



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
2014-2015**

(As laid before the Mizoram Legislative Assembly on 11th November, 2014)

**FORM -III
(See Rule 7)**

MACRO ECONOMIC FRAMEWORK STATEMENT

OVERVIEW OF THE STATE'S ECONOMY

In 2014-15, the Indian economy is poised to overcome the sub-5 per cent growth of Gross Domestic Product (GDP) witnessed over the last two years. The growth slowdown in the last two years was broad based, affecting in particular the industry sector. Inflation too declined during this period, but continued to be above the comfort zone, owing primarily to the elevated level of food inflation. Yet, the developments on the macro stabilization front, particularly the dramatic improvement in the external economic situation with the Current Account Deficit (CAD) declining to manageable levels after two years of worryingly high levels was the redeeming feature of 2013-14. The fiscal deficit of the Centre as a proportion of Gross Domestic Product also declined for the second year in a row as per the announced medium term policy stance. Reflecting the above and the expectations of a change for the better, financial markets have surged. Moderation in inflation would help ease the monetary policy stance and revive the confidence of investors, and with the global economy expected to recover moderately, particularly on account of performance in some advanced economies, the economy can look forward to better growth prospects in 2014-15 and beyond.

2. While the global environment remains challenging, policy action in India has rebuilt buffers to cushion it against possible spillovers. These buffers effectively bulwarked the Indian economy against the two recent occasions of spillovers to the Emerging Market and Developing Economies (EMDEs) — the first, when the US Fed started the withdrawal of its large scale asset purchase programme and the second, which followed escalation of the Ukraine crisis. On both these occasions, Indian markets were less volatile than most of its emerging market peers. With the narrowing of the twin deficits – both current account and fiscal – as well as the replenishment of foreign exchange reserves, adjustment of the rupee exchange rate, and more importantly, setting in motion disinflationary impulses, the risks of near-term macro instability have diminished. However, this in itself constitutes only a necessary, but not a sufficient, condition for ensuring economic recovery. Much more efforts in terms of removing structural impediments, building business confidence and creating fiscal space to support investments will be needed to secure growth.

3. As regard to the State Government, the Gross State Domestic Product (GSDP) of Mizoram is continuously increasing over the years. Gross State Domestic Product (GSDP) at factor cost at constant (2004-2005) prices is expected to attain an amount of ` 562658.00 lakh in 2013-2014 against the advance estimates of ` 536990.00 lakh for the year 2012-2013 showing a growth of about 4.78% over the previous year. The GSDP at constant (2004-2005) prices clocked 8.5% average annual growth rate during the financial years 2004-2005 to 2013-2014.

4. The State economy (GSDP) is projected to grow at about 8.58% during 2013-14 while the national economy (GDP) is projected to grow at 4.9 % during 2013-14.

5. The Per capita income of Mizoram for the year 2012-2013 is estimated at ` 60836.00 as against the previous year's estimate of ` 55886.00. Per capita income at the national level is ` 74920.00 for the year 2013-2014 (Advance Estimates).

6. Tertiary/Service sector constituting a share of about 66.16% of the total GSDP indicates that this sector drives the economy of Mizoram. Both the industry sector contributes about 17% and the agriculture & allied sector contribute about 19% to the GSDP respectively.

7. The investment climate of the State has been optimistic. The Government's increased investments will be supplemented by inflow of foreign capitals for which the Government has been taking active steps. The World Bank-assisted Mizoram State Road Project-II is initiated by signing agreement in 2014. The 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)*' resulted in commencement of the investments by the Bank to meet the critical programme activities. The Government's focus will continue towards mobilizing external resources for public investments.

8. The State Government is also actively pursuing various infrastructural development projects by availing low interest loans from NABARD. The advantage of these projects funded by NABARD is that the implementation period is only three years so that the results can be seen within a short period of time which reduces cost escalation and time over run.

9. The Government's focus has also been brought to taking advantage of the raising private investments in the economy. The Government has initiated taking up projects on Public Private Partnership (PPP) mode, and the Kolodyne HEP has been taken up by the NTPC on 'Build, Own Operate and Maintain (BOOM)' model of PPP and construction of the project will be taken up for 6 years. On July 23, 2014 the Ministry of Finance has approved ` 1750.60 crore for a 210 MW capacity Tuivai Hydro Electric Project. The project is to be provided under the Viability Gap Funding and would be taken up in a PPP mode. The State Government is the first state to avail funding under the VGF and the first NE state to take up a mega project in PPP mode. The quantitative and qualitative increase in the utilization of the Central Sector Schemes, foreign and private capitals for increasing investments and effective convergence of the activities will continue to be the focus of the Government to bring in fruitful utilisation of resources and growth of the economy.

10. The size of the Annual Plan 2014-15 is agreed to with an outlay of ` 3140.00 crore resulting an unprecedented increase over the Approved Outlay of ` 2500.00 crore in 2013-14. New Land Use Policy (NLUP), the Flagship Programme of the State Government continued to be the highest priority during 2013-2014. The programme aims at gradually changing the practice of jhumming with a new pattern of land use through empowerment of people, preservation of environment, adoption of effective water harvesting measures and commercial utilization of abundant locally available resources. ` 317.32 crore are specifically earmarked for NLUP which is being implemented by eight Departments.

GDP GROWTH

11. The GSDP finalized for 2010-11 placed the GSDP at factor cost at current prices at ` 6387.88 crore and ` 4979.32 crore at constant prices. The Provisional Estimates of 2011-12 placed the GSDP at factor cost at current prices at ` 7197.82 crore and ` 5157.92 crore at constant prices with real growth of 3.59 per cent.

12. The Quick Estimates of 2012-13 placed the GSDP at factor cost at current prices at ` 8053.09 crore. GSDP at constant prices has also been estimated at ` 5369.90 crore. The nominal and real growth rates respectively stood at 11.88 per cent and 4.11 per cent. The per capita income for the year 2012-13 at current prices is estimated at ` 67587.00 and ` 45068.00 at constant prices.

13. The Primary Sector comprising agriculture & allied activities contributed 17.05% (2012-2013) to the GSDP. With more than half of

the population deriving the greater part of their income from agriculture, faster growth in agriculture is necessary to provide boost to their income. Rising incomes in agriculture will also be an impetus to non-agricultural income in rural areas thus helping redress the rural-urban imbalance. Recently horticulture and floriculture has gained momentum and shown marked improvement in their production.

14. The Industry Sector which comprises of (i) Mining & Quarrying, (ii) Manufacturing, (iii) Construction and; (iv) Electricity, Gas and Water Supply contributed ` 135396.00 lakh during 2012-2013. Its percentage share to GSDP was 16.81%. The main determinant of this sector being Construction Sector, which alone contributed 12.32% to the GSDP in 2012-2013.

15. The Service Sector comprising (i) Transport, Storage & Communication, (ii) Trade, Hotels & Restaurants, (iii) Banking & Insurance, (iv) Real Estate, Business Services etc, (v) Public Administration and (vi) Other Services continues to have the highest contribution to the GSDP, its share being 66.14% in 2012-2013.

OVERVIEW OF STATE GOVERNMENT FINANCES

16. 2014-15 is the terminal year of the Thirteenth Finance Commission (FC-XIII) and the following year will herald in the award period of the Fourteenth Finance Commission (FC-XIV). While the overall recommendation of FC-XII for the 5-year period of 2005-10 is ` 4660.91 crore, FC-XIII has recommended ` 8805.30 crore for 2010-15, which is an increase of 88.92 per cent. Out of the recommended release of ` 8805.30 crore, the progressive actual release from the Central Government up to 2013-14 is ` 6586.63 crore leaving a balance of ` 2218.67 crore to be released during 2014-15. In an economy which is predominantly of Services Sector, the extent of public expenditure, the nature of expenditure and priorities determine the economic activities of the State to a large extent.

17. 2014-15 being the last year of the FC-XIII period, the State Government slowly witness fiscal imbalance as the recommended devolution of resources could hardly meet the expenditure that has been increasing rapidly. Besides, certain fiscal shocks have come into play, resulting in aggravation of the imbalance.

18. With the commencement of the award period of FC-XIV from 2015-16, the Government will slowly be in a position to off load the imbalance with the higher levels of devolution of resources. The

Government will continue with the reforms measures being taken up, consolidate and enlarge the extent and impact of fiscal reforms and consolidation.

19. On the data made available by FC-XIII, the total Government of India's loans (CSS Loans) of the Government of Mizoram recommended for write off is ` 75.00 crore and the benefit on account of interest resetting of NSSF loans is ` 4.51 crore with year-wise benefits of ` 1.02 crore in 2010-11, ` 0.96 crore in 2011-12, ` 0.90 crore in 2012-13, ` 0.84 crore in 2013-14 and ` 0.78 crore in 2014-15. The Government will actively take up measures to fulfill the conditions attached to the facility so as to earn the benefits.

20. During the FC-XIII period, the State's revenues show impressive growth. The revenue receipt during 2009-10 stood at ` 2963.50 crore which has increased to ` 5528.96 crore in 2013-14, the increased percentage being 86.57. Positive sign of improvement has been noted especially in State's Own revenues. It is noteworthy that the State's collection of own revenues has been buoyant during the period. One reason could be attributable to the increased efficiency in collection of tax revenues. With the implementation of VAT in the State from 1st April, 2005, the collection of State's own tax revenues has received further impetus and improved to 2.15 per cent of GSDP in 2010-11 and to 2.56 per cent in 2011-12. It attained a level of 2.51 per cent in 2012-13(RE) and estimated at 2.64 per cent in 2013-14 (RE).

21. On expenditure side also, the period has seen a big surge in expenditure. The revenue expenditure which was ` 2702.70 crore in 2009-10 increased to ` 6145.02 crore in 2013-14(RE). The capital outlay, which was ` 572.80 crore in 2009-10 stood at ` 967.95 crore in 2013-14 (RE) and estimated at ` 714.28 crore in 2014-15 (BE). The State Government needs to check the increase in NPRE.

22. A review of the fiscal performance during FC-XIII period shows a variety of exogenous and endogenous factors coming into play in the fiscal scene. The exogenous factor includes the global economic meltdown, resulting in lowering of tax proceeds from the Centre to the States and the corresponding necessity of filling up the fiscal gap with market borrowings in 2010-14. Out of ` 8805.30 crore, the total amount recommended by FC-XIII for release to the State Government, the balance yet to be release by the Central Government is ` 2218.67 crore at the end of the fiscal 2013-14. The endogenous factors include the requirement of incurring huge subsidies towards purchase of rice. With the reduction of the Public Distribution System Quota of the State by the Government of India, the Government had been

compelled to purchase rice out of additional quota of economic cost in which the differential cost of rice between economic cost and issue price had to be borne by the Government resulting in fiscal shock. The Net expenditure (unrecovered) including cost of transportation within the state for the period 2012-13 alone is ₹ 122.50 crore, which is a huge burden for the State Government.

23. The revenue deficit, which was ₹ 400.86 crore in 2010-11 improved to a revenue surplus of ₹ 127.58 crore in 2011-12 and ₹ 27.83 crore in 2012-13. However, the condition deteriorated again to a revenue deficit to the tune of ₹ (-)616.06 crore in 2013-14(RE).

24. The period of FC-XIII has seen a mixed picture in the overall fiscal position. The fiscal deficit had slowly been following a reducing trend in the beginning of the period; however, the increase in revenue receipt of the Government could not meet the bulging revenue expenditure so as to generate revenue surplus. The fiscal deficit was 16.83% of GSDP in 2010-11, reduces to 6.84% and 7.21% in 2011-12 and 2012-13(RE) respectively; which further deteriorated to 17.96% of the GSDP in 2013-14(RE). Hence, the position in 2013-14 could not present a favourable fiscal position as the level of devolution of resources could hardly meet the level of expenditure that has been increasing rapidly over the years. The commencement of the Fourteenth Finance Commission from 2015-16 is expected to restore the fiscal balance.

PROSPECTS

25. Growth in the Indian economy had been shifting down from 9.6 per cent in Q4 of 2010- 11. It troughed around 4.4 per cent for three quarters, from Q3 of 2012-13 to Q1 of 2013-14. Since then there are signs of growth bottoming out with marginal improvement recorded during Q2 and Q3 of 2013-14 to 4.8 and 4.7 per cent respectively. However, this improvement has been feeble and clear signs of recovery are yet to emerge, even as the economy seems to be gearing for a modest recovery during 2014-15. The downward spiral in growth caused in large part by structural factors that impeded investment activity had a profound effect on India's potential growth. India's potential growth appears to have dropped from 8-8.5 per cent during the period Q2:2005-06 to Q3:2008-09 to around 6 per cent during the period Q2:2012-13 to Q3:2013-14.

26. With that growth expectations of the country's economy in view, the State's economy is also under low expectation to perform well in the coming years. Considering the dependency of the State economy on the performance of the national economy, which in turn affects the

devolution and subventions from the Central Government, the macroeconomic framework of the State government will definitely follow the national trend. Hence, the fiscal policy of the Central government as well as the monetary policy of the RBI will pave a long way in the fiscal health of the State Government provided that structural bottlenecks are done away with by the Central government. Meanwhile, without taking into consideration of the above speculations, the estimate of Mizoram GSDP calculated by Ministry of Finance, Government of India for 2014-15 is ` 9805.00 crore.

27. The State's Annual Plan has been increasing with the approved plan size of ` 2500.00 crore in 2013-14 and ` 3140.00 crore in 2014-15. The public expenditure on plan activities outside annual plan forms a sizeable chunk thus contributing effectively to the growth of the State's economy. The commencement of the award period of FC-XIV with higher levels of devolution resulting in availability of resources is expected to contribute significantly towards the economic activities of the Government. With the hope of resurging rural economy in the Government's flagship programme in the implementation of the New Land Use Policy (NLUP), the rural economy is expected to increase its contribution towards the economy. With the Government laying down the much needed basic infrastructure foundation for economic growth in key sectors, the economic activities of the private sector is expected to come up contributing for economic growth. The State Government's commitment in taking up economic development has also resulted in increased economic co-operation with multilateral institutions. The inflow of external resources, accompanied by the transfer of knowledge and expertise at the international level will slowly impact the performance of the public and private sectors.

28. 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	
		2012-13 (Actuals)	2013-14 (RE)	2012-13 (Actuals)	2013-14 (RE)
A	Real Sector				
1	GDSP at factor cost				
	(a) at current prices	8053.00	8886.00	15.18	10.81
	(b) at 2004-2005 prices				
2	Agriculture Production				
3	Industrial Production				
4	Tertiary Sector Production				
B	Government Finances				
1	Revenue Receipts (2+3)	4536.74	5528.96	13.08	5.12
2	Tax Revenue (2.1+2.2)	1009.11	1092.90	0.26	9.87
2.1	Own Tax Revenue	223.15	234.82	24.90	16.20
2.2	State's Share in Central Taxes	785.96	858.08	-5.05	8.26
3	Non-Tax Revenue (3.1+3.2)	3527.63	4436.06	17.38	4.01
3.1	State's Own Non-Tax revenue	212.80	251.78	26.64	21.78
3.2	Central Transfers	3314.83	4184.28	16.83	3.11
4	Capital Receipts	449.76	787.93	-8.87	158.76
4.1	Recovery of loans	29.48	27.54	6.04	24.71
4.2	Other Receipts	-	-		
4.3	Public Debt	420.28	760.39	-9.76	167.65
5	Total Receipts (1+4)	4986.50	6316.89	10.68	16.65
6	Non-Plan Expenditure	3161.19	3741.38	21.59	20.84
6.1	Revenue Account	2748.84	3079.43	16.94	13.22
	of which:-				
	(a) Interest payments	288.15	282.47	5.24	13.73
	(b) Subsidies	-	-		
	(c) Salaries	1377.36	1632.11	19.76	10.08
	(d) Pension Payments	370.52	240.17	24.19	-
6.2	Capital Account	412.35	661.95	65.41	75.98
7	Plan Expenditure	2271.57	4035.82	17.18	34.09
7.1	Revenue Account	1760.07	3065.59	28.18	56.96
7.2	Capital Account	511.50	970.23	-9.52	-8.18
8	Total Expenditure (6+7)	5432.76	7777.20	19.71	27.38
8.1	Revenue Expenditure (6.1+7.1)	4508.91	6145.02	21.08	31.50
8.2	Capital Expenditure (6.2+7.2)	923.85	1632.18	13.41	13.91
	of which:-				
	(a) Loans & Advances	30.24	55.95	-9.76	79.33
	(b) Capital Outlay	607.55	967.95	22.78	-15.40
9	Revenue Deficit (-)/Surplus (+) (1-8.1)	27.83	-616.06	-90.34	-205.01
10	Fiscal Deficit {(1+4.1+4.2)-(8.1+8.2a+8.2b)}	-580.48	-1612.42	173.04	185.86
11	Primary Deficit (10-6.1a)	-292.33	-1329.95	-577.74	322.13
12	Memo:				
	Average amount of WMA from RBI*	0.46	2.03	-	-
	Average amount of OD from RBI [#]	0.13	-	-	-
	Number of days of OD	1	-	-	-
	Number of occasions of OD	1	-	-	-

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

[#] The State Government did not lapse into OD during the year.