



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

2011-2012

(14th July, 2011)

FORM – III

(See Rule 7)

MACRO ECONOMIC FRAMEWORK STATEMENT

OVERVIEW OF THE STATE'S ECONOMY

1. The Eleventh Five Year Plan (2007-08 to 2011-12) which sought to build on the gains achieved in the Tenth Plan and shift the economy to a path of faster and more inclusive growth had been affected by the global financial crisis of 2008-09. The Government of India responded with fiscal stimulus and monetary accommodation. However, drought and inflationary pressures further affected the economy, and bringing inflation under control has become a short term priority. Against all these odds, the economy showed tremendous resilience, and bounded back slowly but surely.

2. The Eleventh Plan aimed at an average growth rate of 9 percent per annum, 8.5 per cent in the first year and accelerating to reach 10 percent in the last year. Though the economy exceeded the expectation in the first year of the Eleventh Plan with a growth rate of over 9 percent, the momentum was disrupted in 2008-09. Due to the global economic meltdown, the growth rate declined to 6.7 percent in 2008-09. It rebounded to about 7.4 percent in 2009-10, and is expected to grow further at the rate of 8.5 percent in 2010-11, and 9 percent in 2011-12. How far the disruption of the economy affected the objective of more inclusive growth could not be ascertained at this stage.

3. The Indian economy is estimated to grow robustly in the current financial year with growth in gross domestic product at factor cost at constant (2004-05) prices at 8.6 per cent. In terms of expenditure method of estimation, GDP at constant market prices is projected to grow by 9.7 per cent in 2010-11, which follows a growth of 9.1 per cent in 2009-10. Further, there was a strong and rapid recovery in Industry and Service Sector in 2009-10 in comparison with the achievement of 2008-09. The Index of Industrial Production (IIP) grew by 10.5 per cent in 2009-10 as against a level of 3.2 per cent in 2008-09. The rapid and

robust increase of Indian economy is expected to affect the State Economy in terms of an increase in devolution of resources.

4. The expected average growth rate of State's GSDP of Mizoram during the Eleventh Plan period was 7.1 percent. However, the Mid-Term Appraisal of the Eleventh Five Year Plan placed the growth rate of the State at 5.5 percent in 2007-08, and 6.4 % in 2008-09 and the growth rate forecasted by the State for 2009-10 was 7 percent. There had been no significant improvement from the achievements obtained during the earlier plans period. The growth rate of GSDP in Mizoram during the Ninth Plan was 5.7 percent, and it was 5.1 percent during the Tenth Plan against the median growth rate of GSDP among the states during the same period, which were placed at 7.6 percent and 8 percent respectively. The near-stagnation or slow pace of growth of GSDP in the State may be mainly attributable to the lack of investment other than various grants received from the Central Government.

5. The State Government is trying to promote investment friendly climate due to the absence of the sufficient investment from private players on account of which the State economy depends on the Tertiary sector. The testimony of the action taken in this direction is witnessed by the signing of two loans 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. Besides, the World Bank-assisted Mizoram State Road Project has also been implemented successfully within the State which provides lot of opportunity to the people living along the road. It will be the continued endeavor of the State Government to mobilize external resources for public investment with due care.

6. The State Government will continue to make efforts for achieving the objective of inclusive growth through the New Land Use Policy (NLUP) in a planned manner. This gigantic and noble Policy of the State Government will not only create sustainable and profitable livelihood but it will also positively affect issues like environmental sustainability, poverty reduction, gender balance and revamping the rural economy. It is also expected that the policy will trigger higher growth in the Agriculture Sector. During 2010- 2011, ₹ **234.82 crore** was allocated under Additional Central Assistance for the implementation of NLUP which was divided into three components, namely- the Management Component of ₹ **15.62** crore, Infrastructure Component of ₹ **20.49 crore** and

Development Component of **₹198.71 crore**. From the Development Component, 45139 beneficiaries were given financial assistance during 2010-11.

7. The Annual Plan size for 2011-12 has been fixed at **₹ 1700.00 crore** over and above the Annual Plan size of 2010-11 which stood at **₹ 1500.00 crore**. Within the approved outlay of **₹ 1700.00 crore**, different sectors are allocated as follows: (i) Agriculture & Allied Activities - **₹ 351.30 crore** (ii) Rural Development - **₹ 39.10 crore** (iii) Special Area Programme - **₹ 84.35 crore** (iv) Irrigation & Flood Control - **₹ 78.56 crore** (v) Energy - **₹ 91.25 crore** (vi) Industry - **₹ 27.65 crore** (vii) Transport - **₹ 129.57 crore** (viii) Communications - **₹ 3.8 crore** (ix) Science, Tech. & Environment - **₹ 2.01 crore** (x) General Economic Services - **₹ 123.19 crore** (xi) Social Services - **₹ 534.64 crore** (xii) General Services - **₹ 234.58 crore**. This amount of Annual Plan is expected to bring about substantial improvement in different sectors over the medium term.

GROWTH OF GROSS STATE DOMESTIC PRODUCT (GSDP)

8. The Economic Survey Report as brought out by Economics & Statistics Department shows that the finalized GSDP for 2004-05 stood at **₹ 2681.97 crore** at current and constant prices so that GSDP for the following year shall be computed at the constant prices of this data.

9. On the basis of these data, GSDP at constant prices of 2004-05 for provisional estimates of 2008-09 stood at **₹ 3734.61 crore**, Quick estimate for 2009-10 stood at **₹ 4268.39 crore**. Advance estimate of GSDP for 2010-11 stood at **₹ 4642.17 crore** and projected estimate of GSDP for 2011-12 stood at **₹ 5050.58 crore** with projected growth of **8.79 per cent**.

10. GSDP at current prices for provisional estimates of 2008-09 stood at **₹ 4581.35 crore**. Quick estimates for 2009-10 stood at **₹ 5497.93 crore** and Advance estimates for 2010-11 at **₹ 6297.10 crore**. With this, the projection of GSDP for 2011-12 at current prices stood at **₹ 7216.75 crore** with a projected nominal growth of **14.6 per cent**.

11. Similarly, as per the Economic Survey Report, a provisional estimate of per capita income for 2008-09 is **₹ 38145.00** at current price and **₹ 31098.00** at constant prices. Quick estimates of per capita income for 2009-10 stood at **₹ 44758.00** at current prices and **₹ 34764.00** at

constant prices and Advance estimates for 2010-11 stood at ₹ **50021.00** at current prices and ₹ **36892.00** at constant prices and projected estimates for 2011-12 stood at ₹ **55941.00** at current prices and ₹ **39162.00** at constant prices.

12. The Economic Survey Report further shows that as per the advanced estimates of 2010-11, the economy will grow at **8.75 per cent** and the data on quick estimates of the economy for 2009-10 shows growth of the economy at **7.2 per cent**. The growth rate of the economy is reassuring in the light of the country's estimated growth of **7.2 per cent** in 2009-10. The Quick Estimates of 2010-11 shows that the Services sector continues to be the dominating sector with its percentage share of **59.73 per cent**, followed by Industries Sector at **20.07 per cent** and Agriculture Sector at **20.00 per cent**. It is noteworthy to mention here that there is a slight improvement in the Industry Sector over the percentage for 2009-10 and others remains unchanged. It is therefore, imperative that the Government invests more on Industries and Agriculture sectors for balanced growth.

OVERVIEW OF THE STATE GOVERNMENT FINANCES

13. In the Economic survey recently brought out by Economics & Statistics Department, the contribution of the following sector - Agriculture and Allied Sector, Industry Sector and Service Sector in the economy of the State are estimated at **18.56 per cent**, **21.97 per cent** and **59.47 per cent** for the current financial year. This clearly shows that the State's economy is dominated by Services sector. On account of which, the economic activities of the State is determined by the extent of public expenditure and the nature of expenditure which is always met from the resources devolved from Central Government.

14. Thirteenth Finance Commission recommended ₹ **8805.30 crore** for the next 5 year period of 2010-15 against the recommendation of Twelfth Finance Commission of ₹ **4660.91 crore** which is **88.92 per cent** increase. It is hoped that this kind of grace shown upon the State Government will have positive impact in the fiscal driving force.

15. In continuation of the progress during the award period of FC-XII, the collection of Taxes and Non-Taxes have been increasing progressively even when we entered the award period of Thirteenth Finance Commission. The actual and estimated figures of the sum of Own Tax Revenue and Own Non-Tax Revenue for the year 2007-08 (actual), 2008-09 (actual), 2009-10 (actual), 2010-11 (RE) and 2011-12 (BE) were

placed at ₹ **207.81 crore**, ₹ **253.29 crore**, ₹ **234.08 crore**, ₹ **301.74 crore** and ₹ **410.74 crore** respectively. At the same time, the total Central Transfers in respect of Share in Central Taxes & Duties, Plan Grants and Non-Plants Grants have also been increasing considerably which provided an opportunity to the State Government to create durable assets and to improve the level of infrastructure development. The total Central Transfer during 2009-10 (Actual) was ₹ **2729.42 crore** whereas the Budget Estimates of 2011-12 put the figures of the said Transfer at ₹ **3337.55 crore** which is very worth-mentioning. However, on having closure look at the total of Own Taxes & Non-Taxes and the total of Central Transfers, it can be observed that the difference is so huge that more than **90 percent** of the total resources of the State are coming from Central Government. Therefore, the State Government needs to improve the collection of Taxes & Non-Taxes and required to tap any available resources through any means but, of course, without sacrificing the cause of the BPL families.

16. From the in-depth analysis of the progressive rate of GSDP, it can be observed that the growth rate is satisfactory especially in comparison with the overall growth rate of the Central Government. However, the main reason of higher GSDP is due to higher in-coming of resources from Govt. of India which is not sufficient to meet even the basic requirements. Hence, it is imperative for the State Government to explore the possibilities of augmenting State own resources. As such, State Government is trying to introduce new Tax and Non-Tax measures from the current financial year by hiking various existing rate of sales tax and various user charges to certain comfortable level for mobilization of additional resources.

17. On looking at the expenditure side of the State Government, it can be observed that huge amount of total resources of the State goes to Revenue expenditure which is recurring in nature and non-productive. The revenue expenditure has been increasing year by year which requires immediate attention of the Government since unchecked and uncontrolled outflow of State Exchequer under this head can narrow down the Plan size considerably. The percentage of Total Revenue expenditure for the following year with reference to their respective Gross State Domestic Product (GSDP) can be shown as: for 2009-10 (Actual) - **49.16 per cent**, for 2010-11(RE) - **54.22 per cent** and for 2011-12 (BE) - **46.25 per cent**. This shows that immediate remedy to control and bring down the increasing revenue expenditure needs to evolve without compromising the Government normal functionaries. The main contributors in the Revenue Accounts are Interest Payments, Salaries,

Pension Payments, Subsidies etc... From 2010-11, the State Government implemented the Mizoram (Revision of Pay) Rules, 2010 which caused a tremendous fiscal shock in fiscal management of the State. However, State Government put an all out efforts to tide over the after-shock of this implementation which is, nevertheless, still in full swing, not to the near end of the roadway.

18. The positive signs of the fiscal management of State Government finances today are maintenance of Revenue Surplus in the Budget and bringing down the Fiscal deficit in the direction of downwards. Revenue Surplus has been maintained in the Budget since 2003-04 and the efforts also has been taken to bring down the level of fiscal deficit, as provisions laid down by Thirteenth Finance Commission, at 3 per cent of GSDP by 2014-15. It is hoped that the existing performance of fiscal management has to be maintained in the future too. The revenue surplus during 2009-10 was **₹ 260.80 crore**, **₹ 341.63 crore** in the 2010-11 (BE) and **₹ 322.04 crore** in 2011-12 (BE). Fiscal Deficit during 2009-10 was **₹ 311.62 crore**, **₹ 41.84 crore** in the 2010-11(BE) and **₹ 172.86 crore** in 2011-12 (BE). In other words, Fiscal deficit may be expressed in terms of percentage with respect to GSDP as follows – **5.67 per cent** during 2009-10, **0.67 per cent** in 2010-11 (BE) and **3.84 per cent** in 2011-12 (BE) which is well within the fiscal corrective path as prescribed by the Thirteen Finance Commission.

PROSPECTS

19. In view of the present trend growth rate of State's economy, the economy is expected to perform well even in the years to come. As mentioned above, private investment is virtually absent in the State economy which, in turns, compels the State Government to rely on various resources coming from Central Government. However, an utmost efforts have been undertaken by the State Government to generate own resources by introducing new Tax and Non-Tax Reforms. The following action bears the testimony to this action:

- (a) The existing rates of sales tax on various petroleum products have been increased to certain comfortable level. In respect of LPG (Liquefied Petroleum Gas), it was raised from **2 per cent** to **4 per cent**, from **18 per cent** to **20 per cent** in respect of Motor Spirit (Petrol), from **10 per cent** to **12 per cent** in respect of High Speed Diesel.

- (b) The State Government has also imposed levying of Stamp-duty on monthly payment of Salaries to all regular Government officials including the Council of Ministers and Parliamentary Secretaries and on all bills in respect of payment made by various Departments and offices to private parties. Stamp duty was fixed at ₹ 10.00 per Bill for Gazetted officer including Ministers, Speakers etc., ₹ 5.00 for Non-Gazetted Officials per bill. It has also been fixed for Payment made by various Departments and offices to private parties on the basis of the amount of the Bill.
- (c) The State Government is also trying to revise various user charges which are expected to increase the collection of Non-Taxes remarkably.

20. In order to minimize and reduce Non-Plan revenue expenditure, the State Government is taking an efforts for the reduction of Interest payments by minimizing outstanding debt through implementation of *Prepayment of high cost debt* with an allocation amount of **\$ 19 million (₹ 89.52 crore)** by taking an advantage of loan (Program Loan and Project Loan) availed from Asian Development Bank. Moreover, the improved financial position of the State is in the other way reflected into its cash balance position. During last few years, the State built up surplus cash balance in total contrast to the frequent lapsing into overdrafts a decade ago. It is hoped that the Government will continue to maintain the same trend in the years to come.

21. The Annual Plan size for the year 2011-12 has been fixed at **₹ 1700.00 crore**. This amount is coupled with the resources coming from NEC, NLCPR, CSS and CPS. This will enable the State Government towards the much needed public investments in key socio-economic development in a larger way. The Government has also given an emphasis for laying the foundations for economic growth with special emphasis of development infrastructure like roads & bridges, water supply & sanitation and human development. Accounting all these together, the prospect of the State finance's indicates a positive prospect and an improving trend in the maintenance of fiscal management over the medium term.

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

Annex: Economic Performance at a Glance
Table: Trends in Select Macroeconomic and Fiscal Indicators

Sl. No.	Economic / Fiscal Indicators	Absolute value (Rs. Crore)		Percentage Changes	
		April - March		April - March	
		2009-10 (Actuals)	2010-11 (RE)	2009-10 (Actuals)	2010-11 (RE)
A	Real Sector				
1	GDSPP at factor cost				
	(a) at current prices	5497.93	6297.10	44.33	47.59
	(b) at 1999-2000 prices	4268.39	4642.17	62.90	65.27
2	Agriculture Production	1090.79	1208.81	107.80	120.78
3	Industrial Production	1110.54	1326.87	56.67	66.90
4	Tertiary Sector Production	3296.60	3761.42	28.00	28.63
B	Government Finances				
1	Revenue Receipts (2+3)	2963.50	3716.32	11.70	15.63
2	Tax Revenue (2.1+2.2)	502.11	714.93	5.04	40.16
2.1	Own Tax Revenue	107.58	124.15	13.70	6.39
2.2	State's Share in Central Taxes	394.53	590.78	2.91	50.17
3	Non-Tax Revenue (3.1+3.2)	2461.39	3001.39	13.16	11.00
3.1	State's Own Non-Tax revenue	126.50	177.59	-20.27	24.17
3.2	Central Transfers	2334.89	2823.80	15.79	10.27
4	Capital Receipts	251.21	571.38	92.31	39.62
4.1	Recovery of loans	25.32	33.01	1.85	10.00
4.2	Other Receipts	-	-	-	-
4.3	Public Debt	225.89	538.37	113.57	41.96
5	Total Receipts (1+4)	3214.71	4287.70	15.48	18.34
6	Non-Plan Expenditure	2212.34	2638.98	26.48	13.05
6.1	Revenue Account	1805.35	2203.58	14.76	14.23
	of which:-				
	(a) Interest payments	254.35	258.77	12.74	0.02
	(b) Subsidies	-	-	-	-
	(c) Salaries	881.90	1216.90	19.33	17.60
	(d) Pension Payments	164.26	192.93	30.31	30.00
6.2	Capital Account	406.99	435.40	131.22	7.40
7	Plan Expenditure	1453.44	2272.60	29.85	35.92
7.1	Revenue Account	897.35	1496.12	21.17	45.52
7.2	Capital Account	556.09	776.48	46.83	20.60
8	Total Expenditure (6+7)	3665.78	4911.58	27.79	22.59
8.1	Revenue Expenditure (6.1+7.1)	2702.70	3699.70	16.81	25.11
8.2	Capital Expenditure (6.2+7.2)	963.08	1211.88	73.61	15.50
	of which:-				
	(a) Loans & Advances	24.94	32.15	43.25	27.73
	(b) Capital Outlay	572.80	750.34	29.87	15.81
9	Revenue Deficit (-)/Surplus (+) (1-8.1)	260.80	16.62	-23.14	-93.53
10	Fiscal Deficit {(1+4.1+4.2)-(8.1+8.2a+8.2b)}	-311.62	-732.86	230.63	89.78
11	Primary Deficit (10-6.1a)	-57.27	-474.09	-143.60	272.01
12	Memo:				
	Average amount of WMA from RBI*	6.84	9.61	-	-
	Average amount of OD from RBI [#]	-	-	-	-
	Number of days of OD	-	-	-	-
	Number of occasions of OD	-	-	-	-

* Indicates daily average of W&MA availed during April - December, 2009.

Annex: Economic Performance at a Glance
Table: Trends in Select Macroeconomic and Fiscal Indicators

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