

## Chapter - I

# AN OVERVIEW

### National Economy

After the difficulties faced by the national economy last year, there have been very encouraging signs of strong performance during the current year. The second quarter of 2003-04 saw a growth in real GDP of 8.4% as against 5.2% for the corresponding quarter in the last year. Over all, this works out to 7% for the half year compared to 5.2% for the first half of 2002-03 enabling revision of the growth forecast for 2003-04 to over 7%. The comparative growth of GDP during the first half of this year and the last year is given below:

**Growth in GDP (at 1993-94 prices)** (per cent)

Sectors	2002-03		2003-04		
	Q2	H1	Q1	Q2	H1
Agriculture, forestry & fishing	-3.5	0.0	1.7	7.4	4.1
Mining & Quarrying	6.0	6.8	3.1	2.3	2.7
Manufacturing	6.5	5.2	6.4	7.3	6.8
Electricity, gas & water supply	4.0	4.2	4.8	2.9	3.8
Construction	8.6	7.4	5.7	6.4	6.1
Trade, hotels transport & communications	8.1	7.5	9.6	11.9	10.7
Financing, insurance, real estate & business services	7.0	6.8	7.1	7.3	7.2
Community, social & personal services	7.8	7.4	4.3	8.9	6.7
GDP at factor cost	5.2	5.2	5.7	8.4	7.0

1.2 The higher performance in the second quarter is mainly due to a bumper agricultural production following a satisfactory monsoon. In fact agriculture is expected to register a double digit growth during the year. During the first half of the previous year this huge sector witnessed nil growth whereas in the current year it is 4.1% so far. Manufacturing sector shows a steady 6.8% growth in the first half of the current year compared with 5.2% during the previous year. In agriculture, production of rice went up by 12.8%, coarse cereals by 38.9% and pulses by 41.7% during the kharif season. Among the commercial crops oil seeds pro-

duction is expected to grow up by 60% and cotton by 40%.

1.3 The large food stocks of nearly 65 Million tonnes has come down to 25 million tonnes following exports and heavy releases for drought relief. Even so, the stocks are reasonably high and will go up as a result of the bumper production expected this year.

1.4 Most macro economic indicators are positive. Foreign exchange reserves have crossed \$ 100 billion. The Indian Rupee continues to be strong against the dollar.

The stock market is once again witnessing a boom and it recently crossed the 6000 mark in Sensex. Investor confidence is also looking up. By and large the major reasons for the turnaround is the good southwest monsoon over and above the growth of the services and manufacturing sectors.

1.5 India's current account registered a surplus of \$500 million as compared to a deficit of \$ 1.2 billion in the previous quarter. Inflation

continues to be low in November 2003, it stood at 3.07%. This recent performance of the economy has made the Tenth Plan target of 8% growth rate achievable.

1.6 The year 2003 saw important improvements in infrastructure. Nearly 1000 kms of 4/6 lane highways were built. The Government has announced Rs.100000 crore 'Sagarmala' project to develop a chain of ports. The new Electricity Act was passed paving the way for reforms in the power sector.

1.7 VAT could not be implemented. In spite of Fiscal Responsibility and Budget Management Act, there is no let up in the rise of revenue deficit and fiscal deficit. Also there has not been any significant dent on the problem of unemployment. The plantation sector especially Coffee and Tea continue to be weak.

### Developments in Kerala's Economy

1.8 An important feature of the Kerala's economy in nineties is the significant growth rate of the economy while in the 70's and 80's the economy was relatively stagnant. The growth rate in the 90's is estimated at 5.99 percent.

1.9 The rates of growth for different sectors as well as the total economy for the last three years are

### Growth Rate

(in per cent)

Year	Sectors			
	Primary	Secondary	Tertiary	Overall
2000-01	- 19.6	10.14	10.48	2.60
2001-02	- 1.03	- 6.00	9.28	4.00
2002-03	- 4.38	4.80	9.78	6.10

summarized below.

1.10 Structurally it is the service sector which is growing fast. The contribution of the Agriculture Sector declined from 19.1 percent in 2001-02 to 17.2 percent in 2002-03. At the same time the service sector has grown from 61.7% to 63.8% of the economy.

1.11 With the economic growth of the nineties the per capita income has gone beyond the national average for the first time. As per the latest figures the per capita income at constant prices (1993-94) increased from Rs.10832 in 2001-02 to Rs. 11388 in 2002-03 recording a 5.1% growth. Per capita income at the national level is Rs. 10754 in 2001-02 and Rs. 11010 in 2002-03. The State income at constant prices (1993-94) is estimated at Rs.37031.33 crore in 2002-03 (It is Rs.83782.01 crore at current prices). It has to be noted that remittances from abroad are not included in these figures. It has been roughly estimated that if hypothetically they are also counted, the figure would go up by around 25%.

### Agriculture

1.12 The Agriculture economy has been fairing badly since 2000 mainly due to sharp decline in prices. In 2002-03 the quick estimate showed a decline of 5.54% compared to the previous year. On the price front there has been a turn around especially in the case of Rubber and Coconut as is evident from the following figures:

(in Rs.)

	2001-02	2002-03	2003-04
Coconut (100 Nos.)	340.64	475.60	513.00
Rubber (qtl.)	3228.00	3919.00	4792.00
Coffee (Kg.)	28.54	28.12	32.54

1.13 However the price of Cardamom, Pepper and Tea are still low as indicated below.

(in Rs.)

	2001-02	2002-03	2003-04
Cardamom (Kg)	622.96	561.13	408.98
Pepper (qtl.)	6942.00	7814.10	7070.00
Tea (Kg)	52.21	47.21	43.05

1.14 Diversification of agriculture into crops with high market potential and from mono-crop to mixed-crop farms, is happening in the State particularly in the northern and central parts of the State. There is also a rapid adoption of organic

modes of cultivation in these parts of the State. The initial results are encouraging in higher farm incomes, employment and higher potential for Agro Industry. The challenge before the Government is to facilitate its expansion all over the State and its intensification. The push being given to Agri Export Zones is a significant step in this direction.

1.15 In the livestock sub-sector there is an alarming decline in the number of livestock compared to the 1996 figures. The latest Livestock Census 2000 shows a decline of 24.4% in cattle population, 42.73% in buffalo population and 34.07% in poultry population. During the year milk production has come down by 11% (from 27.18 lakh tonnes to 24.19 lakh tonnes), and egg production has come down by 32.7% (from 2 billion to 1.34 billion).

1.16 Fish production increased marginally from 6.72 lakh tonnes to 6.78 lakh tonnes. However the export of marine products increased by 12% in quantity and 10% in value (Rupee terms).

## Water

1.17 Unlike the rest of India rainfall in the State has been poor during the current year also. Last year also the State had a below normal rainfall situation. This has affected agriculture severely, reduced availability of water for electricity generation and is threatening to affect drinking water supply.

## Industry

1.18 Post-GIM, the Investment Promotion Board has approved 40 projects with an expected total investment of Rs.6846 crore. These are under different stages of implementation. As per the latest available figures the growth of industrial sector in the economy is recorded at 1.5% which shows a marginal improvement over the previous year's 0.36%.

1.19 The traditional industries are still in a very bad shape especially Coir and Cashew. During the year a policy decision has been taken to develop Bamboo so that it could provide jobs to disadvantaged sections of society like Scheduled Castes and Scheduled Tribes.

1.20 However, Information Technology has started showing promise. With a view to promoting IT enabled services the E-literacy programme of 'Akshaya' is under implementation and is to be expanded. It is estimated that during the last four years IT sector has attracted an investment of about Rs.5000 crores. The sector as a whole employs about 80,000 people.

1.21 There is a wide range of initiatives on the IT front ranging from E-literacy for one member per family to highly sophisticated systems development in IITM-K. These have to be stepped up further so that they raise not only employment but also employability.

## Tourism

1.22 Tourism continued to grow and is becoming a major provider of jobs and generator of wealth in the State. In 2002 the State recorded a growth of 11.37% in inflow of international tourists whereas at the national level there was a decline of 6.92%. The flow of domestic tourists also increased by 6.27%. In 2003, the sector is reported to have had a record growth of nearly 30 per cent.

## Infrastructure

1.23 Telecom and IT infrastructure has made significant progress in the State in the last few years. However, water supply, roads and waterways need to be upgraded to higher standards. Large investments are necessary calling for private-public partnership. The provisions of the Infrastructure Bill when enacted and brought into force are expected to go a long way in facilitating this process.

1.24 The public utilities, KSEB and KWA are both in a difficult situation. The problems affecting them have been analyzed and the policy formulations required for their reform so that they are able to provide the quality of services expected by the citizens, have been outlined. Early decision is needed in these matters.

## Health and Education

1.25 The focus has been on improvement of quality and development of human resources. Continuing the policy of allowing private investment in higher education has resulted in net addition of seats to various courses as indicated below.

in Nos.

Courses	2002-03	2003-04
	Additional Seats	Additional Seats
Engineering	6940	1650
MBBS	400	200
BDS	..	340
B Sc. Nursing	1350	..
B Pharm	..	540
BAMS & BSMS	..	290

1.26 There is a widening gap between formal education and the needs of the emerging job market. At a time of fast changing technology, institutional forms and management practice, there is need for continuous training in all sectors to upgrade skills and make the youth employable. The changes begun in general and in the vocational streams of education and training have to be speeded up or else even jobs generated in the State let alone job opportunities outside the State and the country would be out of reach of the youth of the State in the coming years.

## Poverty Elimination

1.27 A total census to identify the poor has been completed and the results are awaited. In order to make poverty alleviation more focussed a transparent index to determine absolute deprivation and relative deprivation

vation is proposed to be developed on which an Anti-Poverty Sub Plan would be prepared.

1.28 An innovative exercise was undertaken during the year in identifying the poorest of the poor, the most deprived destitutes living on the margins of the economy, society and polity. Data collected from 147 village panchayats shows that about 2% of the households belong to this category and need a mix of measures, enhanced levels of assistance and continuous handholding to come out of their present state.

1.29 With appropriate policies Kerala is in a position to eliminate poverty within a reasonable period of five years. For this, focused strongly pro-poor measures are necessary, which can be undertaken by a financially strained government only if the prospering middle class which has grown over the last two decades and benefited from the development efforts of the State and from remittances is willing to make some sacrifice along with, of course, the rich, for the common good by better tax compliance, necessary user charges and payment for higher end service received from government agencies.

### Employment

1.30 The employment scenario in the formal sector is quite bleak. Kerala continues to have the highest rate of unemployment at 20.77%. Compounding this problem is the fact that there is a wide gap between the emerging needs and the skills and knowledge of those coming out of the formal educational and training systems. 'Employability' in new areas is a major challenge facing the youth. The State has the lowest work participation rate for women at 13.5%. Figures for organized employment, which are available for the latest two years are given below:

#### Employment in Organized Sector in Kerala

Year	No. of Persons Employed
2001-02	1214003
2002-03	1219630

1.31 At the same time employment through micro enterprises has shown an encouraging trend. Women below poverty line organized through Kudumbashree alone run 1342 Group Enterprises, each employing about 10 persons and 13452 individual units. It is noteworthy that many of them are in the non-traditional

areas like information technology, biotechnology, service units etc.

1.32 This shows that while "unemployment" in the conventional sense, in the formal sector persists there is growing self-employment in the service sector, most of whom consider themselves unemployed as the expectation is for a life-time permanent job with terminal benefits. There will be greater acceptance of new forms of employment if there is adequate social security and health assurance for the people. For these are the factors which force educated persons to go in search of even the lowest grade jobs providing permanent employment especially in government.

### Institutional Finance

1.33 The criticality of flow of institutional finance for the development of the State has been well recognized and much debated. CD ratio which was 42.71 in March 2002 has gradually increased to 46.69 in September 2003. Though it has a long way to go, this small increase is a welcome development. The increase in drawal of micro finance by self-help groups is again a positive development. The Neighbourhood Groups under Kudumbashree alone have attracted bank finance to the tune of Rs. 392.50 crore.

### State Finances

1.34 After recording marked improvement in 2001-02 the revenue deficit and fiscal deficit have jumped up as per the latest estimates for 2002-03. The details are summed up below:

(in Rs. Crore)

Year	Revenue Deficit		Fiscal deficit	
	Amount	% of GSDP	Amount	% of GSDP
2000-01	3147.06	4.51	3877.80	5.56
2001-02	2605.64	3.28	3269.40	4.12
2002-03 (L.E)	4122.16	4.53	4993.54	5.49

1.35 This increase is mainly attributable to settlement of several pending claims including two instalments of DA.

1.36 The total debt of the State as per the latest estimate is Rs.31060 crores. In this scenario Government have taken very important reform initiatives in financial management. During this year two important Acts namely, the Kerala Fiscal Responsibility Act 2003 and the Kerala Ceiling on Government Guarantees Act 2003 have been brought into force. Reduction and elimina-

tion of government non-plan deficit is essential for stepping up capital expenditure on infrastructure etc.

### **Decentralization**

1.37 Local governments have gained sufficient expertise in preparing and implementing development plans particularly for creation of infrastructure and provision of minimum needs. It is time for them to move on to economic development and job generation through local action which in turn would enable them to harness more resources locally which they can further feed into improving the quality of service to citizens. The institutionalization of the decentralization initiatives of the State has been rather delayed. The key initiatives that have been identified have to be implemented within a definite time frame.

1.38 Local governments have to focus more on the environment particularly in conserving water and water bodies free of pollution and keeping the surroundings clean. These are important not only from an environmental and health point of view but also from the perspective of tourism which is the fastest growing sector of the State economy.

### **Governance**

1.39 Tenth Plan focuses on reform along with investment in critical sectors. In keeping with the decision of the National Development Council, the State has gone in for very basic governance reforms, through a composite programme called 'Modernizing Government Programme', which has launched 100 initiatives focusing on improving the quality of service delivery, enhancing efficiency, reducing delays and setting the State on the way to pro-poor growth, resulting in job generating investment.

1.40 These governance initiatives and the E-governance initiatives launched at various points of time have to be implemented seriously as a priority package. Only then would public services improve and people get the benefit they need and expect. Therefore while 2003 which was declared as the year of development was spent on identifying key issues and their solutions and in working out the details, 2004 has to be the year of implementation which calls for quick decision making and concerted action. Simultaneously a long range vision is needed for taking Kerala to a higher plane of development. A Vision 2025 is proposed to be brought out through a process of consultations and consensus-building backed up by critical analysis of the situation in different sectors.