

FORM –III
(See Rule 7)

MACRO ECONOMIC FRAMEWORK STATEMENT

OVERVIEW OF THE STATE'S ECONOMY

1. An overview of the State's economy in 2007-08 shows an annual growth of Gross State Domestic Products (GSDP) at constant prices at **6.74 per cent** as compared to **7.5 per cent** achieved in the previous year. The situation may be appreciated in the context of growth rate of GDP at national level which has decelerated to **8.7 per cent** in 2007-08 from **9.4 per cent** and **9.6 per cent** respectively achieved in previous two years. However, the fundamentals of the State economy have been encouraging and are poised to inspire confidence. Consequently the investment climate of the State has been optimistic. The growth of Government revenues has made it possible to adhere to the path of fiscal consolidation as mandated under the Mizoram Fiscal Responsibility and Budget Management Act, 2006.

2. Due to the growing importance of the North Eastern Region of India in the recent years, focus has been brought to the urgent need to develop the physical and social infrastructure to ensure the tempo of development of Mizoram. Rapid increase in the scale and quality in investment in physical infrastructure is an imperative need. Thus, much emphasis has been laid by the State Government towards this direction. The framework for encouraging Public-Private Partnership for developing physical infrastructure is also in place and is expected to yield positive result within reasonable time limit. The 11th Plan has also taken in to account comprehensive programme for development of infrastructure. The investment in general is a forward looking variable and its rise will reinforce the outlook for growth.

3. The size of the Eleventh Five Year Plan (2007-12) of the State has been proposed at **Rs. 5534.00 crore** and the annual plan 2008-09 has been approved by the Planning Commission with an outlay of **Rs. 1000.00 crore** resulting an unprecedented increase over the outlay of **Rs. 850.00 crore** in 2007-08. The targeted **9 per cent** annual GDP growth rate for the 11th Five Year Plan and the need to ensure better quality of life for all sections of the society, especially those below the poverty line as well as holistic development has been kept in mind while formulating the draft annual plan 2008-09.

4. Agriculture and allied activities as well as Rural Development with particular emphasis on self sufficiency in food production, employment generation and poverty eradication are the priority of the Annual Plan 2008-09. Unfortunately a severe famine is imminent as a result of bamboo flowering resulting in crop destruction. In this

connection the National Rural Employment Guarantee Scheme (NREGS) will be a great help for combating a state-wise famine while helping in increasing agriculture production and developing rural infrastructure.

5. Development of economic infrastructure continues to be the priority of the Plan. Implementation of Mizoram Road Projects under World Bank, development of economically important roads under NLCPR, NEC and North Eastern Road Project will be continued. Development of power infrastructure under Accelerated Power Development and Reform Programme (APDRP) and Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) is proposed during the 11th Plan period. For development of urban infrastructure to cope with the growth of urbanization it is expected that ADB assisted North Eastern Region Urban Development Project (NERUDP) will play an important role.

6. In social services, education and health services will continue to receive high priority. The Plan endeavour will be not only to sustain favourable education and health indicators but also significant improvement during this year with the help of the implementation of SSA Mission and Rural Health Mission. The SSA Mission together with State Plan Schemes will not only improve elementary education but will also reduce drop-out rate in elementary and secondary education and that the Rural Health Mission will improve health indicators and develop health infrastructures in the State.

GDP GROWTH

7. GSDP at factor cost at constant prices has been estimated at **Rs. 2527.88 crore** in 2007-08 as against estimated amount of **Rs. 2368.24 crore**. The per capita income of the State in real terms during 2007-08 is estimated at **Rs. 21,400.00** as against **Rs. 20618.00** registered during the previous year. The growth of real per capita income has been estimated as 3.8 percent in 2007-08.

8. GSDP at current prices has been estimated at Rs.3287.89 crore in 2007-08 as compared to **Rs. 2984.99 crore** in 2006-07. Consequently, the per capita income at current prices during 2007-08 is estimated at Rs. 27437.00 as against Rs.25679.00 in 2006-07 registering a growth of **6.9 per cent**.

9. The contribution of the agriculture sector in the GSDP in real terms has come down by **0.53 per cent** point from **15.76 per cent** in 2006-'07 to **15.23 per cent** in 2007-08. Although estimated annual growth of agriculture sector has been placed at **3.16 per cent** in 2007-08, the outset of bamboo flowering and high rain fall in the State might has caused adverse impact which may be visualized when final estimate will be available. The share of industry sector in GSDP, likewise, has come down in 2007-08 and stood at **17.65 per cent** from **18 per cent** in 2006-07. However, with the opening of

investment opportunities in the State through various policies and programmes of the State Government, the sectoral share of industries is expected to grow during the medium term. The services sector is a major share holder of the GSDP at **67.12 per cent** in 2007-08. The share of services sector, following the national trend, has been increasing over the last few years. The real growth rate of services sector has been **8.15 per cent** in 2007-08. 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

10. The process of fiscal consolidation and reforms in the State's finances has brought increasing fiscal health in the State's finances. The fiscal reforms process had taken a meaningful shape with the enactment of the FRBM Act in 2006. The year 2007-08 is the first full year of the State Government to manage the State economy with FRBM Act mandated goals as guidepost. The fiscal performance in 2007-08 in relation to the quantitative goals under the Act is gratifying. Government of Mizoram eliminated its revenue deficit in 2003-04 itself. Therefore, task ahead was to create further space in revenue account, so that the surplus can be deployed for creating assets of the State and to adhere to the FRBMA goals without sacrificing need of the economy. During 2007-08 higher growth in revenue receipts and controlled growth of revenue expenditure have resulted in further improvement of revenue surplus. The tax-GSDP ratio is set to exceed the budget estimates. 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. The State economy has entered into a positive loop of higher growth and increased revenue receipts. However, some areas of concern relating to fiscal correction remain. Such concerns mainly relate to quality of expenditure. Increased allocation in social sector has implication on revenue account as well as fiscal deficit and is sought to be balanced by containment of other non-plan revenue expenditure.

11. During 2007-08 there has been considerable improvement in the revenue receipt of the State Government. VAT was implemented in the State from 1st April 2005. The main thrust of the Government has been focusing the revenue augmentation of the State resources through better compliance and tax effort. The State Government is committed to continue the process of audit assessment of VAT covering more areas. Reforms and restructuring of other taxes are initiated in the direction of improving enforcement and compliance. Reforms in tax administration will also be taken up with reform processes being taken up under Structural Adjustment Loan with the assistance from the Asian Development Bank. The tax-GSDP ratio which was one percent in 2001-02 has been placed at above two percent comfortably in spite of the limited scope to augment State's own tax revenue. Due to prevailing buoyant economic situation of the country, the State's share in central taxes and duties in absolute term has gone up from **Rs.271.45**

crore in 2006-07 to **Rs.340.89 crore** in 2007-08 and further to **Rs. 427.81 crore** in upcoming year 2008-09 as per the Union Budget 2008-09.

12. The revenue deficit to fiscal deficit ratio indicates the extent of borrowed amount spent on meeting the current account deficit and the space created for capital outlay. In 2001-02 the revenue deficit as percentage of fiscal deficit was as high as **61.6 per cent** indicating that nearly two third of the borrowings was spent to meet the current expenditure leaving very little room for asset creation. However, over the years, with the efforts of the State Government, the position has improved. Since the State is revenue surplus, the entire borrowed amount could be utilized for capital expenditure. In the Budget Estimates for 2008-09 the State finance is expected to generate a revenue surplus to the tune of **Rs. 185.23 crore** which is **140.87 per cent** of the fiscal deficit. This indicates that the percentage share of a revenue surplus utilized for meeting capital expenditure exceeds the capital expenditure met out of borrowed funds.

13. The improved financial position of the State is in other way reflected into its cash balance position. During the year 2006-07 and 2007-08 there has been no suspension of payment by the RBI even for a single occasion. Not only that the Government had not lapsed to overdraft even for a single occasion and the utilisation of Ways and Means Advance has been very minimal.

PROSPECTS

14. With the existing trend growth of the State's economy, the economy is likely to perform well in the coming years as well. GSDP at factor cost at current price is expected to grow at **9.92 per cent** in 2008-09 touching **Rs. 3630.87 crore**. Likewise, the per capita income at current prices for 2008-09 is estimated at **Rs. 29418.00** as compared to **Rs. 27487.00** during 2007-08 which will represent an increase of **7.22 per cent**.

15. A Macro Economic framework Statement giving trend in selected macro economic and fiscal indicators in placed below at Annex.

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	
		2006-'07 (Actuals)	2007-'08 (RE)	2006-'07 (Actuals)	2007-'08 (RE)
A	Real Sector				
1	GDSP at factor cost				
(a)	at current price	2984.99	3287.87	10.68	10.15
(b)	at 1999-2000 price	2368.24	2527.88	7.50	6.74
2	Agriculture Production	373.27	285.07	3.14	3.16
3	Industrial Production	426.21	446.16	8.95	4.68
4	Tertiary Sector Production	1568.76	1696.65	8.31	8.15
B	Government Finances				
1	Revenue Receipts (2+3)	1968.95	2362.40	19.06	18.51
2	Tax Revenue (2.1+2.2)	355.67	409.77	26.62	22.46
2.1	Own Tax Revenue	67.62	68.88	22.81	9.07
2.2	State's Share in Central Taxes	288.05	340.89	27.55	25.58
3	Non-Tax Revenue (3.1+3.2)	1613.28	1952.63	17.52	17.71
3.1	State's Own Non-Tax revenue	133.38	128.94	11.06	7.69
3.2	Central Transfers	1479.90	1823.69	18.13	18.49
4	Capital Receipts	260.57	297.49	(-)23.23	(-)0.86
4.1	Recovery of loans	24.01	24.66	4.48	7.26
4.2	Other Receipts	0.00	0.00	0.00	0.00
4.3	Public Debt	236.56	272.83	(-)25.24	(-)1.53
5	Total Receipts (1+4)	2229.52	2659.89	11.86	15.97
6	Non-Plan Expenditure	1240.37	1456.85	2.47	11.34
6.1	Revenue Account	1114.69	1258.54	6.04	5.99
	of which:-				
	(a) Interest payments	239.75	180.58	29.84	(-)20.38
	(b) Subsidies				
	(c) Salaries	462.51	611.49	6.19	25.33
	(d) Pension Payments	77.31	106.01	(-)13.29	0.03
6.2	Capital Account	125.68	198.31	(-)21.11	63.66
7	Plan Expenditure	1054.56	1247.73	2.91	12.19
7.1	Revenue Account	602.59	715.28	12.25	13.59
7.2	Capital Account	451.96	532.45	(-)7.36	10.36
8	Total Expenditure (6+7)	2294.93	2704.58	2.67	11.73
8.1	Revenue Expenditure (6.1+7.1)	1717.29	1973.82	8.14	8.63
8.2	Capital Expenditure (6.2+7.2)	577.64	730.76	(-)10.75	21.06
	of which:-				
	(a) Loans & Advances	0.25	10.41	(-)99.26	98.28
	(b) Capital Outlay	466.44	541.42	3.34	12.22
9	Revenue Deficit (-)/Surplus (+) (1-8.1)	(+)251.66	(+)388.58	(+)283.39	(+)54.41
10	Fiscal Deficit {(1+4.1+4.2)-(8.1+8.2a+8.2b)}	(-)191.02	(-)138.59		
11	Primary Deficit (10-6.1a)				
12	Memo:				
	Average amount of WMA from RBI [^]	0.05	0.06	-87.50	-
	Average amount of OD from RBI [^]	-	-	-	-
	Number of days of OD	-	-	-	-
	Number of occasions of OD	-	-	-	-