



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  
2009-2010**

*(As laid before the Mizoram Legislative Assembly on 15<sup>th</sup> October, 2009)*

**FORM –III**  
**(See Rule 7)**

**MACRO ECONOMIC FRAMEWORK STATEMENT**

**OVERVIEW OF THE STATE’S ECONOMY**

The Indian Economy was shocked by the global economic meltdown in 2008-09 and by rise in prices of crude oil and other import items during the year. As a result, even with the average growth of the economy at **8.9 per cent** during the last 5 years of 2003-04 to 2007-08, the growth in 2008-09 was estimated by CSO at **6.7 per cent** only. However, the Quick Estimates for 2007-08 released by the Central Statistical Organisation in May, 2009 placed the real GDP growth for 2007-08 at **9.0 per cent** as against the real growth of **9.7 per cent** in 2006-07. The Revised Estimates of 2008-09 also placed the real GSDP growth at **6.7 per cent** as against the previous Advance Estimates of **7.1 per cent**. The Union Finance Minister, in his Budget Speech in July, 2009 also stressed the slowdown in the Indian Economy as a result of the slowdown in the global economy affecting the overall inflation, employment and investment. That had necessitated the Government of India to announce a series of economic stimulus packages to offset the cyclical effects and to boost investments through public spending and generate demands internally. However, despite the moderation in growth, India continues to be one of the fastest growing economies in the world reaffirming its inherent strength and strong macroeconomic fundamentals led by strong domestic demand base.

2. The Directorate of Economics & Statistics, Govt. of Mizoram also released the GSDP for 2006-07 along with the Quick Estimates of 2007-08 and Advance Estimates of 2008-09. The data so released shows that the GSDP for 2006-07 recorded a real growth rate of **8.59 per cent** and the Quick Estimates of GSDP for 2007-08 placed the real growth rate at **7.13 per cent**. The Advance Estimates of 2008-09 however, placed the growth rate at **7.0 per cent** only. The per capita income of the State in 2006-07, 2007-08 and 2008-09 at current prices stood at **Rs. 26220.00**, **Rs. 28170.00** and **Rs. 30292.00** respectively while the per capita at the national level for the same period stood at **Rs. 29524.00**, **Rs. 33283.00** and **Rs. 37490.00** respectively. This shows that the State’s economy, though not yet to the national level due to lack of economic resources, is still not far away from the rest of the country in terms of economic development.

3. The Directorate of Economics & Statistics for the first time brought out a series of District Domestic Product (DDP) with reference to the year 2005-06. Aizawl District has the highest per capita income at factor cost at current prices with **Rs. 27,625.00** while Champhai District has the lowest per capita income with **Rs. 18,462.00**.

4. The year 2008 receives a rainfall of 2175 mm while the average rainfall is 2500 mm in the State. The State witnessed a bamboo flowering 'Mautam' which had caused scaling down of agricultural operations in the State. Thus, the total production of paddy decreased from 4,20,901 MT during 2006-07 to 15,688 MT during 2007-08.

5. The investment climate of the State has been optimistic. This is evidenced by the inflow of capital though the external route through the Government of India in the recent years. The ongoing implementation of the World Bank-assisted Mizoram State Road Projects and the recent 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)*' bear testimony to this and the increasing credit worthiness of the State. The growth of Government revenues has also made it possible to adhere to the path of fiscal consolidation as mandated under the Mizoram Fiscal Responsibility and Budget Management Act, 2006 and help create the much needed fiscal space for public investments.

6. The Government's focus has been brought to the urgent need to create the necessary infrastructure for laying a strong foundation for socio-economic development of the State. Investment in development infrastructure through public and private investments is the long felt need of the Government. Thus, steps are taken for capacity building at the Departmental level by associating the reputed agencies. At the start, the project of Tuivai Hydel Project has been proposed for PPP mode for which the viability gap funding from the Government of India under the Scheme has been sought. The quantitative and qualitative increase in the utilization of the Central Sector Schemes and the foreign capital will continue to be the focus for increasing investments given the resource constraints of the Government.

7. The size of the Annual Plan 2009-10 has been approved by the Planning Commission with an outlay of **Rs. 1250.00 crore** resulting in an unprecedented increase over the Approved Outlay of **Rs. 1000.00 crore** in 2008-09. By taking the

country's average targeted growth rate of **9.0 per cent** with **4.0 per cent** in Agriculture Sector into consideration and the need to ensure better quality of life for all sections of the population, particularly those below the poverty line, the Government places accorded priority to the following areas:

- The New Land Use Policy (NLUP) is the flagship programme of the Government which is given the highest priority. It will aim at complete change over from unsustainable shifting cultivation to permanent farming with the aim of solving the problem of food security to sustainable livelihood.
- Power Development will continue to be the priority of the Government by tapping the power potential in hydro and other energy sources to make the State power surplus within 7-8 years.
- Besides the above, Land Reforms & Settlement, Restoration of vegetative cover, exploration of Oil & Natural Gas, Human Development etc. will be the priority of the Government.

## **GDP GROWTH**

8. The GSDP finalized for 2006-07 placed the GSDP at factor cost at current prices at **Rs. 3059.47 crore** and **Rs. 2286.02 crore** at constant prices with real growth rate at **8.59 per cent**. The Quick Estimates of 2007-08 placed the GSDP at factor cost at current prices at **Rs. 3411.66 crore** and **Rs. 2449.02 crore** at constant prices with real growth of **7.13 per cent**. The growth trajectory of the State's economy is reassuring in the light of the national economy growing at **9.7 per cent** in 2006-07 and **9.0 per cent** in 2007-08.

9. The Advance Estimates of 2008-09 placed the GSDP at factor cost at current prices at **Rs. 3809.16 crore** from the earlier projected estimate of **Rs. 3662.63 crore**. GSDP at constant prices has also been estimated at **Rs. 2552.48 crore**. The nominal and real growth rates respectively stood at **11.65 per cent** and **3.0 per cent**. The per capita at current prices is estimated at **Rs. 30292.00** and **Rs. 21549.00** at constant prices.

10. The contribution of the agriculture sector in the GSDP in real terms in 2007-08 stood at **15.51 per cent**, it has come down to **15.49 per cent** in 2008-09 and is further projected at **14.32 per cent in 2009-10**. The share of industry sector in GSDP remains more or less constant, at **19.32 per cent** in 2007-08, **20.09 per cent** in 2008-09 and to **19.39 per cent** in 2009-10. The service sector continues to the

major share holder of the GSDP at **65.17 per cent** in 2007-08, **66.29 per cent** in 2008-09. It is projected to contribute a share of **66.29 per cent** in 2009-10. The share of services sector, following the national trend, has been increasing over the last few years.

11. The national policy on agriculture is to attain a growth rate of **4.0 per cent** in agriculture & allied sector. The growth of agriculture sector in 2007-08 is **2.86 per cent** and **2.85 per cent** in 2008-09. It is projected to grow at **3.0 per cent** in 2009-10. The Industry Sector registered a real growth rate of **7.42 per cent** in 2007-08 and **7.09 per cent** in 2008-09. It is further projected to grow at **7.48 per cent** in 2009-10. The real growth rate of services sector is **8.11 per cent** in 2007-08 and **7.95 per cent** in 2008-09 and is expected to further register a growth of **8.07 per cent** in 2009-10. Within the services sector itself the components like Real Estates, ownership of dwelling and business services and Public administration have been the major contributors.

## **OVERVIEW OF STATE GOVERNMENT FINANCES**

12. In a small State like that of Mizoram where the main economic activities revolve round the Government, the pattern of expenditure and policies followed by the Government continue to be one of the main determining factors of the economic activities of the State. The State Government's finances had all along been in deep stress and under the regulatory arm of the RBI in the nineties and early twenties. However, the efforts of the State Government in the fiscal consolidation started taking slowly taking shape and were further triggered by the turn of the award period of the Eleventh Finance Commission (EFC) in 2000-01. The Fiscal Reforms Facility (FRF) was drawn up by the EFC linking it with the States drawing up a Medium Term Fiscal Reforms Programme (MTFRP). The State's own efforts coupled with relatively improved devolution of central transfers slowly brought about the fiscal consolidation process and the State had, for the first time attained a revenue surplus in 2003-04 and since then the State's Revenue Account has been showing steady improvements.

13. With the commencement of the award period of the Twelfth Finance Commission (TFC) in 2005-06, the fiscal reforms process received further impetus by institutionalizing the fiscal reforms process by enacting Fiscal Responsibility and Budget Management (FRBM) Act. The Government of Mizoram also put the Act in place in December 2006. Necessary rules under the Act have also been put in place from 1<sup>st</sup> July 2007. Enactment of Fiscal Responsibility Legislation in 2006

was followed by consolidation of all block loans of the Government of Mizoram; all block loans released up to 31.03.2004 and outstanding as on 31.03.2006 amounting to **Rs. 258.55 crore** was consolidated by the Ministry of Finance, Government of India and rescheduled for a fresh term of twenty years and the interest rate reset at **7.5 per cent**. Consolidation was approved by the Central Monitoring Committee in January, 2007. This measure of incentivising the States has a favourable impacts in the State' finance in that it has brought about lowering of yearly repayment of loans on account of consolidation of loans and rescheduling of repayment, reduction in the level of interest payments and the benefit of debt waiver. These benefits have been accruing to the Government resulting in multiple effects of lowering interest payments, lowering the repayment of loans and the benefit of debt waiver. The State, by virtue of its fiscal performance, has been able to enjoy the debt consolidation and debt write-off facility from the Government of India.

14. The process of fiscal consolidation and reforms in the State's finance has brought increasing fiscal health in the State's finances. However, the year 2007-08 did not give the desired result in the fiscal consolidation and reforms in terms of key fiscal indicators mainly due to non-booking of huge amounts of receipts from the Central Government (by the Accountant General). The own tax revenue of the State which was mere **1 per cent** of the GSDP in 2001-02 had followed a secular growth. With the implementation of VAT in the State from 1<sup>st</sup> April, 2005, the collection of State's own tax revenues has received further impetus and tax-GSDP ratio stood at **2.21 per cent** in 2006-07, **2.27 per cent** in 2007-08, **2.48 per cent** in 2008-09 (Pre-Actual) and projected at **2.73 per cent** in 2009-10. Contribution of State's own revenue receipts also is assuring contributing **6.57 per cent** of GSDP in 2006-07, **6.00 per cent** in 2007-08 and **6.64 per cent** in 2008-09 (Pre-Actual). The Pre-Actual 2008-09 put State's Own Non-Tax Revenues at **Rs. 158.16 crore** which is as high as **4.15 per cent** of GSDP and total of State's Own Revenues at **Rs. 252.78 crore** which is **6.64 per cent** of GSDP. The buoyant economic situation of the country has also contributed considerably towards augmenting the revenue receipts of the State. Revenue surplus of the State for 2008-09 (Pre-Actual) is **Rs. 331.13 crore** which is as high as **8.69 per cent** of GSDP creating a favourable impact on the availability of resources for capital expenditure. The outstanding debt liability which appears to be high as a percentage of GSDP due to low GSDP has been contained below **150 per cent** of the revenue receipts and stood at **86 per cent** of GSDP and **123.41 per cent** of revenue receipts in 2008-09 (Pre-Actual). The debt servicing liability particularly interest payment as percentage of revenue receipts has also been contained within reasonable levels.

Interest payment as a percentage of revenue receipt for 2008-09 (Pre-Actual) is **9.43** and is estimated at **7.97 per cent** in 2009-10.

15. During 2008-09 there has been considerable improvement in the revenue receipt of the State Government. VAT which was implemented in the State from 1<sup>st</sup> April 2005 becomes one of the major sources of State's Own Tax Revenues. The buoyant growth of VAT since its implementation is quite encouraging. Improvements in other items of State's taxes are no less remarkable. With the nominal growth rate of the State GSDP at **11.65 per cent** in 2008-09, the buoyancy of VAT stands at **1.89**, much higher than the TFC's projection of tax buoyancy of **1.1**. The overall tax collection since implementation of VAT from 2005-06 to 2008-09 (Pre-Actual) also attained average growth rate of **24.67 per cent** which is **2.12** times the average growth rate of the GSDP during the same period.

16. Even then, there are challenges towards increasing the tax-GSDP ratio by augmentation of the State resources by means of improving the tax collection efficiency and better tax compliance. The tax-GSDP ratio which was a mere **1 per cent** in 2001-02 has been placed at **2.27 per cent** in 2007-08 and to **2.48 per cent** in 2008-09 (Pre-Actual) in spite of the limited scope to augment State's own tax revenues. The proposed reforms on Tax and Non-Tax Revenues under MPRMP will give further impetus to reforms in tax administration and better tax compliance.

17. The revenue deficit to fiscal deficit ratio which indicates the extent of borrowed amounts spent on meeting the current account deficit has also shown improving trend. Before 2003-04 while the State was in revenue deficit, the percentage of revenue deficit, use to be high indicating a high degree of unsustainability. Utilisation of borrowed funds to cover up the resource gap in the revenue account resulted in scarcity of resources for capital outlay for creation of development infrastructure. However, over the years, with the efforts of the State Government, the position has improved. Since the State is now in revenue surplus from 2003-04, the entire borrowed amount could be utilized for capital expenditure. In the Budget Estimates for 2009-10 the State finance is expected to generate a revenue surplus to the tune of **Rs. 177.52 crore** which is **43.14 per cent** of the fiscal deficit. This indicates that a sizeable amount of revenue surplus could be utilized to supplement the borrowed funds for meeting the much needed expenditure for capital investments.

18. The improved financial position of the State is in other way reflected into its cash balance position. During the last few years, the State built up huge surplus cash balances in total contrast to the frequent lapsing into overdrafts a decade ago.

## **PROSPECTS**

19. With the existing trend growth of the State's economy, the economy is expected to perform well in the coming years as well. GSDP at factor cost at current price is projected at **Rs. 4266.73 crore** in 2009-10 with real growth rate of **7.20 per cent**. Likewise, the per capita income at current prices for 2009-10 is estimated at **Rs. 32634.00** as compared to **Rs. 30292.00** during 2008-09 representing an increase of **7.73 per cent**.

20. The State's economy may not give a very promising prospect at this stage. But the increasing Annual Plan Outlay with **Rs. 1250.00 crore** in 2009-10 coupled with the resources supplemented from the Special Schemes of NEC, NLCPR, CSS and CPS will be able to contribute towards the much need public investments in key socio-economic development in a big way. The Government has given emphasis for laying the foundations for economic growth with special emphasis of development infrastructure like roads & bridges, water supply & sanitation, and human development. The increasing co-operation of the State Government with multilateral financing institutions is one very promising aspect reflecting credit worthiness and commitment of the Government for capital investments on the one hand, and meeting the critical resource gap in financing the much needed developmental expenditure of the State. Special mention may be made of MPRMP in which the State Government will take up various fiscal reforms programmes which would bear results in the medium term and the long run. Taking all these together, the State's finance gives an improving prospect in the medium run.

21. A Macro Economic Framework Statement giving trend in selected macro economic and fiscal indicators in placed below at Annex 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	
		2007-'08 (Actuals)	2008-'09 (RE)	2007-'08 (Actuals)	2008-'09 (RE)
<b>A</b>	<b>Real Sector</b>				
1	GDSP at factor cost				
	(a) at current prices	3411.66	3809.16	11.51	11.65
	(b) at 1999-2000 prices	2449.02	2620.33	7.13	7.00
2	Agriculture Production	503.52	524.92	3.38	4.25
3	Industrial Production	637.40	708.86	12.18	11.21
4	Tertiary Sector Production	2270.74	2575.38	13.30	13.42
<b>B</b>	<b>Government Finances</b>				
<b>1</b>	<b>Revenue Receipts (2+3)</b>	<b>2039.74</b>	<b>2701.75</b>	<b>3.60</b>	<b>32.46</b>
2	Tax Revenue (2.1+2.2)	440.87	522.63	23.96	18.55
2.1	Own Tax Revenue	77.51	94.82	14.64	22.33
2.2	State's Share in Central Taxes	363.36	427.81	26.14	17.74
3	Non-Tax Revenue (3.1+3.2)	1598.87	2179.12	-0.89	36.29
3.1	State's Own Non-Tax revenue	130.30	161.41	-2.31	23.88
3.2	Central Transfers	1468.57	2017.71	-0.77	37.39
<b>4</b>	<b>Capital Receipts</b>	<b>251.23</b>	<b>239.57</b>	<b>-3.58</b>	<b>-4.64</b>
4.1	Recovery of loans	27.52	28.22	14.66	2.54
4.2	Other Receipts	-	-	-	-
4.3	Public Debt	223.71	211.35	-5.43	-5.53
<b>5</b>	<b>Total Receipts (1+4)</b>	<b>2290.97</b>	<b>2941.32</b>	<b>2.76</b>	<b>28.39</b>
<b>6</b>	<b>Non-Plan Expenditure</b>	<b>1459.86</b>	<b>1777.49</b>	<b>17.70</b>	<b>21.76</b>
6.1	Revenue Account	1259.40	1589.03	12.98	26.17
	of which:-				
	(a) Interest payments	208.01	229.29	-13.24	10.23
	(b) Subsidies	-	-	-	-
	(c) Salaries	588.26	778.28	27.19	32.30
	(d) Pension Payments	97.14	106.01	25.65	9.13
6.2	Capital Account	200.47	188.46	59.51	-5.99
<b>7</b>	<b>Plan Expenditure</b>	<b>1142.86</b>	<b>1421.88</b>	<b>8.37</b>	<b>24.41</b>
7.1	Revenue Account	648.99	873.93	7.70	34.66
7.2	Capital Account	493.87	547.95	9.27	10.95
<b>8</b>	<b>Total Expenditure (6+7)</b>	<b>2602.72</b>	<b>3199.37</b>	<b>13.41</b>	<b>22.92</b>
8.1	Revenue Expenditure (6.1+7.1)	1908.39	2462.96	11.13	29.06
8.2	Capital Expenditure (6.2+7.2)	694.34	736.41	20.20	6.06
	of which:-				
	(a) Loans & Advances	6.12	17.38	2348.00	183.99
	(b) Capital Outlay	544.24	621.14	16.68	14.13
<b>9</b>	<b>Revenue Deficit (-)/Surplus (+) (1-8.1)</b>	<b>131.35</b>	<b>238.79</b>	<b>-47.81</b>	<b>81.80</b>
<b>10</b>	<b>Fiscal Deficit {(1+4.1+4.2)-(8.1+8.2a+8.2b)}</b>	<b>-391.49</b>	<b>-371.51</b>	<b>104.69</b>	<b>-5.10</b>
<b>11</b>	<b>Primary Deficit (10-6.1a)</b>	<b>-183.48</b>	<b>-142.22</b>	<b>476.52</b>	<b>-22.49</b>
12	<b>Memo:</b>				
	Average amount of WMA from RBI^				
	Average amount of OD from RBI^				
	Number of days of OD				
	Number of occasions of OD				