सत्यमेव जयते

GOVERNMENT OF MIZORAM

MACRO ECONOMIC FRAMEWORK STATEMENT

(As required under Section 6(6) of
The Mizoram Fiscal Responsibility and Budget Management Act, 2006)

GOVERNMENT OF MIZORAM
2016-2017

(As laid before the Mizoram Legislative Assembly on 17th March, 2016)

FORM –III

(See Rule 7)

MACRO ECONOMIC FRAMEWORK STATEMENT

OVERVIEW OF THE STATE'S ECONOMY

The global macroeconomic landscape is currently chartering a rough and uncertain terrain characterized by weak growth of world output. The situation has been exacerbated by; (i) declining prices of a number of commodities, with reduction in crude oil prices being the most visible of them, (ii) turbulent financial markets (more so equity markets), and (iii) volatile exchange rates. These conditions reflect extreme risk-aversion behaviour of global investors, thus putting many, and in particular, commodities exporting economies under considerable stress.

2. Even in these trying and uncertain circumstances, India's growth story has largely remained positive on the strength of domestic absorption, and the country has registered a robust and steady pace of economic growth in 2015-16 as it did in 2014-15. Additionally, its other macroeconomic parameters like inflation, fiscal deficit and current account balance have exhibited distinct signs of improvement. Wholesale price inflation has been in negative territory for more than a year and the all-important consumer prices inflation has declined to nearly half of what it was a few years ago.

3. However, weak growth in advanced and emerging economies has taken its toll on India's exports. As imports have also declined, principally on account of reduced prices of crude oil for which the country is heavily dependent on imports, trade and current account

deficits continue to be moderate. Growth in agriculture has slackened due to two successive years of less than-normal monsoon rains. Saving and investment rates are showing hardly any signs of revival. The rupee has depreciated vis-à-vis the US dollar, like most other currencies in the world, although less so in magnitude. At the same time, it has appreciated against a number of other major currencies.

4. Given the fact that the government is committed to carrying the reform process forward, aided by the prevailing macroeconomic stability, it appears that conditions do exist for raising the economy's growth momentum and achieving growth rates of 8 per cent or higher in the next couple of years. At the same time, growth in 2016-17 may not pick up dramatically from the levels achieved in 2015-16 as the possibility of slow global economic growth and financial sector uncertainties still loom large. Given the prevalent overall macroeconomic scenario, and assuming a normal level of rains in 2016-17, it would not be unreasonable to conclude that the Indian economy is all set to register growth in excess of 7 per cent for the third year in succession.

5. The investment climate of the State has been optimistic. The Government's increased investments will be supplemented by inflow of foreign capitals for which the Government has been taking active steps. The signing of the 2 (two) loan agreements with the Asian Development Banks for their investments in the project of *'North-Eastern Region Capital Cities Development Investment Programme (NERCCDIP)'* and the *'Mizoram Public Resource Management Programme (MPRMP)'* resulted in commencement of the investments by the Bank to meet the critical programme activities. The Government's

focus will continue towards mobilizing external resources for public investments.

6. North-Eastern Region Capital Cities Development Investment Programme (NERCCDIP) Tranche 3 include physical investments in water supply, solid waste and sanitation improvement in Agartala and Aizawl, and non-physical investments to continue supporting implementation of urban reforms agreed under the North Eastern Region Capital Cities Development Investment Program (NERCCDIP) in these cities. Two tranches have been approved to date under NERCCDIP (Projects 1 and 2). All three projects have been sequenced based on the implementation capacity and sector priorities of the Investment Program cities, and will collectively meet the intended outcomes of NERCCDIP. NERCCDIP was framed within GoI's 11th Five-year Plan (2007-2012), which aimed to reduce poverty and regional disparities by ensuring, among others, access to basic physical infrastructure. Aizawl and Agartala were selected for financing under Project 3 based on their progress on urban reforms and implementation performance of projects 1 and 2, in accordance with the agreed framework financing framework (FFA) for NERCCDIP.

7. The World Bank-assisted Mizoram State Road Project-II was initiated by signing agreement in 2014.The World Bank had approved on 12th June 2014 a $107 million credit for the Mizoram State Roads II – Regional Transport Connectivity Project to improve transport connectivity for Mizoram and to help open up the potential for regional trade among neighboring countries. The Mizoram State Roads Project helped build or rehabilitate over 400 kilometers of the State's core road network, reducing travel time by half, and triggering significant socioeconomic benefits in the project area.

8. The State Government is also actively pursuing various infrastructural development projects by availing low interest loans from NABARD. Rural Infrastructural Development Fund (RIDF) is utilized by the State Government for financing various developmental works and RIDF XXI is currently being availed. The advantage of these projects funded by NABARD is that the implementation period is only three years so that the results can be seen within a short period of time which reduces cost escalation and time over run.

9. The Government's focus has also been on taking advantage of the raising of private investments in the economy. The Government has initiated taking up projects on Public Private Partnership (PPP) mode, and the Kolodyne HEP has been taken up by the NTPC on 'Build, Own Operate and Maintain (BOOM)' model of PPP and construction of the project will be taken up for 6 years. On July 23, 2014 the Ministry of Finance has approved Rs.1750.60 crore for a 210 MW capacity Tuivai Hydro Electric Project. The project is to be to be taken up by NEEPCO for which a MoU has been signed with them. Mizoram will get the benefit of 12 % free power as and when the Project is over. The quantitative and qualitative increase in the utilization of the Central Sector Schemes, foreign and private capitals for increasing investments and effective convergence of the activities will continue to be the focus of the Government to bring in fruitful utilisation of resources and growth of the economy.

10. The North Eastern Council, set up by an act of Parliament in 1971 as an Advisory body for all round development of the North eastern Region, is now functioning as a regional planning body. The Council plays an important role for Socio-economic Development of the North Eastern States for various sectors. The major investments had been in transport and communication followed by the water and

power sector. Investments include construction of roads, upgradation/ improvement of airports, survey and investigation of hydroelectric power projects. At present, there are 60 nos. of on-going projects across various sectors with a total, cost Rs.810.21 crore. NEC had released Rs.16.70 crore for these projects during 2014-15 (upto 3rd quarter) and Rs.448.11 crore since inception of these projects. Mizoram Government submitted 48 no's of new projects as 'State Priority' for funding during 2014-15. However, due to meager fund available with the NEC, they are not able to take up these priority projects during 2014-15.

11. The Non-Lapsable Central Pool of Resources (NLCPR) was created during 1998-99 out of the unspent balance of 10% GBS of concerned Central Ministries. Funds under NLCPR are administered by the Ministry of Development of North Eastern Region (DoNER). Till date, there are 78 nos. of completed NLCPR projects with total expenditure of Rs. 53227.96 lakh. Presently, there are 61 nos. of ongoing projects with total approved cost of Rs. 49056.89 lakh. These projects which are infrastructure in nature covers Agri. & Allied, Education, Health, Roads, Power, Water Supply and other Miscellaneous Sectors. In addition to the above, there are also 61 nos. of projects with estimated cost of Rs.52891.00 lakh under consideration for funding under NLCPR.

12. The size of the Annual Plan 2016-17 is agreed to with an outlay of Rs. 3093.91 crore.

GDP GROWTH

13. The Central Statistics Office released a new GDP series that entailed shifting the base year from 2004-05 to 2011-12. New

estimates for GSDP have been provided for the years 2011-12 to 2014-15 at national level and State level

14. The State Gross Domestic Product (GSDP) at constant (2011-12) prices in 2014-15 is estimated at Rs.9,428.70 crore as against Rs.8,661.31 crore in 2013-14 registering a growth of 9.2 percent during the year as against the growth rate of 9.11 percent during the previous year. At current prices, the GSDP is estimated at Rs.11,457.99 crore as against Rs.9,849.41 crore in 2012-13 showing an increase of 12.6 percent during the year.

15 The State economy (GSDP) is projected to grow at about 9.2% during 2014-15 while the national economy (GDP) is projected to grow at 7.5% during 2014-15.

16. The Per Capita Income at current prices witnessed an increase of 14.12 percent as it increased to Rs.85,356 in 2014-15 from Rs.74,846 in 2013-14 while the National Per capita income for the corresponding period was estimated at Rs.88,533/- and Rs.80,388 respectively.

17. Services or Tertiary Sector dominates the economy in terms of contribution to the Gross State Domestic Product (GSDP) at 60.02% of the total GSDP (2014-15). Services Sector continued to be the growth drivers of the economy and contributed 61.4% to the GSDP during 2014-15.

18. The Primary Sector comprising agriculture & allied activities contributed 17.5% (2014-15) to the GSDP. With livelihood of about 60% of the population depending on agriculture and allied activities,

faster growth in agriculture is both a necessary and sufficient condition for stronger, sustainable and inclusive growth in the State.

19. The Industry Sector contributed 21.10% of GSDP during 2014-15. The main driving force of the sector is Construction Sector with a contribution of 9.87% to the GSDP in 2014-15.

20. The Annual inflation rate (Provisional as of December 2015) on point to point basis *(December 2015 over December 2014)* in Mizoram is 6.33% against the all India inflation rate of 5.61%, marginally higher than the all India average.

OVERVIEW OF STATE GOVERNMENT FINANCES

21. The Thirteenth Finance Commission recommended that Govt. of Mizoram will have to maintain Revenue Surplus from the fiscal 2011-12, gradually reduce its fiscal deficit to 5.2 per cent in 2012-13, 4.1 per cent in 2013-14 and ultimately to 3 per cent of its GSDP by 2014-15 and limit outstanding liabilities at 82.9 per cent of GSDP in 2012-13, 79.2 per cent in 2013-14 and eventually at 74.8 per cent of corresponding GSDP by 2014-15. The Fourteenth Finance Commission further stated that during their award period, fiscal deficit of all States will be anchored to an annual limit of 3 per cent of GSDP with flexibility of 0.50 with certain conditions.

22. The fiscal deficit, which has been measured as a percentage of the GSDP series adopted by the FC-XIII, stood at 15.96 per cent in 2010-11, the same stood at 6.84 per cent in 2011-12, at 7.21 per cent in 2012-13 and at 8.43 per cent in 2013-14. As per Budget Estimates of 2015-16, the fiscal deficit would be Rs. 13.64 crore and the GSDP figure for the year provided by the Ministry of Finance, Government of

India in conformity with the recommendation of the Fourteenth Finance Commission is Rs. 14,204 crore; hence the fiscal deficit would be 0.10 per cent of the GSDP, which is lower than the target fixed by the Fourteenth Finance Commission. The actual figure may, however be higher than this as and when the Finance Account is available but expected to be lower than 3 per cent.

23. Revenue Receipt of the State consists of Tax Revenue and Non-Tax Revenue. The estimated Tax Revenue for 2016-17 is Rs. 2958.36 crore comprising State's Own Tax Revenue of Rs. 331.19 crore and State's share of Central Taxes of Rs. 2627.17 crore.

24. Dominant features of the State Own Tax Revenues are –it is very minimal in comparison to the resources devolved by the Central Government and that Mizoram Value Added Tax (VAT) remains the prominent contributor. The SOTR has a positive trend of growth, it was Rs. 130.44 crore in 2010-11, Rs. 179.07 crore in 2011-12, Rs. 223.15 crore in 2012-13 and Rs.229.78 crore in 2013-14. Tax Revenue collection during 2014-15 was estimated at Rs 266.53 crore. The Budget Estimate of SOTR for 2015-16 was Rs. 326.55 crore

25. As can be seen from the available data, the SONTR has increased from Rs.146.72 crore in 2010-11 to Rs. 168.03 crore in 2011-12, which further increased to Rs.212.80 crore in 2012-13 and finally declined to Rs. 194.26.Hence the trend growth rate was erratic showing that various Departments needed to put more efforts in SONTR. The estimated amount of State's Own Non-Tax Revenue for 2015-16 was Rs. 252.81 crore. For 2016-17, the estimated SONTR is Rs. 279.06 crore.

26. As per the recommendation of the Fourteenth Finance Commission, the share of States in the net proceeds of Union taxes was increased from 32 per cent to 42 per cent. Out of this, the share of Mizoram in inter-se distribution of the State's share amongst the States is 0.460 per cent. Depending upon buoyancy of the Central taxes, actual receipt of the State in Central Taxes may be more or less than the projection of the Commission. The total fund under the award of the Fourteenth Finance Commission for Mizoram State during 2015-16 to 2019-20 will be Rs. 30584.21 crore. The main sources of funds for the State during these 5 years will consist primarily of Share of Taxes and Post-Devolution Revenue Deficit Grant (PDRD Grant), and grants for Urban Local Bodies and State Disaster Response Fund (SDRF).

27. The overall Capital Receipts for the year 2016-17 is estimated to be Rs. 393.45 crore. The Non-debt capital receipts on account of Recoveries of loans and advances against the past investment are estimated at Rs. 32.84 crore during 2016-17. Capital Receipt on account of Public debt comprising of Internal Debt and Loans & advances from the Central Government is estimated at Rs. 360.61 crore during 2016-17; out of this Rs. 331.27 crore will be the contribution of Internal debt and Rs. 29.34 crore will be due to Loans & Advances from the Central Government.

28. The surging expenditure on revenue account has been a serious issue of concern in the State finance. This has resulted in deterioration of resources for capital investments. Thanks to the previous fiscal reforms measures and the increase in devolution of resources from the Centre, the State attained a revenue surplus since 2003-04 till 2009-10. The State Government, however, could not

maintain this trend in 2010-11 by committing a revenue deficit of Rs.400.87 crore. There was a revenue surplus of Rs.127.57 crore in 2011-12 and of Rs. 27.83 crore in 2012-13. Again, there was a revenue deficit to the tune of Rs. 152.13 crore in 2013-14. The pre-actual estimate of Revenue deficit for the year 2014-15 was Rs. 141.33 crore. The actual performance of whether the State could maintain the estimate or not will be certain as and when the Finance Accounts 2014-15 is available. The Budget Estimate of Revenue surplus for 2015-16 was Rs. 1084.16 crore. The same for 2016-17 is estimated at Rs. 1238.91.

29. Budget Estimates for expenditure on account of disbursement of Loan and Advances in 2015-16 (BE) is Rs. 251.49 crore. Expenditure on account of repayment of loans and advances is estimated at Rs. 40.00 crore. Capital outlay in 2014-15 stood at Rs. 927.51 crore and is estimated at Rs. 1193.78 crore in 2015-16.

30. The State's overall liabilities which included Market Borrowings (Market Loans and Power Bonds), Loans from the Central Government (Block Loans and other Loans), Special Securities issued to NSSF, Borrowings from FIs (LIC, NABARD, NCDC and other Institutions), WMA/OD from RBI, Provident Funds (GPF, Insurance & Pension Fund) and Other Liabilities stood at Rs. 5114.20 crore in 2011-12, Rs. 5608.47 crore in 2012-13 and Rs. 6550.39 crore in 2014-15. The State total liabilities were estimated to be Rs. 6260.20 crore in 2015-16(BE). In terms of percentage to our GSDP, the liabilities were 65.06 per cent in 2011-12, 63.51 per cent in 2012-13, 54.47 per cent in 2013-14, 52.41 per cent in 2014-15 and was estimated to be 44.07 per cent in 2015-16 (BE). Thus, over the past few years, the State's

liabilities diminished from 65.06 per cent to 52.41 per cent of the GSDP which is indeed a great achievement.

PROSPECTS

31. The Indian economy has made substantial improvements in its macroeconomic fundamentals and impressive strides in reducing macro-vulnerability with reforms in key areas, pursuit of fiscal prudence and consolidation, focus on price stability and the resultant benign price situation and comfortable level of external current account. With improved industrial growth supplementing the buoyant services sector, overall economic growth has also picked up. Set against the background of the unsupportive global economic landscape, and back-to-back weak monsoons with deleterious effects on farm production, the growth rate of 7.6 per cent in 2015-16 as estimated by the CSO is encouraging. In sharp contrast, the global economy, shrouded in uncertainties and constrained by sluggish demand, has failed to generate confidence. While the emerging market economies have clearly slowed down, the large Chinese economy is faced with concerns of rebalancing investment and consumption activities. In this milieu, the Indian economy stands out as a haven of macroeconomic stability, resilience and optimism and can be expected to register GDP growth that could be in the range of 7.0 to 7.75 per cent in the coming year.

32. With focus on reforms in key sectors coupled with stable macroeconomic conditions, the above growth prospect for the economy in the next year appears reasonable. Yet, the outlook will be conditioned by a number of factors; some of which indicate downside risks; the strongest of them being weak global demand. In 2015-16, the external vulnerability indicators improved and the rupee

weathered the depreciation pressure better than the currencies of most emerging market economies. The headwinds to growth may come from sluggish global demand as the Indian economy is closely integrated with the rest of the world; exports and imports together constitute 42 per cent of the GDP, even at the reduced levels in 2015-16. On the brighter side, however, the composite growth of India's trading partners is projected to modestly improve in 2016. Improved competitiveness and brighter perceptions about the Indian economy get reflected in greater investment inflows.

33. From the angle of aggregate demand, domestic absorption has remained reasonably strong, despite reduction in overall investment. Private consumption has, of late, been the major driver of growth. The possible shifts on the consumption front in the next year are: first, consumption incentives flowing from declining oil prices may partially recede in the next year; second, the pay commission awards could potentially add modestly to consumption demand; third, an improved farm sector performance can add to rural consumption. However, it may be hard to endlessly expect significantly higher growth impetus from consumption. Government's focus on fiscal consolidation rightly limits the option of raising general government consumption expenditure. Private corporate savings and investment showed encouraging results in 2014-15; but the eventual outcome may also be influenced by indications of excess capacity in some sectors. However, with multifaceted measures from the government to foster industry and enterprise, investment-led growth should return.

34. To encapsulate, in the short run, Indian growth may fall short of its growth potential of 8-9 per cent. Yet, the economy could continue weathering the global sluggishness with resilience and consolidate the

gains in macroeconomic stability in the year ahead. This is an outlook that multilateral institutions, in their latest assessments, have also attested to.

35. With that growth expectations of the country's economy in view, the State's economy is also under moderate expectation to perform well in the coming years. Considering the dependency of the State economy on the performance of the national economy, which in turn affects the devolution and subventions from the Central Government, the macroeconomic framework of the State government will definitely follow the national trend. Hence, the fiscal policy of the Central government as well as the monetary policy of the RBI will pave a long way in the fiscal health of the State Government provided that structural bottlenecks are done away with by the Central government.

36. The State's Annual Plan has been increasing with the approved plan size of Rs. 2500.00 crore in 2013-14, Rs. 3140.00 crore in 2014-15 and slightly reduced to Rs. 3097.78 in 2015-16.The size of State Plan as per the Budget Estimates of 2016-17 is Rs. 3093.91 crore. The public expenditure on plan activities outside annual plan forms a sizeable chunk thus contributing effectively to the growth of the State's economy. The award of FC-XIV with higher levels of devolution resulting in availability of resources is expected to contribute significantly towards the economic activities of the Government. With the hope of resurging rural economy in the Government's flagship programme in the implementation of the New Land Use Policy (NLUP), the rural economy is expected to increase its contribution towards the economy. With the Government laying down the much needed basic infrastructure foundation for economic growth in key sectors, the economic activities of the private sector is expected to come up contributing for economic growth. The State Government's

commitment in taking up economic development has also resulted in increased economic co-operation with multilateral institutions. The inflow of external resources, accompanied by the transfer of knowledge and expertise at the international level will slowly impact the performance of the public and private sectors.

37. A Macro Economic Framework Statement giving trend in selected macro economic and fiscal indicators is placed below at Annexure appended to this Statement.

Sl. No.	Economic / Fiscal Indicators	Absolute value (Rs. Crore)		Percentage Changes	
		April - March		April - March	
		2014-15 (Actuals)	***2015-16 (RE)***	***2014-15 (Actuals)***	***2015-16 (RE)***
A	**Real Sector**				
1	GDSP at factor cost				
	(a) at current prices	12499.00	14204.00	21.38	13.64
	(b) at 2004-2005 prices				
2	Agriculture Production				
3	Industrial Production				
4	Tertiary Sector Production				
B	**Government Finances**				
1	**Revenue Receipts (2+3)**	**5511.11**	**7535.15**	**15.66**	**41.71**
2	*Tax Revenue (2.1+2.2)*	*1177.20*	*2681.56*	8.21	127.79
2.1	Own Tax Revenue	266.53	310.68	15.99	16.56
2.2	State's Share in Central Taxes	910.67	2370.88	6.13	160.35
3	*Non-Tax Revenue (3.1+3.2)*	*4333.91*	*4853.59*	17.87	17.24
3.1	State's Own Non-Tax revenue	241.96	269.83	24.55	11.77
3.2	Central Transfers	4091.95	4583.76	17.49	17.57
4	**Capital Receipts**	**1414.70**	**683.88**	**22.35**	**-51.94**
4.1	Recovery of loans	31.62	40.00	-4.50	-
4.2	Other Receipts				
4.3	Public Debt	1383.08	643.88	23.14	-53.45
5	**Total Receipts (1+4)**	**6925.81**	**8219.03**	**16.97**	**21.94**
6	**Non-Plan Expenditure**	**4826.74**	**4862.04**	**14.44**	**-43.67**
6.1	*Revenue Account*	*3500.62*	*4096.79*	12.19	12.96
	of which:-				
	(a) Interest payments	305.83	450.16	7.50	51.30
	(b) Subsidies				
	(c) Salaries	1724.68	2004.54	14.46	5.32
	(d) Pension Payments	544.65	560.00	11.12	47.52
6.2	*Capital Account*	*1326.12*	*765.25*	20.84	-84.71
7	**Plan Expenditure**	**2944.88**	**3384.04**	**28.81**	**-46.08**
7.1	Revenue Account	2151.82	2546.91	19.76	-3.59
7.2	Capital Account	793.06	837.13	62.07	-76.96
8	**Total Expenditure (6+7)**	**7771.62**	**8246.08**	**19.49**	**-44.68**
8.1	***Revenue Expenditure (6.1+7.1)***	*5652.44*	*6643.70*	14.96	5.99
8.2	***Capital Expenditure (6.2+7.2)***	*2119.18*	*1602.38*	33.55	-81.45
	of which:-				
	(a) Loans & Advances	2.43	40.00	-92.08	1381.48
	(b) Capital Outlay	927.51	1047.06	54.74	-3.71
9	**Revenue Deficit (-)/Surplus (+) (1-8.1)**	**-141.33**	**891.45**	**-7.11**	**-193.71**
10	**Fiscal Deficit {(1+4.1+4.2)-(8.1+8.2a+8.2b)}**	**-1039.65**	**-155.61**	**38.78**	**-92.22**
11	**Primary Deficit (10-6.1a)**	**-733.82**	**294.55**	**57.94**	**-117.29**
12	**Memo:**				
	Average amount of WMA from RBI*	2.78		-	-
	Average amount of OD from RBI#	0.15		-	-
	Number of days of OD	2		-	-
	Number of occasions of OD	2		-	-

* Indicates daily average of W&MA availed during the year

The State Government did not lapse into OD during the year.