

## Kerala Budget Analysis 2017-18

The Finance Minister of Kerala, Dr.T M Thomas Isaac, presented the Budget for Kerala for financial year 2017-18 on March 03, 2017.

### Budget Highlights

- The **Gross State Domestic Product** of Kerala for 2017-18 at current prices is estimated to be Rs 7,47,945 crore. This is 12.8% higher than the revised estimate for 2016-17.
- **Total expenditure** for 2017-18 is estimated to be Rs 1,19,602 crore, a 14.7% increase over the revised estimate of 2016-17. In 2016-17, there was a decrease of Rs 3,700 crore (3.4%) in the revised estimate over the budget estimate.
- **Total receipts (excluding borrowings)** for 2017-18 are estimated to be Rs 11,660 crore, an increase of 13.5% over the revised estimates of 2016-17. In 2016-17, total receipts fell short of the budgeted target by Rs 3,123 crore.
- **Revenue deficit** for the next financial year is targeted at Rs 16,043 crore, or 2.14% of the state Gross Domestic Product (GDP). **Fiscal deficit** is targeted at Rs 25,756 crore (3.44% of state GDP).
- Departments of Rural Development, Education and Health saw increases in allocations for the year 2017-18. On the other hand, the Departments such as Social Security and Welfare witnessed a decrease in allocation in 2017-18.

### Policy Highlights

- **Kerala Infrastructure Investment Fund Board (KIIFB):** To finance infrastructure projects, the government intends to mobilize funds and implement them through KIIFB. Rs 15,000 crore worth projects will be implemented. Another 20,000 crore projects are planned to be approved under KIIFB in 2017-18.
- **Pravasi Chitty:** Rs 12,000 crore is proposed to be raised through accepting deposits from Non-residential Indians (NRIs). Government intends to use such deposits for infrastructure development under KIIFB.
- **Education:** Rs 500 crore will be spent for improving the infrastructure facilities in all schools where more than 1000 students study. Each school will receive a maximum of Rs 3 crore.
- **Medical education:** Rs 400 crore will be spent on Thiruvananthapuram Medical College.
- **Health care:** Rs 2,000 crore is allocated for implementation of free comprehensive health care schemes by building district and taluk hospitals.
- **Kerala Fibre Optic Network:** Universal basic internet facility will be made available through a new optic fibre pathway. This network can be made available to each home. Rs 1,000 crore will be invested in the project through KIIFB.
- **Subsidy:** Rs 900 crore is allocated to provide ration subsidy.
- Rs 359 crore is allocated to provide honorarium for Anganwadi workers.
- **Prevention of leakages:** Rs 117 crore to be spent on biometrics and technology to reduce leakages.
- Price stabilisation scheme, worth Rs 150 crore will be implemented for small farmers.
- **Irrigation:** Rs 413 crore to be spent on major and medium irrigation and Rs 208 crore on minor irrigation.

### Tax Proposals

- **Transition to Goods and services Tax (GST):** Smart cameras are proposed to be installed on state borders to track goods entering into the state. This is to address tax evasion by dealers entering the state, as check posts cease to exist in the proposed GST regime.
- **Amnesty Scheme:** To redress pending disputes in the Value Added Tax (VAT) regime, the government proposes to grant relief from excessive penalties and interest on taxpayers. 70% of penalties and interest on arrears will be waived under the Scheme. Similar Amnesty Schemes are proposed to be launched for Luxury Tax and Agricultural Income Tax.
- **Solar panel installation:** Currently, a tax of 1% is levied on purchase of solar panels. However, on installation of such solar panels, tax of 14.5% will be levied. To bring parity, installation of solar panels too will attract a tax of 1%.

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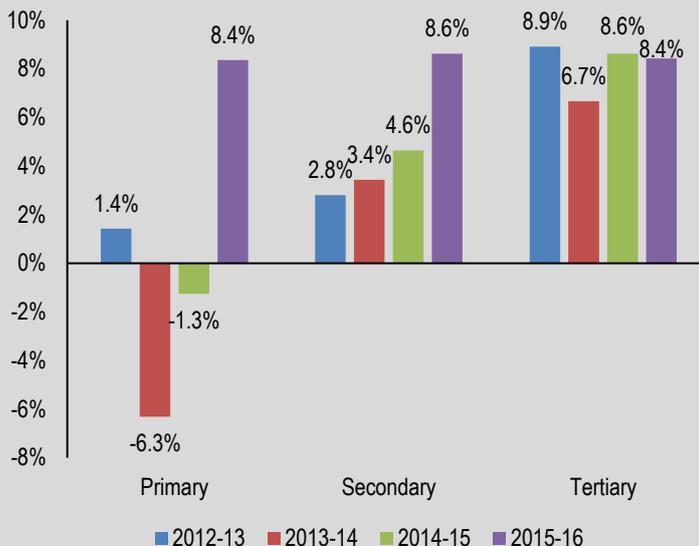
March 08, 2017

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### Kerala's Economy

#### Volatile agricultural sector; steady growth in industry and manufacturing

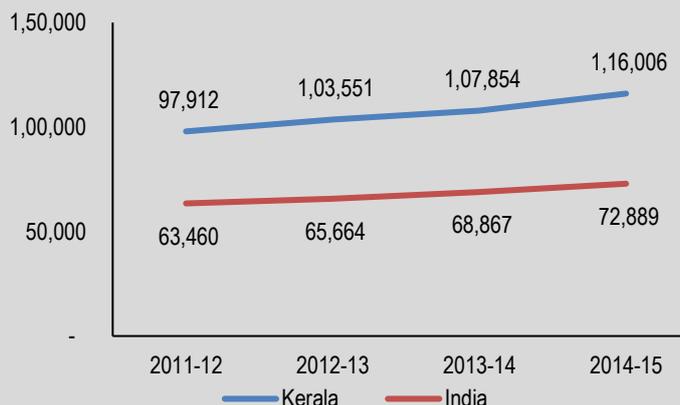
- The state's economy is dominated by the tertiary sector, which constitutes 62% of the state's economy. This is followed by secondary sector, which constitutes 26% of the state's economy. Primary sector of the economy constitutes 12% of the economy.
- **Secondary sector** of the economy, which consists of construction and manufacturing sectors, has been seeing a steady increase in its growth. In 2012-13, the sector grew by 2.8%, which increased to 8.6% in 2015-16.
- **Tertiary sector**, which consists of real estate, trade, etc., saw the highest growth (about 8%) between 2012-13 and 2015-16.
- **Primary sector** consisting of agriculture and mining, saw a volatile growth. The sector saw a decline in 2013-14 and 2014-15 (-6.3% and -1.3% respectively).



Sources: Central Statistics Office; PRS.

#### Kerala is among the states with highest per-capita income; however, has the highest unemployment rate

- Kerala is among the states with highest per-capita income in the country. Since 2011-12, the state's per-capita income has been at least 55% higher than the national average.
- However, Kerala has an unemployment rate of 10.6%. This is the highest in the country and almost thrice of the country's average (3.7%).



Sources: Central Statistics Office; PRS.  
Note: Numbers are in Rupees.

## Budget Estimates for 2017-18

- The total expenditure in 2017-18 is targeted at Rs 1,19,602 crore. The revised estimate for the total expenditure in 2016-17 was Rs 1,04,297 crore, which is 3.4% (Rs 3,700 crore) less than the budgeted target of 2016-17.
- The expenditure in 2017-18 is proposed to be met through receipts (other than borrowings) of Rs 97,896 crore and borrowings of Rs 21,228 crore. Total receipts for 2017-18 (other than borrowings) are expected to be 14.7% higher than the revised estimate of 2016-17.

**Table 1: Budget 2017-18 - Key figures (in Rs crore)**

Items	2015-16 Actuals	2016-17 Budgeted	2016-17 Revised	% change from BE 2016-17 to RE of 2016-17	2017-18 Budgeted	% change from RE 2016-17 to BE 2017-18
<b>Total Expenditure</b>	<b>87,032</b>	<b>1,07,997</b>	<b>1,04,297</b>	<b>-3.4%</b>	<b>1,19,602</b>	<b>14.7%</b>
A. Borrowings*	13,598	17,926	17,750	-1.0%	21,228	19.6%
B. Receipts (except borrowings)	73,400	89,359	86,236	-3.5%	97,896	13.5%
<b>Total Receipts (A+B)</b>	<b>86,998</b>	<b>1,07,285</b>	<b>1,03,986</b>	<b>-3.1%</b>	<b>1,19,124</b>	<b>14.6%</b>
<b>Revenue Deficit</b> (-)/Surplus(+)	<b>-9,657</b>	<b>-13,066</b>	<b>-13,936</b>		<b>-16,043</b>	
As % of state GDP	-1.64%	-1.98%	-2.10%		-2.14%	
<b>Fiscal Deficit</b> (-)/Surplus(+)	<b>-17,818</b>	<b>-23,140</b>	<b>-23,461</b>		<b>-25,756</b>	
As % of state GDP	-3.03%	-3.51%	-3.54%		-3.44%	
<b>Primary Deficit</b> (-)/Surplus(+)	<b>-6,708</b>	<b>-10,510</b>	<b>-11,704</b>		<b>-12,124</b>	
As % of state GDP	-1.14%	-1.59%	-1.76%		-1.62%	

Notes: BE is Budget Estimate; RE is Revised Estimate. State GDP for 2017-18 is Rs 7,47,945 crore.

\* Borrowings is net of loan repayment.

Sources: Kerala State Budget Documents 2017-18; PRS.

## Expenditure in 2017-18

- Government expenditures can be divided into (a) capital expenditure, which affects the assets and liabilities of the state, and (b) revenue expenditure, which includes the rest of the expenses.
- Total capital expenditure is proposed to be Rs 9,974 crore, which is an increase of 2.4% over the revised estimates of 2016-17. This includes expenditure which leads to creation of assets, and provision of loans.
- Total revenue expenditure for 2017-18 is proposed to be Rs 1,09,628 crore, which is an increase of 15.9% over revised estimates of 2016-17. This includes spending on salaries, schemes, administrative expenses and pensions, etc.
- In 2017-18, the government estimates debt repayment on previous loans to be Rs 13,606 crore. In addition, the government proposes to pay interest on previous borrowings worth Rs 13,632 crore. Both these constitute 23% of the total expenditure of the state.

In 2017-18, the state aims to spend Rs 31,910 crore on salaries, and Rs 18,174 crore on providing pensions to its employees. Expenditure on both these constitute 42% of the state's expenditure.

**Table 2: Expenditure budget 2017-18 (in Rs crore)**

Item	2015-16 Actuals	2016-17 Budgeted	2016-17 Revised	% change from BE 2016-17 to RE 2016-17	2017-18 Budgeted	% change from RE 2016-17 to BE 2017-18
Capital Expenditure	8,342	10,314	9,741	-5.5%	9,974	2.4%
Revenue Expenditure	78,689	97,683	94,556	-3.2%	1,09,628	15.9%
<b>Total Expenditure</b>	<b>87,032</b>	<b>1,07,997</b>	<b>1,04,297</b>	<b>-3.4%</b>	<b>1,19,602</b>	<b>14.7%</b>
A. Debt Repayment	6,061	13,975	11,800	-15.6%	13,606	15.3%
B. Interest Payments	11,111	12,630	12,387	-1.9%	13,632	10.1%
<b>Debt Servicing (A+B)</b>	<b>17,171</b>	<b>26,605</b>	<b>24,187</b>	<b>-9.1%</b>	<b>27,238</b>	<b>12.6%</b>

Sources: Kerala State Budget Documents 2017-18; PRS.

## Department expenditure in 2017-18

The departments listed below account for **47%** of the total budgeted expenditure of Kerala in 2017-18.

**Table 3: Demand-wise expenditure for Kerala Budget 2017-18 (in Rs crore)**

Department	2015-16 Actuals	2016-17 Budgeted	2016-17 Revised	2017-18 Budgeted	% change from RE 2016-17 to BE 2017-18	Budget provisions for 2017-18
Education	14,712	17,351	16,926	20,206	19.4%	<ul style="list-style-type: none"> <li>Rs 500 crore will be spent for improving the infrastructure facilities in all schools where more than 1000 students study. Each school will receive a maximum of Rs 3 crore.</li> <li>For development of infrastructure in primary and upper primary schools, Rs 216 crore will be spent.</li> </ul>
Compensation and Assignments to local bodies	4,217	7,379	7,379	8,247	11.8%	<ul style="list-style-type: none"> <li>Between 2015-16 and 2016-17, compensation and aid to local bodies has seen the largest increase by Rs 3,162 crore.</li> </ul>
Medical and Public Health	4,341	5,298	5,365	6,314	17.7%	<ul style="list-style-type: none"> <li>A comprehensive health insurance scheme is expected to be launched at the beginning of 2018.</li> <li>An amount of Rs 470 crore is allocated for medical education. This allocation includes Rs 207 crore for the development of 11 medical colleges, Rs 34 crore for dental colleges and Rs 7 crore for nursing colleges.</li> <li>'Swavalambam' is the insurance scheme implemented for the blind, people with defective vision, locomotor impaired and mentally challenged. Through this scheme health insurance cover amounting to Rs 2 lakhs per person will be provided.</li> </ul>
Public Works	5,589	4,796	5,111	5,280	3.3%	<ul style="list-style-type: none"> <li>An amount of Rs 612 crore has been provided for maintenance works under the department.</li> </ul>
Social Security and Welfare	4,363	4,444	5,475	4,428	-19.1%	<ul style="list-style-type: none"> <li>The maximum share for Ashraya scheme from Kudumbasree to Panchayats is raised from Rs 25 lakhs to Rs 40 lakhs. The share is raised from Rs 40 lakhs to Rs 50 lakhs for Scheduled Tribe Ashraya.</li> </ul>
Police	2,646	3,379	3,383	3,890	15.0%	<ul style="list-style-type: none"> <li>A new Cyber Crime Investigation Division will be started. An amount of Rs 12 crore is provided for the technical modernization of the Police Department.</li> </ul>
Rural Development	2,242	3,033	2,200	3,879	76.3%	
Agriculture	2,622	3,331	3,545	3,558	0.4%	<ul style="list-style-type: none"> <li>An amount of Rs 40 crore is set apart for the development of agricultural markets.</li> </ul>
% of total expenditure	47%	45%	47%	47%		
Other Departments	46,299	58,987	54,912	63,800		
<b>Total</b>	<b>87,032</b>	<b>1,07,997</b>	<b>1,04,297</b>	<b>1,19,602</b>		

Note: All amounts are net numbers. Source: Kerala Budget Speech 2017-18; PRS.

## Expenditure on schemes in 2017-18

The following table presents expenditure of the government on key centrally sponsored schemes.

**Table 4: Scheme-wise expenditure and grants received from centre (Rs crore)**

Schemes	2016-17 BE	2016-17 RE	% change from 2016-17 BE to 2016-17 RE	2017-18 BE	% change from 2016-17 RE to 2017-18 BE
<b>National Rural Employment Guarantee Scheme (NREGS)</b>	2,248	1,574	-30%	2,994	90%
<i>of which: grants from centre</i>	2,197	2,197	0%	2,914	33%
<b>Sarva Siksha Abhiyan (SSA)</b>	251	113	-55%	505	347%
<i>of which: grants from centre</i>	243	191	-21%	496	160%
<b>Pradhan Mantri Awas Yojana (PMAY)</b>	274	141	-49%	460	226%
<i>of which: grants from centre</i>	189	90	-52%	276	206%
<b>National Health Mission (NHM)</b>	419	504	20%	500	-1%
<i>of which: grants from centre</i>	254	350	38%	300	-14%
<b>Pradhan Mantri Gram Sadak Yojana (PMGSY)</b>	380	228	-40%	354	55%
<i>of which: grants from centre</i>	210	126	-40%	150	19%
<b>Smart Cities</b>	150	218	45%	250	15%
<i>of which: grants from centre</i>	90	60	-33%	150	150%
<b>Swachh Bharat</b>	125	77	-38%	138	79%
<i>of which: grants from centre</i>	135	170	26%	144	-15%

Sources: Kerala Budget Documents; PRS.

- **NREGS:** The government budgeted to spend Rs 2,994 crore on the Scheme in 2017-18. Out of this, Rs 2,914 crore is budgeted to be received from the centre in the form of grants. In 2017-18, the centre budgeted to spend Rs 48,000 crore on the Scheme. Note that the government budgeted to spend Rs 2,248 crore on the Scheme in 2016-17. However, it is revised down to Rs 1,574 crore.
- **SSA:** In 2016-17, the government budgeted to spend Rs 251 crore on SSA. However, it is revised down to Rs 113 crore. In 2017-18, the government budgeted to spend Rs 505 crore on the Scheme.
- **PMAY:** Similar under-spending has been noted in the PMAY Scheme. The government budgeted to spend Rs 274 crore in 2016-17. This is revised down to Rs 141 crore. However, this is driven by a decrease of grants from the centre. In its revised estimates, the government estimated to receive Rs 99 crore less than the budgeted estimates. The government budgets to spend Rs 460 crore on the Scheme in 2017-18.
- **NHM:** In 2017-18, the government budgets to spend Rs 500 crore on National Health Mission. In 2016-17, the government revised up its spending on the Scheme from Rs 419 crore to Rs 504 crore.
- **PMGSY:** The government budgeted to spend Rs 228 crore on PMGSY, which is revised down by 40% in the revised estimates. In 2017-18, the government budgets to spend Rs 354 crore on the Scheme.

### **Rs 35,000 crore worth infrastructural development through Kerala Infrastructure Investment Fund Board (KIIFB)**

To finance infrastructural development, including educational institutions, hospitals and roads, the government has started a special purpose vehicle known as KIIFB.<sup>1,2</sup> The government aims to undertake infrastructural development worth Rs 35,000 crore. KIIFB raises funds by issuing bonds or accepting deposits from NRIs (which will be converted to bonds). The government intends to provide guarantee on the borrowings of KIIFB.

Note that the 13<sup>th</sup> Finance Commission and Reserve Bank of India (RBI) have identified risks of state governments providing guarantees to special purpose vehicles such as KIIFB. Categorising such guarantees as contingent liabilities, the Commission noted that: "While contingent liabilities do not form part of the states' debt obligations, but in the event of default by borrowing entities, the states are required to meet the debt service obligations of these defaulting entities." In addition, RBI and the Commission noted that such guarantees pose a risk to the finances of the states, if the special purpose vehicles fail to generate adequate resources to service the debts.

## Receipts in 2017-18

- The total revenue receipts for 2017-18 are estimated to be Rs 93,585 crore, an increase of 16.1% over the revised estimates of 2016-17.
- **State's own tax revenue** is expected to increase by 20% (Rs 8,864 crore) in 2017-18 over the revised estimates of 2016-17. Tax revenue in 2016-17 (RE) is estimated to be Rs 44,548 crore, which is lower than the budgeted estimates by Rs 3,066 crore (6.4%).
- The tax to GSDP ratio is targeted at 7.1% in 2017-18, which is more than the revised estimate of 6.7% in 2016-17. This implies that the government estimates tax collection to grow at a higher rate the growth in the economy.
- **Non-tax revenue** is estimated to increase by 20% (Rs 1,980 crore). This is driven by receipts from state lotteries and is estimated to be Rs 9,197 crore in 2017-18, an increase by Rs 1,671 crore from 2016-17.
- **Grants from the centre** are set to increase by 4.2%, from Rs 10,790 crore in 2016-17 (RE), to Rs 11,244 crore in 2017-18. In 2016-17, the government has budgeted to receive Rs 11,362 crore from centre. This is revised down to Rs 10,790 crore. Table 5 presents grants estimated to be received for CSS.
- **Taxes shared by the centre** to the state is estimated to grow by 11% in 2017-18 to Rs 16,892 crore. In 2016-17, the government estimated to receive 6.6% more than the initial budgeted estimate.

### Under collection of revenue in 2016-17, by 4.7%

In 2016-17, the government has estimated to receive 4.7% (Rs 3,997 crore) less revenue than the budgeted estimates. This is driven by decrease in tax revenue collection, which is the largest component of the state's revenue (57%). The Finance Minister attributed the reason for lower than budgeted tax collections to demonetisation of high value currency.

Further, there has been under-collection of revenue on account of state lotteries. In 2016-17, Rs 8,490 crore was budgeted to be received. It is revised down to Rs 7,526 crore.

Reflecting the decrease in receipts, the expenditure of the state has been revised down by 3.1% in 2016-17. Further, the state budgeted to borrow 3.2% more than the budgeted amount.

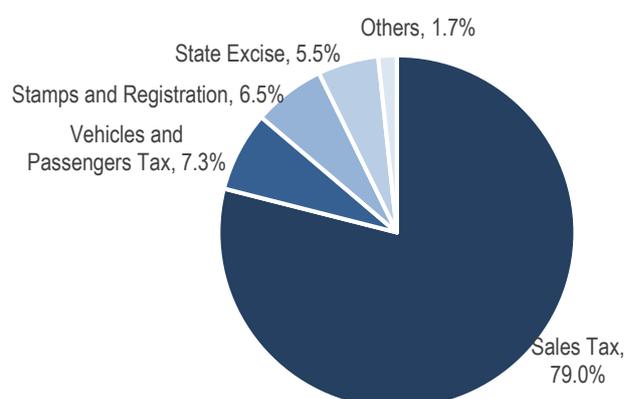
**Table 5: Break up of state government receipts (in Rs crore)**

Item	2015-2016 Actuals	2016-2017 Budgeted	2016-2017 Revised	% change from BE 2016-17 to RE 2016-17	2017-2018 Budgeted	% change from RE 2016-17 to BE 2017-18
State's Own Tax	38,995	47,614	44,548	-6.4%	53,411	19.9%
State's Own Non Tax	8,425	11,360	10,057	-11.5%	12,038	19.7%
State's share in Central Taxes	12,691	14,282	15,225	6.6%	16,892	10.9%
Grants-in-aid from Centre	8,921	11,362	10,790	-5.0%	11,244	4.2%
<b>Total Revenue Receipts</b>	<b>69,033</b>	<b>84,617</b>	<b>80,620</b>	<b>-4.7%</b>	<b>93,585</b>	<b>16.1%</b>
Borrowings*	17,785	22,429	23,150	3.2%	25,279	9.2%
Other receipts	181	240	216	-9.8%	261	20.6%
<b>Total Capital Receipts</b>	<b>17,965</b>	<b>22,668</b>	<b>23,366</b>	<b>3.1%</b>	<b>25,540</b>	<b>9.3%</b>
<b>Total Receipts</b>	<b>86,998</b>	<b>1,07,285</b>	<b>1,03,986</b>	<b>-3.1%</b>	<b>1,19,124</b>	<b>14.6%</b>

\*Borrowings are net of loan repayment.

Sources: Kerala State Budget Documents 2017-18; PRS.

**Figure 1: Composition of Tax Revenue in 2017-18 (BE)**



Sources: Kerala Budget Documents, PRS.

- **Composition of tax revenue:** Sales tax is the largest component of the tax revenue of the state. Sales tax, levied on the sale of goods in the state is expected to generate Rs 42,188 crore in 2017-18.
- This is an increase of 20% from 2016-17. Further, the government is expected to generate Rs 3,891 crore through Motor Vehicles and Passengers Tax. This is an increase of 7.3% over the estimates of 2016-17.
- In addition, revenue will be generated through levy of duty on electricity, state excise duties, stamp duties on real estate transactions, taxes on vehicles, and passengers, etc.

## Deficits, Debts and FRBM Targets for 2017-18

The Fiscal Responsibility and Budget Management (FRBM) Act, 2006 of the state provides annual targets to progressively reduce the outstanding liabilities, revenue deficit and fiscal deficit of the state government.

**Revenue deficit:** It is the excess of revenue expenditure over revenue receipts. A revenue deficit implies that the government needs to borrow in order to finance its expenses which do not create capital assets. The budget estimates a revenue deficit of Rs 16,043 crore (or 2.14% of state GDP) in 2017-18. This implies that revenue receipts are expected to be lower than the revenue expenditure, resulting in a deficit. The estimate indicates that the state is not meeting the target of eliminating revenue deficit, prescribed by the 14<sup>th</sup> Finance Commission.

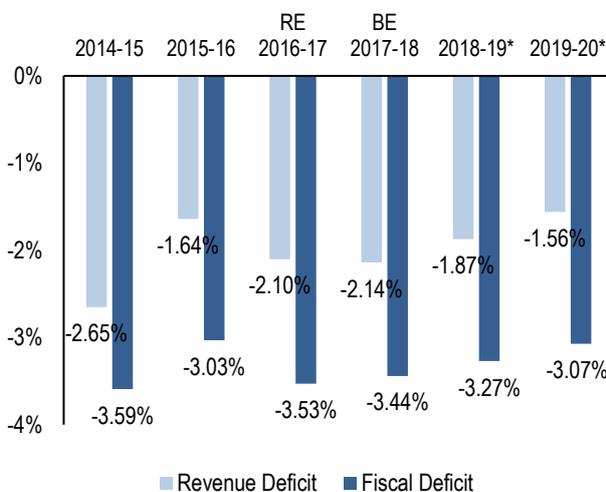
**Fiscal deficit:** It is the excess of total expenditure over total receipts. This gap is filled by borrowings by the government, and leads to an increase in total liabilities of the government. In 2017-18, fiscal deficit is estimated to be Rs 25,756 crore, which is 3.44% of the state GDP. The estimate exceeds the 3% limit prescribed by the 14<sup>th</sup> Finance Commission. However, according to the Finance Minister, it is within the limit of 3.5% provided by the Commission for exceptional circumstances (demonetisation).

However, the fiscal deficit in 2016-17 is 3.53%, crossing the 3.5% limit in exceptional circumstances. Further, the fiscal deficit in 2015-16 is 3.03%, crossing the 3% limit in regular circumstances (pre-demonetisation).

**Debt stock:** It is the accumulation of borrowings over the years. In 2017-18, the debt stock are expected at 27.3% of state GDP. Note that the debt stock has been on a steady increase from 26.1% (Rs 2,07,027 crore) in 2014-15. Increase in debt stock over time indicates increasing interest payment and principal repayment burden in the future. In addition to these liabilities, the state has provided guarantees to loans of other entities worth Rs 12,439 crore as of 2015-16. For the years 2016-17 and 2017-18, the state may provide more such guarantees to loans of KIIFB.

Figures 3 and 4 show the trend in deficits and outstanding liabilities from 2014-15 to 2019-20:

**Figure 2: Revenue and Fiscal Deficit (as % of state GDP)**



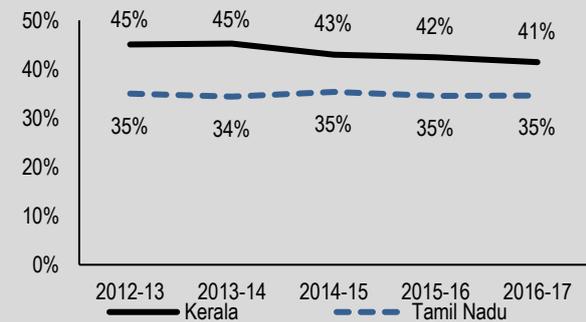
Sources: Kerala State Budget Documents; PRS.  
Note: \*2018-19 and 2019-20 are projections.

### Salary and pension expenditure of Kerala affecting revenue deficit

In 2017-18, the state budgeted to spend Rs 50,084 crore on salaries and pensions of its employees in 2017-18. This is 41% of its total expenditure. However, this has consistently declined from 45% in 2012-13. On the other hand, neighbouring state Tamil Nadu spends around 35% of its expenditure on salaries and pensions.

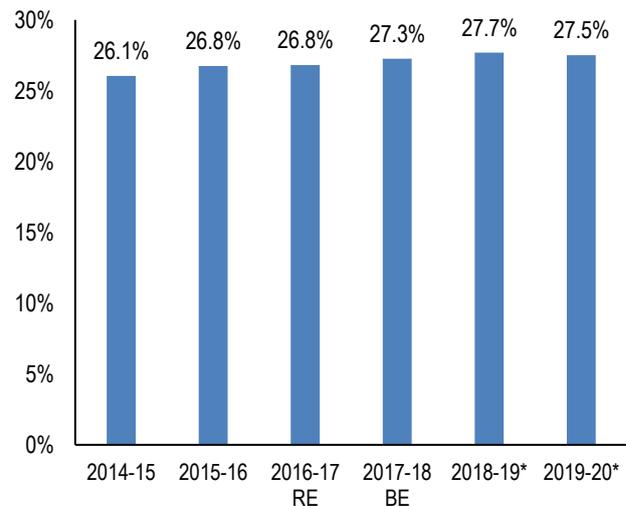
Higher expenditure on salaries and pensions affects the revenue deficit of the state. The state has been borrowing to meet its revenue expenses, which do not create capital assets. Further, this may leave less room for borrowing to finance capital expenses.

### Salaries and pensions as % of total expenditure



Sources: Kerala and Tamil Nadu Budget Books; Reserve Bank of India State of State Finances; PRS.

**Figure 3: Debt stock (as % of state GDP)**



Sources: Kerala State Budget Documents; PRS.  
Note: \*2018-19 and 2019-20 are projections.

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<sup>1</sup> The Report of Thirteenth Finance Commission, Government of India, <http://fincomindia.nic.in/ShowContentOne.aspx?id=28&Section=1>.

<sup>2</sup> State Finances: A Study of State Budgets 2012-13, <https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/00SF090113FUL.pdf>.

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