

CHAPTER - 1

AN OVERVIEW

National Economy

The national economy continued to show signs of good performance during the year. Though at the beginning of the financial year inflation threatened to assume serious proportions it has been stabilized and is showing a declining trend reaching 5.42 per cent as on 15th January 2005. The Sensex, which slipped in the post-election reaction, is now very vibrant reaching 6419.09 (as on 28.1.2005) and showing signs of continuing at a higher level.

1.2 In 2003-04 the Indian economy recorded an impressive growth of 8.1 % mainly led by an unusual 9.1% growth in agriculture which recovered from a bad drought in the previous years. Industry and Service sectors also grew by 6.7% and 8.7% respectively.

1.3 The trend is continuing in the current year also with the real GDP growing by 7.4% in the first quarter compared to 5.3% in the same period last year. Significantly all three sectors viz., agriculture, industry and services recorded higher growth of 3.4%, 6.8% and 9.5% compared to the respective growth rates of 0.1%, 6.0% and 7.4% in the corresponding quarter of the previous year.

1.4 Though there was a shortage of about 13% in the Southwest monsoon for the country as a whole, reducing growth of agriculture to negative 0.8%, more than normal post-monsoon rains in October and good North East monsoons could enable agriculture to record reasonable growth. But foodgrain production is predicted to fall by 8.5% to 194 million tonnes.

1.5 The foodstocks of Government, which determine both comfort and safety levels in possible bad times, are above 20 million tonnes; i.e., more than 10% higher than the buffer stock norm of 18.1 million tonnes. Lower stocks than in recent years have contributed to reduction in the carrying costs of food grains, which works out to nearly one-fifth of the food subsidy (and the high production has ensured the revival of the foodgrains market).

1.6 In the industrial sector, it is significant to note that capital goods sector has grown by 14.5% in the first two quarters and electricity by 7.7% during the same period compared to respective figures of 10.0% and 3.0% during the same period last year.

1.7 Macro-economic indicators are by and large positive. The foreign exchange reserves have touched 131.18 billion dollars. The Indian rupee is stable and strong against the dollar. In the balance of payment estimates both the current and capital accounts recorded surpluses of \$ 1.9 billion and \$ 5.6 billion respectively during the first quarter.

1.8 In the third quarter of the year there have been two shocks due to the spurt in petroleum prices and the havoc caused by the Tsunami disaster. But going by indicators, the country seems to have absorbed the shocks quite well without basically upsetting the economy.

1.9 In public finance the revenue deficit was proportionately more than the previous year. However the fiscal deficit was less. The gross tax revenue increased by nearly Rs.18, 500 crore and non-tax revenue practically had no change during the first six months.

1.10 A significant feature indicative of the fiscal confidence is the bold decision to introduce VAT from 1-4-2005, which marks the most fundamental tax reform in independent India.

Developments in Kerala's Economy.

1.11 The most noteworthy aspect of Kerala's economy in the last decade is the change for better in the growth scenario. In the 1970's Kerala's economy grew at 2.27 %, which further slipped to a low 1.16 % in the 1980's. However, it picked up significantly in the 1990's, and in the last decade and a half it has grown at an average of around 5.8 % which is very close to that of the growth of the national economy. It would appear that the

policy of equitable human development followed by the State did yield positive results albeit with a lag. At the same time it is to be noted that a new level of human development is needed by the State focusing on quality and relevance so that it can translate immediately into jobs and wealth in a fast changing national and global economy. Otherwise there is danger of slippages in the future. Already there is a growing mismatch between the skills and knowledge levels of the products and education and those demanded by the new industry and emerging economy.

1.12 The rates of growth of different sectors of the economy in the last four years are given below:

Kerala Economy: Sectoral Growth Rates
(per cent)

| Year | Sectors | | | |
|-------------|---------|-----------|----------|---------|
| | Primary | Secondary | Tertiary | Overall |
| 2001-02 | -0.06 | -0.84 | 2.84 | 1.50 |
| 2002-03 (p) | 1.47 | 5.81 | 8.55 | 6.63 |
| 2003-04 (q) | -2.01 | 6.02 | 8.88 | 6.31 |
| 2004-05(a) | -2.88 | 5.56 | 8.76 | 6.15 |

p-Provisional Estimate q-Quick Estimate a-Advance Estimate

1.13 The structural transformation of the Kerala economy has been continuing on the same trend heavily biased in favour of the service sector for quite some time now. The agriculture sector whose contribution to the economy was 18.17 % in 2002-03 has come down further to 16.74 % in 2003-04.

1.14 The State income (NDP) at constant prices (1993-94) is estimated at Rs.39,73,699 crore in 2003-04 (Rs. 78,93,313 crore at current prices). As per the latest figures the per capita income at constant prices (1993-94) has increased from Rs. 11,389 in 2002-03 to Rs.12,109 in 2003-04 recording 6.32 % growth. This compares well with the per capita income at the national level which is Rs. 11,684 for 2003-04.

Agriculture

1.15 The agriculture economy of the State, which is heavily dependent on cash crops continued to improve with the pick up in prices of cash crops especially rubber and coconut. The comparative prices of major cash crops in the last

three years are given below:

(in Rupees)

| Crops | 2002-03 | 2003-04 | 2004-05* |
|--------------------|---------|---------|----------|
| Coconut (1000 Nos) | 4756.00 | 5827.30 | 5982.27 |
| Rubber (Qtl.) | 3919.00 | 5040.00 | 5992.00 |
| Pepper (Qtl) | 7692.17 | 6802.46 | 6903.20 |
| Tea (Kg) | 47.21 | 45.78 | 44.05 |
| Coffee | 28.12 | 32.29 | 32.39 |
| Cardamom | 561.13 | 361.02 | 356.90 |

* first quarter

1.16 Thus the price situation has been good for the farmers, though pepper, tea and cardamom fetched price less than what prevailed in 2002-03.

1.17 Diversification of agriculture and introduction of new high value crops have been happening more due to the initiative of progressive farmers. This needs to be accelerated through the intervention of Krishibhavadans, which now have sufficient flexibility in preparing local level plans for the Village Panchayats, according to the local need and potential. The extension work needs to be backed by appropriate research regarding multiple cropping in homesteads.

1.18 An Agri Export Zone (AEZ) covering nine districts for the export of vegetables, banana and pineapple has been established. Project report has been prepared for establishing three more Agri Export Zones for spices, flowers and medicinal plants for which Government of India's financial support sought. AEZ is expected to help Kerala's agriculture reposition itself in the new trade regime.

1.19 Kissan Kerala, an innovative joint project implemented by IITMK and the Department of Agriculture applying the Information Communication Technologies has been initiated to disseminate information of regional relevance in agriculture and allied sectors including market information.

1.20 A remarkable development in the last two years, which is now gathering momentum, is lease land farming by Neighbourhood Groups of women below poverty line under Kudumbashree. In a State with small homesteads and a large number of absentee landowners having other occupations, this has come as a big boon benefiting the landless poor as well as the small landowner. What is needed is that the semi-formal system should be given credit as well as technology support without

attempting to construct rigid legal systems around it.

1.21 The livestock economy shows no signs of improvement mainly due to the cost disadvantages vis-à-vis neighbouring States. Milk production declined in 2003-04 by 3.09 lakh tonnes or 12.76% to 21.11 lakh tonnes in 2003-04 from the figure of 24.20 lakh tonnes of the previous year. Egg production declined by 5.2% in 2003-04, to 1277 million from the previous year's figure of 1347 million. Only in the production of poultry meet was there an increase.

1.22 NDDDB has signed an MOU with the State to implement an animal disease control project at a cost of Rs.34.18 crore over a period of five years. A massive vaccination programme against Foot and Mouth disease has been taken up. This addresses the important quality dimensions in Animal Husbandry activities in the State

1.23 But some interesting experiments like spreading the Malabari Goat stock and introducing Boer Goat stock bears some promise. Also linking animal husbandry activities to the micro enterprise initiatives of Kudumbashree could achieve some positive results.

1.24 Marine fish production had only a marginal increase of 5000 tonnes from the figure of 6.03 lakh tonnes in 2002-03. However inland fisheries increased by 4000 tonnes over the 2002-03 catch of 75,000 lakh tonnes. What seems appropriate to Kerala is conservation and upgradation of resources in the marine sector while promoting reservoir and other inland fisheries and even ornamental fisheries. Also as export of fish gives significant income to the State, adherence to international quality standards is becoming a priority policy item.

Water

1.25 Fortunately the drought of 2003-04 was relieved to a great extent by the improved rainfall in both the south-west monsoon and the north-east monsoon in 2004. This has not only assisted in reviving the agricultural economy but has filled up the electricity producing reservoirs of hydro-electric projects with the result the Kerala State Electricity Board is expected to save considerable amounts through reduced purchase of high cost thermal power.

Industry

1.26 After 2001-02 industrial growth has shown a marginal decline. During 2002-03 the decline was 1.07% and in 2003-04 it was 0.68%.

1.27 The traditional industries continue to be in a bad shape especially coir and cashew. However, the silver lining is that after a long time viable projects are emerging in these areas. Already major projects have been sanctioned by Government of India for coir (Rs.56.8 crore) and handloom (Rs.15.76 crore). Efforts are needed to reposition the traditional industries linking with the tourism industry as well as with global preference for eco-friendly and ethnic products.

1.28 Information Technology, which took a long time to strike root in the State, now can be said to have reached the blooming stage. It has attracted an investment of Rs 907 crore during 2003-04 and is estimated to have generated 7300 jobs. The recent success of Info Park at Kochi and the prospective Smart City again in Kochi as a tie up with Dubai Company signify the coming of age of IT in the State. Also the expansion of the pioneering e-literacy project Asraya to seven more districts is a significant achievement. However e-governance initiatives are yet to yield final results as also e-education initiatives, though many of them have been under implementation for some years now.

1.29 Recently Special Economic Zone status has been given to the Electronic Park at Kochi and Food Processing Park at Malappuram. The declaration in this year's Trade Policy, of Kannur (for Handloom) and Aroor (for marine products) as towns of export excellence is expected to improve the growth and performance of these towns in their niche industries.

1.30 The most significant achievement in the industrial sector is the fact that Kerala is now be regarded as a viable investment destination thus erasing the negative perception which had driven away investment from the State for more than three decades. In this context the decision of BMW to identify Kochi as a probable location of its factory in India is of significance, symbolic now, but catalytic, once the final decision is made.

Tourism

1.31 In 2003 the State saw an increase of 26.68 % in the arrival of foreign tourists; during the same period the inflow of domestic tourists also went up by 5.4%. It is calculated that tourism has generated 8 lakh jobs directly and indirectly in the State.

1.32 The focus of tourism is now rightly shifting to quality, which implies that unfair practices and environmentally harmful activities need to be controlled while packaging new products of cultural and nature tourism

Infrastructure.

1.33 The decision of Government of India to set up the International Container Transshipment Terminal at Vallarpadam and LNG Terminal at Puthu Vypeen has given a boost to job generating and value adding infrastructure in the State. At the same time it has created certain challenges as well. The State needs to plan out the concomitant infrastructure in the Kochi region to get the best value out of these investments as also the industrial corridors that can be developed once the gas supply is available.

1.34 Urban infrastructure will be benefited considerably through the ADB supported Kerala State Urban Development Project to be implemented in the five cities of Kerala from the next year. The recent spurt in infrastructure creation, as part of the Capital City development programme is significant and needs to be developed into a regional development strategy, with appropriate reforms and innovative financing.

1.35 The State's own effort to create international quality infrastructure by setting up a Transshipment hub at Vizhinjam also is nearing fruition. This will be a path breaking one in terms of public-private partnership, which needed a push, in view of the fact that in spite of much potential, public-private partnership has not happened in infrastructure creation but for the Mattancherry Bridge.

1.36 The public utilities of KSEB and KWA continue to be in difficulties though KSEB shows clear signs of improvement. Reforms in KWA are long over due and at least in the case of rural

water supply the proposed MOU with Government of India could improve matters.

Health and Education.

1.37 The State is still grappling with quality issues and second generation problems. In the matter of health, lifestyle diseases and problems like ageing are new challenges which the public system is not able at present to cope with. The proposed Health Systems Project with World Bank support could be of great use in addressing these issues.

1.38 In the case of education, introduction of new subjects and restructuring of curricula have both been very slow. 'Defreezing' the education system and the technical and vocational training systems is overdue and has to be done urgently to keep up the State's gains in Human Development.

Poverty Reduction

1.39 Kudumbashree is the flagship programme of poverty reduction which has become a national best practice by providing nearly 2,34,756 self-employment opportunities to women below poverty line. Kudumbashree has succeeded in making a significant dent on poverty in the State. The Community Based Social Security programme for the absolutely poor called 'Asraya', which was piloted last year, has again developed into a very viable model. So much so, it is to be extended all over the State in two years. With the introduction of community based monitoring of poverty through the NHG network of Kudumbashree the quality of implementation of anti-poverty programmes is expected to improve considerably, resulting in better targeting of benefits and higher utilization of assistance.

1.40 Though reasonably balanced development has taken place in all parts of the State, there are still pockets – mostly inhabited by scheduled castes, scheduled tribes and workers of traditional industries – where poverty is concentrated, incomes are low and housing and services are also poor. Special attention needs to be given to such 'pockets' both by the State Government agency and the concerned local Governments.

Employment

1.41 Though employment through micro enterprises is on the increase, formal sector employment has not improved in the State. The rate of unemployment is 20.97 %. Even the prospects of employment outside would not continue as before unless the State is able to achieve a fundamental shift in the nature of education it imparts. Employability needs to be increased, to start with through last mile training for the already ‘qualified’ people to bridge the gap between their knowledge and the knowledge required in the job market, followed by realigning the preferential education sector with the requirements of the modern job market.

Institutional Finance.

1.42 After a long period of stagnation bank finance has started improving. The CD ratio reached 56.0 as of September 2004 which is more than 10 percentage points above the level achieved two years ago. Happily credit flow to agriculture is also on the increase; but most of the credit is for short-term operations and not for capital investment. This is a cause for concern.

State Finances

1.43 The picture of State finances is given below:

(Amount 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 | 4118.66 | 4.53 | 4990.04 | 5.49 |
| 2003-04 | 3680.30 | 3.59 | 5539.05 | 5.41 |

1.44 The State’s debt as on 31.3.2004 is Rs.37452.21 crore. Though on the face of it the figures do not appear impressive, a lot of cleaning up has been done and discipline brought into the governmental system. The basic principles of

fiscal reform introduced in 2002 – cutting down unnecessary expenditure and increasing revenue mobilization to raise resources for pro-poor development - are all the more relevant now. Unless these principles are meticulously applied to every fiscal decision the danger of sliding back to the anarchic situation of 2001 is very real.

Decentralisation

1.45 With the implementation of the recommendations of the Second Finance Commission resource flow to local governments has increased considerably especially to take care of critical maintenance requirements. Now the other accepted recommendations of the Finance Commissions need to be operationalized so that the financial base of local governments is considerably strengthened. The institutionalization efforts are continuing even though very slowly. They need to be speeded up so that by the time the newly elected local governments assume office in early October 2005 new systems and procedures would be in place.

Governance

1.46 The Modernizing Government Programme has taken up an important initiative to improve Service Delivery in public institutions like hospitals, schools, anganwadis, police stations, public offices and so on. The pilot Service Delivery project is being implemented in 2605 institutions, which are of direct benefit to the ordinary citizen especially the poor. If the public institutions are not conditioned to respond to the needs of the people it would lead to a serious democratic deficit affecting the credibility of public institutions. In this context the Citizen’s Charter initiative and the simplification of procedure in matters of interface with the citizen are of special relevance.