GOVERNMENT OF SIKKIM
FINANCE DEPARTMENT
GANGTOK

Medium Terms Fiscal Plan for Sikkim: 2020-21 to 2022-23

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 – Overview of Current Fiscal Policy

The Government of Sikkim has shown commitment to the rule based management of government finances, since the adoption of Sikkim Fiscal Responsibility and Budget Management Act of 2010 (FRBM Act). The fiscal management revolves around the benchmarks provided by FRBM Act. The broad features of this rule based mechanism has 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. 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.

The State Government enacted FRBM Act with the objective of providing fiscal stability through reduction in deficit and stabilization of debt burden. The rule based fiscal policy helped the State Government to come out of 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 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 brought amendments to the State FRBM Act reflecting these recommendations.

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 Sikkim FRBM Act, contains provision for independent review of fiscal policy of the Government and compliance to provisions of this Act. This was based on 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 strengthen accountability system. The report is placed in State legislature. 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 has 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 gave recommendations for one year, i.e., 2020-21 and will submit a final report for five years starting from 2021-22. While, the Commission provided revenue deficit grants to Sikkim for the year 2020-21 and increased State's share in tax devolution, there are uncertainties regarding actual flow of resources.

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 2020-21 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, 2020-21, 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 Government of Sikkim continues to adopt an inclusive development process in which fiscal policy plays an enabling role. The Government's efforts to create an enabling environment for different sections of the society, different tribal groups, women, and young people helped them participate in economic activities and contribute to the development process. The fiscal consolidation with a reduced level of deficit and debt burden helped the State Government to take important decisions in improving social and economic sectors.

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 7.1 percent in 2018-19. The per capita income of the State at current prices has increased from Rs.181842 in 2011-12 to Rs.405852 in 2018-19 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

The trend of economic growth and contribution of various sectors to the State economy assumes significance in sub-national fiscal management, primarily for assessing the possible revenue implication. 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 future prospects of State economy crucial to express the fiscal outcome as percentage to GSDP. The trend of Gross State Domestic Product (GSDP) and per capita income of the States are relevant indicators in budgeting context. 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.

The data provided by the CSO on GSDP and contribution of various sectors has been used to make analysis of the current trends and make projections for two outward years beyond the budget year of 2020-21. The State GSDP, in 2017-18 and 2018-19, grew consistently at a reasonable rate of 6.9 and 7.1 per cent at constant prices respectively (Table 1). The CSO data gives growth rate of Gross State Domestic Product (GSDP) and Gross State Value Added (GSVA) for both constant and current prices. Sikkim recorded GSDP growth of 14 per cent at current prices in 2018-19. The growth rate of GSVA shows similar growth trend as that of GSDP in 2018-19. .

The composition of the State GSDP shows that on an average service sector contributes about one third of the GSDP during 2011-12 to 2018-19 and manufacturing sector continues to be the mainstay of the State economy. The agriculture sector contributed 8 percent of GSDP during this period. The relative share of the service sector, which was showing a rising trend since 2011-12, seems to have declined after 2016-17. The relative share of industry sector has increased from 62.8 percent in 2011-12 to 64.1 percent in 2018-19. The industry sector has been mostly driven by manufacturing, construction and power sectors. The relative share of agriculture remained more or less stagnant.

Table 1: Composition of GSVA (Constant Prices)

(Percent)

Item	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Primary	**8.3**	**8.5**	**8.4**	**8.0**	**7.6**	**7.8**	**8.4**	**8.4**
Agriculture, forestry and fishing	8.3	8.4	8.3	7.9	7.5	7.7	8.3	8.3
Mining and quarrying	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Secondary	**62.8**	**60.1**	**59.9**	**61.2**	**62.3**	**63.5**	**63.5**	**64.1**
Manufacturing	39.5	39.0	40.1	41.6	43.5	46.3	46.1	47.2
Construction	6.2	5.7	5.7	5.3	5.3	4.5	4.6	4.4
Electricity, gas, water supply & other utility services	17.1	15.5	14.1	14.4	13.5	12.7	12.8	12.5
Tertiary	**28.8**	**31.4**	**31.7**	**30.8**	**30.1**	**28.7**	**28.2**	**27.5**
Transport, storage, communication & services related to broadcasting	2.6	3.0	3.2	3.2	3.1	3.3	3.3	3.3
Trade, repair, hotels and restaurants	2.9	4.6	5.2	4.8	4.5	4.5	4.5	4.3
Financial services	1.5	1.6	1.6	1.6	2.7	1.7	1.5	1.5
Real estate, ownership of dwelling & professional services	5.4	5.4	5.3	5.0	4.6	4.5	4.3	4.1
Public administration	6.8	7.2	7.2	7.1	6.6	6.2	6.3	6.2
Other services	9.7	9.6	9.2	9.3	8.6	8.5	8.3	8.1
TOTAL GSVA at basic prices	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Growth Rate								
GSVA (Constant Prices)		1.7	5.2	8.1	9.1	6.2	7.0	7.1
GSDP (Constant Prices)		2.3	6.1	7.9	9.9	7.2	6.9	7.1
GSVA (Current Prices)		9.9	11.3	11.5	16.2	13.6	12.6	14.0
GSDP (Current Prices)		10.5	12.3	11.1	17.1	14.7	13.6	14.0

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 47.2 per cent of State GSDP in 2018-19.

The State economy is usually assumed to provide base for the revenue. The tax base of the State is very low, despite achieving a relatively higher per capita income, as large part of the GSDP derived from manufacturing and power generation does 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 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.

The 15th Finance Commission 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 MTFP projected the growth rate based on achieved growth rate in the base year, which comes close to the growth rate assumed by the 15th Finance Commission. The base year growth rate is derived using the average growth rate of the GSDP of the past three years.

3. Fiscal Profile of the State

The state finances in India, while remaining on the fiscal consolidation path have started showing stress in terms rising debt burden. According to the Reserve Bank of India's annual report State Finances: A Study of Budgets of 2019-20", 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. According to the report, outstanding debt of states has risen over the last five years to 25 per cent of GDP, posing medium-term challenges to its sustainability. The need for higher revenue generation and prudent debt management is highlighted to address the rising fiscal risks. The slowdown in the country and resultant decline in collection of central taxes has put strain on the resource position states. The emerging fiscal scenario assumes significance for states like Sikkim, dependency which on central transfers is large.

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

The budget for the year 2020 -21 is the first budget during the award period of the 15th Finance Commission. The 15th Finance Commission, which was expected to make its recommendation by 30 November 2019, has submitted first report for financial year 2020-21 and will submit a final report for the period 2021-22 to 2025-26. The Commission used the population data of 2011 for their recommendations. The Commission introduced a new criterion of total fertility rate (TFR) as a measure of demographic performance, continued to keep environment and climate change in the scheme of the transfers, and incentivized the tax effort of states. The Commission provided grants for local bodies, disaster relief for States, and post devolution revenue deficit grants. However, it refrained from giving any State-specific grants for the year 2020-21. The Commission provided a road-map for sector specific grants and performance-based incentives that will be addressed in the final report.

The recommendations of the 14th FC were not very favorable to Sikkim, despite increase in share of tax devolution as compared to the 13th FC. The loss of assured source of block grants has created fiscal stress for the State and increased tax devolution had failed to 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. Despite this inclusion, central transfers as percentage to the GSDP did not show a marked improved.

The 14th F 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 Commission 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.

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

The 15th Finance Commission recommended an aggregate share of 41 per cent of the net proceeds of Union taxes (divisible pool) to be devolved to States in the year 2020-21. There is an increase in share of Sikkim in the divisible pool of central taxes from 0.369 awarded under 14th FC to 0.388 for the year 2020-21. The State being relatively small in terms of population, area, and forest cover, the share of the State does not increase dramatically in tax devolution. There is also an inherent bias against high per-capita income State in the devolution formula.

The economic slowdown and the consequent decline in flow of central taxes has affected all the States. The projected gross tax revenue of the Union Government by the 15th FC for the years 2019-20 and 2020-21 has been higher than the budget figures of the Union Government. This implies that actual flow of tax devolution will fall short of projections given by the 15th FC. For instance against projection of tax devolution for Sikkim of an amount of Rs.3318 Crore, by the 15th FC, the Union budget shows a lower figure of Rs.3042.62 crores for 2020-21. Given the uncertainties, even this amount may not materialize, if actual tax collection declines. Thus, the State continues to face fiscal stress due to lower than expected share in central taxes. While the Commission awarded revenue deficit grant to Sikkim for the year 2020-21, it is yet to recommend any state specific grants.

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 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 stabilized debt burden considerably complying with FRBM Act (Table 2). The revenue surplus, which declined to 0.28 percent of GSDP in revised estimates of 2019-20, has been budgeted to rise to 1.81 percent in 2020-21 due rationalization of revenue expenditure. 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 continued to remain below the 3 percent limit until 2018-19. In 2019-20 State Government availed the flexibility offered by the 14th FC to increase fiscal deficit to 3.5 percent. The additional borrowing facility extended by the Central Government for the Stats to compensate for decline in central transfers was also availed by the State for which the fiscal deficit surpassed 4 percent of GSDP.

There has been persistent demand from the state governments to relax the FRBM limits and increasing in net borrowing (NRC) from the existing 3 percent of GSDP due to hardship in managing the finances. The main reason for fiscal stress was cited by the states was shortfall in actual receipt of share in central taxes. 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.

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. Like other states in in the Indian union, Sikkim also has been facing fiscal stress. Despite remaining in the consolidation path, there has been rise in debt burden. Further rationalization of spending and internal revenue effort is needed.

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 (RE)	2020 -21 (BE)
Revenues	**25.72**	**26.65**	**28.09**	**26.53**	**20.98**	**23.03**	**23.43**	**22.10**	**24.76**	**22.87**
Own Tax Revenues	**2.63**	**3.53**	**3.79**	**3.42**	**3.14**	**3.26**	**3.09**	**3.35**	**4.33**	**3.56**
Income Tax	0.00	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	0.70	0.70	0.63
SGST	0.00	0.00	0.00	0.00	0.00	0.00	0.77	1.51	1.46	1.86
State Excise Duties	0.86	0.90	0.87	0.85	0.79	0.78	0.68	0.68	0.83	0.71
Motor Vehicle Tax	0.15	0.13	0.13	0.13	0.12	0.12	0.13	0.12	0.17	0.11
Stamp Duty and Regi. Fees	0.07	0.04	0.05	0.04	0.05	0.06	0.06	0.06	0.06	0.05
Other Taxes	0.44	0.61	0.67	0.57	0.38	0.47	0.33	0.27	1.10	0.20
Non-Tax Revenues	**2.19**	**2.45**	**2.61**	**2.10**	**2.29**	**2.26**	**2.94**	**2.46**	**2.58**	**2.04**
Central Transfers	**20.91**	**20.67**	**21.69**	**21.01**	**15.55**	**17.51**	**17.40**	**16.29**	**17.85**	**17.27**
Tax Devolution	5.48	5.66	5.50	5.25	10.37	10.34	10.56	7.63	5.69	6.09
CGST, IGST	0.00	0.00	0.00	0.00	0.00	0.00	1.28	2.78	2.78	2.64
Grants	15.43	15.01	16.19	15.75	5.18	7.18	5.55	5.88	9.38	8.54
Non-debt capital receipt	0.00	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**	**19.51**	**24.48**	**21.06**
General Services	**6.74**	**7.14**	**7.47**	**7.88**	**6.90**	**7.10**	**6.87**	**7.32**	**9.10**	**7.77**
Social Services	**9.24**	**7.68**	**9.21**	**8.31**	**6.85**	**6.67**	**6.89**	**7.73**	**8.76**	**7.92**
Economic Services	**5.50**	**5.32**	**4.89**	**5.33**	**6.24**	**4.88**	**4.62**	**4.21**	**6.27**	**5.05**
Assignment to LBs	**0.28**	**0.19**	**0.26**	**0.27**	**0.22**	**0.28**	**0.28**	**0.25**	**0.35**	**0.32**
Capital Expenditure	**5.96**	**6.86**	**6.65**	**6.53**	**3.66**	**3.68**	**6.84**	**4.99**	**4.54**	**4.81**
Capital Outlay	5.52	6.83	6.58	6.37	3.52	3.60	6.77	4.82	4.50	4.77
Net Lending	0.44	0.03	0.07	0.17	0.14	0.08	0.07	0.17	0.04	0.03
Revenue Deficit	**-3.96**	**-6.33**	**-6.27**	**-4.74**	**-0.77**	**-4.11**	**-4.77**	**-2.59**	**-0.28**	**-1.81**
Fiscal Deficit	**1.99**	**0.53**	**0.38**	**1.79**	**2.88**	**-0.43**	**2.08**	**2.40**	**4.26**	**3.00**
Primary Deficit	**0.28**	**-1.08**	**-1.21**	**0.23**	**1.43**	**-2.05**	**0.45**	**0.78**	**2.37**	**1.39**
Outstanding Liabilities	**22.86**	**22.35**	**22.14**	**22.60**	**21.97**	**23.33**	**24.50**	**23.65**	**26.53**	**24.64**

Source (Basic Data): Finance Accounts and State Budget 2020-21

Note: The GSDP figures are from CSO

Negative sign in deficit indicates surplus

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 and compensation if there is any loss is usually accounted for in the State's own revenue, the CGST and IGST are accounted for in 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.

3.3 Revenue Mobilization

The central transfers, taking both the tax devolution and grants, continue 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 73.72 percent in 2018-19, it has increased 75.51 percent in 2020-21 budget estimates. Given the nationwide decline in economic activities, revenue efforts of state governments have been falling.

As percentage to GSDP, the Central transfers increased from 16.29 percent in 2018-19 to 17.27 percent in 2020-21 budget estimates. Central transfer as percentage to GSDP, however, was higher in 2016-17 and 2017-18. There has been a realistic projection for the budget. As compared to the fiscal year 2018-19, the budget estimates for 2020-21 takes into account declining share in central taxes, and expects the grants component to rise as percent to the GSDP. There has not been any increment so far as the GST related transfer, CGST and IGST are concerned (Table 2).

The own revenue receipts was projected to grow to Rs.1230.22 crore in 2019-20 RE to Rs.1241.91 crore in 2020-21 budget estimates. As compared to the receipt of Rs.897.98 crore in 2018-19, the increase looks favorable. In the case of non-tax revenue the budget projection increases from Rs.657.78 crore in 2018-19 to Rs.71.66 crore in 2020-21. The Government has taken realistic picture of existing economic situation while projecting own revenues. The own revenue to GSDP ratio has gone down marginally from 5.8 percent in 2018-19 to 5.6 percent in 2020-21 budget estimates. Looking at the components of own revenue, while own tax revenue shows a marginal rise, the non-tax revenue has declined as percentage to GSDP during 2018-19 to 2020-21 BE (Table 2). 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 relative share of the sales tax and GST taken together on an average constitutes about 60 percent of own revenue receipts during 2017-18 to 2020-21 (BE). The relative share of State excise in total own revenue was at 20 percent during this period. 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	2018-19	2019-20 (RE)	2020-21 (BE)
Own Tax Revenue	100	100	100	100	100	100	100	100	100	100
Sales Tax	42.3	52.1	54.5	53.5	57.5	55.9	36.3	21.0	16.3	17.7
SGST	0.0	0.0	0.0	0.0	0.0	0.0	24.9	45.2	33.7	52.3
State Excise Duties	32.8	25.5	23.0	24.9	25.1	23.9	21.9	20.4	19.3	20.0
Motor Vehicle Tax	5.6	3.8	3.5	3.7	3.9	3.8	4.3	3.7	4.0	3.2
Stamp Duty and Reg. Fees	2.8	1.2	1.2	1.3	1.5	1.9	2.0	1.7	1.3	1.3
Other Taxes	16.5	17.3	17.7	16.7	12.0	14.4	10.7	8.1	25.4	5.5
Sales Tax + SGST	42.3	52.1	54.5	53.5	57.5	55.9	61.2	66.1	50.0	70.1

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 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 2019-20, comprising the latest years, provides a better tax buoyancy for the State. The buoyancy coefficients for the State taxes during the period 2011-12 to 2019-20 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 2020-21 makes suitable adjustment in tax buoyancies for projection of tax revenues in the medium term.

Table 4: Buoyancy of Taxes: 2011-1 to 2019-20 (RE)

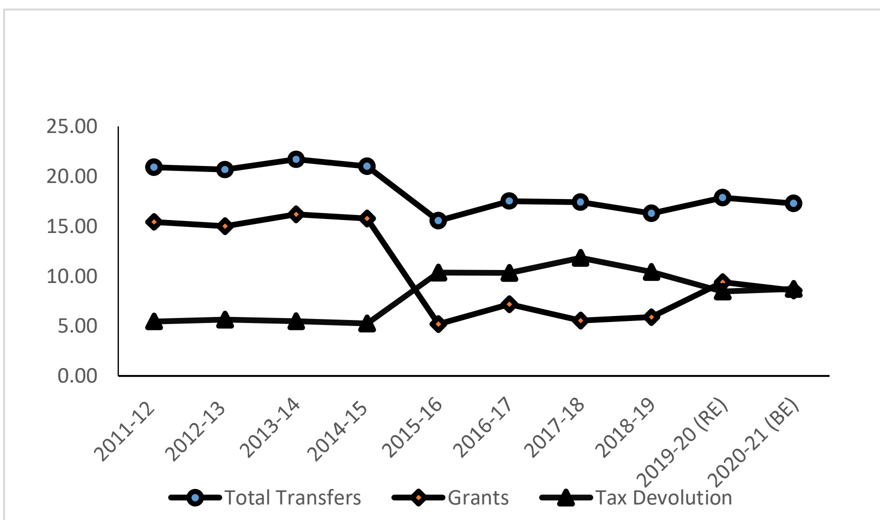
Own Tax Revenues	1.178
Sales Tax + SGST	1.410
State Excise Duties	0.781
Motor Vehicle Tax	1.044
Stamp Duty and Registration Fees	1.090
Other Taxes	0.907

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

The own non-tax revenue, as alluded above, shows small rise in nominal terms from Rs.657.78 crore in 2018-19 to Rs.710.66 crore in 2020-21 (BE). 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 11.11 percent in 2018-19 to 8.91 percent in 2020-21 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.

The central transfers in fiscal year 2020-21 is estimated based on the recommendations of 15th FC, which reduced the divisible pool to 41 percent and refrained from recommending state specific grants. The Commission, however, recommended revenue deficit grant for Sikkim in addition to grants for local bodies and disaster relief. Major changes have happened in central transfers after recommendations of 14th FC. The share in central taxes, which was at 5.25 percent to GSDP in 2014-15, has increased to 10.56 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 6.09 percent of GSDP in 2020-21 for Sikkim (Table 2). This includes the share of CGST received by the State. The higher devolution recommended by 14th FC 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 8.54 percent in the 2020-21 budget estimates.

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 21.8 per cent relative to GSDP in 2011-12, declined to 19.5 percent in 2018-19. The budget projection raised it to 21.1 percent in 2020-21. The level of expenditure on social and economic services was protected during this period.

Table 5: Expenditure Profile of Sikkim

(Per cent to GSDP)

	2011 -12	2012 -13	2013 -14	2014 -15	2015 -16	2016 -17	2017 -18	2018 -19	2019 -20 (RE)	2020 -21 (BE)
Revenue Expenditure	**21.8**	**20.3**	**21.8**	**21.8**	**20.2**	**18.9**	**18.7**	**19.5**	**24.5**	**21.1**
General Services	**6.7**	**7.1**	**7.5**	**7.9**	**6.9**	**7.1**	**6.9**	**7.3**	**9.1**	**7.8**
Interest Payment	1.7	1.6	1.6	1.6	1.5	1.6	1.6	1.6	1.9	1.6
Pension	1.6	1.8	1.9	2.2	2.2	2.2	2.3	2.8	3.5	2.8
Other	3.5	3.7	4.0	4.2	3.2	3.2	3.0	2.9	3.7	3.4
Social Services	**9.2**	**7.7**	**9.2**	**8.3**	**6.9**	**6.7**	**6.9**	**7.7**	**8.8**	**7.9**
Education	4.2	4.2	4.5	4.6	4.2	3.7	3.6	3.5	4.7	3.9
Medical and Public Health	1.0	1.0	1.0	1.2	1.0	1.0	1.0	1.1	1.4	1.4
Others	4.0	2.5	3.6	2.5	1.7	2.0	2.2	3.1	2.7	2.7
Economic Services	**5.5**	**5.3**	**4.9**	**5.3**	**6.2**	**4.9**	**4.6**	**4.2**	**6.3**	**5.0**
Assignment to LBs	0.3	0.2	0.3	0.3	0.2	0.3	0.3	0.2	0.3	0.3
Capital Outlay	**6.0**	**6.9**	**6.6**	**6.5**	**3.7**	**3.7**	**6.8**	**5.0**	**4.5**	**4.8**

Source (Basic Data): Finance Accounts and State Budget 2020-21

Building social and physical infrastructure and improvement of human development indicators constitute core development strategy. Prudent fiscal management enabled the State Government to allocate resources to priority areas. 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 6 percent in 2011-12 to 3.7 percent in 2016-17. However, it has revived since then to 5 percent in 2018-19. There has been a marginal decline in capital expenditure as percentage to GSDP in 2020-21 budget estimates. Based on projected revenue receipts and expenditure, the capital expenditure limit was determined within the overall requirements of FRBM Act fiscal targets. The MTFP is prepared based on the rationale of restructuring the government spending by emphasizing the critical areas.

The composition of capital expenditure (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 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	2018-19	2019-20 (RE)	2020-21 (BE)
Capital Expenditure	**100**	**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**	**5.6**	**12.2**	**3.7**
Social Services	**45.0**	**34.6**	**29.2**	**27.5**	**31.7**	**33.8**	**35.5**	**28.1**	**34.6**	**26.5**
Education	10.2	7.4	5.5	3.2	2.9	6.4	6.5	5.4	5.6	4.1
Health	15.8	12.0	10.2	6.3	10.4	10.1	14.9	7.0	4.4	2.9
Water supply, Sanitation, Housing & Urban Development	18.5	15.0	12.2	17.5	8.9	15.9	7.3	14.3	22.5	17.7
Information	0.2	0.1	0.0	0.2	0.0	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	0.8	1.3	0.9
Social Security	0.0	0.0	1.1	0.2	1.7	0.4	0.1	0.6	0.8	0.9
Economic Services	**50.9**	**55.5**	**52.2**	**61.3**	**58.2**	**56.4**	**54.6**	**66.2**	**53.2**	**69.8**
Agriculture	2.8	1.1	1.4	1.2	1.0	1.2	0.9	1.0	1.5	1.9
Rural Development	5.8	2.4	2.1	1.6	0.0	1.3	0.8	0.4	0.2	0.9
Special Areas Programs	2.9	2.1	1.3	2.3	3.9	4.2	1.7	2.9	3.3	2.6
Irrigation	0.5	0.8	0.4	0.4	0.2	0.1	0.1	4.0	0.1	0.1
Energy	6.1	5.2	7.3	3.3	5.9	8.0	5.1	4.9	3.6	5.0
Industries and Minerals	0.3	0.5	0.5	0.7	0.1	0.3	0.1	0.1	0.6	0.0
Transport	23.1	37.5	32.4	24.5	33.2	35.6	41.5	48.7	40.8	54.7
Science & Technology	0.0	0.1	0.0	0.1	0.0	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	4.2	3.2	4.6

Source (Basic Data): Finance Accounts and State Budget 2020-21

3.5 Outstanding Debt and Government Guarantee

The escalating debt burden has become unmistakable trend due to the problems of lower than expected central transfers and lack of buoyancy in own revenue in recent years. 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 revised 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. While the State remained within 25 percent limit throughout, leaving the revised estimates of 2019-20, there has been an increase in the debt-GSDP ratio. For instance, debt-GSDP ratio, which was 22 percent in 2015-16, increased to 23.65 percent in 2018-19 and the budget estimates for 2020-21 show this has further increased to 24.64 percent of GSDP. The State Government availed the flexibility of incurring higher NRC in 2019-20, to the extent of Rs.216 crore for which the debt-GSDP ratio increased to 26.53 percent. Thus, even adhering to a 3 percent fiscal deficit would push the debt-GSDP ratio upward.

The composition of stock of public debt given in Table 7 reveals that share of central government loans to the State has been reduced considerably. As compared to a relative share of about 6.1 per cent in 2011-12, the Central loan accounts for 1.5 percent in 2018-19. This has further come down to 1.1 percent in 2020-21 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 66.4 per cent in 2011-12 to 77.2 per cent in 2018-19. 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	2019-20 (RE)	2020-21 (BE)
A. Public Debt	**72.6**	**71.7**	**71.2**	**72.1**	**75.0**	**75.1**	**77.4**	**78.7**	**75.8**	**77.4**
Internal Debt	66.4	66.3	67.1	68.6	72.1	72.7	75.5	77.2	74.6	76.3
Central Loans	6.1	5.4	4.1	3.5	2.9	2.4	1.9	1.5	1.2	1.1
B. Other Liabilities	**27.4**	**28.3**	**28.8**	**27.9**	**25.0**	**24.9**	**22.6**	**21.3**	**24.2**	**22.6**
Small Savings, PF etc.	22.7	22.6	22.3	20.4	18.9	17.8	16.7	15.9	16.5	16.3
Reserve Fund	0.7	0.5	1.7	3.5	2.1	2.0	1.1	1.0	4.1	3.1
Deposits	4.0	5.2	4.8	4.0	4.0	5.1	4.8	4.4	3.7	3.2
Total Liabilities	**100**	**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 2019 was Rs.3651.52 crore (Budget documents 2020-21), which is below the permissible limit.

3.6 Government Policy for the Ensuing Budget Year

While aggregate revenue receipts of the State in 2020-21 is budgeted to rise by 13.24 percent over previous year, as percentage to GSDP it shows a decline. As compared to fiscal year 2018-19, it has increased marginally from 22.10 percent to 22.87 percent. Own revenue as percentage to GSDP has declined in 2020-21 as compared to previous year. The resource position of the State in 2020-21 is not very favorable. While the decline in grants since 2015-16 continues to affect adversely, the tax devolution in 2020-21 has declined as percentage to GSDP. These factors have necessitated realignments resource allocations without adversely affecting the priority sectors.

Committed spending on interest payment and pension outgo continue to put pressure on resource allocation and there was payment of arrears in salaries and pensions in 2019-20. Due to tight resource position, the revenue expenditure growth in 2020-21 was moderated to 5.5 percent. The revenue expenditure as percentage to GSDP has declined from 24.5 percent in 2019-20 to 21.1 percent in 2020-21. The growth rate of social services at 10.8 percent was the highest as compared to 4.8 percent of general services and a negative growth for economic services in 2020-21. The economic services, however, witnessed a massive growth during previous 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 was protected in the budget estimates as compared to the fiscal year 2029-20. The capital outlay has increased from 4.5 percent in 2019-20 to 4.8 percent of GSDP in 2020-21 BE. 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: 2020-21 to 2022-23

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)
		2018-19	2019-20 (RE)	2020-21 (BE)	2021-22	2022-23
1	Revenue deficit as percentage of GSDP	-2.59	-0.28	-1.81	-1.50	-1.50
2	Fiscal deficit as percentage to GSDP	2.40	4.26	3.00	3.00	3.00
3	Primary deficit as percentage of GSDP	0.78	2.37	1.39	1.35	1.31
4	Total Debt Stock as Percentage of GSDP	23.65	26.53	24.64	25.20	25.70

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 2018-19, 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 2019-20 shows that the fiscal deficit increased to 4.26 percent of GSDP as against the planned deficit of 3.5. This is due to availing the increment of NRC by the Central Government for Sikkim to the extent of Rs.216 crores to compensate for decline in central transfers and adjustment done in central transfers due to decline in central tax collection in 2018-19. The Government managed to generate revenue surplus all along. The projection for the budget year, 2020-21, is aligned with the FRBM Act. While MTFP projection from 2020-21, the budget year, and two outward years 2021-22 and 2022-23 conforms to the recommendations of the 14th FC to anchor the fiscal deficit at 3 per cent of GSDP, there has been some increase in debt-GSDP ratio beyond 25 percent..

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 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 growth in revenue receipt has gone down in budget year as compared to the previous year. The tax base being small, it is difficult to expand the resource envelope. 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 protected at 4.8 percent of GSDP in 2020-21 and allowed to decline marginally to 4.5 percent in next two years to adhere to fiscal deficit target. 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. GSDP is assumed to grow at 11 percent following the methodology proposed by the 15th FC for the year 2020-21. The MTFP projects marginal 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 outstanding liabilities, which was 24.64 percent of GSDP in the budget year of 2020-21, exceeds the 25 percent benchmark in next two years. The fiscal stress faced by the State due to lower growth of revenue receipt, has resulted in lower revenue surplus over the years and accumulated debt overhang has been rising. 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. It is also not clear as to how the 15th FC would treat the debt--GSDP ratio for states in its fiscal restructuring recommendations.

There has been reasonable growth in revenue receipts and allocations to various sectors in nominal terms. While revenue receipts increases from Rs.7973.25 crores in 2020-21 to Rs.10476.35 crores in the medium term, the revenue expenditure rises from Rs.7343.60 crores to Rs.9831.99 crores. The provision for capital outlay has increased from Rs.1675.63 crores to Rs.1933.10 croers during MTFP period. Although, capital outlay has been moderated during the MTFP period, emphasis has been given to 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: 2020-21 to 2022-23

(Per cent to GSDP)

	2020-21 (BE)	2021-22	2022-23
Revenue Receipts	**22.87**	**23.60**	**24.39**
Own Tax Revenues	**3.56**	**3.66**	**3.77**
Income Tax	0.00	0.00	0.00
Sales Tax +SGST	2.50	2.60	2.70
State Excise Duties	0.71	0.71	0.71
Motor Vehicle Tax	0.11	0.11	0.11
Stamp Duty and Registration Fees	0.05	0.05	0.05
Other Taxes	0.20	0.20	0.20
Own Non-Tax Revenues	**2.04**	**2.11**	**2.18**
Central Transfers	**17.27**	**17.83**	**18.44**
Tax Share	6.09	6.51	6.96
CGST	2.64	2.86	3.09
Grants	8.54	8.46	8.39
Revenue Expenditure	**21.06**	**22.10**	**22.89**
General Services	**7.77**	**7.84**	**7.91**
Interest Payment	1.61	1.65	1.69
Pension	2.75	2.75	2.75
Other General Services	3.41	3.44	3.47
Social Services	7.92	8.15	8.38
Education	3.87	3.97	4.08
Medical and Public Health	1.37	1.42	1.47
Other Social Services	2.68	2.76	2.83
Economic Services	**5.05**	**6.11**	**6.59**
Compensation and Assignment to LBs	**0.32**	**0.34**	**0.35**
Capital Expenditure	**4.81**	**4.50**	**4.50**
Capital Outlay	4.77	4.47	4.47
Net Lending	0.03	0.03	0.03
Revenue Deficit	**-1.81**	**-1.50**	**-1.50**
Fiscal Deficit	**3.00**	**3.00**	**3.00**
Primary Deficit	**1.39**	**1.35**	**1.31**
Outstanding Debt	**24.64**	**25.20**	**25.70**

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 FRBM Act of the State stipulates that 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 2020-21 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. Despite subdued Central transfers and moderation in own revenues, the State Government continues to adhere to FRBM Act tartes. The actual estimate for the year 2018-19 shows reasonably higher revenue surplus and fiscal deficit within the allowed limits imposed by the Act. The reasons for higher fiscal deficit at 4.26 percent in 2019-20 revised estimate has already been discussed. The Government projects to adhere to the fiscal deficit limit of 3 percent during MTFP period. 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

The MTFP follows the methodology given by the 15^{th} FC, while determining GSDP growth for Sikkim. MTFP uses the growth rate of 11 percent for projecting GSDP beyond the budget year.

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 2019-20 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 14.2 percent for own taxes. 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 2019-20. 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 2020-21 is allowed to grow at the observed rate. The changes in the devolution regime during 15th FC may affect this projection. 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.

During the MTFP period, the revenue expenditure increases slowly from 21.06 percent in 2020-21 to 22.89 percent in 2022-23. This has become necessary to safeguard resource allocation to priority areas. This still remains lower than revised estimates of 2019-20. 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.2761.03 crore in 2020-21BE to Rs.3600.56 in 2022-23.

The capital expenditure has been protected at the level of 2019-20 RE. Given that the capital expenditure has become a residuary in the system, care has been taken to provide for the Government investment doing the MTFP period. The capital outlay increases from continues remain at 4.50 percent of GSDP in two outward years beyond the budget year. The MTFP keeps the requirements of infrastructural development in the State while projecting the capital expenditure.

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 protecting the capital outlay. The emerged fiscal profile shows that the outstanding debt increases from 24.64 percent to 25.70 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. 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 11 percent following the methodology prescribed by the 15th FC.

<u>Revenue Resources</u>

- Sales tax + GST assumes a buoyancy of 1.410, which is buoyancy observed during 2011-12 to 2019-20.
- The state excise duty assumes a buoyancy of 1.00 as against the observed coefficient of 0.781.
- The stamp duty and registration fee assumes same buoyancy of 1.090 as observed during 2011-12 to 2019-20.
- Motor Vehicle tax assumes a buoyancy of 1.044, which is same as the observed

buoyancy.

- Other taxes assume a buoyancy of 1.0, as against the observed buoyancy of 0.907.

Expenditure Projections

- Pension payments are projected taking into account the requirements in 2020-21 as per the Government policy to provide for the arrears. 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 2020-21 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 14.20 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 17 per cent per annum.
- Capital expenditure to GSDP ratio is projected to remain at 4.50 percent during the last two years of MTFP period.

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 from 24.64 per cent in 2020 -21 to 25.70 percent in the terminal year of the MTFP.

5. Summary Assessment

The State continues to face resource problem due to subdued growth of central transfer and slow growth of own revenues. Aggregate revenue receipts increased sluggishly from 22.10 percent in 2018-19 to 22.87 percent of GSDP in 2020-21 BE. In addition there were spending pressures due to committed expenditure like paying arrears of salary and pension revision. The budget for the year 2020-21 faced slowdown in revenue receipts as compared to the previous year. Attempt was made to rationalize spending pattern by cutting back on revenue expenditure and marginally increasing capital expenditure to create fiscal space to adhere to the FRBM targets. 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, stabilization of capital expenditure, and achieving fiscal consolidation.

The fiscal year 2020-21 is the first year under the award period of 15th FC. As the recommendations for the year 2020-21 is not part of the overarching fiscal framework to be recommended in the final report, the contours of fiscal consolidation path is not known. Particularly, the crucial aspects that would influence the fiscal management at state level are flexibility in FRBM Act and treatment of debt stock. 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 14th FC to the State shows that as percentage to the GSDP it could not regain the level of the fiscal year 2014-15. While there was a rise in the level of tax devolution to the State, the grants component declined substantially. The State had to 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 the assured sources of revenue from plan grants has created difficulties in resource allocation. The recommendations of the 15th FC for one year do not dispel the uncertainties revolving around the transfers.

Given the resource constraint, the MTFP makes prioritized choice while allocating resources to various sectors. The growth in resource allocation, particularly in the priority sectors in social and economic services has been adequate. As the capital outlay is safeguarded at the level of 2018-19 level as percentage to GSDP, there has been some adjustment in allocation of resources. To increase the investments in social and infrastructure sectors, it becomes apparent that the State Government should enhance revenue effort. There has been a 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.

The expectations in terms of higher revenue from GST have not been realized yet. The State component of GST, called SGST, has shown slow growth after GST being introduced in 2017-18. The CGST comes in the form of tax devolution as per the formula recommended by the 14^{th} FC. 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 and better resource allocation to priority sectors. Despite the pressure on resources, the MTFP indicates a stable and growth oriented fiscal policy for Sikkim. There is a need for better infrastructure and human development to make progress. The State Government has initiated several schemes in the social and economic sectors in recent years. Despite the problem of cost disability, the State is committed to improving the service delivery spanning over the social and economic sector.

The MTFP reflects policies of the Government relating to better internal revenue effort by assuming higher buoyancies, whoever, it looks possible. 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 uncertainty in flow of resources to the State continues. It comes in two forms. In the case of tax devolution, actual flow remains lower than the recommendations of the Central Finance Commissions. This was adequately demonstrated in the fiscal year 2020-21. The tax devolution shown in central government budget was lower than recommendations of the 15th FC. Second, 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 hindrances in spending and implementing the programs. Implementation of projects requires better coordination with the Central Government.

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 remain at level achieved in 2018-19 as percent to GSDP, 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 2018-19 (Actuals)	Current Year 2019-20 (RE)
1	Gross Fiscal Deficit as Percentage to GSDP	2.40	4.26
2	Revenue Deficit as Percentage of GSDP	-2.59	-0.28
3	Revenue Deficit as Percentage of Gross Fiscal Deficit	-108	-7
4	Revenue deficit as Percentage of TRR	-11.72	-1.13
5	Debt Stock as Percentage of GSDP	23.65	26.53
6	Total Liabilities as Percentage to GSDP	23.65	26.53
7	Capital Outlay as Percentage of Gross Fiscal Deficit	326.2	201.0
8	Interest Payment as Percentage of TRR	7.31	7.63
9	Salary Expenditure as Percentage of TRR	38.30	45.66
10	Pension Exp. As Percentage of TRR	12.45	14.00
11	Non-development Expenditure as Percentage of Aggregate Disbursements	31.19	33.29
12	Non-tax Revenue as Percentage of TRR	11.11	10.43

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	1140.09	1220.35	365.44	403.14		
Loan from Centre	5.11	8.85	10.44	10.96	102.86	92.45
State Provident Funds	323.01	405.53	229.08	256.35	911.72	1078.19
Reserve Funds	206.57	466.16	201.32	219.44	58.06	30.76
Deposits	332.25	1016.15	316.73	1016.15	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	286.80	
2	Other Institutions	20.22	
3	Sikkim Housing & Development Board	221.42	
4	State Trading Corporation of Sikkim	193.50	
5	SPICL (Teesta Urja Ltd) Stage III	2609.45	
6	SPICL (Rangit IV)	19.71	
	Total	3351.10	

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		
(c)	Muster Roll	14128	99.75	
(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