

Kerala Budget Analysis 2019-20

The Finance Minister, Dr. T. M. Thomas Isaac, presented the Budget for Kerala for financial year 2019-20 on January 31, 2019.

Budget Highlights

- The **Gross State Domestic Product** of Kerala for 2019-20 (at current prices) is estimated to be Rs 8,75,514 crore. This is 13% higher than the revised estimate for 2018-19.
- **Total expenditure** for 2019-20 is estimated to be Rs 1,41,980 crore, a 13.9% increase over the revised estimate of 2018-19. In 2018-19, there is estimated to be a decrease of Rs 2,415 crore (1.9% of the budgeted estimate) of expenditure as per the revised estimate.
- **Total receipts (excluding borrowings)** for 2019-20 are estimated to be Rs 1,15,690 crore, an increase of 14.6% as compared to the revised estimate of 2018-19. In 2018-19, total receipts (excluding borrowings) are estimated to fall short of the budgeted estimate by Rs 2,144 crore (2.1%).
- **Revenue deficit** for the next financial year is targeted at Rs 8,770 crore, or 1% of the Gross State Domestic Product (GSDP). **Fiscal deficit** is targeted at Rs 26,291 crore (3% of GSDP).
- The sectors of Rural Development, Transport, and Welfare of SC/ST/OBC and Minorities saw the highest increase in allocations.

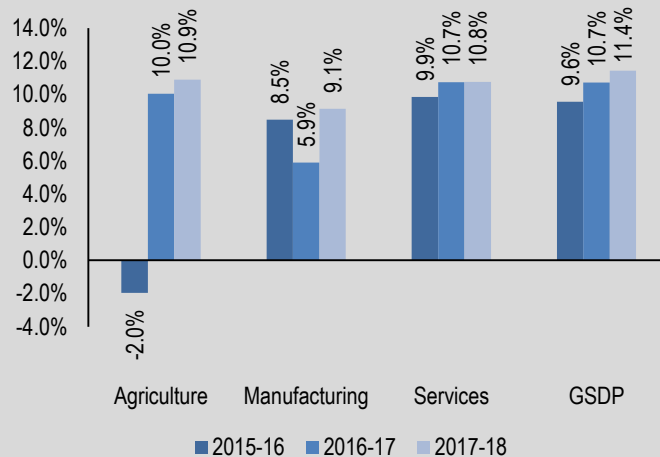
Policy Highlights

- **Kerala Flood Cess:** The GST Council had permitted the state to levy 1% cess on supply of goods and services for up to two years for rebuilding Kerala. Except gold, this cess will not be levied on goods with GST rate of 5% or below. Small dealers who have availed composition tax will be excluded from the levy of cess. For supply of goods which are taxed at 12%, 18% and 28%, and on all services, 1% flood cess will be imposed on the value of supply. An additional revenue of Rs 600 crore is expected through this cess.
- **Tax proposals:** Local bodies have been permitted to levy 10% entertainment tax on cinema tickets. The one-time tax on new motor cycles, motor cars, and private service vehicles used for private purpose will be increased by 1%. The tax rate on the first sale of foreign liquor will be increased by 2%.
- **Infrastructure projects:** Rs 1,000 crore has been earmarked for Rebuild Kerala initiative. An outer ring-road on the Parippally-Vengod-Aruvikkara-Vizhinjam route, and an allied growth corridor have been proposed around the Vizhinjam Port.

Kerala's Economy

- **GSDP:** The growth rate of Kerala's GSDP (at current prices) has increased from 9.6% in 2015-16 to 11.4% in 2017-18.
- **Sectors:** In 2017-18, agriculture, manufacturing, and services contributed to 13%, 24% and 63% of the GSVA. These sectors grew by 10.9%, 9.1% and 10.8%, respectively.
- **Per capita income:** The per capita GSDP of Kerala in 2017-18 (at current prices) was Rs 1,99,101. This is 10.9% higher than that in 2016-17.
- **Unemployment:** According to the 5th Annual Employment-Unemployment Survey (2015-16), among the major states, Kerala has the highest unemployment rate at 12.5% as compared to the all-India level of 5%.

Figure 1: Growth in GSDP and sectors in Kerala (year-on-year)



Sources: Kerala Economic Review 2018; MOSPI; PRS.

Note: All numbers are as per current prices. Numbers for 2015-16, and 2016-17 are from MOSPI. Numbers for 2017-18 are quick estimates from the Kerala Economic Review 2018.

Budget Estimates for 2019-20

- The total expenditure in 2019-20 is targeted at Rs 1,41,980 crore. This is 13.9% higher than the revised estimates of 2018-19. This expenditure is proposed to be met through receipts (other than borrowings) of Rs 1,15,690 crore and borrowings of Rs 26,265 crore. Total receipts for 2019-20 (other than borrowings) are expected to be 14.6% higher than the revised estimate of 2018-19.

Table 1: Budget 2019-20 - Key figures (in Rs crore)

| Items | 2017-18 Actuals | 2018-19 Budgeted | 2018-19 Revised | % change from BE 2018-19 to RE of 2018-19 | 2019-20 Budgeted | % change from RE 2018-19 to BE 2019-20 |
|---------------------------------|--------------------|---------------------|--------------------|---|---------------------|--|
| Total Expenditure | 110,238 | 127,093 | 124,679 | -1.9% | 141,980 | 13.9% |
| A. Receipts (except borrowings) | 83,400 | 103,136 | 100,992 | -2.1% | 115,690 | 14.6% |
| B. Borrowings | 26,841 | 23,881 | 23,250 | -2.6% | 26,265 | 13.0% |
| Total Receipts (A+B) | 110,241 | 127,018 | 124,242 | -2.2% | 141,955 | 14.3% |
| Revenue Deficit | 16,928 | 12,860 | 13,027 | 1.3% | 8,770 | -32.7% |
| As % of GSDP | 2.46% | 1.66% | 1.68% | | 1.00% | |
| Fiscal Deficit | 26,837 | 23,957 | 23,686 | -1.1% | 26,291 | 11.0% |
| As % of GSDP | 3.91% | 3.10% | 3.06% | | 3.00% | |
| Primary Deficit | 11,717 | 9,019 | 8,060 | -10.6% | 9,089 | 12.8% |
| As % of GSDP | 1.71% | 1.17% | 1.04% | | 1.04% | |

Notes: BE is Budget Estimate; RE is Revised Estimate. GSDP for 2019-20 is Rs 8,75,514 crore. GSDP for 2018-19 BE and 2018-19 RE taken to be Rs 7,72,894 crore, and Rs 7,74,995 crore respectively.

Sources: Kerala Budget Documents 2019-20; PRS.

Expenditure in 2019-20

- Capital expenditure** for 2019-20 is proposed to be Rs 17,855 crore, which is an increase of 53.3% over the revised estimates of 2018-19.
- Capital expenditure includes expenditure affecting the assets and liabilities of the state, such as: (i) capital outlay, i.e. expenditure which leads to creation of assets (such as bridges and hospitals), and (ii) repayment and grant of loans by the state government.
- Kerala's capital outlay for 2019-20 is estimated to be Rs 16,269 crore, which is 66% higher than the revised estimate of 2018-19. The capital outlay towards rural development is estimated to increase by Rs 1,429 crore (an increase of 262%) from the revised estimates of 2018-19.
- Revenue expenditure** for 2019-20 is proposed to be Rs 1,24,125 crore, which is an increase of 9.8% over revised estimates of 2018-19. This expenditure includes payment of salaries, maintenance, etc.

Committed liabilities of a state typically includes expenditure on payment of salaries, pensions, and interest payments. A larger proportion of state budget allocated for committed expenditure crowds out other developmental expenditure. Kerala spends the third highest on committed liabilities (55% of its budget). States, on average, spend 39% of their budget on committed liabilities.

In 2019-20, the committed liabilities of the state are Rs 68,941 crore. This is a 3% increase from the revised estimate of 2018-19.

Table 2: Expenditure budget 2019-20 (in Rs crore)

| Items | 2017-18 Actuals | 2018-19 Budgeted | 2018-19 Revised | % change from BE 2018-19 to RE 2018-19 | 2019-20 Budgeted | % change from RE 2018-19 to BE 2019-20 |
|-----------------------------|--------------------|---------------------|--------------------|--|---------------------|--|
| Capital Expenditure | 10,289 | 11,432 | 11,645 | 1.9% | 17,855 | 53.3% |
| of which Capital Outlay | 8,749 | 10,330 | 9,811 | -5.0% | 16,269 | 65.8% |
| Revenue Expenditure | 99,948 | 115,661 | 113,034 | -2.3% | 124,125 | 9.8% |
| Total Expenditure | 110,238 | 127,093 | 124,679 | -1.9% | 141,980 | 13.9% |
| A. Debt Repayment | 13,132 | 14,832 | 18,007 | 21.4% | 17,739 | -1.5% |
| B. Interest Payments | 15,120 | 14,938 | 15,626 | 4.6% | 17,201 | 10.1% |
| Debt Servicing (A+B) | 28,252 | 29,770 | 33,633 | 13.0% | 34,940 | 3.9% |

Note: Capital outlay denotes expenditure which leads to creation of assets.

Sources: Kerala Budget Documents 2019-20; PRS.

Sector expenditure in 2019-20

The sectors listed below account for **46%** of the total budgeted expenditure of Kerala in 2019-20. A comparison of Kerala's expenditure on key sectors with that by other states can be found in the Annexure.

Table 3: Sector-wise expenditure for Kerala Budget 2019-20 (Rs crore)

| Sector | 2017-18 Actuals | 2018-19 Budgeted | 2018-19 Revised | 2019-20 Budgeted | % change from RE 2018-19 to BE 2019-20 | Budget provisions for 2019-20 |
|---|-----------------|------------------|-----------------|------------------|--|--|
| Education | 19,043 | 20,528 | 19,736 | 21,089 | 7% | <ul style="list-style-type: none"> Rs 927 crore has been allocated towards Sarva Shiksha Abhiyan. An amount of Rs 529 crore has been sanctioned for the Mid-Day Meal Scheme. |
| Agriculture and allied activities | 6,230 | 8,040 | 7,390 | 7,980 | 8% | <ul style="list-style-type: none"> Rs 2,500 crore will be spent to rejuvenate agriculture post floods. |
| Health and Family Welfare | 6,482 | 7,178 | 7,065 | 7,227 | 2% | <ul style="list-style-type: none"> Rs 2,498 crore has been allocated for urban health services, and Rs 883 crore has been allocated for rural health services. |
| Transport | 5,698 | 5,430 | 5,639 | 7,142 | 27% | <ul style="list-style-type: none"> Rs 1,213 crore has been allocated towards road transport. |
| Rural Development | 1,961 | 5,150 | 2,443 | 6,674 | 173% | <ul style="list-style-type: none"> Rs 2,928 crore has been allocated towards the Mahatma Gandhi National Rural Employment Guarantee Programme. |
| Social Welfare and Nutrition | 6,167 | 4,506 | 3,547 | 4,022 | 13% | <ul style="list-style-type: none"> Rs 1,407 crore has been allocated towards child welfare. |
| Police | 3,538 | 3,985 | 3,674 | 3,991 | 9% | <ul style="list-style-type: none"> Rs 152 crore has been allocated for the modernisation of police force. |
| Water Supply, Sanitation, Housing and Urban Development | 1,143 | 4,278 | 3,554 | 3,712 | 4% | <ul style="list-style-type: none"> Rs 400 crore has been allocated towards Smart City Mission, and Rs 500 crore for AMRUT. |
| Welfare of SC/ ST/OBC and Minorities | 2,904 | 3,232 | 2,847 | 3,266 | 15% | <ul style="list-style-type: none"> In the Budget Speech, an amount of Rs 1,296 crore was announced for housing complexes for landless and homeless people. |
| % of total expenditure | 48% | 49% | 45% | 46% | | |

Source: Kerala Budget Speech 2019-20, Kerala Annual Financial Statement 2019-20, Kerala Demand for Grants 2019-20; PRS.

Grants-in-aid and contributions to local governments: The state government provides compensation and assignments to local bodies and Panchayati Raj institutions. In 2019-20, this amount is estimated to be Rs 9,948 crore. This is a 33% increase from the revised estimates of 2018-19. The table below shows the past trends in grants given to local governments, and their development expenditure.

Table 4: Development expenditure by Local Governments as a share of grants-in-aid

| Year | Grants to Local Governments | Development expenditure of Local Governments | Share of grants used for development expenditure |
|------------|-----------------------------|--|--|
| 2011-12 | 3,389 | 2,714 | 80% |
| 2012-13 | 4,017 | 3,203 | 80% |
| 2013-14 | 4,971 | 4,012 | 81% |
| 2014-15 | 6,397 | 5,267 | 82% |
| 2015-16 | 3,903 | 3,061 | 78% |
| 2016-17 | 5,481 | 4,183 | 76% |
| 2017-18 RE | 6,012 | 4,565 | 76% |
| 2018-19 BE | 9,130 | 7,563 | 83% |

Note: BE is Budget Estimate; RE is Revised Estimate.; Sources: Kerala Economic Review 2018; PRS.

Receipts in 2019-20

- The **total revenue receipts** for 2019-20 are estimated to be Rs 1,15,355 crore, an increase of 15.4% over the revised estimates of 2018-19. Of this, Rs 80,855 (70% of the revenue receipts) crore will be raised by the state through its **own resources**, and Rs 34,500 crore (30% of the revenue receipts) will be **devolved by the centre** in the form of grants and the state's share in taxes.
- **Non Tax Revenue:** Kerala has estimated to generate Rs 15,070 crore through non-tax sources in 2019-20. Of this, Rs 11,873 crore will be received from state lotteries.

In 2018-19, the state government's own revenue (both tax and non-tax) are expected to decline. While the tax revenue is expected to decline by 9.4%, non-tax revenue is expected to decline by 9%. Decline in tax revenue is driven by lower GST collections (a decrease of Rs 4,179 crore from the budget estimates of 2018-19).

In 2018-19, grants from the central government increased by almost 40% from the budget estimates. Rs 2,100 crore of this increase is the GST compensation provided by the centre.

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

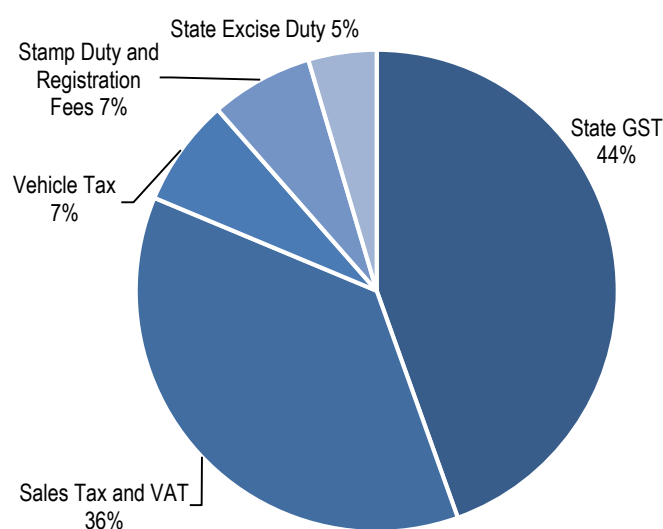
| Items | 2017-18 Actuals | 2018-19 Budgeted | 2018-19 Revised | % change from BE 2018-19 to RE 2018-19 | 2019-20 Budgeted | % change from RE 2018-19 to BE 2019- 20 |
|-------------------------------|--------------------|---------------------|--------------------|---|---------------------|---|
| State's Own Tax | 46,460 | 58,588 | 53,111 | -9.35% | 65,785 | 23.86% |
| State's Own Non-Tax | 11,200 | 14,271 | 12,992 | -8.96% | 15,070 | 16.00% |
| Share in Central Taxes | 16,833 | 19,932 | 19,932 | 0.00% | 22,798 | 14.38% |
| Grants-in-aid from Centre | 8,528 | 10,009 | 13,972 | 39.59% | 11,702 | -16.24% |
| Total Revenue Receipts | 83,020 | 102,801 | 100,007 | -2.72% | 115,355 | 15.35% |
| Borrowings | 26,841 | 23,881 | 23,250 | -2.64% | 26,265 | 12.97% |
| Other receipts | 380 | 335 | 986 | 194.15% | 335 | -66.02% |
| Total Capital Receipts | 27,221 | 24,217 | 24,236 | 0.08% | 26,600 | 9.76% |
| Total Receipts | 110,241 | 127,018 | 124,242 | -2.19% | 141,955 | 14.26% |

*includes additional resource mobilisation.

Sources: Kerala Budget Documents 2019-20; PRS.

- **Tax Revenue:** Total own tax revenue of Kerala is estimated to be Rs 65,785 crore in 2019-20. The composition of the state's tax revenue is shown in Figure 2. The tax to GSDP ratio is targeted at 8% in 2019-20, which is in the same range as the revised estimate of 7% in 2018-19. This implies that growth in collection of taxes has been at par with the growth in the economy.

Figure 2: Composition of the state's tax revenue in 2019-20 (Budget Estimates)



Sources: Kerala Budget Documents 2019-20; PRS.

- State Goods and Services Tax (SGST) is the largest component of tax revenue of the state. It is expected to generate Rs 29,011 crore in 2019-20. This is an increase of 27% from the revised estimates of 2018-19.
- In 2019-20, Kerala is expected to generate Rs 23,948 crore through levy of sales tax (on items such as petroleum products), and VAT. This is an increase of 25.5% over the revised estimates of 2018-19.
- Further, in 2019-20 the state is expected to generate Rs 4,712 crore from vehicle taxes, and Rs 4,487 crore from stamp duty and registration fees.

Deficits, Debts and FRBM Targets for 2019-20

The Kerala Fiscal Responsibility and Budget Management (FRBM) Act, 2004 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 8,770 crore (or 1% of GSDP) in 2019-20. This implies that revenue receipts are expected to be lower than the revenue expenditure, resulting in a deficit. The 14th Finance Commission had recommended that states should eliminate revenue deficits. The 2019-20 estimates for Kerala suggest that the state will not be meeting this target of eliminating revenue deficit.

In 2019-20, Kerala is expected to spend Rs 34,940 crore on servicing its debt. This is 4% higher than the revised estimates of 2018-19. This includes Rs 17,739 crore towards repaying loans, and Rs 17,201 crore towards interest payments.

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. In 2019-20, fiscal deficit is estimated to be Rs 26,291 crore, which is 3 % of the GSDP. The estimate is equal to the 3% limit prescribed by the 14th Finance Commission. This limit may be relaxed to a maximum of 3.5%, if states are able to contain their debt and interest payments to certain specified levels.

Outstanding Liabilities: It is the accumulation of borrowings over the years. In 2019-20, the outstanding liabilities are expected at 30.2% of the GSDP.

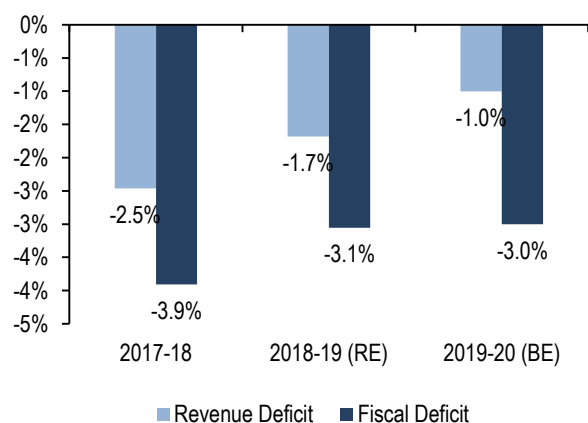
Table 6: Budget targets for deficits for Kerala in 2019-20 (% of GSDP)

| Year | Revenue | Fiscal | Outstanding Liabilities |
|--------------|-------------------------|-------------------------|-------------------------|
| | Deficit (-)/Surplus (+) | Deficit (-)/Surplus (+) | |
| 2017-18 | -2.5% | -3.9% | 30.7% |
| 2018-19 (RE) | -1.7% | -3.1% | 30.5% |
| 2019-20 (BE) | -1.0% | -3.0% | 30.2% |
| 2020-21 | -0.6% | -3.0% | 29.7% |
| 2021-22 | -0.8% | -3.0% | 29.3% |

Sources: Kerala Budget Documents 2019-20; PRS.

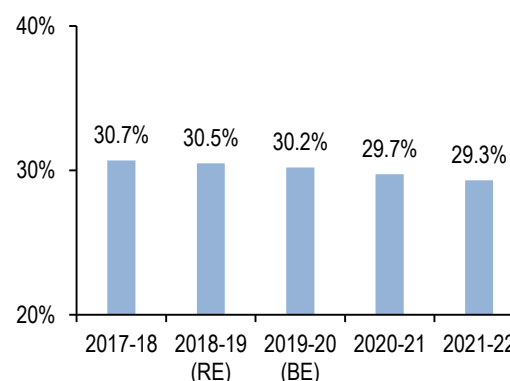
Figures 3 and 4 show the trend in deficits and outstanding liabilities targets from 2017-18 to 2021-22.

Figure 3: Revenue and Fiscal Deficit (as % of GSDP)



Sources: Kerala Budget Documents; PRS.

Figure 4: Outstanding liabilities targets (as % of GSDP)



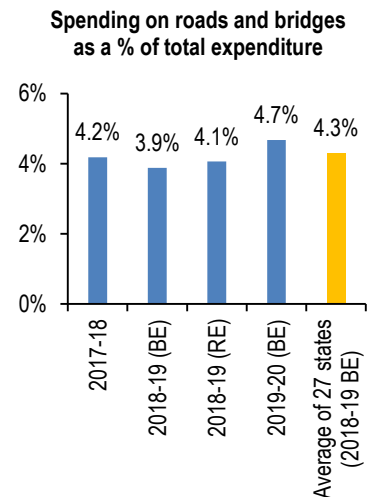
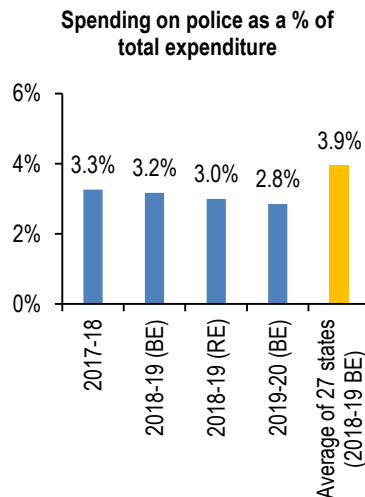
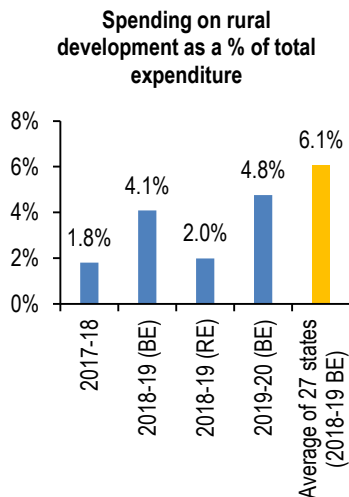
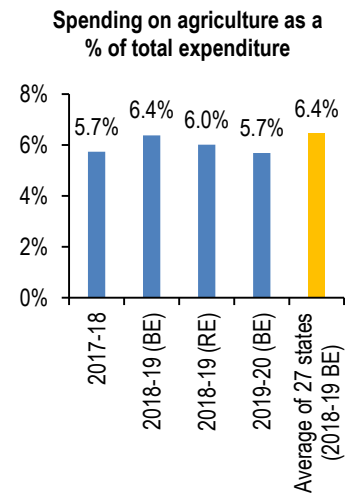
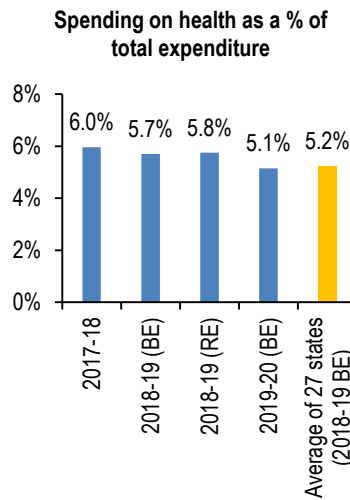
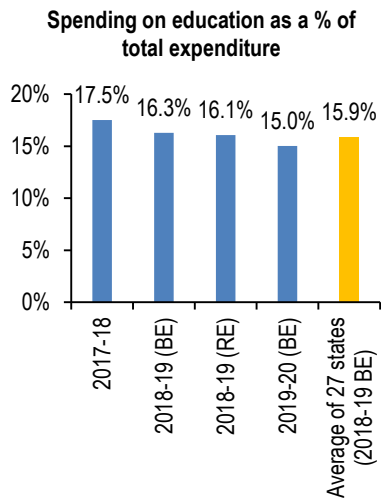
Sources: Kerala Budget Documents; PRS.

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Annexure

The graphs below compare Kerala’s expenditure on four key sectors as a proportion of its total budget, with 26 other states.¹

- **Education:** Kerala has allocated 15% of its expenditure on education in 2019-20. This is marginally lower than the average expenditure allocated to education by 26 other states (using 2018-19 BE).
- **Health:** Kerala has allocated 5.1% of its total expenditure on health, which is marginally higher than the average expenditure of 26 other states.
- **Agriculture and allied activities:** The state has allocated 5.7% of its total budget towards agriculture and allied activities. This is lower than the allocations of 26 other states (6.5%).
- **Rural development:** Kerala has allocated 4.8% of its expenditure on rural development. This is significantly lower than the average (6.1%) of the 26 other states.
- **Police:** Kerala has allocated 2.8% of its total expenditure on police, which is lower than the average expenditure of 26 other states (4%).
- **Roads and bridges:** Kerala has allocated 4.7% of its total expenditure on roads and bridges, which is higher than the average expenditure of 26 other states.



Note: 2017-18, 2018-19 (BE), 2018-19 (RE), and 2019-20 (BE) figures are for Kerala.
 Source: Annual Financial Statement (2018-19 and 2019-20), various state budgets; PRS.

¹ The 26 other states include all states except Arunachal Pradesh, Manipur, and Meghalaya. It also includes the Union Territory of Delhi.