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## PART-IIA

### GOVERNMENT OF MEGHALAYA ORDERS BY THE GOVERNOR

#### NOTIFICATIONS

The 2<sup>nd</sup> November, 2011.

**No.FEA/10/2004/293.** - The Thirteenth Finance Commission (TFC) in Para 9.81 and 9.82 of its Report has recommended that the State amends its Fiscal Responsibility and Budget Management Act., 2006 to provide for, among other things, a Medium Term Fiscal Plan to enable the State to adhere to the fiscal reform path and attain the following fiscal targets stipulated in the Report of the 13<sup>th</sup> Finance Commission:

- (a). maintain revenue surplus during the award period of 2011-12 to 2014-15 as recommended by the 13<sup>th</sup> Finance Commission.
  - (b). reduce fiscal deficit to 3 percent of GSDP or less during 2011-12 to 2014-15 of the award period of the 13<sup>th</sup> Finance Commission.
  - (c). ensure that outstanding debt of the State will be aligned as recommended by the 13<sup>th</sup> Finance Commission and such outstanding debt expressed as percentage of GSDP shall progressively be reduced from 32.7 percent during 2011-12 to 31.7 percent during 2014-15.
2. Amendment of the Fiscal Responsibility and Budget Management Act., 2006 has been made as an essential condition for the release of State Specific Grants.
3. Accordingly, a Medium Term Fiscal Plan (MTFP) has been formulated that provides details of all significant items on receipts and expenditures along with projections for the next three fiscal years, namely, 2012-13, 2013-14 and 2014-15 with 2011-12 taken as a base year for projection purposes. The assumptions and projections made while formulating the Medium Term Fiscal Plan are enclosed at Annexure A and B respectively.

This issue is in pursuance to the Clauses (a), (b), (c) & (g) of the aforesaid Act as amended.

**B. K. DEV VARMA,**  
Addl. Chief Secretary to the Govt. of Meghalaya,  
Finance Department.

## Annexure-A

1 Assumptions used for making projections		
Item	Rate of growth Used	Projection Method and Underlying Rationale
<b>Receipts</b>		
Total Receipts (Exclusive of Borrowings)	NA	This is a derived figure calculated as :- <b>= Total Revenue Receipts + Recovery of Loans and Advances</b>
Revenue Receipts	NA	This is a derived figure calculated as :- <b>= Total Own Revenue+ Share of Central Taxes + Grants</b>
Own Tax Revenue	NA	This is a derived figure calculated as:- <b>= Sales Tax + State Excise + Stamp and Duties + Motor Vehicle + Other Taxes</b>
Sales Tax	11.21%	Concerned tax buoyancy has been calculated by running <b>log log regression of log (sales tax) on log (GSDP)</b> .  The <b>calculated tax buoyancy of 0.975</b> is then multiplied by <b>Meghalaya's GSDP growth of 11.5 percent</b> (projected by the 13 <sup>th</sup> FC Recommendations over the period 2012-13 to 2014-15) to arrive at the annual growth rate of 11.21 % used for future projections.
State Excise	11.51%	Concerned tax buoyancy has been calculated by running <b>log log regression of log (sales tax) on log (GSDP)</b> .  The <b>calculated tax buoyancy of 1.0005</b> is then multiplied by <b>Meghalaya's GSDP growth of 11.5 percent</b> (projected by the 13 <sup>th</sup> FC Recommendations over the period 2012-13 to 2014-15) to arrive at the annual growth rate of 11.51 % used for future projections.
Stamps & Duties	10.76%	Concerned tax buoyancy has been calculated by running <b>log log regression of log (sales tax) on log (GSDP)</b> .  The <b>calculated tax buoyancy of 0.936</b> is then multiplied by <b>Meghalaya's GSDP growth of 11.5 percent</b> (projected by the 13 <sup>th</sup> FC Recommendations over the period 2012-13 to 2014-15) to arrive at the annual growth rate of 10.76 % used for future projections.

Tax on Motor Vehicles	10.30%	<p>Concerned tax buoyancy has been calculated by running <b>log log regression of log (sales tax) on log (GSDP)</b>.</p> <p>The <b>calculated tax buoyancy of 0.896</b> is then multiplied by <b>Meghalaya's GSDP growth of 11.5 percent</b> (as projected by the 13<sup>th</sup> FC Recommendations over the period 2012-13 to 2014-15) to arrive at the annual growth rate of 10.30 % used for future projections.</p>
Other Taxes	10.94%	The annual growth rate of 10.94 % for making future projections of "Other Taxes" has been arrived by taking average of the respective calculated growth rates of Sales Tax, State Excise, Stamps & Duties, and Tax on Motor Vehicles.
Own Non Tax Revenue	14.20%	An exponential trend line fitted through the past data from 2005-06 to 2011-12 is used to determine the growth rate of 14.20% for future projections.
Total Own Revenue	NA	<p>This is a derived figure calculated as :-</p> <p><b>= Own Tax Revenue + Own Non Tax Revenue</b></p>
Share of Central Taxes	NA	<p>The 13<sup>th</sup> Finance Commission has provided projections of tax collection of the centre, and recommended Meghalaya's percentage share in the shareable pool of central taxes from the award period (2009-10 to 2014-15), separately for service tax and taxes exclusive of service tax.</p> <p><b><u>Meghalaya's share in central taxes</u></b></p> <p>1) Taxes excluding service tax- (0.408%)</p> <p>2) Service Tax- (0.415%)</p> <p>Based on these, the revenue flowing to the state from this source has been arrived at for three years from 2012-13 to 2014-15.</p>
Grants	NA	<p>This is a derived figure calculated as:-</p> <p><b>= State Plan Grants (inclusive of Non Lapsable ) + CS/C. Sponsored/NEC + Adjustment in CS/C. Sponsored Grants+ Grants from the Finance Commission (Plan + Non-Plan) + Non Plan Grant other than the Finance Commission</b></p>
State Plan Grants (inclusive of NLCPR)	16%	An estimate of 16 % has been assumed for future projections. The basis for this assumption is to ensure that the state adheres to the fiscal deficit limit of 3 % of GSDP in future.

CS/C Sponsored/NEC Grants	16%	An estimate of 16 % has been assumed for future projections. The basis for this assumption is to ensure that the state adheres to the fiscal deficit limit of 3 % of GSDP in future.
Adjustment in CS/C Sponsored Grants	NA	The effect of an adjustment in plan grants due to repayment of Advance Special Plan Assistance of Rs 5450 lakhs over a 10 year period from 2011-2020 (translated to annual commitment of Rs 545 lakhs) has been considered. This is a negative entry budget item in the calculations.  (Note: It is assumed that for 2011-12, the annual adjustment must have been implicitly taken into account in the Budget Estimates.)
Grants from Finance Commission (FC)	NA	This is a derived figure calculated as :-  <b>= Plan Grants from FC + Non Plan Grants (Revenue Deficit + Other than Revenue Deficit) from FC</b>
Plan Grants from FC	NA	As recommended by the 13 <sup>th</sup> Finance Commission report for the years 2012-13 to 2014-15.
Non-Plan Grants (Revenue Deficit+ Other than revenue deficit) from FC	NA	As recommended by the 13 <sup>th</sup> Finance Commission report for the years 2012-13 to 2014-15.
Non-Plan Grants other than Finance Commission	11.14%	Since there are wide yearly fluctuations observed in the past, a compound annual growth rate (CAGR) of 11.14% has been used for future projections.
Recovery of Loans and Advances	3.06%	An exponential trend line fitted through the past data from 2005-06 to 2011-12 is used to determine the growth rate of 3.06% for future projections.
<b>Expenditure</b>		
Total Expenditure (Exclusive of Discharge of Internal Debt and Repayment of Loans to Centre)	NA	This is a derived figure calculated as:-  <b>= Revenue Expenditure + Capital Outlay+ Lending</b>
Revenue Expenditure	NA	This is a derived figure calculated as:-  <b>= Interest Payments+ Salaries+ Pension+ Liabilities in lieu of the New Pension Scheme+ Other Expenditure</b>

Interest Payments	8.35%	<p>Interest rate is estimated using the <b>weighted average of interest rates</b> on various categories of loans (namely market loans, institutional loans, loans from Central Government and NSSF) as at 31<sup>st</sup> March 2011.</p> <p><b>Weighted Average</b> is calculated by dividing the sum of interest payments on the aforementioned categories of loans by the total outstanding amounts of all those loans.</p> <p>For the projections of interest payments, following formula has been used:-</p> <p><b>Interest Payments at t = Interest Rate* Total Debt Stock at period t</b> (on the assumption that the net addition to the debt stock takes place at the beginning of the year).</p>
Salaries	10%	<p>Following the Meghalaya 4<sup>th</sup> Pay revisions, increase in salaries has been projected at the compound annual growth rate of 10% starting from 2009-10 onwards. We have used the same annual growth rate of 10% to project salaries from 2012-13 to 2014-15.</p>
Pension	15%	<p>Following the Meghalaya 4<sup>th</sup> Pay revisions, increase in pensions has been projected at the compound annual growth rate of 15% starting from 2009-10 onwards. We have used the same rate of 15% for annual projections from 2012-13 to 2014-15.</p>
New Pension Scheme	NA	<p>An additional revenue expenditure item for the state government on account of implementation of the <b>New Pension Scheme</b> has been projected till 2014-15.</p> <p>For an explanation of the same, please refer to the note appended after <b>Error! Reference source not found..</b></p>
Other Expenditure	19.97%	<p>This includes all other revenue expenditure items apart from Interest Payments, Salaries, Pension and New Pension Scheme. An exponential trend line fitted through the past data of this residual category from 2005-06 to 2011-12 is used to determine the growth rate of 19.97% for future projections.</p>
Capital Outlay	20.42%	<p>An exponential trend line fitted through the past data from 2005-06 to 2011-12 is used to determine the growth rate of 20.42% for future projections.</p>

Lending	26.62%	<p>Since there are wide yearly fluctuations in the figures, CAGR of 26.62% has been used for future projections.</p> <p><i>Note:</i> Please note that for CAGR computation, the 2011-12 BE figure has been omitted as considered an outlier. Instead, 2010-11 RE has been considered as the End Value in the computation.</p>
Total Liabilities	NA	<p><b>This is a derived figure calculated as :-</b></p> <p>= Closing Stock of Liabilities in last year + Gross Fiscal Deficit in that particular year</p> <p><b>For example, Total Liabilities for 2012-13 = Total Liabilities as on 31.3.2012 + Gross Fiscal deficit for 2011-12.</b></p>

## Annexure-B

o **Medium Term Fiscal Plan (MTFP) Projections under MFRBM Act for the period 2012-13 to 2014-15**

• (figures in Rs. Lakhs unless specified otherwise)

Sl No.	Items	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 (RE)	2011-12 (BE)	2012-13 Proj	2013-14 Proj	2014-15 Proj
I	Total Receipts (Exclusive of borrowings)	176545	215930	245787	282890	346403	441398	562416	689803	771423	865342
1	Revenue Receipts	174694	214219	244138	281064	344735	439381	560216	687536	769087	862933
A.	Own Tax Revenue	25266	30350	31910	36944	44429	46181	58838	65448	72796	80972
i)	Sales Tax	17337	21582	23489	28183	32139	32416	41820	46510	51725	57526
ii)	State Excise	5916	5396	5862	6979	9029	10019	12442	13874	15470	17250
iii)	Stamp & Duties	547	649	599	554	1102	860	1229	1361	1508	1670
iv)	Motor Vehicle	873	934	1135	1321	1361	1564	1859	2050	2262	2495
v)	Other Taxes	592	1790	824	(93)	798	1322	1488	1651	1832	2032
B.	Own Non Tax Revenue	14601	18437	19935	22531	27508	26122	39135	44692	51038	58286
C.	Total Own Revenue (A+B)	39867	48787	51845	59475	71938	72303	97973	110138	123834	139258
D.	Share of Central Taxes	35057	44842	56407	59523	61238	85421	107669	115148	135823	160210
E.	Grants	99769	120590	135886	162067	211559	281657	354574	462250	509429	563466
i)	State Plan Grants (inclusive of NLCP)	44536	56900	64542	95787	139456	159363	227155	263500	305660	354566
ii)	CS/C Sponsored/NEC.	14630	16444	25242	22287	34391	69940	75121	87140	101083	117256
iii)	Adjustment in CS/C Sponsored Grants								(545)	(545)	(545)
iv)	Grants from Finance Commission (FC)	38391	46888	40482	43181	34681	48356	48129	107521	98082	86466

Sl No.	Items	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 (RE)	2011-12 (BE)	2012-13 Proj	2013-14 Proj	2014-15 Proj
a)	Plan Grants	300	-	242	1825	559	3231	5481	11892	11642	11742
b)	Non-Plan Grants (Rev Deficit+Other than RD)	38091	46888	40220	41356	34122	45125	42648	95629	86440	74724
v)	Non-Plan Grants other than FC	2213	359	5640	811	3031	3998	4169	4633	5149	5723
F.	Recovery of Loans and Advances	1852	1711	1649	1826	1668	2017	2200	2267	2337	2408
II	Total Expenditure (Exclusive of Discharge of Internal Debt and Repayment of Loans to Centre)	194443	223382	267205	326400	369032	479046	604297	682484	791575	923095
A.	Revenue Expenditures	167448	190750	225367	268278	318238	406188	497381	553137	635059	733660
i).	Interest Payment	19100	20313	18899	21204	23396	26657	29139	43524	42913	44595
ii).	Salaries	69962	80576	89496	99701	149268	186401	198355	185191	203710	224081
iii).	Pension	9323	11752	13470	17176	20789	20165	23590	27129	31198	35877
iv).	New Pension Scheme								1811	2748	3824
v).	Other expenditures	69063	78109	103502	130196	124784	172965	246298	295483	354491	425283
B.	Capital Outlay	25933	32037	39166	53101	48129	69400	97267	117129	141046	169848
C.	Lending	1063	596	2673	5021	2665	3458	9650	12218	15470	19587
III	Revenue Surplus/Deficit	7246	23469	18771	12787	26497	33194	62835	134399	134027	129274
IV	Fiscal Deficit	(17897)	(7452)	(21418)	(43509)	(22629)	(37648)	(41881)	7319	(20152)	(57753)
V	Primary Deficit	1203	12861	(2519)	(22305)	767	(10991)	(12743)	50843	22761	(13158)
VI	Total Liabilities as on 31st March	256479	278028	313936	357158	380111	425995	479579	521460	514141	534293



Sl No.	Items	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 (RE)	2011-12 (BE)	2012-13 Proj	2013-14 Proj	2014-15 Proj
VII	Revenue Surplus as a % of GSDP	1.01%	2.77%	1.95%	1.17%	2.09%	2.29%	3.79%	7.26%	6.50%	5.62%
VIII	Fiscal Deficit as a % of GSDP	-2.50%	-0.88%	-2.23%	-3.99%	-1.79%	-2.60%	-2.52%	0.40%	-0.98%	-2.51%
IX	Total Outstanding Debt as a % of GSDP	35.86%	32.55%	32.69%	32.75%	30.05%	29.43%	28.90%	28.19%	24.92%	23.23%
X	GSDP	715319	847931	960476	1090560	1264864	1447274	1659262	1850077	2062836	2300062

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- Source: Calculations based on data from Annual Financial Statements of Finance Department, 13<sup>th</sup> Finance Commission Report and Meghalaya 4<sup>th</sup> Pay Commission Report.