



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

2012-2013

(16th July, 2012)

FORM – III
(See Rule 7)

MACRO ECONOMIC FRAMEWORK STATEMENT

OVERVIEW OF THE STATE'S ECONOMY

1. Indian Economy during the Eleventh Five Year Plan is worked out to grow by 8.2 per cent short of initial target of 9 per cent despite global economic slowdown and drought crisis during the period. Similarly, the GDP growth rate during Tenth Plan averaged 7.7 per cent. The objective of Eleventh Plan was faster and inclusive growth and the initiatives taken in the Eleventh Plan period have resulted in substantial progress towards both objectives. In the first few years of Eleventh Plan, the growth momentum is impressive and the prospect is also promising with an average growth rate of over 9 per cent. However, the global economic meltdown negatively impacted the normal continual progress of GDP which manifested in under-achievement of various sector particularly in Industrial sector in the later part of the Five Year Plan.

2. Further, the Indian Economy is estimated to grow by 6.9 percent in 2011-12 in terms of gross domestic product at factor cost at constant 2004-05 prices following the growth of 8.4 per cent in 2010-11. Comparing to the relatively higher growth rate in the period 2003-04 to 2010-11 (exclusive of 2008-09), performance during 2011-12 is much below at par. This dismal could be attributable to poor performance in Industrial sector owing to persistent inflationary pressures and deterioration in the global economic situation. On the other hand, domestic financial problem like requirement of higher subsidy, tightening of monetary policy to control inflation also causes higher fiscal deficit which led to sharp capital outflows and put pressure on exchange rate. In spite of that, growth rate of 6.9 per cent in India is one of the highest GDP growth rate among the countries in the world.

3. In the meantime, the downward trend of growth rate showed reversal in January, 2012. Most of the economic indices exhibited upward trend as a result of various measures undertaken by Central Government as well as Reserve Bank of India. In terms of contribution

to growth, services sector accounted for nearly 79 per cent, Industry-16 per cent and agriculture sector – 5 per cent in the last financial year. At the same time, growth of agriculture, industry and service sectors are also estimated to perform well from the last quarter of last fiscal. This indicates that the slowdown in the economic activity is almost bottomed out and a gradual upswing is expected during current financial year.

4. As we are entering the period of Twelfth Five Year Plan, Central Government is taking utmost endeavor to reach double digit growth rate in average during the whole period. The basic objective of Twelfth Five Year Plan is Faster, More Inclusive and Sustainable growth. According to Issues for Approach to 12th Five Year Plan, emphasis will be laid on – performance on agriculture, faster creation of jobs in manufacturing, stronger efforts at Health, Education and Skill development, special plan for vulnerable groups and special backward regions. Besides, Special Category States are also proposed to be given special treatment in the critical issue like Infrastructure gaps and Public sector investment.

5. In the meantime, the precarious financial position of the State also requires a thorough revisit as a result of the unexpected economic slowdown across the country as well as across the globe. As stated earlier, Central Government has been experiencing economic slowdown coupled with rising cost and narrowing profit margins of the corporate sector during the last financial year. This unexpected economic hold back led to a lower budgeted growth in government revenues. Correspondingly, lower collection of revenue at the Central Government directly impacted the State Government negatively by reducing the amount of budgeted revenue of Mizoram State under devolution of resources on Share in Taxes and Normal Central Assistance. It is anticipated with apprehension that the echo of this under-resource wave might be too heavy to be carried over and absorbed in the state finances of a narrow tax base state like us within a few financial years to come.

6. It may be mentioned time and again that the lion's share of the State economy comes from the contribution of Service sector. Poor performance of Agriculture sector may be attributed to primitive method of cultivation, lack of infrastructure, remote location and improper selection of crops or plantation. Similarly, under-performance of Industry sector may be ascribed to absence of sufficient investment from private players and players from outside the state. However, the State Government is trying its level best to keep pace in line with the

economic stride undertaken by many advanced states across the country in spite of many shortcomings and limitations.

7. As a part of an effort for improvement of fiscal situation within the State, Government of Mizoram signed two loans agreements with the Asian Development Banks for their investment in the project of '*North Eastern Region Capital Cities Development Investment Programme (NERCCDIP)*' and the '*Mizoram Public Resource Management Programme (MPRMP)*'. In particular, MPRMP confines its activities to Tax and Non-Tax Reforms, Debt Management, Public Expenditure Reforms, Sector Improvements in Health and Education, Pension Reforms and Public Sector Enterprise Restructuring. A total of **\$ 87 million** has been availed for taking up various activities during 1st and 2nd tranche under this programme. It is hoped that this significant initiative of State Government will result into larger inflow of external resources in the realm of public investment.

8. Besides, State Government has been painstakingly putting earnest efforts for boosting up the Agriculture and Industry sector through its flagship programme called '*New Land Use Policy (NLUP)*'. This policy is being developed to create sustainable and profitable livelihood among the poor population in the urban areas and poor farmer and cultivator in the rural areas. During 2010-11, **₹ 234.82 crore** was allocated under Additional Central Assistance for implementation of NLUP using which 45139 beneficiaries were provided financial assistance for initial start of trade they selected. During 2011-12, **₹ 234.00 crore** was sanctioned again for taking and continuing of the project and a momentous figure of **₹ 370.00 crore** was allocated for NLUP during 2012-13. Lots of beneficiaries have been given financial assistance through this programme and it is intended to cover 1,20,000 beneficiaries under this programme before the end of current fiscal 2012-13 out of which 90,138 beneficiaries had already been selected during the first two years. The achievement of NLUP manifested in the better improvement of rural economy which is testified by the fact of reduction of area of land used for jhum cultivation and corresponding increase of WRC (Wet Rice Cultivation) Land across the State.

9. In Industry sector, State Government's initiative to boost up industrial activities is appreciable. Three Industrial Development Areas have been established in line with the Special Economic Zone of the other States by providing basic infrastructures like water supply, power supply, industrial plots and other necessary facilities. As of now, 174 units had been given industrial plot in these three areas. Besides, lots of initiatives have been undertaken for promotion of Bamboo

processing. With the support of National Bamboo Mission, Bamboo Development Agency has been constituted which has taken initiative to frame a comprehensive roadmap for developing bamboo sector in the State with a focus on resource mapping, plantation, usage and marketing value-addition. Moreover, 9 bamboo chipping units with a capacity of producing 27 tons of bamboo chips per day per unit have been installed at various places throughout the State. These efforts are also expected to bring about significant improvement in Industry sector and are further expected to create conducive environment for those players outside the state to come and invest in the state.

GROWTH OF GROSS STATE DOMESTICE PRODUCT (GSDP)

10. Estimate of Gross State Domestic Product (GSDP) is one of the most important single economic indicators to measure the overall economic development of a State. It is the estimates of the value of all goods and services produced within the State during a reference period of one year.

11. As per Economic Survey report 2011-12, GSDP at factor cost at constant (2004-05) prices is expected to attain an amount of **₹ 5016.61 crore** in 2011-12 against the quick estimates of **₹ 4556.72 crore** for the year 2010-11 showing an impressive growth rate of about 10 per cent over the previous year. The GSDP at constant (2004-05) prices clocked 8 per cent average annual growth rate during the financial years 2004-05 to 2010-11.

12. According to Economic Survey reports 2011-12, GSDP at constant (2004-05) prices at factor cost of Mizoram during 2007-08 is **₹ 3336.21 crore**, the same was placed at **₹ 3781.37 crore**, **₹ 4173.51 crore**, **₹ 4556.72 crore** and **₹ 5016.61 crore** during 2008-09, 2009-10, 2010-11 and 2011-12 respectively.

13. Similarly, the same report reveals that GSDP at factor cost at current prices during 2007-08, 2008-09, 2009-10, 2010-11 and 2011-12 were **₹ 3815.51 crore**, **₹ 4577.11 crore**, **₹ 5283.93 crore**, **₹ 6057.70 crore** and **₹ 6991.40 crore** respectively. In particular, GSDP at factor cost at current prices is projected to touch **₹ 6991.40 crore** in 2011-12 which is a change of about 15 per cent over the previous year (2010-11) figure of **₹ 6057.70 crore**.

14. The per capita income of Mizoram for the year 2010-11 is estimated at **₹ 48591/-** as against the previous year's estimate of

₹ 43467/- . Per capita income at the national level is ₹ 53331/- for the year 2010-11 (Quick Estimates).

15. Per capita income of Mizoram as per Economic Survey reports 2011-12 during 2007-08, 2008-09, 2009-10 (P), 2010-11 (Q) and 2011-12 (A) were ₹ 32488/-, ₹ 38582/-, ₹ 43467/-, ₹ 48591/- and ₹ 54689/- respectively. (P= Provisional, Q= Quick Estimate, A= Advance Estimates)

16. Based on the year 2004-05, the contribution of Agriculture and allied sector, Industry sector and Service sector during 2009-10 (P) in the corresponding State GSDP at constant (2004-05) prices were 21.41 per cent, 19.97 per cent and 58.62 per cent respectively. During 2010-11 (Q), the contributions of Agriculture, Industry and Service sectors in the GSDP at the similar parameter were 20.16 per cent, 20.10 per cent and 59.74 per cent respectively. Similarly, the sectoral shares of Agriculture, Industry and Services during 2011-12 (A) were 19.41 per cent, 20.14 per cent and 60.45 per cent respectively.

OVERVIEW OF THE STATE GOVERNMENT FINANCES

17. Economic Survey 2011-12 report reveals that the State economy is dominated by Service sector by holding 60.45 per cent which is followed by Industry sector at 20.14 per cent and Agriculture & its Allied sector at 19.41 per cent. On account of this dominating factor, a day to day economic activity of the State almost entirely depends on the expenditure and income of Government and its employees.

18. The devolution of ₹ 8805.30 crore as per the recommendation of Thirteenth Finance Commission for the period of 2010-15 is expected to have an important bearing on the State Government finances which is 88.92 per cent over and above the recommended amount of ₹ 4660.91 crore by Twelfth Finance Commission.

19. Owing to incessant insistence of Planning Commission of India, State Government is also gradually improving its collection of own resources both of tax and non-tax revenues despite resistance from the public on hiking of certain user charges. However, the progressive rate is not up to the mark and is still leaving room for further improvement compared to resources coming from Central Government. The contribution of State Governments in its Exchequer towards Own Revenue (i.e Tax and Non Tax revenue) for the year 2008-09 (actual), 2009-10 (actual), 2010-11 (actual), 2011-12 (RE) and 2012-13 (BE)

were placed at ₹ 253.29 crore, ₹ 234.08 crore, ₹ 276.79 crore, ₹ 421.49 crore and ₹ 419.85 crore respectively. One may observe from the uptrend of the Own revenue of State Government that the increasing percentage is very marginal which requires immediate overhauling. One of the main hurdles in the improvement of State own resources every year is negative figure in the Own Non-Tax revenue.

20. At the same time, the State Government is very fortunate that it receives lots of grants and subvention from Central Government every year. The total transfer during 2009-10 (actual), 2010-11 (actual), 2011-12 (RE) and 2012-13 (BE) were ₹ 2729.42 crore, ₹ 3097.92 crore, ₹ 3706.23 crore and ₹ 4376.63 crore respectively. These total transfers mainly consist of share in devolution of Central Taxes & Duties and various Grants-in-aid from Central Government. On comparison of State contribution and Central contribution in the State Exchequer, it can be seen that more than 90 per cent (approx.) of the State's total receipts is coming from Central Government.

21. The expenditure side of the State Government also needs serious attention as the same has to be carried out based on the available resources. As can be seen from the previous paragraph, most of the available resources are coming from Central Government out of which most of them are project based and tied fund. The main out go of Government expenditures are Salaries and its related expenditure, Pension Payments, Interest payments and Subsidies etc... Actually, the aftershock of implementation of the Mizoram (Revision of Pay) Rules, 2010 has not yet been fully absorbed by the State finances due to which the percentage of expenditure on salary is increasing over the years and adversely affecting the State's cash balance. However, State Government's effort for reduction of cumulative Interest Payment through implementation of MPRMP (*Mizoram Public Resource Management Programme*) bears significant result by bringing changes in the fiscal operation of the State in a balanced and sustainable fiscal situation so as to enhance revenue earning capacity of the State. Besides, for restructuring of Public Sector Enterprises (PSE), PSE restructuring specialist was engaged and they have submitted report to the Government and that a meaningful action is expected to be taken in a near future.

22. One of the heavy impacts the State finances receives, on which the State Government should lay emphasis to control, is the fast bulging of expenditure for salary and its related items. The allocation of fund for salary during 2010-11(actual), 2011-12 (RE) and 2012-13 (BE) were ₹ 1395.57 crore, ₹ 1544.29 crore and ₹ 1780.72 crore respectively. In addition to this, there are allocations for salary under

Grant-in-aid. Besides, the allocations for other salary related expenditure are also swiftly escalating year after year. In short, the upward trend of Non-Plan Revenue expenditure requires a thorough re-examination to revert to normal trajectory. It may not be out of place to mention that the State Government instructed all Departments to surrender 2 per cent of allocated Non-Plan Non-salary expenditure during the last financial year as an effort to check the fast swelling of the same. It is one of the prominent worth-mentioning moves toward fiscal consolidation and achieving sustainable and balanced fiscal state of affairs during the last fiscal.

23. In addition to salary and its related expenditure, the State finances also receives heavy fiscal shock every year on account of provision of subsidy on purchase of food grains, power and water supply. These are necessary and eat away huge cash balances from State Exchequer but without refill from any sources. Actually, the trading of food grains is designed to be carried out through the principle of no-loss-no-gain which is, however, exceedingly not happening on the ground. The malfunction of food trading in the State may be ascribed to existence of floating population who were not taken into account while making assessment for the annual quota of the State but sharing the allocation for the State. Secondly, the system of provision of mass subsidy on food grains requires refurbish as there is a high chance of missing the targeted population but rendering an opportunity to practice malpractices by selling the undistributed food grains in the market at higher rates.

24. It may be mentioned once again that one of the positive signs of State financial management is the existence of Revenue surplus in the Budget since 2003-04 till today. Besides, maximum effort is being undertaken to bring down the level of fiscal deficit so as to conform the prescription laid down by Thirteenth Finance Commission i.e 3 per cent of GSDP by 2014-15. It is hoped that the same features shall be maintained in future State Budget. The revenue surplus during 2009-10 (actual), 2010-11 (actual), 2011-12 (RE) and 2012-13 (BE) were **₹ 260.80 crore, ₹ 119.68 crore, ₹ 193.66 crore** and **₹ 627.77 crore** respectively. Similarly, fiscal deficit during 2009-10 (actual), 2010-11 (actual), 2011-12 (RE) and 2012-13 (BE) were **₹ 311.62 crore, ₹ 499.60 crore, ₹ 490.86 crore** and **₹ 265.62 crore** respectively.

PROSPECTS

25. As the State Government is putting paramount endeavor to bring about improvement in the state financial position and to drive the fiscal wheel in the right direction, the state economy is also expected to get better within foreseeable future. Some of the State's efforts to bottom out the fiscal state of thing and to weed out the economic hurdles lying on the way to its consolidation may be briefly mentioned as below:

i) Upward Revision of VAT: *State Government has revised Value Added Tax (VAT) from 4 per cent to 5 per cent and from 12.5 per cent to 13.5 per cent which is certainly expected to bring about a positive turnaround in the State own tax revenue.*

ii) Voluntary Retirement Scheme: *This scheme has been availed by more than 300 Drivers and 193 Teachers. For successful implementation of this scheme, Market Loan was utilized for seeing-off those Drivers and financial assistance taken from Asian Development Bank was utilized for voluntary retirement of 193 Teachers. During 2011-12, more than 300 cases of Teachers have been processed to avail this 'Special Voluntary Scheme' to provide room for qualified Teachers vis-à-vis reducing expenditure.*

iii) Health Care Scheme: *To provide and bring the Health Care facilities to the poor and Below Poverty Line (BPL) population, State Government implements Health Care Scheme successfully. This is expected to improve the health condition of an individual especially poor people.*

iv) Restriction on Medical Reimbursement, Leave Travel Concession, release of GP Fund etc.: *State Government totally bans medical reimbursement for out-patient applicants. It is strictly restricted to hospitalized Government servants. Similarly, Leave Travel Concession is also totally banned for the Mizoram State Government employees. Release of General Provident Fund (GPF) to the State Government employees is also controlled and closely monitored by Finance Department in order to prevent improper outgoing of State Exchequer.*

v) Filling up of vacant post and Tour outside the State: *As a part of economy measures, filling up of vacant post is restricted to the minimum level. Because of this, more than 8000 posts are presently lying vacant under the Government of Mizoram. Moreover, Restriction on Tour outside the State for the*

Government employees is also imposed in such a way that it can be availed only with prior permission of Chief Secretary, Government of Mizoram.

vi) New Defined Contributory Pension Scheme: *New Defined Contributory Pension scheme was launched as a part of economy measure to improve State finances. This scheme is designed to cover only those employees recruited on or after 1st September, 2010.*

26. To reduce Non-Plan revenue expenditure, the State Government is taking an effort for reduction of Interest payments by minimizing outstanding debt through implementation of *Prepayment of high cost Loans* under Mizoram Public Resource Management Programme (MPRMP) with **\$ 19 million** during 1st tranche and **\$ 27 million** during 2nd tranche by taking an advantage on financial assistance from Asian Development Bank through Government of India. This financial assistance was utilized for prepaying high cost loans carrying an interest of 9 per cent and above.

27. The Annual Plan size for the year 2012-13 has been fixed at **₹ 2300.00 crore** which is an increase of 35.29 per cent over the size of the last year Annual Plan and this increment is the highest ever in the history of Mizoram Annual Plan. This amount is coupled with the resources coming from NEC, NLCPR, CSS and CPS. This enables the State Government to ensure the much needed public investments in key socio-economic development areas in a larger way. The Government has also accorded priority for laying the foundations for economic growth with special emphasis of development infrastructure like roads & bridges, water supply & sanitation, human development, revamping of rural economy through NLUP etc... Accounting all these together, the prospect of the State finance's indicates a positive prospect and an improving trend in the maintenance of fiscal management over the medium term.

28. A Macro Economic Framework Statement giving trend in selected macro economic and fiscal indicators is placed below at Annexure 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	
		2010-11 (Actuals)	2011-12 (RE)	2010-11 (Actuals)	2011-12 (RE)
A	Real Sector				
1	GDSPP at factor cost				
	(a) at current prices	6057.70	6991.40	10.18	11.03
	(b) at 2004-2005 prices	4556.72	5016.61	6.76	8.07
2	Agriculture Production	1137.98	1253.81	4.33	3.72
3	Industrial Production	1296.68	1524.16	16.76	14.87
4	Tertiary Sector Production	3623.04	4213.43	9.90	12.02
B	Government Finances				
1	Revenue Receipts (2+3)	3374.71	4127.72	13.88	11.07
2	Tax Revenue (2.1+2.2)	720.86	890.04	43.57	24.49
2.1	Own Tax Revenue	130.08	180.31	20.91	45.24
2.2	State's Share in Central Taxes	590.78	709.73	49.74	20.13
3	Non-Tax Revenue (3.1+3.2)	2653.85	3237.68	7.82	7.87
3.1	State's Own Non-Tax revenue	146.71	241.18	15.98	35.81
3.2	Central Transfers	2507.14	2996.50	7.38	6.12
4	Capital Receipts	539.50	492.42	114.76	-13.82
4.1	Recovery of loans	25.97	36.76	2.57	11.36
4.2	Other Receipts	-	-	-	-
4.3	Public Debt	513.53	455.66	127.34	-15.36
5	Total Receipts (1+4)	3914.21	4620.14	21.76	7.75
6	Non-Plan Expenditure	2454.30	2700.45	10.94	2.33
6.1	Revenue Account	2057.55	2427.30	13.97	10.15
	of which:-				
	(a) Interest payments	105.46	271.70	-58.54	5.00
	(b) Subsidies				
	(c) Salaries	1171.72	1240.22	32.86	1.92
	(d) Pension Payments	248.75	219.01	-38.88	13.52
6.2	Capital Account	396.75	273.15	-2.52	-37.26
7	Plan Expenditure	1703.14	2297.61	17.18	1.10
7.1	Revenue Account	1197.48	1506.76	33.45	0.71
7.2	Capital Account	505.66	790.85	-9.07	1.85
8	Total Expenditure (6+7)	4157.44	4998.06	13.41	1.76
8.1	Revenue Expenditure (6.1+7.1)	3255.03	3934.06	20.44	6.33
8.2	Capital Expenditure (6.2+7.2)	902.41	1064.00	-23.85	-12.20
	of which:-				
	(a) Loans & Advances	29.87	35.06	19.77	9.05
	(b) Capital Outlay	615.38	686.22	7.43	-8.55
9	Revenue Deficit (-)/Surplus (+) (1-8.1)	119.68	193.66	-54.11	1065.22
10	Fiscal Deficit {(1+4.1+4.2)-(8.1+8.2a+8.2b)}	-499.60	-490.86	60.32	-33.02
11	Primary Deficit (10-6.1a)	-605.06	-762.56	956.50	60.85
12	Memo:				
	Average amount of WMA from RBI*	0.45	0.05	-	-
	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.