Medium Term Fiscal Plan for Sikkim: 2017-18 to 2019-20

1. Introduction – Fiscal Policy Overview

The Government has made efforts to smoothen the fiscal stress faced by the State after the changes in the fiscal transfer system post 14^{th} Finance Commission recommendations. The fiscal challenges faced by the State in last two years necessitated modifications in the financing pattern based on the changes in resource transfers by the Central Government. The share of Sikkim in the divisible pool of Central taxes has been raised to 0.367 per cent as compared to the share of 0.239 recommended by the 13^{th} FC. The increase in State's and rise in the divisible pool of Central taxes from 32 to 42 percent due to the recommendations of the FFC has resulted in higher tax devolution to the State. However, rise in tax devolution subsumed many grants to the State and overall Central transfer was declined last year. However, the State Government is committed to improve the provision of the public services and protect the spending on priority sectors while being prudent in fiscal management. This has been made amply clear while increasing availability of the funds to the priority sectors.

The Sikkim Fiscal Responsibility and Budget Management Act of 2010 (FRBM Act) provides the benchmark for fiscal management in the State. The FRBM Act was enacted in the State with the objective of providing fiscal stability and conducting the fiscal policy in a sustainable manner to reduce the deficit and stabilize the debt burden. It is expected that a rule based fiscal policy will establish long run fiscal sustainability improving the credibility of the Government policy and focus on spending to build social and physical infrastructure. Given that the State has a limited base to generate resources internally and the provision of public services in a difficult hilly terrain is costly, the Government needs to calibrate it fiscal policy and spending pattern with a restraint provided through the fiscal rules.

The State Government, over the years, managed to adhere to the fiscal targets, while adopting a development oriented fiscal policy. The overall fiscal management in terms of budget decisions and implementation has remained within the boundary set in the fiscal rules. The fiscal adjustment path for Sikkim recommended by the Thirteenth

Finance Commission (TFC) with targeted fiscal deficit to ensure sustainable level of debt ended at 2014-15. The FRBM Act of the State took into account the recommendations made by the 14th Finance Commission starting from the fiscal year 2015-16.The FFC recommended certain changes in the fiscal consolidation process to provide flexibility in the fiscal management of the State. The State Government has brought amendments this fiscal to the State FRBM Act reflecting these recommendations.

While the State Government is eligible to avail the facility of higher fiscal deficit to the extent of 0.5 percent beyond the existing stipulation of 3 percent of GSDP as recommended by the 14th Finance Commission (FFC), the deficit has been kept below the 3 percent mark. The FFC, while recommending anchoring the fiscal deficit at an annual limit of 3 percent, provided flexibility to the State to be eligible for up to 0.5 percent, 0.25 percent separately, for any given year satisfying certain conditions. The State can avail these two additional limits to the fiscal deficit by achieving a debt-GSDP ratio of 25 percent or less than it and an interest payment below or equal to 10 percent of the revenue receipts in the previous year. The State will be able to avail the additional limit if there is no revenue deficit in the year in which borrowing limits are to be fixed and the immediately preceding year. The flexibility in terms of enhanced limit to the fiscal deficit with conditions which increases the borrowing limit of the State will be useful to expanding the infrastructure.

The FRBM Act stipulates presenting a medium term fiscal plan (MTFP) along with the budget in the State legislative assembly. The objective of presenting an MTFP is to give the detailed fiscal stance of the Government as envisioned in the budget in a transparent manner. The MTFP 2017-18, as required by the FRBM Act presents the medium term fiscal objectives, strategic priorities in resource allocation, and fiscal policies in conformity with the fiscal management principles enunciated in the Act. It gives the projected fiscal targets in the ensuing budget year, 2017-18, and two outward years. It reviews the macroeconomic and fiscal performance of Sikkim for the period from 2004-05 to 2017-18. The MTFP, while drawing out the fiscal plan, provides the assumptions with regard to the revenue augmentation and expenditure restructuring parameters arrived at based on the data covering the period from 2004-05 to 2017-18

(BE) and taking into consideration the policy announcements relating to revenue augmentation measures and expenditure priorities in various sectors.

The development oriented fiscal management over the years helped the State Government achieving socio-economic development and an inclusive growth process. Creating an enabling environment for different sections of the society, different tribal groups, women, and young people to participate in economic activities and contribute to the development of the State has remained as major objectives of the Government. Achievement of social sector commitments constitutes an important element of resource allocation decisions in the context of rule based fiscal policy that restricts incurring deficit and borrowing to a sustainable level. The Gross State Domestic Product (GSDP) at constant prices recorded a healthy growth rate of 6.51 percent in 2015-16. The per capita income of the state, which was Rs.30727 in 2004-05, has increased substantially to Rs.259950 in 2015-16 at current prices. The major socio-economic indicators for the State show commendable improvement. The poverty ratio has declined to 8.19 per cent as compared to all India average of 21.92 per cent in 2011-12. The literacy rate at 81.40 per cent in 2011-12 is significant achievement. The IMR has gone down to 24 per 1000 in 2011 as compared to the all India average of 44.

The rest of the report is organized as follows. The Section 2 provides an analysis of the recent macroeconomic trend of the State. The fiscal policy overview, tax, expenditure, and borrowing policies for the ensuing year and the priorities in the medium term are presented in Section 3. This section is based on the template provided in the Form F-1 of the Medium Term Fiscal Policy as per the Sikkim FRBM Act, Rule 3. In Section 4, Medium Term Fiscal Plan containing the projection of fiscal variables and assumptions underlying the projections has been given. This follows the Form F 2 of Sikkim FRBM Act, Rule 3. The concluding remarks are contained in section 5. The disclosures, following the Medium Term Fiscal Policy as per the Sikkim FRBM Act Rule 3 and Rule 4, are given in the Section called Disclosures.

2. Macroeconomic Outlook

The CSO has now provided the new series of GSDP data for the State from 2011-12 to 2015-16. For all projection purposes, the method suggested by the FFC has been adopted to update the GSDP. The State GSDP, during 2014-15 and 2015-16, grew consistently at a reasonable rate of 6.34 and 6.51 per cent respectively (Table 1).

The composition of the State GSDP shows that service sector contributes about one third of the GSDP and the manufacturing sector continues to be the mainstay of the State economy. The agriculture sector contributes about 7 to 8 of the GSDP. The share of the service sector seems to be growing in the economy. The relative share of industry sector has been mostly driven by manufacturing, construction and power sectors.

Table 1
Composition of GSDP (Constant Prices)

(Per cent)

Item	2011-12	2012-13	2013-14	2014-15	2015-16
Agriculture, forestry and fishing	8.28	8.42	8.30	7.88	7.62
Mining and quarrying	0.07	0.08	0.09	0.09	0.10
Primary	8.35	8.50	8.39	7.97	7.71
Manufacturing	39.54	38.96	40.06	38.39	37.93
Electricity, gas, water supply & other utility services	17.13	15.47	14.10	14.94	14.96
Construction	6.16	5.70	5.71	5.69	5.66
Secondary	62.83	60.13	59.87	59.03	58.56
Trade, repair, hotels and restaurants	2.89	4.60	5.23	4.91	5.07
Transport, storage etc	2.60	3.05	3.22	3.24	3.44
Financial services	1.52	1.56	1.57	1.55	1.53
Real estate, ownership of dwelling & professional services	5.36	5.38	5.31	5.22	5.11
Public administration	6.80	7.21	7.19	8.36	8.82
Other services	9.66	9.57	9.22	9.72	9.76
Tertiary	28.82	31.37	31.73	33.00	33.73
TOTAL GSVA	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Growth of GSDP		2.29	6.07	6.34	6.51

Source: CSO, Government of India .

The manufacturing and construction sectors remained as major contributors to the growth of the State economy. The high growth in these sectors seen in past years, for instance in 2009-10 marked a clear shift in the growth path of the GSDP as the growth rate in this year jumped to a high of 73.6 per cent (89.9 per cent in current prices). The impressive growth of power sector was basically driven by generation of hydroelectricity in newly commissioned power projects. The manufacturing sector showed very high growth due to higher production in pharmaceutical industries and strengthening of small-scale industries. The manufacturing sector constitutes 37 to 40 percent of the State GSDP during 2011-12 to 2015-16. The initial burst in the growth of power and manufacturing sectors has stabilized in recent years. However, this established a strong base for the GSDP in Sikkim.

The 14th Finance Commission, based on the comparable GSDP figures prepared by the CSO specifically for the use of the Commission, assumed a growth of 28.05 per cent for the year 2014-15 and 24.32 per cent for the period of 2015-16 to 2019-20 for Sikkim at current prices. This growth rate was used in the projection of revenue receipts and expenditure of the State for the assessment of State finances during the award period of the Commission. The high growth rate assumed by the 14th Finance Commission implies a higher nominal amount of GSDP in the award period of the Commission and a higher level of projected nominal revenue receipts. The Finance Commission, however, recommended using the average growth rate of the GSDP of the past three years to arrive at the borrowing ceilings of the State. The MTFP uses the same methodology to arrive at the GSDP figures for the Budget year and the two outward years.

Although, the manufacturing, power and construction sectors emerged as major driving force for the Sikkimese economy, its impact on State finances, particularly on revenue generation has not been very productive. The State economy is usually assumed to provide base for the revenue. However, the pattern of growth in the State in recent years suggests that the sectors growing rapidly and contributing to growth process have not contributed to tax revenue to the same extent. This was not due to any weakness in the tax policy or tax administration of the State. The generation of hydroelectricity, though adds to the GSDP numbers, remain outside the State tax system. Similarly, the pharmaceutical industries send their products out of the State through consignment transfer, which is not captured in the VAT. Thus, it may not be possible for the State Government to achieve the revenue receipt projected by the 14th Finance Commission in their assessment for the period from 2015-16 to 2019-20.

3. Fiscal Profile of the State

3.1 The Changing Fiscal Architecture and Its Impact on Sikkim

The budget for the year 2017-18 was the third budget after the FFC gave its recommendations on devolution of resources to the States. Despite the rise in share of Sikkim in tax devolution, aggregate transfers to the State declined in 2015-16 relative to GSDP due to sharp decline in grants. While the revised figures show some rise in the grants, it has once again declined in the 2017-18 budget. The loss of assured source of block grants has created fiscal stress for the State and it seems unlikely that the increased tax devolution would compensate for this.

The FFC increased tax devolution to the State from 32 per cent to 42 per cent to provide higher flexibility in the use of enhanced level of untied fund. As the FFC relied on tax devolution to cover the assessed revenue expenditure needs of the States, it took a holistic view of the revenue expenditure needs of States without Plan and Non-Plan distinction. The FFC departed from past practice by not awarding specific-purpose grants. These grants, according to the Commission, were small to make any impact and crate confusion where large Plan schemes already exist, and were left to the Centre and the states acting cooperatively for those needs. The only grants awarded by the Commission were disaster relief grants and grants for local bodies. The Commission was required by their terms of reference to recommend grants for these two purposes. The commission steered clear of both the Plan/Non-Plan distinction and that between special-category and other states.

Consequent upon the enhancement of share of the states in the central divisible pool from the current 32 percent to 42 percent which is the biggest ever increase in vertical tax devolution, Central Assistance to State Plan has been restructured. The Central Government has discontinued the normal central assistance (NCA), special plan assistance (SPA), special central assistance (SCA), and the additional central assistance (ACA). The Central Government also delinked eight centrally sponsored schemes (CSS) from funding and brought about substantial changes in the funding pattern of some other schemes.

The FFC transfer to the State also depends on the resource mobilization by the Central Government. While the FFC recommended Rs.2129 crores as share in Central Taxes to Sikkim, the Union budget for 2015-16 provided Rs.1929 crores only. The actual flow however, was much less at Rs.1870 crores. This implies a gap of Rs.259 crores, which is expected to grow in the future years unless the Central taxes increases considerably. While the revised estimated for the State shows tax devolution of Rs.2233 crores, the budget projection puts it on higher level at Rs.2478 crores. Once again this will depend upon the predictability of the Central taxes. Decline in Central Grants and the gap in actual flow of tax devolution to that of the budget projection makes it very difficult to provide funds to the infrastructure projects started earlier based on the fund flow mechanism existing under the then Planning Commission and the Finance Commission.

3.2 Fiscal Policy Overview

The rule based fiscal management adopted with the introduction of FRBM Act in 2010-11, limits the deficit and debt levels to an already agreed upon fiscal path. Since the adoption of the FBM Act, the State managed to adhere to the fiscal targets stipulated in the Act. The State has maintained revenue surplus, reduced the deficit to stipulated limit, and reduced the debt burden considerably complying with the FRBM Act (Table 2). The revenue surplus continues to be reasonably good, which is budgeted at 3.51 percent in 2017-18. The revenue surplus depends upon the central grants as the own revenue has remained in recent years. The fiscal deficit was reduced considerably from 4.27 per cent relative to GSDP in 2010-11 and is projected to at 2.79 per cent in the budget estimates for the year 2017-18. Despite the fiscal stress, the State Government has remained on the path of the fiscal consolidation and continues to allocate resources to the priority areas. The MTFP projects to maintain the fiscal consolidation process in the two outward years and improve resource availability to social and economic sectors.

The FFC after reviewing the fiscal restructuring path recommended by the 13th FC (TFC) suggested some flexibility in the fiscal targets, particularly the fiscal deficit. The FFC also suggested amending the FRBM Act to reflect these changes. The fiscal trend indicates that the State Government complied with the FFC recommendations and its own FRBM targets. While the fiscal deficit was 0.38 percent of the GSDP in

2013-14, it has increased to 2.98 percent in 2016-17 (RE). The State, considering the flexibility provided by the FFC increased the capital spending so that the fiscal deficit remains at allowed limit of 3.25 percent. However, the fiscal deficit in the ensuing budget remains below 3 percent of the GSDP.

Table 2

Fiscal Profile of Sikkim: An Overview

(Percent to GSDP)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 (RE)	2017-18 (BE)
Revenues	**25.72**	**26.65**	**28.09**	**26.88**	**22.75**	**28.26**	**26.22**
Own Revenue	4.82	5.98	6.40	5.60	5.89	5.57	5.40
Own Tax Revenues	2.63	3.53	3.79	3.47	3.41	3.42	3.30
Own Non-Tax Revenues	2.19	2.45	2.61	2.13	2.48	2.15	2.10
Central Transfers	**20.91**	**20.67**	**21.69**	**21.28**	**16.86**	**22.69**	**20.83**
Tax Devolution	5.48	5.66	5.50	5.32	11.24	12.15	12.20
Grants	15.43	15.01	16.19	15.96	5.62	10.54	8.63
Revenue Expenditure	**21.76**	**20.32**	**21.82**	**22.07**	**21.91**	**24.68**	**22.72**
Interest Payment	1.71	1.61	1.60	1.58	1.58	1.77	1.82
Pension	1.56	1.82	1.88	2.19	2.42	2.62	2.67
Capital Expenditure	**5.96**	**6.86**	**6.65**	**6.62**	**3.96**	**6.56**	**6.30**
Capital Outlay	5.52	6.83	6.58	6.45	3.81	6.47	6.22
Net Lending	0.44	0.03	0.07	0.17	0.15	0.09	0.08
Revenue Deficit	**-3.96**	**-6.33**	**-6.27**	**-4.81**	**-0.84**	**-3.59**	**-3.51**
Fiscal Deficit	**1.99**	**0.53**	**0.38**	**1.81**	**3.13**	**2.98**	**2.79**
Primary Deficit	**0.28**	**-1.08**	**-1.21**	**0.24**	**1.55**	**1.21**	**0.97**
Outstanding Debt	**22.86**	**22.35**	**22.14**	**22.89**	**23.81**	**24.52**	**24.95**

Source (Basic Data): Finance Accounts and State Budget 2016-17
Note: The GSDP figures are from CSO and projected following the methodology suggested by the FFC.
Negative sign indicates revenue surplus

The budget classification has undergone changes in this fiscal to reflect the Central Government’s decision to remove plan and non-plan distinction. Removal of plan and non-plan distinction was expected to improve budget planning by giving a holistic picture of spending requirement for the programmes. The removal leaves only revenue and capital distinction expenditure classification.

3.3 Revenue Mobilization

The Central transfers, taking both the tax devolution and grants, constitute major share of total revenue receipts of the State. On an average the central transfers constitutes little more than there fourths of the total State revenues. The relative share of central transfers in total revenue receipts of the State has steadily increased from 72.05 per cent in 2008-09 to 74.11 per cent in 2015-16, the last year for which audited figures are available. As percentage to GSDP, the Central transfers have declined due to major decline in grants component. Central transfer is projected to be 20.83 per cent and own tax and own non–tax revenue are expected to be 3.3 and 2.1 per cent of GSDP respectively as per the BE of 2017-18.

The own revenue receipts was Rs.851.32 croers in 2014-15, which was projected to grow to Rs.1095.97 croers in 2017-18. Both the own tax and non-tax revenue show rise in nominal terms. Despite increase in nominal terms, the own revenue receipt show a decline relative to GSDP. The own revenue GSDP ratio has gone down from 5.89 percent in 2015-16 to 5.40 percent in 2017-18 BE. Both the components of the own revenue, the own tax and own on-tax revenue show similar trend. However, the total revenue a receipt of the State shows a rise as percentage to the GSDP from 22.75 per cent in 2015-16 to 26.22 percent in 2017-18 BE due to expected rise in Central transfers. A disaggregated analysis of revenue performance of the state is undertaken to determine the revenue prospects while preparing the MTFP aligned with the provisions of FRBM act of Sikkim.

Table 3
Composition of Own Tax Revenue

(Per cent)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 (RE)	2017-18 (BE)
Own Tax Revenues	100	100	100	100	100	100	100
Sales Tax	42.3	52.1	54.5	53.5	57.5	57.4	58.0
State Excise Duties	32.8	25.5	23.0	24.9	25.1	23.4	23.2
Motor Vehicle Tax	5.6	3.8	3.5	3.7	3.9	3.8	4.3
Stamp Duty and Registration Fees	2.8	1.2	1.2	1.3	1.5	1.2	1.2
Other Taxes	16.5	17.3	17.7	16.7	12.0	14.2	13.4

Composition of own tax revenue given in Table 3 shows that the sales tax/VAT and State excise are two major sources of own tax revenue for the State. The relative share of the VAT was at 57.5 per cent in 2015-16, the last year for which audited figures are available and it is set to increase to 58 percent in 2017-18 (BE). The relative share of State excise in total own revenue was at 25.1 percent in 2015-16 and is projected to fall to 23.2 percent in 2017-18 BE. During the same time the relative share of motor vehicle tax shows an increase.

The State taxes of Sikkim have remained less buoyant due to the pattern of growth where the sectors growing rapidly and contributing to growth process have not contributed to tax revenues. The buoyancy coefficients for the State taxes during the period 2004-05 to 2017-18 given in Table 4 reveal that the growth of taxes has fallen behind the growth of the GSDP. The investment and the value of the production in the sectors like electricity and pharmaceutical, though contributed to the growth of GSDP, has not improved the revenue base. The pharmaceutical send their product outside the State in the form of stock transfers, which do not attract central sales tax. The growth process, however, is expected to provide impetus to rise in trade and business activities and thus higher tax collection in the future years. The MTFP after calibrating the growth potential of the GSDP and other tax measures announced in BE 2017-18 makes suitable adjustment in tax buoyancies for projection of tax revenues in the medium term.

Table 4
Buoyancy of Taxes: 2004-05 to 2017-18

Own Tax Revenues	0.617
Sales Tax	0.746
State Excise Duties	0.666
Motor Vehicle Tax	0.746
Stamp Duty and Registration Fees	0.533
Other Taxes	1.225

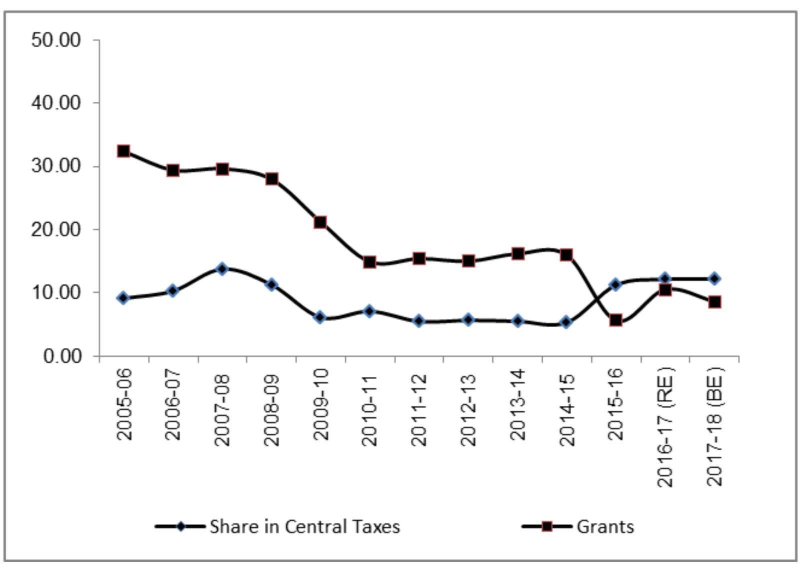
Source (Basic Data): Finance Accounts and State Budget 2017-18

The own non-tax revenue, an important source of revenue for the State, was Rs.412.99 crores to in 2015-16, which is budgeted to rise to Rs.426.46 crores in 2017-18. Howver, its share in own revenue of the State has been declining in recent years. The share of non-tax revenue in own revenues has gone down from 42.15 percent in 2015-16 to 38.91 percent in 2017-18 budget. Income from State lottery, power sector, road transport, and interest receipts has been the main source of non-tax revenue The decline in income from lottery has adversely affected the non-tax revenue. The hydro power projects being constructed in the State are expected to make significant contribution in the coming years also. The Government had rationalized the power tariff by raising it by 16 % in 2012-13, which helped in improving the income from this source. The share of road transport in own non-tax revenue has been growing over the years. The income from forestry and wild life has remained as steady source revenue for the State.

Major changes have happened in Central transfers since 2015-16 after the FFC recommendations and these changes have affected the State adversely. The share in Central taxes, which was at 5.32 percent to GSDP in 2014-15, has increased to 11.24 per cent in 2015-16 and is expected to rise further to 12.20 percent in 2017-18 BE. This was due to higher devolution recommended by the FFC (Figure 1). However, at the same time the grants amount has suffered a major decline from 15.96 percent in 2014-15 to 8.63 percent in 2017-18 (BE). While FFC refrained from making any state specific grants, as was the case for the TFC, the Central Government subsumed the block grants in the tax devolution. In nominal terms, while share in Central taxes has increased from Rs.809.32 crores in 2014-15 to Rs.2477.78 crores in 2017-18 (BE), the grants amount has declined from Rs.2426.99 crores to Rs.1752.56 crores.

Figure 1

Central Transfers as Percentage of GSDP



3.4 Expenditure Profile

The Government of Sikkim has successfully controlled the revenue expenditure as percentage to GSDP. This has helped the State to increase the revenue surplus and expand the capital expenditure. The priority sectors in social and economic services were traditionally given emphasis in resource allocation. The State Government has initiated several schemes in education and health to improve overall social and human infrastructure in the State. The expenditure pattern presented in Table 5 reflects these trends over the years. The revenue expenditure, which was at 21.76 per cent relative to GSDP in 2011-12, remained more or less at same level in in 25-16. The budget projection raised it to 22.72 percent in 2017-18. The level of expenditure on social and economic services was protected during this period.

Table 5
Expenditure Profile

(Per cent to GSDP)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 (RE)	2017-18 (BE)
Revenue Expenditure	**21.76**	**20.32**	**21.82**	**22.07**	**21.91**	**24.68**	**22.72**
General Services	**6.74**	**7.14**	**7.47**	**7.98**	**7.48**	**8.21**	**8.13**
Interest Payment	1.71	1.61	1.60	1.58	1.58	1.77	1.82
Pension	1.56	1.82	1.88	2.19	2.42	2.62	2.67
Other	3.47	3.70	3.99	4.22	3.48	3.82	3.63
Social Services	**9.24**	**7.68**	**9.21**	**8.41**	**7.43**	**9.00**	**7.60**
Education	4.25	4.17	4.55	4.68	4.54	4.88	4.59
Medical and Public Health	1.02	1.02	1.04	1.20	1.06	1.27	1.15
Other Social Services	3.97	2.49	3.62	3.07	2.09	3.62	2.04
Economic Services	**5.50**	**5.32**	**4.89**	**5.40**	**6.77**	**7.15**	**6.66**
Assignment to LBs	0.28	0.19	0.26	0.28	0.23	0.32	0.33
Capital Outlay	**5.96**	**6.86**	**6.65**	**6.62**	**3.96**	**6.56**	**6.30**

Source (Basic Data): Finance Accounts and State Budget 2017-18

The improvement in fiscal situation in earlier years in the State provided the opportunity to reinforce the core development strategy of building the social and physical infrastructure. The capital expenditure, which had slowed down in 2015-16 relative to the GSDP, seems to have revived since then. The capital expenditure as percent to GSDP declined from 5.96 percent in 2011-12 to 3.96 percent in 2015-16. However, it has revived since then and is budget at 6.30 percent in 2017-18. Based on the projected revenue receipts and expenditure, the capital expenditure limit was determined within the overall stipulation of the requirements for achieving sustainable level of debt and deficit as stipulated in the FRBM fiscal targets. The MTFP is prepared based on the rationale of restructuring the government spending by emphasizing the critical areas.

The composition of capital expenditure shows that sectors like water supply and sanitation, transport, energy and tourism have been the focus areas. The education and health sectors also have attracted relatively higher capital expenditure (Table 6). Rise in allocation from the NEC, NLCPR and NABARD funded projects for road and other infrastructure projects raised the capital expenditure. The expansion of road and other infrastructure base also required higher level of land compensation. The TFC recommended grants for several projects in tourism sector, which fuelled the capital expenditure. The MTFP made provisions for many of the ongoing projects and the new projects announced in the budget.

Table 6
Composition of Capital Expenditure

(Per Cent)

	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17 (RE)**	**2017-18 (BE)**
Capital Expenditure	**100**	**100**	**100**	**100**	**100**	**100**	**100**
General Services	**4.1**	**9.9**	**18.6**	**11.2**	**10.1**	**8.4**	**9.4**
Social Services	**45.0**	**34.6**	**29.2**	**27.5**	**31.7**	**37.6**	**38.9**
Education	10.2	7.4	5.5	3.2	2.9	6.1	5.0
Health	15.8	12.0	10.2	6.3	10.4	6.6	10.2
Water supply, Sanitation, Housing & Urban Development	18.5	15.0	12.2	17.5	8.9	15.1	12.4
Information, Publicity & Broadcasting	0.2	0.1	0.0	0.2	0.0	0.0	0.0
Welfare of SC/STBC	0.2	0.1	0.2	0.1	0.6	2.1	2.6
Social Security	0.0	0.0	1.1	0.2	1.7	0.3	1.0
Economic Services	**50.9**	**55.5**	**52.2**	**61.3**	**58.2**	**54.1**	**51.7**
Agriculture	2.8	1.1	1.4	1.2	1.0	2.6	1.3
Rural Development	5.8	2.4	2.1	1.6	0.0	0.9	0.4
Special Areas Programmes	2.9	2.1	1.3	2.3	3.9	3.2	3.0
Irrigation	0.5	0.8	0.4	0.4	0.2	0.9	0.3
Energy	6.1	5.2	7.3	3.3	5.9	9.3	9.4
Industries and Minerals	0.3	0.5	0.5	0.7	0.1	0.2	0.1
Transport	23.1	37.5	32.4	24.5	33.2	32.4	29.2
Science & Technology	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Tourism	9.3	5.9	6.9	27.2	13.9	4.4	7.7

Source (Basic Data): Finance Accounts and State Budget 2017-18

3.5 Outstanding Debt and Government Guarantee

Maintaining the debt burden of the State at sustainable level remains one of the major objectives of the fiscal management of the State as reflected in the FRBM Act. The TFC in their revised fiscal roadmap have worked out the yearly outstanding debt burden for all the states aligning with the fiscal path. The debt-GSDP ratio in the State has been reduced considerably, which is projected to be 24.95 per cent in 2017-18 BE. The decline in the average cost of debt of the state because of the debt restructuring formula of the Twelfth Finance Commission has helped to lowering the debt burden. Decline in the average cost of debt will result in reduction in the volume of interest payments and availability of higher fiscal space for the state government. The interest payment has remained below 2 percent of the GSDP.

Table 7
Composition of Debt and Liabilities

(Per Cent)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 (RE)	2017-18 (BE)
A. Public Debt	**72.56**	**71.71**	**71.22**	**72.11**	**74.96**	**78.32**	**81.00**
Internal Debt	66.41	66.31	67.08	68.63	72.08	75.58	78.75
Loans from the Central Govt.	6.15	5.40	4.14	3.48	2.88	2.74	2.25
B. Other Liabilities	**27.44**	**28.29**	**28.78**	**27.89**	**25.04**	**21.68**	**19.00**
Small Savings, PF etc.	22.67	22.63	22.34	20.40	18.88	16.73	15.22
Reserve Fund	0.72	0.48	1.67	3.52	2.13	1.42	0.62
Deposits	4.05	5.18	4.76	3.97	4.04	3.53	3.16
Total Liabilities	**100**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source (Basic Data): Finance Accounts and State Budget 2016-17

The composition of stock of public debt given in Table 7 reveals that the share of Central Government loans to the State has been reduced considerably. As compared to a relative share of about 6.15 per cent in 2011-12, the Central loan accounts for 2.88 in 2015-16. Following the recommendations of the 12th Finance Commission the Central Government loans to the States has been reduced significantly. The dependence of the State Government on the market borrowing has increased over the years. The share of market borrowing has increased from about 62.41 per cent in 2011-12 to 74.96 per cent in 2015-16. The overall borrowing in a year, however, remains within the limit fixed by the Central Government. This is determined after having consultation with the State Government on the aggregate plan size for the State. The rise in the relative share of the market borrowing reflects the strength of the fiscal situation of the State.

Guarantees given by the State Government

As per the Sikkim Government Guarantee Act, 2000, the ceiling on total outstanding government guarantee in a year is restricted to three times of the State's tax revenue receipts of the second preceding year. The outstanding sum guaranteed by the State government on 31st March 2016 was Rs.89.80 crore (Finance Accounts – 2015-16), which is below the permissible limit.

3.6 Government Policy for the Ensuing Budget Year

Despite the decline in grants, which affected the aggregate resource position of the State, the Government has emphasized on the continuing programmes in social and economic sectors in the budget for the year 2017-18. The continuing programmes and programmes introduced in the last year's budget will receive sufficient resources to realize their full potential. The social sector continues to be one of the topmost priorities of the Government. In the ensuing focus has been given to housing and sanitation, transport, rural roads, urban infrastructure, health facilities and infrastructure, education, organic farming, eco-tourism, sustainable forest management and so on.

4. Medium Term Fiscal Plan: 2016-17 to 2018-19

4.1 Fiscal Indicators

Table 8 ***(follows Form F2 of the Act)***
Fiscal Indicators-Rolling Targets

		Previous Year (Y-2) Actuals	Current Year (Y-1) Revised Estimates	Ensuing Year (Y) Budget Estimates	Targets for Year (Y+1	Targets for Year Y+2)
		2015-16	2016-17 (RE)	2017-18 (BE)	2018-19	2019-20
1	Revenue deficit as percentage of GSDP	-0.84	-3.59	-3.51	-3.00	-2.50
2	Fiscal deficit as percentage to GSDP	3.13	2.98	2.79	2.50	2.50
3	Primary deficit as percentage of GSDP	1.55	1.21	0.97	0.65	0.64
4	Total Debt Stock as Percentage of GSDP	23.81	24.52	24.95	25.08	25.20

Notes: 1. GSDP is the Gross Domestic Product at current prices as per the 2011-12 base
2. The negative sign in revenue deficit indicates surplus.

The fiscal outcomes in the form of indicators like fiscal deficit, revenue deficit, and outstanding liabilities for previous year, current year, ensuing budget year and two outward years are presented in Table 8. The Table follows the template given by the Sikkim FRBM Act rules as Form F-2. The fiscal outcomes of the year 2015-16, for which audited figures are available, show that the State Government has adhered to the fiscal targets under the Act. The revised estimate for the year 2016-17 shows that the fiscal deficit remained below the limit of 3 percent. While the Government has the option of increasing the fiscal deficit beyond the 3 percent limit following the recommendation of the FFC, the fiscal deficit was budgeted at 2.79 percent in 2017-18. The Government managed to generate revenue surplus all along. The projections for the budget year, 201718, and for two outward years, which give a medium term perspective to the fiscal stance, is aligned with the FRBM Act. The MTFP projection from 2017-18 to 2019-20 conforms to the recommendations of the FFC to anchor the fiscal deficit to 3 per cent of GSDP.

The MTFP 2017-18 presents the fiscal outlook of the State Government for the ensuing budget year and two outward years. The detailed projection of fiscal variables presented in Table 9 shows that the revenue account surplus has been maintained during the MTFP period and the fiscal deficit has been stabilized below 3 per cent relative to the GSDP. The revenue expenditure has been allowed to grow during the MTFP period to provide sufficient funding to the existing and new programmes. This has resulted in some decline in revenue surplus. The MTFP strives to fulfill the objective of the fiscal management in the State to achieve better results from the application of funds. While GSDP is assumed to grow at 10.49 percent, following the methodology proposed by the FFC, the total revenue receipt grow at about 14 percent. The loss of block grants has pulled down the aggregate revenue receipts. The outstanding liabilities increases marginally from 24.95 percent in 2017-18 BE to 25.20 percent in 2019-20. However, it is expected that better fiscal management during the year will reduce the borrowing requirement and the debt-GSDP ratio will remain within 25 percent.

Table 9
Medium Term Fiscal Plan: 2016-17 to 2018-19

(Per cent to GSDP)

	2017-18 (BE)	2018-19	2019-20
Revenue Receipts	**26.22**	**27.11**	**28.05**
Own Tax Revenues	**3.30**	**3.32**	**3.35**
Income Tax	0.00	0.00	0.00
Sales Tax	1.91	1.93	1.95
State Excise Duties	0.76	0.76	0.76
Motor Vehicle Tax	0.14	0.14	0.14
Stamp Duty and Registration Fees	0.04	0.04	0.04
Other Taxes	0.44	0.45	0.46
Own Non-Tax Revenues	**2.10**	**2.19**	**2.27**
Central Transfers	**20.83**	**21.60**	**22.43**
Tax Share	12.20	13.03	13.91
Grants	8.63	8.57	8.51
Revenue Expenditure	**22.72**	**24.11**	**25.55**
General Services	**8.13**	**8.31**	**8.50**
Interest Payment	1.82	1.85	1.86
Pension	2.67	3.05	3.48
Other General Services	3.63	3.41	3.15
Social Services	**7.60**	**7.90**	**8.20**
Education	4.59	4.80	5.02
Medical and Public Health	1.15	1.19	1.23
Other Social Services	2.04	1.91	1.96
Economic Services	**6.66**	**7.90**	**8.85**
Compensation and Assignment to LBs	**0.33**	**0.33**	**0.33**
Capital Expenditure	**6.30**	**5.50**	**5.00**
Capital Outlay	6.22	5.43	4.93
Net Lending	0.08	0.07	0.07
Revenue Deficit	**-3.51**	**-3.00**	**-2.50**
Fiscal Deficit	**2.79**	**2.50**	**2.50**
Primary Deficit	**0.97**	**0.65**	**0.64**
Outstanding Debt	**24.95**	**25.08**	**25.20**

Notes: 1. GSDP is the Gross Domestic Product at current prices as per the 2011-12 base
2. The negative sign in revenue deficit indicates surplus.

There has been substantial growth in revenue receipts and allocations to various sectors in nominal terms. While revenue receipts increases from Rs.5326 crores to Rs.6956 crores in the medium term, the revenue expenditure rises from Rs.4613 crores to Rs.6336 crores. The provision for capital outlay has increased from Rs.1264 crores to Rs.1223 croers during MTFP period. The decline in capital outlay relative to the GSDP reflects realistic estimates given the fact that the plan transfers from Centre has gone down. Despite pressure on revenue receipts and competing demands, the focus on investments in infrastructure will remain a key factor in fiscal policy of the Government.

4.2 Assumption Underlying the Fiscal Indicators

The MTFP 2017-18 is prepared taking into consideration the provisions made in the FRBM Act of the State and conforms to the recommendations made by the FFC regarding fiscal consolidation. Despite the decline in Central grants to the State during 2016-17, the State adhered to the FRBM Act fiscal targets. The budget for the year 2017-18 shows the same commitment to adhere to the fiscal targets. While the budget projects a fiscal deficit of 2.79 percent relative to GSDP, the MTFP projects to reduce it further in 2018-19 and 2019-20. This is not going to reduce the availability of funds to the programmes. The MTFP provides the fiscal perspective of the State Government by emphasizing priority sectors to help the development process.

The MTFP followed the methodology prescribed by the FFC to project GSDP in the medium term (see Box 1). This methodology was used by the Ministry of Finance, GoI, to determine the borrowing ceiling for Sikkim. For the years 2018-19 and 2019-20, the MTFP uses the growth rate of 10.49, which was used for the budget projections the year 2017-18.

The components of the own tax revenue of the State was projected separately to arrive at aggregate own tax revenue. The total own revenue of the State was derived after projecting the State taxes and non-tax revenue in a disaggregated manner. The State taxes were projected using a buoyancy based growth rate assuming that the growth in the economy would help improving the tax base. The buoyancy coefficients for the period 2004-05 to 2017-18 indicate that the growth rate of the State taxes remained below the growth rate of the GSDP. The prescriptive buoyancies for individual taxes like sales tax, excise duty, motor vehicle tax, stamps and registration duties have been increased keeping in mind the scope for improvement in these taxes. While average growth rate of own taxes was 6.34 percent during 2014-05 to 2017-18, the growth rate assumed during the MTFP period was 10.38 percent. The ongoing initiatives of the Government to adopt major e-governance programmes in the tax departments by introducing online registration, e-filling of returns and electronic control and evaluation is expected to improve the tax collection. For other taxes, the observed buoyancy for the period between 2004-05 and 2017-18 was taken as prescriptive buoyancies.

The own non-tax revenue is projected in the MTFP by assigning a higher growth rate as compared to the average of the observed annual growth rate for the period from 2004-05 to 2017-18. In the case of central transfers, the recommendations of the FFC are factored in during the projection period. For the share in central taxes budgetary figure for the year 2017-16 is allowed to grow at the rate observed since last year, as the devolution regime has changed based on the FFC recommendations. The grants were projected using the observed growth rate.

4.3 Expenditure Restructuring under MTFP

Although, there is a resource problem in the State despite the rise in tax devolution, the revenue expenditure was allowed to grow as percentage to the GSDP to provide required funding to the priority sectors. Higher availability of resources in future years will be helpful in further enhancing the expenditure. As the revenue expenditure has been growing in nominal terms, the growth was required to be controlled given the availability of resources. It is expected that effective programme management and implementation of the projects in a timely manner will help achieving the value for money.

During the MTFP period, the revenue expenditure increases from 22.72 percent relative to GSDP to 25.61 percent. The increase is more due to a subdued growth of GSDP at the rate of 10.49 percent, assumed during the MTFP period following the FFC methodology. The amount of money available to priority sectors will continue to rise. The MTFP proposes to continue with this resource allocation approach and provide higher level of funding to priority sectors. The social sector expenditure increases from Rs.1544 croers in 2017-18 BE to Rs.2034 croers in 2019-20. The social and economic services rise relative to GSDP.

The capital outlay has been reduced during the MTFP period as compared to the the 2017-18 BE. Given the decline in plan transfers from the Central Government there was a need for a realistic projection for the capital outlay. As the fiscal deficit is stabilized below 3 per cent to GSDP, a rise in revenue surplus will add to the capital outlay. The MTFP keeps the requirements of infrastructural development in the State while projecting the capital expenditure.

4.4 Debt and Deficit under MTFP

The MTFP keeps the fiscal deficit below 3 percent of GSDP and revenue surplus at 2.50 percent given that the revenue expenditure was allowed to grow (Table 9). Despite rise in revenue expenditure, the fiscal stance of the Government remains favourable. The emerged fiscal profile shows that the outstanding debt increases marginally from 24.98 percent to 25.20 percent during the MTFP period. This level of debt remains marginally higher than debt level suggested by the FFC to avail the enhanced fiscal deficit limit. Additional revenue mobilization and economy in expenditure will reduce the borrowing requirement during the year and bring it back below the 25 percent mark.

Box 1
Proposed MTFP Targets

Macro Parameters

- Nominal Growth of GSDP was assumed to be 10.49 percent following the methodology prescribed by the FFC.

Revenue Resources

- Sales tax assumes a buoyancy of 1.25 as against the observed buoyancy of 0.746, which gives a prescriptive growth rate of 13 percent
- The state excise duty assumes a buoyancy of 1 as against the observed buoyancy of 0.666.
- The stamp duty and registration fees assumes a buoyancy of 0.800
- Motor Vehicle tax assumes a buoyancy of 1.00
- Other taxes assumes a buoyancy of 1.225, which was the observed buoyancy.

Expenditure Projections

- Pension payments are projected on the basis of the historical growth rates for pension payments for the period from 2004-05 to 2016-17. The observed growth of pension during this period was 26 per cent.
- The interest payments have been estimated on the basis of the effective rate of interest calculated by dividing the value of interest payment during 2017-18 by the stock of debt of the previous year.
- The growth rates in the area of high priority development expenditure in social services and within that, in health and education, are assumed to continue during the MTFP period.
- Social services expenditures will grow at the rate of 15 per cent per annum.
- Education expenditure will grow at the rate of 15 per cent per annum
- Health expenditure will grow at the rate of 14 per cent per annum.
- Capital expenditure to GSDP ratio is expected to decline from increase from 6.30 per cent in 2017-18 (BE) to 5.00 per cent in 2019-20.

Deficit and Debt targets

- The MTFP projects the revenue surplus to reach 2.5 percent of GSDP during the MTFP period.
- The fiscal deficit is projected to remain below 3 per cent level relative to the GSDP
- The outstanding debt to GSDP ratio rises marginally from 24.95 per cent in 2017 - 18 to 25.20 percent in the terminal year of the MTFP.

5. Summary Assessment

The State of Sikkim continues to face fiscal stress for the third year in a row after the fiscal architecture involving the fiscal federal arrangements have changed following the FFC recommendations. As the Central transfers constitute a large portion of the State's budget, the loss of some of assured source of revenue from plan grants has created difficulties in resource allocation in the State. The MTFP projected to allocate adequate resources to the existing and new programmes within the available resource availability. The growth in resource allocation, particularly in the priority sectors in social and economic services has been adequate. The guarded projection of capital outlay to decline relative to the GSDP has added increased responsibility on the State Government to generate higher revenue and continue with the traditional policy of emphasizing social and infrastructure sectors.

Despite the pressure on resources, the MTFP indicates a stable and growth oriented fiscal policy for Sikkim. The rise in production of electricity and growth of the manufacturing sector influenced the economic growth of the State in recent years. The fiscal policy has to create an enabling environment for further growth and socio-economic progress. The resource allocation in the medium term with realistically declining the capital expenditure and enhancing the resource availability for social and economic sector spending supports the development process. The economy needs better infrastructure and human development to make progress. The State Government has initiated several schemes in the social and economic sectors in recent years. Despite the problem of cost disability, the State is committed to improving the service delivery spanning over the social and economic sector.

The MTFP safeguards the fiscal consolidation process and provides adequate resources to existing schemes in priority areas. The FFC recommended anchoring fiscal deficit to 3 per cent of the GSDP. A marginal rise in the debt stock relative to the

GSDP was inevitable. It is expected that with the improvement in economy and efficiency in the fiscal management debt-GSDP target will stabilize.

While projecting State taxes, the MTFP assumed higher buoyancy to augment resources, which will be achievable in the medium term. The modernization of tax administration and efforts to improve the tax base is expected to improve the revenue receipts.

It was observed that there has been some uncertainty in the flow of share in Central taxes. The tax devolution to the State varies depending upon the collection of Central taxes as the Finance Commission recommends a share in the divisible pool. In the year 2015-16, against a budgeted amount of Rs.1924 crores, which was also less than what the FFC projected, the transfer to the State was only Rs.1870 crores. This level unpredictability affects State finances adversely. The expenditure side restructuring in the MTFP was based on the realties regarding the resource availability and priorities expressed Government's policies, and new schemes announced in the budget.

A realistic projection of capital expenditure will be instrumental in strengthening the financial management in the infrastructure sector. The State Government will be able to enhance the level of capital expenditure with the improvement in resource position. What is important is to develop a policy to focus more on productive capital expenditure. The debt burden of the State remains marginally higher than the limit suggested by the FFC to gain from the flexibility clause regarding the fiscal deficit. The State Government has amended its FRBM Act in 2016-17 to avail the facility of increasing the borrowing limit and consequently the fiscal deficit by 0.25 present separately based on the FFC recommendations. Despite the scope to expand the deficit level, the Government chose to remain below the 3 percent mark. The MTFP projections continue the same policy.

Disclosures

Form D-1

(*See* Rule 4)

Select Fiscal Indicators

Sl. No.	Item	Previous Year 2014-15 (Actuals)	Current Year 2015-16 (RE)
1	Gross Fiscal Deficit as Percentage to GSDP	3.13	2.98
2	Revenue Deficit as Percentage of GSDP	-0.84	-3.59
3	Revenue Deficit as Percentage of Gross Fiscal Deficit	-26.9	-120.6
4	Revenue deficit as Percentage of TRR	-3.69	-12.70
5	Debt Stock as Percentage of GSDP	23.81	24.52
6	Total Liabilities as Percentage to GSDP	23.81	24.52
7	Capital Outlay as Percentage of Gross Fiscal Deficit	121.94	217.53
8	Interest Payment as Percentage of TRR	6.93	6.26
9	Salary Expenditure as Percentage of TRR	44.08	35.22
10	Pension Exp. As Percentage of TRR	10.63	9.26
11	Non-development Expenditure as Percentage of Aggregate Disbursements	30.57	28.10
12	Non-tax Revenue as Percentage of TRR	10.91	7.62

The negative sign in revenue deficit indicates surplus.

Form D-2

(*See* Rule 4)

Components of State Government Liabilities

Rs. Crore

Category	Raised during the fiscal year		Repayment during the fiscal year		Outstanding Amount (End March)	
	Previous Year (Actuals)	Current year (RE)	Previous Year (Actuals)	Current year (RE)	Previous Year (Actuals)	Current year (RE)
Internal Debt	652.05	804.29	186.16	237.13	2855.65	3422.81
Loan from Centre	2.8	0.07	9.97	10.11	113.93	124.04
State Provident Funds	277.87	345.26	240.21	335.40	747.83	757.69
Reserve Funds	138.00	115.50	176.36	135.50	84.22	64.22
Deposits	2017.79	920.12	1996.15	920.12	160.01	160.01
Other Liabilities						

Form D-3

(*See* Rule 4)

Guarantees Given by the Government (Rs. Crore)

Sl.No	Name of the Institution to which Guarantees is given	Maximum Guarantee given	Remarks.
1	State Finance Corporation	131.70	
2	Other Institutions	25.20	
	Total	156.90	

Form D-4

(*See* Rule 4)

Number of Employees in Public Sector Undertakings & Aided Institutions and Expenditure of State Government

Sl.No	**Sector Name**	**Total Employees as on 31.01.2016**	**Related Expenditure Rs. Crore**	
			On Salary	On Pension
A(a)	Regular government Employees	35354	1752.85	
(b)	Work Charged	1670	99.75	
(c)	Muster Roll	14128		
(d)	Others	17729		
(e)	Pensioners	10147		418.10
	Total	79028	1852.60	418.10
B	Public Sector Undertakings & Aided Institutions			
	Grand Total	**79020**	**1852.60**	**418.10**

Source: Employees and Pension Data for No. of Employees and pensioners
Budget Division, FRED for salary
Data PSU employees was not available readily for 2016-17