



GOVERNMENT OF MIZORAM

FISCAL POLICY STRATEGY STATEMENT

*(As required under Section 6(6) of
The Mizoram Fiscal Responsibility and Budget Management Act, 2006)*

**GOVERNMENT OF MIZORAM
2016-2017**

(As laid before the Mizoram Legislative Assembly on 17th March, 2016)

FORM-II (a)
(See Rule 4)
FISCAL POLICY STRATEGY STATEMENT

A. FISCAL POLICY OVERVIEW:

The Twelfth Finance Commission recommended the enactment of the Fiscal Responsibility and Budget Management Act (FRBM Act) for the Union and the State Governments as a part of an effort to reform and to consolidate the respective financial conditions laid down by it in the Twelfth Finance Commission. The Thirteenth Finance Commission reinforces this recommendation by offering incentives on compliance. Even Mizoram Government has also been implementing and updating its own FRBM Act so as to achieve and align with the Thirteenth Finance Commission's recommendation for the State. The Thirteenth Finance Commission recommended that Govt. of Mizoram will have to maintain Revenue Surplus from the fiscal 2011-12, gradually reduces its fiscal deficit to 5.2 per cent in 2012-13, 4.1 per cent in 2013-14 and ultimately to 3 per cent of its GSDP by 2014-15 and limit outstanding liabilities at 82.9 per cent of GSDP in 2012-13, 79.2 per cent in 2013-14 and eventually at 74.8 per cent of corresponding GSDP by 2014-15. *The Fourteenth Finance Commission further stated that during their award period, fiscal deficit of all States will be anchored to an annual limit of 3 per cent of GSDP with flexibility of 0.50 with certain conditions.*

2. The fiscal correction path that was drawn up by the Government of Mizoram in 2006-07 and revised and redrawn annually indicated that the Government could not follow its own correction path due to various reasons. The fiscal deficit, which has been measured as a percentage of the GSDP series adopted by the FC-XIII, stood at 8.25 per cent in 2010-11, the same stood at 3.04 per cent in 2011-12, at 7.21 per cent in 2012-13, at 7.28 per cent in 2013-14(Actual), at 16.01 per cent in 2014-15(RE) and at 5.98 per cent in 2014-15. As per Budget estimates the fiscal deficit targeted for 2015-16 is 0.77 per cent of the GSDP.

3. The reasons for not conforming to the projected fiscal correction paths may include expenditure on account of food subsidies, purchase

of power and selling the same at a subsidized rate to the general public and many other items of revenue expenditure.

4. The fiscal pressure due to implementation of the Sixth Pay had been carried over to the Thirteenth Finance Commission period. Compounding to this belated fiscal shocks, other factors has come into play like the mass upgradation of schools, establishment of IR Battalions, subsidization of foodgrains, expenditures on Power purchase and so on. These factors impacted upon the fiscal performances of the State Government and hence the deviations from the projected path.

5. A review of the fiscal performance during the FC-XIII period shows a variety of exogenous and endogenous factors coming into play in the fiscal scene. The exogenous factor includes the global economic meltdown, resulting in the lowering of tax proceeds from the Centre to the States and the corresponding necessity of filling up the fiscal gap with market borrowings. The endogenous factors include the requirement of incurring huge subsidies towards purchase of rice. With the reduction of the PDS Quota of the State by the Government of India, the Government had been compelled to purchase rice out of the additional quota of economic cost bearing differential cost of rice between economic cost and issue price. The total expenditure of the Government on account of this was estimated at ₹ 246.31 crore in the Revised Estimates for 2012-13. The expenditure in 2011-12 was ₹ 206.77 crore.

6. The period of 2010-15 had seen positive signs of improvement in State's Own revenues. The State's own tax revenue which was a mere ₹ 107.58 crore in 2009-10 had followed a secular growth trend and thereby increased to ₹ 130.08 crore in 2010-11, ₹ 178.67 crore in 2011-12, ₹ 223.15 crore in 2012-13, ₹ 229.78 crore in 2013-14 (Actual), ₹ 266.53 crore in 2014-15 (RE) and is projected at ₹ 326.56 crore in 2015-16 (BE).

B. FISCAL POLICY FOR 2016-17.

7. The fiscal policy for the current financial year shall be, first of all, in line with the Fourteenth Finance Commission recommendation.

Hence, the salient features of the fiscal rules introduced by Fourteenth Finance Commission may be highlighted as given below-

- (i). Fiscal deficit of all States will be anchored to an annual limit of 3 per cent of GSDP. The States will be eligible for flexibility of 0.25 per cent over and above this for any given year for which the borrowing limits are to be fixed if their debt-GSDP ratio is less than or equal to 25 per cent in the preceding year.*
- (ii). States will be further eligible for an additional borrowing limit of 0.25 per cent of GSDP in a given year for which the borrowing limits are to be fixed if the interest payments are less than or equal to 10 per cent of the revenue receipts in the preceding year.*
- (iii). The two options under these flexibility provisions can be availed of by a State either separately, if any of the above criteria is fulfilled, or simultaneously if both the above stated criteria are fulfilled. Thus, a State can have a maximum fiscal deficit-GSDP limit of 3.5 per cent in any given year Fourteenth Finance Commission.*
- (iv). The flexibility in availing the additional limit under either of the two options or both will be available to a State only if there is no revenue deficit in the year in which borrowing limits are to be fixed and the immediately preceding year. If a State is not able to fully utilise its sanctioned borrowing limit of 3 per cent of GSDP in any particular year during the first four years of our award period (2015-16 to 2018-19), it will have the option of availing this un-utilised borrowing amount (calculated in rupees) only in the following year but within the award period of Fourteenth Finance Commission.*

8. The current fiscal position of the State in respect of various fiscal indicators may be briefly looked into from the point of view of the fiscal reform features indicated above.

9. Regarding elimination of revenue deficit, the noteworthy achievement of the State is the continued maintenance of revenue surplus since 2003-04 in the State Budget till 2009-10. However, he

Revenue Deficit during 2013-14 (Actual) was estimated at ₹ (-) 152.14 crore. The amount of Revenue Surplus has to be increased at the highest possible level so as to set aside maximum fund for taking up of developmental works and for creation of productive assets. As of now, the main bottlenecks on the way to enhancement of revenue surplus is the burgeoning Non-Plan Revenue Expenditure which has existed in the State finances due to implementation of The Mizoram (Revision of Pay) Rules, 2010 and the provision of mass subsidy on the purchase of power and food grains. However, utmost endeavors are being undertaken by the State Government to weed out this persisting financial necessary evil in a systematic and fruitful manner.

10. The Thirteenth Finance Commission required Government of Mizoram to reduce its fiscal deficit to 3 per cent of GSDP by 2014-15. In spite of the borrowing being fixed in line with the recommendation of Thirteenth Finance Commission, the bulging Revenue Expenditure always neutralized the efforts rendered for reduction of fiscal deficit volume. The Thirteenth Finance Commission recommended that Government of Mizoram should maintain fiscal deficit as a percentage of GSDP in the following pattern: 7.5 per cent in 2010-11, 6.4 per cent in 2011-12, 5.2 per cent in 2012-13, 4.1 per cent in 2013-14 and 3 per cent in 2014-15. The actual position of Fiscal Deficits of the State for the period from 2010-11 to 2013-14 is shown below:

2010-11	=	₹(-) 499.60 crore (8.25% of GSDP)
2011-12	=	₹(-) 212.60 crore (3.04% of GSDP)
2012-13	=	₹(-) 580.49 crore (Actual) (7.21% of GSDP)
2013-14	=	₹(-) 749.13 crore (Actual) (18.15% of GSDP)

11. The Gross Fiscal Deficit during 2014-15 and 2015-16 are estimated at ₹ (-) 586.87 crore and at ₹(-)109.63 crore respectively, which are 5.98 per cent and 0.77 per cent of the corresponding GSDP respectively. Because of the increase in devolution of Share of Taxes from 32 per cent to 42 per cent, the State will be able to follow the stipulated 3 per cent fiscal deficit during 2016-17. Still then, a concerted effort has to be rendered by the State Government so as to increase State's Own Tax and Non-Tax Revenues.

12. The fiscal policy of the State should be framed in line with the broad fiscal rules designed by FC-XIV. Following these

recommendations, the fiscal policy of the State Government for 2016-17 shall be:

- (a) To continue the process of fiscal reforms and consolidation; generate revenue surplus and reduce fiscal deficit.*
- (b) To improve Own Tax Revenues and improve Own Tax-GSDP ratio*
- (c) To ensure commercial viability of Departmental undertakings in critical sectors such as power and transport, and also in public sector units.*
- (d) To improve the quality of expenditure*
- (e) To increase allocation of fund in socio-economic sectors*
- (f) To increase capital investment in infrastructure sector*
- (g) To contain outstanding liabilities excluding Public Account and risk weighed Guarantee Fund in a year not to exceed twice of the estimated receipt in the Consolidated Fund of the State at the close of financial year.*

13. In the Indian fiscal federalism, the levels of devolution of resources from the Centre determine the fiscal position of the State governments. Being a resource deficit State, the Government of Mizoram also is depending to a large extent on the levels of devolution of resources from various ministries as recommended by the Finance Commissions.

14. One of the critical issues in the management of State finance is the after-shock of implementation of Pay Revision to State Government employees. Since the Thirteenth Finance Commission did not take care of Pay Revision for the State Government employees, the State Government alone is struggling to tide over this aftershock. It may therefore be difficult for the State Government alone to sustain the existing position in view of the increasing requirement for revenue and non-plan expenditure over the medium term.

15. Another area of concern which heavily impacted on the State finances is incessant provision of mass subsidy on purchase of food grains and power. The initial Budget Estimates for Power purchase in

the Budget often required to be revised in the mid-year owing to unprecedented retrospective revision of power tariff by Central Electricity Regulatory Commission (CERC). Due to these revisions, the State Government received supplementary bills from various Power utilities like NEEPCO, NHPC, PGCIL, TSECL, BHEL and NTPC which was, actually, not anticipated at the time of budget allocation made at the beginning of the year. Besides these retrospective bills, the normal requirement of the Department as a result of tariff revision has also been increased to a huge amount and thereby resulting in Budget escalation in the Revised Estimates. This difference induces a drain out of the State Exchequer without refill from any sources. This persisting predicament in the State finances need appropriate address in a fitting manner so as to evolve better form of power trading in the principle of no-loss no-gain and to prevent leakage of State Exchequer.

16. The fiscal shocks on account of food subsidy still continue. Since the Government could not risk drastic reduction of supply of rice from the Food Corporation of India due to the shortage of local food supply in the State, this will need to be carried on for a few more years. Thus, even with the losses that the Government will have to bear in food trading, we are under compulsion to continue the food subsidy till such time the Government could make alternative arrangements. The alternative arrangement already mooted and to be put in place in place of TPDS is the Food Security Act. The burden of food subsidy may be overcome by correct identification of eligible households under the Food Security Act; otherwise the challenge of the State government for subsidization of foodgrains will remain the same as before. Even though the Government of Mizoram intended to launch the Food Security Act in February 2016 so as to replace the TPDS, unless and until the blanket coverage of the whole population is done away with, the problem will remain the same as before.

17. The major fiscal policy initiatives that the Government will pursue in 2016-17 are laid down in brief below:

(1) Tax Policy:

18. It will be the endeavor of the Government to continuously improve the Tax-GSDP ratio and increase the contribution of State's tax. The State Government will continue to take measures to sustain the growth of tax revenues.

19. The Government is determined to maintain the increasing trend of the tax-GSDP ratio by increasing the tax collection efficiency and better tax compliance. Towards this end, the Government will pursue the following measures in 2016-17:

- a) *The potential in collection of land revenues will be given due consideration with focus on restructuring of the Department, streamlining the tax collection system and improving the land record management and assessment and collection of arrears. This will be coupled with exhaustive process of capacity building of the officials involved in administration of land revenue and computerization of the records. This is expected to bring about higher collection of land revenue as well as realization of the arrears accumulating over the years. Amendment to the Mizoram (Land Revenue) Act, 2013 and the Mizoram (Land Revenue) Rules, 2013 to streamline and to improve the procedures and processes of survey, allotment and settlement of land, land record management and assessment and collection of land revenue are expected to be introduced during 2015-2016. This amendment shall facilitate allotment of land to the landless families and shall reduce land disputes and litigations without affecting the tax payers.*

- b) *The Directorate of Registration and Stamp functioning under Revenue Department is dealing in the administration, levy and collection of registration fee and stamp duty under the Registration Act, 1908 and the Indian Stamp Act, 1899. And, the Department is considering proposal for amendment in the Article of Fees in Schedule I to the Indian Stamp Act, 1899 and the Mizoram Stamp Rules, 2015 as is being prepared by the Department under the Indian Stamp Act, 1899 which is expected to be introduced during 2015-2016. Further, the Mizoram Registration Rules, 2015 is prepared under section 69 of the Registration Act, 1908 for carrying out of the provision of the Act. And, the Department amended the Table of Fees notified under the Registration Act, 1908. Reduction in rates of registration fee for conveyance, gift, etc shall make buying and selling of property cheaper for the low and medium income groups and hence brings an increase in the number of land registrations. A sum of ₹ 268.04 lakh as registration fee and ₹ 31.98 lakh as*

Stamp Duty are collected during 2014-2015. With the framing and making of the above Rules and amendments of the rates of registration fees and stamp duty supplemented by the proposed computerization of land records, the Department is expected to earn additional revenue to the tune of ₹ 5.00 crore during the financial year 2015-2016 in the form of Registration Fee and Stamp Duty.

- c) Improvement of collection of Taxes on account of motor vehicles and passengers & goods tax has also been taken up in the form of introduction of e-payment of Road Tax and by capacity building of the officials involved and introducing waivering of late fee for a certain period of time to the defaulter. These measures are expected to bring about overall improvement in the tax collection. Besides the above measures, lifetime payment of Road tax at one go and recent introduction of High Security Plate for vehicles would increase the revenue earn from State's own resources.*
- d) The Government of Mizoram had been implementing the MLTP Act, 1995 for more than a decade though without much success story while foregoing all the revenue which could have been accrued to the State Government. A better and more effective 'the Mizoram liquor (control & Prohibition) Act,2014 was passed by the Mizoram Legislative Assembly on 10th July,2014 which came into effect on 15th January,2015. Under the MLPC Rules, 2014 three Bonded Warehouse Licenses were issued and twenty two Vendor Licenses were issued. During the financial year 2015-16 up to 31.8.2015, the revenue so far collected by the Excise & Narcotics Department is ₹ 17.49 crore against their annual target of ₹ 3.83 crore. The increase in revenue collection is obviously due to sale of liquor under the MLPC Act, 2014. Under the new Act and Rules, the State Government is expected to earn an additional revenue to the tune of ₹ 60 crore annually in the form of excise duties.*
- e) A proposal for revision of VAT rate from 20 % to 30 % on Tobacco Products including Cigarettes, Cigars, Cigarillos and Vaihlo has been approved by the Council of Ministers in its sitting on 17th August 2015. As a result of upward revision of VAT rate on these items, the State Government would mobilize additional revenue to the tune of ₹ 134.83 lakh annually.*

- f) *The Mizoram Entry Tax Draft Bill 2015 has recently been passed by the Mizoram Legislative Assembly and the said Act is supposed to be enforced in the State in due course.*
- g) *The collection of Tax through e-payment system has also been introduced as a part of computerization of records on tax collection. This initiative has brought about a turnaround in the tax collection efficiency since last two financial years.*
- h) *Moreover vigorous re-assessment of Entertainment Tax especially for Cable TV Operators has been carried out by the Department which is expected to increase the tax collection on Entertainment by ₹ 2.00 crore annually.*
- i) *Mandatory introduction of Set Top box for all cable TV subscribers will bring more transparency for the cable TV operators about the number of subscriber they have so that the revenue accruable to the State Government in the form of Entertainment Tax will be substantially increased.*

20. The above measures taken together will bring about the desired goal of increasing the tax-GSDP ratio and substantial improvement in State's own tax collection for years to come.

(2) Expenditure Policy:

21. The Expenditure Policy of the State Government should, first of all, be guided by the provisions and recommendations laid down by the Fourteenth Finance Commission. In the meantime the State still faces certain fiscal hiccups in spite of the fairly substantial increase in the volume of resources transferred as compared to the resources transferred by the previous Commission. The main bottleneck in the management of State finances is implementation of 6th Pay Revision to State Government's employees. As Thirteenth Finance Commission remains silent on this issue, the State Government alone is struggling to overcome this financial predicament without any additional resources from anywhere and the burden is still carried over to the Fourteenth Finance Commission Period.

22. This problem is aggravated by incessant provision of mass subsidy on purchase of food grains and power. Hence, it is essential for the State Government to deliberately draw up its expenditure

policy and to formulate the ground solution for settlement of this fiscal quandary.

23. Under the Targeted Public Distribution System (TPDS), the State Government had been allocated foodgrains by the FCI which is insufficient to meet the actual requirements. Hence the State Government has to purchase a huge amount of foodgrains from the market at a higher rate and sold to the beneficiaries at a subsidized rate. Since a separate budgetary allocation had not been drawn up to meet this subsidization, it has put a great pressure on the State Exchequer. The unrecovered expenditure on food trading alone has been costing the State Government around ₹ 156.00 crore every year. The State Government shall, however, continue this subsidization practice for the welfare of the targeted groups with measures to minimize the losses. One measure is the upward revision of the selling price to the beneficiaries and another is the revision of the list of the beneficiaries. The ongoing end-to-end computerization of TPDS initiated since 2013 is a positive move to tackle the irregularities in food trading.

24. An important exercise undertaken by the State Government is completion of Digitization of Ration cards. This measure has filtered out 31,500 double or bogus ration cards and about 4,08,240 dead/double/non-existent persons. The physical and financial implication of this detection is a reduction in requirement of about 39,191 MT of Rice and ₹ 100.91 crore annually in the cost of food grains.

25. The State Government has also introduced a system of procurement of Rice from the open market rather than from the FCI to meet monthly additional requirement of about 8000 MT of Rice. Cost being lower in the open market, this measure alone will reduce our annual expenditure by ₹ 53.66 Crore. Ex-Godown Price of subsidized Rice for APL Families was raised from the deflated rate of ₹ 9.30 per kg to ₹ 14.50 per kg. This measure will lead to a saving of ₹ 67.65 Crore annually for the State Government. To reduce further our expenditure, we have also introduced an upper ceiling rate of carrying charges in Quotation for carrying up to 8000 MT of Rice to different Supply Centres from Zuangtui Centre, Aizawl. This will enable the State Government to reduce expenditure for carrying charges by about

₹ 32.54 Crore annually. Recently, we have abolished seven (7) Supply Centres so as to reduce expenditures towards repairs and maintenance of Godowns and Staff quarters by ₹ 1.00 Crore annually.

26. The impending implementation of the Food Security Act in the State during 2016 is also expected to decrease the monthly requirement of foodgrains since the blanket coverage of all population would be replaced with a system whereby only the entitled beneficiaries shall be covered.

27. The monthly Operation and Maintenance cost of Aizawl Water Supply is ₹ 417 lakh while the revenue collection is ₹ 156 lakh. This means that the State Government has lost ₹ 261 lakh every month for the sole purpose of Aizawl Water Supply. In order to bridge this gap, the water tariff rate has to be gradually increased without causing undue burden to the general public. The PHE Department has been informed that Water tariff should be periodically hiked in keeping with the high level of cost of supplying to the public and also considering the inflation rates in the country. Considering the cost of water-full tank lorry at the current rate, cost of chemically treated water supplied by the Department can be justifiably and appropriately hiked.

28. Water Supply of Aizawl City is mainly from river Tlawng which flows 1000 metres below the City and hence high pumping cost. To solve this problem PHE Department is planning and executing alternate water sources. Serlui gravity scheme which is alleviating the pumping cost of raw water from Tlawng to Dihmunzawl had been recently commissioned. This will save an expenditure of ₹ 25 lakh per month. Tuithum impounding and Tawi tlang gravity feed scheme is also being planned and investigated. The old and dilapidated water pipe line which are mostly laid way back in 1998 are leaking and rusting calling high maintenance cost. Plans and proposal are being made by PHE Department and SIPMIU to lay new distribution lines which will economize the pipe line maintenance cost.

29. In the power trading also, the State Government has to spend a huge sum of money for purchase of power which has been sold to the general public at a subsidized rate. The usual monthly expenditure on purchase of Power supply is around ₹ 15.26 crore which cannot be made good by the user charge collected for the same. Recently, the

Joint Electricity Regulatory Commission (JERC) for Manipur and Mizoram, has increased the power tariff. Hence, the State Government's spending on Power purchase shall be compensated by the increase in tariff rate by the JERC. The State Government needs to improve the collection efficiency of the user charges by plugging all possible loopholes. An initiative has been taken by P&E Department to introduce online payment of bills which will increase the revenue collection of the Department.

30. As per Multiyear Tariff Regulations, 2014 by JERC for Manipur and Mizoram, revision and fixation of tariff is to be done every year. During 2014-15, our expenditure on Power purchase was ₹ 194.80 crore and Other Direction & Administration Expenditure was ₹ 102.06 crore so that the Aggregate Revenue Requirement (ARR) was ₹ 296.86 crore. Our revenue collection plus Revenue Arrear was ₹ 160.55 crore. The present rate of sale of energy is ₹ 3.84 per Unit whereas the actual required rate to meet ARR is ₹ 9.02 per Unit. The existing tariff was filed to meet the ARR which works out to be ₹ 9.02 per unit. But the JERC reduced the average per unit rate from ₹ 9.02 to ₹ 4.23 which implies that the State Government pays subsidy at the rate of ₹ 4.79 (53 %) for every unit consumed. The present tariff structure of Mizoram is far less than the other North Eastern states. As such it is imperative that Mizoram should be at least at par with other NE states so that the overall revenue resources of the state can be improved.

31. In order to minimize expenditure incurred by the loss making Public Sector Enterprises (PSEs), the cabinet meeting on 18th February 2015 has approved the closure of three PSEs, namely, ZENICS, ZOHANCO and MAMCO. It has also approved downsizing and restructuring of ZIDCO and MIFCO. At the same time, the State Government has offered an early retirement to all the employees of the PSEs under The Mizoram State Public Enterprises Early Retirement Rules (ERR), 2015 notified in the official Gazette in July, 2015. Those who decline the offer may opt for appointment into Government Service under the category of Group B, C and D as the case may be.

32. The prime concern of the Government's expenditure will continue to be the focus on increased spending for capital investments for laying development infrastructure. Efforts will be on to contain

revenue expenditure and increasingly utilize resources for meeting capital expenditure.

(3) Borrowings and Other Liabilities, Lendings and Investments:

33. The Government has been following a conscious policy on borrowings in containing the net borrowings so that the outstanding debt stock is maintained at a sustainable level relative to GSDP and Revenue Receipts. The FRBM Act, 2006 as amended in 2009 also provides that fiscal deficit will be contained to a level of 3 per cent of GSDP in 2010-11. The Thirteenth Finance Commission further postponed attainment of 3 per cent by 2014-15. However, the Government has been making efforts to contain the borrowings. With that in view, the Government has been containing the net borrowings at the targeted level of fiscal deficit so that the Government will not borrow in excess of the requirement for financing the fiscal deficit. Generation of revenue surplus also helps in checking the use of borrowed funds for meeting current revenue expenditure. With containment of the borrowings, the Government will pursue a policy of reducing revenue expenditure relative to the total expenditure so that enough resources could be made available for capital investment.

34. With the FC-XIII's requirement of reducing debt stock relative to GSDP at 74.80 per cent by 2014-15, the Government had exerted utmost care in deficit financing. This will also help in slowly reducing the interest burden. The Government shall also focus its attention towards reduction of weighted average interest rates on the borrowings. This will, in the long run have the effect of reducing the expenditure on account of interest payments. Accordingly, the Government will shift its borrowings in favour of low-cost RIDF loan of NABARD for creating infrastructure in the rural and agriculture sectors.

35. The Government's investments in the Co-operative Banks and Societies etc. in equities in the past without any scope for receipt of dividend and the continued budgetary support of these entities is one issue of concern in the State finance.

36. The solution to the Government's debt problem lies in the method of application of borrowed funds i.e., whether they are being used efficiently and productively for capital expenditure which either

provides returns directly or results in increased productivity of the economy which may result in increase in Government revenue in future, making debt payments manageable.

37. The net borrowing ceiling for the financial year 2015-16 for Mizoram has been fixed at Rs. 426 crore by the Ministry of Finance and the same for 2016-17 will be communicated in due course.

(4) Consolidated Sinking Fund:

38. The Government builds up a sizeable amount in the Consolidated Sinking Fund accumulating as Reserve Fund of the State's Public Account. With the Revised Scheme coming in force from 2006-07, the Government continues to invest funds in the Sinking Fund to generate funds for meeting its future repayment obligations of loans contracted in the past. The principal already invested in the Fund as on 31.03.2014 was ₹ 156.30 crore. The principal amount invested during 2014-15 was ₹ 17.19 crore; so that the accumulated principal investment had become ₹ 173.49 crore by the end of 2014-15. During 2015-16 the provision for investment in the CSF is ₹ 28.25 crore. The State Government is intending to strengthen the Consolidated Sinking Fund (CFS) by gradually increasing the quantum of investment in the fund during the coming 5 (five) years so that the corpus fund would be in the average range of 5 per cent of the State's liabilities.

(5) Contingent and Other Liabilities:

39. Realizing the importance of efficient management of contingent liabilities, the Government has set up a Guarantee Redemption Fund (GRF) in May, 2009 with an initial corpus fund of ₹ 50.00 lakh. Another ₹ 50.00 lakh was invested in 2010-11, the ensuing investment pattern was as follows- ₹ 100.00 lakh in 2011-12, ₹ 150.00 lakh in 2012-13, ₹ 200.00 lakh in 2013-14. The Government had augmented the corpus fund by investing an additional amount of ₹ 200.00 lakh in 2014-15 so that the closing balance at the end of 2014-15 is ₹ 750.00 lakh. During 2015-16, an additional amount of ₹ 200.00 lakh shall be invested under GRF. The same amount shall be invested during 2016-17. The Government of Mizoram has also been following a conscious

policy of restricting the size of the contingent liabilities and has been keenly pursuing a policy for streamlining the process of handling contingent liabilities in the State's finance. A ceiling was also laid down that fresh guarantees in a year should not exceed 3 per cent of GSDP. The Mizoram Ceiling on Government Guarantees Rules, 2013 was put in place since April 2013, this will help the Government in collecting guarantee fees at a minimum of 0.75 per cent of the guaranteed loan as a guarantee commission.

(6) Levy of User Charges:

40. Being a small State in terms of population and areas, collection of User charges on various governments' services are always marginal and used to fall below expectation and estimation. It would be in the best interest of the State Government if the cost of Operation & Maintenance can be realized from the services provided to the general public.

41. The practice of mass subsidy in the services extended by the Government is one issue that is costing the Government dearly. These issues need to be carefully considered keeping the positive impacts vis-à-vis the negative impacts and dependency of the general public in the Government on the one hand and inefficiency of public spending on the other. The Government will slowly move towards levying of optimum level of user charges and differential subsidy so that providing of services to the people vis-à-vis levying of user charges for generating funds for maintenance of assets has become slowly sustainable in the long run.

C. STRATEGIC PRIORITIES FOR THE ENSUING YEAR:

42. The priority of the Government will be tapping more revenue potential without causing undue burden to the general public and thereby increasing capital investment in a sustainable manner. It will continue to adhere to the stipulations in the FRBM Act successfully without sacrificing the requirements of expenditure for capital investments. The FC-XIII had postponed the time of achieving 3 per cent fiscal deficit of GSDP by 2014-15; with the heralding of FC-XIV from 2015-16, more devolution from the Central Government will

greatly improve the fiscal situation of the State Government. The availability of resources under FC-XIV will enable the Government to bring about improved fiscal performance and increased investment in critical developmental needs of the people.

D. POLICY EVALUATION:

43. The recommendations of the FC-XIII for fiscal deficit for the State was 6.4 per cent, 5.2 per cent, 4.1 per cent and 3.0 per cent of the corresponding GSDP in 2011-12, 2012-13, 2013-14 and 2014-15 respectively. The fiscal deficit in 2010-11 stood at 16.83 per cent of the GSDP. The performance of the State Government got improved in 2011-12 at 6.84 per cent of the GSDP which was commensurate with the fiscal correction path recommended for the year. Again in 2012-13 the fiscal deficit was 7.21 per cent of the GSDP whereas the recommended percentage was 5.2 per cent. There was, however, a setback of performance in 2013-14 and as per Revised Estimate the fiscal deficit was as high as 18.15 per cent. But this figure changed to 7.28 per cent as per actual figure received in the State Finance Accounts for the year 2013-14. The poor performance may be attributable to shortage or incomplete fund released from the Central Government and released of fund far below the FC-XIII recommendation. The Government of Mizoram has been experiencing Revenue Surplus since 2003-04; which however could not be kept up in 2013-14 and 2014-15. The Revenue Deficit during 2013-14 was estimated at ₹ (-)152.14 crore which constituted -1.48 per cent of the GSDP and the revenue deficit during 2014-15 was estimated at ₹ (-) 141.33 crore as per pre-actual figure. The fiscal shocks in reduced devolution of central taxes, expenditure on corpus fund of the Contingency Fund of the State and other revenue expenditure, with no corresponding resources resulted in fiscal imbalance in 2013-14. However, the Government's attempts towards elimination of the revenue deficit and corresponding generation of revenue surplus brought about increase of resources for capital expenditure as the level of borrowings for financing capital expenditure are put to a check by the requirement of containing the fiscal deficit. As a result, the Government's expenditure has been guided by the need to generate revenue receipts on the one hand and corresponding containment of

revenue expenditure on the other. However, with the limitations in containing the revenue expenditure, the Government's policy of finding alternative sources for funding development investments have slowly paid dividends in working with multilateral agencies bringing in external financial resources accompanied by transfer of knowledge and expertise. At the overall, the fiscal management principles in the post-FRBM are strongly guided by the provisions of the Act and the targets set out therein and have slowly brought about improvements in expenditure management. As per budget estimates, there should be a revenue surplus of ₹ 1084.16 crore in 2015-16.

44. The commencement of FC-XIV period from 2015-16 with higher devolution of resources brings about improvements in the fiscal position. The State government has announced 2015-16 as ***year of consolidation*** meaning that a certain amount of the increased devolution under FC-XIV was set aside solely for the purpose of clearing past liabilities under Public Account or K-deposit which has greatly reduced the debt stock of the State Government.

E. RATIONALE FOR POLICY CHANGES:

45. There are no specific policy changes as such. However, the commencement of the FC-XIV award period may necessitate slight changes in the policy and time frame of reduction of debt stock and the fiscal reforms initiatives introduced by it, the Government will slowly pursue the policy initiatives to achieve the stipulations contained in the recommendations. Needless to say that the Government will continue to be strongly guided by the principles of fiscal management with numerical targets outlined in the FRBM Act as may be amended. The need to improve the State's own revenues is the pressing need of the present time so that the State Government may be able to cope up with the requirement of surging expenditure and for meeting its developmental commitments. Towards this end, the Government will continue to focus towards Public Resource Management, Capacity Building and Tax & Non-Tax Reforms so as to achieve the desired objectives. Correspondingly, the revenue expenditure needs to be curtailed so as to make revenues available for generation of capital assets.

46. In the light of changes in the sharing pattern of Centrally Sponsored Schemes, the State Government has decided that from 2015-16 onwards only those CSS with a sharing pattern of 90:10 shall be implemented by the State Government because of the burden of State matching Share.

47. In the light of the changes in the fiscal policy and management during the last few years, the Government of Mizoram has redrawn a Fiscal Correction Path in the light of the 2014-15 (Actual), 2015-16 (BE), 2015-16 (RE) and 2016-17 (BE) including projections for the next two years in a format as outlined by the Ministry of Finance, Government of India in its guidelines for implementation of Debt Consolidation and Relief Facility recommended by the Twelfth Finance Commission. The Fiscal Correction Path is given in Form-II (b). Selected fiscal indicators are also appended herewith in Forms D-1, D-2, D-3, D-4 and D-5.

FORM II (b)**Annexure - II**

State : Mizoram

Outcome indicators of the State's Own Fiscal Correction Path*(Rupees in Crore)*

<i>Items</i>		<i>2013-14 (Actuals)</i>	<i>2014-15 (Pre Actuals)</i>	<i>2015-16 (BE)</i>	<i>2015-16 (RE)</i>	<i>2016-17 (BE)</i>	<i>2017-18 (Proj.)</i>
A	STATE REVENUE ACCOUNT :						
1	Own Tax Revenue	229.78	266.53	326.56	310.68	331.19	351.06
2	Own Non-Tax Revenue	194.26	241.96	252.81	269.83	279.06	295.80
3	Own Tax+Non Tax Revenue (1+2)	424.04	508.49	579.37	580.51	610.25	646.87
4	Share in Central Taxes & Duties	858.08	910.67	2413.72	2370.88	2627.17	3559.00
5	Plan Grants	2341.11	2996.46	2014.82	2410.68	2102.41	2228.55
6	Non-Plan Grants	1141.61	1095.49	2167.54	2173.08	2332.65	2472.61
7	Total Central Transfer (4 to 6)	4340.80	5002.62	6596.08	6954.64	7062.23	8260.16
8	Total Revenue Receipts (3+7)	4764.84	5511.11	7175.45	7535.15	7672.48	8907.03
9	Plan Expenditure	1796.84	2151.82	2180.91	2546.91	1921.39	2036.67
10	Non-Plan Expenditure	3120.14	3500.62	3910.38	4096.79	4467.18	4735.21
	<i>of which</i>						
11	Salary Expenditure	1506.77	1724.68	1999.90	2004.54	2196.76	2328.57
12	Pension	490.16	544.65	560.00	560.00	770.00	816.20
13	Interest Payments	284.50	305.83	450.01	450.16	549.39	582.35
14	Subsidies - General						
15	Subsidies - Power	-					
16	Total Revenue Expenditure (9+10)	4916.98	5652.44	6091.29	6643.70	6388.57	6771.88
17	Sal+Interest+Pensions (11+12+13)	2281.43	2575.16	3009.91	3014.70	3516.15	3727.12
18	as % of Revenue Receipts (17/8)	47.88	46.73	41.95	40.01	45.83	48.58
19	Revenue Surplus/Deficit (8 -16)	-152.14	-141.33	1084.16	891.45	1283.91	2135.14

(Rupees in Crore)

<i>Items</i>		<i>2013-14 (Actuals)</i>	<i>2014-15 (Pre Actuals)</i>	<i>2015-16 (BE)</i>	<i>2015-16 (RE)</i>	<i>2016-17 (BE)</i>	<i>2017-18 (Proj.)</i>
B	CONSOLIDATED DEBT :						
1	Outstanding debt and liability	5608.47	6550.39	6260.20	6977.13	7290.17	7508.88
2	Total Outstanding guarantee	70.57	68.59	90.59	90.59	100.59	103.61
	[of which guarantees on account of budgeted borrowing and SPV borrowing]						
C	CAPITAL ACCOUNT :						
1	Capital Outlay	599.40	927.51	1193.79	1047.06	1309.21	1387.76
2	Disbursement of Loans and Advances	30.70	2.43	40.00	40.00	30.55	32.38
3	Recovery of Loans and Advances	33.11	31.63	40.00	40.00	32.84	34.81
4	Other Capital Receipts						
5	Transfer to Contingency Fund						
D	GROSS FISCAL DEFICIT :	-749.13	-1039.64	-109.63	-155.61	-23.01	749.81
	[(A ₈ +C ₃ +C ₄)-(A ₁₆ +C ₁ +C ₂ +C ₅)]						
E	GSDP (Rs. crs.) at current prices	10297.00	12499.00	14204.00	14204.00	15535.00	15535.00
	Actual/Assumed Growth Rate (%)	27.87	21.38	13.64	0.00	9.37	0.00
F	INDICATORS AS % OF GSDP						
1	Own Tax Revenue (A1/E)	2.23	2.13	2.30	2.19	2.13	2.26
2	Own Non-Tax Revenue (A2/E)	1.89	1.94	1.78	1.90	1.80	1.90
3	Total Central Transfer (A7/E)	42.16	40.02	46.44	48.96	45.46	53.17
4	Total Revenue Expenditure (A16/E)	47.75	45.22	42.88	46.77	41.12	43.59
5	Revenue Surplus/Deficit (A19/E)	-1.48	-1.13	7.63	6.28	8.26	13.74
6	Gross Fiscal Deficit *	7.28	8.32	0.77	1.10	0.15	-4.83
7	Outstanding Debt and Liabilities (B1/E)	54.47	52.41	44.07	49.12	46.93	48.34

FORM D - 1

(See Rule 9)

SELECT FISCAL INDICATORS

Items		2014-15 (Pre-Actuals)	2015-16 (RE)
1	Gross Fiscal Deficit as Percentage of GSDP	(-) 8.32	(-)1.10
2	Revenue Deficit (-)/Surplus (+) as Percentage of GSDP	(-) 1.13	6.28
3	Revenue Deficit (-)/Surplus (+) as Percentage of TRR	(-) 2.56	11.83
4	Total Liabilities - GSDP Ratio (%)	52.41	49.12
5	Total Liabilities - Total Revenue Receipts (%)	118.86	92.59
6	Total Liabilities - State's Own Revenue Receipts (%)	1288.20	1201.90
7	State's Own Revenue Receipts - Revenue Expenditure (%)	8.99	8.74
8	Capital Outlay as Percentage of Gross Fiscal Deficit	(-) 89.21	(-)672.87
9	Interest Payment as Percentage of Revenue Receipts	5.55	5.97
10	Salary Expenditure as Percentage of Total Revenue Receipts	31.29	26.60
11	Pension Expenditures as Percentage of Total Revenue Receipts	9.88	7.43
12	Non-Developmental Expenditure as Percentage of Aggregate Disbursement	22.51	28.14
13	Gross Transfer from the Centre as Percentage of Aggregate Disbursement	52.65	55.59
14	Non-Tax Revenue as Percentage of Total Revenue Receipts	4.39	3.58

A. COMPONENTS OF STATE GOVERNMENT LIABILITIES

(₹ in crore)

Category	Raised during the Fiscal Year			Repayment/Redemption during the Fiscal Year			Outstanding Amount (End-March)		
	2014-15 (Pre-Actuals)	2015-16 (RE)	2016-17 (BE)	2014-15 (Pre-Actuals)	2015-16 (RE)	2016-17 (BE)	2014-15 (Pre-Actuals)	2015-16 (RE)	2016-17 (BE)
1	2	3	4	5	6	7	8	9	10
Market Borrowings	230.04	250.00	250.00	58.78	144.44	206.89	1550.28	1655.84	1698.95
(a) Market Loans	230.04	250.00	250.00	54.22	139.88	204.61	1543.45	1653.57	1698.96
(b) Power Bonds	-	-	-	4.56	4.56	2.28	6.83	2.27	-0.01
Loans from Centre	4.89	20.67	29.34	19.16	20.26	20.75	322.27	322.68	331.27
(a) Block Loans	4.89	20.67	29.34	19.16	20.26	20.75	322.27	322.68	331.27
(b) Other Loans	-	-	-	-	-	-	-	-	-
Special Securities issued to the NSSF	30.31	21.46		7.14	7.74	8.98	221.63	235.35	226.37
Borrowings from Financial Institutions/Banks	50.97	89.22	81.24	37.30	80.37	73.42	381.03	389.88	397.70
(a) LIC	-	-	-	2.55	44.77	23.63	65.32	20.55	-3.08
(b) NABARD	28.11	59.50	70.00	30.60	31.06	44.11	192.99	221.43	247.32
(c) NCDC	8.24	5.67	11.24	0.22	0.60	2.16	12.73	17.80	26.88
(d) Other Institutions	14.62	24.05	0.00	3.93	3.94	3.52	27.95	48.06	44.54
1) REC	14.62	-	-	3.93	3.93	3.51	27.95	24.02	20.51
2) HUDCO	-	-	-	-	-	-	-	-	-
3) PFC	-	24.05	-	-	0.01	0.01	-	24.04	24.03
(e) Others	-	-	-	-	-	-	82.04	82.04	82.04
WMA/OD from RBI	1066.87	262.53	0.03	1066.87	262.53	0.03	-17.50	-17.50	-17.50
Provident Funds, etc.	733.06	561.20	764.00	422.33	286.00	507.50	2475.22	2750.42	3006.92
(a) General Provident Fund	719.53	554.20	750.00	416.17	280.00	500.00	2398.60	2672.80	2922.80
(b) Insurance & Pen. Fund	13.53	7.00	14.00	6.16	6.00	7.50	76.62	77.62	84.12
Other Liabilities	1349.06	757.25	974.30	916.71	734.25	968.30	1617.46	1640.46	1646.46
TOTAL	3465.20	1962.33	2098.91	2528.29	1535.59	1785.87	6550.39	6977.13	7290.17

B. WEIGHTED AVERAGE INTEREST RATES ON STATE GOVERNMENT LIABILITIES

(Percent)

Category	Raised during the Fiscal Year			Outstanding Amount (End-March)		
	2014-15 (RE)	2015-16 (RE)	2016-17 (BE)	2014-15 (RE)	2015-16 (RE)	2016-17 (BE)
Market Borrowings						
(a) Market Loans	8.86	8.20	8.20	8.86	8.20	8.20
(b) Compensatory and other Bonds	-	-	-	8.50	8.50	8.50
Loans from Centre	9.00	9.00	9.00	9.00	9.00	9.00
Special Securities issued to the NSSF	9.00	9.00	9.00	9.00	9.00	9.00
Borrowings from Financial Instt./Banks						
(a) LIC	-	-	-	7.70	7.70	7.70
(b) NABARD	6.25	6.25	6.25	6.25	6.25	6.25
(c) REC	-	-	-	10.28	10.28	10.28
(d) PFC	-	-	-	-	-	-
(e) NCDC	12.95	12.95	12.95	12.95	12.95	12.95
WMA/OD from RBI	-	-	-	-	-	-
Provident Funds, etc.	8.80	8.80	8.80	8.80	8.80	8.80
Other Liabilities	-	-	-	-	-	-
TOTAL	9.14	9.03	9.03	9.04	8.96	8.96

FORM D-3
(See Rule 9)

CONSOLIDATED SINKING FUND (CSF)

(Amount in Rs. crore)

Outstanding Balance in CSF at the beginning of the previous year 1st April, 2014	Additions during the previous year	Withdrawals from CSF during the previous year	Outstanding balance in CSF at the end of the previous year/ beginning of the previous year 31st March, 2015	Col (4)/ Outstanding stock of SLR Borrowings (%)	Additions during the current year 2015-16	Withdrawals from CSF during the current year	Outstanding balance in CSF at the end of current year/beginning of ensuing year Tentative 31st March, 2016	Col. (S) Outstanding stock of SLR Borrowings (%)
1	2	3	4	5	6	7	8	9
156.30	17.19	-	173.49	9.65	28.25	-	201.74	-

FORM D-4
(See Rule 9)

GUARANTEES GIVEN BY THE GOVERNMENT

Category	Maximum Amount Guaranteed (Rs. In crore)	Outstanding at the beginning of the year 2015-16 (Rs. in crore)	Additions during the year 2015-16 (Rs. in crore)	Reductions during the year 2014-15 (Rs. in crore)	Invoked during the year 2015-16 (Rs. Crore)		Outstanding at the end of the year 2015-16 (Rs. Crore)	Guarantee Commission or Fee (Rs. Crore)		Remarks
					Discharged	Not Discharged		Receivable	Received	
1	2	3	4	5	6	7	8	9	10	11
Cooperative	149.28	28.74	-	-	-	-	28.74	-	0.11	
Govt. Companies	59.93	16.08	-	-	-	-	16.08	-	-	
Other Statutory Corporation	59.13	18.42	-	-	-	-	18.42	-	-	
Other Institutions	5.60	5.35	-	-	-	-	5.35	-	0.04	
TOTAL	273.94	68.59	-	0.00	-	-	68.59	-	0.15	

FORM D-5
(See Rule 9)

OUTSTANDING RISK - WEIGHTED GUARANTEES

Default Probability	Risk Weights (Percent)	Amount outstanding as in the Previous year and the Current Year	Risk Weighted outstanding guarantee in the previous year and the Current Year
Direct Liabilities	100		
High Risk	65		
Medium Risk	55		
Low Risk	25		
Very Low Risk	5		
Total Outstanding			

Note : An assessment of Risk-weighted Government guarantees is not yet completed. Hence default probability in the guaranteed loans could not be assigned.