GOVERNMENT OF SIKKIM

FINANCE DEPARTMENT

GANGTOK

MEDIUM TERMS
FISCAL PLAN FOR SIKKIM
2021-22 to 2023-24

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

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

1. Introduction – Overview of Current Fiscal Policy

The public finance of the country as a whole and state finances in India in particular have been going through a very difficult time. While national economy was experiencing a slowdown in 2019-20, the Covid-19 Pandemic created an extremely disturbing situation. The lockdown induced reduction in economic activity and contraction of the economy reduced availability of resource for the Governments at both the levels to fight the Pandemic and implement ongoing policies. The reduction of flow of resources to the states was a major reason for their fiscal imbalance. A state like Sikkim, which depends heavily on central transfers faces severe challenges for fiscal management. While the increase in borrowing facility and special assistance program were helpful, without a robust growth and continuing flow of transfers, the fiscal management in the state will challenging. The Medium Term Fiscal Policy (MTFP) for the year 2021-22 takes all these factors into account while formulating a medium term fiscal plan.

Since the adoption of Sikkim Fiscal Responsibility and Budget Management Act of 2010 (FRBM Act), the Government of Sikkim has shown commitment to the rule based fiscal management. The fiscal management revolves around the benchmarks provided by FRBM Act. The broad features of the Act has been a defined time path for achieving deficit and reducing debt burden, conducting fiscal management based on fiscal principles enshrined in the Act, and preparing medium term fiscal policy statements to enhance transparency in the Government. The medium term fiscal plan contains statements on macroeconomic perspective, fiscal strategy, medium term fiscal plan, and disclosures fiscal management. The statements explain the fiscal strategy adopted by the Government for the budget year and subsequently in the medium term.

The state managed to achieve the objectives of reducing deficit and stabilizing debt burden and consistently generated revenue surplus. The rule based fiscal policy helped the State Government to come out of fiscal imbalance and establish long run fiscal sustainability. This has improved the credibility of the Government policy and facilitated focusing on building social and physical infrastructure. As the state has a limited base to generate resources internally and the provision of public services in a difficult hilly terrain is costly, the Government needs to calibrate its fiscal policy and spending pattern with a restraint provided by the fiscal rules.

The State Government made necessary changes in the FRBM Act by bringing amendments following the recommendations of Central Finance Commissions. The fiscal adjustment path for Sikkim recommended by the Thirteenth Finance Commission (TFC) with targeted fiscal deficit to ensure sustainable level of debt ended at 2014-15. The FRBM Act of the State took into account the recommendations made by the 14th FC starting from the fiscal year 2015-16. The Commission recommended certain changes in the fiscal consolidation process to provide flexibility in the fiscal management of the State. The state government also brought amendment to the Act to reflect the recommendations of the 15th FC regarding gradual decline of fiscal deficit and adopting an indicative debt-GSDP ratio. The overall fiscal management in terms of budget decisions and implementation has remained within the boundary set in the fiscal rules and the recommendations made by the Central Finance Commissions.

The Sikkim FRBM Act, contains provision for independent review of fiscal policy of the Government and compliance to provisions of this Act. This was based on the recommendations of the 13th FC. This provision has established an institutional process where achievement of the fiscal targets and fiscal management principles has been examined by an independent agency to strengthen accountability system. The report is placed in State legislature. It has become part of accountability structure under Indian constitution relating to public financial management.

While state finances in India depend on transfers from the Union, the dependency of Sikkim has been considerably large. The recommendations of the Central Finance Commissions has crucial role in transfer of resources. The State had to address several challenges, after 14th FC gave its recommendations relating to devolution of funds. The rise in tax devolution could not compensate the loss of plan grants under block grants. The increase in State’s share and rise in the divisible pool of Central taxes from 32 to 42 percent has resulted in higher tax devolution to the State. However, rise in tax devolution subsumed many grants to the State and overall central transfer was declined last year. The State had to make several changes in the financing pattern for ongoing and proposed programs to factor in reduced level of flow of funds. The 15th FC recommendations included revenue deficit grant to Sikkim for first three years of its award period. The resources transfers recommended by the 15th FC to Sikkim including tax devolution and grants, do not adequately reflect the spending needs of the state.

The FRBM Act stipulates presenting a medium term fiscal plan (MTFP) along with the budget in the State legislative assembly. The objective of presenting an MTFP is to give the detailed fiscal stance of the Government as envisioned in the budget in a transparent manner. The MTFP 2021-22 presents medium term fiscal objectives, strategic priorities in resource allocation, and fiscal policies in conformity with fiscal management principles enunciated in the Act. It gives projected fiscal targets in ensuing budget year, 2021-22, and two outward years. It reviews the macroeconomic and fiscal performance of Sikkim for the recent years. The MTFP, while drawing out the fiscal plan, provides the assumptions with regard to the revenue augmentation and expenditure restructuring parameters arrived at based on trend of the variables and the recent policy changes relating to revenue augmentation measures and expenditure priorities in various sectors.

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

The major socio-economic indicators for the State show commendable improvement. The Gross State Domestic Product (GSDP) at constant prices recorded a growth rate of 6.92 percent in 2019-20. The per capita income of the State at current prices is Rs.486197, which is second highest in the country. The poverty ratio has declined to 8.19 per cent as compared to all India average of 21.92 per cent in 2011-

12. The literacy rate at 81.40 per cent in 2011-12 is significant achievement. The IMR has gone down to 24 per 1000 in 2011 as compared to the all India average of 44.

The rest of the report is organized as follows. The Section 2 provides an analysis of the recent macroeconomic trend of the State. The fiscal policy overview, tax, expenditure, and borrowing policies for the ensuing year and the priorities in the medium term are presented in Section 3. This section is based on the template provided in the Form F-1 of the Medium Term Fiscal Policy as per the Sikkim FRBM Act, Rule 3. In Section 4, Medium Term Fiscal Plan containing the projection of fiscal variables and assumptions underlying the projections has been given. This follows the Form F 2 of Sikkim FRBM Act, Rule 3. The concluding remarks are contained in section 5. The disclosures, following the Medium Term Fiscal Policy as per the Sikkim FRBM Act Rule 3 and Rule 4, are given in the Section called Disclosures.

2. Macroeconomic Outlook

The fiscal strategy of the state government among many other things depends heavily on adequate macroeconomic and fiscal projections. One of the major objectives of preparing the medium terms fiscal policy is to elaborate on state government’s fiscal strategy adopted in the budget and the macrocosmic trends. The State FRBM Act in section 3.4 (iii) calls upon the Government to provide a statement on economic trend and future prospects for growth and development affecting fiscal position of the Government. The trend of economic growth and contribution of various sectors to the state economy assumes significance in formulating fiscal; strategy for the year, primarily for assessing the possible revenue implication. The future prospects of State economy is crucial to express the fiscal outcomes as percentage to GSDP. The Central Government fixes borrowing limit of the State as proportion to GSDP. This is based on assumptions regarding the growth rate usually made by the Central Finance Commission.

State governments in India, and Sikkim as well have been facing severe fiscal stress due to the Covid-19 induced crisis. The economic impact of the COVID-19 Pandemic on Indian economy has been found to be significantly disruptive. The impact of national lockdown in the wake of first wave of Covid – 19 was felt in the growth of the fourth quarter of the fiscal year, 2019-20. The growth in GDP during 2019-20 was estimated at 4.2 per cent, as compared to 6.1 per cent in 2018-19. The impact of the Pandemic resulted in the GDP slipping down to a technical recession in the first two quarters of FY21 by contracting by 24.4 per cent and 7.4 per cent. Before the onset of second wave of the Covid-19 pandemic, the GDP showed positive growth rate at 1.6 and 0.5 percent in last two quarters of FY21. Overall India’s GDP contracted by 7.3% in 2020-21. The decline in growth resulted in loss of employment and decline in consumption expenditure. The Government of India had taken several monetary and fiscal policy initiatives to address the hardship of the people during the Pandemic, and increase government spending in several sectors, particularly health and infrastructure considerably as a countercyclical policy.

In this MTFP, analysis of the current trends and projections for two outward years beyond the budget year of 2021-22 has been carried out based on data provided by the CSO on GSDP and contribution of various sectors. The State GSDP, in 2018-19 and 2019-20, grew consistently at 5.9 and 6.9 per cent at constant prices respectively (Table 1). The current price growth rate during this two years was 10.6 and 13.1 percent. The CSO data gives growth rate of Gross State Domestic Product (GSDP) and Gross State Value Added (GSVA) for both constant and current prices. The growth rate of GSVA shows similar growth trend as that of GSDP in 2018-19. The country's economy had been declining ahead of the shock brought by the COVID-19 crisis, and in in 2019-20 the GDP growth declined to a low of 4.2 per cent. The economic performance of a small state like Sikkim during this period was favourable as compared to the national growth rate.

The composition of the state economic indicates that the secondary sector including manufacturing, construction and electricity contributes the largest share. The relative share of industry sector has increased from 62.8 percent in 2011-12 to 64.6 percent in 2019-20. On an average the service sector contributes about one third of the GSDP during 2011-12 to 2019-20 and agriculture sector contributed 8 percent of GSDP during this period. The relative share of the service sector, which was showing a rising trend since 2011-12, seems to have declined after 2016-17. The relative share of agriculture remained more or less stagnant.

The growth of the GSDP that has propelled Sikkim very high in the per capita income ladder across Indian states. According to the comparable per capita income data for three years 2016-17 to 2018-19, as given by FC XV, Sikkim becomes the second highest income state with a three-year average precipitate income of Rs.388736. The state Goa has the highest per capita income in the country. High growth in seen in past years, particularly in 2009-10 marked a clear shift in the growth path of the GSDP. The growth rate in this year jumped to a high of 73.6 per cent (89.9 per cent in current prices). The impressive growth of power sector was basically driven by generation of hydroelectricity in newly commissioned power projects. The manufacturing sector showed very high growth due to higher production in pharmaceutical industries and strengthening of small-scale industries. For instance the manufacturing sector constitutes about 46.7 per cent of State GSDP in 2019-20.

Table 1: Composition of GSVA (Constant Prices)

(Percent)

Item	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Primary	**8.3**	**8.5**	**8.4**	**8.0**	**7.6**	**7.8**	**8.1**	**7.8**	**7.8**
Agriculture, forestry and fishing	8.3	8.4	8.3	7.9	7.5	7.7	8.0	7.7	7.7
Mining and quarrying	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Secondary	**62.8**	**60.1**	**59.9**	**61.2**	**62.3**	**63.5**	**65.2**	**64.5**	**64.6**
Manufacturing	39.5	39.0	40.1	41.6	43.5	46.3	48.0	46.4	46.7
Construction	6.2	5.7	5.7	5.3	5.3	4.5	4.3	4.3	4.2
Electricity, gas, water supply & other utility services	17.1	15.5	14.1	14.4	13.5	12.7	13.0	13.8	13.7
Tertiary	**28.8**	**31.4**	**31.7**	**30.8**	**30.1**	**28.7**	**26.7**	**27.7**	**27.6**
Transport, storage, communication & services related to broadcasting	2.6	3.0	3.2	3.2	3.1	3.3	3.1	2.9	2.9
Trade, repair, hotels and restaurants	2.9	4.6	5.2	4.8	4.5	4.5	4.7	4.8	4.9
Financial services	1.5	1.6	1.6	1.6	2.7	1.7	1.5	1.4	1.3
Real estate, ownership of dwelling & professional services	5.4	5.4	5.3	5.0	4.6	4.5	4.1	3.9	3.8
Public administration	6.8	7.2	7.2	7.1	6.6	6.2	5.6	7.2	7.4
Other services	9.7	9.6	9.2	9.3	8.6	8.5	7.8	7.5	7.3
TOTAL GSVA at basic prices	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Growth Rate									
GSVA (Constant Prices)		1.7	5.2	8.1	9.1	6.2	11.9	8.7	6.9
GSDP (Constant Prices)		2.3	6.1	7.9	9.9	7.2	14.8	5.9	6.9
GSVA (Current Prices)		9.9	11.3	11.5	16.2	13.6	22.4	13.4	13.1
GSDP (Current Prices)		10.5	12.3	11.1	17.1	14.7	25.5	10.6	13.1

Source: CSO, GoI

The State economy is usually assumed to provide base for the revenue. The tax base of the state is very low, despite achieving a relatively higher per capita income, as large part of the GSDP derived from manufacturing and power generation does not result in a corresponding increase in local consumption and consequently revenue. The growth pattern in the state suggests that the sectors growing rapidly and contributing to growth process have not contributed to tax revenue to the same extent. The generation of hydroelectricity, though adds to the GSDP numbers, remain outside the State tax system. Similarly, the pharmaceutical industries send their products out of the State through consignment transfer, which is not captured in the VAT or GST.

The growth rate at current prices assumed by Central Finance Commissions in the past particularly by the FC-XIV, was much beyond the capacity of the state and set unachievable targets. The GSDP growth assumed by Finance commissions and its impact has been elaborated here.

- The growth rate assumed by the FC-XIV for its award period from 2015-16 to 2019-20, was significantly high. The Commission, based on the comparable GSDP figures prepared by the CSO, assumed a growth of 28.05 per cent for the year 2014-15 and 24.32 per cent. This growth rate was used in the projection of revenue receipts and expenditure for the assessment of State finances. The high growth rate assumed by the Commission implies a higher nominal amount of GSDP and a higher level of projected nominal revenue receipts. During this period, the State has never reached that high growth rate and it was also not possible for the State to generate the revenue projected by the Commission.

- The FC-XV in its report for the year 2020-21, tried to reduce the variability in growth observed across States in the previous years. Projected annual growth rate of comparable GSDP for Sikkim was assumed at 10.2% in 2019-20 and 11% for 2020-21.The State memorandum demanded to adopt 11% growth rate during the award period and avoid considering high growth rates of past years. Despite taking 11% growth rate, the GSDP projected by the Commission remains higher than the State projection. This could be due to the comparable GSDP taken by the FC. However, this level of variance is much less than what we had experienced under the 14th FC.

The FC-XV in its full report for the award period 2021-26, took the prevailing economic situation in India into consideration while suggesting state wise growth rates of GSDP. The Commission assumed a negative growth rate of 6 percent for the FY21 followed by a higher growth rate 13.5 percent in FY22. Similarly for the state of Sikkim, the Commission assumed a negative growth of 0.5 percent in FY21 and a higher growth rate of 14.5 percent for the year 2021-22. Starting from FY23, the FC-XV prescribed growth rates ranging from 11.5 to 12.5 percent. The MTFP looking at the second wave of Covid-19 and its expected impact, marginally lowered the growth rate to 11 percent for projecting GSDP in the medium term.

3. Fiscal Profile of the State

The impact of Covid-19 on Indian economy has been severe as can be seen from the negative growth rate of 7.3 percent in 2020-21. The public finances have been severely affected due to contraction of the Indian economy. States in India continue to bear major responsibility of fighting against the pandemic and have to address the public health crisis resulted due to this crisis. The devastating combination of reduction in tax receipts and rising spending expenditures has generated unparalleled pressures on fiscal positions at sub-national levels. The states have also been facing risks due to fiscal sustainability issues reinforced by off-budget loans and guarantees. According to Reserve Bank of India's annual report "State Finances: A Study of Budgets of 2020-21", states had budgeted their consolidated gross fiscal deficit (GFD) at 2.8 per cent of GDP in 2020-21 as budgets were presented before the Pandemic. The fiscal outcome would be considerably revised. The fiscal consolidation path and the FRBM Act of the states have been revised in the light of unprecedented fiscal crisis and recommendation of the FC-XV.

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

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3.1 Recommendations of Fifteenth Finance Commission: Implication for Sikkim

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

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

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

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

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

Table 2 Indicative Deficit and Debt Path

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

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

5. The growth of adjusted revenue expenditure during the award period works out to be about 6.68 percent. The adjustments carried out by the FC – XV to adopt a normative projection has resulted in lower than expected growth rate for the revenue expenditure.
6. Pre-devolution deficit starting from Rs.3233 crores in 2021-22 increases to Rs.3335 in 2025-26. The level of pre-devolution deficit and the change in the award period has remain low due to low projection of revenue expenditure.
7. After tax devolution is factored in, Sikkim became eligible to receive revenue deficit grant only for three years from 2021-22 to 2023-24. Post devolution, according to FC-XV projection, the State becomes revenue surplus and ineligible for revenue deficit grant for last two years of its award period.

The share of Sikkim in the tax devolution formula given by the FC-XV for the award period from 2021-22 to 2025-26 is 0.388. This share shows a marginal increase from 0.36 recommended by the FC-XIV. The features like being second highest per capita income state and very low population pose disadvantages for Sikkim in the devolution formula. The per capita income distance criteria gives very low share to the State. As most of the criteria are scaled up by the population, even a better performance in some criteria brings down the inter se share. In the case of area, Sikkim, like other smaller states, gets the lowest 2 percent inter se share. Tax effort criterion also poses disadvantage to Sikkim as tax/GSDP ratio remains low in the State. The criteria like demographic performance and forest and ecology have given some edge to the state in this devolution formula.

Recommended Tax Devolution

Table 3 Share in Central Taxes

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

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

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

Table 4 Tax Devolution and Basic Grants

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

3.2 Fiscal Policy Overview

The rule based fiscal management adopted with the introduction of FRBM Act in 2010-11, limits the deficit and debt levels to an agreed upon fiscal path. Since the adoption of the FBM Act, the State managed to adhere to the fiscal targets stipulated in the Act until 2018-19. The State had maintained revenue surplus, reduced the deficit to stipulated limit, and stabilized debt burden considerably complying with FRBM Act (Table 5). Due to severe decline in central transfers and contraction of own revenue generation the fiscal stress has increased in 2019-20 and state failed to achieve fiscal targets. The revenue surplus, which was at 2.59 percent of GSDP in 2018-190, has declined considerably to 4.14 percent in 2019-20. The revenue surplus depends upon the central grants and own revenue, which contracted to a large extent. While in 2019-20 State Government was allowed to avail the flexibility provided by FC-XIV to increase the fiscal deficit to 3.5 percent, the actual deficit increased to 6.4 percent.

Table 5: Fiscal Profile of Sikkim: An Overview

(Percent to GSDP)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 (RE)	2021-22 (BE)
Revenues	**28.09**	**26.53**	**20.98**	**23.03**	**23.43**	**22.10**	**14.90**	**22.29**	**20.31**
Own Tax Revenues	**3.79**	**3.42**	**3.14**	**3.26**	**3.09**	**3.35**	**2.99**	**2.98**	**3.14**
Sales Tax	2.07	1.83	1.81	1.82	1.12	0.70	0.61	0.58	0.58
SGST	0.00	0.00	0.00	0.00	0.77	1.51	1.40	1.46	1.52
State Excise Duties	0.87	0.85	0.79	0.78	0.68	0.68	0.64	0.65	0.72
Motor Vehicle Tax	0.13	0.13	0.12	0.12	0.13	0.12	0.13	0.08	0.11
Stamp Duty and Regi. Fees	0.05	0.04	0.05	0.06	0.06	0.06	0.04	0.04	0.03
Other Taxes	0.67	0.57	0.38	0.47	0.33	0.27	0.17	0.17	0.17
Non-Tax Revenues	**2.61**	**2.10**	**2.29**	**2.26**	**2.94**	**2.46**	**2.13**	**1.86**	**2.03**
Central Transfers	**21.69**	**21.01**	**15.55**	**17.51**	**17.40**	**16.29**	**9.78**	**17.45**	**15.14**
Tax Devolution	5.50	5.25	10.37	10.34	10.56	7.63	5.08	4.68	4.59
CGST, IGST	0.00	0.00	0.00	0.00	1.28	2.78	1.99	2.18	2.19
Grants	16.19	15.75	5.18	7.18	5.55	5.88	2.71	10.59	8.37
Revenue Expenditure	**21.8**	**21.8**	**20.2**	**18.9**	**18.7**	**19.5**	**19.0**	**23.4**	**19.4**
General Services	**7.47**	**7.88**	**6.90**	**7.10**	**6.87**	**7.32**	**7.45**	**8.67**	**7.51**
Social Services	**9.21**	**8.31**	**6.85**	**6.67**	**6.89**	**7.73**	**6.94**	**9.16**	**6.83**
Economic Services	**4.89**	**5.33**	**6.24**	**4.88**	**4.62**	**4.21**	**4.39**	**5.25**	**4.74**
Assignment to LBs	**0.26**	**0.27**	**0.22**	**0.28**	**0.28**	**0.25**	**0.26**	**0.35**	**0.31**
Capital Expenditure	**6.65**	**6.53**	**3.66**	**3.68**	**6.84**	**4.99**	**2.27**	**5.45**	**5.45**
Capital Outlay	6.58	6.37	3.52	3.60	6.77	4.82	2.22	5.45	5.45
Net Lending	0.07	0.17	0.14	0.08	0.07	0.17	0.05	0.00	0.00
Revenue Deficit	**-6.27**	**-4.74**	**-0.77**	**-4.11**	**-4.77**	**-2.59**	**4.14**	**1.14**	**-0.92**
Fiscal Deficit	**0.38**	**1.79**	**2.88**	**-0.43**	**2.08**	**2.40**	**6.40**	**6.59**	**4.52**
Primary Deficit	**-1.21**	**0.23**	**1.43**	**-2.05**	**0.45**	**0.78**	**4.84**	**4.78**	**2.72**
Outstanding Liabilities	**22.14**	**22.60**	**21.97**	**23.33**	**24.50**	**23.65**	**22.77**	**28.94**	**28.15**

Source (Basic Data): Finance Accounts and State Budget 2021-22

Note: The GSDP figures are from CSO

Negative sign in deficit indicates surplus

There has been persistent demand from the state governments to relax the FRBM limits and increasing in net borrowing (NRC) from the existing 3 percent of

GSDP due to hardship in managing the finances. The main reason for fiscal stress was cited by the states was shortfall in actual receipt of share in central taxes. Given the fiscal stress faced by the states and adjustment of Rs.58, 843 in 2019-20 crores against states' share of central taxes on account of lower tax revenue collection in 2018-19, the central government allowed higher NRC to the extent of adjusted amount. The state of Sikkim was allowed the flexibility to incur additional NRC of Rs.216 crores.

In 2020-21, the fiscal deficit of Sikkim increased to 6.59 percent and revenue deficit was at 1.14 percent of GSDP. The state was allowed to increase the fiscal deficit by 5 percent as part of central; government package. Government of India, under the Aatma Nirbhar Abhiyan in May 2020, allowed the States to increase their borrowing limits from 3 percent to 5 percent for the fiscal year 2020-21. While 0.5 percent of the GDP of the additional borrowing is unconditional during current financial year, the states need to meet specific reforms requirements to avail another 1 percent of GDP as additional borrowing. Following the GST council meet in October, it was decided that states opting for the special window facility to meet the shortfall arising due to GST compensation, can avail additional 0.5 per cent borrowing unconditional. Government of India has provided assistance under "Scheme for Special Assistance to States for Capital Expenditure". Funds under this scheme will help the States to manage ongoing capital projects, which could be stuck due to resource problem. Sikkim, like other NE states was allowed to avail Rs.200 crores under this facility. This has further increased the fiscal deficit limit.

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

The Government has availed the full extent of fiscal deficit limit stipulated in the amended FRBM Act and also availed the special assistance program. The debt GSDP limit, however, increased in the process beyond the FRBM Act limits. The

MTFP projects to maintain the fiscal consolidation process in the two outward years and improve resource availability to social and economic sectors.

3.3 Revenue Mobilization

The central transfers, taking both the tax devolution and grants, continues to be the major contributor to the State exchequer. On an average the central transfers constitutes about three-fourths of the total State revenues. The relative share of central transfers in total revenue receipts of the State, however, declined substantially in 2019-20 as against the previous year. It has declined from 73.72 percent in 2018-19 to 65.63 percent in 2019-20. The revised estimates for 2020-21 shows that the relative share has increased to 78.26 percent and in 2021-22 budget it stood at 74.55 percent.

As percentage to GSDP, the Central transfers declined considerably from 16.29 percent in 2018-19 to 9.78 percent in 2019-20. The revised estimates shows that it has increased to 17.45 percent in 2020-21. There has been a realistic projection for the budget. As compared to the fiscal year 2019-20, the budget estimates for 2021-22 takes into account declining share in central taxes and grants as the public finance of the country was hit hard due to Covid-19 pandemic (Table 5).

While the own revenue receipt shows a moderate growth of 6.94 percent in 2019-20, it contracted by 9.35 percent in 2020-21 revised estimates. The own revenue was projected to grow from Rs.1508.26 crores in 2020-21 RE to Rs.1970.70 crores in 2021-22 budget. This level of increase is expected due to likely good performance of GST. In the case of non-tax revenue the budget projection shows an increases from Rs.579.75 crore in 2020-21 RE to Rs.775.21 crores in 2021-22. The Government has taken realistic picture of existing economic situation while projecting own revenues. The own revenue to GSDP ratio has gone down marginally from 5.8 percent in 2018-19 to 4.8 percent in 2020-21 revised estimates. It is projected to increase to 5.2 percent of GSDP in 2021-22. Looking at the components of own revenue, both own tax revenue and non-tax revue show an increasing trend in 2021-22 budget estimates (Table 5). A disaggregated analysis of revenue performance of the state is undertaken to determine the revenue prospects while preparing the MTFP aligned with the provisions of FRBM act of Sikkim.

Composition of own tax revenue given in Table 6 shows that the sales tax along with the newly introduced GST and state excise are two major sources of own tax revenue for the State. The relative share of the sales tax and GST taken together on an average constitutes about 66 percent of own revenue receipts during 2017-18 to 2020-21 (RE). The relative share of State excise in total own revenue was at 21 percent during this period. The uncertainties surrounding the Supreme Court's order for removing the liquor outlets on the Express Highways seems to have adversely affected the excise tax. During the same time the relative share of motor vehicle tax shows an increase.

Table 6: Composition of Own Tax Revenue

(Per cent)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 (RE)	2021-22 (BE)
Own Tax Revenue	100	100	100	100	100	100	100	100	
Sales Tax	54.5	53.5	57.5	55.9	36.3	21.0	20.4	19.5	18.4
SGST	0.0	0.0	0.0	0.0	24.9	45.2	46.9	48.9	48.4
State Excise Duties	23.0	24.9	25.1	23.9	21.9	20.4	21.3	21.9	23.0
Motor Vehicle Tax	3.5	3.7	3.9	3.8	4.3	3.7	4.2	2.8	3.6
Stamp Duty and Reg. Fees	1.2	1.3	1.5	1.9	2.0	1.7	1.4	1.4	1.0
Other Taxes	17.7	16.7	12.0	14.4	10.7	8.1	5.8	5.6	5.5
Sales Tax + SGST	54.5	53.5	57.5	55.9	61.2	66.1	67.2	68.4	66.8

The State taxes of Sikkim remain less buoyant estimated over a long period of time due to the pattern of growth where the sectors growing rapidly and contributing to growth process have not contributed to tax revenues. The investment and the value of the production in the sectors like electricity and pharmaceutical, though contributed to the growth of GSDP, has not improved the revenue base. The pharmaceutical send their product outside the State in the form of stock transfers, which do not attract central sales tax. The growth process, however, is expected to provide impetus to rise in trade and business activities and thus higher tax collection in the future years.

In the tax buoyancy calculation, usually a longer period is taken. A smaller period from 2011-12 to 2020-21, comprising the latest years, provides relatively better results. The buoyancy coefficients for the State taxes during the period 2011-12 to 2020-21 given in Table 7 reveal that the buoyancy coefficient for sales tax and GST taken together was 1.309. A coefficient more than one shows better buoyancy. However, other taxes show buoyancy coefficients less than one.

Table 7: Buoyancy of Taxes: 2011-12 to 2020-21 (RE)

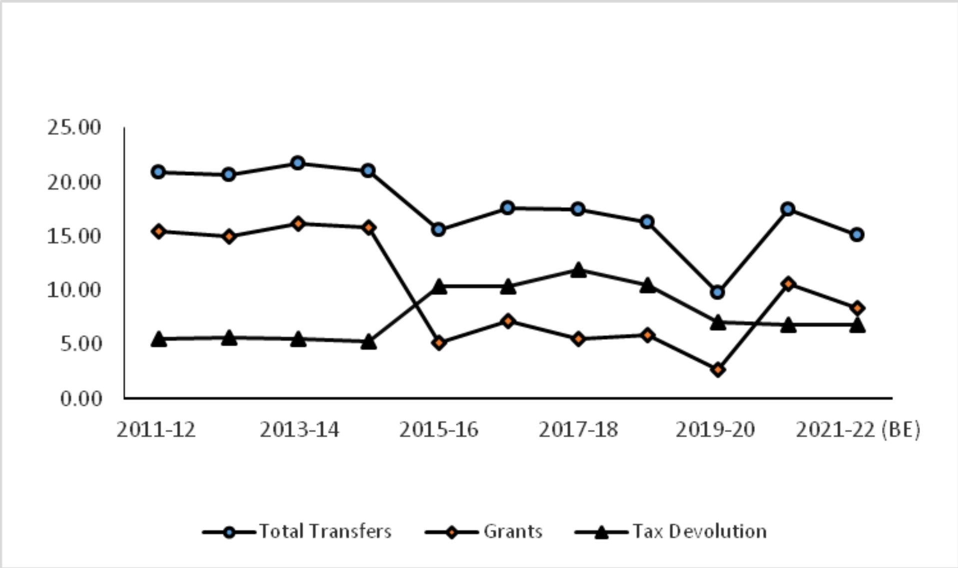
Own Tax Revenues	0.950
Sales Tax + SGST	1.309
State Excise Duties	0.665
Motor Vehicle Tax	0.747
Stamp Duty and Registration Fees	0.837
Other Taxes	-0.157

Source (Basic Data): Finance Accounts and State Budget 2021-22

The own non-tax revenue, as alluded above, shows small rise in nominal terms from Rs.657.78 crore in 2018-19 to Rs.775.22 crore in 2021-22 (BE). Its share in own revenue of the State has been declining in recent years. The share of non-tax revenue in total revenue receipts has gone down from 11.11 percent in 2018-19 to 10 percent in 2021-22 budget estimates. Income from State lottery, power sector, road transport, and interest receipts has been the main source of non-tax revenue. The decline in income from lottery has adversely affected the non-tax revenue. The hydro power projects being constructed in the State are expected to make significant contribution in the coming years also. The share of road transport in own non-tax revenue has been growing over the years. The income from forestry and wild life has remained as steady source revenue for the State.

The central transfers in fiscal year 2021-22 is estimated based on the recommendations of 15th FC, which recommended for a divisible pool of 41 percent. The Commission recommended revenue deficit grant, grants for local bodies and disaster relief performance incentive grants and state specific grants. While central Government accepted Commission's recommendations relating to tax evolution and grants for local bodies and disaster relief, it has kept other recommendations for further consideration. While central transfers increased considerably due to rise in tax devolution following recommendations of 14th FC, the slowdown in growth rate in 2019-20 and fiscal crisis due to Covid 19 pandemic adversely affected the resource transfers. The tax devolution as percentage to the GSDP is budgeted at 6.77 percent of GSDP in 2021-22 for Sikkim (Table 5). This includes the share of CGST received by the State. The higher devolution recommended by 14th FC seems to have been stabilized (Figure 1). At the same time the grants amount has suffered a major decline from 15.75 percent in 2014-15 to 2.71 percent in 2019-20. It is projected to assume 8.37 percent in the 2021-22 budget estimates.

Figure 1: Central Transfers as Percentage of GSDP



3.4 Expenditure Profile

One of the important fiscal management practices that Government of Sikkim successfully implemented over the years has been the controlling of the growth of revenue expenditure, despite having large committed spending. This has helped the state to generate revenue surplus consistently and expand the capital expenditure. The priority sectors in social and economic services continue to be focus areas in terms of resource allocation. The state Government has initiated several innovative in education and health to improve overall social and human infrastructure in the State. The expenditure pattern presented in Table 8 reflects these trends over the years. The revenue expenditure, which was at 21.8 per cent relative to GSDP in 2013-14, declined to 19.03 percent in 2019-20. While the revised estimates for the year 2020-21 shows the ratio rising to 23.43 percent due to expansion of spending on Covid related spending, the budget projection brings it back to 19.38 percent in 2021-22. While the prudency in generating revenue surplus helped the state government in controlling fiscal deficit, the fiscal stress faced due Pandemic has increased the fiscal deficit and debt burden in last two years.

Table 8: Expenditure Profile of Sikkim

(Per cent to GSDP)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 (RE)	2021-22 (BE)
Revenue Expenditure	**21.82**	**21.79**	**20.21**	**18.92**	**18.66**	**19.51**	**19.03**	**23.43**	**19.38**
General Services	**7.47**	**7.88**	**6.90**	**7.10**	**6.87**	**7.32**	**7.45**	**8.67**	**7.51**
Interest Payment	1.60	1.55	1.45	1.62	1.63	1.62	1.57	1.81	1.81
Pension	1.88	2.16	2.23	2.23	2.27	2.75	2.80	3.08	2.53
Other	3.99	4.16	3.21	3.25	2.97	2.95	3.08	3.79	3.16
Social Services	**9.21**	**8.31**	**6.85**	**6.67**	**6.89**	**7.73**	**6.94**	**9.16**	**6.83**
Education	4.55	4.62	4.18	3.74	3.65	3.55	3.92	4.17	3.41
Medical and Public Health	1.04	1.19	0.98	0.96	1.00	1.12	1.11	1.56	1.32
Others	3.62	2.50	1.69	1.98	2.24	3.07	1.90	3.43	2.10
Economic Services	**4.89**	**5.33**	**6.24**	**4.88**	**4.62**	**4.21**	**4.39**	**5.25**	**4.74**
Assignment to LBs	0.26	0.27	0.22	0.28	0.28	0.25	0.26	0.35	0.31
Capital Outlay	**6.65**	**6.53**	**3.66**	**3.68**	**6.84**	**4.99**	**2.27**	**5.45**	**5.45**

Source (Basic Data): Finance Accounts and State Budget 2021-22

Adequate transfer of resources from Central Government to a state like Sikkim has always remained crucial factor in building social and physical infrastructure and improvement of human development indicators, which constitute core development strategy. While the state government continues to be prudent in fiscal management, large decline in central transfers has jeopardized capital outlay in recent years. The capital expenditure, which had slowed down in 2015-16 and 2016-17 relative to the GSDP revived in next two years. But in 2019-20 it slumped to a low of 2.27 percent GSDP due to resource constraint. The revised estimates of 2020-21 and budget estimates for 2021-22 shows a revival in capital expenditure due to availing special assistance program of the central government and increase in borrowing limit in 2020-21. Based on projected revenue receipts and expenditure, the capital expenditure limit was determined within the overall requirements of FRBM Act fiscal targets. The MTFP is prepared based on the rationale of restructuring the government spending by emphasizing the critical areas.

The composition of capital expenditure (net of loans and advances) shows that sectors like education, health, water supply and sanitation, transport, energy and tourism have been the focus areas (Table 9). The education and health sectors also have attracted relatively higher capital expenditure. Rise in allocation from the NEC, NLCPR and NABARD funded projects for road and other infrastructure projects raised the capital expenditure. The expansion of road and other infrastructure base also required higher level of land compensation. The TFC recommended grants for several projects in tourism sector, which fueled the capital expenditure. The MTFP made provisions for ongoing projects and the new projects announced in the budget.

Table 9: Composition of Capital Expenditure

(Per Cent)

	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21 (RE)**	**2021-22 (BE)**
General Services	**18.6**	**11.2**	**10.1**	**9.9**	**9.9**	**5.6**	**17.9**	**7.1**	**7.1**
Social Services	**29.2**	**27.5**	**31.7**	**33.8**	**35.5**	**28.1**	**36.9**	**33.6**	**36.5**
Education	5.5	3.2	2.9	6.4	6.5	5.4	5.8	8.4	10.2
Health	10.2	6.3	10.4	10.1	14.9	7.0	5.4	12.5	2.7
Water supply, Sanitation, Housing & Urban Development	12.2	17.5	8.9	15.9	7.3	14.3	24.2	10.9	22.3
Information	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Welfare of SC/STBC	0.2	0.1	0.6	0.9	0.9	0.8	0.7	0.8	0.9
Social Security	1.1	0.2	1.7	0.4	0.1	0.6	0.8	0.9	0.4
Economic Services	**52.2**	**61.3**	**58.2**	**56.4**	**54.6**	**66.2**	**45.2**	**59.0**	**56.2**
Agriculture	1.4	1.2	1.0	1.2	0.9	1.0	0.7	1.3	0.9
Rural Development	2.1	1.6	0.0	1.3	0.8	0.4	0.1	0.8	1.4
Special Areas Programs	1.3	2.3	3.9	4.2	1.7	2.9	3.0	3.5	2.1
Irrigation	0.4	0.4	0.2	0.1	0.1	4.0	0.1	2.5	8.3
Energy	7.3	3.3	5.9	8.0	5.1	4.9	2.8	10.6	1.4
Industries and Minerals	0.5	0.7	0.1	0.3	0.1	0.1	1.0	0.0	0.0
Transport	32.4	24.5	33.2	35.6	41.5	48.7	33.3	34.7	36.7
Science & Technology	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tourism	6.9	27.2	13.9	5.6	4.3	4.2	4.1	5.7	5.5

Source (Basic Data): Finance Accounts and State Budget 2021-22

3.5 Outstanding Debt and Government Guarantee

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

The 14^{th} FC in their fiscal roadmap for the States recommended anchoring the fiscal deficit at 3 percent of the GSDP. The States can avail the flexibility to increase this limit by a total of 0.5 percentage points, 0.25 percent separately depending upon conditions prescribed. One of the major conditions was to limit the debt-GSDP limit to 25 percent in the previous year. Thus, for all effective purposes the new benchmark of debt-GSDP ratio has been 25 percent. The state government managed to remain within this limit during the award period of the 14th FC.

The state governments have been facing escalating debt burden in recent years due to the problems of lower than expected central transfers and lack of buoyancy in own revenue. While Sikkim remained within FRBM Act limit throughout, the debt burden seems to have increased in 2020-21 and 2021-22. The state government has amended the FRBM Act in this budget session by indicating annual debt-GSDP ratio following the recommendations of the 15^{th} FC. While the target for fiscal year 2021-22 was 27.5 percent, the budget estimates show a debt-GDP ratio of 28.15 percent. In the projections of MTFP relating to two outward years beyond the ensuing budget year, the debt-GSDP ratio remains higher that the targets.

The composition of stock of public debt given in Table 10 reveals that share of central government loans to the State has been reduced considerably. As compared to a relative share of about 4.1 per cent in 2013-14, the Central loan accounts for 1.2 percent in 2020-21. Following the recommendations of the 12^{th} Finance Commission the Central Government loans to the States has been reduced significantly. The dependence of the State Government on the market borrowing has increased over the years. The share of market borrowing has increased from about 67.1 per cent in 2013-14 to 73.8 per cent in 2020-21.. The overall borrowing in a year, however, remains within the limit fixed by the Central Government. This is determined after having consultation with the State Government on the aggregate plan size for the State.

Table 10
Composition of Debt and Liabilities

(Per Cent)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21 (RE)
A. Public Debt	**71.2**	**72.1**	**75.0**	**75.1**	**77.4**	**78.7**	**73.0**	**75.0**
Internal Debt	67.1	68.6	72.1	72.7	75.5	77.2	71.7	73.8
Central Loans	4.1	3.5	2.9	2.4	1.9	1.5	1.4	1.2
B. Other Liabilities	**28.8**	**27.9**	**25.0**	**24.9**	**22.6**	**21.3**	**27.0**	**25.0**
Small Savings, PF etc.	22.3	20.4	18.9	17.8	16.7	15.9	15.7	15.6
Reserve Fund	1.7	3.5	2.1	2.0	1.1	1.0	6.4	5.1
Deposits	4.8	4.0	4.0	5.1	4.8	4.4	4.9	4.3
Total Liabilities	**71.2**	**72.1**	**75.0**	**75.1**	**77.4**	**78.7**	**73.0**	**75.0**

Source (Basic Data): Finance Accounts and State Budget 2021-22

Guarantees given by the State Government

As per the Sikkim Government Guarantee Act, 2000, the ceiling on total outstanding government guarantee in a year is restricted to three times of the State's tax revenue receipts of the second preceding year. The outstanding sum guaranteed by the State government on 31st March 2019 was Rs.3749.32 crore (Budget documents 2020-21). This is expected to Rs.4133.52 crores in 2021-22, which is within the permissible limit.

3.6 Government Policy for the Ensuing Budget Year

In the ensuing budget year 2021-22, the state government faces challenges in fiscal management due to less buoyant revenues and pressing spending needs to address the human tragedy that has been unfolding due to Coved – 19 Pandemic. The long run of pandemic starting from the last quarter of 2019-20 and the whole of the 2020-21 has not abated yet. The loss of employment and economic activates hit the state hard in terms of higher spending and lower revenue receipts. The central transfers are also not expected to rise. In fact the budget estimates show that the central transfers as percentage GSDP has declined in 2021-22 (Table 5).

Although aggregate revenue receipts of the State in 2021-22 is budgeted to rise by 11.58 percent over the previous year, as percentage to GSDP it shows a decline. As compared to revised estimates at 22.29 percent in 2020-21, it has declined to 20.31 percent in budget estimates. Own revenue as percentage to GSDP is budgeted to rise from 4.8 percent in 2020-21 to 5.2 percent in 2021-22. However, central transfers set to decline from 17.45 percent to 15.14 percent in the budget year. Given the predominance of central transfers in the resource envelope of Sikkim, the aggregate resource position in ensuring budget year is not very favorable. These factors have necessitated realignments resource allocations without adversely affecting the priority sectors.

Committed spending on interest payment, pension outgo, and salaries continue to put pressure on resource allocation. The need for government intervention due to this extraordinary situation of Pandemic in 2020-21 seems to be continuing in 2021-22. Due to tight resource position, the revenue expenditure growth in 2021-22 was moderated to 1.3 percent. The revenue expenditure as percentage to GSDP has declined from 23.43 percent in 2020-21 to 19.38 percent in 2021-22. There has been realignment of resources to meet the resource crunch. While general service and economic service show positive growth, growth of some of the sectors in social services have been reduced. The continuing and new programs introduced in the last year's budget received sufficient resources to realize their full potential. The Government has made sufficient provisions for sectors like housing and sanitation, transport, rural roads, urban infrastructure, health facilities and infrastructure, education, organic farming, eco-tourism, sustainable forest management and so on.

The capital expenditure, which had increased considerably in 2020-21 due to special assistance provided by the central government as part of the economic revival process, continues in 2021-22. The capital expenditure set to grow by 22.4 percent in 2021-22. As percentage to the GSDP it has remained same at the level achieved in 2020-21. The important sectors like education, health, water supply and sanitation, transport, energy and tourism have been provided with sufficient funds.

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

4.1 Fiscal Indicators

Table 11 ***(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)
		2019-20	2020-21 (RE)	2021-22 (BE)	2022-23	2023-24
1	Revenue deficit as percentage of GSDP	4.14	1.14	-0.92	-0.50	-0.50
2	Fiscal deficit as percentage to GSDP	6.40	6.59	4.52	3.50	3.00
3	Primary deficit as percentage of GSDP	4.84	4.78	2.72	1.56	1.01
4	Total Debt Stock as Percentage of GSDP	22.77	28.94	28.15	28.86	29.00

Notes: 1. GSDP is the Gross Domestic Product at current prices as per the 2011-12 base
2. The negative sign in revenue deficit indicates surplus.

The fiscal outcomes in the form of indicators like fiscal deficit, revenue deficit, and outstanding liabilities for previous year, current year, ensuing budget year and two outward years are presented in Table 11. The Table follows the template given by the Sikkim FRBM Act rules as Form F-2. The fiscal outcomes of the 2019-20, the last year for which audited figures are available, show that the state government has overstepped the fiscal deficit targets under the Act, despite having revenue surplus. This is due to availing of the increment of NRC by the Central Government for Sikkim to the extent of Rs.216 crores to compensate for decline in central transfers and adjustment done in central transfers due to decline in central tax collection in 2018-19.

The revised estimate for the year 2020-21 shows that the fiscal deficit increased to 6.59 percent of GSDP as against the allowed limit of 5 percent on the wake of Covid-19 Pandemic crisis. On top of the increased fiscal deficit target, Sikkim availed the special assistance of Rs.200 crores for capital expenditure provided by central government. The projection for the budget year, 2021-22, is aligned with the amended FRBM Act of the state, which allows a fiscal deficit of 4 percent. The additional 0.52 percent fiscal deficit is due to availing of special assistance of Rs.200 crores for capital expenditure provided by central government for this year 2021-22. The MTFP projection from 2022-23 and 2023-24, the two outward years, conforms to the amended FRBM Act following the recommendations of 15th FC. However, there has been some increase in debt-GSDP ratio beyond the FRBM Act targets due to increased level of borrowing availed by the state government in addition to normal borrowing limit prescribed by the central government.

The detailed projection of fiscal variables presented in Table 12 shows that the revenue account surplus has been maintained during the MTFP period and the fiscal deficit has been stabilized at 3.5 and 3 per cent relative to the GSDP in two outward years as per the stipulation of FRBM Act. Although the revenue expenditure grows slowly during the MTFP period, the resource allocation focusses on funding the priority areas of the Government. The spending pattern for the priority areas of the state has remained favorable in the medium term. The resource allocation to social and economic services shown as percentage to GSDP was allowed to rise during the MTFP period. The general service as percentage to GSDP remains more or less at same level during MTFP period.

The MTFP takes restrained path for revenue expenditure due to the pressure on revenue receipts. It is expected that with improvement in growth scenario in the country, there will be improvement in central transfers including the GST components. The rolling nature of the MTFP allows to make revisions in the future. The growth in revenue receipt has gone down in budget year as compared to the previous year. The tax base being small, it is difficult to expand the resource envelope. The adoption of GST, though, infused some growth, is not sufficient to make the internal revenue as a potent force in the fiscal management of Sikkim. The capital expenditure, which was at 5.45 percent, has declined 4 and 3.5 percent during last two years of the MTFP respectively.

The MTFP reflects on the fiscal stance of the Government, which strives at fulfilling the sector objective and achieve better results from the utilization of public resources. GSDP is assumed to grow at 11 percent, which is tad lower than what was prescribed by the 15th FC for due to ongoing Covid Pandemic and taking into consideration the likely growth pattern of national economy. The MTFP projects improvement of own revenue and improvement in central transfers. It needs to be kept in mind that given the growth scenario in the country, the resource position of the state may not increase dramatically. Thus, the projection is based on the fiscal reality witnessed in baseline period with possible improvements.

Table 12
Medium Term Fiscal Plan: 2021-22 to 2023-24

(Per cent to GSDP)

	2021-22 (BE)	2022-23	2023-24
Revenue Receipts	**20.31**	**20.79**	**21.30**
Own Tax Revenues	**3.14**	**3.19**	**3.24**
Income Tax	0.00	0.00	0.00
Sales Tax +SGST	2.10	2.16	2.23
State Excise Duties	0.72	0.72	0.72
Motor Vehicle Tax	0.11	0.11	0.11
Stamp Duty and Registration Fees	0.03	0.03	0.03
Other Taxes	0.17	0.17	0.16
Own Non-Tax Revenues	**2.03**	**2.03**	**2.03**
Central Transfers	**15.14**	**15.57**	**16.03**
Tax Share	4.59	4.91	5.26
CGST	2.19	2.37	2.56
Grants	8.37	8.29	8.22
Revenue Expenditure	**19.38**	**20.29**	**20.80**
General Services	**7.51**	**7.57**	**7.64**
Interest Payment	1.81	1.94	1.99
Pension	2.53	2.53	2.53
Other General Services	3.16	3.10	3.12
Social Services	6.83	7.03	7.23
Education	3.41	3.50	3.59
Medical and Public Health	1.32	1.36	1.40
Other Social Services	2.10	2.17	2.24
Economic Services	**4.74**	**5.69**	**5.93**
Compensation and Assignment to LBs	**0.31**	**0.32**	**0.33**
Capital Expenditure	**5.45**	**4.00**	**3.50**
Capital Outlay	5.45	4.00	3.50
Net Lending	0.00	0.00	0.00
Revenue Deficit	**-0.92**	**-0.50**	**-0.50**
Fiscal Deficit	**4.52**	**3.50**	**3.00**
Primary Deficit	**2.72**	**1.56**	**1.01**
Outstanding Debt	**28.15**	**28.86**	**29.00**

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

The challenges of fiscal management during this difficult times has aggravated the debt burden of the state due to elevated level of borrowing to meet the necessary spending demand. The outstanding debt was 28.15 percent of GSDP in the budget year of 2021-22, which exceeds the limit of 27.5 percent stipulated in the Act. This was due to additional borrowing as alluded above. The fiscal stress faced by the State due to lower growth of revenue receipt, has resulted in lower revenue surplus over the years and accumulated debt overhang has been rising. However, it is expected that with higher flow of resources from Central Government, the borrowing requirement will ease up and the debt-GSDP ratio will remain within FRBM Act limits.

There has been reasonable growth in revenue receipts and allocations to various sectors in nominal terms. While revenue receipts increases from Rs.7742.70 crores in 2021-22 to Rs.10007.23 crores in the medium term, the revenue expenditure rises from Rs.7390.03 crores to Rs.9772.37 crores. The provision for capital outlay, however, remain less than that of the budget year due to the additional borrowing facility for 2021-23. Although, capital outlay has been moderated during the MTFP period, emphasis has been given to infrastructure building. Despite pressure on revenue receipts and competing demands, the focus on investments in infrastructure will remain a key factor in fiscal policy of the Government.

4.2 Assumption Underlying the Fiscal Indicators

The FRBM Act of the State stipulates that assumptions underlying fiscal projections should be elaborated in the MTFP, which enhances the transparency. The assumptions made to project the fiscal variables reflect the fiscal policy choices of the Government operating with limited resource availability. The MTFP 2021-22 is based on realistic assumptions relating to the likely behavior of fiscal variables. The projections take into account the new schemes launched and forthcoming spending requirements.

The MTFP conforms to the provisions made in the FRBM Act of the State and the recommendations made by the Central Finance Commission regarding fiscal consolidation. Despite subdued Central transfers and moderation in own revenues, the State Government continues to adhere to FRBM Act tartes. The actual estimates for the year 2019-20 shows considerable slippage in central transfers and own revenues that affected the fiscal outcomes. The reasons for higher fiscal deficit at 6.59 percent in 2020-21 revised estimate has already been discussed. The Government projects to adhere to the fiscal deficit limits prescribed in the FRBM Act which declines gradually from 4 percent in 2021-22. Given the uncertainties in growth process, the trends in resource transfers under tax devolution, grants, and GST related transfers have been projected with caution. The fund flows to the programs are protected and provisions have been made to focus on the priority sectors to help the development process. The assumptions underlying the projection of fiscal variables are contained in Box 1.

GSDP

MTFP uses the growth rate of 11 percent for projecting GSDP beyond the budget year, which is lower than what is prescribed by the 15th FC. The 15th FC prescribed growth rates of 11.5 and 12 percent for 2022-23 and 2023-24 respectively. .

Revenue Receipts

The own tax revenue of the State in medium term is the sum of components projected separately to arrive at aggregate figure. The total own revenue of the State was derived after projecting the State taxes and non-tax revenue in a disaggregated manner. The State taxes were projected using a buoyancy based growth rate assuming that the growth in the economy would help improving the tax base. Some adjustments were made to the buoyancy coefficients derived for the period 2011-12 to 2020-21 for making projection in the medium term, which implies higher revenue generation effort. The prescriptive buoyancies for individual taxes like sales tax, excise duty, motor vehicle tax, and other taxes were derived giving due consideration to the growth prospects. The prescriptive buoyancy resulted in growth rate of 12.43 percent for own taxes. The ongoing initiatives of the Government to modernize the tax department to reap the benefits from the introduction of GST will improve the tax base. The e-governance programs in the tax departments by introducing online registration, e-filling of returns and electronic control and evaluation is expected to improve the tax collection.

The own non-tax revenue is projected in the MTFP period by assigning the observed trend growth rate for the period from 2011-12 to 2020-21. In the case of central transfers, the recommendations of the 15th FC are factored in during the projection period. For the share in central taxes budgetary figure for the year 2021-22 is allowed to grow at the observed rate. The changes in the devolution regime during 15th FC may affect this projection. The grants were projected using the observed growth rate after the restructuring of the central grants were undertaken.

Expenditure Restructuring under MTFP

The growth of revenue expenditure was controlled given the resource problem faced by the State. Funding to the priority sectors were protected during the MTFP period. . Higher availability of resources in future years will be helpful in further enhancing the expenditure. As the revenue expenditure has been growing in nominal terms, the growth was required to be controlled given the availability of resources. It is expected that effective program management and implementation of the projects in a timely manner will help achieving the value for money.

The growth of revenue expenditure declined considerably to a low of 1.33 percent in 2021-22 due to severe resource constraint. During the last two years of the MTFP period, the revenue expenditure increases by 16.17 and 13.83 percent respectively that gives an average growth rate of 11.80 percent during the MTFP period. This has become necessary to safeguard resource allocation to priority areas. The amount of money available to priority sectors will continue to rise. The MTFP proposes to continue with this resource allocation approach and provide higher level of funding to priority sectors. The social sector expenditure increases from Rs.2602.25 crore in 2021-22BE to Rs.3397.94 crores in 2023-24.

The capital expenditure declined as compared to the budget year. It has moderated from 5.45 percent in 2021-22 to 3.50 percent in the last year of MTFP. Given that the capital expenditure has become a residuary in the system, care has been taken to provide for the Government investment doing the MTFP period. As the special assistance window for capital expenditure was not available for 2022-23 and 2023-24, it declines as percentage to GSDP. The MTFP keeps the requirements of infrastructural development in the State while projecting the capital expenditure.

Debt and Deficit under MTFP

The MTFP assumes fiscal deficit limits of 4 percent for the budget year, which declines gradually to 3.5 and 3 percent in last two years of MTFP. This is based on the targets given in the FRBM Act of the state. During the MTFP period, given the growth of revenue and expenditure, the revenue accounts remains at surplus (Table 12). The restrained revenue expenditure helps in protecting the capital outlay. The emerged fiscal profile shows that the outstanding debt increases from 28.15 percent to 29.00

percent during the MTFP period. This level of debt remains higher than debt level stipulated in the amended FRBM Act. Further efforts to generate additional revenue mobilization and economy in expenditure will reduce the borrowing requirement and debt burden.

Box 1
Proposed MTFP Targets

Macro Parameters

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

Revenue Resources

- Sales tax + GST assumes a buoyancy of 1.309, which is buoyancy observed during 2011-12 to 2020-21.
- The state excise duty assumes a buoyancy of 1.00 as against the observed coefficient of 0.665.
- The stamp duty and registration fees assumes same buoyancy of 0.837 as observed during 2011-12 to 2020-21.
- Motor Vehicle tax assumes a buoyancy of 0.747, which is same as the observed buoyancy.
- Other taxes assume a buoyancy of 0.55, as against the observed buoyancy of -0.157.

Expenditure Projections

- Pension payments are projected taking into account the requirements in 2021-22 as per the Government policy. The projection for two outward years, takes a growth rate of 11 percent.
- The interest payments have been estimated on the basis of the effective rate of interest calculated by dividing the value of interest payment during 2021-22 by the stock of debt of the previous year.
- The growth rates in the area of high priority development expenditure in social services and within that, in health and education, are assumed to continue during the MTFP period.
- Social services expenditures will grow at the rate of 14.27 per cent per annum in last two years of MTFP.
- Education expenditure will grow at the rate of 14 per cent per annum in last two years of MTFP.
- Health expenditure will grow at the rate of 14.45 per cent per annum.
- Capital expenditure to GSDP ratio is projected to decline from 5.45 percent in the budget eyar to 3.5 percent in the last year of the MTFP.

Deficit and Debt targets

- The MTFP projects the revenue surplus during the MTFP period.
- The fiscal deficit is projected to remain decline from 4.52 percent to 3.5 percent.
- The outstanding debt to GSDP ratio rises from 28.15 per cent in 2021 -22 to 29.00 percent in the terminal year of the MTFP.

5. The Emerging Contours of the Medium Term Fiscal Policy of Sikkim in 2021-22

The Covid-19 crisis amplified the fiscal stress faced by the state due to subdued growth of central transfer and slow growth of own revenues. Aggregate revenue receipts declined considerably from 22.10 percent of GSDP in 2018-19 to 14.90 percent in 2019-20. While there was a revival in 2020-21 RE to the tune of 22.29 percent of GSDP, in the budget year it is projected at 20.31 parent. In addition there were spending pressures due to the difficult situation emerged in the time of Pandemic. The increased spending on health infrastructure, vaccination, and providing livelihood to people affected in the crisis became crucial factors in the fiscal management. The committed expenditure like paying salary and pension and interest payment continues to put pressure on public resources. The budget for the year 2021-22 faced slowdown in revenue receipts as compared to the previous year. Attempt was made to rationalize spending pattern by cutting back on revenue expenditure and marginally increasing capital expenditure to create fiscal space to adhere to the FRBM targets. The focus of the budget was to protect the priority sector spending, while honouring the commitments. The MTFP, while preparing a medium term fiscal stance, projected the revenue and expenditure variables emphasizing on higher internal revenue effort, priority sector spending, and achieving fiscal consolidation. The MTFP reflects moderation of capital expenditure and rise in debt burden as compared to the FRBM Act targets.

The fiscal year 2021-22 is the first year under the award period of 15th FC after it gave its full report for the period 2021-22 to 2025-26. For the state government, the crucial expectation from the Commission was flexibility in FRBM Act and treatment of debt stock in addition to larger share in central devolution. There has not been much rise in the tax devolution and the grants to the state. The performance linked grants and state specific grants, where the state was supposed to get resources, were not accepted by the central government immediately. The 15th FC recommended an overarching fiscal framework for fiscal consolidation, based on which the state amended its FRBM Act.

The assessment of state finances by the 15th FC is more reasonable with regard to the GSDP and revenues. It, however, fell short off taking into consideration the spending needs of the state. The recommendations of the 14th FC resulted in higher transfers to the state through tax devolution. However, the grants component declined substantially. The state had to make necessary adjustments within the resource envelope available to it. The transfers recommended by the 15th FC, including both tax devolution and grants, have not enhanced the resource position of the state. The fiscal challenges have only increased in the wake of Covid-19 Pandemic.

Given the resource constraint, the MTFP makes prioritized choice while allocating resources to various sectors. The growth in resource allocation, particularly in the priority sectors in social and economic services has been enhanced. Given the resource constraint, the capital outlay declined as percentage to GSDP during MTFP period. To increase the investments in social and infrastructure sectors, it becomes apparent that the state Government should enhance revenue effort. There has been a rise in debt burden beyond the targets prescribed by the FRBM Act. It is expected that with the improvement in economy and efficiency in the fiscal management, the debt-GSDP ratio will stabilize.

While the GST component of the state, SGST, has shown increasing trend, it has not become a potent force as yet. The SGST as percentage to GSDP has not increased in 2021-22 budget as compared to the year 2018-19. The CGST comes in the form of tax devolution as per the formula recommended by the FC. The MTFP takes into account the performance of the state government and projects it to improve in the medium term.

The MTFP 2021-22 emphasizes on improving resource generation and priority sector allocation to create an enabling environment for further growth and socio-economic progress. The augmentation of tax buoyancy is based on the capacity of the Government to collect more tax. The modernization of tax administration and efforts to improve the tax base under GST is expected to improve the revenue receipts. Preparing for the future, at least in the medium term, facilitates the Government to see beyond the annual budget. Despite the pressure on resources, the MTFP indicates a stable and growth oriented fiscal policy for Sikkim. There is a need for better infrastructure and human development to make progress. The State Government has initiated several schemes in the social and economic sectors in recent years. Despite the problem of cost disability, the State is committed to improving the service delivery spanning over the social and economic sector.

The uncertainty in flow of resources to the state continues, particularly in the time of slow national growth and pressure on spending, which complicates the medium term perspective. Given rolling nature of the MTFP, an improvement in economic situation would enable the state government to recast the policy framework. The uncertainties relating to flow of central resources as compared to the budget announcement puts large pressure on spending plan voted in the legislature. This was demonstrated in the past years. The state projections are sometimes based on the expectations regarding approval of projects. Many a times the Central grants comes at the end of the fiscal year causing hindrances in spending and implementing the programs. Implementation of projects require better coordination with the central government.

A realistic projection of capital expenditure is instrumental in strengthening the financial management in the infrastructure sector. While the MTFP projects the capital expenditure to decline relative to state GSDP, the state Government will be able to enhance the level of capital expenditure with the improvement in resource position. The state is committed to developing policy to focus more on productive capital expenditure. Thus, additional resource mobilization and better utilization of public resources will be crucial to improve capital investment in the state.

Disclosures

Form D-1

(*See* Rule 4)

Select Fiscal Indicators

Sl. No.	Item	Previous Year 2019-20 (Actuals)	Current Year 2020-21 (RE)
1	Gross Fiscal Deficit as Percentage to GSDP	6.40	6.59
2	Revenue Deficit as Percentage of GSDP	4.14	1.14
3	Revenue Deficit as Percentage of Gross Fiscal Deficit	65.00	17.00
4	Revenue deficit as Percentage of TRR	27.76	5.10
5	Debt Stock as Percentage of GSDP	22.77	28.94
6	Total Liabilities as Percentage to GSDP	22.77	28.94
7	Capital Outlay as Percentage of Gross Fiscal Deficit	201.00	34.60
8	Interest Payment as Percentage of TRR	10.53	8.10
9	Salary Expenditure as Percentage of TRR	66.41	42.80
10	Pension Exp. As Percentage of TRR	18.81	13.81
11	Non-development Expenditure as Percentage of Aggregate Disbursements	36.91	31.37
12	Non-tax Revenue as Percentage of TRR	14.32	8.36

The negative sign in revenue deficit indicates surplus.

Form D-2

(*See* Rule 4)

Components of State Government Liabilities

Rs. Crore

Category	Raised during the fiscal year		Repayment during the fiscal year		Outstanding Amount (End March)	
	Previous Year (Actuals)	Current year (RE)	Previous Year (Actuals)	Current year (RE)	Previous Year (Actuals)	Current year (RE)
Internal Debt	819.36	1363	403.13	69.67	5304.99	6238.03
Loan from Centre	13.85	208.80	10.65	11.02	100.72	98.49
State Provident Funds	391.67	405.53	234.46	252.55	1162.86	1315.884
Reserve Funds	545.81	130.91	138.54	168.72	470.59	432.78
Deposits	523.97	1016.15	3.70		362.50	362.50
Other Liabilities						

Form D-3

(*See* Rule 4)

Guarantees Given by the Government (Rs. Crore)

Sl.No	Name of the Institution to which Guarantees is given	Maximum Guarantee given	Remarks.
1	State Finance Corporation	286.80	
2	Other Institutions	20.22	
3	Sikkim Housing & Development Board	221.42	
4	State Trading Corporation of Sikkim	193.50	
5	SPICL (Teesta Urja Ltd) Stage III	2609.45	
6	SPICL (Rangit IV)	19.71	
	Total	3351.10	

Form D-4

(*See* Rule 4)

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

Sl.No	Sector Name	Total Employees as on 31.01.2016	Related Expenditure Rs. Crore	
			On Salary	On Pension
A(a)	Regular government Employees	35354	1752.85	
(b)	Work Charged	1670		
(c)	Muster Roll	14128	99.75	
(d)	Others	17729		
(e)	Pensioners	10147		418.10
	Total	79028	1852.60	418.10
B	Public Sector Undertakings & Aided Institutions			
	Grand Total	**79020**	**1852.60**	**418.10**

Source: Employees and Pension Data for No. of Employees and pensioners
Budget Division, FRED for salary