

*Economic and Financial Developments in Goa**

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I thank the Goa Chamber of Commerce and Industry and Shri Mangarish Pai Raikar for inviting me to address this distinguished gathering. As currently Goa is celebrating the Golden Jubilee Year of its Liberation, I thought that the occasion is appropriate to highlight the recent economic achievements of the state.

The scenic state of Goa is the 25th state in the union of states of India. It covers 0.11 per cent of the total geographical area of the country and accounts for a similar share of 0.12 per cent of national population. However, it has a much larger share of 0.4 per cent of all-India net domestic product (NDP). This explains why Goa is the richest state in India with a per capita income of almost three times that of the average for the country as a whole. It was ranked the best state by the Eleventh Finance Commission for its infrastructure. It also ranked at the top for the best quality of life in India by the National Commission on Population. The India Human Development Report 2011 ranked Goa as fourth in terms of overall human development in the country. The lushness of its landscape, geographical and ecological diversity and cultural richness make Goa a travelers' paradise. Notwithstanding these achievements, Goa faces several developmental challenges, including in the areas of banking and finance.

It is important to have a well-functioning financial system for sustainable economic development. While the Reserve Bank has been actively engaged in the development of the financial sector, it has stepped up its efforts in recent years to enhance the penetration of the formal financial sector and promote financial inclusion with a view to improving the well-being of our society. In this regards, the Reserve Bank has been

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¹The other states are Arunachal Pradesh, Chhattisgarh, Mizoram and Gujarat.

undertaking special initiatives for extending the outreach of banking facilities in the state. Against this background, I propose to briefly outline the economic and financial structure of the state as well as highlight various financial inclusion initiatives taken by the Reserve Bank. In conclusion, I shall present some thoughts on policy challenges ahead.

Macroeconomic Structure

I propose to capture the macroeconomic trends in the decade of 2000s as the information on the net state domestic product (NSDP) is available up to 2009-10. The last decade was characterised by accelerated economic growth at the all-India level. While all-India NDP increased at an annual average rate of 7.1 per cent in the 2000s, the net state domestic product (NSDP) of Goa increased at a slightly lower rate at 6.6 per cent per annum. But there was significant growth acceleration during the second half of 2000s. NSDP growth almost doubled from 4.5 per cent per annum in the first half of the 2000s to 8.8 per cent in the second half. Importantly, Goa recorded a NSDP growth rate of 12.6 per cent in 2009-10 – the highest in the decade. At this rate, Goa was among the top five fastest growing states in 2009-10¹ as compared with the increase in all-India NDP at 7.6 per cent. Having registered a high rate of growth, the challenge for Goa is to sustain the growth momentum in the current decade (Table 1).

The growth acceleration during the second half of 2000s was reflected in high per capita income as well. In 2009-10, real (at 2004-05 prices) per capita income of Goa was much higher at ₹98,807 than the all-India average of ₹33,731. In US dollar terms, per capita income of Goa increased from US\$ 1,217 in 2000-01 to US\$ 2,902 in 2009-10. In terms of per capita income, Goa is the richest state in India (Table 2).

Table 1: Sectoral Income Pattern

Sector	Growth Rate * (%)				Relative Share in NSDP (%)	
	2000-05	2005-10	2000-10	2009-10	2000-01	2009-10
Agriculture	0.1 (1.5)	-0.3 (2.7)	-0.1 (2.1)	-3.8 (-0.2)	8.7 (23.6)	4.7 (15.2)
Industry	7.4 (5.7)	6.8 (7.9)	7.1 (6.8)	5.3 (7.0)	32.9 (17.4)	31.0 (16.5)
Services	3.8 (7.7)	11.0 (10.2)	7.4 (8.9)	18.1 (9.6)	58.3 (58.7)	64.3 (68.3)
Construction	2.6	6.3	4.5	6.4	13.4	10.3
Transport & Communication	15.8	22.7	19.3	43.8	9.3	23.1
Banking & Insurance	7.4	15.8	11.6	12.2	4.8	8.4
State Domestic Product	4.5 (5.8)	8.8 (8.4)	6.6 (7.1)	12.6 (7.6)	100	100

* NSDP for Goa and NDP for India at constant (2004-05) prices.

Note: Figures in the parentheses relate to all-India NDP.

Source: Central Statistics Office.

In terms of sectoral composition of NSDP between 2000-01 and 2009-10, the share of agriculture and allied activity declined sharply, which was offset by the rise in the share of services sector as the share of industry remained steady. This is because the agricultural sector witnessed negligible growth during the decade reflecting stagnant agricultural production, decline in fish catch, and falling output from the forest sector. Industrial sector growth was in line with the national average rate. However, the share of industry was much higher than the national average making Goa an industrial state. The growth in the services sector has picked up recently, driven largely by transport, communication and finance. Consequently, the share of the services sector in NSDP increased sharply, while that of agriculture declined. The share of industry remained almost unchanged (Table 1).

Against the stereotypical view that Goa economy is being led by tourism and mining, an analysis of individual share of each sector reveals that manufacturing and communication contributed substantially to the growth of the economy (Chart 1). Good infrastructure facilities with a centrally located airport, a seaport, connectivity by excellent road network as also other essential infrastructure like container freight stations supported industrialisation. Moreover, the industrial policy followed by the state,

particularly in developing industrial clusters/estates gave an additional boost to industry. The industrial activities encompass pharmaceuticals, electrical and automobile accessories. In this context, it may be mentioned that according to a recent report by Institute for Competitiveness (the Indian fraction of the global network of the Institute for Strategy and Competitiveness at Harvard Business School), Goa has emerged as the most competitive state in the country with a high income and consumption pattern and favourable demographics.

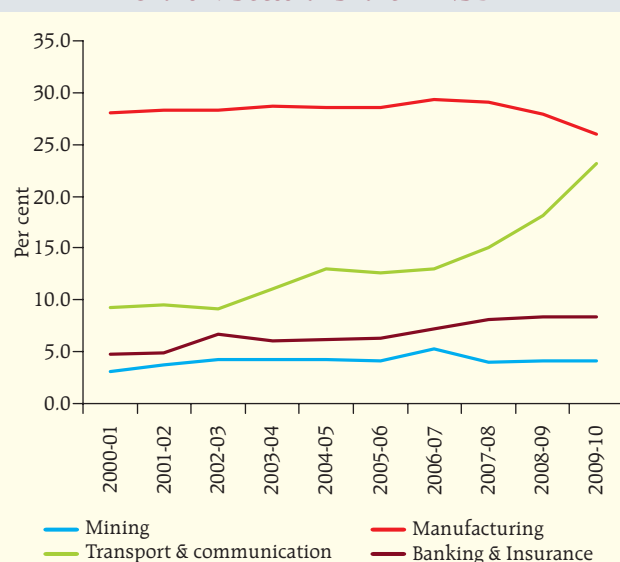
Inflation Challenges

Inflation is a major concern not only at the national level but also at the regional level. While we articulate monetary policy in terms of the wholesale price index (WPI) inflation, we take into account all

Table 2: Per Capita Income

	2000-01	2004-05	2009-10
Goa (in ₹)*	57,447	76,426	132,719
All-India (in ₹)*	17,516	24,143	46,492
Goa (in US\$)	1,217	1,733	2,902
All-India (in US\$)	371	547	1,016

*At current prices.

Chart 1: Sectoral Share in NSDP

available price indices both at the aggregate and disaggregate levels. We are also sensitive to inflation indicators at the regional level. In our October 25, 2011 monetary policy review, we raised the policy repo rate for the 13th time by 25 basis points to 8.5 per cent to contain inflation and anchor inflation expectations. There is, however, a need to make a concerted effort to address both the demand and supply sides of the inflation problem. On the supply side, the State Governments have an important role to play in strengthening infrastructure and enhancing productivity, particularly in agriculture.

Consumer price inflation in Goa, measured by consumer price index for industrial workers (CPI-IW), was low and almost the same as the national average in the first half of the 2000s. However, as growth accelerated in the second half of the 2000s inflation also picked up and turned out to be higher than the national average. It was in double digits in 2010-11, though since moderated to 9.0 per cent by August 2011 (Table 3). As food has a substantial weight in consumer price basket, it is a primary source of inflation. Goa depends on the neighboring states for a variety of food items. It will, therefore, be desirable to strengthen the supply chain management which could have a dampening impact on food price inflation. Moreover, greater attention needs to be given for local production of fresh vegetables and protein items such as milk, eggs, fish and meat.

Fiscal Scenario

Fiscal reform and debt sustainability of the state level assume importance for sustained economic development. The state has taken a number of steps towards fiscal reforms since the mid-2000s: implementation of VAT to replace state sales tax (April 2005), enactment of Fiscal Responsibility Legislation (May 2006), New Pension Scheme (August 2005), ceiling

**Table 3 : Consumer Price Inflation (CPI-IW)
(year-on-year)**

Period	Per cent	
	Goa	All India
2000-05 (5 yrs)	4.0	4.0
2005-10 (5 yrs)	9.2	7.7
2000-10 (10 yrs)	6.9	6.1
2010-11	12.2	10.6
2011-12 (August)	9.0	9.0

on guarantees and constitution of Consolidated Sinking Fund and Guarantee Redemption Fund.

The deficits and debt have been maintained at sustainable levels. However, like other States, state finances of Goa has suffered a setback in 2008-09 and 2009-10 on account of combined impact of macroeconomic slowdown and implementation of Sixth Pay Commissions awards. Consequently, revenue surplus declined in 2008-09 and turned into deficit in 2009-10. Further, the GFD-GSDP ratio increased from 2.8 per cent in 2007-08 to 4.8 per cent by 2009-10. The debt-GSDP ratio, however, improved over this period as growth in debt was lower than that in nominal GSDP (Table 4).

As per the revised estimates, the GFD-GSDP and debt-GSDP ratios are estimated to decline further in 2010-11 on account of improvement in revenue account even as capital outlay is estimated to be higher. However, the budget estimates of 2011-12 show deterioration. It is, therefore, important to focus on revenue generation to finance increasing capital and social expenditure for long-term sustainability of fiscal position.

Socio-economic Profile

The development context of Goa is significantly different from other States. Goa has the highest per capita income in India and also records the highest literacy rates of 87.4 per cent (2011) as against the all-India average of 74.0 per cent (Table 5). With the urban population of around 50 per cent, Goa is the most urbanised state after Delhi. Goa being one of the states having low birth rate and low death rate, the working

Table 4: Fiscal Indicators

Year	(As per cent to GSDP)			
	Gross Fiscal Deficit	Revenue Deficit	Primary Deficit	Outstanding Debt
2004-05	4.4	1.0	1.8	35.0
2005-06	4.2	0.2	1.4	35.6
2006-07	3.0	-0.9	0.4	35.5
2007-08	2.8	-0.9	0.5	34.3
2008-09	3.6	-0.5	1.4	32.0
2009-10	4.8	0.5	2.5	31.0
2010-11 (RE)	3.6	-1.1	1.5	28.7
2011-12 (BE)	4.8	0.5	2.8	..

RE: Revised Estimates BE: Budget Estimates ... Not available

Note: Minus (-) sign indicates surplus.

Source: Budget documents of the State Governments.

Table 5: Human Development Indicators for Goa

Item	Goa	All India
Population (million)	1.5	1210.2
Sex ratio	968	940
Growth rate of population (2001-2011)	8.17	17.64
Per capita income in 2009-10 (in ₹ at 2004-05 prices)	98,807	33,731
Education		
Literacy Rate (male)	92.81	82.14
Literacy Rate (female)	81.84	65.46
Literacy Rate (total)	87.40	74.04
Health*		
Infant Mortality Rate	10	53
Household's access to safe drinking water (in per cent)	82.1	90.0

*: Economic Survey, 2010-11.

Source: Census 2011 Preliminary Result.

age population has a larger share in its total population. While the current age profile augurs well for a faster economic growth, over the long-term ageing population could be a major challenge. There is, therefore, a need for greater attention on health and social security.

Financial Development

In the context of a very large proportion of working age population, the development of financial sector could aid economic growth through mobilisation of saving and promoting investment. The formal financial system in India is dominated by banks and so is the case in Goa. In fact, Goa leads in terms of development of banking in India. Over time, the number of commercial bank branches in Goa increased steadily from only 5 in 1962 to 459 by end-June 2011. There is a state co-operative bank and 7 urban co-operative banks with 136 branches. With a ratio of 3,180 populations per commercial bank branch as against the all-India average of 13,270, Goa has one of the best banking services in the country.

The sectoral flow of credit reflects the structure of the economy and the demographics. The industrial sector accounted for the highest share in credit followed by personal loans and services. The industrial sector receives maximum credit reflecting continuing industrialisation. Goa, being one of the prime tourist destinations, the hospitality sector led services sector in attracting credit. The high per capita income level of the population reflecting greater borrowing capacity explains a high share of personal loans in the overall credit. However, credit flow to agriculture remained

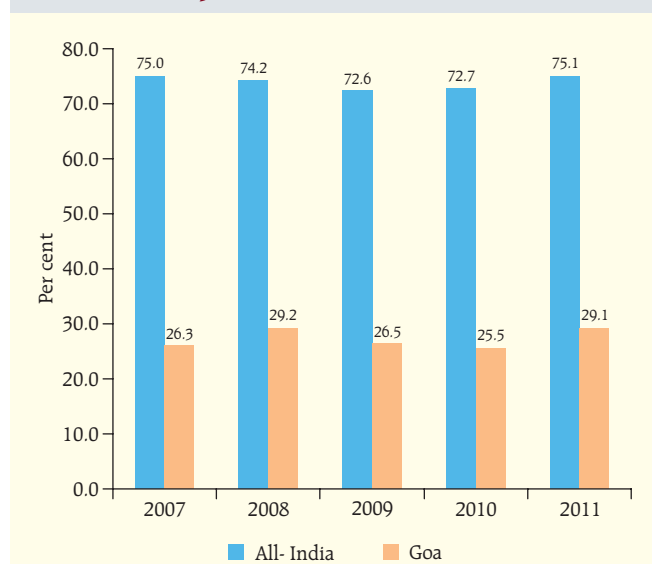
Chart 2: Occupational-share in Credit

low, though 50 per cent of the population was still rural (Chart 2).

While the share of agriculture in NSDP has reduced sharply over the years, Goa is also known for its distinct agricultural products such as mangoes, cashew and grapes. A fading agriculture sector may not be a sustainable feature for balanced growth in a long-term perspective. Therefore, concerted efforts need to be made to promote agriculture in the state. This also requires sustained credit flow to agriculture. The state government has made provision for subsidised farm loans and subsidy for acquisition of agricultural implements. This will also help increase the level of credit-deposit (CD) ratio in the state which is relatively low as compared with the all-India level.

The C-D ratio of the state of around 30 per cent compared with about 75 per cent at the all-India level does not appear commensurate with its high level of economic development (Chart 3). The recorded C-D ratio, however, understates the extent of credit penetration for mainly three reasons. First, major industries such as pharmaceuticals and hotels source credit from their head office locations which are outside the state. Hence, such credit flow does not reflect in the C-D ratio of the state. Second, internal cash generation in industries such as tourism and iron-ore reduces institutional finance. Third, with a substantial share of non-resident deposits, the deposit base is large which imparts a downward bias to the C-D ratio of the

Chart 3: Recent Trends in CD Ratio



state. Having said that, there is no undermining the fact that there is scope for further credit expansion, particularly to the agriculture and the allied sector.

Despite the low incidence of poverty and high literacy, there is uneven distribution of credit across the state. Since self-employment accounts for about 32 per cent (NSSO 64th Round) of the total employment in the state, further credit penetration is required to harness the demographic dividend. The credit inequality needs to be addressed through intensified financial inclusion measures.

Financial Inclusion Measures

Financial inclusion is important for bringing the poor and under-privileged sections of the society within the banking fold and thereby generating and sustaining equitable growth. Let me now turn to the various measures initiated by the Reserve Bank for promoting financial inclusion.

First, the Reserve Bank for long has instituted a mechanism called 'priority sector lending' through which credit is channelised to certain preferred sectors, which, *inter alia*, include small-scale industry, small businesses and agriculture. In the post-reform period, the priority sector group has been expanded to include advances to retail trade, educational loans, micro-finance and low-cost housing. This has helped in furthering the cause of financial inclusion.

Second, the Union Finance Minister announced in the Budget 2010-11 that every village in the country with over 2000 population must have access to banking services by March 2012. In order to operationalise this process, commercial banks have prepared financial inclusion plans which have been submitted to the Reserve Bank. As brick-and-mortar branches will not be viable in very small centres, the approach is to meet this challenge through the business correspondent (BC) model and by leveraging communication technology. Under this model, banks appoint agents who provide basic banking services at the door-step of a client on behalf of the bank.

Third, the Reserve Bank has asked banks to open no-frills accounts. These accounts have no or very low minimum balance requirement and have provisions for small loans by way of overdrafts. This is a very convenient account for small depositors, especially in rural areas.

Fourth, a major impediment for a common person to open bank account is the 'Know Your Customer' (KYC) norm. The norm has been relaxed for small accounts, *viz.*, deposits up to ₹50,000 and credit up to ₹1 lakh. A simple introduction by an existing account holder in a bank should be adequate to open an account. In this regard, Aadhar, the Unique Identification Number (UID) Project of the Central Government, which aims at providing a unique ID number for everyone in the country, will help the poor to establish their identity to meet the banks' KYC norms.

Fifth, farmers can get credit from banks conveniently through Kisan Credit Cards (KCCs) and General Purpose Credit Cards (GCCs).

Sixth, while several banking facilities are available, a common person may not be aware of them. Hence, financial literacy becomes important. Accordingly, the Reserve Bank has initiated a 'Project Financial Literacy' with the objective of disseminating information regarding the central bank and general banking concepts to various target groups. Our 'Financial Education' website link offers basics of banking, finance and central banking for children of all ages. Our website is also available in 13 languages.

Finally, there is also a learning process for the Reserve Bank. We recognise that being responsible for banking, we must be sensitive to the needs of a common person. Accordingly, our Governor, Dr. Subbarao initiated the outreach programme last year as a part of our Platinum Jubilee celebrations. Under the outreach programme, the top management of the Reserve Bank visits at least one village in every state and union territory with state government officials and commercial banks to give focused attention on financial inclusion. This has been an highly enriching experience for us to understand the ground realities. Accordingly, we have decided to continue these programmes.

Financial Inclusion in Goa

Let me now turn to our initiatives for financial inclusion in Goa. First, in order to provide banking services through a banking outlet in every village having a population of over 2000, by March 2012, 41 villages have been identified for the financial inclusion drive in the State. As on June 30, 2011, banking services were provided in 36 villages through Business Correspondents (BCs), in 4 villages through mobile vans and in one village through opening of a branch outlet. This banking coverage has been achieved well ahead of the time. Second, focus has now shifted for inclusion of villages with population between 1000 and 2000: 65 such unbanked villages have been identified and allocated among different banks for making banking service available.

Third, as of end-June 2011, total 1,21,210 no-frill accounts (NFA) were opened with outstanding deposits of ₹33 crore, of which 4,930 NFA were credit-linked with ₹9.3 crore, while 4,763 General Purpose Credit Cards (GCCs) were issued through NFA with outstanding credit of ₹9.3 crore. Fourth, in order to strengthen the financial education campaign a Financial Literacy & Credit Counseling Centre (FLCC) was opened at Verna, in South Goa. Similarly, in order to make the financial inclusion drive more effective, a Rural Self Employment Training Institute (RSETI) was also opened at Verna, in South Goa providing technical training on self employment ventures. As a success story it may be noted that 12 courses were conducted and 230 below poverty line (BPL) beneficiaries were

trained of which 55 have started gainful employment activities. Fifth, 71 farmers' clubs and 20 joint liability groups (JLGs) were formed by NABARD. Sixth, the recent drive by SLBC to route the MGNREGA payments through Smart Cards under IT enabled financial services will further strengthen the objective of financial inclusion.

Policy Challenges

Let me now turn to broader macroeconomic policy challenges. As I mentioned, the Reserve Bank has initiated measures for further spread of banking and promotion of financial inclusion. Nevertheless, to accelerate the pace of growth of Goa, I may highlight a few challenges that lie ahead.

First, initiatives need to be taken to promote sustainable industrial development compatible with the unique bio-diversity of the state which, in turn, would generate local employment.

Second, investment in infrastructure could be scaled up through the Public-Private Partnership (PPP) model to support industry and services.

Third, there is a need to increase agricultural productivity and promote diversification in agriculture and allied activities.

Fourth, as food inflation has been a major concern in the recent period, an appropriate supply chain management and augmentation of production of vegetables and protein items at state level will be helpful in addressing supply side inflation pressures.

Fifth, on the fiscal front, rationalising the state deficits without compromising on allocation of resources for the social sector will be a major challenge. Therefore, sustaining a higher growth trajectory becomes important for higher revenue generation to support high capital outlays.

Sixth, the high level of literacy and human development provides ample opportunity for further growth of knowledge-based industries. However, for achieving this, Goa needs to provide knowledge workers on a large scale. This entails strengthening of technical and higher education.

Seventh, there is scope for further credit penetration. In this regard, banks can explore innovative structures of loans with a greater emphasis on group lending to minimise credit risk.

Eighth, in any plan for financial sector development, the physical presence of a bank branch is important. Hence, all the stake-holders – banks, state governments and the Reserve Bank - need to work in close co-ordination for increasing banking penetration

and improving the quality of banking services with greater use of technology.

Conclusion

Let me conclude. Goa is the richest state in India with a strong potential as reflected in the growth acceleration in the latter half of the last decade. The challenge is to sustain this momentum which will require continued policy action and greater access to the formal financial sector.