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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
2018-2019

(As laid before the Mizoram Legislative Assembly on 15th March, 2018)

FORM-II (a)

(See Rule 4)

FISCAL POLICY STRATEGY STATEMENT

A. FISCAL POLICY OVERVIEW:

The fiscal stress of the State emanates from inadequacy of receipts in meeting the expenditure requirement. The low and declining tax and non tax receipts buoyancy from the Centre and constraints on internal resource mobilization due to losses made by Public Sector Undertakings resulted in the worsening of the State finances during the last decade. However, in recent years, the finances of the State have witnessed a noticeable improvement which is largely determined by the increased devolution of Taxes and Duties from the Centre.

2. The Fiscal Policy of the State is largely determined by the recommendations of the Finance Commission following the pattern witnessed for the Central Government. In accordance with the recommendations of the Twelfth Finance Commission, the State enacted the Mizoram Fiscal Responsibility and Budget Management Act, 2006. Under the Act, the Mizoram Fiscal Responsibility and Budget Management Rules, 2007 had been framed which came into force on 1st July, 2007. For achieving the Fiscal Management Targets as provided under the Act, a Fiscal Correction Path has been prepared with an objective to bring down the annual revenue deficits to zero by 2008-2009, thereafter generating surplus and to bring down the fiscal deficit to 3 percent of the estimated Gross Domestic Product by 2008-2009 which was later revised to 2014-

2015. The intended targets set by the Government of Mizoram could not be achieved due to various reasons. However, there have been a slight aggregate fiscal improvement which was revenue-led attributed to the improvement of transfer from the centre.

3. The Gross State Domestic product has been used as a proxy by the Commission for determining the fiscal capacity and to determine the fiscal reform path. The Thirteenth Finance Commission on giving a special consideration recommended that the Govt. of Mizoram will have to maintain Revenue Surplus from 2011-12 and limit its fiscal deficit to 3 per cent of its GSDP by 2014-15.

4. The State Finances have shown a considerable improvement during the Thirteenth Finance Commission award period demonstrating an impressive fiscal consolidation without compromising GSDP growth since 2009. The recommendation of the Thirteenth Finance Commission to reduce the fiscal deficit of the State to 3 percent of GSDP by 2014-15 could not be realized due to the bulging Revenue Expenditure. However, the fiscal deficit limit recommended by the Commission was eventually realized in 2015-16. A significant feat regarding the State finances is that the State did not take overdraft from RBI in the last 2 years with continued maintenance of fiscal deficit below 3 percent of the GSDP from 2015-16 onwards. There has also been a gradual decline in the ratio of debt stock as a percentage of GSDP attributable to the impressive growth of the State GSDP.

5. The Gross Domestic Product of the State has shown a gradual increase from ₹ 13373.83 crore in 2015-16 to ₹ 14549.00 crore in 2016-17 with an average annual growth rate of 8.79 per cent. The growth trend has improved with a projected growth rate of 20.71 per cent the following year witnessing an increase of ₹ 3012.60 crore in 2017-18 as per Budget Estimates. This projected growth is likely to increase during 2017-18 as per the revised projection of the Central Statistics Office with a projection of ₹ 23067.00 crore during the same year.

6. At an aggregate, the fiscal indicators of the State improved in the period 2004-05 to 2016-17. The practice of giving Central loans for State Plans was discontinued from 2005-2006. Henceforth, market borrowings have emerged as the major source of borrowings for the State.

B. FISCAL POLICY FOR 2018-19.

7. The 'Revised Roadmap for Fiscal Consolidation' provides direction and impetus for fiscal consolidation by providing State specific paths for fiscal consolidation. All the States were required to bring down their fiscal deficit below 3 per cent of GSDP by 2014-15. In line with the recommendations of the FC-XIII, the Mizoram Fiscal Responsibility and Budget Management Act, 2006 was enacted which has been amended from time to time as given below.

a) The Second Amendment Act, 2010 (Act No.13 of 2010) dated 19th October, 2010, sub-Section (2) of Section 6 of the Principal Act envisages to reduce fiscal deficit to three per cent of the estimated Gross State Domestic Product by 2014-15. Sub-section (4) of Section 6 of the Principal Act also envisages to reduce fiscal deficit annually at a percentage of Gross State Domestic Product so as to reach the above goal with the following rates of annual reduction:- 7.50 *per cent* in the base year 2010-11, 6.40 *per cent* in 2011-12, 5.20 *per cent* in 2012-13,4.10 *per cent* in 2013-14 and 3 *per cent* in 2014-15.

b) The Third Amendment Act, 2011 (Act No 4 of 2011) dated 29th March 2011 sub-Section (5) of Section 6 of the Principal Act envisages to reduce total outstanding debt at a percentage of Gross State Domestic Product so as to reach the annual target of 87.30 *per cent* in 2010-11, 85.70 *per cent* in 2011-12, 82.90 *per cent* in 2012-13, 79.20 *per cent* in 2013-14 and 74.80 *per cent* in 2014-15.

8. The Central Government plays a predominant role in fiscal management for the Union and the States. The higher debt burden of the States results in the enlargement of the Union Government debt therefore, the Union Government makes significant effort towards fiscal consolidation for maintaining a stable and sustainable fiscal environment. The fiscal consolidation path drawn up by the Fourteenth Finance Commission recommends limiting the fiscal deficit of the States. Salient features of the fiscal rules introduced by the Fourteenth Finance Commission are 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*

(1) Tax Policy:

9. Since the economy of Mizoram is chiefly agriculture-driven and non-industrial, it has a smaller tax revenue base than many other States. However, with the rising personal income and other allied factors, consumer market has grown proportionately in the last decade. In the context of this background, the State envisages higher revenue collection that will contribute to the strengthening of the State's economic condition. This is proposed to be achieved through widening of tax base coupled with effective resource mobilization.

10. The major fiscal reform in the form of the Goods and Services Tax (GST) was launched by the Central Government on 1st July, 2017. The GST is a single value added destination-based tax for the whole country which subsumed indirect taxes including central excise duty, services tax, additional customs duty, surcharges, VAT, etc levied by the Centre and State Governments. GST comprises

three components, namely Central Goods & Services Tax (CGST), Integrated Goods & Services Tax (IGST) and State Goods & Services Tax (SGST). The volume of tax collection declined to a great extent, however this is within the projected trend. The tax collection is projected to gain traction throughout the country during the first quarter of the financial year 2018-19.

11. To facilitate free flow of goods, Taxation Check-Gates were abolished across the country and inter State transactions have been settled through IGST which is subsequently refunded by the Centre to the concerned States. This has led to the decline in tax collection since the quantity and amount of the goods could not be ascertained. However, it has been perceived that the tax revenues generated will increase once matching invoices and e-Way bill under the new tax regime comes into full swing.

12. With the introduction of the nationwide tax reform, The Mizoram Goods & Services Tax Act & Rules, 2017 came into force. Since the GST subsumed all indirect taxes including VAT implemented by the State, The Mizoram Value Added Tax (Amendment) Act & Rules, 2017 was subsequently implemented for selective commodities. Though the intended target could not be realized by the States under SGST, the impact of transition to GST is minimized by the endeavor of the Centre to compensate the States for any revenue loss for a period of five years. The Government strides to improve the amount of tax collection under the new tax regime through comprehensive tax assessment, introduction of tax audit for minimization of tax evasion and by

ensuring that the dealers do not escape the tax net by remaining unregistered.

13. For the efficient administration of VAT and CST, a software called VATSoft, was formally launched on 8th December 2011. In keeping with the Department's efforts towards a streamlined and efficient e-governance system, it was the first time that an electronic tax portal is put into operation within the State. It offers services such as e-payment, e-registration, e-waybills, e-returns and e-CST. All these services can be availed at the Department's website http://zotax.nic.in**.** Since the introduction of GST in the State, VAT and CST have been subsumed by the new tax law. All goods and services apart from a few petroleum products and liquor come under GST. Therefore, the said software, VATSoft is currently used for the purpose of administering the selected commodities under VAT only.

14. The Mizoram Motor Vehicles Taxation (Amendment) Act, 2011 and the Mizoram Motor Vehicles (Taxation) Rules, 2016 have been implemented in the State from February, 2016 onwards. Under the Motor Vehicles (Taxation) Rules, 2016, 6 per cent of the original price of non-transport vehicles is collected thereby increasing the tax collection to a great extent. Improvement of collection of Taxes on account of motor vehicles and passengers & goods tax has also been taken up by introducing e-payment of Road Tax. Enhancing the human capital resource of officials involved and introducing waving of late fee for a certain period of time to the defaulter have resulted in the overall improvement of tax collection. Besides the above measures, lifetime payment of Road tax at one go and the

introduction of High Security Plate for vehicles have resultantly led to an increase in the revenue earnings of the State.

15. Digital India Land Record Modernization Programme (DILRMP) has been implemented by Land Revenue & Settlement Department under which 13 Local Councils have been surveyed with 32 Village Councils to be covered before July, 2018. Mapping, planning and plotting of vacant lands and allotment through payment of nominal price and digitization of land records including assessment and collection of land revenues and taxes is expected to pay dividends in the medium to long term. Amendments 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 is expected to be introduced during the next financial year. These amendments shall facilitate allotment and settlement of land in a fair, public participatory and transparent manner and shall reduce land disputes and litigation without affecting the tax payers.

16. The Directorate of Stamps and Registration, under the Land Revenue & Settlement Department deals with the administration, levy and collection of registration fee and stamp duty under the Registration Act, 1908 and the Indian Stamp Act, 1899 as applicable in Mizoram. With the proposed amendments in the Indian Stamp Act, 1899 as applicable in Mizoram supplemented by the proposed introduction of franking solution and computerization of Registration Offices, the Department is expected to earn more revenue in the form of Registration Fee and Stamp Duty.

17. In an effort to widen the tax base, The Mizoram Animal (Control & Taxation) Act, 2014 was introduced by the Government. Under this Act, Animal Tax has been collected by the respective Village Councils. Half of the collection goes to the village council fund and the other half is deposited to the Consolidated Fund of the State. Though the amount of tax realized is meager as compared to other taxes, this shows the endeavor of the Government towards generation of more revenues to augment the existing taxes levied by the State.

18. Laden by under-developed infrastructures, sparsely populated inhabitations and limited resources, Primary and Tertiary sectors continue to be the key drivers of the States GSDP. Unlike developed economies driven by secondary or manufacturing sectors, minimal collection of tax revenues has been a bane for small States like Mizoram. Nevertheless, the level of State's own tax collection has gradually increased from ₹ 358.41 crore during 2015-16 to ₹ 483.9 crore in 2017-18 with a growth rate of 35.01 per cent. However, the contribution of the State's own taxes as a percentage of the GSDP has gradually declined from 2.68 per cent in 2015-16 to 2.1 per cent in 2017-18.

(2) Expenditure Policy:

19. The most interesting aspect of expenditure pattern of the State Government is that expenditure for development purposes has not been compressed during the fiscal correction process. The total expenditure on Capital Accounts during 2017-18 is ₹ 2070.51 crore

which shows an increase of 127.18 per cent from the previous years capital expenditure of ₹ 911.41 crore. The percentage composition of Capital Expenditure as a ratio of the total revenue receipt is 23.13 per cent. The expenditure on Social and Economic Sectors has shown an increase of 27.41 per cent and 22.77 per cent respectively during 2017-18 which is a welcoming sight since the percentage increase is higher than the expenditure increase on General Services which is 15.48 per cent during the same year.

20. The monthly allocation of rice received by the State under National Food Security Act, 2013 is **5479.83 MT** from the Ministry of Consumer Affairs, Food & Public Distribution (MCoAFPD), Government of India which is exclusively for Antyodaya Anna Yojana (AAY) and Priority House Holds (PHH) beneficiaries. To cater to the requirements of Non-NFSA quota, the Government procures rice from other sources such as Economic Cost (FCI), Open Market Procurement (OMP) and Open Market Sales Scheme or OMSS(D) at a higher rate and sold to the beneficiaries at a subsidized rate. Since a separate budgetary allocation has not been drawn up to meet this subsidy thus putting a great pressure on the State Exchequer. The unrecovered expenditure on food trading alone has been costing the State Government crores of rupees each year. To minimize the losses, the Government has resorted to procurement of rice under OMSS(D) which resulted in reduction of Government spending on procurement of rice to the tune of ₹ 10.12 crore during the current year.

21. With the implementation of National Food Security Act (NFSA), 2013 from 1.3.2016, the quantity of rice received from Government

of India as Normal Allocation increased from 5221 MT to 5479.83 MT on a monthly basis while the cost of procurement of rice decreased from Rs. 3.46 crore to Rs. 2.51 crore on monthly basis. This implies that Government fund to the tune of ₹ 0.94 crore is saved per month.

22. There are five PSEs under Govt. of Mizoram, namely MIFCO, ZIDCO, ZENICS, MAMCO and ZOHANDCO. Govt. of Mizoram engaged PSE Restructuring Specialist to study these ever-loss making five PSEs. Based on the report submitted by PSE Restructuring Specialist, proposal for closure of the three PSEs namely ZENICS, MAMCO and ZOHANDCO and restructuring of ZIDCO was submitted and was approved by the Council of Ministers on 18th Feb. 2015. Privatization of MIFCO was also approved by the Council of Ministers on 7th April, 2016. As part of the PSEs Restructuring Programme, 'Mizoram State Public Sector Enterprises' Early Retirement Rules, 2015' were framed and offered to employees of all 5 PSEs. Another part of PSEs Restructuring Program is implementation of 'Special Scheme for appointment of employees of the closed PSEs under Govt. of Mizoram'. As per the Scheme, employees of the closed PSEs can opt for Government service into various posts by following the normal recruitment procedure except for written exam. All the recruitment processes, identification of suitable posts and vacancies in Departments and coordination with the respective appointing authorities etc. have to be carried out. The number of PSEs' employees appointed into various posts under Govt. of Mizoram as on 22.2.2018 is as follows- MAMCO = 13, ZOHANDCO = 17, ZENICS = 21 making a total of 51 appointments.

23. As per the recommendations of the Central Electricity Authority (CEA), fixation of electricity tariff of the State is placed under the purview of the Joint Electricity Regulatory Commission (JERC) and is to be revised on a yearly basis. The State Government submits proposal for enhancement of the power tariff to JERC which after approval by the same is effectuated from 1st April of every year. The steady increase in the sale of energy has greatly reduced the gap between the distribution cost and cost of actual purchase of power. This has resulted in the decline of expenditure towards power subsidies. Under the Restructured Accelerated Power Development and Reforms Programme (RAPDRP), strengthening and upgrading the sub-transmission and distribution system of high density load centers have been taken up to minimize the operation and transmission losses. Since almost 20% of the power acquired by the State dissipates on transmission losses, this programme is likely to minimize the expenditure incurred on procurement of power.

24. With the merger of plan and non-plan, expenditure has broadly been classified as Revenue Expenditure and Capital Expenditure, in line with the recognized medium-term expenditure framework. The total amount of fund for meeting the committed expenditure of the State such as salaries and wages, pension and interest payment has shown a significant increase from ₹ 2981.56 crore during 2016-17 to ₹ 3762.68 crore in 2017-18 which is an increase of 26.2 per cent. The committed expenditure of the State for 2016-17 and 2017-18 as a percentage of the total revenue receipts of the State is 40.30 per cent and 42.04 per cent respectively.

25. In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is crucial for the State to take appropriate expenditure rationalization measures thereby laying emphasis on provision of core public and merit goods. In the mean time, sufficient provisions for services that promote productivity directly or indirectly within the State by improving human resources have to be considered.

(3) Borrowings and Other Liabilities, Lending's and Investments:

26. In pursuance of the recommendation of the Twelfth Finance Commission, the State has adopted a rule-base framework for fiscal correction and consolidation through enactment of the Mizoram Fiscal Responsibility & Budget Management Act, 2006. The enactment of the FRBM Act has provided impetus to the process of attaining fiscal sustainability and reduction in key deficit indicators, viz. revenue deficit and gross fiscal deficit. This has been key for ensuring prudent debt management and greater transparency in the mean time being a pre-condition for availing debt relief.

27. The financing pattern of the State is witnessing a compositional shift with market borrowings emerging as the dominant source while the role of flows from national small savings funds has shown a gradual decline.

28. The overall fiscal liabilities of the State have increased at an average annual rate of 9.13 per cent during 2010-15 reaching ₹ 6407.30 crore in 2015-16. Within a span of two years, the overall liabilities have further risen to ₹ 7195.03 crore in 2017-18 (RE). The fiscal deficit of the State is ₹ 739.26 crore during the same year which is above the ceiling recommended by both the Mizoram Fiscal Responsibility & Budget Management Act and the Fourteenth Finance Commission at 3.20 per cent. The increase in the fiscal liabilities and the fiscal deficit during 2017-18 is mainly due to the surging increase in Public Accounts liabilities of the State.

29. The buoyancy of the liabilities of the State with respect to GSDP during 2015-16 was 47.91 per cent, and, with respect to revenue receipts it was 0.96 per cent. Though there has been a gradual increase in the accumulation of the overall liabilities of the State, the burgeoning growth of the Gross Domestic Product of the State has shielded the rising debt stock. The total liabilities of the State is expected to reach ₹ 7887.04 crore during 2018-19. However, the debt as a percentage of the GSDP of the State has dwindled to 31.19 per cent as per the GSDP projection of the Central Statistics Office. However, it remains as high as 0.86 per cent of the total revenue collection for 2018-19. The fiscal liabilities as a percentage of the State's own revenues is as high as 97.71 per cent for 2018-19.

30. The net borrowing ceiling at 3 per cent of the GSDP is ₹ 692 crore for the financial year as per recommendations of the Fourteenth Finance Commission. It is imperative that the fiscal space be cautiously utilized so that the overall liabilities of the State

is maintained within a sustainable level. With an aim to minimize the debt accumulation, the Government has to take utmost care in utilization of the borrowed funds while leaving sufficient room for Capital Investments.

(4) Consolidated Sinking Fund

31. In line with the recommendations of the Tenth Finance Commission, the Reserve Bank of India enabled creation of Consolidated Sinking Fund (CSF) in 1999 to provide the State with a cushion for repayment of open market loans. The States were to contribute one to three per cent of their outstanding open market loans as at the end of the previous year. Subsequently the ambit of the CSF was expanded in 2006-07 to include amortization of all liabilities wth the stipulated contribution of minimum 0.5 per cent of the outstanding liabilities of the State as at the end of the previous financial year. The Government builds up a sizeable amount in the Consolidated Sinking Fund accumulating as Reserve Fund of the State's Public Account.

32. The outstanding balance as on 31st March, 2017 has increased to ₹ 233.04 crore. The principal amount to be invested during 2017-18 is ₹ 40.00 crore which is much close to 1 per cent of the accumulated debt. The accumulated principal investment has increased to ₹ 273.04 crore by the end of 2017-18. The State Government is committed to strengthening of the Consolidated Sinking Fund (CFS) by gradually increasing the quantum of investment in the same.

(5) Contingent and Other Liabilities:

33. The Twelfth Finance Commission recommended that all States should set up sinking funds/guaranteed redemption fund for amortization of all loan including loans from banks, liabilities on account of NSSF, etc through earmarked guarantee fees. In line with the recommendations of the Twelfth Finance Commission and to ensure good fiscal governance, the Government has set up a Guarantee Redemption Fund (GRF) in May, 2009 with an initial corpus fund of ₹ 0.50 crore. The State Government is required to contribute an amount equivalent to at least $1/5^{th}$ of the outstanding guarantees during the year. This fund is maintained outside the consolidated fund of the State in the public account and is not to be used for any other purpose, except for redemption of loans. The maximum amount of guarantees of the State at present is ₹ 293.94 crore. A total of ₹ 30.00 crore was added during 2016-17 which raised the outstanding guarantees to ₹ 1.02 crore which was ₹ 0.72 crore at the beginning of 2016-17. A total of ₹ 0.19 crore was invoked during 2016-17 thereby leaving an outstanding of ₹ 0.83 crore.

34. Since Guarantees are contingent liabilities that may have to be invoked if an event covered by the guarantee occurs, it results in increase of contingent liabilities. It is imperative that a conscious policy of restricting the size of the contingent liabilities be put into place while pursuing a policy for streamlining the process of handling contingent liabilities in the State's finances. Therefore, a proposal for loan has to be examined with much diligence taking into account, the credit-worthiness, the amount and risks, the terms of the borrowing along with the justification and public

purpose to be served and the possible commitments and costs of such liabilities, etc.

(6) Levy of User Charges:

35. 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. Though several reforms have been introduced to enhance the user charges of Government services, the level of impact on the overall collection of revenue is still insignificant.

36. The Mizoram Water Supplies (Control) (Amendment) Rules, 2011 effectuated from 21st November, 2014 have to a great extent resulted in increased revenue collection. However, revenue generated through other means such as levy of allotment fees, annual lease fees, etc has infinitesimal impact on the overall collection of user charges. Power tariff remains to be the main driving force with regular revision of rates by the JERC. Initiatives have to be taken by the Government to cut down subsidies provided to the public so as to maintain a balance between expenditure and the amount of user charges realized by the Government for providing these facilities.

C. STRATEGIC PRIORITIES FOR THE ENSUING YEAR:

37. In order to streamline the procedure of local purchase of stationery, the Department has introduced new guidelines for registration of firms with effect from publication in the Mizoram

Gazette Extraordinary on 30.01.2018. The basic guidelines laid down brief procedure for registration of firms for supply of good quality common user items of stationery, which are in demand on recurring basis to various government departments. The new guidelines aim at registering technically capable, financially sound and reliable firms to supply stationery and allied items usually required by government departments. It is expected that introduction of the new guidelines will increase revenue collection to a considerable extent.

38. End-to-End Computerization of TDPS Operations Schemes has been taken up under Food Civil Supplies & Consumer Affairs Department. All family ration cards have now been digitized and the process of updating and issuing of ration cards are done online with a reliable database. Online allocation of foodstuff (rice) is on the verge of being completed. Steps are being actively taken to complete supply chain automation and Fair Price Shop automation. In this regard, the Department is geared up to roll-out installation of e-Point of Sale (e-PoS) machines in the Fair Price Shops for which DPR has been submitted to the Government. In this regard, the Ministry of Food & Civil Supplies has been approached for inter-state cooperation with the Government of Tripura for effective implementation of the Scheme.

39. The Government has decided to implement the Integrated Financial Management Information System (IFMIS), also known as Treasury Computerization. The main objective of the IFMIS Project is to develop and introduce a reliable integrated system for treasury management in Mizoram including an effective monitoring system

from Finance Department. MIS Consultant has already been appointed for the implementation of Integrated Financial Management Information System (IFMIS) in Mizoram. IFMIS is expected to realize the following outcomes:

- ✓ A reformed financial management system in Mizoram for the core business processes like – Payroll, Bill Preparation and Submission, Bill Processing, Pension Management, Payment Authorization, Receipts Management, Accounts Compilation, Cash Management, Debt Management, Budget Management, Deposits, and so on.
- ✓ Availability of real-time data of the core business processes under the State's finance and accounts.
- ✓ Reliable and authentic system of checks and balances.
- ✓ Integration of GSTN portal and PFMS etcetera with the IFMIS.

40. The Mizoram Liquor (Control & Prohibition) Act, 2014 has been implemented in the State w.e.f from 15th January, 2015. The implementation of this Act has shown a positive impact on the overall collection of revenues. Collection of revenues under the concerned Department has increased more than 10 folds from 4.91 crore during 2014-16 to 60.60 crore during the first year of its implementation. The revenue generated has progressively increase over the years thereby leaving some fiscal space for taking up development works.

41. During 2017-18, Baseline Survey of Sustainable Development Goals (SDG) was implemented under NEDP. Information on various socio-economic aspects is collected with an aim to define and incorporate these data in the database with a range of information that can be used for planning and further development at all levels.

42. The ever increasing Medical Reimbursement Bill brings about a great deal of headache for the State Government with the piling up of huge unpaid bills. The State Government has appointed the Mizoram State Health Care Society (MSHCS) to scrutinize medical bills of all the employees from 1st April, 2018 onwards. This bold step is contemplated to pare down the medical bills to a great extent, which will save a huge amount of public money for the State Exchequer.

43. It has been the constant desire of the Government to generate more revenues to finance the critical development gaps of the State and to improve the overall health of the State finances. The Government has been taking viable measures for tapping more revenue potential without causing undue burden to the general public and thereby increasing capital investment in a sustainable manner.

D. POLICY EVALUATION:

44. After the twin shocks of Demonetization and the GST or the Goods and Services Tax, the economy of the Country seems to have recovered and regained momentum underpinned by robust private consumption and public investment as well as on-going structural reforms. It must also be kept in mind that Demonetization and GST are structural reforms which take time to bear fruit. Also, the fact that there is scope for reforms on the land, labor, and capital markets means that with enough political will, there can be sustained growth in 2018.

45. It is a well known fact that the resources of the State are limited contributing only a small portion of the total revenue of the State. The revenues collected from the State's Own Tax and Non-Tax Revenues have to be sensibly mobilized to reap the maximum benefit. It is imperative that the Revenues collected from the State's Own Tax and Non-Tax Revenues be increased by improving the tax base and institution of effective revenue collection mechanism. There is an urgent need to improve supervision and proper monitoring at all levels and conditional allocation of project funds subjected to proper monitoring and evaluation.

46. The overall fiscal liabilities of the State have progressively increased over the years. The Government has to take necessary measures for containing the overall debt of the State within a sustainable level. Though the burgeoning liabilities are masked by the impressive growth of the State's economy, the Gross fiscal liabilities could not be contained to a level recommended by the State FRBM and the FC-XIV. Widening of the resource gap also indicates depreciation of the State to sustain the debt from non-debt receipts in the medium to long run. It is therefore imperative that a suitable mechanism for containing the Fiscal and overall liabilities of the State is introduced to avoid further depreciation of the fiscal health of the State.

E. RATIONALE FOR POLICY CHANGES:

47. There are no striking policy changes that have been implemented by the State during 2017-18 as such. However,

proactive measures have been taken up by the Government to limit its expenditures while generating additional revenues for improving the fiscal health of the State. In line with the recommendation of the Fourteenth Finance Commission, the State has endeavored to limit its fiscal deficit to less than three percent and reduce the outstanding liabilities to achieve a sustainable level. Furthermore, the Budget of the State has been prepared to generate revenue surplus as per recommendation of the Commission. 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. Expenditure toward capital accounts and maintenance expenditure on social and economic services need to be sanctioned, since they are vital for sustainable development of the State with a potential of generating revenues in the medium to long run. However, expenditure on general services has to be curtailed extensively to create more space for development expenditures.

48. The excessive focus on containing fiscal deficits and reduction of Debt to GSDP ratio has to some extent resulted in constraining capital expenditures. A realistic fiscal consolidation roadmap to reduce the fiscal deficit of the State all the while leaving sufficient headroom for capital works has to be realized.

49. 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 may be implemented by the State except those CSS which have

strategic importance for the general public. The Government has taken up this initiative to minimize the financial burden spawned by the demand for State Matching Share which resulted in high fiscal deficits and corresponding piling up of liabilities as experienced in the past.

50. The Outcome Indicators of the State's Own Fiscal Correction Path is given in Form-II (b). Selected fiscal indicators, Component of States Government Liabilities and Weighted Average Rates On State Government Liabilities, Consolidated Sinking Fund and Outstanding Risk – Weighted Guarantees as per Forms D-1, D-2, D-3, D-4 and D-5 are appended.

FORM II (b)

Annexure - II

State : Mizoram

Outcome indicators of the State's Own Fiscal Correction Path

(Rupees in Crore)

	Items	*2015-16 (Actuals)*	*2016-17 (Actuals)*	*2017-18 (BE)*	*2017-18 (RE)*	*2018-19 (BE)*	*2019-20 (Proj.)*
A	**STATE REVENUE ACCOUNT :**						
1	Own Tax Revenue	358.41	441.81	397.71	483.90	483.34	522.01
2	Own Non-Tax Revenue	297.63	365.21	296.93	317.38	323.85	349.76
3	***Own Tax+Non Tax Revenue (1+2)***	***656.04***	***807.02***	***694.64***	***801.28***	***807.19***	***871.77***
4	Share in Central Taxes & Duties	2348.11	2800.63	3107.26	3097.04	3625.32	4769.00
5	Plan Grants	1481.88	1434.27	1874.61	2554.89	1833.41	1980.08
6	Non-Plan Grants	2190.37	2356.38	2496.80	2496.80	2643.51	2854.99
7	***Total Central Transfer (4 to 6)***	***6020.36***	***6591.28***	***7478.67***	***8148.73***	***8102.24***	***9604.07***
8	***Total Revenue Receipts (3+7)***	***6676.40***	***7398.30***	***8173.31***	***8950.01***	***8909.43***	***10475.84***
9	Plan Expenditure	1947.86	2152.22	-	-	-	-
10	Non-Plan Expenditure	3622.99	4078.12	-	-	-	
	of which						
11	Salary Expenditure	1783.57	1878.90	-	-	-	-
12	Pension	616.30	761.40	-	-	-	-
13	Interest Payments	368.83	341.26	-	-	-	-
14	CSS Expenditure	-	-	1231.83	1644.22	1256.27	1356.77
15	State Expenditure	-	-	5154.38	5954.66	5923.35	6397.22
	of which						
	a) Salary Expenditure	-	-	2488.13	2532.99	2576.37	2782.48
	b) Pension	-	-	846.66	846.83	900.00	972.00
	c) Interest Payment	-	-	379.06	382.86	389.08	420.21
16	Subsidies - General						
17	Subsidies - Power						
18	***Total Revenue Expenditure (9+10+14+15)***	***5570.85***	***6230.34***	***6386.21***	***7598.88***	***7179.62***	***7753.99***
19	Sal+Interest+Pensions (11+12+13+15(a)+15(b)+15(c))	2768.70	2981.56	3713.85	3762.68	3865.45	4174.69
20	as % of Revenue Receipts (19/8)	41.47	40.30	45.44	42.04	43.39	39.85
21	***Revenue Surplus/Deficit (8 -18)***	**1105.55**	**1167.96**	**1787.10**	**1351.13**	**1729.81**	**2721.85**

(Rupees in Crore)

	Items	2015-16 (Actuals)	2016-17 (Actuals)	2017-18 (BE)	2017-18 (RE)	2018-19 (BE)	2019-20 (Proj.)
B	**CONSOLIDATED DEBT :**						
1	Outstanding debt and liability	6407.39	6725.02	7177.99	7195.03	7887.04	8123.65
2	Total Outstanding guarantee	71.85	82.89	103.61	103.61	106.72	106.72
	[of which guarantees on account of budgeted borrowing and SPV borrowing]						
C	**CAPITAL ACCOUNT :**						
1	Capital Outlay	710.97	911.41	1907.88	2070.51	1983.38	2142.05
2	Disbursement of Loans and Advances	7.13	27.05	51.00	52.72	45.40	49.03
3	Recovery of Loans and Advances	25.84	22.45	32.84	32.84	35.47	38.31
4	Other Capital Receipts						
5	Transfer to Contingency Fund						
D	**GROSS FISCAL DEFICIT :**	413.29	251.95	-138.94	-739.26	-263.50	569.08
	$[(A_8+C_3+C_4)-(A_{16}+C_1+C_2+C_5)]$						
E	**GSDP (Rs. crs.) at current prices**	13373.83	14549.00	17561.60	23067.00	23067.00	23067.00
	Actual/Assumed Growth Rate (%)	7.00	8.79	20.71	31.35	0.00	0.00
F	**INDICATORS AS % OF GSDP**						
1	Own Tax Revenue (A1/E)	2.68	3.04	2.26	2.10	2.10	2.26
2	Own Non-Tax Revenue (A2/E)	2.23	2.51	1.69	1.38	1.40	1.52
3	Total Central Transfer (A7/E)	45.02	45.30	42.59	35.33	35.12	41.64
4	Total Revenue Expenditure (A18/E)	41.65	42.82	36.36	32.94	31.13	33.62
5	Revenue Surplus/Deficit (A21/E)	8.27	8.03	10.18	5.86	7.50	11.80
6	Gross Fiscal Deficit *	3.09	1.73	-0.79	-3.20	-1.14	2.47
7	Outstanding Debt and Liabilities (B1/E)	47.91	46.22	40.87	31.19	34.19	35.22

FORM D - 1

(See Rule 9)

SELECT FISCAL INDICATORS

	Items	2016-17 (Actuals)	2017-18 (RE)
1	Gross Fiscal Deficit as Percentage of GSDP	1.73	-3.20
2	Revenue Deficit (-)/Surplus (+) as Percentage of GSDP	8.03	5.86
3	Revenue Deficit (-)/Surplus (+) as Percentage of TRR	15.79	15.10
4	Total Liabilities - GSDP Ratio (%)	46.22	31.19
5	Total Liabilities - Total Revenue Receipts (%)	90.90	80.39
6	Total Liabilities - State's Own Revenue Receipts (%)	833.32	897.95
7	State's Own Revenue Receipts - Revenue Expenditure (%)	12.95	10.54
8	Capital Outlay as Percentage of Gross Fiscal Deficit	361.74	-280.08
9	Interest Payment as Percentage of Revenue Receipts	4.61	4.27
10	Salary Expenditure as Percentage of Total Revenue Receipts	25.40	28.30
11	Pension Expenditures as Percentage of Total Revenue Receipts	10.29	9.46
12	Non-Developmental Expenditure as Percentage of Aggregate Disbursement	28.69	25.08
13	Gross Transfer from the Centre as Percentage of Aggregate Disbursement	88.10	80.03
14	Non-Tax Revenue as Percentage of Total Revenue Receipts	4.94	3.55

FORM D - 2
(See Rule 9)

A. COMPONENTS OF STATE GOVERNMENT LIABILITIES

(₹ in crore)

Category	Raised during the Fiscal Year		Repayment/Redemption during the Fiscal Year		Outstanding Amount (End-March)	
	2016-17 (Actuals)	2017-18 (RE)	2016-17 (Actuals)	2017-18 (RE)	2016-17 (Actuals)	2017-18 (RE)
1	2	3	4	5	6	7
Market Borrowings	**671.96**	**424.00**	**204.61**	**146.86**	**2,073.25**	**2,326.39**
(a) Market Loans	*671.96*	*424.00*	*204.61*	*146.86*	*2,070.97*	*2,324.11*
(b) Power Bonds	-	-	-	-	*2.28*	*2.28*
Loans from Centre	**6.84**	**29.24**	**20.97**	**25.00**	**217.66**	**228.34**
(a) Block Loans	*6.84*	*29.24*	*20.97*	*25.00*	*217.66*	*228.34*
(b) Other Loans	-	-	-	-	-	-
Special Securities issued to the NSSF	**-**	**-**	**14.33**	**9.67**	**218.87**	*209.20*
Borrowings from Financial Institutions/Banks	**76.72**	**164.79**	**73.01**	**96.18**	**265.32**	**330.38**
(a) LIC	-	-	*23.67*	*23.30*	*-28.51*	*-51.81*
(b) NABARD	*62.47*	*150.00*	*44.11*	*42.88*	*239.65*	*346.77*
(c) NCDC	*14.25*	*11.24*	*1.61*	*1.50*	*31.65*	*41.39*
(d) Other Institutions	-	*3.55*	*3.62*	*28.50*	-	-
1) REC	-	*3.55*	3.62	*28.50*	-	-
2) HUDCO	-	-	-	-	-	-
3) PFC	-	-	-	-	-	-
(e) Others	-	-	-	-	*22.53*	*-5.97*
WMA/OD from RBI	**-**	**0.03**	**-**	**0.03**	**-17.51**	**-17.51**
Provident Funds, etc.	**837.21**	**766.00**	**774.46**	**664.00**	**2,921.34**	**3,023.34**
(a) General Provident Fund	*820.94*	*750.00*	*759.01*	*650.00*	*2,839.80*	*2,939.80*
(b) Insurance & Pen. Fund	*16.27*	*16.00*	*15.45*	*14.00*	*81.54*	*83.54*
Other Liabilities	**739.70**	**365.00**	**927.42**	**316.20**	**1,046.09**	**1,094.89**
TOTAL	**2,332.43**	**1,749.06**	**2,014.80**	**1,257.94**	**6,725.02**	**7,195.03**

B. WEIGHTED AVERAGE INTEREST RATES ON STATE GOVERNMENT LIABILITIES

(Percent)

Category	Raised during the Fiscal Year		Outstanding Amount (End-March)	
	2016-17 (Actuals)	2017-18 (RE)	2016-17 (Actuals)	2017-18 (RE)
Market Borrowings				
(a) Market Loans	7.63	7.45	7.63	7.45
(b) Compensatory and other Bonds				
Loans from Centre	9.00	9.00	9.00	9.00
Special Securities issued to the NSSF	-	-	-	-
Borrowings from Financial Instt./Banks				
(a) LIC	-	-	-	-
(b) NABARD	5.88	4.88	5.88	4.88
(c) REC				
(d) PFC	-	-	-	-
(e) NCDC	11.60	11.60	11.60	11.60
WMA/OD from RBI				
Provident Funds, etc.	8.70	8.10	8.70	8.10
Other Liabilities				
TOTAL	**7.14**	**6.84**	**6.12**	**8.21**

FORM D-3
(See Rule 9)

CONSOLIDATED SINKING FUND (CSF)

(Amount in Rs. crore)

Outstanding Balance in CSF at the begining of the previous year 1st April, 2016	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, 2017	Col (4)/ Outstan-ding stock of SLR Borrowings (%)	Additions during the current year 2017-18	Withdrawals from CSF during the current year	Outstanding balance in CSF at the end of current year/beginning of ensuing year Tentative 31st March, 2018	Col. (S) Outstanding stock of SLR Borrowings (%)
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
201.74	31.30	-	233.04	9.65	40.00	-	273.04	-

FORM D-4

(See Rule 9)

GUARANTEES GIVEN BY THE GOVERNMENT

Category	Maximum Amount Guaranteed (Rs. In crore)	Outstanding at the begining of the year 2016-17 (Rs. in crore)	Additions during the year 2016-17 (Rs. in crore)	Reductions during the year 2015-16 (Rs. in crore)	Invoked during the year 2016-17 (Rs. Crore)		Outstanding at the end of the year 2016-17 (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	33.36	-	-	17.88	-	15.48			
Govt. Companies	59.93	15.93	-	-	-	-	15.93			
Other Statutory Corporation	59.13	17.36	-	-	0.97	-	16.38			
Other Institutions	25.60	5.20	30.00	-	0.10	-	35.10			
TOTAL	**293.94**	**71.85**	**30.00**	**-**	**18.95**	**-**	**82.89**	**-**		

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 Liabilitities	100		
High Risk	65		
Medium Risk	55		
Low Risk	25		
Very Low Risk	5		

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