

CHAPTER I
OVERVIEW OF THE STATE
FINANCES

Chapter I: Overview of the State Finances

1.1 Profile of the State

Nagaland is situated in the North-Eastern region of India, bordering three States viz. Assam in North and West, Arunachal Pradesh in East and Manipur in the South. It has an international border with Myanmar in the East and runs parallel to the bank of Brahmaputra. With a geographical area of 16,579 sq. kms.*i.e.* about 0.50 *per cent* of country's total geographical area, Nagaland population in 2020 is 21.67 lakh which is 0.16 *per cent* population of the Country. Nagaland has a lower density of population, higher literacy rate and lower infant mortality rate as compared to the All India Average figures. At present, Nagaland has 12 districts. The per capita GSDP in respect of Nagaland for the year,2019-20 is ₹ 1,40,784 as compared to ₹ 1,51,677 for the nation.

General and financial data relating to the State are given in *Appendix 1.1*.

1.1.1 Gross State Domestic Product of the State

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important indicator of the State's economy, as it denotes the extent of changes in the level of economic development of the State over a period of time. The growth rate for the period 2015-20 compared with India's GDP is presented in **Table 1.1**:

Table 1.1: Trends in GSDP compared to the national GDP

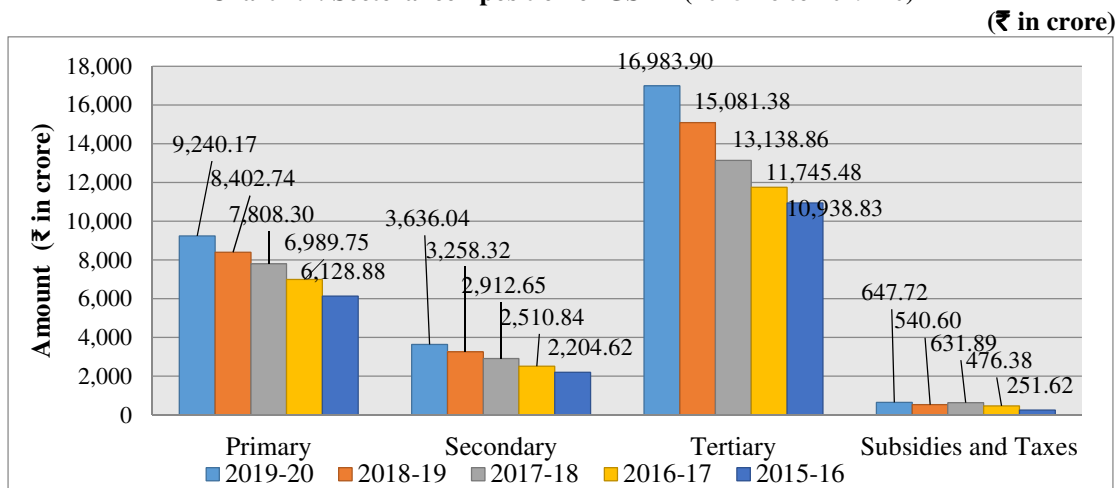
Year	2015-16	2016-17	2017-18	2018-19	2019-20
GDP (2011-12 Series)	1,37,71,874	1,53,91,669	1,70,98,304 (2 nd RE)	1,89,71,237 (1 st RE)	2,03,39,849 (PE)
Growth rate of GDP over previous year (in <i>per cent</i>)	10.46	11.76	11.09	10.95	7.21
State's GSDP (2011-12 Series)	19,524	21,722	24,492 (PE)	27,283 (QE)	30,508 (AE)
Growth rate of GSDP over previous year (in <i>per cent</i>)	6.10	11.26	12.75	11.40	11.82

Source of data: GDP-Ministry of Statistics and Programme Implementation, Press Release 29th May 2020 and Economic Survey, 2020-21. GSDP-Directorate of Economics and Statistics, Government of Nagaland
RE: Revised Estimates; PE: - Provisional Estimates; QE: - Quick Estimates; AE: - Advance Estimates

As can be seen from the details tabulated above, during the five-year period from 2015-16 to 2019-20, the GSDP of the State grew at a higher rate during 2017-18 to 2019-20 as compared to national GDP. However, the growth rate for 2015-16 to 2016-17 was lower compared to the national growth rate.

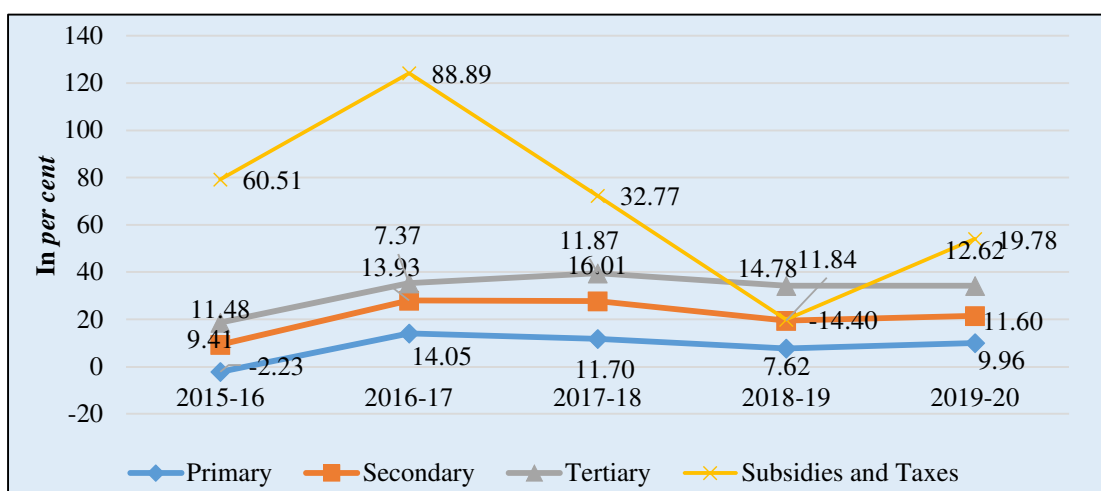
Charts 1.1 and **1.2** depict the details of the shift in sectoral contribution to GSDP from 2015-16 to 2019-20 and sectoral growth of the GSDP during the period 2015-20.

Chart 1.1: Sectoral composition of GSDP (2015-16 to 2019-20)



Source: Information furnished by the Directorate of Economics and Statistics, GoN

Chart 1.2: Sectoral growth in GSDP



Source: Information furnished by the Directorate of Economics and Statistics, GoN

The GSDP of the State increased by ₹ 10,983.88 crore during the period 2015-16 (₹ 19,524 crore) to 2019-20 (₹ 30,508 crore) at a Compound Annual Growth Rate (CAGR) of 11.80 per cent. During the current year, GSDP increased by ₹ 3,227.79 crore (11.82 per cent) over the previous year.

During the five-year period 2015-16 to 2019-20, the tertiary sector was the major contributor to the GSDP with 56 per cent followed by the primary sector with 30 per cent and secondary sector with 12 per cent. Subsidies and taxes formed two per cent of GSDP.

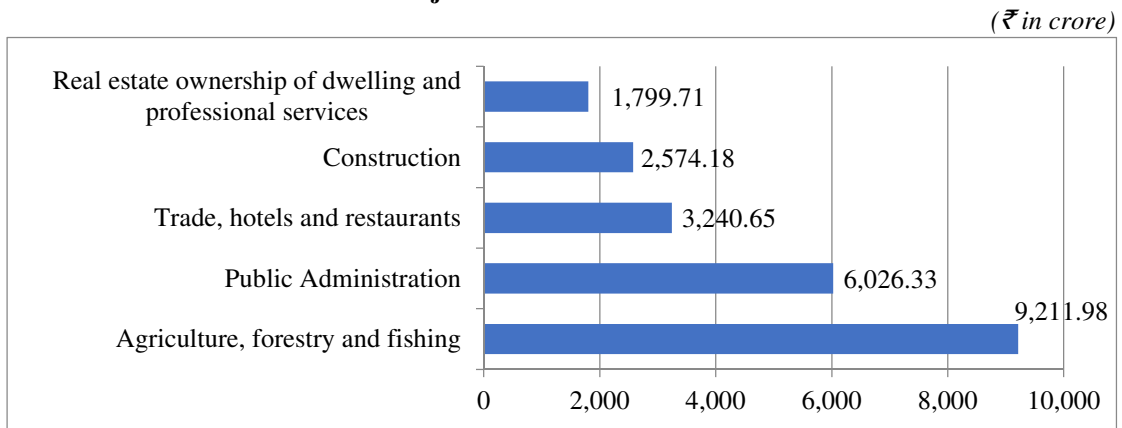
The sector-wise increase is discussed below:

- (i) Primary Sector increased by ₹ 3,111.29 crore during the period 2015-16 to 2019-20 at a CAGR of 10.81 per cent. The major contributor in this sector was Agriculture, Forestry and Fishing (54.31 per cent). The increase of ₹ 837.43 crore (9.97 per cent) over the previous year was primarily due to activities under 'forestry and logging' and 'crops' by 14.81 and 9.70 per cent respectively, over the previous year.

- (ii) Secondary Sector increased by ₹ 1,431.42 crore during the period 2015-16 to 2019-20 at a CAGR of 13.32 *per cent*. The major contributors to the increase were electricity, gas, water supply and other utility services (78.80 *per cent*) and construction (63.06 *per cent*). The increase of ₹ 377.72 crore (11.59 *per cent*) during 2019-20 over the previous year was due to the contribution of manufacturing by 13.46 *per cent* over the previous year.
- (iii) Tertiary Sector increased by ₹ 6,045.07 crore during the period 2015-16 to 2019-20 at a CAGR of 11.63 *per cent*. The major contributors to the increase were other services (54.47 *per cent*), public administration (70.71 *per cent*) and trade, repair, hotels and restaurants (84.12 *per cent*). The increase of ₹ 1,902.52 crore (12.62 *per cent*) during 2019-20 over the previous year was primarily due to increase under ‘Trade, Hotels and Restaurants’, ‘Public Administration’, and ‘Other Services’ by 15.16, 16.13, and 12.62 *per cent* respectively, over the previous year.
- (iv) Taxes/subsidies on products increased by ₹ 396.10 crore at a CAGR of 26.67 *per cent* during the period 2015-16 to 2019-20. During 2019-20, there was an increase of ₹ 107.12 crore (19.82 *per cent*) over the previous year due to an increase under ‘Taxes on products’ by 13.84 *per cent* and ‘subsidies on products’ by 5.82 *per cent* over the previous year.

Major contributors to GSDP (₹ 30,507.83 crore) during 2019-20 are depicted in **Chart 1.3**.

Chart 1.3: Major Contributors in GSDP in 2019-20



Source: GSDP figures furnished by the Directorate of Economics and Statistics, GoN

1.2 Basis and Approach to State Finances Audit Report

In terms of Article 151 (2) of the Constitution of India, the reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The State Finances Audit Report (SFAR) is prepared and submitted under Article 151 (2) of the Constitution of India.

Accountant General (Accounts & Entitlements) prepares the Finance Accounts and Appropriation Accounts of the State annually, from the vouchers, challans and

initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for keeping of such accounts functioning under the control of the State Government, and the statements received from the Reserve Bank of India. These accounts are audited independently by the Principal Accountant General (Audit), and certified by the CAG.

Finance Accounts and Appropriation Accounts of the State constitute the core data for this report. Other sources include the following:

- Budget of the State: for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures;
- Results of audit carried out by the Office of the Principal Accountant General (Audit);
- Other data with Departmental Authorities and Treasuries (accounting as well as MIS);
- GSDP data and other State related statistics; and
- Various audit reports of the CAG of India.

The analysis is also carried out in the context of recommendations of the XIV Finance Commission (FC), State Fiscal Responsibility and Budget Management Act, best practices and guidelines of the Government of India.

1.3 Report Structure

The SFAR is structured into the following five Chapters:

Chapter - 1	Overview of State Finances This Chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of government accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the deficits/ surplus.
Chapter - 2	Finances of the State This chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2015-16 to 2019-20, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.
Chapter - 3	Budgetary Management This chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.
Chapter - 4	Quality of Accounts and Financial Reporting Practices This chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.
Chapter 5	Functioning of State Public Sector Enterprises This chapter comments on an overall picture of the financial performance of State Public Sector Undertakings (SPSUs).

1.4 Overview of Government Account Structure and Budgetary Processes

The Accounts of the State Government are kept in three parts:

Consolidated Fund of the State (Article 266(1) of the Constitution of India)

This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans from Financial Institutions, Special Securities issued to National Small Savings Fund, etc.), Ways and Means Advances extended by the Reserve Bank of India and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance with law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditure (*e.g.*, salaries of Constitutional authorities, loan repayments, *etc.*), constitute a charge on the Consolidated Fund of the State (Charged expenditure) and are not subject to vote by the Legislature. All other expenditure (Voted expenditure) is voted by the Legislature.

Contingency Fund of the State (Article 267 (2) of the Constitution of India)

This Fund is in the nature of an imprest which is established by the State Legislature by law, and is placed at the disposal of the Governor to enable advances to be made for meeting unforeseen expenditure pending authorisation of such expenditure by the State Legislature. The fund is recouped by debiting the expenditure to the concerned functional major head relating to the Consolidated Fund of the State.

Public Accounts of the State (Article 266 (2) of the Constitution)

Apart from above, all other public moneys received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes repayable like Small Savings and Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of which are transitory heads, pending final booking). The net cash balance available with the Government is also included under the Public Account. The Public Account is not subject to the vote of the Legislature.

There is a constitutional requirement in India (Article 202) to present before the House or Houses of the Legislature of the State, a statement of estimated receipts and expenditures of the Government in respect of every financial year. This 'Annual Financial Statement' constitutes the main budget document. Further, the budget must distinguish expenditure on the revenue account from other expenditures.

Revenue Receipts consist of tax revenue, non-tax revenue, share of Union Taxes/Duties, and grants from Government of India.

Revenue Expenditure consists of all those expenditures of the government which do not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the government departments and various

services, interest payments on debt incurred by the government, and grants given to various institutions (even though some of the grants may be meant for creation of assets).

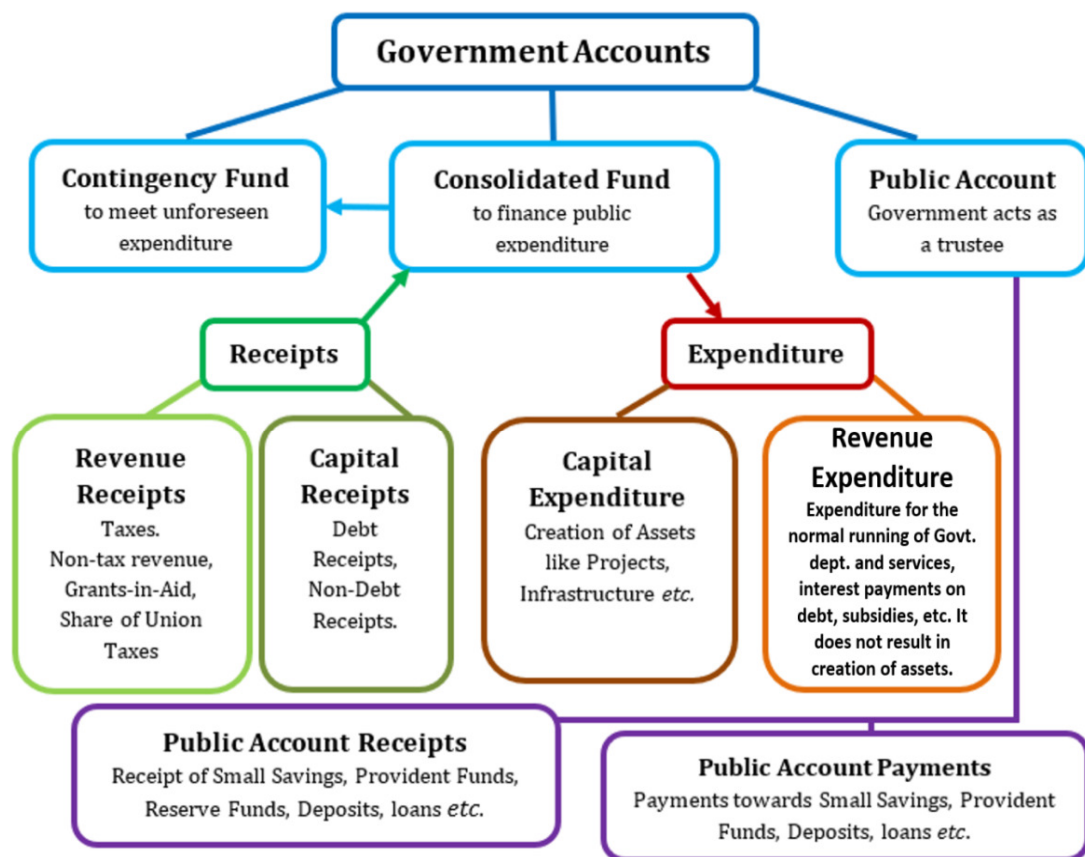
The capital receipts consist of:

Debt Receipts include Market Loans, Bonds, Loans from financial institutions, Net transaction under Ways and Means Advances, Loans and Advances from Central Government, *etc.*;

Non-debt Receipts include Proceeds from disinvestment, recoveries of loans and advances;

Capital Expenditure includes expenditure incurred with the objective of increasing concrete assets of a material and permanent character *viz.*, on the acquisition of land, building, machinery, equipment, investment in shares, and loans and advances by the government to PSUs and other parties.

Structure of Government Accounts



At present, we have an accounting classification system in government that is both functional and economic as shown below.

Table 1.2: Accounting classification system in Government

	Attribute of transaction	Classification
Standardised in LMMH by CGA	Function- Education, Health, <i>etc.</i> /Department	Major Head under Grants (4-digit)
	Sub-Function	Sub Major head (2-digit)
	Programme	Minor Head (3-digit)
Flexibility left for States	Scheme	Sub-Head (2-digit)
	Sub-scheme	Detailed Head (2-digit)
	Economic nature/Activity	Object Head-salary, minor works, <i>etc.</i> (2-digit)

The functional classification lets us know the department, function, scheme or programme, and object of the expenditure. Economic classification helps organise these payments as revenue, capital, debt, *etc.* Economic classification is achieved by the numbering logic embedded in the first digit of 4-digit Major Heads. For instance, 0 and 1 is for revenue receipts, 2 and 3 for revenue expenditure, *etc.* Economic classification is also achieved by an inherent definition and distribution of some object heads. For instance, while “salary” object head is revenue expenditure, “construction” object head is capital expenditure. Object Head is the primary unit of appropriation in the budget documents.

Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of State causes to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State for the year, in the form of an **Annual Financial Statement**. In terms of Article 203, the statement is submitted to the State Legislature in the form of Demands for Grants/ Appropriations and after approval of these, the Appropriation Bill is passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund. Some States have more than one consolidated Budget – there could be sub-budgets like Gender Budget, Agriculture Budget, Weaker sections (SCs/STs) Budget, Disability Budget, *etc.*

Government of Nagaland (GoN) had not prepared its Budget manual so far. While formulating its Budget for 2019-20, the State Government introduced several significant and proactive policiesto promote the overall development of the State and its people. However, no separate sub-budgets were prepared during 2019-20. Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are detailed in **Chapter 3** of this Report.

1.4.1 Summarised position of Finances

Details of actual financial results *vis-à-vis* Budget Estimates (BEs) for the year 2019-20 *vis-à-vis* actual of 2018-19 are shown in **Table 1.3**.

Table 1.3: Financial results vis-à-vis BEs

Sl. No.	Components	2018-19 Actuals	2019-20		Percentage of Actual to BEs	Percentage of Actuals to GSDP
			BEs	Actuals		
1.	Tax Revenue	846.43	937.20	958.23	102.24	3.14
2.	Non-Tax Revenue	255.24	373.03	339.29	90.96	1.11
3.	Share of Union taxes/duties	3,792.41	3,267.08	3,267.08	100.00	10.71
4.	Grants-in-aid and Contributions	6,543.33	7,464.12	6,858.69	91.89	22.48
5.	Revenue Receipts (1+2+3+4)	11,437.41	12,041.43	11,423.29	94.87	37.44
6.	Recovery of Loans and Advances	1.08	1.50	1.09	72.67	0.00
7.	Other Receipts	0.00	0.00	0.00	0.00	0.00
8.	Borrowings and other Liabilities (a)	1082.32	791.75	1417.43	179.02	4.65
9.	Capital Receipts (6+7+8)	1,083.40	793.25	1,418.52	178.82	4.65
10.	Total Receipts (5+9)	12,520.81	12,834.68	12,841.81	100.06	42.09
11.	Revenue Expenditure	10,919.98	12,615.30	11,637.02	92.25	38.14
12.	Interest payments	771.74	886.10	813.74	91.83	2.67
13.	Capital Expenditure (b)	1,600.83	1,875.10	1,215.58	64.83	3.98
14.	Capital outlay	1,595.56	1,865.62	1,206.32	64.66	3.95
15.	Loan and advances	5.27	9.48	9.26	97.68	0.03
16.	Total Expenditure (11+13)	12,520.81	14,490.40	12,852.60	88.70	42.13
17.	Revenue Deficit (5-11)	517.43	-573.87	-213.73	37.24	-0.70
18.	Fiscal Deficit { 16-(5+6+7) }	-1,082.32	-2,447.47	-1,428.22	58.35	-4.68
19.	Primary Deficit (18+12)	-310.58	-1,561.37	-614.48	39.36	-2.01

Source: Finance Accounts, 2019-20 and Annual Financial Statement, 2019-20

(a) Borrowings and other Liabilities: Net (Receipts-Disbursements) of Public Debt+Net of Contingency Fund+Net (Receipts-Disbursements) of Public Account+Net of Opening and Closing Cash Balance.

(b) Expenditure on Capital Account includes Capital Expenditure and Loans and Advances disbursed.

- The actual own tax revenue collections exceeded over the budget estimates, while the non-tax revenue and Grants-in-Aid (GIA) from the GoI fell short over the budget estimates. The overall Revenue Receipts of the State fell short of the BEs mainly due to overestimation of the GIA from the GoI at BEs stage.
- During 2019-20, the State moved from a Revenue Surplus to a Revenue Deficit State due to higher growth of Revenue expenditure over the previous year as compared to the Revenue Receipts. The Revenue Receipts decreased by ₹ 14.12 crore (0.12 per cent) from ₹ 11,437.41 crore in 2018-19 to ₹ 11,423.29 crore in 2019-20, while the Revenue Expenditure increased by ₹ 717.04 crore (6.57 per cent) from ₹ 10,919.98 crore in 2018-19 to ₹ 11,637.02 crore in 2019-20. The Revenue Receipts were insufficient to meet normal functioning of Government Departments and borrowed funds were expended to an extent to meet day to day expenditure of the Government instead of creation of assets.
- The Fiscal Deficit further increased over the previous year. It increased from ₹ 1,082.32 crore in 2018-19 to ₹ 1,428.22 crore (31.96 per cent) in 2019-20. The Government's Capital Expenditure decreased by ₹ 385.25 crore (24.07 per cent) from ₹ 1,600.83 crore in 2018-19 to ₹ 1,215.58 crore in 2019-20.

1.4.2 Summarised position of Assets and liabilities of the Government

Government accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. The liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from public account and reserve funds, and the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

The summarised position of Assets and Liabilities of the State for the year 2019-20 as compared to the previous year 2018-19 is shown in **Table 1.4**.

Table 1.4: Summarised position of Assets and Liabilities

(₹ in crore)

Liabilities				Assets					
	2018-19	2019-20	Increase (per cent)		2018-19	2019-20	Increase (per cent)		
Consolidated Fund									
A	Internal Debt	7,969.15	8,986.93	13	a	Gross Capital Outlay	18,095.74	19,302.06	7
B	Loans and Advances from GoI	146.37	131.15	-10	b	Loans and Advances	28.90	37.07	28
	Contingency Fund	0.35	0.35	0					
Public Account									
A	Small Savings, Provident Funds, etc.	1,569.34	2131.38	36	a	Advances	0.37	0.37	0
B	Deposits	891.58	960.38	8	b	Remittance	-	-	-
C	Reserve Funds	1,073.52	1,628.43	52	c	Suspense and Miscellaneous	99.34	89.02	-10
D	Remittances	-661.66	-661.18	0		Cash balance (including investment in Earmarked Fund)	1,856.93	2,627.83	42
						Total	20,081.28	22,056.35	10
						Deficit in Revenue Account	-9,092.64	-8,878.91	-2
	Total	10,988.64	13,177.44	20		Total	10,988.64	13,177.44	20

Source: Finance Accounts, 2019-20

As can be seen from the above table, the Assets and Liabilities of the State showed an increase of 20 per cent during 2019-20 over the previous year. The increase in Liabilities was mainly due to increase in Reserve Funds (52 per cent) and Small Savings Provident Funds, etc. (36 per cent), which was offset by Loans and Advances from GoI (10 per cent) over the previous year. Similarly, the increase in Assets was mainly due to increase in Cash balance (including investment in Earmarked Fund) (42 per cent) and disbursement of Loans and Advances (28 per cent), which was offset by Suspense and Miscellaneous (10 per cent) over the previous year.

1.5 Fiscal Balance: Achievement of deficit and total debt targets

When a government spends more than it collects by way of revenue, it incurs a deficit. There are various measures that capture government deficit.

Deficits must be financed by borrowing giving rise to government debt. The concepts of deficits and debt are closely related. Deficits can be thought of as a flow which adds to the stock of debt. If the government continues to borrow year after year, it leads to the accumulation of debt and the government has to pay more and more by way of interest. These interest payments themselves contribute to the debt.

By borrowing, the government transfers the burden of reduced consumption on future generations. This is because it borrows by issuing bonds to the people living at present but may decide to pay off the bonds some twenty years later by raising taxes or reducing expenditure. Also, government borrowing from the people reduces the savings available to the private sector. To the extent that this reduces capital formation and growth, debt acts as a 'burden' on future generations.

However, if government deficits succeed in their goal of raising production, there will be more income and, therefore, more saving. In this case, both government and industry can borrow more. Also, if the government invests in infrastructure, future generations may be better off, provided the return on such investments is greater than the rate of interest. The actual debt could be paid off by the growth in output. The debt should not then be considered burdensome. The growth in debt will have to be judged by the growth of the economy (State GDP) as a whole.

Government deficit can be reduced by an increase in taxes or reduction in expenditure. There has also been an attempt to raise receipts through the sale of shares in PSUs. However, the major thrust has been towards reduction in government expenditure. This could be achieved through making government activities more efficient through better planning of programmes and better administration.

The Central and individual State Governments have passed Fiscal Responsibility and Budget Management Act (FRBM) with the objective of ensuring prudence in fiscal management by eliminating revenue deficit, reducing fiscal deficit and overall/ outstanding debt to acceptable level, establishing improved debt management and improving transparency in a medium term framework. In this context the Act provides quantitative targets to be adhered by the state with regard to deficit measures and debt level.

State Government enacted the Nagaland Fiscal Responsibility and Budget Management (NFRBM) Act, 2005 in line with the Union FRBM Act, 2003, to ensure stability and sustainability, improve efficiency and transparency in management of public finances, enhance the availability of resources by achieving sufficient revenue surplus, reduce fiscal deficit and remove impediments to effective conduct of fiscal policy and prudent debt management.

In line with the recommendations of XIII Finance Commission (2010-15), the NFRBM Act was subsequently amended twice, with the latest amendment being in March 2011. However, the NFRBM Act was not amended in line with the XIV FC recommendations (Paragraph 2.6 of XIV FC Report).

In addition to the Fiscal Correction Path (FCP), the State Government is required to prepare every year, as per the provisions of the NFRBM Act, 2005, a Medium Term Fiscal Policy Statement (MTFPS) showing the rolling fiscal targets. The State Government had prepared MTFPS every year.

The status of achievement *vis-à-vis* projections set by the XIV FC during the period 2015-16 to 2019-20 is given in **Table 1.5**:

Table 1.5: Compliance with the projections of XIV FC

Fiscal Parameters	XIV FC projections	Achievement				
		2015-16	2016-17	2017-18	2018-19	2019-20
Revenue Deficit (-)/ Surplus (+) (₹ in crore)	Revenue Surplus	461.65	790.34	827.86	517.43	(-)213.73
		✓	✓	✓	✓	X
Fiscal Deficit (-)/ Surplus (+)	Three <i>per cent</i> of GSDP	-597.27 (-3.06)	-284.86 (-1.31)	-446.09 (-1.82)	-1,082.32 (-3.97)	(-)1,428.22 (-4.68)
		X	✓	✓	X	X
Ratio of total outstanding debt to GSDP (<i>per cent</i>)	2015-16: 43.67	45.75	44.00	42.50	38.65	39.92
	2016-17: 41.82 2017-18: 40.18 2018-19: 38.73 2019-20: 37.45	X	X	X	✓	X

Source: XIV FC Report and Finance Accounts of respective years

State Government was successful in maintaining Revenue Surplus as projected in XIV FC Report, in four out of the five years, during the five-year period from 2015-16 to 2018-19. However During 2019-20, the State had a Revenue Deficit of ₹ 213.73 crore.

The State was successful in containing the Fiscal Deficit below three *per cent* of GSDP in two out of the last five years. It was not successful in reining in the Fiscal Deficit below three *per cent* in 2019-20.

During the five-year period from 2015-16 to 2019-20, the State Government was successful in maintaining outstanding debt to GSDP ratio only in 2018-19 as per the projection made by the XIV FC Report.

The Finance Department, while accepting the fact attributed (March 2021) the Revenue Deficit to less receipt of State's share of Central Taxes during 2019-20. It was also stated that the huge ratio of total outstanding debt to GSDP was due to outstanding WMA during 2019-20.

The position of projections made by the State Government in its MTFPS *vis-à-vis* achievements during the year 2019-20 is depicted in **Table 1.6**.

Table 1.6: Actuals vis-à-vis projection in MTFPS for 2019-20

(₹ in crore)

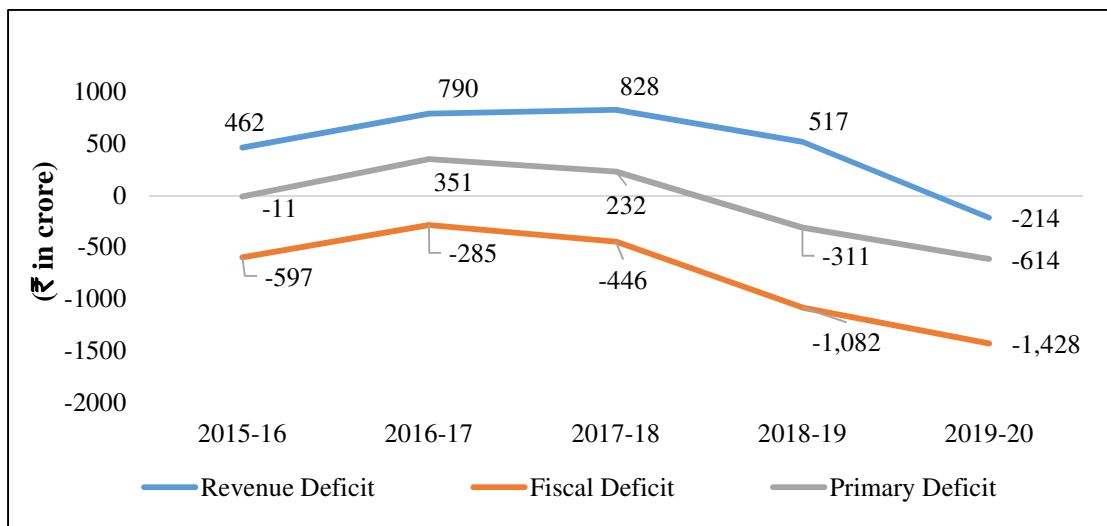
Sl. No.	Fiscal Variables	Projection as per MTFPS	Actuals (2019-20)	Variation (in per cent)
1.	Own Tax Revenue	937.20	958.23	21.03 (2.24)
2.	Non-Tax Revenue	373.03	339.29	-33.74 (-9.04)
3.	Share of Central Taxes	3,267.08	3,267.08	0.00 (0.00)
4.	Grants-in-aid from GoI	7,464.12	6,858.69	-605.43 (-8.11)
5.	Revenue Receipts (1 + 2 + 3 + 4)	12,041.43	11,423.29	-618.14 (-5.13)
6.	Revenue Expenditure	12,615.30	11,637.02	-978.28 (-7.75)
7.	Revenue Deficit (-)/ Surplus (+) (5 - 6)	-573.87	-213.73	360.14 (62.76)
8.	Fiscal Deficit (-)/ Surplus (+)	-2,465.87	-1,428.22	1,037.65 (42.08)
9.	Debt-GSDP ratio (per cent)	38.79	39.92	1.13 (2.91)
10.	GSDP growth rate at current prices (per cent)	4.45	11.82	7.37 (165.62)

Source: MTFP Statement and Finance Accounts, Vol. I, 2019-20.

As can be seen from the above table, the projections made in MTFPS relating to two key fiscal parameters *i.e.*, Revenue Deficit and Fiscal Deficit improved significantly during 2019-20 as compared to the projections. The projection relating to growth rate of GSDP was met with higher growth in GSDP than was projected in the MTFPS. However, projection relating to Debt-GSDP ratio was not met, with the year ending at a higher Debt to GSDP ratio.

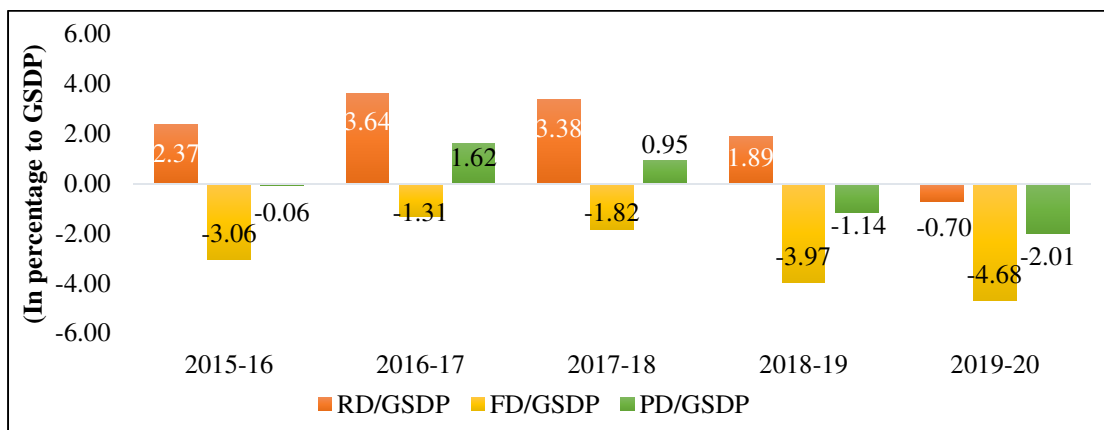
Charts 1.4 and 1.5 present the trends in deficit indicators and Chart 1.6 presents the trends in Fiscal Liabilities and GSDP vis-à-vis target set by the State Government in its MTFP statement over the period 2015-16 to 2019-20.

Chart 1.4: Trends in deficit parameters



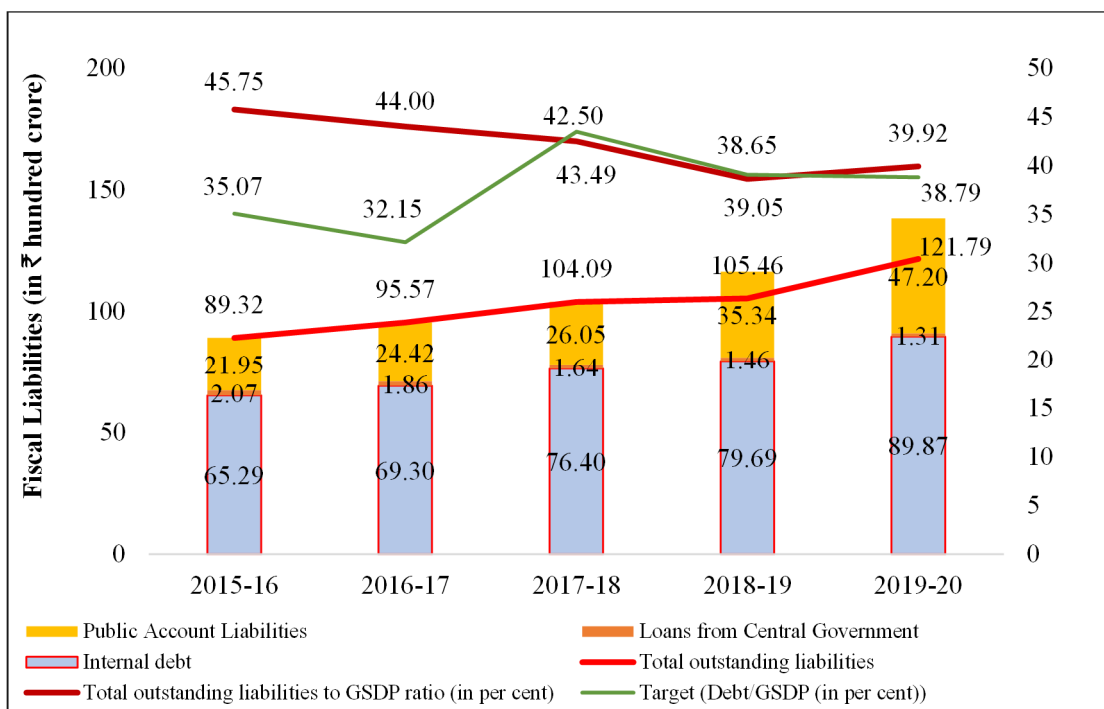
Source: Finance Accounts for respective years and GSDP-Directorate of Economics and Statistics, GoN

Chart 1.5: Trends in Surplus/Deficit relative to GSDP



Source: Finance Accounts for respective years and GSDP-Directorate of Economics and Statistics, GoN
RD: Revenue Deficit, FD: Fiscal Deficit; PD: Primary Deficit

Chart 1.6: Trends in Fiscal Liabilities and GSDP



Source: Finance Accounts for respective years and GSDP-Directorate of Economics and Statistics, GoN

As can be seen from the above charts, Deficit on Revenue Account was witnessed during 2019-20 and it was mainly due to the fact that the State witnessed decrease in Revenue Receipts whereas Revenue Expenditure increased during the year over the previous year. During 2019-20, Revenue Receipts decreased marginally by 0.12 per cent (₹ 14.12 crore) over the previous year, while Revenue Expenditure increased significantly by 6.57 per cent (₹ 717.07 crore) during the same period.

The total fiscal liabilities showed increasing trend during the five-year period 2015-20. The increasing trend was due to increase in Public Account liabilities and Internal Debt. During this period, the total outstanding liabilities to GSDP ratio was above the norm set by the State Government in its MTFPS in three years.

1.6 Deficits and Total Debt after examination in audit

In order to present better picture of State Finances, there is a tendency to classify revenue expenditure as capital expenditure and to conduct off budget financial activities.

1.6.1 Post audit - Deficits

Misclassification of revenue expenditure as capital and off budget financial activities impacts deficit figures. Besides, deferment of clear cut liabilities, not depositing cess/royalty to Consolidated Fund, short contribution to National Pension Scheme, Sinking and Redemption funds, *etc.* also impacts the revenue and fiscal deficit figures.

During 2019-20, the following operations were noticed which impacted deficit figures of the State Government as detailed in **Table 1.7**.

Table 1.7: Revenue and Fiscal Deficit, post examination by Audit

Particulars	Impact on (₹ in crore) {Understated (+)/ overstated (-)}		Paragraph Reference
	Revenue Deficit	Fiscal Deficit	
Short contribution to National Pension Scheme	(+) 30.51	30.51	Para 2.4.2.3
Minor works budgeted/ booked under Capital Section instead of Revenue	(+) 3.29	0.00	Para 3.3.3
Total	(+) 33.80	30.51	

Source: Finance Accounts, 2019-20 and audit analysis

As can be seen from the above table, there was an understatement of Revenue Deficit by ₹ 33.80 crore during the year. The State would have an increased Revenue Deficit of ₹ 247.53 crore during 2019-20, after considering the items of misclassification, that have resulted in overstatement.

Further, the Fiscal Deficit was understated by ₹ 30.51 crore, which would increase the Fiscal Deficit of ₹ 1,428.22 crore to that extent as depicted in the accounts of the State.

1.7 Conclusion

The State's GSDP increased by ₹ 3,227.79 crore (11.82 *per cent*) from ₹ 27,283 crore in 2018-19 to ₹ 30,508 crore in 2019-20. During the last five years, there was a steady increase in GSDP from ₹ 19,524 crore in 2015-16 to ₹ 30,508 crore in 2019-20.

The GSDP growth rate for Nagaland (11.82 *per cent*) was higher than the all India GDP growth rate (7.21 *per cent*) in 2019-20. Tertiary Sector was the major contributor of GSDP during the year with 56 *per cent*. Primary Sector was the second largest contributor with 30 *per cent* while Secondary Sector (12 *per cent*) and Subsidies and Taxes (two *per cent*) were third and fourth respectively.

The State's Revenue Receipts (₹ 11,423.29 crore) decreased by 0.12 *per cent* (₹ 14.12 crore) over the previous year (₹ 11,437.41 crore), mainly due to decrease in State's share in Union Taxes and Duties (13.85 *per cent*).

The State's Own Tax Revenue (₹ 958.23 crore) increased by 13.21 *per cent* over the previous year (₹ 846.43 crore). State's share of Union Taxes and Duties (₹ 3,267.08 crore) in comparison to the previous year (₹ 3,792.41 crore) decreased by ₹ 525.33 crore (13.85 *per cent*).

Revenue Expenditure was ₹ 11,637.02 crore and it increased by 6.57 *per cent* (₹ 717.04 crore) over the previous year (₹ 10,919.98 crore).

The State's Revenue Surplus during the last four years turned into Revenue Deficit, which was ₹ 213.73 crore for the year, mainly due to decrease in Revenue Receipts (0.12 *per cent*) and increase in Revenue Expenditure (6.57 *per cent*).

Capital Expenditure which was ₹ 1,206.32 crore for the year, decreased by 24.39 *per cent* (₹ 389.24 crore) over the previous year's expenditure (₹ 1,595.56 crore). It was mainly due to decrease in capital outlay under General Services (60.49 *per cent*) and Economic Services (31.04 *per cent*).

The State's Total Expenditure for the year, which was ₹ 12,852.60 crore, increased by three *per cent* (₹ 331.79 crore) over the previous year (₹ 12,520.81 crore). It was mainly due to increase in Revenue Expenditure (₹ 717.04 crore) offset by decrease in Capital Expenditure (₹ 389.24 crore).

The State's Fiscal Deficit (₹ 1,428.22 crore) increased by 31.96 *per cent* (₹ 345.90 crore) as compared to previous year (₹ 1,082.32 crore). The Government failed to meet the projections made under Nagaland FRBM Act during the year as it could not achieve surplus on Revenue Account and the Fiscal Deficit-GSDP ratio and Outstanding Debt-GSDP ratio were above the ceilings prescribed under the Act.

Due to short contribution to the National Pension scheme (NPS) and misclassification of expenditure, the Revenue Deficit was understated by ₹ 33.80 crore and fiscal deficit by ₹ 30.51 crore.

1.8 Recommendations

- The State Government needs to keep up the trend of Own Tax Revenue collection achieved during 2019-20 by focusing on other potential areas, apart from SGST to have a sustained increase in Own Tax Revenues.
- The State Government needs to increase its Capital Expenditure and give more impetus to asset creation for sustained economic growth.
- The State Government needs to make efforts to achieve the projections on major fiscal parameters, made in the Nagaland FRBM Act through prudent financial management.