
Interest Received as *per cent* to average outstanding loans advanced	0.65	0.99	0.80	0.94	1.12	1.53
Average Interest rate	8.84	6.82	7.44	7.12	6.52	7.56
Differences between interest paid and received *(per cent)*	8.19	5.83	6.64	6.18	5.40	6.03

1.7.2 Management of Cash Balances

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances (WMA) ordinary and special from RBI has been put in place. The operative limit of normal Ways and Means Advances is reckoned as the three year average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by Reserve Bank of India from time to time depending on the holding of Government securities.

The Ways and Means Advances and Overdrafts availed, the number of occasions. These were availed and interest paid by the State during 2001-07 is detailed in ***(Table 1.22)***.

Table 1.22: Ways and Means Advances and Overdrafts of the State and interest paid thereon

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Ways and means Advances						
Taken in the year	326.15	402.29	241.49	295.14	63.24	19.59
Outstanding	141.24	97.84	12.13	12.13	12.13	31.72
Interest paid	0.77	0.98	0.59	0.47	0.03	--
Number of Days	117	178	75	92	8	8
Overdraft						
Taken in the year	140.74	118.23	--	--	--	--
Outstanding	21.45	15.08	15.08	15.08	15.08	15.08
Interest paid	0.33	0.11	0.01	--	--	--
Number of Days	78	32	--	--	--	--

The table reveals that although WMA availed declined consistently during the period 2001-07, resorting to WMA despite of experiencing revenue surplus for the last four years indicated the continued mismatch between the receipts and expenditure of the Government. Since availing WMA involves cost, Government should initiate necessary steps to match the receipts and expenditure.

1.8 Undischarged Liabilities

According to Mizoram FRBM Act, 2006, the total liabilities mean the liabilities under the Consolidated Fund of the State and the Public Account of the State.

1.8.1 Fiscal Liabilities – Public Debt and Guarantees

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund – Capital Accounts. It includes market loans, special securities issued by RBI and loans advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by the Act of its Legislature and give guarantees within such limits as my be fixed. However, no law has been passed in the State to lay down any such limit. Other liabilities, which are a part of public account, include deposits under small savings scheme, provident funds and other deposits.

Table 1.23 gives the fiscal liabilities of the State, their rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table 1.23 Fiscal Liabilities – Basic Parameters

(Value in Rupees crore and ratios in per cent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Fiscal Liabilities [9]	1808	2090	2389	2711	2953	3096
Rate of growth	20.77	15.60	14.31	13.48	8.93	4.84
Ratio of Fiscal Liabilities to						
GSDP	93.97	107.73	114.25	111.06	109.62	103.72
Revenue Receipt	208.29	204.58	174.25	180.49	178.54	157.24
Own Resources	2825	2580	2597	2337	1687	1540
Buoyancy of Fiscal Liabilities with reference to						
GSDP	2.371	18.899	1.839	0.805	0.862	0.448
Revenue Receipt	4.345	0.880	0.418	1.412	0.883	0.254
Own Resources	1.124	0.601	1.023	0.532	0.171	0.328

9 Fiscal Liabilities for the years 2001-06 do not match with previous Reports as 'Other obligations including Reserve Funds and Deposits in Public Account' were excluded. Fiscal Liabilities have been reworked for the State which now includes Internal Debt; Loans and Advances from GOI; Small Savings including Provident Funds and ' Other obligations including Reserve Funds and Deposits'

Overall fiscal liabilities of the State increased from Rs.1, 808 crore in 2001-02 to Rs.3096 crore in 2006-07 although at the declining growth rate during the period. Fiscal liabilities of the State comprised Consolidated Fund liabilities and Public Account liabilities. The Consolidated Fund liability (Rs. 1,948 crore) comprised of market loan (Rs.709 crore), loan from GOI (Rs.566 crore) and other loans (Rs.673 crore). The Public Account liabilities (Rs.1,148 crore) comprise of Reserve Fund (Rs. 7 crore), Small Savings, Provident Fund (Rs.863 crore) interest bearing obligations (Rs.2 crore) and non-interest bearing obligations like deposits (Rs.276 crore). The growth rate of fiscal liabilities was 4.84 *per cent* during 2006-07 over the previous year. The ratio of fiscal liabilities to GSDP increased from 93.97 *per cent* in 2001-02 to 103.72 *per cent* in 2006-07. These liabilities stood at 1.57 times of revenue receipts and little more than 15 times of the States own resources at the end of 2006-07. The buoyancy of these liabilities to GSDP during the year was 0.448.

The State Government set up a Sinking Fund during the financial year 1999-2000 for amortisation of open market loans. As of 31 March 2007, the outstanding balance in Sinking Fund was Rs.29.25 crore which is invested in GOI Securities.

1.8.2 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of year since 2001-02 are given in ***Table 1.24***.

Table 1.24: Guarantees given by the Government of Mizoram

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Maximum amount guaranteed	147	--	169	229	270	249
Outstanding guarantees	89	--	113	136	145	150
Revenue Receipts	868	1022	1371	1502	1654	1969
Percentage of maximum amount guaranteed to total revenue receipts	16.89	--	12.30	15.27	16.31	12.65

Government had guaranteed loans raised by various corporations and others, which at the end of 2006-07 stood at Rs.150 crore and comprised 12.65 *per cent* of revenue receipts. No specific law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limit within which Government may give guarantees on the security of the Consolidated Fund of the State. However, the MFRBM Act, 2006 prescribed the ceiling limit for risk weighted guarantees to be given by the State Government. Although the guarantees given by the State Government were well within the limit prescribed in MFRBM Act 2006, the State Government is yet to implement the recommendations of the TFC by setting up a guarantee redemption fund through earmarked guarantee fees.

1.9 Debt Sustainability

Debt sustainability is defined as the ability of the State to maintain a constant debt – GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match the increase in capacity to service the debt. A prior condition for debt sustainability is the debt stabilisation in terms of debt/GSDP ratio.

1.9.1 Debt Stabilisation

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt * rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt – GSDP ratio would be constant or debt would stabilise eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards debt stabilisation are indicated in ***Table – 1.25***.

Table 1.25: Debt Sustainability – Interest Rate and GSDP Growth (in per cent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Average Interest Rate	8.84	6.82	7.44	7.12	6.52	7.56
GSDP Growth	8.79	0.83	7.80	16.74	10.36	10.80
Interest spread	(-) 0.05	(-) 5.99	0.36	9.62	3.84	3.24
Quantum spread (Rs. in crore)	(-) 0.75	(-) 108.30	7.52	229.82	104.10	95.68
Primary deficits (-) / Surplus (+)	(-) 276	(-) 182	(-) 139	(-) 54	(-) 212	(+) 38

The trends in ***Table 1.25*** reveal that up to 2003-04 the quantum spread and primary deficit together remained negative which resulted in rising debt-GSDP ratio from 94 *per cent* in 2001-02 to 114 *per cent* in 2003-04. Thereafter, it moved in cycle of positive-negative-positive indicating a declining tendency in debt-GSDP ratio to 111 *per cent* in 2004-05 and further down to 104 *per cent* in 2006-07. The relatively very high ratio of debt-GSDP ratio still exceeding 100 accompanied by high FD-GSDP ratio indicates that a lot more efforts are required by the State to stabilise and then attain sustainability in ensuing years.

1.9.2 Net Availability of Borrowed Funds

The debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt repayment indicating the net availability of borrowed funds. The solution to the Government debt problem lies in the application of borrowed funds, i.e. they are (a) not being used for financing revenue expenditure; and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in Government revenue.

Table 1.26 gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State as well as the net availability of the borrowed funds over the last six years.

Table 1.26 Net Availability of Borrowed Funds

(Rupees in crore)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Internal debt						
Receipts	542	734	463	404	307	231
Repayment (Principal +Interest)	521	646	441	421	234	207
Net Fund Available	21	88	22	(-) 17	73	24
Net Fund Available (per cent)	3.87	11.99	4.75	(-) 4.21	23.78	10.39
Loans and Advances from GOI						
Receipts	85	52	80	68	10	5
Repayment Principal +Interest)	50	74	144	70	63	75
Net Fund Available	35	(-) 22	(-) 64	(-) 2	(-) 53	(-) 18
Net Fund Available (per cent)	41.18	(-) 42.31	(-) 80.00	(-) 2.94	(-) 530	(-) 1400
Other Obligations						
Receipts	316	374	459	401	482	455
Repayment (Principal +Interest)	206	291	284	342	444	483
Net Fund Available	110	83	175	59	38	(-) 28
Net Fund Available (per cent)	34.81	22.19	38.13	14.71	7.88	(-) 6.15
Total Liabilities						
Receipts	943	1160	1002	873	799	691
Repayment (Principal +Interest)	777	1011	869	833	741	765
Net Fund Available	166	149	133	40	58	(-) 18
Net Fund Available (per cent)	17.60	12.84	13.27	4.58	7.26	(-)10.71

The net fund available on account of internal debt and loans and advances from GOI and other obligations after providing for the interest and repayments decreased sharply from Rs.58 crore in 2005-06 to negative balance in 2006-07. The State Government raised internal debt amounting to Rs.231 crore comprising of market loans (Rs.124.74 crore), securities issued to National Small Savings Fund (NSSF) (Rs.9.56 crore) and NABARD and other institutions (Rs.96.93 crore). Against these receipts, Government discharged the past debt obligations (Principal + Interest) amounting to Rs.207 crore resulting in net funds of Rs.24 crore available under the debt account. During the current year the Government repaid GOI loans including interest amounting to Rs.75 crore[10] and also discharged other obligations of Rs.483 crore along with interest obligations which exceeded the total receipts resulting in negative net availability of funds during the year. During 2006-07, the focus of Government seems to be on discharging the past debt obligations.

1.10 Management of deficits

The deficit on Government account represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health.

1.10.1 Trends in Deficit

The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in ***Table 1.27***.

Table 1.27: Fiscal Imbalances – Basic Parameters

(Values in Rupees crore and ratio in per cent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Deficit (-)/Surplus (+)	(-) 260	(-)109	(+) 83	(+) 106	(+) 66	(+) 252
Fiscal Deficit (-)/Surplus (+)	(+) 422	(-)315	(-) 306	(-) 235	(-) 397	(-) 191
Primary Deficit (-)/Surplus (+)	(-) 276	(-)182	(-) 139	(-) 54	(-) 212.	(+)38
RD/GSDP	(-) 13.53	(-)5.64	(+) 3.98	(+) 4.36	(+) 2.44	---*
FD/GSDP	(-) 21.95	(-) 16.25	(-) 14.62	(-) 9.64	(-) 14.73	(-) 6.40
PD/GSDP	(-) 14..35	(-) 9.39	(-) 6.65	(-) 2.20	(-) 7.88	---*
RD/FD	62.66	34.68	(-) 27.21	(-) 45.20	(-) 16.54	---*

**There was Revenue surplus/ Primary surplus*

[10] Includes Rs.12.93 crore received as debt waiver from Government of India under DCRF

Revenue deficit of a State indicates excess of its revenue expenditure over its revenue receipts. The revenue account of the State had exhibited consistent improvement over the years as its revenue deficit declined during the first two years (2001-03) and remained in surplus thereafter. A sharp improvement in revenue surplus during the current year was mainly on account on account of an increase of Rs.315 crore in revenue receipts (19 *per cent*) against the increase of Rs.129 crore (8 *per cent)* in revenue expenditure over the previous year. The increase in revenue receipts during 2006-07 was attributed to increase in Grants from GOI (Rs.227 crore), share of Union taxes/duties (Rs.62 crore) and State's own resources comprising tax revenue (Rs 13 crore) and non-tax revenue receipt (including debt waiver of Rs.13 crore).

Given the incremental surplus of Rs 186 crore in revenue account, an increase of Rs 1 crore in non-debt capital receipts accompanied with increase of Rs.15 crore in capital expenditure and a decline of Rs 34 crore in loans and advances led to a fiscal deficit of Rs.191 crore in 2006-07 from the fiscal deficit of Rs.397 crore in previous year. The decline in fiscal deficit along with an increase of Rs.44 crore in interest payments resulted in primary surplus of Rs.38 crore in 2006-07 from the primary deficit of Rs.212 crore in 2005-06.

1.10.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit [11] into primary revenue deficit [12] and capital expenditure (including loans and advances) indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. The revenue account after RD was wiped out in 2003-04 continued to remain in surplus thereafter indicating the fact that all borrowings were used either meeting the past debt obligations or in activities resulting in expansion of services and the asset creation in the State.

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2001-07 reveals **(Table – 1.28)** that except in the year 2001-02, the primary deficit was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were sufficient to meet the primary expenditure[13] requirements in the revenue account and left some receipts to

[11] *Primary deficit defined as the fiscal deficit net of interest payments indicates the extent of deficit which is an outcome of the fiscal transactions of the States during the course of the year.*

[12] *Primary revenue deficit defined as the gap between non-interest revenue expenditure of the State and its non-debt receipts indicates the extent to which the non-debt receipts of the state are able to met the primary expenditure incurred under revenue account.*

[13] *Primary expenditure of the State defined as the total expenditure net of interest payments indicates the expenditure incurred on the transactions undertaken during the year.*

meet the expenditure under capital account during the period 2002-07. But the surplus non-debt receipts were not enough to meet the expenditure requirements under capital account resulting in primary deficit till 2005-06. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table – 1.28: Primary Deficit/Surplus – Bifurcation of factors

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and Advances	Primary expenditure	Primary Revenue deficit (-) /surplus (+)	Primary deficit (-) /surplus (+)
1	**2**	**3**	**4**	**5**	**6 (3+4+5)**	**7 (2-3)**	**8(2-6)**
2001-02	883	982	139	39	1159	(-) 99	(-) 276
2002-03	1038	998	188	35	1221	(+) 40	(-) 182
2003-04	1391	1121	372	37	1530	(+) 270	(-) 139
2004-05	1524	1214	330	34	1578	(+) 310	(-) 54
2005-06	1677	1403	451	34	1889	(+) 273	(-) 212
2006-07	1993	1489	466	---	1955	(+) 504	(+) 38

1.11 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable ***Table 1.29*** below presents a summarised position of Government finances over 2001-2007, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facts.

Table – 1.29: Indicators of Fiscal Health (in per cent)

Fiscal Indicators	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
I. Resources Mobilisation						
Revenue Receipt /GSDP	45.10	52.66	65.55	61.51	61.38	65.96
Revenue Buoyancy	0.54	21.48	4.39	0.96	0.30	1.76
Own tax/GSDP	0.99	1.44	1.62	1.62	2.04	2.28
Own Tax Buoyancy	3.697	55.698	2.701	1.005	3.790	2.114
II. Expenditure Management						
Total Expenditure/GSDP	67.83	69.77	81.13	72.07	76.97	73.17
Revenue Receipts/Total Expenditure	66.51	75.48	80.79	85.39	79.75	90.16
Revenue Expenditure/Total Expenditure	86.44	83.55	75.90	79.31	76.59	78.62
Plan Expenditure/Total Expenditure	29.27	26.14	21.84	23.82	26.04	27.29
Capital Expenditure/Total Expenditure	10.93	14.25	22.40	19.10	22.13	21.36
Development Expenditure/Total Expenditure	66.30	66.84	69.56	68.17	71.58	70.60
Buoyancy with TE with RR	1.538	0.209	0.741	0.387	1.766	0.281
Buoyancy with RE with RR	2.184	0.014	0.405	0.876	1.365	0.426
III. Management of Fiscal Imbalances						
Revenue Surplus (Rs. in crore)	(-) 260.43	(-) 109.35	(-) 83.18	(+) 106.35	(+) 65.64	(+) 251.65
Fiscal Deficit (Rs. in crore)	(-) 422.34	(-) 315.32	(-) 305.69	(-) 235.30	(-) 396.84	(-) 191.03
Primary Surplus (Rs. in crore)	(-) 276.16	(-)182.26	(-) 139.07	(-) 53.80	(-) 212.19	(+) 37.72
Revenue Deficit/Fiscal Deficit	61.66	34.68	(-) 27.21	(-) 45.20	(-) 16.50	---
IV. Management of Fiscal Liabilities (FL)						
Fiscal Liabilities/ GSDP	93.97	107.73	114.25	111.06	109.62	103.72
Fiscal Liabilities/RR	208.29	204.58	174.25	180.49	178.54	157.24
Buoyancy of FL with RR	4.345	0.880	0.418	1.412	0.883	0.254
Buoyancy of FL with own receipts	1.124	0.601	1.023	0.532	0.171	0.328
Interest spread	(-)1.28	(-) 6.99	(-) 0.80	8.36	2.69	2.24
Net Funds Available	17.60	12.84	13.27	4.58	7.26	(-) 10.71
V. Other Fiscal Health Indicators						
Return on Investment	---	---	---	---	---	---
BCR (Rs. in crore)	(-) 358.96	(-) 294.12	(-) 379.76	(-) 232.20	(-) 37.50	17.38
Financial Assets/Liabilities	1.03	0.98	1.01	1.05	1.06	1.13

The ratio of revenue receipts and State's own taxes to GSDP indicate adequacy of the resources. The buoyancy of the revenue receipts especially of State's own resources indicates States access to resources with an enlargement of base in terms of GSDP. The ratio of total revenue receipts as well as of State's own taxes to GSDP had indicated an increasing trend during the period 2001-07 with an exception in 2004-05.

Various ratios concerning expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource mobilization efforts. The ratio of revenue expenditure to total expenditure although declined from 86 per cent in 2001-02 to 79 *per cent* in 2006-07 with wide inter year variations but it continues to share the dominant portion of the total expenditure of the State Government. The capital expenditure relative to total expenditure increased sharply in 2003-04 over the previous year and exhibited relative stability around 21 *per cent* thereafter. Increasing reliance on revenue receipts to finance the total expenditure which increased to 90 *per cent* during 2006-07 indicates decreasing dependence on borrowed funds and improvement in fiscal deficit. This is also reflected by the decreasing trend in the ratio of fiscal liabilities to revenue receipts during the period 2001-07.

The continued prevalence of revenue surplus since 2003-04, a turnaround in primary account with surplus in 2006-07 and a steep decline in fiscal deficit are the pointers towards an improvement in fiscal position of the state during the current year. The negative Balance from Current Revenue (BCR) also declined consistently since 2003-04 and became positive during 2004-07 indicating availability of resources for creation of assets and to meet the plan requirements of the State.

1.12 Conclusion

The fiscal position of the State viewed in terms of the key fiscal parameters – revenue, fiscal and primary deficit – has indicated a significant improvement in 2006-07 relative to the previous year. The improvement in fiscal position should however be viewed in the light of the fact that the State finances are heavily dependent on Central transfers comprising of State's share in Union taxes and duties and grants-in-aid from GOI, which accounted for around 90 *per cent* of its revenue receipts. These transfers shared about 92 per cent in incremental receipts of the State during 2006-07 due to which, the State Government was able to enhance the revenue surplus significantly during the year. The expenditure pattern of the State reveals that the revenue expenditure as a *percentage* of total expenditure hovered within the range of 77 to 87 *per cent* during the period 2001-07 with inter year variations leaving inadequate resources for expansion of services and creation of assets. Moreover, within the revenue expenditure, non-plan revenue expenditure in 2006-07 (Rs 1121 crore) was significantly higher than the normative assessment of TFC (Rs 938 crore) for the State for the year and the four components – salary expenditure, pension liabilities, interest payments and subsidies – constituted about 69 *per cent* of the NPRE during 2006-07. These trends in expenditure indicate the need for change in allocative priorities. The fiscal liabilities of the State have consistently increased and stood at as high as 104 *per cent* of GSDP in 2006-07 and appear to be very high still exceeding 100 especially when compared with the TFC norm of 31 *per cent* to be achieved by the terminal year of its award period. The increasing fiscal liabilities accompanied by negligible rate of return (less than one *per cent*) on Government's investment and inadequate interest cost recovery continued to be a cause of concern and might lead to an unsustainable debt position in medium to long run unless suitable measures are initiated to compress the non plan revenue expenditure and to mobilize additional resources, especially by exploiting the untapped taxable sources in ensuing years as the tax revenue of the State in the current year (Rs.68 crore) is far below the normative assessment of TFC (Rs.79 crore) for the year.