Issues in Kerala's Economic Development

Persistent Fiscal Crisis, COVID-19 Pandemic and Return of Emigrants from the Gulf

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This paper examines three issues

PART I: Kerala's persistent fiscal crisis and fiscal collapse

PART II: The COVID-19 pandemic and its impact on Indian and Kerala economy

PART III: COVID-19 and exodus of Keralite emigrants from the Gulf countries

PART I

Kerala's persistent fiscal crisis and fiscal collapse

i. Kerala's Fiscal Crisis of 2016 and Prediction of Fiscal Collapse

ii. Kerala's unprecedented fiscal crisis declaration, 2022

iii. Kerala's fiscal collapse in 2023-24

i) Kerala's Fiscal Crisis of 2016 and Prediction of Fiscal Collapse

Kerala's 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 inflated 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.

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
- 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 items were restricted between October and December 2017

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 (5th State Finance Commission)

- 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.

Fiscal policies on Expenditure

- The successive governments in Kerala have been following 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
- Successive government resorted to fiscal extravagance to satisfy the powerful vested interest groups-trade unions in public sector, private aided institutions, bureaucracy, social oraganisations, 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)
- Restricted or prohibited professional private institutions in higher education till 2001
- Contributed to rapid growth in non-plan revenue expenditure, borrowing to meet the NPRE and pushed the state to persistent fiscal crisis

Salary and pension revision once in five years

- 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.
- The lesson we learned from two and half decade fiscal experience is that salary and pension revision once in five years and fiscal stability won’t go together.
- If you opt for this revision once in five years then you have to face persistent fiscal crisis. It is a time tested theory.
- This has been the basic reason for shattering the finances of state government, autonomous bodies, public sector undertakings and all other semi government organisations in Kerala.

ii) Kerala's unprecedented fiscal crisis declaration, 2022

- Available evidences suggest that the fiscal situation worsened since the publication of white paper 2016 due to in action of the LDF government to address the issues raised in the white paper
- The white paper 2016 predicted that the fiscal collapse will happen in 2021, if the issues raised are not addressed
- This prediction has come true.
- Kerala Finance Minister K. N. Balagopal has declared in Kerala Legislative Assembly that the state is facing an unprecedented fiscal crisis.
- In the year 2023-24, the government anticipated a more severe fiscal crisis compared to previous year.

Causes of the crisis attributed in the state budget

- The state budget attributes the following distorted fiscal policies of Central Government for the crisis.

- During the tenure of the 15th Union Finance Commission (UFC) the share of Kerala in the divisible pool fell to 1.925% resulting in huge fall in the share of central taxes to the state.

- As a result of cessation of GST compensation, there is a short fall of around Rs 7000 crore during the fiscal year, 2022-23. The anticipated loss in revenue is Rs 5700 crore in 2023-24.

- Due to the policy of Union Government treating public account as debt liability, there is a revenue loss of around Rs 10,000 crore per annum.

- The policy of treating off budget borrowing of institutions such as Kerala Infrastructure Investment Fund Board (KIIFB), Kerala Social Security Pension Ltd (KSSPL) etc as borrowing within the budget and reducing the borrowing limit of the state. The estimated resource loss on these items is around Rs 5000 crore.

- The anticipated shortage of Rs 8400 crore in revenue deficit grant in 2023-24 compared to previous year.

Fiscal indicators

- Revenue deficit/surplus is the difference between revenue receipts and revenue expenditure. The RD as a ratio of GSDP is used as an indicator.
- Gross Fiscal Deficit (GFD) is the gap between total receipts (excluding borrowing) and total expenditure. The GFD as a ratio of GSDP is an indicator.
- Debt GSDP ratio is a ratio of total debt to GSDP of the state.

Revenue deficit (RD) (Tables 1 and 2)

- Though RD target set by Kerala Fiscal Responsibility Act (KFRA) was zero, Kerala was not able to achieve the target in earlier years.
- In 2022-23, revenue target was 0.80 percent revenue surplus
- Persistent deficit of RD is a feature of Kerala's state finances.
- During the post COVID recession years there has been an increase in tax revenue and grants in and from union government.
- In spite of this, Kerala was not able to achieve the RD targets or improve the fiscal situation.
- There has been a cut in revenue expenditure in 2022-23 due to CAGs remarks on off budget borrowing and the reduction in the permissible borrowing limit.

Table 1
Revenue deficit in Kerala (Rs Crore)

No	Items	2019-20	2020-21	2021-22	2022-23
1	Revenue expenditure	1,04,719.92	1,23,446.33	1,46,179.51	1,41,950.93
2	Revenue receipts	90,224.67	97,616.83	1,16,640.24	1,32,724.65
3	Revenue deficit (1+2)	-14,495.25	-25,829.50	-29,539.27	-9,226.28
4	Revenue deficit as percent of GSDP	-1.78	-3.35	-3.16	-0.88

Source: CAG (2024). State Finances Audit Report of the
Comptroller and Auditor General of India (CAG) for the year ended 31 March 2023.
Report No.5 of the year 2024

Table 2
Revenue receipts in Kerala (Rs Crore)

No	Items	2019-20	2020-21	2021-22	2022-23
1	Tax revenue	50,323.14	47,660.84 (-5.3)	58,340.52 (22.4)	71,968.16 (23.4)
2	Non tax revenue	12,265.22	7,327.31 (-40.3)	10,462.51 (42.8)	15,117.95 (44.5)
3	State share in union taxes and duties	16,401.05	11,560.40 (-29.5)	17,820.09 (54.1)	18,260.68 (2.5)
4	Grants in aid from government of India	11,235.26	31,068.28 (176.5)	30,017.12 (-3.4)	27,377.86 (-8.8)
5	Total revenue receipts	90,224.67	97,616.83 (8.2)	1,16,640.24 (19.5)	1,32,724.65 (13.8)

Notes: Growth rates (%) are given in brackets
Source: CAG (2024). State Finances Audit Report of the CAG for the year ended 31 March 2023. Report No.5 of the year 2024

Fiscal deficit (FD) (Tables 3 and 4)

- Kerala was not able to achieve the FD targets set by the FRBM Act in 2020-21 and 2021-22.
- However due to cut in total expenditure due to issues of off budget borrowing the state is able to achieve the target in 2022-23.
- The target was 4 percent but the FD was (-) 2.44 percent.
- An unhealthy trend is the major share of borrowing funds (FD) is spent for meeting revenue expenditure.
- The idea of borrowing is to mobilise funds for capital expenditure and development.
- But in Kerala it is spent for routine revenue expenditure.
- Of the total expenditure, the share spent for capital expenditure range between 7 and 9 percent

Table 3
Fiscal deficit in Kerala (Rs Crore)

No	Items	2019-20	2020-21	2021-22	2022-23
1	Total expenditure	1,14,384.94	1,38,884.49	1,63,225.53	1,58,738.42
2	Total revenue and non-debt capital receipts	90,547.47	97,914.80	1,17,179.75	1,33,183.88
3	Fiscal deficit	-23,837.47	-40,969.69	-46,045.78	-25,554.54
4	Fiscal deficit as percent of GSDP	-2.93	-5.31	-4.93	-2.44

Source: CAG (2024). State Finances Audit Report of the CAG for the year ended 31 March 2023. Report No.5 of the year 2024

Table 4
Total expenditure

No	Indicators	2019-20	2020-21	2021-22	2022-23
		Rs in Crore			
1	Revenue expenditure	1,04,719.92 (91.6)	1,23,446.33 (88.9)	1,46,179.51 (89.6)	1,41,950.93 (89.4)
2	Capital expenditure	8,454.80 (7.4)	12,889.65 (9.3)	14,191.73 (8.7)	13,996.56 (8.8)
3	Disbursement of loans and advances	1,210.22 (1.0)	2,548.51 (1.8)	2,854.29 (1.7)	2,790.93 (1.8)
4	Total expenditure	1,14,384.94 (100.0)	1,38,884.49 (100.0)	1,63,225.53 (100.0)	1,58,738.42 (100.0)

Notes: Share (%) are given in brackets
Source: CAG (2024). State Finances Audit Report of the CAG for the year ended 31 March 2023. Report No.5 of the year 2024

Four items of spending account for 81 percent: Salary, pensions, debt repayments and interest (Table 5)

- Of the total spending 23 percent salaries and wages
- Another 22 percent for pensions.
- Debt repayment and interest payments 36 percent
- Thus 81 percent is spent on salary, pension, debt repayment and interest
- The root causes of the persistent fiscal crisis are excessive spending on salary, pensions, debt repayments and interest.

Table 5
Application of resources in 2022-23
(Where the rupee goes to)

No	Items	Share (%)
1	Salaries and wages	23.34
2	Pensions including welfare pension	22.10
3	Debt payment and interest	36.25
4	Capital expenditure	8.30
5	Loans and advances	1.65
6	Others	8.36
	Total	100.00

Source: CAG (2024). State Finances Audit Report of the CAG for the year ended 31 March 2023. Report No.5 of the year 2024

Alarming growth in public debt and other liabilities (Table 6)

- The total outstanding liabilities increased from Rs 2.79 lakh crore in 2019-20 to Rs 4 lakh crore in 2022-23.
- Public debt increased from 1.74 lakh crore to 2.38 lakh crore during the above period.
- Public account liabilities from Rs 90,722 crore to Rs 1.32 lakh crore
- Off budget borrowing also increased
- By any norms, the stock of public debt and other liabilities are very high in Kerala.

Table 6
Total outstanding liabilities of Kerala (Rs Crore)

No	Items	2019-20	2020-21	2021-22	2022-23
1	Outstanding total liabilities	2,65,362.36	3,02,620.01	3,42,887.45	3,70,525.07
2	Public debt	1,74,640.22	1,99,681.73	2,19,974.55	2,38,000.97
3	Public account liabilities (Small savings, PF etc)	90,722.14	1,02,938.28	1,22,912.90	1,32,524.10
4	Off Budget Borrowing (OBB)	14,142.20	16,469.05	24,272.67	29,475.97
5	Outstanding liabilities including OBB	2,79,504.56	3,19,089.06	3,67,160.12	4,00,001.04
6	Liabilities including OBB/GSDP	34.38	41.35	39.29	38.23

Source: CAG (2024). State Finances Audit Report of the CAG for the year ended 31 March 2023. Report No.5 of the year 2024

Expenditure on salaries and pensions (Table 7)

- An important cause for the persistent fiscal crisis is the salary and pension revision once in five years.
- Following a salary revision, the salaries increased from Rs 28,767 crore in 2020-21 to Rs 45,780 crore in 2021-22 (Increase of 59.1%).
- Pension increased from Rs 18,942 crore in 2020-21 to Rs 26,898 crore in 2021-22 (Increase of 42.0%).
- An examination of the past fiscal crises in Kerala indicate that the major cause for it is related to salary and pension revisions once in five years and the additional financial burden created due to it.

Table 7
Expenditure on salaries, pensions and interest
(Rs crore)

No	Items	2019-20	2020-21	2021-22	2022-23
1	Salaries and wages	32,942.28	28,767.46 (-12.7)	45,780.08 (59.1)	39,389.65 (-14.0)
2	Pensions	19,064.29	18,942.85 (-0.6)	26,898.69 (42.0)	26,090.04 (-3.0)
3	Interest payments	19,214.70	20,975.36 (9.2)	23,302.82 (11.1)	25,176.36 (8.0)
4	Total	71,221.27	68,685.67 (-3.6)	95,981.59 (39.7)	90,656.05 (-5.5%)
5	Total as percentage of revenue expenditure (%)	68.0	55.6	65.7	63.9

Notes: Growth rate (%) are given in brackets
Source: CAG (2024). State Finances Audit Report of the CAG for the year ended 31 March 2023. Report No.5 of the year 2024

Expenditure on inflexible items (Table 8)

- Due to shortage of funds the state is not able to provide adequate funds to local bodies (three tier panchayats, municipalities and municipal corporations).

- This adversely affected the activities of local bodies and their mandatory and development functions.

- The amount as share of centrally sponsored schemes (CSS) is declining. It means that Kerala does not have funds for full implementation of CSS.

- KIIFB, an out of budget scheme, is consuming a good part of tax revenue of the state.

Table 8
Expenditure of items of inflexible expenditure
(Rs crore)

No	Items	2019-20	2020-21	2021-22	2022-23
1	Devolution to local bodies	8,007.35	12,345.16	10,186.09	12,375.71
2	Reserve funds	225.00	419.00	335.20	352.00
3	Share of Centrally Sponsored Schemes	2,091.50	4,959.78	3,859.50	2,739.00
4	Transfer of Motor Vehicle tax to KIIFB	2,200.00	2,172.86	2,068.08	2,469.69
5	Payment of interest on interest bearing funds	24.27	171.85	101.09	38.94
6	Total	12,548.12	20,068.65	16,549.96	17,975.34
7	Total as percentage of revenue expenditure (%)	12.0	16.3	11.3	12.7

Source: CAG (2024). State Finances Audit Report of the CAG for the year ended 31 March 2023. Report No.5 of the year 2024

Excessive borrowing pushed Kerala to a debt trap (Table 9)

- Kerala has an annual borrowing ranging between Rs 69,735 crore to Rs 54,000 during a period of four years (2019-20 to 2022-23).
- Due to continuous borrowing, the amount of annual debt repayments are huge.
- A large amount has been paid as interest for the public debt.
- A disturbing aspect is that the net public debt available for the use of state is very small.

- In 2022-23 of the total debt receipts, 98 percent was paid as debt repayments.

- The balance amount available was only Rs 1144 crore in 2022-23

- This shows that the persistent excessive borrowing has pushed state in a debt trap.

Table 9
Outstanding public debt, annual public debt receipts and net debt available (Rs crore)

No	Particulars	2019-20	2020-21	2021-22	2022-23
1	Outstanding Public Debt	1,74,640.22	2,05,447.73	2,34,479.86	2,52,506.28
2	Rate of growth of outstanding debt (per cent)	-	17.64	14.13	7.69
3	Annual Public Debt Receipts	60,407.05	69,735.36	64,932.13	54,007.17
4	Annual Public Debt Repayments	44,001.28	38,927.85	35,900.00	35,980.75
5	Interest on Public Debt	13,273.79	14,409.57	15,774.79	16,882.59
6	Net Public Debt Available	3,131.98	16,397.94	13,257.34	1,143.83
7	Debt Repayments (including interest) /Debt Receipts (percent)	94.82	76.49	79.58	97.88

Source: CAG (2024). State Finances Audit Report of the CAG for the year ended 31 March 2023. Report No.5 of the year 2024

Major findings of CAG's Audit report 2022-23

- The continuous mismatch between receipts and expenditure indicates rising fiscal stress.
- The share of Grants-in-aid in revenue receipts rose from 12.27 per cent in 2018-19 to 20.63 per cent in 2022-23, indicating increased reliance on support from the Government of India.
- Revenue expenditure accounts for 89 to 92 percent of total expenditure during the last five years.
- Capital expenditure was just 2.12 per cent of the total borrowings.

- The borrowed funds were being used mainly for meeting current consumption and repayment of borrowings instead of capital creation/development activities.
- The quantum of committed expenditure constitutes the largest share. It has the first charge on the resources and consists of interest payments, expenditure on salaries and wages and pensions.
- The inflexible expenditure decreased from 17.24 per cent to 12.66 per cent of revenue expenditure during 2018-19 to 2022-23.
- The committed and inflexible expenditure accounts for 77 percent of revenue expenditure in 2022-23

- The State Government raised ₹8,058.91 crore as off-budget borrowings; which are required to be repaid and serviced through budget.
- One of the important constraints is committed and inflexible expenditure.
- In sum the finances of the State of Kerala is marked by increasing trend of liabilities (debt, guarantees, implicit subsidies, off-budget borrowings, etc.) which pose risk to target of debt stabilisation and debt sustainability.

iii. Kerala's fiscal collapse in 2023-24

- According to the Accountant General (A&E) data on annual accounts of government of Kerala, the finances of the state collapsed during 2023-24.
- During the financial year the state has availed public debt receipts worth Rs 1,03,453.94 crore from various sources.
- Of this, the debt repayments and interest on public debt was 1,00,539.31 crore
- The net public debt available for the use of government was Rs 2914.63 crore.

- In Kerala’s history this is the largest amount of loan taken by government of Kerala in a year.

- Though the state has availed loan for more than one lakh crore a year, the net debt available for use was only 2.82 percent.

- It is a shocking situation where a state having a total expenditure of Rs 1.59 lakh crore a year, availed a loan of 1.03 lakh crore, a year.

Trend in net public debt available

- According to CAG, the total annual public debt receipts of government of Kerala ranged between 69,735 crore in 2020-21 to 1,04,355 crore in 2023-24 (Table 10).
- However, after debt repayments and payment of interest the net public debt available was 76 percent in 2020-21.
- But the situation changed in 2022-23 with the net availabily reaserched to 97.88 percent.
- This indicate a deteriorating a situation with regard to availability of net debt for use of the government.

Table 10
Debt receipts, debt repayments and net debt available *(₹ in crore)*

No	Particulars	2020-21	2021-22	2022-23	2023-24
1	Total Public Debt Receipts	69,735.36	64,932.13	54,007.17	1,04,354.86
2	Total Public Debt Repayments	38,927.85	35,900.00	35,980.75	74,365.84
3	Interest on Public Debt	14,409.57	15,774.79	16,882.59	27,106.22
4	Net Public Debt Available	16,397.94	13,257.34	1,143.83	2882.80
5	Debt Repayments (including interest) /Debt Receipts (percent)	76.49	79.58	97.88	97.24

Source: CAG (2024). State Finances Audit Report of the CAG for the year ended 31 March 2023. Report No.5 of the year 2024
Accountant General (A&E) Kerala. (2024). Finance Accounts 2023-24, Volume I.

Huge increase in ways and means advances (WMA)

- WMA are temporary advances given by Reserve Bank of India (RBI) to centre and state governments to tide over any mismatch in receipts and payments

- The government can avail of immediate cash from the RBI. But it has to return the amount within 90 days.

- Interest is charged at the existing repo rate (6.5%)

- If the WMA exceeds 90 days, it would be treated as overdraft

- The interest rate of overdraft is repo rate plus 2% (6.5% + 2%) i.e., 8.5%

- During the fiscal year 2023-24 the total amount of WMA taken was Rs. 53,306.52 crore. The increase is 238.6 percent (Table 11)

- The number of times WMA loan in 2023-24 was 225 times (Table 12)

- The number of times overdraft taken was 67 times (Table 12)

- This indicate the precarious fiscal situation of the state in 2023-24

- This means that state government resorted to continuous borrowing throughout the year to effect small amount of revenue payments.

Table 11
Internal debt (Rs Crore)

Items	2022-23	2023-24	Growth rate (%)
Market loans	30,839.00	42,438.00	37.6
Ways and Means Advances from RBI	15,745.01	53,306.52	238.6
Bonds			
Loans from Financial Institutions	790.19	611.07	-22.7
Special securities issued to National small savings	4,108.54	7,069.73	72.1
Other loans	-	28.62	-
Loans for state plan scheme (Central government)	2,524.43	900.92	-64.3
Total	54,007.17	1,04,354.86	93.2

Source: Accountant General (A&E) Kerala. (2024). Finance Accounts 2023-24, Volume I.

Table 12
Ways and Means Advances in 2023-24

Amount of ways and means advance availed	Rs 53306.52 crore
Number of times ways and means advance availed (ordinary and special drawing facility)	225 times
Number of times overdraft	67 times

Source: Accountant General (A&E) Kerala. (2024). Account at a glance for the year 2023-24

Conclusion

- Politics of fiscal extravagance has been the political ideology of the recent state governments in Kerala in all aspects of administration and finances.
- The governments in power pursued reckless fiscal extravagance policies to give undue benefits to all categories of vested interest groups, trade unions of government staff and teachers, private aided educational institutions, public sector undertakings, autonomous bodies, semi government organisations, co-operative organisations etc.
- This has resulted in shift from prudent fiscal management to reckless fiscal management leading to a situation of persistent fiscal crisis, debt trap and fiscal collapse.

- The fiscal data of state government, suggest that the finances of the state collapsed during 2023-24.
- In spite of the huge borrowings, the state is not able to meet the routine revenue expenditure in the budget
- The factors contributed to this situation are unsound fiscal policies, poor fiscal management, excess increase in government departments and staff, revision of salaries and pension once in five years, diverting major share of annual borrowing for routine revenue expenditure, failure to achieve fiscal targets as per Kerala Fiscal Responsibility Act, diversion of funds to give assistance to loss making public enterprises, off budget borrowings etc.

- The factors that contributed to poor resource mobilisation are failure to effect periodical revision of taxes and non-tax items, failure to effect timely collection, laxity in collection of tax arrears, laxity in collection of tax and non-tax dues from government departments and local bodies, inaction in vacating stays issued by judicial authorities on arrear collection, corruption in tax administration etc.

Reference

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PART II

The COVID-19 pandemic and its impact on Indian and Kerala economy

COVID-19 pandemic created the deepest global recession in 75 years (1945-2020)

- COVID-19 was declared as a pandemic by WHO on March 11, 2020
- The total COVID-19 cases in the world increased from 8.94 lakh in April 1, 2020 to 65.68 crore in January 2023.
- The COVID-19 death increased from 48,325 in April 1, 2020 to 66.79 lakh in January 2023.
- The world experienced the deepest recession since 1945-46 due to COVID-19
- The global percapita GDP growth in 1945-46 was (-)15.6 percent. In COVID-19 year of 2020 it was (-)6.2 percent
- It is the deepest recession in the world during a period of 75 years (Table 13)

Table 13
Global percapita GDP growth in global recessions

Year	Global percapita GDP growth (%)	Rank (Based on severity of crisis)
1876	–2.1	8
1885	–0.02	13
1893	–0.8	10
1908	–3.0	6
1914	–6.7	3
1917–21	–4.4	5
1930–32	–17.6	1
1938	–0.5	11
1945–46	–15.4	2
1975	–0.8	10
1982	–1.3	9
1991	–0.3	12
2009	–2.9	7
2020	–6.2	4

Source: World Bank (2020). Global Economic Prospects, June 2020

Post-pandemic world economy, a new phase in world's economy

- The COVID-19 of 2020 has created unprecedented changes in the economies of almost all countries in the world.
- Major changes has occurred in international trade, digitalisation, economic relations between countries
- These changes were accelerated by the Ukraine War of 2022
- The world economy is split into two blocks or markets
- The COVID-19 pandemic and Ukraine war has created a new world economic order.

Major changes in world economy/world economic system

- The global economy split into two blocks
- Transformation from globalisation to deglobalisation
- Free access to global markets to fragmented markets for trade.
- Change in world order of international trade
- International migration to reversed migration, temporary migration

- Market economy with little interventions to more interventions

- Digital technology to repaid digitalisation, automation and artificial intelligence

- Growth in employment to large loss in employment

- Government debt to surge in government debt of countries

- Triple planetary crisis – increase in climate changes, biodiversity loss and pollution.

COVID-19 pandemic in India

- The first COVID–19 infection in India was reported in Thrissur district in Kerala State for a person who had a travel history from Wuhan, China, on January 30, 2020.
- The COVID–19 cases increased from 1637 in April 2020 to 446.78 lakh in January 2023 (Table 14)
- The COVID–19 deaths increased from 38 in April 2020 to 5.30 lakh in January 2023 (Table 14)
- The large–scale vaccination administered continuously since January 2021 has finally arrested the spread of the pandemic.

Table 14
Spread of COVID–19 cases and deaths in India

Month/Date	Total Number		Growth rate (%)	
	Cases	Deaths	Cases	Deaths
2020				
January 30	1	0	–	–
April 1	1,637	38	163600	–
July 1	5,85,493	17,400	35666.2	45689.5
October 1	63,12,584	98,678	978.2	467.1
2021				
January 2	1,03,05,788	1,49,218	63.3	51.2
July 1	3,04,11,634	3,99,459	195.1	167.7
2022				
January 1	3,48,61,579	4,81,486	14.6	20.5
July 1	4,34,69,234	5,25,139	24.7	9.1
2023				
January 2	4,46,78,822	5,30,707	2.8	1.1

Source: World Health Organisation (WHO). COVID–19 Dashboard. Available at, https://covid19.who.int/region/searo/country/in

Recession in India in 2020-21

- Per capita NNI, a measure of recession, indicates a negative growth of 8.86 percent during 2020–21 (Table 15).
- All indicators of annual growth rate show a negative growth in the COVID-19 year 2020-21 (Table 15)
- The Indian economy experienced the deepest recession since 1951-52

Table 15
Select macro–economic aggregates (at constant prices)

Item	2018–19	2019–20	2020–21	2021–22	2022–23
Annual Growth Rate					
GVA at Basic Prices	5.81	3.94	–4.19	8.80	7.01
Gross Domestic Product	6.45	3.87	–5.83	9.05	7.24
Gross National Income	6.48	3.99	–6.23	8.32	7.26
Net National Income	6.23	3.56	–7.88	8.63	7.37
Per Capita NNI	5.19	2.48	–8.86	7.59	6.25
As % of GDP					
Gross Capital Formation	37.35	33.79	31.73	35.54	–
Net Capital Formation	25.81	21.87	18.33	22.49	–

Note: Data for 2019–20 are Third Revised Estimates (RS), for 2020–21 are Second RE and for 2021–22 are First RE; Data for 2022–23 are Provisional Estimates.
Source: RBI (2023).

COVID-19 pandemic and recession in Kerala

- The COVID-19 cases in Kerala increased from 4593 in July 2020 to 65.59 lakhs in June 2022 (Table 16)

- The COVID-19 deaths in Kerala increased from 25th in July 2020 to 69753 in June 2022

- But the large scale vaccination implemented since March 2021, have helped to contain the spread of the pandemic.

Table 16
COVID-19 cases and deaths in Kerala

Month/Date	Total Number (Cumulative)		Growth rate (%)	
	Cases	Deaths	Cases	Deaths
2020				
Jan 30	1	0	-	-
July 1	4,593	25	-	-
Aug 1	24,742	81	438.7	224.0
Sept 1	76,525	298	209.3	267.9
Oct 1	2,04,241	771	166.9	158.7
2021				
Mar 1	10,61,341	4,210	419.7	446.0
June 1	25,46,339	9,009	139.9	114.0
2022				
Jan 1	52,49,612	48,035	106.2	433.2
June 1	65,59,623	69,753	25.0	45.2

Source: Government of Kerala. (GoK). COVID-19 dashboard, available at https://dashboard.kerala.gov.in/covid/ accessed on 22 July 2022.

Recession in Kerala

- The state economy of Kerala faced the worst recession since the formation of the state in 1956. The GSDP recorded a negative growth of (-)9.20% in 2020-21 (Table 17)
- The lockdown implemented had created severe damage to the state economy.
- It was estimated that 70 per cent of the manufacturing production in the State was lost due to the lockdown and the disruptions.
- The other sectors which were severely hit by the lockdown were trade, hotels, restaurants, tourism, road transport etc.

Table 17
Trends in growth rate of GSDP at 2011-12 prices

No	Sector	2018-19	2019-20 (P)	2020-21 (Q)
1	Primary	-3.16	-6.40	3.81
2	Secondary	0.45	-2.70	-9.50
3	Tertiary	7.20	5.60	-9.25
4	Total GSVA at basic prices	4.23	2.19	-8.16
5	Taxes on Products	28.16	2.44	-15.36
6	Subsidies on products	-24.99	3.74	-5.80
7	Gross State Domestic Product	7.37	2.22	-9.20

P: Provisional estimate, Q: quick estimate
Source: Kerala state planning board. (KSPB). 2022.
Economic Review 2021, Volume II. Thiruvananthapuram: KSPB

(A detailed analysis of the COVID-19 pandemic in Kerala, COVID-19 induced recession, impact on employment and unemployment, exodus of Keralite emigrants from the Gulf, impact of pandemic on fiscal crisis, transport sector, information technology sector, micro and small industries, tourism sector, poverty etc. are given in the following edited book **B A Prakash and Jerry Alwin (ed.). 2023. Kerala's Economic development: COVID-19 Pandemic, Economic Crisis and Public Policy. Noida: Pearson**)

PART III

COVID-19 and exodus of Keralite emigrants from the Gulf countries

COVID-19 and exodus of Keralite emigrants from GCC countries to Kerala

Stock of Indian emigrants in GCC countries

- India is the global leader of migration, having the largest number of migrants living abroad and receiving the largest amount of international remittances in the World.

- Of the total stock of Indian emigrants, major share (53.5 percent) is in Gulf Cooperation Council (GCC) countries, viz. United Arab Emirates (UAE), Saudi Arabia, Oman, Kuwait, Qatar and Bahrain (Table 18).

- There has been a continuous growth of Indian migrants to the GCC countries between 1990 and 2020 (Table 19).

- Of the total migrants the share of females is 23.6 percent

- Among the Indians in GCC countries the share of UAE is 36.3%, Saudi Arabia 26.2%, Oman 14.4% and Kuwait 12% (Table 20)
- In order to contain the spread of COVID-19, all GCC countries had implemented lockdowns, shutting down borders, halting international flights, other international travel controls, imposition of curfews and ban on mobility beyond borders since March 2020.
- The COVID-19 disruption, fall in global oil demand, fall in oil prices had led to recession, large scale loss of employment and fall in outward remittances from GCC countries.
- The disruption in mobility and international migration resulted in an exodus of Indian migrants from GCC countries.

Table 18
Stock of Indian migrants in the World and GCC countries at mid-year

Year	Number		Share of GCC (%)
	World	GCC Countries	
1990	66,19,431	19,55,742	29.5
1995	71,53,439	22,90,500	32.0
2000	79,28,051	27,39,088	34.5
2005	95,88,533	37,13,359	38.7
2010	1,32,21,963	64,42,475	48.7
2015	1,58,85,657	82,52,572	51.9
2020	1,78,69,492	95,68,590	53.5

Source: United Nations, Population Division
https://www.un.org/development/desa/pd/content/international-migrant-stock

Table 19
Stock of Indian Emigrants in GCC Countries

Year	Number			Share of female to total (%)
	Male	Female	Total	
1990	14,02,456	5,53,286	19,55,742	28.3
1995	16,54,966	6,35,534	22,90,500	27.7
2000	19,87,886	7,51,202	27,39,088	27.4
2005	27,66,243	9,47,116	37,13,359	25.5
2010	49,47,084	14,95,391	64,42,475	23.2
2015	63,15,670	19,36,902	82,52,572	23.5
2020	73,11,033	22,57,557	95,68,590	23.6
	Growth Rate (%)			
1990	-	-	-	-
1995	18.0	14.9	17.1	-
2000	20.1	18.2	19.6	-
2005	39.2	26.1	35.6	-
2010	78.8	57.9	73.5	-
2015	27.7	29.5	28.1	-
2020	15.8	16.6	15.9	-

Source: United Nations, Population Division
https://www.un.org/development/desa/pd/content/international-migrant-stock

Table 20
Total stock of emigrants in GCC countries, mid-year 2020

No	GCC Countries	Indian emigrants in GCC countries			Share (%)		
		Male	Female	Total	Male	Female	Total
1	UAE	26,66,029	8,05,271	34,71,300	36.5	35.7	36.3
2	Saudi Arabia	17,41,093	7,61,244	25,02,337	23.8	33.7	26.2
3	Oman	12,04,672	1,70,995	13,75,667	16.5	7.6	14.4
4	Kuwait	8,12,171	3,40,004	11,52,175	11.1	15.1	12.0
5	Qatar	6,04,194	97,819	7,02,013	8.3	4.3	7.3
6	Bahrain	2,82,874	82,224	3,65,098	3.9	3.6	3.8
Total		73,11,033	22,57,557	95,68,590	100.0	100.0	100.0

Source: United Nations, Population Division
https://www.un.org/development/desa/pd/content/international-migrant-stock

Return of Indians due to COVID-19

- According to an estimate of Government of India, 55.93 lakh Indian emigrants returned to India from foreign countries as per India's repatriation mission, Vande Bharath Mission, up to 30th April 2021.
- Of these, 40.24 lakh or 71.9 percent returned from GCC countries.
- According to Non-Resident Keralites Affairs Department (NORKA), 14.71 lakh Keralite emigrants returned from the Gulf and other countries till June 22, 2021 due to pandemic disruption (Table 21).
- Majority returned from the UAE, loss of jobs and expiry of visa were the reason for the return of 91 percent (Table 22)

Table 21
Number of Non Resident Keralites (NRKs) returned due to COVID-19 crisis, till June 22, 2021

No	Country	Number of return emigrants	Share (%)
1	United Arab Emirates	8,72,303	59.3
2	Saudi Arabia	1,72,016	11.7
3	Qatar	1,42,458	9.7
4	Bahrain	43,194	2.9
5	Kuwait	51,170	3.5
6	Oman	1,34,087	9.1
7	Other Countries	56,209	3.8
Total		**14,71,437**	**100.0**

Source: Non Residents Keralite Affairs Department (NORKA)

Table 22
Reasons for the return of NRK

No	Reasons	Number of return emigrants	Share (%)
1	Loss of jobs	10,51,272	71.4
2	Visa expiry and others	2,91,581	19.8
3	Children below 10 years	81,883	5.6
4	Senior citizen	30,341	2.1
5	Pregnant women	13,501	0.9
6	Spouse of pregnant women	2,859	0.2
Total		**14,71,437**	**100.0**

Source: Non Residents Keralite Affairs Department NORKA

- Among the total return migrants from GCC countries due to COVID-19, 18 percent returned to Malappuram district, 11.7 percent returned to Kozhikode district and 11.1 percent returned to Kannur district.

- The other districts having more than one lakh returnees are Thrissur, Thiruvananthapuram and Kollam (Table 23)

Table 23: Destination districts of the NRKs returned due to COVID-19 crisis

No	District	Number of return emigrants	Share (%)
1	Malappuram	2,62,678	17.9
2	Kozhikode	1,72,112	11.7
3	Kannur	1,64,024	11.1
4	Thrissur	1,18,503	8.1
5	Thiruvananthapuram	1,16,531	7.9
6	Kollam	1,01,125	6.9
7	Ernakulam	87,075	5.9
8	Palakkad	76,871	5.2
9	Kasaragod	62,886	4.3
10	Alappuzha	54,367	3.7
11	Pathanamthitta	53,777	3.7
12	Kottayam	42,573	2.9
13	Wayanad	18,310	1.2
14	Idukki	9,823	0.7
15	Not mentioned	1,30,782	8.9
Total		**14,71,437**	**100.0**

Source: Non Residents Keralite Affairs Department NORKA

A Survey of 404 Return Emigrant Workers from GCC countries: Findings

- The study examined the causes of return, activity status of return emigrant workers, prior and after return and its impact on emigrant households and local labour market.
- Of the total returnees 17 percent returned during the pre-pandemic period
- Another 31.4 percent returned during the peak period of COVID-19
- Another 51.5 percent returned after August 2020, during the pandemic period.

Activity status prior to return

- Of the total returnees, 30 percent worked as sales workers, 13 percent as drivers of motor vehicles and 8.2 percent cleaners and helpers in houses, hotels, and offices.

- The other major category of workers are waiters and bartenders; mining, manufacturing and construction supervisors; painters and builders; and cooks.

- Majority of sample return emigrants (59 percent) reported that they received a wage ranging between Rs 30,000 and Rs 50,000 prior to return.

Remittances sent prior to return

- It is reported that 30 percent sent an average monthly amount below Rs 12,000 to their families

- Another 48 percent told us that they used to send an amount ranging between Rs 12,000 and Rs 20,000 per month.

- Thus monthly remittance sent by 78 percent of the sample emigrants can be put in the category of small or medium range

- The amount is mainly spent for consumption and other household expenditure.

Causes of return

- The returnees have reported five major causes of return.
- Majority returned by availing eligible leave or with the permission of employer to go to native place for a short period (54 percent).
- Another 32 percent returned due to closure of companies and business units which they worked.
- Reduction in salary and non-renewal of work permit are the other causes of return (8.7 percent).
- Of the total returnees, only 5 percent was voluntarily returned to Kerala permanently due to personal reasons.

Returned on leave but stranded in Kerala

- Most of the emigrant workers returned to Kerala on leave from GCC countries were not able to return and stranded in Kerala (54 percent).

- A good number of emigrant workers returned to Kerala prior to the spread of pandemic but they were stranded in Kerala due to unanticipated developments such as sudden spread of COVID-19 pandemic, mobility and travel disruption and denial of employers to rejoin duty and closure of the units in which they worked.

- The prolonged stoppage of international flights, the abnormal increase in the air ticket fare, quarantine requirements, need to travel through circular routes, etc had resulted in substantial increase in cost of travel.
- The difference in vaccination policy perused in India and individual GCC countries also created much difficulty for the return emigrants.
- In the vacancies arise due to the return of emigrant workers on leave, the employers in GCC countries resorted to the practice of recruiting low paid emigrants available in GCC countries belonged to other countries.
- The abnormal increase in fee to renew work permit and resident permit in Saudi Arabia is another problem.

Activity status of return emigrant workers after return

- The activity status of the return emigrants is classified into three viz. (1) employed, (2) unemployed and (3) not in labour force.

- An important impact of the return is that 71 percent of sample return emigrant workers remained unemployed without any income from work at the time of the survey (Table 24).

- Only 29 percent are employed. Of the unemployed, nearly 78 percent belong to the age below 50 and are in the active working group.

Table 24: Activity status of sample return emigrant workers after return

No	District	Number			
		Employed	Unemployed	Not in labour force	Total
1	Kannur	10	75	1	86
2	Kozhikode	53	57	1	111
3	Malappuram	33	113	-	146
4	Pathanamthitta	11	33	-	44
5	Thiruvananthapuram	9	8	-	17
	Total	116	286	2	404
		Percentage			
1	Kannur	11.6	87.2	1.2	100.0
2	Kozhikode	47.7	51.4	0.9	100.0
3	Malappuram	22.6	77.4	-	100.0
4	Pathanamthitta	25.0	75.0	-	100.0
5	Thiruvananthapuram	52.9	47.1	-	100.0
	Total	28.7	70.8	0.5	100.0

Category of employment

- Of the 116 employed, 90 are working as casual labour and 26 engaged in self-employment (Table 25)

- An estimate of income shows that compared to the net remittances received by the household, the wage earned by the casual workers was in the range of 34 percent to 36 percent.

Table 25: Category of employment of sample return emigrant workers

No	District	Number		
		Self-employment	Casual labour	Total
1	Kannur	5	5	10
2	Kozhikode	9	44	53
3	Malappuram	10	23	33
4	Pathanamthitta	-	11	11
5	Thiruvananthapuram	2	7	9
	Total	26	90	116
		Percentage		
1	Kannur	50.0	50.0	100.0
2	Kozhikode	17.0	83.0	100.0
3	Malappuram	30.3	69.7	100.0
4	Pathanamthitta	-	100.0	100.0
5	Thiruvananthapuram	22.2	77.8	100.0
	Total	22.4	77.6	100.0

Loss of remittances and increase in poverty

- The sample returnees told us that their households have some what a sound financial situation prior to the return of them. The households had been receiving remittances sent by them on a monthly or regular basis.
- Due to the return of emigrant workers, the flow of regular remittances had stopped in 404 households.
- This loss of remittances have shattered the finances of all the sample returnee households.
- Of the total sample returnee households, 21 percent belonged to the BPL.

- Some of the return emigrants told us that they have changed the above the poverty line (APL) ration cards to BPL after returning from GCC countries.
- It is likely that about two thirds of the 404 sample returnee households become poor due to the return of emigrants.

Debt of the households

- It is reported that the amount of debt of the returnee households ranged between 2 to 14 lakhs.
- Due to the return of emigrant workers and loss of remittances, the returnee households will find it difficult to repay the loans.

Impact on local labour market

- The COVID-19 and the fall in remittance of the migrant workers have resulted in recession in local economy, and fall in employment opportunities.
- Return emigrant workers who lost jobs are stranded in Kerala, began to seek jobs in local labour market and added to the work force.
- There has been an increase in excess supply of labour force of all categories.
- Restricted the international labour mobility and emigration of the prospective emigrants.
- All these have resulted in increase in unemployment rate.

Bleak labour market and remigration

- The returnees firmly believe that the labour market situation and prospects of regular and remunerative jobs are bleak in Kerala.
- They are frustrated in the new labour situation in Kerala.
- They believe that remigration is a better option than finding a job in their locality.
- Regarding our question on the issue, 88 percent of the sample returnees told us that remigration is a better option than finding a job in Kerala.

This is a summary of the following study

B.A. Prakash, (2022). COVID-19 pandemic and Exodus of Keralite Emigrant Workers from GCC countries: Causes of Return, Activity Status of Returnees and Economic Impact, *Working Paper No 507, Centre for Development Studies, Thiruvananthapuram.*

For 50 years of Kerala's migration to the Gulf see the book

B. A. Prakash, (2024), Five Decades of Kerala's Migration to the Gulf Countries 1979-2024, Modern Book Centre, Thiruvananthapuram.

THANK YOU