

Kerala's fiscal crisis during pre and post COVID-19

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This note gives a picture of the fiscal situation in two periods (1) the fiscal crisis during the pre COVID-19 period, and (2) the post COVID-19 period.

I. The fiscal crisis during the pre COVID-19 period

- The LDF government published a white paper on state finances immediately after assuming power in June 2016. Findings of white paper are given below.
- The State is facing an acute fiscal crisis
- Entire borrowing is just sufficient to meet the day to day expenditure
- No funds left for capital expenditure
- State budgets presented are highly unrealistic (inflated)
- Additional resource mobilisation measures have not been implemented
- Highly inflated annual plans
- Fall in plan expenditure (actual plan expenditure 60-70%)
- Schemes in the budget had no resources to finance them
- The state has been living on a financial lie. The figures in the budget documents are fake.

Predictions of White Paper 2016

- If the same fiscal situation continues, state would be in a fiscal anarchy in 2017-18.
- 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 crisis: A structural and persistent problem

- Kerala's fiscal crisis is a basic, structural and persistent problem
- The white paper 2016 has considered this as a temporary problem of fiscal mismanagement of UDF.
- The aim of the white paper was to shift the responsibility of the fiscal crisis to UDF government.
- But the UDF government has not taken any serious steps to improve the state finances during their rule.

Fiscal Situation Worsens Since 2015-16

- The CAG report on state finances said that the fiscal crisis become more worse in 2016-17
- There has been an increase in revenue deficit, fiscal deficit and debt GDP ratio.
- The fiscal crisis continued and the government was forced to impose severe restrictions on treasury payments during the major part of the year 2017-18
- In addition to the existing treasury restrictions, new restrictions were imposed in December 2018.
- Since February 15, 2019, all the bills exceeding Rs one lakh were stopped from making payments. The only exemption given are the bills on salaries and pensions.
- Due to this, severe restrictions in payment of bills, almost the entire activities which require funds came to a standstill in government departments and 1200 local governments (grama, block, district panchayats, municipalities and municipal corporations) in the state.
- Though some relaxations were given in the treasury restrictions, it continued throughout the year 2019 and major part of the year 2020.
- As per Kerala Fiscal Responsibility Act (KFRAAct), the state government has to reduce the revenue deficit to zero. But the LDF government was not able to achieve the fiscal target not in a single year.
- In sum, the LDF government totally failed to improve the fiscal situation of the state.

Tables on Revenue Deficit, Gross Fiscal Deficit and Public Debt

The trend in revenue deficit (difference in revenue receipts and expenditure) gross fiscal deficit (total gap between total expenditure and revenue receipts or the total borrowing) and growth in public debt are given in table 1 to 3.

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 (%)
2010-11	3,674	10.6	3,24,513	1.13	
2011-12	8,035	17.4	3,64,048	2.21	1.4
2012-13	9,352	17.5	4,12,313	2.27	0.9
2013-14	11,309	18.7	4,65,041	2.43	0.5
2014-15	13,796	19.2	5,12,564	2.69	0.0
2015-16	9,657	12.3	5,61,994	1.72	0.0
2016-17	15,484	17.0	6,16,357	2.51	0.0
2017-18	16,928	16.9	7,00,532	2.42	0.0
2018-19	17,462	15.8	7,81,653	2.23	0.0
2019-20	14,495	13.8	8,54,689	1.70	0.0
2020-21	23,256	19.4	7,58,942	3.06	0.0

RE: Revised Estimate

*Gross State Domestic Product

Source: (1) State Finance Audit Report of CAG for the year ended March 2019; (2) Budget in brief 2020-2021 (previous issues), CAG (2021), Accounts at a glance, as at the end of March, 2021 (cag.gov.in).

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 (%)
2010-11	7,731	19.9	2.38	
2011-12	12,815	25.2	3.52	3.5
2012-13	15,002	25.3	3.64	3.5
2013-14	16,944	25.5	3.64	3.0
2014-15	18,642	24.2	3.64	3.0
2015-16	17,818	20.5	3.17	3.0
2016-17	26,448	25.8	4.29	3.0
2017-18	26,838	24.3	3.83	3.0
2018-19	26,958	22.5	3.42	3.0

2019-20	23,837	20.8	2.79	3.0
2020-21	38,189	28.8	5.03	3.0

RE: Revised Estimate

Source: (1) State Finance Audit Report of CAG for the year ended March 2019; (2) Budget in brief 2020-2021 (previous issues), CAG (2021), Accounts at a glance, as at the end of March, 2021 (cag.gov.in).

Table 3
Trends in public debt

Year	Public debt (Rs Crore)	Rate of growth (%)	Debt/GSDP (%)	Target as per KFR Act (Debt-GSDP Ratio)
2010-11	78,673	10.9	24.24	
2011-12	89,418	13.7	24.56	32.2
2012-13	1,03,561	15.8	25.12	31.7
2013-14	1,19,009	14.9	25.59	30.7
2014-15	1,35,440	13.8	26.42	29.8
2015-16	1,57,370	16.2	28.00	31.3
2016-17	1,86,453	18.5	30.25	30.8
2017-18	2,10,762	13.03	30.69	30.4
2018-19	2,35,731	11.85	30.16	-
2019-20	2,60,336	10.44	30.46	-
2020-21 (RE)	2,96,916	14.05	39.12	-

RE: Revised Estimate

Source: (1) State Finance Audit Report of CAG for the year ended March 2019; (2) Budget in brief 2020-2021 (previous issues), CAG (2021), Accounts at a glance, as at the end of March, 2021 (cag.gov.in).

Kerala Infrastructural Investment Fund Board (KIIFB)

- In the context of acute fiscal crisis LDF government announced an out of budget financing scheme for implementing development projects in the revised budget 2016-17.
- The objective of the scheme was to invest Rs. 54,000 in public development projects by mobilizing resources outside the budget within a period of five years.
- KIIFB is not an out of budget scheme in a strict sense (1) All investment projects are the projects included in the annual plans and budgets of the state. (2) The projects are not generating any revenue to repay the loans. (3) The entire repayment of the future liability is met from State's revenue. (4) KIIFB is raising some funds from outside the

budget, but a good part of the funds are from state revenue (a share of motor vehicles tax and cess on petrol and diesel).

- But CAG has not accepted the argument that KIIFB is an out of budget scheme. CAG says that “this is a classic case of off budget borrowings, which (i) bypasses the limits set on Government borrowings under Article 293 of the Constitution of India and (ii) violates the provision of Entry 37 of List I (CAG, State finance audit report of CAG, ended March 2019, page 43).
- This means that the KIIFB borrowing will come within the budget and the state government will lose its fiscal space in borrowing for other purposes.

Performance of KIIFB

The data on the mobilisation and utilisation of the funds suggest that the performance of the KIIFB is very poor (1) Not a single rupee was spent during the first year, 2016-17. (2) The actual expenditure of KIIFB projects till July 2019 was Rs 1859 crore. (3) In the budget speech 2021-22 (January 15, 2021) it was pointed out that projects worth Rs 7000 crore was completed till January, 2021. (4) But it is mentioned in the speech that KIIFB has approved 821 projects worth 40,100 crore for its implementation. This is the poor state of affairs of KIIFB investment. A central issue is that the LDF government which aimed to mobilise and spend Rs. 54,000 crore for development projects within five years was able to spend only 13 percent within five years. This is the experience. In this context, the pertinent question is whether the LDF government can take up mega projects having huge investment cost.

II. Fiscal crisis in the post COVID-19 period.

State's economy is facing the worst recession since 1956. The pandemic induced disruptions have pushed Kerala to unprecedented fiscal crisis. The latest data on State finances gives an alarming situation. There has been an increase of revenue deficit by 60 percent during FY 2020-21. Fiscal deficit increased by 60 percent, annual borrowing by 60 percent during the fiscal year 2020-21 (Table 4).

There was steep decline in tax revenue, non-tax revenue, of the government. But the government was able to manage the situation due to large increase in grant-in-aid from

Central government (revenue deficit grant, GST compensation, other grants recommended by the 15th Union Finance Commission). The grant-in-aid from Central Government increased from RS. 11,235 crore in 2019-20 to Rs 31,049 crore in 2020-21.

Table 4
Impact of COVID-19 on Kerala's Finances

No	Item	2019-20 (Rs Crore)	2020-21 (Rs Crore)	Percentage Change
	Fiscal indicators			
1	Revenue deficit	14,495	23,256	(+)60
2	Fiscal deficit	23,837	38,190	(+)60
3	Annual borrowing	23,837	38,190	(+)60
	Revenue receipts			
4	Tax revenue (State taxes & Central share)	66,724	59,205	(-)11.3
5	Non-tax revenue	12,265	6,420	(-)47.7
6	Tax and non-tax revenue (4+5)	78,989	65,625	(-)16.9
7	Grant-in-aid from Centre	11,235	31,049	(+)176.4
8	Total revenue receipts	90,224	96,674	(+)7.1
	Total expenditure			
9	Revenue expenditure	1,04,720	1,19,930	(+)14.5
10	Capital expenditure	9,665	12,678	(+)31.2
11	Total expenditure	1,14,385	1,32,608	(+)15.9

Source: CAG (2021). Government of Kerala, Accounts at a glance, As at the end of March (Preliminary) 2021; Government of Kerala (2021). Budget in Brief 2021-22. Finance Department

Fiscal situation during the first half of 2021-22

The fiscal data released by the CAG indicates that the fiscal situation during the first six months of the fiscal year (2021-22) is alarming. The total amount of revenue deficit for the first half of 2021-22 is higher than the amount for the entire financial year 2020-21. Out of the total revenue receipts of Rs. 45,135 crore, Rs 40,284 crore is spent for salary and pension

only (Table 5). The state government borrowed an amount of Rs. 37,783 crore for meeting mostly other items of revenue expenditure for the first half of 2021-22.

Table 5
Fiscal indicators (2021-22) first half

Fiscal indicators	Rs. in crore
Revenue Deficit	30,282
Fiscal Deficit	37,783
Total revenue receipts	45,135
Salary and pension expenditure	40,284
Borrowing for meeting the deficit in revenue	37,783

Source: CAG (2021) Accounts at a glance as at the end of September, 2021

Kerala has been facing an unprecedented economic crisis and huge loss in employment of people. Majority of the households in Kerala is facing the worst economic crisis. Now the state government should utilise the entire resources and energy for preventing the spread of the virus and provide relief and assistance for the people.

Reference

- 1) CAG (2020), State Finance Audit Report of CAG for the year ended March 2019.
- 2) Government of Kerala (2021). Budget in Brief 2021-22.
- 3) Government of Kerala (2021), Budget Speech 2021-22
- 4) CAG (2021) Accounts at a glance as at the end of September, 2021