



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
2021 - 2022**

(As laid before the 8th Mizoram Legislative Assembly on 1st March, 2021)

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

I. OVERVIEW OF MIZORAM STATE ECONOMY

1. The severe impact of coronavirus on the Indian economy was felt in all corners of the society robbing people of their livelihoods, health and leaving the country reeling under major economic slowdown. Even as covid vaccination drive is underway globally, the world economy continues to face exceptional uncertainty as new waves of Covid-19 variants posed risks and global economic activity would remain well below pre-covid period which will turn effect India's economy. As per National Statistical Office (NSO) latest report, Real GDP is estimated to contract by 7.7 % in 2020-21, as compared to a growth of 4.2 % in 2019-20. This contraction in GDP growth is mainly attributed to the contraction in industry and services sector. However, the IMF estimated a growth rate of 11.5 % for 2021. As for Mizoram, the GSDP is estimated to increase by 12.28 % according to advance estimates prepared by Directorate of Economics & Statistics, Planning & Programme Implementation Department.

2. The coronavirus pandemic has caused severe disruptive impact on both demand and supply side. Tourism, Hospitality, Aviation and Transport are among the worst affected sectors that are facing the maximum brunt of the present crisis. The crisis also has adverse impacts on the well-being of women, youths, the informally employed, daily wage earners and those who work in contact-intensive sectors. On the supply side, shutdown of factories, delay in supply of goods, migration of labour force etc. have immensely affected the manufacturing sectors. The disruption in production-supply chain resulted in huge shortfall in revenue collection which trickled down to reduced tax share for the State.

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, urban development 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. 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 gradual decline from 2014-15 to 2018-19; however, it has been projected to increase in 2019-20 and utility service under secondary sector has gained momentum. Tertiary sector has continued to contribute a major portion of the GSDP.

5. 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 Inter State Trade (Export + Import) as percentage 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 roads have been improved and maintenance works is an ongoing process. A sum of ₹80.00 crore was allocated BE 2020-21 by the State Government for maintenance of roads alone.

6. The State Government is also exploring inland water transport system. Water transport is the cheapest means of transport and does not require huge capital investment in construction and maintenance which shall play a significant role in the State economy. Further, construction of Bairabi-Sairang Railway that will connect the State capital, Aizawl with all the State capitals of the North-Eastern Region is expected to stimulate the State's economic growth.

State Gross Domestic Product

7. 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. The mandatory implementation of the e-way bill system from 1st February, 2018 for all inter-State movement of non-exempted goods has helped boost compliance under the Goods and Services Tax (GST) which resulted in improved tax collection. As the Goods and Services Tax (GST) gains traction across the country, the collections have been improving since 2018-19 and even amidst the covid pandemic, GST collection at the State

surpassed its target for BE 2020-21. Moreover, GST collection at the Centre is also gradually picking up after a long period of covid induced shortfall. The GST accounts for a major revenue resource for the State.

8. There has been a substantial growth in the Gross State Domestic Product (GSDP) at current price from ₹19,385.33 crore in 2017-18 to ₹22,287.41 crore during 2018-19 with an annual growth rate of 14.97 %. This is much higher than the overall growth rate of the country which is 4.18 % of the GDP during the same period. The GSDP of the State is projected to increase substantially to ₹26,502.56 crore during 2019-20 and ₹31,653.99 crore in 2020-21.

9. 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 ₹1,29,609.00 in 2018-19 to ₹1,48,663.00 in 2019-20, growing at an annual average rate of 14.70 %. In terms of current price it is projected to increase by 14.09 % from ₹1,78,819.00 in 2018-19 to ₹2,04,017.00 in 2019-20.

10. The contribution of Primary Sector, comprising of Agriculture and Allied Sector, to the overall Gross State Value Added (GSVA) at current price of the State has gradually increased from 2012-13 to 2014-15 and show a decline from 2014-15 to 2018-19 and is projected to increase in 2019-20 and 2020-21 and has contributed 27.76 percent of the GSVA in 2020-21. The percentage contribution of agriculture, livestock, mining, forestry and aquaculture has shown an increase since 2018-19 where forestry has emerged as the main driving force for this quantum increase contributing 12.15 % of the GSVA during 2019-20. However, the contribution by Crop and Fishing has declined during the same period.

11. 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 GSVA is a welcoming sight for economic progress of the State. The contribution of secondary sector has gradually increased since 2015-16 and is projected to contribute 29.77 % of the overall GSVA in 2019-20.

12. Tertiary Sector remains the major contributor of the GSVA of the State, constituting 43.28 % of the projected GSVA for 2019-20. However, the

contribution of this sector as a percentage of the GSVA has gradually declined over the years, witnessing a decline of 9.13 % from 2014-15 to 2019-20 where it has contributed 47.63 % in 2014-15 and 43.28 % in 2019-20. Public administration, other services, trade, hotels, restaurant and repair services contribute a major portion of the GSVA from this sector.

Prices

13. 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. However, the 7th Central Revision of Pay as modified and extended to the employees under the Government of Mizoram since September 2018 eased the burden of cost of living and incidence of inflation and enhanced the purchasing power of the public to a considerable extent.

14. 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 increased from 158.4 in October 2020 to 158.9 in November 2020 with a change of 0.31% at all India level. In tandem, the CPI of the State has also shown an overall increase of 1.16 % from 154.9 in October, 2020 to 156.7 in November, 2020.

II. OVERVIEW OF THE STATE GOVERNMENT FINANCES

15. The revenue of the State is highly dependent on the devolution of taxes & duties and grants-in-aids from the centre. The Fifteenth Finance Commission has maintained 41 % vertical share of its divisible pool of taxes to the States as recommended in its Interim Report. The gradual increase in revenue collection due to expansion of tax and non-tax revenue base in the previous years was severed by the prolonged lockdowns and restrictions in the wake of the pandemic.

16. The net proceeds of divisible pool of taxes, which exclude cesses, surcharges and cost of collection, as per BE 2021-22 of the Union Budget is ₹6,65,562.74 crore which is 15.13 % decrease from current year's (2020-21) BE.

This is in fact a decent share considering the actual amount received for the current year which is 29.86 % lesser than the estimated figure.

17. The distribution of the net proceeds of Union Taxes and Duties illustrates that a total of ₹3,327.82 crore is to be devolved to the State during 2021-22 which accounts for 0.500% of the total devolution to all the States. This amounts to a fall of 16.13% from the previous year's share. However, the actual amount to be devolved depends on the amount of taxes realized by the Centre.

18. The Fifteenth Commission awarded ₹1,790.00 crore only as PDRDG for 2021-22 against ₹1,422.00 crore in 2020-21 which is expected to cushion the State's financial hardship to a certain extent.

19. The total Revenue Receipt of the State for 2020-21 (RE) comprising of Tax and Non-Tax Revenue is expected to be ₹9,455.31 crore out of which ₹1,434.45 crore is to be raised by the State. The State's own revenue collection for 2021-22 is projected at ₹1,571.82 crore which is an increase of 9.58 % from the previous year. However, the State's own revenue collection will make 16.05 % of the overall revenue receipt in 2021-22. It is therefore imperative that an all out effort is taken by the State to maximize its own revenue.

20. 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.

21. 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.

22. The total expenditure of the State comprising of Revenue Expenditure and Capital Expenditure for 2020-21 (RE) is ₹12,776.63 crore as compared to ₹11,262.50 crore during 2019-20. The total amount of expenditure incurred on account of Revenue is ₹10,253.93 crore during 2020-21 which shows an increase of 8.46 % 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 from ₹1,808.55 crore to ₹2,522.70 crore during the same period.

23. 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.

24. As per RE 2021-21, the State has a Revenue Deficit of 2.52 % as percentage of GSDP which is not unexpected considering covid related economic impacts. The Revenue Deficit for 2020-21 is projected at (-) ₹798.62 crore while we experienced a Revenue Surplus of ₹204.30 crore in the previous fiscal year 2019-20. 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.

25. 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 % of the GSDP by laying a road map for the State. However, due to pandemic shock on the economy, Fiscal Deficit of the State shot up to 6.87 % in RE 2020-21 from 4.62 % in 2019-20 (Actuals Figure).

26. Dwindling tax share from the Central Government and surging expenditure due to covid related expenditures as well as other obligatory expenses of the State Government has put the State's finances in a precarious situation. Knowing this, the Ministry of Finance subject to amendment of State's FRBM allowed the States to avail additional borrowings of 2 % of the State's GSDP, in which 1 % is tied and the other 1 % is linked to reforms, thereby breaching the limit of Fiscal Deficit of 3 % of GSDP under the Mizoram FRBM Act, 2006. The Mizoram FRBM Act, 2006 was subsequently amended to reduce Fiscal Deficit to 3 % by 2024-25.

27. The overall liability of the State has increased at an average annual rate of 8.38 % during 2015-20. During 2020-21, the fiscal liability of the State increased by ₹357.55 crore from ₹8,671.79 crore in 2019-20 to ₹9,029.34 crore in 2020-21. The ratio of the fiscal liabilities to GSDP has decreased from 32.72 % in 2019-20 to 28.53 % in 2020-21 as per projection of the State Government. However, the ratio of the total liabilities to the State's own revenue collection remained as high

as 629.46 % 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 of Mizoram, though hilly and remote, has strategic importance for national security as well as geo-political and economic influence in South Asia as it shares a long stretch of international border with Bangladesh and Myanmar. The ongoing Kaladan Multi-Modal River Project will greatly contribute to the growth of trade and employment once there is access to the port gateway of Myanmar.

30. The Union Government in its Budget for the year 2021-22 has allocated ₹1,000.00 crore for the Bairabi – Sairang Railway Project in Mizoram. The project which is expected to be completed by March, 2023 is highly anticipated as this will generate economic activities not only in Mizoram but in all the North Eastern States. This will create economic opportunities such as promoting internal and external trade, economic use of natural resources, mobility of skilled labour-force, diversification of markets, provision of fuel, increase in agricultural and industrial production, alternate trade routes etc.

31. The State Government has several Externally Aided Projects (EAP) in the pipeline among which Sustainable Urban Transport Project in Aizawl City (Urban Development & Poverty Alleviation Department) and Mizoram State Super Speciality Cancer Hospital & Research Centre (Department of Health & Medical Education) have reached an advance stage of the Project. The financial and technical assistance for EAPs is routed through or co-financed by the agencies such as JICA, ADB, IFAD, NDB (BRICS), World Bank, etc. The main aims of the projects are to invest in agricultural sector, health sector and other infrastructures, thereby increasing the rural poor's access to agricultural technologies, natural resources, financial services and improvement in the health sector of the State. The proposed EAP also includes various Bamboo related projects, waste management system for 10 district capitals, Tourism and Sports development and promotion schemes.

32. The Fifteenth Finance Commission has recommended Sectoral Grants and performance based incentives for which the State is expected to maximise its own resources.

33. 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. Power Purchase Agreements (PPAs) for construction of 20MW (5MW + 15MW) Mega Solar Park at Vankal have been signed at ₹3.94 per unit with private companies which are due for commissioning in November 2021. The construction of 2MW Grid Connected SPV power plant at Tlungvel has been completed and was commissioned on 4th December 2020. Grid Connected Rooftop SPV Plants at other places are also 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.

34. The percentage contribution of non-development expenditures to the aggregate disbursement for 2020-21 is projected at 25.68 % which is a decrease of 3.24 % from the previous year. However, in contrast to revenue surplus in the previous year, there is a revenue deficit during the year as per the estimate where the revenue deficit as a percentage of GSDP, revenue deficit as a percentage of TRR, total liabilities to GSDP has shown a significant increase. This has an impact on the overall fiscal health of the State. Furthermore, the total liability to the State's own revenue receipts and interest payment as a percentage of the revenue receipts have increased and the State's own tax to revenue expenditure has also increased. 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 endeavour of the Government to develop the much needed infrastructures for attaining a sustainable and progressive economy.

35. 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 (₹ in crore)		Percentage Changes	
		April - March		April - March	
		2019-20 (Actuals)	2020-21 (RE)	2019-20 (Actuals)	2020-21 (RE)
A	Real Sector				
1	GDSP at factor cost				
	(a) at current prices	26,502.56	31,653.99	19.16	19.44
	(b) at 2004-2005 prices				
2	Agriculture Production				
3	Industrial Production				
4	Tertiary Sector Production				
B	Government Finances				
1	Revenue Receipts (2+3)	9,658.26	9,455.31	6.85	-2.10
2	Tax Revenue (2.1+2.2)	3,748.78	3,444.75	-11.37	-8.11
2.1	Own Tax Revenue	730.98	661.82	0.59	-9.46
2.2	State's Share in Central Taxes	3,017.80	2,782.93	-13.85	-7.78
3	Non-Tax Revenue (3.1+3.2)	5,909.48	6,010.56	22.86	1.71
3.1	State's Own Non-Tax revenue	522.35	772.63	16.09	47.91
3.2	Central Transfers	5,387.13	5,237.93	23.56	-2.77
4	Capital Receipts	1,174.38	2,135.45	650.98	81.84
4.1	Recovery of loans	26.70	41.16	20.48	54.16
4.2	Other Receipts	-			
4.3	Public Debt	1,147.68	2,094.29	755.08	82.48
5	Total Receipts (1+4)	10,832.64	11,590.76	17.80	7.00
6	CSS Expenditure	2,020.42	2,767.71	25.34	36.99
6.1	Revenue Account	1,621.27	2,162.08	44.57	33.36
6.2	Capital Account	399.15	605.63	-18.64	51.73
7	State Expenditure	9,242.08	10,008.92	14.85	8.30
7.1	Revenue Account	7,832.69	8,091.85	22.69	3.31
	of which:-				
	(a) Interest payments	343.12	370.53	-6.93	7.99
	(b) Subsidies	2.00	160.00		
	(c) Salaries	3,412.37	3,974.44	1.18	16.47
	(d) Pension Payments	1,399.55	1,171.09	48.55	-16.32
7.2	Capital Account	1,409.40	1,917.07	-15.23	36.02
8	Total Expenditure (6+7)	11,262.51	12,776.63	16.60	13.44
8.1	Revenue Expenditure (6.1+7.1)	9,453.96	10,253.93	25.96	8.46
8.2	Capital Expenditure (6.2+7.2)	1,808.55	2,522.70	-16.01	39.49
	of which:-				
	(a) Loans & Advances	81.95	3.10	102.25	
	(b) Capital Outlay	1,372.67	1,415.23	-26.54	3.10
9	Revenue Deficit (-)/Surplus (+) (1-8.1)	204.30	-798.62	-86.68	-490.88
10	Fiscal Deficit {(1+4.1+4.2)-(8.1+8.2a+8.2b)}	-1,223.61	-2,175.79	246.70	77.82
11	Primary Deficit (10-7.1a)	-880.49	-1,805.26	-5,690.42	69.83
12	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