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FISCAL CONSOLIDATION AND GROWING FISCAL DEFICIT; AN ANALYSIS OF KERALA ECONOMY

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ABSTRACT

Fiscal consolidation implies the improvement in overall fiscal capacity of the government with substantial decline in the fiscal deficit. Fiscal deficit in Kerala increased enormously over the years which is estimated in the year 2021-22 is around Rs.30,698 crore (3.5 percent) of GDP. Continues rise in non-plan revenue expenditure and poor capital expenditure would make worse fiscal crisis in the near future. Currently Kerala is facing an acute fiscal crisis; virtually the borrowing permitted by the central government is just enough to meet the essential revenue expenditure. During the last five years market borrowings and accretions in Small Savings and Provident Fund Deposits are the main sources of the State Government to finance the fiscal deficit. This paper examines the extent of fiscal deficit and the scope fiscal consolidation by using the various secondary data.

Keywords: Fiscal Consolidation, Fiscal Deficit, Revenue Deficit, Public Debt.

I. INTRODUCTION

Fiscal consolidation implies the improvement in overall fiscal capacity of the government with substantial decline in the fiscal deficit. It indicates the growth of fiscal health of an economy. Enlarged revenue receipts and quality public outlays are essential components of the fiscal consolidation. According to the financial time lexicon "fiscal consolidation is the reduction in the underlying fiscal deficit". The Kerala Fiscal Responsibility and Budget Management (FRBM) Act, 2003, recommend some vital targets to decrease the government growing financial liabilities including fiscal deficit and revenue deficit. Fiscal deficit in Kerala go beyond enormously over the years which is estimated in the year 2021-22 is around Rs.30,698 crore (3.5 percent) of GDP. But the revised calculation of fiscal deficit is expected to be 4.25 percent of GSDP which is close to the maximum limit of the (5 percent) permitted level of fiscal deficit by the union government that too on the unconditional augment of the limit to 4% of GSDP. In this context an attempt has made to analyse the current fiscal strength and growing fiscal deficit of the state of Kerala. There is huge decline in the tax revenue consist of state own taxes and union tax share in the state.

Statement of the Problem

Fiscal deficit in Kerala go beyond enormously over the years which is estimated in the year 2021-22 is around Rs.30,698 crore (3.5 percent) of GDP. The outstanding debt is expected to be 37.4% of the GSDP, higher than the revised estimate for 2020- 21 (36.1% of GSDP). The public debt is estimated to enhance from 29.8% in 2018-19 to 37.4% in 2021. The budget estimates a revenue deficit of Rs 16,910 crore (or 1.93% of the GSDP) in 2021-22. The nature and cause of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources are raised and applied are important pointers to its fiscal consolidation.

Currently Kerala is facing an acute fiscal crisis; virtually the borrowing permitted by the central government is just enough to meet the essential revenue expenditure. Poor resource mobilization, unsound fiscal policy, wretched fiscal management, absence of growth in the productive sectors, no visible improvement in the own tax revenue etc are the major reasons for this fiscal crisis in the state. It is relevant to examine the fiscal position of the Kerala at this point.

Objectives of the study

1. To examine the extent of growing fiscal defict in Kerala
2. To examine the current fiscal position in Kerala
3. To evaluate the major reasons for the fiscal deficit.

II. METHODOLOGY

An attempt has made to examine the Fiscal consolidation and fiscal defict in the state of Kerala. We have used secondary data such as various central and state government reports, reports of national and international organizations as well as published media reports both print and electronic. Information also gathered from the academic journals and other published sources,

Fiscal Position of the State

Fiscal condition of the state has deteriorated since 2015-16,according to the CAG report of state finances, fiscal state get more worse again in 2016-17 The severe crisis has negatively affected the entire activities of the state government and local governments.

Revenue Receipts

For the year 2020-21 there is huge decline in the tax revenue consist of state own taxes and union tax share about 11.5 percent as compared to the previous year. For the same period non tax revenue also has declined by 48 percent. The covid 19 pandemic has caused a terrible impact on the already shrinking sectors of the Indian economy.

Table 1-Total Revenue Receipts (in Crore)

Year	Own taxes	Non-tax revenue	Centraltax transfer	Grant-in-aid	Total revenue receipts
2015-16	38,995	8,426	12,691	8,921	69,033
2016-17	42,177	9,700	15,225	8,510	75,612
2017-18	46,459	11,199	16,833	8,528	83,020
2018-19	50,644	11,783	19,038	11,389	92,854
2019-20	50,323	12,265	16,401	11,235	90,225
2020-21 (RE)	45,272	9,121	9,844	28,878	93,115
	Growth in %				
2015-16	10.7	15.7	60.1	18.8	19.1
2016-17	8.2	15.1	19.9	-4.6	9.5
2017-18	10.1	15.4	10.6	0.2	9.8
2018-19	9.0	5.2	13.1	33.5	11.8
2019-20	-0.6	4.1	-13.9	-1.4	-2.8
2020-21 (RE)	-10.0	-25.6	-40.0	157.0	3.2

RE: Revised Estimate

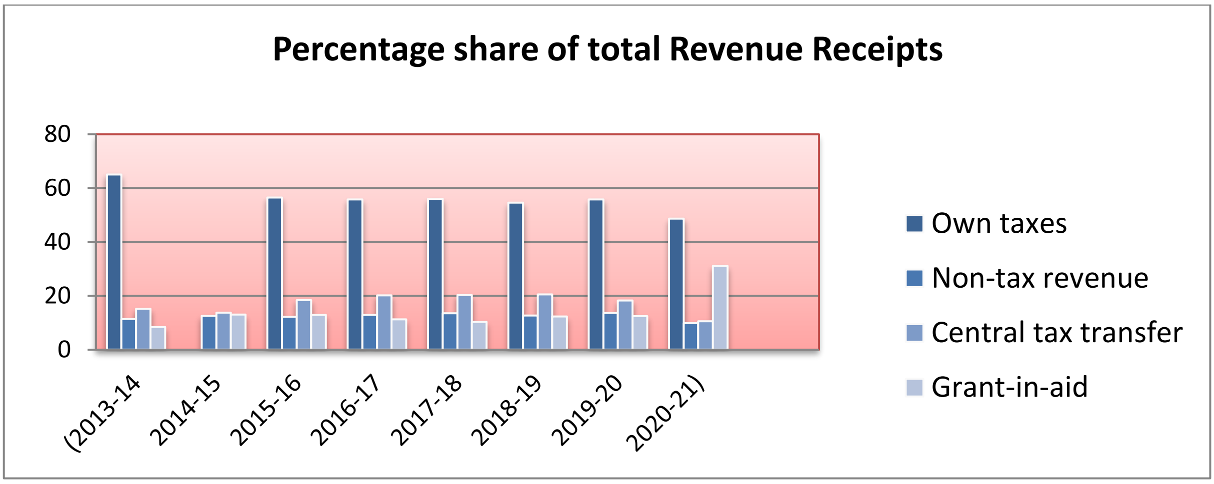
Source: Government of Kerala (2021), Economic Review 2020, Volume 1,Thiruvananthapuram:
Kerala State Planning Board

Table 1 shows the total revenue receipts of the Kerala for 6 years from the 2015-16.the state own tax revenue has declined from Rs. 50644 crore in the year 2018-19 to 45272 crore in the year 2021.this is quiet alarming as nontax revenue and central tax share were too declined sharply in absolute figure as well as in percent. For the last two consecutive years the revenue indicators are very low even can seen negative figures showing the poor fiscal health.The table also shows that State's own tax revenue has the lowest growth rate during the five year. Growth rate is continuously declined and fell in to the severely. The State Government needs to address this reduced growth as own tax revenue is the main source of revenue of the State.

Table 2- Percentage share of total Revenue Receipts

Year	Own taxes	Non-taxrevenue	Central tax transfer	Grant-in-aid	Total revenue receipts
2013-14	65.06	11.33	15.18	8.41	100
2014-15	60.79	12.56	13.67	12.95	100
2015-16	56.49	12.21	18.38	12.92	100
2016-17	55.78	12.83	20.14	11.25	100
2017-18	55.96	13.49	20.28	10.27	100
2018-19	54.51	12.70	20.52	12.27	100
2019-20	55.78	13.59	18.18	12.45	100
202021(RE)	48.62	9.80	10.57	31.01	100

RE: Revised Estimate Source: Government of Kerala (2021), Economic Review 2020, Volume 1, Thiruvananthapuram: Kerala State Planning Board



As the State's share in central taxes and grants-in-aid is determined on the basis of recommendations of the Finance Commission, the State's performance in mobilization of resources was assessed in terms of its own resources comprising own tax and non-tax sources.

Public Expenditure in Kerala

Kerala has large number of private aided educational institutions and semi government institutions, Excessive growth in the government bureaucracy, public sector undertakings etc. causes mounting public expenditure in Kerala. continues rise in non-plan revenue expenditure (salaries, pensions, interest, grant-in-aid to private aided educational institutions, administration etc) Salary & pension revision once in five years resulting in spurt in the growth of salary and pension expenditure Mounting debt and increase in repayments of debt and interest payments. Total Expenditure is classified as revenue and capital, the resource gap between revenue receipts and TE was about 25% for last six years this means that nearly one fourth of the expenditure has been met through borrowing

Table 3-Total Expenditure Basic Indicators

Year	Total expenditure(TE) (Rs crore)	Rate of growth (%	TE/ GSDP* (%)	Revenue receipts/TE (%
2010-11	38791	-	11.9	79.9
2011-12	50896	31.2	13.9	74.7

2012-13	59228	16.44	14.4	74.5
2013-14	66244	11.8	14.2	74.2
2014-15	76744	15.9	14.9	75.5
2015-16	87032	13.4	15.5	79.3
2016-17	102382	17.6	16.6	73.8
2017-18	110238	7.7	16.1	75.3

Source: Government of Kerala (2021), Economic Review 2020, Volume 1, Thiruvananthapuram: Kerala State Planning Board

Table 3 indicates about 25 percent average shortfall of total revenue receipts to the total expenditure and total expenditure to the GSDP ratio also increasing over the years.

Table 4-Revenue Expenditure – Parameters (Rs in crore)

Year	Revenue expenditure (RE)	Growth rate of RE (%)	RE to total expenditure (%)	RE/GSDP Ratio (%)
2010-11	34665	-	89.4	10.7
2011-12	46045	32.8	90.5	12.6
2012-13	53484	16.2	90.3	12.9
2013-14	60486	13.1	91.3	13
2014-15	71746	18.6	93.5	13.9
2015-16	78690	9.7	90.4	14
2016-17	91096	15.7	88.9	14.8
2017-18	99948	9.7	90.7	14.6

Source: Government of Kerala (2021), Economic Review 2020, Volume 1, Thiruvananthapuram: Kerala State Planning Board Revenue Expenditure accounts for about 89 to 93% of Total Expenditure (Table 4), Annual Growth rate of RE range between 10 & 33 %, capital expenditure merely 10 percent of the total expenditure on average. This would make huge set back to the economy in the long run and generate unemployment and other socio economic issues.

Table 5 - Expenditure on Salaries, Interest and Pension

No	Item	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21(RE)
I		**Amount (Rs. Crore)**					
1	Salaries & wages	23,757	28,373	32,243	32,698	33,044	29,130
2	Pension	13,063	15,277	19,938	19,012	19,064	19,412
3	Interest	11,111	12,117	15,120	16,748	19,214	20,286
	Total	47,931	55,767	67,301	68,458	71,322	68,828
II		**Percentage to Revenue Receipts**					
1	Salaries & wages	34.41	37.52	38.84	35.2	36.6	31.3
2	Pension	18.92	20.20	24.02	20.5	21.1	20.8

3	Interest	16.10	16.02	18.21	18.0	21.3	21.8
	Total	69.43	73.74	81.07	73.7	79.0	73.9

Source: Government of Kerala (2021), Economic Review 2020, Volume 1, Thiruvananthapuram: Kerala State Planning Board

The major share of revenue expenditure is accrued to the non plan expenditure, ie Salary and pension to the government employees, interest payments...etc total expenditure on the salary, pension and interest payments have been presented in the table 5.this accounts almost 75 to 80 percent of the total revenue expenditure, the impact of this huge ratio of non plan expenditure to the revenue expenditure create a severe shortage of funds for the social welfare and poverty alleviation programmes.Kerala has total staff strength of 5.15 lakh of staff including private aided staff. According to the state finance report 2017 major cause of the fiscal crisis has been the revision of salary and pensions once in five years, unnecessary extravagance expenditure...Etc.

Fiscal consolidation and growing Fiscal deficit in Kerala

Fiscal deficit and revenue deficit are the major fiscal indicators show the strength and health of the fiscal balance of the state. In recent period especially the pandemic time these signals in Kerala have turned from yellow to red are the biggest impediments and catastrophic warning. Fiscal deficit for 2021-22 is targeted at Rs 30,698 crore (3.5% of GSDP). This is higher than the 3% limit as per the FRBM Act. In 2020-21, the revised estimate for fiscal deficit is expected to be 4.25% of GSDP, higher than the budget estimate of 3% of GSDP.

Table 6- Trends in Gross Fiscal Deficit(GFD)

Year	GFD (Rs crore)	GFD as % of total expenditure	GFD as % ofGSDP
2010-11	7,731	19.9	2.38
2011-12	12,815	25.2	3.52
2012-13	15,002	25.3	3.64
2013-14	16,944	25.5	3.64
2014-15	18,642	24.2	3.64
2015-16	17,818	20.5	3.17
2016-17	26,448	25.8	4.29
2017-18	26,838	24.3	3.83
2018-19	26,958	22.5	3.42
2019-20	23,837	20.8	2.79
2020-21(RE)	34,949	27.2	4.25

RE: Revised Estimate,Source: Government of Kerala (2021), Economic Review 2020, Volume 1, Thiruvananthapuram: Kerala State Planning Board

Revised estimate of the trend in gross fiscal deficit shows for the year 2020-21 around 4.25 percent which is alarming for state like Kerala where own sources of revenue ie taxes and taxes revenue is minimal. 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.

Table 7- Trends in Public Debt

Year	Public debt(Rs Crore)	Rate of growth (%)	Debt/GSDP(%)
2010-11	78,673	10.9	24.24

2011-12	89,418	13.7	24.56
2012-13	1,03,561	15.8	25.12
2013-14	1,19,009	14.9	25.59
2014-15	1,35,440	13.8	26.42
2015-16	1,57,370	16.2	28.00
2016-17	1,86,453	18.5	30.25
2017-18	2,10,762	13.03	30.69
2018-19	2,35,731	11.85	30.16
2019-20	2,60,336	10.44	30.46
2020-21(RE)	2,96,916	14.05	36.12

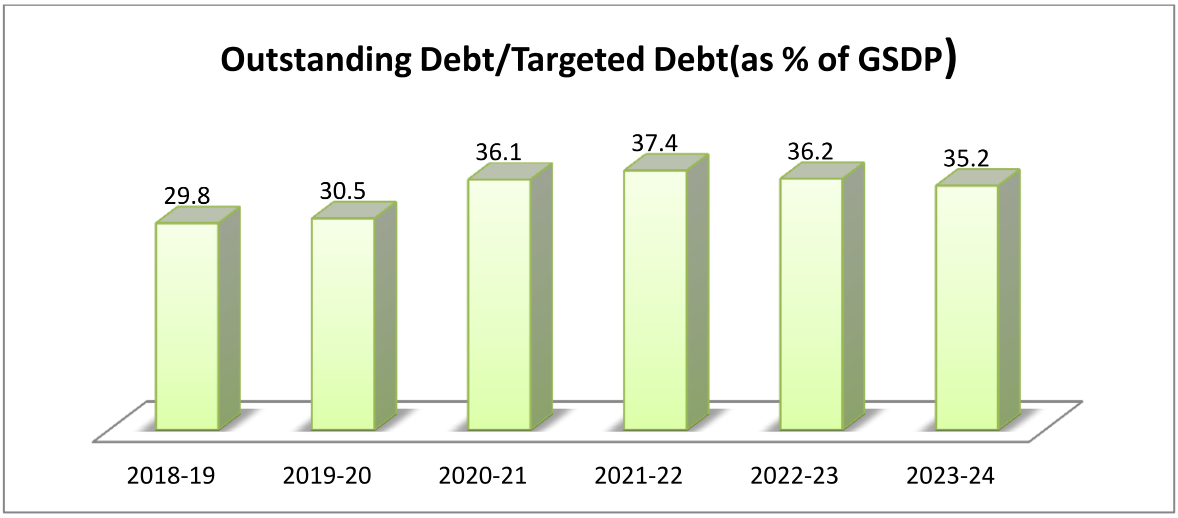
RE: Revised Estimate Source: Government of Kerala (2021),

Economic Review 2020, Volume 1, Thiruvananthapuram: Kerala State Planning Board Ever growing public debt to the GSDP is huge threat to the Kerala economy today and tomorrow. Table 7 clearly indicates year increasing trend of the public debt. It is around 3 lacks and for the year debt ratio to the GSDP is 36.12 Percent which is huge and hindrance to the fiscal consolidation of the state economy. Outstanding debt is the accumulation of total borrowings at the end of a financial year. In 2021-22, the outstanding debt is expected to be 37.4% of the GSDP, higher than the revised estimate for 2020-21 (36.1% of GSDP).

Table 8- Outstanding/Targeted Debt

Year	Outstanding/Targeted Debt(as % of GSDP)
2018-19	29.8
2019-20	30.5
2020-21	36.1
2021-22	37.4
2022-23	36.2
2023-24	35.2

Source: Kerala Economic Review 2021



Debt of the State comprises of internal debt, loans and advances from the Central Government and liabilities on account of Small Savings and Provident Fund Deposits. During the last five years market borrowings and accretions in Small Savings and Provident Fund Deposits are the main sources of the State Government to finance the fiscal deficit. Outstanding debt liabilities of the State at the end of 2019-20 were ₹2,60,311.37 crore. The annual growth rate of debt decreased to 10.47 per cent in 2019-20 from 11.80 per cent in 2018-19. The Debt-GSDP ratio in 2012-13 was 25.12 per cent. In 2019-20 it stood at 30.46 per cent. The share of internal debt in the total debt liabilities of the State was 64.08 per cent in 2018-19. Outstanding internal debt increased to ₹1,65,960.04 crore in 2019-20 from₹1,50,991.04 crore in 2018-19.

III. CONCLUSION

Currently Kerala is facing an acute fiscal crisis; virtually the borrowing permitted by the central government is just enough to meet the essential revenue expenditure. Poor resource mobilization, Unsound fiscal policy, wretched fiscal management, absence of growth in the productive sectors, no visible improvement in the own tax revenue etc are the major reasons for this fiscal crisis in the state. Ever growing public debt to the GSDP is another huge challenge to the Kerala economy today, It is around 3 lacks crore is the total debt of the Kerala, and debt ratio to the GSDP is 36.12 Percent which is massive and make hindrance to the fiscal consolidation of the state economy. Revised estimate of the trend in gross fiscal deficit shows for the year 2020-21 around 4.25 percent which is alarming for state like Kerala where own sources of revenue i,e taxes and taxes revenue is minimal. In Kerala Revenue Expenditure accounts for about 89 to 93% of Total Expenditure which shows the paucity of funds for infrastructure augmentation in the future. on the other hand state own revenues including tax and non tax revenues share total receipts are continuously declining over the period. All these may create destructive impact on the sustainability of the economy. Only visionary meaningful fiscal consolidation policies from the part of the state government would prevent the economy from the deep fiscal collapse.

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