



GOVERNMENT OF SIKKIM
FINANCE DEPARTMENT
GANGTOK

Half Yearly Review Report: 2023-24

Review of Trends in Receipt and Expenditure in relation to Budget 2023-24

**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**

March 2024

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 2022 is presented herewith.

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LIST OF ABBREVIATIONS

13thFC	Thirteenth Finance Commission
14thFC	Fourteenth Finance Commission
15thFC	Fifteenth Finance Commission
CGST	Central Goods and Services Tax
CSO	Central Statistical Organization
CSS	Centrally Sponsored Schemes
FDI	Foreign Direct Investment
FRBM	Fiscal Responsibility and Budget Management
GDP	Gross Domestic Product
GLOF	Glacial Lake Outburst Flood
GRESF	General Reserve Engineer Force
GSDP	Gross State Domestic Product
GST	Goods and Services Tax
IMF	International Monetary Fund
INR	Indian National Rupees
LBs	Local Bodies
MTFP	Medium Term Fiscal Plan
NBC	Net Borrowing Ceiling
NEC	North Eastern Council
NHPC	National Hydro Power Corporation
NLCPR	Non-Lapsable Central Pool of Resources
NPS	National Pension Scheme
PPP	Purchasing Power Parity
RBI	Reserve Bank of India
SGST	State Goods and Services Tax

CHAPTER 1: FISCAL POLICY OVERVIEW

1.1 Introduction:

Based on the recommendations of the 11th Finance Commission, the State of Sikkim adopted Fiscal Responsibility and Budget Management (FRBM) in the year 2010. The FRBM Act aims to bring fiscal discipline, macroeconomic stability, and transparency in the government fiscal operations, and efficient management of funds. The fiscal management revolves around the benchmarks and fiscal indicators provided under the FRBM Act and ensure a defined time path for achieving deficit and debt targets to achieve fiscal stability. To ensure the fiscal stability and sustainability while providing efficient public service is the key feature of a growth oriented fiscal policy.

The FRBM Act stipulates presenting a Medium-Term Fiscal Plan (MTFP) along with the State Budget with an objective 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 2022-23 has clearly stipulated the fiscal management principles, policy choices and fiscal stand enshrined in the Act.

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 2025-26, 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 2025-26 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 of the years from 2021-22 to 2024-25 to subsequently borrow 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 State of the Economy

India's economy has been brilliantly navigated in spite of the challenges due to impact of COVID-19 pandemic, challenges due to geo-political developments globally, rise in oil prices, inflation, interest rates and have come out very well at the other end. India's economic growth has been driven by a combination of several key factors that have contributed to the country's development and global significance. Some of the factors driving India's economic growth include large and youthful population; growth in the services sector; Increased FDI inflows; Investments in infrastructure; Structural reforms in areas such as taxation, labor laws, and regulatory simplification; India's focus on innovation, entrepreneurship, and technological advancements, particularly in the IT and start-up sectors; and Initiatives aimed at modernizing agriculture, improving rural infrastructure, and enhancing rural livelihoods; have all contributed to overall economic growth.

These factors, along with others such as natural resource endowment, geopolitical positioning, and social development, have collectively contributed to India's economic growth and its emergence as a significant player in the global economy. Continued focus on addressing challenges, fostering innovation, and ensuring inclusive and sustainable development will be essential for sustaining India's growth momentum in the years to come

As per the December 2023 RBI bulletin, the Indian economy recorded stronger than expected growth in 2023-24, underpinned by a shift from consumption to

investment. After clocking a real gross domestic product (GDP) growth of 7.2 per cent in 2022-23, real GDP is expected to grow by 7.3 per cent during 2023-24 according to the latest release by the National Statistical Office (NSO). With strong domestic demand conditions, India remains the fastest growing major economy and is now the fifth largest economy in the world. In fact, in purchasing power parity (PPP) terms, India is already the third largest economy. The International Monetary Fund (IMF) has projected that India's contribution to world growth will rise from the current 16 per cent to 18 per cent by 2028.

As per the data published by Ministry of Finance, India's Goods and Services Tax (GST) collection in January 2024 stood at ₹ 1,72,129 cr, registering a 10.4% Year-o-Year (Y-o-Y) growth over the revenue of ₹ 1,55,922 cr collected in January 2023. It is the second highest monthly collection ever and marks the third month in this financial year with collection of ₹ 1.70 lakh cr or more. During the period April 2023-January 2024, cumulative gross GST collection witnessed 11.6 per cent year-on-year growth reaching ₹16.69 lakh cr against ₹14.96 lakh cr collected in the same period of the previous year. The highest-ever monthly GST collection was recorded in April 2023 at ₹1.87 lakh cr. The collection in GST seems to have improved significantly and this has wide ramifications for the State of Sikkim as the major portion of the State Revenue depends on Central tax devolutions.

India's emergence as a global player is reinforced by its economic growth, diverse demographic profile, technological prowess, and entrepreneurial dynamism. Continued focus on inclusive and sustainable development, alongside measures to address existing challenges and leverage strategic opportunities, will be critical for maintaining India's growth momentum and economic resilience.

1.3 Glacial Lake Outburst Flood (GLOF)

On October 4, 2023, the South Lhonak Lake in North Sikkim had breached, causing a Glacial Lake Outburst Flood (GLOF). The 1,200 MW Teesta III dam, the biggest hydropower project in Sikkim located approximately 60 kilometres downstream of the lake, in Chungthang town of Mangan district was decimated by the GLOF. The outburst of the dam further unleashed huge devastation on downstream areas and communities.

The floods carried away everything on its path viz. people, homes, bridges, livestock, vehicles, and construction equipment. Severe damage to life, property and infrastructure was reported in four districts of Sikkim and downstream areas of North Bengal. Huge parts of the National Highway 10 was washed away by the floods, disrupting connectivity of people and goods.

According to a preliminary assessment report obtained from relevant sources, more than 80,000 people have been directly affected in 100 villages, almost 2,000 houses partially or fully destroyed, 40 lives lost, 76 still missing, 33 bridges were fully washed away, two government buildings, and 16 roads and highways damaged. Almost 2,563 people were rescued, 4782 persons evaluated and 3,000 tourists stranded.

The national highway 10 was closed for almost two and half months with economic activity and food supplies hugely affected. Large number of houses along the Teesta basin were filled with mud and sand with majority of them of upto two floors. The whole State machinery was involved in rehabilitation, rebuilding and reconstruction processes for almost a month. The floods caused wide ramifications to the State and would further lead to huge emotional and economic impairment for number of years.

1.4 Organization of the Paper

The remaining section of this paper is structured as follows:

Chapter 2 highlights the significant Fiscal Profile of the Budget 2023-24;

Chapter 3 makes a study of trends in Revenue Receipt for the period April to September 2022 in relation to Budget 2023-24;

Chapter 4 makes a study of trends in Expenditure for the period April to September 2022 in relation to Budget 2023-24;

Chapter 5 focuses on Fiscal targets, Guarantees and debt levels.

CHAPTER 2: FISCAL PROFILE

2.1 Macro-economic Outlook

The state's economy is primarily agrarian, with a strong emphasis on sustainable agricultural practices. Additionally, Sikkim has been investing in renewable energy, particularly hydropower, to meet its energy requirements and contribute to the national grid. The tourism sector is also a significant contributor to the state's economy, with its beautiful landscapes, biodiversity, and cultural heritage attracting visitors from around the world. As a result, Sikkim's macroeconomic outlook is shaped by a blend of sustainable agriculture, renewable energy, and vibrant tourism industry.

The GSDP for 2023-24 for calculating the NBC of the State of Sikkim by the Ministry of Finance, Government of India vide their letter no. 40(1)/PF-S/2023-24 dated 27th March 2024 is projected at ₹ 47,326 cr. This is based on the formula and methodology prescribed by the 15th Finance Commission. The same GSDP has been adopted for Sikkim for 2023-24.

The GSDP of Sikkim exhibited strong recovery in 2022-23 as it grew at 6.83 percent at constant prices and 13.84 percent in current prices. Based on latest data published by the Central Statistical Organization (CSO), the annual average growth rate during 2015-16 to 2022-23, leaving Covid-19 affected year of 2020-21, was 7.81 percent at constant prices and 14.99 percent at current prices. The GSDP in 2020-21 was 5.01 percent at current prices and 0.33 percent at constant prices. The Per capita income (Per capita GSDP) of Sikkim has improved from ₹ 2,24,523 in 2015-16 to ₹ 6,23,268 in 2022-23 at current prices. The per capita income of the State shows an annual average growth rate of 13.82 percent during this period (2015-16 to 2022-23, leaving 2020-21).

For the State of Sikkim, the GSDP for 2023-23 is mainly derived from crops, livestock and forestry in primary sector; manufacturing and power generation in secondary sector; and trade and public administration-based services in the tertiary sector. The growth in manufacturing and hydro-power sources do not, however, result in a corresponding increase in local consumption and consequently revenue. The generation of hydroelectricity, though adds to the GSDP numbers, remain outside the State tax system. Similarly, the

pharmaceutical companies do not contribute to the revenue receipts of the State, as they send their products out of the State through consignment transfer and also partly due to the fact that the taxes are consumption based under the GST regime.

2.2 Fiscal Profile of Budget 2023-24

Table 2.1: Budget Profile 2023-24

Sl. No.	Particulars	Budget Estimate 2023-24 (₹ in Cr)	As % to GSDP
1	Revenue Receipts	9362.41	19.78
2	Own Tax Revenue	1726.95	3.65
3	Sales Tax+SGST	1240.00	2.62
4	Stamp Duty and Registration	27.00	0.06
5	State Excise Duty	315.00	0.67
6	Motor Vehicle Tax	56.00	0.12
7	Other Taxes	88.95	0.19
8	Own Non Tax Revenue	1078.90	2.28
9	Central Transfer	6556.56	13.85
10	Tax Devolution	2681.71	5.67
11	CGST	1281.52	2.71
12	Grants	2593.33	5.48
13	Revenue Expenditure	9320.81	19.69
14	General Services	3815.17	8.06
15	Interest Payment	911.85	1.93
16	Pension	1302.46	2.75
17	Other General Services	1600.85	3.38
18	Social Services	3273.08	6.92
19	Education	1418.38	3.00
20	Medical and Public Health	607.08	1.28
21	Other Social Services	1247.61	2.64
22	Economic Services	2093.58	4.42
23	Assignment to LBs	138.98	0.29
24	Capital Expenditure	2187.95	4.62
25	Capital Outlay	2187.95	4.62
26	Net Lending	0.00	0.00
27	Revenue Deficit	-41.60	-0.09
28	Fiscal Deficit	2146.35	4.54
29	Primary Deficit	1234.50	2.61
30	Outstanding Debt	14909.52	31.50

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

The fiscal profile of the Budget for 2023-24 has been outlined at Table 2.1. From the Table, it is seen that the Revenue Receipts for the State is 19.78 percent relative to GSDP. This is a decrease from 22.05 percent of GSDP estimated last fiscal year. Though there has been increase in sales tax, SGST,

and tax devolution, the drop is mainly on account of decrease in transfer of Grants from the Centre. Similarly, the Own Tax Revenue-GSDP Ratio and Own Non-Tax Revenue-GSDP Ratio in the budget estimate for 2023-24 were projected at 3.65 percent and 2.28 percent respectively. This is an increase from 3.50 percent and decrease from 2.59 percent respectively compared to last fiscal year.

The Central Transfers for 2023-24 is projected at 13.85 percent of GSDP, which is decrease from 15.96 percent compared to last fiscal year. Though there has been slight increase in Tax devolution from 5.57 percent to 5.67 percent, there is, however a significant decrease in Grants from the Centre from 7.66 percent to 5.48 percent of GSDP. There has been steady decrease in Central Grants, which was 8.54 percent in 2020-21, 8.37 percent in 2021-22, and 7.66 percent in 2022-23 to 5.48 percent now in 2023-24. The effect of decrease in Central transfers to the State economy is immense as the Central transfers including Central Tax devolutions account for 70.03 percent of total revenues of the State.

The Revenue Expenditure for 2023-24 is projected at 19.69 percent of GSDP which is a decrease from 21.88 percent of GSDP projected last fiscal. The reason for decrease is mainly due to spending on COVID related activities under Social and Economic sectors having decreased significantly. The allocations under the Capital Expenditure have increased from 4.17 percent of GSDP in 2022-23 to 4.62 percent of GSDP in 2023-24.

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 without taking into account the additional borrowings allowed by the Central Government in 2023-24, the fiscal deficit is within the limit prescribed under the State FRBM Act. The revenue surplus was projected at 0.09 percent relative to GSDP in 2023-24, which is a decrease from 0.17 percent in the last fiscal. The revenue surplus depends upon the central grants and own revenues, which has contracted to a large extent. The fiscal deficit relative to GSDP at 4.54 percent (after taking into account the additional borrowings allowed), is within the management principle enshrined in the Sikkim Fiscal Responsibility and Budget Management Act, 2010.

CHAPTER 3: TRENDS IN REVENUE

3.1 Revenue Profile

The overall achievement under revenues of the State during the half yearly period ending September 2023 is 38.85 percent, which comprises of Tax Revenue of 53.57 percent, Non-Tax Revenue of 35.89 percent and Central Transfers (Tax Devolution including Grants-in-Aid) of 35.46 percent. The Summary of Revenue covering the first six months of the fiscal year 2023-24 is presented in Table 3.1.

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 not to the extent expected.

Table 3.1: Summary of Revenue Profile

Sl. No.	Items	2023-24 (BE) (₹ in cr)	Receipt April - Sept 2023 (₹ in cr)	% to budget (April - Sept 2023)
A	REVENUE RECEIPTS	9362.40	3637.62	38.85
B	OWN TAX REVENUE	1726.95	925.20	53.57
C	CENTRAL TRANSFERS	6556.56	2325.15	35.46
D	NON-TAX REVENUE RECEIPTS	1078.90	387.27	35.89

Source: Annual Financial Statement 2023-24 and Civil Accounts September 2023

3.1.1 Own Tax Revenue and Central Transfer

The State's Own Tax Revenue constitutes 18.45 percent relative to the total Revenue for 2023-24 and 3.65 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 90.04 percent of the total own Tax revenue. The realization of 53.57 percent of Own Tax Revenue in the first half year may be due to enhanced economic activities and achievements made for collections under Sales Tax and SGST, which is 52.66 percent and 57.71 percent of the estimated target respectively. The achievement has exceeded the expected half yearly target by 3.57 percent. The profile of Tax Revenue and Central

Transfers covering the first six months of the current financial year is presented in Table 3.2.

The target under SGST has exceeded the half yearly expectation due to better revenue mobilization and monitoring. The collections of taxes under SGST and Sales tax, however, may get affected post the effect of floods of 4th October due to decreased economic activities in October and November due to the road closures and aftermath of floods. As per the report from the Commercial Taxes Division, the shortfall could be to the extent of ₹ 100 cr against the target of ₹ 1248.00 cr. The shortfall may be substantial, and it is necessary to take up additional revenue mobilization to achieve the revenue targets by the end of the fiscal year; as the collections on SGST and Sales tax is quite significant which is 9.35 percent of Total Tax revenues and 2.64 percent relative to GSDP. Shortfall in collections under SGST and Sales Tax could misbalance the overall fiscal position of the State.

Table 3.2: Summary of Own Tax Revenue and Central Transfers

Sl. No.	Items	23-24 (BE) (₹ in cr)	April - Sept 2023 (₹ in cr)	As % to budget
A	TAX REVENUE RECEIPTS & CENTRAL TRANSFERS	8283.51	3250.35	39.24
B	OWN TAX REVENUE	1726.95	925.20	53.57
0006	SGST	960.00	553.99	57.71
0028	Other Taxes on Income and Expenditure	20.00	10.58	52.91
0029	Land revenue	20.00	11.44	57.22
0030	Stamp Duty and registration Fees	27.00	16.34	60.52
0039	State Excise Duties	315.00	135.30	42.95
0040	Sales Tax	280.00	147.45	52.66
0041	Motor vehicle Tax	56.00	26.28	46.93
0045	Other Taxes	48.95	23.82	48.66
C	CENTRAL TRANSFERS	6556.56	2325.15	35.46
0005	Central GST (CGST)	1281.52	640.77	50.00
0020	Corporation Tax	1268.49	525.52	41.43
0021	Taxes on Income other than Corporation Tax	1234.07	511.26	41.43
0032	Taxes on Wealth	-0.03	-	-
0037	Customs	125.72	62.86	50.00
0038	Union Excise Duties	52.66	26.32	49.98
0044	Service Tax	0.80	0.41	51.25
1601	Grants in Aid and Contributions	2593.33	558.01	21.52

Source: Annual Financial Statement 2023-24 and Civil Accounts September 2023

The achievement of revenue collection under Stamp Duties & Registration Fee, Land Revenue, Other Taxes under Transport Infrastructure Development Fund and Education Cess have achieved the half yearly targets.

The achievement under Motor Vehicles is 46.93 of the estimated revenue. With better tax mobilization efforts, it is expected that the targets would be achieved by the end of the fiscal year.

The targets achieved under State Excise Duties is 42.95 of the estimated revenue. The reason for shortfall is mainly due to reduction in sale of liquor due to the lower footfall of tourist into the State and also due to reduction in the volume of liquor/beer that is exported. With the expected rise in tourism, it is expected that the targets would be achieved by end of the fiscal year.

The overall achievement of targets envisaged in the budget estimate for the Own Tax Revenues is expected to fall short of the estimated targets post the effect of the floods. The shortfall may need to be exactly estimated and necessary steps be taken to overcome the losses so as to not affect the overall fiscal balances of the State Government.

The major chunk of the total revenue of the State Government comes from the Central Transfers, which comprises of 70.03 percent relative to the total Revenue of the State and 79.15 percent relative to the total Tax Revenues. The Central transfers including the Grants in the current financial year review period is 35.46 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 but is far less than expected at 21.52 percent of the estimated target and is also a decrease by 5.12 percent compared to last fiscal year. However, 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. But the decreasing trends in Central Grants needs to be reviewed and measures taken to augment the same.

The Share of Central Taxes for the half year period is 44.59, a decrease of 7.90 percent compared to release made in the last fiscal year. The gross All India GST collections upto December 2023 averages ₹1.66 lakh cr. The

recovery of Indian economy after number of global uncertainties is also a good sign for Sikkim, as these results in a better devolution of taxes to the State.

With economy getting back to normal post the floods, it is expected that the shortfall would be compensated in the second half of the fiscal year, thereby not impacting the overall fiscal position of the State.

The overall achievement of targets envisaged in the budget estimate for the Own Tax Revenues is expected to fall short of the estimated targets post the effect of the floods. The shortfall may need to be exactly estimated and necessary steps be taken to overcome the losses so as to not affect the overall fiscal balances of the State Government.

3.1.2 Own Non-Tax Revenue

The profile of the Non-Tax Revenue in the first six months of the current financial year 2023-24 is presented in Table 3.3. The State's Own Non-Tax Revenue constitutes 11.52 percent relative to the total Revenue Receipt for 2021-22 and 2.28 percent relative to GSDP. This is an increase from 0.24 percent and decrease by 0.31 percent respectively compared to the last fiscal year. The Overall achievement under Non-Tax Revenue is 35.89 percent and is majorly fallen short of estimated half yearly target.

The receipt under Interest Receipts, Dividends and Profit is 73.76 percent and has achieved the half yearly target. The reasons for this is stated to be due to better cash management and few PSUs declaring profits post the COVID-19 pandemic.

The relative share of Non-Tax Revenue under General Services is 16.58 percent and the overall receipt under this for the half year review period is 27.51 percent. The major component under this is from Police, Public Works and State Lotteries which stands at 44.73, 22.37 and 16.78 percentages 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 12.42 percent for the half yearly period and is mainly due to non-realization of re-imburements from the Central agencies. It is,

however, reported that the major number of reimbursements have been made during October – November 2023 and the targets for the full financial year have been achieved. The effort of the Department to realise the dues on time should be appreciated, as delay in realization of dues could seriously hamper fiscal balances of the State.

The effect of monsoons has played spoil sport in augmenting revenues under the Public Works, which majorly comes from Hire Charges of Machinery and Equipment, Receipts from Tenders and Reimbursement from Highways. The revenue under Public Works is 13.62 percent. However, it has been reported the works are ongoing in full swing post the monsoons, and the shortfall is expected to be achieved by March 2024.

The receipt under State Lotteries has exceeded the half yearly targets by 18.82 percent. The total achievement is 68.82 percent and is majorly due to start of paper lotteries w.e.f. June 2023 as well as due to better revenue mobilization from online gaming and casinos. The revenue under the State Lotteries is expected to exceed the yearly target by around ₹ 10.00 cr.

The relative share of Non-Tax Revenue under Social Services is 3.22 percent. The receipts under these sectors hardly contribute to the overall revenue to the State exchequer. Overall, the Non-Tax Revenue Receipt under Social Services is at 36.27 percent of the total estimated outlay.

The Non-tax Revenue under Economic Services is 73.82 percent and the major contributors are Forest and Wildlife, Power, Tourism and Road Transport. The other sectors do not contribute much to the overall size under the Economic Services and it is expected that these Departments would achieve their yearly targets.

The Forestry and Wildlife sector had from the fiscal year 2022-23 been a significant contributor to the State revenue exchequer contributing almost 20-23 percent to the Non-Tax Revenue pool and 8-10 percent to both Own Tax and Non-Tax revenue. The revenue provision in the budgets had increased from ₹ 19.00 cr in 2021-22 to ₹ 231.94 cr in 2022-23 and ₹ 200.00 cr in 2023-24. The increase in provision is mainly due to imposition of natural water user charges under the Ecosystem services and notified for collection from 15th July 2023. However, NHPC Ltd. has filed case in the Hon'ble High Court and the

collection of water user charges has been stayed since November 2023, which would mean that an amount of ₹ 175.00 cr revenue herein would not be materialized for the year. The total collection under this sector is 10.27 percent only as of end of September 2023. As reported, revenues under this sector have also been affected due to quarrying being stopped around the Teesta basin post the Flashflood/ natural calamity of 4th October 2023. The quarrying activities have started since December 2023 and it is expected that against the total provision of ₹ 200.00 cr, revenues to an extent of ₹ 25.00 cr would be realized.

Table 3.3: Summary of Non-Tax Revenue

Heads of Accounts	Items	2023-24 (BE) (₹ in cr)	April - Sept 2023 (₹ in cr)	As % to budget
	NON-TAX REVENUE RECEIPTS	1078.90	387.27	35.89
A	INTEREST RECEIPTS, DIVIDENDS AND PROFITS	68.85	50.79	73.76
0049	Interest Receipts	66.85	48.78	72.97
0050	Dividends and profits	2.00	2.00	100.14
B	GENERAL SERVICES	178.83	49.20	27.51
0051	Public Service Commission	0.50	0.11	21.68
0055	Police	80.00	9.94	12.42
0056	Jails	0.01	-	-
0058	Stationery and Printing	3.75	1.63	43.54
0059	Public Works	40.00	5.45	13.62
0070	Other Administrative Services	9.58	11.06	115.50
0071	Contributions and Recoveries towards Pension and Other Retirement Benefits	15.00	0.36	2.41
0075	Misc. General Services	30.00	20.65	68.82
C	SOCIAL SERVICES	34.78	12.62	36.27
0202	Education, Sports, Art & Culture	14.51	1.86	12.83
0210	Medical and Public Health	6.11	2.51	41.00
0215	Water Supply and Sanitation	6.00	3.26	54.33
0216	Housing	0.70	0.30	43.54
0217	Urban Development	4.00	2.48	61.88
0220	Information and Publicity	0.15	0.05	30.42
0230	Labour and Employment	2.75	1.77	64.43
0235	Social Security & Welfare	0.50	0.37	74.18
0250	Other Social Services	0.06	0.02	32.63
D	ECONOMIC SERVICES	796.43	274.67	34.49
0401	Crop Husbandry	1.00	0.46	45.76

Heads of Accounts	Items	2023-24 (BE) (₹ in cr)	April - Sept 2023 (₹ in cr)	As % to budget
0403	Animal Husbandry	2.20	0.62	28.33
0405	Fisheries	0.11	0.07	70.12
0406	Forestry and Wild Life	200.00	20.53	10.27
0407	Plantation	5.00	1.50	30.00
0408	Food Storage and Ware Housing	0.30	0.12	38.77
0425	Co-operation	0.09	0.05	59.28
0515	Other Rural Development Programme	2.00	2.89	144.43
0702	Minor Irrigation	0.50	0.08	16.47
0801	Power	495.27	210.45	42.49
0851	Village and Small Industries	0.30	0.07	23.48
0852	Industries	3.42	1.47	43.04
0853	Non-Ferrous Mining & Metallurgical Industries	0.25	0.16	65.03
1055	Road Transport	75.20	30.58	40.67
1452	Tourism	10.50	5.33	50.75
1475	Other General Economic Services	0.30	0.27	88.99
GRAND TOTAL		1078.90	387.27	35.89

Source: Annual Financial Statement 2023-24 and Civil Accounts September 2023

The revenue achieved during the half year period under Tourism sector is 50.75 percent which indicates revival of tourism related economic activities due to increased flow of domestic and foreign tourists coming to Sikkim.

The revenue from the Power sector is quite significant in terms of constitution of Non-Tax Revenue pool, which is 45.91 percent and 17.65 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 is 42.49 percent. The shortfall though not significant, has resulted due to online billing issues and revenue drive halted during the monsoons. However, the revenue under this sector is expected to be hampered due to flash floods of 4th October 2023. With NHPC Hydro power dam being damaged, the free power from the Project would not materialize and thus the shortfall in revenues.

The revenue from the Road Transport during the half yearly review period, which constitutes 6.97 percent of the Non tax revenue, is 40.67 percent. The reason for shortfall is stated to be due to Disruption of NH-10 due to damaged road in the month of Sept 2023 for 7 days, existing transportation contract with

GRES is only for transportation of bitumen and delay in contract rate revision with Army. The revenue target, however, for the year is expected to be achieved by end of the fiscal year.

It is expected for revenue to dampen during the first half of the fiscal year due to less funds flowing from the Central Government. However, the achievement of targets in the second half may not be as smooth either and would be highly affected in some sectors due to the natural calamity of 4th October 2023. It is expected that the total shortfall under the Non-tax revenue may work out to about ₹ 200.00 cr. The shortfall under the Non-tax revenues would be majorly impacted due to non-collection of water user charges and disruption in power revenues, and would have wide ramifications to the State exchequer. Certain remedial measures by the State Government may have to be undertaken in this regard.

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.

CHAPTER 4: TRENDS IN EXPENDITURE

4.1 Summary of Expenditure

The total expenditure of the State Government comprises of 24.31 percent relative to GSDP as detailed out at Table 1.1; which is decrease from 26.05 percent relative to GSDP in the previous financial year. The overall achievement of expenditure under the period of review this fiscal year is 46.68 percent with 40.80 percent expenditure under Revenue Sector and 37.94 percent expenditure under Capital Sector as compared to their respective budget estimates.

Table 4.1: Summary of Expenditure

Sl. No.	Items	2023-24 (BE) (₹in cr)	Expdt April - Sept 2023 (₹in cr)	As % to budget
A	REVENUE ACCOUNT	9320.81	3802.85	40.80
1	GENERAL SERVICES	3815.17	1578.96	41.39
2	SOCIAL SERVICES	3273.08	1347.77	41.18
3	ECONOMIC SERVICES	2093.58	861.86	41.17
4	GRANTS IN AID & CONTRIBUTION	138.98	14.27	10.26
B	CAPITAL ACCOUNT	2187.95	830.13	37.94
1	GENERAL SERVICES	296.08	180.14	60.84
2	SOCIAL SERVICES	1073.37	312.00	29.07
3	ECONOMIC SERVICES	818.49	337.99	41.29
C	GRAND TOTAL	11508.75	4632.98	40.26

Source: Annual Financial Statement 2023-24 and Civil Accounts September 2023

The slow trend of the expenditure, in the first part of the financial year is a regular trend as this is reflective in the past years data, as huge chunk of the expenditure is dependent on the grants provided by the Central Government and also due to time taken for preparation of Action Plan for Operation (APOs) in first quarter of fiscal year. Substantial amount of time is required for preparation of the detailed estimates, designs and specifications; clearance of Finance and Planning & Development Departments and finally obtaining the approvals of the Government. This obviously deters the timely execution of the Government Plans. In additional to this, during the period April to May 2023, the Vote on Account was in place and there was no major expenditure without the budgeted outlay in place. The delay in execution of the schemes in the first half of the financial year and due to Vote of account in place for the

first two months, the slow trend of the expenditure especially in Capital Sector is a logical sequence. The Summary of Expenditure under both Revenue and Capital Account is depicted in Table 4.1.

4.1.1 Revenue Expenditure

The Summary of Revenue Expenditure has been depicted in Table 4.2. The overall achievement of expenditure under Revenue Account during the first half of the fiscal year is 40.80 percent, which is a decrease from 41.01 percent last financial year.

The estimated expenditure on Salaries, Interest Payments and Pensions for the half yearly period of fiscal year 2023-24, which is ₹ 5178.94 cr and accounts for 61.99 percent of total revenue expenditure of ₹ 8354.32 cr. The expenditure on these could be the major part of revenue expenditure during the half year period.

Almost all the sectors except for Administrative Departments, Land Revenue, Family Welfare, Fisheries, Power, Road Transport and Census Surveys & Statistics have not met with their half yearly targets.

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 4.2: Revenue Expenditure

Heads of Accounts	Items	2023-24 (BE) (₹ in cr)	April - Sept 2023 (₹ in cr)	As % to budget
	REVENUE ACCOUNT	9320.81	3802.85	40.80
A	GENERAL SERVICES	3815.17	1578.96	41.39
2011	Parliament/State/Union Territory Legislature	26.69	15.16	56.81
2012	President, Vice President/Governor	10.88	5.69	52.29
2013	Council of Ministers	32.41	19.03	58.72
2014	Administration of Justice	83.10	35.28	42.46
2015	Elections	19.58	7.49	38.26
2020	Collection of Taxes on Income & Expenditure	2.72	1.26	46.54
2029	Land Revenue	15.32	8.30	54.18
2030	Stamps & Registration	0.22	0.03	13.61
2039	State Excise	9.71	4.36	44.93

Heads of Accounts	Items	2023-24 (BE) (₹ in cr)	April - Sept 2023 (₹ in cr)	As % to budget
2041	Taxes on Vehicles	13.19	7.33	55.60
2043	Collection charges under state goods & services Tax	10.59	5.61	52.97
2045	Other Taxes & Duties on Commodities & Services	42.68	1.31	3.07
2047	Other Fiscal Services	0.20	-	-
2048	Appropriation for reduction or avoidance of debt	15.00	15.00	100.00
2049	Interest Payments	911.85	358.73	39.34
2051	Public Services Commission	7.29	3.39	46.50
2052	Secretariat -General Services	131.33	39.66	30.20
2053	District Administration	45.10	22.43	49.73
2054	Treasury and Accounts Administration	27.66	14.47	52.33
2055	Police	567.35	287.82	50.73
2056	Jails	13.10	6.68	51.00
2058	Stationery and Printing	16.33	7.95	48.66
2059	Public Works	52.26	27.68	52.97
2062	Vigilance	16.65	7.30	43.85
2070	Other Administrative Services	67.33	21.66	32.18
2071	Pensions and Other Retirement Benefits	1302.46	649.36	49.86
2075	Miscell. General Services	374.17	5.96	1.59
B	SOCIAL SERVICES	3273.08	1347.77	41.18
2202	General Education	1390.52	666.20	47.91
2203	Technical Education	27.87	11.54	41.41
2204	Sports and Youth Services	28.14	13.78	48.98
2205	Art and Culture	31.49	9.33	29.62
2210	Medical and Public Health	607.08	294.54	48.52
2211	Family Welfare	21.39	11.55	53.98
2215	Water Supply & Sanitation	93.54	34.05	36.41
2216	Housing	202.18	45.99	22.75
2217	Urban Development	108.03	25.74	23.83
2220	Information and Publicity	18.77	6.57	35.00
2225	Welfare of S/C, S/T and Other Backward classes	245.37	37.49	15.28
2230	Labour & Employment	15.37	7.43	48.35
2235	Social Security & Welfare	242.74	49.26	20.29
2236	Nutrition	45.80	13.01	28.41
2245	Relief on Account of Natural Calamities	160.35	109.48	68.27
2250	Other Social Services	33.65	11.44	34.00
2251	Secretariat- Social Services	0.80	0.38	47.00
C	ECONOMIC SERVICES	2093.58	861.86	41.17
2401	Crop Husbandry	351.05	115.88	33.01
2402	Soil & Water Conservation	53.91	17.71	32.86
2403	Animal Husbandry	85.75	33.65	39.24
2404	Dairy Development	13.87	6.00	43.27
2405	Fisheries	17.66	11.22	63.55
2406	Forestry & Wild Life	167.94	68.19	40.60
2407	Plantations	10.97	5.48	49.93

Heads of Accounts	Items	2023-24 (BE) (₹ in cr)	April - Sept 2023 (₹ in cr)	As % to budget
2408	Food, Storage & Warehousing	36.25	16.99	46.87
2425	Co-operation	27.19	10.54	38.76
2501	Special Programmes for Rural Development	130.97	54.21	41.39
2505	Rural Employment	86.31	25.65	29.72
2515	Other Rural Development Programmes	104.08	38.21	36.71
2575	Other Special Area Programmes	2.00	-	-
2702	Minor Irrigation	30.69	13.78	44.89
2801	Power	401.83	213.91	53.23
2810	Non-Conventional Sources of Energy	2.44	-	-
2851	Village and Small Industries	62.25	19.54	31.40
2852	Industries	9.31	2.86	30.73
2853	Non-ferrous Mining & Metallurgical Industries	7.29	3.25	44.61
2875	Other Industries	0.85	-	-
2885	Other Outlay on Industries	0.25	-	-
3054	Roads and Bridges	308.52	128.81	41.75
3055	Road Transport	81.87	42.54	51.96
3425	Other Scientific Research	11.51	3.36	29.20
3435	Ecology and Environment	10.63	1.13	10.59
3451	Secretariat-Economic Services	14.03	2.85	20.28
3452	Tourism	43.25	16.04	37.09
3454	Census Surveys & Statistics	11.86	6.91	58.28
3456	Civil Supplies	3.36	1.55	46.03
3475	Other General Economic Services	5.71	1.60	28.10
D	GRANTS IN AID & CONTRIBUTION	138.98	14.27	10.26
3604	Compensation and Assignments to Local Bodies and Panchayati Raj Institutions	138.98	14.27	10.26

Source: Annual Financial Statement 2023-24 and Civil Accounts September 2023

4.1.2 Capital Expenditure

The detailed expenditure profile under Capital Sector for 2023-24 is presented in Table 4.3. Against the total outlay of capital expenditure, which is 4.62 percent of GSDP, the overall expenditure is 37.94 percent of the total estimated outlay. Last fiscal year, the achievement under the Capital account was only 26.51 percent.

Almost all the sectors except for outlay on Public Works, Power Projects and Roads and Bridges; none have met the half yearly targets. This has been a normal trend of not achieving targets especially in the half yearly period, and

the primary reason is mainly on account of lesser transfer of funds under the central schemes and the initial time required for the projects in pipe-line to get kick-started.

Table 4.3: Capital Expenditure

Heads of Accounts	Items	2023-24 (BE) (₹in cr)	April - Sept 2023 (₹in cr)	As % to budget
	CAPITAL ACCOUNT	2187.95	830.13	37.94
A	GENERAL SERVICES	296.08	180.14	60.84
4055	Capital Outlay of Police	7.72	-	-
4059	Capital Outlay on Public Works	277.11	175.36	63.28
4070	Capital Outlay on other Administrative Services	11.26	4.78	42.49
B	SOCIAL SERVICES	1073.37	312.00	29.07
4202	Capital Outlay on Education, Sports, Art and Culture	405.67	116.87	28.81
4210	Capital Outlay on Medical and Public Health	77.80	30.50	39.21
4215	Capital Outlay on Water Supply and Sanitation	99.98	42.95	42.96
4216	Capital Outlay on Housing	6.69	0.25	3.74
4217	Capital Outlay on Urban Development	456.58	120.25	26.34
4220	Capital Outlay on Information and Publicity	1.27	-	-
4225	Capital Outlay on Welfare of SC, ST & OBC	17.05	0.17	1.02
4235	Capital Outlay on Social Security & Welfare	8.32	1.00	12.02
C	ECONOMIC SERVICES	818.49	337.99	41.29
4401	Capital Outlay on Crop Husbandry	4.14	0.03	0.65
4403	Capital Outlay on Animal Husbandry	0.50	-	-
4405	Capital Outlay on Fisheries	0.27	-	-
4406	Capital Outlay on Forestry and Wildlife	2.15	0.54	24.91
4408	Capital Outlay on Food storage & warehousing	2.96	1.05	35.43
4425	Capital Outlay on Cooperation	0.18	-	-
4515	Capital Outlay on other Rural Development Programmes	23.26	6.00	25.80
4575	Capital Outlay on other Special Areas Programmes	54.00	-	-
4702	Capital Outlay on Minor Irrigation	63.90	-	-
4711	Capital Outlay on Flood Control Projects	38.10	-	-
4801	Capital Outlay on Power Projects	64.80	55.25	85.26
4851	Capital Outlay on Village and Small Industries	0.30	-	-

Heads of Accounts	Items	2023-24 (BE) (₹in cr)	April - Sept 2023 (₹in cr)	As % to budget
4853	Capital Outlay on Non-ferrous Mining and Metallurgical Industries	0.64	-	-
5054	Capital Outlay on Roads and Bridges	447.31	252.20	56.38
5055	Capital Outlay on Road Transport	1.28	0.17	13.72
5452	Capital Outlay on Tourism	0.75	-	-
5452	Capital Outlay on Tourism	112.30	22.75	20.26
5475	Capital Outlay on other general economic services	1.65	-	-

Source: Annual Financial Statement 2023-24 and Civil Accounts September 2023

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.

CHAPTER 5: FISCAL TARGETS, GUARANTEE & DEBT LEVELS

5.1 Fiscal Targets and Additional Borrowing

5.1.1 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.

5.1.2 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.

The fiscal deficit is budgeted at 4.54 percent of GSDP in 2023-24, which includes utilization of additional borrowing allowed by the Central government. Over and above the FRBM limits, an amount of ₹ 449.89 cr of Special Central Assistance (SCA), which is a 50 year Interest free loan given to States for Capital Investment has been allowed, which works out to 0.95 percent of GSDP. In addition, an amount of ₹ 280.00 cr Loan has been allowed against National Pension Scheme (NPS) contribution by complying States, which amounts to 0.59 percent of GSDP. Thus, removing the additional borrowing which is 1.54 percent of the GSDP, that has been allowed by the Central Government over and above the FRBM limits, the fiscal deficit works out to be

at 3 percent of GSDP. This level of fiscal deficit remains within the FRBM Act limits.

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

Removing the additional borrowings allowed by the Central Government, the State Government is within the debt indicative path prescribed by the 15th FC.

With the revival of GDP, the public finance in the country and states in particular will see positive impact. The state finances of Sikkim is set to improve considerably with effective resource mobilization and expenditure rationalization coupled with enhanced flow of resources from the Union government. The 15th FC has provided a fiscal consolidation roadmap until 2025-26, which will be instrumental for the state to get back to long term fiscal consolidation path.

5.2 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.

5.3 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 2023 is detailed at Table 5.1.

Table 5.1: Public debt including Small Saving and Provident Fund

Head of Accounts	Particulars	Receipt (₹ in cr)	Payment (₹ in cr)	Balance (₹ in cr)
A	PUBLIC DEBT	842.29	81.59	760.70
6003	Internal Debt of the State Government	581.92	76.57	505.35
6004	Loans and Advance from the Central Government	260.37	5.02	255.35
B	LOANS AND ADVANCES	0.22	0.25	-0.03
6210	Loans for Medical and Public Health	-	-	-
6425	Loans for Co-Operation	-	-	-
7475	Loans for other General Economic Services	-	-	-
7610	Loans to the Government Servants etc.	0.22	0.25	-0.03

Source: Civil Accounts Sept 2023

5.4 Conclusion

The State of Sikkim had been recuperating the economic downturn and was trading the normal trajectory path of growth, post the COVID-19 pandemic, conflict in Ukraine and aggressive monetary policy actions across the world aimed to control unprecedented rise in inflation. There had been an upward trend in revenue collection and mobilisation through enhanced economic activities thereafter. However, since the devastating floods of 4th October 2023 and halt of economic activity and number of damages caused post it, Sikkim would tend to be highly affected. A lot of funds would be required in rebuilding and reconstruction, and would thus put, additional fiscal strain to rising revenue expenses.

Being part of the fifth largest and fastest growing economy in the world and with India taking centre stage by setting out its priorities and deliverables under its G20 Presidency, the future of the country seems bright. The drive for growth is such that, India is likely to be the third largest economy by 2028 surpassing Japan and Germany and that India is also moving to be developed by 2047 with “Bikshit Bharat 2047” initiatives. Sikkim would also tend to gain out of this growth momentum with enhanced central transfers and funding under various central schemes. The core areas of concern, however, would be on better utilization of resources for a stable and sustainable fiscal environment consistent with equitable growth. It is, thus, required for Sikkim to make better investment and policy decision, such that, Sikkim is able to take advantage of the growth impetus provided by the rising national economy. The expenditure under the capital sector needs to be enhanced and enriched so as to generate demand in the economy and maintain sustainable economic growth.

The half yearly review of the finances of the State showed better prospects of revenue receipts with only some the sectors not achieving its revenue targets. Post the effect of the floods and the temporary withdrawal of water user charges, the revenue targets envisaged in the budget estimate is expected to fall short. The pool of resources, though small, could cause fiscal imbalances and thereby put the finances of the State Government under strain. The overall finances of the State needs to reviewed in the second half of the fiscal year and steps be taken to overcome the losses, so as to not affect the overall fiscal balances of the State Government.