

# **COVID-19 Pandemic Pushed State to Acute Fiscal Crisis**

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The COVID-19 Pandemic has impacted unprecedented economic recession in all sectors of the Kerala economy and pushed the state to acute fiscal crisis. The fiscal data for the year 2020-21 published by Comptroller and Audit General of India (CAG) give an alarming picture of the state fiscal situation. The revenue deficit (the difference between revenue receipts and expenditure) increased from ₹14,495 crore in 2019-20 to ₹23,256 in 2020-21, a 60 percent increase (Table 1). This huge deficit forced the state to borrow additional amount for meeting the day to day expenditure. The fiscal deficit, the difference between total expenditure and available resources, also increased by 60 percent. The annual borrowing of the state increased from ₹23,837 crore to ₹38,190 crore in 2020-21 (60%) (Table 1). In majority of the states in India have revenue surpluses and the entire borrowing is used for capital expenditure and development projects at present. But in Kerala, nearly 61% of the amount is spent for meeting the day today expenditure or covering the revenue deficit. Currently the state has been borrowing money for meeting the monthly expenditure on salaries and pensions. One of the major reasons for this situation is the impact of COVID-19 on the state economy.

## **Fall in Revenue**

There has been a fall in tax revenue comprising state taxes and share of union taxes by 11.3 percent in 2020-21 compared to previous year (Table 1). Non-tax revenue of the state fell by 48 percent during the period. The revenue from stamps and registration to fell by 3.5%, taxes on sales and trade by 4.7%, state share of union taxes by 50% and other taxes and duties by 9.5% during the period. Thus the pandemic induced recession has led to substantial fall in revenue of a number of state taxes and state share of union taxes.

## **Receipt of Rs 31,049 crore from Central government as grant-in-aid**

Normally in a situation like this, state government is forced to close the treasury for many days. But the large amount of grant-in-aid received from the central government averted such a situation. The state has received various items of grant-in-aid such as revenue deficit grant, grants to local governments, sector specific grants etc. The grant-in-aid received from the central government increased from ₹11,235 crore in 2019-20 to ₹31,049 crore in 2020-21 (176% increase) (Table 1). The propaganda that the unhelpful policies and measures of central government are responsible for the current fiscal crisis in Kerala has no basis.

## Total expenditure

In spite of the fall in revenue, the state government has not curtailed the revenue expenditure. The government has used the borrowed funds for revenue expenditure or day today expenditure. A noticeable aspect is that the government has given the high priority for public health expenditure to contain the spread of COVID-19 vaccination and strengthening the public health system etc.

## Deficiency of fiscal policy

But a serious deficiency of the fiscal policy is ignoring the impact on the deep recession on various sectors, the massive losses of jobs of the people in sectors and loss of income of people. It may be noted that no major policy or programme is implemented to revive the various sectors of the economy or provide assistance to lakhs of people who lost jobs or income. The return of lakhs of keralite migrants from the Gulf countries are not addressed. The government is not saying anything about this due to the acute fiscal crisis. In the context the government may postpone all the non-priority expenditure both revenue and capital during this year to find funds for reviving the distressed economic sectors, workers and others. Arrears of payment of salaries, pension etc may also be deferred to a future date.

**Table 1**  
**Impact of COVID-19 on Kerala's Finances**

No	Item	2019-20 (Rs Crore)	2020-21 (Rs Crore)	Percentage Change
	<b>Fiscal indicators</b>			
1	Revenue deficit	14,495	23,256	(+)60
2	Fiscal deficit	23,837	38,190	(+)60
3	Annual borrowing	23,837	38,190	(+)60
	<b>Revenue receipts</b>			
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
	<b>Total expenditure</b>			
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