



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
2022-23

(As laid before the 8th Mizoram Legislative Assembly on 24th February, 2022)

MACRO ECONOMIC FRAMEWORK STATEMENT

I. OVERVIEW OF MIZORAM STATE ECONOMY

1. The Macro Economic Framework Statement is presented every year before the House of the Mizoram State Legislative Assembly, as required under Section 6 (6) of the Mizoram Fiscal Reform and Budget Management Act, 2006. The Statement contains an overview of the Economy with information on key macro-economic indicators, analysis of trends in overall GDP growth and its sectoral composition, trends in revenue collections and expenditure of the Government as well as trends in important fiscal deficit and debt indicators, and growth prospects etc.

2. The last two years have been a combination of fear and uncertainty as the world economy plunged into a deep, however short recession. The IMF in its World Economic Outlook Report in January 2022 expected global GDP to weaken from 5.9% in 2021 to 4.4% in 2022 while India's economy is projected to grow by 9% in 2022-23, retaining its position as the fastest-growing major economy in the world. Even as the surge in daily COVID-19 cases in recent days driven by the Omicron variant has prompted fresh restrictions in several parts of the country, the impact of third wave of Covid pandemic on economic activity has been much weaker than the previous two waves. High frequency indicators show that India's economy is well on its way to growing at or even above 9.2% in 2022 as projected in the National Statistical Office (NSO) in its first advance estimate. As for Mizoram, the GSDP is estimated to increase by 16.76 % (at current price) according to advance estimates prepared by Directorate of Economics & Statistics, Planning & Programme Implementation Department.

State Gross Domestic Product

3. Gross State Domestic Product (GSDP) is the most important indicator for measuring the economic growth of a State. Gross State Domestic Product (GSDP) is a measure in monetary terms, the sum total volume of all finished goods and services produced during a given period of time, usually a year, within the geographical boundaries of the State, accounted without duplication. These estimates of economy, over a period of time, reveal the extent and direction of the changes in the levels of economic development. The State Domestic Product is classified under three broad sectors such as Primary sector, Secondary sector and Tertiary sector.

4. The Gross Domestic Product of the State has shown an increase from ₹21878.97 crore in 2018-19 (final) to ₹25,148.57 crore in 2019-20 (prov.), ₹29,076.42 crore in 2020-21 (adv.), ₹33,793.15 crore in 2021-22 (proj) and ₹39,458.50 crore in 2022-23 (proj.). This implies a 16.76% increase in GSDP (at current price) for 2022-23 as per the projected figures. The major contributors to growth in GSDP are Agriculture, Forestry & Fishing in Primary Sector or Agriculture & Allied Sector; Electricity, Gas,

Water Supply & Other Utility Services, Construction Works in Secondary Sector or Industry Sector; Public Administration and Trade, Hotels & Restaurants under Tertiary Sector or Service Sector. As the base year is taken as 2018-19 (Actuals) which was before the outbreak of Covid, the trend is still in ascending path.

Prices

5. The consumer price index (CPI) reflects the increased cost of living, or inflation. The CPI is calculated by measuring the costs of essential goods and services, including vehicles, medical care, professional services, shelter, clothing, transportation, and electronics. Inflation is then determined by the average increased cost of the total basket of goods over a period of time. A high rate of inflation may erode the value of the currency more quickly than the average consumer's income can compensate. CPI for urban and rural areas reflects the true picture of the price behavior of various goods and services consumed by the entire urban and rural population in the country. CPI for urban and rural areas was released from 2011 by Central Statistical Organization (CSO) with 2010=100 as base year.

6. The combined index value of CPI for urban and rural has increased from 157.3 in 2020 to 166.1 in 2021 with an increase of 5.59% at all India level. The CPI of the State has also shown an overall increase of 4.76 % from 157.5 in 2020 to 165.0 in November, 2020.

7. As on December 2021, the annual inflation rate (Prov.) in Mizoram is 4.76% against the All-India inflation rate of 5.59%. The All-India annual inflation rate increased compared to the same month of the previous year, i.e., 4.59% while the inflation rate of Mizoram decreased compared to the previous year's rate of 10.14%.

II. OVERVIEW OF THE STATE GOVERNMENT FINANCES

8. The State being largely dependent on Central transfers, the state of economy at the Centre reflects directly on the State's economy. During the last three years, even before the onset of the Covid pandemic, there was a huge short release in tax share amounting to ₹2086.58 from FY 2019-20 up to FY 2021-22. Apart from this, Special Grant of ₹546.00 crore which was recommended by the Fourteenth Finance Commission to compensate for the projected decline in tax devolution and revenue gap grant to be received by the State in 2019-20 has not been realized till today. This has exacerbated the State's already poor finances. However, short release of tax share during FY 2021-22 is expected to be compensated before the end of the current Financial Year.

9. The State has continued to display a moderate level of growth in collection of its Own Tax Revenues. The underlying factor that contributes to the low level of tax collection is to a great extent attributed to non-existence of large scale industries in the State. The geographical isolation, rugged terrains and limited resources is hugely detrimental for setting up large scale industries. Furthermore, the

contribution of industry sector to the economy is fairly moderate making it difficult to have a broad tax base. The impediments caused by transition from the erstwhile VAT to the new tax regime in the form of GST are slowly dissipating and GST has gained traction which has helped increase State's own tax collection. However, the share of the State's Own Taxes to the overall tax receipt continues to be nominal, accounting for just over 7.01 % for BE 2022-23.

10. The State's Own Tax Revenue (SOTR) was ₹786.59 crore in 2021-22 (RE) while a total of ₹801.30 is estimated to be collected under State's Own Tax Revenue in 2022-23.

11. The State's Own Non-Tax Revenue (SONTR) ₹862.84 crore in 2021-22 (RE) and it is estimated that a total of ₹836.43 crore is likely to accrue under State's Own Non-Tax Revenue during 2022-23. The drop in estimated Non-Tax Revenue for 2022-23 is because P&E Department's shortfall of its Aggregate Revenue Requirement will now be met through subsidy and normal allocation, and as the subsidy amount has been reduced accordingly, the same need not be projected in the new BE.

12. The Fifteenth Finance Commission has recommended that the share in taxes to be devolved to the State Governments be slightly reduced from 42% to 41%; the share of central taxes for the State was ₹3010.55 crore in 2020- 21 (Actuals) and ₹3,721.95 crore in 2021-22 (RE). The expected amount for BE 2022-23 is ₹4083.24 crore. The actual release to the State Government is subject to actual realization of tax revenues by the Central Government.

13. The Post Devolution Revenue Deficit Grant (PDRDG) has been decreased by a considerable amount during the Fifteenth Finance Commission as compared to the Fourteenth Finance Commission period. Revenue Gap Grants are released as monthly installments to 17 States as per the recommendations of the Fifteenth Finance Commission to meet the gap in Revenue Accounts of the States post devolution. The Revenue Deficit Grants received in 2020-21 (Actuals) was ₹1,422.00 crore, ₹1,790.00 crore in 2021-22 (RE) and ₹ 1615.00 in 2022-23 (BE) which is 9.78% lower than the current year's BE. The recommended Revenue Deficit Grants diminish towards the end of the Finance Commission award period with only ₹ 586.00 crore recommended for 2025-26.

14. Allocation of the State Disaster Response Fund, now changed to the State Disaster Risk Mitigation Fund to Mizoram increased to ₹49.00 crore in 2022-23 from ₹47.00 crore in 2022-23. The XV Finance Commission recommended that 20 % of the fund can be utilized for mitigation purposes and the remaining 80 % as response funds.

15. It is estimated that ₹106.00 crore will be received towards Local Body Grants with an estimated amount of ₹71.00 crore under Rural Local Body Grant and ₹35.00 crore under Urban Local Body Grant. The recommended amount for Rural Body Grant is 2.90 % more than the previous year's figure while there is an increase of 2.94% in respect of Urban Body Grant.

16. As recommended by the Fifteenth Finance Commission, Health Grants for development of primary health infrastructure is earmarked at ₹31.19 crore for 2022-23 which is the same amount as sanctioned in 2021-22.

17. The borrowing ceiling of State Government is guided by the recommendation of the Finance Commission. The Ministry of Finance fixes the upper ceiling of net borrowing that can be availed by a State Government in line with the recommendation of the Finance Commission. The FRBM Act, 2006 was therefore amended from time to time so as to incorporate the new recommendations introduced by the Finance Commission. These are guidelines to lead the State Government along the fiscal correction path. The State Government has to be cautious in handling borrowings so that the borrowings should not be in excess of the requirement of deficit financing and the portfolio selection should be guided by the borrowing instruments and the overall cost of borrowings such that the weight-average interest rate on new borrowings could be minimized. The Fifteenth Finance Commission has allowed 4% of GSDP for 2021-22 and 3.5% for 2022-23.

18. To meet the resource gap on the Consolidated Fund and for making the requirement of resources to finance the Annual Plan, Net receipts under Provident Fund and Insurance & Pension Fund in the Public Account are always utilized. It is termed as Borrowings from Public Account (Net). Borrowing has to be maintained at optimum level so that the net borrowings under Public Account are not too much and serve as only gap-filler in the deficit financing. The net borrowing from the Public Account was ₹215.89 crore in 2020-21 (Actuals), ₹61.00 crore in 2021-22 (RE) and ₹ 61.00 crore in 2022-23 (BE).

19. The increased percentage of Revenue Expenditure mainly depends on two factors – increased percentage of salary and its connected items, rise in obligatory expenses and increased percentage of contingent expenditure. Owing to the implementation of Seventh Pay Revision and inflation, the expenditure on account of salary and its connected items has increased instantly and tremendously. Further obligatory expenditure on covid-related unforeseen expenditure, power purchase, rice purchase and salaries of employees under a few CSS Schemes which are paid from the State's revenue add to the Revenue Expenditure of the State. The total revenue

expenditure was ₹ 8,514.79 crore in 2020-21 (Actuals) and ₹10,487.15 crore in 2021-22 (RE). An estimated amount of ₹10,006.51 crore is kept under BE 2022-23.

20. Capital Expenditure is an expense made towards creation or improvement of long-term assets such as infrastructure, lands and buildings, roads and bridges, investment in reserve funds etc. The Total Capital Expenditure was ₹2,746.76 crore in 2020-21 (Actuals), ₹5,910.41 crore in 2021-22 (RE). An amount of ₹4,001.64 crore is estimated to be used under Capital Expenditure during 2022-23.

21. Collection under Goods & Services (GST) have been improving since 2018-19 and even amidst the covid pandemic, GST collection at the State surpassed its target for BE 2021-22. Moreover, GST collection at the Centre has rapidly increased with collection in January, 2022 crossing ₹1.38 lakh crore, a growth of 15 per cent over the year-ago period. The GST accounts for a major revenue resource for the State. The rise in GST collections and direct taxes at the Central indicates that the Indian economy is on a sustained path of revival. For a small state like Mizoram that largely depends on the Centre for its survival, this rise in tax collection has an incredibly meaningful impact. However, the austerity measures imposed by the state has been relaxed only minimally as the state is still reeling under huge debts.

22. The extent of the overall fiscal imbalances in the finances of the State is determined by three fiscal parameters – revenue, fiscal and primary deficits. The deficit in the Government Accounts represents the difference between its receipt and expenditure. Fiscal health is largely determined by the nature and magnitude of the deficit. Measures taken by the Government for deficit financing and utilization of resources raised are crucial for maintaining fiscal balance of the State.

III. PROSPECTS OF THE ECONOMY

23. The Union Government in its Budget for the year 2022-23 has allocated ₹600.00 crore under Prime Minister's Development Initiative for North East Region (PM-DevINE). It will be implemented through the North-Eastern Council to fund infrastructure, in the spirit of PM GatiShakti, and social development projects based on felt needs of the North-East. This will enable livelihood activities for youth and women, filling the gaps in various sectors.

24. The State Government has several Externally Aided Projects (EAP) wherein some are already approved and some in the pipeline. These projects are funded by foreign donor agencies such as JICA, ADB, IFAD, NDB (BRICS), World Bank, etc. EAPs are major sources of funds for high impact developmental project and act as positive Fiscal policy based reform for the state due to its impact in enhancing the government spending towards Roads, Urban Development, Infrastructure and other economic development. Projects such as *Mizoram Health Systems Strengthening Project* with a project amount of ₹280, *Mizoram State Super Specialty Cancer Hospital* with a project

cost of ₹500.00 crore, UD&PA Department's *Sustainable Urban Transport Project in Aizawl City* with a total project cost of ₹1,958.70 crore, *Biodiversity Conservation and Forest Enrichment Project* with a project amount of ₹484.27 crore and *Technical Cooperation Project (TCP) on Agriculture & Allied Sector in Mizoram* amounting to ₹1.50 crore have been approved by the Department of Economic Affairs, Ministry of Finance.

25. The Centre has enhanced allocation under Financial Assistance to States for Capital Expenditure from ₹10,000 crore in BE 2021-22 to ₹1.0 lakh crore in FY 2022-23 taking into account positive feedback from States. The scheme was announced as a part of the Aatmanirbhar Bharat package in 2020. The Scheme was aimed at boosting capital expenditure by the State Governments who were facing difficult financial environment in the year 2020-21 due to a shortfall in tax revenue arising from the COVID-19 pandemic. The loan under this scheme is a 50-year interest free loan. The State has allocated ₹100.00 crore for BE 2022-23. However, the expected loan amount could be even higher depending on the allocation and new guidelines which is yet to be issued by the Central Government.

26. The State has allocated a total of ₹170.00 crore for availing low-interest loan under NABARD. The projects under NABARD are exclusively focused on rural infrastructure development as well as construction of warehouses. Post pandemic, NABARD has extended its loan for improvement of healthcare facilities in rural areas.

27. The Government has also constituted a *Manpower Assessment Committee* to make assessment on manpower requirements of the Government, identify such posts that are withering or that are required to be retained/created, make recommendation for filling up of posts etc.

28. *Resource Mobilization Committee* has been formed to look for more effective system and to put in place a mechanism for better and efficient collection of tax and non tax revenues, widening of tax base without causing additional unbearable burden to the general public.

29. Moreover, the State's policy response in close coordination with the Central Government, the aggressive drive in vaccination and the growing responsibility and awareness of the public will gradually pull us out from the trails of the pandemic.

30. A Macro Economic Framework Statement highlighting the macroeconomic view of the State and fiscal indicators may be seen at Annexure to this Statement.

FORM -III
(See Rule 7)
MACRO ECONOMIC FRAMEWORK STATEMENT

Annexure

Sl. No.	Economic / Fiscal Indicators	Absolute value (₹ in crore)		Percentage Changes	
		April - March		April - March	
		2020-21 (Actuals)	2021-22 (RE)	2020-21 (Actuals)	2021-22 (RE)
A	Real Sector				
1	GSDP at Market Price				
	(a) at current prices	29,076.42	33,793.15	9.71	16.22
	(b) at 2011-12 prices	20,369.33	21,490.97	12.15	12.30
2	Agriculture Production	7,381.29	8,407.45		
3	Industrial Production	7,401.94	8,517.22		
4	Tertiary Sector Production	13,681.21	16,356.76		
B	Government Finances				
1	Revenue Receipts (2+3)	7,740.67	10,298.74	-19.85	33.05
2	Tax Revenue (2.1+2.2)	3,658.11	4,508.54	-2.42	23.25
2.1	Own Tax Revenue	647.56	786.59	-11.41	21.47
2.2	State's Share in Central Taxes	3,010.55	3,721.95	-0.24	23.63
3	Non-Tax Revenue (3.1+3.2)	4,082.56	5,790.20	-30.92	41.83
3.1	State's Own Non-Tax revenue	561.76	862.84	7.54	53.60
3.2	Central Transfers	3,520.80	4,927.36	-34.64	39.95
4	Capital Receipts	2,645.00	5,421.43	125.23	104.97
4.1	Recovery of loans	33.68	33.04	26.15	-1.90
4.2	Other Receipts	-			
4.3	Public Debt	2,611.32	5,388.39	127.53	106.35
5	Total Receipts (1+4)	10,385.67	15,720.17	-4.13	51.36
6	CSS Expenditure	1,489.98	2,916.33	-26.25	95.73
6.1	Revenue Account	964.88	2,253.72	-40.49	133.58
6.2	Capital Account	525.10	662.61	31.55	26.19
7	State Expenditure	9,771.57	13,475.23	5.73	37.90
7.1	Revenue Account	7,549.91	8,233.43	-3.61	9.05
	of which:-				
	(a) Interest payments	400.98	445.09	16.86	11.00
	(b) Subsidies	0.22	175.84	-89.00	
	(c) Salaries	3,270.92	3,699.92	-4.15	13.12
	(d) Pension Payments	1,482.55	1,354.97	5.93	-8.61
7.2	Capital Account	2,221.66	5,241.80	57.63	135.94
8	Total Expenditure (6+7)	11,261.55	16,391.56	-0.01	45.55
8.1	Revenue Expenditure (6.1+7.1)	8,514.79	10,487.15	-9.93	23.16
8.2	Capital Expenditure (6.2+7.2)	2,746.76	5,904.41	51.88	114.96
	of which:-				
	(a) Loans & Advances	2.90	2.77	-96.46	
	(b) Capital Outlay	1,125.97	1,598.88	-17.97	42.00
9	Revenue Deficit (-)/Surplus (+) (1-8.1)	-774.12	-188.41	-478.91	-75.66
10	Fiscal Deficit {(1+4.1+4.2)-(8.1+8.2a+8.2b)}	-1,869.31	-1,757.02	52.77	-6.01
11	Primary Deficit (10-7.1a)	-1,468.33	-1,311.93	66.76	17.01
12	Memo:				
	Average amount of WMA from RBI*	20.87	32.55		
	Average amount of OD from RBI#	-	15.97		
	Number of days of OD	-	4		
	Number of occasions of OD	-	2		

* Indicates daily average of W&MA availed for 48 days during FY 2020-21, and 101 days during FY 2021-22

Indicates daily average of Overdraft availed for 4 days during FY 2021-22