

Public Expenditure in Kerala : Fiscal Policies & Consequences

B.A. Prakash

Former Chairman,
Kerala Public Expenditure Review Committee
&
Fifth State Finance Commission

Centre for Budget Studies, CUSAT
March 07, 2019

Objectives

- Examine fiscal policies pursued in Kerala with regard to resource mobilisation and public expenditure
- Discuss the trend, pattern and consequences of the public expenditure
- The changing fiscal situation since the white paper on State finances, 2016
- Data sources are Budget documents of Government of Kerala, Reports of the Comptroller and Auditor General of India and RBI data on state finances.

Hypothesis

- The unsound fiscal policies pursued by successive governments neglecting the own resource mobilisation on the one hand and excessive increase in non-plan revenue expenditure and poor fiscal management on the other have contributed to persistent fiscal crisis.
- This led to a vicious circle of persistent low revenue receipts, higher non-plan revenue expenditure (NPRE) increase in borrowing to meet NPRE and unmanageable level of revenue and fiscal deficits
- Failure of state government to take prompt action on steady deterioration and collapse of state finances predicted by the white paper, 2016 lead the state towards a fiscal collapse.

I. The Worst Fiscal Crisis of Kerala (1998-2001)

(White Paper 2001)

- What is Kerala's experience relating to excessive increase in non-plan revenue expenditure (NPRE) and stagnation of own resource mobilisation?
- The result is the worst fiscal crisis in Kerala history.
- Persistent huge revenue deficit (RD-GSDP ratio) since 1998-99 (3.3–5.2 %)
- Alarming growth in fiscal deficit (FD), FD-GSDP ratio (4.8–6.6 %)
- Steep increase in public debt (25.2 – 32.9% of GSDP)
- Borrowing to meet additional liability due to pay and pension revision, 1997
- Unsustainable salary and pension bill built up overtime

- Salary expenditure increased from 16 % in 1998-99 to 38% in 1999-2000 resulting in a spurt in revenue deficit
- Increase in debt servings investment payment and repayment of capital
- Financial liability due to the implemetation of Plus Two school scheme in 1999-2000
- Inflated annual plans without considering resource availability
- Accumulation of losses of public sector undertakings (PSUs) and failure to pay dividends
- Reckless expenditure on non-plan revenue items without considering resources
- Fiscal extravagance to satisfy the powerful vested interest groups
- Ad hoc resource mobilisation short term borrowing

Magnitude of the Crisis

- Unable to pay cash to cheques issued by the Government
- Dishonored cheques are being revalidated after the expiry of date (6 months)
- Courts are attaching Government property, vehicles and furniture for failure to pay liabilities
- Retired staff were unsure about getting their gratuity and pensionary benefits.
- Severe restrictions on withdrawal of Provident Fund of employees
- Severe cut in plan expenditure to finance non-plan revenue expenditure
- Government departments did not have funds to purchase postal stamps, fuel for vehicles, payment of telephone, water and electricity charges.

Fiscal crisis in 2016 (White Paper, June 2016)

- The State is facing an acute fiscal crisis
- Entire borrowing permitted by central government is just sufficient to meet the day to day expenditure
- No funds left for capital expenditure
- State budgets presented are highly unrealistic with regard to resource mobilisation and expenditure for 3 years (2013-16)
- Additional resource mobilisation measures have not been implemented
- Inflated annual plans- not based on resources availability

- Fall in plan expenditure (actual plan expenditure 60-70%)
- For 3 years, the implementation of annual plans have virtually stagnated
- Schemes in the budget had no resources to finance them
- The state has been living on a financial lie.
- The total short term liabilities is ₹ 10,628 crore. The LDF government is tied down for meeting their liabilities

➤ **Two reasons for the crisis :**

- 1) Failure on expenditure control and
- 2) Poor resource mobilisation

➤ **Causes attributed to the crisis :**

- 1) Unsound fiscal policy
- 2) Poor fiscal management
- 3) Inefficiency in tax administration and
- 4) Corruption (of the UDF government for 3 years, 2013-16)

Prediction of White Paper 2016

- If the same fiscal situation continues, state would be in a fiscal anarchy in 2017-18.
- Development and growth of the state would come to a halt
- By 2021, the revenue deficit would exceed 3.25% of GSDP and gross fiscal deficit 6.25% of GSDP
- Will Result in default of payments on salaries, pensions and loan repayment obligations by 2021
- The state will move to fiscal collapse by 2021

Fiscal Situation Worsens Since 2015-16

- Available evidences suggests that the fiscal situation worsens since 2015-16
- The CAG report on state finances says that the fiscal crisis become more worse in 2016-17 compared to previous year (Table 1,2 & 3)
- There has been an increase in revenue deficit, fiscal deficit and debt GDP ratio.
- During the year 2017-18 government imposed severe restrictions on treasury payments during the major part of the year
- Except salary, pensions and few establishment items, treasury payments of all other item were restricted between October and December 2017

- The state government was forced to withdraw an amount of ₹ 12,000 crore deposited by government departments and 1200 LGs in treasury saving bank accounts.
- Expenditure control on non-plan revenue expenditure and additional treasury restrictions were announced in March 2018.
- In addition to the existing treasury restrictions, new restrictions were imposed in December 2018.
- The devastating flood during August 2018 also contributed to substantial fall in revenue receipts of state.

Table 1
Trends in Revenue Deficit (RD)

Year	Revenue deficit (Rs Crore)	RD as % of revenue expenditure	GSDP* (₹ crore)	RD as % of GSDP	RD as per KFR Act (%)
2000-01	3147	26.5		4.3	
2005-06	3129	17.0		2.3	
2010-11	3674	10.6	324513	1.13	
2011-12	8035	17.4	364048	2.21	1.4
2012-13	9352	17.5	412313	2.27	0.9
2013-14	11309	18.7	465041	2.43	0.5
2014-15	13796	19.2	512564	2.69	0.0
2015-16	9657	12.3	561994	1.72	0.0
2016-17	15484	17.0	616357	2.51	0.0
2017-18	16928	16.9	686764	2.46	0.0

Note: *The GSDP figures given in budget in brief 2019-20 issued for calculation of all GSDP fiscal indicators in the paper

Source: CAG (2016), Report of CAG on state finances for the year ended March 2015 and CAG (2018), Report for the year ended March 2017 and budget in brief 2019-2020.

Table 2
Trends in Gross Fiscal Deficit (GFD)

Year	GFD (Rs crore)	GFD as % of total expenditure	GFD as % of GSDP	GFD Target as per KFR Act (%)
2000-01	3878	31.1	5.3	
2005-06	4182	21.4	3.1	
2010-11	7731	19.9	2.38	
2011-12	12815	25.2	3.52	3.5
2012-13	15002	25.3	3.64	3.5
2013-14	16944	25.5	3.64	3.0
2014-15	18642	24.2	3.64	3.0
2015-16	17818	20.5	3.17	3.0
2016-17	26448	25.8	4.29	3.0
2017-18	26837	24.3	3.91	3.0

Source: Same as Table 1

Table 3
Trends in public debt

Year	Public debt (Rs Crore)	Rate of growth (%)	Debt/GSDP (%)	Target as per KFR Act (Debt-GSDP Ratio)
2000-01	23919	-	32.9	
2005-06	45929	9.7	33.5	
2010-11	78673	10.9	24.24	
2011-12	89418	13.7	24.56	32.2
2012-13	103561	15.8	25.12	31.7
2013-14	119009	14.9	25.59	30.7
2014-15	135440	13.8	26.42	29.8
2015-16	157370	16.2	28.00	31.3
2016-17	186453	18.5	30.25	30.8
2017-18	210762	13.03	30.69	30.4

Source: Same as Table 1

II. Fiscal Policy on Resources

- Fiscal policy pursued by successive governments in Kerala had given low priority for achieving healthy and stable fiscal situation due to political considerations.
- Political consideration are the major factors behind lack of timely revision of taxes and non-taxes, poor collection, laxity in collection of arrears, fixing inflated plan outlays and fiscal extravagance.
- For instance there was no revision of rate of taxes and non-tax items collected by LGs for a period of 2 decades
- Poor performance of commercial taxes departments in the collection of sales tax, VAT, GST etc.
- Failure to achieve resources mobilisation targeted in the budget

- Fixing inflated plan outlays without considering resource availability
- Promotion of loss making public sector undertakings by giving funds from the state budget
- Lack of serious steps to collect the arrears of tax & non-tax revenue
- Lack of prompt settlement of dues between different governments & public sector undertakings
- Tax concession given to certain sections due to political considerations
- Lack of serious steps to strengthen the tax collection machinery, increase efficiency in collection, reducing corruption and failure to implement e-governance in tax administration etc.

Total Receipts

- Revenue and Capital are the two streams of receipts
- Revenue receipts consists of tax revenue, non-tax revenue, State's share of union taxes and duties and grant in aid from the GOI
- Capital receipts comprise of non-debt capital receipts such as miscellaneous capital receipts, recoveries of loans and advances, and public debt resources from internal sources
- There has been a growth in the share of public debt receipts to total receipts (Table 4).
- It indicates that the state is depending on borrowing to meet revenue expenditure

Table 4
Trends in Total Receipts in the Consolidated Fund*
(Rs crore)

Year	Total revenue receipts	Non-debt capital receipts	Public debt receipts	Total receipts	Share of public debt receipts to total receipts
2000-01	8731	117	2156	11004	19.6
2005-06	15295	52	5823	21170	27.5
2010-11	30991	69	7189	38249	18.8
2011-12	38010	71	9799	47880	20.5
2012-13	44137	89	13261	57487	23.1
2013-14	49177	123	14461	63761	22.7
2014-15	57950	152	18509	76611	24.2
2015-16	69033	181	19658	88872	22.1
2016-17	75612	322	23858	99792	23.9
2017-18	83020	380	30234	113634	26.6

*Excluding public account receipts: *Source:* Same as Table 1

Trends in Revenue Receipts

- There has been a steep decline in growth rate of own tax revenue since 2011-12 (Table 5)
- But there has been an increase in growth rate of central tax transfer
- The growth rate of revenue receipts was lower in 2016-17 and 2017-18
- The share of own taxes revenue receipts witness a steady fall
- The share of central tax transfer and grants-in-aid witnessed an increase
- Of the total revenue, the state's share is 69% and centre 31% in 2017-18 (Table 6)
- The structure of total revenue receipts is given in the Table 6

Table 5
Total Revenue Receipts

Year	Own taxes	Non-tax revenue	Central tax transfer	Grant-in-aid	Total revenue receipts
	Amount ₹ crore				
2010-11	21722	1931	5142	2196	30991
2011-12	25719	2592	5990	3709	38010
2012-13	30077	4198	6841	3021	44137
2013-14	31995	5575	7469	4138	49177
2014-15	35232	7284	7926	7508	57950
2015-16	38995	8426	12691	8921	69033
2016-17	42177	9700	15225	8510	75612
2017-18	46459	11199	16833	8528	83020
	Growth in %				
2011-12	18.4	34.2	16.5	68.9	22.6
2012-13	16.9	62.0	14.2	-18.5	16.1
2013-14	6.4	32.8	9.2	37.0	11.4
2014-15	10.1	30.7	6.1	81.4	17.8
2015-16	10.7	15.7	60.1	18.8	19.1
2016-17	8.2	15.1	19.9	-4.6	9.5
2017-18	10.1	15.4	10.6	0.2	9.8

Source: Same as Table 1

Table 6
Percentage share of Total revenue receipts

Year	Own taxes	Non-tax revenue	Central tax transfer	Grant-in-aid	Total revenue receipts
2010-11	70.09	6.23	16.59	7.08	100
2011-12	67.66	6.81	15.75	9.75	100
2012-13	68.14	9.51	15.49	6.84	100
2013-14	65.06	11.33	15.18	8.41	100
2014-15	60.79	12.56	13.67	12.95	100
2015-16	56.49	12.21	18.38	12.92	100
2016-17	55.78	12.83	20.14	11.25	100
2017-18	55.96	13.49	20.28	10.27	100

Source: Same as Table 1

Trends in SOTR and Non-tax Revenue

- The state own tax revenue comprises of sales tax and VAT, stamps and registration, state excise, taxes on vehicles, other taxes etc (Table 7)
- There has been a decline in its growth rate since 2011-12
- The rate of growth was 8.8% in 2016-17 and 9.4% in 2017-18
- Sales tax and VAT accounts for the largest share of SOTR (79%)
- The other major taxes are taxes on vehicles, stamps and registration and state excise.
- The major items of non-tax revenue are interest receipts, dividends and profits, state lotteries, forestry and wild life revenue and others (Table 8)
- Of this, state lotteries is the largest item. But the amount is not net income but income from the sale of lottery tickets.
- The share cost for conducting the lotteries is about 78 per cent and net income is about 22 per cent

Table 7
Trends in State Own Tax Revenue

Year	Sales tax and VAT	Stamps and registration	State excise	Taxes on vehicles	Other taxes	Total
	Amount ₹ crore					
2010-11	15833	2552	1700	1331	306	21722
2011-12	18939	2987	1883	1587	323	25719
2012-13	22511	2938	2314	1925	389	30077
2013-14	24885	2593	1942	2161	414	31995
2014-15	27908	2659	1777	2365	523	35232
2015-16	30737	2878	1964	2814	602	38995
2016-17	33453	3007	2019	3107	591	42177
2017-18	36586 (Sales Tax-24578 + GST-12008)	3453	2240	3663	518	46460
	Growth in %					
2011-12	19.6	17.0	10.8	19.2	5.6	18.4
2012-13	18.9	-1.6	22.9	21.3	20.4	16.9
2013-14	10.5	-11.7	-16.1	12.3	6.4	6.4
2014-15	12.1	2.5	-8.5	9.4	26.3	10.1
2015-16	10.1	8.2	10.5	19.0	15.1	10.7
2016-17	8.8	4.5	2.8	10.4	-1.8	8.2
2017-18	9.4	14.8	10.9	17.9	-12.4	10.2

Source: Same as Table 1

Table 8
Trends in non-tax revenue

Year	Interest receipts	Dividends and profits	State lotteries	Forestry and wild life	Other non-tax receipts	Grand total
	Amount ₹ crore					
2010-11	172	75	571	274	839	1931
2011-12	136	67	1283	221	885	2592
2012-13	172	48	2674	237	1067	4198
2013-14	149	101	3796	330	1199	5575
2014-15	102	74	5445	300	1363	7284
2015-16	105	90	6271	283	1677	8426
2016-17	144	96	7283	297	1880	9700
2017-18	145	126	9034	245	1570	11120
	Growth in %					
2011-12	-20.9	-10.7	124.7	-19.3	5.5	34.2
2012-13	26.5	-28.4	108.4	7.2	20.6	62.0
2013-14	-13.4	110.4	42.0	39.2	12.4	32.8
2014-15	-31.5	-26.7	43.4	-9.1	13.7	30.7
2015-16	2.9	21.6	15.2	-5.7	23.0	15.7
2016-17	37.1	6.7	16.1	4.9	12.1	15.1
2017-18	0.7	31.3	24.0	-17.5	-16.5	14.6

Source: Same as Table 1

Arrears of Tax and Non-tax items

- Mounting arrears is a serious issue
- According to CAG, the total arrear in March 2017 is ₹ 12591 crore (Table 9)
- Of this, the amount of arrears for more than five years is ₹ 5183 crore (41 per cent)
- Major share of arrears and from sales tax and VAT (61 per cent in March 2015)
- Land revenue arrears accounts for 20 per cent (March, 2015)
- Motor vehicles tax accounts for 12 per cent (March 2015)
- A major reason is stay orders issued by courts, state government and appellate bodies.
- Most public sector undertakings failed to pay dues in time
- Government also fail to take prompt action in collection of arrears due to political factors/corruption

Table 9
Amount of Tax and Non-Tax Arrears outstanding (Rs crore)

Year (as on March)	Total amount of arrears	Amount of arrears for more than five years	Amount of arrears for more than five years (Per cent)
2011	5358	1679	31.3
2012	10273	3768	36.7
2013	12244	4389	35.8
2015	10436	1872	17.9
2017	12591	5183	41.2

Source: CAG (2018) Report of CAG on Revenue sector for the year ended on March 2017, (and previous issues)

III. Fiscal policies on Expenditure

- State sponsored and funded development strategy since the formation of the state.
- Major political parties in Kerala believed in the ideology of socialism and expansion of bureaucracy
- The policy was to achieve development in all sectors through public investment
- Little priority was given to private investment till 1991 especially in non-agricultural sectors
- A large number of regulatory measures were implemented till 1991
- Salaries and pensions were revised once in five years and the same pattern was followed in autonomous bodies, universities, public sector undertakings and semi government organisations.

- Successive government resorted to fiscal extravagance to satisfy the powerful vested interest groups-trade unions in public sector, private aided institutions, bureaucracy, social organisations, other vested interest groups etc.
- Unnecessary public sector undertakings were started in tourism, hotels, housing, trade production of consumer goods etc.
- Expansion of public sector employment without considering future liability.
- Promoted public educational institutions, giving liberal grants-in-aid to private institutions (public expenditure)
- Restrict or prohibit private institutions in higher education /professional till 2001
- Contributed to rapid growth in non-plan revenue expenditure, borrowing to meet the NPRES and pushed the state in to persistent fiscal crisis

Total Expenditure (TE)

- Total Expenditure is classified as revenue and capital
- The growth rate was 31.2% in 2011-12. This was mainly due to the pay revision (Table 10).
- During last five years the annual growth rate of total expenditure ranged between 17.6 & 11.8 except 2017-18
- The total expenditure-GSDP ratio in the last three years was about 16%
- The resource gap between revenue receipts and TE was about 25% for six years (out of 8 years)
- This means that nearly one fourth of the expenditure has been met through borrowing

Table 10
Total expenditure – Basic Parameters

Year	Total expenditure(TE) (Rs crore)	Rate of growth (%)	TE/ GSDP* (%)	Revenue receipts/TE (%)
2010-11	38791	-	11.9	79.9
2011-12	50896	31.2	13.9	74.7
2012-13	59228	16.4	14.4	74.5
2013-14	66244	11.8	14.2	74.2
2014-15	76744	15.9	14.9	75.5
2015-16	87032	13.4	15.5	79.3
2016-17	102382	17.6	16.6	73.8
2017-18	110238	7.7	16.1	75.3

* GSDP figures given in the table 1 is used to estimate TE/GSDP ratio

Source: Same as Table 1

Revenue Expenditure (RE)

- RE accounts for about 89 to 93% of TE (Table 11)
- Annual Growth rate of RE range between 10 & 33 %
- Pay revisions ones in five years is the major factor which determine the growth of RE
- During 2011-12 the growth rate in RE was 32.8% mainly due to pay revision
- Only a small share of TE is spends for Capital Expenditure
- To find resources for RE, a cut in Capital Expenditure were effected
- The fall in RE in 2017-18 is due to severe restrictions imposed on treasury payments for major part of the year.

Table 11
Revenue Expenditure – Parameters (Rs in crore)

Year	Revenue expenditure (RE)	Growth rate of RE (%)	RE to total expenditure (%)	RE/GSDP Ratio (%)
2010-11	34665	-	89.4	10.7
2011-12	46045	32.8	90.5	12.6
2012-13	53489	16.2	90.3	12.9
2013-14	60486	13.1	91.3	13.0
2014-15	71746	18.6	93.5	13.9
2015-16	78690	9.7	90.4	14.0
2016-17	91096	15.7	88.9	14.8
2017-18	99948	9.7	90.7	14.6

Source: Same as Table 1

Non Plan Revenue Expenditure (NPRE)

- The NPRE is to meet items like salaries, pension, interest, subsidies, establishment, administration, grants-in-aid, etc.
- NPRE accounts for 76-81% of total expenditure (Table 12)
- NPRE as percent of revenue receipts was more than 100% in seven years except 2015-16
- This suggest that the entire revenue receipts is not sufficient to meet NPRE
- For meeting NPRE, government resort to continuous borrowing.
- The major factor which influence NPRE is salary, pension and DA revisions
- Rapid rise in NPRE is the root cause of the fiscal crisis

Table 12
Non Plan Revenue Expenditure (NPRE)

Year	NPRE (₹ in crore)	Rate of Growth (%)	NPRE/GSDP Ratio (%)	NPRE as % of TE	NPRE as % of revenue receipts
2010-11	30469	-	9.4	78.5	98.3
2011-12	40718	33.6	11.2	80.0	107.1
2012-13	46640	14.5	11.3	78.7	105.7
2013-14	53412	14.5	11.5	80.6	108.6
2014-15	61462	15.1	11.9	80.1	106.1
2015-16	66611	8.4	14.4	76.5	96.5
2016-17	77604	16.5	12.6	75.8	102.6
2017-18	83767	7.9	12.2	76.0	100.9

Source: Same as Table 1

Salary and Pension Expenditure

- Kerala has a total staff strength of 5.15 lakh of staff including private aided staff (Table 13)
- A major cause of the fiscal crisis has been the revision of salary and pensions once in five years (Table 14)
- Between 1997 and 2014, four pay revisions were implemented (Table 14)
- Revision of salary results in an increase in expenditure of about 45 per cent in 2011-12 (Table 15)
- The revision of pension results in 50 per cent increase in expenditure in 2011-12 (Table 16)
- The total expenditure of salary and pension ranged between 43 to 49 per cent of total expenditure (Table 17 & 18)

- It accounts for 46 to 54 percent of the revenue expenditure
- It accounts for major share of NPRE
- Starting new private aided institutions and courses involving huge financial commitment.
- Funds to support uneconomic Government and private aided schools and excess teachers
- Due to lack of norms for utilisation of Government vehicles for personal purposes, widespread misutilisation is taking place
- The LDF government has created nearly 20,000 new posts during the last 3 years

Table 13
Total Staff: Different Categories

	Category	Number in March 2012	Number in January 2019	Growth rate (%) (2012-2019)
1	State Government	485757	496196	2.1
2	Consolidated Pay	592	934	57.8
3	All India Services	197	288	46.2
4	UGC	13544	15380	13.6
5	AICTE	1877	2230	18.8
6	Judicial	525	551	4.9
7	Others	183	60	-67.2
	Total	502675	515639	2.6

Source: GoK (2019), Appendix 1 to detailed budget estimates of 2019-20, Details of Staff (and previous issues)

Table 14
Revision of Scales of Pay: Lowest and Highest Scales (₹)

Date of Pay Revision	Lowest Scale of Pay
1-3-1997	2610-60-3150-65-3540-70-3680
1-7-2004	4510-120-4990-130-5510-140-5930-150-6230
1-7-2009	8500-230-9190-250-9940-270-11020-300-12220-330-13210
1-7-2014*	16500-35700
Date of Pay Revision	Highest Scale of Pay
1-3-1997	16300-450-19900
1-7-2004	26600-650-33750
1-7-2009	48640-1100-57440-1200-59840
1-7-2014*	93000-120000

*implemented on 20-01-2016

Source: Same as Table 13

Table 15
Salary Expenditure

Year	Salary Expenditure (₹ in crore)	Growth (%)	Share of total expenditure (%)	Share of revenue expenditure (%)
2010-11	11178	-	28.8	32.2
2011-12	16229	45.1	31.8	35.2
2012-13	17505	7.8	29.5	32.7
2013-14	19554	11.7	29.5	32.3
2014-15	21621	10.5	28.1	30.1
2015-16	23757	9.9	27.3	30.2
2016-17	28373	19.4	27.7	31.1
2017-18	32349	14.0	32.4	32.4

Source: Same as Table 1

Table 16
Pension Expenditure

Year	Pension Expenditure (₹ in crore)	Growth (%)	Share of total expenditure (%)	Share of revenue expenditure (%)
2010-11	5767	-	14.8	16.6
2011-12	8700	50.8	17.1	18.9
2012-13	8867	1.9	14.9	16.6
2013-14	9971	12.4	15.1	16.5
2014-15	11253	12.8	14.6	15.7
2015-16	13063	16.1	15.0	16.6
2016-17	15277	16.9	14.9	16.7
2017-18	19938	30.5	18.1	19.9

Source: Same as Table 1

Table 17
Salary and Pension : Indicators of Expenditure

Year	Total salary & pension (₹ in crore)	Salary & pension to total expenditure (%)	Salary & pension to total revenue expenditure (%)	Salary & pension to total non-plan revenue expenditure (%)
2010-11	16945	43.7	48.9	55.6
2011-12	24929	48.9	54.1	61.2
2012-13	26372	44.5	49.3	56.5
2013-14	29525	44.6	48.8	55.3
2014-15	32874	42.8	45.8	53.5
2015-16	36820	42.3	46.8	55.3
2016-17	43650	42.6	47.9	56.2
2017-18	52287	47.4	52.3	62.4

Source: Same as Table 1

Table 18**Annual Average Growth Rate of Salary and Pension Expenditure (%)**

Period	Salary	Pension	Total
2000-01 to 2005-06	5.4	8.6	6.2
2005-06 to 2010-11	14.6	16.5	15.0
2010-11 to 2015-16	16.8	19.0	17.5
2016-17	19.4	16.9	18.5

Source: Calculated based on the sources given in Table 17

Interest Payments

- Interest on public debt is a major item of revenue expenditure
- There has been an increase in interest payments since 2011-12 (Table 19)
- Interest accounts for 13 to 16 percent of revenue expenditure.
- During the year 2017-18, this was a spurt in growth rate (25%)
- This indicate increased borrowing to meet NPRE

Table 19
Expenditure on interest

Year	Interest (₹ in crore)	Growth rate (%)	Interest as % of revenue expenditure
2010-11	5690	-	16.41
2011-12	6294	10.6	13.67
2012-13	7205	14.5	13.47
2013-14	8265	14.7	13.66
2014-15	9770	18.2	13.62
2015-16	11111	13.7	14.1
2016-17	12117	9.1	13.3
2017-18	15120	24.8	15.1

Source: Same as Table 1

Revenue Expenditure : General, Social and Economic Services

- General service consists of administration of justice, land revenue, interest payments, police, pension and other general services
- Social service consists of public education, health, water supply, urban development, welfare of SC/ST etc, labour and labour welfare, social welfare etc.
- Economic service consists of agriculture and allied, rural development, irrigation, energy, industry, transport, science and technology etc.

Trends in Revenue Expenditure : General, Social and Economic Service

- There has been an increase of general and social services except 2017-18 (Table 20)
- But the spending on economic service registered a steady decline.
- There has been a negative growth in 2016-17
- The growth in expenditure was only 6.5% in 2017-18
- Due to fiscal crisis there has been a cut in economic services

Table 20**Revenue expenditure : general, social and economic services**

Year	General Services	Social Services	Economic Services	Grants-in-aid	Total
	Amount (₹ crore)				
2010-11	15418	12111	4358	2778	34665
2011-12	20300	16224	6132	3389	46045
2012-13	22787	18878	7808	4016	53489
2013-14	26605	20980	7929	4972	60486
2014-15	31433	23718	10197	6398	71746
2015-16	36085	27603	11099	3903	78690
2016-17	41195	33765	10655	5481	91096
2017-18	45524	35876	11351	7197	99948
	Growth Rate (%)				
2011-12	31.7	33.9	40.7	22.0	32.8
2012-13	12.2	16.3	27.3	18.5	16.2
2013-14	16.7	11.1	1.5	23.8	13.1
2014-15	18.1	13.1	28.6	28.7	18.6
2015-16	14.8	16.4	8.8	-39.0	9.7
2016-17	14.2	22.3	-4.0	40.4	15.8
2017-18	10.5	6.3	6.5	31.3	9.7

Source: Same as Table 1

Trends in Capital expenditure : General, Social and Economic services

- The spending on general and social services witness wide variation
- There has been a negative growth in economic services (Table 21)
- Of the seven years, 3 years witnessed a negative growth
- There has been a negative growth in capital expenditure during 3 years
- This indicate that there has been a cut in capital expenditure
- The structure of revenue and capital expenditure is given in table 22

Table 21
Capital expenditure : general, social and economic services

Year	General Services	Social Services	Economic Services	Total
	Amount (₹ crore)			
2010-11	119	479	2766	3364
2011-12	162	595	3096	3853
2012-13	147	562	3894	4603
2013-14	148	617	3529	4294
2014-15	135	875	3245	4255
2015-16	257	1035	6208	7500
2016-17	211	1293	8622	10126
2017-18	268	1406	7075	8749
	Growth Rate (%)			
2011-12	36.1	24.2	11.9	14.5
2012-13	-9.3	-5.5	25.8	45.4
2013-14	0.7	9.8	-9.4	-6.7
2014-15	8.8	41.8	-8.0	-0.9
2015-16	90.4	18.3	91.3	76.3
2016-17	-17.9	24.9	38.9	35.0
2017-18	27.0	8.7	-17.9	-13.6

Source: Same as Table 1

Table 22
Structure of Revenue and Capital Expenditure (% share)

Year	General Services	Social Services	Economic Services	Grants-in-aid	Total
	Revenue Expenditure (%)				
2010-11	44.5	34.9	12.6	8.0	100
2017-18	45.5	35.9	11.4	7.2	100
	Capital Expenditure (%)				
2010-11	3.5	14.2	82.2	NA	100
2017-18	3.1	16.1	80.8	NA	100

Plan Expenditure

- Plan expenditure (revenue) accounts for 12 to 16 percent of total revenue expenditure (Table 23)
- There has been a decline in its growth rate in plan expenditure since 2014-15
- During 2017-18, the growth in plan expenditure was 19.9 percent
- Plan expenditure (capital) account for 75 to 91 percent of capital expenditure (Table 24)
- The growth rate in capital expenditure is not steady.
- During 2017-18, there has been a negative growth in capital expenditure.

Table 23
Revenue Expenditure : Plan + Non-plan

Year	Plan (₹ crore)	Non-plan (₹ crore)	Total revenue expenditure (₹ crore)	Growth rate of plan expenditure (%)	Share of plan to total revenue expenditure (%)
2010-11	4196	30469	34665	-	12.1
2011-12	5327	40718	46045	26.9	11.6
2012-13	6849	46640	53489	28.6	12.8
2013-14	7074	53412	60486	3.3	11.7
2014-15	10282	61464	71746	45.3	14.3
2015-16	12079	66611	78690	17.5	15.4
2016-17	13492	77604	91096	11.7	14.8
2017-18	16182	83767	99948	19.9	16.2

Source: Same as Table 1

Table 24
Capital Expenditure : Plan + Non-plan

Year	Plan (₹ crore)	Non-plan (₹ crore)	Total capital expenditure (₹ crore)	Growth rate of plan expenditure(%)	Share of plan to total capital expenditure (%)
2010-11	2766	598	3364	-	82.2
2011-12	3398	455	3853	22.8	88.2
2012-13	3466	1137	4603	2.0	75.3
2013-14	3497	797	4294	0.9	81.4
2014-15	3881	374	4255	10.9	91.2
2015-16	6518	982	7500	67.9	86.9
2016-17	8946	1180	10126	37.3	88.3
2017-18	7994	755	8749	-10.6	91.4

Source: Same as Table 1

Conclusions

- Kerala's fiscal crisis is a basic, structural and persistent problem
- It is not a temporary or short term problem relating to the rule of one government
- But successive governments in Kerala treated this as a temporary problem
- The white paper 2016 has considered this as a temporary problem of fiscal mismanagement of UDF
- Basically there is not much difference in fiscal policy pursued by the present and previous government
- Fiscal policies pursued have given low priority for own resource mobilisation. Efforts was not made to improve the fiscal management or revenue collection
- Fiscal policies promote excessive increase in non-plan revenue expenditure

- There is no change in the fiscal extravagance to satisfy the powerful vested interests (trade unions in public sector, private aided institutions, bureaucracy, social organisations etc)
- The failure of successive governments to correct the unsound policies, regarding resource mobilisation and restrict the excessive growth in non-plan revenue expenditure have resulted in deepening the crisis
- All available evidences suggest that the fiscal situation worsened since the publication of white paper 2016
- The state is heading towards a fiscal collapse.
- The white paper 2016 predicted that the fiscal collapse will happen in 2021
- But it is likely that it will happen before that

Reference

- B A Prakash & Jerry Alwin (ed). (2018). Kerala's Economic Development: Emerging issues and challenges. New Delhi: Sage Publications.
- ബി. എ. പ്രകാശ്. (2017). ധനധൂർത്ത് രാഷ്ട്രീയവും രൂക്ഷധനപ്രതിസന്ധിയും. തൃശൂർ: കറന്റ് ബുക്സ്.
(available in www.keralaeconomy.com)
- CAG (2018). Report of the Comptroller and Auditor General of India on state finances for the year ended March 2017. (previous issues)
- CAG (2018). Report of CAG on revenue sector for the year ended on March 2017 (previous issues)
- Government of Kerala (2019). Budget in brief 2019-2020. Thiruvananthapuram : finance Department (previous issues)

THANK YOU

B A Prakash