GOVERNMENT OF SIKKIM
FINANCE DEPARTMENT

MEDIUM TERM FISCAL PLAN FOR SIKKIM

2026-27 TO 2028-29

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)

JULY 2026

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LIST OF ABBREVIATIONS

14^{th} FC	Fourteenth Finance Commission
15^{th} FC	Fifteenth Finance Commission
16^{th} FC	Sixteenth Finance Commission
CAGR	Compound Annual Growth Rate
CGST	Central Goods and Services Tax
CPI	Consumer Price Index
CSO	Central Statistical Organization
CSS	Centrally Sponsored Schemes
FDI	Foreign Direct Investment
FRBM	Fiscal Responsibility and Budget Management
FRL	Fiscal Responsibility Legislation
GDP	Gross Domestic Product
GLOF	Glacial Lake Outburst Flood
GSDP	Gross State Domestic Product
GST	Goods and Services Tax
GSVA	Gross State Value Added
HEP	Hydro Electric Project
IMF	International Monetary Fund
LBs	Local Bodies
MTFP	Medium Term Fiscal Plan
MPC	Monetary Policy Committee
MOSPI	Ministry of Statistics and Programme Implernentation
NBC	Net Borrowing Ceiling
NHPC	National Hydroelectric Power Corporation
NITI	National Institution for Transforming India
NPS	National Pension Scheme
RBI	Reserve Bank of India
SASCI	Special Assistance to States for Capital Investment
SGST	State Goods and Services Tax

CHAPTER 1. INTRODUCTION

Medium Term Fiscal Plan for Sikkim: 2026-27 to 2028-29

1.1 An overview

The Fiscal Responsibility and Budget Management (FRBM) Act was adopted in the year 2010 based on the recommendations of the Eleventh Central Finance Commission. The Act aims to bring fiscal discipline, macroeconomic stability, and transparency in the government fiscal operations, and efficient management of funds.

Section 3 (1) of the FRBM Act stipulates presenting a Medium-Term Fiscal Plan (MTFP) to the State Legislative Assembly, along with the State Budget with an objective to give the detailed fiscal stance of the Government as envisioned in the budget in a transparent manner.

It also provides for chalking out the Medium-Term Fiscal Plan to set forth a three-year rolling target for the prescribed fiscal indicators with specification of underlying assumptions relating to parameters projected receipts and expenditure and the band within which they can vary while remaining consistent with the targets as per Section 3 (2) of the said Act.

Section 3 (3) of the Act stipulates that the Medium-Term Fiscal Plan shall include an assessment of sustainability relating to balance between revenue receipts and revenue expenditure and the use of capital receipts including borrowings for generating productive assets.

The Medium-Term Fiscal Plan as per Section 3 (4) of the Act, requires that it contain the following:

i. The medium-term fiscal objectives of the Government.

ii. An evaluation of the performance of the prescribed fiscal indicators in the previous year vis-à-vis the targets set out earlier, and the likely performance in the current year as per revised estimates.

iii. A statement on recent economic trends and future prospects for growth and development affecting fiscal position of the Government.

iv. The strategic priorities of the Government in the fiscal matters for the ensuing financial year.

v. The policies of the Government for the ensuing financial year relating to taxation, expenditure, borrowings and other liabilities, subsidies, lending and investments, guarantees and activities of Public Sector Undertakings which have potential budgetary implication and the key fiscal measures and targets pertaining to each of these.

vi. An evaluation as to how the current policies of the Government are in conformity with the fiscal management of principles set out in section 4 and the fiscal objectives set out in the Medium-Term Fiscal Plan.

The fiscal management revolves around the benchmarks and fiscal indicators provided under the FRBM Act and ensure a defined time path for achieving deficit and debt targets to achieve fiscal stability. To ensure the fiscal stability and sustainability while providing efficient public service is the key feature of a growth oriented fiscal policy.

The Sixteenth Finance Commission in its report have clearly outlined a framework for macro and fiscal stability by recommending specific deficit targets and structural overhauls to existing legislative frameworks. Under these guidelines, the fiscal deficit for States have been recommended to be capped at 3 percent of their respective GSDP, excluding loans under the SASCI scheme, and enforced firmly in accordance with Article 293(3) of the Constitution to safeguard debt stability. At the same time in its report, it has recommended that the Union Government is expected to compress its own fiscal deficit to 3.5 percent of GDP by the terminal year of the award period.

To ensure financial transparency, the Commission recommends that States completely discontinue the practice of off-budget borrowings and bring all such liabilities directly onto their official budgets, utilizing a newly suggested reporting format and data verified by lending institutions. Furthermore, it advises that the Fiscal Responsibility Legislation (FRL) framework of the States be amended to remove underlying inconsistencies, establish national uniformity, and align State targets with the Commission's fiscal consolidation roadmap.

However, in its action-taken report on the recommendations of the Sixteenth Finance Commission, the Union Government has accepted in-principle the proposed quantum for the net borrowing ceilings of the States, while indicating that recommendations concerning off-budget borrowings, Union fiscal deficits, and State FRL amendments will be examined separately.

1.2 Global Economy

The global economy is facing a significant recalibration, with both major international financial Institutions marking down their expectations due to geopolitical shocks. The World Bank’s June 2026 Global Economic Prospects report projects a severe deceleration, forecasting global growth to slow to 2.5 percent in 2026, the lowest rate since the COVID 19 pandemic. This drop is driven heavily by the economic fallout from the Middle East conflict, which has triggered sharp increases in energy prices and elevated global uncertainty. Similarly, the International Monetary Fund (IMF), in its April 2026 World Economic Outlook, revised its global growth forecast down to 3.1 percent for the year and reach 3.2 percent in 2027, abandoning its earlier projections of a steady 3.3 percent expansion as the shadow of war and increasing trade fragmentation weigh heavily on economic activity.

This deceleration is tightly coupled with a disruption in the fight against inflation. The IMF notes that global headline inflation is projected to rise modestly in 2026, reversing the cooling trend seen in previous years, primarily due to surging energy and commodity price spikes and supply constraints. The World Bank highlights that these renewed inflationary pressures have fueled expectations of tighter monetary policy worldwide. Central banks are being forced into a defensive posture, abandoning anticipated rate cuts as they navigate the dual threats of volatile commodity markets and ongoing supply chain disruptions, particularly the protracted rerouting of global maritime trade away from traditional choke points.

The Economic Survey 2025-26 presents a remarkably cautious view of the global economy, directly contrasting international fragility with India's domestic stability. The report emphasizes that the global economic landscape would undergo structural reordering, that would signal an era of seamless globalisation and trade liberalisation. As per the report, a more fragmented and cautious world is emerging, one where protectionist instincts are taking precedence over outreach for imports, and also wherein supply chains are being recalibrated in response to geopolitical shifts, and the terms of engagement are shifting more toward bilateralism.

The report paints a picture of a highly vulnerable international environment, going so far as to estimate a 10 to 20 percent probability of a global economic crisis in 2026 that could be worse than the 2008 financial meltdown. It notes that even in the best-case scenario, the global system is becoming less coordinated, more risk-averse, and highly exposed to unpredictable, non-linear shocks. The Survey emphasizes that the global economy is definitively moving away from rules-based globalization and fracturing into geopolitical blocs, where trade policy is now driven by national security and political considerations rather than economic efficiency.

These geopolitical tensions, alongside structural issues like leveraged technology investments and rising sovereign debt, mean that nations are operating with a dangerously narrow margin of safety. The report warns that the negative effects of this ongoing global political and economic turmoil may simply be operating on a delay, waiting to manifest across international financial markets.

In conclusion, the global economic outlook for 2026 is characterized by a synchronized deceleration in growth and a resurgence of inflationary pressures, primarily driven by the escalating conflict in the Middle East and subsequent energy market disruptions. With the

World Bank and the IMF downgrading their global growth forecasts, these disruptions are particularly damaging for emerging market and developing economies, which are facing rising sovereign debt, higher borrowing costs, and the weakest per capita income growth since the pandemic. Ultimately, the global economy is navigating a highly fragile period where downside risks dominate, demanding robust policy interventions, strengthened fiscal positions, and international cooperation to manage persistent volatility and supply chain fractures.

1.3 Macro-economic outlook of Indian Union

While the global economic environment remains uncertain, shaped by geopolitical tensions, trade disruptions, fragmented supply chains, and divergent growth and inflation outcomes across major economies, the macroeconomic outlook for the Indian Union remains robust, anchored by strong domestic fundamentals and a proactive, forward-looking policy framework. Despite these challenging global conditions, India has displayed steady economic growth in FY 2025-26. As per the Economic Survey 2025-26, the first advance estimates place India's real GDP growth at 7.4 percent, with growth largely driven by domestic demand. RBI has estimated the real GDP growth forecast for the FY 2026-27 at 6.6 percent (down from 6.9 percent). Private consumption and capital formation continue to support expansion, while services remain the key contributor on the supply side. The manufacturing activity has strengthened, and agriculture has provided stability, notwithstanding structural constraints. India is the fastest growing among major economies of the world and is poised to continue on this path, with aspirations to reach *Viksit Bharat* status by 2047, the centenary of Indian independence. India is currently the fourth-largest economy globally and is poised to become the third largest in the coming years.

Driven by sustained public capital expenditure and a steady revival in private gross fixed capital formation, the Union's economic engine is actively shifting gears from a consumption-led recovery to an investment-driven expansion. This transition is supported by a disciplined approach to inflation management by the central bank, ensuring that long-term price stability safeguards the purchasing power of an expanding middle class while maintaining a conducive environment for private investment. The inflation projection for FY 2026-27 was raised to 5.1 percent (up from 4.6 percent). This upward revision is primarily driven by persistent pressures from food prices and energy costs linked to global geopolitical developments. In response to these evolving inflation dynamics and global uncertainties, the RBI maintained the benchmark repo rate at 5.25 percent during its June 2026 MPC meeting. The central bank shifted to a "neutral" policy stance, providing flexibility to respond to future economic developments without immediate commitments to rate cuts.

A defining feature of the Union's macroeconomic strategy is its unwavering commitment to fiscal consolidation without compromising developmental imperatives. The central government has strategically pivoted toward improving the overall quality of public expenditure, systematically containing the revenue deficit while dramatically expanding the fiscal space for infrastructure and asset creation. By adhering to a transparent glide path aiming to systematically reduce the fiscal deficit and stabilize the debt-to-GDP ratio by the end of the decade, the Union is actively lowering the cost of capital for the private sector. This disciplined fiscal stance, coupled with stringent efforts to eliminate off-budget liabilities and enhance accounting transparency, reinforces sovereign credibility and bolsters international investor confidence.

On the external front, India's macroeconomic position reflects growing structural resilience. The current account deficit remains within highly manageable and sustainable thresholds, effectively buffered by robust, world-leading services exports and a healthy accumulation of foreign exchange reserves. These reserves provide a formidable cushion against external shocks and global financial volatility. Concurrently, ongoing structural reforms spanning the deepening of digital public infrastructure, the simplification of tax administration, and massive logistics enhancements are steadily reducing the operational cost of doing business. As global supply chains undergo strategic realignment and "friend-shoring," the Indian Union is uniquely positioned to capture a larger share of global manufacturing, leveraging targeted interventions like the Production Linked Incentive (PLI) schemes to build industrial scale and global competitiveness.

Looking ahead, the long-term macroeconomic health of the Union will rely heavily on sustaining this reform momentum while addressing remaining structural bottlenecks. Fostering broad-based job creation, accelerating the green energy transition, and enhancing skill development to fully realize the nation's demographic dividend remain critical, interconnected priorities. By maintaining a calibrated balance between fiscal prudence, aggressive infrastructure expansion, and targeted, highly efficient social welfare delivery, the Indian Union is well-equipped to sustain its position as a primary engine of global growth, laying a concrete, stable foundation for its transition into a developed, high-income economy.

India plays a dynamic role in international trade, exporting key products such as software services, petroleum products, textiles, and agricultural goods, while importing crude oil, gold, machinery, and chemicals. To safeguard the domestic economy against volatile external shocks, current strategies lean toward a model of disciplined Swadeshi, emphasizing the deepening of domestic manufacturing and reducing reliance on vulnerable supply chains. However, India consistently faces a trade deficit due to higher import values, although the current account deficit was contained to 0.8 per cent of GDP in the first half of 2025-26. As per the World Bank Report, trade will play a critical role in creating jobs and boosting growth in India. To boost growth and create jobs, India will need to harness its global trade potential. In addition to IT, business services and pharma, where it excels, India can diversify its export basket into more labour-intensive sectors such as textiles, apparel, and footwear, as well as in electronics and green technology products. Furthermore, India has broadened its global export footprint by strengthening trade partnerships with nations like the United Kingdom, Isreal, Oman, New Zealand and Japan.

The Foreign Direct Investment (FDI) has surged in recent years, bolstered by easing FDI norms; Ease of Doing Business targeting sectors like technology, retail, and renewable energy; and through initiatives like the 'Make in India' campaign. In 2025, FDI inflows reached USD 81 billion, registering a 13 per cent increase over the previous year. The Production Linked Incentive (PLI) Scheme introduced in 2020, have resulted in significant investments and has boosted the manufacturing output. Focus is given to promote manufacturing and substantial investments in infrastructure, including transportation, energy, and digital connectivity, while prioritizing resource efficiency and cost-effective management. The digital economy is also expanding rapidly, with notable growth in digital payments, evidenced by sustained momentum in UPI transactions, e-commerce, and technology start-ups, adding vibrancy to economic progress.

Despite its achievements, the Indian economy faces several structural challenges, including infrastructure deficits, economic inequality, and the need for targeted power and agricultural sector reforms to anchor long-term fiscal health. Ensuring sustained growth requires a commitment to expenditure discipline, moving away from un-targeted revenue deficits and addressing sub-optimal asset utilization across public sector enterprises. Encouragingly, some major headwinds have eased; the unemployment rate declined to 4.7 per cent in November 2025, and retail inflation softened considerably to 1.7 per cent between April and December 2025. India still contends with a high level of economic inequality, with income and wealth disparities widening in recent decades. Despite economic growth, poverty reduction efforts must remain unyielding, ensuring that a significant portion of the population transitions permanently into sustainable livelihoods.

Looking forward, India’s economic prospects remain highly promising, driven by a large young population, an expanding middle class, and ongoing institutional standardizations. This blend of structural strengths and calibrated financial discipline defines India’s evolving economic profile, reinforcing its position as a highly resilient anchor on the global stage.

1.4 Fiscal profile of the Indian Union

The Gross Domestic Product (GDP) of India pegged at ₹346.36 lakh cr in 2025-26 (PE) at current prices continues to exhibit steady expansion, with the government estimating a nominal GDP growth rate of 10 percent for the fiscal year 2026-27 despite global headwinds. The Union Budget 2026-27, presented on February 1, 2026, reaffirms the government's strict commitment to fiscal consolidation. The Gross Fiscal Deficit is targeted at 4.3 percent of GDP in 2026-27 (BE), a reduction from the revised estimate of 4.4 percent of GDP in 2025-26 (RE). The total expenditure for 2026-27 budgeted at ₹53.47 lakh cr, which is 7.7 percent higher than the revised estimate of 2025-26. The budget places a strong thrust on boosting infrastructure and capital asset creation, with public capital expenditure budgeted to increase from ₹11.2 lakh cr to ₹12.2 lakh cr. This proposed consolidation is supported by maintaining the revenue deficit target at 1.5 percent of GDP, mirroring the 2025-26 RE.

On the indirect tax front, gross GST collections have remained robust, broadly tracking nominal GDP growth conditions. During the April–December 2025 period, gross GST collections amounted to ₹17.4 lakh cr, reflecting a year-on-year growth of 6.7 percent. The Centre's net tax receipts are estimated at ₹28.7 lakh cr for 2026-27 BE, a healthy increase from the ₹26.7 lakh cr in 2025-26 RE. The total government receipts, excluding borrowings, are projected at ₹36.5 lakh cr, reflecting a 7.2 percent rise over the revised estimates of the previous fiscal year. Concurrently, the total government expenditure is budgeted at ₹53.5 lakh cr, which is 7.7 percent higher than the 2025-26 RE.

On the direct tax front, the Union Budget 2026-27 introduces procedural improvements and compliance relief measures under the New Income Tax Act, 2025, which comes into effect in April 2026. This includes redesigned, simplified forms for ease of compliance by ordinary citizens and small taxpayers. The budget also offers relief by reducing the Tax Collected at Source (TCS) on foreign remittances for education and medical purposes from 5 percent to a flat 2 percent. In the capital markets, the Securities Transaction Tax (STT) on futures and options has been increased to curb excessive speculation.

On the monetary policy front, responding to significantly moderating inflation with retail headline inflation averaging around 1.7 percent between April and December 2025, the Reserve Bank of India (RBI) cumulatively reduced the repo rate by 125 basis points since February 2025, bringing it down to 5.25 percent. The central bank has maintained a neutral policy stance, providing the flexibility required to navigate external uncertainties such as global trade disruptions, tariff risks, and volatility in capital flows.

Based on the Union Budget 2026-27, the gross transfers to States and Union Territories have been significantly scaled up to support regional development and capital investment. The central government has budgeted total transfers to States at ₹26.21 lakh cr for the fiscal year 2026-27, which represents a substantial increase of 12.2 per cent over the revised estimates (₹23.36 lakh cr) of 2025-26. This upward trajectory is primarily driven by higher statutory tax devolution and expanded scheme-related transfers. Forming the largest component of gross transfers, the devolution of the States' share in central taxes is projected to rise from ₹13.93 lakh cr in 2025-26 (RE) to ₹15.26 lakh cr in 2026-27 (BE). Reflecting a scale-up of centrally sponsored and supported schemes, allocations under this category are budgeted to increase sharply from ₹7.9 lakh cr to ₹9.65 lakh cr. Following the transition to the new fiscal sharing framework, the government has provided ₹1.40 lakh cr as Finance Commission Grants for FY 2026-27, strictly implementing the recommendations laid out by the newly instituted 16th Finance Commission.

One of the major concerns though is the high Debt to GDP ratio, which had peaked to 62.6 per cent of GDP in 2020-21 amidst the COVID-19 pandemic. There is, however, a declining trend with Debt to GDP ratio, reducing it to 55.6 percent in 2026-27 BE, compared to 56.1 and 57.1 percent in 2025-26 and 2024-25 respectively. The Union Government remains committed to a long-term fiscal prudence path, aiming to aggressively reduce its outstanding liabilities to around 50 percent of GDP by March 2031. This declining debt trajectory is structurally designed to gradually free up fiscal resources for priority sector expenditure by continuously reducing the outgo on interest payments.

1.5 Macro-economic outlook of Sikkim

The continued improvement and resilience in the national economy have positively impacted the public finances in the State of Sikkim. Enhanced flow of resources from the Union government, coupled with steady internal resource mobilization efforts, has helped the State anchor itself on a firm fiscal consolidation path. The State finances witnessed notable improvement in the post-pandemic period. The economy has maintained a robust recovery trajectory, with the GSDP at constant prices in 2024-25 growing at 7.1 percent, significantly outpacing the national average. The State's economic expansion has been highly robust in recent years. The State’s GSDP grew by about 70 percent from ₹31141.0 cr in 2019-20 to reach ₹53340.2 cr in 2024-25. Moving forward and applying the average growth rate, the GSDP is estimated to reach approximately ₹60,000 cr in 2025-26.

The macroeconomic outlook of Sikkim is somewhat divergent. It is India’s most progressive, high-income States and at the same time structurally vulnerable. The enviable per capita income of ₹7.63 lakhs in the 2024-25, which is nearly three times the national average, ranks to be the highest in the country and is a direct result of a highly successful industrial policy that attracted pharmaceutical manufacturing and aggressive hydroelectric power generation.

However, the devastating 2023 Glacial Lake Outburst Flood (GLOF) highlighted the fragile foundation of this model. The instantaneous loss of 1,806 MW of hydro capacity with the destruction of the Teesta Stage-III dam and Dikchu HEP wasn't just a physical catastrophe, it was a severe macroeconomic shock that disrupted non-tax revenue streams and strained state utilities. The one and only lifeline to Sikkim which is the critical National Highway 10 (NH10) was closed for months, severely impacting economic activity, food supplies, and tourism.

Despite environmental and infrastructural shocks, Sikkim remains a highly progressive State with outstanding socio-economic indicators. As per the latest NITI Aayog assessments, it ranks Sikkim 4th nationally in poverty alleviation, with only 2.6 percent of the population living below the poverty line. The poverty ratio has significantly declined to 8.19 percent, compared to the all-India average of 21.92 percent in 2011-12. Based on the NITI Aayog's District SDG Index for 2023–24, all the districts in Sikkim have achieved the prestigious "Front Runner" status. Further, there is narrowest margin between the highest-scoring district, Gangtok at 76.64, and its lowest scoring district Gyalshing at 71.14. This indicates highly equitable and consistent development across the entire State without severe regional disparities. Sikkim records one of the lowest IMRs in the country at just 5 deaths per 1,000 live births which is much lower than the national average. Furthermore, the State sustains its legacy as a 100 percent organic farming hub, supporting the livelihood of 80 percent of its rural population.

While these indicators are highly positive, NITI Aayog also consistently red-flags Sikkim's ultra-low Total Fertility Rate and high debt-to-GSDP levels as areas requiring long-term policy interventions. The Fertility Rate (TFR), which stands at a notably low 1.1 according to the National Family Health Survey-5 (NFHS-5). Falling well below the replacement level of 2.1, this raises long-term socio-economic concerns regarding potential population shrinkage, an aging demographic, and a shrinking future workforce.

The State's recovery depends heavily on diversifying its economic base. The implementation of the Sikkim State Logistics Policy 2025 is a step in the right direction, aiming to lower transaction costs significantly. The implementation of schemes such as North East Industrial & Investment Promotion Policy (NEIIPP) 2007 and North East Industrial Development Scheme (NEIDS) 2017 brought about huge industrial development in the State wherein more than 56 major pharmaceutical companies were established. The Uttar Poorva Transformative Industrialization Scheme (UNNATI) 2024 launched by the Government of India for the North-Eastern States and the recently notified Sikkim Industrial and Investment Policy (SIIP) 2024 is expected to draw investment and employment opportunities in the State for the aspirational youth. In need to boost trade and tourism, the State Government also recently announced the development of an economic corridor between India and Nepal through Chewabhanjyang in

Sikkim. If successful, these policies could unlock the potential of high-value agriculture, food processing, and specialized manufacturing industries thus promoting employment and economic development opportunities.

Tourism contributes over 8 percent to the State's GSDP and acts as the primary vehicle for grassroots employment. Yet, this sector remains trapped by a persistent infrastructure deficit wherein the landslides due to incessant rains effectively choke the State's economic lifeblood severely disrupting this sector. With the devastating GLOF that struck the region, North Sikkim, one of the primary tourist destinations experienced closures lasting months and for more than year on the certain specific destinations, which not only hampered tourism flow to these areas but to entire State thus impeding economic activities in this sector. However, the *Ashtalakshmi* development model, an integrated policy framework used by the Government of India to accelerate the socio-economic transformation of the eight North-Eastern States as well as the newly introduced Buddhist Circuits scheme announced in Union Budget 2026–27 offers long-term heritage preservation and tourism branding opportunities. Resolving the connectivity bottleneck through resilient, multi-modal engineering as well as accelerating the Sevoke Rangpo railway link would be crucial for stabilizing this service sector.

The hydropower sector is considered a cornerstone of Sikkim's economic strategy, offering a pathway to sustainable long-term recovery and growth. Sikkim's steep Himalayan topography and extensive river networks, primarily the Teesta river basin, make it one of India's most significant hubs for hydroelectric power. The State has structured its hydropower development to balance State control, central assistance, and private investment. Historically, Sikkim boasted several highly successful operational projects, including the 1200 MW Teesta III, 510 MW Teesta V, 99 MW Chujachen HEP and the 113 MW Rongnichu HEP. However, the sector is currently in a state of massive recovery and rebuilding. A devastating Glacial Lake Outburst Flood (GLOF) in October 2023 completely upended Sikkim's hydropower infrastructure. Despite the setbacks from the natural disaster, major construction is ongoing to expand the State's energy grid. With the restoration completed, the State will continue to gets its share of free power, which will augment revenue realisation to a great extent.

The Government of Sikkim adopted the Fiscal Responsibility and Budget Management (FRBM) Act in 2010. Following its implementation, the State experienced considerable improvements in fiscal outcomes, generating revenue surpluses and stabilizing its debt burden. While recent catastrophes have tested this resilience, fiscal rules continue to help the State government establish strict benchmarks to manage finances. The fiscal path chalked out by the 15th Finance Commission concluded at the end of the 2025-26 financial year. Commencing April 1, 2026, the State's fiscal framework and central transfers are governed by the award period of the 16th Finance Commission starting 1st April 2026.

The State government regularly conducts reviews of its compliance with the FRBM Act by utilizing reputed independent institutions, whose reports are placed in the legislature. This institutional process ensures that the achievement of fiscal targets and the adherence to sound fiscal management principles are transparently evaluated, upholding accountability in the State's financial governance.

1.6 Organization of the MTFP Report

The remaining section of this MTPF report is structured as follows:

Chapter 2 highlights the Fiscal scenario in Sikkim;

Chapter 3 provides the Fiscal Targets and Assumptions for the 3-year rolling targets starting fiscal year 2026-27 to 2028-29;

Chapter 4 provides the Disclosures as is mandated under the FRBM Act.

CHAPTER 2. FISCAL SCENARIO IN SIKKIM

Medium Term Fiscal Plan (MTFP)

Form F -1

(See Rules 3 (3))

The trend of economic growth and contribution of various sectors to the State economy have significance in calibrating fiscal plan for the year, primarily for assessing the possible revenue implications. As the fiscal variables are presented as percentage to GSDP in the FRBM Act, target and the borrowing limit is fixed as percentage to GSDP, the GSDP numbers assume significance in preparation of MTFP. The State FRBM Act in section 3 {3 (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.

2.1 Economic Profile of the State

Sikkim, one of the smallest State in the Indian Union, with a population of approximately 698 thousand, and has emerged as one of India’s fastest-growing states. Its Gross State Domestic Product (GSDP) is estimated at ₹629.73 billion in 2026-27, reflecting a robust compound annual growth rate (CAGR) of 9.1 percent between 2018-19 and 2026-27 including the COVID years.

The broad structure of the economy of Sikkim is indicated in Tables 2.1 and 2.2 below and characterized by rapid, industry-led growth and a significant formalization of its services sector. These tables clearly reveal that manufacturing and electricity sector dominate the economy, which came in big way to take advantages of the entrepreneur friendly policies of the State and the benefits offered by the Industrial policy. Over this 13-year period, the State has fundamentally transitioned away from an agrarian base, relying heavily on capital-intensive secondary sectors to drive its top-line Gross State Domestic Product (GSDP).

The State has demonstrated aggressive top-line economic expansion, with its nominal GSDP growing from ₹11,165.1 cr in 2011-12 to a projected ₹53,340.2 cr in 2024-25, representing a robust Compound Annual Growth Rate (CAGR) of 12.8 percent. However, when adjusting for inflation using constant 2011-12 prices, the real GSDP CAGR drops to 6.7 percent. This roughly 600-basis-point spread indicates that nearly half of the State's reported economic expansion is driven by price realizations rather than a true increase in output volume. Despite these inflationary pressures, controlled population growth has allowed for significant increases in individual wealth, with Per Capita GSDP increasing from ₹181,841 in the baseline year to ₹763,748 in 2024-25.

Table 2.1: GSDP at current prices (₹in cr)

Sl. No.	Item	2011-12	2019-20	2021-22	2022-23	2023-24	2024-25	CAGR
1	Agriculture	901.4	3049.7	3255.3	3445.8	3325.1	3460.5	10.9 %
2	Mining	8.0	15.2	15.0	20.9	39.6	49.7	15.1 %
A	**Primary**	**909.4**	**3064.9**	**3270.3**	**3466.7**	**3364.7**	**3510.2**	**10.9 %**
3	Manufacturing	4306.2	12300.6	13373.0	14493.3	17116.2	19347.5	12.3 %
4	Electricity	1866.2	4172.0	7472.1	8628.9	9384.7	9909.1	13.7 %
5	Construction	671.0	1324.5	1606.1	2041.1	2170.4	2502.5	10.7 %
B	**Secondary**	**6843.4**	**17797.1**	**22451.2**	**25163.2**	**28671.4**	**31759.1**	**12.5 %**
6	Trade & Hotels	314.5	1821.5	2190.9	2998.3	3534.9	4251.1	22.2 %
7	Transport & storage	283.7	697.5	787.4	878.8	930.3	1023.6	10.4 %
8	Financial services	165.2	422.7	400.2	541.5	743.5	895.0	13.9 %
9	Real estate & professionals	583.9	1063.6	1205.7	1386.7	1528.1	1669.4	8.4 %
10	Public administration	740.3	2256.6	2394.9	2635.0	2813.1	3105.7	11.7 %
11	Other services	1051.8	2829.9	3118.2	3484.4	3710.0	4134.2	11.1 %
C	**Tertiary**	**3139.3**	**9091.8**	**10097.3**	**11924.7**	**13259.9**	**15079.0**	**12.8 %**
D	**TOTAL GSVA**	**10892.1**	**29953.8**	**35818.8**	**40554.6**	**45296.0**	**50348.3**	**12.5 %**
12	Taxes on Products	406.0	1591.3	2092.0	2473.3	2900.8	3224.3	17.3 %
13	Subsidies on products	133.0	104.1	261.2	222.2	209.1	232.5	4.4 %
E	**GSDP**	**11165.1**	**31441.0**	**37649.6**	**42805.7**	**47987.6**	**53340.2**	**12.8 %**
F	**Population ('00)**	**6140.0**	**6670.0**	**6800.0**	**6860.0**	**6920.0**	**6984.0**	**1.0 %**
G	**Per Capita GSDP (₹)**	**181842**	**471379**	**553671**	**623989.2**	**693462.5**	**763748.6**	**11.8 %**

Source: MOSPI and Directorate of Economics & Statistics
2023-24 are Provisional Estimates and 2024-25 are Quick Estimates

The Secondary sector consistently remained the largest nominal contributor to this economic output, expanding from ₹6,843.4 cr to ₹31,759.1 cr and recording a notable growth spike of 27.4 percent in 2017-18 in nominal terms. Sectorally, the State relies almost entirely on industry and emerging services, with the secondary sector acting as the unquestioned economic engine. Manufacturing forms the single largest sub-sector, generating a massive ₹19,347.9 cr in nominal gross value added by 2024-25. Private manufacturing investment especially in the pharma sector, where almost 56 major pharma companies were established was facilitated by the North East Industrial and Investment Policy (NEIIP), which provided incentives to compensate for higher cost of operation of industries along with a tax-free regime. Sikkim compared to the other NE counterparts was able to attract more industries mainly due to business-friendly policies, peaceful and pollution free environment, abundant power supply and added to that it is much closer to mainland India compared to other NE States.

Table 2.2: GSDP at constant prices (₹in cr)

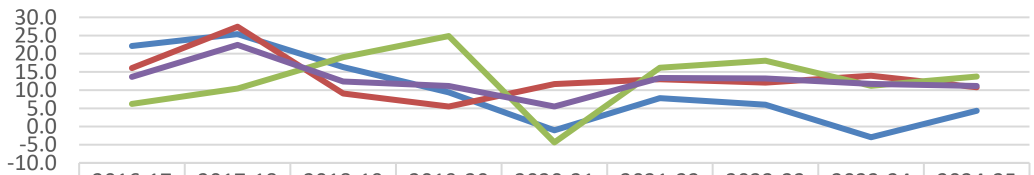
Sl. No.	Item	2011-12	2019-20	2021-22	2022-23	2023-24	2024-25	CAGR
1	Agriculture	901.4	1505.0	1397.4	1419.5	1402.9	1400.7	3.4 %
2	Mining	8.0	9.4	8.6	12.0	22.8	28.2	10.2 %
A	**Primary**	**909.4**	**3064.9**	**3270.3**	**3466.7**	**3364.7**	**3510.2**	**10.9 %**
3	Manufacturing	4306.2	7848.6	7995.3	8225.5	8694.6	9131.3	6.0 %
4	Electricity	1866.2	2565.7	4184.2	4556.3	4840.9	5087.1	8.0 %
5	Construction	671.0	816.1	867.5	1034.7	1062.4	1155.5	4.3 %
B	**Secondary**	**6843.4**	**11230.3**	**13047.1**	**13816.5**	**14597.9**	**15373.8**	**6.4 %**
6	Trade & Hotels	314.5	988.9	1184.2	1521.5	1733.8	2003.1	15.3 %
7	Transport & storage	283.7	562.4	557.5	605.5	646.7	677.4	6.9 %
8	Financial services	165.2	322.9	283.5	336.8	452.6	513.8	9.1 %
9	Real estate & professionals	583.9	737.5	718.5	754.5	796.0	819.1	2.6 %
10	Public administration	740.3	1464.7	1372.9	1415.3	1462.4	1528.1	5.7 %
11	Other services	1051.8	1749.0	1758.5	1876.6	1913.3	2074.2	5.4 %
C	**Tertiary**	**3139.3**	**5825.3**	**5875.2**	**6510.1**	**7004.9**	**7615.8**	**7.1 %**
D	**TOTAL GSVA**	**10892.1**	**18570.1**	**20328.3**	**21758.1**	**23028.4**	**24418.5**	**6.4 %**
12	Taxes on Products	406.0	986.5	1031.3	1219.2	1429.9	1589.4	11.1 %
13	Subsidies on products	133.0	64.5	119.3	101.5	95.5	106.2	-1.7 %
E	**GSDP**	**11165.1**	**19492.0**	**21240.3**	**22875.8**	**24362.9**	**25901.8**	**6.7 %**
F	**Population ('00)**	**6140.0**	**6670.0**	**6800.0**	**6860.0**	**6920.0**	**6984.0**	**1.0 %**
G	**Per Capita GSDP (₹)**	**181842**	**292234**	**312357**	**333467**	**352065**	**370873**	**5.6 %**

Source: MOSPI and Directorate of Economics & Statistics
2023-24 are Provisional Estimates and 2024-25 are Quick Estimates

Alongside this, the utilities sub-sector driven largely by hydroelectric power generation has grown at a nominal CAGR of 13.7 percent, generating nearly ₹9,909.1 cr in 2024-25. This sector occupies a complex and crucial position within Sikkim's economic development and energy transition strategies. Hydropower, which leverages the State's abundant mountain streams and glacial melt particularly the Teesta River basin has been heavily developed to meet local energy demands and generate revenue by exporting surplus electricity. It is a massive driver of the State's economic expansion and secondary sector growth, with large projects being developed by both public entities like NHPC and private power developers. However, the development of these large-scale run-of-river dams has faced significant challenges. The sector is highly vulnerable to natural disasters, as seen when the 1200 MW Teesta Stage III dam was washed away by a glacial lake outburst flood in October 2023.

The construction sector is a vital and rapidly expanding component of Sikkim's secondary economy, driven by ongoing urbanization and significant infrastructure development across the State. Between 2011-12 baseline and 2024-25 projections, the sector's nominal output surged from ₹670.1 cr to ₹2502.5 cr, reflecting heavy capital investments in road networks, real estate expansion both of private and government infrastructure projects, and the building of large-scale utility projects such as hydropower facilities. The expansion is intrinsically linked to the State's heavy reliance on central government funding as well and substantial center-backed market borrowings to finance major capital expenditures. Even when adjusting for inflation, the real volume of construction activity nearly doubled during this period, indicating sustained physical development.

Figure 2.1: Sector wise Growth rate of GSDP at current prices



	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Primary	22.1	25.4	16.3	9.4	-1.0	7.8	6.0	-2.9	4.3
Secondary	16.1	27.4	9.1	5.5	11.7	13.0	12.1	13.9	10.8
Tertiary	6.2	10.4	19.1	24.9	-4.4	16.1	18.1	11.2	13.7
GSVA	13.6	22.4	12.4	11.1	5.5	13.4	13.2	11.7	11.2

Primary Secondary Tertiary GSVA

Source: MOSPI and Directorate of Economics & Statistics

The Tertiary sector demonstrated the most aggressive relative expansion, growing from ₹3,139.3 cr to ₹15,079.0 cr. It reached a peak annual growth rate of 24.9 percent in 2019-20 before facing a 4.4 percent contraction during the 2020-21 period. This sector is the fastest-growing segment of the State's economy, indicating rapid urbanization. Trade and hotel services, in particular, posted an astonishing nominal CAGR of 22.2 percent and a real volume growth of 15.3 percent over the 13-year period, while financial services showed sustained growth of 13.9 percent and 9.1 percent respectively. The growth could be propelled by a thriving tourism economy and increased rural formalization. Sikkim's global reputation as a pioneer in organic farming and its pristine Himalayan landscapes may have triggered a tourism boom, directly inflating revenues for the hotel and restaurant sub-sectors. To accommodate this massive influx of travelers and the subsequent rise in local consumption, trading and retail channels have aggressively expanded across the State's urban hubs. This commercial formalization has, in turn, driven the growth in financial services, as banking and credit networks expand to support rising enterprise demands, commercial vehicle financing, and consumer lending.

The Primary sector exhibited a more modest but steady trajectory, growing from ₹909.4 cr to ₹3,510.2 cr, though it experienced minor contractions of 1.0 percent in 2020-21 and 2.9

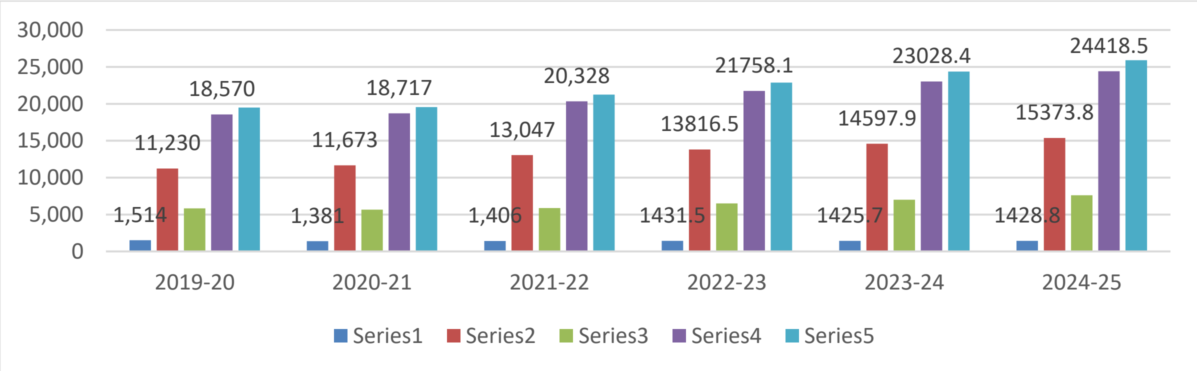
percent in 2023-24. In stark contrast, this sector forms a minimal share of the State's total gross output. Although nominal agricultural output grew at 10.9 percent, real volume expanded at a sluggish 3.5 percent CAGR, indicating that while farmers are receiving higher prices, the actual physical volume of agricultural production is barely growing. Sikkim's agricultural decline could be primarily driven by the agronomic and market challenges associated with its historic transition to a fully organic State. While the total ban on synthetic fertilizers and pesticides has brought substantial environmental and eco-tourism benefits, it has simultaneously led to a widespread reduction in crop yields and left farmers highly vulnerable to pest infestations and diseases. Furthermore, severe economic and demographic disincentives prevent agriculture from being a viable primary livelihood for the younger generation. Due to the State's rugged mountainous terrain and poor road infrastructure, transporting fragile organic produce to markets is slow and expensive, often forcing marginal farmers to rely heavily on middlemen who erode their already thin profits. The local organic produce also struggles to compete with the massive influx of cheaper food imported from neighbouring States like West Bengal. Faced with low returns and high physical labour demands, many rural workers are migrating to urban centers in search of steadier employment, contributing to a declining agricultural workforce and the abandonment of once-fertile land.

Finally, the State has made significant strides in capturing this economic activity within its internal tax net. Nominal collections of taxes on products expanded by 17.3 percent annually, growing from ₹406.0 cr in the baseline year to a projected ₹3224.3 cr in 2024-25. Crucially, real tax collections grew at 11.1 percent, which significantly outpaces the baseline real GSDP growth of 6.7 percent. This dynamic demonstrates a highly buoyant and effective internal revenue system, largely driven by the rapid expansion and formalization of Sikkim's trade and services sectors.

The State of Sikkim has remained a high per capita income State in the country due to higher investments in secondary sector. The Per capita income of Sikkim has improved from ₹1.82 lakh in 2011-12 to ₹7.63 lakh in 2024-25 at current prices. This is an annual average growth rate of 11.8 percent during the period 2011-12 to 2024-25. The growth of per capita income went down to 4.1 percent in 2020-21 due to the COVID pandemic. The Per capita income of the State of Sikkim is the highest in the country, but that is mainly because of fact that income originating in the State are not necessarily the income getting absorbed. The own tax/GSDP ratio, therefore, tend to remain low and high income is not fully reflected in the levels of living standards of the people.

The composition of Gross State Value Added (GSVA) of Sikkim in constant terms is reflected in Table 2.3 and Figure 2.2 shows the contribution of primary, secondary, and tertiary sectors to the State's overall economy. An analysis of this at constant prices reveals a highly concentrated economic structure dominated by industrial and utility outputs. When stripping away the effects of inflation to view the real volume of economic accretion between 2011-12 and the projected 2024-25 fiscal year, the Secondary sector consistently maintains its position as the bedrock of the State's economy. In the baseline year of 2011-12, the Secondary sector accounted for 61.3 percent of the total real GSVA and contracting to 59.4 percent in 2024-25, essentially retaining its massive proportional dominance by accounting for roughly 63 percent of the State's total economic output. This underscores how heavily reliant the State remains on capital-intensive manufacturing and large-scale infrastructure projects, such as manufacturing and hydroelectric power generation.

Figure 2.2: Composition of GSVA at constant prices



Source: MOSPI and Directorate of Economics & Statistics

Table 2.3: Composition of GSVA at constant 2011-12 prices (percent of GSDP)

Sl. No.	Item	2011-12	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
1	Agriculture	8.1	7.7	7.0	6.6	6.2	5.8	5.4
2	Mining	0.1	0.0	0.0	0.0	0.1	0.1	0.1
A	**Primary**	**8.1**	**7.8**	**7.1**	**6.6**	**6.3**	**5.9**	**5.5**
3	Manufacturing	38.6	40.3	38.0	37.6	36.0	35.7	35.3
4	Electricity	16.7	13.2	18.0	19.7	19.9	19.9	19.6
5	Construction	6.0	4.2	3.7	4.1	4.5	4.4	4.5
B	**Secondary**	**61.3**	**57.6**	**59.7**	**61.4**	**60.4**	**59.9**	**59.4**
6	Trade & Hotels	2.8	5.1	5.4	5.6	6.7	7.1	7.7
7	Transport & storage	2.5	2.9	2.7	2.6	2.6	2.7	2.6
8	Financial services	1.5	1.7	1.8	1.3	1.5	1.9	2.0
9	Real estate & professionals	5.2	3.8	3.7	3.4	3.3	3.3	3.2
10	Public administration	6.6	7.5	7.0	6.5	6.2	6.0	5.9
11	Other services	9.4	9.0	8.4	8.3	8.2	7.9	8.0
C	**Tertiary**	**28.1**	**29.9**	**29.0**	**27.7**	**28.5**	**28.8**	**29.4**
D	**TOTAL GSVA**	**97.6**	**95.3**	**95.7**	**95.7**	**95.1**	**94.5**	**94.3**

Sl. No.	Item	2011-12	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
12	Taxes on Products	3.6	5.1	4.9	4.9	5.3	5.9	6.1
13	Subsidies on products	1.2	0.3	0.6	0.6	0.4	0.4	0.4

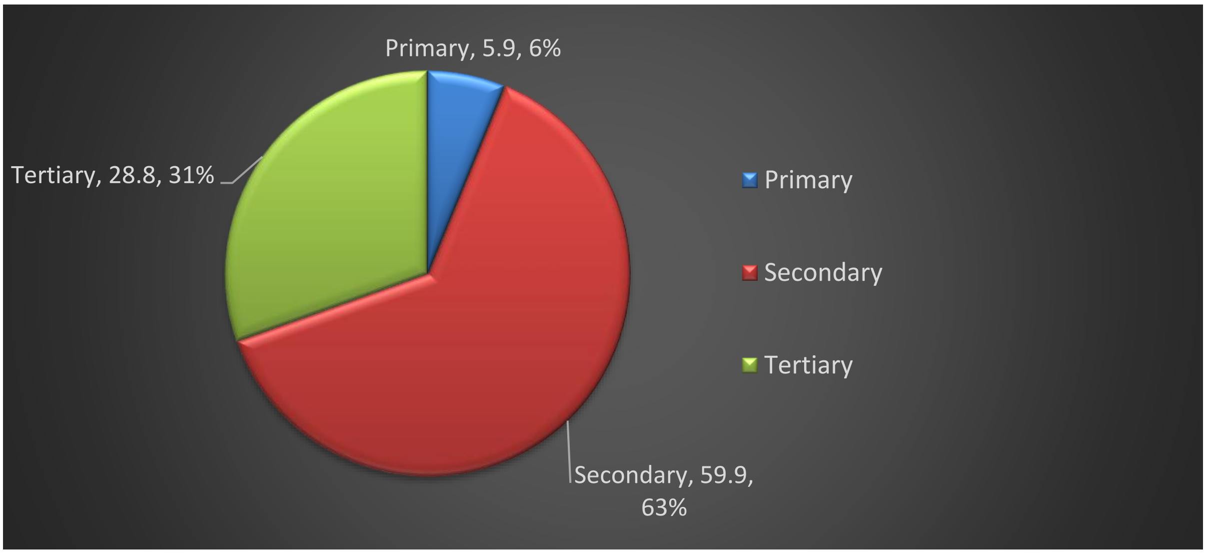
Source: MOSPI and Directorate of Economics & Statistics

The Primary sector encompassing agriculture, forestry, and fishing has seen its share of real economic output steadily contract, falling from 8.1 percent in 2011-12 to just 5.4 percent of the total real GSVA in 2024-25, reflecting the ongoing challenges and declining physical yields faced by rural cultivators in the region. This sector is mainly dominated by crops like large cardamom, ginger, tea and organic vegetables and the decline could be mainly due to Sikkim's transition from a subsistence-based agrarian economy leading to the agriculture's role shrinking relative to others. Urbanisation and decreasing agriculture land holding also could be reason on degrowth in this sector. Sikkim's status as India's first fully organic state since 2016 adds value but limits yields, keeping this sector's GSVA share relatively small.

The Tertiary sector has shown the most proportional gain, expanding its share of the real economy rising from 28.8 percent in 2011-12 to 29.4 percent in 2024-25, driven largely by massive physical volume increases in trade, hotels, and financial services linked to the eco-tourism boom.

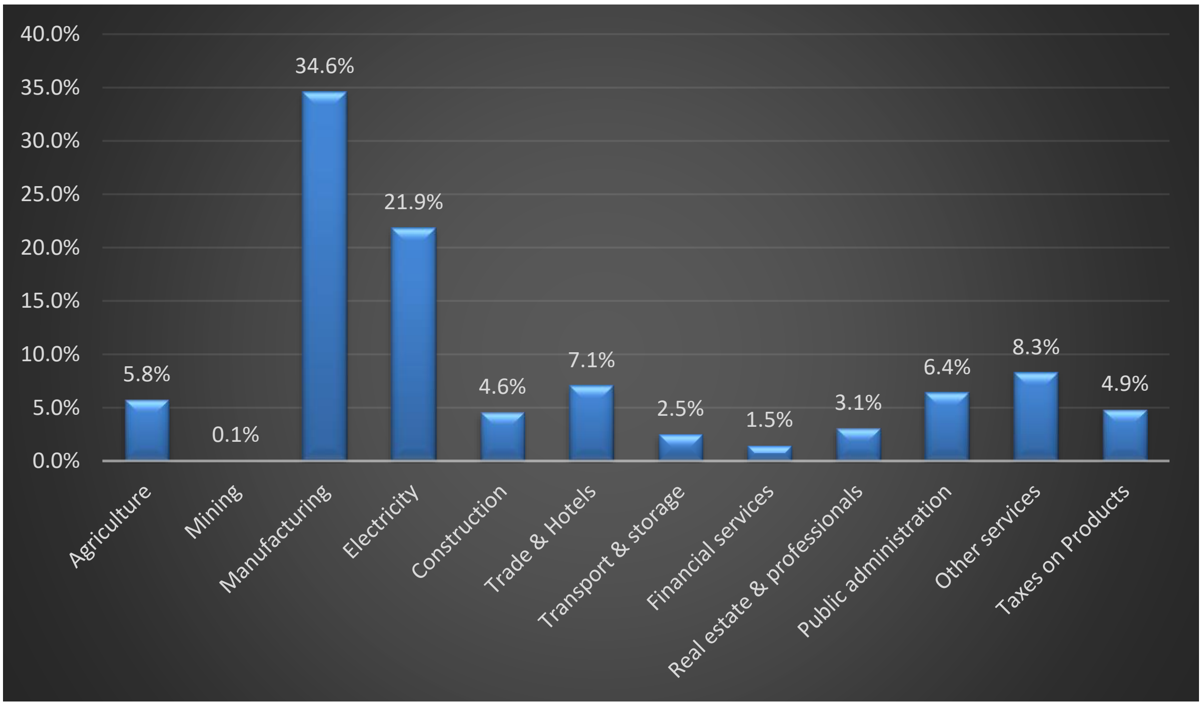
Figure 2.3 and 2.4 shows the contribution of three different sectors to GSVA in current prices wherein it is seen that the Secondary sector clearly dominates the other two. Average relative share of primary, secondary and tertiary sector during 2024-25 in constant terms was 6 percent, 63 percent and 31 percent respectively as depicted at Figure 2.3. The manufacturing and electricity dominate the overall GSVA component and stands at 34.6 percent and 21.9 percent respectively.

Figure 2.3: Composition of GSVA for 2024-25 at constant 2011-12 prices



Source: MOSPI and Directorate of Economics & Statistics

Figure 2.4: Composition of GSVA for 2024-25 at constant 2011-12 prices



Source: MOSPI and Directorate of Economics & Statistics

The State of Sikkim completed 50 years of its merger in the Inian Union on 16th May 2025, marking its historic integration into India as the 22nd State in 1975. This milestone reflects five decades of progress, resilience, and cultural preservation as it transitioned into a full-fledged State of the Indian Union. Over the past 50 years, Sikkim has emerged as a model State of sustainable development with Sikkim being India's first fully organic State in 2016, a testament to its commitment to environmental conservation. The State has also made huge strides in tourism, industrialisation and hydro power generation, while preserving its rich ecology and biodiversity. Sikkim's 50-year journey also underscores its strategic importance as one of the most peaceful State in India, in spite of it being bordered by three international countries viz China, Bhutan, and Nepal. While celebrating its progress, the State continues to address challenges like demographic shifts and economic sustainability, aiming for a future that balances tradition with modernity.

2.2 Fiscal Overview for the year 2026-27

Sikkim, despite being one of the smaller states in the country, operates under severe geographical, topographical, and geopolitical constraints that directly shape its economic landscape. Located in a seismically active region of the global seismic belt, the State is perpetually vulnerable to devastating earthquakes. Strategically, Sikkim shares international borders with three countries, making the maintenance of peace a paramount national priority. It remains a landlocked territory reliant on a single, fragile lifeline National Highway 10, which is frequently blocked due to natural calamities and regional unrest, often leaving the State isolated from the mainstream economy.

To counter these structural bottlenecks, the fiscal budget is strategically designed to enhance capital investment, provide robust funding for social sector priorities, and accelerate the State's growth momentum. This aligns Sikkim with the broader national objective of achieving "*Viksit Bharat 2047*" status by sustaining local development alongside India's economic growth strategy. The current fiscal plan is highly targeted, aiming to aggressively augment revenue, streamline recurring expenditure, and focus capital outlays directly on growth-boosting infrastructure. Crucially, the borrowing flexibility granted by the Union government allowing the State to raise capital above stipulated fiscal limits has significantly enhanced Sikkim's resource allocation, enabling critical funding to reach priority social sectors and infrastructure projects.

The fiscal profile of Sikkim for the financial year 2026-27, reflects a focus on economic growth, revenue augmentation, and balanced development. Here’s a detailed overview:

1. **Gross State Domestic Product (GSDP)**

   The Gross State Domestic Product (GSDP) for Sikkim is projected to reach ₹62,973 crore at current prices for the 2026-27 fiscal year. This represents a robust year-on-year growth trajectory of 10.5 percent over the ₹57,000 crore estimated for 2025-26. Viewed over a broader horizon, the state economy has expanded by an impressive 121.7 percent since 2018-19, when GSDP stood at ₹28,402 crore, showcasing strong and sustained macroeconomic momentum.

2. **Budget Outlay**

   The total budget outlay for the 2026–27 financial year is projected at ₹19,215.53 crore, representing a robust 15.43% growth over the previous fiscal year's allocation. This figure underscores the State's rapidly scaling developmental agenda, marking a substantial 202% expansion compared to the baseline budget of ₹6,364.03 crore established in 2018–19. Adjusting for standard recoveries totaling ₹760.54 crore, the net estimated expenditure for the upcoming fiscal cycle is pegged at ₹18,454.74 crore.

3. **Revenue Surplus**

   For the 2026–27 fiscal cycle, the State is projected to achieve a robust revenue surplus of ₹645.48 crore, which equates to 1.03% of GSDP. This trajectory represents a steady fiscal consolidation and improvement over the revised estimate of 0.6% (₹322.77 crore) recorded for 2025–26, though it reflects a contraction when measured against that year’s original budget estimate of 2.1% (₹1,203.20 crore). Sustaining a structural revenue surplus remains a vital positive indicator of fiscal health, demonstrating that the State's recurrent revenue receipts comfortably cover its operational and administrative expenditures without relying on debt to finance them.

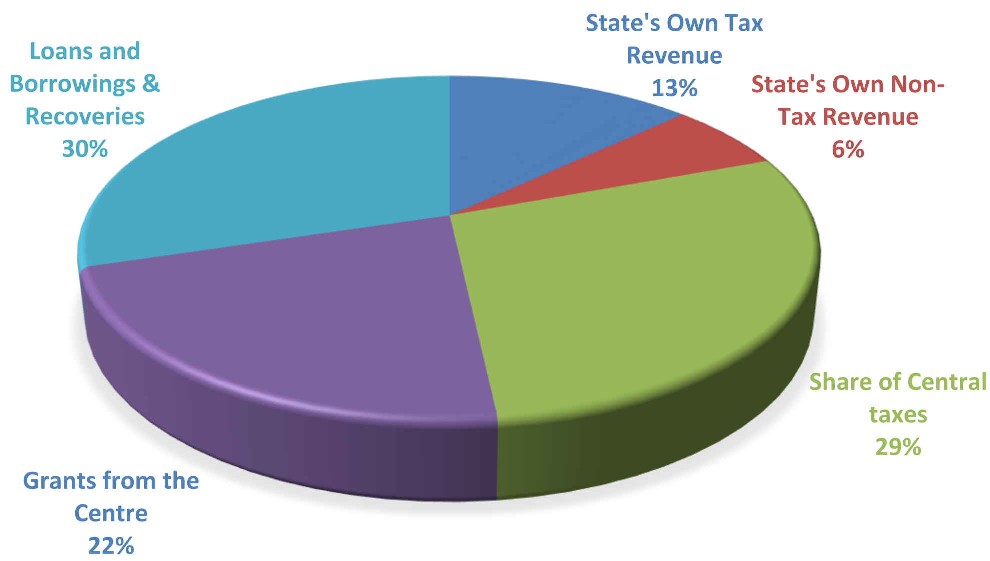
4. Fiscal Deficit

The gross fiscal deficit for 2026-27 is targeted at ₹5.251.01 crore, representing 8.34 percent of GSDP. While this headline figure technically breaches the central government's mandated ceiling of 3.0 percent for the State, the deviation is entirely strategic. The expanded deficit is driven solely by the absorption of targeted central government loans designed exclusively to fund capital expenditure, which are authorized over and above standard borrowing limits. When these specialized infrastructure outlays are excluded from the equation, the State's underlying core fiscal deficit complies closely with the prudent 3.0% statutory threshold.

5. Revenue Receipts

Total revenue receipts (excluding borrowings) for the 2026-27 fiscal year are estimated at ₹12,378.9 crore, reflecting a 15.2 percent increase over the budget estimates of ₹10,749 crore for 2025-26.

Figure 2.5: Source of Receipt: Where rupee comes?



Source: State budget documents 2026-27

The sources of these revenue receipts are structurally distributed as follows:

- State's Own Tax Revenue: 18.4 percent
- State's Own Non-Tax Revenue: 9.1 percent
- Share of Central Taxes: 41.3 percent
- Grants from the Centre: 31.2 percent

To conceptualize the breakdown of total receipts for 2026-27 (per ₹100 received by the state):

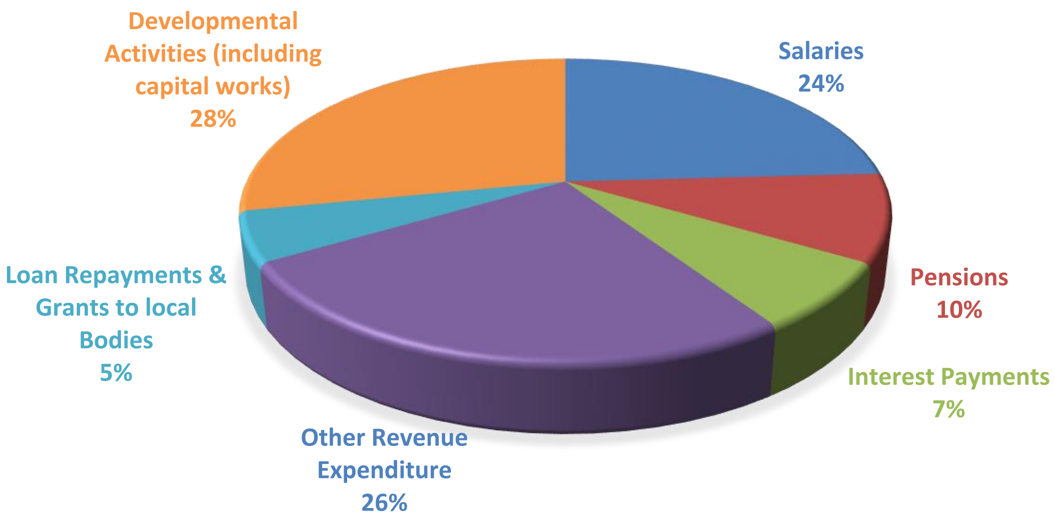
- State's Own Tax Revenue: ₹13
- State's Own Non-Tax Revenue: ₹ 6
- Share of Central Taxes: ₹29
- Grants from the Centre: ₹22
- Loans, Borrowings, & Recoveries: ₹30

Notably, in accordance with the 16th Finance Commission's recommendations, Sikkim will no longer receive revenue deficit grants in 2026-27. This cessation heavily emphasizes the urgent need for the state to aggressively enhance its internal revenue generation capabilities. Currently, the bulk of the State's revenue receipts still accrues via transfers from the central government, with the combined share of central taxes and grants accounting for 72.5 percent of the total revenues.

6. Expenditure

Total expenditure (excluding debt repayment) for 2026-27 is estimated at ₹17630.2 crore, representing a 28.4 percent increase from the 2025-26 revised estimate of ₹13,734.9 crore. Additionally, a specific allocation of ₹824.5 crore has been designated for debt repayment.

Figure 2.6: Sources of Expenditure: Where rupee goes?



Source: State budget documents 2026-27

The breakdown of total expenditure (per ₹100 spent) is distributed as follows:

- Salaries: ₹24
- Pensions: ₹10
- Interest Payments: ₹7

- Other Revenue Expenditure: ₹26
- Loan Repayments & Grants to Local Bodies (LBs): ₹5
- Developmental Activities (including capital works): ₹28

A critical focus of the State's fiscal strategy is capital expenditure, which is budgeted to rise to ₹5,251.0 crore in 2026-27. This marks a 54.3 percent increase from the ₹3402.5 crore recorded in 2025-26 RE, and a remarkable 611.5 percent surge compared to the ₹738 crore baseline in 2019-20, indicating a massive pivot toward infrastructure asset creation.

Table 2.4: Budget Profile 2026-27 (₹ in crore)

Items	2026-27BE	% of GSDP
Revenue Receipts	**12378.88**	**19.66**
Own Tax Revenues	**2274.71**	**3.61**
Sales Tax + SGST	1455.12	2.31
State Excise Duties	575.00	0.91
Motor Vehicle Tax	81.00	0.13
Stamp Duty and Registration Fees	56.91	0.09
Other Taxes	106.68	0.17
Own Non-Tax Revenues	**1124.36**	**1.79**
Central Transfers	**8979.81**	**14.26**
Tax Devolution	5112.95	8.12
Grants	3866.86	6.14
Revenue Expenditure	**11733.40**	**18.63**
General Services	**4445.55**	**7.06**
Interest Payment	1262.26	2.00
Pension	1648.81	2.62
Other General Services	1534.48	2.44
Social Services	3762.78	5.98
Education	1597.46	2.54
Medical and Public Health	747.79	1.19
Other Social Services	**1417.53**	**2.25**
Economic Services	**3399.19**	**5.40**
Compensation and Assignment to LBs	125.87	0.20
Capital Expenditure	**5896.82**	**9.36**
Revenue Deficit	**-645.48**	**-1.03**
Fiscal Deficit	**5251.01**	**8.34**
Primary Deficit	**3988.75**	**6.33**
Outstanding Debt	**27478.79**	**43.64**

Source: State Budget documents 2026-27

7. **Committed Expenditure**

The State's committed expenditure comprising of salaries, pensions, and interest payments is estimated at ₹7,164.7 crore for the 2026-27 fiscal year. This block of mandatory spending consumes 66.6 percent of the total revenue expenditure of ₹11,7333.4 crore.

The breakdown of this committed expenditure against total revenue receipts is:

- Salaries: 36.2 percent
- Pensions: 19.6 percent
- Interest Payments: 10.8 percent

While this high proportion of committed expenditure heavily limits the State's flexibility for discretionary spending and internal developmental funding, it reflects a structural stability regarding the State's fundamental administrative and debt-servicing obligations.

This high share of committed expenditure limits flexibility for discretionary spending but reflects stability in State obligations.

8. **Strategic Priorities**

The strategic priorities for the 2026-27 budget are as under:

Revenue Augmentation

To secure long-term fiscal autonomy, the 2026-27 budget places a heavy emphasis on aggressively expanding the State's internal revenue base. By rationalizing the tax structure, actively plugging administrative leakages, and tapping into new streams of revenues, the government aims to systematically reduce its structural reliance on central grants and tax devolutions, which are subject to shifting national formulas.

Capital Investment

The budget marks a decisive pivot from consumptive spending to asset creation, evidenced by a massive and sustained increase in capital expenditure projected at ₹5,895.5 crore for 2026-27 which is 30.9 percent increase in budget outlay of last fiscal of ₹4,505.0 crore. This capital infusion is strategically targeted at resolving infrastructural bottlenecks across key developmental sectors. Heavy investments are directed toward building climate-resilient road networks, creating health infrastructure, upgrading water and electricity grids, expanding educational facilities, and creating sustainable eco-tourism infrastructure, all of which act as catalysts for broader economic expansion.

Economic Growth

Driven by these targeted investments and structural advantages, Sikkim's macroeconomic trajectory continues to aggressively outpace the national average. The State's economic momentum is clearly reflected in its demographic prosperity. Sikkim currently stands as the richest state in India by per capita income. For the 2026-27 period, its per capita income is estimated to exceed ₹8.5 lakh, more than three times the national average underscoring the success of its specialized economic engines like pharmaceuticals, hydropower, and high-value tourism.

To summarise, Sikkim's fiscal framework for the 2026-27 financial year reflects a structured effort to balance aggressive capital expansion with long-term economic resilience. By achieving a projected revenue surplus of 1.03% of GSDP, the State ensures that its day-to-day administrative and operational obligations are met entirely through internal revenues rather than deficit financing. This liquidity creates a strong foundation for the government's pivot toward developmental projects, evidenced by a massive capital expenditure allocation of ₹5,895.5 crore designed to construct revenue-generating assets and bypass historical connectivity bottlenecks.

While the aggregate fiscal deficit is targeted at an elevated 8.3% of GSDP, this breach of the standard 3.0% central limit is entirely driven by the strategic absorption of dedicated central loans, such as the 50-year interest-free Special Central Assistance (SCA) facility and Pension Funding Adjustment. Netting out these infrastructure-focused central loans reveals a core fiscal deficit that is in alignment with the prudent 3% macroeconomic threshold. Faced with the cessation of post-devolution revenue deficit grants and the 16th Finance Commission's structural tax pool reductions, the State is leveraging these central capital windows while systematically building the internal tax base required for long-term fiscal self-reliance.

2.3 Fiscal Profile for the year 2026-27

The fiscal profile of the State, as detailed in Table 2.5, reveals a positive trajectory in aggregate revenue receipts, which are projected to improve to 19.7 percent of GSDP in the 2026-27 BE, up from the 17.7 percent recorded in 2024-25. This expanding revenue-to-GSDP ratio is driven by dual gains in internal resource mobilization and robust central fiscal transfers. While the State's own tax revenue relative to GSDP is structurally maintained at a steady 3.6 percent in 2026-27 BE matching the level achieved in 2024-25. The central transfers (comprising of tax devolution and grants-in-aid) show a significant expansion, rising from 12.6 percent to 14.3 percent over the same period. In absolute nominal terms, aggregate revenue is set to witness a substantial 46.4 percent surge, climbing from ₹9,451.25 crore in 2024-25 to an estimated ₹12,378.89 crore in the 2026-27 budget allocations.

Sikkim has benefited from a sustained rebound in federal resource flows following the acute fiscal pressures of the 2019-20 and 2020-21 cycles. Since that period of contraction, central grants and tax devolutions have expanded at a stable, uniform rate, serving as a critical financial cushion for the state treasury. Because these central transfers account for a dominant share of Sikkim's total revenue and capital requirements, they provide the necessary fiscal leverage to sustain public services and drive broader economic growth. This expanding federal footprint is clearly reflected in macro terms. The total transfers from the Centre have risen from 10.1 percent of GSDP in 2019-20 to an estimated 14.3 percent in the 2026-27 fiscal framework.

Table 2.5: Fiscal Profile of Sikkim: An Overview (As percent of GSDP)

Items	2011-12	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26RE	2026-27BE
Total Revenues	**25.7**	**15.4**	**17.0**	**18.8**	**18.9**	**17.4**	**17.7**	**18.1**	**19.7**
Own Tax Revenues	2.6	3.1	2.9	3.3	3.5	3.6	3.4	3.6	3.6
Own Non-Tax Revenue	2.2	2.2	2.0	1.8	2.3	1.8	1.7	1.8	1.8
Central Transfers	**20.9**	**10.1**	**12.1**	**13.7**	**13.2**	**11.9**	**12.6**	**12.7**	**14.3**
Tax Devolution	5.5	7.3	7.0	8.7	9.0	8.9	9.5	9.5	8.1
Grants	15.4	2.8	5.1	4.9	4.1	3.0	3.1	3.2	6.1
Revenue Expenditure	**21.8**	**19.7**	**19.3**	**17.7**	**17.8**	**17.1**	**16.8**	**17.5**	**18.6**
Interest Payment	1.7	1.6	1.7	1.7	1.7	1.7	1.8	1.7	2.0
Pension	1.6	2.9	2.8	2.6	2.7	2.7	2.6	2.4	2.6
Capital Expenditure	**6.0**	**2.3**	**4.6**	**3.5**	**5.6**	**5.5**	**6.5**	**6.5**	**9.4**
Revenue Deficit	**-4.0**	**4.3**	**2.3**	**-1.1**	**-1.1**	**-0.3**	**-0.9**	**-0.6**	**-1.0**
Fiscal Deficit	**1.6**	**6.6**	**6.9**	**2.4**	**4.4**	**5.3**	**5.6**	**6.0**	**8.3**
Primary Deficit	**-0.1**	**5.0**	**5.2**	**0.7**	**2.8**	**3.6**	**3.8**	**4.2**	**6.3**
Outstanding Debt	**22.9**	**23.5**	**27.4**	**28.9**	**29.7**	**31.7**	**35.4**	**38.9**	**43.6**

Note: Negative sign in Revenue and Primary Deficit indicates surplus
Source: State Budget documents

While restraining the expansion of revenue expenditure remains a core pillar of the State's long-term budget management strategy, strong growth in top-line revenue receipts has allowed the government to safely scale up resource allocations to vital social and economic sectors. Consequently, revenue expenditure as a percentage of GSDP has increased from 16.8 percent in 2024-25 to 18.6 percent in the 2026-27 BE. Even as rigid, committed liabilities like salaries, interest and pension payments registered an absolute increase during this cycle, funding for the State’s core priority development sectors was successfully protected and expanded. Concurrently, the State government strategically utilized the flexible, additional borrowing facilities authorized by the Union government over and above standard ceilings. By channeling these extra-budgetary windows exclusively into infrastructure creation, the State successfully pushed its capital expenditure from 5.6 percent of GSDP in 2024-25 to a robust 8.3 percent in the 2026-27 budget provisions.

In 2010, the State enacted the Fiscal Responsibility and Budget Management (FRBM) Act, committing to a ruled-based framework for managing public finances. This legislation mandates that the State maintain a revenue surplus while strictly capping its fiscal deficit relative to Gross State Domestic Product (GSDP). Fiscal consolidation remains a cornerstone of the State's economic strategy. Under the 15th FC amended framework, the State committed to progressively reducing its fiscal deficit from 4.5% of GSDP in 2020-21 down to a baseline of 3.0% in 2025-26. Furthermore, the Commission provided structural flexibility, permitting additional conditional borrowings contingent upon the State successfully implementing specific power sector reforms. The State's amended FRBM Act was fully synchronized with the consolidation roadmap set forth except under the COVID years.

With the conclusion of the 15th Finance Commission's award period, the fiscal legislations and consolidation paths that guided state borrowing have officially ended. It is now required for the State government to strictly adhere to the new guidelines issued by the 16th Finance Commission for the 2026-2031 cycle. The Commission has set a hard ceiling for the annual fiscal deficit of State Governments during the award period (2026–2031) be capped at 3.0 percent of its respective GSDP. The Borrowings met through the Special Assistance to States for Capital Investment (SASCI), which are 50-year interest-free loans from the Centre are considered over and above this regular limit. The Commission has also recommended that the States should completely discontinue the practice of incurring off-budget borrowings by bringing all such borrowings on their budgets.

Table 2.6: Fiscal Deficits of the State Government

Items (₹ in crore)	2021-22	2022-23	2023-24	2024-25	2025-26RE	2026-27BE
Fiscal Deficit (₹ crore)	**904.30**	**1903.31**	**2529.98**	**2980.00**	**3402.47**	**5251.01**
As per FRBM/ FCD	413.30	1113.31	1304.30	706.04	1540.78	1886.72
Special Central Assistance to States for Capital Expenditure	300.00	551.36	797.85	1742.14	1393.69	3311.77
Pension Funding Adjustment	-	238.64	257.83	269.82	312.00	52.52
Power Sector Reforms	191.00	-	170.00	262.00	156.00	-
Items (As percent of GSDP)	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26RE**	**2026-27BE**
As % of GSDP	**2.40**	**4.45**	**5.27**	**5.59**	**5.96**	**8.34**
As per FRBM/ FCD	1.10	2.60	2.72	1.32	2.70	3.00
Special Central Assistance to States for Capital Expenditure	0.80	1.29	1.66	3.27	2.44	5.26
Pension Funding Adjustment	-	0.56	0.54	0.51	0.55	0.08
Power Sector Reforms	0.51	-	0.35	0.49	0.27	-

Source: State Budget documents

The 16th FC though has not provided any road map for debt levels within the States. They have, however, as per Para 12.16 of the report stressed that by adhering to these fiscal deficit limits and bringing hidden liabilities onto the books, the combined debt of the central and state governments will steadily decline from 77.3% of GDP in 2026-27 to 73.1% in 2030-31. To enforce this, the Commission has called for states to amend their respective Fiscal Responsibility Legislation (FRL) to align with this roadmap and mandate legislative reporting if thresholds are breached.

The Union Government, as per the Explanatory Memorandum as to the Action Taken on the recommendations of the Commission, has accepted in-principle the recommendation of the quantum (expressed as a per cent of GSDP) of net borrowing ceilings for the States. However, other recommendations of the Commission including those related to Off-Budget Borrowings, amendment to State FRLs, Union Government Fiscal Deficit will be examined separately by them. It is expected that the Central government would come up with fiscal road map for the States to follow with regard to deficit and debt levels.

While the budget for 2026-27 presents elevated levels of fiscal deficit and debt stock, this temporary expansion is entirely strategic. It is the direct result of the state absorbing specialized, additional borrowing facilities authorized by the Union government over and above standard FRBM limits. The gross fiscal deficit for 2026-27 is budgeted at an elevated 8.3 percent of GSDP (Table 2.6). However, this headline figure includes the utilization of specialized, additional borrowing facilities designated exclusively for capital investments and pension fund contributions. When these extra-budgetary borrowings are excluded, the State's core fiscal deficit drops to 3.0 percent of GSDP (Table 2.6), which comfortably aligns with the statutory limits mandated by the FRBM Act. Notably, a significant portion of this additional borrowing specifically the 5.26 percent of GSDP allocated for capital investment is structured as interest-free loans. Consequently, while these loans do increase the State's total outstanding liabilities, they do not burden subsequent budgets with recurring interest liabilities, thereby protecting future revenue expenditure.

A defining pillar of Sikkim's fiscal policy is the deliberate restraint of revenue expenditure growth. By strictly controlling the expansion of routine administrative and consumptive spending, a fiscal space is successfully brought about to aggressively fund long-term capital investments. This disciplined approach to budget management has yielded robust macroeconomic stability, allowing the state to consistently generate a revenue surplus every year since 2021-22. Ultimately, this recurring surplus acts as a foundational financial engine, empowering the State to continuously expand its capital expenditure footprint without jeopardizing its broader fiscal health.

2.4 Review of Revenue Receipt of the State

Sikkim's formidable mountainous topography and high elevation fundamentally inflate the financial burden of driving economic activity compared to mainland States. The region's challenging terrain results in steep transportation overheads and significant inherent cost disabilities in delivering public services and building critical assets. Quantifying this structural challenge, a specialized study commissioned by the Fourteenth Finance Commission empirically estimated that the State faces an average cost mark-up of 2.9 times for providing essential economic and social infrastructure.

Despite these severe financial constraints and elevated capital costs, Sikkim remains steadfast in its commitment to global environmental sustainability. The State has successfully positioned itself as a pioneer in ecological protection, rigorously maintaining its unique status as a fully organic and carbon-neutral state. However, this dedicated environmental stewardship carries a tangible macroeconomic opportunity cost to preserve its fragile Himalayan ecosystem. The State government may have to deliberately forgo other commercially viable, high-revenue economic opportunities that might otherwise compromise its long-term ecological integrity.

The trajectory of the State's internal resource mobilization, as detailed in Table 2.7 (Figure 2.7), demonstrates substantial nominal expansion. Total own revenue receipts have nearly doubled, growing from ₹1,663.8 crore in 2019-20 to a budgeted ₹3,399.1 crore for the 2026-27 fiscal year. However, despite this strong absolute growth, the State's Own Revenues as a percentage of GSDP have actually experienced a marginal contraction, slipping slightly from 5.5 percent in 2018-19 down to 5.4 percent in the 2026-27 budget estimates.

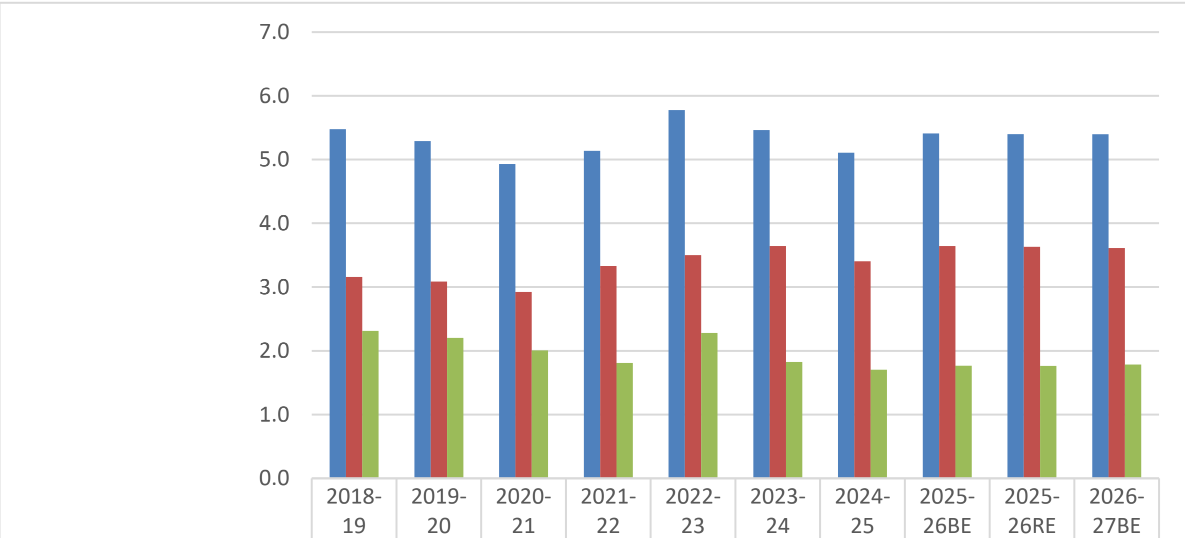
Table 2.7: Own Revenue Receipts of the State Government (₹ in cr)

Items	2011-12	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26RE	2026-27BE
Own Revenue Receipts	538.0	1663.8	1629.0	1935.1	2473.4	2622.6	2724.9	3083.5	3399.1
Own Tax Revenues	293.9	970.4	966.7	1254.4	1497.3	1748.2	1814.9	2076.2	2274.7
Own Non-Tax Revenues	244.0	693.4	662.3	680.6	976.1	874.4	910.1	1007.2	1124.4
Buoyancy	2011-12	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26RE	2026-27BE
Own Revenue Receipts	-	0.6	-0.4	1.3	2.0	0.5	0.3	1.9	1.0
Own Tax Revenues	-	0.8	-0.1	2.1	1.4	1.4	0.3	2.0	0.9
Own Non-Tax Revenues	-	0.5	-0.9	0.2	3.2	-0.9	0.4	1.5	1.1

Source: State Budget documents

A fundamental fiscal challenge for Sikkim is its persistently low overall tax-to-GSDP ratio. This anomaly occurs because massive income-generating sectors operating within the state, most notably large-scale manufacturing and hydroelectricity do not proportionally contribute to direct tax generation for the state treasury. Under the current national tax architecture, wealth generated by these dominant sectors largely bypasses local revenue nets. In an attempt to rectify this structural disadvantage, the State government previously petitioned the Central government to design a framework that balances origin-based income generation with destination-based consumption taxes. While the Union government considered the State's unique economic predicament sympathetically, these strategic appeals were ultimately not approved, leaving Sikkim to navigate a structurally constrained internal revenue ecosystem.

Figure 2.7: Own Revenues Receipts (As Percent of GSDP)



	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26BE	2025-26RE	2026-27BE
Own Revenue Receipts	5.5	5.3	4.9	5.1	5.8	5.5	5.1	5.4	5.4	5.4
Own Tax Revenues	3.2	3.1	2.9	3.3	3.5	3.6	3.4	3.6	3.6	3.6
Own Non-Tax Revenues	2.3	2.2	2.0	1.8	2.3	1.8	1.7	1.8	1.8	1.8

Source: State Budget documents

The State has demonstrated commendable progress in optimizing its internal tax administration. The Own Tax-to-GSDP ratio, which had previously contracted to a pandemic-era low of 2.9 percent in 2020-21, has rebounded and strengthened to an estimated 3.6 percent for the 2026-27 fiscal cycle. This recovery is particularly remarkable given historical stagnation in this metric; it indicates a successful administrative effort to plug systemic leakages and aggressively exploit existing revenue sources. Post the COVID 19 pandemic, tax buoyancy coefficient under own tax revenues had consistently been exceeding 1.0, reflecting a period, where tax collections actively outpaced broader economic growth due to enhanced mobilization strategies. However, the State's revenue trajectory faced a severe structural disruption triggered by the Glacial Lake Outburst Flood (GLOF) during October 2023. This catastrophic event severely compromised critical macroeconomic engines, primarily through the devastation of hydroelectric dams and the sustained closure of key commercial road networks. By 2024, buoyancy for both aggregate own revenue and tax revenue hit a near-stagnant floor of 0.3, underlining a temporary normalization or slowdown in economic growth momentum.

The buoyancy under non-tax revenue has remained non-buoyant except during 2022-23 which had peaked to 3.2 due to imposition of natural water user charges under the Ecosystem services. However, after the filing of case in the Hon’ble High court by NHPC, the collection of water user charges had to be discontinued.

The current deceleration in revenue should not be viewed merely as a cyclical economic downturn, but rather as a stark exposure of Sikkim’s acute structural fragility to climate events. The GLOF disaster highlights a critical fiscal vulnerability: the State's most lucrative internal revenue streams (hydropower generation and transport-dependent tourism) are hyper-concentrated in geographically fragile assets. When climate-induced shocks destroy these physical assets, the State suffers a compounding crisis—massive immediate capital loss simultaneously paired with a sudden, sustained collapse in recurring tax and non-tax receipts.

2.5 Review of 16th Finance Commission Devolution and Grants

The Government of Sikkim adopted the Fiscal Responsibility and Budget Management (FRBM) Act in 2010, which continues to provide the benchmark for the State's fiscal discipline. A major development in the State's financial architecture is the transition to the 16th Finance Commission's award period, which covers the five-year stretch from 2026-27 to 2030-31.

The 16th Finance Commission (FC), chaired by Arvind Panagariya, submitted its report during November 2025, which the Union Government has accepted and the Explanatory Memorandum placed along with the Budget documents on 1st February 2026 in the Parliament. The gist of recommendations of the 16th Finance Commission for Sikkim is highlighted hereunder:

2.5.1 Devolution of Taxes

Under the Vertical Devolution, the Commission has recommended to retain the States’ share at 41 per cent of the net proceeds (divisible pool) of Union taxes. The Commission has also recommended that to bring in more transparency about the divisible pool and the actual devolution every year, the Union Government disclose the data pertaining to net proceeds as certified by CAG under Article 279.

Under the Horizontal devolution, the Share of Sikkim for the 16th FC period is 0.335 percent. This is a reduction of decrease of 0.053 compared to the 15th FC. The detailed devolution for Sikkim for all the 3 Finance Commissions is at Table 2.8 .

Table 2.8: Devolution share for Sikkim by 3 Finance Commissions

Finance Commission	Horizontal Share %	Key Changes/Influences
14th FC (2015-20)	0.367	
15th FC (2021-26)	0.388	Increased by 0.021 compared to earlier FC
16th FC (2026-31)	0.335	Decreased by 0.053 compared to earlier FC

The devolution criteria with weights assigned and the Inter se share separately worked out for Sikkim by the 15th and 16th Finance Commission is at Table 2.9.

Table 2.9: Interse criteria for devolution of central taxes by 15th and 16th FC

Criteria	15th FC			16th FC		
	Weight (%)	Inter-se-share (%)	Share of Sikkim	Weight (%)	Inter-se-share (%)	Share of Sikkim
Population	15	0.052	**0.008**	17.5	0.052	**0.009**
Area	15	2.000	**0.300**	10	1.500	**0.150**
Forest & ecology	10	0.683	**0.068**	10	0.683	**0.068**
Income distance	45	0.011	**0.005**	42.5	0.011	**0.005**
Contribution to GDP	-	-	**-**	10	0.978	**0.098**
Tax & fiscal efforts	2.5	0.024	**0.001**	-	-	**-**
Demographic performance	12.5	0.056	**0.007**	10	0.056	**0.006**
Total			**0.388**			**0.335**

Source: Finance Commission Documents

Population

This criterion uses demographic data exclusively from the 2011 Census. It recognizes a simple reality that States with larger populations inherently face higher expenditure needs for public services, healthcare, and infrastructure. The 16th FC increased weight by 2.5, but Sikkim's small population keeps this score low, the impact was low.

Area

States with a larger geographical footprint incur higher administrative and service delivery costs. This is the criteria which has impacted Sikkim the most. Not only did the 16th FC reduce the weight of this parameter from 15% to 10% but also reduced the minimum inter-se-criterion from 2.0 to 1.5. Overall, the share for Sikkim reduced by 0.15 thus negatively impacting the overall devolution to Sikkim.

Forest Cover

This parameter compensates States for the ecological opportunity cost of preserving forests, which prevents that land from being used for industrial or agricultural expansion. The 16th

Commission made a notable update here: it now counts open forests alongside dense ones, and specifically assigns weight to a State's contribution to increasing overall forest area between 2015 and 2023. Sikkim's huge forest cover does help get substantial weightage on the overall devolution.

Income Distance

This is the most heavily weighted factor, designed to maintain equity by ensuring poorer States receive a larger share of funds. The 16th Commission calculates this as the difference between a State's per capita GSDP and the average per capita GSDP of the top three large, high-income states. Sikkim does not gain much on this due to Sikkim's high per-capita GSDP (nearly 3x the national average).

Contribution to GDP

This is an entirely new parameter for the 16th Commission, replacing the previous metric for tax efficiency. It is designed to reward economically productive States that act as growth engines for the national economy. It is calculated based on the square root of a State's GSDP relative to the sum of the square roots of all States' GSDPs. This criterion has rewarded Sikkim immensely due to high economic productivity and efficient GSDP growth.

Demographic Performance

Calculated primarily using the inverse of a State's Total Fertility Rate (TFR), the 16th FC uses the inverse of a State's population growth between 1971 and 2011. This change was designed to explicitly reward states that controlled their population expansion over that specific 40-year historical window, rather than rewarding current fertility lows. Sikkim has exceptional modern demographic metrics, boasting one of the lowest Total Fertility Rates in the country. However, the 16th FC's methodology shift effectively muted this advantage because the new formula looks backward at the 1971–2011 historical growth window rather than recent TFR, resulting in Sikkim not gaining much on this criterion.

2.5.2 Effect due to reduced devolution of 16th FC

The recalibration of the horizontal distribution formula by the 16th Finance Commission resulted in significant relative shifts in the proportional tax shares among states. When measured in percentage terms against their previous 15th Finance Commission allocations, the Southern states emerged as the primary beneficiaries. Kerala recorded the most substantial relative gain, with its share surging by 23.74%, followed closely by Karnataka, which saw a 13.27% increase. Andhra Pradesh, Telangana, and Tamil Nadu also registered proportional gains of 4.20%, 3.43%, and 0.44%, respectively.

The recalibration also led to a noticeable contraction in the relative tax shares of several states, with the most severe percentage drops concentrated among the Northeastern and Himalayan regions. Arunachal Pradesh experienced the sharpest relative decline, with its share of the central divisible pool plunging by 23.30%, closely followed by Meghalaya at 18.18% and Nagaland at 15.79%. Sikkim and Manipur also faced significant relative reductions, seeing their proportional allocations contract by 13.66% and 12.50% respectively, while Tripura registered a 9.86% drop.

Beyond the frontier States, several larger central, western, and northern States also recorded contractions in their proportional allocations. Madhya Pradesh registered a 6.37% decline in its relative share, while Goa and West Bengal saw drops of 5.13% and 3.99% respectively. Chhattisgarh's allocation shrunk by 3.23%, followed by minor contractions in Odisha at 2.43%, Uttar Pradesh at 1.78%, Rajasthan at 1.66%, and Bihar at 1.09%. Although these larger States experienced smaller percentage declines relative to their baselines compared to the Northeastern States, their massive initial pool sizes mean that even small fractional cuts will translate into highly significant absolute monetary shortfalls for their State treasuries over the 2026–2031 award period.

Since the central tax pool expands year-over-year, the State's 0.053-point deficit compounds annually against a constantly growing baseline. Consequently, over the five-year horizon, this reduced horizontal share is projected to culminate in an aggregate, cumulative revenue loss of approximately ₹5,200 crore to the State treasury. A revenue loss of more than ₹800 crore is expected in the first year of the award period. This deficit carries profound implications for the State's fiscal flexibility. The tax devolutions which are entirely untied can be freely deployed according to their internal developmental priorities to fund critical infrastructure, social sector schemes and climate-resilience projects.

To mitigate the severe fiscal constraints imposed by the reduced tax devolution, the Union Government has, however, activated targeted compensatory mechanisms. Under the Special Assistance to States for Capital Investment (SASCI) framework, Sikkim has been granted a dedicated allocation of ₹820 crore for the 2026-27 financial year through the newly introduced "Pride of the Hills" fund. This specific financial package serves as an immediate, highly concessional fiscal offset designed to stabilize the State treasury and bridge the short-term liquidity gap caused by the 16th Finance Commission's structural formula shifts.

2.5.3 Grants and Transfers under 16th FC

2.5.3.1 Revenue Deficit Grants/State Sector and State Specific Grants

Unlike previous commissions, the 16th FC eliminates revenue deficit grants for all States, including Sikkim. During the 15th FC period, an amount of ₹ 1267 cr was granted to Sikkim on account of Revenue Deficit grants.

As per the report of the 16th FC, the reason for elimination of Revenue Deficit grants is "A fundamental problem with recurrent revenue deficit grants across successive FCs typically exemplifies the problem of time inconsistency where fiscal policies that appear optimal ex ante by the FCs are not adhered to ex post by the States once expectations of central assistance are internalized. When States anticipate that shortfalls in their revenue account will be compensated through RDGs, the incentive to undertake difficult but necessary fiscal reforms such as rationalizing subsidies, improving tax administration, or curbing revenue expenditures weakens. Over time, this softens fiscal discipline and embeds dependency rather than resilience". No sector-specific or State-specific grants has also been recommended by the 16th FC.

2.5.3.2 Local Body Grants

A total of ₹7,91,493 cr nationally over five years for local body grants has been recommended which includes ₹56,100 cr for Special Infrastructure Component and ₹10,000 cr for Urbanisation Premium. The methodology adopted by the 16th FC for inter-State distribution, for RLBs is based on a 90:10 ratio of projected rural population (2026) and area, respectively, and for ULBs based on 90:10 ratio of projected urban population (2026) and the OSR of ULBs, respectively. Details of Local body grants for Sikkim amounts to ₹421 cr over a five-year period is at Table 2.10.

Table 2.10: Devolution of Grants under Local Bodies by 16th FC (₹ in cr)

Category	Basic Grants	Local Bodies Performance Grants	State Performance Grants	Total
Rural Local Bodies	174.00	22.00	22.00	**218.00**
Urban Local Bodies	162.00	20.50	20.50	**203.00**
Total	**336.00**	**42.50**	**42.50**	**421.00**

Source: Report of 16th Finance Commission

Within each State, the distribution of grants to duly constituted RLBs of two tiers, is 90 percent to Gram Panchayat and 10 percent to Zilla Panchayat. There are however conditions for availing the grants as under:

Entry Level Conditions for Basic Grant: First, there should be a duly constituted body in place as required in Part IX and Part IX-A of the Constitution. Second, there must be publicly available online in the fiscal year T, provisional accounts of all RLBs and ULBs of the State for the fiscal year T-1 and audited accounts for the fiscal year T-2. The audited accounts of ULBs should, at least, include the Balance sheet, Income and Expenditure statement, Cash Flow statement with the necessary schedules. Third is the formation of the State Finance Commission on the expiry of five years from the formation of the previous SFC.

Local Body Performance Grant: For RLB and ZP, to receive performance component in fiscal year T, the Gram Panchayats and ZPs raise, in year T-1, minimum 1.025 times its OSR in year T-2 or 2.5 per cent per annum compounded growth applied over OSR of 2025-26, whichever is lower, subject to a minimum amount of ₹1200 per household per annum. For ULB, to receive performance component in year T, the ULB in year T-1, raise minimum 1.05 times its OSR in year T-2 or 5 per cent per annum compounded growth applied over OSR of 2025-26, whichever is lower.

State Performance Grant: To receive grants in year T, the State transfer from its own resources, in the year T-1, grants to local bodies amounting to 20 per cent or more of the basic FC grant recommended by us for the year T-1, starting from the second year. Revenues assigned and shared statutorily with the local bodies by the State would be included in these transfers for ascertaining the quantum of the transfers for the purposes of this condition.

In addition, 50 per cent of the basic component is tied and leaving the remaining 50 per cent of the basic component and the entire performance component untied. The tied component should be directed towards 'Sanitation and Solid Waste Management' and/or 'Water Management'. Within the tied component, full flexibility should be available to local bodies to address their needs, including O&M expenditures for the above tied items. We also recommend that no local body should be allowed to spend more than 20 per cent of the untied allocation on the construction and maintenance of roads. Moreover, the untied grants should not be used for the payment of salaries or other establishment-related expenditure.

The Commission recommends ₹10,000 cr for incentivizing rural to urban transitions, with a fixed per capita one-time eligibility amount of ₹2,000 per person (based on Census 2011 population with existing population not less than One lakh and formulation of an appropriate Rural to Urban transition policy. An outlay of ₹56,100 cr for selected ULBs to facilitate decisive intervention in comprehensive wastewater management in urban growth centres. Among the list of cities highlighted in Annexure 10.11 of the Report, no city in Sikkim is included in the list.

2.5.3.3 Disaster Management

A total corpus of ₹2,04,401 cr has been recommended for SDRF and SDMF together, for the award period from 2026-27 to 2030-31 and divided between the SDRF and SDMF in the ratio of 80:20 with SDRF allocation being ₹1,63,521 cr and that of SDMF being ₹40,880 cr respectively. The total allocation of ₹79,406 cr is recommended based upon past expenditures for disaster management at the national level (for NDRF and NDMF).

The allocation under Disaster Management is based on 30 per cent of the allocation on the Disaster Risk Index (DRI) (Hazard, Exposure and Vulnerability) and 70 per cent on the average expenditure of the State over the period 2011-12 to 2023-24, excluding the two COVID-19 years, 2020-22. The base year allocation was inflated by 5 per cent each year. The total allocation for Sikkim for 2026-27 to 2030-31 is at Table 2.11.

Table 2.11: Disaster Management funds from the 16th FC (₹ in cr)

Disaster funds	Central share	State share	Total
State Disaster Response Fund (SDRF)	363.60	40.40	404.00
State Disaster Management Fund (SDMF)	90.90	10.10	101.00
Total	**454.50**	**50.50**	**505.00**

Source: Report of 16th Finance Commission
States in the NEH region and Sikkim to contribute 10 per cent for Disaster Funds.

The Commission has recommended that the accumulating balance under SDRF should be limited to the extent that if the unspent balance under SDRF exceeds the sum of past three years annual allocation of SDRF, further releases may be temporarily withheld. The funds withheld will be released if the States' balances reduce below the threshold of past three years annual allocation.

The Commission has also recommended that the complete feeding and validation of data in National Disaster Management Information System (NDMIS) portal (for a Financial Year by the May 31 of the succeeding year) will be a necessary condition for States to avail the Disaster Management Grant from the second year of the award period, that is 2027-28.

The detailed grants recommended for the State of Sikkim financial year wise and component wise is presented in Annexure 2 at PUC.

2.5.4 Comparison of Grants under 15th FC vs 16th FC

The details of comparison of grants allocated under the 15th FC with that of the 16th FC is at Table 2.12.

Table 2.12: Comparison of Finance Commission Grants (₹ in cr)

S. No.	Grant	15th FC	16th FC
1	Revenue Deficit Grants	1267.00	-
2	RLB	165.00	218.00
3	ULB	84.00	203.00
4	Health Grants	111.00	-
5	Disaster Management	279.00	455.00
	Total	**1906.00**	**876.00**

2.5.5 Fiscal Road map

As per Para 12.11 of the report, the Commission has set a hard ceiling for the annual fiscal deficit of State Governments during the award period (2026–2031). The fiscal deficit for each State should be capped at 3.0 percent of its respective GSDP and the limit is to be strictly enforced by the Union Government under the provisions of Article 293(3) of the Constitution. The Borrowings and expenditure met through the Special Assistance to States for Capital Investment (SASCI), which are 50-year interest-free loans from the Centre are considered over and above this regular 3 per cent deficit limit.

The Commission has also recommended that the States should completely discontinue the practice of incurring off-budget borrowings by bringing all such borrowings on their budgets. It has suggested a format for reporting off-budget borrowings of States and recommended that lending institutions should provide an alternative source of data to strengthen the reporting framework for off-budget borrowing. The Commission has recommended that Fiscal Responsibility Legislation (FRL) framework of the States be amended to bring uniformity and remove inconsistencies and align them with the fiscal consolidation roadmap of the Commission.

The Union Government, as per the Explanatory Memorandum as to the Action Taken on the recommendations of the Commission, has accepted in-principle the recommendation of the quantum (expressed as a per cent of GSDP) of net borrowing ceilings for the States. However, other recommendations of the Commission including those related to Off-Budget Borrowings, amendment to State FRLs, Union Government Fiscal Deficit will be examined separately by them.

For Sikkim, a FRBM legislation based on the recommendations of the 15th FC has already been drawn to restrict the Fiscal Deficit to 4.0 percent in 2021-22, to 3.5 percent in 2022-23, and to 3.0 percent in 2023-24 and thereafter. As such, no new legislation would be required currently with respect the fiscal limits based on the recommendations of the 16th Finance Commission.

In addition to the above, the Commission has made other recommendations including those on rationalizing the structure of Centrally Sponsored Schemes (Para 6.41 of the Volume I of the Report), Reforms in the Power Sector (Chapter 13 of Volume I), Containing and Making Subsidies Efficient (Chapter 14 of Volume I), and Public Sector Enterprise Reforms (Chapter 15 of Volume I). The Union Government as per the Explanatory Memorandum on the Action Taken Report will examine these recommendations of the Commission in due course and may not need to be acted upon at the moment.

2.6 Review of Tax Policies of the State

To sustain long-term economic recovery and expand sustainable livelihood opportunities, it is required to proactively optimize the internal resource mobilization framework. While central fiscal transfers comprising the State's devolved share of central taxes and grants-in-aid are projected to remain buoyant due to national economic growth, however, relying exclusively on external allocations exposes the State to wider macroeconomic shifts. Developing a resilient, autonomous fiscal baseline requires a sharp policy focus on enhancing the State's own tax and non-tax revenue pipelines.

Currently, the State's internal tax structure remains heavily consumption centric, with a narrow group of sectors driving the vast majority of collections. Four core taxes namely the State Goods and Services Tax (SGST), Sales Tax, State Excise duties, and Motor Vehicle taxes account for 92.8% of the total internal tax receipts as detailed in Table 2.13. Reflecting these dynamics, the State's absolute Own Tax Revenue has expanded remarkably, rising from ₹970.40 crore in 2019-20 to a budgeted ₹2,274.71 crore in 2026-27, as shown in Table 2.13.

Table 2.13: Tax Revenue from Major sectors (₹in Crore)

Sector	2023-24	Percent Share	2024-25	Percent Share	2025-26RE	Percent Share	2026-27BE	Percent Share
Sales Tax + SGST	1203.89	68.9	1116.79	61.5	1292.42	62.2	1455.12	64.0
Sales Tax	238.19	13.6	146.65	8.1	175.00	8.4	183.75	8.1
SGST	965.70	55.2	970.14	53.5	1117.42	53.8	1271.37	55.9
Excise	372.25	21.3	506.18	27.9	567.00	27.3	575.00	25.3
Motor Vehicle	51.62	3.0	76.27	4.2	86.00	4.1	81.00	3.6
Stamp Duty and Registration Fees	38.75	2.2	26.81	1.5	26.88	1.3	56.91	2.5
Others	81.67	4.7	88.83	4.9	103.93	5.0	106.68	4.7
Total	**1748.17**	**100.0**	**1814.87**	**100.0**	**2076.23**	**100.0**	**2274.71**	**100.0**

Source: State Budget documents

Within this mix, SGST and Sales Tax function as the primary pillars of internal revenue, budgeted to contribute 64% (or ₹1,455.12 crore) of the total Own Tax Receipts for the 2026-

27 fiscal year. The projected SGST receipts have been estimated keeping in view the recent changes in GST rates. There was a major reduction in GST rates with effect from 22nd September 2025 in course of rate rationalization initiated by the GST Council, but the same, however, did not have any adverse effect in the revenue collection and the target thus estimated for 2025-26 was achieved. Further, since the current GST regime is strictly destination-based, major pharmaceutical manufacturers frequently bypass local taxation by moving their finished goods to other consumer states through consignment transfers. Concurrently, despite adding massive volume to the Gross State Value Added (GSVA) and top-line GSDP figures, the hydropower sector remains structurally insulated from the State's tax system. Consequently, these structural characteristics create a sharp disconnect between Sikkim's aggregate economic indicators and its actual internal revenue liquidity.

The legacy Sales Tax collected from Petroleum products remain strategically concentrated on commodities outside the purview of GST. For 2026-27, the projections of ₹183.75 crore for this revenue stream have been fundamentally optimized by accounting for shifting global commodity pricing, a structural normalization of domestic demand, and the systematic elimination of tax anomalies existing between intra-state and inter-state transactions. For the fiscal 2024-25, the State recorded a sharp contraction in Sales Tax receipts, accompanied by a corresponding and substantial surge in State Excise duties. This pronounced fiscal variance is primarily a structural realignment rather than a shift in economic consumption. It is driven exclusively by a policy transition that reclassified the Sales Tax previously levied on alcohol for human consumption, integrating it as an additional duty subsumed directly under the State Excise framework.

Table 2.14: Own Tax Receipts of the State (₹in cr)

Item	2011-12	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26RE	2026-27BE
Own Tax Revenues	**293.92**	**970.40**	**966.70**	**1254.43**	**1497.26**	**1748.17**	**1814.87**	**2076.23**	**2274.71**
Sales Tax	124.20	197.63	195.25	227.18	248.77	238.19	146.65	175.00	183.75
SGST	0.00	454.89	463.04	655.55	804.23	965.70	970.14	1117.42	1271.37
State Excise Duties	96.26	207.15	210.27	249.21	298.46	372.25	506.18	567.00	575.00
Motor Vehicle Tax	16.56	41.08	28.96	39.09	49.69	51.62	76.27	86.00	81.00
Stamp Duty & Registration Fees	8.27	13.30	13.13	23.35	26.52	38.75	26.81	26.88	56.91
Other Taxes	48.63	56.36	56.05	60.05	69.58	81.67	88.83	103.93	106.68
Sales tax + SGST	**124.20**	**652.52**	**658.29**	**882.73**	**1053.01**	**1203.89**	**1116.79**	**1292.42**	**1455.12**

Source: State Budget documents

The revenue from State Excise is seen as one of the major sources of revenue generation for the State. It is the second largest internal resource generator, contributing 25.3% to the tax exchequer. The revenue realized from excisable goods and products has seen a quantum leap over the years. The revenue projected for 2026-27 is ₹575.00 crore, which is 121% up from ₹207.15 crore achieved in 2019-20. One reason for the drastic jump is also due to subsumption of Sales tax on alcohol under Excise framework. The revenue projections under State Excise have been kept conservative in view of the lower than targeted revenue realization during the previous financial year. The shortfall was primarily attributable to prolonged road disruptions affecting the movement of goods and strengthened surveillance measures along the West Bengal border, which impacted the volume of excisable commodities entering the State.

The Motor Vehicles taxes continue to contribute substantially to the State's revenue through efficient tax administration and improved compliance. During 2020–21 to 2025–26, the Division generated revenue exceeding ₹312 crore, while recording its highest-ever annual revenue collection of ₹76.27 crore during 2024–25. These achievements reflect sound financial management, strengthened enforcement and continuous improvement in service delivery. Motor Vehicle taxes account for 3.6% of total tax revenues and the current projection estimates at ₹81.00 crore. Revenue under Taxes on vehicles, however, is expected to witness moderation due to implementation of the five-year advance token tax rebate. Approximately ₹ 12 crore was realized during the previous financial year through advance payments, resulting in a corresponding reduction in revenue receipts during the current and subsequent years. It is estimated that this may lead to an annual decline of around ₹2 crore. In addition, the non-operational status of the AI-based Traffic Management System has affected the enforcement and collection of traffic-related penalties.

This upward trajectory has improved the State's overall revenue mix, with the relative share of own tax revenue in aggregate revenue receipts set to rise from 15.17% in 2018-19 to 18.38% in BE 2026-27. Despite these improvements, Sikkim operates with a structurally constrained tax base, largely owing to its sparse population and a unique macroeconomic paradox detailed in 2.15. The State's low tax-to-GSDP ratio stems from the fact that its two dominant industrial engines, pharmaceuticals and hydroelectricity, which do not yield commensurate returns to the state exchequer. The effective tax base available under current legislative proposals remains substantially lower than what the State's high GSDP and per capita income metrics would conventionally imply.

Table 2.15: Composition of Own Tax Receipts (As percent of GSDP)

Item	2011-12	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26RE	2026-27BE
Sales Tax	1.1	0.6	0.6	0.6	0.6	0.5	0.3	0.3	0.3
SGST	0.0	1.4	1.4	1.7	1.9	2.0	1.8	2.0	2.0
State Excise Duties	0.9	0.7	0.6	0.7	0.7	0.8	0.9	1.0	0.9
Motor Vehicle Tax	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1
Stamp Duty and Registration Fees	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.1
Other Taxes	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Sales tax + SGST	1.1	2.1	2.0	2.3	2.5	2.5	2.1	2.3	2.3

Source: State Budget documents

The measures adopted to prosper revenue growth under the Tax revenues is as under:

- With the Goods and Services Tax (GST) exclusively mandated by the national GST Council, the State possesses no independent leverage to alter tax rates. Consequently, internal revenue growth within this framework focuses entirely on optimizing compliance by systematically identifying and registering unmapped commercial entities to broaden the tax base, detecting anomalous input tax credit claims, and establishing robust tracking systems for non-filers. One of the policy initiatives taken recently is the mandatory registration of All Government suppliers under GST, such that the GST component incorporated in cost estimate does not lapse on account of the supplier/contractor being unregistered.
- The Enforcement Centre in operation since early 2025 at Bardang, Sikkim intercepts and detains inbound commercial consignments flagged for suspected or mismatched declarations. This along with tightening the administrative leakages and implementing targeted anti-evasion measures is expected to yield a 5 to 10 percent incremental lift in existing revenue collections.
- The State Goods and Services Tax (SGST) collections are projected to expand significantly over the upcoming fiscal period, driven by a sustained recovery and growth in the tourism sector. To systematically capture this revenue and eliminate structural leakages, the government has deployed a specialized online software application designed to track and analyze the arrival, movement, and accommodation data of every tourist entering the State.
- To capitalize on the effective collection of Sales tax, the tax administration has been reinforced with targeted technological upgrades designed to automate compliance tracking and streamline collection workflows. These administrative improvements ensure that price fluctuations and volume recoveries are efficiently translated into higher fiscal yields, maximizing the revenue buoyancy of these critical non-GST components without altering the underlying baseline tax rates.

- The Sikkim Excise Management System E-Abkari officially launched on the occasion of State Day is to start operations from 15th August 2026. It is a comprehensive digital platform developed by the Excise Department, Government of Sikkim, in collaboration with the National Informatics Centre (NIC), Sikkim, to digitize and streamline the operations of all manufacturing units under the Department. The Liquor Monitoring System for Distilleries and Breweries (LMSDB) is also to be operationalized with collections made on the basis of holograms issued, thus augmenting revenues under this sector.
- To promote local entrepreneurship and support the growth of the State's brewing industry, licenses have been granted to two microbreweries. This initiative is expected to not only create employment opportunities but at the same time increase revenue flow to the State government.
- The Motor Vehicle Taxation Amendment, 2024 introduced rationalized tax structures and incentives to promote sustainable mobility. Tax concessions for vehicle scrapping and complete tax exemption for electric, hybrid and flex-fuel vehicles demonstrate the Government's commitment towards green transportation.
- Another landmark achievement was the signing of the Reciprocal Transport Agreement, 2026 with the Government of West Bengal on 10 July 2026, doubling the interstate commercial vehicle permit quota from 3,000 to 6,000 vehicles. The agreement is expected to significantly benefit transport operators, improve interstate connectivity, promote tourism and trade, and generate greater employment opportunities.
- The Government of Sikkim modernized its fiscal administration by introducing a digital e-stamping system under The Sikkim Court Fees and Stamps on Documents (Amendment) Bill, 2024, executed in partnership with the Stock Holding Corporation of India Limited (SHCIL). This digital transition replaces traditional physical paper stamps with tamper-proof electronic certificates featuring Unique Identification Numbers (UINs) for instant online verification, simplifying transactions while completely eliminating the risks of counterfeiting and administrative shortages.

2.7 Review of Non-Tax Policies of the State

Sikkim faces significant geographical and climatic hurdles in generating internal resources. The State contends with poor connectivity, a fragile terrain highly susceptible to natural calamities, and a severely compressed working season. To navigate these constraints, the government has historically leaned heavily on sectors like eco-tourism and hydropower. Complementing this, the 2026-27 Budget has allocated substantial capital specifically to improve road connectivity to major tourist destinations. This creates a positive feedback loop with better accessibility promoting sustainable visitor growth, which in turn indirectly supports the State's broader revenue ambitions.

The State's non-tax revenue is anchored by five major departments namely Power, Police, Sikkim Nationalised Transport (SNT), Forest and the State Lotteries. According to the 2026-27 Budget (Table 2.16), the Power sector remains the dominant contributor, expected to generate 49.99% of total non-tax receipts. This is followed by SNT at 10.67%, Police at 8.45%, State Lotteries at 4.45%, and the Forest sector at 4.00%. However, beneath this milestone, growth remains sluggish. Due to a broader economic slowdown and specific localized disruptions, non-tax revenue in 2024-25 is projected to grow by a meagre 4.1% over that of 2023-24. This deceleration is primarily driven by a sharp decline in receipts from the Power sector, a direct consequence of the massive Teesta power project remaining defunct following the October 2023 Glacial Lake Outburst Flood (GLOF).

Table 2.16: Own Non-Tax Revenue from Major sectors (₹in Crore)

Sector	2023-24	Percent share	2024-25	Percent share	2025-26 RE	Percent share	2026-27 BE	Percent share
Power	427.20	48.86	435.43	47.85	518.80	51.52	562.00	49.99
Police	92.45	10.57	52.45	5.76	90.00	8.94	95.03	8.45
SNT	72.9	8.34	91.8	10.09	100.0	9.93	120.0	10.67
State lottery	35.2	4.02	49.8	5.47	59.4	5.90	50.0	4.45
Forest	31.41	3.59	35.41	3.89	32.00	3.18	45.00	4.00
Others	215.28	24.62	245.10	26.93	206.80	20.54	252.13	22.43
Total	**874.41**	**100.00**	**910.05**	**100.00**	**1007.04**	**100.00**	**1124.16**	**100.00**

Source: State Budget documents

Sikkim generates far more electricity than it consumes locally. The State trades this surplus power to other regions across India, which has opened up a massive front for revenue generation. Specifically, the State earns significant income from the sale of its share of "free power" provided by joint ventures and Independent Power Producers (IPPs). By focusing on advanced monitoring systems and sustainable engineering, it could position itself as a premier, reliable hub for clean energy in India, attracting further green investments.

Table 2.17: Own Non-Tax Receipts of the State (₹in cr)

Item	2011-12	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26 RE	2026-27 BE
Interest Receipts & Dividents	29.39	129.73	51.36	70.25	99.13	128.83	77.20	136.26
General Services	75.18	87.14	189.46	199.98	187.34	140.52	209.03	188.84
Social Services	8.28	27.90	26.32	27.75	34.17	40.10	41.33	36.53
Economic Services	131.18	417.53	413.49	678.13	553.77	600.60	679.68	762.74
Total	**244.04**	**662.29**	**680.63**	**976.11**	**874.41**	**910.05**	**1007.24**	**1124.36**

Source: State Budget documents

Furthermore, slower-than-expected revenue realization across the Forest, State Lottery, and transport sectors has compounded the shortfall. It is also important to note that receipts under the Police department largely comprise reimbursements for the Indian Reserve Battalion and other agencies, meaning they do not provide discretionary liquidity to the State exchequer. Ultimately, the broader Economic sector, which is the traditional engine of non-tax revenue, is registering only a 6.8% growth over the previous year's revised estimates (Table 2.17). Consequently, the relative share of own non-tax revenue as a percentage of aggregate State receipts is deteriorating. It has declined sharply from 12.05% in 2022-23 to 8.95% in the revised estimates of 2024-25, and is projected to fall further to 8.23% in the 2025-26 Budget. When measured against the Gross State Domestic Product (GSDP), this metric has similarly contracted from 2.29% to 1.65% over the same period (Table 2.18).

The relative share of the State's own non-tax revenue within its aggregate revenue receipts continues to show a downward trajectory in the Budget Estimates (BE) for 2025–26. This share has steadily declined from 10.47% in 2023-24 to 9.75% in the Revised Estimates (RE) for 2025-26, with a further projected drop to 9.08% in 2026-27. Similarly, non-tax revenue as a percentage of GSDP has contracted, falling from 1.82% to 1.76%, and is estimated to reach just 1.67% in the current budget cycle (Table 2.18). Key revenue drivers—including interest receipts from past investments, lottery income from online gaming and casinos, power sector yields, and transport revenues have failed to register a meaningful recovery. To reverse this structural decline and secure future fiscal stability, it is imperative that the State strategically channels investments into the Economic sector to stimulate broader economic growth and revitalize its revenue base.

Table 2.18: Composition of Own Non-Tax Receipts (As percent of GSDP)

Item	2011-12	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26 RE	2026-27 BE
Interest Receipts & Dividents	0.26	0.39	0.14	0.16	0.21	0.23	0.14	0.20
General Services	0.67	0.26	0.50	0.47	0.39	0.25	0.37	0.28
Social Services	0.07	0.08	0.07	0.06	0.07	0.07	0.07	0.05
Economic Services	1.17	1.26	1.10	1.58	1.15	1.05	1.19	1.13
Total	**2.19**	**2.01**	**1.81**	**2.28**	**1.82**	**1.60**	**1.76**	**1.67**

Source: State Budget documents

The measures adopted to prosper revenue growth under the Non-tax revenue is as under:

- Revenue collection under the Transport Department has improved following the identification and plugging of leakages in the collection of supervision charges and penalties on overload vehicles. The introduction of IT-enabled monitoring at check posts has strengthened enforcement and enhanced revenue realization. Further improvement is expected through coordination with the Commercial Taxes Division for the utilisation of e-Way Bill data to facilitate advance monitoring and compliance.

- The timely completion of smart metering across all consumer categories by October 2026 is expected to improve billing efficiency, reduce transmission and commercial losses, and strengthen revenue collection. In addition, the Department may explore opportunities for rationalizing tariffs applicable to industrial and commercial consumers to enhance revenue mobilisation while ensuring financial sustainability.
- A Sustainable Tourism Development Fee of ₹50 per tourist, aimed at eco-tourism management, environmental protection, waste management and maintenance of tourism infrastructure. The collection is streamlined through the Athithi online portal, ensuring transparency, accountability and real-time monitoring. This digital mechanism strengthens governance, enhances compliance among tourism stakeholders and enables systematic reinvestment of funds for sustainable tourism growth across the State.
- Tourist permit fees for Nathula, Tsomgo lake and other tourist destinations have been revised. In addition, lease rentals for tourism assets have been rationalized which is expected to augment revenue under this sector.
- The conversion of all forest check-posts into e-check posts has strengthened monitoring and improved transparency in revenue collection. The digital system has facilitated the detection and prevention of leakages arising from unauthorised transactions, thereby contributing to improved revenue realisation and greater operational efficiency.
- The implementation of automated Lottery Accounting and Draw Management Software automatically processes draw-wise sales and unsold ticket data, calculates prize liabilities, segregates taxable and non-taxable prizes, and determines the exact number of non-taxable prizes to be disbursed. With its execution it is expected to strengthen financial control, improve reconciliation of lottery transactions and enhance the efficiency and transparency of lottery operations, thereby supporting improved revenue realization under State Lotteries over the years.

2.8 Expenditure Profile

A key anchor of the State’s fiscal strategy has been the deliberate containment of revenue expenditure growth to expand fiscal space for growth-inducing capital investment. This disciplined management of recurrent expenditure has historically driven consistent revenue surpluses, enabling a structural expansion of the capital outlay. However, the margin between revenue receipts and revenue expenditures has begun to narrow, signaling a potential mid-term constraint on the State's capacity to absorb revenue-side shocks or excesses. As detailed in Table 2.19, revenue expenditure as a percentage of GSDP compressed from 19.7% in FY

2019–20 to 17.1% in FY 2023-24, before experiencing an upward trajectory projected to reach 18.6% by FY 2026-27. Despite these shifting margins, resource allocation remains firmly anchored around priority sectors within social and economic services, ensuring that human capital development and essential infrastructure remain protected. Through this targeted expenditure management, the State has successfully generated a continuous revenue surplus in every consecutive fiscal cycle since fiscal year 2021–22.

Driven by an accelerating economic growth trajectory, buoyant revenue receipts, and the availability of expanded borrowing windows beyond standard FRBM thresholds, the State has successfully scaled its allocations across both the revenue and capital expenditure fronts. However, a significant structural fiscal rigidity persists due to the heavy burden of committed liabilities namely salaries, pensions, and interest payments, which follow an inherent, year-on-year upward trajectory. These mandatory obligations currently consume a substantial 60% to 65% of the total revenue expenditure, which translates to approximately 40% to 45% of the State's aggregate expenditure.

Table 2.19: Expenditure Profile (As percent of GSDP)

Item	2011-12	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26RE	2026-27BE
Revenue Expenditure	**21.8**	**19.7**	**19.3**	**17.7**	**17.8**	**17.1**	**16.8**	**17.5**	**18.6**
General Services	**6.7**	**7.7**	**7.3**	**6.8**	**7.0**	**6.8**	**6.7**	**6.8**	**7.1**
Interest Payment	1.7	1.6	1.7	1.7	1.7	1.7	1.8	1.7	2.0
Pension	1.6	2.9	2.8	2.6	2.7	2.7	2.6	2.4	2.6
Other	3.5	3.2	2.9	2.5	2.6	2.4	2.3	2.6	2.4
Social Services	**9.2**	**7.2**	**7.4**	**6.6**	**6.6**	**6.0**	**5.8**	**5.8**	**6.0**
Education	4.2	4.1	3.7	3.3	3.1	2.8	2.7	2.7	2.5
Medical and Public Health	1.1	1.2	1.4	1.5	1.4	1.3	1.2	1.3	1.2
Others	3.9	1.8	2.3	1.8	2.1	1.9	1.9	1.7	2.3
Economic Services	**5.5**	**4.5**	**4.3**	**4.1**	**4.1**	**4.1**	**4.0**	**4.7**	**5.4**
Assignment to LBs	0.3	0.3	0.3	0.3	0.2	0.2	0.3	0.2	0.2
Capital Expenditure	**6.0**	**2.3**	**4.6**	**3.5**	**5.6**	**5.5**	**6.5**	**6.5**	**9.4**
Total Expenditure	**27.7**	**22.0**	**23.9**	**21.2**	**23.4**	**22.7**	**23.3**	**24.0**	**28.0**

Source: State Budget documents

Given the constrained availability of diverse, private-sector economic drivers within the State, the Government has strategically utilized public administration employment, most notably through the "One Family One Job" initiative, as a primary vehicle for livelihood generation. The consequent rise in the salary and pension bill is therefore a calculated policy choice designed to guarantee gainful employment and ensure socio-economic stability. Considering the State's sensitive geopolitical positioning along three international borders, maintaining internal peace and economic security is of paramount strategic importance. Mitigating unemployment is critical, as a large demographic of out-of-work individuals, particularly in the wake of pandemic-induced economic scarring and recent natural disasters could otherwise catalyze severe social unrest and regional instability.

Concurrently, the State Government places a high premium on capital investment to overcome the infrastructural bottlenecks inherent to its challenging hilly topography. Capital expenditure as a proportion of GSDP has demonstrated a strong upward trajectory, expanding from 2.3% in FY 2019–20, to 5.6% in FY 2022–23, and is budgeted to reach an aggressive 9.4% of GSDP by FY 2026-27. This structural expansion in asset creation has been fundamentally supported by the continuation of additional borrowing facilities extended by the Union Government. Most notably, in the budget estimates for FY 2026-27, the State projects the absorption of ₹3,311.8 crore under the Special Assistance for Capital Investment scheme, which alone constitutes approximately 5.3% of GSDP.

By effectively leveraging these specialized funds alongside other central programs, the State continues to reinforce its capital spending footprint. The core developmental strategy remains firmly anchored in building resilient social and physical infrastructure while continuously improving human development indicators. Consequently, the Medium-Term Fiscal Plan (MTFP) is explicitly formulated on the rationale of restructuring aggregate government spending to prioritize these critical, growth-inducing areas.

2.9 Scheme for Special Assistance to States for Capital Investment (SASCI)

The Scheme for Special Assistance to States for Capital Expenditure (SASCI) was launched in 2020–21 following the COVID 19 pandemic economic slump. The scheme aimed to stimulate economic recovery by providing a 50-year period interest-free assistance to States specifically for capital investment. The capital expenditure under this Scheme is designed to boost productive capacity, create jobs and drive economic sustainable growth. It is stated to have a high multiplier effect on the economy, and estimated to generate ₹3 in Gross Domestic Product (GDP) and for every ₹1 spent. The interest free lean is permitted over and above the limits allowed under the FRBM legislations.

The fund allocation under the Scheme is divided into "untied" funds, which States can use for capital projects at their discretion and "incentive-related" or tied funds, which are released only if States achieve specific federally mandated reforms. From 2020-21 to the projected 2026-27 fiscal year, the State's cumulative SASCI untied allocation aggregates to ₹8,296.81 cr equivalent to an impressive 13.18 percent of its Gross State Domestic Product (GSDP). The disbursement trajectory highlights an accelerating deployment of this facility starting at

₹200.00 cr in 2020-21, ₹300.00 cr in 2021-22, ₹551.36 cr in 2022-23, ₹797.85 cr in 2023-24, surged to ₹1,742.14 cr in 2024-25, and ₹1393.69 cr in 2025-26. The SASCI scheme is estimated to inject an additional ₹3,311.77 cr in the 2026-27 fiscal cycle.

Under the incentive related funds, Sikkim successfully managed to unlock funds amounting to ₹1238.07 cr in 2024-26 by executing a series of rigorous, federally mandated structural reforms. which is equal to 24.8 percent of the total releases made under SASCI so far. This is quite a big achievement for the concerning Departments and the State Government. These reforms have not only strengthened governance and improved service delivery but has also enabled the State to access additional fiscal support for capital expenditure from these incentives. The Reforms carried out and Incentives received so far have been highlighted hereunder:

2024-25	**₹ in cr**
Part-XI - Incentives for Implementation of SNA SPARSH Model for Just-in-Time Release of funds under Centrally Sponsored Schemes	250.00
Part-XII - Incentives for Achieving Target Fixed for Capital Expenditure	120.07
Part-XIII - Urban Planning Reforms	85.50
Total	**455.57**
2025-26	**₹ in cr**
Part-V - Mining Sector Reforms	100.00
Part-VIIB - Incentives for Creating the State Farmer's Registry	60.00
Part-VIII - Incentives for Land Related Reforms by State Governments in Urban Areas	10.00
Part-VIA - Scrapping of Old Vehicles	10.00
Part-VIB - Incentives for Implementation of Electronic Enforcement of Road Safety	35.00
Part-IX - Incentives to States for Efficiency in Financial Management	350.00
Part-XA - Urban Land and Planning Reforms	177.50
Part-XB - Ease of Doing Business Reform	40.00
Total	**782.50**

This specialized central assistance has directly financed the State's construction boom and mitigated its heavy capital depreciation burden. The government has effectively channelled these funds into high-impact civil and social infrastructure, fundamentally transforming local capabilities. Key developmental milestones include Construction of 300 Bedded District Hospital at Namchi; Construction of Mini Secretariat, Construction of Khanchenzonga State University at Tarku; System Augmentation, Renovation, Modernisation of Power Transmission & Distribution Network; Permanent Restoration of Electricity Infrastructure Affected by Flash Floods and Landslides; Development of Eco Tourism Complex at Dodak; Construction of Government Medical College; Establishment of Netaji Subash Chandra Bose Centre of Excellence; Construction of 1000 Bedded Multi Speciality Hospital at Sochyagang Phase-I including other Allied Works; Swarna Jayanti Maitreyi Manjari at Ridge Park; Construction of

District Administrative Centre at Pakyong and Soreng; and Construction of Unity Mall to name a few.

For the fiscal year 2026-27, the Ministry of Finance, Government of India has issued extensive guidelines for the SASCI Scheme, which outline structural requirements, financial allocations, and reform-linked incentives for Indian States and Union Territories. An amount of ₹2,00,000 cr has been allocated for this purpose in 2026-27.

The structural breakdown of the SASCI 2026-27 initiative is designed to strike a deliberate balance between providing stable, predictable capital for baseline infrastructure and offering performance-tied financial incentives to drive structural reforms across various State-level sectors. Below is an elaboration of each of the twelve components that comprise the framework of the scheme.

2.9.1 Part-I: Untied Funds

An amount of ₹75,000 cr has been earmarked under this foundational component to provide flexible capital support to States and Union Territories. The bulk of this pool, amounting to ₹67,000 cr, is distributed directly among the States in proportion to their formulaic share in central taxes and duties as per the explicit award of the 16th Finance Commission. To ensure equity across governance models, ₹3,000 cr is specifically reserved for Union Territories with Legislatures.

The remaining ₹5,000 cr within this block is structurally fenced off to satisfy balance funding obligations for approved high-priority community projects initiated in prior cycles, explicitly covering the Construction of Unity Malls, Police Housing Infrastructure, Children and Adolescent Libraries, Digital Infrastructure Setups, Iconic Global-Scale Tourist Centers, and Working Women's Hostels.

2.9.2 Part-II: State/UT Share of CSS and Central Projects

With an allocation of ₹10,000 cr, this segment is systematically engineered to address co-financing friction between central mandates and regional execution capacities. These funds are apportioned among States and Union Territories in direct proportion to their Part-I baseline allocations and are strictly dedicated to fulfilling the required State-level financial matching shares for core infrastructure-oriented Centrally Sponsored Schemes (CSS) such as AMRUT, PMGSY, and the Jal Jeevan Mission. Funds under this Part will be released in two instalments; first installment of 66 percent upon submission of details of the schemes and projects, and second installment of 34 percent upon utilization of at least 75 percent of the funds released in the first installment.

2.9.3 Part-III: Incentives for Achieving Targets for Capital Expenditure

This performance-based component commands an outlay of ₹25,000 cr and is strategically split into two distinct incentive tranches designed to reward States that aggressively expand their own-source capital investments. The first 50 percent of this earmarked fund is distributed to States and Union Territories that successfully register a capital expenditure growth rate exceeding 10 percent during the full fiscal year of 2025-26 compared to 2024-25. The remaining 50 percent rewarding entities that maintain a growth rate above 10 percent during the first six months of 2026-27 over the corresponding period of the prior fiscal year.

To maintain strict analytical transparency, the funds received and spent under SASCI is factored out and only the direct expenditure driven from the State's own independent resources are considered, with data cross-verified directly against the Comptroller and Auditor General's (CAG) official accounts. Approved incentive amounts here can be utilized across infrastructure projects in any sector.

2.9.4 Part-IV: Strengthening Public Finance IT Infrastructure in States

Backed by an outlay of ₹4,000 cr, this component seeks to drive deep structural modernization within State treasuries by incentivizing end-to-end financial digitization to enhance institutional transparency and auditability.

The incentive framework is divided into four distinct operational blocks, each carrying a potential ₹50 cr reward per State upon meeting verified deployment criteria. These blocks cover the implementation of core Integrated Financial Management System (IFMIS) modules such as electronic sanctions, digital budgeting, e-payments via RBI's e-Kuber, e-receipts, digital vouchers, and integrated HRMS with 100 percent Aadhaar-based DBT alongside specialized Works Management Systems and e-procurement platforms.

Incentives are unlocked upon successful system integration and hitting 100 percent digitization coverage across treasuries, divisions, and drawing officers, subject to rigorous review by the Office of the CAG. Released funds can be redirected into capital projects in any sector.

2.9.5 Part-V: Mining Sector Reforms

This segment controls a ₹5,000 cr pool designed to expedite mine operationalization, boost mineral productivity, and optimize State revenue compliance frameworks. Administered on a strict first-come-first-served basis, the component rewards specific operational milestones verified by the Ministry of Mines.

Under Component-I, against a pool of ₹2,000 cr, a flat incentive of ₹100 cr per State is available for rolling out foundational administrative updates, such as Constitution of a Pre-Auction Committee, establishing chief-secretary-led monitoring panels, syncing with central mining portals, Adoption of technology-based measures and publishing rigid annual major mineral auction calendars.

Under Component-II, against a pool of ₹2,500 cr, offers milestone rewards of ₹20 cr per major block successfully auctioned subject to ₹200 cr per State with pre-embedded environmental and forest clearances, alongside a massive ₹250 cr bonus for States that operationalize at least 10 percent of their legacy blocks within strict timelines.

Finally, Component-III distributes ₹675 cr across the top three ranking States within predetermined regional clusters based on their evaluated performance in the State Mining Readiness Index. Earned rewards are flexible for deployment across any capital sector.

2.9.6 Part-VI: Implementation under the Telecommunications Act, 2023

With an earmarked fund of ₹4,000 cr, this component incentivizes States to aggressively dismantle bureaucratic bottlenecks delaying the expansion of nationwide digital and telecom connectivity infrastructure. States are grouped into four categorical tiers (A through D) with customized maximum funding ceilings ranging from ₹250 cr down to ₹25 cr.

Financial payouts are strictly linked to a percentage matrix of completed reforms: 30 percent is tied to formal policy adoption of the Telecommunications Act 2023 and the 2024 RoW rules across all State entities; 15 percent is unlocked by building an integrated online State RoW portal synced with the central 'Telecom eServices Portal'; 15 percent for clearing backlog applications and 5 percent on Reducing average disposal time of RoW applications.

Furthermore, the guidelines reserve 25 percent of the incentive for signing State alignment addendums for the Amended BharatNet Program, requiring zero-cost permissions, 7-day online deemed approval loops, and balance 10 percent on Compliance of the directions of Ministry of Power treating local panchayat telecom power links as government-rate connections and DISCOMs to implement Common Application Form.

2.9.7 Part-VII: Digital Public Infrastructure for Agriculture - AgriStack

Commanding a substantial sub-allocation of ₹13,000 cr, this part provides targeted financial assistance to accelerate the deployment of farmer-centric Digital Public Infrastructure (DPI). The overarching pool is structurally sliced into four target vectors:

Component A allocates ₹10,000 cr directly toward scale-linked milestones for AgriStack-enabled fertilizer distribution, MSP-linked procurement, production estimation, and PMFBY crop validation.

Component B sets aside ₹1,000 cr exclusively for North-Eastern (except Assam) and other small States, of which 70 percent is allocated for generation of Farmer IDs Farmer ID generation and 30 percent on conduct of the Digital Crop Survey (DCS)

Components C and D dedicate ₹1,000 cr each to finance progressive, per-village milestone payments to compile validated, geo-referenced village map registries and map satellite plot segments back to specific owner land parcels across an initial 3 lakh villages.

2.9.8 Part-VIII: Livestock Sector Reforms

This segment manages a total outlay of ₹3,000 cr to catalyze quality infrastructure across the livestock, dairy, and veterinary ecosystems. States are grouped into funding pools (A, B, C, and D) with baseline caps ranging between ₹100 cr and ₹300 cr.

To qualify for any payout, a State must first satisfy a non-negotiable hurdle of meeting at least five out of six baseline governance parameters, including appointing National Digital Livestock Mission (NDLM) officers, Constitution of NDLM Committees, Creation of ISS Post, Mapping all veterinary facilities onto the Bharat Pashudhan portal, and notifying active fodder resource plans.

Once qualified, States are scored against a highly specific 170-point performance matrix that evaluates variables like Updation on Bharat Pashudhan portal, Adoption of GMSVI Guidelines, FMD vaccination coverage, Fodder Development, Artificial Insemination targets, Milk procurement growth, and stray animal population management.

2.9.9 Part-IX: Incentives to States for Efficiency in Financial Management

This financial efficiency drive operates with a budget of ₹5,000 cr and is specifically targeted at eliminating fiscal floats and structural lag by enforcing the systemic onboarding of the central **SNA SPARSH** platform. Individual States can claim up to ₹450 cr provided they fulfil intensive transparency requirements.

To qualify, a State must demonstrate that every single implemented CSS has logged at least one live transaction through the SPARSH network, mandate Aadhaar-based DBT across all linked schemes, and establish a functional Cyber Treasury with automated, Elimination of Treasury Float and scheme-wise billing engines inside their IFMIS.

Furthermore, States must completely drain central unspent cash residues from legacy SNA bank accounts and sweep accrued interest back into the Consolidated Fund of India. Any State where average voucher forwarding times between local offices and PFMS exceed 7 days is automatically disqualified from receiving funds, which are otherwise usable for any open capital project.

2.9.10 Part-X: Pride of Hills: SDA for the Hill States under SASCI

This geographically isolated allocation commands a massive block of ₹25,000 cr and is deliberately carved out to insulate Hill States from severe structural constraints, including low own-tax revenue bases, high baseline terrain construction costs, low population densities, and heavily strained debt profiles.

Rather than operating on a performance-reform template, these funds are directly allocated as fixed, non-dilutable developmental baselines across nine specific States namely Arunachal Pradesh, Himachal Pradesh, Nagaland, Uttarakhand, Tripura, Manipur, Meghalaya, Sikkim, and Mizoram.

Deviating sharply from standard SASCI restrictions, these specific capital resources can be legally deployed to service principal loan repayments owed to central agencies or Externally Aided Projects (EAPs) without eating into the State's regular Gross Borrowing Ceiling. Furthermore, they can be utilized to absorb local cost-share matches for central highway or rail lines, bankroll EAP counterpart funding, or cover critical revenue outlays once all structural project demands are met.

2.9.11 Part-XI: Fiscal Discipline and Fiscal Consolidation

Equipped with a ₹3,000 cr pool available on a first-come-first-served basis, this component incentivizes sound debt-management practices, market borrowing alignment, and radical transparency in liability tracking. States are grouped into four board categories determining their maximum incentive caps ranging from ₹100 cr to ₹250 cr.

To secure an incentive proportionate to their score, States must clear a strict 60 percent evaluation threshold on a 100-mark grid with amount of incentive proportionate to the marks scored. The metric allocates 50 marks for routing borrowings through predefined benchmark maturity buckets, buy back or switching operations, and preparation of Medium-Term Debt Strategy; 30 marks for Adherence to Indicative borrowing calendar and Reduction of Q4 borrowing concentration; and 20 marks for Monthly disclosure of key indicators on CAG website namely debt liabilities, borrowing raised, disclosure of Guarantees, Off-Budget Borrowing raised and Sector-wise subsidy payment.

2.9.12 Part-XII: Compressed Bio Gas (CBG) Sector Reforms

The final component holds a ₹3,000 cr allocation intended to jumpstart the commercial Compressed Bio Gas ecosystem across the country on a first-come-first-served basis. Component I utilizes ₹1,300 cr to incentivize States to align with central CBG policy frameworks, assigning regional ceilings up to ₹100 cr for implementing mandatory district-level committees, automated Single Window approval portals featuring auto-escalations for delays, and rigorous district biomass catchment area planning. Component II sets aside ₹500 cr to seed competitive rewards for the top three ranked States within their respective regional groupings based on the annual State CBG Readiness Index. Component III sets aside ₹1,200 cr to drive co-financing models, matching up to 30 percent of the Net Present Value (NPV) of fiscal support a State extends to local CBG plant operators, capped at ₹0.75 cr per Ton Per Day (TPD) of production capacity.

2.10 Government Borrowing and Outstanding Liabilities

The Borrowing limit for the State Government is determined by the Department of Expenditure, Ministry of Finance, GoI for each financial year based on the projected GSDP and taking into consideration the recommendations of the Central Finance Commission. Under the fiscal roadmap recommended by the 16th FC for the 2026–2031 award period, the Net Borrowing Ceiling (NBC) is strictly anchored at 3 percent of the GSDP. Crucially, the 16th FC has removed the flexibility provided by the 15th FC that previously allowed an additional 0.5 percent borrowing ceiling linked to power sector performance criteria. For determining the Net Borrowing Ceiling (NBC) of the States for the year 2026-27, NBC @ 3 percent of projected GSDP of ₹62,973.00 cr is ₹1,886.72 cr.

Therefore, normal borrowing is firmly capped at 3 percent of GSDP. However, additional borrowing over and above this limit is still permitted on account of the concessional 50-year interest-free loan under the SASCI Scheme. For the amount of ₹3,311.77 cr estimated for the current fiscal works out to 5.26 percent of GSDP.

Additional borrowing is allowed on account of Pension Funding Adjustment equivalent to the employer's and employees' share of contributions actually deposited with the National Pension System (NPS), subject to central guidelines. The additional borrowing of ₹52.52 cr, which is 0.08 percent of GSDP is estimated for 2026-27.

Furthermore, rather than merely adjusting for off-budget borrowings, the 16th FC mandates the strict discontinuation of all off-budget borrowings, requiring any such liabilities to be brought explicitly onto the State budgets.

Overall, the total borrowings allowed over and above the normal net borrowing ceiling of 3 percent of the GSDP for the year 2026-27 is ₹5,251.01 cr which amounts to 8.34 percent of GSDP. The other features of borrowing of the State government includes adjustment due to off budget borrowing since 2022-23.

One of the major objectives of the FRBM Act is to maintain the debt burden of the State at a sustainable level. While the 15th FC utilized a 25 percent debt-GSDP benchmark as a specific condition in its fiscal roadmap, the 16th FC shifts the focus to a combined national debt consolidation path, projecting total Centre-State debt to decline to 73.1 percent of GDP by 2030-31. For all effective purposes, State-level debt sustainability under the 16th FC is enforced by strict adherence to the 3 percent fiscal deficit limit, alongside the discontinuation of carrying forward any unutilized borrowing capacity from previous years. The State government must manage its finances to remain within this tightened compliance framework during the 16th FC award period.

The Table 2.20 shows the Status of achievement of Debt status based on the structured indicative path. The State of Sikkim was successful to remain within the limit stipulated by the 15th FC in their fiscal roadmap containing the yearly outstanding debt burden for all the States aligning with the fiscal path.

Table 2.20: Indicative Debt path vs Actuals (As percent of GSDP)

Year	Indicative Debt to GSDP as per 15th FC and 16th FC	Debt to GSDP (Actual & Estimate)
2021-22	27.5	28.9
2022-23	28.1	29.8
2023-24	28.1	31.1
2024-25	28.0	35.4
2025-26 RE	27.9	38.9
2026-27 BE	NS	43.6

Source: Report of the 15th FC and State budget documents NS: Not specified

Since the fiscal year 2021-22, the State Government has been resorting to additional borrowings over and above the limits prescribed by the 15th FC. The additional borrowing as stated earlier have been mainly on account of 50-year Interest free loan for Capital Investment, Power Sector Reforms and Pension Funding adjustment. The total of these in monetary terms for the 15th FC period amounts to ₹6642.33 cr. In the event that these were not included, the Debt GSDP limits would have been within or slightly higher than that prescribed by the 15th FC indicative debt levels.

In need to protect the State against any risk on meeting its Debt Obligations, a Sinking Fund has been created, where money is set aside over time to meet a future expense or repay the debt. Total fund available under the Sinking Fund is ₹717.00 cr as on 31st March 2025. This is 4.38 percent of the Outstanding Debt of ₹16,370.79 cr, which is a decrease from 4.93 percent last fiscal. An amount of ₹15.00 cr was being added to the fund every year, and from the fiscal year 2024-25 the yearly contribution to the Sinking Fund has been increased to ₹20.00 cr.

The Working Group on Consolidated Sinking Fund (CSF) and Guarantee Redemption Fund (GRF) constituted by the Reserve Bank of India has recommended that the Sinking Fund and

Guarantee Redemption Fund is enhanced to 5 percent of their Outstanding Liabilities. It is required to make provisions under the Sinking Fund such that the stipulated target is achieved.

2.11 Government Guarantees

2.11.1 The Fiscal Framework and Regulatory Controls on State Guarantees

The State Government Guarantees function as contingent liabilities on the Consolidated Fund of the State, activated in the event of a default by the borrowing entity. These explicit sovereign guarantees enable Statutory Corporations, Government Companies, Joint-Stock Companies, Co-operative Institutions, Local Bodies, etc to raise capital to discharge their liabilities.

However, the fiscal risk associated with off-budget borrowings backed by sovereign guarantees gained national prominence following the 15th Finance Commission report, which raised serious concerns over excessive off-budget liabilities incurred by several States. In response, the Union Government mandated that from the 2021-22 fiscal year onward, guarantees extended by State governments for borrowings by State-level entities must be factored directly into the State's overall borrowing ceiling. In Sikkim, the processing and capping of these instruments are governed constitutionally and reported transparently in the budget under the statutory oversight of the Sikkim Ceiling on Government Guarantees Act, 2000, as aligned with the State's Fiscal Responsibility and Budget Management (FRBM) Act.

2.11.2 Ceiling Metrics, Disinvestment Impact, & Guarantee Redemption Fund

Under the current statutory rules, Sikkim's total outstanding government guarantees as of April 1st of any year must not exceed three times the State’s tax revenue receipts from the second preceding fiscal year, as recorded by the Accountant General of Sikkim. To optimize this ceiling, the State government currently includes both its own tax revenues and its devolved Share of Central Taxes.

The State's total outstanding guarantees as on March 31, 2024 was ₹4,321.02 cr. Against this, an amount of ₹46.00 under Roads sector, ₹56.56 cr under Housing sector, ₹54.06 cr under Health sector and ₹2,925.14 cr under Power sector totalling ₹3081.76 cr had been revoked during the year. With additions of ₹0.67 cr under the SC/ST Sector, the Outstanding Guarantee as on March 31, 2025 stands at ₹1239.93 cr. The amount deleted under the Power sector amounting to ₹2,925.14 cr is particularly on account of strategic disinvestment of Sikkim Urja Ltd. formerly Teesta Urja Ltd. With this reduced liability, the State remains well within its statutory ceiling even if the Share of Central Taxes is entirely excluded from the calculation.

2.11.3 Fund Capitalization and Future Policy Reforms

To safeguard the state against potential defaults, the Government of Sikkim established a dedicated Guarantee Redemption Fund (GRF) in 2005 to meet payment obligations arising from borrowings by State Undertakings and other public bodies. As of March 31, 2024, the fund holds a total balance of ₹94.12 cr, representing 7.59 percent of the outstanding ₹1239.93 cr guarantee baseline. To strengthen this fiscal buffer, the State has historically infused ₹3.00 cr into the fund annually, which was elevated to ₹5.00 cr per year starting in the 2024-25 fiscal cycle. The GRF's relative coverage ratio of 7.59 percent of the outstanding guarantees, positions comfortably within the target range specified by the Reserve Bank of India's (RBI) Working Group.

Nevertheless, because the Sikkim Ceiling on Government Guarantees Act, 2000 has remained untouched for over two decades, there is an urgent need to reframe the state's policy framework. Future legislative updates must incorporate modern risk management principles, including clear hazard classifications based on risk severity, stringent public-purpose justifications, risk-indexed guarantee fees, and the establishment of dedicated escrow accounts to secure mandatory contributions.

2.12 Strategic Priorities for the Year 2025-26

Table 2.21 outlines the 2025-26 budget allocation across State departments, highlighting a clear dichotomy between mandatory fiscal obligations and targeted growth investments. A significant portion of the total expenditure, approximately 20.8% is absorbed by the Department of Finance. These funds are locked into committed expenditures, including the repayment of historical liabilities, ongoing interest payments, pension disbursements, and statutory transfers to reserve funds.

However, once these mandatory financial obligations are accounted for, the budget demonstrates a strong prioritization of human capital and physical infrastructure. Education emerges as the largest single area of discretionary spending, receiving 10.5% of the allocated budget. Furthermore, the State has actively directed resources toward a broad spectrum of critical sectors, including health, urban development, power, agriculture, environmental conservation, and social welfare, underscoring a commitment to holistic human development.

Crucially, the 2025-26 budget signals an aggressive shift toward capital expenditure, designed to directly stimulate the State's economic base. The government has directed massive funding tranches toward foundational infrastructure projects, specifically allocating 8.6% for broad infrastructure development under Buildings & Housing. Moreover, recognizing the severe infrastructural vulnerabilities exposed by natural disasters, 5.5% has been directed to the Land Revenue & Disaster Management department specifically to rebuild GLOF-affected regions. Connectivity and localized growth are similarly prioritized, Rural Development capturing 8.8% of the allocations. This intense concentration of capital outlay is strategically positioned to modernize the State's physical networks, absorb depreciation costs, and act as a powerful catalyst for sustained economic growth.

Table 2.21: Strategic Priorities for the Year 2026-27 (₹in cr)

Dem. No.	Department to which the Demand/Appropriation Relates		Budget Estimate 2026-27					
			Revenue	% of Total	Capital	% of Total	Total	% of Total
1	Agriculture	Voted	427.37	3.44	7.85	0.12	435.22	2.26
2	Animal Husbandry and Veterinary Services	Voted	159.03	1.28	3.65	0.05	162.69	0.85
3	Building and Housing	Voted	53.64	0.43	1595.70	23.47	1649.34	8.58
4	Co-operation	Voted	40.73	0.33	0.10	-	40.83	0.21
5	Culture	Voted	32.75	0.26	86.07	1.27	118.82	0.62
6	Ecclesiastical	Voted	32.22	0.26	0.00	-	32.22	0.17
7	Education	Voted	1603.02	12.91	422.41	6.21	2025.43	10.54
8	Election	Voted	10.88	0.09	-	-	10.88	0.06
9	Excise	Voted	19.38	0.16	1.04	0.02	20.43	0.11
10	Finance	*Charged*	1284.26	10.34	824.51	12.12	2108.78	10.97
		Voted	1861.69	15.00	25.95	0.38	1887.64	9.82
11	Food and Civil Supplies	Voted	54.68	0.44	6.85	0.10	61.53	0.32
12	Forest and Environment	Voted	416.63	3.36	15.97	0.23	432.60	2.25
-	Governor	*Charged*	14.28	0.12	-	-	14.28	0.07
13	Health and Family Welfare	Voted	737.06	5.94	247.89	3.65	984.95	5.13
14	Home	Voted	125.92	1.01	10.73	0.16	136.66	0.71
15	Horticulture	Voted	266.67	2.15	0.50	0.01	267.17	1.39
16	Commerce and Industries	Voted	79.99	0.64	5.04	0.07	85.03	0.44
17	Information and Public Relation	Voted	22.39	0.18	1.10	0.02	23.49	0.12
18	Information Technology	Voted	45.38	0.37	0.96	0.01	46.34	0.24
19	Water Resources	Voted	39.70	0.32	98.12	1.44	137.82	0.72
20	Judiciary	*Charged*	38.22	0.31	2.70	0.04	40.93	0.21
		Voted	53.66	0.43	1.23	0.02	54.88	0.29
21	Labour	Voted	14.13	0.11	0.00	-	14.13	0.07
22	Land Revenue and Disaster Management	Voted	1054.51	8.49	6.84	0.10	1061.34	5.52
23	Law	Voted	11.75	0.09	2.40	0.04	14.15	0.07
24	Legislature	*Charged*	1.30	0.01	-	-	1.30	0.01
		Voted	35.50	0.29	-	-	35.50	0.18
25	Mines and Geology	Voted	9.19	0.07	0.06	-	9.25	0.05
26	Motor Vehicles	Voted	31.12	0.25	0.80	0.01	31.92	0.17
27	Parliamentary Affairs	*Charged*	5.83	0.05	0.50	0.01	6.33	0.03
		Voted	12.45	0.10	0.23	-	12.68	0.07
28	Department of Personnel	Voted	26.03	0.21	1.32	0.02	27.35	0.14
29	Planning and Development	Voted	96.04	0.77	35.95	0.53	131.99	0.69

Dem. No.	Department to which the Demand/Appropriation Relates		Budget Estimate 2026-27					
			Revenue	% of Total	Capital	% of Total	Total	% of Total
30	Police	Voted	650.99	5.24	20.43	0.30	671.42	3.49
31	Power	Voted	612.35	4.93	533.57	7.85	1145.92	5.96
32	Printing and Stationery	Voted	18.20	0.15	1.79	0.03	19.99	0.10
33	Public Health Engineering	Voted	73.41	0.59	89.33	1.31	162.74	0.85
-	Public Service Commission	*Charged*	8.66	0.07	0.33	-	8.98	0.05
34	Roads and Bridges	Voted	300.76	2.42	362.85	5.34	663.61	3.45
35	Rural Development	Voted	817.75	6.59	875.09	12.87	1692.84	8.81
36	Science and Technology	Voted	12.78	0.10	-	-	12.78	0.07
37	Transport Department	Voted	101.58	0.82	7.40	0.11	108.98	0.57
38	Social Welfare	Voted	70.02	0.56	625.63	9.20	695.65	3.62
39	Sports and Youth Affairs	Voted	44.61	0.36	49.86	0.73	94.47	0.49
40	Tourism and Civil Aviation	Voted	86.64	0.70	280.27	4.12	366.91	1.91
41	Urban Development	Voted	126.08	1.02	389.57	5.73	515.66	2.68
42	Vigilance	Voted	12.93	0.10	-	-	12.93	0.07
43	Panchayati Raj Institutions	Voted	184.81	1.49	13.23	0.19	198.04	1.03
46	Municipal Affairs	Voted	45.79	0.37	-	-	45.79	0.24
47	Skill Development	Voted	55.49	0.45	41.25	0.61	96.74	0.50
48	Women and Child	Voted	417.11	3.36	62.19	0.91	479.30	2.49
49	Fisheries	Voted	21.13	0.17	0.40	0.01	21.53	0.11
50	Ayush	Voted	14.23	0.11	40.58	0.60	54.81	0.29
51	Food Processing Industries	Voted	22.31	0.18	-	-	22.31	0.12

Source: Annual Financial Statement 2026-27

2.13 Rationale for Policies and Evaluation

As Sikkim advances through the 2026-27 fiscal cycle, the State continues to build upon the growth-oriented foundations established in previous budgets, successfully transitioning from post-pandemic and post-GLOF recovery into a phase of sustained economic expansion. Benefiting from enhanced internal revenue mobilization and strategic external borrowing facilities, the State has significantly widened its revenue envelope. This expanded fiscal capacity has enabled the government to substantially scale up capital outlays and prioritize critical development areas, projecting a robust increase in revenue receipts as a percentage of the GSDP.

While committed expenditures such as salaries, pensions, and interest payments continue to exert persistent pressure on resource allocation, prudent financial management has allowed the State to maintain a consistent revenue surplus. Sikkim has successfully sustained its social sector commitments while aggressively expanding investments in economic services. Adequate resource provisions continue to flow into critical programs, unlocking the full potential of sectors like rural and urban infrastructure, healthcare, education, sustainable forest management, eco-tourism, and organic farming.

Capital expenditure remains at historically elevated levels, heavily driven by the Union Government’s Capex-led growth initiatives. The Scheme for Special Assistance to States for Capital Investment (SASCI) which provides 50-year interest-free loans continues to act as the primary engine for the State's infrastructure allocation. Because these highly concessional, long-term loans may eventually be treated akin to grants, they do not severely burden current revenue expenditures. This strategic influx of capital is expected to trigger a strong economic multiplier effect, fuelling higher growth and ultimately reducing the State's future debt burden.

To ensure long-term economic resilience, Sikkim is actively exploring all avenues to boost internal resource mobilization. While central devolutions and grants remain buoyant, optimizing the State's own tax and non-tax revenues is a top priority. On paper, the fiscal deficit conventionally measured against GSDP may appear elevated. However, when excluding the 50-year interest-free central loans, which fall outside standard Fiscal Responsibility and Budget Management (FRBM) deficit calculations, the State’s effective fiscal deficit remains comfortably compliant with the mandated 3.0% FRBM limit.

Sikkim’s economic structure relies on a highly successful blend of traditional practices and emerging industries. Acting as the socioeconomic backbone, agriculture engages over 80% of the rural workforce. As the world’s first fully organic State, Sikkim continues to champion sustainable farming practices that protect its rich biodiversity. Despite geographical constraints, the industrial sector particularly pharmaceuticals and micro, small, and medium enterprises (MSMEs) like traditional artwork and small-scale manufacturing is rapidly expanding and driving economic diversification. Leveraging abundant water resources, hydropower remains a vital macroeconomic pillar, generating surplus electricity to support both State revenues and broader sustainability goals. The tourism sector remains the cornerstone of the economy, the eco-tourism sector continues to capitalize on the State's pristine landscapes, monasteries, and adventure opportunities, carefully balancing physical growth with ecological preservation.

Despite these strong growth indicators, Sikkim's economic trajectory faces persistent structural hurdles. The heavy reliance on agriculture and eco-tourism makes the State highly vulnerable to climate change, threatening its unique flora and fauna. Furthermore, geographical constraints remain a severe economic bottleneck. With limited air and no rail connectivity, the State relies almost entirely on National Highway 10. The frequent disruptions and blockades along this single lifeline caused by fragile terrain, natural calamities, and regional unrest continue to significantly hinder the State's economic fluidity.

To summarise, Sikkim's economy successfully harmonizes its traditional agrarian roots with industrial diversification and sustainable tourism. Supported by progressive policies and an unwavering commitment to organic farming and renewable energy, Sikkim stands as a premier model for sustainable development in India, carefully balancing economic prosperity with the preservation of its fragile Himalayan ecology. To lock in a resilient, long-term economic recovery and expand sustainable livelihood opportunities, the State must aggressively broaden its internal resource mobilization framework. While central fiscal transfers, comprising of federal tax devolutions and grants-in-aid are projected to remain highly buoyant due to strong national revenue trends. However, relying solely on external allocations leaves the State vulnerable to broader economic shifts. To establish true fiscal autonomy and absorb heavy infrastructure maintenance costs, Sikkim must systematically optimize its own tax and non-tax revenue pipelines.

CHAPTER 3. FISCAL TARGETS AND ASSUMPTIONS

Medium Term Fiscal Plan (MTFP)

Form F -2

{See Rules 3 (1)}

The State FRBM Act 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 Medium Term Fiscal Plan based on realistic assumptions relating to the likely behavior of fiscal variables shall also explain the assumptions underlying the above mentioned targets for fiscal indicators and an assessment of sustainability relating to the items indicated in sub-section (2) of section 3 of the FRBM Act 2010, which reads as under "The Medium Term Fiscal Plan shall set forth a three-year rolling target for the prescribed fiscal indicators with specification of underlying assumptions relating to parameters underlying projections for receipts and expenditure and the band within which they can vary while remaining consistent with targets".

3.1 Fiscal Indicators – Rolling Targets

Table 3.1 outlines the State's medium-term fiscal trajectory by tracking core performance indicators, including the fiscal deficit, revenue deficit, and total outstanding liabilities. In strict compliance with the statutory guidelines mandated by the Sikkim Fiscal Responsibility and Budget Management (FRBM) Act rules, this data is structured in accordance with the official Form F-2 template.

Table 3.1: Fiscal Indicators - Rolling Targets (As percent of GSDP)

Sl. No.	Items	Previous Year (Y-2) Actuals	Current Year (Y-1) Budget Estimates	Current Year (Y-1) Revised Estimates	Ensuing Year (Y) Budget Estimates	Targets for Year (Y+1)	Targets for Year Y+2)
		2024-25	2025-26BE	2025-26RE	2026-27BE	2027-28	2028-29
1	Revenue deficit as percentage of GSDP	-0.90	-2.11	-0.57	-1.03	-0.79	-0.56
2	Fiscal deficit as percentage to GSDP	5.59	5.79	5.96	8.34	7.08	7.10
3	Primary deficit as percentage of GSDP	3.81	3.91	4.24	6.33	5.02	4.99
4	Total Debt Stock as Percentage of GSDP	35.37	38.17	38.92	43.64	46.39	48.90

Notes: 1. GSDP is the Gross State Domestic Product at current prices provided by CSO at 2011-12 base
2. The negative sign for revenue deficit indicates surplus.

The matrix provides essential historical and forward-looking context, mapping fiscal outcomes across five distinct periods: the previous financial year, the current fiscal cycle, the ensuing budget year, and two subsequent outward projection years to facilitate comprehensive multi-year planning and debt sustainability assessments.

The audited financial outcomes for FY 2024-25 indicate that the State's aggregate fiscal deficit exceeded the ceiling mandated under the amended State Fiscal Responsibility and Budget Management (FRBM) Act, which originally provided for a baseline target of 3.50% of GSDP, inclusive of the 0.50% performance-linked borrowing incentive for the power sector. This expansion was primarily driven by the strategic utilization of permitted additional borrowing windows, which included ₹1,742.14 crore under the Scheme for Special Assistance to States for Capital Investment (SASCI) for enhancing capital expenditure, ₹269.82 crore under the National Pension System (NPS) contribution framework, and ₹262.00 crore linked to power sector reforms. Excluding these approved additional allocations, the core fiscal deficit drops to a sustainable 1.32% of GSDP, which is within the FRBM legislation. Notably, the State achieved a revenue surplus of 0.90% of GSDP during the fiscal year. Driven by the front-loading of capital outlays via the SASCI window, the total outstanding debt stock reached 35.37% of GSDP, running above the 15th Finance Commission's indicative benchmark of 28.00%.

In the Revised Estimates for FY 2025-26, the nominal fiscal deficit targets, which reflect the same structural ceilings as the previous fiscal year were similarly exceeded due to the targeted absorption of central borrowing flexibilities. Total incremental borrowings utilized during the year comprised of ₹1,393.69.00 crore under SASCI (equivalent to 1.82% of GSDP) to boost infrastructure outlays, ₹312.00 crore under the NPS borrowing accommodation, and ₹156.00 crore for structural power sector reforms. By neutralizing these specific windows, the baseline fiscal deficit recalibrates exactly to 2.70% of GSDP, demonstrating strong underlying fiscal discipline. Correspondingly, the outstanding debt stock rose to 38.92% of GSDP against the 15th Finance Commission's 27.9% baseline. However, omitting the capital-linked central assistance brings the net debt trajectory back well within the indicative boundaries. Concurrently, the revised position indicates a revenue surplus of 0.57% of GSDP.

The Budget Estimates for FY 2026-27 mark the baseline year of the current Medium-Term Fiscal Plan (MTFP). The aggregate fiscal deficit is projected at 8.34% of GSDP, which builds upon a standard baseline deficit target of 3.00% and incorporates permissible supplementary windows consisting of 5.26% of GSDP (₹3,311.77 crore) through the SASCI window for targeted capital outlays and 0.08% of GSDP (₹52.52 crore) under NPS structural adjustments. The upward variance in both fiscal deficit and debt indicators remain directly attributable to these explicitly permitted, non-baseline central borrowing windows designed to fund long-term assets. Over the outward years of the MTFP (FY 2027-28 and FY 2028-29), the State's fiscal policy transitions smoothly based on the standardized consolidation paths recommended by the 16th Finance Commission. The fiscal deficit is to be maintained at 3.00% of GSDP during the entire award period. While the outstanding debt stock will continue to expand to accommodate these active capital investments, the core fiscal components remain aligned with legislative parameters, with a comprehensive breakdown of these additional borrowings provided in Table 3.2.

Table 3.2: Breakdown of Fiscal Deficit in the MTFP Projection

Items (₹ in crore)	2026-27BE	2027-28	2028-29
Fiscal Deficit (₹ crore)	**5251.01**	**4949.25**	**5511.37**
As per FRBM/ FCD	1886.72	2097.00	2327.67
Special Central Assistance to States for Capital Expenditure	3311.77	2677.50	2989.73
Pension Funding Adjustment	52.52	174.75	193.97
Items (As percent of GSDP)	**2026-27BE**	**2027-28**	**2028-29**
As % of GSDP	**8.34**	**7.08**	**7.10**
As per FRBM/ FCD	3.00	3.00	3.00
Special Central Assistance to States for Capital Expenditure	5.26	3.83	3.85
Pension Funding Adjustment	0.08	0.25	0.25

3.2 Medium Term Fiscal Plan: 2026-27 to 2028-29

The detailed projection of fiscal variables, as outlined in Table 3.2, indicates a gradual moderation in the revenue account surplus across the two outward years of the Medium-Term Fiscal Plan (MTFP) relative to the current budget year.

The gross fiscal deficit is projected to follow a constant path to be maintained at 3.00% of GSDP starting current fiscal year up to the terminal year of the MTFP. It is crucial to reiterate that this headline deficit does not include supplementary borrowings authorized by the Central Government specifically under Special Assistance to States for Capital Investment (SASCI) and pension fund transitions. As detailed in Table 3.2, when these specific extra-budgetary allocations are isolated from the aggregate figures, the State's core fiscal deficit remains strictly compliant with the statutory FRBM targets.

On the operational front, revenue receipts are projected to scale from 19.7% of GSDP in the current budget estimates to 20.2% by the end of the projection period. Concurrently, revenue expenditure is anticipated to rise from 18.6% to 19.7% of GSDP. This structural increase in revenue mobilization is designed to maximize resource availability and ensure the continuous generation of an adequate revenue surplus to fund developmental activities.

Table 3.3 Medium Term Fiscal Plan: 2026-27 to 2028-29 (As percent of GSDP)

Items	2026-27BE	2027-28	2028-29
Revenue Receipts	**19.7**	**19.9**	**20.2**
Own Tax Revenues	**3.6**	**3.5**	**3.5**
Sales Tax + SGST	2.3	2.2	2.1
State Excise Duties	0.9	0.9	0.8
Motor Vehicle Tax	0.1	0.1	0.1
Stamp Duty and Registration Fees	0.1	0.1	0.1
Other Taxes	0.2	0.2	0.2
Own Non-Tax Revenues	**1.8**	**1.7**	**1.7**
Central Transfers	**14.3**	**14.6**	**15.0**
Tax Devolution	8.1	8.3	8.6
Grants	6.1	6.3	6.5
Revenue Expenditure	**18.6**	**19.1**	**19.7**
General Services	**7.1**	**7.3**	**7.4**
Interest Payment	2.0	2.1	2.1
Pension	2.6	2.7	2.8
Other General Services	2.4	2.5	2.6
Social Services	**6.0**	**6.1**	**6.3**
Education	2.5	2.6	2.7
Medical and Public Health	1.2	1.2	1.3
Other Social Services	2.3	2.3	2.4
Economic Services	**5.4**	**5.5**	**5.7**
Compensation and Assignment to LBs	0.2	0.2	0.2
Capital Expenditure	**9.4**	**7.9**	**7.7**
Revenue Deficit	**-1.0**	**-0.8**	**-0.6**
Fiscal Deficit	**8.3**	**7.1**	**7.1**
Primary Deficit	**6.3**	**5.0**	**5.0**
Outstanding Debt	**43.6**	**46.4**	**48.9**

Notes: *1. GSDP is the projected Gross Domestic Product at current prices*
2. The negative sign in revenue deficit indicates surplus.

Expenditure strategy during the MTFP period remains firmly anchored to the Government's core developmental priorities. Resource allocation toward social and economic services, measured as a percentage of GSDP, is programmed to expand, maintaining a highly favorable spending pattern. Meanwhile, expenditure on general administrative services is projected to remain stable, thereby creating the fiscal bandwidth necessary to continuously realign resources toward high-priority, citizen-centric sectors.

The State's fiscal outlook is further bolstered by strong macroeconomic momentum at the national level, with the Indian economy projected to surpass the $5 trillion milestone by March 2027. This accelerating national growth trajectory is expected to yield positive spillover effects for Sikkim, particularly through enhanced central transfers and a more buoyant devolution of the State's share in central taxes.

Finally, capital expenditure currently budgeted at an aggressive 9.4% of GSDP in FY 2025–26 is projected to moderate to 7.9% in the first year and to 7.7% by the final year of the MTFP, reflecting the stabilization of major infrastructure funding cycles. However, the rolling, forward-looking nature of the MTFP provides the institutional flexibility to continuously calibrate these projections, ensuring the State can dynamically adapt its capital spending to emerging fiscal realities and future developmental needs.

Sikkim's total outstanding debt as a percentage of its Gross State Domestic Product (GSDP) remains structurally elevated. For the 2026-27 budget year, the State's outstanding debt-to-GSDP ratio is projected to hit 43.6%. This deviation is not the result of unchecked revenue expenditure, but is fundamentally driven by the State's aggressive utilization of specific, centrally authorized additional borrowing facilities most notably the 50-year interest-free Special Central Assistance (SCA) loans designed exclusively to fund capital infrastructure. The State's Medium-Term Fiscal Plan (MTFP) explicitly incorporates these targeted borrowing facilities, acknowledging that the debt-to-GSDP ratio will remain expanded throughout the current MTFP period to finance essential developmental constraints. However, to ensure long-term fiscal sustainability and eventually bring the debt ratio back in line with standard macroeconomic parameters, much stronger, coordinated policy interventions will be required at both the state and national levels to optimize revenue generation and manage future borrowing appetites.

3.3 Assumption Underlying the Fiscal Indicators

In accordance with the State FRBM Act, the Medium-Term Fiscal Plan (MTFP) 2026-27 explicitly details its underlying fiscal assumptions to enhance transparency and reflect the Government's strategic policy choices amidst resource constraints. Fully compliant with State provisions and the Central Finance Commission's framework for fiscal consolidation, the

MTFP utilizes realistic estimates that factor in newly introduced schemes and additional borrowing capacity.

With the expectation that the inherent uncertainties in regional as well as global recovery would end during the nest two forward years, the State has adopted an optimistic approach to projecting resource flows across tax devolution, grants, and GST-related transfers. Core program funding remains protected, with explicit provisions ensuring that priority sectors receive the resources needed to drive the State's broader development goals. The specific assumptions driving these fiscal variables are outlined in Box 1.

Box 1

Proposed MTFP Target Assumptions

Macro Parameters

- Nominal Growth rate of GSDP was assumed to be 11 percent.

Revenue Resources

- Own Tax Revenues at 9 percent
- Own Non-Tax Revenues at 8 percent
- Central Grants and Share of Taxes at 14 percent

Expenditure Projections

- Revenue Expenditure at 14 percent
- Capital Expenditure projected at 10 percent and on expected funding under SASCI

GSDP

Post the incidence of GLOF and the road closures, and the likely end of global war and trade issues, the economic scenario of the State is projected to improve in the two outward MTFP years. Consequently, the Gross State Domestic Product (GSDP) growth rate for the two outward MTFP years has been optimistically pegged at 11 percent. This moderately scaled baseline matches the economic forecasts submitted to the 16th Finance Commission. Nevertheless, any sustained acceleration in the broader national economy is expected to positively impact these localized GSDP figures.

Revenue Receipts

Despite aggressive efforts in the 2024-25 budget to rationalise the tax structure and optimise rates, ongoing economic headwinds have caused realized collections to fall short of budget revised budget estimates. The buoyancy coefficient for Sales tax + GST remains same as the observed coefficient of 1.23, while the State excise duty assumed a buoyancy of 1.00 as against the observed coefficient of 0.863. Further, keeping in view the huge capital expenditure allocated in the current fiscal and the likely continuation of increased allocation for infrastructure related expenditure, the internal revenue growth for the outward years of 2027-28 and 2028-29 is likely to improve. The tax revenues are projected to stabilize at 9 percent growth, with non-tax revenues projected to grow at 8 percent. To balance the fiscal framework, the MTFP relies heavily on a projected 14 percent improvement in central transfers, modelling this optimism on national economic buoyancy while remaining grounded in baseline fiscal realities.

Expenditure Restructuring under MTFP

Revenue expenditure faces intense upward pressure due to rigid, committed liabilities. Expenses on salaries, pensions, and interest payments, which consume between 60 to 70 percent of total revenue expenditure have expanded at a staggering average CAGR of 16.2 percent since 2015-16. Furthermore, the transition of newly regularized employees from consolidated pay to standard pay scales will permanently elevate baseline costs in 2026-27 and beyond. Taking these structural burdens into account, revenue expenditure is forecasted to plateau at approximately 14 percent of GSDP across the outward period.

Simultaneously, the government remains committed to sustaining a high level of capital expenditure to fulfil critical infrastructural needs. Projected to grow at 10 percent, this elevated Capex is heavily supported by the 50-year interest-free Special Central Assistance (SCA) loans. As the State's GSDP rises, its borrowing capacity under these facilities expands, further fuelling capital outlays. The MTFP assumes that these extra-budgetary federal loan windows will remain accessible, with necessary downward adjustments modelled in the outward years to account for any diminishing SCA allocations.

Debt and Deficit under MTFP

Driven by the strategic absorption of additional central borrowing facilities, the aggregate fiscal deficit is projected at an elevated 8.34 percent for the budget year. In alignment with FRBM targets, this deficit is modelled to consolidate downward to 7.08 percent and 7.10 percent in the final two years of the MTFP, respectively. While the State successfully maintains a surplus on its revenue accounts, the reliance on long-term capital loans will push the total outstanding debt-to-GSDP ratio from 43.64 percent in 2026-27 to an estimated 46.39 percent in 2027-28, and further to 48.90 percent by 2028-29. Because this debt trajectory structurally breaches the limits stipulated in the amended FRBM Act, stabilizing the State's finances will demand aggressive internal revenue mobilization and highly coordinated fiscal interventions between the state and central governments.

In light of the prevailing debt scenario and the imperative for macroeconomic stability, the Government reaffirms its strong commitment to fiscal consolidation. To ensure sustainable financial management, a strategic fiscal anchor has been established to cap interest-bearing debt at a maximum of 32 percent of the Gross State Domestic Product (GSDP) through the medium-term up to 2028-29. This debt ceiling will guide future borrowing strategies and will be subject to periodic reviews to adapt to evolving economic realities and resource constraints.

CHAPTER 4. DISCLOSURES

Form D-1

(*See* Rule 4)

Select Fiscal Indicators

Sl. No.	Item	Previous Year 2024-25 (Actuals)	Previous Year 2025-26 (RE)	Current Year 2026-27 (BE)
1	Gross Fiscal Deficit as Percentage to GSDP	5.59	5.96	8.34
2	Revenue Deficit as Percentage of GSDP	-0.90	-0.57	-1.03
3	Revenue Deficit as Percentage of Gross Fiscal Deficit	16.19	9.49	12.29
4	Revenue deficit as Percentage of TRR	5.10	3.12	5.21
5	Debt Stock as Percentage of GSDP	35.37	38.92	43.64
6	Total Liabilities as Percentage to GSDP	37.69	41.09	45.60
7	Capital Outlay as Percentage of Gross Fiscal Deficits	116.20	109.49	112.27
8	Interest Payment as Percentage of TRR	10.04	9.48	10.20
9	Salary Expenditure as Percentage of TRR	35.33	37.45	34.36
10	Pension Expenditure As Percentage of TRR	14.57	13.51	13.32
11	Non-development Expenditure as Percentage of Aggregate Disbursements	69.82	69.53	63.58
12	Non-tax Revenue as Percentage of TRR	9.63	9.75	9.08

Note: Negative sign indicates Surplus
Source: State Budget documents 2026-27

Form D-2

(*See* Rule 4)

Components of State Government Liabilities (₹in cr)

Category	Opening Balance		Raised during the fiscal year		Repayment during the fiscal year		Outstanding Amount (End March)	
	Previous Year Y-2 (Actual)	Current year Y-1 (RE)	Previous Year Y-2 (Actual)	Current year Y-1 (RE)	Previous Year Y-2 (Actual)	Current year Y-1 (RE)	Previous Year Y-2 (Actual)	Current year Y-1 (RE)
Internal Debt	11095.49	12888.03	2011.00	2720.00	402.51	652.05	12703.98	14955.98
Loan from Centre	1916.84	3017.75	1761.21	1414.51	11.26	9.11	3666.79	4423.15
State Provident Funds	1452.31	1562.76	458.68	486.33	487.45	498.10	1423.54	1550.99
Reserve Funds	283.42	149.94	723.57	202.64	492.82	302.90	514.17	49.68
Deposits	420.16	434.52	756.18	567.41	618.37	567.41	557.97	434.52

Source: Finance Accounts Vol-I 2024-25 & Budget Documents 2026-27

Form D-3

(*See* Rule 4)

Guarantees given by the Government (₹in cr)

Sl.No	Name of the Institution to which Guarantees is given	Maximum Guarantee given (₹in cr)	Outstanding Amount (₹in cr)
1	State Finance Corporation	659.00	292.05
2	SABCCO	26.00	17.67
3	Sikkim Housing & Development Board	983.00	824.13
4	State Trading Corporation of Sikkim	300.00	106.08
5	SPICL (Teesta Urja Stage IVI & Rangit IV)	3075.47	-
	Total	**5043.47**	**1239.93**

Source: Finance Accounts Vol-I 2024-25

Form D-4

(*See* Rule 4)

Number of Employees in Government

Sl.No	Sector Name	Total Employees as on 31.3.2026	Related Expenditure ₹in Crore	
			On Salary	On Pension
1	Regular government Employees	37144	3868.86	-
2	Work Charged	169	DNA	-
3	Muster Roll	6582		-
4	Others	30176		-
5	Pensioners	18538	-	1395.98
	Total	**92609**	**3868.86**	**1395.98**

Source: Employees and Pension Database for No. of Employees and pensioners & Budget documents 2026-27
**DNA: Data Not Available in a consolidated format*