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
2020 - 2021

(As laid before the 8th Mizoram Legislative Assembly on 19th February, 2020)

FORM –III

(See Rule 7)

MACRO ECONOMIC FRAMEWORK STATEMENT

I. OVERVIEW OF MIZORAM STATE ECONOMY

The Indian economy scenario is experiencing a slow down in the growth in real gross domestic product (GDP) like many other countries in recent times. The International Monetary Fund (IMF) forecast global growth for 2019 at 3%, in such similar backdrop of slower growth rate of global economy. India’s economy too is going through a slow down from 7.2% of growth in GDP in 2017-18 to around 6% for 2019-20 and again in 2020-21. Factors responsible for this slowdown include declining in consumption since early 2018, decline in investment and exports, decline in consumer confidence, debt and risk eversion issues in the financial sector. The Union Government and the Reserve Bank of India have initiated action to address the slowdown through various measures which are expected to start bearing results over the next few months.

2. In the midst of global slowdown accentuated by the fluctuation of financial markets and the lingering impact of demonetization, the Indian Economy turned out resilient, marked by both internal and external stability. The resilient performance of the economy against the backdrop of activity and trade slowing across advanced and emerging economies, firming commodity prices and bouts on volatility interrupting generally rallying financial markets was underpinned by macro-economic stability. While economic growth moderated in 2019-2020, there were visible signs of improvements in macro-economic fundamentals - low inflation and mildest current account deficit and fiscal deficit.

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 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.

5. 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 decline while utility service under secondary sector has gained momentum. Tertiary sector has continued to contribute a major portion of the GSDP.

6. 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. Collection of taxes has faltered under the new tax regime with the Central Government struggling with a wider than budgeted fiscal deficit. The mandatory implementation of the e-way bill system from 1st February, 2018 for all inter-state movement of non-exempted goods will help boost compliance under the Goods and Services which will thereby result in improved tax collection. Even as the Goods and Services Tax (GST) gains traction across the country,the collections are running short of the targets during 2018-19,and still below expectation during 2019-20. There may be certain loopholes due to which tax revenue was not accruing to the Government as expected. The Government expects gradual improvement in GST collection in the next few quarters. Inspite of the shortfall in the collection of GST, it still accounts for a major revenue resource for the state. Furthermore, the declining trend in investment and saving rates in the overall context also entails concern for the overall macro-economic stability.

7. 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 Interstate Trade (Export + Import) as per cent 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 has been going on.

The State government is 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.

State Gross Domestic Product

8. There has been a substantial growth in the Gross State Domestic Product (GSDP) from ₹ 16,366.00 crore in 2016-17 to ₹ 17,739.00 crore during 2017-18 with an annual growth rate of 8.39 per cent. This is lower than the overall growth rate of the country which is 9.96 per cent of the GDP during the same period. The GSDP of the state is projected to increase substantially to ₹ 22240.57 crore during 2018-19 (Actuals) and ₹ 26563.78 crore in 2019.20 (RE) and 31240.56 in 2020-21 (BE).

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 ₹ 1,00,312.00 in 2017-18 to ₹ 1,09,025.00 in 2018-19, growing at an annual average rate of 8.68 per cent. In terms of current price it is projected to increase by 13.24 per cent from ₹ 1,33,951.00 in 2017-18 to ₹ 1,51,682.00 in 2018-19.

10. The contribution of Primary Sector to the overall GSDP of the state has gradually increased from 18.95 per cent during 2012-13 to 28.48 per cent during 2018-19. Though the percentage contribution of agriculture, livestock, fishing and aquaculture has gradually declined, forestry has emerged as the main driving force for this quantum increase contributing 14.48 per cent of the GSDP during 2018-19.

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 GSDP is a welcoming sight for economic progress of the state. The contribution of secondary sector is projected to increase from 18.91 in 2012-13 to 25.76 per cent in 2018-19.

12. Tertiary Sector remains the major contributor of the Gross Domestic Product of the state, constituting 45.03 per cent of the projected GSDP for 2017-18. However, the contribution of this sector as a percentage of the GSDP has gradually declined over the years, witnessing a decline of 23.00 per cent from 59.43 per cent in 2011-12 to 45.76 per cent in 2018-19. Public administration, other services, trade, hotels, restaurant and repair services contribute a major portion of the GSDP from this sector.

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 declined from 139.9 in February 2019 to 140.4 in March 2019 with a change of 0.36 per cent at all India level. In tandem, the CPI of the state has also shown an overall decline of 0.9 per cent from 133.7 in February, 2019 to 134.6 in March, 2019.

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. With the increase of devolution of the share of taxes from 32 per cent during the Thirteenth Finance Commission award period to 42 per cent under the Fourteenth Finance Commission award period, the state finance has witnessed a substantial improvement. Crippled by the lack of resources, rugged terrains and sparsely populated inhabitations, the state has been burdened by its inability to generate its own revenues. Even so, there has been a progressive increase in generation of State's Own Revenues in the last few years.

In the interim report of the Fifteenth Finance Commission the state shares of the Centre's divisible pool has been reduced to 41% as against 42% recommended by the Fourteenth Finance Commission. This may not however, hamper the state's Finance as the share of Mizoram in horizontal devolution has been increased to 0.506% from 0.46% in the Fourteenth Finance Commission period.

16. The Interim Report of the Fifteenth Commission awarded ₹ 1422.00 crore only as PDRDG for 2020-21 against ₹ 2716.00 crore in 2019-20 which will affect the State's finance considerably.

17. The distribution of the net proceeds of Union Taxes and Duties illustrates that a total of ₹ 3967.96 crore is to be devolved to the state during 2020-21 which accounts for 0.506 per cent of the total devolution to all the state. However, the actual amount to be devolved depends on the amount of taxes realized by the Centre.

18. The total Revenue Receipt of the state for 2019-20 (RE) comprising of Tax and Non-Tax Revenue is expected to be ₹ 9810.66 crore out of which ₹ 1032.99 crore is to be raised by the state. The state's own revenue collection for 2020-21 is projected at ₹ 1244.76 crore which is an increase of 20.50 per cent from the previous year. However, the state's own revenue collection will make 12.72 per cent of the overall revenue receipt in 2020-21. It is therefore imperative that an all out effort is taken by the state to maximize its own revenue.

19. 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.

20. 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.

21. The total expenditure of the state comprising of Revenue Expenditure and Capital Expenditure for 2019-20 (RE) is ₹ 12409.26 crore as compared to ₹ 9658.81 crore during 2018-19. The total amount of expenditure incurred on account of Revenue is ₹ 10405.39 crore during 2019-20 which shows an increase of 7.73 per cent 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 decreased from 2224.09 crore to ₹ 2003.87 crore during the same period.

22. 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.

23. The comparison between Revenue Receipts and Revenue Expenditure 2018-19 shows that the state has achieved Revenue Surplus as per the recommendations of the Fourteenth Finance Commission. The Revenue Deficit for 2019-20 is projected at ₹ 594.73 crore which is more than the previous

year where we experienced a Revenue Surplus of ₹ 1533.91. 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.

24. 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 per cent of the GSDP by laying a road map for the state. It is a relief that the state has been able to contain its fiscal deficit within the target set since 2014-2015. However, there is no room for complacency on the part of the state government.

25 The overall liability of the state has increased at an average annual rate of 4.99 per cent during 2015-20. During 2018-19, the fiscal liability of the state increased by ₹ 455.53 crore from ₹ 7313.55 crore in 2018-19 to ₹ 7771.08 crore in 2019-20. The ratio of the fiscal liabilities to GSDP has decreased from 32.89 per cent in 2018-19 to 29.25 per cent in 2019-20 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 752.29 per cent 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

26. 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.

27. The state Government has also signed a projects agreement in the form of Externally Aided Project (EAP) with multilateral agencies. The financial and technical assistance 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 presently includes various Bamboo related projects, waste management system for 10 district capitals, the Cancer speciality Hospital, Tourism and Sports development and promotion schemes.

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

28. 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. Construction of 20MW Mega Solar Park at Vankal, Construction of 2MWp Grid Connected SPV power plant at Tlungvel and Grid Connected Rooftop SPV Plant at other places are 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.

29. The percentage contribution of non-development expenditures to the aggregate disbursement for 2019-20 is projected at 37.37 per cent which is an increase of 8.44 per cent from the previous year. There has been a declining trend in revenue deficit as a percentage of GSDP, revenue deficit as a percentage of TRR, total liabilities to GSDP. This has a positive impact on the overall fiscal health of the State. In contrast, the total liability to the state's own revenue receipts and interest payment and pension expenditure as a percentage of the revenue receipts have increased while the state's own tax to revenue expenditure has shown a decline. 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.

30. 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 (Rs. Crore)		Percentage Changes	
		April - March		April - March	
		2018-19 (Actuals)	***2019-20 (RE)***	***2018-19 (Actuals)***	***2019-20 (RE)***
A	**Real Sector**				
1.00	GDSP at factor cost				
	(a) at current prices	22240.57	26563.78	159.21	209.59
	(b) at 2004-2005 prices				
2.00	Agriculture Production				
3.00	Industrial Production				
4.00	Tertiary Sector Production				
B	**Government Finances**				
1.00	**Revenue Receipts (2+3)**	**9039.49**	**9810.66**	5.35	14.34
2.00	*Tax Revenue (2.1+2.2)*	*4229.66*	*3591.49*	-50.70	-58.14
2.10	Own Tax Revenue	726.70	573.69	-91.53	-93.31
2.20	State's Share in Central Taxes	3502.96	3017.80	-59.17	-64.83
3.00	*Non-Tax Revenue (3.1+3.2)*	*4809.83*	*6219.17*	-43.94	-27.52
3.10	State's Own Non-Tax revenue	449.95	459.30	-94.76	-94.65
3.20	Central Transfers	4359.88	5759.87	-49.19	-32.87
4.00	**Capital Receipts**	**156.38**	**917.57**	-98.18	-89.31
4.10	Recovery of loans	22.16	39.02	-99.74	-99.55
4.20	Other Receipts	-			
4.30	Public Debt	134.22	878.55	-98.44	-89.76
5.00	**Total Receipts (1+4)**	**9195.87**	**10728.23**	7.18	11.74
6.00	**CSS Expenditure**	**1611.98**	**2610.67**	-16.98	34.46
6.10	Revenue Account	1121.41	2104.71	-13.39	62.55
6.20	Capital Account	490.57	505.96	-24.16	-21.78
7.00	**State Expenditure**	**8046.83**	**9798.60**	7.96	31.47
7.10	Revenue Account	6384.18	8300.68	14.29	48.60
	of which:-				
	(a) Interest payments	368.68	359.02	8.69	5.84
	(b) Subsidies	0.00	0.00	-	-
	(c) Salaries	3372.45	4251.68	44.98	82.77
	(d) Pension Payments	942.13	1436.43	12.46	71.46
7.20	Capital Account	1662.65	1497.92	-10.96	-19.79
8.00	**Total Expenditure (6+7)**	**9658.81**	**12409.27**	2.81	32.08
8.10	***Revenue Expenditure (6.1+7.1)***	*7505.59*	*10405.39*	9.08	51.22
8.20	***Capital Expenditure (6.2+7.2)***	*2153.22*	*2003.88*	-14.36	-20.30
	of which:-				
	(a) Loans & Advances	40.52	87.23		
	(b) Capital Outlay	1868.47	1572.15		
9.00	**Revenue Deficit (-)/Surplus (+) (1-8.1)**	**1533.90**	**-594.73**	-9.74	-135.00
10.00	**Fiscal Deficit {(1+4.1+4.2)-(8.1+8.2a+8.2b)}**	**-352.93**	**-2215.09**	10.21	591.74
11.00	**Primary Deficit (10-7.1a)**	**15.75**	**-1856.07**	-102.39	181.47
12.00	**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.