



**GOVERNMENT OF SIKKIM
FINANCE DEPARTMENT
GANGTOK**

Half Yearly Review Report: 2021-22
Review of Trends in Receipt and Expenditure
in relation to Budget 2021-22

**Presented before the Sikkim Legislative Assembly as required
under Sub section (2) of section 7 of the Sikkim Fiscal
Responsibility and Budget Management Act 2010**

JANUARY 2022

STATUTORY PROVISIONS CALLING FOR REVIEW

As a measure to enforce compliance to The Sikkim Fiscal Responsibility and Budget Management (FRBM), Act 2010, Section 7(2) of the Act, envisages the requirement of six-monthly reviews. The provision of the said Act is reproduced below:

Section 7(2)

The Minister-in-charge of the Department of Finance shall review every quarter, the trends in receipts and expenditure in relation to the budget, remedial measures to be taken to achieve the budget targets and every half year place before the Legislative Assembly the outcome of such reviews while placing a statement: -

- (a) any deviation in meeting the obligations cast on the Government under this Act,
- (b) whether such deviation is substantial and relates to the actual or the potential budgetary outcomes; and
- (c) the remedial measures the Government proposes to take.

Review document for the six-month period April-September 2021 is presented herewith.

TABLE OF CONTENTS

LIST OF TABLES	ii
LIST OF ABBREVIATIONS	iii
CHAPTER 1: FISCAL POLICY OVERVIEW	1
1.1 Introduction:	1
1.2 COVID-19 Pandemic	2
1.3 Fiscal Profile of Budget 2021-22.....	3
CHAPTER 2: TRENDS IN REVENUE AND EXPENDITURE	5
2.1 Revenue Profile.....	5
2.1.1 Own Tax Revenue and Central Transfer	5
2.1.2 Own Non-Tax Revenue	7
2.2 Summary of Expenditure	11
2.2.1 Revenue Expenditure	12
2.2.2 Capital Expenditure	14
CHAPTER 3: FISCAL TARGETS, GUARANTEE & DEBT LEVELS	17
3.1 Fiscal Targets and Additional Borrowing.....	17
3.1.1 Fiscal Targets.....	17
3.1.2 Additional Borrowing and Amendment to the FRBM Act, 2010	17
3.1.3 Additional Borrowing Ceiling.....	18
3.2 Guarantees Given by the State Government	18
3.3 Public Debt and Small Savings.....	19
3.4 Conclusion	19

LIST OF TABLES

Table 1.1: Budget Profile 2021-22	3
Table 2.1: Summary of Revenue Profile	5
Table 2.2: Summary of Own Tax Revenue and Central Transfers	6
Table 2.3: Summary of Non-Tax Revenue.....	9
Table 2.4: Summary of Expenditure	11
Table 2.5: Revenue Expenditure	12
Table 2.6: Capital Expenditure.....	15
Table 3.1: Public debt including Small Saving and Provident Fund.....	19

LIST OF ABBREVIATIONS

MTFP	Medium Term Fiscal Plan
13 th FC	Thirteenth Finance Commission
14 th FC	Fourteenth Finance Commission
15 th FC	Fifteenth Finance Commission
FRBM	Fiscal Responsibility and Budget Management
GDP	Gross Domestic Product
GSDP	Gross State Domestic Product
GST	Goods and Services Tax
SGST	State Goods and Services Tax
CGST	Central Goods and Services Tax
INR	Indian National Rupees
RBI	Reserve Bank of India
CSO	Central Statistical Organization
CSS	Centrally Sponsored Schemes
NEC	North Eastern Council
NLCPR	Non-Lapsable Central Pool of Resources
VAT	Value Added Tax

CHAPTER 1: FISCAL POLICY OVERVIEW

1.1 Introduction:

The Sikkim Fiscal Responsibility and Budget Management Act of 2010 (FRBM Act) provides for presenting a Medium-Term Fiscal Plan (MTFP) along with the State 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 Medium-Term Fiscal Plan statement presented in the Legislature along with the budget documents 2021-22 has clearly stipulated the fiscal management principles, policy choices and fiscal stand enshrined in the Act. To ensure the fiscal stability and sustainability while providing efficient public service is the key feature of a growth oriented fiscal policy. The fiscal management principles provided in the Act call for maintenance of certain fiscal parameters in form of fiscal indicator.

As a measure to enforce compliance to the Sikkim Fiscal Responsibility and Budget Management, Act 2010, the Minister-in-charge of the Department of Finance shall review every quarter, the trends in receipt and expenditure and achievements of targets in relation to the budget and every half year place before the Legislative Assembly the outcome of such reviews.

The fiscal path chalked out by the Fourteenth Finance Commission (14thFC) ended in 2019-20 and from the fiscal year 2020-21 to financial year 2024-25, the recommendations as stipulated by the Fifteenth Finance Commission (15thFC) has taken effect. The FRBM Act of the State will take into account the recommendations made by the 15thFC starting the fiscal year 2020-21.

The 15th Finance Commission has suggested measures to maintain a stable and sustainable fiscal environment consistent with equitable growth. The 15th Finance Commission in its report has recommended maintaining fiscal deficit to maximum of 4% of Gross State Domestic Product (GSDP) in 2021-22, 3.5% of Gross State Domestic Product (GSDP) in 2022-23 and maintain it at 3% of Gross State Domestic Product (GSDP) in 2023-24 and thereafter.

Further, they have also recommended an annual fiscal deficit space of 0.5% of Gross State Domestic Product (GSDP) for the period 2021-22 to 2024-25 based on certain

performance criteria in the power sector. It has also recommended the option of availing this entire or part of unutilized borrowing amount in any of the subsequent years within 2021-22 to 2025-26. It has also recommended to maintain a declining trend of the debt to GSDP ratio starting 2022-23.

Necessary amendments to the State FRBM Act to reflect the statutory flexible limits on fiscal deficit and debt levels have been carried out.

1.2 COVID-19 Pandemic

The onset of COVID-19 pandemic since March 2020 has caused the most unprecedented surprise in post-war history both for the Nation and Global economy. The nationwide-wide lockdown with closure of economic activities had wide ramifications on revenue collections and economic growth. While the State was recuperating with economy getting back on track in second half of last fiscal year, when the economy was again hit hard again with a surge in Covid-19 cases since April 2021.

The second wave of COVID-19 caused State wide complete lock-down from end of April to beginning of June 2021. The impact was enormous and brought social and economic life to a standstill. Luckily, the collateral damage has been much less than during the first wave last year with people adapting to economic challenges linked to lockdowns, thereby limiting the economic impact. With increased vaccinations and adaptability, the economy is getting back to normal post October 2021.

Sikkim with lot of economic activities linked to Tourism, the growth especially in the first quarter of the fiscal year due to reduced economic activity was stunted. Sectors like retail, hotel industry, tourism, hospitality business, trade and transportation has faced the crisis at a highest level. Revenue loss to the State Government on account of these is also immense.

In need to mitigate adverse impact of the economic downturn, the State Government has announced number of austerity measures like ban on creation of new posts & cadre review, purchase & major repair of vehicles, computer & peripherals and foreign travel; ban on repairs and maintenance including furnishing with overall curtailment in revenue expenditure including discretionary grants by 50% except for Salary, pension, medicines, debt & interest payments, State shares, etc. It is most likely that it would take quite some time for the consequent stress in the economy to be relieved and for growth to revive.

1.3 Fiscal Profile of Budget 2021-22

Based on the methodology prescribed by the 15th Finance Commission, the GSDP for 2021-22 in nominal terms is projected at Rs. 38,124.00 crore. This is a growth of 9.35 percent compared to the one projected last fiscal year.

Table 1.1: Budget Profile 2021-22

Sl. No.	Particulars	Budget Estimate 2021-22 (Rs. in Cr)	Budget Estimate 2021-22 As % to GSDP
1	Revenue Receipts	7742.77	20.31
2	Own Tax Revenue	1195.48	3.14
3	Sales Tax+SGST	799.00	2.10
4	Stamp Duty and Registration	11.78	0.03
5	State Excise Duty	275.00	0.72
6	Motor Vehicle Tax	43.50	0.11
7	Other Taxes	66.20	0.17
8	Own Non-Tax Revenue	775.21	2.03
9	Central Transfer	5772.08	15.14
10	Tax Devolution	1748.00	4.59
11	CGST	834.39	2.19
12	Grants	3189.69	8.37
13	Revenue Expenditure	7390.94	19.40
14	General Services	2861.43	7.51
15	Interest Payment	689.13	1.81
16	Pension	966.17	2.53
17	Other General Services	1206.13	3.16
18	Social Services	2602.25	6.83
19	Education	1300.53	3.41
20	Medical and Public Health	503.01	1.32
21	Other Social Services	798.71	2.10
22	Economic Services	1809.86	4.74
23	Assignment to LBs	117.40	0.31
24	Capital Expenditure	1673.55	4.39
25	Capital Outlay	2075.50	5.45
26	Net Lending	0.00	0.00
27	Revenue Deficit	-351.83	-0.92
28	Fiscal Deficit	1725.00	4.52
29	Primary Deficit	1040.90	2.72
30	Outstanding Debt	10732.95	28.15

Source: State Budget 2021-22 & Medium-Term Fiscal Plan for Sikkim 2021-22 to 2023-24

The fiscal profile of the Budget for 2021-22 has been outlined at Table 1.1. From the Table, it is seen that the Revenue Receipts for the State is 20.31 percent relative to GSDP. This is a decrease from 22.87 percent of GSDP estimated last fiscal year. Similarly, the Own Tax Revenue-GSDP Ratio and Own Non-Tax Revenue-GSDP Ratio in Budget Estimate for 2021-22 were projected at 3.14 percent and 2.03 percent

respectively and is a dip from 3.56 percent and 2.04 percent respectively compared to last fiscal year.

The Central Transfers for 2021-22 is projected at 15.14 percent of GSDP, which is less by 2.13 percent compared to last fiscal year. This is a decrease in both Central Tax Devolution from 6.09 percent to 4.59 percent of GSDP and in Other Central Transfers from 8.54 percent to 8.37 percent of GSDP respectively. The effect of this is immense as the Central transfers account for 74.55 percent of GSDP for total revenues of the State.

The Revenue Expenditure for 2021-22 is projected at 19.40 percent of GSDP which is a decrease from 21.06 percent of GSDP projected last fiscal. There is also a decrease in Capital Expenditure to 4.39 percent of GSDP from 4.80 percent of GSDP projected last fiscal year.

The State Government over the years have adhered to the FRBM targets and remained on the path of fiscal consolidation. The fiscal data shown in Table 1.1 indicates that the State has been maintaining surplus in the revenue account and limited the fiscal deficit to the level prescribed by the State FRBM Act. The revenue surplus was projected at 0.92 percent relative to GSDP in 2021-22. The projection of 4.52 percent fiscal deficit relative to GSDP is according to the management principle enshrined in the Sikkim Fiscal Responsibility and Budget Management Act, 2010.

CHAPTER 2: TRENDS IN REVENUE AND EXPENDITURE

2.1 Revenue Profile

The Overall achievement under Revenues of the State during the half yearly period ending September 2021 is 34.41 percent, which comprises of Tax Revenue of 43.03 percent, Non-Tax Revenue of 34.19 percent and Central Transfers (Tax Devolution including Grants-in-Aid) of 32.65 percent. The Summary of Revenue covering the first six months of the fiscal year 2021-22 is presented in Table 2.1.

The trend of not achieving the half yearly targets of Revenue is quite normal keeping in view that the Central transfers which constitute major portion of the revenue receipts are delayed and are not received to the extent projected. The targets achieved under the Own Tax and Non-tax Revenues, however, are much higher than expected, in spite of the effect of second wave of COVID-19 in the early part of the fiscal year.

Table 2.1: Summary of Revenue Profile

Sl. No.	Items	2021-22 (BE) (Rs. in cr)	Receipt April - Sept 2021 (Rs. in cr)	% to budget
A	REVENUE RECEIPTS	7742.69	2664.04	34.41
B	OWN TAX REVENUE	1195.48	514.40	43.03
C	CENTRAL TRANSFERS	5772.00	1884.62	32.65
D	NON-TAX REVENUE RECEIPTS	775.21	265.02	34.19

Source: Annual Financial Statement 2021-22 and Civil Accounts Sept.2021

2.1.1 Own Tax Revenue and Central Transfer

The State's Own Tax Revenue constitutes 15.44 percent relative to the total Revenue for 2021-22 and 3.14 percent relative to GSDP. The revenue from SGST, State Excise Duties and Sales Tax are the major sources of Own Tax Revenue, which comprises of 89.83 percent of the total own Tax revenue. The realization of 43.03 percent of Own Tax Revenue in the first half year is highly commendable keeping in view the shortcomings due to the pandemic. Though the achievement is short of the expected half yearly target, more efforts need to be taken towards revenue mobilization during the remaining part of the fiscal year. The profile of Tax Revenue and Central Transfers covering the first six months of the current financial year is presented in Table 2.2.

The receipt under SGST and Sales tax is 47.07 percent and 41.86 percent of the estimated target respectively. The target has fallen short under Sales Tax and same could be aggravated further due to reduction of VAT in petrol and diesel by ₹ 7.00 per

litre w.e.f. 4th November 2021. It is necessary to take up additional revenue mobilization to compensate for the loss to meet the stipulated revenue targets.

The achievement of revenue under Stamp Duties & Registration Fee was 95.15 percent of estimated revenue is mainly on account of enhanced activities post the pandemic. The achievement, however, under Other Taxes was 29.37 percent of estimated revenue was subdued due to the lesser activities due to the pandemic in the first quarter of the fiscal year.

The achievement under Motor Vehicles is 33.51 of the estimated revenue. The shortfall could be seen in the wake of circulars extending time period for payment of Motor vehicles taxes including relaxation of late fees up to 31st October 2021. The revenue shortfall is seen as a short-term relief and the same is expected to be up by the end of the fiscal year. The new rule, however, to tax heavy earth moving vehicles and construction equipment could add up to the revenue enhancements under Motor vehicles.

The overall achievement of targets envisaged in the Budget Estimate for the Own Tax Revenues is expected to grow in the second half of the fiscal year as per trends in the past, especially under SGST and Excise duties, wherein the revenues tend to pick up with start of festive season from October 2021 onwards.

Table 2.2: Summary of Own Tax Revenue and Central Transfers

Sl. No.	Items	2021-22 (BE) (Rs. in cr)	April - Sept 2021 (Rs. in cr)	% to budget (April-Sept 2021)
A	TAX REVENUE RECEIPTS & CENTRAL TRANSFERS	6967.48	2399.01	34.43
B	OWN TAX REVENUE	1195.48	514.40	43.03
0006	SGST	579.00	272.56	47.07
0009	Goods and Service Taxes Compensation Cess	0.00	0.00	0.00
0028	Other Taxes on Income and Expenditure	15.00	7.14	47.59
0029	Land revenue	8.60	1.48	17.20
0030	Stamp Duty and registration Fees	11.78	11.21	95.15
0039	State Excise Duties	275.00	102.82	37.39
0040	Sales Tax	220.00	92.10	41.86
0041	Motor vehicle Tax	43.50	14.58	33.51
0045	Other Taxes	42.60	12.51	29.37
C	CENTRAL TRANSFERS	5772.00	1884.62	32.65
0005	Central GST (CGST)	834.39	395.17	47.36
0008	Integrated GST (IGST)	0.00	0.00	0.00
0020	Corporation Tax	751.34	271.62	36.15
0021	Taxes on Income other than Corporation Tax	763.50	311.25	40.77

0032	Taxes on Wealth	-0.03	0.00	0.00
0037	Customs	156.04	112.34	71.99
0038	Union Excise Duties	75.56	36.61	48.45
0044	Service Tax	1.59	0.78	49.06
1601	Grants in Aid and Contributions	3189.61	756.85	23.73

Source: Annual Financial Statement 2021-22 and Civil Accounts Sept.2021

The major chunk of the total revenue of the State Government comes from the Central Transfers, which comprises of 74.55 percent relative to the total revenue of the State and 82.84 percent relative to the total Tax Revenues. The Central transfers including the Grants in the current financial year review period is 32.65 percent, which is below the half yearly expected figure. The muted release of Central transfers in the first half of the fiscal year is a normal trend.

The Share of Central Taxes for the half year period is 43.67 percent, an increase of 6.41 percent compared to release made in the last fiscal year. Against ₹ 1127.77 cr against an estimate of ₹ 2582.39 cr received under Share of Taxes, an amount of ₹ 118.33 pertains to last fiscal year. This would mean an actual receipt of ₹ 1009.44 cr, which is 39.09 percent for the half yearly review period. With economy getting back to normal, it is expected that the short releases would be compensated in the second half of the fiscal year, thereby not impacting the overall fiscal position of the State.

The release of funds under Grants-in-Aid and Contributions is at 23.73 percent of budgeted outlay which is an increase of 1.15 percent from last fiscal year. Since the release of grants under the Central schemes is tied to the particular scheme, the expenditure would also be muted to that extent and thus would not disturb the overall fiscal balances of the State.

2.1.2 Own Non-Tax Revenue

The profile of the Non-Tax Revenue in the first six months of the current financial year 2021-22 is presented in Table 2.3. The State's Own Non-Tax Revenue constitutes 10.01 percent relative to the total Revenue Receipt for 2021-22 and 2.03 percent relative to GSDP.

The relative share of Non-Tax Revenue under Interest Receipts, Dividends and Profit is 10.00 percent. The major component under this is from Interest Receipts from Investment of Cash Balances. The receipt under Interest Receipts is 38.41 percent of budgeted outlay and has fallen short of the half year target, whereas the receipts under Dividends and Profits has exceeded the estimate for the half year by ₹ 0.45 cr; though the allocation under Dividends and Profits was mere ₹ 1.00 cr only. The reasons for

the shortfall under the Interest Receipts is mainly due to depleting cash balances due to strain on the State budget due to the economic downturn post the COVID-19 pandemic.

The relative share of Non-Tax Revenue under General Services is 25.85 percent. The overall receipt under General Services for the half year review period is 28.89 percent. The major component under this is from Police and State Lotteries which stands at 34.94 and 24.12 percent respectively.

Receipt under Police mainly comprises of reimbursement of Salaries of Police supplied to Indian Reserve Battalion and other Government Agencies. These reimbursements, however, do not contribute to the actual cash inflow. The receipt under this is mere 13.37 percent for the half yearly period and is mainly due to non-realization of reimbursements from the Central agencies. It is necessary to augment realization of dues as this could seriously hamper fiscal balances of the State.

The receipt under State Lotteries has majorly fallen short of half yearly target. The total achievement is 2% only during the half year period. The reason for shortfall is mainly due to waiver of minimum assured revenues for paper lotteries up to July 2021 and also due to end of contract term thereafter. The new tenders have been floated and revenue from paper lotteries is expected to start from January 2022 onwards. The revenues from Casinos have also fallen short due to lesser tourist footfalls in the State due to effect of the pandemic. The revenue under the State Lotteries is expected to fall short of target this fiscal year.

The relative share of Non-Tax Revenue under Social Services is 2.49 percent. The receipt under these sectors hardly contribute to the overall revenue to the State exchequer. Overall, the Non-Tax Revenue Receipt under Social Services is at 38.26 percent of the total estimated outlay.

The relative share of Non-Tax Revenue under Economic Services is 61.66 percent and the major contributors are Power, Road Transport, and Forest and Wildlife. In spite of the lockdown, sectors like Animal Husbandry, Fisheries, Food Storage & Ware Housing, Industries and Minor Irrigation seems to have achieved the half yearly targets. However, the revenue size of these sectors is very small. The achievement under Forestry and Wildlife at 66.08 percent of the half yearly target is commendable and it is necessary to revise the targets to compensate for the loss in other sectors.

The revenue achieved during the half year period under Tourism sector is 30.70 percent and this was expected as there was complete ban of tourists both domestic and foreign coming to Sikkim from 29th April 2021 to 6th June 2021. There was partial flow of tourists after that with conditionalities of double dose vaccinations and RTPCR tests. Full entry of tourists into Sikkim was allowed only after 11th October 2021. Revenues under this sector is expected to pick-up thereafter.

Table 2.3: Summary of Non-Tax Revenue

Heads of Accounts	Items	2021-22 (BE) (Rs. in cr)	Receipt April - Sept 2021 (Rs. in cr)	% to budget
	NON-TAX REVENUE RECEIPTS	775.21	265.02	34.19
A	INTEREST RECEIPTS, DIVIDENDS AND PROFITS	77.51	30.84	39.79
0049	Interest Receipts	76.51	29.39	38.41
0050	Dividends and profits	1.00	1.45	144.74
B	GENERAL SERVICES	200.37	57.89	28.89
0051	Public Service Commission	0.05	0.01	27.66
0055	Police	70.01	9.36	13.37
0056	Jails	0.00	0.01	168.33
0058	Stationery and Printing	3.52	0.28	8.10
0059	Public Works	31.94	6.59	20.64
0070	Other Administrative Services	21.68	14.61	67.41
0071	Contributions and Recoveries towards Pension and Other Retirement Benefits	18.00	20.38	113.23
0075	Misc. General Services	55.18	6.64	12.03
C	SOCIAL SERVICES	19.32	7.40	38.30
0202	Education, Sports, Art & Culture	1.42	0.91	64.24
0210	Medical and Public Health	6.98	1.15	16.52
0215	Water Supply and Sanitation	5.85	2.10	35.97
0216	Housing	0.60	0.30	50.50
0217	Urban Development	2.88	1.78	61.97
0220	Information and Publicity	0.25	0.03	11.16
0230	Labour and Employment	0.75	1.01	134.85
0235	Social Security & Welfare	0.53	0.10	18.70
0250	Other Social Services	0.06	0.00	2.84
D	ECONOMIC SERVICES	478.01	168.90	35.33
0401	Crop Husbandry	0.73	0.18	24.67
0403	Animal Husbandry	1.22	0.97	79.72
0404	Dairy Development	0.00	0.00	0.00
0405	Fisheries	0.07	0.05	77.95
0406	Forestry and Wild Life	19.00	12.55	66.08
0407	Plantation	3.00	0.00	0.00
0408	Food Storage and Ware Housing	0.12	0.09	72.39
0425	Co-operation	0.09	0.03	33.66
0515	Other Rural Development Programme	1.80	1.12	62.49

0702	Minor Irrigation	0.08	0.38	510.40
0801	Power	380.00	127.50	33.55
0851	Village and Small Industries	0.25	0.07	29.85
0852	Industries	2.31	3.67	158.86
0853	Non-Ferrous Mining & Metallurgical Industries	0.15	0.10	63.65
1055	Road Transport	65.00	20.88	32.12
1452	Tourism	4.00	1.23	30.70
1475	Other General Economic Services	0.20	0.07	35.42

Source: Annual Financial Statement 2021-22 and Civil Accounts Sept.2021

The revenue from the Power sector is quite significant in terms of constitution of Non-Tax Revenue pool, which is 49.02 percent and 19.28 percent in terms of constitution of both Own Tax and Non-Tax revenue in the current fiscal year. The total realization up to the review period of 33.55 percent seems to be on the lower side. The shortfall is due non-realization of payments on account of subsidies, arrears receipts and receipt from Independent power producers. The target for the year is not expected to be met by the end of the fiscal year and additional steps may have to be taken to augment the shortfall.

The revenue from the Road Transport during the half yearly review period, which constitutes 8.38 percent of the Non tax revenue is 32.12 percent. The reason is also stated to be due to lesser activity during the period of lockdown due to pandemic. However, on the positive side, there has been increase in freight rates and supervision charges w.e.f. 1st November 2021. With this, the revenue target for the year is expected to be achieved.

Most sectors have underperformed during the first half of this fiscal year. The primary reason is mainly due to reduced economic activity in the first quarter of the fiscal year on account of closures due to COVID-19 pandemic. There may also be many multiple reasons for the shortfall but the issues need to be addressed to achieve the target and to maintain the fiscal balance. A quantitative analysis may need to be made to see the amount of revenue are realized during the fiscal year. The achievement of targets is expected to grow in the second half of the year as has been the trend in the past.

The sectors which have underperformed may have to ensure that the estimated targets at the end of this fiscal year are near achieved. It is required to maintain the revenue account balance and build up a revenue surplus for use in capital formation and productive expenditure that are the pillars of the Fiscal Management Principles and the targets adopted by the Government in FRBM Act, 2010.

The only means to compensate the loss would be by reducing expenditure due to austerity measures put in place by the State Government. However, a constant monitoring of revenue targets each quarter is required to ensure that the targets are achieved.

2.2 Summary of Expenditure

The total expenditure of the State Government comprises of 23.78 percent relative to GSDP as detailed out at Table 1.1. The overall expenditure under the period of review this fiscal year is 34.65 percent with 41.01 percent expenditure under Revenue Sector and 12.00 percent expenditure under Capital Sector as compared to their respective budget estimates.

Table 2.4: Summary of Expenditure

Sl. No.	Items	2021-22 (BE) (Rs. in cr)	Expdt April - Sept 2021 (Rs. in cr)	% to budget
A	REVENUE ACCOUNT	7390.94	3031.04	41.01
1	GENERAL SERVICES	2861.43	1200.48	41.95
2	SOCIAL SERVICES	2602.25	1088.80	41.84
3	ECONOMIC SERVICES	1809.86	726.26	40.13
4	GRANTS IN AID & CONTRIBUTION	117.40	15.50	13.20
B	CAPITAL ACCOUNT	2075.50	249.08	12.00
1	GENERAL SERVICES	152.16	10.06	6.61
2	SOCIAL SERVICES	758.25	105.41	13.90
3	ECONOMIC SERVICES	1165.09	133.60	11.47
C	GRAND TOTAL	9466.44	3280.12	34.65

Source: Annual Financial Statement 2021-22 and Civil Accounts Sept.2021

The slow trend of the expenditure in the first part of the financial year has remained a regular trend as it is reflective in the past years data, as huge chunk of the expenditure is dependent on the grants provided by the Central Government. Substantial time is required for preparation of Action Plan for Operation (APOs). The compliance of procedural requirements which involves the preparation of the detailed estimates, designs and specification and obtaining the approval of the Government takes time. This obviously deters the timely execution of Government Plans. The delay in execution of the schemes in the first half of the financial year and resultant slow trend of the expenditure especially in Capital Sector is a logical sequence.

This fiscal year, the lesser trend in expenditure was more aggravated by the second wave of COVID-19 pandemic and the number of austerity measures put in place by

the State Government keeping in view the shortfall of revenue. The Summary of Expenditure both under Revenue and Capital Account is depicted in Table 2.4.

2.2.1 Revenue Expenditure

The Summary of Revenue Expenditure has been depicted in Table 2.5. The overall achievement of expenditure under Revenue Account is 41.01 percent during the first half of the fiscal year.

The estimated expenditure on Salaries, Interest Payments and Pensions for the half yearly period of fiscal year 2021-22 is ₹2313.96 cr, and expenditure on these could be the major part of revenue expenditure of ₹ 3031.04 cr for the half year period. The expenditure under other sector and schemes could be lesser due to austerity measures put in place and also due to lesser Central transfers to that extent. The overall expenditure, therefore, under Revenue Account has been thus as expected up to the review period and thus should not put on extra burden on the State exchequer.

Table 2.5: Revenue Expenditure

Heads of Accounts	Items	2021-22 (BE) (Rs. in cr)	April - Sept 2021 (Rs. in cr)	% to budget
	REVENUE ACCOUNT	7390.94	3031.04	41.01
A	GENERAL SERVICES	2861.43	1200.48	41.95
2011	Parliament/State/Union Territory Legislature	24.33	11.72	48.17
2012	President, Vice President/Governor	10.30	5.00	48.55
2013	Council of Ministers	17.42	9.80	56.27
2014	Administration of Justice	62.86	24.49	38.96
2015	Elections	9.27	3.83	41.26
2020	Collection of Taxes on Income & Expenditure	2.43	1.00	41.07
2029	Land Revenue	13.81	5.74	41.54
2030	Stamps & Registration	0.22	0.04	16.68
2039	State Excise	9.20	3.86	41.99
2041	Taxes on Vehicles	9.85	4.75	48.22
2043	Collection charges under state goods & services Tax	8.58	5.17	60.27
2045	Other Taxes & Duties on Commodities & Services	37.53	1.16	3.08
2047	Other Fiscal Services	0.00	0.00	0.00
2048	Appropriation for reduction or avoidance of debt	12.00	12.00	100.00
2049	Interest Payments	689.13	251.80	36.54
2051	Public Services Commission	6.71	2.84	42.24
2052	Secretariat -General Services	84.94	33.34	39.25

2053	District Administration	36.56	18.85	51.56
2054	Treasury and Accounts Administration.	23.90	12.53	52.43
2055	Police	492.86	243.24	49.35
2056	Jails	10.66	5.88	55.19
2058	Stationery and Printing	13.55	6.97	51.44
2059	Public Works	44.58	18.67	41.88
2062	Vigilance	14.61	7.02	48.04
2070	Other Administrative Services	60.49	17.47	28.88
2071	Pensions and Other Retirement Benefits	966.17	489.31	50.64
2075	Miscell. General Services	199.45	4.01	2.01
B	SOCIAL SERVICES	2602.25	1088.80	41.84
2202	General Education	1300.53	614.19	47.23
2203	Technical Education	15.11	7.48	49.49
2204	Sports and Youth Services	23.35	9.36	40.10
2205	Art and Culture	18.01	6.75	37.49
2210	Medical and Public Health	503.01	233.32	46.38
2211	Family Welfare	27.92	12.11	43.36
2215	Water Supply & Sanitation	69.98	26.72	38.18
2216	Housing	139.22	33.29	23.91
2217	Urban Development	42.77	13.06	30.55
2220	Information and Publicity	15.32	4.39	28.67
2225	Welfare of S/C, S/T and Other Backward classes	139.79	11.30	8.08
2230	Labour & Employment	13.00	6.05	46.54
2235	Social Security & Welfare	161.32	55.48	34.39
2236	Nutrition	31.20	11.20	35.90
2245	Relief on Account of Natural Calamities	70.79	36.81	51.99
2250	Other Social Services	29.93	6.86	22.92
2251	Secretariat- Social Services	0.99	0.43	43.73
C	ECONOMIC SERVICES	1809.86	726.26	40.13
2401	Crop Husbandry	280.30	94.57	33.74
2402	Soil & Water Conservation	29.21	13.26	45.37
2403	Animal Husbandry	77.11	29.99	38.90
2404	Dairy Development	10.17	0.00	0.00
2405	Fisheries	23.39	3.83	16.36
2406	Forestry & Wild Life	165.32	54.24	32.81
2407	Plantations	8.02	1.84	23.02
2408	Food, Storage & Warehousing	21.23	9.27	43.67
2425	Co-operation	18.09	8.97	49.58
2435	Other Agricultural Programmes	31.73	3.63	11.45
2501	Special Programmes for Rural Development	87.99	42.72	48.55
2505	Rural Employment	76.59	23.21	30.30
2506	Land Reforms	15.00	0.00	0.00
2515	Other Rural Development Programmes	86.25	39.40	45.68
2575	Other Special Area Programmes	2.00	0.00	0.00
2702	Minor Irrigation	30.72	14.33	46.66

2711	Flood Control & Drainage	28.00	9.43	33.68
2801	Power	292.49	176.45	60.33
2810	Non-Conventional Sources of Energy	2.00	0.00	0.00
2851	Village and Small Industries	45.93	18.52	40.32
2852	Industries	17.36	1.98	11.39
2853	Non-ferrous Mining & Metallurgical Industries	7.40	3.33	44.94
3054	Roads and Bridges	285.03	100.14	35.13
3055	Road Transport	72.14	36.31	50.34
3425	Other Scientific Research	19.46	14.69	75.48
3435	Ecology and Environment	11.81	0.92	7.75
3451	Secretariat-Economic Services	5.43	2.98	54.95
3452	Tourism	37.83	14.51	38.36
3454	Census Surveys & Statistics	13.40	5.43	40.52
3456	Civil Supplies	2.73	1.01	37.06
3475	Other General Economic Services	5.75	1.32	22.97
D	GRANTS IN AID & CONTRIBUTION	117.40	15.50	13.20
3604	Compensation and Assignments to Local Bodies and Panchayati Raj Institutions	117.40	15.50	13.20

Source: Annual Financial Statement 2021-22 and Civil Accounts Sept.2021

2.2.2 Capital Expenditure

The detailed expenditure profile under Capital Sector for 2021-22 is presented in Table 2.6 below. Against the total outlay of capital expenditure, which is 4.39 percent of GSDP, the overall expenditure is 12.00 percent of the total estimated outlay.

Almost all the sectors except for outlay on Police have not met the half yearly targets. The reasons are primarily due to slowdown in economic activity due to COVID-19 pandemic in the first quarter of the fiscal year and due to lesser transfer of funds under the central schemes.

The Ministry of Finance has put a borrowing ceiling on 0.5 % of the GSDP for the incremental capital expenditure to be incurred by the State for 2021-22 against the prescribed target. Thus, the timely implementation of the scheme under capital outlay with planned strategy is of paramount importance for the State to avail additional borrowing limit of 0.5 % of the GSDP.

The Capital expenditure is usually met from Central Grants and borrowed sources and meant for capital formation for sustainable development of the State. It is expected that by the end of the fiscal year, some amount of expenditure on Capital account would be made so as to continue with the economic growth path.

Table 2.6: Capital Expenditure

Heads of Accounts	Items	2021-22 (BE) (Rs. in cr)	April - Sept 2021 (Rs. in cr)	% to budget
	CAPITAL ACCOUNT	2075.50	249.08	12.00
A	GENERAL SERVICES	152.16	10.06	8.01
4055	Capital Outlay of Police	5.00	1.46	55.34
4058	Capital outlay on Stationery & Printing	0.76	0.34	17.21
4059	Capital Outlay on Public Works	146.40	8.26	6.83
B	SOCIAL SERVICES	758.25	105.41	18.53
4202	Capital Outlay on Education, Sports, Art and Culture	211.33	3.89	2.73
4210	Capital Outlay on Medical and Public Health	57.03	31.41	14.78
4215	Capital Outlay on Water Supply and Sanitation	257.67	55.50	42.12
4216	Capital Outlay on Housing	9.85	9.84	65.59
4217	Capital Outlay on Urban Development	195.24	3.77	10.10
4225	Capital Outlay on Welfare of SC, ST & OBC	19.63	0.00	0.00
4235	Capital Outlay on Social Security & Welfare	7.50	1.01	6.33
C	ECONOMIC SERVICES	1165.09	133.60	13.34
4401	Capital Outlay on Crop Husbandry	0.09	0.00	0.00
4403	Capital Outlay on Animal Husbandry	2.65	0.00	0.00
4404	Capital Outlay on Diary Development	0.80	0.00	0.00
4405	Capital Outlay on Fisheries	1.55	0.00	0.00
4406	Capital Outlay on Forestry and Wildlife	3.02	0.00	0.00
4408	Capital Outlay on Food storage & warehousing	8.97	1.87	27.95
4425	Capital Outlay on Cooperation	0.00	0.00	0.00
4515	Capital Outlay on other Rural Development Programmes	28.06	2.00	15.38
4575	Capital Outlay on other Special Areas Programmes	43.00	8.58	14.29
4702	Capital Outlay on Minor Irrigation	158.87	0.00	0.00

4711	Capital Outlay on Flood Control Projects	13.29	0.00	0.00
4801	Capital Outlay on Power Projects	28.68	16.23	9.07
4860	Capital Outlay on Consumer Industries	0.00	0.00	0.00
5054	Capital Outlay on Roads and Bridges	761.21	88.41	15.14
5055	Capital Outlay on Road Transport	0.00	2.42	48.41
5452	Capital Outlay on Tourism	113.07	14.09	15.03
5475	Capital Outlay on other general economic services	1.83	0.00	0.00

Source: Annual Financial Statement 2021-22 and Civil Accounts Sept.2021

CHAPTER 3: FISCAL TARGETS, GUARANTEE & DEBT LEVELS

3.1 Fiscal Targets and Additional Borrowing

3.1.1 Fiscal Targets

The Government of Sikkim, as per the FRBM Act 2010, is required to achieve the following mandatory fiscal targets:

1. Maintain revenue account balance beginning from the year 2011-12;
2. Reduce the fiscal deficit to 3.5 percent of the estimated Gross State Domestic Product in each of the financial year starting from 2011-12 and reduce the fiscal deficit to not more than 3.0 percent of the estimated GSDP at the end of 31st March 2014 and adhere to it thereafter;
3. Cap the total outstanding guarantees within the specified limit under the Sikkim Ceiling on Government Guarantees Act, 2000 (21 of 2000);
4. Ensure that the outstanding debt-GSDP ratio follows a sustainable path emanating from the above targets of the deficit as specified by the Government beginning from the fiscal year 2011-12.

3.1.2 Additional Borrowing and Amendment to the FRBM Act, 2010

The 15th Finance Commission in its report vide Para 12.61 to 12.63 has recommended that the State Governments shall adhere to maximum fiscal deficit of 4% of Gross State Domestic Product (GSDP) in 2021-22, 3.5% of Gross State Domestic Product (GSDP) in 2022-23 and maintain it at 3% of Gross State Domestic Product (GSDP) in 2023-24 and thereafter.

In addition, it has also recommended vide Para 12.66 to 12.69 of the Report that an annual additional borrowing space of 0.5% of Gross State Domestic Product (GSDP) would be allowed for the period 2021-22 to 2024-25 based on certain performance criteria in the power sector.

Further, it has also recommended in Para 12.64 of the Report that if the State Government is not able to fully utilize its sanctioned borrowing limit, as specified above, in any particular year during the years from 2021-22 to 2024-25, it will have the option of availing this unutilized borrowing amount in any of the subsequent years within 2021-22 to 2025-26.

The 15th Finance Commission vide Para 12.65 of its Report has also recommended the State Government to maintain a declining trend of Debt to Gross State Domestic Product (GSDP) after financial year 2022-23. The indicative debt path as indicated in Annex 12.1 (Volume II of the 15th FC Report) shall be as under:

Financial Year	Debt to GSDP
2021-22	27.5
2022-23	28.1
2023-24	28.1
2024-25	28.0
2025-26	27.9

Necessary amendments in the FRBM Act, 2010 based on the recommendations of the 15th Finance Commission has been made.

3.1.3 Additional Borrowing Ceiling

The Ministry of Finance, Government of India vide its letter No. 40 (2) PF-S/2020-21 dated 31st March 2021 in para 7 stipulated that out of the normal Net Borrowing Ceiling of 4% of GSDP for 2021-22, 0.5% of the borrowing ceiling would be linked to incremental capital expenditure target fixed at ₹ 1652.00 cr. To determine the eligibility for capital expenditure linked borrowing ceiling will be reviewed thrice. 0.50% of the GSDP would be allowed on achieving capital expenditure of at least 20 percent of the target in the first quarter, 45 percent of the target in the second quarter and 70 percent of the target in the third quarter. The States not achieving the target would be allowed proportionate borrowing ceiling based on the actual capital expenditure of 2019-20.

With the current state of capital expenditure up to September 2021 and the target not being achieved in the first two quarters, the is unlikely that the State would achieve the capital expenditure target up to end of third quarter and thus be eligible for the 0.5% of the borrowing limit. As such, the overall outlay of expenditure based out of proposed borrowings may be need to be reviewed and action taken appropriately.

3.2 Guarantees Given by the State Government

One of the fiscal management principles envisaged in the Sikkim Fiscal Responsibility and Budget Management Act 2010 is to manage the guarantees at sustainable level. 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 sums guaranteed by the State

Government as on the date of review is within the permissible limit prescribed by the Sikkim Government Guarantee Act, 2000.

3.3 Public Debt and Small Savings

As per the Sikkim Fiscal Responsibility and Budget Management Act, 2010, read with Sikkim Fiscal Responsibility and Budget Management (Amendment) Act, 2011, Sikkim Fiscal Responsibility and Budget Management (Amendment) Act, 2016 and Sikkim Fiscal Responsibility and Budget Management (Amendment) Act, 2020 the prudent and the sustainable debt management consistent with the fiscal stability and sustainability through limits on State Government's borrowings, including off budget borrowings is one of the fiscal management principles to be adopted by the State Government.

The details of Public Debt including Small Saving and Provident Fund for current fiscal year upto September 2020 is detailed at Table 3.1.

Table 3.1: Public debt including Small Saving and Provident Fund

Head of Accounts	Particulars	Receipt (₹ in cr)	Payment (₹ in cr)	Balance (₹ in cr)
A	PUBLIC DEBT	853.09	26.54	826.55
6003	Internal Debt of the State Government	751.00	21.71	729.29
6004	Loans and Advance from the Central Government	102.09	4.83	97.26
B	LOANS AND ADVANCES	0.69	0.13	0.57
6210	Loans for Medical and Public Health	0.00	0.00	0.00
6425	Loans for Co-Operation	0.00	0.00	0.00
7475	Loans for other General Economic Services	0.00	0.00	0.00
7610	Loans to the Government Servants etc.	0.69	0.13	0.57

Source: Civil Accounts Sept. 2021

3.4 Conclusion

The revenues of the State Government are on the lower side especially under the Central Transfer. The expenditure has also been on the lower side again due to lesser transfers from the Central Government. The less transfers would be offset by the lesser expenditure incurred and thus would not disturb the fiscal balances.

The core areas of concern would be on the sectors which are not able to achieve its revenue targets. This could be a cause of fiscal imbalances and thereby put the finance of the State Government under strain. The expenditure in the second half of the fiscal year may need to be reviewed based on the likely generation of revenues including central transfers on tax devolution as well as the borrowings that could be availed.