GOVERNMENT OF SIKKIM

FINANCE DEPARTMENT

GANGTOK

MEDIUM TERM
FISCAL PLAN FOR SIKKIM
2022-23 to 2024-25

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 (Act No. 15 of 2010)

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Medium Term Fiscal Plan for Sikkim: 2022-23 to 2024-25

1. Introduction – Overview of Current Fiscal Policy

National economy is expected to expand by 9.2 percent in 2020-21 following a contraction of 7.3 percent in the previous year. The Reserve Bank of India has pegged the economic growth rate for 2022-23 at 7.8 per cent, down from 9.2 per cent expected in 2021-22. With the revival of GDP, the public finance in the country and states in particular will see positive impact. As the reduction of flow of resources to the states was a major reason for their fiscal imbalance, the situation is expected to change. The FC-XV has provided a fiscal consolidation path until 2025-26, which states will follow by amending their respective fiscal responsibility legislations. A state like Sikkim, which depends heavily on central transfers faces challenges in this changing time. The Medium-Term Fiscal Policy (MTFP) for the year 2022-23 takes all these factors into consideration while formulating a medium-term fiscal plan.

Government of Sikkim adopted Fiscal Responsibility and Budget Management Act (FRBM Act) in 2010. The fiscal management revolves around the benchmarks provided by FRBM Act. The broad features of the Act have been a defined time path for achieving deficit and reducing debt burden, conducting fiscal management based on fiscal principles enshrined in the Act, and preparing medium term fiscal policy statements to enhance transparency in the Government. During Covid-19 pandemic the state amended its FRBM Act to reflect necessity of higher borrowing. Following the rules to FRBM Act, the medium-term fiscal plan contains statements on macroeconomic perspective, fiscal strategy, medium term fiscal plan, and disclosures fiscal management. The statements explain the fiscal strategy adopted by the Government for the budget year and subsequently in the medium term.

Post FRBM fiscal management experienced considerable improvement in fiscal outcomes in terms of reduced fiscal deficit and stabilization of debt burden. The state continued to generate revenue surplus. Fiscal rules helped the state government to establish fiscal targets as bench marks to manage state finances. This has improved the credibility of the Government policy and facilitated focusing on building social and physical infrastructure. Although it is difficult to operate within a fiscal restraint for a state like Sikkim due to limited base to generate resources internally and the provision of public services in a difficult hilly terrain being costly, the state evinced commendable achievements. Calibrating the fiscal policy within the available resources and observing restraint on spending helped in complying with fiscal rules.

The State Government made necessary changes in the FRBM Act by bringing amendments following the recommendations of Central Finance Commissions. 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 FC starting from the fiscal year 2015-16. The Commission recommended certain changes in the fiscal consolidation process to provide flexibility in the fiscal management of the State. The state government also brought amendment to the Act to reflect the recommendations of the 15th FC regarding gradual decline of fiscal deficit and adopting an indicative debt-GSDP ratio. The overall fiscal management in terms of budget decisions and implementation has remained within the boundary set in the fiscal rules and the recommendations made by the Central Finance Commissions.

The state government conducts review of its compliance with FRBM Act regularly by a reputed independent Institution, which is placed in the legislature. This follows the specific provision contained in the Act as per the recommendations of the 13th FC. This provision has established an institutional process where achievement of the fiscal targets and fiscal management principles has been examined by an independent agency to improve transparency in fiscal management. It has become part of accountability structure under Indian constitution relating to public financial management.

While state finances in India depend on transfers from the Union, the dependency of Sikkim has been considerably large. The recommendations of the Central Finance Commissions have crucial role in transfer of resources. The State had to address several challenges, after 14th FC 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 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 had to make several changes in the financing pattern for ongoing and proposed programs to factor in reduced level of flow of funds. The 15th FC recommendations included revenue deficit grant to Sikkim for first three years of its award period. The resources transfers recommended by the 15th FC to Sikkim including tax devolution and grants, do not adequately reflect the spending needs of the state.

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 2022-23 presents medium term fiscal objectives, strategic priorities in resource allocation, and fiscal policies in conformity with fiscal management principles enunciated in the Act. It gives projected fiscal targets in ensuing budget year, 2022-23, 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 pandemic produced fiscal pressures for the states in India due to surging expenditures and collapsing of revenues. Sikkim faced problems similar to other states in India. The Gross State Domestic Product (GSDP) at constant prices, which recorded a growth rate of 5.8 percent in 2019-20, has gone down to 3.7 percent in 2020-21. The overall impact on state finances was varied due to the exposure factor and availability of fiscal space. As Sikkim's dependence on central transfers is high, it faced challenges to navigate through the Covid period. The Government's efforts to create an enabling environment for economic development was affected. Like other states, Sikkim has amended its fiscal rules to get on with the consolidation process.

The major socio-economic indicators for the state continue to remain strong and the fiscal policy is aimed at supporting the development process. The per capita income of the State at current prices is Rs.486248, which is second highest in the country. 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 State FRBM Act in section 3.4 (iii) calls upon the Government to provide a statement on economic trend and future prospects for growth and development affecting fiscal position of the Government. The trend of economic growth and contribution of various sectors to the state economy have significance in calibrating fiscal plan for the year, primarily for assessing the possible revenue implications. The future prospects of state economy are crucial to express the fiscal outcomes as percentage to GSDP. The Central Government fixes borrowing limit of the state as proportion to GSDP. This is based on assumptions regarding the growth rate usually made by the Central Finance Commission. One of the major objectives of preparing the medium terms fiscal policy is to elaborate on state government's fiscal strategy adopted in the budget and the macrocosmic trends. Given the decline in national economy and GSDP of states, the feature of MTFP assumes greater significance.

State governments in India have been looking ahead to the prospect of economic recovery after facing severe fiscal stress due to the Covid-19. The economic impact of the COVID-19 Pandemic on Indian economy has wiped out almost two years of real growth. After a huge contraction of 7.3 percent, the economy rebounded to a growth of 9.2 percent in 2021-22. Indeed, the recovery was on weaker base, which did not increase the real economy. However, the expectation of 7.8 percent growth rate in 2022-23 heralds a positive trend and stronger economy. The decline in growth during the pandemic resulted in loss of employment and decline in consumption expenditure. The Government of India had taken several monetary and fiscal policy initiatives to address the hardship of the people during the Pandemic, and increase government spending in several sectors, particularly health and infrastructure considerably as a countercyclical policy. The state fiscal policy in tandem with the vision of national economy, will facilitate rise in employment opportunity.

In this MTFP, analysis of the current trends and projections for two outward years beyond the budget year of 2022-23 has been carried out based on data provided by the CSO on GSDP and contribution of various sectors. The State GSDP at constant prices grew at the rate of 5.8 percent in 2019-20 and in 2020-21, the decline has been considerable as growth rate stood at 3.7 percent (Table 1). The growth rate at current prices during these two years was 8.5 and 6.2 percent. The growth rate of GSVA shows similar trend as that of GSDP. The country's economy had been declining ahead of the shock brought by the COVID-19 crisis, and in in 2019-20 the GDP growth declined to a low of 4.2 per cent. The economic performance of a small states like Sikkim during this period was favourable as compared to the national growth rate.

The secondary sector including manufacturing, construction and electricity contributes the largest share to GSVA of the state. Given the small size of the economy, the investments in hydroelectricity and pharmaceuticals have strengthened the secondary sector. The relative share of industry sector has increased from 60.1 percent in 2012-13 to 65.2 percent in 2017.-18 and after that it slowed down to some extent. Due to the low growth in 2020-21 and reduced economic activities, the share of secondary sector declined to 58.1 percent. On an average the service sector contributed about one third of the GSDP during 2012-13 to 2020-21 and agriculture sector contributed 8 percent of GSDP during this period. The relative share of the service sector has shown improvement in recent years. The relative share of agriculture, starting from 2020-21 has remained at 8.1 percent.

The growth of the GSDP that has propelled Sikkim very high in the per capita income ladder across Indian states. According to the comparable per capita income data for three years 2016-17 to 2018-19, as given by FC XV, Sikkim becomes the second highest income state with a three-year average precipitate income of Rs.388736. The state of Goa has the highest per capita income in the country. High growth in seen in past years, particularly in 2009-10 marked a clear shift in the growth path of the GSDP. 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.

Table 1: Composition of GSVA (Constant Prices)

(Percent)

Item	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Primary	**8.5**	**8.4**	**8.0**	**7.6**	**7.8**	**8.1**	**8.3**	**8.1**	**8.1**
Agriculture, forestry and fishing	8.4	8.3	7.9	7.5	7.7	8.0	8.2	8.1	8.1
Mining and quarrying	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Secondary	**60.1**	**59.9**	**61.2**	**62.3**	**63.5**	**65.2**	**64.2**	**60.5**	**58.1**
Manufacturing	39.0	40.1	41.6	43.5	46.3	48.0	46.4	42.6	40.0
Construction	5.7	5.7	5.3	5.3	4.5	4.3	4.1	4.2	4.1
Electricity, gas, water supply & other utility services	15.5	14.1	14.4	13.5	12.7	13.0	13.7	13.6	13.9
Tertiary	**31.4**	**31.7**	**30.8**	**30.1**	**28.7**	**26.7**	**27.5**	**31.4**	**33.8**
Transport, storage, communication & services related to broadcasting	3.0	3.2	3.2	3.1	3.3	3.1	2.9	3.0	3.0
Trade, repair, hotels and restaurants	4.6	5.2	4.8	4.5	4.5	4.7	5.0	5.3	5.4
Financial services	1.6	1.6	1.6	2.7	1.7	1.5	1.5	1.5	1.6
Real estate, ownership of dwellin & professional services	5.4	5.3	5.0	4.6	4.5	4.1	3.9	3.8	3.8
Public administration	7.2	7.2	7.1	6.6	6.2	5.6	6.8	8.7	9.8
Other services	9.6	9.2	9.3	8.6	8.5	7.8	7.5	9.1	10.2
TOTAL GSVA at basic prices	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Growth Rate									
GSVA (Constant Prices)	1.74	5.15	8.08	9.09	6.16	11.94	8.26	6.01	3.73
GSDP (Constant Prices)	2.29	6.1	7.9	9.9	7.2	14.8	5.4	5.8	3.7
GSVA (Current Prices)	9.9	11.3	11.5	16.2	13.6	22.4	12.4	8.7	6.2
GSDP (Current Prices)	10.5	12.3	11.1	17.1	14.7	25.5	9.4	8.5	6.2

Source: CSO, GoI

Although tax bases are different, the State economy is usually assumed to provide base for the revenue. Thus, movement of the economy and contribution of different sectors tracked in the budget making process to get a control over revenue projections. In case of Sikkim a large part of the GSDP is derived from manufacturing and power generation. However, these sources do not result in a corresponding increase in local consumption and consequently revenue. The growth pattern in the state suggests that the sectors growing rapidly and contributing to growth process have not contributed to tax revenue to the same extent. 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 FC-XV in its report for the year 2020-21, tried to reduce the variability in growth observed across states in the previous years. Projected annual growth rate of comparable GSDP for Sikkim was assumed at 10.2% in 2019-20 and 11% for 2020-21. The State memorandum demanded to adopt 11% growth rate during the award period and avoid considering high growth rates of past years. Despite taking 11% growth rate, the GSDP projected by the Commission remains higher than the state projection. This could be due to the comparable GSDP taken by the FC. However, this level of variance is much less than what we had experienced under the 14th FC.

The FC-XV in its full report for the award period 2021-26, took the prevailing economic situation in India into consideration while suggesting state wise growth rates of GSDP. The Commission assumed a negative growth rate of 6 percent for the 2020-21 followed by a higher growth rate 13.5 percent in 2021-22 at current prices. Similarly for the state of Sikkim, the Commission assumed a negative growth of 0.5 percent in 2020- 21 and a higher growth rate of 14.5 percent for the year 2021-22. Starting from 2022-23, the FC-XV prescribed growth rates ranging from 11.5 to 12.5 percent. The GSDP growth rate as provided by the CSO for Sikkim was 8.5 percent in 2019-20 and 6.2 percent in 2020-21 at current prices. The MTFP looking at the prospect of recovery assumes a growth rate of 11 percent for projecting GSDP in the medium term

3. Fiscal Profile of the State

The public finances in the country are expected to improve after the recovery of the national economy from the severe contraction faced in 2020-21. States in India endured the responsibilities of fighting against the pandemic and address the public health crisis. The combination of reduction in flow of revenue from both internal sources and central transfers, and rising spending expenditures has generated incomparable pressures on fiscal situations. The decline in central taxes also resulted in closure of the options of GST compensation to states. To manage the higher expenditure and to compensate for loss of GST compensation, the states were allowed to incur higher borrowing by enhancing the limit of fiscal deficit. The fiscal consolidation process recommended by FC-XV contains a glide path to reduce the fiscal deficit over the years.

The fiscal trends even before the advent of Covid-19 induced crisis, had started showing stress in terms of rising debt burden, despite the fact that the state finances were on the fiscal consolidation path. According to the RBI, States' gross fiscal deficit (GFD) has remained within the FRBM threshold of 3 per cent of gross domestic product (GDP) and States managed to generate a marginal revenue surplus in 2019-20. Outstanding debt of states have risen over the last five years to 25 per cent of GDP, posing medium-term challenges to its sustainability. The slowdown in the country and resultant decline in collection of central taxes has put strain on the resource position of states. While, the need for higher revenue generation and prudent debt management was highlighted to address the rising fiscal risks, the Covid-19 Pandemic has accentuated the situation further. The emerging fiscal scenario assumes significance for states like Sikkim, which depends heavily on central transfers.

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3.1 Recommendations of Fifteenth Finance Commission: Implication for Sikkim

The budget for the year 2021 -22 is the first budget during the award period of the 15th Finance Commission (FC-XV). The report gave due consideration to the impact Covid-19 pandemic on Indian economy. This crisis came just as the Indian economy was beginning to stabilize after a prolonged slowdown and painful transition from challenges in the implementation of major policy changes like GST. The Commission was tasked with determining the distribution between Union and States of the net proceeds of taxes, reviewing and commenting on the design of fiscal principles for various grants that are typically provided alongside revenue shares, considering performance-based incentives.

The FC-XV while revising the fiscal consolidation path looking at the fiscal distress faced by the state prescribed for a fiscal deficit of 4.5 percent of GSDP in 2020-21 and tapering off to 3 percent in 2025-26. The Commission suggested that the ratio of public debt to GDP should continue to serve as the medium-term anchor for fiscal policy in India, with fiscal deficit as the operational target. The Commission recommended three windows to allow greater flexibility to the States: (a) additional unconditional borrowing space in the first two years of the award period to compensate for the loss of tax revenues; (b) an additional borrowing of 0.5 percentage of GSDP to be allowed to the States in case they meet the criteria for power sector reforms; (c) building on the FC-XIV recommendation, the Commission also allowed the States to utilize any unutilized borrowing space in the subsequent years within our award period.

In order to maintain predictability and stability of resources, especially during the pandemic, FC-XV recommend maintaining the vertical devolution at 41 per cent – the same as in their report for 2020-21. The vertical devolution is in line with the recommended share in devolution of the FC-XIV. The Commission have only made the required adjustment of about 1 per cent due to the changed status of the erstwhile State of Jammu and Kashmir into the new Union Territories of Ladakh and Jammu and Kashmir. In the tax devolution formula, FC-XV introduced a new indicator demographic performance. Other indicators are population, area, forest and ecology, income distance and tax and fiscal efforts.

The Commissions have adopted normative principles and procedures for assessing the revenue and expenditure of the States. Observations on Finance Commission Projections of state GSDP and finances have been discussed here.

Deficit and debt Path during the Award Period of FC-XV

Table 2 Indicative Deficit and Debt Path

(% to GSDP)	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**
Revenue Deficit*	-0.1	-0.5	-0.8	-1.2	-1.7	-2.5
Fiscal Deficit	4.5	4	3.5	3	3	3
*Negative values indicate surplus and positive values indicate deficit						
Indicative Debt Path for Sikkim						
	27.4	27.5	28.1	28.1	28	27.9

1. The projected nominal GSDP growth rate seems to be reflecting the national GDP growth rate. A negative growth of 0.5 percent in in 2020-21 and a higher recovery in 2021-22 on a weak base could be a possibility. However, the projected GSDP for 2021-22 shows a growth of about 28 percent over the fiscal year 2019-20.
2. Own tax GSDP ratio ranging from 3.1 to 3.6 percent during 2021-22 to 2025-26 looks reasonable projection if compared with 3.35 percent of 2018.19 and RE of 4.33 in 2019-20. In absolute number the projected tax revenue increases from Rs.1127 crores to Rs.2047 crores in 2025-27. While the projected tax receipt of 2021-22 shows a negative growth over RE of 2019-20, after that the growth rate assumed works out to be about 16 percent. The realized growth of tax revenue in Sikkim in recent years remained volatile for which achieving 16 percent growth in post pandemic years will be challenging.
3. Projection of non-tax growth starting from Rs.518 crores in 2021-22 to Rs.931 crores in 2025-26 compares favourably when compared with past trend. Projected non-tax GSDP ratio ranging from 1.4 to 1.6 remains below the past trend.
4. Overall own revenue projection for Sikkim by the FC-XV will be achievable, provided the post-pandemic national economy and state economy show higher growth.
5. The growth of adjusted revenue expenditure during the award period works out to be about 6.68 percent. The adjustments carried out by the FC – XV to adopt a normative projection has resulted in lower than expected growth rate for the revenue expenditure.

6. Pre-devolution deficit starting from Rs.3233 crores in 2021-22 increases to Rs.3335 in 2025-26. The level of pre-devolution deficit and the change in the award period has remain low due to low projection of revenue expenditure.
7. After tax devolution is factored in, Sikkim became eligible to receive revenue deficit grant only for three years from 2021-22 to 2023-24. Post devolution, according to FC-XV projection, the State becomes revenue surplus and ineligible for revenue deficit grant for last two years of its award period.

The share of Sikkim in the tax devolution formula given by the FC-XV for the award period from 2021-22 to 2025-26 is 0.388. This share shows a marginal increase from 0.363 recommended by the FC-XIV. The features like being second highest per capita income state and very low population pose disadvantages for Sikkim in the devolution formula. The per capita income distance criteria give very low share to the State. As most of the criteria are scaled up by the population, even a better performance in some criteria brings down the inter se share. In the case of area, Sikkim, like other smaller states, gets the lowest 2 percent inter se share. Tax effort criterion also poses disadvantage to Sikkim as tax/GSDP ratio remains low in the State. The criteria like demographic performance and forest and ecology have given some edge to the state in this devolution formula.

Recommended Tax Devolution

Table 3 Share in Central Taxes

2015-16	**2016-17**	**2017-18**	**2018-19**	**2019-20 (RE)**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**
1870.28	2069.19	2634.66	2789.61	2407.69	**2555**	**2843**	**3199**	**3634**	**4162**
Growth	10.64	27.33	5.88	-13.69	**6.12**	**11.27**	**12.52**	**13.60**	**14.53**
% to GSDP									
10.37	10.34	11.84	10.41	8.47	**7.02**	**7.01**	**7.04**	**7.11**	**7.24**

The trend of recommended tax devolution during 2021-22 to 2025-26 shows increases in growth starting from 2022-23. As percent to GSDP, at about little more than 7 percent, the recommended tax devolution falls short of the past trend. The growth of national economy will determine the flow of tax devolution to the State. If national growth increases during the Commission award period, it will enhance share of tax devolution to the state and the share of the Sate in IGST also will increase.

The FC-XV recommended revenue deficit grant for the states. The Commission recommend an allocation of 1.92 per cent of the gross revenue receipts of the Union as revenue deficit grants to specific States. The revenue deficit grants aggregate to Rs 2,94,514 crore, with gradual tapering off during the award period. The other grants recommended by the Commission are (i) Grants for Local Governments – Rs.4, 36,361 crores; (ii) Grants for Disaster Management – Rs.1,60,153 crores and (iii) performance and state specific grants. While the Government of India accepted the first three types of grants, the state specific and performance grants were kept under consideration. The tax devolution and basic grants that were accepted by the government are given in Table 4, which concerns state of Sikkim. The flow tax devolution to the state also involves uncertainties which adversely impacts the ability of the State to implement its own policies.

Table 4 Tax Devolution and Basic Grants

Rs. Crore	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2021-26 (Total)**
Tax Devolution	2555.00	2843.00	3199.00	3634.00	4162.00	16393.00
Revenue Deficit Grants	678.00	440.00	149.00	0.00	0.00	1267.00
Local Governments	67.00	70.00	72.00	76.00	75.00	360.00
Disaster Management	50.00	53.00	56.00	59.00	61.00	279.00
Total	**3350.00**	**3406.00**	**3476.00**	**3769.00**	**4298.00**	**18299.00**

3.2 Fiscal Policy Overview

The public finances in Sikkim experienced considerable disruption in 2020-21 due to Covid-19 pandemic. Due to severe decline in central transfers and contraction of own revenue generation the fiscal stress was also high in in 2019-20 and the fiscal targets were breached. While rule based fiscal management in the form of FRBM Act adopted in 2010-11 serves as the benchmark for fiscal management, unprecedented economic situations forced the government to lose balance. State finances of Sikkim reflects the general pattern of fiscal problems witnessed by most of the states in India.

Indeed, since the adoption of the FRBM Act, the state managed to adhere to the fiscal targets stipulated in the Act until 2018-19. The state had maintained revenue surplus, reduced the deficit to stipulated limit, and stabilized debt burden considerably complying with FRBM Act (Table 5). The revenue surplus, which was at 4.74 percent of GSDP in 2014-15, declined considerably to 2.59 percent in 2018-19. During next two years, 2019-20 and 2020-21, Sikkim experienced large revenue deficit – 4.14 and 2.32 percent to GSDP respectively. The revenue surplus depends upon the central grants and own revenue, which contracted to a large extent. While in 2019-20, State government targeted a fiscal deficit of 3.5 percent factoring in the flexibility provided by FC-XIV, the actual deficit increased to 6.4 percent.

Table 5: Fiscal Profile of Sikkim: An Overview

(Percent to GSDP)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22 (RE)	2022-23 (BE)
Revenues	**26.53**	**20.98**	**23.03**	**23.43**	**22.10**	**14.90**	**17.14**	**23.26**	**22.05**
Own Tax Revenues	**3.42**	**3.14**	**3.26**	**3.09**	**3.35**	**2.99**	**2.95**	**3.39**	**3.50**
Sales Tax	1.83	1.81	1.82	1.12	0.70	0.61	0.60	0.62	0.61
SGST	0.00	0.00	0.00	0.77	1.51	1.40	1.41	1.64	1.80
State Excise Duties	0.85	0.79	0.78	0.68	0.68	0.64	0.64	0.78	0.78
Motor Vehicle Tax	0.13	0.12	0.12	0.13	0.12	0.13	0.09	0.12	0.12
Stamp Duty and Regi. Fees	0.04	0.05	0.06	0.06	0.06	0.04	0.04	0.03	0.04
Other Taxes	0.57	0.38	0.47	0.33	0.27	0.17	0.17	0.20	0.16
Non-Tax Revenues	**2.10**	**2.29**	**2.26**	**2.94**	**2.46**	**2.13**	**2.02**	**1.54**	**2.59**
Central Transfers	**21.01**	**15.55**	**17.51**	**17.40**	**16.29**	**9.78**	**12.16**	**18.33**	**15.96**
Tax Devolution	5.25	10.37	10.34	10.56	7.63	4.97	6.46	6.02	5.57
CGST, IGST	0.00	0.00	0.00	1.28	2.78	2.11	2.76	2.94	2.72
Grants	15.75	5.18	7.18	5.55	5.88	5.16	10.58	8.28	7.66
Revenue Expenditure	**21.79**	**20.21**	**18.92**	**18.66**	**19.51**	**19.03**	**19.46**	**21.11**	**21.88**
General Services	**7.88**	**6.90**	**7.10**	**6.87**	**7.32**	**7.45**	**7.38**	**7.84**	**7.97**
Social Services	**8.31**	**6.85**	**6.67**	**6.89**	**7.73**	**6.94**	**7.43**	**7.81**	**8.40**
Economic Services	**5.33**	**6.24**	**4.88**	**4.62**	**4.21**	**4.39**	**4.36**	**5.12**	**5.18**
Assignment to LBs	**0.27**	**0.22**	**0.28**	**0.28**	**0.25**	**0.26**	**0.29**	**0.33**	**0.33**
Capital Expenditure	**6.53**	**3.66**	**3.68**	**6.84**	**4.99**	**2.27**	**4.62**	**7.08**	**4.17**
Capital Outlay	6.37	3.52	3.60	6.77	4.82	2.22	4.63	7.07	4.17
Net Lending	0.17	0.14	0.08	0.07	0.17	0.05	0.00	0.00	0.00
Revenue Deficit	**-4.74**	**-0.77**	**-4.11**	**-4.77**	**-2.59**	**4.14**	**2.32**	**-2.15**	**-0.17**
Fiscal Deficit	**1.79**	**2.88**	**-0.43**	**2.08**	**2.40**	**6.40**	**6.95**	**4.92**	**4.00**
Primary Deficit	**0.23**	**1.43**	**-2.05**	**0.45**	**0.78**	**4.84**	**5.27**	**2.97**	**2.08**
Outstanding Liabilities	**22.60**	**21.97**	**23.33**	**24.50**	**23.65**	**22.77**	**39.43**	**43.32**	**44.11**

Source (Basic Data): Finance Accounts and State Budget 2022-23

Note: The GSDP figures are from CSO

Negative sign in deficit indicates surplus

The rise in fiscal deficit in 2019-20 was due to severe shortfall in actual receipt of share in central taxes, which was experienced by other states as well. There was persistent demand from the state governments to relax the FRBM limits and increasing in net borrowing (NRC) from the existing 3 percent of GSDP. Given the fiscal stress faced by the states and adjustment of Rs.58, 843 in 2019-20 crores against states' share of central taxes on account of lower tax revenue collection in 2018-19, the central government allowed higher NRC to the extent of adjusted amount. The state of Sikkim was allowed the flexibility to incur additional NRC of Rs.216 crores.

In 2020-21, the fiscal deficit of Sikkim increased to 6.95 percent and revenue deficit was at 2.32 percent of GSDP. The state was allowed to increase the fiscal deficit by 5 percent as part of central government package in the wake of Covid-19 pandemic. Government of India, under the Aatma Nirbhar Abhiyan in May 2020, allowed the states to increase their borrowing limits from 3 percent to 5 percent for the fiscal year 2020-21. While 0.5 percent of the GDP of the additional borrowing is unconditional during current financial year, the states need to meet specific reforms requirements to avail another 1 percent of GDP as additional borrowing. Following the GST council meet in October, it was decided that states opting for the special window facility to meet the shortfall arising due to GST compensation, can avail additional 0.5 per cent borrowing unconditional. Government of India has provided assistance under "Scheme for Special Assistance to States for Capital Expenditure". Funds under this scheme will help the States to manage ongoing capital projects, which could be stuck due to resource problem. Sikkim, like other NE states was allowed to avail Rs.200 crores under this facility. This has further increased the fiscal deficit limit.

Government of Sikkim amended the state FRBM Act as per the recommendations of the FC-XV. According to the amendments, the fiscal deficit for the year 2021-22 is pegged at 4%. Sikkim, like other NE states could avail borrowing facility of Rs.200 crores under special; assistance scheme, which was extended for another year for 2021-22. This loan facility is interest free, the liability of repayment for which arise only after 50 years.

As per the amendment to the FRBM Act, the State as expected achieve fiscal deficit to the tune of 3.5 percent of GSDP in 2022-23. However, an annual additional borrowing space of 0.5% of GSDP was allowed for the period 2021-22 to 2024-25 based on certain performance criteria in the power sector. The fiscal deficit of 4% in 2022-23 budget accounts for this facility of additional borrowing.

Leaving the two difficult years of 2019-20 and 2020-21, the State adhered to the FRBM Act after accounting for the special assistance programs. As the facilities involved higher borrowing over and above the FRBM Act limit, the debt GSDP ratio has been increasing over the years. The MTFP projects to maintain the fiscal consolidation process in the two outward years and improve resource availability to social and economic sectors.

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 constitute about three-fourths of the total State revenues. As percentage to GSDP, the central transfers declined considerably from 16.29 percent in 2018-19 to 12.16 percent in 2020-21. The revised estimates for 2021-23 shows that it has increased to 18.33 percent. The budget projection at 15.96 percent in 2022-23 has been realistic in a post pandemic period (Table 5).

Own revenue receipts contracted by 2.09 percent in Covid-19 hit year of 2020-21 as both tax and non-tax revenue contracted. The revised estimates for 2021-22 shows a modest growth of 7 percent due to higher growth of own tax revenue at 24 percent. The higher growth of own tax revenue in 2021-22 was mostly due to higher growth of SGST at 25 percent. The sales tax and SGST taken together account for about 48 percent of total own tax receipts.

The budget estimated for the year 2022-23 shows considerable growth of 33.47 percent despite a modest 11.48 percent growth of own tax receipts. The non-tax revenue is projected to grow massively by about 82 percent. The consistent negative growth of non-tax revenue in previous two years, -17.83 percent in 2021-22, formed a weak base on which this massive increase projected. The non-tax revenue is expected to garner an additional amount of 445.87 cores n 2022-23. This is helped by introduction of a fee natural water user charges, which is expected to raise receipts to the tune of Rs.200 crores.

The State taxes of Sikkim remain less buoyant estimated over a long period of time 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 sends 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.

For a longer period from 2011-12 to 2021-22, buoyancy coefficients for the State taxes reveal that aggregate buoyancy remained less than one (Table 6). Buoyancy coefficient for sales tax and GST taken together was 1.305. A coefficient more than one shows better buoyancy. Other taxes show buoyancy coefficients less than one. Annual buoyancy coefficients calculated taking the changes in tax revenue and GST, shows very high figures in 2021-22 revised estimates. This is due to the higher growth projected in revised budget. For budget estimates of 2022-23, overall buoyancy increased to 1.43 and sales tax + GST show a higher buoyancy of 1.89.

Table 6: Buoyancy of Taxes: 2011-12 to 2020-21 (RE)

	2011-12 to 2021-22 (RE)	2019-20	2021-22 (RE)	2022-23 (BE)
Own Tax Revenues	0.975	0.38	34.15	1.43
Sales Tax + SGST	1.305	0.46	30.40	1.89
State Excise Duties	0.740	0.62	43.78	1.00
Motor Vehicle Tax	0.807	1.13	71.38	0.72
Stamp Duty and Registration Fees	0.719	-0.52	-14.61	2.70
Other Taxes	-0.110	-1.07	34.29	-1.85

Source (Basic Data): Finance Accounts and State Budget 2022-23

3.4 Expenditure Profile

Despite having large committed spending, the government of Sikkim successfully implemented the policy of controlling the growth of revenue expenditure over the years. This has helped the State to generate revenue surplus consistently and expand the capital expenditure. The revenue expenditure, which was at 21.8 per cent relative to GSDP in 2014-15, declined to 19.03 percent in 2019-20. During next two years, it has increased modestly. While the revised estimates for the year 2021-22 shows the ratio rising to 21.11 percent due to expansion of spending on Covid related spending, the budget projection increases it marginally to 21.88 percent 2022-23. The priority sectors in social and economic services continue to be focus areas in terms of resource allocation. The State managed to generate revenue surplus in 2021-22 and 2022-23 after getting into deficit previous two years.

Table 7: Expenditure Profile of Sikkim

(Per cent to GSDP)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22 (RE)	2022-23 (BE)
Revenue Expenditure	**21.79**	**20.21**	**18.92**	**18.66**	**19.51**	**19.03**	**19.46**	**21.11**	**21.88**
General Services	**7.88**	**6.90**	**7.10**	**6.87**	**7.32**	**7.45**	**7.38**	**7.84**	**7.97**
Interest Payment	1.55	1.45	1.62	1.63	1.62	1.57	1.68	1.95	1.92
Pension	2.16	2.23	2.23	2.27	2.75	2.80	2.78	2.73	2.93
Other	4.16	3.21	3.25	2.97	2.95	3.08	2.93	3.16	3.12
Social Services	**8.31**	**6.85**	**6.67**	**6.89**	**7.73**	**6.94**	**7.43**	**7.81**	**8.40**
Education	4.62	4.18	3.74	3.65	3.55	3.92	3.65	3.57	3.52
Medical and Public Health	1.19	0.98	0.96	1.00	1.12	1.11	1.33	1.52	1.47
Others	2.50	1.69	1.98	2.24	3.07	1.90	2.45	2.72	3.41
Economic Services	**5.33**	**6.24**	**4.88**	**4.62**	**4.21**	**4.39**	**4.36**	**5.12**	**5.18**
Assignment to LBs	**0.27**	**0.22**	**0.28**	**0.28**	**0.25**	**0.26**	**0.29**	**0.33**	**0.33**
Capital Outlay	**6.53**	**3.66**	**3.68**	**6.84**	**4.99**	**2.27**	**4.62**	**7.08**	**4.17**

Source (Basic Data): Finance Accounts and State Budget 2022-23

The capital expenditure, which had slowed down in 2015-16 and 2016-17 relative to the GSDP revived in next two years. But in 2019-20 it slumped to a low of 2.27 percent GSDP due to resource constraint. For the fiscal year 2020-21 and revised estimates for 2021-22, capital expenditure increased due to availing of special assistance program of the central government and increase in borrowing limit. The budget estimates for the year 2022-23 shows a realistic projection of 4.17 percent of GSDP. This is expected to increase during the year as the State will avail the special assistance for capital spending announced by the central government in the budget for 2022-23. Adequate transfer of resources from Central Government to a State like Sikkim has always remained crucial factor in building social and physical infrastructure and improvement of human development indicators, which constitute core development strategy. The MTFP is prepared based on the rationale of restructuring the government spending by emphasizing the critical areas.

3.5 Outstanding Debt and Government Guarantee

One of the major objectives of the FRBM Act is to maintain debt burden of the State at sustainable level. This has remained as a crucial objective of fiscal management in the State. The 13th FC in their fiscal roadmap worked out the yearly outstanding debt burden for all the states aligning with the fiscal path. Sikkim was successful to remain within the limit stipulated by the Commission. Indeed, decline in the average cost of debt of the State because of the debt restructuring formula of the Twelfth Finance Commission also helped lowering debt burden. Decline in the average cost of debt also resulted in reduction in volume of interest payments and availability of higher fiscal space for the State government.

The 14th FC 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 government managed to remain within this limit during the award period of the 14th FC.

The 15th FC indicated an annual debt-GSDP ratio in their recommendations for fiscal restructuring path. The State government amended the FRBM Act in 2021-22 by indicating annual debt-GSDP ratio following the recommendations. However, the debt-GSDP ratio has been escalating beyond these targets due to decline in central transfers and provision of higher limit to borrow over and above the FRBM targets to account for lower transfers and special programs to augment capital outlay. While Sikkim remained within FRBM Act limit until 2019-20 with a debt-GSDP ratio of

22.77, it has increased to 39.43 percent in 2020-21 and the budget estimates shows that it has increased further to 44.11 percent in 2022-23.

3.6 Government Policy for the Ensuing Budget Year

As the economy is emerging from a very disruptive period of pandemic induced fiscal crisis, the government has presented a pragmatic budget for the ensuing year. The revenue receipts of the State as percentage of GSDP remained subdued at 22.05 percent as compared to 23.26 percent in the previous year. While own revenue of the State increased riding high on non-tax revenue revival, the central transfers show decline in the ensuing budget year as compared to the GSDP. Thus overall, the revenue constraint remained as a major fiscal challenge (Table 5).

Committed spending on interest payment, pension outgo, and salaries continue to put pressure on resource allocation. The revenue expenditure as percentage to GSDP has increased marginally from 21.11 percent in 2021-22 to 21.88 percent in 2022-23. There has been realignment of resources to meet the resource crunch. While general service and economic service show marginal growth, social services became the priority for the government in the ensuing budget year. The continuing and new programs introduced in the last year’s budget received 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, which had increased considerably in 2021-22 due to special assistance provided by the central government as part of the economic revival process, set to decline in the budget projections. As alluded, the capital outlay will change during the year after availing the special assistance announced in the central budget. The additional borrowings, however, escalated the debt-GSDP ratio considerably, which will need serious attention in the coming years.

4. Medium Term Fiscal Plan: 2022-23 to 2024-25

4.1 Fiscal Indicators

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

Sl. No.	Particulars	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)
		2020-21	2021-22 (RE)	2022-23 (BE)	2023-24	2024-25
1	Revenue deficit as percentage of GSDP	2.32	-2.15	-0.17	-0.50	-0.50
2	Fiscal deficit as percentage to GSDP	6.95	4.92	4.00	3.50	3.50
3	Primary deficit as percentage of GSDP	5.27	2.97	2.08	1.60	1.64
4	Total Debt Stock as Percentage of GSDP	39.43	43.32	44.11	43.24	42.45

Notes: 1. GSDP is the Gross Domestic Product at current prices given by CSO at 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 2020-21, the last year for which audited figures are available, show that the State government has overstepped the fiscal deficit targets against the allowed limit of 5 percent on the wake of Covid-19 Pandemic crisis. Availing of the special assistance to enhance capital outlay and decline in central transfers fueled the increment of fiscal deficit beyond the target.

- The revised estimates for the budget year, 2021-22, marginally exceeds the amended FRBM Act of the State, which allows a fiscal deficit of 4 percent and the additional 0.5 percent fiscal deficit to avail special assistance of Rs.200 crores for capital expenditure provided by central government for this year 2021-22. The revised estimates show emergence of revenue surplus.

- The budget projection of fiscal deficit for the year 2022-23 is aligned with FRBM Act target of 3.5 percent and an additional borrowing facility of 0.5

percent in the power sector. The budget projection is grounded on prudent assumptions and shows smaller revenue surplus. The budget projection is the first year of the MTFP.

- The MTFP projection for 2023-24 and 2024-25, the two outward years, conforms to the amended FRBM Act following the recommendations of 15^{th} FC. The MTFP tries to control the spending and reduce debt-GSDP ratio as this has increased considerably due to higher borrowing.

The detailed projection of fiscal variables presented in Table 9 shows that the revenue account surplus has increased in two outward years of the MTFP as compared to the budget year. The fiscal deficit has been stabilized at 3.5 per cent relative to the GSDP in two outward years, which includes a 0.5 percent additional borrowing in the power sector. Thus, the fiscal deficit is aligned with of FRBM Act. The revenue expenditure grows slowly during the MTFP period reflecting the emerging revenue receipts scenario and 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. The resource allocation to social and economic services shown as percentage to GSDP was allowed to rise during the MTFP period. The rise in general service as percentage to GSDP shows the pressure of committed spending.

The MTFP takes restrained path for revenue expenditure due to the pressure on revenue receipts. It is expected that with improvement in growth scenario in the country, there will be improvement in central transfers including the GST components. The rolling nature of the MTFP allows to make revisions in the future. The capital expenditure, which is at 4.17 percent in 2022-23, has declined to 4 percent during last two years.

As the revenue receipt as percentage to GSDP declined in budget year, the MTFP projects improvement in two outward years. The tax base being small, it is difficult to expand the resource envelope dramatically. The SGST, infused some growth in revenue receipts in the MTFP period.

Table 9

Medium Term Fiscal Plan: 2021-22 to 2023-24

(Per cent to GSDP)

	2022-23 (BE)	2023-24	2024-25
Revenue Receipts	**22.05**	**22.72**	**23.43**
Own Tax Revenues	**3.50**	**3.58**	**3.67**
Sales Tax +SGST	2.41	2.50	2.59
State Excise Duties	0.78	0.78	0.78
Motor Vehicle Tax	0.12	0.12	0.12
Stamp Duty and Registration Fees	0.04	0.04	0.04
Other Taxes	0.16	0.15	0.14
Own Non-Tax Revenues	**2.59**	**2.58**	**2.56**
Central Transfers	**15.96**	**16.56**	**17.21**
Tax Share	5.57	5.95	6.36
CGST	2.72	2.95	3.18
Grants	7.66	7.66	7.66
Revenue Expenditure	**21.88**	**22.22**	**22.93**
General Services	**7.97**	**8.04**	**8.11**
Interest Payment	1.92	1.90	1.86
Pension	2.93	2.93	2.93
Other General Services	3.12	3.21	3.32
Social Services	**8.40**	**8.61**	**8.83**
Education	3.52	3.59	3.66
Medical and Public Health	1.47	1.54	1.62
Other Social Services	3.41	3.48	3.55
Economic Services	**5.18**	**5.57**	**5.99**
Compensation and Assignment to LBs	**0.33**	**0.35**	**0.36**
Capital Expenditure	**4.17**	**4.00**	**4.00**
Capital Outlay	4.17	4.00	4.00
Net Lending	0.00	0.00	0.00
Revenue Deficit	**-0.17**	**-0.50**	**-0.50**
Fiscal Deficit	**4.00**	**3.50**	**3.50**
Primary Deficit	**2.08**	**1.60**	**1.64**
Outstanding Debt	**44.11**	**43.24**	**42.45**

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

The MTFP shows the fiscal stance of the Government, which strives at fulfilling the sector objective and achieve better results from the utilization of public resources. GSDP is assumed to grow at 11 percent, which is tad lower than what was prescribed by the 15th FC. Improvement in national economy gives hope for rise in GSDP growth beyond the present trend. The MTFP projects improvement of own revenue and improvement 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 projection is based on the fiscal reality witnessed in baseline period with possible improvements.

The challenges of fiscal management during these difficult times have aggravated the debt burden of the State due to elevated level of borrowing to meet the necessary spending demand. The outstanding debt-GSDP ratio of 44.11 in the budget year of 2022-23 exceeds the limit of 28.1 percent prescribed by 15th FC. This was due to additional borrowing as alluded above. The MTFP projections show decline from this high level of debt burden. However, much more needs to be done at both at national and State level in a coordinated manner to reduce it further.

4.2 Assumption Underlying the Fiscal Indicators

The FRBM Act of the State stipulates those assumptions underlying fiscal projections should be elaborated in the MTFP, which enhances the transparency. The assumptions made to project the fiscal variables reflect the fiscal policy choices of the Government operating with limited resource availability. The MTFP 2022-23 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 Central Finance Commission regarding fiscal consolidation. Given the uncertainties in growth process, the trends in resource transfers under tax devolution, grants, and GST related transfers have been projected with caution. 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 assumptions underlying the projection of fiscal variables are contained in Box 1.

GSDP

MTFP uses the growth rate of 11 percent for projecting GSDP beyond the budget year, which is lower than what is prescribed by the 15th FC. The 15th FC prescribed growth rates of 12.5 percent for 2023-24 and 2024-25.

Revenue Receipts

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 2021-22 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 were derived giving due consideration to the growth prospects. The prescriptive buoyancy resulted in growth rate of 12.88 percent for own taxes.

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 2021-22. The proposed water user charges have been included in the projection. In the case of central transfers, the recommendations of the 15th FC are factored in during the projection period. For the share in central taxes budgetary figure for the year 2022-23 is allowed to grow at the observed rate. The grants were projected using the observed growth rate after the restructuring of the central grants were undertaken.

Expenditure Restructuring under MTFP

The growth of revenue expenditure was controlled given the resource problem faced by the State. Funding to the priority sectors were protected during the MTFP period. 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.

The growth of revenue expenditure declined to 2.97 percent in 2022-23 due to severe resource constraint. During the last two years of the MTFP period, the revenue expenditure increases by 12.72 and 14.56 percent respectively that gives an average growth rate of 13.08 percent during the MTFP period. This has become necessary to safeguard resource allocation to priority areas. 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.3207.54 crore in 2022-23 BE to Rs.4152.12 crores in 2024-25.

The capital expenditure declined as compared to the budget year. It has moderated from 4.17 percent in 2022-23 to 4 percent in two outward years of MTFP. Given the importance accorded to the capital expenditure by the government, care has been taken keep it at a reasonably high level. The special assistance window for capital expenditure will further increase the capital outlay. The MTFP keeps the requirements of infrastructural development in the State while projecting the capital expenditure.

Debt and Deficit under MTFP

The fiscal deficit projected to be 4 percent for the budget year, which declines to 3.5 percent in last two years of MTFP. This is based on the targets given in the FRBM Act of the state and takes into account additional 0.5 percent borrowing in the power sector. During the MTFP period, given the growth of revenue and expenditure, the revenue accounts remain at surplus. The restrained revenue expenditure helps in protecting the capital outlay. The emerged fiscal profile shows that the outstanding debt declines from a high of 44.11 percent to 43.24 percent in 2023-24 and further to 42.45 percent in 2024-25. This level of debt remains higher than debt level stipulated in the amended FRBM Act. Further efforts to generate additional revenue mobilization and some coordinated effort from both central and state governments will reduce the borrowing requirement and debt burden.

Box 1
Proposed MTFP Targets

Macro Parameters

- Nominal Growth of GSDP was assumed to be 11 percent, which is marginally lower than what was prescribed by the 15th FC.

Revenue Resources

- Sales tax + GST assumes a buoyancy of 1.305, which is buoyancy observed during 2011-12 to 2021-22.
- The state excise duty assumes a buoyancy of 1.00 as against the observed coefficient of 0.740.
- The stamp duty and registration fees assume same buoyancy of 0.719 as observed during 2011-12 to 2021-22.
- Motor Vehicle tax assumes a buoyancy of 1.00 as against an observed buoyancy of

0.807.

- Other taxes assume a buoyancy of 0.50, as against the observed buoyancy of -0.110.

Expenditure Projections

- Pension payments are projected taking into account the requirements in 2022-23 as per the Government policy. The projection for two outward years, takes a growth rate of 11 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 2022-23 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 13.78 per cent per annum in last two years of MTFP.
- Education expenditure will grow at the rate of 13.28 per cent per annum in last two years of MTFP.
- Health expenditure will grow at the rate of 16.37 per cent per annum.
- Capital expenditure to GSDP ratio is projected to decline from 4.17 percent in the budget year to 4 percent in two outward years of MTFP.

Deficit and Debt targets

- The MTFP projects the revenue surplus during the MTFP period.
- The fiscal deficit is projected to decline from 4.00 percent to 3.5 percent.
- The outstanding debt to GSDP ratio declines from 44.11 percent in 2022-23 to 43.24 percent in 2023-24 and further to 42.45 percent in 2024-25.

5. Major features of Medium-Term Fiscal Policy from 2022-23 to 2024-25

The MTFP from 2022-23 to 2024-25 takes into account the emerging contours of fiscal architecture in the country. The central transfer system, additional borrowing facility, fiscal consolidation path of the 15th FC and the growth scenario became the guiding force for the MTFP. Improving resource generation and protecting priority sector allocation have been the major focus areas. The augmentation of tax buoyancy is based on the capacity of the Government to collect more tax. The MTFP takes into account the initiatives to improve non-tax revenue. The modernization of tax administration and efforts to improve the tax base under GST is expected to improve the revenue receipts.

The fiscal policy should facilitate creating an enabling environment for further growth and socio-economic progress. Fiscal management in the medium term helps the Government to infuse predictability in resource allocation and observe fiscal discipline. While it is challenging to meet the spending demands from all the sectors, the need for creating better infrastructure and human development remains crucial. In this regard, the MTFP tries to prioritize spending on social and economic services and stabilize the capital outlay. 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 medium-term perspective is always vulnerable to uncertainties in flow of resources at the time of slow national growth and pressure on spending. Given rolling nature of the MTFP, an improvement in economic situation would enable the State government to recast the policy framework. The MTFP made a realistic projection of revenue and capital expenditure to conform to the FRBM targets. MTFP being a key instrument to strengthen the financial management, it is important to remain vigilant during the year and manage the fiscal risks effectively. The State government has initiated modernization of financial management process, which will be helpful in this regard. Additional resource mobilization and better utilization of public resources will be crucial during this challenging period.

Disclosures

Form D-1

(*See* Rule 4)

Select Fiscal Indicators

Sl. No.	Item	Previous Year 2020-21 (Actuals)	Current Year 2021-22 (RE)
1	Gross Fiscal Deficit as Percentage to GSDP	6.95	4.92
2	Revenue Deficit as Percentage of GSDP	2.32	-2.15
3	Revenue Deficit as Percentage of Gross Fiscal Deficit	33	-44
4	Revenue deficit as Percentage of TRR	13.57	-9.26
5	Debt Stock as Percentage of GSDP	39.43	43.32
6	Total Liabilities as Percentage to GSDP	39.43	43.32
7	Capital Outlay as Percentage of Gross Fiscal Deficit	34.62	66.59
8	Interest Payment as Percentage of TRR	9.78	8.70
9	Salary Expenditure as Percentage of TRR	46.91	39.10
10	Pension Exp. As Percentage of TRR	16.19	11.75
11	Non-development Expenditure as Percentage of Aggregate Disbursements	32.19	29.30
12	Non-tax Revenue as Percentage of TRR	11.81	6.62

The negative sign in revenue deficit indicates surplus.

Form D-2

(*See* Rule 4)

Components of State Government Liabilities

Rs. Crore

Category	Opening Balance		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)	Previous Year (Actuals)	Current year (RE)
Internal Debt	5304.99	6238.03	1361.87	1604.37	68.77	109.20	6598.09	7733.20
Loan from Centre	100.72	98.49	202.85	302.50	10.98	11.67	292.59	389.32
State Provident Funds	1162.86	1315.884	427.50	436.90	272.07	273.80	1318.29	1478.98
Reserve Funds	470.59	432.78	253.23	131.91	236.30	256.00	487.52	308.69
Deposits	362.5	362.5	520.27	1026.16	519.43	1026.15	363.34	362.50

Source: Finance Accounts Vol-I 2019-20 & State Budget 2022-23

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	261.73	
2	SABCCO	19.18	
3	Sikkim Housing & Development Board	354.98	
4	State Trading Corporation of Sikkim	300.00	
5	SPICL (Teesta Urja Ltd) Stage III	2588.44	
6	SPICL (Rangit IV)	19.20	
	Total	**3543.53**	

Source: Finance Accounts Vol-I 2019-20