

# Introduction

Over the last few months, the world economy has been showing alarming signs of fragility and instability. Economic growth has been sluggish with protracted unemployment, fiscal uncertainty and subdued business and consumer sentiments. Growth in high income countries is projected to be weak as they struggle to repair damaged financial sectors and badly stretched financial sheets.

1.2 Global economic growth started to decelerate on a broad front in mid-2011 and this trend is expected to stretch well into 2012 and 2013. The United Nations base line forecast for the growth of world gross product (WGP) is 2.6% for 2012 and 3.2% for 2013, which is below the pre-crisis pace of global growth.

1.3 It is expected that the US economy will grow at about 2% with modest growth in exports. Persistent high unemployment and low wage growth have been holding back aggregate demand and together with the prospects of prolonged depressed housing prices, this has heightened risks of a new wave of home foreclosures in the United States. However, employment data for December 2011 and January 2012 have been encouraging with signs of revival in business confidence. On the other hand, as far as the Euro Zone is concerned, high deficit and debt continue to prevail. The Euro Zone experienced a period of declining output, high unemployment and subdued private consumption. However, the business climate indicator increased for the first time in ten months and inflation rate fell from 3% to 2.8 % in December. In order to boost investment, the European Central Bank flooded banks with low cost loans and there was improvement in demand. The recent debt swap agreement forged by the Government of Greece with banks and further assistance from other European countries are positive signals. World export trade slipped to a modest 6.5 per cent in 2011. Experts, including those in the World Trade Organization, feel that the trend is likely to persist for some more time.

1.4 Asia, on the other hand, proved to be resilient, registering strong demand, low unemployment and factories working at near full capacity. The Chinese economy, after nearly three decades of rapid, almost uninterrupted growth, seems to be settling down to a still strong but less blistering pace. But some sectors are struggling, including exports and real estate, particularly in the luxury segment. The Chinese Government has scaled down its economic growth target to 7.5 percent in 2012, down from 8 percent set as a minimum growth target in recent years. If growth rests at only 7.5 percent, it will be the slowest pace in 22 years. The slower growth partly reflects a movement toward personal consumption, with less emphasis on exports and investment in big domestic construction and infrastructure projects.

1.5 The global slowdown has had its adverse impact on the Indian economy. Deceleration in economic activity has been in evidence for quite some time now and seen across many sectors. The Centre has pegged second quarter GDP growth during 2011-12 at 6.9 percent, the lowest in nine quarters and

sharply lower than the previous quarter's 7.7 percent. Over the same period last year, growth rate was 8.4 percent. The decline was spread across agriculture and most of the sub-sectors of industry, while the service sector performed well. There was a fall in revenue collection, which, in turn, resulted in increased fiscal deficit. Corporate sector also reported a decline in profit. The fall in rupee value against the dollar by 20 percent in mid- 2011 pushed up the import bill.

1.6 Food inflation turned negative and touched the lowest in the last six years. Inflation also moderated to 9.11 percent from 9.78 percent and there was improvement in the manufacturing sector. The Gross National Income (GNI) was estimated to rise by 7.9 percent factor cost at 2004-05 prices in 2010-11, in comparison to the growth rate of 8.4 percent in 2009-10.

1.7 The quick estimate of gross state domestic product (GSDP) at factor cost at constant prices (2004-05) revealed a growth rate of 9.13 percent in 2010-11 compared to 8.95 percent in 2009-10. The growth rate at current prices was 19.20 percent compared to 14.60 percent in 2009-10. The per-capita national income at constant prices during 2010-11 was estimated at ₹ 35993 and that of the State as ₹ 56107. The sectoral distribution of gross state domestic product revealed that contribution from primary, secondary and tertiary sectors to the GSDP in 2010-11 at constant prices (2004-05) was 11.06, 20.13 and 68.80 percent respectively. At current prices, it was 14.94, 21.08 and 63.98 percent, respectively. Recent trends reveal that the contribution from primary sector has been decreasing while that of tertiary sector has been increasing. The contribution of the secondary sector has been almost stagnant.

1.8 The slowdown in the Indian economy did adversely impact State finances in 2008-09 and 2009-10. It was particularly alarming in 2009-10, when revenue deficit re-emerged after a gap of three years and gross fiscal deficit shot up above 3% of GDP. Revised estimates available for 2009-10, however, showed much steeper deterioration over the budget estimates. A turnaround was envisaged in the budget 2010-11, with the State possibly reverting to the path of fiscal consolidation. The final outcome, however, left a lot to be desired. Various factors had contributed to the States' financial uncertainties in the crisis years of 2008-09 and 2009-10, the additional financial burden brought to bear on the exchequer by the Sixth Central/State(s) Pay Commissions (CPC/ SPCs) and the discretionary fiscal measures introduced to moderate the impact of the overall macroeconomic slowdown being the more important among them.

1.9 Though the state's fiscal imbalances continued to prevail in 2010-11, there were hopeful signs of recovery. Revenue deficit, which stood at ₹2638 crore in 2006-07 and rose to ₹5023 crore in 2009-10, came down to ₹ 3674 crore in 2010-11. This improvement was attributed to the 18.70% growth in revenue receipts vis-à-vis 11.3% in revenue expenditure. The reduced growth in Non-Plan expenditure was largely due to the deferment of the major portion of expenditure by way of pay and pension revisions due in 2009-10 to 2011-12. As a proportion of GSDP, revenue deficit declined to 1.4% in 2010-11.

1.10 The consumer price index of agricultural and industrial workers in Kerala went up by 19 points during 2011 (upto August) compared to the corresponding period of 2010. So did the wholesale price index of agricultural commodities in Kerala. The high rate of inflation witnessed by the State resulted in higher retail prices of almost all essential commodities. Among food crops, the highest price hike was recorded for oil and oil seeds followed by fruits and vegetables. It was also significant that the price of plantation crops decreased during 2011.

1.11 Unemployment continues to be one of the basic problems of the State. The number of job seekers, as per the live register of employment exchanges in Kerala as on 31.08.2011 was 43.42 lakh, of which 25.68 lakh (59.1%) were female. However, there is doubt whether these figures reflect the actual unemployment position as many who have found employment continue to be retained on the live register for want of information.

1.12 The Kerala State Entrepreneurs Development Mission was a new initiative launched by the Government in 2011, aiming at providing self-employment to one lakh youths through 10,000 new ventures, over a period of 5 years. The Kerala Financial Corporation is the nodal agency and before launching self-employment ventures, all the beneficiaries are given training jointly with institutions like the Entrepreneurship Development Institute, KITCO, RSETI, the Centre for Management Development etc.

1.13 The labour sector continued to face several problems such as high rates of unemployment and under employment, low rates of employment creation, unprotected conditions in the unorganized sector, adverse labour relations, inadequate levels of skill creation and training and inefficiently targeted social security programmes. The Labour Welfare Fund Boards played a vital role in providing various welfare measures for labourers. In Kerala, 30 lakh families joined schemes like RSBY and CHIS, of which 11.79 lakh families come under RSBY and the balance under CHIS. Besides, through the CHIS PLUS scheme, additional free treatment upto ₹ 70,000 was being provided to RSBY – CHIS beneficiaries for treatment of cancer, heart and kidney diseases. This scheme is being implemented through non-insurance route and payments to the hospitals are being paid directly by Comprehensive Health Insurance Agency Kerala (CHIAK).

1.14 Non-resident Keralites, including emigrants living abroad and those who returned to the State for good, were estimated at 34.30 lakh in 2011. The number of emigrants who returned for good was estimated to be 15 lakh. Similarly, the number of migrants living in other states (inter-State migrants) in the country was estimated to be 9.31 lakh in 2011. In addition to this, the number of out-migrants who returned to the State estimated to be 5.11 lakh in 2011. Thus, inter-state migrants numbered 14.42 lakh. The NORKA Department and its field agency NORKA – ROOTS provided social security to the non-resident Keralites.

1.15 Kerala State which had a low base in food production in the country continued to face serious challenges in retaining farming area and improving production and productivity of important crops. The provisional estimate of agricultural income of the State recorded a negative growth of 1.79 percent in 2009-10. Quick estimate for 2010-11 also indicated a decline of 0.78 percent in growth over 2009-10. The share of agriculture and allied sectors in GSDP similarly indicated a fall. The share was 17.48% in 2004-05 and declined to 10.59% in 2010-11. Kerala's agricultural economy has been undergoing a structural transformation since the mid-seventies by switching over a large proportion of its traditional crop area devoted to subsistence crop like rice and tapioca to more remunerative cash crops. The area under rice and tapioca has been declining consistently over the last several years. Even though several measures such as additional incentives, interest free loans, project based support for fallow land cultivation, increase in procurement price of rice etc, had been attempted as part of food security initiatives, the area under rice declined to 2.13 lakh ha during 2010-11 from 2.34 lakh ha in 2009-10 and production of rice to 5.22 lakh MT from 5.98 lakh MT during this period. It is a fact that during the last five years the cost of cultivation had doubled due to increases in labour cost and in prices of seed and other inputs, which, in turn, adversely affected paddy cultivation. Kerala's share in area under cultivation as well as production of coconut had also been declining over time. Regarding pepper, domestic price of pepper showed an upward trend and reached a peak in 2010-11 of ₹ 174.21 per Kg. Area and production under cashew had been steadily declining over the past two decades.

1.16 Nonetheless, the agricultural sector continued to get priority despite all these issues. High-value farm products such as fruits, vegetables and live stock were promoted. The State Horticulture Mission and Vegetable and Fruit Promotion Council are the two agencies supported by the State Governments for the promotion of vegetable and fruit marketing and production. Collective farming is an important area identified for securing livelihood opportunities to the poor families.

1.17 There had been positive change in milk and egg production in the State. Milk production increased to 26.43 lakh tonnes (provisional) in 2010-11 from 25.37 lakh tonnes in 2009-10. Similarly, egg production increased to 1685 million nos from 1633 million nos during this period. However, the per capita availability of egg continued to be very low at 47 eggs/year and poultry meat is 0.9 kg/ year against the world average of 147 eggs and 11 KG poultry meat/year in the country. The Union Government had set a production target of over 52 billion for eggs by 2011-12, a growth rate of 4.3 percent.

1.18 It had been a satisfactory year for industry and allied sectors in Kerala. While the manufacturing sector in the country as a whole registered a growth rate of 8.2 percent in 2010-11, in Kerala it was a bit higher at 8.74 percent. The contribution of the manufacturing sector to GSDP at constant and current prices in 2010-11 was 8.2 percent and 9 percent, respectively. The performance of public sector undertaking was not commendable. Out of the 63 PSUs under the Industries Department, 17 remained closed. However, there was a significant increase in turnover and profits of the profit-making units in 2011 compared to the previous year.

1.19 Micro, small and medium enterprises (MSMEs) sector played a vital role in employment generation at low capital cost, upholding entrepreneurial spirit and innovation, in the State. During 2010-11, there were 10882 SS/MSME units and the total investment made was ₹ 1453 crore. A total number of 84878 job opportunities were created through these units in 2010-11. Under the Prime Minister's Employment Generation Programme, a total number of 959 projects involving margin money of ₹11.84 crore had been sanctioned by various banks, in 2010-11. Similarly, in 2011-12, upto August, 259 projects at a margin money of ₹ 392 crore had been sanctioned.

1.20 Disbursement of advances by commercial banks in Kerala in 2011 was ₹ 122823 crore against ₹ 95785 crore in 2010. Priority sector advances disbursed by commercial banks in 2010-11 was ₹ 71145 crore as against ₹ 58204 crore in 2010. Deposits accepted by commercial banks in Kerala during 2011 was ₹ 170547 crore. NRE deposit was ₹ 37690 crore in 2011 against ₹ 36886 crore in 2010.

1.21 Even though the global economic crisis adversely affected tourism industry in the State during 2009-10, there has been significant improvement during 2010-11. Foreign tourists' arrivals increased by 18.31 percent during 2010-11 compared to the previous financial year.

1.22 The installed capacity of power generation at the end of march 2011 through all sources was 2857 MW, the major share being from hydel projects followed by thermal projects. Capacity addition during 2010-11 was only 4 percent over the previous year. On the other hand, there had been about 4 percent increase in domestic category consumers and 4.7 percent increase in LT & HT commercial category consumers during 2010-11 compared to 2009-10.

1.23 Surface irrigation constituted the major chunk of irrigation infrastructure in the State. There are 18 dams in the State intended for irrigation. Out of these 14 have storages and the remaining are barrages. During 2010-11, expenditure on major and medium irrigation was ₹ 145 crore.

1.24 Kerala has achieved the distinction of having the lowest drop out rate among school students in the country. Out of the total number of school teachers, about 69% are working in private management schools including aided and unaided schools. The Government had approved a teachers' package for setting up a teachers' bank for managing the transition and introducing scientific methods for recruitment of teachers in aided schools.

1.25 Kerala enjoys a unique position in the health map of India. The health indicators in Kerala are at par with the western world. We have the lowest infant mortality and maternal mortality rate and the highest life expectancy in the country. However, the spread of modern disease has become a major crisis in Kerala. Higher prevalence of mental health problems, suicide rates, death due to road traffic

accidents and other traumas are other dimensions of the health problem in Kerala. Kerala is facing an alarmingly high mortality rate at the most productive ages of people. The Human Development Report 2005 had adduced the high life expectancy as one of the reasons for high levels of morbidity in Kerala and laid stress on better nutrition, environmental sanitation and preventive health care, enhanced role for the public sector and greater regulation of the private sector. The major problems in the health sector of Kerala are (1) prevalence of diseases associated with lifestyle and ageing (2) prevalence of environment related diseases owing to problems of community hygiene and pollution and (3) lack of infrastructural facilities and trained personnel.

1.26 The success of Kerala health indicators is due, primarily, to higher investment in social capital. The public sector is unable to meet the demands of health care and people have responded to these inadequacies by increased use of the emerging private sector. This has led to the growth of the private medical care in the State and the dependence on private health care is quite high even among lower income groups and rural in areas. Health sector has to be improved considerably in terms of availability and quality of its physical infrastructure, human resources and services so as to fulfil the growing demand for health services. The present health delivery system has to be improved by increasing efficiency, effectiveness and accountability. The health policy of the State will focus on the requirements of elders, people residing in remote areas, tribal people, vulnerable groups etc. Similarly, mental health including psychological care and counselling will be given priority.

1.27 During the financial year 2011-12, Government undertook an intensive exercise, involving many stakeholder consultations for devising its approach to the Twelfth Plan. Forty five Working Groups were also constituted for preparation of the Twelfth Plan Document. These Working Groups included experts, stakeholders, academics and officials. They have almost completed their work and the Twelfth Plan Document will be ready soon after the Centre finalises its work on the 12<sup>th</sup> Plan. In the meanwhile, work has commenced on preparation of a long-term Perspective Plan for the State. A decision has also been taken to constitute a specialist Project Financing Cell in the State Planning Board to explore avenues for external funding of major projects wherever feasible.