

**Analysis of the Finances of State of Kerala
A Report Prepared for the 16th Finance Commission**

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Executive Summary (Findings and Recommendations)

The objective of the study is to examine in detail the fiscal performance of the government of Kerala during 2012-13 to 2022-23 and forecast the revenue, expenditures, deficits and debt trends for the period 2023-2031 and provide a roadmap for fiscal consolidation.

While computing compound annual growth rate (CAGR), simple average growth rate of fiscal variables and average shares, the entire time period 2012-13 to 2022-23 has been broadly divided into three sub-periods, based on the implementation of GST in 2017-18 and impact of Covid-19 in 2020-21. First sub-period spans from 2012-13 to 2016-17- the pre-GST period and 2017-18 to 2020-21 which includes periods of post GST and Covid-19 periods. The second period witnessed major changes in fiscal performance on account of GST implementation and Covid-19 pandemic. We also considered a sub-period of the post-GST period from 2021-22 to 2023-2024, which drops the pandemic year 2019-20. And this post-pandemic period is included in the analysis whenever data on fiscal indicators are available. Organisation of this Executive Summary follows the order of the items in the Terms of Reference (ToR) of the study. As given in the Chapter 1, Introduction, ToR of the study consists of 13 items.

1. Estimation of revenue capacities of State and measures taken to improve the tax-GSDP ratio during last five years. Suggestions for enhancing the revenue productivity of the tax system in the State

- The annual average growth rate of total revenue of the state shows a similar rate of increase comparable to that of the annual average growth rate of its GSDP during the entire period of the analysis. However, during the recent period, although the average total revenue receipt as a percentage to GSDP has reached its peak of 12.60% in 2021-22-2023-24 but the annual growth rate of revenue has grown at a lesser rate than that of the growth rate of GSDP and possible reasons for this reduced growth rate of revenue mobilisation are exogeneous and beyond the control of the State government. Although the overall revenue buoyancy of the state suffered due to GST implementation however, it recovered from the year, 2021-22.
- When we consider the components of the total revenue receipts such as own tax revenue and own non-tax revenues, share in Central taxes and grants from Centre, the own tax revenue always constitutes the dominant share of total revenues.
- While non-tax revenue has increased at a maximum rate of 31.80% during the 2021-22 to 2023-24 followed by the share in central taxes 25.23%. In contrast, the grant component has witnessed sustained negative growth rates during 2019-20 to 2023-24 except one year in between, while all other components have contributed to the increase in growth rate of revenue receipts during the same period. The sustained decrease in grants from the centre and change in funding pattern of state expenditure without a major growth in the share in central taxes have contributed to the reversal in the relationship between growth rate of overall revenue realisation and the GSDP growth rate from the initial period, where rate of growth of revenue had prevailed at a higher level compared to the rate of growth of GSDP.

- In a comparison of tax efforts of Kerala with other southern States, our analysis demonstrates that, Kerala's effort in mobilising own-tax revenue is almost comparable to that of States like Karnataka and Tamil Nadu.
- Property Registration Fees and Stamp duties on property transactions constitute an important source of direct tax revenue for sub-national governments in India. Additionally, States levy a registration charge over and above the stamp duty which again varies across States. Kerala has been consistently revising the fair value of the properties in recent years' budgets to align with property's market value to tap greater registration and stamp duties. This may be compared across States in a separate analysis to assess whether registration and stamp duties are at comparable levels or how far below or how far above. One also needs to assess whether such a rise in the fair value of land is yielding greater revenues or reducing revenues by discouraging frequency of buying and selling (volume of transactions). This is to suggest that its revenue gain effect needs to be carefully balanced against its adverse effect on tax realisation. This is important when better investment options are available to people with greater financial awareness and spread of information due to use of information and communication technology than just land and housing, bank deposits, government bonds and certificates, and gold as avenues for investments.
- State needs to review the sumptuary taxes on liquor as these are inelastic sources of revenues. However, since there are various branded liquors being bought and sold, including foreign brands. An appropriate distinction needs to be maintained for foreign branded liquor and local variety. Going with theory, it suggests that it is least distortive to tax heavily on items which are inelastic to price changes induced by imposition of taxes. The state must introduce a more prudent liquor policy which can tax premium brands at higher rates that will generate greater revenues not only from domestic high-income consumers but also from tourists and business visitors.
- Kerala can mobilise more resources from its own-tax revenue sources. In a State which has been witnessing faster economic growth and retains top position in terms of per capita consumption expenditure, the decline in the growth rate of major own-tax revenues, namely sales tax/VAT/SGST, State excise duties and motor vehicle tax and stamps and registration fees over the recent years needs to be re-examined thoroughly and corrective actions needed to be taken accordingly. For instance, revenue can be enhanced by way of rationalisation of tax/duty structure, use of technology, keeping accurate and updated registries of property values and improving property records by way of proper monitoring of property sales. Tax sources such as land revenue, urban immovable property tax, entertainment tax and taxes and duties on electricity, can be adequately tapped.
- Kerala being a consumer State, GST implementation was expected to result in greater indirect tax revenues. However, the outcome was not in the expected line. Outcome on SGST side more or less satisfactory, and the revenue from IGST was less than the expected level. Revenue accrual of Kerala through the GST regime also hinges on proper implementation of GST by other States and sharing of the revenue with the Centre.

2. Analysis of the state's own non-tax revenue and suggestions to enhance revenues from user charges and profits from departmental enterprises and dividends from non-departmental commercial enterprises.

- The trends of non-tax revenue show that general services are the major source and revenue from this source has been increasing over the years. Among general services, revenue from lottery accounts for a greater share, followed by other general services. Next sources of non-tax revenues are economic and social services. The revenue from interest receipts is fluctuating overtime.
- Kerala own-non-tax revenue as a percentage to GSDP is found to be marginally less than the national average. It is 1.50 percent in 2023-24 against the national average of 1.65 percent during same time. Its average was 1.38 percent during 2012-13 to 2017-18 has almost been maintained at 1.35 percent in 2018-19 to 2022-23.
- The State should identify new tax and non-tax revenue sources with good revenue potential. The State can think of generating more revenues from the properties, particularly land owned by it by improving its commercial values.
- The government should target to collect a fair share of income or profits generated from natural resource-based industries such as granite mining operations and sand mining.
- The State, with the help of the information technology (IT), should improve the tax information system in the State to improve tax compliance. Similarly, the State should also collect and compile accurate database of non-tax revenue bases to maximise the non-tax revenue receipts. All these can be done by adopting a systemic approach in State administration which would enable the State to obtain and maintain multiple sources of information on the same transaction or property through different administrative departments. This would help improve the tax compliance and to realise more non-tax revenue.
- There is a need to enhance own non-tax revenues of Kerala particularly the dividends and profits from State PSEs and user charges from economic and social services. Potential sources of non-tax revenue include raising tuition fees from provision of higher education in public universities, registration fees to access medical facilities/services, penalties for violation of traffic rules, and admission fees for museums and public recreation facilities. The State should also explore charging higher user fees, wherever feasible, to raise its non-tax revenue.

3. Expenditure Trends in Kerala

- Trends of total expenditure reveal that it has been increasing over time, particularly due the increase in the revenue expenditure, rather than by the capital expenditure. The capital expenditure recorded gradual increase over the years, while loans and advances are increasing at a low rate. Although the total expenditure grew at the rate of 9.42 % during the period 2012-13 to 2023-24, but it has witnessed a negative growth rate (-1.15%) during 2021-22 to 2023-24. Component-wise CAGR shows that revenue expenditure grew at 14.24% during 2012-13 to 2016-17 and 7.23% during 2017-18 to 2019-20 and witnessed a decreasing CAGR during the remaining period (2021-22 to 2023-2024). In contrast, the CAGR of total capital outlays which

was 21.78% in the first period decreased to 1.70% in the second period and further decreased by 2.16 % in the last period respectively, although the overall increase in capital expenditure is more by 1% than the revenue expenditure over the entire period.

- Committed expenditure accounts for a major share of the revenue expenditure. Committed expenditure comprises of salaries, interest payment, pensions and subsidies. The share of pensions is almost stable ranging from 15 to 16% of total revenue expenditures. The share of committed expenditure in the total revenue expenditure is also more or less stable at around 58 percent during the period of study. Recently, the share of salaries and subsidies witnessed a significant decline than that of interest payment which experienced an increase.
- There is an urgent need to moderate the growth of revenue expenditures of the government. The government needs to identify “fiscal space” through a combination of measures such as cutting down the unproductive expenditures, withdrawal of low-priority programmes, increase capital outlays, raise revenues and use low-cost debt funds to cut down interest payment expenditures etc.
- There is a need for increasing the share of capital expenditure and outlay in the total expenditure, including social sector spending. Government should fund for the infrastructure investment programmes, which would boost capital formation and growth of the state economy. The investment projects should be chosen in areas where social benefits exceed their economic costs.
- Performance based budgeting in combination with outcome-based budgeting should be emphasised in a way where goal of each government scheme can be set, and assessment can be done on how well particular schemes achieve those goals and terminate ineffective and low priority schemes in favour of better ones. Along with expenditure prioritisation, expenditure leakages should be reduced. There should be greater transparency in resources allocation and rationality of resource allocation and the way funds are spent. There can be an independent committee to monitor the allocation of expenditures in right direction for greater productivity.
- Multiple social welfare programs, with similar or same objectives need to be identified and merged and consolidated to curb outlays. This would also help in achieving scale economies in expenditure.
- Credit guarantees extended by the state government has to be based on proper assessment of cost-benefits associated with the projects and ranking of net present value of the projects.
- Privatization of loss-making public-sector enterprises should be the way forward and this is called for in areas in which government does not enjoy a comparative advantage.
- It is desirable to have an independent agency to monitor and audit efficiency of public expenditure. The same agency can also be entrusted to make practical suggestions for improving expenditure efficiency.

4. Analysis of Revenue and Fiscal Deficits

- The revenue deficit as percent of GSDP was 2.27 percent in 2012-13 and it stayed around at that level in 2018-19. In later years it increased to 3.35% in 2020-21 and marginally slides to 1.78% in 2021-22 and with some fluctuation, it got decreased to 0.90% in 2022-23.
- In contrast, fiscal deficit as percent of GSDP was at 3.64% in both 2012-13 and 2013-14, marginally increased to 3.83% in 2017-18 and decreased slightly less than 3% in 2019-20. Further with certain fluctuation, it attained 2.50% in 2022-23 and it is projected to be at 3% for the years of 2025-26 and 2026-27. The increase in fiscal and revenue deficit in 2020-21 is mainly due to the Covid-19 shock, which led to increased expenditure and reduced revenue receipts, though government has been making efforts to comply with the FRBM targets.
- Analysis shows that revenue deficit accounts for a substantial portion of the fiscal deficit, suggesting the borrowed resources are used for meeting current consumption expenditure of the government.

5. Debt-GSDP ratio, use of debt composition of debt

- The composition of outstanding liabilities of Kerala shows that internal debt constitutes largest share of total liability followed by provident funds and loans and advances from centre and deposits and advances. The share of internal debt which was 58.43% in 2012-2013, reached to 62.59% in 2017-18 and it is estimated to reach to 60.61% in 2023-24. The share of loans and advances from centre in total outstanding debt was 6.74% in 2012-13 and this gradually reduced to 3.45% in 2018-19, and further to 2.97% in 2019-20. After reaching this lowest level, it has again increased and reached to 6.97% in 2023-24 which is almost comparable to its initial level of 2012-13. The share of provident funds in total debt was 29% in 2012-13 increased to 31% in 2018-29 and maintained at that level till 2021-22 and then marginally declined to 30% in 2023-24. The share of reserve funds along with contingency funds and deposits and advances are declining although the share of deposits and advances stand at 1.63% in 2023-24.
- It is seen that market borrowing has the highest share in total borrowing of Kerala followed by provident funds, loans from centre, deposits and advances and so on.
- The utilisation of Kerala government borrowings shows that less than 50% of it was used to meet capital expenditure, implying that a larger share is being used for revenue expenditure. This implies that more than 50% of the borrowed resources are being utilised to meet the current expenditure. Given that current expenditures are less productive, the return on which is lesser and it will burden the future generations more heavily as it will be spent now and will be collected in taxes in the future.
- Interest payment accounted for a significant portion of revenue expenditure; it was 13.5% in 2012-13 and reached a peak of 18.4% in 2019-20 and recorded a slight decline thereafter.

6. Implementation of FRBM Act and commitment towards targets

- The Government of Kerala enacted The Kerala Fiscal Responsibility Act in 2003. The Act mandates the government to lay in every financial year before the

legislative assembly, along with annual budget, a medium-term fiscal policy statement and a fiscal policy strategy statement specifying the targets for revenue deficit, fiscal deficit and debt. The Act was amended in 2011, 2018 and 2022, and in each amendment the targets were revised.

- The revenue deficit always exceeded the target set by the different amendments of the Act. Since 2016-17 fiscal deficit recorded continuous decline and in 2020-21, it was below the target. However, fiscal deficit increased to 4.57 in 2020-21 and in the next three years it remained within the (higher) targets set for these years by the Amendment to the Act in 2022. Since 2018-19, debt-GSDP ratio exceeded the target, despite higher targets for the pandemic and post pandemic years.

7. State Transfers to local bodies and major decentralisation initiatives

- Following the 73rd and 74th constitutional amendments, the State passed the Kerala Panchayati Raj Act in 1994. The Act provided for a three-tier system consisting of Grama Panchayat at village level, Block Panchayat at intermediate level and District Panchayat at district level. A number of measures to strengthen the decentralised governance were introduced with the amendment of The Kerala Panchayati Raj Act in 1999.
- All 29 subjects specified in the Constitution are listed in the Kerala Panchayati Raj Act 1994 and devolved to the PRI in the State. The State has been regularly constituting the constitutionally mandated institutions, namely State Election Commission (SEC) and State Finances: A Study of Budgets (various issues) Commission (SFC). Further, the State has taken several measures to implement e-governance at the local level.
- At present there are 1200 local governments in Kerala, which include 941 Grama Panchayats, 152 Block Panchayats, 14 District Panchayats, 87 Municipalities and 6 Municipal Corporations.
- For the last eight years, transfer of fund to local bodies as percentage of revenue expenditure is almost stable - around 8 percent of the total revenue expenditure. Around 60 percent of the funds thus transferred is for expansion and development purpose. Grama Panchayats account for around 55 percent of the total grants to the local bodies.

8. Impact of State Public Enterprises finances on the State's financial health

- As per the Kerala Public Enterprises Review, in 2022-23, there are 149 public enterprises in Kerala owned fully or partially by the Government of Kerala. Eighteen of these 149 enterprises are either been in the process of liquidation or winding up. The Review reports the financial performance of the remaining 131 enterprises. Four enterprises account for 79 percent of total public sector investment in 2022-23. However, accumulated losses of these enterprises eroded their capital to the extent that the combined net worth of these enterprises is negative. Four enterprises, namely Kerala State Road Transport Corporation (KSRTC), Kerala Water Authority (KWA), Kerala State Social Security and Pension Limited (KSSPL) and Kerala State Electricity Board Limited (KSEB L) account for 86 percent of the total net loss of these enterprises in 2022-23.

- Public utility sector (consisting of four firms) account for highest share of investment in 2022-23 - 66% of total investment. This is also the sector responsible for the highest share of the total loss in 2022-23 - 80.2% of the total loss. Accumulated loss of public utility sector is such that the net worth of this sector is negative. Due to poor financial performance of the PSEs, they are unable to repay and service the loans taken from government of Kerala. Three public utility enterprises, namely KSRTC, KWA, and KSEB account for 65% of the total arrears of loan repayment (including interest) to Government of Kerala.
- The Contribution of SLPSEs to Kerala's budget is negative. Hence, it is important to reform these enterprises in such a way that they are not a burden to the State exchequer. Though public utility enterprises can work on commercial principles, reform of these enterprises need to keep social and welfare objectives in mind. One option is to provide the subsidy to the deserving sections of the consumers directly, rather than taking over the losses of these enterprises. This also makes subsidy payment explicit.

9. Power Sector Reforms and Fiscal health

- Following the Electricity Act of 2003, in 2013 the Kerala State Electricity Board (KSEB) was converted into a company and registered under the Indian Companies Act. The company, Kerala State Electricity Board Limited began operation as an independent company on November 1, 2013. Kerala did not do the unbundling of the electric utility as given in the Electricity Act. The new company, KSEBL, has to carry its business through three strategic business units focusing on generation, transmission and distribution. As per the Electricity Act, the State also established Kerala State Electricity Regulatory Commission (KSERC).
- In all the years the Company recorded loss since 2014-15, except in 2021-22. The continuous loss over the years resulted in huge accumulated losses and complete erosion of its net worth. The accumulated loss can be a potential problem for the State Finances: A Study of Budgets (various issues). Further, the loss also eroded the company's capacity to service and repay the loans taken from the Kerala government.
- The major reason for the loss is the purchase of electricity at higher cost, particularly in summer. Therefore, KSEB has to invest in the development of cheaper generation sources like small hydro-electric stations and solar power. KSEB also needs to explore the possibility of a nuclear power plant in the State. The Company needs to improve its operational efficiency.

10. Contingent Liabilities of the State

- State government usually gives guarantee on repayment of principal and interest on loans raised by the Statutory Corporations, Government Companies, Local Bodies, and other entities. These are termed as contingent liabilities on the Consolidated Fund of the State, as they become real liabilities when the borrower, to whom the guarantee was extended, defaults. CAG Reports (2022, 2023) do not consider contingent liabilities as part of the debt stock of the State if the entity borrowed has revenue raising capacity outside the government budget allocation and hence capable of repaying the loan on its own. In cases, where borrowed entity has no

revenue raising capacity and hence repayment and servicing of the debt have to be done from the State budget, it is treated as off-budget borrowing and taken as a part of the borrowing by the State government (See: CAG Reports, 2022, 2023).

- As per Section 3 of the Government Guarantee Act 2003, amended in 2022, the total outstanding government guarantee as on the first day of April of any year shall be less than or equal to 100 percent of the total revenue receipts of the preceding year or 10 per cent of the GDSP, whichever is lower. The study found that in all the years since 2014-15, the total outstanding guarantee is less than the stipulated limit of 10% of GDSP.

11. Subsidies given by the State

- Government of India (1997) considered subsidy as unrecovered cost of public provision of non-public goods and services financed by the budget. Similarly, Srivastava et al. (2003) defines subsidy as “In a budgetary context, subsidies are taken as unrecovered costs of public provision of non-public goods, although the term may be defined in a variety of other ways”.
- In the context of State budget, subsidies can be estimated using two methods: (1) Aggregating explicitly stated subsidies in the State budget, and (2) Measuring subsidies as unrecovered cost of provision of services of non-public goods nature. As the second method is not feasible within the given timeframe, we adopted the first method. Accordingly, we use the subsidy figures as reported in CAG’s audit reports for various years.
- Since 2014-15, explicit subsidy by the government of Kerala is always less than 2% of its total revenue expenditure, except in the two years of Covid pandemic - 2020-21 and 2021-22. Explicit subsidies in Kerala are with re-distributive objective. More than 80 percent of the total subsidy consists of the food subsidy in all the years, except in 2022-23, in this year it is 74 percent. Food subsidy is used for providing rice, wheat, sugar and kerosine through the public distribution system in Kerala. Further, it is also used to meet the costs retail market intervention by Supplyco to stabilise the retail price of food items. Another major item of subsidy is the housing subsidy for the poor people.

12. Resource flow from the Centre

- The flow of resources from the Centre takes two forms: share in Union taxes and Grants. Average share of transfers from the Centre in the State's revenue receipt was 31 percent during the 14th Finance Commission and the corresponding figure for the first four years of 15th FC is 36 percent.
- Average share of Central transfers in the State's development expenditure (revenue) was 57 percent during the 14th FC and the corresponding figure for the first four years of 15th FC is 66 percent.
- During the 14th FC, of the total Central transfers, 62 percent (average) was accounted by tax devolution. The corresponding figure for the first four years of 15th FC is 41 percent. There is a corresponding increase in the share of grants.
- Kerala has been continuing the Five-year plan method to implement developmental programmes. Currently, government is implementing 14th Five-year plan (2022-

2027). Different sectors have prepared a number of schemes to achieve the objectives of the 14th Five-year plan.

- Plan expenditure in the State is financed by pooling resources from the Centre and State. However, resources mobilised by the State government accounts for around 80 percent of the plan expenditure during the period 2012-13 to 2025-26.

13. Determination of Sustainable Debt Roadmap for 2026-31, taking into account tax/non tax trend forecasts

- The absolute trends of government liabilities show that outstanding liabilities have been increasing over time in Kerala along with all the states in India. Outstanding liabilities to GSDP of Kerala have increased from 26.7% in 2012-13 to 40.3% in 2020-21 and then it has gradually been declining to reach at 35% in 2023-24. When we consider CAGR of outstanding liabilities in Kerala, during the first five years from 2012-13 to 2016-17, it grew at 14.9% and then declined to almost 11% in 2017-18 to 2019-20 and further declined to 9.19 % in 2021-2023
- When we consider outstanding liabilities as a percentage to GSDP during the same time period, it shows that it was 28.6% for Kerala in first period and increased to 31.57% in the second period and attained 38% during 2021-22 to 2023-24. Although a similar trend is observed for all States but all States have a lower debt-ratio during both the periods.
- Projection of outstanding liabilities till 2031 shows that debt-GSDP ratio will likely to increase in the near future at a slower pace.
- Given the not-very-good fiscal situation in the State, the government has to take earnest efforts to mobilise more revenue resources- both tax and non-tax revenue and also to rationalise its expenditure.

Chapter 1

Introduction

This study examines the fiscal performance of the government of Kerala during the period 2012-13 to 2022-23. The study examines in details the trend and pattern of receipts, expenditure, deficits, borrowing and outstanding liabilities of the government during this period. The study attempts to forecasts the trends of these fiscal indicators up to 2031. The study also compares the fiscal performance of the State in different dimensions with those of general category States in general and Southern States in particular. In addition to the fiscal performance, the study also examines the followings: (1) Performance of State level public enterprises and its implications for the State's finance; (2) Central transfers to the State and its contribution to State's development expenditure, and (3) extent of decentralisation to local self-governments in Kerala. The study uses secondary data from various sources including State Finances: A Study of Budgets (various issues), published by the Reserve Bank of India (RBI), Handbook of Statistics on Indian States by RBI, Budget Documents of Government of Kerala, Economic Review of Kerala, Reports of Comptroller and Auditor General of India, Review of Public Enterprises in Kerala.

The study is carried out for the 16th Union Finance Commission and the terms or reference of the study are given below.

1. Estimation of revenue capacities of State and Measures to improve the tax-GSDP ratio during last five years. Suggestions for enhancing the revenue productivity of the tax system in the State
2. Analysis of the state's own non-tax revenues and suggestion to enhance revenues from user charges and profits from departmental enterprises and dividends from non-departmental commercial enterprises.
3. Expenditure pattern and trends separately for Revenue and Capital, and major components of expenditure thereunder. Measures to enhance allocative and technical efficiency in expenditures during the last 5 years. Suggestions for improving efficiency in public spending.
4. Analysis of deficits – fiscal and revenue
5. The level of debt to GSDP ratio and the use of debt (i.e., whether it has been used for capital expenditure or otherwise). Composition of the state's debt in terms of market borrowing, off-budget borrowings, Central government debt (including those from bilateral/ multilateral lending agencies routed through the Central government), liabilities in public account (small savings, provident funds etc) and borrowings from agencies such as NABARD, LIC etc
6. Implementation of FRBM Act and commitment towards targets. Analysis of MTFP of various departments and aggregate.
7. Analysis of the state's transfers to urban and rural local bodies in the State. Major decentralization initiatives.
8. Impact of State Public Enterprises finances on the State's financial health and measures taken to improve their performance and/or alternatives of closure, disinvestment etc.

9. Impact of Power Sector Reforms on States' fiscal health. In case reforms have not been implemented, the likely outcome on the States' fiscal health.
10. Analysis of contingent liabilities of the State.
11. Subsidies given by the States (Other than Central subsidies), their costs and benefits, targeting and evaluation.
12. Outcome Evaluation of State Finances: A Study of Budgets (various issues) in the context of recommendations of the 14th and 15th FC, in particular
 - (a) analysis of the flow of resources from Centre to States through various schemes, the expenditure of States in those schemes, resources of States channelled towards these schemes and the overall impact on development spending of the States;
 - (b) States' own schemes for different development objectives
13. Determination of a sustainable debt roadmap for 2026-31, taking into account tax/non-tax trend forecasts.

The report is organised in 14 chapters including this introduction and each chapter of the report addresses one item in the terms of reference in the order given above.

Chapter 2

Analysis of Revenue

Introduction:

Examining the revenue trends of a state is crucial not only for getting insights into its revenue generating capacity, but also for grasping overall financial stability, growth and welfare of the state. This is attempted by estimating various revenue parameters of Kerala for the period from 2012-2023 and it is also presented from a comparative perspective with other major Indian states. Accordingly, a state can implement appropriate fiscal policy strategies relevant to bring necessary changes and achieve desired developmental goals. A sustained and large-scale public investment on human and physical capital has always been one of the top priorities of the state government in the developmental pathway of Kerala. This is required to bring improvements in skill, research and innovation necessary for transitioning to a knowledge-based developed economy in the context when the state has been predominantly experiencing service led growth. While Kerala aims to retain its top position in human development index, flow of government revenues needs to be commensurate to sustain such developmental goals.

The constitution of India has clearly assigned the division of responsibilities and functions between the centre and states which needs to be performed by respective governments. The functions which are not assigned to any of the governmental levels are the residual powers which are automatically assigned to the central government. As a result, the states undertake a greater responsibility of providing public services while being left with narrow and less elastic tax revenue bases to mobilise resources to fund towards such services. In contrast, the centre is assigned with broad based and elastic sources of revenues while carrying out mainly few functions like ensuring macroeconomic stabilisation and distributions. Since constitution has relatively empowered the centre to access greater amounts of tax revenues while it has to make lesser expenditures comparing the states' responsibilities, this automatically creates a vertical fiscal imbalance between the two. To address this vertical fiscal imbalance along with the horizontal fiscal imbalances across the same level governments, the central government shares a certain portion of its net tax revenues to be shared across all the states and provides grants to the states along the lines as recommended by various Finance Commissions in the Indian federal system time to time.

The Finance Commission of India after country's independence has played a pivotal role in shaping the federal fiscal system of the country¹. It recommends the proportion in which net tax collections by the Centre to be shared with the states towards addressing the vertical fiscal imbalances between the centre and states and devises criteria for *inter-se* distribution of tax devolutions towards addressing the horizontal fiscal imbalances among the Indian states and envisages the manner in which the general and specific purpose grants to be given out by the centre to the states towards meeting their necessary expenditures, developmental goals and enabling them to provide comparable fiscal services given comparable taxes across the states.

¹ First Finance Commission was constituted vide Presidential Order dated 22nd November 1951 under the chairmanship of Shri K.C. Neogy on 6th April 1952. So far Sixteen Finance Commissions have been constituted at intervals of every five years.

The FCs recommendations in a way have also induced and enabled the states to achieve greater fiscal prudence and fiscal discipline over the years and undertake decentralisation efforts by empowering the grass root level governments.

Previously resources were also used to flow from the centre to the states in grants and loans through Planning Commission of India along with FCs recommendations. With replacement of Planning Commission by NITI Ayog in 2015, Finance Commission has been reckoned as the major body in devising the manner in which resources of the centre are to be shared with the states. However, there is a scenario of shrinkage in the fiscal space of states which has emerged with the proliferation of Centrally Sponsored Schemes and inter-governmental transfers outside the Finance Commission purview. This has tightened the hard budget constraint faced by the states like Kerala where its needs are different and there are revenue shortfalls to meet its obligatory expenditures. In certain instances, such central government grants have not enabled many states to gain much.

2.1 Revenue receipts

Revenue receipts of the State Government can broadly be classified into tax and non-tax categories comprising of own revenues (tax and non-taxes), shares in central taxes and grants-in-aid from Government of India (GoI). Tax revenue comprises of own tax revenues of the state and share in Central taxes, while non-tax revenue includes States' own non-tax sources and grants from the Centre.

Table 2.1 indicates that total revenue was Rs 44,137 crores in 2012-12 and almost got doubled up in 2017-18 and has further increased to Rs 132724.65 crores in 2022-23. In terms of compound annual growth rate (CAGR)², it shows that it had increased at the rate of 14.41 % in 2016-17 from 2012-13 and witnessed a drastic decline in its CAGR of 5.55% in 2020-21 from 2017-18 and then went down to 3.32% in 2023-24 over 2021-22. Since the middle period corresponds to the period adoption of GST since 2017-18, therefore one may often tend to doubt whether this drastic decreased growth rate of total revenue could be due to the implementation of GST.

However, when we take a look at the composition of total revenues to understand the underlying changes in it, it shows that state's own tax revenue which is the dominant source of revenues (followed by grants received from the centre, tax devolution from the centre and state's non-tax revenues), its CAGR has decreased to 8.82% in the first period to 4.07% in the middle period (excluding Covid-19 period) but has increased to 12.87% in the third period (2021-22 to 2023-24). *Similar picture is also observed for state's own non-tax revenues. Its CAGR was 23.30% in the first period, decreased to 4.65% and again increased to 25% in the last period. The CAGR of share in central taxes which was 22.14% in the first period decreased to -1.30% in the middle and increased to 10.50% in the last period. In contrast, CAGR of grant received from centre which was 29.55% in the first period decreased to 14.78% in the second*

² CAGR is computed by following the formula: $[(\text{End value}/\text{initial value})^{(1/n)} - 1] * 100$

period and it witnessed a major jolt in the third period (-36.60%). This has affected the CAGR of total revenue receipt of the state.

The CAGR of share in central taxes alone has witnessed a substantial decline in the second period while grant has witnessed a negative CAGR in the third period. CAGR of share in central taxes has declined from 22.14% in first period to -1.30 % in the second period and increased to 10.46% in the third period, while CAGR of grants from centre to states has declined from 29.55% in first period to 14.78% in second period and then to -36.60 % in the third period. This suggests that revenue performance is not supporting for a good budget balance or making any greater expenditures.

Table 2.1: Trends and Composition of Different Revenue Receipts of Kerala (in crores)

Year	State's Own Tax Revenue	State's Own Non-Tax Revenue	Share in Central Taxes	Grants from the Centre	Total Revenue
2012-13	30076.61	4198.52	6840.65	3021.53	44137.3
2013-14	31995.02	5575.03	7468.68	4138.21	49176.93
2014-15	35232.5	7283.69	7926.29	7507.99	57950.47
2015-16	38995.15	8425.49	12690.67	8921.35	69032.66
2016-17	42176.38	9699.98	15225.02	8510.35	75611.72
2017-18	46459.61	11199.61	16833.08	8527.84	83020.14
2018-19	50644.1	11783.24	19038.17	11388.96	92854.47
2019-20	50323.14	12265.22	16401.05	11235.26	90224.67
2020-21	47660.84	7327.31	11560.4	31068.28	97616.83
2021-22	58340.52	10462.51	17820.09	30017.12	116640.24
2022-23	71968.16	15117.96	18260.68	27377.86	132724.65
2023-24	74329.01	16345.96	21742.92	12068.26	124486.15
CAGR					
2012-13 to 2016-17	8.82	23.29	22.14	29.55	14.41
2017-18 to 2020-21	0.85	-13.19	-11.77	53.87	5.55
2017-18 to 2019-20 [#]	4.07	4.65	-1.29	14.78	4.25
2021-22 to 2023-24	12.87	24.99	10.46	-36.59	3.31
2012-13 to 2023-24	8.57	13.15	11.09	13.42	9.88

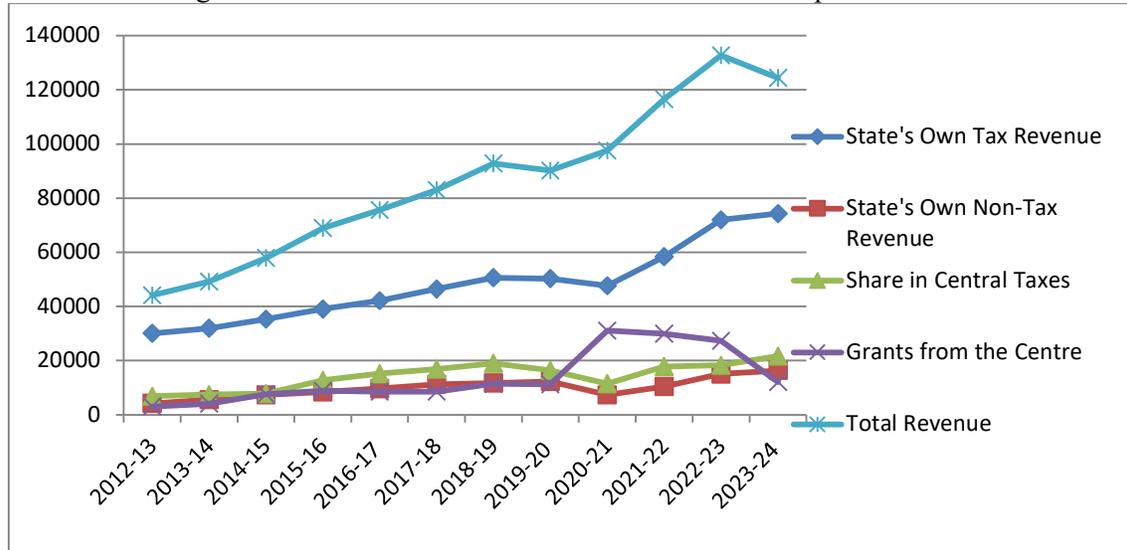
Note: # Exclude the impact of Covid -19 Year.

Source: CAG reports (various issues)

The trends of various components of total revenue shown in Fig 2.1 indicate that total revenue receipts have been consistently increasing. Within this, own tax revenue constitutes the dominant source of total revenue receipts which has been increasing except the year 2020-21 where it had witnessed a fall coinciding the general decline in macroeconomic activities in the economy on account of Covid-19. The grants had increased after 2019-20 but it has declined

since 2021-22. The state's share in central taxes although has increased from 15th FC but it is almost being maintained at that level throughout except the period 2020-21.

Fig 2.1: Trend of Different Sources of Revenue Receipts of Kerala



Source: CAG Reports (Various issues)

In contrast, when we examine the percentage contribution of individual broad revenues sources of the State during the same period as shown in Table 2.2, it shows that there is a continuous decline in the trend of share of state's own tax revenues in total revenues over time with a recovery sign towards the end of period 2022-23, although this is quite far away from its initial realised contribution of 68.14% in 2012-13. The average share of own-tax revenue in the first period, which was 61.25 % decreased to 55.43% in the second period and then witnessed a further marginal decline in the third period (54%). The contribution of non-tax revenue in total revenue receipts which was 11.70% increased to 13.26% in the second period and then it has marginally lost its share in total revenues in the third period (11.16% in 2017-18 to 2020-21) corresponding to the post implementation of GST. This has affected the average contributions of own total revenue in total revenue during last period. Its share was 72.94% in the first period but decreased to 65.81% in the third period. This declining trend in the contribution of own total revenues in total revenues resembles to that of state's own tax revenue and as well as own non-tax revenue shares. In contrast, the average contribution of share in central taxes which had gone up to 19.65% in the second period from its average share of 16.58% in the first period, has decreased to 15.55% in the third period. The average share of grants from centre which recorded 10.48% in the first period marginally increased to 11.66% in the second period and further increased to 18.69% in the third period. This shows that decline in the share of central transfers in the last period has been offset with the increased flow of grants in aid by the centre. However, the twist is that grants- in-aid from centre to the state for the period, 2023-24 is quite lower which to some extent is offset by an increased contribution from share in central taxes in total revenue receipts. As a consequence, the overall central transfers in total revenue receipts have increased to 31.32% in the second period from 27.06% in the first period and again increased to 34.20% in the last period. Although the average overall central transfer has

increased in last three periods, but a year wise analysis shows that there is a decline in shares in central taxes and grants in aid in the last two periods since 2022-23 onwards.

Table 2.2: Share of Various Revenue Sources to total Revenue of the State (in %)

Year	State's Own Tax Revenue (I)	State's Own Non-Tax Revenue (II)	Total Own Revenue (I+II)	Share in central taxes	Grants from the Centre	Total central Transfers	Total Revenue Receipts
2012-13	68.14	9.51	77.66	15.50	6.85	22.34	100.00
2013-14	65.06	11.34	76.40	15.19	8.41	23.60	100.00
2014-15	60.80	12.57	73.37	13.68	12.96	26.63	100.00
2015-16	56.49	12.21	68.69	18.38	12.92	31.31	100.00
2016-17	55.78	12.83	68.61	20.14	11.26	31.39	100.00
2017-18	55.96	13.49	69.45	20.28	10.27	30.55	100.00
2018-19	54.54	12.69	67.23	20.50	12.27	32.77	100.00
2019-20	55.78	13.59	69.37	18.18	12.45	30.63	100.00
2020-21	48.82	7.51	56.33	11.84	31.83	43.67	100.00
2021-22	50.02	8.97	58.99	15.28	25.73	41.01	100.00
2022-23	54.22	11.39	65.61	13.76	20.63	34.39	100.00
2023-24	59.71	13.13	72.84	17.47	9.69	27.16	100.00
Average for different periods							
2012-13 to 2016-17	61.25	11.69	72.94	16.58	10.48	27.06	100.00
2017- 18 to 2020-21	53.78	11.82	65.60	17.70	16.70	34.40	100.00
2017-18 to 2019-20	55.43	13.26	68.68	19.65	11.66	31.32	100.00
2021-22 to 2023-24	54.65	11.16	65.81	15.50	18.69	34.19	100.00
2012-13 to 2023-24	57.11	11.60	68.71	16.68	14.61	31.29	100.00
2012-13 to 2023-24 #	57.86	11.97	69.84	17.12	13.04	30.16	100.00

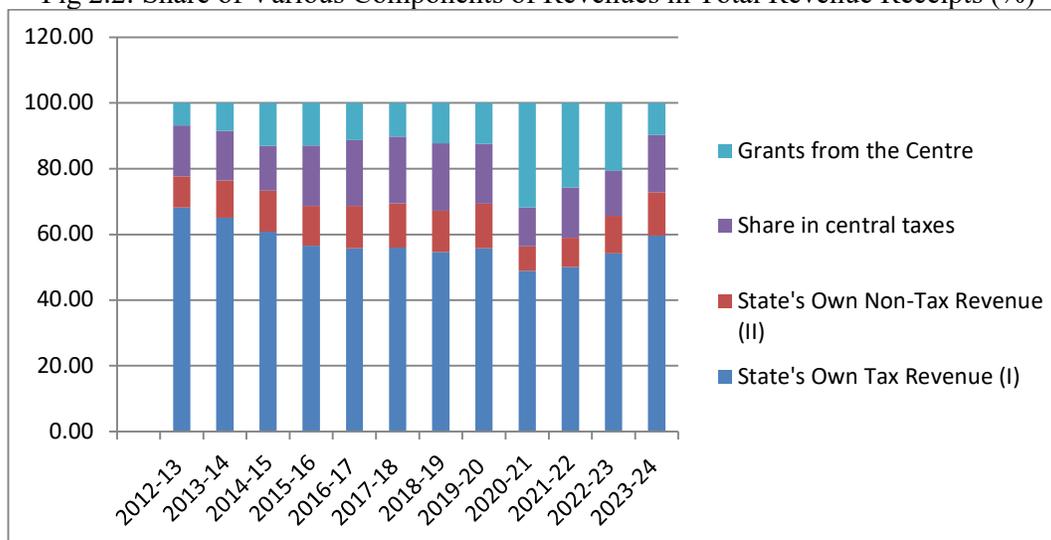
Note: # Exclude the Covid-19 year.

Source: CAG Report (Various issues)

The above depicts that there is a declining contribution of own tax and non-tax revenues in total revenues. In contrast, although the share of central taxes shows some degree of consistency in its contribution towards total revenue receipts of the state but its relative contribution was higher during 2020-21 to 2021-22 compared to the other post-covid-19 period. The share of grants-in-aid showed a drastic increase in the beginning of 15th FC award period but witnessed a declining trend in its share since 2021-22. However, in overall, the average share of central gross transfers to state's total revenue shows an increase in the second and third period as compared to its previous first period average of (27%). This is despite the fall in total transfers from the centre in the total revenue of the states during last two years, 2022-2024.

Fig 2.2 shows state's own tax revenue has the highest share in total revenues. It had been decreasing but there is an uptrend in the recent years. Its share is followed by state's share in central taxes and then grants from centre in recent years.

Fig 2.2: Share of Various Components of Revenues in Total Revenue Receipts (%)



Source: CAG Report (Various issues)

Decomposition of all the revenue receipts as a percentage of GSDP of the State is reported in Table 2.3 indicates that all the components of revenue receipts are on a declining trend over the period except the grants from centre, which as a percentage to GSDP recorded drastic decline in recent period. Own tax revenue as percent of GSDP has declined from 7.29% in 2012-13 to 6.18% in 2020-21 and has shown some improvement more recently as it has gone up to 6.88% in 2022-23 but less than its initial level. Own non-tax revenue as a percentage to GSDP after registering an improvement till 2017-18 (1.60%) from 1.02 % in 2012-13, has been showing falling trend except the period during 2022-24. Thus, own total revenue has fallen from 8.31 % in 2012-13 to 7.13% in 2020-21 (even after recording an increase in the intermediate periods). However, it has shown some marginal improvement in recent years comparable with the earlier period as it has gone up to 7.72% in 2023-24 but it is less than its initial level. In contrast, the share in central taxes as a percentage to GSDP is also showing some decline in recent years (1.82% in 2023-24) compared to the intermediate period of 2016-17 (2.40%) to 2019-20(2.02%), although it is almost reversing or marginally higher than its percentage share prevailed in 2012-13. During the period of falling percentage share of central taxes in GSDP, this is more than offset by an increase in grants from the centre during 2020-21 (4.03%) and 2021-22(3.21%). However, the share of grants to GSDP has again shown some falling trend more recently (2.62% in 2022-23 and 1.03% in 2023-24). In overall, although total revenue as a percentage to GSDP (10.60%) in the more recent year, 2023-24 is comparable to its level achieved during 2015-16(10.70%), but there has been a drastic decline in its share since 2023-24 over its previous periods. An overall improvement in the average revenue receipt as a percentage to GSDP in the third period could largely be possible due to the increased flow of grants from the centre during 2020-21 to 2022-23 except the 2023-24, whereas grant from centre to State as a percentage to GSDP has witnessed a drastic reduction reaching at 1.03%.

If the State witnesses further reduction in grants from the centre, the State may have to suffer from relative decline in total revenue receipts as a percentage to GSDP.

Table 2.3. Components of Revenue Receipts as a Percentage of GSDP

Year	State's Own Tax Revenue	State's Own Non-Tax Revenue	Own tax revenue	Share in Central Taxes	Grants from the Centre	Total Revenue
2012-13	7.29	1.02	8.31	1.66	0.73	10.70
2013-14	6.88	1.20	8.08	1.61	0.89	10.57
2014-15	6.70	1.38	8.08	1.51	1.43	11.02
2015-16	6.63	1.43	8.06	2.16	1.52	11.73
2016-17	6.64	1.53	8.17	2.40	1.34	11.91
2017-18	6.62	1.60	8.22	2.40	1.22	11.83
2018-19	6.48	1.51	7.99	2.44	1.46	11.88
2019-20	6.19	1.51	7.70	2.02	1.38	11.10
2020-21	6.18	0.95	7.13	1.50	4.03	12.66
2021-22	6.24	1.12	7.36	1.91	3.21	12.48
2022-23	6.88	1.45	8.32	1.75	2.62	12.69
2023-24	6.33	1.39	7.72	1.85	1.03	10.60
Average for different sub-periods						
2012-13 to 2016-17	6.83	1.31	8.14	1.87	1.18	11.19
2017- 18 to 2020-21	6.37	1.39	7.76	2.09	2.02	11.87
2017-18 to 2019-20	6.43	1.54	7.97	2.28	1.35	11.60
2021-22 to 2023-24	6.56	1.28	7.84	1.83	2.91	12.58
2012-13 to 2023-24	6.59	1.34	7.93	1.93	1.74	11.60
2012-13 to 2023-24#	6.63	1.38	8.00	1.97	1.53	11.50

Notes: # excluded Covid-19 year.

Source: CAG Report (Various issues)

Table 2.4 provides projected figures of total revenues comprising of tax revenue and non-tax revenue receipts of the state. It shows an increasing trend of revenues into the future.

Table 2.4: Projections of Total revenue (Rs in Crores)

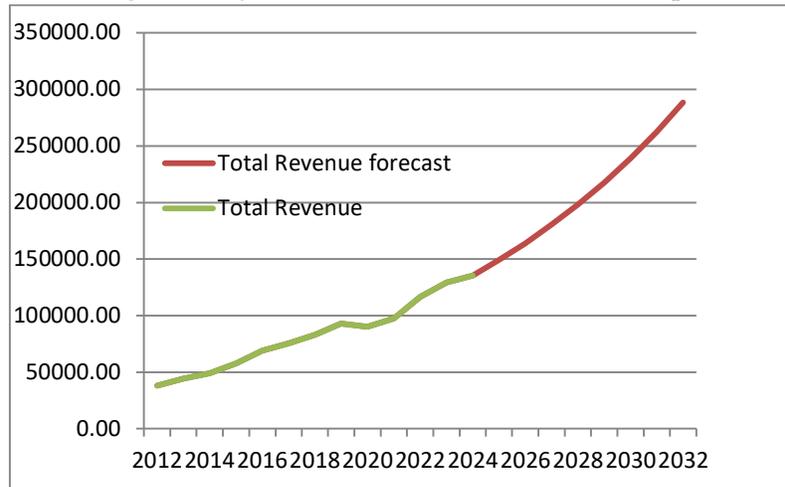
Year	Total Revenue forecast
2025	149025.51
2026	163936.99
2027	180271.69
2028	198158.31
2029	217736.56
2030	239215.63
2031	262723.12
2032	288441.71

Note: The projected figures on total revenues are based on growth rate of revenue receipts projections. The growth rates are generated based on ARIMA processes. With the help of projected growth rates, we computed the absolute values of total revenues for each year by adding up incremental flow of

revenues in the current year with the previous year's total revenues to obtain current year's gross revenues.

In Figure 2.4, the red colour portion of the drawn line shows an increasing projected total revenue for Kerala from 2024 to 2032.

Fig 2.4: Projected trend of Total Revenue Receipts

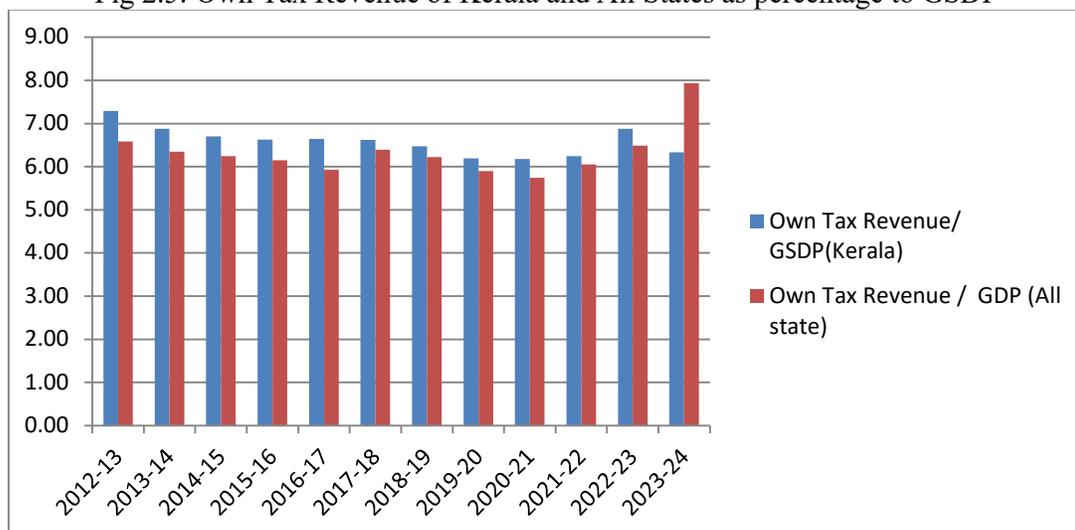


Source: Own projections based on ARIMA processes.

Note: We projected the growth rates of total receipts and then added the incremental flow of revenues receipts of the current years with the previous year's total receipts to obtain gross flow of revenue receipts in the current year.

Figure 2.5 shows that total revenue receipts of Kerala as percent of GSDP is higher than that for all States except in 2023-24.

Fig 2.5: Own Tax Revenue of Kerala and All States as percentage to GSDP



Note: Own tax revenue collected from RBI and GSDP and GDP data are from the EPW Research Foundation

Table 2.5 shows that Kerala state has experienced an absolute reduction in its own tax revenue during 2019-20 and 2020-21, and also reduction in non-tax revenue in 2020-21 and 2021-22. This partly could be due to implementation of GST indirect tax reforms and also partly could be due to the effect of Covid-19. However, there is an increase in both own tax and non-tax revenues since 2021-22 onwards contributing to the increase in own revenue receipts. This is reflected in their corresponding increase in CAGR.

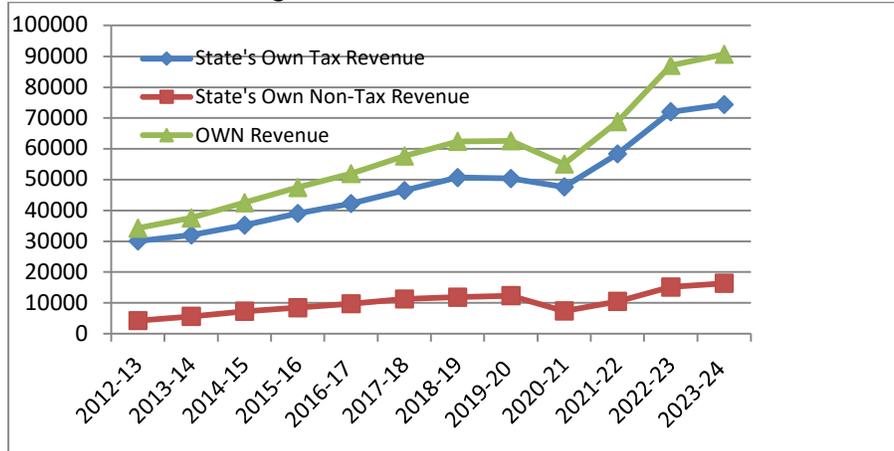
Table 2.5 Composition of Own Revenue of Kerala (Rs in crore)

Year	State's Own Tax Revenue	State's Own Non-Tax Revenue	OWN Revenue
2012-13	30076.61	4198.52	34275.13
2013-14	31995.02	5575.03	37570.05
2014-15	35232.5	7283.69	42516.19
2015-16	38995.15	8425.49	47420.64
2016-17	42176.38	9699.98	51876.36
2017-18	46459.61	11199.61	57659.22
2018-19	50644.1	11783.24	62427.34
2019-20	50323.14	12265.22	62588.36
2020-21	47660.84	7327.31	54988.15
2021-22	58340.52	10462.51	68803.03
2022-23	71968.16	15117.96	87086.12
2023-24	74329.01	16345.96	90674.97
Compound Annual Growth Rate (CAGR)			
2012-13 to 2016-17	8.82	23.29	10.92
2017-18 to 2020-21	0.85	-13.19	-1.57
2017-18 to 2019-20	4.07	4.65	4.19
2021-22 to 2023-24	12.87	24.99	14.80
2012-13 to 2023-24	8.57	13.15	9.25

Source: CAG Report (Various issues)

The trend of own revenue of Kerala reflected in Fig 2.6 indicates that although own revenue has been increasing but its trend is majorly determined by own tax revenue receipts than its own non-tax revenue receipts.

Figure 2.6: Trends in Own revenue



Source: CAG Report (Various issues)

When we take a look at the composition of own revenue receipts of the state, Table 2.6 shows that State’s own tax revenue share has witnessed a declining trend over the years, and in some years the decline in its share is offset with increased share of non-tax revenue receipts. State’s own tax revenue was 87.75% in 2012-13 and gone down to 82% in 2022-23. In contrast, State’s own non-tax revenue has increased from 12.25% in 2012-13 to 18.70% in 2016-17 and further to 19.60% in 2019-20 and then declined to 13.33% in 2020-21 and yet to return to its previous highest levels. If we take the average share of own tax and non-tax revenue in the recent period, it shows that while own tax revenue registered an average of 83.14% during 2021-22 to 2022-23, the non-tax revenue share has declined during the same period.

Table 2.6: Composition of Own Revenue Receipts of the State (in percent)

Year	State's Own Tax Revenue	State's Own Non-Tax Revenue	OWN Revenue
2012-13	87.75	12.25	100
2013-14	85.16	14.84	100
2014-15	82.87	17.13	100
2015-16	82.23	17.77	100
2016-17	81.30	18.70	100
2017-18	80.58	19.42	100
2018-19	81.12	18.88	100
2019-20	80.40	19.60	100
2020-21	86.67	13.33	100
2021-22	84.79	15.21	100
2022-23	82.64	17.36	100
2023-24	81.97	18.03	100
Average for various periods			
2012-13 to 2016-17	83.86	16.14	100
2017- 18 to 2020-21	82.19	17.81	100
2017-18 to 2019-20	80.70	19.30	100
2021-22 to 2023-24	83.14	16.86	100

2012-13 to 2023-24	83.13	16.87	100
2012-13 to 2023-24	82.80	17.20	100

Source: CAG Report (Various Issues)

Table 2.7 presents a comparison of annual growth rate of both own revenue and total revenue receipts along with GSDP growth rate of Kerala. This helps to establish whether there is a greater correspondence between revenue growth and GSDP growth rate. It shows that total revenue has consistently grown at a faster pace than the growth rate of GSDP of the state during 2014-15 to 2018-19 except 2017-18, while it has proven the opposite during 2019-20 to 2022-23 except the year 2020-21. This could be because of factors beyond its own control such as implementation of GST and Covid-19.

When we examine the component growth rates of total revenues such as States' own tax revenue and non-tax revenue, it shows that during the initial periods, from 2018-19 to 2020-21, the components of revenue have grown at a very lesser rate or even at a negative rate than GSDP growth rate. When we consider the other components of revenues such as share in central taxes and grants from Centre, both most often have witnessed negative growth rates during 2016-17 to 2023-24 except few years such as 2018-19 and 2020-21. This has contributed to the asymmetry in growth rate of overall revenue receipts and GSDP growth rates of the state especially in recent years (2017-19 & 2021-24), which might have fiscal implications for the state inducing it to generate greater deficits in its budget over the years.

Table 2.7: Annual Growth Rates of Various Revenue Receipts and GSDP (in %)

Year	State's Own Tax Revenue	State's Own Non-Tax Revenue	Share in Central Taxes	Grants from the Centre	Total Revenue	GSDP
2013-14	6.38	32.79	9.18	36.96	11.42	12.79
2014-15	10.12	30.65	6.13	81.43	17.84	13.11
2015-16	10.68	15.68	60.11	18.82	19.12	11.85
2016-17	8.16	15.13	19.97	-4.61	9.53	7.91
2017-18	10.16	15.46	10.56	0.21	9.80	10.50
2018-19	9.01	5.21	13.10	33.55	11.85	11.41
2019-20	-0.63	4.09	-13.85	-1.35	-2.83	4.00
2020-21	-5.29	-40.26	-29.51	176.52	8.19	-5.16
2021-22	22.41	42.79	54.15	-3.38	19.49	21.21
2022-23	23.36	44.50	2.47	-8.79	13.79	11.95
2023-24	3.28	8.12	19.07	-55.92	-6.21	12.24
Average for different periods						
2013-14 to 2016-17	8.83	23.56	23.85	33.15	14.48	11.41
2017-18 to 2020-21	3.31	-3.87	-4.93	52.23	6.75	5.19
2017-18 to 2019-20	6.18	8.25	3.27	10.80	6.27	8.64
2021-22 to 2023-24	16.35	31.80	25.23	-22.70	9.02	15.13
2012-13 to 2023-24	8.87	15.83	13.76	24.86	10.18	10.17

2012-13 to 2023-24	10.29	21.44	18.09	9.69	10.38	11.70
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Source: CAG Reports & Budget documents (Various issues), Government of Kerala

Table 2.8 presents own tax revenue as a percentage of GSDP of Kerala against other general category states. Comparing Kerala with other southern states, it suggests that Kerala on an average is almost making similar efforts in mobilising its own tax revenues as compared to states like Karnataka and Tamil Nadu, while Telangana and Andhra Pradesh are even making greater efforts to mobilise their tax revenues during 2018-19 to 2023-24.

Table 2.8: Own Tax Revenue as Percentage of GSDP of General Category States

States	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
AP	14.04	14.55	13.81	8.12	6.60	6.46	6.67	6.72	6.22	5.87	6.18	6.47	7.13
BR	5.10	5.76	6.29	6.05	6.85	5.64	6.34	5.84	5.18	5.34	5.38	5.54	5.82
CG	6.78	7.34	6.93	7.10	7.58	7.21	7.78	6.69	6.42	6.50	6.60	7.06	7.51
GA	6.02	7.71	9.97	8.15	7.22	6.77	7.19	6.78	6.27	5.72	7.15	7.10	-
GJ	7.19	7.44	6.98	6.65	6.09	5.52	5.54	5.40	4.89	4.35	5.08	6.05	-
HR	6.86	6.79	6.40	6.32	6.24	6.06	6.55	6.12	5.80	5.75	6.14	6.64	6.91
JH	4.61	4.71	4.97	4.74	5.56	5.63	5.37	4.83	5.40	5.69	5.66	5.92	6.69
KA	7.67	7.73	7.67	7.68	7.23	6.87	6.78	6.59	6.34	5.91	6.10	6.34	6.93
KL	7.06	7.29	6.88	6.87	6.94	6.64	6.86	6.47	6.19	6.18	6.31	6.86	7.07
MP	8.55	8.03	7.63	7.62	7.43	6.80	6.88	6.28	6.02	5.75	6.06	6.27	6.34
MH	6.84	7.09	6.58	6.47	6.44	6.21	7.30	7.45	7.11	6.29	7.03	7.56	7.37
OR	5.82	5.74	5.70	6.31	6.86	5.82	7.06	6.22	6.01	6.34	5.85	6.19	6.21
PB	7.07	7.59	7.25	7.20	6.84	6.50	6.69	6.21	5.59	5.56	5.95	6.48	6.96
RJ	5.84	6.18	6.08	6.28	6.27	5.83	6.53	6.39	5.92	5.92	6.26	6.83	7.47
TN	7.92	8.34	7.61	7.33	6.84	6.60	6.58	6.51	6.16	5.94	5.93	6.35	6.66
TG	-	-	-	5.79	6.92	7.35	7.76	7.59	7.11	7.07	8.12	8.43	8.72
UP	7.27	7.06	7.08	7.33	7.13	6.67	7.61	7.76	7.22	7.31	7.44	8.11	10.31
WB	4.79	5.55	5.29	5.49	5.33	5.21	5.92	5.61	5.15	5.28	5.35	5.19	5.21
Average	7.28	7.51	7.20	6.78	6.63	6.31	6.77	6.58	6.19	5.96	6.30	6.75	7.86

Source: State Finances: A Study of Budgets (various issues), RBI

Own Tax Revenue Buoyancy

Table 2.9 reports own tax revenue buoyancy of Kerala against other general category states. In particular, in analysing own tax revenue buoyancy of Kerala with other southern states, it shows that Kerala has experienced a decline in its own tax revenue buoyancy soon after implementation of GST in 2017-18. Rather, it has experienced a negative buoyancy coefficient in the year 2019-20 which could be partly due to Covid-19 pandemic led economic/financial crisis. Afterwards although, the buoyancy coefficient has improved but has not returned to the level of 2017-18, which happens to be a mixed regime except in the period 2022-23. In contrast, although Karnataka, and Tamil Nadu have experienced a similar decline in their own tax buoyancy after 2017-18, there is some recovery during 2021-22 onwards, while Andhra Pradesh and Telangana have a different experience before and after implementation of GST and both are improving in their own tax buoyancy in recent years compared to Tamil Nadu and Kerala. However, it seems on an average the own tax buoyancy for Kerala has remained

consistently better only after 2019-20 than before this period. The table also shows that some states like Goa, Chhattisgarhi, Bihar, Odisha have mixed experiences of witnessing buoyancies after implementation of GST and before, while Maharashtra, Punjab, Karnataka, Jharkhand, Telangana, Haryana, Gujarat, UP, MP, Tamil Nadu, and Rajasthan including Kerala have consistently gained buoyancies mostly after 2019-20. West Bengal has not gained buoyancies much after implementation of GST.

Table 2.9 Own Tax Revenue Buoyancy in General Category States

State	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
GA	-1.52	-3.79	0.26	0.13	0.50	1.69	-0.65	-0.79	8.40	3.87	0.93	-0.36
TG	-	-	-	2.56	1.52	1.45	0.82	0.36	1.90	1.92	1.27	1.27
KA	1.06	0.94	1.02	0.53	0.63	0.86	0.73	0.54	-3.27	1.19	1.30	2.01
HR	0.93	0.57	0.85	0.89	0.75	1.66	0.23	0.03	1.75	1.43	1.69	1.40
TN	1.43	0.26	0.62	0.24	0.63	0.98	0.89	0.18	-0.47	0.99	1.52	1.41
GJ	1.23	0.40	0.62	0.18	0.21	1.03	0.77	-0.23	172.56	2.07	2.49	-0.04
KL	1.28	0.50	0.99	1.11	0.63	1.35	0.48	-0.44	1.04	1.13	1.89	1.29
MH	1.29	0.38	0.76	0.95	0.67	3.65	1.30	0.06	7.52	1.69	1.56	0.74
AP	1.47	0.55	-2.57	-0.42	0.81	1.25	1.07	-0.31	-0.06	1.36	1.39	2.07
PB	1.70	0.57	0.90	0.44	0.42	1.31	0.11	-1.19	0.27	1.51	2.14	1.87
RJ	1.50	0.84	1.32	0.98	0.33	2.38	0.75	0.18	0.98	1.39	1.76	1.84
OR	0.89	0.93	2.90	2.99	0.07	2.97	-0.01	0.54	12.04	0.65	1.71	1.03
WB	2.31	0.64	1.64	0.71	0.74	2.30	0.55	-0.27	0.20	1.09	0.78	1.04
CG	1.76	0.61	1.38	4.76	0.66	2.12	-0.03	0.19	1.57	1.11	1.61	1.77
MP	0.65	0.63	0.98	0.78	0.49	1.11	0.31	0.60	-1.21	1.40	1.28	1.14
JH	1.16	1.77	0.65	-2.00	1.11	0.63	0.14	9.08	-0.15	0.98	1.47	2.37
UP	0.77	1.02	1.50	0.75	0.45	2.34	1.22	0.00	0.68	1.10	1.68	3.62
BR	2.03	1.85	0.48	2.71	-0.50	2.22	0.31	-0.23	-0.27	1.06	1.23	1.39
Average	1.26	0.65	0.34	0.79	0.57	1.73	0.72	0.13	13.17	1.36	1.56	14.93

Source: State Finances: A Study of Budgets (various issues), RBI

Examining the tax buoyancy coefficients of Kerala in particular from Table 2.10, it suggests that own tax revenue buoyancy was 1.28% in 2012-13 and with significant fluctuation it reached to 1.35% in 2017-18 and after witnessing a negative coefficient, it has shown some improvement in recent years. In contrast, non-tax revenue buoyancy was 4.67% in 2012-13 reached to 1.47% in 2017-18 and attaining a minimum buoyancy of .42% in 2018-19 registered the maximum increase of 7.94% in 2020-21, implying tax buoyancy with respect to both major heads are witnessing maximum fluctuations. In terms of six yearly averages, it shows marginal sliding down of buoyancy with respect to own tax revenue in the second six-year period compared to first six-year period, while own non-tax revenue shows some improvement over first six-year period.

Table 2.10: Own Tax Revenue and Own Non-Tax Revenue Buoyancy of Kerala

Year	Own tax revenue	Own non-tax revenue	Own revenue
2012-13	-	-	
2013-14	0.50	2.56	0.75
2014-15	0.77	2.34	1.00
2015-16	0.90	1.32	0.97
2016-17	1.03	1.91	1.19
2017-18	0.97	1.47	1.06
2018-19	0.79	0.46	0.72
2019-20	-0.16	1.02	0.06
2020-21	1.03	7.81	2.35
2021-22	1.06	2.02	1.18
2022-23	1.96	3.72	2.22
2023-24	0.27	0.66	0.34
Averages for different periods			
2012-13 to 2016-17	0.80	2.03	0.98
2017- 18 to 2020-21	0.66	2.69	1.05
2017-18 to 2019-20	0.53	0.98	0.62
2021-22 to 2023-24	1.09	2.14	1.25
2012-13 to 2023-24	0.83	2.30	1.08
2012-13 to 2023-24#	0.81	1.75	0.95

Note: # Exclude Covid-19 years. Source: CAG Report, various issues

Table 2.11 reports the share in the composition of own tax revenues. When we consider the share of each component within own tax revenues of the state, it shows that the share of taxes on agriculture income accounts very negligible amounts of revenues in total own tax revenues. The share of taxes on property and capital transaction was higher (10.4%) in 2012-13 but it has gradually declined to reach close to 8% in 2018-19 and then after it has been gradually increased to reach at 9.62% of total own tax revenues and further estimated to marginally decline to 8.6% in 2023-24. Within share of property and capital gains, while the share of land revenue contributes a minor percentage of total own tax revenues, contribution of taxes on stamps and registration fees constitutes the maximum within property and capital gains. Its share in total own tax revenues was 9.8% in 2012 decreased to 7.13% in 2016-17 and increased to 8.33% in 2021-22. The share of taxes on commodities and services constitutes the biggest of the total own tax revenues. It was almost 90% in 2012-13 and after marginally increased to 91.71% in 2013-14, it slightly gone up marginally above 92% in 2018-19 and almost maintained at that level in 2019-20 and then after it has declined to 90.60% in 2021-22. Within taxes on commodities and services, the share of sales tax constitutes the maximum. Further, within sales tax, it is the state's sales tax which has a maximum share. Its share was 73.5% in 2012-13 and increased to as high as 78% in 2017-18 till the implementation of GST in the country. After GST implementation, its share has come down drastically to 50.6% in 2018-19 and gradually declined to reach at 35% in 2023-24. With its decreased share during implementation of GST, the share went to SGST revenue of the state since 2017-18. The share of SGST was 28.5% in 2012-13, increased to 41.92% in 2018-19 and then with a fluctuation

in its share in the middle is showing some upward trend over recent two years 2022-24. Another component of own tax revenue, state excise tax, the share of which was 7.69 %has gone down on a gradual basis and estimated to reach to 3.67% in 2023-24. Taxes on vehicles has maintained its share on an average around 7% throughout the analysis period.

Table 2.11 Composition of own-tax revenue of Kerala (in %)

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 (RE)	2023-24 (BE)
A.State's Own Tax Revenue (1 to 3)	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1. Taxes on Income (agricultural)	0.06	0.07	0.02	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00
2. Taxes on Property and Capital Transactions (i to iii)	10.40	8.62	8.26	8.18	7.80	7.89	7.98	8.23	8.65	9.41	9.62	8.57
i) Land Revenue	0.40	0.28	0.39	0.47	0.29	0.34	0.40	0.66	1.04	0.81	1.20	0.75
ii) Stamps and Registration Fees	9.77	8.11	7.55	7.38	7.13	7.17	7.24	7.18	7.32	8.33	8.13	7.54
iii) Urban Immovable Property Tax	0.22	0.24	0.32	0.33	0.38	0.39	0.35	0.39	0.29	0.27	0.30	0.28
3.Taxes on Commodities and Services (i to vii)	89.54	91.31	91.71	91.81	92.19	92.10	92.02	91.77	91.35	90.59	90.38	91.43
i)Sales Tax (a to f)	74.85	77.78	79.21	78.82	79.32	51.03	37.68	39.05	37.11	38.55	35.57	35.35
a) State Sales Tax	73.46	76.38	77.33	77.54	78.06	50.63	37.62	38.98	36.97	38.34	35.29	35.07
b) Central Sales Tax	1.07	1.04	1.32	0.78	0.80	0.31	0.06	0.06	0.14	0.21	0.17	0.17
c)Sales Tax on Motor Spirit and Lubricants	0.00	0.00	0.00	0.00	0.00	-	0.00	0.00	0.00	0.00	0.00	0.00
d)Surcharge on Sales Tax	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-	-	0.00	0.00
e) Receipts of Turnover Tax	0.00	0.00	0.00	0.00	0.00	-	0.00	-	-	-	-	-

f) Other Receipts	0.32	0.37	0.57	0.50	0.46	0.10	0.00	0.00	0.00	0.00	0.11	0.11
ii) State Excise	7.69	6.07	5.04	5.04	4.79	4.65	4.94	4.48	4.89	3.48	3.99	3.67
iii) Taxes on Vehicles	6.40	6.75	6.71	7.22	7.37	7.61	7.27	7.39	7.10	6.92	7.55	7.23
iv) Taxes on Goods and Passengers	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-	-	-	-
v) Taxes and Duties on Electricity	0.08	0.13	0.14	0.15	0.15	0.14	0.12	0.13	0.12	0.12	0.11	0.71
vi) Entertainment Tax	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-	-	-	-
vii) SGST	0.00	0.00	0.00	0.00	0.00	28.46	41.92	40.63	42.02	41.43	43.08	44.40
vii) Other Taxes and Duties	0.52	0.58	0.60	0.59	0.57	0.21	0.07	0.08	0.10	0.10	0.08	0.07

Source: State Finances: A Study of Budgets (various issues), RBI

Table 2.12 reports the annual percentage growth rate of different components of own tax revenues. It shows that tax on property and capital transactions has experienced a maximum growth rate of 33.15% in 2021-22 and is estimated to grow at a higher rate of 23% in 2022-23. This corresponds to maximum growth of tax revenue from stamps and registration fees. Within taxes on property and capital transactions, the land revenue grew at a rate of 56.6% in 2014-15 and went up to almost 64% in 2019-20 and estimated to grow at 78% in 2022-23. Tax on urban immovable property has also witnessed some good positive growth over the years. It grew at 49% in 2014-15 and estimated to grow at 31.4% in 2022-23.

The tax on commodities and services is persistently growing at a positive growth rate. It was 8.5% in 2012 and went up to 21.4% in 2021-22 and then grew at 20% in 2022-23. Within taxes on commodities and services, sales tax has been growing at a good positive rate. It was 10.55% in 2012-13 and increased to 27% in 2021-22. This is well tracked by the growth of state sales taxes. Central sales taxes (CST) although has witnessed some good growth rate but it has also witnessed negative growth in certain years which could be due to GST implementation. State excise taxes although grew negatively in the beginning period (2013-15) but grew at 10.51% in 2015-16 and further grew to attain its peak of 37.8% in 2022-23. SGST grew at a rate of 56.04% in 2018-19 and after experiencing negative growth for next consecutive years, it has experienced 20.7% growth in 2021-22 and this positive growth is estimated to be maintained for two subsequent years. Taxes on vehicles and taxes and duties on electricity have witnessed some consistent positive growth rate along with other taxes and duties. All these components have contributed to some consistent positive growth rate of own total tax revenues over certain periods. States own tax revenue grew at 6.38% in 2012-13 and reached at 14.20% in 2017-18. With negative growth rate in two consecutive periods starting in 2019-20, it has shown an

improved growth rate of 22.41 % and is also expected to grow at 20.31% in 2022-23 and 15.46% in 2023-24.

Table 2.12: Annual Growth Rates of Components of Own Tax Revenue

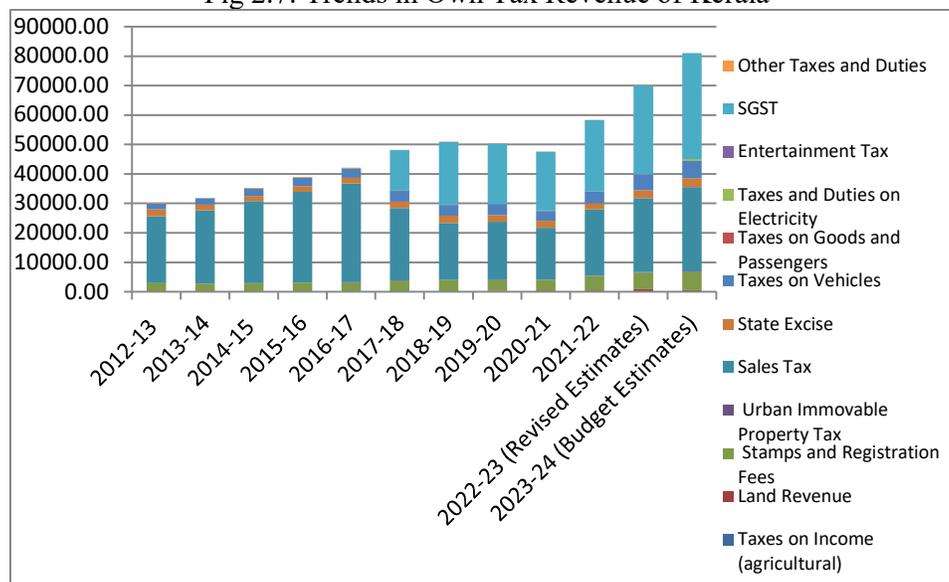
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 (RE)	2023-24 (BE)
A.State's Own Tax Revenue (1 to 3)	16.94	6.38	10.12	10.68	8.16	14.19	5.94	-1.36	-5.29	22.41	20.31	15.46
1. Taxes on Income (agricultural)	-55.86	13.90	-60.09	-76.63	17.91	20.46	-75.52	19.89	-40.81	0.60	-19.64	3.99
2. Taxes on Property and Capital Transactions (i to iii)	0.68	-11.81	5.56	9.59	3.11	15.55	7.14	1.70	-0.50	33.15	23.06	2.88
i) Land Revenue	100.13	-26.98	56.60	31.11	-31.89	30.62	25.05	63.93	48.41	-4.56	78.31	-27.40
ii) Stamps and Registration Fees	-1.61	-11.74	2.53	8.23	4.48	14.83	6.97	-2.12	-3.47	39.19	17.43	7.15
iii) Urban Immovable Property Tax	14.33	12.67	49.01	15.07	21.93	17.34	-5.22	9.94	-28.95	15.22	31.37	7.97
3.Taxes on Commodities and Services (i to vii)	19.32	8.49	10.60	10.80	8.61	14.07	5.84	-1.63	-5.72	21.39	20.02	16.80
i)Sales Tax (a to f)	18.86	10.55	12.15	10.13	8.84	-26.53	-21.78	2.20	-9.98	27.13	11.02	14.74
a) State Sales Tax	19.05	10.61	11.49	10.99	8.89	-25.95	-21.27	2.20	-10.17	26.92	10.75	14.75
b)Central Sales Tax	9.64	3.31	40.10	-34.32	10.42	-55.57	-80.15	4.89	114.75	80.43	-1.18	12.91
c)Sales Tax on Motor Spirit and Lubricants		-	-	-	-	-	-	-	-	-	-	-
d)Surcharge on Sales Tax		-	-80.00	-100.00	-	-100.00	-	1322.00	-	-	-	0.00
e)Receipts of Turnover Tax		-	-	-	-	-	-	-	-	-	-	-
f)Other Receipts	10.10	21.06	70.34	-2.57	-1.12	-75.78	-98.74	22.22	-78.55	-100.00	-	16.25
ii)State Excise	22.87	-16.09	-8.46	10.51	2.81	10.95	12.54	-10.55	3.28	-12.75	37.80	6.24
iii) Taxes on Vehicles	21.26	12.29	9.43	19.00	10.41	17.88	1.25	0.34	-9.00	19.22	31.30	10.51

iv) Taxes on Goods and Passengers		-	-	-	0.00	-60.00	-63.45	-31.60	-	-	-	-
v) Taxes and Duties on Electricity	16.12	70.98	15.29	18.37	9.78	5.64	-6.72	8.89	-15.58	21.94	7.27	663.73
vi) Entertainment Tax	-60.24	6.06	68.57	-22.03	-100.00	-	-87.91	-60.60	-	-	-	-
vii) SGST		-	-	-	-	-	56.04	-4.41	-2.05	20.68	25.11	19.00
viii) Other Taxes and Duties	12.61	18.74	15.05	7.91	5.04	-58.66	-62.25	4.65	24.15	14.83	0.19	1.63

Source: The State Finances: A Study of Budgets (various issues), RBI

Figure 2.7 shows that sales tax revenue and SGST which have maximum shares in total own tax revenues of Kerala. Then it is followed by taxes on duties on electricity and taxes on vehicles.

Fig 2.7: Trends in Own Tax Revenue of Kerala



Source: State Finances: A Study of Budgets (various issues), RBI

Table 2.13 shows the trend of GST revenue collection during the period of GST implementation. It shows dip in collection of all components of GST revenues during 2020-21 and 2021-22.

Table 2.13: Total GST collection in Kerala

Year	CGST	SGST	IGST	CESS	Total
2017-2018	3428	5491	1866	71	10857
2018-19	5208	8270	2800	64	16343
2019-20	6081	9457	3576	120	19234
2020-21	180	180	195	2	558
2021-22	230	237	432	2	901
2022-23	9279	12311	5707	75	27371
2023-24	10805	13967	5848	57	30677
2024-25	6745	8529	3748	37	19059
CAGR					
2017-18 to 2024-25	10.15	6.49	10.48	-8.89	8.37
2017-18 to 2023-24	21.09	16.84	20.97	-3.59	18.90

Source: GST statistics, Govt of India

Table 2.14 shows growth rate trends of all components of GST in Kerala. CGST, SGST and IGST are witnessing high fluctuations and are most likely to experience a negative growth rate during 2024-25.

Table 2.14 : GST Collection Growth of Kerala

Year	CGST Growth	SGST growth	IGST Growth	CESS Growth	Total Growth
2017-2018					
2018-19	51.93	50.61	50.05	-9.86	50.53
2019-20	16.76	14.35	27.71	87.50	17.69
2020-21	-97.04	-98.10	-94.55	-98.33	-97.10
2021-22	27.78	31.67	121.54	0.00	61.47
2022-23	3934.35	5094.51	1221.06	3650.00	2937.85
2023-24	16.45	13.45	2.47	-24.00	12.08
2024-25	-37.58	-38.93	-35.91	-35.09	-37.87
Averages					
2017-18 to 2024-25	558.95	723.94	184.63	510.03	420.66
2017-18 to 2023-24	658.37	851.08	221.38	600.88	497.09
2017-18 to 2024-25#	668.28	860.94	231.16	611.43	506.96
2017-18 to 2023-24	809.45	1040.92	284.57	740.73	615.92

Note: # Exclude the pandemic year 2020-21. Source: GST Statistics, Govt. of India

Arrears in Revenue

In analysing the arrears of tax revenues as presented in Table 1.17, the CAG (2024) reports that the larger sum revenue arrears indicate the delayed realisation of revenue due to the Government. This deprives the State of potential revenue receipts and ultimately affecting the revenue deficit. This amount is related to 16 cases of revenue remaining uncollected by various government departments, with state goods and services tax department alone accounting for Rs 13560 crore.

The audit noticed that there were huge arrears of revenue in 16 cases in fifteen departments pending realisation. The arrears of revenue as on 31 March 2023 amounted to ₹27,902.45 crore of which ₹1,204.79 crore was outstanding for more than five years. This financial burden comes at a time when the state is grappling with severe fiscal crisis. These arrears accounted for 24.23 per cent of the state's total revenue.

The report called for urgent intervention from the state government to clear the arrears. The absence of prompt reporting of arrears to the Revenue Department and tardy pursuance by the departments concerned for realising these arrears are the main reasons for the pendency. Of the total arrears, Rs 6,267.31 crore, which accounts for 33.74 per cent, is pending due to stay orders. The report calls upon the relevant departments to take effective action to lift these stay orders and recover the outstanding amounts.

Table 2.15: Arrears of revenue as on 31 March 2023

	Department/Heads of account	Amount (Rs in crores)	Outstanding amount in crores for more than 5 years
1	Police department	454.35	239.83
2	Audit department	105.49	20.63
3	Factories and Broilers	1.9	0.06
4	Finance department in interest receipts	6,855.62	0
5	Finance Department Guarantee Commission	323.68	0
6	Taxes and duties on electricity	3,800.92	0
7	Registration department	719.95	0
8	Excise department	285.26	285.26
9	Mining and Geology	198.96	0
10	Printing	52.74	40.32
11	Stationary	31.02	22.87
12	Labour	2.56	0.17
13	Kerala Maritime Board	2.48	0.39
14	SGST Department	13,559.58	0.06
15	Motor Vehicles department	1,109.91	328.45
16	Forest department	398.03	266.75
	Total arrears	27,902.45	1,204.79

Source: CAG Report, 2024

Total own revenue collection exceeding the budgeted amount for Kerala

A major part of the State's tax and non-tax revenue is collected from few commodities like Petroleum, Alcoholic Beverages, and Lotteries etc. As per the budget estimate of the State, the total own revenue of the State was estimated at ₹85,867.35 crore, whereas the total own revenue collected during the year was ₹87,086.11 crore which is 1.42 per cent more than the budget estimates. Significant increase in the Own tax revenue of the State when compared to the budget estimate was noticed in all the components except State Goods and Services Tax where it reduced by 19.84 per cent

Evasion of tax detected by the department

The cases of evasion of taxes detected by the department, cases finalised and demands for additional tax raised are important indicators of revenue collection efforts of the State Government. The promptness in disposal of these cases is an important indicator of performance of the departments concerned. The details of cases of evasion of tax detected by the departments were called for by Audit from 16 departments out of which five 4 departments did not detect any case of evasion of tax. The details from Health, Electrical Inspectorate, Printing Department, PWD Roads, PWD Bridges, Transport have been called for (September 2023). The number of cases pending as on march 2022 and number of cases detected during 2022-23 is 1,63,460 for stamps and land registration fees, 5492 for land revenues, 28436 for SGST and 39 for motor vehicles.

Review of major tax revenue policies implemented in Kerala

The revenue receipts comprise of State's own tax and non-tax revenues, share of Central tax transfers and grants in-aid from Government of India. As per State's Economic Review 2024-25, the dominant component of State's revenue receipts is State's Own Tax Revenue (SOTR). The main components of SOTR are State Goods and Services Tax, Sales Tax on petroleum and alcoholic liquor for human consumption, Stamps and Registration fees, State Excise Duties, Motor Vehicle Tax and Land Revenue. In 2022-23, SOTR which was 54.54 per cent of total revenue increased to 59.71 per cent in 2023-24 and the Budget Estimate for 2024-25 was 61.22 per cent. In 2023-24, contribution from SOTR was Rs 74329.01 crore (59.71 per cent). State Goods and Services Tax constituted the major share of State's Own Tax resource. In 2023-24 receipts from State Goods and services tax (Rs 30,563.60 crore) contributed 41.12 per cent of the total SOTR, followed by 37.25 per cent from Sales Tax (Rs 27,690.43 crore), 8.53 per cent from Taxes on Vehicles (Rs 6,340.46crore), 7.66 per cent from Stamp duties and registration fees (Rs 5,694.88 crore),3.96 per cent from State Excise Duties (Rs 2,944.02 crore), and 0.96 per cent from Land Revenue (Rs 711.71 crore) and 0.52 per cent from others (Rs 383.91 crore).

In 2023-24, the contribution of State's Own Non-Tax revenue was to the tune of Rs 16345.96 crore (13.13 per cent). The share of central taxes and grants was Rs 33811.18 crore (27.16 per cent). Of the central taxes and grants, the share of central taxes was Rs 21742.92 crore and Grants in aid received from the Centre was Rs 12,068.26 crore against Rs 27,377.86 crore in 2022-23. From the Grant in aid received from the Government of India, an amount of Rs 7,245.69 crore was the Finance Commission Award.

The hike in the central share in total revenue receipts after 2014-15 is attributed to the change in procedure of routing central share in centrally sponsored schemes (CSS) through the State Budgets instead of directly funding the implementing agencies. After reaching a high of 43.67 per cent in 2020-21, the share of central assistance in total revenue receipts declined to 34.39 per cent and 27.16 per cent in 2022-23 and 2023- 24 respectively and it is expected to decline to 25.54 per cent in 2024-25. The loss is due to the stoppage of GST Compensation and tapering off of revenue deficit grants which would further aggravate the fiscal position of the State in the ensuing years.

In 2022-23, Government initiated measures to revise the Basic Land Tax. The Basic Land tax was proposed to be revised by the introduction of a new slab in Grama Panchayats, Municipalities and Corporations. The Basic Land Tax rates are proposed to be increased in a calibrated manner in all the slabs. It is expected that this will result in additional revenue of about 80 Crores. Government is simultaneously bringing in projects to introduce state of the art technological changes in the land record management which includes a State-wide digital land survey project worth ₹ 339 Crore in the first phase.

In 2022-23, it was identified that the Fair value of land is not in tune with the current market values in many areas of the state. Government has massively invested on infrastructure projects like National highway expansion, Metro Rail project, Core Road network extension etc. As a result, the market values of land have increased manifold in the neighbouring areas. To address the issues of anomalies in the Fair value, Government proposed to constitute a high-level committee to look into this issue and ensured that fair values reflect the actual ground realities. The budget proposed a one-time increase in Fair Value of 10 percent to be implemented across all segments.

State GST Department

Comprehensive amnesty scheme was implemented in 2020 to settle pending arrears under the legacy acts, and the Scheme was continued in 2021-22. The Scheme was applicable to arrears under KGST Act, CST Act, Surcharge on Taxes Act, Kerala Tax on Luxuries Act, Kerala Agricultural Income Tax Act and KVAT Act. New arrears have arisen under the legacy Acts, consequent to fresh assessment proceedings. This Amnesty scheme continued for this year also, on the same terms and conditions, with the following two modification.

To settle arrears under the scheme, the options shall be submitted by 31st August 2022, and the payment shall be completed by 31st December 2022. KGST arrears relating to 2021-22 financial year will also be included in the scheme.

In the wake of the unprecedented flood in 2018, the Kerala Flood Cess was introduced w.e.f. 01.08.2019 for two years. The taxpayers who have made excess payments of Kerala Flood Cess by mistake are not able to get the amount refunded as there is no provision in Kerala Flood Cess laws for a refund of the amount paid along with the Kerala Flood Cess return. Therefore, state government announced that the necessary amendments will be made to resolve the issue.

The amendments to the Kerala State Goods and Services Tax Act, 2017, will be made corresponding to the amendments incorporated in the Central Goods and Services Tax Act, 2017, as per the Union Finance Bill 2022, which have been made on the recommendation of

the GST Council. The amendments to the Kerala State Goods and Services Tax Act, 2017, is made corresponding to the amendments incorporated in the Central Goods and services tax.

As per state Budget 2023-24, State Goods and Service Tax Department has taken strong steps to implement the modernization on tax sector in the changing scenario of tax laws and technological innovations. To make the tax system more robust and efficient, the department has taken advantage of Information Technology possibilities like model 2 GSTN solution. Apart from this, the Department proposed to introduce Tax Payers Profile Card that will enable the tax payers to pay accurate tax and thereby to avoid tax loss. It has set the goal of making tax system 100% digitalization to empower the department technically. An amount of ₹2.92 crore is allocated for the expansion of Information Technology facilities of the State Goods and Service Tax Department. ₹3.5 crore is earmarked for constructing a state GST Complex at Kannur.

Motor Vehicle Department

In 2022-23, the one-time motor vehicle tax on Motor Cycles costing up to 2 lakhs is increased by 1%. This is expected to bring in revenue of about 60 Crores per year.

Green Tax: State in consonance with the centre recognized that Central Government has introduced scrapping policy to address the issues of pollution due to old vehicles. Therefore, it felt it important to discourage the use of diesel vehicles and encourage electric vehicles. The green tax imposed on the old vehicles (above 15 years) is increased by 50%. In addition, government also proposed green tax to be levied on the following categories of diesel vehicles except motorcycles: 3-wheeler vehicle, private motor vehicles, medium motor vehicles, heavy motor vehicles and other diesel vehicles.

It was proposed that a one-time settlement scheme to pay the pending arrears on motor vehicle tax will be continued this year as well. This measure is expected to result in additional revenue of about 2 crores.

As part of the Caravan Tourism Project; the trimonthly tax rate stipulated in the KMVT Act 1976 will be amended and reduced conditionally from ₹1000 per square meter to ₹500 per square meter for the rented and contract caravans of Tourism Department. This will be effective from the date of contract.

In 2023-24, the one-time tax on newly purchased motor cycles having purchase value up to 2 lakh is enhanced by 2%. One time tax on newly purchased Motor cars and Private Service Vehicle for personal use are increased as follows.

- i. Having purchase value up to rupees 5 Lakh – 1% hike.
- ii. Having purchase value above rupees 5 lakh and upto 15 lakh – 2% hike.
- iii. Having purchase value above rupees 15 lakh and upto rupees 20 lakh – 1% hike.
- iv. Having purchase value above rupees 20 lakh and upto rupees 30 lakh – 1 % hike.
- v. Having purchase value above rupees 30 lakh – 1% hike. These changes are expected to bring additional revenue of 340 crores.

Electric motor cabs and electric tourist motor cabs currently (by 2023-24) incur a one-time tax ranging from 6% to 20% of the purchase value. This one-time tax on such vehicles is reduced to 5% of the purchase value on par with the one-time tax of electric private vehicles to minimize the air pollution and to promote public transport.

Since one-time tax on all types of electric vehicles is fixed as 5% of the purchase value for a period of 15 years, the existing 50% tax exemption for such vehicles for the first 5 years is dispensed with. To give respite to contract carriage/stage carriage vehicle operators who are facing difficulties due to Covid-19 pandemics, and also to strengthen the public transport system, it is decided to give a tax reduction upto 10% for such vehicles. This is expected to result in revenue loss of about Rs. 28 crores to Government.

The one-time cess levied under Section 10 of Kerala Road Safety Act, 2007 on newly registered motor vehicles is proposed to be increased as follows. For the Two Wheelers it is increased from the current Rs. 50 to Rs.100, Light Motor Vehicles from Rs. 100 to Rs. 200, Medium Motor Vehicle from Rs. 150 to Rs. 300 and Heavy Motor Vehicles from Rs. 250 to Rs. 500. This is expected to bring additional income of Rs. 7 Crores. Measures will also be taken to introduce more fancy number sets, enhance permit fee and appeal fees. The one-time settlement scheme which was introduced in previous years to settle tax arrears in motor vehicle will be continued this year also.

For greater mobilization of tax revenues, the State has restructured GST Department for enhancing compliance and undertook rate revision of various taxes. The Intelligent and Enforcement Wing of the GST Department has been strengthened. The GST Council Secretariat has ranked Kerala as No.1 among the States in investigation efforts in 2024-25.

The growth in SOTR has increased to 15.8% during present tenure of this Government (from 2021-22 to 2024-25). If own tax revenue and non-tax revenue are taken together, the growth of tax and non-tax revenue increased to 17.4% during the tenure of this Government, which could be attributable to the efforts of tax officials and tax payers' compliance.

The budget 2024-25 has earmarked an outlay of ₹ 9.27 crore for modernization of Excise Department. The reorganisation of the department into 3 categories was supposed to detect and overcome tax evasion through scientific and modern means. Steps were being taken to further improve activities of the department. A special program is implemented for modernizing the infrastructure of the GST department with the help of information communication technology. An amount of ₹ 3 crore is earmarked in 2024-25, with an objective of augmenting revenue income.

Land Revenue Department

In 2024-25 budget, Smart offices with modern facilities for various revenue offices are envisaged to be constructed for providing speedy service delivery to citizens. An amount of ₹ 49 crore is earmarked for the construction of Revenue Bhavan, various revenue offices and smart villages. An amount of ₹ 26.50 crore is earmarked for the computerization of Revenue Department to provide speedy and effective delivery of quality and transparent services.

Since 2024-25, stamp duty is levied on lease deeds at a fixed rate of average annual rent depending on tenure of lease. This often results in underreporting of annual rents and thereby

reducing the stamp duty. In order to set right this issue, the Kerala Stamp Act is suggested to be amended to fix the stamp duty based on the fair value of the leased land instead of the annual average rent. For lease deeds where only the building portion is transferred, the whole rental amount or the fair value of the land on which the building is situated, whichever is higher, will be the basis for calculating stamp duty. Along with this, the existing stamp duty slabs for lease deeds is proposed to be revised.

Although registration of sale agreements is now mandatory by law, there is a reluctance among people to register them, because the parties have to pay registration fee for the amount mentioned in the sale agreement while registering the sale deed. In order to promote the registration of sale agreements, the registration fee schedule is proposed to be amended to set off the registration fee, if any, paid in respect of the sale agreement from the registration fee payable for the sale deed, if the same parties register the sale deed within 6 months of registration of the sale agreement.

There is a system to determine the value of the building in accordance with the norms of the Central Public Works Department. The aim of this system is to prevent stamp duty evasion by accurately reflecting the true value of the building in the document related to the transfer of the building. Since Sub-registrars lack the technical expertise to determine the value, stamp duty is currently calculated based on the valuation certificate provided by an approved valuer. However, it has been observed that the value of buildings is being undervalued in the valuation certificates leading to tax evasion. To prevent this type of tax evasion, steps and norms are envisaged to be formulated for calculating the value of the building based on the plinth area at CPWD rates. Additionally new guidelines are proposed to be issued to verify that the stamp duty paid is on a value not less than the value determined by these criteria by making the necessary amendments in Kerala Stamp Rules, 1960.

The fair values of lands in the State were determined in the year 2010. Considering the developments in the state and the increase in market value of lands after 2010, the fair value of lands in the State is being revised in an appropriate and judicious manner from time to time thereafter. Along with such revision of fair value, the land tax is also being levied factoring the use to which the land is put to. A sizeable number of individuals and institutions have defaulted in the payment of lease rent due to the Government for land leased.

Conclusion and Policy Suggestion

National and sub-national governments across countries have undertaken different tax reform measures like tax policy adjustments, technology integration and new environment-based levies to improve tax administration and enhance fiscal capacity. Although the state of Kerala has undertaken reforms in a similar direction towards meeting the revenue goals which is reflected in terms of its growth of own tax revenues, but still, it has to undertake greater efforts to mobilise revenues to meet its expenditures.

Property Registration Fees and Stamp duties on property transactions constitute an important source of direct tax revenue for subnational governments in India. Additionally, States levy a registration charge over and above the stamp duty which again varies across States. Kerala has been consistently revising the fair value of the properties in recent budgets to align with market

values of the property to tap greater registration and stamp duties in recent years. This may be compared across the states to assess whether registration and stamp duties are at comparable levels or how far below or how far above. One needs to assess whether such a rise in land fair value is yielding greater revenues or reducing revenues by discouraging frequency of buying and selling of properties in the state. Its revenue gain effect needs to be carefully balanced against its adverse effect on tax realisation. This is important in so far as when more investment option is available with probability of yielding greater returns than if being invested on land and housing properties. This is crucial in a dynamically changing investment environment, where more people are participating in stock market trading and mutual investment option as an attractive option for making investment.

Vehicle taxes generally include the duty/taxes applied at the time of purchase of the vehicle and those linked to the actual usage and ownership of the vehicle. Vehicle tax in India mainly comprises Road/VAHAN tax levied by State governments and GST, along with an additional cess levied at the time of purchase and registration of vehicles. Vehicle taxes vary from State to State and are determined by various factors such as nature of the vehicle (private/ company registered), type of fuel consumption (petrol/ diesel), and the price of the vehicle. This needs to be carefully assessed from time to time and with what frequency it is being revised by the special committee appointed by the government of Kerala. This should be compared with other states. This will have a bearing when this is taken as one of the factors affecting the standard of living of the people in a region comparing other regions.

In addition to vehicle taxes, some countries also levy green taxes, based on type, age, fuel efficiency, value of the vehicle, engine power, cylinder capacity and emissions beyond a certain threshold. Among the Indian States, green taxes are levied by Karnataka (on petrol and diesel vehicles), Maharashtra (older vehicles), Tamil Nadu (vehicles more than 15 years old), Telangana (cars and bikes over 15 years old) and Assam (older vehicles) to protect the environment from pollution. Kerala may bifurcate the tax rate on road use and tax for environmental pollution in a more balanced way not to discourage buying and use of vehicles. Nevertheless, Kerala is collecting pollution taxes. The pollution tax should be examined across the states and may be raised on a timely manner so as to meet environmental targets and discourage use of petrol-based vehicles.

Large Taxpayer Unit Robust tax administration also plays a pivotal role in augmenting a country's fiscal capacity. Since the 1990s, many emerging market economies (EMEs) have overhauled their tax administration by establishing Large Taxpayer Units (LTUs). The advantages of LTUs include optimizing on staff-to-taxpayer ratios, reducing litigation risks, simplifying processes, and encouraging voluntary tax compliance. LTUs now operate in over 100 developing nations, resulting in significant increase in tax-to-GDP ratio, starting at 0.5 per cent in the initial year of reform and peaking to 3.6 per cent over nearly two decades (IMF, 2023). Among the Indian States, Punjab and Delhi have proposed to set up Tax Intelligence Unit and Tax Policy and Revenue Augmentation Unit (TPRAU), respectively. Given that cost of revenue collection has exploded in most of the areas for Kerala than the revenue growth, the government has to think of effective ways of mobilising greater revenue collection by minimisation of cost of collection.

Technology Driven Solutions Countries worldwide are effectively boosting tax revenues and combating tax evasion through technology-driven methods. For instance, Japan employs Internet Crawlers to gather data on suspected online businesses and cross reference it with taxpayer information to detect income reporting discrepancies. Belgium uses web scraping and forensic toolkits for data analysis and employs e-discovery solutions for uncovering evasion patterns. Sweden and Hungary use electronic cash registers equipped with fiscal control units to prevent sales suppression. Likewise, Quebec (Canada) has developed the Sales Recording Module (SRM) to identify sales suppression and tax evasion. Australia and Finland leverage third-party data to uncover potential evasion. Using third-party data, Australia tracks funds in unregistered business activities and Finland monitors e-payments and remote sellers to ensure income reporting compliance. Drawing upon the international experience, the subnational governments in India can further improve their tax structure and modernize their tax administration to boost their tax capacity and tax efforts.

State needs to assess the sumptuary taxes on liquor and other cigarettes as these are inelastic sources of revenues. Further, a distinction needs to be maintained for foreign branded liquor and local variety. Going with theory, it suggests that it is least distortive to tax heavily on items which are inelastic to price changes induced by imposition of taxes. The state must introduce a more prudent liquor policy which taxes premium brands at higher rates that will generate greater revenues not only from domestic high-income consumers but also from tourists and business visitors.

Kerala should mobilise greater amount of resources from its own tax revenue sources. In a state which has been witnessing faster economic growth and retains top position in per capita consumer expenditure, the decline in the growth of major own tax revenue sources namely sales tax/VAT/SGST, state excise duties and motor vehicle tax, stamps and registration fees and motor vehicle tax over the recent years needs to be re-examined thoroughly and corrective actions needed to be taken accordingly. For instance, revenue can be enhanced by way of rationalisation of tax/duty structure, use of technology, keeping accurate and updated registries of property values and improving property records by way of proper monitoring of property sales. Tax sources such as land revenue, urban immovable property tax, entertainment tax and taxes and duties on electricity have to be adequately tapped.

Greater efforts should be made to discourage tax evasion. This may be achieved with a tax system characterised by a broad base, low rates, limited exemptions, easy compliance and effective use of big data and technology. More use of modern sophisticated technology is required to check tax evasion. For instance, smart surveillance cameras at the state border roads and bye-routes to capture the goods vehicles which have not uploaded their invoices showing payment of integrated GST (IGST) to the GSTN portal. Big data on commercial (including property) transactions can be analysed to identify potential tax evasion and take necessary policy action. One of the crucial ways to mobilise greater revenues is to strengthen and update the tax administration with an aim for efficiency, simplification and improving compliance, thereby raising the additional revenues.

Chapter 3

Analysis of State's Own Non-Tax Revenue

3.1 Components of Non-Tax Revenue

The non-tax revenue trends presented in Table 3.1 show that general services which is the dominant component of non-tax revenues has been increasing over the years. Of which the state makes a greater portion of such non-tax revenues from lottery activities and then from other general services excluding lotteries. This is followed by non-tax revenues from economic services and social services, while there is a fluctuating trends of non-tax revenues from interest receipts.

Table 3.1 Composition of Own Non-Tax Revenue of the State Government (Rs in Crores)

YEAR (in crores)	Interest Receipts	Dividends and Profits	General Services	of which: State Lotteries	General services excluding state lotteries	Social Services	Fiscal Services	Economic Services	Total
2012-13	172.41	48.15	3105.99	2673.77	432.22	291.07	0	580.9	4198.52
2013-14	149.46	100.58	4228.85	3795.7	433.15	422.28	0	673.86	5575.03
2014-15	102.15	74.18	5968.47	5444.88	523.59	424.99	0	713.9	7283.69
2015-16	105.03	90.23	6888.59	6271.41	617.18	428.56	0	913.07	8425.49
2016-17	143.51	96.37	8063.98	7283.29	780.69	539.56	0	856.56	9699.98
2017-18	144.5	126.5	9615.69	9034.17	581.53	484.22	0	828.73	11199.61
2018-19	132.38	132.13	9846.75	9264.66	582.09	636.67	0	1035.31	11783.24
2019-20	84.95	100.33	10662.76	9973.67	689.1	530.79	0	886.39	12265.22
2020-21	246.64	110.19	5529.08	4873.01	656.07	549.73		891.68	7327.31
2021-22	177.05	227.98	8474.18	7134.93	1339.25	583.63	0	999.68	10462.51
2022-23 (RE)	153.68	116.07	13040.43	11536.8	1503.63	769.54	0	1115.69	15354.99
2023-24 (BE)	154.17	123.6	13899.91	12479.11	1420.8	860.51		2050.44	17088.62
CAGR									
2012-13 to 2016-17	-3.60	14.89	21.02	22.19	12.55	13.14	-	8.08	18.23
2017-18 to 2020-21	14.30	-3.39	-12.92	-14.30	3.06	3.22	-	1.85	-10.06
2017-18 to 2019-20#	-16.23	-7.44	3.51	3.35	5.82	3.11	-	2.27	3.08
2021-22 to 2023-24	-4.51	-18.46	17.93	20.48	1.99	13.82	-	27.06	17.77

Source: State Finances: A Study of Budgets (various issues), RBI

Note: social services include: Education, Sports, Art and Culture, Medical and Public Health, Family Welfare, Water Supply and Sanitation, Housing, Urban Development, Labour and Employment, Social Security and Welfare, Others and; economic services include Crop Husbandry, Animal Husbandry, Fisheries, Forestry and Wildlife, Plantations, Co-operation, Other Agricultural Programmes, Major and Medium Irrigation Projects, Minor Irrigation, Power, Petroleum, Village and Small Industries, Industries, Ports and Light Houses, Road Transport, Tourism, Others. Source: *RBI State Finances: A Study of Budgets (various issues)*. # Exclude pandemic year 2020-21.

Taking a look at the decomposition of own non-tax revenue of the state in Table 3.2, it shows that non-tax revenue from general services has the highest share of around 74% in 2012-13 and reached its peak of around 87% in 2019-20 and thereafter it has witnessed some declining trend.

Out of which, non-tax revenues from lotteries contribute to the maximum share into it. It was 63.68% in 2012-13 and gone up to 80% in 2017-18 and marginally declined to 73% in 2023-24. The share of non-tax revenue from interest receipts and dividends for the state have come down drastically. The non-tax revenue from economic services has a quite fluctuating share (7.23% to 13.84%), while for social services it fluctuates within a smaller band (from 7.57% to 4.33%). The non-tax receipts from dividend and profits as a percentage of total is very negligible. It constituted 1.15% in 2012-13, reached to .82 in 2019-29 and showing some improvement during 2020-21 and 2021-22, it is estimated to decline further.

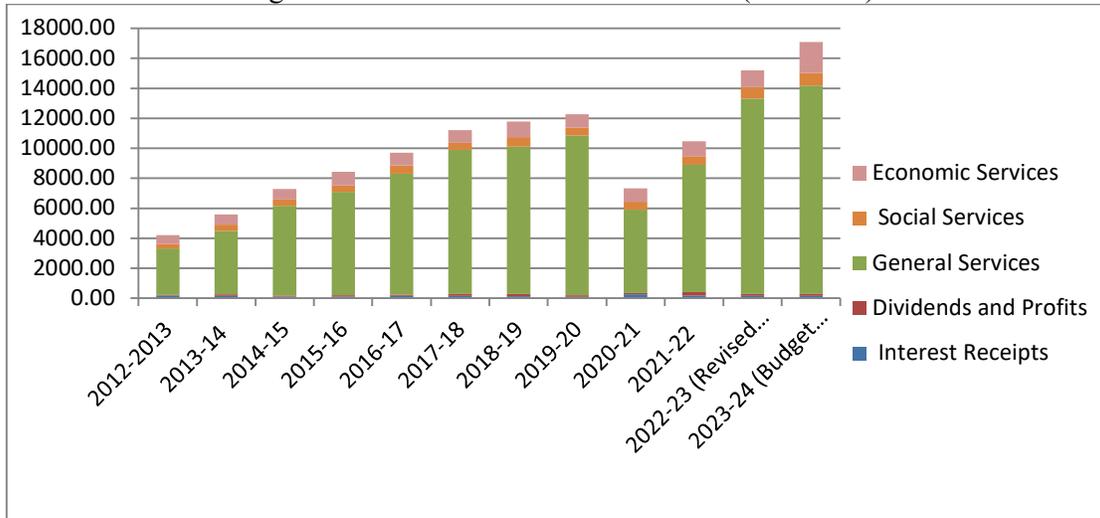
Table 3. 2: Composition of Own Non-Tax Revenue of State Government (in Percent)

YEAR (in crores)	Interest Receipts	Dividends and Profits	General Services	of which: State Lotteries	General services excluding state lotteries	Social Services	Fiscal Services	Economic Services	Total
2012-13	4.11	1.15	73.98	63.68	10.29	6.93	0	13.84	100
2013-14	2.68	1.8	75.85	68.08	7.77	7.57	0	12.09	100
2014-15	1.4	1.02	81.94	74.75	7.19	5.83	0	9.8	100
2015-16	1.25	1.07	81.76	74.43	7.33	5.09	0	10.84	100
2016-17	1.48	0.99	83.13	75.09	8.05	5.56	0	8.83	100
2017-18	1.29	1.13	85.86	80.66	5.19	4.32	0	7.4	100
2018-19	1.12	1.12	83.57	78.63	4.94	5.4	0	8.79	100
2019-20	0.69	0.82	86.93	81.32	5.62	4.33	0	7.23	100
2020-21	3.37	1.5	75.46	66.5	8.95	7.5	0	12.17	100
2021-22	1.69	2.18	81	68.2	12.8	5.58	0	9.55	100
2022-23 (RE)	1	0.76	84.93	75.13	9.79	5.01	0	7.27	100
2023-24 (BE)	0.9	0.72	81.34	73.03	8.31	5.04	0	12	100
Average growth rate in different periods									
2012-13 to 2016-17	2.18	1.21	79.33	71.21	8.13	6.2	0	11.08	100
2017-18 to 2020-21	1.62	1.14	82.96	76.78	6.18	5.39	0	8.9	100
2017-18 to 2019-20#	1.03	1.02	85.45	80.2	5.25	4.68	0	7.81	100
2021-22 to 2023-24	1.2	1.22	82.42	72.12	10.3	5.21	0	9.61	100
2012-13 to 2023-24	1.75	1.19	81.31	73.29	8.02	5.68	0	9.98	100
2012-13 to 2023-24#	1.6	1.16	81.84	73.91	7.93	5.51	0	9.79	100

Source: State Finances: A Study of Budgets (various issues), RBI

Figure 3.1 shows that general services contribute the maximum of non-tax revenue which is followed by economic and social services.

Fig 3.1 Trends in Own Non-tax Revenue (Rs. Crore)



Source: Study of State Finances: A Study of Budgets (various issues), RBI

3.2. Assessment of Revenue Profile of the State: Non- Tax Revenue

3.2.1 Composition and Trends in State's Own Non-Tax Revenue

Comparing CAGR of own non-tax revenues of different states on a six yearly basis as shown in Table 3.3, it shows that Bihar has witnessed the maximum CAGR of 25.3% (above all states' CAGR of 8.77%) followed by Kerala, Gujarat, Jharkhand, Haryana and so on. When we compare the same indicator during the second six-year period, it shows that there is a decline in CAGR of non-tax revenues for Kerala to 7.72% (less than all state CAGR of 8.77), while Odisha has witnessed the maximum non-tax revenue of (29.75%) followed by Andhra Pradesh, Chhattisgarh, Telangana, Goa, Karnataka etc. However, in the entire period covering from 2012-13 to 2023-24, Kerala has experienced a CAGR of non-tax revenue of 13.61% which is higher than that of the all state CAGR of 10.57%. This implies Kerala has not kept up the momentum in the collection of non-tax revenue in the recent period.

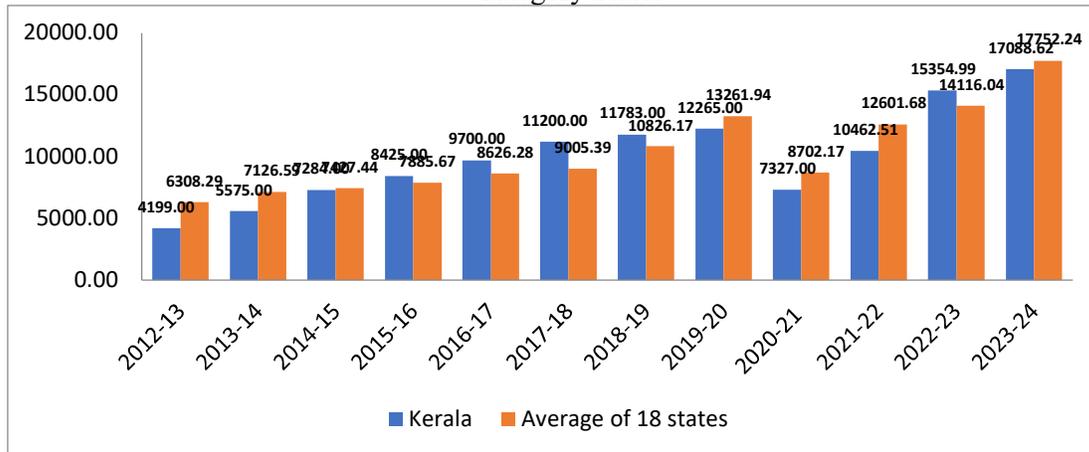
Table 3.3 CAGR of ONTR of Kerala and other General Category States

State	CAGR 2012-13 to 2017-18(%)	CAGR 2018-19 to 2023-24(%)	2012-13 to 2023-24 (%)
Andhra Pradesh	-24.93	28.50	-0.35
Bihar	25.31	9.53	17.21
Chhattisgarh	6.55	18.76	13.28
Goa	10.60	15.96	11.43
Gujarat	20.16	4.86	9.91
Haryana	14.29	9.66	9.48
Jharkhand	17.28	15.89	15.50
Karnataka	10.31	13.04	11.00
Kerala	21.68	7.72	13.61
Madhya Pradesh	5.30	2.33	7.12
Maharashtra	10.81	8.81	8.37
Odisha	0.78	29.75	18.55
Punjab	10.43	0.63	10.42
Rajasthan	5.33	5.48	6.51
Tamil Nadu	10.43	7.33	10.79
Telangana	-	17.91	-
Uttar Pradesh	8.82	-4.60	5.67
West Bengal	10.20	11.76	11.54
All States	8.77	10.25	10.57

Source: State Finances: A Study of Budgets (various issues), RBI

Comparing Kerala's non-tax revenue with the average of all other general category states, Fig 3.2 shows that most often till 2018-19, non-tax revenue of Kerala was higher compared to the average of all 18 states from major category. When one compares the same since 2019-20, it shows that Kerala is lagging in non-tax revenue mobilisation than all 18 state averages except the year 2022-23.

Fig 3.2 Comparison of Own Non-tax Revenue (ONTR) Receipts of Kerala and General Category States



Source: State Finances: A Study of Budgets (various issues), RBI

Table 3.4 shows that Kerala own non-tax revenues as a percentage to GSDP is less than the national average. It is 1.50% in 2023-24 against national average of 1.65% during same time. Its average was 1.38% during 2012-13 to 2017-18 has almost been maintained at 1.35% in the second six-year period. Its own-non tax revenue follows Chhattisgarh, Jharkhand, Odisha, and Rajasthan. It is lowest in West Bengal, UP, Tamil Nadu, Maharashtra, Karnataka, Bihar etc.

Table 3.4 Own Non-Tax Revenue to GSDP of General Category States (%)

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	AVG 2012-13 to 2017-18	AVG 2018-19 to 2023-24	AVG 2012-13 to 2023-24
AP	3.89	3.33	2.09	0.81	0.76	0.49	0.50	0.36	0.35	0.44	0.50	1.07	1.90	0.54	1.22
BR	0.40	0.49	0.45	0.59	0.57	0.75	0.78	0.64	1.09	0.62	0.82	0.76	0.54	0.78	0.66
CG	2.60	2.47	2.20	2.32	2.16	2.24	2.35	2.30	2.03	3.37	3.45	3.60	2.33	2.85	2.59
GA	4.81	4.63	4.86	4.42	4.31	4.37	4.00	3.65	3.91	4.66	5.68	-	4.57	4.38	4.48
GJ	0.83	0.87	1.04	0.99	1.14	1.13	0.90	1.12	0.65	0.73	0.69	-	1.00	0.82	0.92
HR	1.35	1.25	1.06	0.96	1.10	1.43	1.14	1.00	0.95	0.85	1.11	1.15	1.19	1.04	1.11
JH	2.02	1.99	1.98	2.83	2.26	2.91	2.70	2.82	2.55	2.67	3.09	3.74	2.33	2.93	2.63
KA	0.57	0.49	0.51	0.51	0.48	0.49	0.46	0.48	0.48	0.60	0.48	0.50	0.51	0.50	0.50
KL	1.02	1.20	1.42	1.50	1.53	1.60	1.49	1.51	0.95	1.13	1.50	1.49	1.38	1.35	1.36
MP	1.84	1.75	2.16	1.58	1.40	1.25	1.60	1.12	1.05	1.40	1.11	1.09	1.66	1.23	1.45
MH	0.68	0.69	0.71	0.68	0.58	0.71	0.63	0.54	0.61	0.61	0.60	0.60	0.67	0.60	0.64
OR	3.09	2.83	2.57	2.65	2.05	1.91	2.86	2.73	3.61	7.78	6.12	6.15	2.51	4.88	3.70
PB	0.88	0.96	0.81	0.68	1.37	0.92	1.48	1.24	0.77	0.76	0.89	1.05	0.94	1.03	0.98
RJ	2.46	2.46	2.15	1.60	1.53	1.89	2.04	1.57	1.34	1.57	1.61	1.59	2.02	1.62	1.82
TN	0.77	0.96	0.78	0.76	0.76	0.73	0.87	0.74	0.58	0.58	0.64	0.74	0.79	0.69	0.74
TG	-	-	1.27	2.49	1.49	1.04	1.17	0.77	0.65	0.79	1.17	1.52	1.57	1.01	1.24
UP	1.58	1.75	1.97	2.03	2.25	1.37	1.90	4.81	0.72	0.58	0.54	0.93	1.83	1.58	1.70
WB	0.32	0.30	0.23	0.23	0.34	0.32	0.33	0.27	0.46	0.13	0.12	0.37	0.29	0.28	0.29
State Average	1.71	1.67	1.57	1.54	1.45	1.42	1.51	1.54	1.26	1.63	1.67	1.65	1.56	1.56	1.56

Source: State Finances: A Study of Budgets (various issues), RBI

When we compare growth rate of own non-tax revenue of Kerala with other general category states, Table 3.5 shows that Kerala's own non tax revenue grew at a faster rate during 2021-22 and 2022-23 compared to the average of all states but its growth fell down less than the national averages during 2023-24. This has fluctuated across all the states. It was second highest in 2012-13 following Punjab but it went down to 11.29% in 2023-24, while West Bengal and UP experienced highest growth rate in their non-tax revenues. The absolute trend of non-tax revenue of various Indian states is also presented in the Appendix Table 1 corresponding to their growth rate shown in Table 3.5.

Table 3.5 Growth Rate of Own Non-Tax Revenue of General Category States (%)

State	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	AVG 2012-13 to 2017-18	AVG 2018-19 to 2023-24	AVG 2012-13 to 2023-24
AP	36.81	-3.29	-29.06	-55.17	5.55	-26.55	15.26	-24.59	2.41	47.79	29.77	136.52	-11.95	34.53	11.29
BR	27.53	36.12	0.84	40.31	9.93	45.94	17.79	-10.43	67.59	-35.75	53.99	6.13	26.78	16.56	21.67
CG	13.75	10.51	-4.43	6.97	8.71	11.84	21.50	3.00	-10.05	94.08	15.51	13.75	7.89	22.97	15.43
GA	-20.72	-9.33	39.95	4.56	11.51	11.84	-5.24	-4.73	5.92	30.59	33.62	19.08	6.30	13.21	9.75
GJ	14.02	16.64	35.98	6.82	30.92	12.95	-10.99	34.93	-42.04	33.60	8.19	12.17	19.55	5.98	12.77
HR	-1.04	6.46	-7.28	3.01	30.39	47.08	-12.48	-7.22	-5.93	6.22	48.15	15.49	13.10	7.37	10.24
JH	16.39	6.14	15.51	35.02	-8.58	46.65	5.24	5.96	-13.55	32.61	28.44	33.97	18.52	15.44	16.98
KA	-2.96	1.66	16.27	14.23	8.22	11.77	4.57	13.41	2.77	49.19	-7.10	14.25	8.20	12.85	10.52
KL	62.00	32.77	30.65	15.66	15.13	15.46	5.21	4.09	-40.26	42.79	46.76	11.29	28.61	11.65	20.13
MP	-6.45	10.07	34.65	-17.41	6.05	-0.29	46.65	-22.11	-4.33	54.56	-9.84	8.08	4.44	12.17	8.30
MH	22.23	13.70	10.83	6.69	-5.32	31.25	-5.01	-9.76	11.74	20.86	14.23	9.59	13.23	6.94	10.08

OR	25.38	3.73	-3.68	7.93	-7.67	4.41	70.00	2.59	33.26	177.98	-14.30	12.90	5.02	47.07	26.05
PB	87.79	21.38	-9.75	-7.99	121.25	-26.35	75.59	-12.24	-37.60	15.22	26.53	29.26	31.05	16.13	23.59
RJ	32.25	11.88	-2.55	-17.39	6.30	35.45	18.23	-15.53	-13.12	37.37	16.75	10.90	10.99	9.10	10.05
TN	15.31	42.55	-10.62	6.79	11.17	8.57	31.92	-9.24	-19.13	16.26	26.35	32.10	12.30	13.04	12.67
TG	-	-	-	123.58	-32.14	-20.01	27.88	-26.45	-17.11	45.18	72.64	49.16	23.81	25.22	24.75
UP	27.85	26.83	21.19	16.05	25.11	-31.61	52.06	171.44	-85.50	-3.46	7.51	93.50	14.24	39.26	26.75
WB	43.13	5.47	-19.57	14.44	58.43	5.66	17.36	-12.17	61.78	-67.48	11.36	238.80	17.93	41.61	29.77
Average	23.13	13.72	7.00	11.34	16.39	10.23	20.86	4.50	-5.73	33.20	22.70	41.50	13.63	19.50	16.57

Source: State Finances: A Study of Budgets (various issues), RBI

3.2.2 Own Non-tax Revenue Buoyancy

Own non-tax buoyancy presented in Table 3.6 shows that non-tax buoyancy of Kerala has decreased over time except the time period 2020-21 to 2022-23. The non-tax buoyancy is also lower for poorer states like Odisha, Bihar, Rajasthan, and richer states like Tamil Nadu, Andhra Pradesh, Haryana, Karnataka. Moreover, it shows non-tax revenue buoyancy is higher in Kerala than many other states in the Indian federation. Its buoyancy after 2020-21 is observed to have exceeded the buoyancy achieved by all general category states except 2023-24.

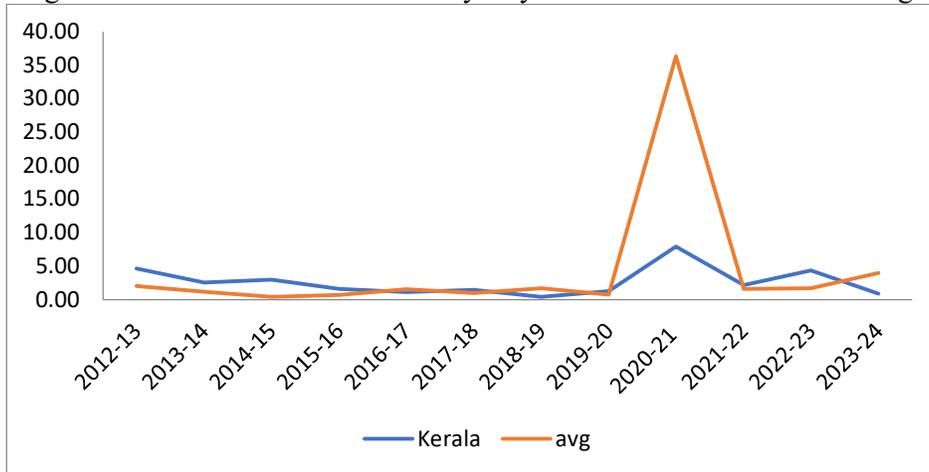
Table 3.6 Own Non-Tax Revenue Buoyancy of General Category States

State	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	AVG 2012-13 to 2017-18	AVG 2018-19 to 2023-24	AVG 2012-13 to 2023-24
AP	36.81	-3.29	-29.06	-55.17	5.55	-26.55	15.26	-24.59	2.41	47.79	29.77	136.52	-11.95	34.53	11.29
BR	27.53	36.12	0.84	40.31	9.93	45.94	17.79	-10.43	67.59	-35.75	53.99	6.13	26.78	16.56	21.67
CG	13.75	10.51	-4.43	6.97	8.71	11.84	21.50	3.00	-10.05	94.08	15.51	13.75	7.89	22.97	15.43
GA	-20.72	-9.33	39.95	4.56	11.51	11.84	-5.24	-4.73	5.92	30.59	33.62	19.08	6.30	13.21	9.75
GJ	14.02	16.64	35.98	6.82	30.92	12.95	-10.99	34.93	-42.04	33.60	8.19	12.17	19.55	5.98	12.77
HR	-1.04	6.46	-7.28	3.01	30.39	47.08	-12.48	-7.22	-5.93	6.22	48.15	15.49	13.10	7.37	10.24
JH	16.39	6.14	15.51	35.02	-8.58	46.65	5.24	5.96	-13.55	32.61	28.44	33.97	18.52	15.44	16.98
KA	-2.96	1.66	16.27	14.23	8.22	11.77	4.57	13.41	2.77	49.19	-7.10	14.25	8.20	12.85	10.52
KL	62.00	32.77	30.65	15.66	15.13	15.46	5.21	4.09	-40.26	42.79	46.76	11.29	28.61	11.65	20.13
MP	-6.45	10.07	34.65	-17.41	6.05	-0.29	46.65	-22.11	-4.33	54.56	-9.84	8.08	4.44	12.17	8.30
MH	22.23	13.70	10.83	6.69	-5.32	31.25	-5.01	-9.76	11.74	20.86	14.23	9.59	13.23	6.94	10.08
OR	25.38	3.73	-3.68	7.93	-7.67	4.41	70.00	2.59	33.26	177.98	-14.30	12.90	5.02	47.07	26.05
PB	87.79	21.38	-9.75	-7.99	121.25	-26.35	75.59	-12.24	-37.60	15.22	26.53	29.26	31.05	16.13	23.59
RJ	32.25	11.88	-2.55	-17.39	6.30	35.45	18.23	-15.53	-13.12	37.37	16.75	10.90	10.99	9.10	10.05
TN	15.31	42.55	-10.62	6.79	11.17	8.57	31.92	-9.24	-19.13	16.26	26.35	32.10	12.30	13.04	12.67
TG	-	-	-	123.58	-32.14	-20.01	27.88	-26.45	-17.11	45.18	72.64	49.16	23.81	25.22	24.75
UP	27.85	26.83	21.19	16.05	25.11	-31.61	52.06	171.44	-85.50	-3.46	7.51	93.50	14.24	39.26	26.75

WB	43.13	5.47	- 19.57	14.44	58.43	5.66	17.36	-12.17	61.78	-67.48	11.36	238.80	17.93	41.61	29.77
Average	23.13	13.72	7.00	11.34	16.39	10.23	20.86	4.50	-5.73	33.20	22.70	41.50	13.63	19.50	16.57

Source: State Finances: A Study of Budgets (various issues), RBI

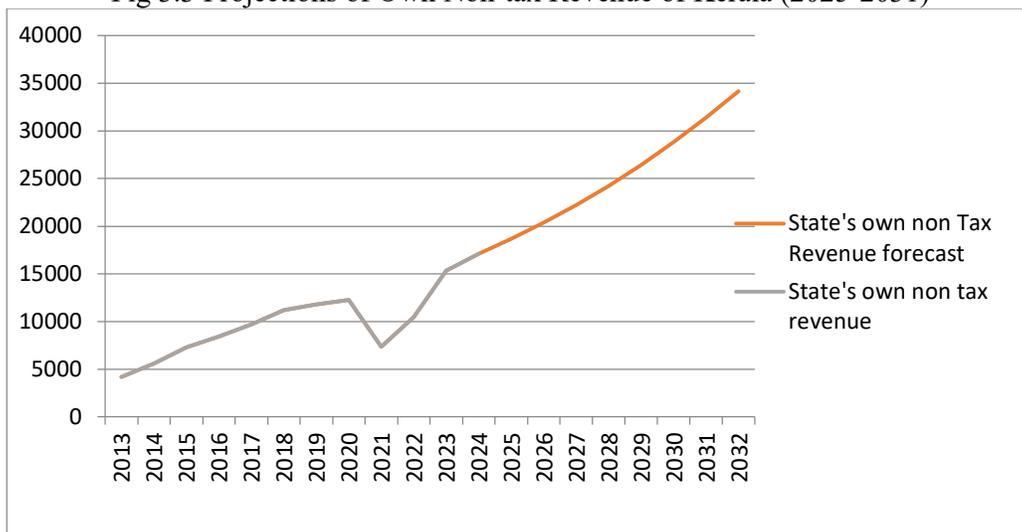
Fig 3.3: Own Non-Tax Revenue Buoyancy of Kerala and All State Average



Source: State Finances: A Study of Budgets (various issues), RBI

Fig 3.3 shows a sharp rising trend of projected non-tax revenue receipts in the near future as represented in coloured portion of the line. It also indicates that Kerala's non-tax revenue buoyancy is better off over many years compared to all India average of all other general category states.

Fig 3.3 Projections of Own Non-tax Revenue of Kerala (2025-2031)



Source: Own projections based on ARIMA procedure.

Note: We projected growth rate of states own tax and non-tax revenues and added up their respective incremental receipts with their previous periods total tax and non-tax revenue receipts to obtain their respective current period's gross revenue receipts.

Table 3.7 presents the projected own tax revenue of Kerala. It shows an upward trend into the near future.

Table 3.7 Projections of State's Own Non-Tax Revenue (Rs In crores)

Year	State's own non-tax Revenue forecast
2024-2025	18660.10
2025-2026	20367.66
2026-2027	22222.33
2027-2028	24235.94
2028-2029	26421.22
2029-2030	28798.76
2030-2031	31379.45
2031-2032	34179.67

Source: Own computation based on ARIMA procedure.

Note: The projected figures on non-tax revenues are based on growth rate projections. The growth rates are generated based on ARIMA processes. With projected growth rates, we computed the absolute values of non-tax revenues for each year by adding up the incremental tax and non-tax revenues in the current period with the last year's tax and non-tax revenue receipts to obtain their total tax and non-tax revenue receipts.

Review of major non-tax revenue policies implemented in Kerala

Registration

Agreements relating to equitable mortgage, where title deeds are deposited as security for credit, are at present not recorded in the registration and revenue records by financial institutions except co-operative banks. This often leads to irregularities such as the transfer of mortgaged property, re-mortgaging by concealing mortgage information, and withholding of title deeds from the owner by financial institutions even after the mortgage matured etc. To address these issues, measures are taken to introduce a state amendment to the Registration Act, 1908. To curtail the wrongful practices and to bring transparency, as an interim measure and in exercise of the executive power of the Government, an order was issued for the compulsory online filing of Agreements relating to the Deposit of Title Deeds in Sub-Registrar's offices. A filing fee of 0.1% of the loan amount subject to a maximum of Rs 10,000 will be charged from the financial institutions.

Land Revenue

Loans are offered by banks based on the security of title deeds of lands. Capturing such securities in the revenue records in a manner than can be accessed by banks would bring in transparency. Arrangements are made to electronically record these mortgages in the ReLIS portal of the Land Revenue Department. For 'e-marking' these mortgages in the database a maximum sum of Rs 1000/- and for 'e-releasing' these mortgages a sum of Rs. 300/- are levied as fees from the concerned mortgagee banks.

From 1963 onwards electricity duty is collected at the rate of 1.2 paise per unit for consumers who generate and consume energy for their self-consumption. The rate is enhanced to 15 paise

per unit. From 1963 onwards, Electricity duty for the sale of electricity is being levied at the rate of 6 paise per unit. This is enhanced to 10 paise per unit.

A committee has been constituted to revise the rate of court fee stamp. By accepting the recommendations of the committee, suitable amendments are incorporated into the Kerala Court Fees and Suits Valuation Act, 1959. Also, steps were taken to revise court fee in other areas based on the recommendations in the final report of the committee.

The number of tourist buses with All India Tourist permit that are registered in the State is relatively lower. Those vehicles that ought to be registered in Kerala go to states like Nagaland and Arunachal Pradesh where the tax is relatively low and get the vehicle registered there. They take advantage of the new rules regarding tourist permit implemented by the Central Government and is regularly plying in Kerala state. This causes tax loss and loss in registration fees and fees of fitness test. Therefore, to facilitate the registration of such vehicles in Kerala itself, the tax of All India tourist permit buses is declared as follows.

Not only this, those vehicles that have been registered in other states with All India Tourist Permit that enter the state occasionally for tourism purposes will have to pay one tenth of the quarterly tax from the date of entry of such vehicles for a period of seven days. If the bus remains in Kerala for more than 7 days, the tax will be collected for each month. The taxation Act will be amended in accordance with this. Quarterly tax will be collected from the tourist buses that regularly ply in the state.

It is decided to continue the Scheme of One Time Settlement this year also so as to collect the pending tax arrears in the Motor Vehicle Department. Transport vehicles that have tax arrears for four years or more will have to pay 30% of the four-year tax, and for non-transport vehicles, this will be 40% and can settle the entire arrears and thereby be able to avoid future tax liability from such vehicles that have been dismantled or not in possession.

In Budget 2023-24, it was announced that the Electricity duty is used to be collected and retained by KSEBL, this process will cease by 31st October 2023. The amount there after shall be payable to Government account. This is expected to increase the revenue inflows to Government. The electricity duty applicable for commercial and industrial units shall be increased and levied at the rate of 5%. This will provide additional revenue to the tune of Rs. 200 crores to Government.

Central Resource Transfers

Two major components of central devolution are share of taxes and grants as recommended by the Finance Commissions and grants disbursed by the Union Government. Within Central Devolution, Tax is to be devolved based on the formula recommended by the Finance Commission (FC) as mandated in Article 270 of the Constitution. The FC also recommends grants-in-aid under Article 275 of the constitution to bridge post tax devolution revenue deficits. Moreover, the FC also recommends the devolution of sector specific grants. The tax devolution and revenue deficit grants are the untied part of Central resource transfer. The other components like central share in CSS are tied grants over which the State has no flexibility in

spending. As per the recommendations of the 15th Finance Commission, the share of the States in the net tax proceeds of Union Government is 41 per cent. Kerala was entitled to 2.5 per cent of net sharable union tax proceeds in the 14th FC period. Due to the change in the criteria for horizontal devolution, the net proceeds of tax for a single year entitled to the State of Kerala is reduced to 1.925 per cent in the 15th FC.

In 2023-24, the total central transfers to the State was Rs 33,811.18 crore against Rs 45,638.54 crore in 2022-23. In this period, the share of central taxes was Rs 21,742.92 crore against Rs 18,260.68 crore in 2022-23 registering growth rate of 19.07 per cent.

Conclusions and Policy Suggestions

New tax and non-tax sources with good revenue potential should be identified and collected. One useful way to prevent and reduce tax evasion would be to offer cash rewards to citizens for sharing information on tax and royalty evaders to the tax and royalty departments. The government should collect a fair share of income or profits generated from natural resource-based industries such as granite mining operations and sand mining.

There is a need to enhance own non-tax revenues in Kerala particularly the dividends and profits from state PSEs and user charges from economic and social services. Potential sources of non-tax revenue include raising tuition fees in public universities, penalties for violation of traffic rules, not paying timely pollution taxes for vehicles, and admission fees for museums and public recreation facilities. There is tremendous potential for collecting higher user fees (with premium pricing for foreign tourists) at several tourist destinations in the state (e.g. beaches, wildlife parks, heritage buildings, museums). Introduction of online booking and digital payments for collecting user fees can reduce leakages and increase revenues. Since revenues from the sale of state lotteries (general services) constitute a significant portion of Kerala's own non-tax revenue, efforts have to be made to consolidate and expand the gains from these revenue sources.

Chapter 4

Analysis of Expenditure

Understanding the allocation of expenditure is crucial from the point of view of evaluating the effects of its utilisation on macroeconomic stabilisation, economic growth and welfare and moreover on government finance. Government expenditure during recession stimulates economic growth through its multiplier effects, while government expenditure during economic boom hits the economy with more inflationary consequences. The macroeconomic effects also hinge on the types of government expenditures. Government expenditure on less productive heads may discourage economic growth, while government expenditure on provision of more productive inputs (infrastructure spending and asset generation) leads to greater economic growth through its stimulative effects.

Assessment of State's Expenditure

The trend of revenue expenditure as reflected from Table 4.1 shows that it is increasing over the years. It was Rs 53488.74 crore in 2012-13, reached to Rs 99948 crore in 2017-18 and further to Rs 142626 crores in 2023-24. The total capital outlay which was Rs 4603 crores in 2012-13 increased to Rs 10126 crore in 2016-17 and further increased to Rs 14605.53 crore in 2023-24. The loans and advances were Rs 1136 crores in 2012-13 increased to Rs 1540.60 crore in 2017-18 and further to Rs 13585 crore. The total expenditure comprising of revenue expenditure, total capital outlay and loans and advances is increasing over the years. It was Rs 59228 crore in 2012-13 increased to Rs 1,102,38 crore in 2017-18 and then further to Rs 1,59507 crore in 2023-24. It increased at a CAGR of 14.66% from 2012-2017 and increased at a reduced growth rate of around 1.86% from 2017-18 to 2019-20, while the overall growth rate of total expenditure is 9.42% over the entire 12 years' period.

When we look at the component wise CAGR, it shows that CAGR of revenue expenditure was 14.42% in the first period and came down to 2.63% in the second period and grew at a negative CAGR of 1.22% during the last period, which is a positive thing. In contrast, the CAGR of total capital outlays which was 21.78% in first period, has gone down to -1.69% during the second period and then to -2.16% in the third period. The CAGR of loan and advances was .53% in first period and became negative (-11.37) in the second period but improved to grow at a CAGR of 7.45% in third period.

Table 4.1 Economic Classification of the State Expenditure (in crore)

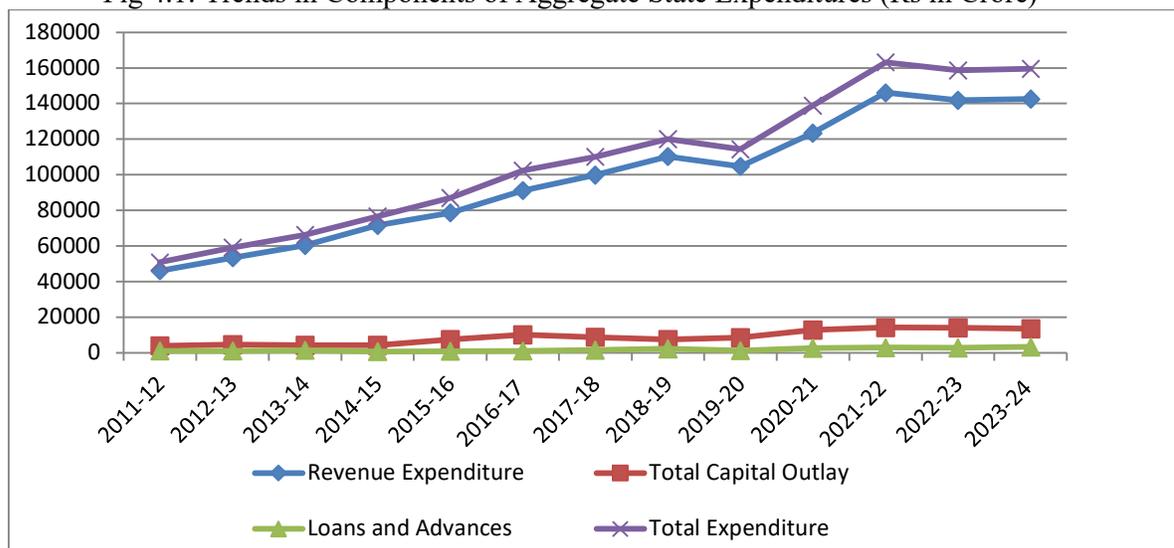
Year	Revenue Expenditure	Total Capital Outlay	Loans and Advances	Total Expenditure
2011-12	46044.6	3852.92	998.54	50896.1
2012-13	53488.7	4603.29	1136.15	59228.2
2013-14	60485.5	4294.33	1464.17	66244
2014-15	71746.4	4254.59	743.09	76744.1
2015-16	78689.5	7500.04	842.25	87031.8
2016-17	91096.3	10126	1160.3	102383

2017-18	99948.4	8748.87	1540.59	110238
2018-19	110316	7430.54	2322.89	120070
2019-20	104720	8454.8	1210.22	114385
2020-21	123446	12889.7	2548.51	138884
2021-22	146180	14191.7	2854.29	163226
2022-23	141951	13996.6	2790.93	158738
2023-24	142626	13584.5	3295.72	159507
CAGR				
2012-13 to 2016-17	14.24	21.78	0.53	14.66
2017-18 to 2020-21	7.29	13.79	18.27	8.00
2017-18 to 2019-20#	2.36	-1.69	-11.37	1.86
2021-22 to 2023-24	-1.22	-2.16	7.45	-1.15
2012-13 to 2023-24	9.33	10.34	10.17	9.42

Note: # Covid-19 year 2019-20 excluded. Source: CAG Reports, various issues

Figure 4.1 shows that both the revenue expenditure and total expenditure are trending upward over the years and it is most importantly revenue expenditure is shaping the total expenditure than capital expenditure. The capital expenditure is gradually and marginally increasing over the years, while loans and advances are decreasing and at very low levels.

Fig 4.1: Trends in Components of Aggregate State Expenditures (Rs in Crore)



Source: CAG Reports (Various issues)

Table 4.2 shows that the share of revenue expenditure as a percentage of total expenditure is almost stabilised on an average of 91% as it constituted around 90.90 % during 2012-13 to 2016-17 and also at 91.36% during 2017-18 to 2019-20 and marginally decreased to 90.50% during 2021-24. The share of capital outlay is also hovering at around 8% throughout the period (with a decrease in the second period over the first period but a marginal improvement in third period over second period), while it reached its peak of 9.89% in 2016-17 and further attained 9.28% in 2020-21. The share of loans and advances are also hovering around 1.45 % in both

the first and second periods but marginally increased to 1.58% in third period comparing both the earlier periods but lesser than the level during 2012-13 to 2013-14.

Table 4.2 Components of total expenditure (in Percent)

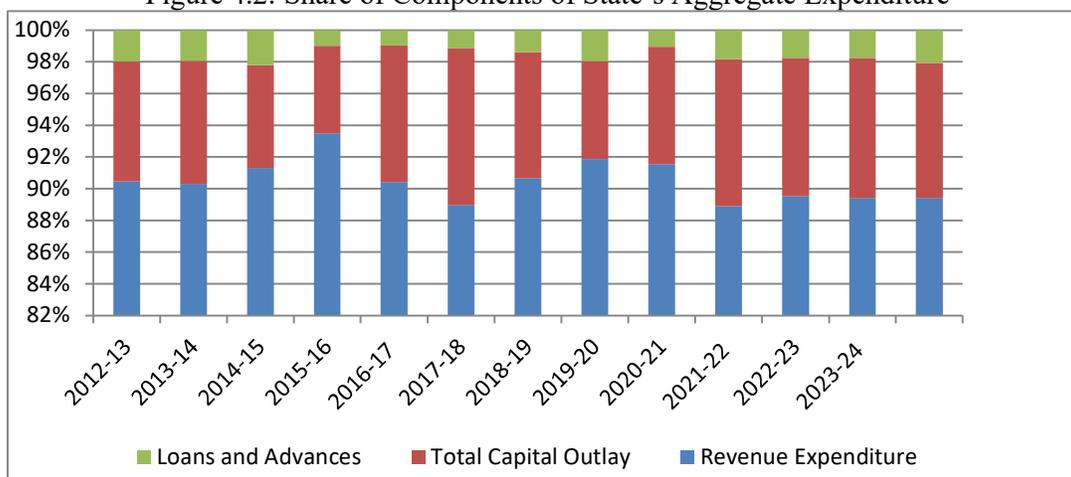
Year	Revenue Expenditure	Total Capital Outlay	Loans and Advances	Total Expenditure
2011-12	90.47	7.57	1.96	100
2012-13	90.31	7.77	1.92	100
2013-14	91.31	6.48	2.21	100
2014-15	93.49	5.54	0.97	100
2015-16	90.41	8.62	0.97	100
2016-17	88.98	9.89	1.13	100
2017-18	90.67	7.94	1.40	100
2018-19	91.88	6.19	1.93	100
2019-20	91.55	7.39	1.06	100
2020-21	88.88	9.28	1.83	100
2021-22	89.56	8.69	1.75	100
2022-23	89.42	8.82	1.76	100
2023-24	89.42	8.52	2.07	100
Averages for different periods				
2012-13 to 2016-17	90.90	7.66	1.44	100
2017-18 to 2020-21	90.74	7.70	1.56	100
2017-18 to 2019-20#	91.36	7.17	1.46	100
2021-13 to 2023-24	90.49	7.93	1.58	100
2012-13 to 2023-24#	90.64	7.80	1.56	100

Note: # Excluded Covid-19 year 2020-21.

Source: State Finances: A Study of Budgets RBI (various issues).

Figure 4.2 reveals that revenue expenditure has the most dominant percentage share in total expenditure and almost comprises of 90% throughout the period of analysis except few deviations. It also shows its share is marginally decreasing in recent years. In contrast, the share of capital outlay as a percent of total expenditure is fluctuating over a narrow margin of 7% to 8% throughout the period.

Figure 4.2: Share of Components of State's Aggregate Expenditure



Source: State Finances: A Study of Budgets (various issues), RBI

While the share of revenue expenditure as percentage of total expenditure has remained constant around at 90% throughout the period of analysis, the same revenue expenditure taken as a percentage to GSDP given in Table 4.3 indicates that it was 13% in 2012-13 increased to 14.35% in 2016-17 and then after reaching to its peak of 16% in 2020-21, is estimated to decline to 12.44% in 2023-24. This is still comparatively marginally at a higher level than 2012-13.

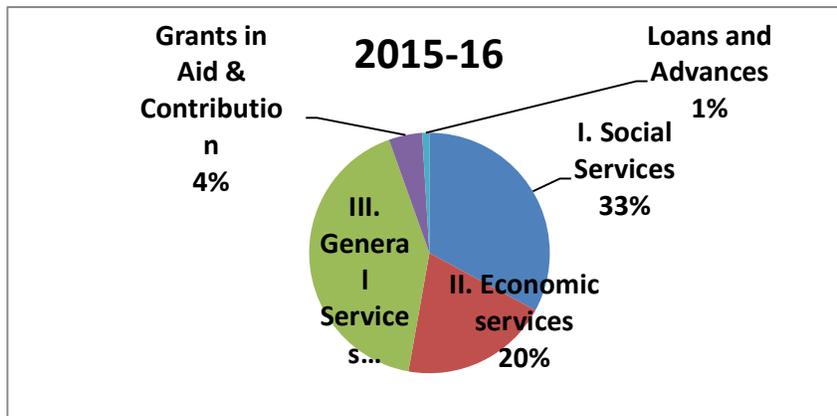
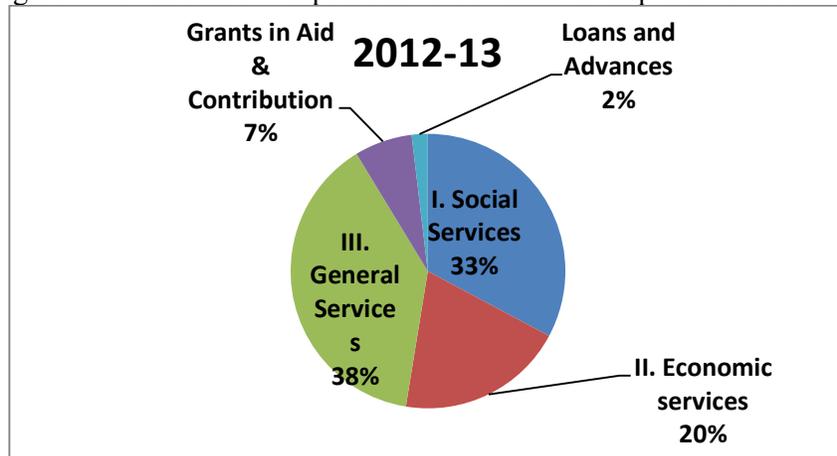
Table 4.3 Expenditure as percent of GSDP in Kerala

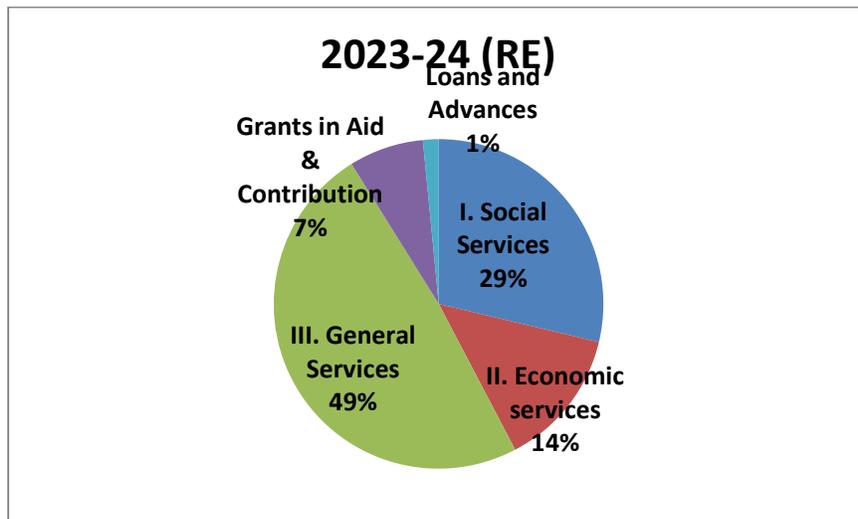
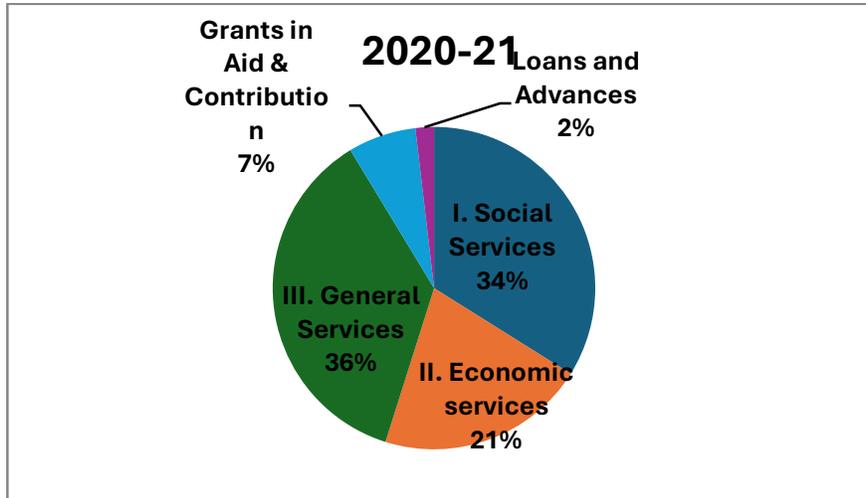
Year	Revenue Expenditure	Total Capital Outlay	Loans and Advances	Total Expenditure
2011-12	12.65	1.06	0.27	13.98
2012-13	12.97	1.12	0.28	14.36
2013-14	13.01	0.92	0.31	14.24
2014-15	14.00	0.83	0.14	14.97
2015-16	14.00	1.33	0.15	15.49
2016-17	14.35	1.59	0.18	16.13
2017-18	14.25	1.25	0.22	15.71
2018-19	13.99	0.94	0.29	15.23
2019-20	12.88	1.04	0.15	14.07
2020-21	16.00	1.67	0.33	18.00
2021-22	15.81	1.54	0.31	17.66
2022-23	13.87	1.37	0.27	15.51
2023-24	12.44	1.19	0.29	13.92
Averages for different periods				
2012-13 to 2016-17	13.67	1.16	0.21	15.04
2017-18 to 2020-21	14.28	1.22	0.25	15.75
2017-18 to 2019-20#	13.71	1.08	0.22	15.00
2012-13 to 2023-24	13.96	1.23	0.24	15.44
2012-13 to 2023-24#	13.78	1.19	0.24	15.21

Source: State Finances: A Study of Budgets (various issues), RBI

Figure 4.3 shows the changes in functional expenditure pattern in Kerala. The share of general services (comprising non-developmental expenditure) to total which was 39% in 2012-13, increased to 42% in 2015-16 and then decreased to 36% in 2020-21 and again increased to 43% in 2023-24. The share of developmental expenditure comprising of social and economic services in total expenditure was 53% in 2012-13 remained stable in 2015-16 and increased to 55% in 2020-21 and decreased to 43% in the 2023-24.

Figure 4.3 Functional Composition of Government Expenditure of Kerala





Source: CAG Report, various issues

Analysing expenditure based on functional classification, Table 4.5 indicates that all the expenditures under social, economic and general services are increasing over the years. The social services and economic services comprising the developmental expenditures of the State, out of which, the social services alone have grown at a CAGR of almost 15.88% in the first period (2012-13 - 2016-17) and decreased to -2.92 in the next period (2017-2019) and further decreased at -5.40% in the third period, while economic services grew at a CAGR of 13.30% in the first period and decreased to -5.91 in the second period and increased to 6.30% in the third period. The general services have also increased at a CAGR of 15.92% in the first period and decreased to 10.25% in the second period and then further decreased to 8.12% in the third period. The CAGR of grants-in-aid & contribution was 8.08% during 2012-2016 and decreased to -8.12% in the second period and 12.90% in the third period. The loans and advances which constituted .53% in the first period has witnessed maximum negative CAGR of (-11.4%) in the second period and -4.81 % in the third period. This has affected the CAGR of total expenditure which grew at 14.70% in the first period, declined to 1.86% during the second period and then

grew at 1.57% in the third period. In overall, if we examine the CAGR over the entire period, 2012-2024, it shows that grants-in-aid & contributions and general services of the state government have contributed the maximum growth to the CAGR of total expenditure followed by loans and advances and economic services.

Table 4.4: Functional Composition of Total Expenditure in Kerala (in Crores)

Year	Social Services	Economic services	General Services	Grants in Aid & Contribution	Loans and Advances	Total Expenditure
2011-12	16818.7	9227.36	20462.4	3389.08	998.54	50896.08
2012-13	19439.4	11702.9	22933.5	4016.22	1136.15	59228.19
2013-14	21597	11458.2	26753.1	4971.47	1464.17	66244
2014-15	24593.4	13442.2	31567.4	6398	743.09	76744.11
2015-16	28638.3	17306.8	36341.3	3903.08	842.25	87031.75
2016-17	35057.4	19277.8	41406.2	5480.91	1160.3	102382.56
2017-18	37282.2	18426.1	45791.8	7197.23	1540.59	110237.81
2018-19	39995.1	17828.1	51025.1	8898.72	2322.89	120069.82
2019-20	35135.4	16314	55661.5	6063.87	1210.22	114384.95
2020-21	47110.3	29112.6	50620.6	9492.45	2548.51	138884.49
2021-22	54038.2	26294.7	70378.3	9660.09	2854.29	163225.54
2022-23	53306	22940.4	70138.6	9562.52	2790.93	158738.43
2023-24 (RE)	48368.8	22859.9	82278.7	12313.15	2586.55	168407.11
CAGR						
2012-13 to 2016-17	15.88	13.29	15.92	8.08	0.53	14.66
2017-18 to 2020-21	8.11	16.47	3.40	9.67	18.27	8.00
2017-18 to 2019-20 [#]	-2.92	-5.91	10.25	-8.21	-11.37	1.86
2021-22 to 2023-24	-5.39	-6.76	8.12	12.90	-4.81	1.57
2012-13 to 2023-24	8.64	6.28	12.32	10.72	7.77	9.97

Note: The values for 2023-24 have been collected from budgeted documents of Kerala as CAG does not report disaggregated data. # Exclude Covid-19 year 2019-20.

Source: State Finances: A Study of Budgets, RBI, (various issues).

Table 4.5 shows that general services have the highest share in total expenditure and has been increasing from 38.72 % in 2012-13 to 48.86% in 2023-24. This is followed by the share of social services, economic services and grants in aid and contribution and then loans and advances.

Table 4.5: Functional Composition of Total Expenditure as Percentage to Total Expenditure

Year	Social Services	Economic services	General Services	Grants in Aid & Contribution	Loans and Advances	Total Expenditure
2011-12	33.05	18.13	40.20	6.66	1.96	100.00
2012-13	32.82	19.76	38.72	6.78	1.92	100.00
2013-14	32.60	17.30	40.39	7.50	2.21	100.00
2014-15	32.05	17.52	41.13	8.34	0.97	100.00
2015-16	32.91	19.89	41.76	4.48	0.97	100.00
2016-17	34.24	18.83	40.44	5.35	1.13	100.00
2017-18	33.82	16.71	41.54	6.53	1.40	100.00
2018-19	33.31	14.85	42.50	7.41	1.93	100.00
2019-20	30.72	14.26	48.66	5.30	1.06	100.00
2020-21	33.92	20.96	36.45	6.83	1.83	100.00
2021-22	33.11	16.11	43.12	5.92	1.75	100.00
2022-23	33.58	14.45	44.18	6.02	1.76	100.00
2023-24 (RE)	28.72	13.57	48.86	7.31	1.54	100.00
Average for different periods						
2012-13 to 2016-17	32.92	18.66	40.49	6.49	1.44	100.00
2017-18 to 2020-21	32.94	16.70	42.29	6.52	1.56	100.00
2017-18 to 2019-20#	32.62	15.28	44.23	6.41	1.46	100.00
2012-13 to 2023-24	32.65	17.02	42.31	6.48	1.54	100.00
2012-13 to 2023-24#	32.53	16.66	42.84	6.45	1.51	100.00

Note: # Excludes Covid year 2019-20.

Source: State Finances: A Study of Budgets (various issues), RBI

When we express the components of functional expenditure as a percentage to GSDP of Kerala, we find from Table 4.6 that except social services where there is a marginal decrease in expenditure as a percentage to GSDP, for rest of the heads, there is either a marginal improvement in most of the components or they are almost stabilised in the second period compared to the first period. This could be due to the slow growth rate of GSDP during and after Covid-19 period and increase in expenditure in all areas which might have led to such outcomes.

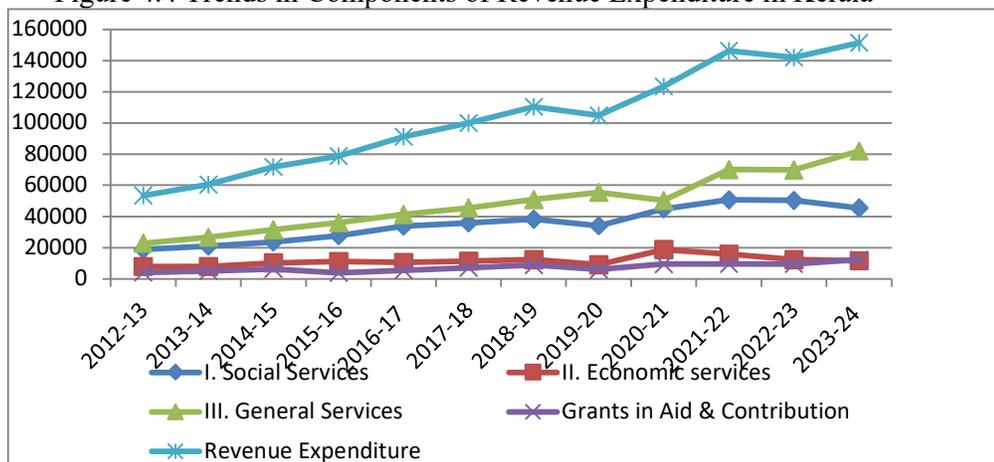
Table 4.6 Functional Composition of Expenditure as Percentage to GSDP in Kerala

Year	Social Services	Economic services	General Services	Grants in Aid & Contribution	Loans and Advances	Total Expenditure
2011-12	4.62	2.53	5.62	0.93	0.27	13.98
2012-13	4.71	2.84	5.56	0.97	0.28	14.36
2013-14	4.64	2.46	5.75	1.07	0.31	14.24
2014-15	4.80	2.62	6.16	1.25	0.14	14.97
2015-16	5.10	3.08	6.47	0.69	0.15	15.49
2016-17	5.52	3.04	6.52	0.86	0.18	16.13
2017-18	5.31	2.63	6.53	1.03	0.22	15.71
2018-19	5.07	2.26	6.47	1.13	0.29	15.23
2019-20	4.32	2.01	6.85	0.75	0.15	14.07
2020-21	6.10	3.77	6.56	1.23	0.33	18.00
2021-22	5.85	2.84	7.61	1.04	0.31	17.66
2022-23	5.21	2.24	6.85	0.93	0.27	15.51
2023-24	4.22	1.99	7.18	1.07	0.23	14.69
Average for different periods						
2012-13 to 2016-17	4.95	2.81	6.09	0.97	0.21	15.04
2017-18 to 2020-21	5.20	2.67	6.60	1.03	0.25	15.75
2017-18 to 2019-20#	4.90	2.30	6.62	0.97	0.22	15.00
2012-13 to 2023-24	5.07	2.65	6.54	1.00	0.24	15.51
2012-13 to 2023-24#	4.98	2.55	6.54	0.98	0.23	15.28

Note: Exclude Covid-19 year 2019-20. Source: State Finances: A Study of Budgets (various issues), RBI

Figure 4.5 shows that total revenue expenditure has been increasing over the years except the year 2019-20 during covid-19 period. The expenditure on social services and general services although have followed a closely similar trend but social services has witnessed a falling trend in 2019-20 in correspondence with total revenue expenditure, while the expenditure on general services has always dominated over the social services over the years.

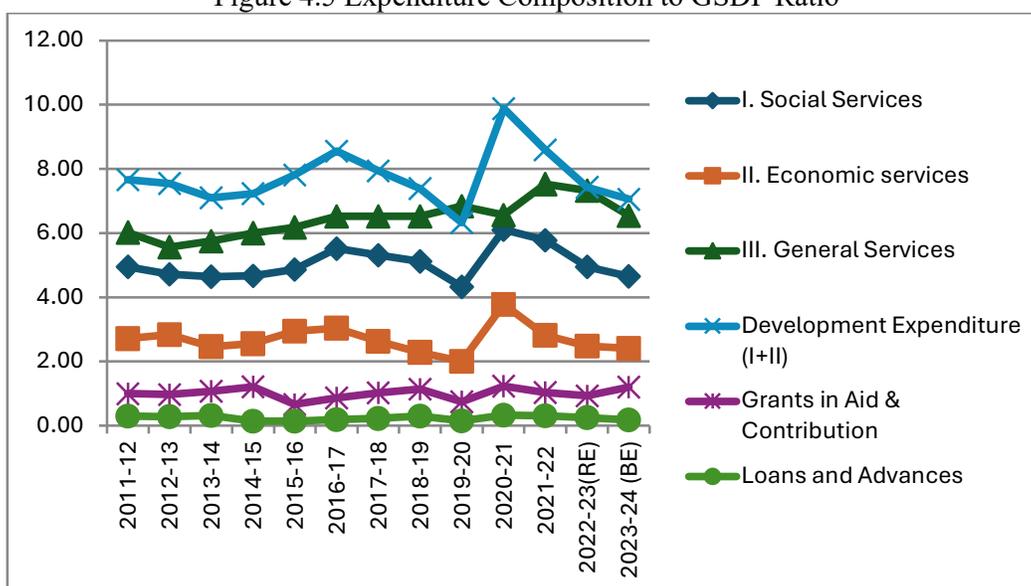
Figure 4.4 Trends in Components of Revenue Expenditure in Kerala



Source: State Finances: A Study of Budgets (various issues), RBI

A graphical analysis based on Figure 4.5 shows that most of the components, except general services as a percentage to GSDP, have suffered a decline during Covid-19 period, i.e. 2019-20 as compared to their previous and aftermath period. This may be due to the decline in expenditure of the government along with a simultaneous decline in total output on account of lockdown in the State. However, in the most recent period, it is seen that general services as a percentage to GSDP has witnessed a marginal fall including social and economic services as a percentage to GSDP.

Figure 4.5 Expenditure Composition to GSDP Ratio



Source: State Finances: A Study of Budgets (various issues), RBI

Trends in Revenue Expenditure

The total revenue expenditure broadly under four headings are reported in Table 4.7 and expenditure under first two, namely Social Services, and Economic Services, are generally called development expenditures. Table 4.8 reports the shares of these expenditure in total revenue expenditure. The Tables reveal that developmental expenditure in total revenue expenditure has suffered a major decline in its share in the second six-year period, while non-developmental expenditure and grants in aid and contributions have shown some improvements in their shares in relation to total revenue expenditure of the state.

Table 4.7 Composition of Revenue Expenditure in Kerala

Year	Social Services	Economic services	General Services	Grants in Aid & Contribution	Revenue Expenditure
2012-13	18878	7808	22787	4016	53489
2013-14	20980	7929	26605	4972	60486
2014-15	23718	10197	31433	6398	71746
2015-16	27603	11099	36085	3903	78690
2016-17	33765	10655	41195	5481	91096
2017-18	35876	11351	45524	7197	99948
2018-19	38211	12380	50827	8898	110316
2019-20	34044.77	9107.25	55504.03	6063.87	104719.92
2020-21	44832.44	18760.72	50360.72	9492.45	123446.33
2021-22	50695.61	15713.81	70110	9660.09	146179.51
2022-23	50275.91	12280.82	69831.68	9562.52	141950.93
2023-24 (RE)	45463.42	11623.58	82022.22	12313.15	151422.37
CAGR for different periods					
2012-13 to 2016-17	15.65	8.08	15.95	8.09	14.24
2017-18 to 2020-21	7.71	18.23	3.42	9.67	7.29
2017-18 to 2019-20#	-2.59	-10.43	10.42	-8.21	2.36
2021-22 to 2023-24	-5.30	-13.99	8.16	12.90	1.78
2012-13 to 2023-24	8.32	3.68	12.35	10.72	9.92

Note: # exclude Covid – 19 year 2019-20.

Source: CAG Reports and Budget documents (Various years), Government of Kerala

Table 4.8 Share of Revenue Expenditure

Year	Social Services	Economic services	General Services	Grants in Aid & Contribution	Revenue Expenditure
2012-13	35.29	14.60	42.60	7.51	100
2013-14	34.69	13.11	43.99	8.22	100
2014-15	33.06	14.21	43.81	8.92	100
2015-16	35.08	14.10	45.86	4.96	100
2016-17	37.07	11.70	45.22	6.02	100

2017-18	35.89	11.36	45.55	7.20	100
2018-19	34.64	11.22	46.07	8.07	100
2019-20	32.51	8.70	53.00	5.79	100
2020-21	36.32	15.20	40.80	7.69	100
2021-22	34.68	10.75	47.96	6.61	100
2022-23	35.42	8.65	49.19	6.74	100
2023-24 (RE)	30.02	7.68	54.17	8.13	100
Average for different periods					
2012-13 to 2016-17	35.04	13.54	44.30	7.12	100.00
2017-18 to 2020-21	34.84	11.62	46.35	7.19	100.00
2017-18 to 2019-20#	34.35	10.43	48.21	7.02	100.00
2012-13 to 2023-24	34.56	11.77	46.52	7.15	100.00
2012-13 to 2023-24#	34.40	11.46	47.04	7.11	100.00

Note: # exclude Covid-19 year 2019-20. Source: CAG Reports (various years) and Budget documents, Government of Kerala

Table 4.9 further shows that within revenue expenditure, a major percentage of revenue expenditure is committed in nature. It comprises of salaries, interest payment, pensions, subsidies. While the share of subsidies and salaries have recently been showing some drastic decline, and share of interest payment shows some drastic increase and pension shows some stability in its shares.

Table 4.9 Composition of Committed Expenditure (in crores)

Year	Salaries	Interest Payment	Pensions	Subsidies	Committed Expenditure	Revenue Expenditure	Total Expenditure
2012-13	17257	7205	8867	1265	34594	53488.74	59228.18
2013-14	19280	8265	9971	1252	38768	60485.5	66244
2014-15	21344	9770	11253	1248	43615	71746.43	76744.11
2015-16	23450.1	11110.62	13062.86	1343.09	48966.67	78689.47	87031.76
2016-17	27953.87	12116.5	15277.03	1634.25	56981.65	91096.31	102382.55
2017-18	31905.92	15119.93	19938.41	1583.79	68548.05	99948.35	110237.81
2018-19	31405.69	16747.92	19011.94	1663.01	68828.56	110316.39	120069.82
2019-20	31774.87	19214.7	19064.29	1378.19	71432.05	104719.92	114384.95
2020-21	27810.86	20975.36	18942.85	6300.41	74029.48	123446.33	138884.49
2021-22	44494.16	23302.82	26898.69	3892.87	98588.54	146179.51	163225.54
2022-23	37902.84	25176.36	26090.04	1542.5	90711.74	141950.94	158738.43
2023-24	26843.18	38178.81	26182.89	1512.19	92717.07	142626.34	159506.51
CAGR							
2012-13 to 2016-17	12.82	13.88	14.57	6.61	13.29	14.24	14.66
2017-18 to 2020-21	-4.48	11.53	-1.69	58.45	2.60	7.29	8.00

2017-18 to 2019-20#	-0.21	12.73	-2.22	-6.72	2.08	2.36	1.86
2021-22 to 2023-24	-22.33	28.00	-1.34	-37.67	-3.02	-1.22	-1.15
2012-13 to 2023-24	4.10	16.37	10.34	1.64	9.38	9.33	9.42

Note: # Exclude the Covid-19 year 2019-20.

Source: CAG Reports and Medium-Term Fiscal Policy and Strategy Statement, Government of Kerala.

Table 4.10 shows that the components of committed expenditure within total revenue expenditures. This has been following a declining trend registering 64.70 % in 2012 to 62.87%.

Table 4.10 Committed expenditure as percentage of revenue expenditure

Year	Salaries	Interest Payment	Pensions	Subsidies	Committed Expenditure
2012-13	32.26	13.47	16.58	2.36	64.68
2013-14	31.88	13.66	16.48	2.07	64.09
2014-15	29.75	13.62	15.68	1.74	60.79
2015-16	29.80	14.12	16.60	1.71	62.23
2016-17	30.69	13.30	16.77	1.79	62.55
2017-18	31.92	15.13	19.95	1.58	68.58
2018-19	28.47	15.18	17.23	1.51	62.39
2019-20	30.34	18.35	18.21	1.32	68.21
2020-21	22.53	16.99	15.35	5.10	59.97
2021-22	30.44	15.94	18.40	2.66	67.44
2022-23	26.70	17.74	18.38	1.09	63.90
2023-24(RE)	18.82	26.77	18.36	1.06	65.01
Averages for different periods					
2012-13 to 2016-17	30.87	13.63	16.42	1.94	62.87
2017-18 to 2020-21	28.32	15.32	15.77	1.9	57.61
2017-18 to 2019-20#	30.24	16.22	18.46	1.47	66.40
2012-13 to 2023-24	28.63	16.19	17.33	2.00	64.15
2012-13 to 2023-24#	29.19	16.12	17.51	1.72	64.53

Note: # Exclude Covid-19 year 2019-20.

Source: CAG Reports and Budget documents, Government of Kerala

Table 4.11 shows the composition of committed expenditure. Out of total committed expenditures, salaries constitute the dominant component and followed by pensions and interest payments. The share of subsidies is reducing over time.

Table 4.11 Components of committed expenditure to total committed expenditure (in %)

Year	Salaries	Interest Payment	Pensions	Subsidies	Committed Expenditure
2012-13	49.88	20.83	25.63	3.66	100
2013-14	49.73	21.32	25.72	3.23	100
2014-15	48.94	22.40	25.80	2.86	100
2015-16	47.89	22.69	26.68	2.74	100

2016-17	49.06	21.26	26.81	2.87	100
2017-18	46.55	22.06	29.09	2.31	100
2018-19	45.63	24.33	27.62	2.42	100
2019-20	44.48	26.90	26.69	1.93	100
2020-21	37.57	28.33	25.59	8.51	100
2021-22	45.13	23.64	27.28	3.95	100
2022-23	41.78	27.75	28.76	1.70	100
2023-24(RE)	28.95	41.18	28.24	1.63	100
Averages for different periods					
2012-13 to 2016-17	49.10	21.70	26.13	3.07	100.00
2017-18 to 2020-21	43.56	25.41	27.25	3.79	100.00
2017-18 to 2019-20#	45.55	24.43	27.80	2.22	100.00
2012-13 to 2023-24	44.63	25.22	26.99	3.15	100.00
2012-13 to 2023-24#	45.27	24.94	27.12	2.66	100.00

Note: # Exclude Covid-19 year 2019-20.

Source: CAG Reports and Budget documents, Government of Kerala

Table 4.12 shows the components of committed expenditure as a percentage to total expenditure. The committed expenditure constitutes a bulk percentage out of the total revenue expenditure. With some fluctuations in intermittent periods, it has remained a stable percentage (58%) in 2023-24 what was its level in 2012-13.

Table 4.12 Committed expenditure as percent of total expenditure

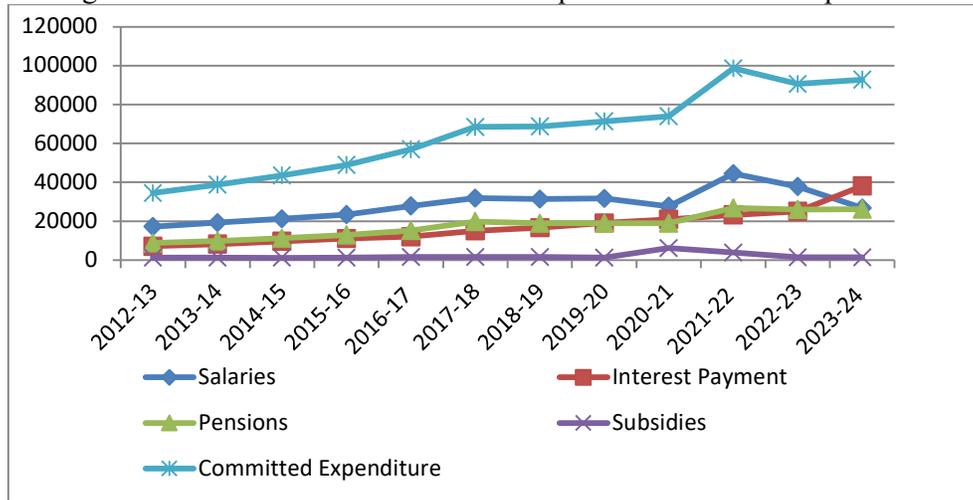
Year	Salaries	Interest Payment	Pensions	Subsidies	Committed Expenditure
2012-13	29.14	12.16	14.97	2.14	58.41
2013-14	29.10	12.48	15.05	1.89	58.52
2014-15	27.81	12.73	14.66	1.63	56.83
2015-16	26.94	12.77	15.01	1.54	56.26
2016-17	27.30	11.83	14.92	1.60	55.66
2017-18	28.94	13.72	18.09	1.44	62.18
2018-19	26.16	13.95	15.83	1.39	57.32
2019-20	27.78	16.80	16.67	1.20	62.45
2020-21	20.02	15.10	13.64	4.54	53.30
2021-22	27.26	14.28	16.48	2.38	60.40
2022-23	23.88	15.86	16.44	0.97	57.15
2023-24(RE)	16.83	23.94	16.41	0.95	58.13
Averages for different periods					
2012-13 to 2016-17	28.06	12.39	14.92	1.76	57.14
2017-18 to 2020-21	25.73	14.89	16.06	2.14	58.81
2017-18 to 2019-20#	27.63	14.82	16.86	1.34	60.65
2012-13 to 2023-24	25.93	14.63	15.68	1.80	58.05
2012-13 to 2023-24#	26.47	14.59	15.87	1.56	58.48

Note: Exclude Covid-19 year 2019-20.

Source: CAG Reports and Budget documents (various years), Government of Kerala

Figure 4.6 demonstrates that the share of salaries which is the dominant component in the committed expenditure has been on a declining trend along with the share of subsidies. The share of overall committed expenditure although shows some fluctuations in the later period but it is more or less constituting around 58% in both the first and second six periods. The shares of pension and interest payments are stabilised with their increased share and not declining shares like salaries and subsidies.

Fig 4.6: Trends of Various Committed Expenditures in Total Expenditure



Source: CAG Reports and Budget documents (various years), Government of Kerala

Committed Expenditure

Table 4.13 shows interest expenditure has consistently witnessed high and positive growth rates followed by growth rates of pension, salary expenditures and subsidies as the later components have witnessed high fluctuations in their growth rates. In terms of CAGR, rate of interest expenditure although has increased from 11.17% in the first five-year period to almost 16.76% in the second three-year period (excluding covid period 2019-20) but still it is maintained at a higher rate of 15.51%. This is followed by growth rate of pension expenditure which was 11.67% in first five-year period has declined to 8.71 % during the second 3-year period and in overall it maintained at a higher rate of growth of 10.27% over the entire period. The growth rate of salaries has witnessed a drastic decline from 10.32% to 4.58%, while subsidies has witnessed a decline from 5.64% to -5.07% during the same period. In overall the growth rate of committed expenditure has drastically declined from 10.7% in first five-year period to 8.16% in the second three period (excluding the Covid – 19 year 219-20).

Table 4.13: Growth Rates of Components of Committed Expenditure (%) in Kerala

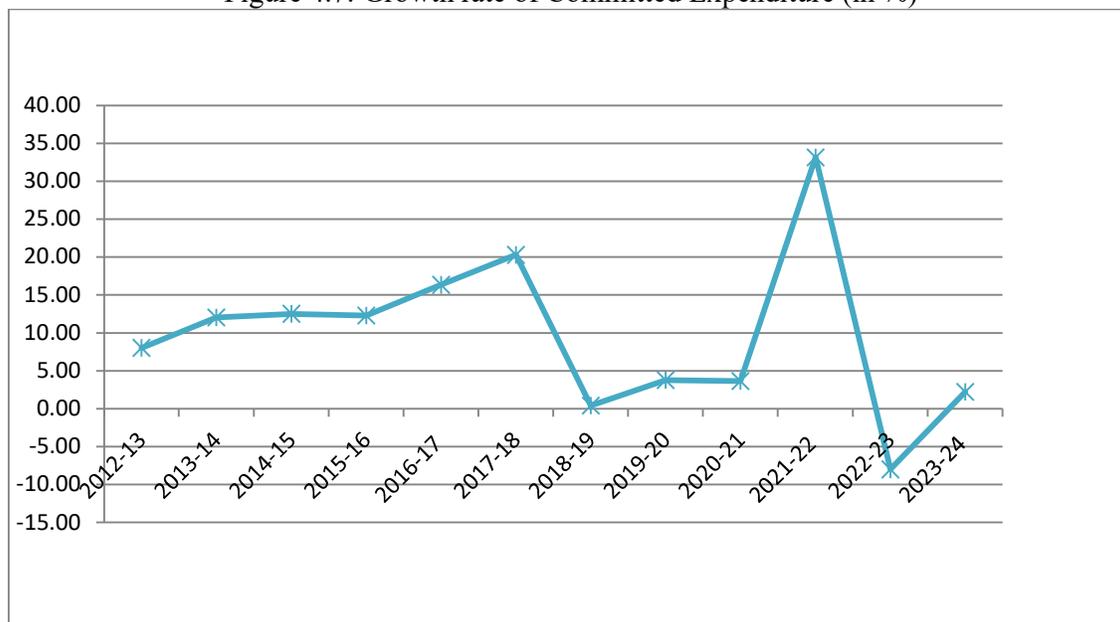
Year	Salaries	Interest Payment	Pensions	Subsidies	Committed Expenditure
2012-13	7.66	14.47	1.92	26.25	8.02
2013-14	11.72	14.71	12.45	-1.03	12.07
2014-15	10.71	18.21	12.86	-0.32	12.50
2015-16	9.87	13.72	16.08	7.62	12.27
2016-17	19.21	9.05	16.95	21.68	16.37
2017-18	14.14	24.79	30.51	-3.09	20.30
2018-19	-1.57	10.77	-4.65	5.00	0.41
2019-20	1.18	14.73	0.28	-17.13	3.78
2020-21	-12.48	9.16	-0.64	357.15	3.64
2021-22	59.99	11.10	42.00	-38.21	33.17
2022-23	-14.81	8.04	-3.01	-60.38	-7.99
2023-24	-29.18	51.65	0.36	-1.96	2.21
Averages for the different periods					
2012-13 to 2016-17	10.32	11.17	11.67	5.64	10.66
2017-18 to 2020-21	0.32	14.86	6.38	85.48	7.03
2017-18 to 2019-20#	4.58	16.76	8.71	-5.07	8.16
2012-13 to 2023-24	5.74	15.51	10.27	22.47	9.07
2012-13 to 2023-24#	7.39	16.08	11.26	-7.96	9.56

Note: Exclude Covid-19 year 2019-20.

Source: CAG Reports and Budget documents (various years), Government of Kerala

Figure 4.7 shows that the committed expenditure has grown to its peak level of 33% in 2021-22 and then after it has considerably and suddenly declined to -8% in 2022-23 with a little upward twist in 2023-24 with 2.21% growth rate. Moreover, although it is fluctuating but the recent overall trend is towards on a downward course.

Figure 4.7: Growth rate of Committed Expenditure (in %)



Source: CAG Reports and Budget documents, Government of Kerala

The composition of social and economic services reported in Table 4.14 shows that the share of social services in total social and economic services has more or less remained stable in recent years with a fluctuation within a marginal band. It was 33% in 2012-13 and it went up to 34.24% in 2016-17 and then after it has declined to 31% in 2022-23. Within social services, the share of education, sports, art and culture has declined from 18% in 2012-13 to 14% in 2023-24. The share of medical and public health has witnessed a marginal improvement from 5% in 2012-13 to 6.9% in 2021-22 and further estimated to reach at 5.35% in 2023-24. The share of family welfare is very negligible throughout and has sustained to decline by some margins over time. The share of water supply and sanitation and housing have marginally declined only in the recent period. There is increase share of urban development in social services. The share of welfare of SC, ST and other backward classes has marginally declined along with decline in the share of labour and labour welfare. The share of social security and welfare has increased. Its share was 3.44% in 2012-13 and went up to 9.8% in 2020-21 and is estimated to decline to 6.78% in 2023-24.

When we look at the share of economic services, it shows that its share was 19.7% in 2012-13 and it went up to 19.89% in 2005-06 and further to attain its peak to 21% in 2020-21, but then after it has declined to reach at 16% in 2023-24. When we look at the priorities attached to areas within the economic services, it shows that the share of agriculture and allied activities have witnessed a decline in recent years compared to initial years. Its share was at 6.76% in 2012-13 and reached to 7.87% in 2020-21 and then declined drastically to reach at 4.5% in 2023-24. The share of rural development has experienced some improvement. Its share was almost 1% in 2012-13, but increased to 2.88% in 2020-21 and further struck at 4% in 2023-24. The share of irrigation and flood control has declined over the years. The share of energy is also very negligible. The share of industry and minerals has come down over the years and has received less priority. The share of transportation and communications has come down

drastically from 8.14% in 2012-13 to 3.94% in 2022-23 and to 2.75% in 2023-24. The science and technology have not received greater priority within economic services. The general economic services have been experiencing some greater improvement. Its share was .83% in 2012-13, increased to 3% in 2020-21 and is projected to be maintained almost at that level till 2023-24.

Table 4.13: Composition of Social and Economic Services (in Percentage)

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23(RE)	2023-24 (BE)	AVG 2012-13 to 2017-18	AVG 2018-19 to 2023-24
Social Services	32.82	32.60	32.05	32.91	34.24	33.82	33.31	30.72	33.92	33.11	31.05	31.05	33.07	32.19
Education, Sports, Art and Culture	18.02	17.98	17.07	16.73	17.00	17.27	16.19	16.41	12.14	15.47	13.64	13.82	17.34	14.61
Medical and Public Health	4.93	4.96	4.99	4.98	5.35	5.36	5.44	6.11	6.00	6.87	5.34	5.35	5.09	5.85
Family Welfare	0.55	0.53	0.52	0.50	0.50	0.52	0.47	0.48	0.34	0.44	0.30	0.29	0.52	0.39
Water Supply and Sanitation	1.06	0.97	0.98	1.21	1.12	0.92	0.79	0.53	1.12	1.55	0.95	0.74	1.04	0.95
Housing	0.20	0.19	0.10	0.11	0.10	0.10	0.05	0.07	0.10	0.08	0.06	0.08	0.13	0.07
Urban Development	0.54	0.32	0.46	0.37	0.86	0.02	0.99	0.94	1.14	0.57	0.88	1.05	0.43	0.93
Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	2.11	2.53	2.36	2.50	2.70	2.63	2.28	1.80	2.01	1.71	1.80	1.77	2.47	1.89
Labour and Labour Welfare	1.12	0.96	0.99	0.93	0.88	0.89	1.06	0.62	0.61	0.58	0.56	0.67	0.96	0.68
Social Security and Welfare	3.44	3.39	4.00	4.98	5.20	5.59	3.15	3.31	9.80	5.32	6.99	6.78	4.43	5.89

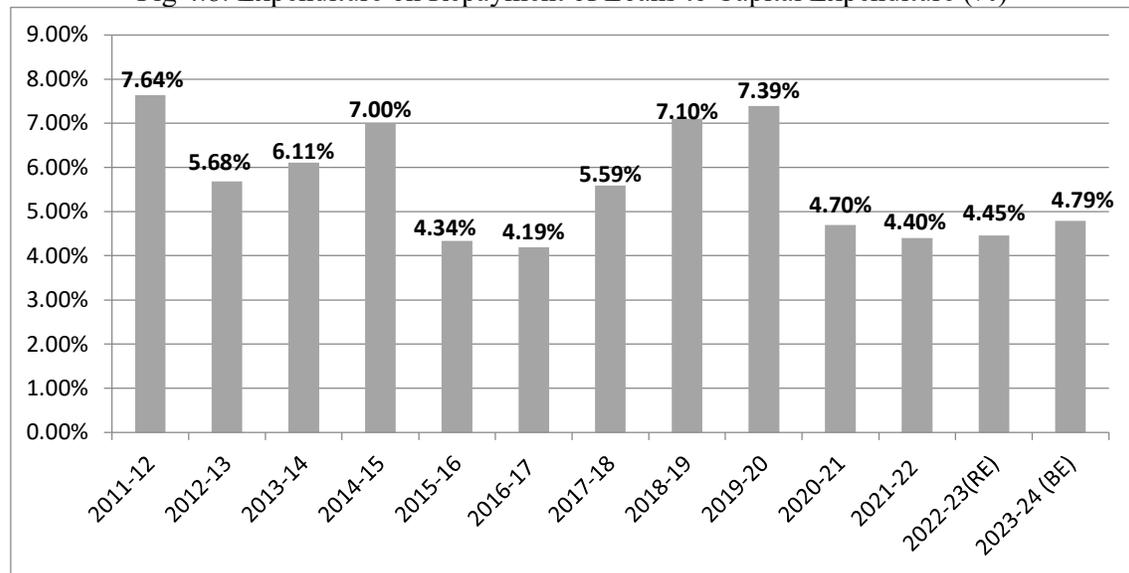
Nutrition	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Relief on account of Natural Calamities	0.41	0.39	0.22	0.25	0.19	0.34	2.61	0.19	0.33	0.28	0.29	0.27	0.30	0.66
Others	0.45	0.38	0.36	0.34	0.33	0.17	0.28	0.25	0.34	0.23	0.23	0.23	0.34	0.26
Economic Services	19.76	17.30	17.52	19.89	18.83	16.71	14.85	14.26	20.96	16.11	15.55	16.04	18.33	16.29
Agriculture and Allied Activities	6.76	6.25	6.15	6.13	6.58	5.65	5.65	4.52	7.87	5.57	4.59	4.46	6.25	5.44
Rural Development	0.93	1.01	3.29	3.40	1.85	1.78	1.61	1.89	2.88	1.68	1.77	4.00	2.04	2.31
Special Area Programmes	0.16	0.16	0.18	0.13	0.18	0.00	0.03	0.02	0.04	0.04	0.13	0.14	0.13	0.07
Irrigation and Flood Control	1.39	1.20	0.86	1.17	1.16	1.03	0.71	0.70	0.59	0.74	0.56	0.64	1.13	0.66
Energy	0.26	0.35	0.14	0.10	0.08	0.13	0.02	0.02	0.66	0.23	0.24	0.06	0.17	0.20
Industry and Minerals	1.09	1.04	0.92	0.78	1.00	1.05	0.74	0.53	0.77	0.65	0.82	0.85	0.98	0.73
Transport and Communications	8.14	5.56	5.01	6.30	4.76	5.17	3.94	4.04	5.06	4.39	3.94	2.75	5.82	4.02
Science, Technology and Environment	0.20	0.17	0.15	0.16	0.15	0.13	0.12	0.06	0.12	0.08	0.10	0.13	0.16	0.10
General Economic Services	0.83	1.56	0.82	1.72	3.07	1.77	2.03	2.50	2.99	2.73	3.39	3.00	1.63	2.77
Total Expenditure	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: State Finances: A Study of Budgets (various issues), RBI

Sectoral Expenditure Shares: A comparative perspective with other states

Figure 4.8 shows that the repayment of loans as a percentage of capital expenditure of the Government of Kerala. It takes a cyclic path. The period of high ratios is followed by low ratio and this is again followed by high ratio and again followed by very low ratio. This means that when government has not made greater capital expenditures might have tried to repay back its past loans and when it tried to repay back greater amount of its past loans, it could find itself in on a hard budget constraint to incur any greater capital expenditures as borrowed resource might not be available for meeting increasing capital expenditures.

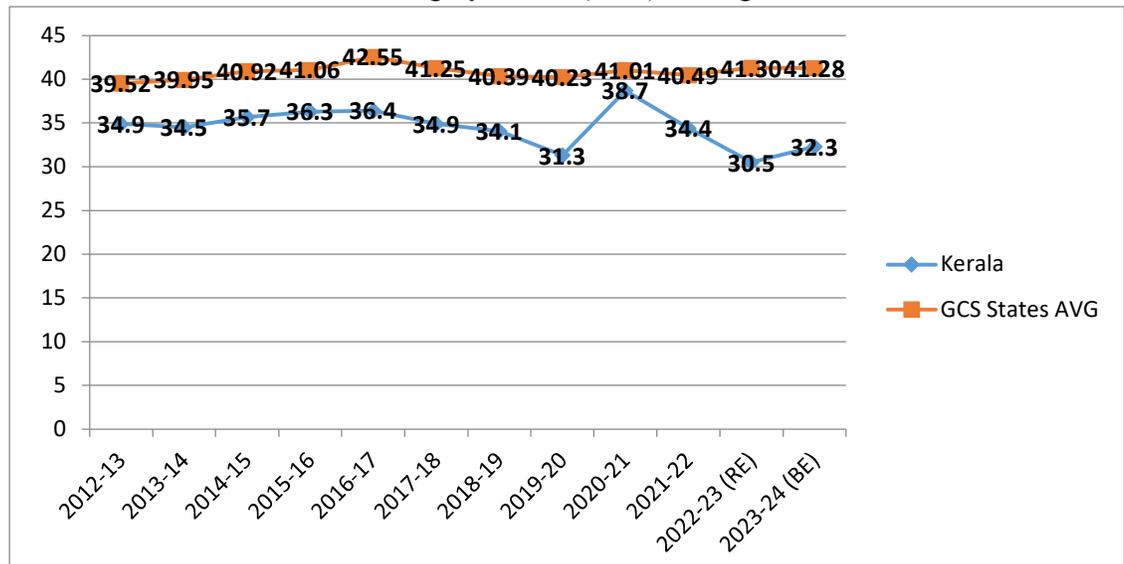
Fig 4.8: Expenditure on Repayment of Loans to Capital Expenditure (%)



Source: *State Finances: A Study of Budgets (various issues)*, RBI

Figure 4.9 shows that social sector expenditure as percent of total disbursement is below all India average. Figure 4.10 shows social sector expenditure to total disbursement of Kerala in comparison to other neighbouring southern states in India. It shows it is declining and lowest for Kerala among the southern states.

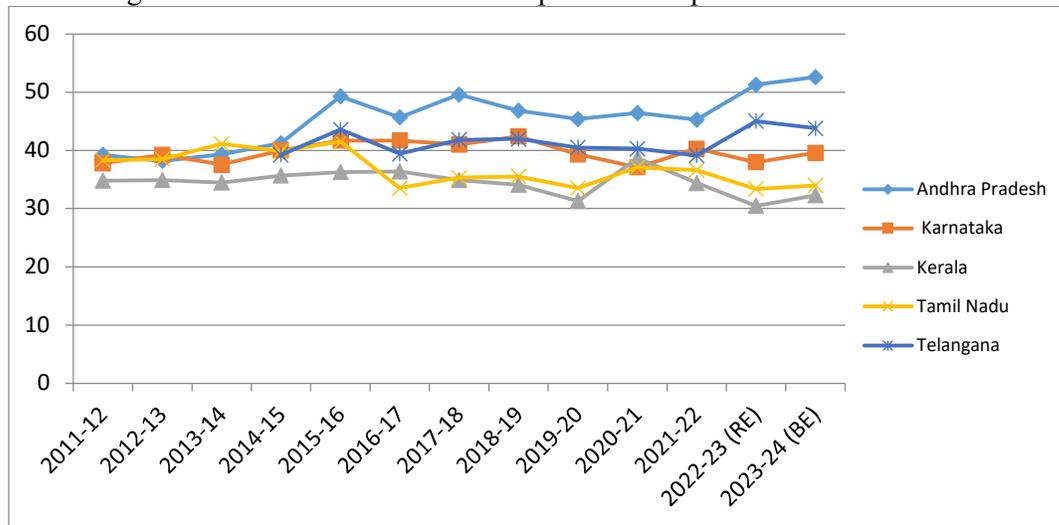
Fig 4.9: Trends in Social Sector Expenditure as percent of total disbursement of Kerala and General category States' (GCS) Average.



Source: State Finances: A Study of Budgets (various issues), RBI

Figure 4.10 shows social sector expenditure is far below Andhra Pradesh, Karnataka, and Tamil Nadu and Telangana.

Fig 4.10: Trends in Social Sector Expenditure as percent of total disbursement



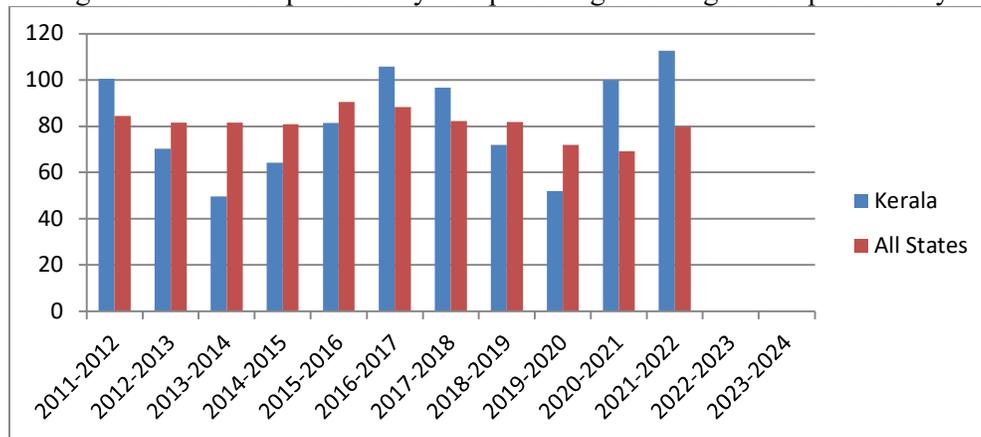
Source: State Finances: A Study of Budgets (various issues), RBI

Actual capital outlays vs. budgeted capital outlays

By taking a look at actual outlay as a percentage of budgeted capital outlay in Kerala against all states combined, Figure 4.11 indicates that it follows a W shape pattern for Kerala as there are greater fluctuations in the ratio of actual outlay over budgeted capital outlays. Sometimes actual outlay is quite less than budgeted level and sometimes it has exceeded above 100% as budgeted by the GOK. In contrast, all the states show that most often actual outlay as a

percentage to budgeted capital outlay vary from 65% to 85% and has never exceeded more than 100% mark unlike Kerala state.

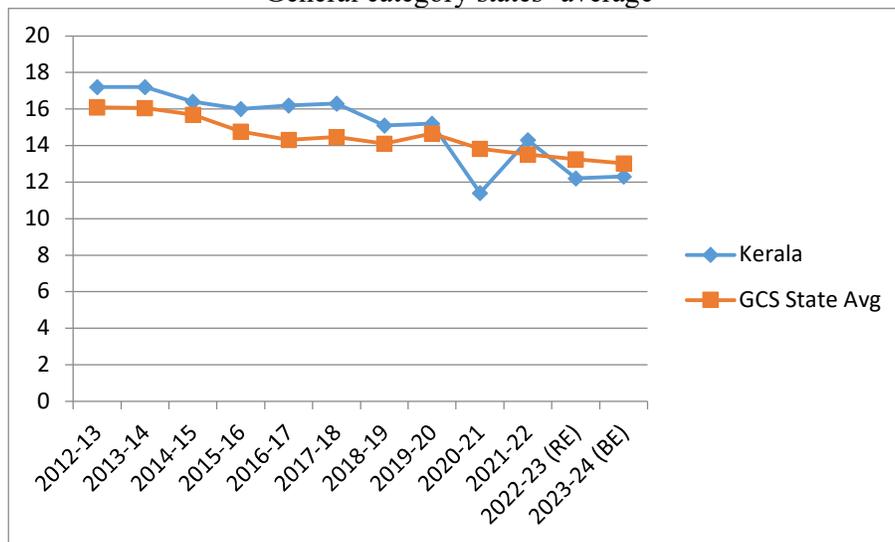
Fig: 4.11 Actual Capital Outlay as a percentage of budgeted Capital Outlay



Source: State Finances: A Study of Budgets (various issues), RBI

Figure 4.12 shows that the share of education expenditure was very high in Kerala in the initial periods till 2019-20 comparing other all general category states' averages. But in recent years it stands less than the General category state's averages. This could be due to hard budget constraint facing Kerala government and trying to reduce and compromise its expenditure on this head.

Fig 4.12: Trends in educational expenditure as percent of total expenditure: Kerala and General category states' average

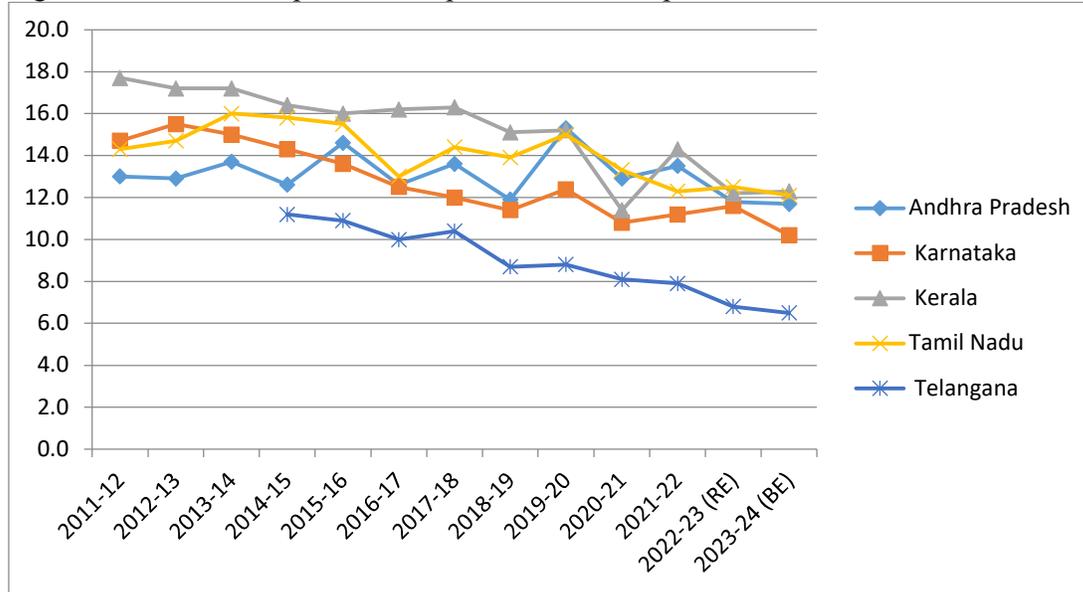


Source: State Finances: A Study of Budgets (various issues), RBI

Note: Includes expenditure on sports, arts and culture under revenue expenditure and capital outlay.

Figure 4.13 provides a similar comparative picture on educational expenditure in relation to aggregate expenditure of Kerala against other southern states in India. It was at the top at the 2019-2020 but then after declined in recent years to converge with other states like Tamil Nadu and Andhra Pradesh.

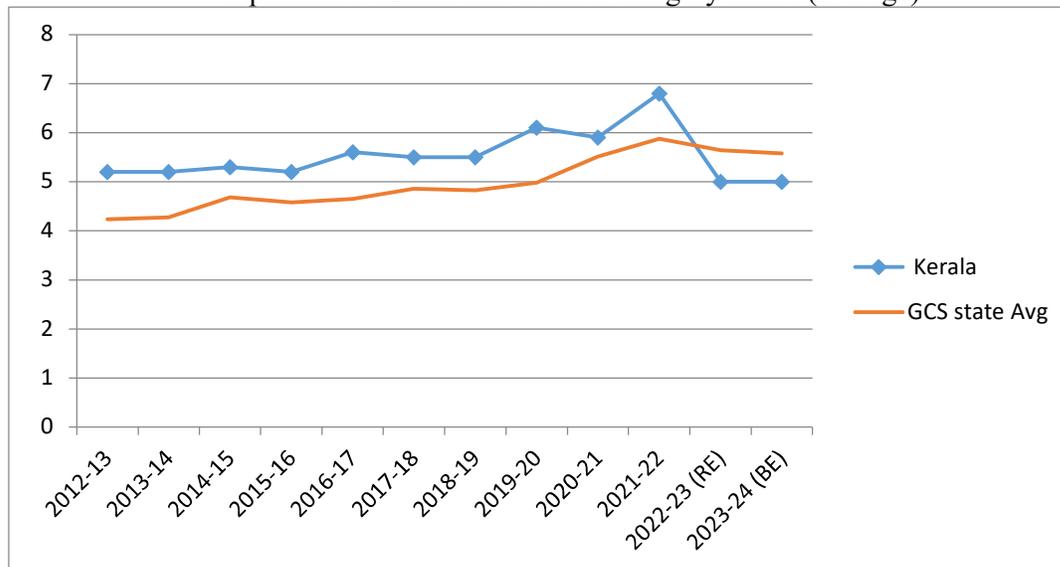
Fig 4.13 Educational expenditure as percent of total expenditure: Kerala and Southern States



Source: State Finances: A Study of Budgets (various issues), RBI

When we take a look at the share of expenditure on health and family welfare, Figure 4.14 shows that Kerala is well ahead of all general category states' average until 2020-21 but only recently it has declined drastically to stand below all states' averages.

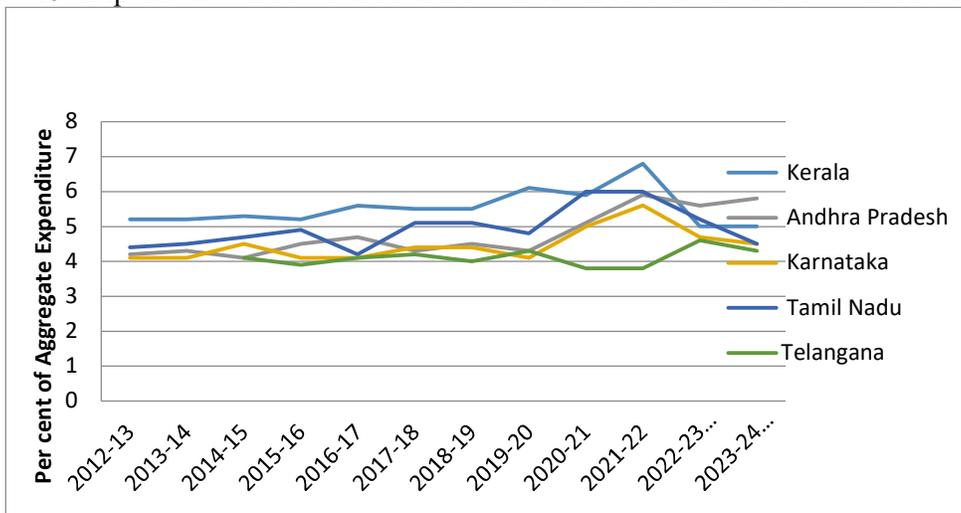
Figure 4.14: Expenditure on Medical, Public Health and Family Welfare as percent of total expenditure: Kerala and General category States (average)



Source: State Finances: A Study of Budgets (various issues), RBI

When we take a look at the share of expenditure on medical health facilities from a comparative perspective across Southern states, Figure 4.15 shows that Kerala was ahead of other states' until 2020-21 but only recently it has declined drastically to stand below AP. It has dipped down in recent years.

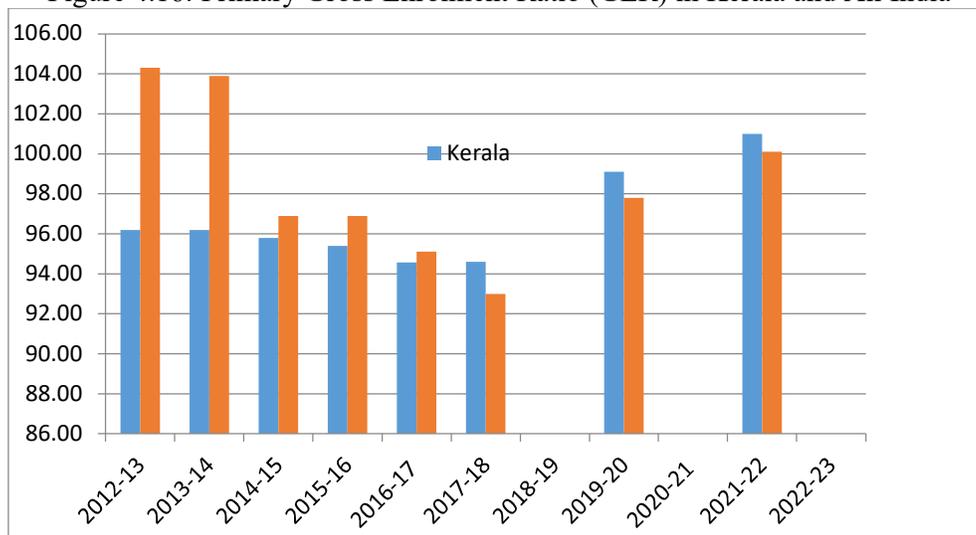
Figure 4.15: Expenditure on Medical Health Facilities in Kerala and other southern states



Source: State Finances: A Study of Budgets (various issues), RBI

Comparing the achievements in human development measured from primary gross enrolment ratio (GER) between Kerala and all India, Figure 4.16 indicates that Kerala has been doing consistently better as GER varies from 96% to 101%. But it is surprising to notice that GER at the all-India level which was more than 100% in initial periods, now it has become closer to 100%.

Figure 4.16: Primary Gross Enrolment Ratio (GER) in Kerala and All India



Source: Economic Survey, Various issues

Cost Disabilities in Kerala and its Implications on State Expenditure

In Kerala, the cost of disability in public services and public expenditure could be significant, impacting both the state's finances and the lives of individuals with disabilities. A substantial portion of the state's public expenditure is directed towards social welfare spending, including programs for persons with disabilities, reflecting the state's commitment to inclusivity and equality.

The average life expectancy in Kerala is 75.2 years, which is highest average life expectancy in India. The life expectancy for females in Kerala is 77 years, and for males, it is 72 years. This leads to ageing of population. In 2021, Kerala had the highest percentage of elderly people in India, at 16.5% of its population. This represented a significant increase from 10.5% in 2001. The elderly population is projected to continue increasing in Kerala. This ageing population requires special services including health and medical care in absence of their close ones available to them given the high rate of young and adult migration. When the aged need public services, it calls for greater public spending for them.

As part of cost cutting measures, even though the state government is hiring service personnels on a contractual basis and contracting out many services to private parties, since prevailing wage rate in the state is quite higher compared to other states mainly due to unavailability of skilled personnel including manual workers to do many public works even on a contractual basis, therefore contracting out public services for service delivery in the state is becoming costlier due to high wage cost.

This needs to be factored in state's both revenue and capital expenditures, while this may not have significant revenue raising implication. As a result, this could result in increased deficits and debt of Kerala.

In Kerala, public services face increased costs due to the disability factor, mainly arising from providing accessible infrastructure, equipment, and specialized services for individuals with disabilities and ageing people. This also encompasses indirect costs like reduced earning potential and opportunities for education or employment. This includes adapting public transport, buildings, and information systems to meet the needs of people with diverse disabilities. Additionally, providing specialized medical treatment, rehabilitation, and financial assistance to disabled individuals also contribute to the overall cost. Overall, the need to adapt services and provide specialized support to people with disabilities leads to a higher cost of service delivery in public services.

- **Potential for increased tax burden:**

To address the increased costs, public services may require increased funding, potentially leading to higher taxes or reduced spending in other areas.

- **Long-term benefits:**

Investing in disability inclusion can lead to long-term benefits, including a more inclusive and equitable society, as well as increased productivity and economic growth. This should be factored into in similar spirit like treating cost disabilities in the provision of public services in Hilly States in India by the Finance Commissions.

Population density and Cost disability

Presence of similar such factors can neutralise the beneficial contributions of high population density to the cost disability of Kerala state in the provision of public services. Although it is

widely believed that higher density will reduce the average cost of public services and restrict the total cost but in Kerala context, the same might not hold good.

In areas with high population density, the costs associated with disability, such as healthcare and accessibility modifications, may be higher due to increased demand and competition for resources. However, on the contrary, dense urban environments can also offer better access to specialized services and low per-capita costs for infrastructure and services like transportation. Disability costs are also influenced by factors like income inequality, access to affordable housing, and the availability of social support programs.

- **Increased Costs in High Density Areas:**

Higher population density can lead to increased demand for healthcare facilities, specialized equipment (e.g., assistive devices), and housing modifications for people with disabilities, potentially driving up costs. Competition for limited resources and higher living costs in urban areas can also exacerbate these challenges.

- **Potential for Cost Savings and Efficiency:**

Dense urban environments can also offer economies of scale. Public transportation systems can be more efficient and accessible in densely populated areas, reducing transportation costs for people with disabilities. Additionally, the concentration of specialized services like rehabilitation centers and support groups can provide more convenient and cost-effective options.

- **Factors Influencing Disability Costs:**

Beyond population density, other factors significantly impact the cost of disability. Income inequality can mean that people with disabilities in high-cost areas struggle to afford basic necessities and services, leading to increased stress and poorer health outcomes. The availability of affordable and accessible housing is also crucial, as specialized housing adaptations can be expensive.

- **Importance of Social Support Programs:**

Government programs and social support systems, such as disability benefits and healthcare subsidies, play a vital role in mitigating the financial impact of disability. These programs can help ensure that people with disabilities have access to necessary resources and services without facing undue financial hardship.

- **Uneven Distribution of Costs:**

The costs of disability are not evenly distributed across different areas and populations. Some areas may have higher prevalence of certain types of disabilities, while others may experience higher costs due to factors like income inequality or lack of access to specialized services.

Concluding remarks

There is an urgent need to curb the current or revenue expenditures of the government. The government needs to identify “fiscal space” through a combination of cutting down the unproductive expenditures, withdraw from low-priority programmes, increase capital outlays, raise revenues and use low-cost debt funds to cut down interest payment expenditures.

There is a need for increasing the share of capital expenditure and outlay in the total expenditure, including social sector spending. Government should fund for the infrastructure investment programmes, which would maximise the capital formation and induce growth of the state economy. The investment projects should be chosen based on the rationality where social benefits would exceed their economic costs.

Performance based budgeting should be adopted in a way where goals of each government scheme can be set, and assessment can be done on how well particular schemes achieve those goals and terminate ineffective and low priority schemes in favour of better ones. Along with expenditure prioritisation, expenditure leakages should be reduced. There should be greater transparency in funding availability and the way funds are spent.

Multiple social welfare programs, with similar or same objectives need to be identified and merged and consolidated or combined to curb outlays. This would also help in achieving scale economies in expenditure.

To avoid expenditure overruns, off-budget expenditures have to be curbed. Loan/credit guarantees extended by the state government has to be based on proper assessment of cost-benefits associated with the projects and ranking of net present value of the projects. It is desirable to restrict the loan guarantees only to creditworthy PSEs.

Privatization of loss making public sector enterprises should be the way forward and this is called for in areas in which government does not enjoy a comparative advantage which can contribute to saving substantial amounts of public money before channelling them to wasteful areas.

It requires a call for a comprehensive review of pay and employment policy for the government employees and wherever it is possible incentive based duty structure should be in place for efficiency. Efficiency in public sector should be ensured or assured to the public. It should be a hallmark of government including public sector than thinking it is a luxury for people after joining the government and not optimising the productivity during work durations. Efficiency at work should be monitored for greater productivity and raising welfare outcomes from public expenditure. Efficiency of expenditure or productivity of expenditure should be audited and monitored by a separate committee.

Chapter 5

Analysis of Fiscal and Revenue Deficits

Revenue deficit of the government of Kerala has been increasing overtime as shown in Table 5.1. Revenue deficit was Rs 9351 crore in 2012-13 and it reached Rs 16928 crore in 2017-18 and it is projected to reach at Rs 30171 crore in 2026-27. In contrast the fiscal deficit which stood at Rs 15002 in 2012-13 increased to Rs 26837 crore in 2017-18 and further increased to Rs 50240.71 crore in 2026-27. The primary deficit which is exclude interest payment on government debt was Rs 7797 crore in 2012-13 and reached to Rs 11717 crore in 2017-18 and it is projected to reach at Rs 14020 in 2026-27.

The revenue deficit (RD) relative to GSDP of the state was 2.27% in 2012-13, with certain fluctuations in the intermediate period maintained at around that level till 2017-18(2.41%). However, it has increased to attain its peak level of 3.35% in 2020-21 and 3.16% in 2021-22. Then after it drastically reduced to .88% in 2022-23 and then after it is estimated to be reversed to its previous level of 1.80% in 2026-27. In contrast, the FD as percent of GSDP was at the same level of 3.64% in both 2012-13 and 2013-14, marginally increased to 3.83% in 2017-18 and is estimated to be at 3% for both the years of 2025-26 and 2026-27. This shows that as per the FRL bill, although the state has not been able to eliminate the RD/GDP but it has maintained its FD/GDP at around 3% in many years (except the period in 2019-20 and 2022-23 where it was less than 3%). The primary revenue deficit was 1.89% in 2012-13. With a marginal decline reached to 1.67% in 2017-18 and then to .57% in 2019-20 and 0.04 in 2022-23 and estimated to be around .84% in 2026-27. This signifies enlargement of fiscal deficits on account of higher interest payments on the past debts.

Table 5.1: Deficit indicator of Kerala (as percent of GSDP)

Year	Revenue Deficit	Fiscal Deficit	Primary Deficit
2012-13	2.27	3.64	1.89
2013-14	2.43	3.64	1.87
2014-15	2.69	3.64	1.73
2015-16	1.72	3.17	1.19
2016-17	2.44	4.17	2.26
2017-18	2.41	3.83	1.67
2018-19	2.22	3.42	1.30
2019-20	1.78	2.93	0.57
2020-21	3.35	5.31	2.59
2021-22	3.20	4.98	2.46
2022-23	0.90	2.50	0.04
2023-24(RE)	1.58	2.99	0.63
Average of various periods			
2012-13 to 2016-17	2.31	3.65	1.79
2017-18 to 2020-21	2.44	3.87	1.53
2017-18 to 2019-20#	2.14	3.39	1.18

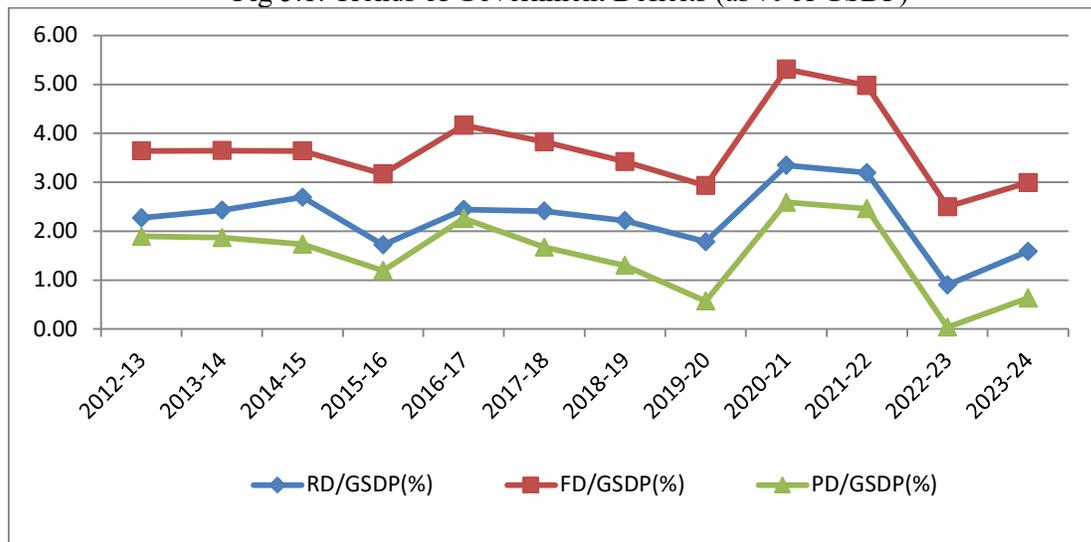
2021-22 to 2023-24	1.89	3.49	1.04
2012-13 to 2023-24	2.25	3.68	1.52
2012-13 to 2023-24#	2.15	3.54	1.42

Note: #Excluded Covid-19 year 2019-20.

Source: CAG Report (various issues)

The trends of all government deficit indicators of Kerala relative to its GSDP are shown in Figure 5.1. It shows that higher peaks are attained around 2020-21 and lowest peaks are attained at around 2022-23 and are estimated still at higher levels for the future years. Among the deficit's trends, FD/GSDP is the dominant of all deficit trends, which is followed by RD/GSDP and PD/GSDP.

Fig 5.1: Trends of Government Deficits (as % of GSDP)

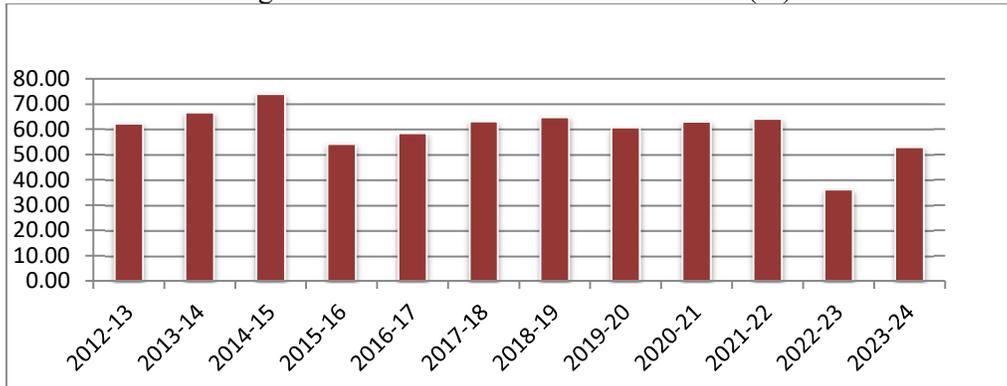


Source: CAG Report (various issues)

Note: RD, FD & PD represent Revenue deficits, Fiscal deficits and Primary Deficits respectively.

In order to judge quality of utilisation of borrowed resources of the state, one can express revenue deficit as a percentage of fiscal deficit. Figure 5.2 shows that it constituted more than 70% during 2014-15 and 2020-21 and 2021-22 and after reaching to its lowest level during 2022-23, the estimated trend continues to be at 60% till 2026-27. This indicates that 60% of the borrowed resources by the state are utilised to fill the revenue deficit gap and the rest is being utilised to meet the capital expenditure.

Figure 5.2: Revenue deficit to fiscal deficit(%)



Source: CAG Report (various issues)

The trend of revenue deficit and fiscal deficit as a percentage to total expenditure reveals that gross borrowings to meet the total expenditure hovers within a range of 20% to 25% throughout the period under consideration except one period in 2022-23. Out of which around 10% to 15% of total expenditures are financed towards meeting the revenue deficit gap. This indicates that more than 50% of the borrowed resources are being utilised to meet the current expenditure.

When we compare the revenue deficit of Kerala with other general category States, we see that Kerala has highest revenue deficit. (See Table 5.A1 in the Appendix). It has revenue deficit similar to Punjab, West Bengal, Rajasthan, Andhra Pradesh, Tamil Nadu and Haryana, while the poor state like Odisha, Bihar, UP, MP have generated surpluses along with high income states like Karnataka, Gujarat, Goa etc.

Table 5.A2 in the Appendix presents the fiscal deficits of general category States. It shows that the fiscal deficit of Kerala is at high and comparable to that of Punjab, Andhra Pradesh, and Telangana. While the poor states like UP, Odisha, and Bihar have controlled within 3% of GSDP over longer period of time while Kerala is not able to maintain the fiscal deficit to GSDP within this limit over long time except the period 2019-20. However, during the recent years, the State has been making efforts to contain its fiscal deficit.

Concluding Remarks

Public debt constitutes more than 25% of GSDP of the State in 2022-23 and it goes up further when other liabilities are added on it. Less than 50% of borrowed resources are allocated to capital expenditure of the state. The revenue deficit to gross fiscal deficit shows that in recent years a major percentage of gross borrowed resources is going to fill the revenue deficits. It is estimated to be 60% in 2022-23. This implies that the remaining percentage of around 40.00 % is estimated to finance capital expenditure of Kerala government. This gives rise to huge interest burden as almost it constitutes more than 16% of revenue expenditure and 25% of tax revenue receipts of the Kerala government. This implies another 75% of tax revenue collected by the state remain to be allocated on all other expenditure heads.

This suggests that the government has to control the level of outstanding public debt and other liabilities in relation to GSDP. Otherwise, public finance of the state will be in a more precarious situation affecting the stability of its finance and economic growth rate.

Appendix Table 5.A1 Revenue Deficit as percentage to GSDP

State	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23(RE)	2023-24(BE)
AP	-0.83	-0.27	-0.07	4.61	1.21	2.51	2.05	1.59	2.86	3.63	0.75	2.23	1.55
BR	-1.95	-1.81	-2.03	-1.71	-3.37	-2.57	-3.16	-1.31	-0.12	1.99	0.07	3.80	-0.52
CH	-2.05	-1.47	0.39	0.71	-1.05	-2.10	-1.21	-0.21	2.79	1.95	-1.13	-0.57	-0.69
GA	-0.70	0.57	0.99	-0.58	-0.24	-1.11	-0.74	-0.49	0.29	0.90	-0.07	-0.61	-
GJ	-0.52	-0.77	-0.58	-0.58	-0.17	-0.51	-0.39	-0.22	-0.12	1.40	-0.33	-0.30	-
HR	0.49	1.28	0.97	1.90	2.36	2.83	1.65	1.61	2.30	3.07	2.34	1.83	1.55
JH	-0.95	-0.79	-1.43	0.11	-1.98	-0.83	-0.67	-1.93	-0.63	1.05	-1.85	-2.26	-2.96
KA	-0.77	-0.27	-0.04	-0.06	-0.17	-0.11	-0.34	-0.05	-0.07	1.18	0.69	0.26	0.50
KL	2.21	2.27	2.43	2.69	1.72	2.44	2.41	2.22	1.78	3.35	3.20	1.95	2.09
MP	-3.14	-1.96	-1.34	-1.31	-1.06	-0.58	-0.64	-1.06	0.30	1.94	-0.44	-0.12	-0.03
MH	0.18	-0.29	0.31	0.68	0.27	0.39	-0.09	-0.47	0.64	1.58	0.52	0.55	0.40
OR	-2.43	-2.18	-1.12	-1.87	-3.09	-2.36	-3.04	-2.85	-0.45	-1.68	-6.24	-2.30	-3.13
PB	2.55	2.49	1.97	2.14	2.19	1.71	2.01	2.56	2.66	3.20	2.94	3.51	3.30
RJ	-0.77	-0.70	0.19	0.52	0.87	2.38	2.23	3.17	3.64	4.32	2.16	2.38	1.63
TN	-0.18	-0.21	0.18	0.60	1.02	1.00	1.47	1.44	2.06	3.49	2.25	1.27	1.38
TG	-	-	-	-0.07	-0.04	-0.21	-0.46	-0.51	0.66	2.36	0.83	-0.23	-0.33
UP	-0.96	-0.63	-1.07	-2.21	-1.26	-1.57	-0.87	-1.79	-3.97	0.14	-1.69	-2.36	-2.69
WB	2.80	2.34	2.79	2.39	1.14	1.84	1.01	0.94	1.67	2.59	2.41	2.59	1.82

Source: State Finances: A Study of Budgets (various issues), RBI

Appendix Table 5.A2 Fiscal Deficit as percentage to GSDP of General Category States

State	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23(RE)	2023-24(BE)
AP	4.06	4.26	3.89	6.05	3.62	4.52	4.12	4.06	4.29	5.64	2.18	3.66	3.79
BR	2.39	2.32	2.63	3.26	3.25	3.91	3.05	2.62	2.10	5.25	3.95	9.30	2.99
CH	0.51	1.50	2.44	3.65	2.42	1.54	2.41	2.54	5.21	4.49	1.48	3.12	3.00
GA	2.08	3.01	3.77	1.99	2.69	1.48	2.32	2.51	2.52	3.68	3.23	4.94	
GJ	1.79	2.28	2.28	1.99	2.24	1.41	1.61	1.77	1.52	2.50	1.18	1.52	
HR	2.40	2.99	2.08	2.88	6.35	4.68	2.99	3.14	4.14	3.93	3.66	3.33	3.04
JH	1.28	1.95	1.18	3.00	5.58	4.28	4.42	2.05	2.59	5.03	0.69	2.11	2.53
KA	2.03	2.09	2.09	2.14	1.83	2.37	2.33	2.60	2.36	4.09	3.32	2.69	2.67
KL	3.52	3.64	3.64	3.64	3.17	4.17	3.83	3.42	2.93	5.31	4.98	3.59	3.46
MP	1.83	2.47	2.25	2.37	2.60	4.26	3.13	2.60	3.55	5.27	3.43	3.80	4.09
MH	1.56	0.94	1.58	1.79	1.44	1.76	1.02	0.91	2.03	2.74	2.05	2.61	2.36
OR	-0.27	0.00	1.56	1.74	2.15	2.39	2.13	2.04	3.50	1.81	-2.96	2.87	3.03
PB	3.18	3.14	2.65	3.05	4.45	12.38	2.65	3.13	3.13	4.18	4.44	4.88	4.67
RJ	0.83	1.73	2.76	3.09	9.25	6.09	3.04	3.78	3.77	5.83	4.04	4.51	4.11
TN	2.30	1.93	2.13	2.53	2.77	4.31	2.72	2.90	3.45	5.26	3.95	3.11	3.38
TG	-	-	-	1.86	3.20	5.35	3.53	3.14	3.34	5.20	4.15	3.82	3.73
UP	2.13	2.34	2.52	3.21	5.14	4.34	1.93	2.22	-0.65	3.33	1.95	3.56	3.33
WB	3.40	3.24	3.75	3.81	2.62	2.91	2.97	3.04	3.12	3.91	3.80	4.03	3.87

Source: State Finances: A Study of Budgets (various issues), RBI

Chapter 6

Analysis of Debt

Level of Outstanding Liabilities and other Obligations

Outstanding debt of the State government broadly comprises of internal debt, loans and advances from Government of India and Public Account Liabilities. Table 6.1 reports the different sources of liabilities of the State government. It shows that total internal debt comprising of loans from market including commercial banks and other financial institutions, borrowings from RBI, is the dominant source of gross debt of the state. This is followed by resources raised from provident funds, loans and advances from Centre, deposits and advances and reserve funds etc. The table shows that the total internal debt, which was Rs 55,397 crore in 2012-13 increased to Rs1,35,501 crores in 2017-18 and went up to Rs 2,36,897 crores in 2022-23.

Table 6.1 Sources of outstanding liabilities of Kerala (Rs Crores)

Year	Total internal debt	Loans and advances from centre	Provident funds	Reserve funds	Deposits & advances	Contingency fund	Total outstanding liabilities
2011-2012	55397	6393	27625	1949	3374	79	94817
2012-2013	65628	6610	31311	1803	4515	100	109966
2013-2014	76862	6658	35543	1881	4702	33	125678
2014-2015	89075	7061	39307	1947	6067	100	143557
2015-2016	102503	7230	47639	2012	2787	100	162271
2016-2017	118276	7610	60571	2174	2892	100	191623
2017-2018	135501	7480	67778	2483	3158	100	216499
2018-2019	150991	7243	77397	4464	3551	100	243746
2019-2020	165960	8680	85671	3114	4136	25	267585
2020-2021	190474	14972	97219	3458	4633	100	310856
2021-2022	210827	25439	107277	3148	5532	100	352323
2022-2023	236897	27225	117521	2765	6352	100	390860
2023-2024	255388	26795	133921	2892	10175	100	429271
CAGR for different periods							
2012-13 to 2016-17	15.86	3.58	17.93	4.79	-10.54	0.00	14.89
2017-18 to 2020-21	12.02	26.03	12.78	11.67	13.63	0.00	12.82
2017-18 to 2019-20#	10.67	7.72	12.43	11.99	14.44	-50.00	11.17
2021-22 to 2023-24	10.06	2.63	11.73	-4.15	35.62	0.00	10.38

2012-13 to 2023-24	13.15	13.57	14.12	4.39	7.67	0.00	13.18
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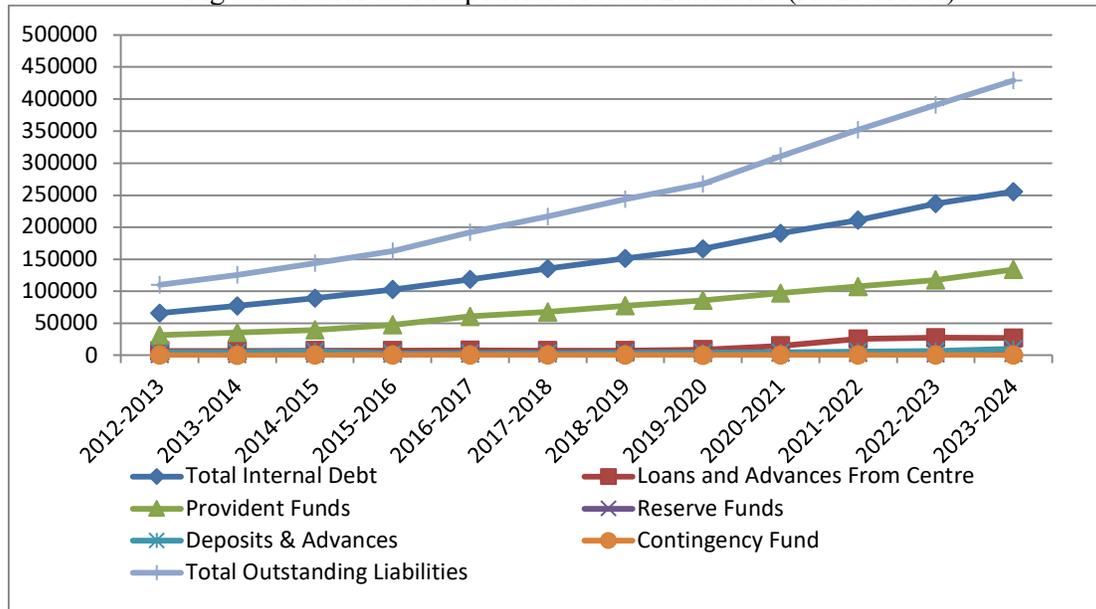
Note: # Excluded Covid-19 year 2019-20.

Source: The Handbook of statistics on Indian States, RBI

Note: Internal debt comprises of market loans, and loans from financial institutions including special securities issued to NSSF. Loans and advances from GOI comprise of both plan and non-plan loans. Public account liabilities comprise of small savings and provident funds.

The composition of outstanding liabilities displayed in Fig 6.1 shows that total internal debt which constitutes the dominant component of gross outstanding borrowings, has the highest share and has an upward trend. The trend of components of total liabilities shows that almost all the components are moving upwardly except the contingency fund and deposits and advances.

Fig 6.1: Trends in Components of total Liabilities (Rs in Crores)



Source: The Handbook of Statistics on Indian States, RBI

Table 6.2 shows the composition of outstanding liabilities of Kerala. It shows that internal debt constitutes the maximum out of total liabilities followed by provident funds and loans and advances from centre and deposits and advances. The share of internal debt was 58.43% in 2011-2012 and reached to 62.59% in 2017-18 and it is estimated to reach to 60.61% in 2022-23. The share of loans and advances from centre to total outstanding debt was 6.74% in 2011-12 and gradually has been reduced to reach at 3.45% in 2017-18, and further reduced to 2.97% in 2018-19. After reaching this lowest level, the share of this has again been increasing over the years and reached to 6.97% in 2022-23 which is almost comparable to its initial level of 2011-12. The share of provident funds in total debt was 29% in 2011-12 increased to 31% in 2016-17 and maintained at that level till 2020-21 and then marginally declined to 30% in 2022-23. The share of reserve funds along with contingency funds and deposits and advances are declining although the share of deposits and advances stand at 1.63% in 2022-23.

Table 6.2 Composition of outstanding liabilities of Kerala (in Percentage)

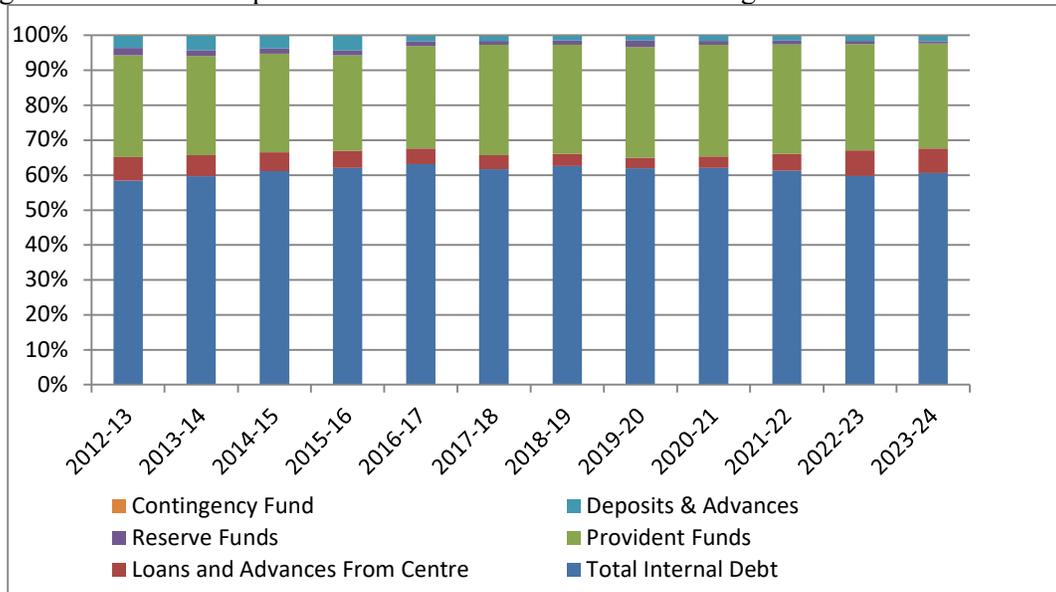
Year	Total Internal Debt	Loans and Advances From Centre	Provident Funds	Reserve Funds	Deposits & Advances	Contingency Fund	Total Outstanding Liabilities
2012-13	58.43	6.74	29.14	2.06	3.56	0.08	100
2013-14	59.68	6.01	28.47	1.64	4.11	0.09	100
2014-15	61.16	5.30	28.28	1.50	3.74	0.03	100
2015-16	62.05	4.92	27.38	1.36	4.23	0.07	100
2016-17	63.17	4.46	29.36	1.24	1.72	0.06	100
2017-18	61.72	3.97	31.61	1.13	1.51	0.05	100
2018-19	62.59	3.45	31.31	1.15	1.46	0.05	100
2019-20	61.95	2.97	31.75	1.83	1.46	0.04	100
2020-21	62.02	3.24	32.02	1.16	1.55	0.01	100
2021-22	61.27	4.82	31.27	1.11	1.49	0.03	100
2022-23	59.84	7.22	30.45	0.89	1.57	0.03	100
2023-24(RE)	60.61	6.97	30.07	0.71	1.63	0.03	100
Average for different periods							
2012-13 to 2016-17	60.90	5.49	28.53	1.56	3.47	0.07	100.00
2017-18 to 2020-21	62.07	3.41	31.67	1.32	1.49	0.04	100.00
2017-18 to 2019-20#	62.09	3.47	31.56	1.37	1.47	0.05	100.00
2012-13 to 2023-24	61.21	5.01	30.09	1.31	2.33	0.05	100.00
2012-13 to 2023-24#	61.13	5.17	29.92	1.33	2.41	0.05	100.00

Note: # Exclude Covid-19 year 2019-20.

Source: The Handbook of Statistics on Indian States, RBI

The share of composition of outstanding liabilities from Figure 5.2 shows that total internal debt consistently comprises of approximately 60% of total outstanding debt and it is the principal source of state debt. This is followed by provident fund which consistently constitutes almost 30% of total state debt and followed by loans and advances from centre and deposits and advances.

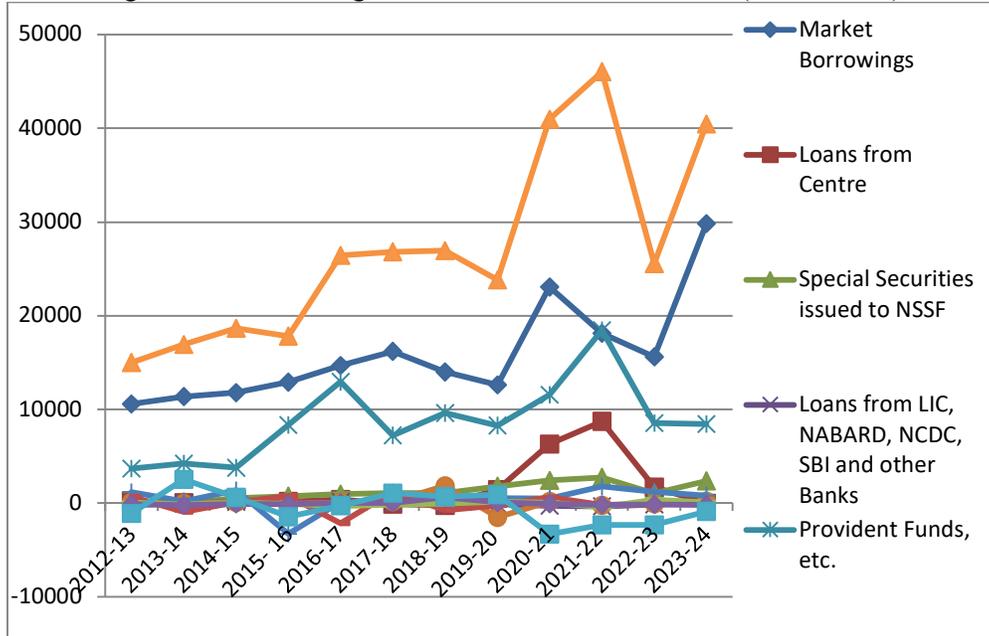
Fig 6.2: Shares of Components of State Government Outstanding Liabilities in Kerala



Sources: State Finances: A Study of Budgets (various issues), RBI

Figure 6.3 shows the trends and composition of government of Kerala’s total borrowings. It shows that the state borrows a major portion of financial resources from market and then provident funds. However, the components such as market borrowings, provident funds and small savings are costly sources of raising funds. This might have implication on interest liability burden of the government.

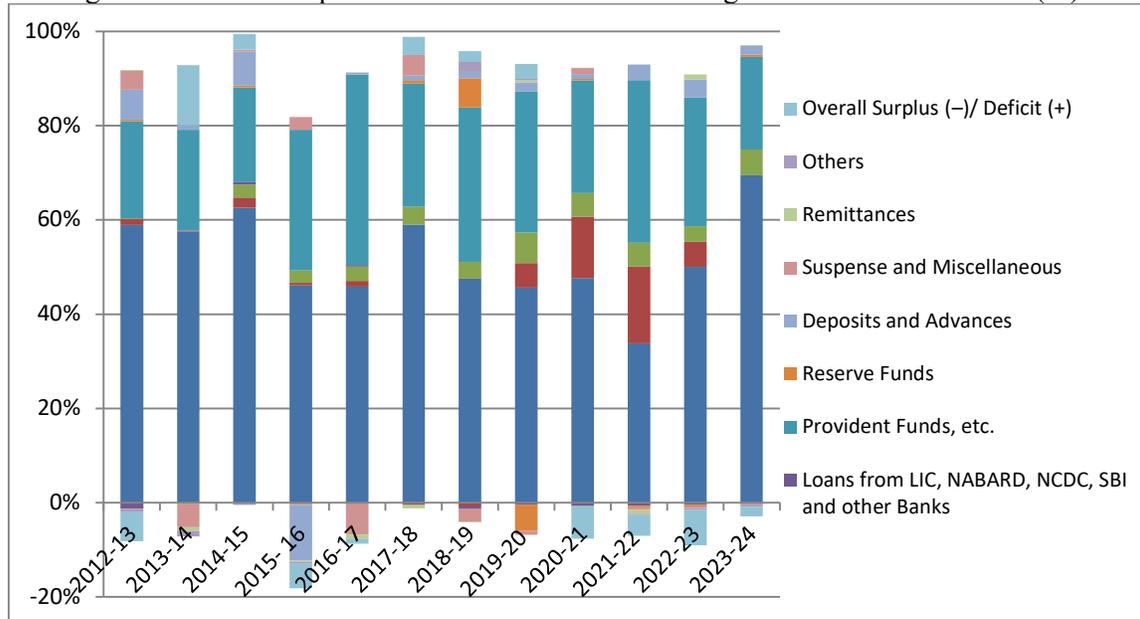
Figure 6.3: Borrowings of the Government of Kerala (Rs in crores)



Source: State Finances: A Study of Budgets (various issues), RBI

Figure 6.4 indicates market borrowing has the highest share in total borrowing and is followed by provident funds, loans from centre, deposits and advances etc. In 2022-23, when the share of market borrowings sharply fell down, government raised resources from provident fund and the loans from centre. The loans from the centre were higher during 2022-23 and fell down drastically.

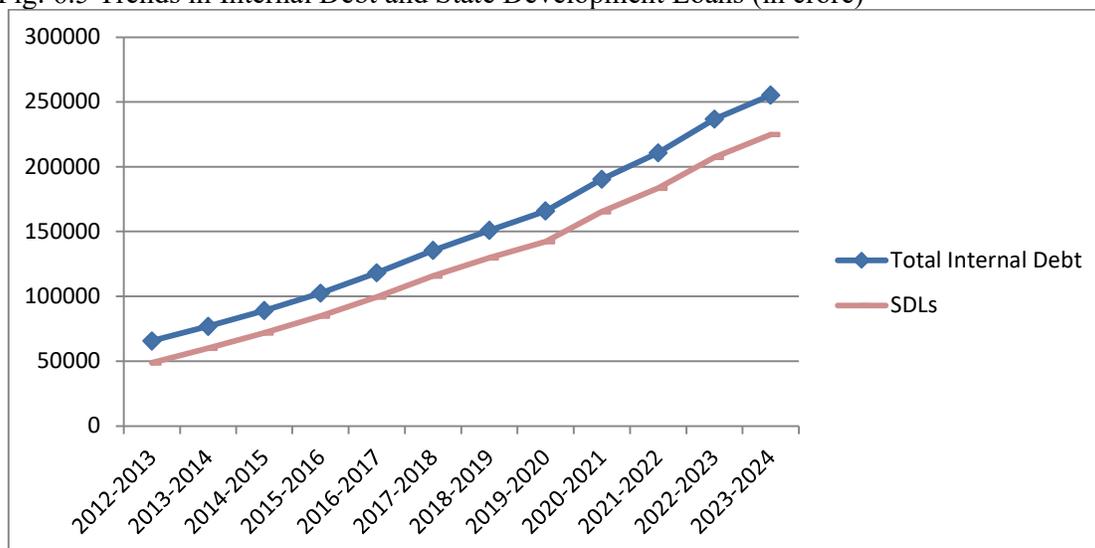
Fig 6.4 Share of Components of Government Borrowings in Gross Fiscal Deficit (%)



Source: State Finances: A Study of Budgets (various issues), RBI

Figure 6.5 shows the trend of internal debt and state development loans. It shows that both are moving in an upward direction. The state development loans stand at much high level than that of the total internal debt.

Fig: 6.5 Trends in Internal Debt and State Development Loans (in crore)



Source: The Handbook of Statistics on Indian States, RBI

The annual simple growth rate of public debt shown in Table 6.3 shows that it was as high as 17% in 2012-13 but it has gradually been decreasing to reach at 11.79 % in 2022-23. Although the growth of public debt has been decreasing but public debt to GSDP has been increasing which raises fiscal concern for the state. Public debt to GSDP was 17.52% in 2012-13 and increased to 20.38% in 2017-18 and then increased to 25.24% in 2022-23. Public debt to revenue receipts shows that public debt is becoming disproportionately higher than the revenue receipts. It was 140% in 2012-13 and increased to 151.63% in 2017-18 and increased further to 187.11% in 2022-23. Similar is the trend of growth rate of outstanding debt. However, it as a percentage to GSDP is quite higher. It was 26.7% in 2012 and increased to 30.86% in 2017-18 and estimated to be 38% in 2022-23.

Table 6.3: Growth of Public Debt and Public Debt as a percentage to GSDP and Revenue receipts (amount in Rs crore and growth rate and ratio are in percentages)

Year	Total Public Debt (Rs in crore)	Growth of Public Debt	Outstanding debt (Rs in crore)	Growth of Outstanding debt	Public Debt/GSDP	Public Debt/revenue receipts	Outstanding debt/GSDP	Outstanding Debt/revenue receipts
2012-13	72238	16.91	109967	15.98	17.52	139.99	26.7	249.15
2013-14	83520	15.62	125678	14.29	17.96	146.89	27	255.56
2014-15	96136	15.11	143557	14.23	18.28	144.12	28	247.72
2015-16	109733	14.14	162272	13.04	18.65	139.26	28.9	235.06
2016-17	125886	14.72	191623	18.09	19.83	145.13	30.2	253.43
2017-18	142981	13.58	216499	12.98	20.38	151.63	30.9	260.78

2018-19	158234	10.67	243746	12.58	20.24	153.98	30.9	262.5
2019-20	174640	10.37	267585	9.78	21.48	175.38	32.9	296.58
2020-21	205446	17.64	310856	16.17	26.65	262.41	40.3	318.45
2021-22	236266	15	360037	15.82	25.28	176.22	39	308.67
2022-23	264122	11.79	389312	8.13	25.25	187.12	38	301.17
	CAGR	AVG	CAGR	AVG	AVG	AVG	AVG	AVG
2012-13 to 2016-17	11.75	15.3	11.75	11.18	18.45	143.08	31.9	279.54
2017-18 to 2020-21	9.49	13.07	9.47	12.98	22.19	185.85	36.6	307.52
2017-18 to 2019-20#	9.49	11.54	9.47	16	20.7	14.7	39.6	313.56
2021-22 to 2023-24	11.79	13.4	8.13	11.98	25.27	181.67	38.5	304.92
2012-13 to 2023-24	12.51	14.14	12.18	13.74	21.05	165.65	32.1	271.73

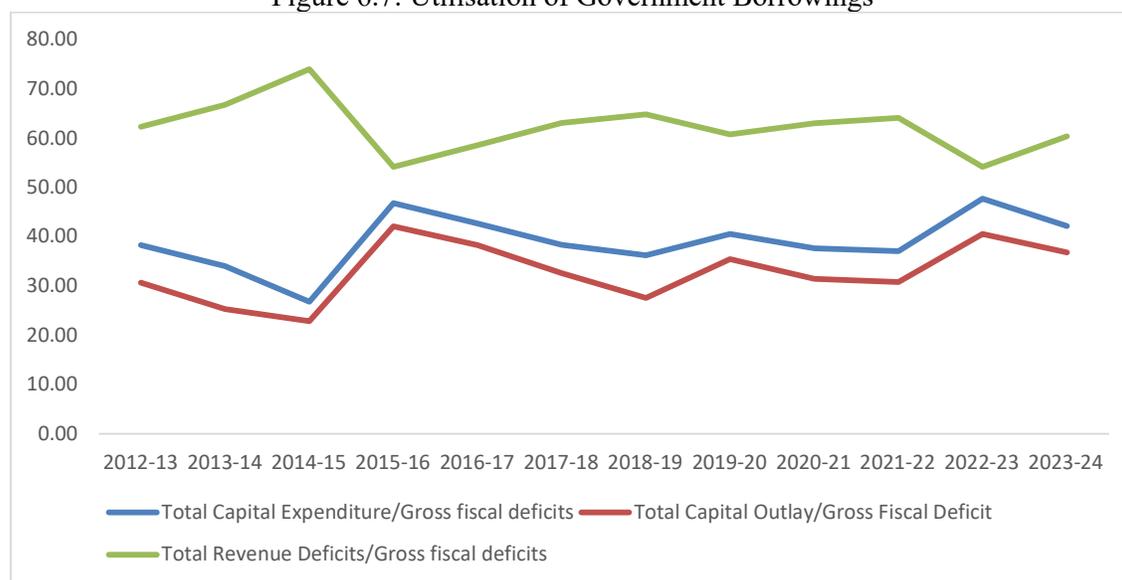
Note: # exclude Covid-19 year 2019-20.

Source: State Finances: A Study of Budgets, RBI and CAG Reports (various Issues)

Utilisation of Government Borrowings in Kerala

Figure 6.7 presents the utilisation of Kerala government borrowing. It shows that less than 50% of borrowings are utilised to meet capital expenditure or capital outlays of the state, implying a major percentage borrowed resources goes for incurring revenue expenditures. Although there was some improvement in allocation of borrowed resources since 2021-22 but again it is estimated to decline since 2022-23. Moreover, revenue deficit to gross fiscal deficit shows that in recent years a major percentage of gross borrowed resources is going to fill the revenue deficits. It is estimated to be 60% in 2022-23. This implies that the remaining percentage of around 40.00 % is estimated to finance capital expenditure of Kerala government.

Figure 6.7: Utilisation of Government Borrowings



Sources: State Finances: A Study of Budgets (various issues), RBI

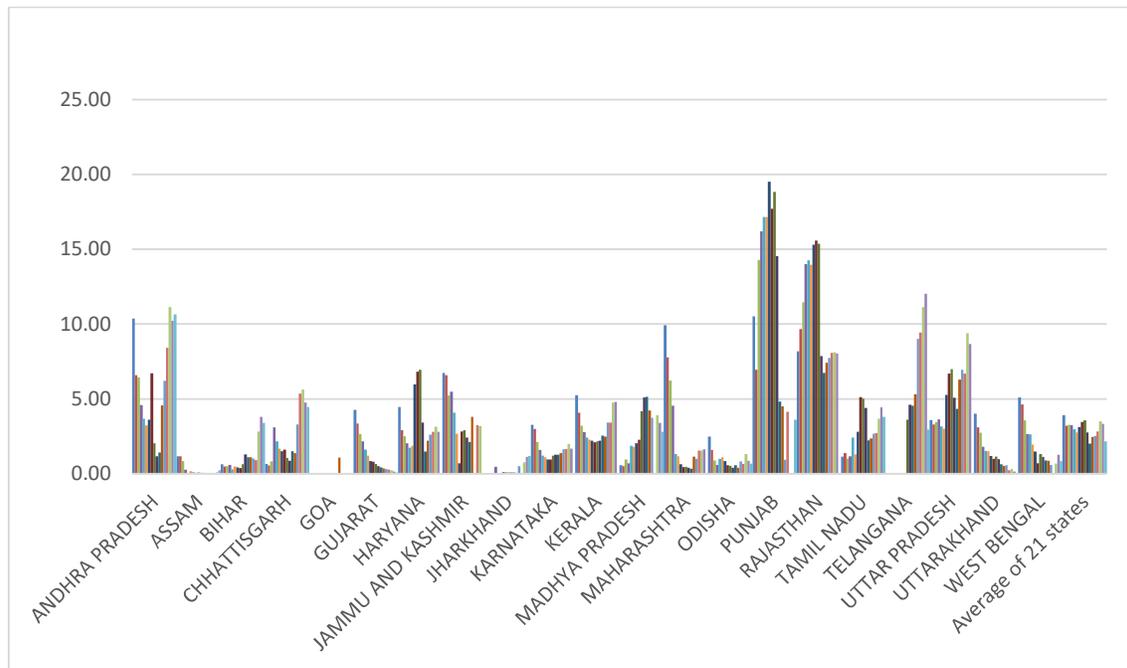
Figure 6.8 shows that outstanding guarantees extended by Kerala government was declining in initial periods till 2013-14. Then it has been rising over the years. This is likely to exert additional financial pressure on Kerala government in case there are defaults by borrowing agencies.



Sources: State Finances: A Study of Budgets (various issues), RBI

Figure 6.9 provides information on outstanding guarantees as percent of respective States' GSDP for 20 other states in India comparing Kerala. It shows Kerala stands just above the average percentage of 21 states in India, although it is not one of the top states in in terms of providing the amounts of guarantees.

Fig 6.9: Outstanding Guarantees to GSDP of 21 states in India

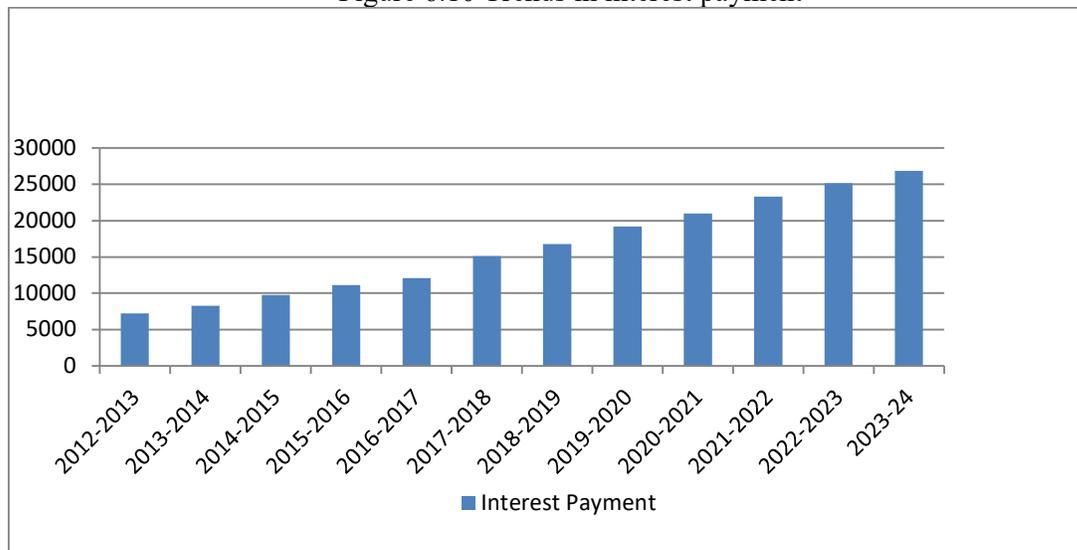


Sources: State Finances: A Study of Budgets (various issues), RBI

Interest payment on public debt in Kerala

When we consider interest payments arising on outstanding state government debt, it shows an increasing trend as shown in Figure 6.10. It was Rs 7200 crore increased to Rs 15119.9 crore and further increased to Rs 26247 crore.

Figure 6.10 Trends in interest payment

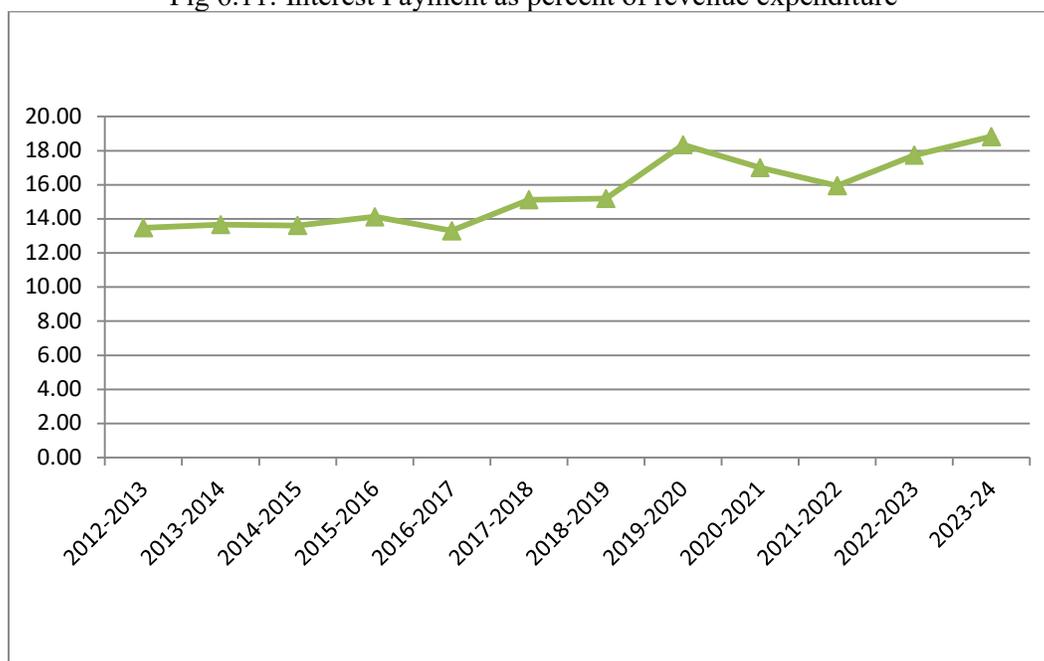


Note: 2023-24 values are revised Estimates, for 2023-24 values were taken from RBI as the values were almost matching.

Sources: State Finances: A Study of Budgets (various issues), RBI

The interest payment expenditure is also constituting a significant portion of revenue expenditure as indicated in Figure 6.11. It constituted 13.5% in 2012-13 and reached its peak of 18.4% in 2019-20 and given its marginal declining trend thereafter, it is estimated to reach at 16.5% in 2023-24. Interest payments, thus, constitutes a major part of the revenue expenditure of the state.

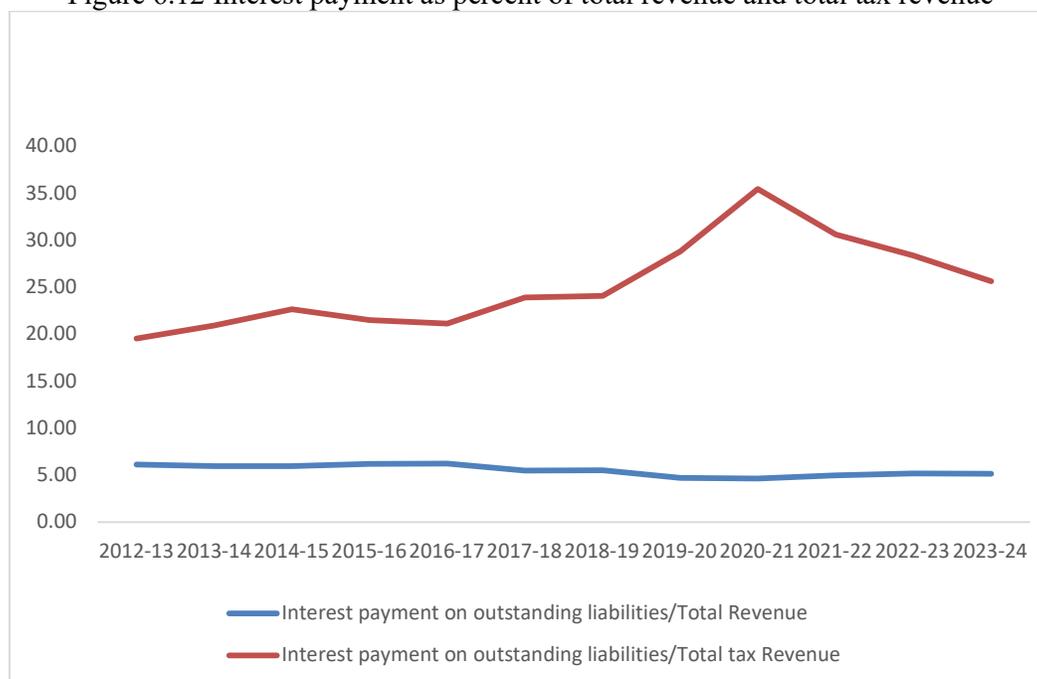
Fig 6.11: Interest Payment as percent of revenue expenditure



Source: CAG Reports (various issues)

Figure 6.12 shows the trends of interest payments of Kerala government out of its total revenues and total tax revenues. While interest payment to tax revenues has been coming down from its peak level of 35% in 2020-21 and estimated to be 25.62% in 2022-23, the interest payment to total revenue is almost at a constant level throughout or marginally lower (at 5% in 2023-24) in the recent period compared to its initial level of 6% in 2012-13. However, it still constitutes a higher share in total revenues and tax revenues. This implies that more than 25% of every one-rupee tax revenue earned by Kerala government has been foregone in paying the interest payment on its past liabilities. This implies that another 75% of each one-rupee tax revenue earned by the Kerala government is remaining to be allocated on other heads of government expenditures.

Figure 6.12 Interest payment as percent of total revenue and total tax revenue



Sources: State Finances: A Study of Budgets (various issues), RBI

A comparison between growth rate of interest payment and GSDP growth rate in Table 6.4 suggests that although there is no clear pattern in the growth rates, but interest payment in the initial periods used to grow at a higher rate than the growth rate of GSDP till 2021-22, which could imply low repayment capacity of the state government in relation to the burden arising out of outstanding debt of the government. However, there is a reversal of the scenario since 2022-23 where repayment capacity has improved or better than the interest payment burden in recent years.

Table 6.4: Comparison between growth rate of interest payments and GSDP of Kerala

Year	Interest Payment	Growth Rate	GSDP	GSDP Growth Rate
2012-2013	7205		412313.0036	
2013-2014	8265	14.71	465041.21	12.79
2014-2015	9770	18.21	512564.05	10.22
2015-2016	11111	13.73	561993.61	9.64
2016-2017	12117	9.05	634886.40	12.97
2017-2018	15120	24.78	701588.26	10.51
2018-2019	16747.9	10.77	788285.58	12.36
2019-2020	19214.7	14.73	812934.63	3.13
2020-2021	20975.4	9.16	771723.89	-5.07
2021-2022	23302.8	11.10	924465.42	19.79
2022-2023	25176.36	8.04	1023602.46	10.72
2023-2024	26843.2	6.62	1146108.67	11.97
CAGR/Averages				

2012-13 to 2016-17	13.88	13.93	11.40	11.41
2017-18 to 2020-21	11.53	14.86	3.23	5.23
2017-18 to 2019-20	12.73	16.76	7.64	8.66
2021-22 to 2023-24	7.33	8.59	11.34	14.16
2012-13 to 2023-24	12.70	12.81	9.74	9.91

Note: For values average growth rates and for growth rates averages have been reported. Sources: State Finances: A Study of Budgets (various issues), RBI.

Table 6.5 presents the maturity profile of proportion of total outstanding liabilities over short period to long period. It shows that almost 24.4 percentage of outstanding debt liabilities at the end of 2023 will be maturing within 3 years and 43% of outstanding liabilities will mature within 5-year period and 58.8 % of total outstanding liabilities will mature within 7 years and rest 41.2% will be maturing above 7 years. It shows that there is almost an equal proportionate distribution of debt liabilities of Kerala government ranging over short, medium and long period maturities, although a major proportion of Kerala government's outstanding liabilities are over medium and long periods than short period. In contrast, when we compare with all the states, it is seen that all the states on an average have a greater percentage of their outstanding liabilities over medium to long term than short term unlike Kerala government.

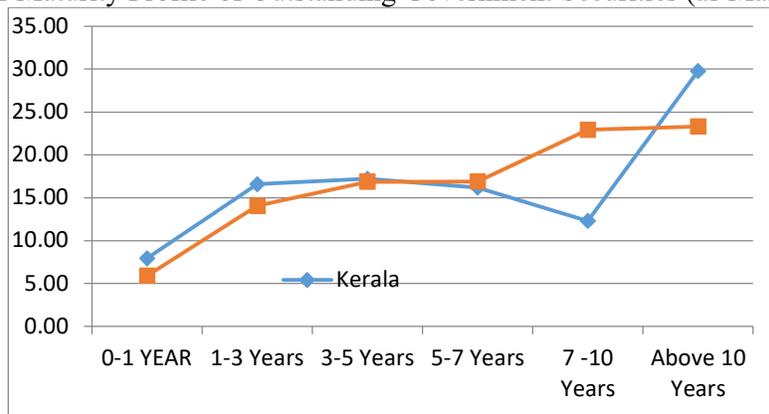
Table 6.5: Maturity Profile of Outstanding Government Securities (as on March 2023)

	0-1 Year	1-3 Years	3-5 Years	5-7 Years	7-10 years	Above 10 Years	All
Kerala	7.96	16.47	18.61	15.79	21.61	19.57	100.00
All States	5.41	13.65	17.61	18.20	26.27	18.86	100.00

Source: State Finances: A Study of Budgets (various issues), RBI

Figure 6.12 also depicts that all states on an average have a greater percentage of their outstanding liabilities over medium to long term maturities than Kerala government and in contrast, Kerala government has a higher proportion of short-term maturity liabilities than all states.

Fig 6.12 Maturity Profile of Outstanding Government Securities (as March 2023)



Sources: State Finances: A Study of Budgets (various issues), RBI

Concluding remarks

Public debt constitutes more than 25% of GSDP of the state in 2022-23 and it goes up further when other liabilities are added on it. Less than 50% of borrowed resources are allocated to capital expenditure of the state. The revenue deficit to gross fiscal deficit shows that in recent years a major percentage of gross borrowed resources is going to fill the revenue deficits. It is estimated to be 60% in 2022-23. This implies that the remaining percentage of around 40% is estimated to finance capital expenditure of Kerala government. This gives rise to huge interest burden as almost it constitutes more than 16% of revenue expenditure and 25% of tax revenue receipts of the Kerala government. This implies another 75% of tax revenue collected by the state remain to be allocated on all other expenditure heads.

This suggests that the government has to control the level of outstanding public debt and other liabilities in relation to GSDP. The State government has to take various measures to streamline its debt, otherwise, public finance of the state will be in a more precarious situation affecting the stability of its finance and economic growth rate.

Chapter 7

Implementation of FRBM Act and commitment towards targets

Government of Kerala enacted *The Kerala Fiscal Responsibility Act in 2003* (henceforth the Act). Section 3 of the Kerala Act mandates that the government shall lay in every financial year before the Legislative assembly, along with annual budget, a medium-term fiscal policy statement and a fiscal policy strategy statement. It is stipulated that medium term fiscal policy statement shall set forth a three-year rolling target for fiscal indicators with specification of underlying assumptions. Initially the act mandated that (1) the Government shall reduce the revenue deficit to 'nil' within a period of four years commencing from 1st April, 2003 and ending on 31st March 2007, (2) build up revenue surplus and utilise such amount for discharging liabilities in excess of assets; and (3) reduce the fiscal deficit to 2% of the estimated Gross State Domestic Product (GSDP) within a period of four years commencing from 1st April, 2003 and ending 31st March 2007.

Majority of the States amended their FRBM Acts between 2010-11 and 2011-12 in order to comply with the fiscal consolidation path suggested by the 13th Finance Commission (see: Chakraborty et al. 2021) Kerala also amended its Act in 2011 and it took effect from 1st April 2011. The amendment provides for (1) reducing the revenue deficit in the years 2011-12, 2012-13, 2013-14 and 2014-15 in the order of 1.4%, 0.9%, 0.5%, and 0% respectively of the GSDP. The amended act thus provides for reducing the revenue deficit to 'nil' within a period of four years commencing on 1st April 2011 and ending with 31st March, 2015. (2) build up revenue surplus and utilize such amount for discharging liabilities in excess of assets. (3) reduce the fiscal deficit to 3 percent of the estimated gross state domestic product within a period of three years commencing on the 1st April, 2011 and ending with the 31st March, 2014 by maintaining the fiscal deficit at a level not exceeding 3.5 per cent of the GSDP in the years 2011-12 and 2012-13 and reducing it to 3 percent in 2013-14; (3) Reduce the State's total debt liabilities to 29.8 per cent of the estimated GSDP within a period of four years commencing on the 1st April, 2011 and ending with 31st March 2015 by reducing the total debt liabilities in the years of 2011-12, 2012-13, 2013-14 and 2014-15 to the order of 32.3 per cent, 31.7 per cent, 30.7 per cent, and 29.8 per cent of GSDP respectively.

The next wave of amendments to State FRBM Acts came in after 2015-16 to incorporate the flexibility provision as per the recommendation of the 14th Finance Commission. Kerala amended its act in 2018 and this amendment revised targets for revenue and fiscal deficit. The revised targets are (1) Government shall eliminate the revenue deficit completely during the period from 2017-18 to 2019-20 and shall build up surplus amount of revenue and utilize such amount for discharging liabilities in excess of assets, (2) maintain a fiscal deficit at 3 per cent of GSDP during the period from 2017-18 to 2019-20. (3) Reduce the total debt liabilities of the State in the years of 2017-18, 2018-19 and 2019-20 in the order of 30.40 per cent, 30.01 percent and 29.67 per cent respectively of GSDP.

States have further amended their Fiscal Responsibility Legislations (FRL) in 2020-21 following additional two percent borrowing provided by the Union Government as part of the

Atmanirbhar Bhart package over and above the 3 percent borrowing limit. The amendment of the Act in 2021 allowed the state to borrow Rs. 1471 crore as one-time special dispensation in the financial year 2019-20. This provision came to effect on February 26, 2020. Clause (b) of the amendment stipulates that the State shall maintain the fiscal deficit of 3 per cent of GSDP during the financial year 2020-21. However, the State is eligible for additional borrowing of 2 per cent of GSDP for the financial year 2020-21 in addition to the fiscal deficit of 3 per cent of GSDP. This enhancement was subject to the implementation of specific state level reforms.

The amendment to the Act in 2022 made following provisions. (1) The government shall eliminate revenue deficit completely during the period from 2021-2022 to 2025-26. (2) make revenue surplus in the order of 0.5 per cent, 0.8 per cent, 1.2 per cent, 1.7 per cent and 2.5 per cent of GSDP in the years 2021-22, 2022-23, 2023-24, 2024-25, and 2025-26 respectively and targeted loan amount within the limit of fiscal deficit shall be completely spend for asset development; (3) reduce the fiscal deficit to 3 percent of estimated GSDP within a period of five years commencing from 1st April, 2021 and ending on 31st March, 2026 by maintaining the fiscal deficit at a level not exceeding 4.5 per cent, 4 per cent, 3.5 per cent, 3.5 per cent of GSDP in the years 2021-22, 2022-23, 2023-24, and 2024-25 respectively and reducing it to 3 percent in 2025-26. This upper limit of the fiscal deficit is inclusive of 0.5 per cent capital expenditure linked borrowing space and an additional borrowing space of 0.5 per cent of GSDP linked to performance in power sector during 2021-22 to 2024-25. (4) The state shall be eligible for capital expenditure linked borrowing, if the State achieves the targeted capital expenditure fixed for the State. Further, the state has to fulfill all the entry level conditions and performance evaluation criteria stipulated for each year in order to be eligible for additional borrowing linked to the performance in the power sector. (5) If the State is not able to fully utilize its sanctioned borrowing limit (excluding the power sector borrowing), in any particular year during the first four years of Finance Commission award period (from 2021-22 to 2024-25) it

Table 7.1 Revenue deficit, Fiscal deficit, and Debt stock: Actual and FRBM targets
(Figures as per cent of GSDP)

Year	Accounts, RE, BE and FE figures of			FRBM Targets			FRBM Amendment
	Revenue Deficit	Fiscal Deficit	Debt Stock	Revenue Deficit	Fiscal Deficit	Debt Stock	
2008-09	1.83	3.13	31.20				
2009-10	2.16	3.39	30.54				
2010-11	1.28	2.79	27.43				
2011-12	2.36	3.77	26.32	1.4	≤ 3.5	32.3	As per 2011 amendment
2012-13	2.27	3.64	25.12	0.9	≤ 3.5	31.7	
2013-14	2.43	3.64	25.59	0.5	≤ 3.0	30.7	
2014-15	2.62	3.54	25.75	0	= 3.0	29.8	
2015-16	1.64	3.02	26.75				
2016-17	2.44	4.17	29.37				
2017-18	2.41	3.83	30.04		3.0	30.40	As per 2018 amendment
2018-19	2.23	3.45	30.40		3.0	30.01	
2019-20	1.78	2.93	32.02	0	3.0	29.67	
2020-21	2.60	4.57	38.51	Surplus	3.0		As per 2022 amendment
2021-22	2.23	3.99	35.92	-0.5	< 4.5	≤ 37.7	

2022-23	0.88	2.44	34.62	-0.8	< 4.0	≤ 34.5	
2023-24	1.58	2.99	34.20	-1.2	< 3.5	≤ 33.7	
2024-25(RE)	2.29	3.51	34.22	-1.7	< 3.5	≤ 32.8	
2025-26(BE)	1.90	3.16	33.77	-2.5	3.0	≤ 32.0	
2026-27(FE)	1.74	3.00	33.15				
2027-28(FE)	1.66	3.00	32.60				

Note: Negative numbers for revenue deficit denote revenue surplus.

Source: Medium Term Fiscal Policy Statement of Kerala for various years and FRBM Act and its amendments.

will have the option of availing the unutilized borrowing amount in any of the subsequent years within the Finance Commission award period; (6) Reduce the total debt liabilities of the State in the order of 34.7 per cent, 34.5 per cent, 33.7 per cent, 32.8 per cent and 32 per cent of the GSDP in the years of 2021-22, 2022-23, 2023-24, 2024-25 and 2025-26 respectively. Table 7.1 presents the actual revenue deficit, fiscal deficit and debt-GDP ratio against the targets set by the amendments to the Act.

The Table shows that:

- The revenue deficit always exceeded the target set by the different amendments of the Act.
- Since 2016-17 fiscal deficit recoded continuous decline and reached within the target in 2019-20. However, it increased to 4.57 in 2020-21 and in the next three years it remained within (higher) targets set for these years by the Amendment to the Act in 2022.
- Though, for the pandemic and post-pandemic years government set higher targets for debt-GSDP ratio, it was above the targets since 2017-18.
- The higher fiscal deficit and debt-GSDP ratio in the pandemic and post-pandemic years, may be reflecting the adverse impact of pandemic on the fiscal consolidation of the State.

6.1 Medium-term Fiscal Policy Strategy for the next three years

The Medium-Term Fiscal Policy Statement in the year 2024 lays out the targets for the next three years, namely 2024-25, 2025-26, and 2026-27. The targets are based on the following assumptions on revenue and expenditure growth.

GSDP Growth: GSDP is projected to growth at 11.68% in the year 2024-25. In the subsequent two years it is projected to grow at 13 percent.

State's Own Tax Revenue: State's Own Tax Revenue is estimated to grow at 10.18 percent over 2023-24 revised estimates. In the subsequent two years, it is projected to grow at 13 percent per annum. Non-tax Revenue is projected to grow at 15 percent in 2025-26 and 2026-27.

Share of Central Taxes: In the year 2024-25 it is projected to grow at 12.20%. In the subsequent two years, its projected growth rates is 22 percent and 20 percent respectively in 2025-26 and 2026-27. Grant-in-aid is estimated to taper off in the forward estimates period (2025-26 and 2026-27) due to the discontinuation of revenue deficit grant.

Revenue Expenditure: Revenue expenditure is projected to growth at 9.96 percent in the year 2024-25 and in the subsequent two years its growth is pegged at 10 percent.

Borrowing ceiling and Debt/GSDP ratio: For the years 2025-26 and 2026-27 borrowing ceiling is fixed at 3 percent of GSDP as per the recommendation of 15th Finance Commission. Further, the additional borrowing in respect of power sector reforms will cease after 2024-25. The Debt-GSDP ratio is projected at 33.22 per cent in 2025-26 and 32.40 per cent in 2026-27, in line with State's commitment to fiscal consolidation.

Salaries and Pensions: Expenditures on salaries and pension are projected to grow at 7 percent and 5 percent respectively to cover the incremental growth.

Interest: Interest is calculated by applying effective interest on outstanding debt. Effective interest rate is worked out to be 7 percent.

Subsidy: The provision for subsidy is normalizing on account of the reduced need during the post pandemic period.

Devolution to LSG's: The 6th State Finances: A Study of Budgets (various issues) Commission will cover the forward estimate period, namely 2025-26 and 2026-27. Grants under General Purpose Fund and Maintenance fund are projected at 4 percent and 6.5 percent respectively of State's Own net tax revenue at t-2 year respectively for the year 2025-26 and 2026-27. Development fund is fixed at 28 percent and 28.5 percent of plan outlay for 2025-26 and 2026-27 respectively.

Capital Expenditure:

Capital Outlay is projected to grow at 7 percent and 12 percent for 2025-26 and 2026-27 respectively. In addition to this, investment in infrastructure by KIIFB and asset creation through local bodies are supplementing capital expenditure.

Concluding Remarks

The Government of Kerala enacted The Kerala Fiscal Responsibility Act in 2003. The Act mandates the government to lay in every financial year before the legislative assembly, along with annual budget, a medium-term fiscal policy statement and a fiscal policy strategy statement specifying the targets for revenue deficit, fiscal deficit and debt. The Act was amended in 2011, 2018 and 2022, and in each amendment the targets were revised. Analysis of the trends in revenue deficit, fiscal deficit and debt-GSDP ratio against the targets set in the act reveals the followings. Revenue deficit always exceeded the target set by the different amendments of the Act. Since 2016-17 fiscal deficit recorded continuous decline and it reached below the target in 2020-21. However, fiscal deficit increased to 4.57 in 2020-21 and in the next three years it remained within the (higher) targets set for these years by the Amendment to the Act in 2022. Since 2018-19, debt-GSDP ratio exceeded the target, despite higher targets for the pandemic and post pandemic years. The inability of the State to adhere to the fiscal targets in the recent years is mainly due to the Covid-19 shock, which caused a decline in revenue receipts and necessitated increased expenditure.

Chapter 8

Analysis of State transfers to urban and local bodies and major decentralisation initiatives

In Kerala, formal decentralisation of governance at the local level goes back to 1960s, before the 73rd and 74th constitutional amendment. After the formation of state of Kerala in 1956, Kerala Panchayat Act was passed in 1961 and this conferred limited power and autonomy to village panchayats. Following the 73rd and 74th constitutional amendments, the State promptly passed the Kerala Panchayati Raj Act in 1994 and this Act provided for a three-tier system consisting of Grama panchayat at village level, Block Panchayat at intermediate level and District Panchayat at district level. In addition to the significant transfer of power and financial resources to the local governments, in 1996 government launched the People's Plan Campaign to ensure citizen participation in the planning process (Government of Kerala, 2022). All these resulted in local governments being allocated substantial portion of State's development fund. To further strengthen local governments, the Government of Kerala appointed a Committee on Decentralization of Powers (S.B. Sen Committee) in 1996 and revised the decentralisation programme based on the recommendations of this committee. The Kerala Panchayati Raj Act was amended in 1999, introducing provisions to strengthen the Grama Sabha, improve transparency, establish new institutions such as Ombudsman and Appellate Tribunals, implement a new auditing system, grant more decision-making powers to elected functionaries, and promote wider public participation (Government of Kerala, 2022). All these reduced the scope for state government interference in the day-to-day functions of the local bodies (Issac, 2001). At present there are 1,200 local governments in Kerala, which include 941 Grama Panchayats, 152 Block Panchayats, 14 District Panchayats, 87 Municipalities and 6 Municipal Corporations.

Functional devolution to the PRIs has been successfully implemented in the state. All 29 subjects specified in the Constitution are listed in the Kerala Panchayati Raj Act of 1994 and devolved successfully to the PRIs in the state. The major institutions such as Krishi Bhavan, Veterinary sub centres, Primary Health Centres, Lower Primary Schools, Anganwadi etc, from the respective line departments have transferred to the PRIs to strengthen the functional devolution based on the 29 subjects. However, the line departments of the government are being continued their dominant role in the planning and implementation of the schemes which are transferred to the PRIs (Issac, 2001). The dual control of the transferred institutions sometimes affects the service delivery.

The state government transferred a number of institutions and posts to the Grama Panchayats between 1995 and 2001 as part of efforts to strengthen their functions and functionaries. Functionaries from major departments such as agriculture, dairy, fisheries, animal husbandry, rural development, social welfare, tribal development, health, and education were transferred to the Grama Panchayats during this period (Prakash et al., 2013). To strengthen the capacity of functionaries, the government entrusted the Kerala Institute of Local Administration (KILA) with the responsibility of conducting training programmes for elected representatives and

government officials of the local governments. The PRIs in Kerala has full managerial and part disciplinary control over the transferred functionaries (Government of India. 2013).

The State has also been regularly constituting the constitutionally mandated institutions related to decentralisation, namely State Election Commission, and State Finances: A Study of Budgets (various issues) Commission respectively for conducting regular elections to the local bodies and deciding the devolution of financial resources to the local bodies. Further, the State has taken many measures to implement e-governance at the local level.

State Election Commission

As mandated by the constitution, the State Election Commission was established in 1993 to regularly conduct free and fair elections to the local bodies. The first election was held in 1995, following the passing of the Kerala Panchayati Raj and Municipality Acts. Since then, elections have been regularly conducted every five years in the state. After the 1995 elections, subsequent elections were held in 2000, 2005, 2010, 2015, and 2020. The elections were conducted simultaneously for all the three tiers of the Panchayati Raj system as well as for urban local bodies. The reservations for SC/ST and women have been provided in all elections. Additionally, the Government of Kerala passed legislation in 2009 to implement 50 percent reservation for women in all local bodies at all levels. This policy has been in effect since the 2010 elections.

Decentralisation and e-governance

The E-governance at an extensive level has been implemented at the local governments to improve delivery of services and functioning. The entrusted agency for this, namely the Information Kerala Mission (IKM), has developed several software for uploading data on a real time basis and also disseminate data to the public. The software developed include, among others, those for plan monitoring and management, accounting, finance, civil registrations and service delivery. In addition, a front office system in all grama panchayats has been set up to handle applications from the public as well as to provide various certificates and services. Thus, it is one of the largest computerisation initiatives at the local self-government level in India.

Table 8.1 Grants to Local bodies in the State

Year	Grants (Rs crore)	As percent of Revenue Expenditure	As percent of revenue receipts
2017-18	8470.23	8.5	10.2
2018-19	10278.46	9.3	11.1
2019-20	6887.03	6.6	7.6
2020-21	11399.78	9.2	11.7
2021-22	11185.01	7.7	9.6
2022-23	10838.47	7.6	8.2
2023-24	9050.14	6.3	7.3
2024-25 (R.E.)	13200.73	8.1	9.9
2025-26 (B.E)	15980.49	8.9	10.5

Source: Budget documents (Various years), Government of Kerala

State Finances: A Study of Budgets (various issues) Commissions (SFCs)

So far Kerala has constituted six State Finances: A Study of Budgets (various issues) Commissions (SFCs) over the years. These SFCs have overtime strengthened and streamlined the fiscal decentralization in the State. The First SFC (1995-2000) laid the foundation by recommending a fixed percentage of state revenues for local bodies. The Second SFC (2001-2005) improved fiscal management at the local level. The Third SFC (2006-2010) further increased revenue allocation to Panchayats and encouraged own-revenue generation. The Fourth SFC (2011-2016) focused on improving fiscal management, especially in property tax collection and fund usage. The Fifth SFC (2016-2021) emphasized higher revenue allocation, capacity building, better tax collection, and financial discipline for local bodies. The Sixth SFC has recently been constituted. The State has consistently constituted SFCs on time. Further, the devolution of resources from the State financial devolution from the state to local governments has been revised and increased periodically through all SFCs.

Table 8.2 Composition of Grants to Local bodies

Year	General Purpose	Maintenance Assets	Expansion and Development	Total
2017-18	15.9	21.6	62.6	100
2018-19	25.3	18.8	55.9	100
2019-20	23.3	18.1	58.7	100
2020-21	15.1	23.4	61.5	100
2021-22	17.5	20.1	62.4	100
2022-23	17.2	19.7	63.2	100
2023-24	18.5	14.9	66.6	100
2024-25 (R.E.)	15.9	25.2	59.0	100
2025-26 (B.E)	16.1	26.2	57.7	100

Source: Budget documents (Various years), Government of Kerala

Table 8.3 Share of different types of local governments in grants

Year	Corporations	Municipalities	District Panchayats	Block Panchayats	Grama Panchayats	Total
2017-18	835.76	1116.17	936.09	823.83	4758.38	8470.23
	(9.87)	(13.18)	(11.05)	(9.73)	(56.18)	(100.00)
2018-19	887.3	1241.95	1237.71	1017.14	5894.36	10278.46
	(8.63)	(12.08)	(12.04)	(9.90)	(57.35)	(100.00)
2019-20	544.25	839.24	710.72	678.51	4114.31	6887.03
	(7.90)	(12.19)	(10.32)	(9.85)	(59.74)	(100.00)
2020-21	1198.97	1547.64	1466.43	1038.37	6148.37	11399.78
	(10.52)	(13.58)	(12.86)	(9.11)	(53.93)	(100.00)
2021-22	921.03	1575.41	1301.48	1022.13	6364.96	11185.01
	(8.23)	(14.09)	(11.64)	(9.14)	(56.91)	(100.00)
2022-23	1105.45	1308.26	1240.94	1021.53	6162.28	10838.47
	(10.20)	(12.07)	(11.45)	(9.43)	(56.86)	(100.00)

2023-24	877.04	1149.16	915.5	852.02	5256.41	9050.14
	(9.69)	(12.70)	(10.12)	(9.41)	(58.08)	(100.00)
2024-25 (R.E.)	1160.7	1842.27	1279.77	1092.14	7825.85	13200.73
	(8.79)	(13.96)	(9.69)	(8.27)	(59.28)	(100.00)
2025-26 (B.E.)	1522.28	2452.23	1723.29	1421.38	8861.3	15980.49
	(9.53)	(15.35)	(10.78)	(8.89)	(55.45)	(100.00)

Note: The figures in brackets are the percentage share in total.

Source: Budget documents, Government of Kerala.

Maintenance grant and its utilisation rate

One important responsibility of local governments is to maintain the assets and infrastructure under their control. The Second State Finance Commission (SFC) classified the grants to local bodies into three major heads: (1) General Purpose grant, (2) Development grant and (3) Maintenance grant. The maintenance grant involves setting up a special fund for non-road assets and road assets under the control of LSGIs. The government allots maintenance grants to the LSGIs in two categories: road assets and non-road assets. The local governments have to identify from time to time the maintenance requirements of the assets under their control, including the assets of the transferred institutions based on the survey of assets. This grant has a significant role in local governance as the grant enables the local governments to preserve the road and non-road assets under their control, including the assets of transferred institutions, for providing better public service delivery through the maintenance of these assets properly. The State Finance Commissions recommended that 5.5 percent of the own tax revenue of the State government has to be devolved to the local bodies as maintenance grant each year. The Fifth State Finance Commission (SFC) recommended to increase this to 6%, and the Sixth SFC recommended a further increase to 6.5%.

The utilisation rate of the maintenance grants is varying considerably over the years. CAG Audit report of the local self-government finances for the year ended on 31st March 2008, reveals that the utilisation rate of maintenance grant during the period 2004-05 to 2007-08 was 71 percent. Of the total amount of Rs. 11270.54 lakhs allotted to all types of local bodies during the period 2004-05 to 2007-08, Rs. 7953.34 lakhs were utilised. The utilisation rates by the type of local body during this period are: grama panchayats 76%, block panchayats 63%, district panchayats 62%, and urban local bodies 81%.

In the financial year 2015-16, the utilisation rate of the maintenance grant for all local bodies was 62.65 percent. The latest CAG Audit Report (LSGIs) 2024 for the year ended 31 March 2022, shows that in the year 2021-22 the utilization rate of the maintenance grant was 68.27 percent. Nearly one-third has not been utilized by the local bodies in recent years. The maintenance grant plays a crucial role in asset management by local bodies. An increase in the utilization of this grant reflects better asset management and improved efficiency in local governance.

Concluding Remarks

Following the 73rd and 74th constitutional amendments, Kerala legislature passed the Kerala Panchayati Raj Act in 1994. The Act provided for a three-tier system consisting of Grama Panchayat at village level, Block Panchayat at intermediate level and District Panchayat at district level. A number of measures to strengthen the decentralised governance were

introduced with the amendment of The Kerala Panchayati Raj Act in 1999. All 29 subjects specified in the Constitution are listed in the Kerala Panchayati Raj Act 1994 and devolved to the PRI in the State. The State has been regularly constituting the constitutionally mandated institutions, namely State Election Commission (SEC) and State Finances: A Study of Budgets (various issues) Commission (SFC). The State also conducts regular elections to the local self-governments. Further, the State has taken several measures to implement e-governance at the local level. At present there are 1200 local governments in Kerala, which include 941 Grama Panchayats, 152 Block Panchayats, 14 District Panchayats, 87 Municipalities and 6 Municipal Corporations. For the last eight years, transfer of fund to local bodies as percentage of revenue expenditure is almost stable - around 8 percent of the total revenue expenditure. Around 60 percent of the funds thus transferred is for expansion and development purpose. Grama Panchayats account for around 55 percent of the total grants to the local bodies.

Chapter 9

Impact of State Public Enterprises' finances on the State's financial health

As per the latest Kerala Public Enterprises Review 2022-23, there are 149 public enterprises in Kerala owned fully or partially by the Government of Kerala. Eighteen of these 149 enterprises are either been in the process of liquidation or winding up. The Review reports the financial performance of the remaining 131 enterprises. These enterprises are grouped into seven sectors; the sectoral distribution of public enterprises is given in Table 9.1. The Table shows that majority of the enterprises are in the sector called Manufacturing & Production (35 in number), followed by Development & Infrastructure sector (31 in number).

Table 9.1 Sector wise distribution of State-level Public Sector Enterprises in Kerala

Sl. No.	Sector	No. of SLPEs	% of Total
1	Manufacturing & Production	35	26.72
2	Development & Infrastructure	31	23.66
3	Services/Trading /Consultancy	24	18.33
4	Traditional and Welfare	19	14.5
5	Agriculture/Plantation/Livestock	12	9.16
6	Financial Services	6	4.58
7	Public Utilities	4	3.05
	Total	131	100

Source: A Review of Public Enterprises in Kerala 2022-23

Table 9.2 Status of Ownership of SLPEs in Kerala

Sl. No.	Status of Ownership	No. of SLPEs	% of Total
1	Wholly owned by Government of Kerala	62	47.33
2	Joint ownership of Government of Kerala and Others	27	20.62
3	Joint ownership of Government of Kerala, Public and Others	15	11.45
4	Joint ownership of Government of Kerala and Central Government	9	6.87
5	Joint ownership of Government of Kerala, SLPEs and Others	13	9.92
6	Joint ownership of Government of Kerala, Central Government and Others	4	3.05
7	Joint ownership of Government of Kerala and NRIs	1	0.76
	Total	131	100.00

Source: A Review of Public Enterprises in Kerala 2022-23

Table 9.2 presents the ownership pattern of these enterprises. It shows that 67 enterprises are wholly owned by the Government of Kerala. Further, these enterprises are also classified into government companies and statutory bodies. According to the 2022-23 Public Enterprise Review, there are 124 government companies and 7 statutory bodies.

Table 9.3 Investment by the State Government in SLPEs (Rs in crore)

Sl. No.	Particulars	2020-21	2021-22	2022-23
1	Paid up Capital by Government of Kerala in SLPEs	15029.99	16745.93	18715.69
2	% of Total Share Capital by Government of Kerala	81.37%	79.45%	73.54%
3	Terms Loan by Government of Kerala in SLPEs	13483.43	16981.30	19242.48
4	% of Total Term Loans by Government of Kerala	29.63%	28.27%	29.76%
	Total Investment by Gok (Sl. No. 1+ Sl. No. 3)	28513.42	33727.23	37958.17
	Total Investment (Financial) in SLPEs	54850.31	81536.01	90948.14
	% of Total Investment by GoK in SLPEs	51.98%	41.36%	41.74%

Source: A Review of Public Enterprises in Kerala 2022-23

Table 9.3 presents the total investment by the Government of Kerala in these public sector enterprises for three years starting from 2020-21. It reveals that the share of Government of Kerala in the total financial investment of these enterprises declined by almost ten percentage point during these three years. Table 9.4 list the top ten enterprises in terms of financial investment. The Table reveals that first four enterprises, namely Kerala Water Authority, Kerala State Electricity Board Limited (KSEB L), Kerala State Road Transport Corporation (KSRTC), and Kerala State Social Security Pension Limited (KSSPL) accounted for 78.9 per cent of the total public sector investment.

Table 9.4 Top ten Enterprises in terms of Investment (Financial) in 2022-23 (Rs in crores)

Sl. No.	Name of Enterprises	Investment	Percent of total investment
1	Kerala Water Authority	28313.15	31.13
2	Kerala State Electricity Board Limited	17440.52	19.18
3	Kerala State Road Transport Corporation	14330.18	15.76
4	Kerala State Social Security Pension Limited	11733.39	12.9
5	Kerala Financial Corporation	5081.71	5.59
6	Kerala Industrial Infrastructure Development Corporation	3489.94	3.84
7	Kerala State Backward Classes Development Corporation Limited	1603.12	1.76
8	Kerala State Housing Board	1122.67	1.23
9	Kerala State Textile Corporation Limited	618.71	0.68
10	The Kerala State Cashew Development Corporation Limited	592.55	0.65

Source: A Review of Public Enterprises in Kerala 2022-23

Table 9.5 Performance of SLPEs in the last decade (Rs in crore)

Year	No. units	Paid up Capital	Investment Financial	Profit making units	Amount of Profit	Loss making units	Amount of loss	Net Profit/Loss
A. Government companies								
2013-14	88	2786.4	12142.3	43	623.4	43	300.2	323.2
2014-15	88	2895.4	13928.8	43	620.9	43	421.3	199.6
2015-16	88	2925.7	15307.1	39	534.3	48	344.9	189.4
2016-17	90	6712.5	17318.8	39	322.6	48	1942.8	-1620.2
2017-18	97	7345.2	29713.2	42	657.0	52	1277.4	-620.4
2018-19	109	7275.5	28307.1	47	575.9	59	915.2	-339.3
2019-20	121	7794.5	23330.6	47	323.2	64	985.1	-662.0
2020-21	122	7530.0	37433.4	50	829.0	62	1506.1	-677.1
2021-22	124	7842.8	37279.8	55	832.4	63	2767.4	-1935.0
2022-23	124	8436.2	38554.8	54	829.4	56	2858.5	-2029.1
B Statutory Bodies								
2013-14	8	10605.3	23829.4	2	72.0	5	1365.9	-1293.9
2014-15	8	11050.6	26117.5	2	73.5	5	2838.0	-2764.5
2015-16	8	11458.3	28195.5	2	49.3	5	2134.6	-2085.4
2016-17	7	8756.0	23510.8	2	6.1	4	2194.8	-2188.8
2017-18	7	9646.5	29092.9	3	15.8	3	2607.4	-2591.6
2018-19	7	9065.8	25340.1	4	659.5	2	1224.2	-564.7
2019-20	7	9550.3	30960.7	3	21.9	3	1734.0	-1712.2
2020-21	7	10610.3	36318.0	3	24.8	3	2725.9	-2701.2
2021-22	7	13622.2	44256.3	3	22.6	3	2846.6	-2824.0
2022-23	7	17857.5	52393.4	3	59.8	3	2842.4	-2782.6

Source: A Review of Public Enterprises in Kerala 2022-23

Table 9.5 presents the trends in the number of public enterprises, their total investment and the number of enterprises making profit over the last ten years. investment and the number of profitable and loss-making units for the last ten years. The performance is reported separately for government companies and statutory bodies. The Table shows that the number of loss-making government companies increased over the years and their combined loss is Rs. 2029.1 crores 2022-23. Similarly, Statutory Bodies also recorded loss and these entities together recorded a combined loss of Rs. 2782.6 crores in 2022-23.

Table 9.6 Performance of SLPEs in the last three years (in Rs crores)

SI No.	Sector	2022-23	2021-22	2020-21
1	Number of Employees	129982	127416	133369
2	Paid up Capital	26293.76	21464.99	18471.75
3	Investment (Financial)	90948.14	81536.01	54850.31
4	Net Worth	-33243.6	-28894.6	-18322.6
5	Net Turnover	40774.07	37405	33134.18
6	Operating Profit generated by SLPEs	2028.53	1643.04	4144.89
7	Number of Profit Earning Enterprises	57	58	52
8	Amount of Profit	889.15	855.02	429.58
9	Number of Loss Incurring Enterprises	59	66	66
10	Amount of Loss	5700.88	5614	4031.23
11	Net Profit/Loss	-4811.73	-4758.98	-3601.65
12	Contribution to State Exchequer	16863.94	13358.85	12018.79
13	Contribution to Central Exchequer	970.54	900.64	709.5
14	Guarantee Commission Paid	20.92	116.29	94.37
15	Corporate Social Responsibility (CSR) Expenditure	15.57	8.13	12.22
16	Subsidies/Grants Received from GoK	1444.75	1654.71	4569.79
17	Subsidies/Grants Received from GoI	1936.2	1934.74	1526.43
18	Budgetary Support from GoK	1267.6	2928.39	2449.04
19	Dividend Paid/Proposed	7.97	12	0.99
20	Expenditure on Research & Development	8.38	12.48	6.36
21	Accumulated Loss	-54475.4	-42930.4	-31517.1

Source: A Review of Public Enterprises in Kerala 2022-23.

Table 9.6 presents more detailed information on performance of PSEs in Kerala during the three years starting from 2020-21. The Table shows that the accumulated losses of these enterprises eroded their capital to the extent that the combined net worth of these enterprises is negative. The Table also gives the contribution of these enterprises to the State exchequer in terms of taxes and duties. Similarly, it also presents the subsidies and grants received from Government of Kerala and Government of India as well as the budgetary support from Government of Kerala.

Table 9.7 and Table 9.8 respectively present the top ten profit making and loss-making enterprises in 2022-23. It may be seen that top four enterprises account for 64 percent of the total net profit in 2022-23. Similarly, the Table 8 reveals that 86 per cent of the total net loss is accounted by four public sector enterprises, namely Kerala State Road Transport Corporation (KSRTC), Kerala Water Authority (KWA), Kerala State Social Security and Pension Limited,

(KSSPL), and Kerala State Electricity Board Limited. Table 9.9 presents the performance of PSEs by sector for the year 2022-23. The Table shows all the sectors, except Development & Infrastructure, recorded loss, with public utilities recording highest loss. Further, in three sectors, namely Financial Services, Traditional & Welfare and Public Utilities, the accumulated loss is such that net worth become negative.

Table 9.7 Top 10 Profit making Enterprises in 2022-23 (profit in Rs. crore)

Sl. No.	Name of Enterprises	Amount of Net Profit	Percent of total Net Profit
1	The Kerala State Financial Enterprises Limited	350.88	39.46
2	The Kerala Minerals and Metals Limited	85.04	9.56
3	The Travancore-Cochin Chemicals Limited	67.91	7.64
4	Kerala State Industrial Development Corporation Limited	64.73	7.28
5	Kerala Financial Corporation	50.19	5.64
6	Kerala State Backward Classes Development Corporation Limited	46.98	5.28
7	The Pharmaceutical Corporation (Indian Medicines) Kerala Limited	42.47	4.78
8	Kerala State Beverage (Manufacturing & Marketing) Corporation Limited	35.93	4.04
9	Kerala Medical Services Corporation Limited	21.86	2.46
10	Kerala State Electronics Development Corporation Limited	16.81	1.89

Source: A Review of Public Enterprises in Kerala 2022-23

Table 9.8. Top 10 loss making enterprises in 2022-23

Sl. No.	Name of Enterprises	Amount of net loss	Percent of total net loss
1	Kerala State Road Transport Corporation	1521.82	26.69
2	Kerala Water Authority	1312.34	23.02
3	Kerala State Social Security Pension Limited	1043.46	18.3
4	Kerala State Electricity Board Limited	1023.62	17.96
5	The Kerala State Civil Supplies Corporation Limited	190	3.33
6	The Kerala State Cashew Development Corporation Limited	75.52	1.32
7	Kerala State Textile Corporation Limited	67.09	1.18
8	Kerala Transport Development Finance Corporation Limited	59.13	1.04
9	Travancore Titanium Products Limited	51.27	0.9
10	Kerala Feeds Limited	42	0.74

Source: A Review of Public Enterprises in Kerala 2022-23

Table 9.9 Performance of Public Sector Enterprises in 2022-23 by sector (Rs crores)

No.	Sector	Paid up Capital	Investment (Financial)	Net worth	Net Profit/Loss
1	Development & Infrastructure	957.06	5844.92	3515.26	63.96
2	Financial Services	803.28	17291.63	-4804.48	-690.97
3	Agriculture/ Plantation/Livestock	59.07	110.28	476.61	-27.99
4	Manufacturing & Production	1437.87	2443.19	755.35	-110.49
5	Traditional & Welfare	1324.42	3776.13	-973.87	-43.99
6	Services/Trading/Consultancy	912.14	1313.40	451.09	-144.70
7	Public Utilities	20799.92	60168.58	-32663.51	-3857.55
	Total	26293.76	90948.13	-33243.55	-4811.73

Source: Review of Public Sector Enterprises, 2022-23

Table 9.10 Contribution of Profit and Dividend to State's revenue (₹ in Crore)

Year	Dividend and Profit	As percent of total revenue receipts	As percent of non-tax revenue receipts
2011-12	67.44	0.18	2.60
2012-13	48.15	0.11	1.15
2013-14	100.58	0.20	1.80
2014-15	74.18	0.13	1.02
2015-16	90.23	0.13	1.07
2016-17	96.37	0.13	0.99
2017-18	126.48	0.15	1.13
2018-19	132.12	0.14	1.12
2019-20	100.33	0.11	0.82
2020-21	110.19	0.11	1.50
2021-22	227.98	0.20	2.18
2022-23	116.07	0.09	0.76
2023-24	123.60	0.09	0.72

Source: RBI's State Finances: A Study of Budgets (various issues) Database

Table 9.11 SLPSEs and Kerala's Budget (Rs. in crores)

Year	Subsidies/Grants Received from Government of Kerala	Budgetary Support from Government of Kerala	Dividend and Profit receipt
2020-21	4569.79	2449.04	110.19
2021-22	1654.71	2928.39	227.98
2022-23	1444.75	1267.6	116.07

Source: A Review of Public Sector Enterprises 2022-23 and RBI's State Finances: A Study of Budgets (various issues) Database

The poor profitability of the public sector enterprises resulted in the meagre contribution of PSEs to State revenue in terms of Profit and Dividend as shown in Table 9.10. Another way poor financial performance of the public sector enterprises affected State Finances: A Study of Budgets (various issues) is through their inability to repay and service the loans taken from Kerala government. Table 9.11 shows the top ten enterprises having arrears in interest and principal as on March 31, 2023. The Table shows that three public utility enterprises, namely Kerala State Road Transport Corporation (KSRTC), Kerala Water Authority (KWA) and Kerala Electricity Board Limited (KSEBL) accounts for 65 percent of the total arrears owing to the Government of Kerala.

Tale 9.12 Arrears in the loan repayment to State government (Rs. in Crores)

No	Public Sector Enterprise	Principal	Interest	Total	As percentage of all arrears	Earliest Period to which arrears relate
1	Kerala State Road Transport Corporation	5,687.0	1,703.2	7,390.2	36.64	1983-84
2	Kerala Water Authority	2,332.6	1,597.2	3,929.8	19.48	2007-08
3	Kerala State Electricity Board	1,144.0	660.5	1,804.5	8.95	1970-71
4	Kerala State Housing Board	1,166.8	590.9	1,757.7	8.71	1980-81
5	Kerala State Cashew Development Corporation Ltd.	279.6	511.2	790.8	3.92	1996-97
6	Kerala State Co-operative Textile federation (TEXFED)	376.6	389.4	766.1	3.80	1996-97
7	Kerala Industrial Infrastructure Development Corporation	524.1	5.2	529.3	2.62	2008-09
8	Kerala State Rubber Co-operative Ltd.(RUBCO)	285.5	79.6	365.1	1.81	2009-10
9	Kerala State Textile Corporation Ltd.	207.8	154.7	362.6	1.80	2007-08
10	Kerala State Drugs and Pharmaceuticals Ltd.	135.5	84.4	219.9	1.09	1997-98

Source: Finance Accounts 2022-23, Comptroller and Auditor General of India

9.1 Measures taken to improve the performance of SLPEs

In recent years government of Kerala has taken a number of measures to improve the performance of public sector undertakings, particularly of those engaged in manufacturing. These include:

1. Following the recommendation of the Working Group on Public Sector Undertakings, the Government of Kerala restructured the Public Sector Restructuring and Audit Board (RIAB) and renamed it Board for Public Sector Transformation (BPT). Further, the Government also changed composition of its Governing Board (GB) by including technical experts as recommended by the Working Group.
2. Government accepted, in principle, the recommendation of the Working Group to give greater autonomy to public sector enterprises in decision making, especially on issues related to production and technology.
3. The Industrial Policy of Kerala 2023 contains not only the policy of the State government towards public sector undertaking, but also a list of measures to improve the performance of public sector undertaking.
4. The industrial policy states that protection of the public sector is a policy of the Government and the objective is to build a competitive and profitable public sector. The Policy emphasises that public sector should not be seen as an institution that function like government departments; instead, they should be competitive and profitable entities, operating under Companies Act. The objective of the new industrial policy with respect to public sector are:
 - To strengthen the public sector, other than those in the services domain, and make them more competitive. To implement timely changes in the manufacturing sector.
 - To take steps for ensuring self-sufficiency and autonomy to public sector institutions in the State, on the basis of the Expert study report, as a part of giving more responsible autonomy to the public sector.
 - To take steps to initiate joint ventures with technologically skilled investors in feasible areas for diversification and upliftment of Public Sector Undertakings.
 - A master plan has been created for each institution as part of the modernization of the public sector, and a specialised team of professionals has been engaged. The objective is to increase productivity through technology and achieve self-sufficiency through diversification.

Concluding Remarks

As per the Kerala Public Enterprises Review, in 2022-23, there are 149 public enterprises in the State owned fully or partially by the Government of Kerala. Eighteen of these 149 enterprises are either been in the process of liquidation or winding up. The Review reports the financial performance of the remaining 131 enterprises. Four enterprises account for 79 percent of total public sector investment in 2022-23. The accumulated losses of these enterprises

eroded their capital to the extent that the combined net worth of these enterprises is negative. Four enterprises, namely Kerala State Road Transport Corporation (KSRTC), Kerala Water Authority (KWA), Kerala State Social Security and Pension Limited (KSSPL) and Kerala State Electricity Board Limited (KSEB L) account for 86 percent of the total net loss of these enterprises in 2022-23.

Public utility sector (consisting of four firms) account for highest share of investment in 2022-23 -- 66% of total investment. This is also the sector responsible for the highest share of the total loss in 2022-23 -- 80.2% of the total loss. Accumulated loss of public utility sector is such that the net worth of this sector is negative. Due to poor financial performance of the PSEs, they are unable to repay and service the loans taken from government of Kerala. Three public utility enterprises, namely KSRTC, KWA, and KSEB account for 65% of the total arrears of loan repayment (including interest) to Government of Kerala.

The Contribution of SLPSEs to Kerala's budget is negative. Hence, it is important to reform these enterprises in such a way that they are not a burden to the State exchequer. Though public utility enterprises can work on commercial principles, reform of these enterprises need to keep social and welfare objectives in mind. One option is to provide the subsidy to the deserving sections of the consumers directly, rather than taking over the losses of these enterprises. This also makes subsidy payment explicit.

Chapter 10

Impact of Power Sector Reforms on Fiscal health of the State

Following the Electricity Act of 2003, in 2013 the then existing Kerala Electricity Board was converted into a company by registering under the Indian Companies Act. The company, Kerala State Electricity Board Limited (KSEB) began operation as an independent company on November 1, 2013. KSEB operates as a fully integrated electricity utility overseeing the generation, transmission and distribution of electricity throughout Kerala. The Company carries out its business through three strategic business units focusing on generation, transmission and distribution. Further, as per the provisions of the Electricity Act 2003, the Kerala also established Kerala State Electricity Regulatory Commission (KSERC). Against this background we examine the financial performance of KSEB and its implications for the State Finances: A Study of Budgets (various issues).

Table 10.1 Revenue, Expenditure and Net Profit/Loss of KSEB

	Revenue/Expense	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
A	REVENUE										
1	Non-Tariff Income	533.52	759.44	550.09	608.19	481.74	210.16	1116.07	1034.38	485.62	1360.73
2	Revenue from tariff	9879.35	10487.71	11036.78	12057.26	13521.2	14644.44	14053.53	15962.04	18453.27	20441.75
	Total Revenue	10412.87	11247.15	11586.87	12665.45	14002.94	14854.6	15169.6	16996.42	18938.89	21802.48
B	EXPENDITURE										
1	Power Generation	209.91	104.26	23.45	2.08	3.29	5.17	4.8	1.17	0.64	0.34
2	Power Purchase	6782.76	6336.82	7664.4	7526.03	7869.32	8680	7977.2	8532.16	11240.62	12982.59
3	Employee Cost	2893.71	3292.82	3373.76	3038.4	3354.62	3508.42	3910.78	3867.35	4147.99	3936.71
4	Other Expenses	2036.99	2088.79	2177.71	3349.76	3789.57	3697.96	999.25	1118.64	4531.12	5416.85
	Total Expenditure	11923.37	11822.69	13239.32	13916.27	15016.87	15892.09	12892.03	13519.32	19920.37	22336.49
C	Net Profit/Loss after Tax (PAT)	-1272.9	-313.29	-1652.45	-784.09	-290	-269.55	-475.08	97.66	-991.78	212.45

Source: Audited Financial Statements of the KSEB Limited

Table 10.2 Components of Expenditure of KSEB (in per cent) (in percent)

Year	Power Generation	Power purchase	Employee	Other expenses	Total
2014-15	1.7605	56.89	24.27	17.08	100
2015-16	0.8819	53.60	27.85	17.67	100
2016-17	0.1771	57.89	25.48	16.45	100
2017-18	0.0149	54.08	21.83	24.07	100
2018-19	0.0219	52.40	22.34	25.24	100
2019-20	0.0325	54.62	22.08	23.27	100
2020-21	0.0372	61.88	30.33	7.75	100
2021-22	0.0087	63.11	28.61	8.27	100
2022-23	0.0032	56.43	20.82	22.75	100
2023-24	0.0015	58.12	17.62	24.25	100

Source: Computed using data from Audited Financial Statements of KSEB Limited

Table 10.3 Cost and Revenue per unit of electricity (in rupees)

Year	Revenue (R)	Cost (C)	Surplus (R-C)
2010-11	3.54	4.38	-0.84
2011-12	3.46	4.65	-1.19
2012-13	4.29	6.66	-2.37
2013-14	5.29	5.87	-0.58
2014-15	5.26	6.22	-0.96
2015-16	5.41	5.86	-0.45
2016-17	5.49	6.48	-0.99
2017-18	5.8	6.55	-0.75
2018-19	6.07	6.45	-0.38
2019-20	6.5	6.63	-0.13
2020-21	6.16	6.97	-0.81
2021-22	6.12	5.83	0.29
2022-23	6.62	7.00	-0.38
2023-24	7.43	7.88	-0.45

Source: Various issues of Annual Administrative Report of KSEB Limited

Table 10.4 Financial Performance Indicators of KSEB Limited (Rs. in crores)

	Indicators	2019-20	2020-21	2021-22	2022-23
1	Net worth	-10605.59	-19897.78	-20766.78	-25835.73
2	Investment (Financial)	9476.87	19215.84	17813.95	17440.52
3	Capital Employed	-4627.77	-13310.72	-14823.62	-19476.44
4	Working Capital	-5341.66	-5820.82	-6146.91	-5484.43
5	Accumulated Profit(+)/Loss(-)	-5565.56	-23396.83	-10369.81	-17941.35

Source: Review of Public Sector Enterprises in Kerala for the years 2021-22, 2022-23.

Table 10.1 presents the revenue, expenditure and net profit/loss of KSEB for during 2014-15 to 2023-24. The Table shows that for all the years, except the two years 2021-22 and 2023-24, the company recorded loss. Further, in the year 2023-24, the company's total revenue is less than total expenditure, but it recorded a profit of Rs 212.45 crore due to the exceptional item of Rs. 752.52 crore. The Profit and Loss statement of KSEB for the year 2023-24 shows that this exceptional item is the compensation of loss taken over by Government of Kerala³. Table 10.2 shows the share of various expenditures of KSEB and it reveals that power purchase cost accounted for a largest share of its expenditure, indicating the insufficient power generation in Kerala, particularly during the peak time in summer. Table 10.3 presents the revenue and cost per unit of electricity. The Table reveals that, except in 2021-22, the average cost is higher than the average revenue, causing the utility to incur losses. As shown in the Table 9.4, one consequence of continuous loss of over the years is the huge accumulated loss, resulting in the complete erosion of the net worth of the company. This accumulated loss can be a potential problem for the State Finances: A Study of Budgets (various issues) in the future. Further, as shown in Table 9.12 above, the huge accumulated loss of the company also eroded its capacity to repay and service the loans taken from Government of Kerala. The Table shows that, as on 31st March 2023, the Company had arrears in loan repayment to Kerala government of Rs. 1804.5 cores (principal and interest together). Further, the total loan outstanding against KSEB as on March 31st 2023 was Rs. 2851.24 crores. Accumulated losses of the company make recovery of these loans difficult.

Concluding remarks

Following the *Electricity Act of 2003*, in 2013 the Kerala State Electricity Board (KSEB) was converted into a company and registered under the Indian Companies Act. The company, *Kerala State Electricity Board Limited* (KSEBL) began its operation as an independent company on November 1, 2013. Kerala did not do the unbundling of the electric utility as given in the Electricity Act. Instead, the new company has to carry its business through three strategic business units focusing on generation, transmission and distribution. As per the Electricity Act, the State also established Kerala State Electricity Regulatory Commission (KSERC). The company recorded loss since 2014-15, except in the year 2021-22. The continuous loss over the years resulted in huge accumulated losses and complete erosion of its net worth. The accumulated loss can be a potential problem for the State Finances: A Study of Budgets (various issues). Further, the loss also eroded the company's capacity to service and repay the loans taken from the Kerala government. The major reason for the loss is the purchase of electricity at higher cost, particularly in summer. Therefore, KSEBL has to invest in the development of cheaper generation sources like small hydro-electric stations and solar power. KSEB also needs to explore the possibility of a nuclear power plant in the State. Along with this the company also needs to take measures to further improve its operational efficiency.

³ Government of Kerala vide G.O. (Rt) No 8908/2023/Fin dated 16-12-2023 has taken over the loss incurred by the KSEBL for the Financial Year 2022-23 to fulfil the conditions for the additional borrowing space of 0.50% of GSDP linked to performance of the power sector.

Chapter 11

Analysis of Contingent liabilities of the State

State government usually gives guarantee on repayment of principal and interest on loans raised by the Statutory Corporations, Government Companies, Local Bodies, and other entities. These are termed as contingent liabilities on the Consolidated Fund of the State, as they become real liabilities only when the borrower, to whom the guarantee was extended, defaults. If the entity borrowed has revenue raising capacity outside the government budget allocation and hence capable of repaying the loan on its own, contingent liabilities are not considered as a part of the debt stock of the State. In cases where borrowed entity has no revenue raising capacity and hence repayment and servicing of the debt have to be done from the state budget, it is treated as off-budget borrowing and taken as a part of the borrowing by the State government (See: Government of Kerala 2023, 2024). This section analyses the guarantees given by the Kerala government.

In terms of the Section 3 of the Government Guarantee Act 2003, amended in 2022, the total outstanding Government guarantee as on the first day of April of any year shall be 100 percent of the total revenue receipts as per the annual financial statement of the state in the preceding year or at 10 percent of the Gross State Domestic Product (GSDP), whichever is lower. Table 10.1 presents the trends in the total outstanding government guarantees. It shows that in all the years the total outstanding guarantee is less than the stipulated limit of 10 percent of GSDP. Table 10.2 provides the stock of off-budget borrowing by the government for the latest years for which data are available from CAG reports.

Table 11.1 Outstanding Guarantee and guarantee as a percentage of GSDP

Year	Total outstanding Government Guarantee (as 31 st March) (Rs crores)	Outstanding guarantee as percent of GSDP
2014-15	11126.87	2.12
2015-16	12438.52	2.11
2016-17	16245.56	2.63
2017-18	17356.47	2.53
2018-19	26834.65	3.46
2019-20	27757.01	3.17
2020-21	36600.99	4.82
2021-22	44369.85	4.92
2022-23	50374.49	4.82
2023-24	62868.15	5.49

Source: Respective year's State Finances: A Study of Budgets (various issues) & Audit Report of the CAG, except for the last year, for which the data were obtained from Budget Documents.

As per the recommendations of the Twelfth Finance Commission (2005-2010), State Governments are required to constitute a Guarantee Redemption Fund (GRF) to be utilised for meeting the payment of obligations arising out of the guarantees issued by the Government. The Fund is to be operated outside the State Government account and administered by the Reserve Bank of India. The guidelines require that the State Government has to make minimum

annual contribution of 0.50 *per cent* of outstanding guarantee at the beginning of the year. The amount to be contributed by the State Government in the Fund during the year is ₹221.85 crore. In terms of the Kerala Ceiling on Government Guarantees Act, 2003, the guarantee commission received annually are to be transferred to the Public Account and these contributions shall form the corpus of the Guarantee Redemption Fund under Public Account of the State. As the State Government has not constituted GRF, Guarantee commission of ₹1,966.37 crore collected from 2003-04 to 2022-23 was credited under the revenue receipts head ‘0075-108 Guarantee Fee’. (CAG 2024).

Off-budget borrowings

CAG report for the year ended on March 31, 2019 took the stance that borrowing by Kerala Infrastructure Investment Fund Board (KIIFB) was off-budget borrowing and hence it is a direct liability of the State government. However, on January 22, 2021 Kerala legislature passed a resolution rejecting the above stance of CAG⁴. Borrowings by the Kerala Social Security Pension Limited (KSSPL) are also considered as off-budget borrowing by the CAG. Table 11.2 presents the total borrowings by these two entities, which is considered as off-budget borrowings by the CAG.

Table 11.2 Off-budget borrowing by the Government of Kerala

As on	Stock of off-budget borrowing (Rs crore)
31 st March 2020	14142.20
31 st March 2021	16469.05
31 st March 2022	24272.67
31 st March 2023	29475.97

Source: State Finances: A Study of Budgets (various issues) & Audit Report of CAG for respective years.

Measures to streamline the debt path of the State

The latest and previous years Medium Term Fiscal Policy and Strategy Statement with Medium term Fiscal Plan for Kerala present a number of measures aimed to streamline debt path of the State. These include the followings.

1. Gave top priority to ensure high growth rate by increasing the investment in productive sectors of the economy. Faster growth of the economy not only reduces the debt-GSDP ratio, but can also increase tax and non-tax revenue of the State, which in turn reduces the need for taking more debt.
2. Measures to enhance the tax revenue of the State by improving compliance and rate revision.

⁴ Proceedings of the 22nd Session of 14th Kerala Legislature, page 469-505.

3. Borrowing ceiling is fixed at 3 percent of GSDP for the forward estimate period of 2026-27 and 2027-28 in line with the state's commitment to fiscal consolidation. The debt-GSDP ratio is pegged at 33.15% and 32.60% during 2026-27 and 2027-28 respectively.

The above measures are in addition to the various measures to boost revenue and rationalise expenditure taken by the government and discussed in respective chapters.

Concluding Remarks

State governments usually give guarantee on repayment of principal and interest on loans raised by the Statutory Corporations, Government Companies, Local Bodies, and other entities. These are termed as contingent liabilities on the Consolidated Fund of the State, as they become real liabilities only when the borrower, to whom the guarantee was extended, defaults. CAG Reports (Government of Kerala 2023, 2024) do not consider contingent liabilities as part of the debt stock of the State if the entity borrowed has revenue raising capacity outside the government budget allocation and hence capable of repaying the loan on its own. In cases, where borrowed entity has no revenue raising capacity and hence repayment and servicing of the debt have to be done from the State budget, it is treated as off-budget borrowing and taken as a part of the borrowing by the State government (See: CAG Reports mentioned above). As per Section 3 of the Government Guarantee Act 2003, amended in 2022, the total outstanding government guarantee as on the first day of April of any year shall be less than or equal to 100 percent of the total revenue receipts of the preceding year or 10 per cent of the GDSP, whichever is lower. The study found that in all the years since 2014-15, the total outstanding guarantee is less than the stipulated limit of 10% of GSDP. For the three years, starting from 2020-21, outstanding guarantee as percent of GSDP was around 4.8 percent.

Chapter 12

Subsidies given by the State

Subsidies, converse of indirect tax, are used to modify the market outcomes, especially when there are positive externalities or to serve certain well-defined re-distributive objectives. Subsidies for the provision of certain goods and services are justified because of the positive externality involved in their consumption. In these cases, the consideration of social benefit requires higher level of consumption than that determined on the basis of private benefit alone. Subsidies are also advocated for re-distributive objectives, especially to ensure the consumption of minimum level essential goods and services like food, nutrition and housing. Government of India (1997) considered subsidy as unrecovered cost of public provision of non-public goods and services financed by the budget. Similarly, Srivastava et al (2003) defines “In a budgetary context, subsidies are taken as unrecovered costs of public provision of non-public goods, although the term may be defined in a variety of other ways”. In the context of State budget, subsidies can be estimated using two methods (1) aggregating explicitly stated subsidies in the State budget, and (2) measuring subsidies as unrecovered cost of provision of services of non-public goods nature.

Government expenditure in India is broadly classified into three service categories: General, Social and Economic. The General Services include services rendered by the organs of the State, fiscal and administrative services. These services are in the nature of public goods and not supplied in the market. Governments in India, both Central and States, provide a range of private goods or merit goods under the heads Social and Economic services. Individual users or their group is identifiable and user charges can be levied. Generally, budgetary cost of providing these services is more than the recovery from the users or beneficiaries of these services and the difference is being financed from the tax revenue.

As measuring subsidies as unrecovered cost of provision of services is not possible to do within the time frame⁵, in this study, we take the aggregate of the explicitly stated subsidies in the State budget as measure of subsidy. Therefore, we use the subsidy figures as reported in CAG’s audit reports for various years. Table 12.1 reports the amount of subsidy and it as percentage of revenue receipts and revenue expenditure. The Table shows that during the period reported, subsidy is around 1.5 percent of the revenue expenditure, except in two years – 2021-22 and

⁵ Estimation of the capital cost of providing these services is the time-consuming task.

Table 12.1 Expenditure on Subsidy (Rs in crore)

Year	Amount of Subsidy	Subsidy as percent of Revenue Receipts	Subsidy as percent of Revenue Expenditure
2014-15	1252	2.16	1.75
2015-16	1372	1.99	1.74
2016-17	1730.68	2.29	1.90
2017-18	1583.84	1.91	1.58
2018-19	1663.01	1.79	1.51
2019-20	1429.01	1.58	1.36
2020-21	6547.48	6.71	5.30
2021-22	4153.97	3.56	2.84
2022-23	1847.04	1.39	1.30
2023-24	1446.77	1.16	1.01
2024-25(RE)	1644.17	1.24	1.02

Source: Figures upto 2022-23 are from CAG Audit Reports for the respective years and figures for the last two years were taken from Medium-Term Fiscal Policy and Strategy Statement 2025, Government of Kerala.

2022-23. In these two years, due to pandemic, the government distributed food at highly subsidised rates through public distribution system (ration) and Supplyco.

11.1 Targets and Beneficiaries of Subsidy

Table 12.2 reports the main items of subsidy during 2014-15 to 2022-23. As shown in Table 12.3 the main item of subsidy is food. Food subsidy includes the expenditure used for market intervention by the Kerala Civil Supplies Corporation, Ration Subsidy and paddy procurement by the Civil Supplies Corporation. Kerala has implemented various food security programs to ensure access to nutritious food, particularly for vulnerable populations at subsidised rate. One prominent scheme is the Public Distribution System (PDS) through which subsidised food grains, sugar and kerosene are distributed to eligible households. Table 12.4 presents the details of the quantities of rice, wheat, sugar and kerosene distributed through PDS. Table 12.5 presents the distribution of ration card holders across different categories. The Table shows that as on March 2024, Kerala has a total of 9431027 ration card holders.

Table 12.2 The main items of subsidy during the period 2014-15 to 2022-23

Year	Subsidy Item	Amount (in crore)
2014-15	Market intervention operations (Supplyco)	70
	Ration Subsidy	742
	Paddy Procurement (Supplyco and other agencies)	215
	Subsidy to the KSEB	50
	Total	1252
2015-16	Market intervention operations (Supplyco)	99
	Ration Subsidy	649
	Paddy Procurement (Supplyco and other agencies)	358
	subsidy to Co-operatives for conducting festival markets	60
	Total	1372
2016-17	Market intervention operations (Supplyco)	200
	Ration Subsidy	806
	Paddy Procurement (Supplyco and other agencies)	487

	subsidy to Co-operatives for conducting festival markets	53
	Total	1730.68
2017-18	Market intervention operations (Supplyco)	200
	Ration Subsidy	784
	Paddy Procurement (Supplyco)	325
	State Investment Subsidy	54
	subsidy to Co-operatives for conducting festival markets	52
	Total	1583.84
2018-19	Market intervention operations (Supplyco)	125
	Ration Subsidy	934
	Paddy Procurement (Supplyco)	285
	State Investment Subsidy	55
	Co-operatives for conducting festival markets	68
	Total	1663.01
2019-2020	Market intervention operations (Supplyco)	130.66
	Ration Subsidy	579.03
	Paddy Procurement (Supplyco and other agencies)	466.22
	Life Parppida Mission (KURDFC)	50.81
	Total	1429.01
2020-21	Market intervention operations (Supplyco)	3385.08
	Ration Subsidy	1714.35
	Paddy Procurement (Supplyco and other agencies)	844.55
	Life Parppida Mission (KURDFC)	175.43
	Total	6547.48
2021-22	Market intervention operations (Supplyco)	1825.19
	Ration Subsidy	1068.16
	Paddy Procurement (Supplyco and other agencies)	759.86
	Life Parppida Mission (KURDFC)	184.01
	Total	4153.97
2022-23	Market intervention operations (Supplyco)	400
	Ration Subsidy	699.63
	Paddy Procurement (Supplyco and other agencies)	274.36
	Life Parppida Mission (KURDFC)	259.48
	Total	1847.04

Source: State Finances: A Study of Budgets (various issues): A Study of Budgets (various issues) Audit Report of CAG for respective years.

Table 12.3 Food Subsidy in Kerala (R in Crores)

Year	Food Subsidy	Total Subsidy	Food Subsidy as percent of total subsidy
2014-15	1027.0	1252.0	82.0
2015-16	1166.0	1372.0	85.0
2016-17	1546.0	1730.7	89.3
2017-18	1361.0	1583.8	85.9
2018-19	1412.0	1663.0	84.9
2019-20	1175.9	1429.0	82.3
2020-21	5944.0	6547.5	90.8
2021-22	3653.2	4154.0	87.9
2022-23	1374.0	1847.0	74.4

Source: CAG reports for the respective years.

State intervention in the retail market and price stabilisation

The State regularly intervenes in the market of many essential consumer goods to prevent artificial price increases by private retailers. This intervention is implemented through the Kerala State Civil Supplies Corporation, also known as Supplyco. As per the Economic Review 2024, Supplyco has been involved in stabilising the price of 13 essential commodities including pulses, grains, rice, atta, and sugar, which are sold at a price that is 30 per cent lower than in the open market. Supplyco also does the retailing of more than 6,000 fast-moving consumer goods at an average price that is 20 per cent lower than in the open market. It also operates 87 medical stores and 5 wholesale divisions, offering medicines at an average discount of 15 per cent. Additionally, Supplyco organises special fairs during festival seasons to cater to increased consumer demand during the festival season (see: Economic Review 2024 Vol. 1, page 182).

Mid-Day Meal Programme

Kerala is a pioneer having launched the Mid-day Meal Scheme in 1984 well before it was introduced by the Central Government (Economic Review vol.1 2024, p.186). In Kerala, the Mid-day meal programme is implemented with the financial support of the State and Central Government since the Government of India launched the Scheme as a centrally sponsored scheme in 1995. Supplyco is entrusted with the responsibility of providing commodities to the Mid-Day Meal programme in the State. Table 12.6 presents the number of schools, number of children and the amount of rice distributed through the mid-day meal scheme.

Table 12.4 Distribution of Rice, Wheat, Kerosene and Sugar through PDS in Kerala

Year	Rice (MT)	Wheat (MT)	Kerosene (KL)	Sugar (MT)
2015-16	1322896	252746	114422	53664
2016-17	1060755	192724	84628	50905
2017-18	1156738	202765	45734	3946
2018-19	1059392	182239	52045	8041
2019-20	1011556	186353	75001	6430
2020-21	1209840	199317	37809	6641
2021-22	1105835	144079	21920	6604
2022-23	1167429.23	188336.85	15552	7133
2023-24	1192357.1	174846.65	7663.13	3794.16

Note: Include all schemes like ANP, AAY, BPL, APL etc.

Source: Economic Review 2024.

Table 12.5 Category-wise card holders in Kerala, as on March 2024

No	Scheme/Item	Number of card holders	Per cent
1	ANNAPPOORNA	44	0.0005
2	AA Y	592139	6.28
3	PHH	3596226	38.13
4	NPS	2272107	24.09
5	NPNS	2942034	31.20
6	NPI	28477	0.30
Total		9431027	100.00

Notes: AAY = Antyodaya Anna Yojana; PHH = Priority Households;
 NPS = Non-Priority Subsidy; NPNS = Non-Priority Non-Subsidy;
 NPI = Non-Priority Institutional

Source: Economic Review 2024, Volume 1, Kerala State Planning Board

Table 12.6 Mid-day Meal Programme in Kerala

Year	No. of Schools	Children benefited	Rice Supplied (in Quintel)
2016-17	12339	2654807	698275
2017-18	12339	2490919	695580.64
2018-19	12339	2654807	777299.34
2019-20	12339	2626763	605810.46
2020-21	12302	2735907	827242.4
2021-22	12302	2597559	671111
2022-23	12327	2731786	761010
2023-24	12327	2754264	786265

Source: Economic Review 2024.

Concluding Remarks

Government of India (1997) considered subsidy as unrecovered cost of public provision of non-public goods and services financed by the budget. Similarly, Srivastava et al. (2003) defines subsidy as “In a budgetary context, subsidies are taken as unrecovered costs of public provision of non-public goods, although the term may be defined in a variety of other ways”. In the context of State budgets, subsidies can be estimated using two methods: (1) Aggregating explicitly stated subsidies in the budget, and (2) Measuring subsidies as unrecovered cost of provision of services of non-public goods nature. As the second method is not feasible within the given timeframe, we adopted the first method. Accordingly, we use the subsidy figures as reported in CAG’s audit reports for various years. Since 2014-15, explicit subsidy by the government of Kerala is always less than 2 percent of its total revenue expenditure, except in the two years of Covid-19 pandemic, namely 2020-21 and 2021-22, during these years these figures were respectively 5.30 percent and 2.84 percent. Explicit subsidies in Kerala are with re-distributive objective. In all the years, except in 2022-23, more than 80 percent of the total subsidy consists of the food subsidy; in 2022-23 food subsidy was 74 percent of the total subsidy. Food subsidy is used for providing rice, wheat, and sugar through the public distribution system in Kerala. Further, it is also used to meet the costs retail

market intervention by Supplyco to stabilise the retail price of food items. Another major item of subsidy is the housing subsidy for the poor people.

Chapter 13

Flow of Resources from the Centre

This chapter evaluates the State finances in the context of 14th and 15th Finance Commissions' recommendations. Specifically, the chapter examines the flow of resources from the Centre to State through various development schemes, the expenditure of the State on those schemes and the total expenditure of the State on these development schemes.

The flow of resources from the Union Government mainly takes two forms (1) Share in Central taxes and (2) Grants. Table 13.1 presents the flow of resources under these heading to Kerala during the 14th Finance Commission period. Table 13.2 presents the same information for first four years of the 15th Finance Commission.

Table 13.1 Resource flow from the Centre during 14th Finance Commission Period

No	Item/Year	2015-16	2016-17	2017-18	2018-19	2019-20
I	Share in Central Taxes	12690.7	15225.0	15133.1	18663.2	16401.1
II	Grants from the Centre	8921.3	8510.3	8527.8	11389.0	11235.3
II.1	I. State Plan Scheme	59.9	158.5	0.0	0.0	0.0
II.2	II. Central Plan Scheme	126.1	44.2	-0.5	0.0	0.0
II.3	Centrally Sponsored Schemes	3558.0	3057.3	3213.6	3770.1	3262.7
II.4	Finance Commission Grants	0.0	0.0	0.0	0.0	0.0
II.5	GST Compensation	0.0	0.0	1772.0	2884.0	5575.0
II.6	Grants for relief on account of Natural Calamities	138.8	145.5	164.7	0.0	0.0
II.7	Other grants	5038.6	5104.9	3378.0	4734.9	2397.6
	Total Resource flow from the Centre	21612.0	23735.4	23661.0	30052.1	27636.3

Source: RBI State Finances: A Study of Budgets (various issues) Database

Table 13.2 Resource flow from the Centre during 15th Finance Commission Period

	Item/Year	2020-21	2021-22	2022-23	2023-24
I	Share in Central Taxes	11560.4	17820.1	18260.68	21425.3
II	Grants from the Centre	31068.3	30017.1	27377.86	15866
II.1	Centrally Sponsored Schemes	5141.9	3801	4587.79	8212.3
II.2	Finance Commission Grants	18048.8	22171.1	15382.3	7591.9
II.2(a)	Post devolution revenue deficit grants	15322.8	19891	13174	4749
II.2(b)	Grants to Local Bodies	2412	1539	1850	1909
II.2(c)	Grants-in-aid for State Disaster Response Fund	314	251.2	264	277.6
II.2(d)	Others (including Health sector grant)	0	489.9	94.3	656.3
II.3	GST Compensation	7428.6	3855.5	6465.5	0
II.4	Other grants	449	189.5	942.27	61.9
	Total Resource flow from the Centre	42628.7	47837.2	43724.7	37291.3

Source: RBI State Finances: A Study of Budgets (various issues) Database. For the year 2022-23, the figures were updated from CAG Audit report for the year.

Table 13.3 presents the relative importance of resources from the Centre in Kerala's finance. It presents the total resource flow (in revenue account) from the Centre as percent of total revenue receipt of the State and total developmental expenditure in revenue account. Development expenditure is the sum of expenditure on social and economic services. The Table shows that resource flow from the Centre as percent of State's revenue receipt is around 30 percent during the 14th and 15th Finance Commission periods, except during the pandemic years of 2020-21 and 2022-23. However, resource flow from the Centre as percent of developmental expenditure in revenue account is higher during the 14th Finance Commission period, compared to the previous four years. During the 15th Finance Commission period share is generally higher than during the 14th FC years.

Table 13.3 Relative size of resource transfer from the Centre

Year	Resource flow from the Centre as percent of	
	Revenue Receipt	Development Expenditure (Revenue)
2011-12	25.5	43.4
2012-13	22.3	37.0
2013-14	23.6	40.1
2014-15	26.6	45.5
2015-16	31.3	55.8
2016-17	31.4	53.4
2017-18	28.5	50.1
2018-19	32.4	59.4
2019-20	30.6	64.0
2020-21	43.7	67.0
2021-22	41.0	72.0
2022-23	33.8	69.3
2023-24	27.5	54.4

Source: RBI State Finances: A Study of Budgets (various issues) Database

Another important aspect of the resources flow from the Centre is the relative share of grants and share in Central taxes. Share in Central taxes is an unconditional transfer and States are free to spend it on items of their priority. However, grants are conditional; States can spend the money received through grants only on pre-determined items and in CSS like grants, States may also contribute their share in total expenditure of scheme. The Table 13.4 presents the composition of the total resource flow from the Centre in terms of share in Central taxes and Grants. The Table shows a general declining trend in the tax devolution and a corresponding increase in grants.

Table 13.4 Composition of the Resource flow from the Centre

Year	Share in Central Taxes		Grant		Total
	Amount	% of total	Amount	% of total	
2011-12	5990.36	61.76	3709.23	38.24	9699.59
2012-13	6840.65	69.36	3021.53	30.64	9862.18
2013-14	7468.68	64.35	4138.21	35.65	11606.89
2014-15	7926.29	51.36	7507.99	48.64	15434.28
2015-16	12690.67	58.72	8921.35	41.28	21612.02
2016-17	15225.02	64.14	8510.348	35.86	23735.37
2017-18	15133.12	63.96	8527.84	36.04	23660.96
2018-19	18663.17	62.10	11388.96	37.90	30052.13
2019-20	16401.05	59.35	11235.26	40.65	27636.31
2020-21	11560.4	27.12	31068.28	72.88	42628.68
2021-22	17820.09	37.25	30017.12	62.75	47837.21
2022-23	17784.12	40.67	25940.54	59.33	43724.66
2023-24	21425.25	57.45	15866.03	42.55	37291.28

Source: RBI State Budget Database and Budget Documents, Government of Kerala

Another aspect of grants from the Centre is that it consists of transitory components like revenue deficit grants and GST compensation. These two items are only for a limited period of time and after which they would be discontinued. Table 13.5 presents the grants from the Centre after deducting these transitory components.

Table 13.5 Total grants from the Centre less of transitory components

Year	Total grants		Total grants minus revenue deficit grant		Total grants minus revenue deficit grant and GST compensation	
	Amount	Percent	Amount	Percent	Amount	Percent
2011-12	3709.2	9.8	3709.2	9.8	3709.2	9.8
2012-13	3021.5	6.8	3021.5	6.8	3021.5	6.8
2013-14	4138.2	8.4	4138.2	8.4	4138.2	8.4
2014-15	7508.0	13.0	7508.0	13.0	7508.0	13.0
2015-16	8921.3	12.9	8921.3	12.9	8921.3	12.9
2016-17	8510.3	11.3	8510.3	11.3	8510.3	11.3
2017-18	8527.8	10.3	8527.8	10.3	6755.8	8.1
2018-19	11389.0	12.3	11389.0	12.3	8505.0	9.2
2019-20	11235.3	12.5	11235.3	12.5	5660.2	6.3
2020-21	31068.3	31.8	15745.5	16.1	8316.9	8.5
2021-22	30017.1	25.7	10126.1	8.7	6270.6	5.4
2022-23	25940.5	20.1	12766.5	9.9	6301.0	4.9
2023-24	15866.0	11.7	11117.0	8.2	11117.0	8.2

Notes: Amount is in rupees crores and percent column gives amount as percent of revenue receipts.

Source: RBI State Finances: A Study of Budgets (various issues) Database. For the year 2022-23, the figures were updated from CAG Audit report for the year.

13.1 Development Schemes and Resource flow from the Centre

Kerala has been continuing Five-year plan to implement development schemes in the State. “Plan expenditure of State is financed by State’s own resources, borrowing and Plan grants from the Union. Until 2014-15, Plan grants comprised of Normal Central Assistance (NCA), Additional Central Assistance (ACA) for specific-purpose scheme, Special Plan Assistance, Special Central Assistance, Central Plan Schemes and Centrally Sponsored Schemes. Post 14th Finance Commission, Normal Central Assistance and Additional Central Assistance have been discontinued or subsumed under higher devolution of taxes. In Kerala, State Plan financing also has contributions of Local Self Governments and Kerala State Electricity Board” (Kerala State Planning Board 2018, page 11).

Currently, the State is implementing 14th Five-year plan which covers the period 2022-2027. Followings are the objectives of the 14th Five-year plan (see: Kerala State Planning Board 2023, page 4-5)

1. To build on strengths in social investment (health, school education, and housing), social welfare, and social and gender justice.
2. To use the strengths of the State in human development to build a knowledge society and accelerate growth of the productive forces in the economy.
3. To apply science, technology and modern skills to enhance growth in agriculture, allied activities, modern industry, infrastructure development, and income-bearing services, including information technology, tourism, and retail trade.
4. To build a modern, high-employment, productive economy.
5. To modernise and enhance the system of higher education and provide Kerala ‘s youth with the best forms of skilled employment available in a modern economy.
6. To end extreme poverty in Kerala.
7. To establish comprehensive and innovative systems of waste management.
8. To help Local Governments become engines of growth.
9. To promote an inclusive development process. The guiding principle of the development process will be to leave no person behind.

To realise the above objectives various sectors have prepared a number of schemes for implementation. The number of schemes across sectors for the year for the year 2024-25 is given in the Table 13.6 and, it can be seen that total number of schemes for the year 2024-25 is 2181.

Table 13.6 Number of Plan Schemes in 14th Five-year Plan for the year 2024-25

No	Sector	Number of Schemes
1	Agriculture and Allied Services	331
2	Rural Development	96
3	Cooperation	47
4	Irrigation and Flood control	96
5	Energy	66
6	Industry and Minerals	198
7	Transport and Communication	144
8	Scientific services and Research	23
9	Social and Community Services	973
10	Economic Services	133
11	General Services	69
12	Local plan for local self-government	5
	Total Plan Schemes	2181

Source: PlanSpace 2.0 www.planspace.kerala.gov.in

Financing of Plan Expenditure

As already stated above, the State plan is financed by pooling resources from the Centre and State. Table 13.7 presents the annual plan outlay of the State from 2012-13 onwards. The period covers 12th and 13th plans and first four years of the 14th plan. The Table reveals that the State accounts for the bulk of the plan expenditure

Table 13.7 State and Central Share of Plan outlay

Year	Plan outlay (Rs crores)			Percent share of	
	State	Centre	Total	State	Centre
2012-13	14736.92	1592	16328.92	90	10
2013-14	14901.29	1521.1	16422.39	91	9
2014-15	15567.26	4412.07	19979.33	78	22
2015-16	21310.69	4193.5	25504.19	84	16
2016-17	24470.72	3676.43	28147.15	87	13
2017-18	29896.79	3368.43	33265.22	90	10
2018-19	26047.32	3693.82	29741.14	88	12
2019-20	24445.2	3300.08	27745.28	88	12
2020-21	36214.23	5767.35	41981.58	86	14
2021-22	39281.84	5011.87	44293.71	89	11
2022-23	37241.48	4815.79	42057.27	89	11
2023-24	38714.89	3472.2	42187.09	92	8
2024-25(RE)	38403.38	4330.16	42733.54	90	10
2025-26(BE)	32500	9153.71	41653.71	78	22

Source: Budget in Brief 2025-26, Finance Department, Government of Kerala

Concluding Remarks

Flow of resources from the Centre takes two forms: share in Union taxes and Grants. Average share of transfers from the Centre in the State's revenue receipt was 31 percent during the 14th Finance Commission and the corresponding figure for the first four years of 15th Finance Commission is 36 percent. There is an increase in the share of Central transfers in the development expenditure of the State in revenue account, where development expenditure is defined as the sum of expenditures on social and economic services. Average share of Central transfers in the State's development expenditure in revenue account was 57 percent during the 14th Finance Commission and the corresponding figure for the first four years of 15th Finance Commission is 66 percent. During the 14th FC, the average share of tax devolution in the total transfers was 62 percent. The corresponding figure for the first four years of 15th Finance Commission is 41 percent. There is a corresponding increase in the share of grants.

Kerala has been continuing the Five-year plan method to design and implement its developmental programmes. Currently, government is implementing 14th Five-year plan (2022-2027). Different sectors have prepared a number of schemes to achieve the objectives of the 14th Five-year plan. In the year 2024-25, total number of plan schemes across sectors is 2181. Plan expenditure in the State is financed by pooling resources from the Centre and State. However, resources mobilised by the State government accounts for around 80 percent of the plan expenditure during the period 2012-13 to 2025-26.

Chapter 14

Determination of Sustainable Debt Roadmap for 2026-31

14.1 An assessment on Sustainable debt level and its Management

Debt management entails decisions regarding raising of funds through available debt instruments to meet resource requirements for repayment of debt, discharge of liabilities on the public account, capital expenditures and this is because such revenue requirements remain uncovered through gross revenue receipts. An efficient management of debt would suitably synchronise with revenue flows and debt repayment schedules. It would also require proper assessment of the magnitudes and timing for the use of debt instruments, and entail use of borrowed resources for productive purposes. State management of debt has an implication not only for finances of the state government but also has a greater bearing on the state of the State's economy.

The absolute trends of government liabilities show that outstanding liabilities have been increasing over time in Kerala, along with all states in India. Outstanding liabilities of Kerala as percent of GSDP has increased from 26.7% in 2012-13 to 40.3% in 2020-21 and then after it has been gradually declining or even expected to decline as per the projected figures reported in States' finances in India, by RBI . While all states as a whole are experiencing a declining trend and even expected to continue to decline into the near future, but all states' average is quite lesser than Kerala. When we consider CAGR of outstanding liabilities in Kerala, for the first six years it grew at a rate of 14.5% and then declined to almost 12% in the next six years. This almost resembles for all states.

When we consider outstanding liabilities as a percentage to GSDP on a six-year average basis as shown in Table 13.1, it shows that it was 28.6% for Kerala in first six years and increased to 36% in the second six-year period, while similar trend is observed for all states but the average is lesser for all states in both the periods compared to Kerala. It is seen that the average debt liabilities to GSDP for all states was almost 23.3 % in first six years and increased to an average of 27.88% in the second six-year period.

Table14.1 Outstanding Debt and Ratio to GSDP

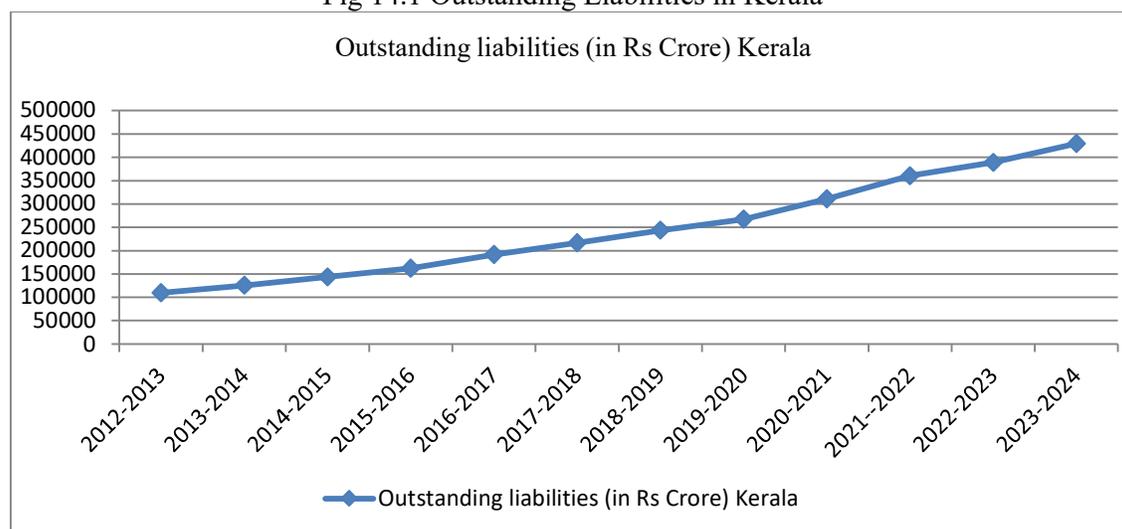
Year	Outstanding liabilities (in Rs Crore)		Outstanding Liabilities as percent of GSDP	
	Kerala	All States	Kerala	All States
2011-2012	94817.1	1993916	26	22.8
2012-2013	109966.5	2210246	26.7	22.2
2013-2014	125678.3	2471264	27	22
2014-2015	143556.8	2703760	28	21.7
2015-2016	162271.5	3218126	28.9	23.7

2016-2017	191622.9	3809357	30.2	25.1
2017-2018	216499.4	4292495	30.9	25.1
2018-2019	243745.7	4786770	30.9	25.3
2019-2020	267585.4	5350716	32.9	26.6
2020-2021	310856.2	6155000	40.3	31
2021--2022	360036.9	6876179	38.6	29.3
2022-2023	389312.3	7496127	37.9	27.5
2023-2024	429270.6	8331953	34.9	27.6
	CAGR		Average	
2012-13 to 2016-17	14.89	14.58	28.16	22.94
2017-18 to 2020-21	12.82	12.76	33.75	27.00
2017-18 to 2019-20#	11.17	11.65	31.57	25.67
2021-22 to 2023-24	9.19	10.08	37.93	28.85
2012-13 to 2023-24	13.18	12.82	32.27	25.59

Source: State Finances: A Study of Budgets (various issues), RBI

Figure 14.1 also indicates an upward trend of outstanding liabilities in Kerala. It is consistently increasing in absolute terms.

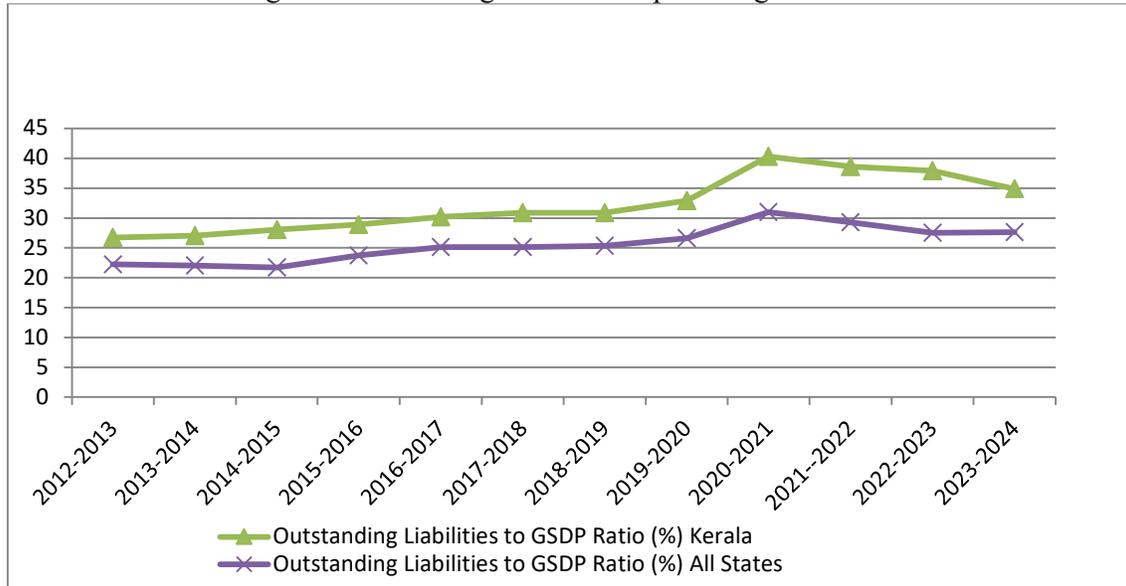
Fig 14.1 Outstanding Liabilities in Kerala



Sources: State Finances: A Study of Budgets (various issues): A Study of Budgets (various issues), RBI

Figure 14.2 shows that the outstanding liabilities expressed as a percentage of GSDP has an upward trend till 2019-20. Then Covid-19 led the states to spend more without corresponding revenue realisation and pushing them to borrow. This led to increased debt to GSDP in 2020-21. Then after it has marginally declined. Although all states show a similar trend but it shows all states have lower level of debt as a percentage of their GSDP compared to Kerala.

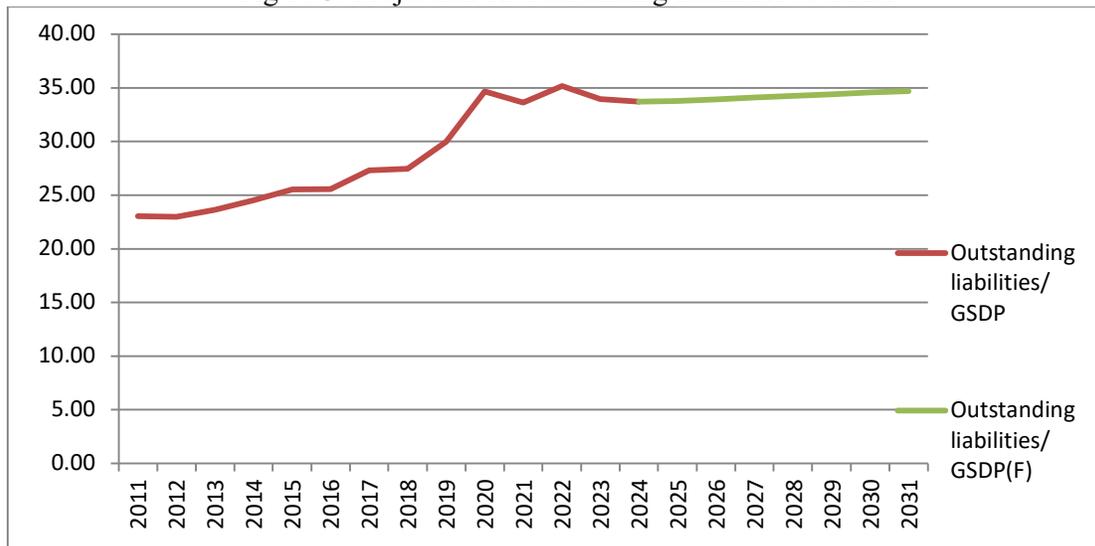
Fig 14.2 Outstanding liabilities as percentage to GSDP



Sources: The State Finances: A Study of Budgets (various issues), RBI

When we project the outstanding liabilities till 2031, Fig 14.3 shows although debt to GSDP is likely to increase in the near future but it is likely to grow at a slower pace. The absolute figure shows a flat trend without much deviation.

Fig 14.3: Projection on Outstanding liabilities to GSDP



Source: Own projections

Note: The debt to GSDP is projected based on projected fiscal deficit to GSDP ratio. The projection of fiscal deficit to GSDP is done through ARIMA processes. The fiscal deficit to GSDP obtained for the current period is added to the last year's values to obtain total outstanding stock of debt to GSDP of the current period.

Debt Sustainability in Kerala

Table 14.2 shows that interest payment which grew at a CAGR of almost 16% in the first six years has reduced to grow at a rate of 9.27% in the second six-year period. The own revenue which grew at a rate of 11.6% in the initial six periods has grown at a reduced rate of 9.34% in the second six-year period. The total revenue which grew at a 13.5% in the first six-year period has grown at a 7.84% in the second six-year period.

The average of annual growth rate of interest payment is well in line with its CAGR except some marginal difference. It grew at an average simple growth rate of 15.83% in the first six-year periods and grew at 9.56% in the second six-year period. Own revenue grew at an average rate of 13.20% in the first six-year period and declined to 9.6% in the six-year period. Total revenue grew at an average rate of 14% in first six-year period and reduced to grow at 8.71% in the second six-year period.

When we consider difference of average growth of own revenue over growth of interest payments, it was negative in the first six-year period and it has turned out to be positive in later years. It was -2.63 in first six-year period and attained .02 in latter six-year period. Similarly, when we take a difference in average growth rate of interest payment from growth of total revenue, it shows that it was -1.86 and reduced to -.85 in the second six-year period. This implies although interest payments are still growing at a higher rate compared to the growth of own total revenues of Kerala, the difference on an average has come down in recent years, indicating some improvements in this fiscal performance of the Kerala government which is good sign. This may be a conscious fiscal policy decision of the Kerala government not to let it to rise.

Table 14.2 Growth rates of Revenue and Interest payments of government of Kerala
(Values are in Rs crores and growth rates are in %)

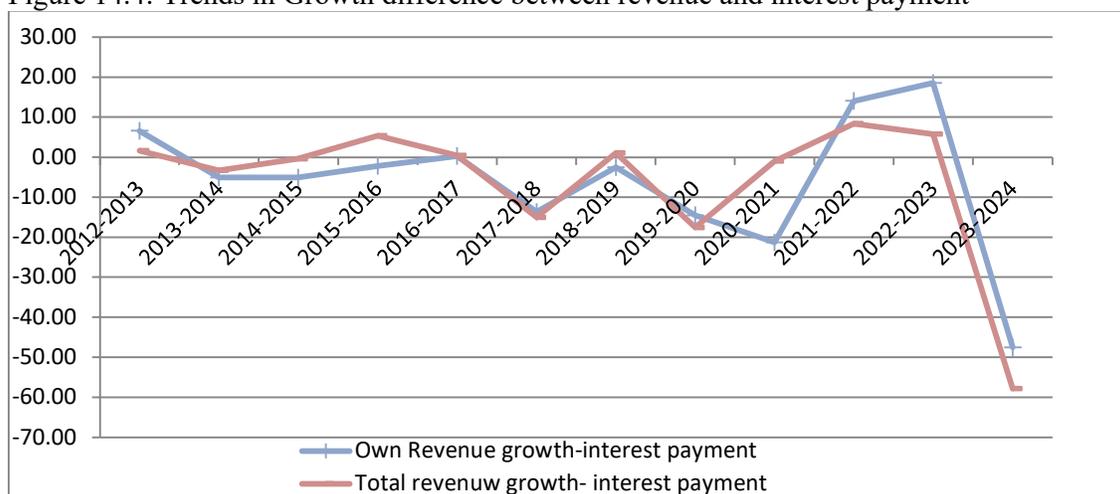
Year	Interest payments (I)	Own Revenue (II)	Total Revenue (III)	Growth of interest payment (IV)	Growth of Own Revenue (V)	Growth of Total Revenue (VI)	Column V - Column IV	Column VI - Column IV
2012-2013	7205	34275.13	44137.3	14.47	21.07	16.12	6.59	1.65
2013-2014	8265	37570.05	49176.93	14.71	9.61	11.42	-5.10	-3.29
2014-2015	9770	42516.19	57950.47	18.21	13.17	17.84	-5.04	-0.37
2015-2016	11111	47420.64	69032.66	13.73	11.54	19.12	-2.19	5.40
2016-2017	12117	51876.36	75611.72	9.05	9.40	9.53	0.34	0.48
2017-2018	15120	57659.22	83020.14	24.78	11.15	9.80	-13.64	-14.99
2018-2019	16748	62427.34	92854.47	10.77	8.27	11.85	-2.50	1.08
2019-2020	19215	62588.36	90224.67	14.73	0.26	-2.83	-14.47	-17.56
2020-2021	20975	54988.15	97616.83	9.16	-12.14	8.19	-21.30	-0.97
2021-2022	23302.82	68803.03	116640.24	11.10	25.12	19.49	14.03	8.39
2022-2023	25176.36	87086.12	132724.65	8.04	26.57	13.79	18.53	5.75
2023-2024	38178.81	90674.97	124486.15	51.65	4.12	-6.21	-47.52	-57.85

	CAGR			Average				
2012-13 to 2016-17	13.88	10.92	14.41	14.04	12.96	14.81	-1.08	0.77
2017-18 to 2020-21	11.53	-1.57	5.55	14.86	1.88	6.75	-12.98	-8.11
2017-18 to 2019-20#	12.73	4.19	4.25	16.76	6.56	6.27	-10.20	-10.49
2021-22 to 2023-24	28.00	14.80	3.31	23.59	18.61	9.02	-4.99	-14.57
2012-13 to 2023-24	16.37	9.25	9.88	16.70	10.68	10.68	-6.02	-6.02

Source: State Finances: A Study of Budgets (various issues), RBI

Considering the differences in growth rates of both own revenue and total revenues over growth rate of interest payments, when plotted in Figure 14.4, it shows that although the differences of both the indicators were positive in recent years such as 2021-22 and 2022-23 as compared to previous years, but the difference of total revenue growth over interest payment growth has become negative in 2023-24, while difference in growth of own revenue over growth of interest payment is still positive. This indicates better improved fiscal situation over the past years.

Figure 14.4: Trends in Growth difference between revenue and interest payment



Source: State Finances: A Study of Budgets (various issues), RBI

Comparing CAGR of GSDP with CAGR of outstanding debt, Table 14.3 indicates that when the GSDP grew at 11%, the outstanding liabilities grew at 14.89% during first period and in the second period, when the GSDP grew at 7.64%, the outstanding liabilities grew at 11.17%. In overall, over the entire period of 2012-2013 to 2023-2024, GSDP grew at 9.74%, while outstanding liabilities grew at 13.18% reflecting more than a 3 % gap between the two. This could indicate debt unsustainability in Kerala.

Further, comparing the simple annual growth rate of GSDP with growth rate of outstanding liabilities as shown in the same Table 14.3, it shows that most often the outstanding liabilities outweigh the growth rate of GSDP except in some recent years from 2021-22 to 2023-24. As a result, we find that the growth rate of GSDP over the growth rate of outstanding liabilities is negative and there is a marginal decrease in this negative difference in the more recent period

compared to the initial periods, showing some marginal improvement in growth and debt dynamics of Kerala in the recent years.

Table 14. 3 Growth Rate of GSDP and Outstanding Debt of Kerala

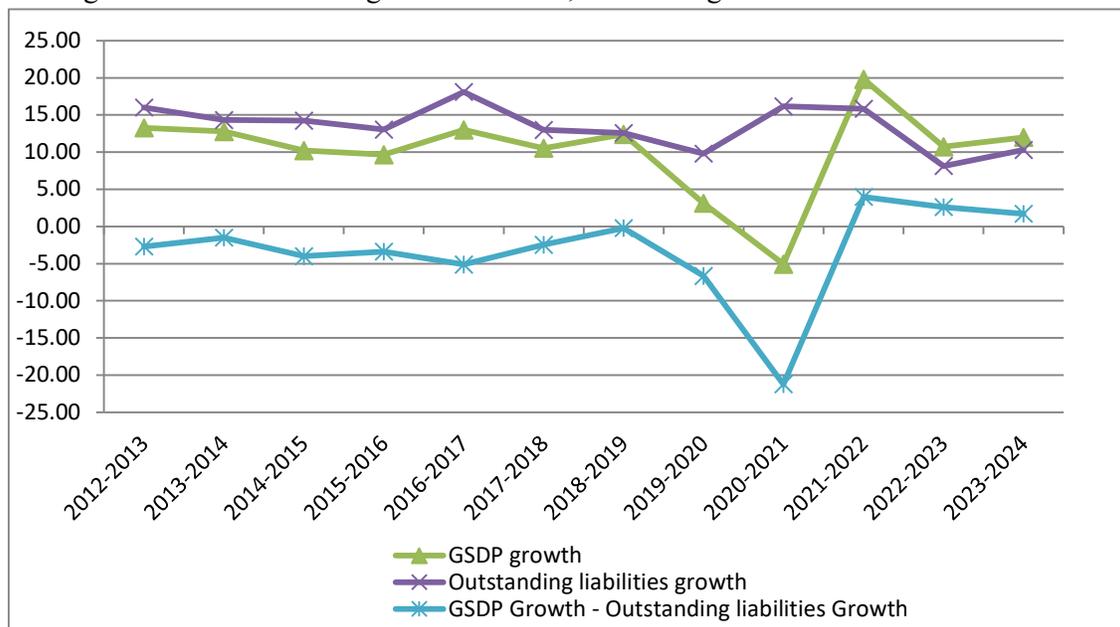
Year	GSDP (I)	Outstanding Liabilities (II)	GSDP growth (III)	Growth of outstanding liabilities (IV)	Column III - Column IV
2012-2013	412313.0036	109966.5	13.26	15.98	-2.72
2013-2014	465041.2083	125678.3	12.79	14.29	-1.50
2014-2015	512564.0461	143556.8	10.22	14.23	-4.01
2015-2016	561993.6113	162271.5	9.64	13.04	-3.39
2016-2017	634886.3993	191622.9	12.97	18.09	-5.12
2017-2018	701588.2613	216499.4	10.51	12.98	-2.48
2018-2019	788285.5833	243745.7	12.36	12.58	-0.23
2019-2020	812934.6305	267585.4	3.13	9.78	-6.65
2020-2021	771723.8895	310856.2	-5.07	16.17	-21.24
2021-2022	924465.4195	360036.9	19.79	15.82	3.97
2022-2023	1023602.46	389312.3	10.72	8.13	2.59
2023-2024	1146108.671	429270.6	11.97	10.26	1.70
	CAGR		Average		
2012-13 to 2016-17	11.40	14.89	11.78	15.12	-3.35
2017-18 to 2020-21	3.23	12.82	5.23	12.13	-2.84
2017-18 to 2019-20#	7.64	11.17	8.66	13.45	-3.02
2021-22 to 2023-24	11.34	9.19	14.16	11.41	2.76
2012-13 to 2023-24	9.74	13.18	10.19	13.45	-3.26

Note: # Exclude Covid-19 year 2019-20.

Sources: The Handbook of Statistics on Indian States, RBI

Figure 14.5 shows the difference in growth rate of GSDP over growth rate of outstanding liabilities over time. It shows most often growth rate of GSDP is lesser than growth rate of debt liabilities indicating the difference is negative. This negative difference although peaked during 2020-21 but it has been positive for three consecutive years since 2021-22 to 2023-24, which is a good fiscal sign for the Kerala government implying that it might be making some conscious fiscal policy efforts towards reducing the size of public debt as a percentage to GSDP and thereby subjecting itself to some fiscal discipline in recent years than the initial years.

Figure 14.5: Trend in the growth of GSDP, outstanding liabilities and their difference



Sources: The Handbook of Statistics on Indian States, RBI

Evaluating the Targets of FRL and Fiscal Roadmaps for Kerala: An Arithmetic Calibration of Public Debt Stability of Kerala

This section undertakes a calibration exercise based on Domar's condition of public debt stability to verify its consistency with other fiscal target and economic growth parameter of Kerala. The application of the stability condition suggests that the following path of fiscal parameters as shown in the Table 14.5 may hold for Kerala under different scenarios depending on assumption relating to fiscal deficit, growth rate and debt ceilings. Assuming no money-financing of deficit option is available as monetised deficit (m) is abolished, the following possibilities may hold for government of Kerala. Assuming a growth rate (η) of 9-10 per cent and a fiscal deficit of 3.4 per cent of GSDP, it is consistent with the public debt-to-GSDP (b) to be stabilised at 34-37.8 per cent. Under an alternative scenario, with a fiscal deficit to GSDP of 3.2% and growth rate of 9-10%, debt-to-GSDP ratio of government of Kerala would be stabilized at 32 to 35.6 per cent. But these fiscal targets may not be compatible with fiscal sustainability.

A growth rate of 11-12 per cent and a deficit-to-GSDP ratio of 3.5 per cent would be consistent with a debt-to-GSDP ratio of 29-32 per cent.

The same rate of growth of 11-12 per cent and a targeted deficit to GSDP ratio of 3 per cent could also be consistent with a debt-to-GSDP ratio of 25-27%.

With an assumed growth rate of 14-15 per cent and a fiscal deficit to GSDP ratio of 3.5%, debt-to-GSDP would come down to 23-25% per cent.

If deficit-to-GSDP ratio can be contained at 3 per cent, with an assumed GSDP growth rate of 14-15 per cent, the debt-to-GSDP ratio would get down to as low as 20-21 per cent.

The debt-to-GSDP ratio would be feasible to contain at 17-18%, but it requires a nominal growth rate of 14-15% and a deficit to GSDP limit of 2.5 per cent. This also implies that a 14-15 per cent growth rate of the economy could be achieved by lowering the aggregate government debt and deficits, both as a percentage to GSDP.

The debt-to-GSDP ratio would be attainable within 20-22 per cent, however, it requires a nominal growth rate of 9-10% compatible with a deficit to GSDP ratio limit of 2 per cent as per the initial target in FRL bill.

This reflects various feasible fiscal parameters which are compatible with different GSDP growth rates. In accordance with the expansion and contraction of GSDP growth rates, the flexibility (fiscal space) and pressure of fiscal restraints can be realized in the economy. With a higher growth rate of the economy, debt can be stabilized at a lower level in proportion to the GSDP, provided government of Kerala also restricts its fiscal deficit as a ratio to GSDP at a lower level. Thus, the performance of the economy greatly determines the feasible targets of the fiscal policy. Given the above scenario, it seems that the new targets set in the FRL is at inconsistency given the ongoing fiscal scenario of government of Kerala. This implies that given a higher level of debt-to-GDP ratio, a low target of fiscal deficit-to-GDP ratio could be achieved at the cost of the growth rate of the economy. In other words, a high level of growth would be compatible with both low deficit and debt to GSDP of the economy.

Table 14.5: Calibration: Stability of Domestic Debt Consistent with Different Growth Rates and Fiscal deficit to GSDP Indicator of the Kerala Economy

	$b=B/Y$	$g = Y/Y$	$d = D/Y$
Projected scenario (average during 2024-2031)	34.19	10.01	3.41
Calibrated values	$b=B/Y$	$= Y/Y$	$d=D/Y$
	34	10	3.4
	37.8	9	3.4

	32	10	3.2
	35.56	9	3.2
	29.17	12	3.5
	31.82	11	3.5
	25.00	12	3
	27.27	11	3
	23.33	15	3.5
	25.00	14	3.5
	20.00	15	3
	21.43	14	3
	16.67	15	2.5
	17.86	14	2.5
	25.00	10	2.5
	27.78	9	2.5
	13.33	15	2
	14.29	14	2
	20.00	10	2
	22.22	9	2

Source: Own calibrations

Conclusion and Policy Suggestion

The government has borrowed massively and unsustainably which has led to acquiring of higher outstanding liabilities in relation to GSDP. But in recent years it has cautiously trying to reduce it as a conscious fiscal policy choice. The government can be able to successfully achieve this by pruning down its unproductive revenue expenditures over time.

The study highlights on the observed path of debt and deficit dynamics and it assesses the issue of debt sustainability for Kerala. Comparing the growth rate of debt with growth rate of GSDP and various other indicators of fiscal policy, it observes that debt to GSDP ratio in the state is unstable and unsustainable although some marginal course correction sign are visible in recent three consecutive government budgets of Kerala. In understanding what led to such an unsustainable fiscal position of the state, it looks at the utilization of borrowed resources over the decades. It finds that the state in the past has funded a major percentage of its borrowed resources in meeting its large revenue deficit gaps and there is a falling trend in capital outlays to GSDP over the years which might have affected the growth prospects and so also implying

lesser revenue realization and widening of fiscal deficits. Based on this, the study suggests that the state in order to restore to fiscal stability, it has to undertake various concerted fiscal reform measures in direction of putting greater efforts to mobilize adequate revenues from various alternative (tax and non-tax) sources and drastically cut down the unproductive revenue expenditures in the budget along the line of adoption of fiscal austerity measures. Since the fiscal position of the state has already deteriorated to a drastic extent, to restore to sound fiscal position towards ensuring a minimum fiscal leeway, the present FC has to carefully evaluate whether the state would greatly benefit from Centre's at least one-time financial bailout plan in the form of an early release of a big grant during its award period including for other states confronting similar such severe fiscal crunch. Otherwise, if many states are already confronting such a situation, then it may affect the macroeconomic stability of the Indian economy. Before getting into such a worsening situation, it is better for the state and centre to arrive at some fiscal policy consensus and there is some scope for FC to review the fiscal and economic performance and take up stock of fiscal situation of all the states in India before situation gets out of control.

As per RBI's recent study on states finances led by Michael Debabrata Patra, it suggests that states are showing warning signs of building stress, and has identified the 5 most indebted states are - Punjab, Rajasthan, Bihar, Kerala and West Bengal - need to take caution.

State Finances: A Study of Budgets (various issues): A Study of Budgets (various issues) are vulnerable to a variety of unexpected shocks that might alter their fiscal outcomes, causing slippages relative to their budget's expectations. For some states, shocks may increase their debt by a significant amount, posing fiscal sustainability challenges.

We observe a slowdown in own tax revenue, a high share of committed expenditure and rising subsidy burdens have stretched state government finances already exacerbated by COVID-19. New sources of risks have emerged in the form of rising expenditure on non-merit freebies, expanding contingent liabilities, and the ballooning overdue of discoms.

For the five most indebted states of Bihar, Kerala, Punjab, Rajasthan and West Bengal, the debt stock is no longer sustainable, as the debt growth has exceeded the growth rate of GSDP over last 5 years. New sources of risks have emerged from relaunch of the old pension scheme by some states; rising expenditure on non-merit freebies; expanding contingent liabilities, and the ballooning overdue of -warranting strategic corrective measures.

Stress tests show that the fiscal conditions of the most indebted state governments are expected to deteriorate further, with their debt-GSDP ratio likely to remain above 35 per cent in 2026-27. As a corrective measure, the state government must restrict its revenue expenses by cutting down expenditure on goods in the near term. In the medium term, the states need to put efforts towards stabilising debt levels.

It can be recommended that a large-scale reform in power distribution sector may enable the discoms (power distribution companies) to reduce losses and make them financially sustainable and operationally efficient.

In the long term, increasing the share of capital outlays in the total expenditure will help create long-term assets, generate revenue and boost operational efficiency. The state governments need to conduct fiscal risk analyses and stress test of their debt profiles regularly and able to put in place provisioning and other specific risk mitigation strategies to manage fiscal risks efficiently.

Appendix 14.1

w	Total internal debt to GSDP																				
Y E A R	ANDH RA PRAD ESH	A SS A M	BI H A R	CHH ATTI SGA RH	G O A	GU JA RA T	HA RY AN A	J & K	JHA RK HA ND	KA RN AT AK A	K ER A L A	MAD HYA PRAD ESH	MAH ARA SHT RA	O DI S H A	P U NJ A B	RAJ AST HA N	TA MIL NA DU	TEL AN GA NA	UTT AR PRA DESH	UTT ARA KHA ND	WES T BEN GAL
20 12 - 13	29.52	11 .3 2	17 .2 8	5.31	1 9 - 1 1	17. 24	14. 03	26.80	14.4 5	8.00	15. 92	14.10	13.13	6. 15	22 .8 3	14.1 8	12.8 0		18.26	14.06	32.07
20 13 - 14	30.04	10 .0 8	17 .5 6	6.20	2 2 - 6 1	17. 56	14. 59	26.34	14.8 7	9.36	16. 53	13.43	12.61	5. 44	22 .6 9	14.0 2	13.2 1		16.77	14.12	30.71
20 14 - 15	19.04	10 .8 3	19 .1 9	8.16	1 8 - 4 9	16. 92	15. 74	27.21	15.0 0	10.1 7	17. 38	14.29	12.86	6. 28	23 .4 3	15.1 8	13.5 5	13.8 3	18.69	15.27	32.11
20 15 - 16	19.15	10 .8 8	21 .5 2	10.69	1 8 - 4 6	16. 88	20. 11	26.06	21.1 9	10.4 8	18. 24	15.41	13.08	8. 07	26 .6 3	21.7 6	15.3 6	14.5 0	24.25	16.46	32.17
20 16 - 17	27.25	10 .5 1	22 .9 3	10.73	1 7 - 7 1	16. 52	21. 84	27.51	20.6 2	10.9 7	18. 63	16.64	13.37	8. 79	35 .1 1	24.2 3	18.2 5	10.1 9	26.27	17.45	32.34
20 17 - 18	20.13	11 .7 6	22 .2 9	12.96	1 7 - 8 6	15. 55	21. 57	26.78	19.9 4	11.1 4	19. 31	17.01	13.90	10 .1 2	34 .1 4	24.0 5	18.6 1	18.1 1	25.78	18.29	30.96
20 18 - 19	20.98	13 .4 2	21 .6 6	15.13	1 9 - 5 1	15. 61	22. 17	26.41	19.1 2	12.1 2	19. 15	16.87	12.99	10 .1 8	33 .9 8	24.0 6	18.6 7	18.3 0	25.46	19.73	29.59

20 19 -	23.29	15 .1 7	23 .3 9	17.50	2 0 -	16. 06	24. 90	29.85	20.4 8	13.6 4	20. 41	17.22	13.59	11 .2 7	35 .3 2	24.2 1	20.2 3	19.6 8	26.57	20.66	30.57
20 20 -	26.18	19 .7 2	28 .1 1	20.01	2 5 -	17. 95	27. 97	28.84	24.2 6	17.1 3	24. 68	21.41	15.63	12 .5 0	38 .9 0	27.9 8	24.0 3	23.7 9	30.54	23.62	35.38
20 21 -	25.60	19 .0 4	28 .2 6	17.34	2 4 -	15. 67	25. 16	28.51	20.0 2	16.6 4	22. 81	20.34	14.24	8. 11	34 .9 2	26.3 7	24.2 4	23.4 0	27.01	20.13	33.34
20 22 -	26.05	19 .6 6	27 .8 7	16.80	2 5 -	14. 96	24. 52	27.13	20.2 2	16.9 8	23. 14	21.19	14.35	8. 30	34 .8 7	28.0 1	24.3 4	23.4 2	26.38	19.88	32.00
Total outstanding liabilities to GSDP																					
Y E A R	ANDH RA PRAD ESH	A SS A M	BI H A R	CHH ATTI SGA RH	G O A	GU JA RA T	HA RY AN A	JAMM U AND KASH MIR	JHA RK HA ND	KA RN AT AK A	K ER A L A	MAD HYA PRAD ESH	MAH ARA SHT RA	O DI S H A	P U NJ A B	RAJ AST HA N	TA MIL NA DU	TEL AN GA NA	UTT AR PRA DESH	UTT ARA KHA ND	WES T BEN GAL
20 12 -	42.36	18 .9 0	27 .5 0	12.10	2 9 -	23. 37	19. 47	46.51	20.0 7	16.2 0	26. 67	23.49	19.32	18 .7 9	30 .9 9	24.0 4	17.8 8		29.68	20.41	39.92
20 13 -	42.26	17 .4 2	27 .9 5	12.61	3 6 -	23. 34	19. 94	46.87	20.0 7	17.0 2	27. 03	21.93	18.75	17 .0 2	30 .8 0	23.2 6	18.5 4		28.31	20.33	38.27
20 14 -	23.35	18 .1 2	28 .9 8	14.06	2 9 -	21. 97	21. 20	49.03	20.0 2	17.3 3	28. 01	22.66	18.09	16 .1 9	31 .6 5	24.0 5	17.3 0	14.3 6	31.04	21.08	38.62
20 15 -	24.48	18 .4 1	31 .4 2	17.44	2 8 -	22. 50	25. 00	47.03	27.6 1	17.7 7	28. 87	23.60	17.87	19 .8 5	34 .3 8	30.7 9	19.4 2	15.6 6	33.87	22.74	39.48
20 16 -	37.15	17 .3 1	33 .0 3	16.51	2 6 -	20. 85	26. 61	49.64	28.5 1	17.4 9	30. 18	24.02	18.01	18 .3 3	42 .7 6	33.5 9	21.7 7	12.4 3	36.73	22.81	38.69
20 17	29.17	17 .4 1	33 .4 9	19.47	2 6 -	20. 18	26. 18	48.59	28.7 6	18.4 5	30. 86	23.84	18.38	23 .4 0	41 .4 4	33.8 3	22.3 0	21.3 7	35.95	24.10	38.07

- 18					8 8																
20 18 - 19	30.27	19 .3 3	32 .0 2	21.09	2 8 - 5 3	20. 02	26. 85	49.28	27.4 4	19.3 5	30. 92	23.52	17.35	21 .2 0	41 .3 5	34.2 1	24.6 3	22.1 8	35.89	25.78	36.73
20 19 - 20	33.23	21 .2 0	33 .2 6	24.95	3 0 - 1 8	20. 37	29. 71	54.06	30.4 6	20.9 6	32. 92	22.79	18.10	26 .7 5	42 .7 6	35.3 2	26.5 2	23.7 3	32.33	28.23	37.81
20 20 - 21	36.07	26 .4 0	40 .0 5	28.39	3 5 - 8 9	22. 50	33. 78	33.23	36.8 3	25.6 8	40. 28	30.73	21.00	26 .1 5	47 .9 4	40.3 8	31.8 2	28.7 6	36.59	33.35	43.55
20 21 - 22	33.14	24 .9 2	39 .8 0	25.93	3 5 - 9 6	20. 23	32. 16	36.12	30.1 9	25.4 8	38. 95	29.75	19.29	19 .9 4	45 .3 9	38.8 2	32.2 3	28.0 1	32.62	29.55	41.24
20 22 - 23	32.89	26 .3 8	39 .3 7	23.61	3 4 - 4 9	19. 11	31. 05	33.23	28.4 8	23.5 9	38. 03	29.33	17.92	17 .1 0	46 .4 4	36.7 9	30.9 8	26.8 4	30.37	26.37	38.96

Sources: The Handbook of Statistics on Indian States, RBI

Appendix

A note on migration, remittances and Kerala economy

A large number of Keralites are working abroad and sending money back to their families in Kerala. However, being a sub-national economy, official information on the number of people migrated or amount of remittances received are not available for Kerala. Therefore, a number of attempts have been made by researchers and other agencies to estimate the number of emigrants from Kerala and the amount of remittances received. The discussion in this section is based on these estimates. As per the Kerala Migration Survey (KMS) 2023, the number of Keralites migrated to other countries stood at 2.15 million and showing a marginal increase from 2.12 million reported in KMS 2018 (see Rajan 2023). The overseas migrants from the State comes to around 6 percent of its population and 17 to 18% of its workforce. From 2006 onwards, Reserve Bank of India has been regularly conducting survey of remittances into India. From 2016-17 survey (4th Survey) onwards, RBI has been publishing State wise receipt of remittances. Table A1 presents the estimates of remittances received by the State as per the RBI survey. The table shows that, except in 2020-21 – the pandemic year, remittances as a percentage of GSDP of the State is more than 10 percent.

Table A1. Foreign remittances to Kerala

Year	Share of Kerala in total remittances to India (in %)	Remittances received by Kerala (in Rs crores)	Remittances as percent of GSDP
2016-17	19	81532.71	12.80
2020-21	10.2	60165.09	7.80
2023-24	19.7	178331.05	15.54

Source: RBI Foreign Remittances Survey

Being generated outside the country/State, remittances are not a part of the GSDP of the country or State. However, remittances are a part of the disposable income of the people, and hence affect consumption and investments of households. Though remittances are not a part of the GSDP of the State, it can increase the size of its GSDP through the multiplier effect of increased consumption and investment spending. A number of studies examined the impact of remittances on various aspects of Kerala economy. For instance, Kannan and Hari (2002) stresses the importance of remittances in increasing the per capita consumption expenditure in the State. Tomas Issac et al. (1992) argued that increased consumption expenditure, an outcome of remittances, was accompanied with an increase in the import content of consumption and this worsened the trade balance of the region. Balakrishnan (1999) used the boom in migration and remittances to understand the decline of agriculture, particularly food production, in Kerala. Later, Harilal and Joseph (2000) and Parameswaran (2020) extended the Dutch disease framework to explain the expansion of services and decline of manufacturing sectors in Kerala.

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