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FISCAL INDICATORS OF KERALA DURING 2000 TO 2018: AN ANALYSIS

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Abstract

Present paper analyses the major fiscal indicators of Kerala for the period 2000-01 to 2018-19. Kerala, along with all other States, faced enlarged fiscal and revenue deficits during the latter half of the 1990s. The fiscal correction path embarked through expenditure contraction in the early 2000s was not successful in Kerala. But the State moved toward fiscal consolidation during 2016-17 to 2012-13 throughrobust growth of one tax revenue. The high own tax revenue growth sharply decelerated since 2013-14, during which the growth rate hovered around at less than 10 percent per annum as against 18-19 percent during the earlier period. The revenue expenditure has been downwardly inflexible and revenue and fiscal deficits have been rising since 2013-14. The objective of the study is to analyse the past trends in fiscal indicators of Kerala (from 2000-01 to 2018-19) in order to make future projections and lay down a road map for a fiscal consolidation path for Kerala during 2001-21 to 2024-25.

Keywords: Fiscal indicator, Kerala, growth, ratio, trends.

Introduction

Kerala's current fiscal situation may be characterized as one in which increased attempts are being made to put the state on a road of fiscal consolidation. Along with all theIndian States, Kerala also faced increasing revenue and FDs during the latter half of the 1990s. Attempts to reduce these deficits, through temporary expenditure control measures during the early 2000s met with stiff resistance from various sections ofthe society. However, the State could embark on a path of revenue - led fiscal

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consolidation and bring all the major deficit indicators down during the second half of the first decade of the 2000s. But this received a setback, since 2013-14, when the State's own tax revenue grew at a significantly lower rate, while the growth rate of revenue expenditure has been downwardly inflexible. The one - time reduction ingrowth rate of revenue expenditure during 2015-16 made possible by postponement of committed revenue expenditure arising from State Pay Commission recommendations resulted in additional fiscal stress in the immediately followingfinancial year, 2016-17. The initial impact of Goods and Services Tax (GST), during2017-18, has not been very encouraging, but the State expects gains in the own taxrevenue front, once the implementation of GST stabilises. At present, the State isattempting the task of a renewed fiscal consolidation, as can be seen from KeralaBudget, 2018-19 and the Medium Term Fiscal Policy (MTFP) Statement, 2018. Thisis to be achieved by increase in revenue collections and rationalisation of expenditure.

Experts from UNDP in their Post Disaster Need Assessment (PDNA) has estimated the loss to Kerala's GSDP at ₹ 31000 crore. This would impose a heavycost of relief, rehabilitation and rebuild. Besides, the state's own tax revenue would also slowdown in 2018-19. How far the additional expenditure commitments would burden the State finances is difficult to estimate now, but the cost of rebuilding would put substantial pressure on revenue and capital expenditure during the next three years. The State has requested the Centre for a special package as well as forrelaxing the borrowing limit to 4.5 percent from 3 percent of GSDP for 2018-19.

The period of analysis is from 2000-01 to 2018-19. The figures for the lasttwo financial years are Revised and Budget Estimates. For statistical tests on relationship between revenue receipts and expenditure and analysis of underlyingtrends, a longer period of 30 years is taken. Based on the findings of this analysis,we make projections for receipts, expenditure, deficits and borrowings and liabilitiesfor the period 2020-21 to 2024-25.

The award of the 14th Finance Commission resulted in the increase of divisiblepool of the Union taxes shareable with the States from 32 to 42 percent with Kerala'sinter-se share going up to 2.5 percent from 2.34 percent. Besides, the flexible part of central transfers increased as against the tied part[1]. But the

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States also got lower central share at 60 percent as against previous 75 percent, in many Centrally Sponsored Schemes (CSS), classified as 'core schemes[2] and also stopped getting plangrants (Gadgil formula grants) since 2015-16. There has also been a slowdown ingrowth rate of own tax revenue and in the economy. Even in the face of these trends,the State has to maintain spending in social and economic sectors, in which a substantial portion is revenue in nature. Due to the factors mentioned above, the State is facing strain in meeting fiscal consolidation targets. The damages caused by the floods of an unprecedented scale in July-August 2018 and need to rebuild hasplaced additional stress on State finances (for non-availability of official data we do not factor in the fiscal cost of the rebuilding efforts)., we analyse the fiscal indicatorsof Kerala during the period 2000-01 to 2018-19 and make projections for the future till 2024-25 in the following parts of this study.

Table 1.1: Kerala GSDP and all India GDP Growth Rates -2012-13 to 2015-16 (%)

Year	Primary	Secondary	Tertiary	Construction Sector	GSVA(GVA)	GSDP (GDP)
2012-13	3.80 (11.23)	10.22 (11.1)	17.42 (15.98)	4.43 (9.02)	13.38 (13.5)	13.26 (13.82)
2013-14	11.29 (13.32)	9.27 (9.8)	14.30 (13.94)	16.10 (8.46)	12.54 (12.6)	12.79 (12.92)
2014-15	14.17 (7.24)	6.53 (8.8)	10.46 (13.38)	8.97 (6.38)	9.95 (10.8)	10.22 (10.79)
2015-16	-5.52 (3.72)	5.10 (7.7)	10.09 (10.87)	0.95 (2.29)	6.61 (8.5)	8.59 (9.94)

Source: Central Statistics Office, mospi.gov.in (within parentheses are all India figures).

Before proceeding to analyse the fiscal indicators, a look at the general economic trends would reveal that there is slowdown in growth rate of the State economy during the period since 2013-14. (Table 1.1) Its growth rate during 2015-16 has fallen below the all India growth rates. The impact of slowdown has beenmarked in the construction sector, which is a major base of commodity tax revenuein Kerala. The trends of slowdown in Kerala economy has been across all the sectors.The figures for 2016-17 (Revised Estimates) for Kerala economy indicates a nominalGSDP growth rate of 10.71 percent which is below the 13-14 percent growth duringthe period 2006-07 to 2012-13. In the VAT

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revenue of the State, around 40 percent is from supply of goods relating to activities in the construction sector. The considerable slowdown in this sector has adversely impacted the growth rate of own tax revenue of the State.

Trends in Kerala's Fiscal Indicators – An Overview

Kerala had legislated its Fiscal Responsibility and Budget Management (FRBM) Act in 2003. It has since been amended twice, in 2011 and 2018 respectively.The FRBM Act, targeted to achieve zero RD and FD at 3 percent of Gross State Domestic Product (GSDP) by 2014-15. As per the budget actuals till 2016-17, theState could not reach these targets. Though the movement of major fiscal indicators over a period of two decades has been towards fiscal consolidation, the achievements have fallen short of targets. The time frame for eliminating RDs and containing FD at 3 percent of GSDP has been revised to 2017-18 - 2019-20 in the amendment in 2018. The debt of the Government is targeted to be contained at 30.40, 30.01 and 29.67 percent of GSDP for 2017-18, 2018-19 and 2019-20 respectively. The relevant parts of the amendment are reproduced below:

:"……*the Governrnent shall elirninate the RD completely during the period from 20l7-2018 to 2019-20and shall,--*

(a) build up surplus amount of revenue and utiiise such amount for discharging liabilities in excess of assets;

(b) maintain the FD to 3 per cent of, the Gross State Domestic Product during the period from 2017-2018 to 2019-2020"

To carry out these objectives, the State government, has projected revenuesto grow at 20 percent per annum and announced measures to rationalise revenueexpenditure in the budget 2018-19.The government also is planning to raise non -tax revenue from the services rendered by it in stages. These will be discussed later in this study. Given these objectives of the State Government, let us look at someof these indicators which reflect the movement towards fiscal consolidation, though they have fallen below the targets.

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Trends in components of FD

The FD (FD) is borrowings during a financial year to cover the gap between total receipts and expenditure. This includes revenue and capital receipts and expenditure. In other words, components of FD are RD (RD), Capital Outlay (CO) and Net Lendings (NL), implying the gap between revenue receipts and revenue expenditure, investment by government in physical capital outlay and on – lendings by government for investment in physical capital respectively. A rising share of Capital Outlay and Net Lendings is generally considered as reflecting improvement in quality of utilisation of borrowed funds, as they are not used for current expenditure, which is classified as revenue expenditure[3].

It can be seen from Table 1.2 and Figure 1.1 that the share of RD in FD is coming down and that of Capital Outlay going up since 2014-15. This implies that the proportion of borrowings in a financial year utilised for meeting current expenditure is declining. But, it is still more than 50 percent (Table 1.2).

Table 1.2: Components of FD – 2000-01 to 2018-19 BE (%)

Year	RD/FD	CO/FD	NL/FD	RD/GSDP	FD/GSDP	PD/GSDP
2000-01	80.98	15.03	4.79	3.96	4.88	2.01
2001-02	79.72	17.07	4.89	3.09	3.88	0.93
2002-03	82.55	14.01	5.01	4.38	5.31	2.17
2003-04	66.46	11.55	23.31	3.52	5.30	2.11
2004-05	82.41	17.00	4.40	3.08	3.73	0.70
2005-06	74.82	19.54	6.86	2.29	3.06	0.28
2006-07	69.02	23.63	9.13	1.72	2.49	-0.24
2007-08	62.05	24.18	14.64	2.16	3.48	1.01
2008-09	58.49	26.73	15.51	1.83	3.13	0.83
2009-10	63.81	26.16	11.13	2.16	3.39	1.11

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2010-11	47.53	43.52	9.84	1.39	2.93	0.77
2011-12	62.70	30.07	7.80	2.21	3.52	1.79
2012-13	62.33	30.68	7.57	2.27	3.64	1.89
2013-14	66.74	25.34	8.64	2.43	3.64	1.87
2014-15	74.00	22.82	3.99	2.69	3.64	1.73
2015-16	54.20	42.09	4.73	1.73	3.19	1.20
2016-17	58.55	38.29	4.39	2.51	4.29	2.32
2017-18 RE	57.43	38.06	5.87	1.91	3.32	1.34
2018-19 BE	53.68	43.12	4.60	1.68	3.13	1.18

Source: Budget Documents, Government of Kerala.

It can be clearly seen that during 2003-04 to 2010-11, a movement towardsreduction in deficits has taken place. The slippage occurred since 2011-12 and hascontinued till 2016-17. But 2016-17, was an abnormal year affected by the shock of demonetisation and a burden of implementation of the quinquennial Pay Revisionwhich was awarded in 2014, but delayed in implementation. The State is seen returning to fiscal consolidation since 2017-18, as reflected by lower RD, FD and primary deficit (PD) to GSDP ratios.

But, the State is lagging behind other Non- Special category States in containing major deficit ratios (Table 1.2A). The RD component of FD as well asprimary deficit is higher. But the State has made clear the objective to bring FD toGSDP ratio to 3 percent by 2019-20. Though Kerala has signed the agreement forUjwal Discom Assurance Yojana (UDAY) in 2017, no borrowing under this has been made so far. Hence, there has so far been no impact on FD due to this.

Table 1.2A Deficit Indicators Kerala and Non-Special Category States

Year	FD-GSDP (%)	RD-GSDP(%)	PD-GSDP(%)
2014-15	2.7 (3.64)	0.4 (2.69)	1.1 (1.75)
2015-16	3.3 (3.19)	0.1 (1.73)	1.7 (1.20)

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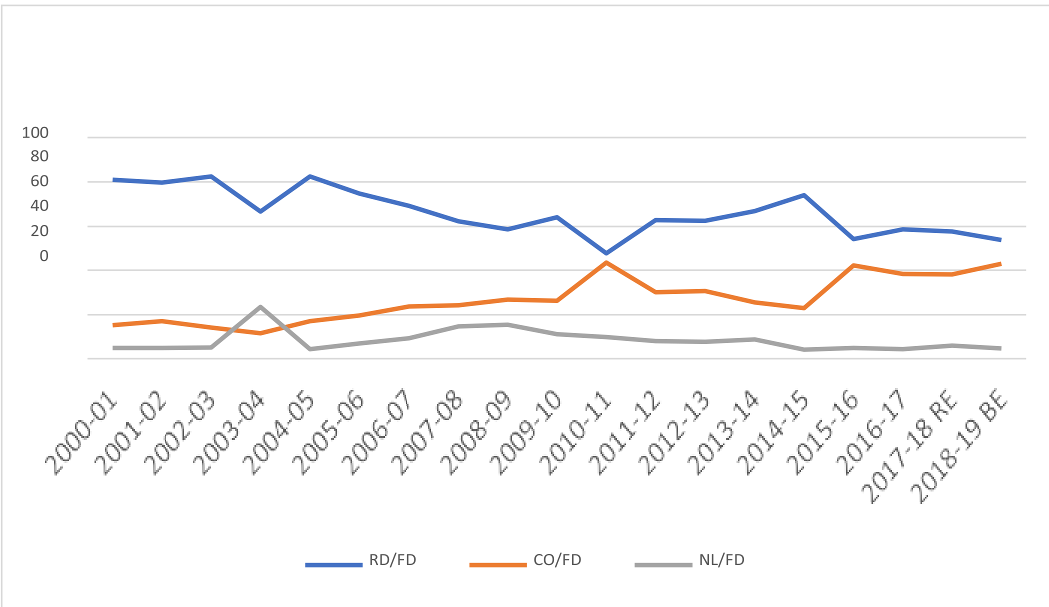
2016-17	3.7 (4.29)	0.4 (2.51)	2.0 (2.31)
2017-18 (RE)	2.9 (3.32)	0.4 (1.91)	1.1 (1.34)
2018-19 (BE)	2.6 (3.13)	0.0 (1.68)	0.9 (1.18)

Source: Budget Documents, Government of Kerala & State Finances: A Study of Budgets, 2018, Reserve Bank of India.

Figure 1.1: Components of FD- 2000-01 to 2018-19 BE



Source: Table 1.2

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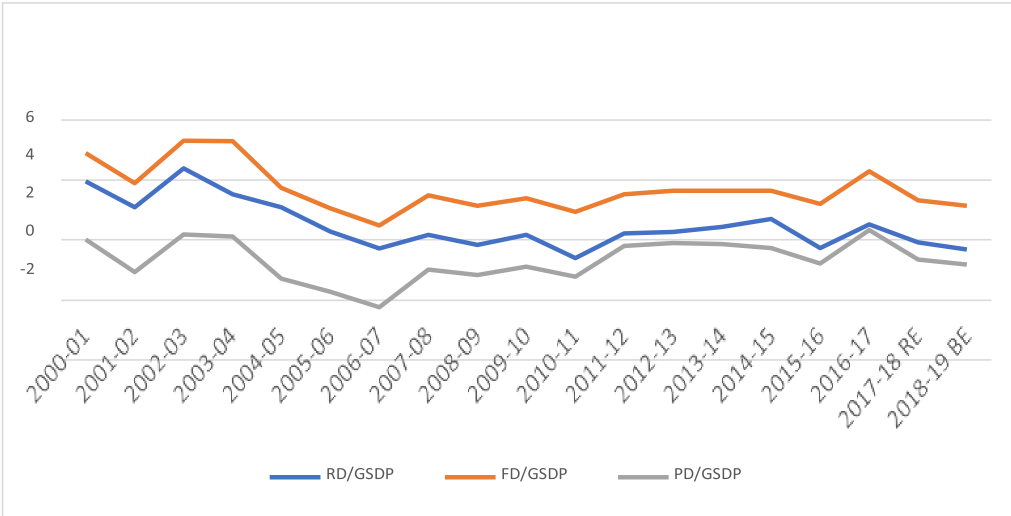
Figure 1.2 Trends of Fiscal, Revenue and Primary Deficit as a ratio of GSDP(2000-01 to 2018-19 BE



Source: Table 1.2.

Debt Stress – Ratio of borrowings and liabilities to revenue receipts

A common indicator to analyse debt stress is the ratio of outstanding borrowings and liabilities to revenue receipts (which is the total of own tax revenue, own non - tax revenue, central tax devolution and central grants) during a financialyear. A declining ratio is an indicator of movement towards fiscal consolidation.During the period, 2006-07 to 2018-19, this ratio has been falling for Kerala (Table 1.3 and Figure 1.3).

Table 1.3 : Ratios of Borrowings and Liabilities to Revenue Receipts -2000-01to 2018-19 BE (%)

Year	B&L RR Ratio
2000-01	293
2001-02	321
2002-03	318

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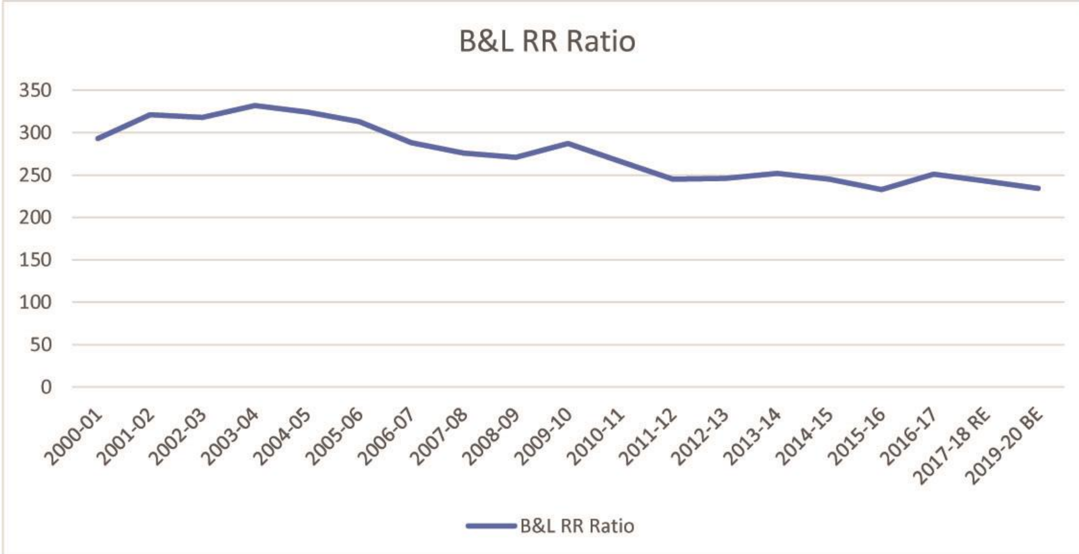
2003-04	332
2004-05	324
2005-06	313
2006-07	288
2007-08	276
2008-09	271
2009-10	287
2010-11	266
2011-12	245
2012-13	246
2013-14	252
2014-15	245
2015-16	233
2016-17	251
2017-18 RE	243
2019-20 BE	234

Source: Budget Documents, Government of Kerala

Figure 1.3: Ratios of Borrowings and Liabilities to Revenue Receipts (%)



Source: Table 1.3

Though this indicator has been moving towards fiscal consolidation, it needs to be taken note of that Kerala could not meet the deficit targets (that is, zero RDand FD– GSDP ratio of 3 percent), by 2014-15[4], as suggested by the 13th FinanceCommission. To find out the reasons for the slowdown in the pace of fiscal consolidation, it is necessary to look at the trends in various components of receipts and expenditure, which is done in the following two chapters of this study.

Projection of future trends in revenue receipts and revenue expenditure

A projection of revenue expenditure, revenue receipts, RD and GSDP ismade for the period till 2024-25 based on their past trends. Revenue expenditure is estimated to grow at 14.15 percent for 2019-20 and2020-21 (based on the median growth rate for the period 2012-13 to 2018-19 is 14.12 percent). It is expected to grow faster at 19 and 16 percent during 2021-22 and2022-23 due to the likely impact of future five year pay revision for government employees (based on past trends of revenue expenditure during pay revision years).[11] After that, it is projected to grow at a lower rate of 13.8 percent (which is the mediangrowth rate for the period 1987-88 to 2018-19).

Revenue e (the median growth rate during 2012-13 to 2018-19 is 16.5 percent)are expected to grow at 16.75 percent for 2019-20 and 2020-21 and 17 percent for 2021-22. After the 15th Finance

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Commission award, the growth rate of revenue receipts is expected to go up to 17.5 percent per annum during 2022-23 to 2024-25. The growth rate of nominal GSDP is projected at 11.5 percent.

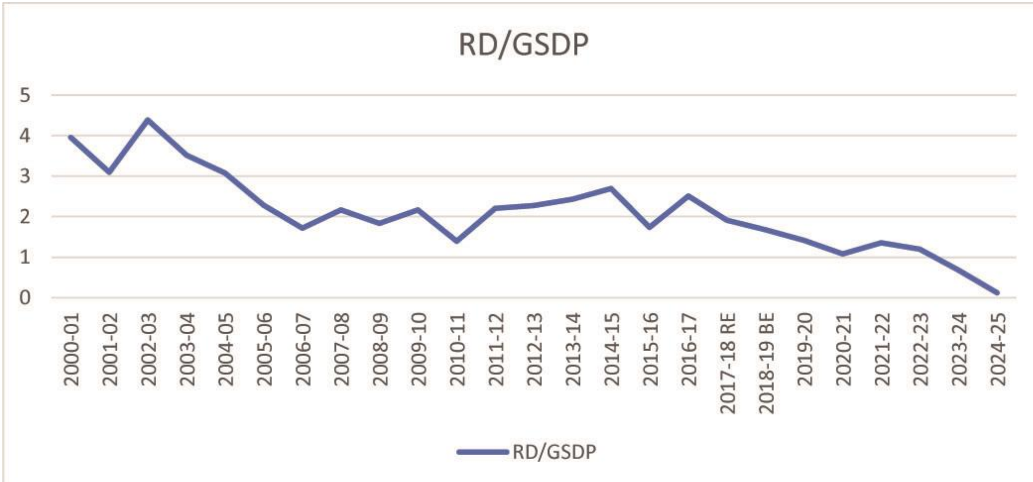
The growth rates of own tax and own non- tax revenues have been based on past trends, the growth rate of revenue receipts, which include central tax devolution and central grants, has been projected at 16.5 to 17.5 percent for the period 2020-21 to 2024-25. For this, the e devolution of taxes andgrants will have to be buoyant. It is projected to grow at a median rate of 17.80 percent with a share of 32.20 percent of Revenue Receipts and 5.14 percent of GSDP.

Table 1.4: Projection of Revenue Expenditure, Revenue Receipts and RD

Year	Revenue Receipts (₹ crore)	Revenue Expenditure (`₹crore)	RD (RD) (₹ crore)	GSDP (₹ crore)	RD/ GSDP (%)
2019-20	120020	132027	12007	853414	1.41
2020-21	140424	150709	10285	951556	1.08
2021-22	164998	179344	14346	1060985	1.35
2022-23	193872	208039	14166	1182998	1.20
2023-24	227800	236748	8948	1319043	0.68
2024-25	267665	269419	1754	1470733	0.12

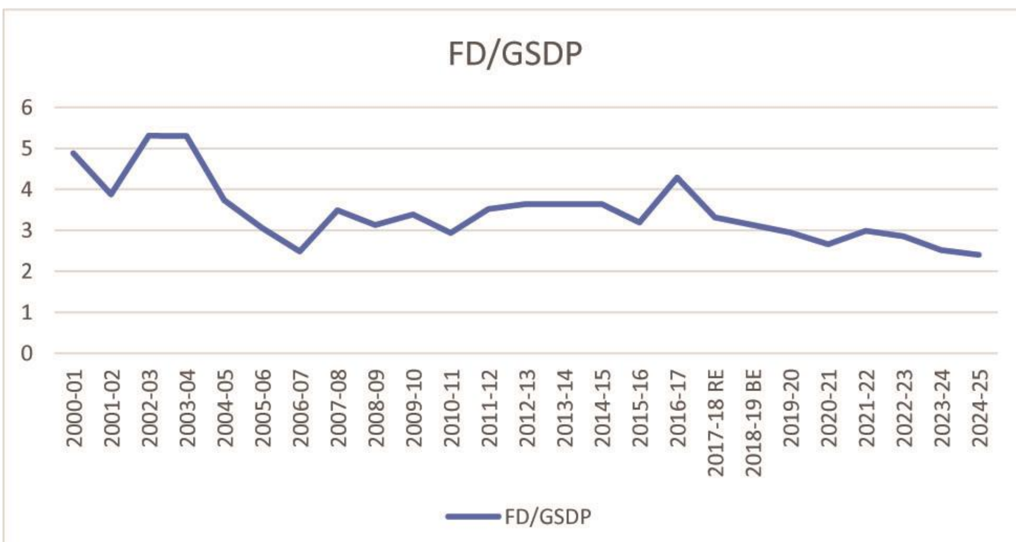
Source: Estimations as in Text.

Figure 1.4: RD - GSDP Ratio 2000-01 to 2024-25



Source: Budget in Brief, Government of Kerala and Table 1.4.

Figure 1.5: FD - GSDP Ratio 2000-01 to 2024-25



Source: Budget in Brief, Government of Kerala, Table 1.4 and Table 1.5

The State Government has announced measures to bring in more transparency in spending. The grants in aid to LSGs have been based on bills system instead of crediting the amounts. Unspent amounts at the end of the year cannot becarried forward by transferring them to the Public Account.

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Under bill system, only actually spent amounts will be reflected. Though, it may cause initial difficulties, it isa step towards capacity building, spending efficiency and fiscal discipline. This practice is now made mandatory for all government departments also. This is a major step towards expenditure rationalisation and fiscal consolidation. The consequence of fiscal consolidation would be reduction interest payments and further reduction in committed part of revenue expenditure. Through expenditure rationalisation and revenue growth, the State can gradually reduce RDs and have more space for capital expenditure.

Trends in Capital expenditure

The revenue expenditure component is preponderant in total expenditure and capital expenditure has a very limited space. Since FD or borrowings during afinancial year is limited as a percentage of GSDP (at present 3 percent), unless revenue account imbalances are kept within limits, capital expenditure will not getadequate fiscal space. During the period since 2013-14, there was slowdown in own tax revenue and consequent slippage in the RD. Though, there was an apparent improvement in 2015-16, it was mainly due to postponement of commitments arising from the recommendations of the Tenth State Pay Commission. The apparent improvement thus achieved in 2015-16, caused further stress on revenueaccount for 2016-17, the year in which own tax revenue was also adversely affected due to impact of demonetisation. In the scenario projected in Table 4.5, revenue account consolidation is visualised for providing more space for capital expenditure. Let us look at the trends in capital expenditure, which is the total of capital outlay and loans and disbursements by the government.

Table 1.5: Components of Capital Expenditure (₹ crore)

Year	Capital Outlay	Loan Disbursements	Capital Expenditure	General	Social	Economic
2000-01	577	184	761	39	58	480
2001-02	558	160	718	26	59	473

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2002-03	699	250	949	41	83	575
2003-04	640	1291	1931	40	56	544
2004-05	757	196	953	42	90	550
2005-06	817	287	1104	68	135	614
2006-07	903	349	1252	39	116	747
2007-08	1475	893	2368	57	135	1283
2008-09	1696	984	2680	53	291	1352
2009-10	2059	876	2935	67	364	1629
2010-11	3364	761	4125	119	479	2766
2011-12	3853	999	4852	162	595	3096
2012-13	4603	1136	5739	147	562	3894
2013-14	4294	1464	5758	148	617	3529
2014-15	4255	743	4998	135	875	3245
2015-16	7500	842	8342	257	1035	6208
2016-17	10126	1160	11286	211	1293	8622
2017-18 RE	8668	1337	10005	280	1791	6597
2018-19 BE	10330	1102	11432	328	2978	7024

Source: Budget Documents, Government of Kerala.

Table 1.6: Share of Capital Expenditure in Total Expenditure (%)

Year	Capital Expenditure/Total Expenditure
2000-01	6.02
2001-02	5.80
2002-03	6.04
2003-04	11.08
2004-05	5.26
2005-06	5.65

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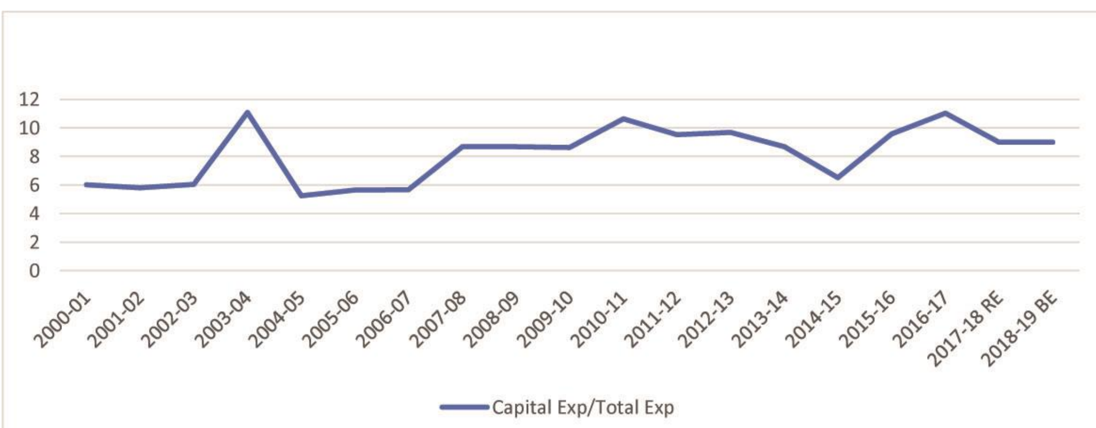
2006-07	5.67
2007-08	8.69
2008-09	8.67
2009-10	8.62
2010-11	10.63
2011-12	9.53
2012-13	9.69
2013-14	8.69
2014-15	6.51
2015-16	9.59
2016-17	11.02
2017-18 RE	8.99
2018-19 BE	8.99

Source: Budget Documents, Government of Kerala.

Figure 1.5: Share of Capital Expenditure in Total Expenditure (%)



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Source: Table 1.5.

The share of capital expenditure has been rising since 2007-08 as comparedto earlier periods and is now at around 9 percent of the total expenditure. At present around 57 percent of borrowed funds is utilised for revenue expenditure (2018-19 BE). When this is gradually reduced to negligible proportions, borrowings during the financial year can be almost entirely used for capital expenditure. If 15 percentgrowth rate is maintained for capital expenditure on the budget estimates for 2018- 19, it can be stabilised at 9 percent of the total expenditure during 2024-25. Given consolidation in the revenue account, there will be further space for capital expenditure.

The State has securitised a portion (upto 30 percent) of its Motor Vehicle Tax revenues and the revenue from Petroleum cess to KIIFB. This will increase overa period of time against which KIIFB can borrow following SEBI guidelines. It has been clarified in the budget speech of 2016-17, that under no circumstances the funds would be diverted for routine expenditure of the State government. It wouldbe spent only for projects approved by the KIIFB. The borrowings of the KIIFB would be fully guaranteed by the State within the limits imposed by the legislativeact. It is expected as a faster and efficient channel for assured capital spending forwhich the budget space at present is limited.

As a source for investment the State also intends to tap NRI funds throughKerala State Financial Enterprises (KSFE) Ltd., a statutory corporation which hasbeen running chit schemes. The scheme is called Pravasi Chitty. The funds will beavailable for KIIFB based on the provisions of section 14 of the Chit Funds Act,1982 read with section 20 of Indian Trusts Act, 1882, which provide for investment of funds collected from chit schemes in State government bonds or bonds fully guaranteed by the State government. To the extent, KIIFB bonds are out of KSFEchit funds, it would have to be guaranteed by the State government and would bethe contingent liability of the State.

Sustainability of Borrowings and Liabilities – An Analysis

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Kerala's borrowings and liabilities are at 30.77 percent of GSDP during. 2016-17, the latest year for which budget actuals is available. It was 31.27 percent during 2010-11. But during 2011-12, it came down to 25.60 percent and rose to 28.79 percent during 2015-16, before reaching 30.77 percent in 2016-17. The reduction in ratio of borrowings and liabilities to GSDP after 2011-12 is due to nominal GSDPbecoming larger as a result of shifting of its base from 2004-05 to 2011-12 prices.The ratio is projected be at 31.22 percent and 31.47 percent for 2017-18 and 2018-19, Revised and Budget Estimates respectively.

The FRBM Act, 2003 (amended in 2011 and 2018) targets a FD of 3 percentper annum. When nominal GSDP growth is projected at 11.5 percent per annum,the ratio of borrowings and liabilities would stabilise at the present ratio during theperiod till 2024-25, if FD – GSDP ratio is maintained at 3 percent. Alternate scenarios of FD - GSDP Ratios are projected in Tables 1.6, 1.7 and 1.8 respectively.

Table 1.7: Scenario 1 FD at 3 %of GSDP

Year	GSDP	FD 3%	B& L	B&L /GSDP
2018-19	765393		240897	31.47
2019-20	853414	25602	266499	31.23
2020-21	951556	28547	295046	31.01
2021-22	1060985	31830	326875	30.81
2022-23	1182998	35490	362365	30.63
2023-24	1319043	39571	40193	30.47
2024-25	1470733	44122	446058	30.33

Table 1.8: Scenario 2 FD at 2.75 % of GSDP

Year	GSDP	FD 2.75%	B& L	B&L /GSDP
2018-19	765393		240897	31.47

2019-20	853414	23469	264365	30.98
2020-21	951556	26168	290533	30.53
2021-22	1060985	29177	319710	30.13
2022-23	1182998	32532	352243	29.78
2023-24	1319043	36274	388516	29.45
2024-25	1470733	40445	428962	29.17

In scenario 1, when FD – GSDP ratio is 3 percent, Borrowings and Liabilities reach 30.33 percent by 2024-25. In the alternate scenario of FD at 2.75 percent of GSDP,the Borrowings and Liabilities ratio would stabilise at 29.17 percent of GSDP by2024-25. Under both these scenarios, FD GSDP ratio is projected ex-ante at a fixed percentage of GSDP.

Let us now look at another scenario, in which FD and Borrowings and Liabilities -GSDP ratios are projected ex-post. The assumptions underlying this this scenarioare

a) the revenue account consolidation is in accordance with the projections in Table 1.6 (as per assumptions stated in three paragraphs preceding Table 1.6)

b) This should give space for the State to have a growth rate in capital expenditure at 15 percent per annum with 2018-19 budget estimates as thebase for the three financial years, 2019-20, 2020-21 and 2021-22. In the last two financial years, the revenue account balancing would leave sufficient fiscalspace for 25 and 40 percent growth rate respectively in capital expenditure.

c) It is also expected that the consistent increase in capital expenditure wouldlead to higher growth rate in GSDP (assumed to grow at 11.5 percent per annum during 2020-21 and 2021-22), which is projected to grow faster at 12.5 percent during 2022-23 and at 13 percent for financial years 2023-24 and2024 -25.

d) FD is projected as a consequence of above assumptions..

d) The Borrowing and Liabilities as a ratio of GSDP is projected to come downto 28.02 percent of GSDP by 2024-25.

Table 1.8: Scenario 3 Based on Table 1.6 estimates as in Text

Year	RD as per Table 4.5 (₹ crore)	Capital Expenditure (₹ crore)	GSDP (₹ crore)	FD (₹ crore)	FD/ GSDP (%)	Borrowings & Liabilities (₹ crore)	B & L / GSDP (%)
2019-20	12017	13147	855331	25144	2.94	266050	31.10
2020-21	10285	15119	953694	25304	2.66	291454	30.56
2021-22	14346	17387	1063369	31733	2.98	323187	30.39
2022-23	14166	19995	1196290	34161	2.86	357347	29.87
2023%24	8934	24993	1351808	33941	2.51	391289	28.95
2024-25	1754	34991	1527543	36745	2.41	428033	28.02

The estimates of made in this study are used in scenario 3 (Table 1.8) and this study uses scenario 3, which is based in estimates of revenue, capital receipts and expenditure for its conclusions.

Findings and conclusion

When aggregates are looked at separately for a financial year, the conclusion that would be drawn

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is that Kerala has failed to achieve fiscal consolidation as per the targets laid down in the FRBM Act or those suggested by the 13th and 14th Finance Commissions. But a detailed look at different indicators reveals that the State has made substantial attempts toward fiscal consolidation, though the targets have not been achieved. The State would have to take forward the renewed efforts for fiscal consolidation already initiated during the period 2020-21 to 2024-25, which is the award period of the 15th Finance Commission.

On an analysis of past trends, the study finds that for achieving fiscal consolidation :

1. The Revenue Receipts should start growing at 16.75 percent in the beginning of the period and by the end of the period, it should be at 17.5 Percent.

2. The buoyancy of the own tax revenue should reach 1.3 and the Own tax revenue - GSDP ratio be 8.79 percent at the end of the period.

3. The suggested growth projections own non-tax revenue, other than lotteries, needs to reach from 17.23 percent in 2019-20 to 21.99 percent in 2024-25

4. The revenue expenditure growth would have to be at 14.15 percent during 2019-20 and 2020-21. It is likely rise to 19 and 16 percent during 2021-22 and 2022-23 due to implementation of Pay Commission recommendations. The growth rate during 2023-24 and 2024-25 should come down to 13.8 percent, which is the long run (1987-88 to 2016-17) median revenue expenditure growth rate. The Government of Kerala has committed in Budget 2018-19 to rationalise expenditure by making on the basis of bill system and only actually spent amounts are reflected as expenditure.

5. The total subsides including implicit subsidies for the PSUs and statutory corporations are at 1.66 percent of GSDP. The explicit subsidy component for Food, Power and other sectors is only 0.28 percent of GSDP. The government can target a subsidy (implicit and explicit) of 1 to 1.25 percent of GSDP as total subsidy for the period till 2024-25.

Based on an analysis of the major fiscal indicators, the study concludes that Kerala has to carry forward its commitment to fiscal consolidation by rationalising revenue expenditure, mobilising revenue by tapping its potential more intensively and finding more space for capital expenditure. The study makes projections with these aims till 2024-25, the award period of the 15th Finance Commission. It is felt that the State needs an

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empathetic approach from the 15th Finance Commission in devolution of Central Taxes and Grants to augment its efforts towards fiscal consolidation.

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