GOVERNMENT OF SIKKIM
FINANCE, REVENUE AND EXPENDITURE DEPARTMENT
GANGTOK

Medium Terms Fiscal Plan for Sikkim: 2019-20 to 2021-22

As presented before the Sikkim Legislative Assembly as required under sub section (1) of section 3 of the Sikkim Fiscal Responsibility and Budget Management Act. 2010 (15 of 2010)

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1. Introduction – Fiscal Policy Overview

The fiscal management in Sikkim revolves around the benchmarks provided by the Sikkim Fiscal Responsibility and Budget Management Act of 2010 (FRBM Act). The Act stipulates to prepare the medium term fiscal policy statements and place it along with the budget. These statements contain macroeconomic perspective, fiscal strategy, medium term fiscal plan, and stipulated information on fiscal management. The statements explain the fiscal strategy adopted by the Government for the budget year and subsequently in the medium term.

The State Government has been able to achieve the major objectives of the FRBM Act. The 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. The rule based fiscal policy helped the State Government to come out of the fiscal imbalance and establish long run fiscal sustainability. This has improved the credibility of the Government policy and facilitated focusing on building social and physical infrastructure. As 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 its fiscal policy and spending pattern with a restraint provided by the fiscal rules.

The State of Sikkim had to address several challenges, after the 14th FC (FFC) gave its recommendations relating to devolution of funds. The rise in tax devolution could not compensate the loss of plan grants under block grants. The Government has been making efforts to smoothen the fiscal stress faced by the State. The State made necessary modifications in the financing pattern for the ongoing and proposed programs based on the expectations relating to the resource transfers. 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 13th FC. The increase in State's share and rise in the divisible pool of Central taxes from 32 to 42 percent 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. The State

Government has shown its commitment to improve the provision of the public services and protect the spending on priority sectors.

The State Government has established an overarching consensus at both political level and policymakers to abide by the restrictions put by the FRBM Act. The State continues to comply with the fiscal targets enunciated in the FRBM Act. The fiscal targets did not restrict the Government to maintain 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 and the flexibility offered by the FFC. 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 14^{th} FC (FFC) 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 to the State FRBM Act reflecting these recommendations.

The FFC recommend to anchor the fiscal deficit at an annual limit of 3 percent of GSDP. It also provided flexibility to the States to avail the flexibility to increase the fiscal deficit by 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 flexibility in terms of enhanced limit to the fiscal deficit with conditions increases the borrowing limit of the State. While the flexibility option was open to increase the fiscal deficit to 3.5 percent, the State Government managed to limit it at 2.08 percent in 2017-18. In the fiscal year 2018-19, the flexibility option was fully utilized. However, the fiscal deficit increased to 3.92 percent due to reduction of tax devolution. The State Government aims to keep it at 3 percent mark in 2019-20 to give stability to the fiscal policy.

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 2019-20 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, 2019-20, and two outward years. It reviews the macroeconomic and fiscal performance of Sikkim for the recent years. 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 trend of the variables and the recent policy changes relating to revenue augmentation measures and expenditure priorities in various sectors.

The fiscal policy adopted by the State Government ably aided the socio-economic development over the years within an ambit of an inclusive growth process. The Government has made efforts to create 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 process. While the fiscal rules helped the State to incur deficit and borrowing to a sustainable level, achievement of social sector commitments constituted an important element of resource allocation decisions.

The major socio-economic indicators for the State show commendable improvement. The Gross State Domestic Product (GSDP) at constant prices recorded a healthy growth rate of 6.85 percent in 2017-18. The per capita income of the state at current prices has increased from Rs.181842 in 2011-12 to Rs.340703 in 2017-18 at current prices. 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

In the sub-national fiscal management, the contribution of various sectors to the State economy assumes significance for examining the possible revenue implication. The macroeconomic outlook in the sub-national fiscal policy may not reflect on the degree of price level stability, effects on trade and on the balance of payments. The trend of GSDP and per capita income of the States are relevant indicators in budgeting context. The growth of State income assumes significance for the budget management process as the Central Government fixes the borrowing limit as proportion to the GSDP, based on assumptions regarding the growth rate usually made by the Central Finance Commission.

The CSO has provided the new series of GSDP data for the State from 2011-12. For all projection purposes, the method suggested by the FFC has been adopted to update the GSDP. The State GSDP, in 2016-17 and 2017-18, grew consistently at a reasonable rate of 6.75 and 6.85 per cent at constant prices respectively (Table 1). The new methodology is showing consistent growth in Sikkim with 2011-12 base prices, both with respect to GSVA and GSDP. Sikkim recorded a growth of 11.13 per cent at current prices in 2017-18. Also, the growth rate of GSVA was recorded at 6.85 per cent at constant prices and 11.13 per cent at current prices in 2017-18 (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 percent of the

GSDP. The relative share of the service sector, which was showing a rise since 2011-12, seems to have been declining in 2016-17 and 2017-18. The industry sector has been mostly driven by manufacturing, construction and power sectors. Its relative share has been showing increase in last two years.

Table 1
Composition of GSVA (Constant Prices)

(Percent)

Item	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Primary	**8.35**	**8.50**	**8.39**	**7.97**	**7.60**	**7.80**	**7.74**
Agriculture, forestry and fishing	8.28	8.42	8.30	7.88	7.50	7.70	7.64
Mining and quarrying	0.07	0.08	0.09	0.09	0.09	0.10	0.11
Secondary	**62.83**	**60.13**	**59.87**	**61.20**	**62.30**	**62.95**	**63.79**
Manufacturing	39.54	38.96	40.06	41.56	43.53	44.62	45.72
Construction	6.16	5.70	5.71	5.28	5.28	4.97	4.80
Electricity, gas, water supply & other utility services	17.13	15.47	14.10	14.36	13.49	13.36	13.27
Tertiary	**28.82**	**31.37**	**31.73**	**30.83**	**30.10**	**29.25**	**28.47**
Transport, storage, communication & services related to broadcasting	2.60	3.05	3.22	3.18	3.14	3.02	2.99
Trade, repair, hotels and restaurants	2.89	4.60	5.23	4.77	4.50	4.36	4.15
Financial services	1.52	1.56	1.57	1.55	2.71	2.77	2.84
Real estate, ownership of dwelling & professional services	5.36	5.38	5.31	4.98	4.59	4.53	4.34
Public administration	6.80	7.21	7.19	7.09	6.56	6.22	5.99
Other services	9.66	9.57	9.22	9.26	8.61	8.34	8.16
TOTAL GSVA at basic prices	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Growth Rate							
GSVA (Constant Prices)		1.74	5.15	8.08	9.09	6.79	6.85
GSDP (Constant Prices)		2.29	6.07	7.90	9.93	6.75	6.85
GSVA (Current Prices)		9.87	11.28	11.48	16.15	11.06	11.13
GSDP (Current Prices		10.51	12.35	11.14	17.05	11.02	11.13

Source: CSO, GoI

The growth of the GSDP that has propelled Sikkim very high in the per capita income ladder across the States was mainly driven by contributions from sectors like, manufacturing and construction. 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. For instance the manufacturing sector constitutes about 45.72 per cent of State GSDP in 2017-18.

Although, the manufacturing, power and construction sectors emerged as major driving force for the Sikkim 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. 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 or GST.

The growth rate assumed by the 14th FC for its award period from 2015-16 to 2019-20, was significantly high. The Commission, based on the comparable GSDP figures prepared by the CSO, 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 Commission implies a higher nominal amount of GSDP in the award period of the Commission and a higher level of projected nominal revenue receipts. During this period, the State has never reached that high growth rate and it was also not possible for the State to generate the revenue projected by the Commission. Thus the MTFP takes realistic position, while projecting the GSDP beyond the ensuing budget year 2019-20.

While MTFP refrained from using the growth rate assumed by the 14th FC, it used the methodology suggested by them to project the growth rate based on achieved growth rate in the base year. For the Ministry of Finance, GoI, the Commission recommended using the average growth rate of the GSDP of the past three years to arrive at the borrowing ceilings of the States. The MTFP uses the same methodology to arrive at the GSDP figures for the Budget year and the two outward years.

3. Fiscal Profile of the State

3.1 The Changing Pattern of Central Transfers and its Impact on Sikkim

The budget for the year 2019-20 is the fifth budget after the FFC gave its recommendations on devolution of resources to the States. The FFC recommendations were not very favorable to Sikkim, despite increase in share of tax devolution as compared to the 13th FC. While audited data shows that in 2016-17, the central transfers improved from the decline shown in the previous year, it still remains lower than the pre-FFC period relative to the GSDP. 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. Starting from the year 2017-18, the last year for which audited data is available, the CGST has been included in the tax devolution. This inclusion resulted in a rise of Central transfers in 2017-18. However, the tax devolution relative to the GSDP has declined in 2019-20, which reflects the current macroeconomic situation.

The FFC increased tax devolution to the states from 32 per cent to 42 per cent to provide higher flexibility as this source of revenue is untied in nature. The FFC relied on tax devolution to cover the assessed revenue expenditure needs of the States, for which 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. The Commission left to the Centre and the states acting cooperatively to assess the needs in these schemes. 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.

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, which was 3.87 percent of GSDP in revised estimates of 2018-19, has come down considerably to 0.94 percent due to reduction in revenue receipts. The revenue surplus depends upon the central grants as the own revenue continues to increase moderately due to lack of tax base. The fiscal deficit, which was expected to be at 3.50 percent in 2018-19 RE based on the flexibility allowed by the FFC, has exceeded this limit to 3.92 percent due to reduction of central transfers. The State Government projected to regain the 3 percent of GSDP target in 2019-20.

Despite the fiscal stress, the State Government has remained on the path of the fiscal consolidation and continues to allocate sufficient 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.

In the revenue receipt side, there were certain changes adopted in the budget for the year 2018-19. The first relates to the GST. After the GST was adopted, its classification has come in 2018-19 budget projections as also for the revised estimates of 2017-18. The GST was accounted for in terms of SGST, CGST, IGST and the compensation for loss to the State due to the adoption of GST. While SGST, IGST and compensation if there is any loss is usually accounted for in the State’s own revenue, the CGST is received as part of the tax devolution.

The budget classification had already undergone changes in 2017-18 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 programs. The removal of plan and non-plan distinction leaves only revenue and capital expenditure classification.

Table 2

Fiscal Profile of Sikkim: An Overview

(Percent to GSDP)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Revenues	**25.72**	**26.65**	**28.09**	**26.53**	**20.98**	**23.03**	**23.43**	**29.29**	**26.01**
Own Tax Revenues	**2.63**	**3.53**	**3.79**	**3.42**	**3.14**	**3.26**	**3.09**	**3.38**	**4.29**
Income Tax	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sales Tax	1.11	1.84	2.07	1.83	1.81	1.82	1.12	0.67	0.70
SGST	0.00	0.00	0.00	0.00	0.00	0.00	0.77	1.09	1.46
State Excise Duties	0.86	0.90	0.87	0.85	0.79	0.78	0.68	0.73	0.83
Motor Vehicle Tax	0.15	0.13	0.13	0.13	0.12	0.12	0.13	0.15	0.17
Stamp Duty and Regi. Fees	0.07	0.04	0.05	0.04	0.05	0.06	0.06	0.06	0.06
Other Taxes	0.44	0.61	0.67	0.57	0.38	0.47	0.33	0.69	1.07
Non-Tax Revenues	**2.19**	**2.45**	**2.61**	**2.10**	**2.29**	**2.26**	**2.94**	**2.79**	**2.48**
Central Transfers	**20.91**	**20.67**	**21.69**	**21.01**	**15.55**	**17.51**	**17.40**	**23.11**	**19.24**
Tax Devolution	5.48	5.66	5.50	5.25	10.37	10.34	10.56	8.73	7.60
CGST, IGST	0.00	0.00	0.00	0.00	0.00	0.00	1.28	3.35	2.84
Grants	15.43	15.01	16.19	15.75	5.18	7.18	5.55	11.03	8.80
Non-debt capital receipt	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenue Expenditure	**21.76**	**20.32**	**21.82**	**21.79**	**20.21**	**18.92**	**18.66**	**25.42**	**25.07**
General Services	**6.74**	**7.14**	**7.47**	**7.88**	**6.90**	**7.10**	**6.87**	**9.00**	**9.94**
Social Services	**9.24**	**7.68**	**9.21**	**8.31**	**6.85**	**6.67**	**6.89**	**9.64**	**8.88**
Economic Services	**5.50**	**5.32**	**4.89**	**5.33**	**6.24**	**4.88**	**4.62**	**6.45**	**5.90**
Assignment to LBs	**0.28**	**0.19**	**0.26**	**0.27**	**0.22**	**0.28**	**0.28**	**0.32**	**0.35**
Capital Expenditure	**5.96**	**6.86**	**6.65**	**6.53**	**3.66**	**3.68**	**6.84**	**7.79**	**3.94**
Capital Outlay	5.52	6.83	6.58	6.37	3.52	3.60	6.77	7.60	3.90
Net Lending	0.44	0.03	0.07	0.17	0.14	0.08	0.07	0.19	0.04
Revenue Deficit	**-3.96**	**-6.33**	**-6.27**	**-4.74**	**-0.77**	**-4.11**	**-4.77**	**-3.87**	**-0.94**
Fiscal Deficit	**1.99**	**0.53**	**0.38**	**1.79**	**2.88**	**-0.43**	**2.08**	**3.92**	**3.00**
Primary Deficit	**0.28**	**-1.08**	**-1.21**	**0.23**	**1.43**	**-2.05**	**0.45**	**1.92**	**1.11**
Outstanding Liabilities	**22.86**	**22.35**	**22.14**	**22.60**	**21.97**	**23.33**	**24.50**	**27.06**	**25.01**

Source (Basic Data): Finance Accounts and State Budget 2019-20
Note: The GSDP figures are from CSO

3.3 Revenue Mobilization

The central transfers, taking both the tax devolution and grants, continues to be the major contributor to the State exchequer. On an average the central transfers constitutes about three-fourths of the total State revenues. The relative share of central transfers in total revenue receipts of the State has steadily increased. While the share stood at 78.91 percent in the revised estimates of 2018-19, it has declined to 73.98 percent in 2019-20 budget estimates. This signifies the effort of the State Government to improve internal revenue generation.

As percentage to GSDP, the Central transfers increased to 17.51 percent in 2016-17 after major decline in the previous year. Central transfer is projected to increase to 19.24 percent in 2019-20 budget estimates. The GST related transfer, which comes in the form of CGST at 2.84 percent of GSDP is included in the Central transfers (Table 2). The tax and own non–tax revenue are expected to be 4.29 and 2.48 per cent of GSDP respectively as per the BE of 2019-20. This marks an improvement over the previous year.

The own revenue receipts was projected to grow to Rs.1429.14 crores in 2018-19 RE to Rs.1924.76 crores in 2019-209 budget estimates. Both the own tax and non-tax revenue show rise in nominal terms. The increase in nominal terms also propels the own revenue to rise as percentage to the GSDP, despite higher growth of the GSDP in 2019-20. The own revenue GSDP ratio has gone up from 6.2 percent in 2018-19 to 6.8 percent in 2019-20 BE. Both the components of the own revenue, the own tax and own on-tax revenue show similar trend. However, the total revenue receipt of the State shows a decline as percentage to the GSDP from 29.29 per cent in 2018-19 to 26.01 percent in 2019-20 BE due to decline 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.

Composition of own tax revenue given in Table 3 shows that the sales tax along with the newly introduced GST and state excise are two major sources of own tax revenue for the State. The SGST and IGST component of the GST are accounted for in the own tax revenue of the State. The relative share of the sales tax and GST taken together constitutes about 70 percent of own revenue receipts. The relative share of State excise in total own revenue was at 25.1 percent in 2015-16 and is projected to fall to 19.4 percent in 2019-20 BE. The uncertainties surrounding the Supreme Court’s order for removing the liquor outlets on the Express Highways seems to have adversely affected the excise tax. During the same time the relative share of motor vehicle tax shows an increase.

Table 3
Composition of Own Tax Revenue

(Per cent)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (RE)	2018-19 (BE)
Own Tax Revenues	100	100	100	100	100	100	100	100
Sales Tax	42.3	52.1	54.5	53.5	57.5	55.9	30.6	20.0
SGST	0.0	0.0	0.0	0.0	0.0	0.0	31.7	32.9
State Excise Duties	32.8	25.5	23.0	24.9	25.1	23.9	22.0	20.6
Motor Vehicle Tax	5.6	3.8	3.5	3.7	3.9	3.8	4.3	4.0
Stamp Duty and Reg. Fees	2.8	1.2	1.2	1.3	1.5	1.9	1.7	1.7
Other Taxes	16.5	17.3	17.7	16.7	12.0	14.4	9.7	20.8
Sales Tax + SGST	42.3	52.1	54.5	53.5	57.5	55.9	62.3	52.8

The State taxes of Sikkim remain 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 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.

In the tax buoyancy calculation, usually a longer period is taken. However, a smaller period from 2011-12 to 2018-19 provides a better tax buoyancy for the State. The buoyancy coefficients for the State taxes during the period 2011-12 to 2018-19 given in Table 4 reveal that there has been marked improvement in the tax buoyancy coefficients. MTFP after calibrating the growth potential of the GSDP and other tax measures announced in BE 2019-20 makes suitable adjustment in tax buoyancies for projection of tax revenues in the medium term.

Table 4
Buoyancy of Taxes: 2011-1 to 2018-19

Own Tax Revenues	1.048
Sales Tax + SGST	1.31
State Excise Duties	0.672
Motor Vehicle Tax	0.948
Stamp Duty and Registration Fees	1.108
Other Taxes	0.782

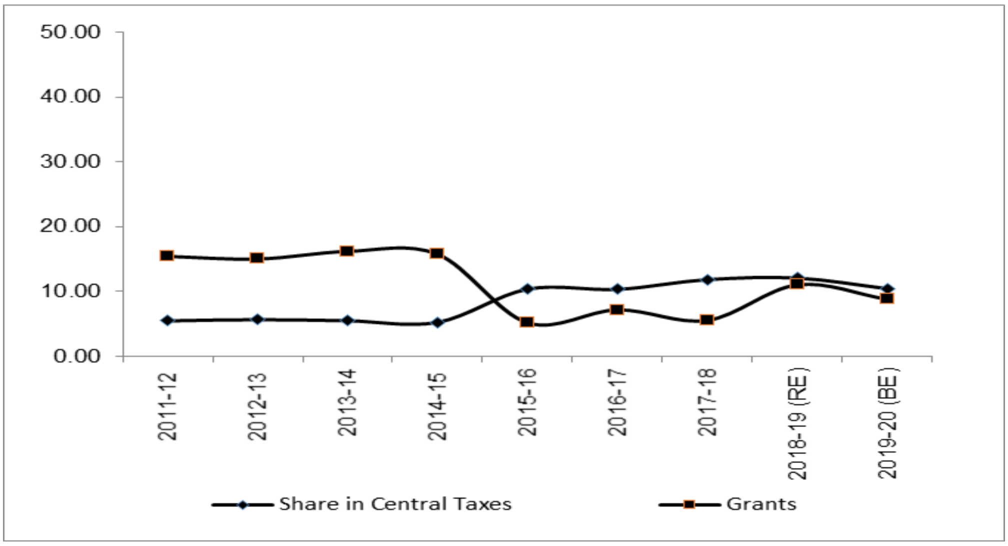
Source (Basic Data): Finance Accounts and State Budget 2019-20

The own non-tax revenue, an important source of revenue for the State, was Rs.654.38 crores to in 2017-18, which is budgeted to rise to Rs.704.54 crores in 2019-20. However, its share in own revenue of the State has been declining in recent years. The share of non-tax revenue in total revenue receipts has gone down from 12.55 percent in 2017-18 to 9.52 percent in 2019-20 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 5.25 percent to GSDP in 2014-15, has increased to 11.84 per cent in 2017-18. However, as the growth rate of GDP remained low in past few years, the tax devolution to the states in general has been moderated. The tax devolution as percentage to the GSDP is budgeted at 10.44 percent in 2019-20 for Sikkim (Table 2). This includes the share of CGST received by the State. The higher devolution recommended by the FFC seems to have been stabilized (Figure 1). At the same time the grants amount has suffered a major decline from 15.75 percent in 2014-15 to 5.55 percent in 2017-18. It is projected to assume 8.80 percent in the

2019-20 budget estimates. While FFC refrained from making any state specific grants, the Central Government subsumed the block grants in the tax devolution.

Figure 1
Central Transfers as Percentage of GSDP



3.4 Expenditure Profile

The Government of Sikkim has been successful in controlling the growth of revenue expenditure, despite having large committed spending. This has helped the State to increase the revenue surplus and expand the capital expenditure. The priority sectors in social and economic services, however, continue to be focus areas in terms of resource allocation. The State Government has initiated several innovative 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, has declined to 18.66 percent in 2017-18. The budget projection raised it to 25.07 percent in 2019-20. The level of expenditure on social and economic services was protected during this period.

The State Government has been giving emphasis to the core development strategy of building the social and physical infrastructure. The stability in fiscal situation in earlier years in the State facilitated this fiscal management practice. The capital expenditure, which had slowed down in 2015-16 and 2016-17 relative to the GSDP, revived in next two years. The capital expenditure as percent to GSDP declined from 5.96 percent in 2011-12 to 3.68 percent in 2016-17. However, it has revived since then to 6.84 percent in 2017-18. The decline to 3.94 percent in 2019-20 budget estimates was due to resource problem. 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.

Table 5
Expenditure Profile

(Per cent to GSDP)

	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19 (RE)**	**2018-19 (BE)**
Revenue Expenditure	**21.76**	**20.32**	**21.82**	**21.79**	**20.21**	**18.92**	**18.66**	**25.42**	**25.07**
General Services	**6.74**	**7.14**	**7.47**	**7.88**	**6.90**	**7.10**	**6.87**	**9.00**	**9.94**
Interest Payment	1.71	1.61	1.60	1.55	1.45	1.62	1.63	2.00	1.89
Pension	1.56	1.82	1.88	2.16	2.23	2.23	2.27	2.78	4.17
Other	3.47	3.70	3.99	4.16	3.21	3.25	2.97	4.22	3.88
Social Services	**9.24**	**7.68**	**9.21**	**8.31**	**6.85**	**6.67**	**6.89**	**9.64**	**8.88**
Education	4.25	4.17	4.55	4.62	4.18	3.74	3.65	4.35	4.60
Medical and Public Health	1.02	1.02	1.04	1.19	0.98	0.96	1.00	1.45	1.26
Other Social Services	3.97	2.49	3.62	2.50	1.69	1.98	2.24	3.84	3.02
Economic Services	**5.50**	**5.32**	**4.89**	**5.33**	**6.24**	**4.88**	**4.62**	**6.45**	**5.90**
Assignment to LBs	0.28	0.19	0.26	0.27	0.22	0.28	0.28	0.32	0.35
Capital Outlay	**5.96**	**6.86**	**6.65**	**6.53**	**3.66**	**3.68**	**6.84**	**7.79**	**3.94**

Source (Basic Data): Finance Accounts and State Budget 2019-20

The composition of capital expenditure (net of loans and advances) shows that sectors like education, health, water supply and sanitation, transport, energy and tourism have been the focus areas (Table 6). The education and health sectors also have attracted relatively higher capital expenditure. 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 fueled 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	2017-18 (RE)	2018-19	
Capital Expenditure	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
General Services	**4.1**	**9.9**	**18.6**	**11.2**	**10.1**	**9.9**	**9.9**	**7.1**	**5.1**
Social Services	**45.0**	**34.6**	**29.2**	**27.5**	**31.7**	**33.8**	**35.5**	**29.7**	**28.7**
Education	10.2	7.4	5.5	3.2	2.9	6.4	6.5	6.6	4.6
Health	15.8	12.0	10.2	6.3	10.4	10.1	14.9	5.5	3.1
Water supply, Sanitation, Housing & Urban Development	18.5	15.0	12.2	17.5	8.9	15.9	7.3	8.3	14.0
Information	0.2	0.1	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Welfare of SC/STBC	0.2	0.1	0.2	0.1	0.6	0.9	0.9	1.3	1.6
Social Security	0.0	0.0	1.1	0.2	1.7	0.4	0.1	0.5	0.7
Economic Services	**50.9**	**55.5**	**52.2**	**61.3**	**58.2**	**56.4**	**54.6**	**63.2**	**66.1**
Agriculture	2.8	1.1	1.4	1.2	1.0	1.2	0.9	1.7	1.7
Rural Development	5.8	2.4	2.1	1.6	0.0	1.3	0.8	0.9	0.2
Special Areas Programs	2.9	2.1	1.3	2.3	3.9	4.2	1.7	2.2	3.8
Irrigation	0.5	0.8	0.4	0.4	0.2	0.1	0.1	3.0	0.0
Energy	6.1	5.2	7.3	3.3	5.9	8.0	5.1	48.5	3.8
Industries and Minerals	0.3	0.5	0.5	0.7	0.1	0.3	0.1	0.0	0.0
Transport	23.1	37.5	32.4	24.5	33.2	35.6	41.5	45.9	54.0
Science & Technology	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Tourism	9.3	5.9	6.9	27.2	13.9	5.6	4.3	4.5	2.2

Source (Basic Data): Finance Accounts and State Budget 2019-20

3.5 Outstanding Debt and Government Guarantee

The FRBM Act emphasizes maintaining the debt burden of the State at sustainable level. This has remained as a crucial objective of fiscal management in the State. The TFC in their revised fiscal roadmap worked out the yearly outstanding debt burden for all the states aligning with the fiscal path. The debt-GSDP ratio, as per the TFC stipulation, had gone down considerably. The debt stock as percentage to the GSDP was 24.50 per cent in 2017-18 (Table 2). 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.

The FFC in their fiscal roadmap for the States recommended anchoring the fiscal deficit at 3 percent of the GSDP. The States can avail the flexibility to increase this limit by a total of 0.5 percentage points, 0.25 percent separately depending upon conditions prescribed. One of the major conditions was to limit the debt-GSDP limit to 25 percent in the previous year. Thus, for all effective purposes the new benchmark of debt-GSDP ratio has been 25 percent. The State seems to have exceeded this limit in 2018-19 revised estimates as the debt-GSDP ratio touched 27.06 percent. The budget estimates shows that the debt-GSDP ratio remains at 25 percent.

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 1.89 percent in 2017-18. This has further come down to 1.13 percent in 2019-20 budget estimates. 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 66.41 per cent in 2011-12 to 75.47 per cent in 2017-18. 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.

Table 7
Composition of Debt and Liabilities

(Per Cent)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19 (RE)	2019-20 (BE)
A. Public Debt	**72.56**	**71.71**	**71.22**	**72.11**	**74.96**	**75.06**	**77.36**	**78.40**	**75.44**
Internal Debt	66.41	66.31	67.08	68.63	72.08	72.69	75.47	76.95	74.31
Central Loans	6.15	5.40	4.14	3.48	2.88	2.36	1.89	1.45	1.13
B. Other Liabilities	**27.44**	**28.29**	**28.78**	**27.89**	**25.04**	**24.94**	**22.64**	**21.60**	**24.56**
Small Savings, PF etc.	22.67	22.63	22.34	20.40	18.88	17.79	16.73	16.96	17.04
Reserve Fund	0.72	0.48	1.67	3.52	2.13	2.01	1.07	0.48	3.85
Deposits	4.05	5.18	4.76	3.97	4.04	5.14	4.85	4.16	3.67
Total Liabilities	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source (Basic Data): Finance Accounts and State Budget 2019-20

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 2018 was Rs.564.83 crore (Finance Accounts – 2017-18), which is below the permissible limit.

3.6 Government Policy for the Ensuing Budget Year

The resource position of the State in 2019-20 is not favorable as the aggregate resources increased by only 9.16 percent over the previous year. While the decline in grants since 2015-16 continues to affect adversely, the tax devolution in 2019-20 shows a low growth. These factors have aggravated the resource position despite improvement in own revenue collection. However, the State Government has been committed to protect resource allocation to the continuing programs in social and economic sector.

The committed spending on interest payment and pension outgo has put considerable pressure on resource allocation. The payment of arrears in salaries and pensions has increased the spending on general services in 2019-20. Revenue expenditure has posted a growth rate of 21.2 percent. The growth rate of general services at 35.7 percent is the highest followed by 13.2 percent for social services and 12.4 percent for economic services. The continuing programs and programs introduced in the last year's budget will receive sufficient resources to realize their full potential. The Government has made sufficient provisions for sectors like housing and sanitation, transport, rural roads, urban infrastructure, health facilities and infrastructure, education, organic farming, eco-tourism, sustainable forest management and so on.

The capital expenditure faced a setback in the fiscal year 2019-20 due to the pressure on revenue receipts and committed spending. The capital outlay has gone down to 3.94 percent relative to the GSDP as compared to 7.79 percent shown in the revised estimates of the previous year. However, the important sectors like education, health, water supply and sanitation, transport, energy and tourism have been provided with sufficient funds.

4. Medium Term Fiscal Plan: 2019-20 to 2021-22

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)
		2017-18	2018-19 (RE)	2019-20 (BE)	2020-21	2021-22
1	Revenue deficit as percentage of GSDP	-4.77	-3.87	-0.94	-1.50	-1.50
2	Fiscal deficit as percentage to GSDP	2.08	3.92	3.00	3.00	3.00
3	Primary deficit as percentage of GSDP	0.45	1.92	1.11	1.09	1.08
4	Total Debt Stock as Percentage of GSDP	24.50	27.06	25.01	25.23	25.43

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 2017-18, the last year 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 2018-19 shows that the fiscal deficit increased to 3.92 percent of GSDP as against the planned deficit of 3.5. This was because of the reduction tax devolution from the Central Government in 2018-19. The Government managed to generate revenue surplus all along. The projections for the budget year, 2019-20, 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 2019-20 to 2021-22 conforms to the recommendations of the FFC to anchor the fiscal deficit to 3 per cent of GSDP.

The MTFP 2019-20 presents the fiscal outlook of the State Government in a medium term that includes 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 at 3 per cent relative to the GSDP. Although the revenue expenditure grows slowly during the MTFP period, the resource allocation focusses on funding the priority areas of the Government. The spending pattern for the priority areas of the

State has remained favorable in the medium term. While the allocation to social services was increased the growth of the resource allocation to the economic services was moderated due to resource problem.

The increment in revenue expenditure is restrained due to the pressure on revenue receipts. If the growth scenario improves in the country in next two years, the central transfers will definitely increase. The rolling nature of the MTFP allows to make revisions in the future. The growth in revenue has not been very fast in Sikkim due to lack of buoyant sources. The adoption of GST, though, infused some growth, is not sufficient to make the internal revenue as a potent force in the fiscal management of Sikkim. The capital expenditure has been increased in a graded manner as compared to the budget allocation for 2019-20, keeping the reality regarding the resources in consideration. However, the capital spending at 4.50 percent of the GSDP in the last year of the MTFP is reasonably high.

The MTFP reflects on the fiscal stance of the Government, which strives at fulfilling the sector objective and achieve better results from the utilization of public resources. While GSDP is assumed to grow at 12.50 percent, following the methodology proposed by the FFC, the total revenue receipt grows at 13.54 percent. The MTFP projects improvement of own revenue and moderate rise in central transfers. It needs to be kept in mind that given the growth scenario in the country, the resource position of the State may not increase dramatically. Thus, the project is based on the fiscal reality witnessed in baseline period with possible improvements.

The outstanding liabilities increases marginally from 25.01 percent of GSDP in 2019-20 to 25.43 percent in the last year of the MTFP. However, it is expected that with higher flow of resources from Central Government, the borrowing requirement will ease up and the debt-GSDP ratio will remain within 25 percent.

There has been substantial growth in revenue receipts and allocations to various sectors in nominal terms. While revenue receipts increases from Rs.7397.44 crores in 2019-20 to Rs.9544.29 crores in the medium term, the revenue expenditure rises from Rs.7129.09 crores to Rs.9004.36 crores. The provision for capital outlay has increased from Rs.1121.35 crores to Rs.1619.80 crores during MTFP period. The capital outlay has been allowed to increase during the MTFP period, which emphasizes the focus of the Government on infrastructure building. 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.

Table 9
Medium Term Fiscal Plan: 2019-20 to 2021-22

(Per cent to GSDP)

	2019-20 (BE)	2020-21	2021-22
Revenue Receipts	**26.01**	**26.25**	**26.52**
Own Tax Revenues	**4.29**	**4.36**	**4.43**
Income Tax	0.00	0.00	0.00
Sales Tax +SGST	2.16	2.26	2.36
State Excise Duties	0.83	0.81	0.78
Motor Vehicle Tax	0.17	0.17	0.17
Stamp Duty and Registration Fees	0.06	0.06	0.06
Other Taxes	1.07	1.07	1.07
Own Non-Tax Revenues	**2.48**	**2.52**	**2.56**
Central Transfers	**19.24**	**19.37**	**19.52**
Tax Share	7.60	7.73	7.87
CGST	2.84	3.03	3.23
Grants	8.80	8.61	8.41
Revenue Expenditure	**25.07**	**24.75**	**25.02**
General Services	**9.94**	**9.89**	**9.85**
Interest Payment	1.89	1.91	1.92
Pension	4.17	4.08	3.99
Other General Services	3.88	3.91	3.94
Social Services	8.88	9.03	9.19
Education	4.60	4.67	4.74
Medical and Public Health	1.26	1.29	1.32
Other Social Services	3.02	3.07	3.13
Economic Services	**5.90**	**5.82**	**5.98**
Compensation and Assignment to LBs	**0.35**	**0.36**	**0.38**
Capital Expenditure	**3.94**	**4.50**	**4.50**
Capital Outlay	3.90	4.46	4.47
Net Lending	0.04	0.04	0.03
Revenue Deficit	**-0.94**	**-1.50**	**-1.50**
Fiscal Deficit	**3.00**	**3.00**	**3.00**
Primary Deficit	**1.11**	**1.09**	**1.08**
Outstanding Debt	**25.01**	**25.23**	**25.43**

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.

4.2 Assumption Underlying the Fiscal Indicators

The assumptions made to project the fiscal variables reflect the fiscal policy choices of the Government operating with limited resource availability. The MTFP 2019-20 is based on realistic assumptions relating to the likely behavior of fiscal variables. The projections take into account the new schemes launched and forthcoming spending requirements.

The MTFP conforms to the provisions made in the FRBM Act of the State and the recommendations made by the FFC regarding fiscal consolidation across the States. Despite subdued Central transfers during 2015-16 and 2016-17, the State adhered to the FRBM Act fiscal targets. The actual estimates for the year 2017-18 shows higher revenue deficit and a reasonable fiscal deficit within the allowed limits imposed by the Act. The 2018-19 revised estimates show a higher fiscal deficit of 3.92 percent.

The budget projection for the year 2019-20 is more grounded with a fiscal deficit of 3 percent of GSDP. The MTFP projects to be on the fiscal consolidation path in the medium term by anchoring the deficit at 3 percent of the GSDP. The trends in resource transfers under tax devolution, grants, and GST related transfers have become more stable, which were used in the projections for the MTFP. The fund flows to the programs are protected and provisions have been made to focus on the 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 2020-21 and 2021-22, the MTFP uses the growth rate of 12.50.

The own tax revenue of the State in medium term is the sum of components projected separately to arrive at aggregate figure. 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. Some adjustments were made to the buoyancy coefficients derived for the period 2011-12 to 2018-19 for making projection in the medium term, which implies higher revenue generation effort. The prescriptive buoyancies for individual taxes like sales tax, excise duty, motor vehicle tax, and other taxes have been increased keeping in mind the scope for improvement in these taxes. While average growth rate of own taxes was about 8.5

percent during 2014-15 to 2018-19, the growth rate assumed during the MTFP period was about 14 percent. The ongoing initiatives of the Government to modernize the tax department to reap the benefits from the introduction of GST will improve the tax base. The e-governance programs in the tax departments by introducing online registration, e-filling of returns and electronic control and evaluation is expected to improve the tax collection.

The own non-tax revenue is projected in the MTFP period by assigning the observed trend growth rate for the period from 2011-12 to 2018-19. 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 2019-20 is allowed to grow at the rate observed during the award period of 14th FC, as the devolution regime has changed based on the recommendations of the Commission. The grants were projected using the observed growth rate after the restructuring of the central grants were undertaken.

4.3 Expenditure Restructuring under MTFP

As there is a resource problem in the State despite the rise in own revenue, the growth of revenue expenditure was controlled, while providing 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 program management and implementation of the projects in a timely manner will help achieving the value for money.

During the MTFP period, the revenue expenditure declines marginally from 25.07 percent to 25.02 percent relative to GSDP. This still remains higher than the actual audited figure of the year 2017-18. 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.2526.76 crores in 2019-20 BE to Rs.3307.29 in 2020-21.

The capital expenditure has been increased during the MTFP period as compared to the 2019-20 BE. Given that the capital expenditure became a residuary in 2019-20 to account for higher committed spending, it was projected to rise in the medium term. The capital outlay increases from 3.94 percent in 2019-20 to 4.50 percent in 2021-22. As the fiscal deficit is stabilized at 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 at 3 percent of GSDP and revenue surplus at 1.50 percent at end of the MTFP period, while controlling the growth in the revenue expenditure (Table 9). The restrained revenue expenditure helps in improving the capital outlay. The emerged fiscal profile shows that the outstanding debt increases from 25.01 percent to 25.43 percent during the MTFP period. This level of debt remains higher than debt level suggested by the 14th FC 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. However, 2019-20 is the last year under the award period of the 14th FC. The 15th FC may have a different approach to the debt burden issue of the State Governments.

Box 1
Proposed MTFP Targets

<u>Macro Parameters</u>

- Nominal Growth of GSDP was assumed to be 12.50 percent following the methodology prescribed by the FFC.

<u>Revenue Resources</u>

- Sales tax + GST assumes a buoyancy of 1.4 as against the observed buoyancy of 1.319, which gives a prescriptive growth rate of 18 percent
- The state excise duty assumes a buoyancy of 0.7 as against the observed coefficient of 0.672.
- The stamp duty and registration fees assumes same buoyancy of 1.108 as observed during 2011-12 to 2018-19.
- Motor Vehicle tax assumes a buoyancy of 1.00 as against the observed buoyancy of 0.948.
- Other taxes assume a buoyancy of 1.0, as against the observed buoyancy of 0.782.

Expenditure Projections

- Pension payments are projected taking into account the requirements in 2019-20 as per the Government policy to provide for the arrears. The projections for two outward years, take a moderate growth rate of 10 percent.
- The interest payments have been estimated on the basis of the effective rate of interest calculated by dividing the value of interest payment during 2019-20 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 14 per cent per annum.
- Education expenditure will grow at the rate of 14 per cent per annum
- Health expenditure will grow at the rate of 15 per cent per annum.
- Capital expenditure to GSDP ratio is projected to increase from 3.94 percent in 2019-220 to 4.50 percent relative to GSDP in 2021-22.

Deficit and Debt targets

- The MTFP projects the revenue surplus to reach 1.5 percent of GSDP during the MTFP period.
- The fiscal deficit is projected to remain at 3 per cent level relative to the GSDP
- The outstanding debt to GSDP ratio rises marginally from 25.01 per cent in 2019 - 20 to 25.43 percent in the terminal year of the MTFP.

5. Summary Assessment

The fiscal year 2019-20 witnessed a subdued growth in revenue receipts due to moderation in central transfer to the State. Despite improved performance of the State Government in generating revenue internally, aggregate revenue receipts declined from 29.29 percent in 2018-19 RE to 26.01 percent in 2019-20. In addition there were spending pressure due to committed expenditure like paying arrears of salary and pension revision. The budget for the year 2019-20 took a balanced view of the resource envelope and emerging spending requirements. The focus of the budget was to protect the priority sector spending, while honouring the commitments. The MTFP while preparing a medium term fiscal stance, projected the revenue and expenditure variables emphasizing on higher internal revenue effort, priority sector spending, improvement in capital expenditure, and achieving fiscal consolidation.

The year 2019-20 is the last year of the award period of the 14^{th} FC, which makes it little difficult to presume the fiscal consolidation structure and treatment debt-GSDP by the 15^{th} FC. As the State depends heavily on central transfers, the recommendations of the Commission will affect the fiscal management. The rolling nature of the MTFP, however, allows for revision if there are changes on the fiscal front.

The trend of aggregate central transfers after the recommendations of the FFC to the State shows that as percentage to the GSDP it could not regain the level of the fiscal year 2014-15, except for the year 2018-19. While there was a rise in the level of tax devolution to the State, the grants component declined substantially. The State had make necessary adjustments within the resource envelope available to it. The fiscal stress is unmistakable, while allocating resources to the programs earlier funded from the Central plan grants. 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 resources. 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 increase relative to the GSDP and the traditional policy of emphasizing social and infrastructure sectors has added increased responsibility on the State Government to generate higher revenue. There has been a marginal rise in debt burden beyond the benchmark of 25 per cent of the GSDP. It is expected that with the improvement in economy and efficiency in the fiscal management, the debt-GSDP ratio will stabilize. At this moment, it is also not clear as to what would be the recommendations of the 15^{th} FC regarding the level of debt burden.

The introduction of GST added a new dimension to the State finances. The State component of GST, called SGST, is now accounted for in the own tax receipts of the State. The trend of sales tax and SGST taken together since 2017-18 shows improvement. The CGST comes in the form of tax devolution as per the formula recommended by the 14^{th} FC. The GST collection helped the State Government to strengthen its resource base. The MTFP takes into account the performance of the State Government and projects it to improve in the medium term.

The fiscal policy has to create an enabling environment for further growth and socio-economic progress. Preparing for the future, at least in the medium term facilitates the Government to see beyond the annual budget. The MTFP 2019-20 emphasizes on better resource generation, better resource allocation to social sector, and improving capital outlay. Despite the pressure on resources, the MTFP indicates a stable and growth oriented fiscal policy for Sikkim. The State 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.

While projecting State taxes, the MTFP assumed higher buoyancy to augment resources, which will be achievable in the medium term. The augmentation of tax buoyancy is based on the capacity of the Government to collect more tax. The modernization of tax administration and efforts to improve the tax base under GST is expected to improve the revenue receipts.

The State Government has often experienced uncertainty in the flow of Central grants as against the projections made in the budget. The State projections are sometimes based on the expectations regarding approval of projects. Many a times the Central grants comes at the end of the fiscal year causing uncertainties in the flow of funds to the programs. Implementation of projects in times and better coordination with the Central Government will help the State to claim the entire Central component of grants in a timely manner.

A realistic projection of capital expenditure is instrumental in strengthening the financial management in the infrastructure sector. While the MTFP projects the capital expenditure to rise in the medium term, the State Government will be able to enhance the level of capital expenditure with the improvement in resource position. The State is committed to develop a policy to focus more on productive capital expenditure. The MTFP provides fiscal data and information in the disclosure statements following the format prescribed in the rules. These data and information contain the crucial fiscal outcomes and explain the fiscal stance of the Government. It gives a comparative analysis of performance of the State Government transparently.

Disclosures

Form D-1
(*See* Rule 4)
Select Fiscal Indicators

Sl. No.	Item	Previous Year 2017-18 (Actuals)	Current Year 2018-19 (RE)
1	Gross Fiscal Deficit as Percentage to GSDP	2.08	3.92
2	Revenue Deficit as Percentage of GSDP	-4.77	-3.87
3	Revenue Deficit as Percentage of Gross Fiscal Deficit	-229.71	-98.67
4	Revenue deficit as Percentage of TRR	-20.35	-13.22
5	Debt Stock as Percentage of GSDP	24.50	27.06
6	Total Liabilities as Percentage to GSDP	24.50	27.06
7	Capital Outlay as Percentage of Gross Fiscal Deficit	329.71	198.67
8	Interest Payment as Percentage of TRR	6.95	6.84
9	Salary Expenditure as Percentage of TRR	33.73	29.43
10	Pension Exp. As Percentage of TRR	12.17	10.92
11	Non-development Expenditure as Percentage of Aggregate Disbursements	29.65	28.90
12	Non-tax Revenue as Percentage of TRR	12.55	9.53

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	1050.93	1144.52	332.49	365.45	4114.11	4893.14
Loan from Centre	2.53	0.04	10.13	10.45	102.86	92.45
State Provident Funds	309.66	395.87	229.09	229.40	911.72	1078.19
Reserve Funds	139.16	147.93	174.88	175.23	58.06	30.76
Deposits	514.70	956.15	490.53	956.15	264.29	264.29
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	178.63	
2	Other Institutions	25.20	
3	Sikkim Housing & Development Board	361.00	
	Total	564.83	

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