GOVERNMENT OF SIKKIM
FINANCE, REVENUE AND EXPENDITURE DEPARTMENT
GANGTOK

Medium Terms Fiscal Plan for Sikkim 2012-2013 to 2014-2015

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

Medium Term Fiscal Plan for Sikkim: 2012-13

1. Introduction – Fiscal Policy Overview

The Government of Sikkim while emphasizing on economic development in the State, has also been committed to preservation of ecology and environment, preservation of Sikkimese culture and tradition, and provision of social security. The human development achieved by the state in terms of literacy rate and health status has been impressive[1] and its track record in social sector achievements has been remarkable. The State experienced a devastating earthquake in 2011, which adversely affected the economy and required large scale rebuilding and reconstruction activities. Despite the earthquake, the State managed to keep its growth trend. The per capita income of the state has more than doubled from Rs.30730 in 2004-05 to Rs.78614 in 2009-10 at current prices in 2009-10[2]. The Gross State Domestic Product (GSDP) at constant prices recorded a growth rate of 13.48 per cent during the period of 2004-05 to 2009-10.

The Government of Sikkim enacted the Fiscal Responsibility and Budget Management Act (FRBM) in the fiscal year 2010-11 and placed the first Medium Term Fiscal Plan (MTFP) document in the State Assembly along with the 2011-12 budget. This is the second MTFP. The Medium Term Fiscal Plan (MTFP) Statement presented in the legislature as stipulated in the FRBM Act provides detailed information on fiscal policy choices made by the Government in the ensuing budget year and the fiscal stance of the Government in two future years beyond the budget year in a transparent manner. The FRBM Act was enacted to ensure fiscal stability and sustainability while ensuring efficient provision of public services. Ensuring sustainable fiscal balance while providing for the required level of physical and social infrastructure is the key feature of a growth oriented fiscal policy. While incurring fiscal deficit is inevitable for investments in priority sectors, containing it at a sustainable level is important to avoid large debt burden in the future. At the same time, it is important to allocate adequate resources for social and physical infrastructure to create an enabling environment for investments which would create employment and incomes for the people of the state.

[1] The Human Development Index of Sikkim was at 0.532 as against all India at 0.602 (National Human Development Report: 2001). The literacy rate of Sikkim has improved from 56.9 per cent in 1993-94 to 85 per cent (Budget Speech -2010) and has an Infant Mortality rate of 33 per 1000.
[2] CSO estimates of 2004-05 series at current prices

The Thirteenth Finance Commission (TFC) recommended a fiscal adjustment path for Sikkim limiting the fiscal deficit at the targeted level to ensure sustainable level of debt during 2010-15. The fiscal path provides quantitative targets to be adhered to by the state with regard to deficit measures and debt level. The fiscal management in terms of expenditure rationalization and revenue generation measures have helped in achieving perceptible improvement in fiscal situation of the State in the past, which has been recognised by the TFC in their report while recommending performance incentive grant for Sikkim. In addition to this grant the TFC also recommended for various state specific grants, which assume significance for the State. While adopting the FRBM Act fulfilled the necessary condition to avail such grants, it is also important to adhere to the stipulated fiscal path. However, it is important to mention here that the State faces considerable cost disabilities in service provisions. The adverse effect earthquake last year and the cost of rebuilding and restructuring have been quite large.

The MTFP 2012-13 presents the fiscal policy objectives and projected fiscal targets in the ensuing budget year and two outward years. A detailed review of the macroeconomic and fiscal performance of Sikkim for the period from 2004-05 to 2011-12 was undertaken in the MTFP. Based on the review of state finances and the level of fiscal imbalance, the Medium Term Fiscal Plan was prepared for the period from 2012-13 to 2014-15. The assumptions with regard to the revenue augmentation and expenditure restructuring parameters for the preparation of the MTFP are arrived at on the basis of the recent data covering the period from 2004-05 to 2012-13 (BE) and taking into consideration the policy announcements relating to revenue augmentation measures and expenditure priorities.

The MTFP is divided into following sections. In Section 2, the economic growth achieved by the State in recent years is analyzed. The Section 3 contains the fiscal policy overview, tax, expenditure, and borrowing policies for the ensuing year and the priorities in the medium term. This section follows the Form F-1 of the Medium Term Fiscal Policy as per the Sikkim FRBM Act, Rule 3. In Section 4, Medium Term Fiscal Plan containing the projection of fiscal variables and assumptions underlying the projections has been given. This follows the Form F 2 of the Medium Term Fiscal Policy as per the Sikkim FRBM Act, Rule 3. The concluding remarks are contained in section 5. The disclosures, following the Medium Term Fiscal Policy as per the Sikkim FRBM Act Rule 3 and Rule 4, are given in the Section called Disclosures.

2. Macroeconomic Outlook

Reviewing the macroeconomic performance and the interface between macro economy and state level fiscal policy is essential for designing the MTFP. The revenue performance and expenditure structuring depend upon the size, composition and the growth of the state economy. It is also important to keep in mind that the state level fiscal policy has crucial impact on development of different sectors and macroeconomic performance. The Sikkimese economy has been evolving as a service sector driven economy and the sectors like construction and power moving ahead fast. The inter-sectoral composition of GSDP since 2004-05 shows that the service sector accounts for half of the State GSDP and the share of secondary sector has grown to about 40 per cent in 2010-11 (Table 1). The share of primary sector has been declining over the years and the share of mining and quarrying activities remained very small. TFC has assumed a nominal growth rate of 11.08 per cent in GSDP for Sikkim during the period 2010-15. However, based on the trend of growth in Sikkim, a higher growth rate of GSDP for Sikkim is definitely attainable. However the MTFP is based on the GSDP growth path prescribed by the TFC for Sikkim.

Table 1
Composition of GSDP (Constant Prices)

(Per cent)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Primary, of Which	**18.71**	**17.75**	**16.77**	**16.19**	**14.56**	**11.74**	**11.30**
Agriculture	18.59	17.64	16.65	16.08	14.41	11.62	11.18
Mining & Quarrying	0.12	0.11	0.11	0.11	0.15	0.12	0.13
Secondary, of which	**28.72**	**29.24**	**29.54**	**30.17**	**34.93**	**38.43**	**38.86**
Manufacturing	3.86	3.60	3.66	3.90	3.65	2.80	2.66
Construction	19.23	19.86	19.44	18.69	15.52	12.88	13.54
Electricity & Water supply	5.62	5.78	6.44	7.58	15.76	22.75	22.66
Tertiary, of Which	**52.57**	**53.01**	**53.69**	**53.64**	**50.50**	**49.83**	**49.84**
Transport	2.69	2.63	2.59	2.48	2.26	1.89	1.83
Trade, Hotel and Restaurant	5.19	4.84	4.62	4.51	4.07	3.26	3.12
Banking & Insurance	2.58	2.95	3.59	4.04	3.64	3.13	3.25
Real Estate	9.99	9.38	9.19	9.94	9.49	7.53	7.34
Public Admn	14.60	15.14	15.51	14.79	14.15	18.21	17.43
Other Services	16.09	16.52	16.40	15.81	14.70	13.72	14.25
GSDP	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: CSO; The GSDP is 2004-05 base.

3. Fiscal Profile of the State

3.1 Fiscal Policy Overview

The fiscal trend since 2004-05 presented in Table 4 shows that the State while maintaining surplus in the revenue account continues to incur fiscal deficit[3]. The general fiscal trend in the State reveals that attempts have been made to achieve fiscal consolidation in recent years. The Government of Sikkim introduced FRBM Act in 2011-12 to reduce the fiscal deficit and contain the debt burden. Due to prudent fiscal management the State was able to achieve considerable improvement as shown in the reduction of fiscal deficit and rise in revenue surplus. This was recognized by the TFC, which recommended for performance based incentive grant for the State. The surplus in the revenue account, which declined from 11.69 per cent to GSDP in 2008-09 to 2.47 per cent in 2010-11, seems to have improved to 13.16 per cent in 2011-12 revised estimates and is budgeted to rise further to 17.52 per cent in 2012-13. Similarly the fiscal deficit which was at the level of 7.25 per cent relative to GSDP in 2008-09 declined to 5.60 per cent in 2010-11. However, this level of fiscal deficit was not considered to be sustainable from the FRBM Act point of view. The fiscal deficit at 4.75 per cent relative to GSDP as shown in the revised estimates for the year 2011-12 was also higher as compared to the fiscal target stipulated in the MTFP. The year 2011-12, however, was not a normal year for the State. The earthquake that devastated part of the State adversely affected the finances of the State in terms reduction in collection of own revenues and higher expenditures aimed at rehabilitation and reconstruction activities.

The TFC in their fiscal consolidation path for Sikkim has targeted the fiscal deficit to decline and recommended it to be at the level of 3.5 per cent to GSDP in 2011-12 and 2012-13 and further reduce to 3 per cent in 2013-14 and 2014-15. The State FRBM act, enacted in 2010-11, stipulates to reduce the fiscal deficit to 3 per cent of GSDP by 2013-14. Also necessary amendment in the Act is done to comply with the numerical debt to GSDP ratio path proposed by the TFC. The MTFP 2012-13 is compliant with the TFC proposed path of fiscal consolidation. This indicates the

[3] The GSDP data used to find the relevant ratios is of 2004-05 series given by the CSO. The series was revised by CSO for Sikkim since 2008-09. So it is pertinent to compare the fiscal performance of the State starting with 2008-09.

resolve of the State Government to come back to the fiscal consolidation path despite the setbacks faced during the last year.

Table 2

Fiscal Profile of Sikkim: An Overview

(% to GSDP)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12 (RE)	2012-13 (BE)
Revenues	**58.14**	**54.60**	**55.67**	**59.76**	**54.44**	**49.48**	**38.07**	**54.90**	**58.21**
Own Revenue	13.13	13.10	15.96	16.35	15.22	14.16	9.23	8.10	9.28
Own Tax Revenues	6.72	7.39	8.01	7.89	6.17	4.72	4.95	4.01	5.06
Own Non-Tax Revenues	6.40	5.72	7.95	8.46	9.05	9.44	4.28	4.09	4.22
Central Transfers	**45.02**	**41.49**	**39.71**	**43.40**	**39.22**	**35.32**	**28.84**	**46.80**	**48.93**
Tax Devolution	6.17	9.14	10.31	13.77	11.28	7.90	9.29	9.75	10.36
Grants	38.84	32.36	29.40	29.63	27.95	27.42	19.55	37.05	38.56
Revenue Expenditure	**48.43**	**44.73**	**45.07**	**45.76**	**42.75**	**38.58**	**35.60**	**41.74**	**40.69**
Interest Payment	5.70	5.15	5.33	4.70	4.78	3.26	3.30	2.86	2.89
Pension	1.77	2.08	2.28	2.00	1.84	2.65	2.83	2.58	3.43
Capital Expenditure	**20.38**	**17.34**	**15.07**	**16.56**	**18.94**	**14.45**	**8.07**	**18.59**	**21.02**
Capital Outlay	20.33	17.35	15.10	16.58	18.94	13.68	7.98	17.82	20.96
Net Lending	0.05	-0.01	-0.04	-0.02	0.00	0.77	0.09	0.77	0.07
Revenue Deficit	**-9.71**	**-9.87**	**-10.59**	**-14.00**	**-11.69**	**-10.89**	**-2.47**	**-13.16**	**-17.52**
Fiscal Deficit	**10.67**	**7.47**	**4.47**	**2.56**	**7.25**	**3.56**	**5.60**	**4.75**	**3.50**
Primary Deficit	**4.97**	**2.32**	**-0.86**	**-2.13**	**2.47**	**0.30**	**2.29**	**1.89**	**0.61**
Outstanding Debt	**61.87**	**60.30**	**61.15**	**62.31**	**59.86**	**48.37**	**42.99**	**41.75**	**41.03**

Source (Basic Data): Finance Accounts and State Budget 2012-13
Note: The GSDP figures are of revised 2004-05 series given by CSO.
Negative sign indicates revenue surplus

3.2 Revenue Mobilisation

The major share of the total revenue of the State Government comes from the central transfers. On an average the central transfers constitutes little more than there fourths of the total State revenues. The central transfer, which constituted 39.22 per cent in 2008-09 relative to GSDP, have grown to 46.80 per cent in the revised estimates of 2011-12 and is budgeted at 48.93 per cent in 2012-13. Own tax and own non–tax revenue are expected to be 9.28 and 4.22 (net of lottery expenditure) per cent of GSDP respectively as per the BE of 2012-13. A disaggregated analysis of revenue performance of the state is undertaken to determine the revenue prospects while preparing the MTFP aligned with the provisions of FRBM act of Sikkim.

Composition of own tax revenue is given in Table 3. The sales tax/VAT is the major source of own tax revenue in Sikkim. The relative share of the VAT had increased from about 41 per cent in 2004-05 to 51 per cent in 2010-11. Its share in the revised estimates for the year 2011-12 has considerably declined due to the disruption experienced to business and trade activities due to the earthquake in the State. However, its share is set rebound in the budget estimates for the year 2012-13. The State excise is another important source of revenue for the State, share of which has increased in recent years. During the same time period the motor vehicle tax has evolved as one of the major state taxes. The trend growth rates of individual tax components explain the change in tax structure in the state. The sales tax, state excise and motor vehicle tax have shown high growth rates during this period.

Table 3
Composition of Own Tax Revenue

(Per cent)

	2004 -05	2005 -06	2006 -07	2007 -08	2008 -09	2009 -10	2010 -11	2011 -12 (RE)	2012 -13 (BE)	Growth (04-05 to 12-13)
Own Tax Revenues	100	100	100	100	100	100	100	100	100	
Sales Tax	41.2	38.5	43.1	41.1	50.8	54.1	51.1	39.3	53.0	15.79
State Excise Duties	28.0	22.4	19.2	19.2	23.3	25.6	25.3	37.2	26.9	16.81
Motor Vehicle Tax	2.8	2.9	3.4	3.1	3.5	3.5	3.8	6.0	4.2	20.76
Stamp Duty and Registration Fees	1.2	1.5	1.5	2.2	2.2	2.0	2.0	1.3	2.1	16.94
Other Taxes	2.0	2.2	5.9	10.0	12.9	14.4	17.6	16.2	13.8	47.58

Revenue performance of the state could also be judged from the buoyancy of taxes that shows a functional relationship between the growth of GSDP and revenue mobilization. The buoyancy coefficient explains the percentage growth in tax revenue in response to one percentage growth in GSDP. This relationship assumes that the State GSDP is the proxy for tax base. The buoyancy coefficients of own tax revenue and its components for the period 2004-05 to BE 2012-13, given in the Table 4 indicate that, the own taxes of the State have not grown aligned with the growth of the GSDP. The disruption in 2011-12 due to the earthquake has adversely affected collection state tax revenues. However, the pattern of growth in state suggests that, probably the investments taking place in hydro-electric sector though contributing to the growth numbers, their effects were yet to be felt in terms rise in business and trade activities in the State. The growth process is expected to provide impetus to rise in trade and business activities and thus higher tax collection in the future years. The MTFP after calibrating the growth potential of the GSDP and other tax measures announced in BE 2011-12 makes suitable adjustment in tax buoyancies for projection of tax revenues in the medium term.

Table 4
Buoyancy of Taxes: 2004-05 to 2012-13

Own Tax Revenues	0.587
Sales Tax	0.736
State Excise Duties	0.804
Motor Vehicle Tax	0.939
Stamp Duty and Registration Fees	0.758
Other Taxes	1.926

Source (Basic Data): Finance Accounts and State Budget 2012-13

The own non-tax revenue is an important source of revenue for the State as it constitutes more than half of the own revenue receipts. Income from State lottery, power sector, road transport, and interest receipts has been the main source of non-tax revenue (Table 5). The relative share of lottery income (net), a significant source of revenue for the State, seems to have increasing from the 2009-10 level. The Government initiatives like broad basing the lottery operations with the introduction of the on-line lotteries, and introduction of on-line casino operations with the passage of Sikkim Casino Games (Control & Tax) Act 2002 are expected to yield increasing revenue from lottery operations. The relative share of income from power sector has declined in recent years. The hydro power projects being constructed in the State are expected to make significant contribution in the coming years. The Government has rationalized the power tariff by raising it by 16 %, which would help improving the income from this source. The share of road transport in own non-tax revenue has been growing over the years. The income from forestry and wild life, though declined in between, seems to have been recovering in the recent years.

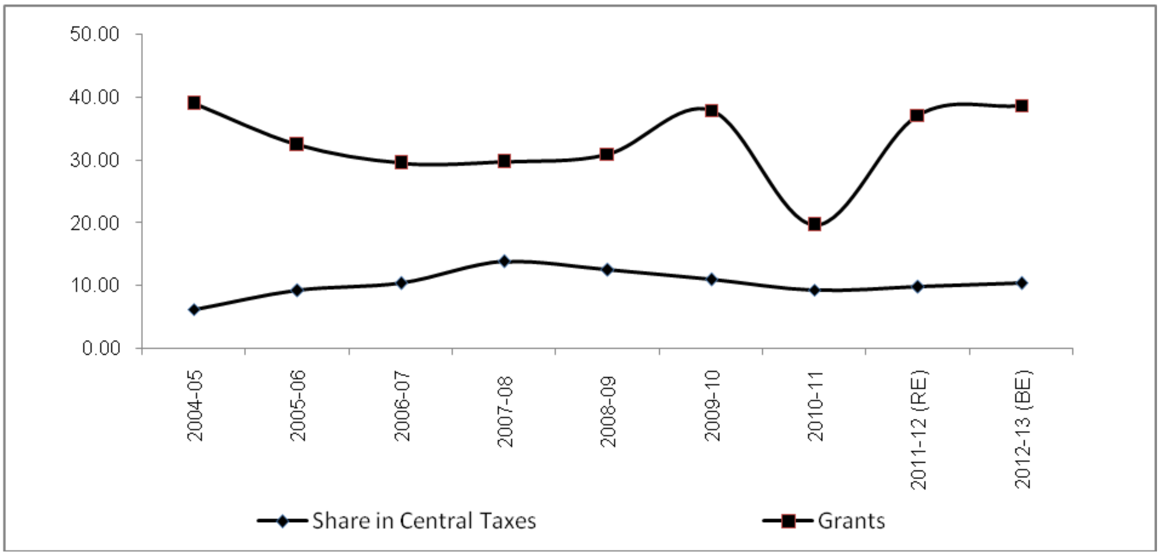
Table 5
Composition of States' Own Non-tax Revenues

(Per Cent)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12 (RE)	2012-13 (BE)
Own Non-Tax Revenue	100	100	100	100	100	100	100	100	100
Interest Receipts	7.2	5.5	3.1	7.1	8.9	9.9	11.6	11.3	7.2
Dividends and Profits	0.8	1.0	0.4	0.3	0.4	0.1	1.0	0.0	0.1
Police	3.9	12.4	8.1	6.9	4.0	3.3	4.0	15.5	15.2
Public Works	2.2	2.7	2.2	2.0	1.7	0.6	1.4	1.7	1.5
Administrative Services	3.4	2.6	1.5	1.2	0.9	1.0	1.9	2.2	1.0
Net Lottery Income	28.0	19.5	29.1	14.5	15.0	9.2	17.6	16.4	17.0
Edu, Sports, Art & Cult.	0.7	0.8	0.6	0.6	0.6	0.4	0.7	0.6	0.5
Medical and Pub. Health	0.9	0.8	0.3	0.5	0.3	0.2	0.3	0.4	0.4
Water Sup. and Sanitation	1.0	1.0	1.2	1.0	0.9	0.6	1.1	1.2	1.2
Urban Development	0.8	0.6	0.4	0.6	0.5	0.7	1.0	0.6	0.6
Forestry and Wildlife	7.1	8.8	5.5	5.2	3.9	2.0	5.1	4.3	4.6
Plantations	1.5	1.8	1.1	1.0	0.8	0.4	1.2	0.8	1.1
Other Rural Dev. Prog.	0.7	1.1	0.6	0.5	0.4	0.6	0.5	0.7	0.8
Power	19.2	24.6	33.9	46.1	52.9	64.2	36.3	29.3	34.0
Road Transport	19.3	12.0	8.6	7.4	6.0	4.6	10.2	10.5	9.9
Tourism	0.7	0.7	0.5	0.6	0.7	0.4	1.2	0.8	1.7
Others	2.6	4.1	2.7	4.6	1.9	2.0	4.9	3.6	3.3

Source (Basic Data): Finance Accounts and State Budget 2012-13

Figure 1
Central Transfers as Percentage of GSDP



The Figure 1 presents central transfers to the State of Sikkim. From the Figure it is evident that while the share in central taxes remained at about 10 per cent of GSDP, the grants from the centre have increased considerably. The TFC recommended various state specific grants for Sikkim and performance incentive grant. In 2011-12 the State had received State specific grants for Sikkim for development of tourism, innovation of Suspension Foot Bridges under North Districts of Sikkim, water Security and public health engineering, police training and infrastructure, residential facility for police, boarder area development, State Capacity building Institute, and conservation of heritage and culture. The State has also received the first year performance incentive grant, which was recommended by the TFC in response to prudent fiscal management of the State. These grants have contributed substantially to the overall revenues of the State and facilitated building infrastructure in the sectors for which grants are targeted. The State has received the TFC grants for universalisation of elementary education, environment related grants including forest, renewable energy, and water sector management, incentive grants to improve quality of public expenditure, and grants for maintenance of roads and bridges for the year 2011-12.

3.3 Expenditure Profile

The expenditure profile of government Sikkim is presented in Table 6. The revenue expenditure, which had declined from 42.75 per cent relative to GSDP in 2008-09 to 35.60 per cent in 2010-11, is set rise in revised estimates for the year 2011-12 and budget estimates for the year 2012-13. The revenue expenditure is expected to be at 40.69 per cent to the GSDP in 2012-13 (BE). The revenue expenditure profile shows that there is an increase in the expenditure on general, economic and social services to GSDP ratio in the revised estimates for the year 2011-12 as compared to the year 2010-11. However, the budget estimates for these heads of expenditure in 2012-13 seems to have declined. The MTFP elaborates on the expenditure restructuring in the medium term where emphasis has been given to priority sector development spending.

Table 6
Expenditure Profile

(Per cent to GSDP)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12 (RE)	2012-13 (BE)
Revenue Expenditure	**48.43**	**44.73**	**45.07**	**45.76**	**42.75**	**38.58**	**35.60**	**41.74**	**40.69**
General Services	**14.92**	**14.41**	**15.49**	**15.48**	**13.82**	**13.87**	**12.12**	**11.78**	**13.34**
Interest Payment	5.70	5.15	5.33	4.70	4.78	3.26	3.30	2.86	2.89
Pension	1.77	2.08	2.28	2.00	1.84	2.65	2.83	2.58	3.43
Other General Services Excluding Salary	7.45	7.18	7.88	8.78	7.19	7.96	5.98	6.34	7.02
Social Services	**17.63**	**16.95**	**16.46**	**17.49**	**16.73**	**14.58**	**14.44**	**17.06**	**15.07**
Education	8.84	9.42	9.27	9.06	8.37	8.27	9.56	7.72	7.53
Medical and Public Health	2.79	2.31	2.28	2.59	2.33	2.28	1.84	1.85	1.78
Other Social Services	6.00	5.21	4.91	5.83	6.03	4.03	3.04	7.50	5.77
Economic Services	**15.88**	**13.37**	**13.12**	**12.79**	**12.21**	**10.13**	**8.80**	**12.38**	**11.56**
Compensation and Assignment to LBs	0.00	0.00	0.00	0.00	0.00	0.00	0.23	0.52	0.71
Capital Expenditure	**20.38**	**17.34**	**15.07**	**16.56**	**18.94**	**14.45**	**8.07**	**18.59**	**21.02**
Capital Outlay	20.33	17.35	15.10	16.58	18.94	13.68	7.98	17.82	20.96
Net Lending	0.05	-0.01	-0.04	-0.02	0.00	0.77	0.09	0.77	0.07

Source (Basic Data): Finance Accounts and State Budget 2012-13

The capital expenditure, leaving the year 2010-11, shows a rising trend in recent years. The capital expenditure, which was 18.94 per cent to GSDP in 2008-09, declined to 8.07 per cent in 2010-11. However, it has almost recovered to the 2008-09 level in revised estimates of 2011-12 and is expected to increase to 21.02 per cent in 2012-13 (BE) (See Table 6). The composition of capital expenditure is shown in Table 7. From the table it is evident that sectors like water supply and sanitation, transport, energy, and tourism have been the focus for the capital expenditure. The education and rural development sectors also have attracted relatively higher capital expenditure. While building social and physical infrastructure remains as core development strategy in the State, the stipulations of FRBM Act to achieve fiscal discipline and sustainable level of debt and deficit requires limiting the level of capital expenditure. Concerted efforts are needed to restructure government spending in a manner so that sufficient fiscal space is created to enable the government to spend on critical areas. The MTFP is prepared based on this rationale.

Table 7
Composition of Capital Expenditure

(Per Cent)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12 (RE)	2012-13 (BE)
Capital Expenditure	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
General Services	**4.7**	**5.0**	**6.5**	**9.5**	**12.6**	**13.7**	**12.6**	**3.6**	**12.3**
Social Services	**37.2**	**31.5**	**36.6**	**32.6**	**31.1**	**34.0**	**36.8**	**46.9**	**40.9**
Education	8.3	7.2	7.7	4.7	4.8	4.2	8.7	6.8	6.6
Health	1.0	2.3	0.6	0.6	1.1	0.5	7.1	8.6	7.7
Water supply, Sanitation, Housing & Urban Development	27.4	22.0	27.2	25.6	24.7	27.9	20.5	30.8	25.9
Information, Publicity & Broadcasting (21)	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.1	0.1
Welfare of SC/STBC	0.3	0.0	0.9	0.3	0.5	0.2	0.1	0.1	0.5
Social Security	0.2	0.0	0.1	1.3	0.1	0.9	0.1	0.4	0.0
Economic Services	**58.1**	**63.5**	**57.0**	**58.0**	**56.2**	**52.3**	**50.7**	**49.6**	**46.8**
Agricultral	1.1	1.5	1.8	1.7	1.5	2.3	1.4	2.6	1.9
Rural Development	3.3	1.9	7.7	9.2	4.0	5.2	5.0	4.2	1.9
Special Areas Programmes	0.9	7.2	8.0	5.5	1.7	1.8	2.5	1.8	1.3
Irrigation	0.7	0.6	0.8	0.7	0.8	0.5	1.2	0.6	0.7
Energy	28.2	25.5	11.7	11.4	10.1	11.1	7.3	6.7	7.1
Industries and Minerals	1.9	2.3	1.1	0.6	1.1	0.8	0.4	0.2	0.3
Transport	20.3	20.7	19.1	20.4	29.1	22.8	21.8	23.4	22.9
Science & Technology	0.0	0.0	0.1	0.4	0.3	0.2	0.0	0.0	0.1
Tourism	1.7	3.9	6.7	8.0	7.6	7.6	11.0	10.1	10.5

Source (Basic Data): Finance Accounts and State Budget 2012-13

3.4 Outstanding Debt and Government Guarantee

Outstanding debt of the Government of Sikkim has declined from 59.86 per cent in 2008-09 to 42.99 per cent in 2010-11 for which audited data is available (Table 2). The debt-GSDP ratio was worked out using the revised GSDP series with 2004-05 base provided by the CSO. The outstanding debt is estimated to fall further in RE 2010-11 and BE 2011-12. The FRBM Act of the state stipulates to maintain the outstanding debt at prudent and sustainable level. The fiscal management in the past has put a control on the debt burden of the State. The TFC in their revised fiscal roadmap have worked out the yearly outstanding debt burden for all the states aligning with the fiscal path. The outstanding debt burden for Sikkim in the year 2011-12 as per the TFC fiscal roadmap is 65.20 per cent relative to GSDP, which declines to 55.90 per cent in 2014-15, the terminal year of the MTFP. The debt-GSDP ratio in the State, as worked out using the new GSDP series with the base year of 2004-05, remains lower than that of the TFC numbers. The debt restructuring formula introduced by the Twelfth Finance Commission has lowered the average cost of debt of the state. Decline in the average cost of debt will result in higher fiscal space for the state government through reduction in the volume of interest payments, which has declined from 4.78 per cent in 2008-09 relative to GSDP to 3.30 per cent in 2010-11.

The accumulated stock of debt is the outcome of the fiscal profile that has emerged over the years. The structure of outstanding debt has an important bearing on interest payment as different debt instruments carry different rates of interest depending on the type of borrowing and maturity structure. The share of market borrowing in the state has increased over the years while the share of loans and advances from the Central government has declined in the last two years (Table 8). The share of high cost debt instruments like small savings, provident funds, etc. has shown a rising trend since 2008-09.

Table 8
Composition of Debt and Liabilities

(Per Cent)

	2008-09	2009-10	2010-11	2011-12 (RE)
A. Public Debt	76.87	78.15	74.63	73.53
Internal Debt	61.34	65.86	63.94	63.35
Loans and Adv. from the Central Govt.	15.53	12.28	10.69	10.18
B. Other Liabilities	23.13	21.85	25.37	26.47
Small Savings, Provident Fund etc	18.94	17.96	21.00	21.97
Reserve Fund	1.32	1.04	0.85	0.79
Deposits	2.87	2.85	3.51	3.71
Total Public Debt & Other Liabilities	100	100	100	100

Source (Basic Data): Finance Accounts and State Budget 2012-13

The Planning Commission of India has indicated six parameters to determine the quality of debt stock of any State.

1. The Debt Stock should be below 30 per cent of the GSDP.
2. Debt should be below 300 per cent of the Total Revenue Receipts (TRR).
3. The interest payment should be less than 18 per cent as a ratio of TRR.
4. The debt growth should not be more than 1.25 times the growth in revenues.
5. The revenue component of the fiscal deficit should not be more than 50 per cent.
6. The fiscal deficit should not be more than 25 per cent of the TRR.

The degree of debt overhang for Sikkim as examined taking into consideration these criteria is given in Table 9. The debt ratio remained much above 30 per cent of GSDP in recent years. However, the debt as a percentage of TRR remained much below 300 per cent and declining sharply in recent years and was as low as 76.05 per cent in 2011-12 (RE). The interest payment as a percentage of TRR remained below 18 per cent as indicated in the Planning Commission parameters. The state government could generate a revenue surplus and the ratio of debt growth to revenue growth is below the permissible target of 1.25. The state's fiscal deficit remained below 25 per cent of the TRR.

Guarantees given by the State Government

As per the Sikkim Government Guarantee Act, 2000, the ceiling on total outstanding government guarantee in a year is restricted to three times of the State's tax revenue receipts of the second preceding year. The outstanding sums guaranteed by the State government on 31st March 2011 were Rs.246.69 crore (see Finance Accounts – 2010-11, Government of Sikkim), which was lower than the tax revenue of the State in the year 2008-09. However, the guarantee has increased to Rs. 310 crore in 2011-12 but remained within the permissible limit prescribed in the Guarantee Act-2000, when compared with the revenue receipts of the second preceding year.

Table 9
Indicators of Debt Management

(Per Cent)

	2008-09	2009-10	2010-11	2011-12 (RE)
Debt Stock as per cent of GSDP	59.86	48.37	42.99	41.75
Debt as a per cent of TRR	109.95	97.76	112.93	76.05
Interest payment as a per cent of TRR	8.78	6.58	8.68	5.21
Growth rate of debt	23.79	18.61	5.98	7.78
Growth rate of revenue	17.39	33.40	-8.26	60.05
Ratio debt growth-revenue growth	1.37	0.56	-0.72	0.13
FD as a per cent of TRR	13.31	7.20	14.70	8.66

4. Medium Term Fiscal Plan: 2012-13 to 2014-15

4.1 Fiscal Indicators

Table 10 ***(follows Form F2 of the Act)***
Fiscal Indicators-Rolling Targets

		Previous Year (Y-2) Actuals	Current Year (Y-1) Revised Estimates	Ensuing Year (Y) Budget Estimates	Targets for Year (Y+1	Targets for Year Y+2)
		2010-11	2011-12 (RE)	2012-13 (BE)	2013-14	2014-15
1	Revenue deficit as percentage of GSDP	-2.47	-13.16	-17.52	-17.82	-18.16
2	Revenue deficit as percentage of Total Revenue Receipts (TRR)	-6.50	-23.97	-30.11	-29.30	-28.54
3	Fiscal deficit as percentage to GSDP	5.60	4.75	3.50	3.00	3.00
4	Total Outstanding Liabilities as percentage of GSDP	42.99	41.75	41.03	39.88	38.85

Notes:
1. GSDP is the Gross Domestic Product at current prices as per revised series of 2004-05 base
2. The negative sign in revenue deficit indicates surplus.

The fiscal outcomes in terms of selected performance indicators for previous year, current year, rolling targets for ensuing budget year and two outward years are presented in the Form F-1 following the stipulations of the Sikkim FRBM Act. The fiscal indicators show the commitment of the Government to achieve the targets of the fiscal path chalked out by the Thirteenth Finance Commission (TFC) starting from the year 2012-13. After the enactment of the FRBM Act of Sikkim in 2010, this is the second MTFP document that contains fiscal projections for the period 2012-13 (BE) to 2014-15. The projection of 3.5 per cent fiscal deficit relative to GSDP for the year 2011-12 could not have been achieved, as is evident in revised figures for the year, due to reason beyond the control of the State Government. As the flow of tourists and associated economic activities influence the collection of tax revenue in Sikkim, the devastating earthquake and general economic slowdown affected the growth of tax revenue adversely. As per the recommendations of the TFC, the timeline for achievement of fiscal targets has been shifted to the year 2014-15. The Government of Sikkim is committed to adhere to the fiscal path suggested by the TFC to achieve the fiscal consolidation by 2014-15.

The detailed projection of fiscal variables presented in Table 11shows that while revenue account has been on surplus throughout, the capital expenditure has remained the major factor determining the fiscal deficit. Investments in physical and social infrastructure have received larger attention in the State for which capital expenditure has grown steadily. Although the focus on investments in infrastructure will remain a key factor in fiscal policy of the Government, the immediate requirement of aligning with the FRBM Act will have some impact on capital expenditure. Higher growth in the economy which would further improve the revenue situation coupled with prudent expenditure management is expected to reduce the fiscal pressure and improve the capital expenditure in future years.

Table 11
Medium Term Fiscal Plan: 2012-13 to 2014-15

(AS Percent to GSDP)

	2010-11	2011-12	2012-13	2013-14	2014-15
Revenue Receipts	**38.07**	**54.90**	**58.21**	**60.82**	**63.63**
Own Tax Revenues	**4.95**	**4.01**	**5.06**	**5.06**	**5.07**
Income Tax	0.01	0.00	0.00	0.00	0.00
Sales Tax	2.53	1.58	2.68	2.64	2.60
State Excise Duties	1.25	1.50	1.36	1.33	1.31
Motor Vehicle Tax	0.19	0.24	0.21	0.21	0.21
Stamp Duty and Registration Fees	0.10	0.05	0.11	0.11	0.11
Other Taxes	0.87	0.65	0.70	0.76	0.84
Own Non-Tax Revenues	**4.28**	**4.09**	**4.22**	**4.32**	**4.42**
Central Taransfers	**28.84**	**46.80**	**48.93**	**51.44**	**54.15**
Tax Share	9.29	9.75	10.36	11.58	12.94
Grants	19.55	37.05	38.56	39.86	41.21
Revenue Expenditure	**35.60**	**41.74**	**40.69**	**43.00**	**45.47**
General Services	**12.12**	**11.78**	**13.34**	**14.14**	**14.99**
Interest Payment	3.30	2.86	2.89	3.00	2.92
Pension	2.83	2.58	3.43	4.00	4.66
Other General Services	5.98	6.34	7.02	7.13	7.41
Social Services	**14.44**	**17.06**	**15.07**	**16.14**	**17.29**
Education	9.56	7.72	7.53	8.03	8.57
Medical and Public Health	1.84	1.85	1.78	1.84	1.91
Other Social Services	3.04	7.50	5.77	6.27	6.81
Economic Services	**8.80**	**12.38**	**11.56**	**12.08**	**12.62**
Compensation and Assignment to LBs	**0.23**	**0.52**	**0.71**	**0.64**	**0.58**
Capital Expenditure	**8.07**	**18.59**	**21.02**	**20.82**	**21.16**
Capital Outlay	7.98	17.82	20.96	20.76	21.10
Net Lending	0.09	0.77	0.07	0.06	0.05
Revenue Deficit	**-2.47**	**-13.16**	**-17.52**	**-17.82**	**-18.16**
Fiscal Deficit	**5.60**	**4.75**	**3.50**	**3.00**	**3.00**
Primary Deficit	**2.29**	**1.89**	**0.61**	**0.00**	**0.08**
Outstanding Debt	**42.99**	**41.75**	**41.03**	**39.88**	**38.85**

Notes: 1. GSDP is the Gross Domestic Product at current prices as per revised series of 2004-05 base
2. The negative sign in revenue deficit indicates surplus.

4.2 Assumption Underlying the Fiscal Indicators

The Thirteenth Finance commission, which had drawn up a revised roadmap for fiscal consolidation, expected that the States would be able to get back to their fiscal correction path by 2011-12 and continue to adhere to the fiscal path. The revised fiscal roadmap allowed the correction till 2014-15. The State of Sikkim was expected to achieve 3.5 per cent fiscal deficit relative to GSDP by 2011-12 and reach at 3 per cent level by 2013-14. Despite the natural calamity that visited the State in 2011 and adversely affected the state finance, the budget estimates for the year 2012-13 projects to achieve the stipulated 3.5 per cent of fiscal deficit. Fiscal correction measures are required to continue to adhere to the fiscal correction path.

The first year of the MTFP is the budget year. While preparing the MTFP it was assumed that economy of Sikkim will grow at the rate of GSDP growth prescribed by the TFC on a year on year basis for the period from 2010-11 to 2013-14. For the purpose of MTFP, instead of taking aggregate own revenue, prescriptive buoyancy based growth rates of individual taxes are used for projection purpose. The prescriptive buoyancies for individual taxes like sales tax, motor vehicle tax, stamps and registration duties have been increased keeping in mind the scope for improvement in these taxes. For excise duty and other taxes, the observed buoyancies for the period between 2004-05 and 2012-13 (BE) were taken as prescriptive buoyancies. The sales tax collection target in 2012-13 budget has been increased considerably from Rs.99 crores in 2011-12 RE to Rs.187.14 crore. The higher tax collection target was based on the Government's attempt to streamline the tax administration and expansion of tax base. The Government has initiated major e-governance programmes in the tax departments to introduce online registration, e-filling of returns and electronic control and evaluation majors. The Government has also completing an automated check gate to improve the control of interstate movement of goods. The impact of these majors is likely to be felt starting with 2011-12.

The MTFP proposes to keep the trend growth rate of non-tax revenues for the period from 2004-05 to 2011-12 (BE) for the purpose of projection. In the case of central transfers also, the recommended State specific grants by the TFC are factored in during the projection year. For the share in central taxes budgetary figures for the year 2012-13 are taken and these are allowed to grow at observed rate of trend growth rate during 2004-05 to 2012-13 (BE).

Expenditure Restructuring under MTFP

The profile of expenditure in the State during 2004-05 to 2010-11 indicates that the Government was able to control the revenue expenditure. However, due to higher emphasis on priority sector spending the revenue expenditure as pecentage to GSDP has increased in R.E 2011-12 and B.E 2012-13. The MTFP proposes to strengthen this approach by providing more resources to high priority development expenditures. The restructuring of expenditure, however, has to be done keeping in consideration the fiscal targets to be achieved by the State in the medium term. The MTFP aims to keep the Government's priority of emphasizing on development expenditure. The MTFP does not attempt to compress the revenue expenditure as the surplus in the revenue account has been large and the measures to compress the expenditure may adversely affect the spending in the development sector in revenue account. The encouraging trend that comes out of the expenditure structure is the rise in share of social and economic services in resource allocation.

In the Budget for the year 2012-13, the Government has announced a number of new schemes and increased allocations to the existing schemes in the social and economic sectors. These schemes are under agriculture and allied sectors, health, education, tourism, rural development, road and bridges, energy and power, animal husbandry, and cooperatives. The details of budget announcements are available in the Budget Speech. The budget announcements underline the focus areas for the Government in the medium term. Based upon the announced policies of the State Government, the MTFP proposes to strengthen social and economic sector expenditure further by making adequate provisions for essential services, particularly education and health. The social sector expenditure as percent of GSDP increases from 15.07 per cent in BE 2012-13 to 17.29 per cent in 2014-15. Similarly the expenditure under economic services has increased from 11.56 per cent in BE 2012-13 to 12.62 per cent in 2014.15. The general services also experience a rise.

The restructuring of expenditure based on Government priorities during the MTFP period results in rise of revenue expenditure from 40.69 per cent to GSDP in BE 2012-13 to 45.47 per cent in 2014-15 (Table 11). The rise in revenue expenditure during the projection period is not very sharp. The fiscal management required the Government to take a balanced view between keeping the focus on social and economic sectors intact and remain in the fiscal correction path. Thus while there is rise in these expenditure in these priority sectors the spending under general service is set to decline during the MTFP period relative to GSDP.

The capital expenditure has considerably increased in the budget projections for the year 2012-13. The capital expenditure has increased from 18.59 per cent in 2011-12 (RE) to 21.02 per cent in 2012-13 (BE). As the Government hopes to achieve a 3.5 per cent fiscal deficit in relative to GSDP in the budget year and a 3 per cent fiscal deficit in two outward years, it was necessary to put a limit on the capital expenditure. The capital expenditure is projected to reduce marginally to 20.82 per cent relative to GSDP in 2013-14 and grow to a level of 21.10 per cent in 2014-15, the last year of the MTFP. However, the capital expenditure continues to grow in terms of nominal numbers. The MTFP keeps the requirements of infrastructural development in the State and immediate need for rebuilding of the earthquake affected infrastructure while projecting the capital expenditure.

Debt and Deficit under MTFP

The revenue augmentation measures and the expected central devolution discussed above are expected to generate a revenue surplus profile as given in Table11. With the prescriptive buoyancy of own tax revenues and growth of expenditure suggested, the State is expected to increase its revenue surplus further during the MTFP period. The fiscal deficit as per the BE 2012-13 is estimated to be 3.5 per cent of GSDP, while in the year 2013-14 and 2014-15, the fiscal deficit target is fixed at 3 per cent to comply with the Sikkim State specific path of fiscal adjustment prescribed by the TFC. The emerged fiscal profile shows a decline in the debt stock to GSDP ratio from 41.03 per cent in 2012-13 (BE) to 39.88 per cent in 2013-14 and finally to 38.85 per cent in 2014-15. This debt-GSDP ratio path complies with the debt path for Sikkim proposed by the TFC. The TFC has assumed a debt-GSDP ratio of

65.2 in 2011-12, 62.1 in 2012-13, 58.8 in 2013-14, and 55.90 per cent in 2014-15 (see Report of TFC, Annex 9.1, pp 409). Also during this period, the capital expenditure to GSDP ratio is expected not to increase substantially. It needs to be emphasized here that the State Government is committed to achieving the objectives of the FRBM Act to reduce fiscal deficit and stabilize the debt burden and conform to the debt target proposed by the TFC in their fiscal consolidation path for Sikkim.

Box 1
Proposed MTFP Targets

<u>Macro Parameters</u>

- Nominal Growth of GSDP as prescribed by the TFC.

<u>Revenue Resources</u>

- Sales tax assumes a buoyancy of 0.850 as against the observed buoyancy of 0.736
- The state excise duty assumes a buoyancy of 0.804
- The stamp duty and registration fees assumes a buoyancy of 1.00
- Motor Vehicle tax assumes a buoyancy of 1.00
- Other taxes assumes a buoyancy of 1.926

<u>Expenditure Projections</u>

- Pension payments are projected on the basis of the historical growth rates for pension payments for the period from 2004-05 to 2012-13 (BE). The observed growth of pension during this period was 30 per cent.
- The interest payments have been estimated on the basis of the effective rate of interest calculated on the base year (2012-13) value of interest payment divided by the stock of debt of the previous year.
- The growth rates in the area of high priority development expenditure in social services and within that, in health and education, are assumed to continue during the MTFP period.
- Social services expenditures will grow at the rate of 19.14 per cent per annum.
- Education expenditure will grow at the rate of 18.70 per cent per annum
- Health expenditure will grow at the rate of 15.29 per cent per annum.
- Capital expenditure to GSDP ratio is expected to decline marginally from 21.02 per cent in 2012.13 (BE) to 20.82 per cent in 2013.14 and be at a level 21.16 per cent in 2014.15.

<u>Deficit and Debt targets</u>

- The MTFP 2012.13 to 2014-15 projects the revenue surplus to increase from 17.52 per cent to the GSDP to 18.16 per cent.
- The fiscal deficit is projected to reduce from 3.5 to 3 per cent of GSDP
- The outstanding debt to GSDP ratio is expected to decline from 41.03 per cent to 38.85 per cent.

5. Conclusion

The MTFP based on detailed analysis of the state finances and the revenue and expenditure polices announced in the BE 2012-13 provides the fiscal stance of the Government of Sikkim. The revenue augmentation measures, expenditure side restructuring based on the priorities expressed in the budget, and the resultant borrowing requirements are elaborated in the MTFP. In the revenue side, the need for improving revenue receipts is reflected in the changes in tax policies and tax administration measures. The expenditure restructuring based on new policies in social and infrastructure sectors reflect the Government priority. The MTFP makes projections for two outward years beyond the BE 2012-13 keeping the requirement of achieving fiscal prudence to continue on the proposed fiscal roadmap of the TFC. The MTFP proposes to achieve the 3 per cent fiscal deficit relative to GSDP and generate surplus in the revenue account. The need for continuously adhere to the fiscal roadmap required limiting the capital expenditure as percentage of GSDP to the level projected in 2012-13 (BE). As the growth prospective for the state looks bright in the coming year, the State will be able to increase the capital expenditure. This is captured in the year 2014-15, when the capital expenditure as percentage of GSDP increases as compared to the year 2013-14. The debt burden of the State is already below the projections made by the TFC. With the decline in debt servicing obligation for the state based on realistic assumption with regard to the average cost of debt and the level of fiscal deficit, the debt burden is further projected to decline. Given the fact that the State has been adhering to the ceiling put by the legislature for providing Guarantee, the MTFP suggest that the State Government continue with the present policy to avoid any pressure in lieu of contingent liabilities. To conclude, the Government of Sikkim is committed to achieve fiscal prudence in the future years and the fiscal policies enunciated in BE 2012-13 reflects this commitment.

Disclosures

Form D-1

(*See* Rule 4)

Select Fiscal Indicators

Sl. No.	Item	Previous Year 2010-11 (Actuals)	Current Year 2011-12(RE)
1	Gross Fiscal Deficit as Percentage to GSDP	5.60	4.75
2	Revenue Deficit as Percentage of GSDP	-2.47	-13.16
3	Revenue Deficit as Percentage of Gross Fiscal Deficit	-44.20	-276.94
4	Revenue deficit as Percentage of TRR	-6.50	-23.97
5	Debt Stock as Percentage of GSDP	41.11	39.87
6	Total Liabilities as Percentage to GSDP	42.99	41.75
7	Capital Outlay as Percentage of Gross Fiscal Deficit	142.63	374.89
8	Interest Payment as Percentage of TRR	8.68	5.21
9	Salary Expenditure as Percentage of TRR	36.42	22.82
10	Pension Exp. As Percentage of TRR	7.44	4.69
11	Non-development Expenditure as Percentage of Aggregate Disbursements	30.11	20.84
12	Non-tax Revenue as Percentage of TRR	11.25	7.45

Form D-2

(*See* Rule 4)

Components of State Government Liabilities

Rs. Crore

Category	Raised during the fiscal year		Repayment during the fiscal year		Outstanding Amount (End March)	
	Previous Year (Actuals)	Current year (RE)	Previous Year (Actuals)	Current year (RE)	Previous Year (Actuals)	Current year (RE)
Internal Debt	94.96	150.27	51.31	44.881	1553.70	1659.09
Loan from Centre	0.07	10.6	73.23	3.7756	259.78	266.60
State Provident Funds	162.67	192.385	64.16	127.1925	510.28	575.47
Reserve Funds/Deposits	110.99	113.1909	94.19	101.4882	106.09	117.79
Other Liabilities						

Form D-3

(*See* Rule 4)

Guarantees Given by the Government (Rs. Crore)

Sl.No	Name of the Institution to which Guarantees is given	Maximum Guareentee given	Remarks.
1	Sikkim Industrial Development & Investment Corporation Ltd.	285.00	
2	Scheduled Castes Scheduled Tribes and Other Backward Classes Development Corporation Ltd. (SABCO)	25.00	
	Total	310.00	

Form D-4

(*See* Rule 4)

Number of Employees in Public Sector Undertakings & Aided Institutions and Expenditure of State Government

Sl.No	Sector Name	Total Employees as on 31.3.2012	Related Expenditure Rs.Crore	
			On Salary	On Pension
1 (a)	Regular government Employees	31930		
(b)	Government Aided.	1732		
(c)	Temporary Employees	14938	1177.37	239.66
2	State Bank of Sikkim	334	10.33	
3	Govt. Fruit Preservation Factory	92	8.60	
4	Sikkim Hatcheries Pvt. Ltd	9	0.60	
5	Sikkim Poultry Dev corp.	4	0.60	
6	Sikkim Handloom and Handicraft Dev. Corp.	8	0.34	
7	Denzong Agricultural Co operative Society.	40	0.37	0.01
8	Sikkim State Co- Operative Bank Ltd.	48	1.44	0.15
9	Sikkim Co- Operative Milk Producers' Ltd.	123	1.84	
10	Sikkim Schedule Caste & Schedule Tribe and Other Backward Classes Dev. Co operation Ltd. (SABCO)	23	0.84	
11	State Trading Corporation of Sikkim.	85	2.63	
12	Sikkim Industrial Dev and Investment Corporation Ltd.	45	1.71	
13	Sikkim Tourism Dev. Corporation Ltd.	82	0.94	0.69
14	Sikkim State Co-Operative Supply & Marketing Federation Ltd.	84	1.80	
15	Sikkim Power Dev. CorporationLtd.	70	0.85	
16	Sikkim Consumers' Co operative Society Ltd.	27	0.32	
	Total	49674	1210.58	240.51