



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
2010-2011**

(As laid before the Mizoram Legislative Assembly on 19th March, 2010)

FORM –III
(See Rule 7)

MACRO ECONOMIC FRAMEWORK STATEMENT

OVERVIEW OF THE STATE'S ECONOMY

1. The Indian Economy, which had been affected by the global recession during the last two years shows signs of recovery in 2009-10. The global economic meltdown had affected the Indian economy in three channels – (a) the financial channel which diminished the ability of Indian companies to mobilize equity and debt in foreign and domestic markets; (b) the trade channel which operated by eroding the import demand in developed economies and (c) the collapse of business and consumer confidence in the developed economies. The rapid adjustments in the monetary and fiscal policies enabled the national economy to minimize the global recessionary effects.

2. The Indian economy had grown at an average of **8.5 per cent** and per capita GDP at **6.9 per cent** in the five-year period of 2004-05 to 2008-09 even though the growth of economy in 2008-09 was only **6.7 per cent** due to the effect of recession. The Economic Advisory council to the Prime Minister, in its Economic Outlook 2009-10 in October, 2009, forecasted economic growth at around **6.5 per cent**. However, with the various factors into play becoming favourable, the advance estimates of GDP for 2009-10 as released recently indicate that the GDP is likely to grow by **7.2 per cent** with **0.2 per cent** negative growth in the Farm Sector, 8.6 per cent in Industry Sector and **8.7 per cent** in Services Sector.

3. The Council foresaw the serious challenge in successfully managing the inflationary trend in oil and commodity prices in the international sphere and increase in the price of foodgrains and especially of rice, pulses and sugar on the domestic front. With the sharp picking up of manufacturing sector, mining and quarrying, production of power & electricity, accompanied by strong recovery in services sector, the Council forecasted a growth of the economy at **8.2 per cent** in 2010-11 and by **9.00 per cent** in 2011-12. The council also expected the global economic condition to improve in the coming years and bring along a better prospects of exports.

4. The advance estimate of GSDP of Mizoram for 2009-10 is **Rs. 4266.73 crore** at current prices with nominal growth of **11.65 per cent**. The GSDP at constant prices is estimated at **Rs. 2808.91 crore** with real growth of **7.2 per cent**. Agriculture Sector is estimated to grow at **3.0 per cent**, Industry Sector at **7.48 per cent** and **8.07 per cent** for Tertiary Sector. Sector-wise contribution to the economy are, Agriculture & Allied Sector – **14.32 per cent**, Industry Sector – **19.39 per cent** and Tertiary Sector – **66.29 per cent**. The relative immunity of the State's economy from

economic recession may be attributed to predominance of Services Sector in the State's economy.

5. 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 ongoing project of the World Bank-assisted Mizoram State Road Projects will be successfully wound up. 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.

6. 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 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. Tuivai HEP has also been proposed for PPP mode and to meet the financial viability gap, viability gap funding from the Government of India under the Scheme has been sought. 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.

7. The size of the Annual Plan 2009-10 was agreed to with an outlay of **Rs. 1250.00 crore** resulting an unprecedented increase over the Approved Outlay of **Rs. 1000.00 crore** in 2008-09. Pending finalization of the Annual Plan size of 2010-11, the Government has tentatively put the Annual Plan size at **Rs. 1250.00 crore** which will undergo change as and when the same is finalized with the Planning Commission of India. By taking the country's average targeted growth rate of **9.0 per cent** and **4.0 per cent** in Agriculture Sector into consideration and the need to ensure better quality of life for all sections of the population, particularly those below the poverty line, the Government will take on the challenges by revamping the rural economy with the New Land Use Policy (NLUP), which is the flagship programme of the Government.

GDP GROWTH

8. The GSDP finalized for 2006-07 placed the GSDP at factor cost at current prices at **Rs. 3059.47 crore** and **Rs. 2286.02 crore** at constant prices. The Provisional Estimates of 2007-08 placed the GSDP at factor cost at current prices at **Rs. 3411.66 crore** and **Rs. 2449.02 crore** at constant prices with real growth of **7.13 per cent**.

9. The Advance Estimates of 2009-10 placed the GSDP at factor cost at current prices at **Rs. 4266.73 crore**. GSDP at constant prices has also been estimated at **Rs. 2808.91 crore**. The nominal and real growth rates respectively stood at **12.01 per cent** and **7.2 per cent**. The per capita at current prices is estimated at **Rs. 32634.00** and **Rs. 22501.00** at constant prices.

10. The contribution of the agriculture sector in the GSDP in 2008-09 in **14.91 per cent** and is estimated at **14.32 per cent** in **2009-10**. The share of industry sector in GSDP remains more or less constant at **19.34 per cent** in 2008-09, and **19.39 per cent** in 2009-10. The service sector continues to be the major share holder of the GSDP at **66.75 per cent** in 2008-09 is estimated to contribute a share of **66.29 per cent** in 2009-10. The share of services sector, following the national trend, has been increasing over the last few years.

11. The national policy on agriculture is to attain a growth rate of **4.0 per cent** in agriculture & allied sector. The growth of agriculture sector in 2008-09 was **2.85 per cent** and is estimated at **3.00 per cent** in 2009-10. With the weaning away of the adverse effects of bamboo flowering, the growth of agriculture is expected to improve over the years. The Industry Sector registered a growth rate of **7.09 per cent** in 2008-09 and the estimated growth in 2009-10 is **7.48 per cent**. Tertiary Sector grew at **7.95 per cent** in 2008-09 and is estimated to grow at **8.07 per cent** in 2009-10.

OVERVIEW OF STATE GOVERNMENT FINANCES

12. 2009-10 is the terminal year of the Twelfth Finance Commission (FC-XII) and the following year will herald in the award period of the Thirteenth Finance Commission (FC-XIII). While the overall recommendation of FC-XII for the 5-year period of 2005-10 is Rs. 4660.91 crore, FC-XIII has recommended Rs. 8805.30 crore for the next 5-year period of 2010-15, which is an increase of 88.92 per cent. 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.

13. The period of FC-XII commenced in the wake of the State finances with unsustainably high fiscal deficit and a very high debt stock relative to GSDP indicating a high degree of fiscal stress. The FC-XII's recommendation of fiscal reforms facility by introducing the 'Debt Consolidation and Relief Facility (DCRF)' linked with the enactment of the Fiscal Responsibility Legislation slowly brought about fiscal consolidation. The higher levels of devolution of resources on the recommendations of FC-XII also helped in improving the overall fiscal position. However, the last year of the period 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.

14. With the commencement of the award period of FC-XIII from 2010-11, the Government will slowly be in a position to off load the imbalance with the higher levels of devolution of resources. The accompanying fiscal reforms measures in the form of waiver of Government of India's Loans (CSS Loans) and resetting of the interest to 9 per cent on NSSF will also help in creating fiscal space by reducing repayment of loans and interests. FC-XIII continues the basic principles of fiscal reforms as recommended by FC-XII. Thus, the Government will continue with the reforms measures being taken up, consolidate and enlarge the extent and impact of fiscal reforms and consolidation.

15. 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 **Rs. 75.00 crore** and the benefit on account of interest resetting of NSSF loans is **Rs. 4.51 crore** with year-wise benefits of **Rs. 1.02 crore** in 2010-11, **Rs. 0.96 crore** in 2011-12, **Rs. 0.90 crore** in 2012-13, **Rs. 0.84 crore** in 2013-14 and **Rs. 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.

16. During the FC-XII period, the State's revenues show impressive growth. 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. The TFC had earlier projected the State's Own tax revenues to grow with buoyancy of **1.1**. However, the growth rates of tax revenues in 2005-06, 2006-07, 2007-08 and 2008-09 (Pre-Actual) respectively stood at **39.18 per cent**, **22.81 per cent**, **14.64 per cent** and **22.06 per cent** with average growth rate of **24.67 per cent** during the first 4 years of the TFC award period. With average growth of GSDP at current prices at **11.61 per cent** during the same period, State's Own Tax Revenues grows with buoyancy of **2.12** which is much higher than the TFC's projected Own tax buoyancy of **1.1** for the State of Mizoram. The State's own tax revenue which was a mere **1.61 per cent** of the GSDP in 2004-05 had followed a secular growth trend. 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 **2.02 per cent** of GSDP in 2005-06 and to **2.27 per cent** in 2007-08. It attained a level of **2.48 per cent** in 2008-09 and estimated at **2.73 per cent** in 2009-10 (RE).

17. On expenditure side also, the period has seen a big surge in expenditure. The revenue expenditure which was **Rs. 1588.02 crore** in 2005-06 increased to **Rs. 2313.80 crore** in 2008-08 and to **Rs. 2957.14 crore** in 2009-10 (RE). The capital outlay, which was **Rs. 451.37 crore** in 2005-06 stood at **Rs. 441.04 crore** in 2008-09 and estimated at **Rs. 647.90 crore** in 2009-10 (RE).

18. A review of the fiscal performance during FC-XII 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 2008-09. The endogenous factors include the requirement of incurring huge subsidies towards purchase of rice. With the reduction of the PDS 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 total expenditure of the Government on account of this was estimated at **Rs. 85.33 crore** in the Revised Estimates for 2008-09. The amount of unrecovered expenditure in 2008-09 was **Rs. 74.45 crore**.

18. The revenue surplus, which is a mere **Rs. 65.64 crore** in 2005-06 improved to Rs. 339.33 crore in 2008-09. The estimated revenue surplus in 2009-10 (RE) is **Rs. 256.89 crore** and is estimated at **Rs. 341.63 crore** in 2010-11 which is an all-time high revenue surplus to be estimated.

19. The period of FC-XII has seen improvements in the overall fiscal position. The increased revenues of the Government could slowly meet the revenue expenditure and generate revenue surplus. The fiscal deficit had slowly been following a reducing trend. However, the position in 2009-10 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 Thirteenth Finance Commission from 2010-11 is expected to restore the fiscal balance.

PROSPECTS

19. With the country's economy showing signs of recovery with advance estimate of **7.2 per cent** in 2009-10 projection of **8.2 per cent** in 2010-11, it is seen that the economy is moving ahead with the resurgence of the growth trajectory that was attained before the recession. An ambitious target of crossing the double digit barrier has also been set to be attained in a few years time. With that growth expectations of the country's economy in view, the State's economy is also expected to perform well in the coming years. With the effect of bamboo flowering of 2007 weaning away, the economic performance is expected to improve. Thus, while the advance estimate of GSDP at factor cost at current prices for 2009-10 is **Rs. 4266.73 crore**, the projection for 2010-11 places the GSDP at **Rs. 4781.23 crore** with projected real growth of **7.2 per cent**.

20. The State's Annual Plan has been increasing with the approved plan size of **Rs. 1000.00 crore** in 2008-09 and **Rs. 1250.00 crore** in 2009-10. 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-XIII 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.

21. A Macro Economic Framework Statement giving trend in selected macro economic and fiscal indicators is 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	
		2008-'09 (Actuals)	2009-'10 (RE)	2008-'09 (Actuals)	2009-'10 (RE)
A	Real Sector				
1	GDSP at factor cost				
	(a) at current prices	3809.16	4266.73	11.65	12.01
	(b) at 1999-2000 prices	2620.33	2808.91	7.00	7.20
2	Agriculture Production	524.92	547.53	4.25	4.31
3	Industrial Production	708.86	795.02	11.21	12.15
4	Tertiary Sector Production	2575.38	2924.18	13.42	13.54
B	Government Finances				
1	Revenue Receipts (2+3)	2653.13	3214.03	30.07	18.96
2	Tax Revenue (2.1+2.2)	478.01	510.09	8.42	-2.40
2.1	Own Tax Revenue	94.62	116.69	22.07	23.06
2.2	State's Share in Central Taxes	383.39	393.40	5.51	-8.04
3	Non-Tax Revenue (3.1+3.2)	2175.12	2703.94	36.04	24.08
3.1	State's Own Non-Tax revenue	158.67	143.02	21.77	-11.39
3.2	Central Transfers	2016.45	2560.92	37.31	26.92
4	Capital Receipts	130.63	409.25	-48.00	70.83
4.1	Recovery of loans	24.86	30.01	-9.67	6.34
4.2	Other Receipts	-	-	-	-
4.3	Public Debt	105.77	379.24	-52.72	79.44
5	Total Receipts (1+4)	2783.76	3623.28	21.51	23.19
6	Non-Plan Expenditure	1749.23	2334.41	19.82	31.33
6.1	Revenue Account	1573.21	1929.02	24.92	21.40
	of which:-				
	(a) Interest payments	225.61	258.73	8.46	12.84
	(b) Subsidies	-	-	-	-
	(c) Salaries	739.06	1034.78	25.63	32.96
	(d) Pension Payments	126.05	148.41	29.76	40.00
6.2	Capital Account	176.02	405.39	-12.20	115.11
7	Plan Expenditure	1119.30	1671.98	-2.06	17.59
7.1	Revenue Account	740.58	1028.12	14.11	17.64
7.2	Capital Account	378.72	643.86	-23.32	17.50
8	Total Expenditure (6+7)	2868.53	4006.39	10.21	25.22
8.1	Revenue Expenditure (6.1+7.1)	2313.79	2957.14	21.24	20.06
8.2	Capital Expenditure (6.2+7.2)	554.74	1049.25	-20.11	42.48
	of which:-				
	(a) Loans & Advances	17.41	25.17	184.48	44.82
	(b) Capital Outlay	441.04	647.90	-18.96	4.31
9	Revenue Deficit (-)/Surplus (+) (1-8.1)	339.34	256.89	158.35	7.58
10	Fiscal Deficit {(1+4.1+4.2)-(8.1+8.2a+8.2b)}	-94.25	-386.17	-75.93	3.95
11	Primary Deficit (10-6.1a)	131.36	-127.44	-171.59	-10.39
12	Memo:				
	Average amount of WMA from RBI*	-	0.64	-	-
	Average amount of OD from RBI [#]	-	-	-	-
	Number of days of OD	-	-	-	-
	Number of occasions of OD	-	-	-	-

* Indicates daily average of W&MA availed during April - December, 2009.

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