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
2019 - 2020

(As laid before the 8th Mizoram Legislative Assembly on 13th June, 2019)

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

I. OVERVIEW OF MIZORAM STATE ECONOMY

The Indian economy is the fastest growing major economy and is projected to grow faster in the coming years. However, India's economy appears to have slowed down slightly in 2018-19. The proximate factors responsible for this slowdown include declining growth of private consumption, tepid increase in fixed investment, and muted exports. On the supply side, the challenge is to reverse the slowdown in growth of agriculture sector and sustain the growth in industry. On the external front, current account deficit as ratio to GDP is set to fall by end of 2018-19, which will limit the leakage of growth impulse from the economy. The fiscal deficit of the central government has been gliding down to the FRBM target. Monetary policy has attempted to provide a fillip to the growth impulse through cuts in repo rate and easing of bank liquidity. The room for this monetary easing has been created by low inflation in 2018-19, although it has started to inch up in last few months of the year. The real effective exchange rate has appreciated in the last quarter of 2018-19 and could pose challenges to the revival of exports in the near future. Increase in foreign exchange reserves in the fourth quarter of 2018-19 on account of improvement in trade balance has increased the import cover for the economy.

2. In the midst of global slowdown accentuated by the fluctuation of financial markets and the lingering impact of demonetization, the Indian Economy turned out resilient, marked by both internal and external stability. The resilient performance of the economy against the backdrop of activity and trade slowing across advanced and emerging economies, firming commodity prices and bouts on volatility interrupting generally rallying financial markets was underpinned by macro-economic stability. While economic growth moderated in 2016-2017, there were visible signs of improvements in macro-

economic fundamentals - low inflation and mildest current account deficit and fiscal deficit.

3. The geographical factors attached to the Mizoram, infrastructure bottlenecks and lack of natural resources remains the constraining factor for the state. Low resource base, under-developed infrastructure and low levels of investment hinder the overall growth of the state. In spite of its inherent disadvantages, the state has emerged as one of the best performing states in the country in terms of good governance and infrastructure development. The improvement in financial health of the state augmented by the remarkable performance of the economy allows the state to concentrate on capital investment.

4. The development activities of the state depend mainly upon investment by the Government. Investment from private players has not been substantial particularly in industrial sector, though the trend has slightly improved in the last couple of years.

5. Agriculture, public administration and construction works are the main contributors for the growth in Gross State Domestic Product (GSDP). The share of agriculture and allied activities in the overall GSDP of the state has shown a decline while utility service under secondary sector has gained momentum. Tertiary sector has continued to contribute a major portion of the GSDP.

6. The Goods & Services Tax (GST), launched on 1st July, 2017 across the country, subsumed various taxes levied by state, including sales tax, entertainment tax and entry tax, except the revenue from excise on alcohol and sale of alcohol and petroleum products. Collection of taxes has faltered under the new tax regime with the Central Government struggling with a wider than budgeted fiscal deficit. The mandatory implementation of the e-way bill system from 1st February, 2018 for all inter-state movement of non-exempted goods will help boost compliance under the Goods and Services which will thereby result in improved tax collection. Even as the Goods and Services Tax (GST) gains traction across the country, strengthening fiscal consolidation remains a challenge. Furthermore, the declining trend in investment and

saving rates in the overall context also entails concern for the overall macro-economic stability.

7. First unit of Tuirial HEP (60MW), which was inaugurated on 15th December, 2017, has been commissioned and it is believed that Mizoram would be a power-surplus state when the Tuirial Hydro-Power plant fully functions. With a clear understanding of the important relation between availability of power and economic growth, the state has been striving to tap its laden hydro power potential. Power generation projects have been taken up by the state not only to be self-sufficient but also to generate revenues through power sales.

8. The importance of roads in connecting the vast rural areas of the State in the development of market and economy cannot be overstated. Connectivity provided by roads is perhaps the single most important determinant of well being and the quality of life of the people. It has been established that the density of National Highways has a positive impact on the per capita income and Interstate Trade (Export + Import) as per cent of Gross State Domestic Product (GSDP) in Indian state. The efficiency of the innumerable Government programmes aimed at rural development, employment generation and local industrialization is to a large extent, determined by the connectivity provided by roads. To bring about a stable and balanced economy, a number of road projects have been taken up each year.

State Gross Domestic Product

9. There has been a substantial growth in the Gross State Domestic Product (GSDP) from ₹ 16,366.00 crore in 2016-17 to ₹ 17,739.00 crore during 2017-18 with an annual growth rate of 8.39 per cent. This is lower than the overall growth rate of the country which is 9.96 per cent of the GDP during the same period. The GSDP of the state is projected to increase substantially to ₹ 22,271.59 crore during 2018-19 (RE) and ₹ 25,869.14 crore in 2019-20.

10. The per capita (Net State Domestic Product) at constant price (2011-12) is an important indicator that represents the welfare of people of the state. It is projected to increase from ₹ 1,00,312.00 in 2017-18 to ₹ 1,09,025.00 in 2018-19, growing at an annual average rate of 8.68 per cent. In terms of

current price it is projected to increase by 13.24 per cent from ₹ 1,33,951.00 in 2017-18 to ₹ 1,51,682.00 in 2018-19.

11. The contribution of Primary Sector to the overall GSDP of the state has gradually increased from 18.95 per cent during 2012-13 to 29.93 per cent during 2017-18. Though the percentage contribution of agriculture, livestock, fishing and aquaculture has gradually declined, forestry has emerged as the main driving force for this quantum increase contributing 16.23 per cent of the GSDP during 2017-18.

12. Secondary sector includes all branches of human activities that transform raw materials into finished products such as manufacturing, construction and utility services. Secondary sector sometimes is also known as production sector with small scale units and large scale units. Small scale units such as textile unit, printing, furniture, etc. are the main contributors for small state like Mizoram. Though primary sector is vital for the economic development of the state with half of the people depending on agriculture and allied activities, there is a natural limit on how much can be extracted from primary sector. Therefore, the increase in the share of secondary sector as a percentage of the GSDP is a welcoming sight for economic progress of the state. The contribution of secondary sector is projected to increase from 18.83 in 2012-13 to 25.05 per cent in 2018-19.

13. Tertiary Sector remains the major contributor of the Gross Domestic Product of the state, constituting 45.03 per cent of the projected GSDP for 2017-18. However, the contribution of this sector as a percentage of the GSDP has gradually declined over the years, witnessing a decline of 14.10 per cent from 2011-12 which was 59.43 per cent. Public administration, other services, trade, hotels, restaurant and repair services contribute a major portion of the GSDP from this sector.

14. 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. This, thereby, decreases consumer purchasing power, and the average standard of living declines.

15. The sudden and sharp decline in inflation excluding food, fuel, petrol and diesel in the first quarter of 2017-18 was driven by goods as well as services. Service inflation eased during this period with the corresponding moderation of inflation in respect of education services during the same period. Thereafter, there was a broad based pick up in CPI inflation excluding food and fuel. Inflation in transport and communication registered sharp increase which is mainly driven by increase in prices of petrol and diesel. Though the implementation of GST in the 2nd quarter has minimal effect on the CPI, inflationary impact is likely to emerge in the event of the price increase showing downward rigidity due to GST.

16. The Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation has revised the Base Year of the Consumer Price Index (CPI) from 2010=100 to 2012=100 with effect from the release of indices for the month of January 2015. The combined index value of CPI for urban and rural has declined from 139.9 in February 2019 to 140.4 in March 2019 with a change of 0.36 per cent at all India level. In tandem, the CPI of the state has also shown an overall decline of 0.9 per cent from 133.7 in February, 2019 to 134.6 in March, 2019.

17. Currency-In-Circulation (CIC), which recorded a downward movement immediately after demonetization, still remains below the trend. It rose by 17.3% in 2018-19 and is expected to lower again after Lok Sabha election concludes. The declining trend, as experts opine, is possibly due to the withdrawal of high-value notes, particularly ₹ 2,000 from the system. It thus seems that there is a noticeable downward trend in the CIC even without constraints on cash withdrawals. This suggests that demonetization, given the data available so far, has had a significant effect on the currency holding habits of the public which in conjunction with greater digitization of retail transactions and the sharp increase in electronic models of payment, may have led to a durable downward shift in the currency demand of households.

II. OVERVIEW OF THE STATE GOVERNMENT FINANCES

18. The revenue of the state is highly dependent on the devolution of taxes & duties and grants-in-aids from the centre. With the increase of devolution of the share of taxes from 32 per cent during the Thirteenth Finance Commission award period to 42 per cent under the Fourteenth Finance Commission award period, the state finance has witnessed a substantial improvement. Crippled by the lack of resources, rugged terrains and sparsely populated inhabitations, the state has been burdened by its inability to generate its own revenues. Even so, there has been a progressive increase in generation of State's Own Revenues in the last few years.

19. The distribution of the net proceeds of Union Taxes and Duties illustrates that a total of ₹ 3,389.9 crore is to be devolved to the state during 2018-19 which accounts for 0.46 per cent of the total devolution to all the state. However, the actual amount to be devolved depends on the amount of taxes realized by the Centre. As suc3h, net adjustment amounting to ₹ 22.53 crore is to be transferred to the state during 2018-19.

20. The total Revenue Receipt of the state for 2018-19 (RE) comprising of Tax and Non-Tax Revenue is expected to be ₹ 8,673.91 crore out of which ₹ 807.19 crore is to be raised by the state. The state's own revenue collection, however, decreased by 16.03 per cent over and above the Budget Estimate of the preceding year and accounts for only 9.31 per cent of the total revenue collection for 2018-19. It is therefore imperative that an all out effort is taken by the state to maximize its own revenue.

21. A substantial portion of the total revenue receipts is utilized to meet the committed expenditures of the state viz. salaries and wages of Government employees, pension payments and payments on debt servicing. Government subsidies and maintenance expenditure viz. funds for operation and maintenance of Government assets and services provided to the people contributes a sizeable portion of the revenue expenditure. This has, to a large extent contributed to the surging revenue expenditure of the state. Nevertheless, maintenance of educational institutions and hospitals plays a vital role in enhancing the human capital formation of the state which therefore, cannot be neglected.

22. The abolition of the Planning Commission has subsequently phased out the five-year plans. With the merger of plan and non-plan the expenditure has broadly been classified as Revenue Expenditure and Capital Expenditure, in line with the recognized medium-term expenditure framework.

23. The total expenditure of the state comprising of Revenue Expenditure and Capital Expenditure for 2018-19 (RE) is ₹ 10,366.63 crore as compared to ₹ 8,877.11 crore during 2017-18. The total amount of expenditure incurred on account of Revenue is ₹ 8142.53 crore during 2018-19 which shows an increase of 18.34 per cent over the previous year. In realizing the vision of the Government to transform the state into a dynamic, progressive and advanced economy, there is significant development of quality infrastructure for the benefit of the people. Consequently, the expenditure on Capital account has substantially increased to ₹ 2,224.09 crore during the same period.

24. 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.

25. The comparison between Revenue Receipts and Revenue Expenditure 2018-19 shows that the state has achieved Revenue Surplus as per the recommendations of the Fourteenth Finance Commission. The Revenue Surplus for 2018-19 is projected at ₹ 531.38 crore which is much less than ₹ 1,699.44 crore the previous year. It may be mentioned that mere attainment of Fiscal Surplus alone cannot define the fiscal situation of the state since major portion of the revenue comes from devolution of taxes & duties and grants-in-aids from the centre.

26. The Twelfth Finance Commission and successive Finance Commissions recommended that the liabilities of the state should be reduced to a sustainable level. To achieve sustainable debt level, the Fiscal Deficit of the state was limited to 3 per cent of the GSDP by laying a road map for the state. It is a relief that the state has been able to contain its fiscal deficit within the

target set since 2014-2015. However, there is no room for complacency on the part of the state government.

27. The overall liability of the state has increased at an average annual rate of 9.13 per cent during 2010-15. During 2018-19, the fiscal liability of the state increased by ₹ 692.03 crore from ₹ 7,300.31 crore in 2017-18 to ₹ 7,992.34 crore in 2018-19. The ratio of the fiscal liabilities to GSDP has decreased from 41.15 per cent in 2017-18 to 35.88 per cent in 2018-19 as per projection of the Ministry of Finance. However, the ratio of the total liabilities to the state's own revenue collection remained as high as 990.14 per cent which greatly underlines the need to contain the liabilities of the state while taking necessary measures for increasing the state's own revenues.

III. PROSPECTS

28. With more than half of the population dependent on agriculture and allied activities, the state will continue to give priority to this sector in order to raise the level of production by improving farming techniques and use of quality seeds. There has already been a considerable increase in the income and livelihood of the rural areas while reducing the area under jhum-cultivation.

29. The state government has also signed a project agreement with the International Fund for Agriculture Development (IFAD) for implementation of the programme 'Fostering Climate Resilient Uphill Farming System (FOCUS). The main aim of the programme is to invest in rural people thereby empowering them to reduce poverty, increase food security, improve nutrition and strengthen resilience. The strategy is aimed at increasing the rural poor's access to agricultural technologies, natural resources, financial services and value chains. A major cross-cutting objective is to share knowledge and learning on poverty reduction and nutrition security – with a focus on tribal communities, small holder farming households, landless people, women and unemployed youth.

30. Power is one of the most critical components of infrastructure crucial for the economic growth and welfare of nations. The existence and development of adequate infrastructure is essential for sustained growth of the economy of

the state. Electricity demand in the country has increased rapidly and is expected to rise further in the years to come. In order to meet the increasing demand for electricity in the country, massive addition to the installed generating capacity is required. Indian power sector is undergoing a significant change that has redefined the industry outlook. Sustained economic growth continues to drive electricity demand in India. With the enhanced contribution of secondary sector to the overall GSDP of the state, the government has taken measures to provide much-needed power for this sector. The government has taken up the Solar Power Projects to tap into the vast potential of the State for generation of solar energy. The state is blessed with ample amount of sunlight all through the year which is very conducive for regular generation of solar power.

31. The Government of India has released its roadmap to achieve 175 GW capacities in renewable energy by 2022, which includes 100 GW of solar power. In line with the roadmap of the Centre, the state has taken up swift actions for installation of solar power plants across the state. Construction of 20MW Mega Solar Park at Vankal and Grid Connected Rooftop SPV Plant at three different locations are underway. Apart from these projects, the state has made an effort towards increasing solar power projects which will substantially increase the power generation of the state thereby promoting the development of industry sector.

32. The percentage contribution of non-development expenditures to the aggregate disbursement for 2018-19 is projected at 28.33 per cent which is an increase of 3.22 per cent from the previous year. There has been a declining trend in revenue deficit as a percentage of GSDP, revenue deficit as a percentage of TRR, total liabilities to GSDP. This has a positive impact on the overall fiscal health of the State. In contrast, the total liability to the state's own revenue receipts and interest payment and pension expenditure as a percentage of the revenue receipts have increased while the state's own tax to revenue expenditure has shown a decline. It is, therefore imperative that a suitable mechanism for improving the overall revenue collection of the state is instituted. In the mean time the expenditure on capital outlay has shown a massive increase highlighting the endeavor of the Government to develop the

much needed infrastructures for attaining a sustainable and progressive economy.

33. A Macro Economic Framework Statement highlighting trends in selected macro economic and fiscal indicators is placed as **Annexure** to this statement.

Sl. No.	Economic / Fiscal Indicators	Absolute value (Rs. Crore)		Percentage Changes	
		April - March		April - March	
		2017-18 (Actuals)	*2018-19 (RE)*	*2017-18 (Actuals)*	*2018-19 (RE)*
A	**Real Sector**				
1	GDSP at factor cost				
	(a) at current prices	17,739.00	22,271.59	21.93	-3.45
	(b) at 2004-2005 prices				
2	Agriculture Production				
3	Industrial Production				
4	Tertiary Sector Production				
B	**Government Finances**				
1	**Revenue Receipts (2+3)**	**8,580.20**	**8,673.91**	15.98	-3.08
2	*Tax Revenue (2.1+2.2)*	*3,642.96*	*3,873.14*	12.35	8.16
2.1	Own Tax Revenue	545.91	483.34	23.56	-0.12
2.2	State's Share in Central Taxes	3,097.05	3,389.80	10.58	9.45
3	*Non-Tax Revenue (3.1+3.2)*	*4,937.24*	*4,800.77*	18.80	-10.58
3.1	State's Own Non-Tax revenue	390.65	323.85	6.97	2.04
3.2	Central Transfers	4,546.59	4,476.92	19.94	-11.38
4	**Capital Receipts**	**915.78**	**763.25**	17.72	17.26
4.1	Recovery of loans	21.64	35.47		8.01
4.2	Other Receipts	-	-		
4.3	Public Debt	894.14	727.78	18.35	17.75
5	**Total Receipts (1+4)**	**9,495.98**	**9,437.16**	16.14	-1.71
6	**Non-Plan Expenditure (6.1+6.2)**	**-**	**-**	**-100.00**	
6.1	*Revenue Account*	**-**	**-**	-100.00	
	of which:-				
	(a) Interest payments	**-**	**-**	-100.00	
	(b) Subsidies			-	
	(c) Salaries	-	-	-100.00	
	(d) Pension Payments	-	-	-100.00	
6.2	*Capital Account*			*-100.00*	
7	**Plan Expenditure**	**-**	**-**	**-100.00**	
7.1	Revenue Account	-	-	-100.00	

7.2	Capital Account	-	-	-100.00	
8	**CSS Expenditure**	**1,941.64**	**2,040.49**	100.00	-8.98
8.1	Revenue Account	1,294.77	1,477.33	100.00	-10.16
8.2	Capital Account	646.87	563.16	100.00	-5.73
9	**State Expenditure**	**7,453.38**	**8,645.72**	100.00	11.44
9.1	Revenue Account	5,585.99	6,665.20	100.00	11.93
	of which:-				
	(a) Interest payments	339.20	390.08	100.00	1.89
	(b) Subsidies	-	-	-	-
	(c) Salaries	2,326.19	2,821.13	100.00	11.38
	(d) Pension Payments	837.78	900.00	100.00	6.28
9.2	Capital Account	1,867.39	1,980.52	100.00	9.81
10	**Total Expenditure (6+7+8+9)**	**9,395.02**	**10,686.21**	25.57	6.86
10.1	***Revenue Expenditure (6.1+7.1+8.1+9.1)***	*6,880.76*	*8,142.53*	10.44	7.15
10.2	***Capital Expenditure (6.2+7.2+8.2+9.2)***	*2,514.26*	*2,543.68*	100.92	5.94
	of which:-				
	(a) Loans & Advances	44.95	46.60	66.17	-11.61
	(b) Capital Outlay	1,996.35	2,213.09	119.04	6.89
11	**Revenue Deficit (-)/Surplus (+) (1-10.1)**	**1,699.44**	**531.38**	45.50	-60.67
12	**Fiscal Deficit {(1+4.1+4.2)-(10.1+10.2a+10.2b)}**	**-320.22**	**-1,692.84**	-227.10	128.99
13	**Primary Deficit (12-6.1a-9.1a)**	**-659.42**	**-1,302.76**	-211.16	265.53
14	**Memo:**				
	Average amount of WMA from RBI*				
	Average amount of OD from RBI#				
	Number of days of OD				
	Number of occasions of OD				

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

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