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Maharashtra and Gujarat – important cogs in India’s wheel of growth

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After India’s independence in 1947, the State of Bombay was carved out by merging many former princely states, including the Gujarat and Deccan states with the former Bombay province. Subsequently, movements saw the partition of the State of Bombay into Maharashtra and Gujarat.

Even after separation, the significance of the two States has sustained. For long, these two States continued to remain at the forefront in the areas of industrialisation and investment. Gradually, many other States too evolved industry friendly policies and paced up the level of industrialisation. For a large part of the past five decades, the States have witnessed political stability also which has helped in evolving and implementing policy framework conducive for growth.

As the two States approach their Golden Jubilee celebrations on May 1, 2010, this article attempts to juxtapose their key indicators against the national ones and also highlights some challenges before them.

A brief overview of the two States from an economic perspective is presented below:

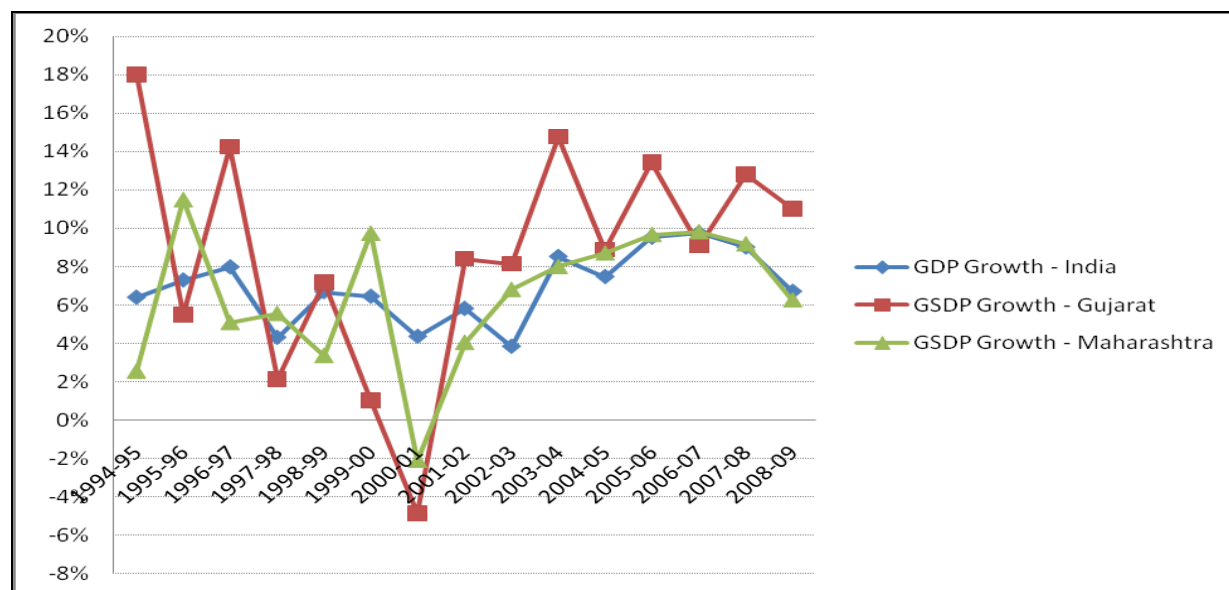
	Maharashtra	Gujarat	India
GSDP (2008-09) at current prices; (Rs cr)\$	697965	337217	4933183
GSDP/GDP growth (%; current prices; 2007-08)\$	18.2	11.0	14.2
Per capita Income(2008-09) (current prices) (Rs)\$	54673	49251	40141
Literacy rate (%)	76.88	69.14	64.84
Degree of urbanization (%)	42.43	37.36	27.82
Level of industrialization (%)	27.5	37.78	20
FDI received (Rs crore; period Aug’91-Dec’08)	75096	21123	305037

Source: Ministry of Statistics & Programme Implementation (MOSPI) / other Government documents
\$ As per Advanced Estimates of State Economic Survey

GSDP

While Maharashtra contributed 13.3% to the country's GDP in 2007-08 (at constant prices), Gujarat's share was 6.8%. Together, the contribution of these two states was more than 19% which makes them significantly important. In terms of GSDP growth rate, both the states had quite robust growths. For the period FY00-FY07, Gujarat had the fastest CAGR in GSDP growth (at current prices) at 13.6%. Maharashtra was not too far behind at the third place at CAGR GSDP growth of 11.3% during the period.

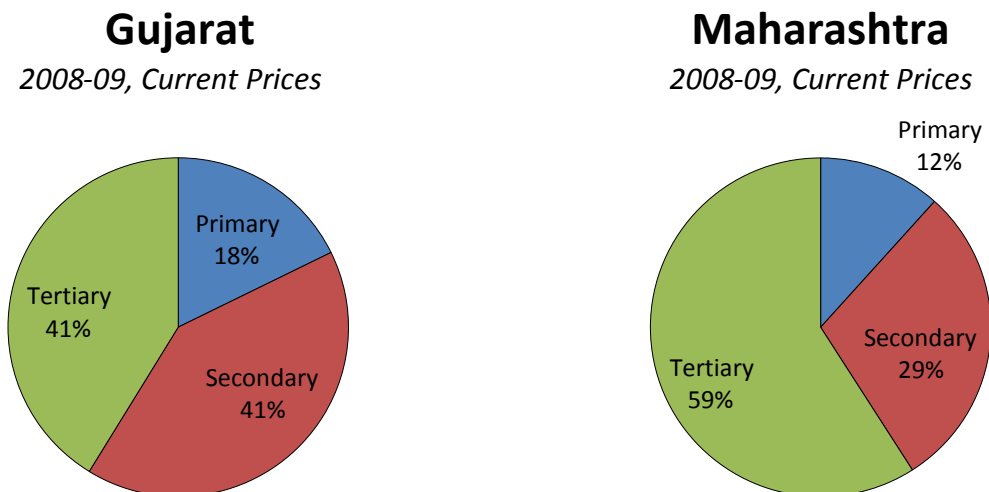
Chart 1: GSDP Growth Rate – (At constant prices)



Source: State Economic Survey

The structural composition of GSDP is also markedly in favour of secondary and tertiary sectors in the two States. In case of Gujarat, the share of primary, secondary and tertiary sectors has been reported as 17.76%, 41.05% and 41.19% respectively in 2008-09 at current prices. For Maharashtra, the State income composition was 11.7%, 29.2% and 59.1% for primary, secondary and tertiary sectors respectively in 2008-09 at current prices.

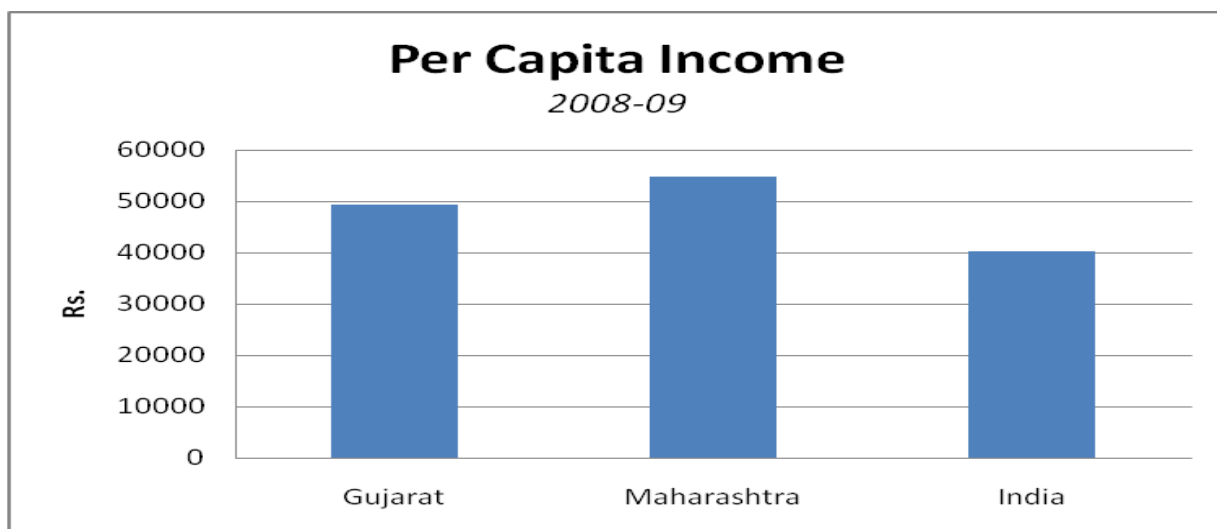
Chart 2: GSDP – Structural Composition



Source: *State Economic Survey*

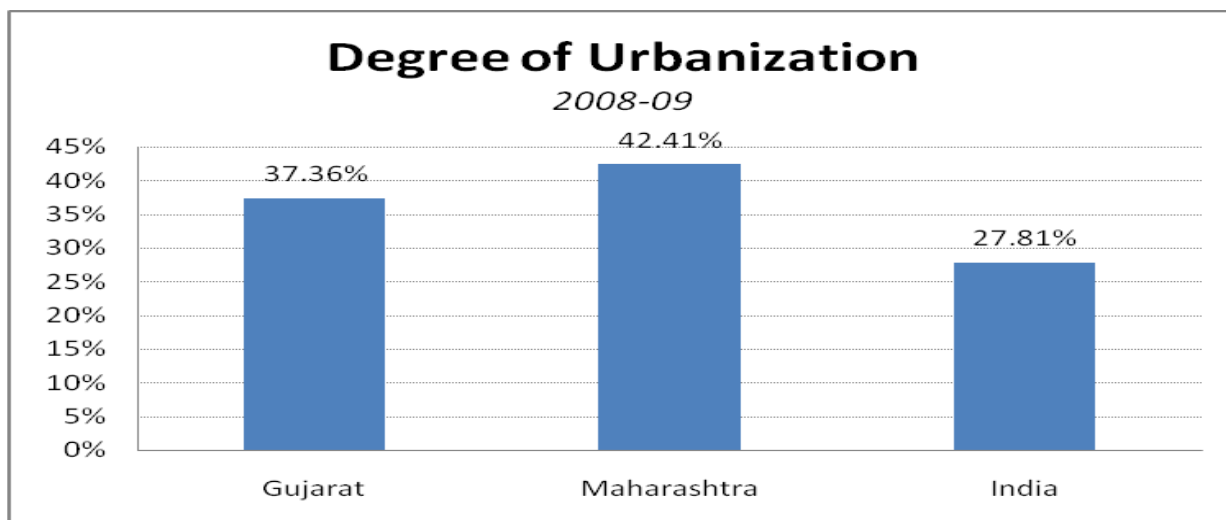
In terms of per capita income, both the States are much better placed than the national average. As regards to literacy rate, Maharashtra ranked second after Kerala. Gujarat was placed at the fifth position. Again, they fared much better than the national average. Both the states are also highly urbanized with the statistics better than the national average. Level of industrialization in the two States has also remained fairly high.

Chart 3: Per Capita Income



Source: *State Economic Survey*

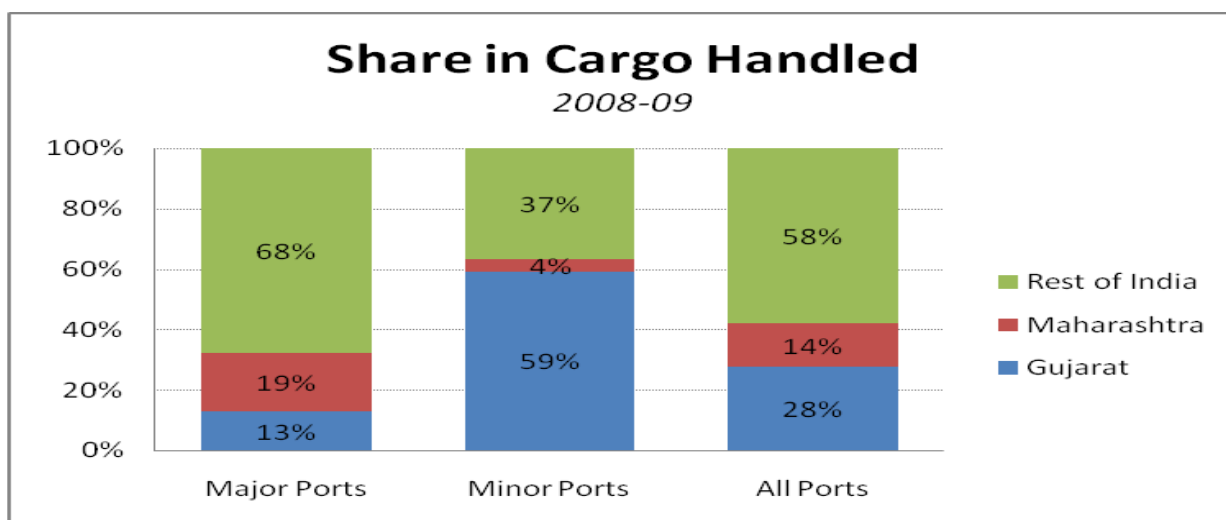
Chart 4: Degree of Urbanization



Source: State Economic Survey

Their significance is also manifested with the long coastline they have which makes them strategically important. As per estimates, Gujarat’s share of total cargo handled by ports was about 27% and that of Maharashtra was about 14%. Thus, together their share was in excess of 40%.

Chart 5: Cargo Handled by Ports



Source: State Economic Survey

STATE FINANCES

Debt & Deficit Indicators of Major State Government finances:

STATE	Revenue deficit/surplus(-)/ GSDP	Gross fiscal deficit/ GSDP	DEBT/GSDP 2008-09 (RE) (%)
MAHARASHTRA	-0.6	1.9	24.6
GUJARAT	-0.4	2.2	28.4
ANDHRA PRADESH	-0.4	2.8	30
TAMIL NADU	-1.1	1.2	25.7
PUNJAB	1.8	3.1	40
UTTAR PRADESH	-0.7	3.6	50.8

For RD/GSDP and GFD/GSDP, the period considered is 2005-08 (avg.)

Source: RBI's Report on State Finances

Gujarat

Gujarat remains one of the leading industrial states in the country and the state economy has outperformed the national economy during the tenth plan (10.4% CAGR v/s 7.78%) and the first year of the eleventh plan.

Whereas the revenue account is characterised by a robust CAGR growth of 18.2 per cent between FY04 and FY08 in revenue receipts, impact of the revised pay scale on lines of the sixth pay commission award is expected to exert adverse pressure going forward. With a significant chunk of the total revenue receipts going towards payment of committed expenditure items (salaries, pensions and interest), the financial flexibility of GoG remains restricted. Continued investment in capital outlay and prospective strains on the revenue balance of GoG has necessitated the state government to approach the market for funds.

The key challenge for GoG would be to control its debt and debt servicing burden. Its outstanding guarantees have been showing a declining trend in recent years. In the past, there had been instances of delays in debt servicing on guaranteed debt and consequently, it has set up a guarantee redemption fund as well as a consolidated sinking fund which mitigate the credit risk to some extent.

Maharashtra

As one of the major industrialized states of India, the economy of Maharashtra had been significantly affected by the economic slowdown witnessed nationally since FY09. The same has reflected on to GoM finances through moderating revenue receipt inflow.

After showing a significant improvement in FY08 with a revenue surplus position, GoM finances witnessed a significant deterioration in FY09 (RE). Further strain on the expenditure side with the impact of the sixth pay commission and higher plan outlay might severely strain the revenue balance in FY10. Like Gujarat, high level of committed expenditure adversely impacts its financial flexibility.

Delays in debt servicing on state government guaranteed debt in the past led GoM to create a sinking fund. However, unlike Gujarat, it has not set up a guarantee redemption fund. Continuing challenges confronting the government include high and increasing level of outstanding liabilities and potential pressures on the debt servicing in the coming years.

Conclusion

Thus, in the area of State Government finances, both the States are revenue surplus and the situation has improved over the last few years. High debt levels continue to be a major challenge for both States. Nonetheless, their level of debt – Worrisome? Yes. Cataclysmic? Not yet.

To summarise, the growth trajectory of both the states has been good to a large extent and their growth would continue to be of critical importance for the nation's growth.

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