

# Kerala Budget Analysis 2018-19

The Finance Minister of Kerala, Dr. T.M. Thomas Issac, presented the Budget for financial year 2018-19 on February 2, 2018.

## Budget Highlights

- The **Gross State Domestic Product** of Kerala for 2018-19 (at current prices) is estimated to be Rs 7,72,894 crore. This is 12.6% higher than the revised estimates for 2017-18. Note that the GSDP in 2017-18 is expected to be 8.2% lower than what was estimated at the budget stage.
- **Total expenditure** for 2018-19 is estimated to be Rs 1,27,093 crore, a 14.1% increase over the revised estimate of 2017-18. In 2017-18, the revised estimates indicate that the expenditure is expected to be Rs 8,250 crore (6.9%) lower than the budget estimate.
- **Total receipts (excluding borrowings)** for 2018-19 are estimated to be Rs 1,03,136 crore, an increase of 16.4% as compared to the revised estimates of 2017-18. In 2017-18, total receipts fell short of the budgeted estimate by Rs 5,269 crore.
- **Revenue deficit** for the next financial year is targeted at Rs 12,860 crore, or 1.7% of the state Gross Domestic Product (GDP). **Fiscal deficit** is targeted at Rs 23,957 crore (3.1% of state GDP).
- Departments of Rural Development, Compensation to Local Bodies, Agriculture, and Welfare of Schedule Castes and Schedule Tribes saw the highest increase in allocations.

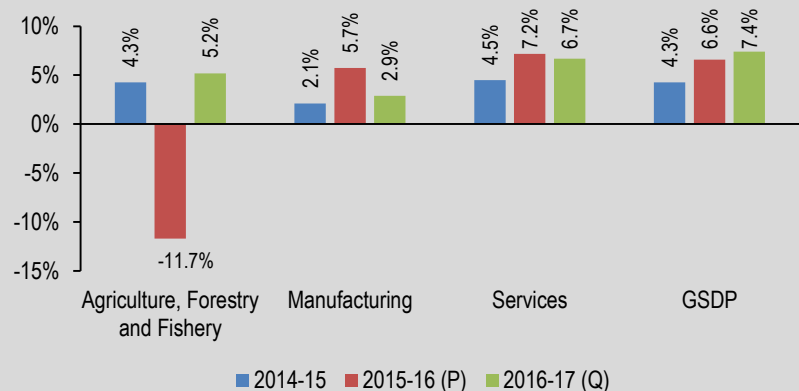
## Policy Highlights

- **Kerala Infrastructure Investment Fund Board (KIIFB):** Proposals amounting to Rs 20,000 crore (37%) out of around Rs 54,000 crore under KIIFB have been sanctioned.
- **Healthcare:** Resources for the Comprehensive Health Care Scheme of the government will be mobilised through Kerala Lottery. Rs 1,686 crore will be spent on public health services.
- **Disaster Management:** In light of cyclone Ockhi, a comprehensive coastal development package worth Rs 2,000 crore has been announced. For adoption of protective measures along the coastal belt of the state, Rs 300 crore has been sanctioned from KIIFB.
- **Registration and Stamp Duty:** A stamp duty of Rs 1,000, or 0.25% of the sale value, whichever is higher, will be charged. Rate of land tax will be modified. Existing fair value of land will be increased by 10%.
- **Transport:** Kerala State Road Transport Corporation will be revived. Loans amounting to Rs 3,500 crore will be made available at low interest rates. Funds will be made available to purchase 2,000 new buses.
- **Drinking Water:** A Water Authority Innovation Zone will be started to address issues of distribution of drinking water and waste water treatment. Revamping of the Kerala Water Authority will be undertaken.

## Kerala Economy

- **Economic growth:** The Gross State Domestic Product (GSDP) of Kerala grew from 4.3% in 2014-15 to 7.4% in 2016-17.
- **Sectoral growth:** Services sector has the maximum contribution (63.1%) to GSDP. Manufacturing and agriculture contribute 25.6% and 11.3% to GSDP, respectively.
- **Unemployment in Kerala:** Among major states, Kerala has the highest unemployment rate of 12.5% as against the all India level of 5%.

Figure 1: Growth in GSDP and sectors (2011-12 prices)



Note: Estimates for 2015-16 are provisional and 2016-17 are quick estimates.  
Sources: Kerala Economic Review 2017; PRS.

## Budget Estimates for 2018-19

- The total expenditure in 2018-19 is targeted at Rs 1,27,093 crore. This is 14% higher than the revised estimates of 2017-18. This expenditure is proposed to be met through receipts (other than borrowings) of Rs 1,03,136 crore and borrowings of Rs 23,881 crore.
- In 2017-18, revised estimates of total expenditure were 6.9% lower (Rs 8,250 crore) than the budget estimates.
- Total receipts for 2018-19 (other than borrowings) are expected to be 16.4% higher than the revised estimates of 2017-18.

**Table 1: Budget 2018-19 - Key figures (Rs crore)**

Items	2016-17 Actuals	2017-18 Budgeted	2017-18 Revised	% change from BE 2017-18 to RE of 2017-18	2018-19 Budgeted	% change from RE 2017-18 to BE 2018-19
<b>Total Expenditure</b>	<b>1,02,383</b>	<b>1,19,602</b>	<b>1,11,352</b>	-6.9%	<b>1,27,093</b>	14.1%
A. Borrowings*	26,440	25,279	22,082	-12.6%	23,881	8.2%
B. Receipts (except borrowings)	75,934	93,846	88,577	-5.6%	1,03,136	16.4%
<b>Total Receipts (A+B)</b>	<b>1,02,374</b>	<b>1,19,124</b>	<b>1,10,659</b>	<b>-7.1%</b>	<b>1,27,018</b>	<b>14.8%</b>
<b>Revenue Deficit</b>	-15,485	-16,043	-13,080	-18.5%	-12,860	-1.7%
As % of state GDP	-2.5%	-2.1%	-1.9%	-	-1.7%	-
<b>Fiscal Deficit</b>	-26,448	-25,756	-22,774	-11.6%	-23,957	5.2%
As % of state GDP	-4.3%	-3.4%	-3.3%	-	-3.1%	-
<b>Primary Deficit</b>	-14,332	-12,124	-9,248	-23.7%	-9,019	-2.5%
As % of state GDP	-2.3%	-1.6%	-1.3%	-	-1.2%	-

Notes: BE is Budget Estimate; RE is Revised Estimate. '-' sign indicates deficit; '+' indicates surplus.

Sources: Kerala Budget Documents 2018-19; PRS.

## Expenditure in 2018-19

- **Capital expenditure** for 2018-19 is proposed to be Rs 11,432 crore, which is an increase of 14.3% over the revised estimates of 2017-18. This includes expenditure which affects the assets and liabilities of the state, and leads to creation of assets (such as bridges and hospital), and repayment of loans, among others.
- **Revenue expenditure** for 2018-19 is proposed to be Rs 1,15,661 crore, which is an increase of 14.1% over revised estimates of 2017-18. This expenditure includes payment of salaries, maintenance, etc. Note that in 2017-18, Kerala's revenue expenditure was 7.6% lower than its budget estimates, while the capital expenditure was marginally higher (0.3%).
- In 2018-19, Kerala is expected to spend Rs 29,770 crore on servicing its debt (i.e., Rs 14,832 crore on repaying loans, and Rs 14,938 crore on interest payments). This is 15.6% higher than the revised estimates of 2017-18.

In 2018-19, the state aims to spend Rs 32,996 crore on salaries and Rs 18,221 crore on providing pensions. Expenditure on both these heads constitutes 44% of the revenue expenditure.

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

Item	2016-17 Actuals	2017-18 Budgeted	2017-18 Revised	% change from BE 2017-18 to RE 2017-18	2018-19 Budgeted	% change from RE 2017-18 to BE 2018-19
Capital Expenditure	11,286	9,974	10,005	0.3%	11,432	14.3%
Revenue Expenditure	91,096	1,09,628	1,01,346	-7.6%	1,15,661	14.1%
<b>Total Expenditure</b>	<b>1,02,383</b>	<b>1,19,602</b>	<b>1,11,352</b>	<b>-6.9%</b>	<b>1,27,093</b>	<b>14.1%</b>
A. Debt Repayment	7,706	13,606	12,228	-10.1%	14,832	21.3%
B. Interest Payments	12,117	13,632	13,526	-0.8%	14,938	10.4%
<b>Debt Servicing (A+B)</b>	<b>19,823</b>	<b>27,238</b>	<b>25,754</b>	<b>-5.4%</b>	<b>29,770</b>	<b>15.6%</b>

Note: Capital expenditure includes: (i) spending that creates assets, (ii) repayments on the loans taken by the government, and (iii) loans provided by the government.

Sources: Kerala Budget Documents 2018-19; PRS.

## Sector expenditure in 2018-19

The departments listed below account for **49%** of the total budgeted expenditure of Kerala in 2018-19. A comparison of Kerala's expenditure on key sectors with 18 other states can be found in the [Annexure](#).

**Table 3: Department-wise expenditure for Kerala Budget 2018-19 (Rs crore)**

Department	2016-17 Actuals	2017-18 Budgeted	2017-18 Revised	2018-19 Budgeted	% change from RE 2017-18 to BE 2018-19	Budget provisions for 2018-19
Education, Sports, Art and Culture	17,574	20,206	19,182	20,889	8.9%	<ul style="list-style-type: none"> <li>Rs 970 crore will be spent on school education. Approximately Rs 320 crore will be spent on mid-day meals programmes.</li> <li>Rs 290 crore is expected to be spent on secondary education under the Rashtriya Madhyamik Shiksha Abhiyan.</li> <li>Rs 106 crore will be spent on higher secondary education.</li> </ul>
Compensation and assignments to local bodies	5,497	8,247	6,013	9,129	51.8%	<ul style="list-style-type: none"> <li>Rs 7,000 crore will be spent on local governance institutions.</li> <li>19% of the allocated budget will be used for creation of capital assets in local bodies.</li> </ul>
Medical and Public Health	5,489	6,314	6,304	6,727	6.7%	<ul style="list-style-type: none"> <li>Rs 837 crore is expected to be spent under the National Health Mission.</li> <li>Rs 248 crore will be used to set up 11 medical colleges, five dental colleges, and six nursing colleges.</li> </ul>
Public Works	5,311	5,280	5,395	5,580	3.4%	<ul style="list-style-type: none"> <li>Rs 1,454 will be spent on construction of roads and bridges. 155 dilapidated bridges and culverts will be renovated over the next five years.</li> <li>42 new rail over bridges will be constructed.</li> </ul>
Social Security and Welfare	5,360	4,428	5,886	4,677	-20.5%	<ul style="list-style-type: none"> <li>Rs 200 crore has been allocated to Kudumbashree, the state poverty eradication mission of Kerala government.</li> <li>Contributory Pension Scheme will be started for those who are not eligible for Social Welfare Pension.</li> </ul>
Police	3,215	3,897	3,841	4,092	6.5%	<ul style="list-style-type: none"> <li>97% of the budgeted funds will be spent on revenue expenditure. Remaining 3% will be utilized for capital creation.</li> <li>Rs 160 crore has been allocated to modernize the police department.</li> </ul>
Rural Development	811	3,879	1,087	3,871	256.1%	<ul style="list-style-type: none"> <li>Allocation to rural development has seen the largest increase among all departments.</li> </ul>
Agriculture	3,307	3,558	3,435	3,979	15.8%	<ul style="list-style-type: none"> <li>A Farmer's Welfare Fund Board will be constituted.</li> <li>Rs 87 crore will be spent on development of vegetable cultivation. Rs 60 crore has been marked as subsidy under Rashtriya Krishi Vikas Yojana. Rs 54 crore will be spent on improving crop health and Rs 50 crore will be spent on development of coconut.</li> </ul>
Welfare of SC/ ST	2,825	3,308	3,006	3,234	7.6%	<ul style="list-style-type: none"> <li>The largest component under the Special Component Plan (SCP) for SCs and Tribal Sub Plan (TSP) for STs is housing, with a share of 23% and 29% respectively.</li> <li>An amount of Rs 464 crore in SCP and Rs 119 crore in TSP is provided for education.</li> </ul>
<b>% of total expenditure</b>	<b>47%</b>	<b>49%</b>	<b>49%</b>	<b>49%</b>		

Note: All amounts are net numbers.

Source: Kerala Budget Documents and Budget Speech 2018-19; PRS.

## Receipts in 2018-19

- The **total revenue receipts** for 2018-19 are estimated to be Rs 1,02,801 crore, an increase of 16.5% over the revised estimates of 2017-18. Of this, Rs 72,860 crore (71% of the revenue receipts) will be raised by the state through its **own resources**, and Rs 29,942 crore (29% 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 14,271 crore through non-tax sources in 2018-19. The estimated increase of 21.7% in non-tax revenue will be driven by receipts from state lotteries. In 2018-19, state lotteries have been budgeted to contribute Rs 11,110 crore.

In 2017-18, government revenue receipts are estimated to be 5.7% (Rs 5,318 crore) less than the budgeted estimates. This decrease is driven by a decline of 8.6% (Rs 4,588 crore) in tax revenue collection, the largest component of the state's revenue (57%).

There has also been an under-collection of revenue on account of state lotteries. In 2017-18, Rs 9,196 crore was estimated to be received under state lotteries. This has been revised down to Rs 8,914 crore.

**Table 4: Break up of state government receipts (Rs crore)**

Item	2016-2017 Actuals	2017-2018 Budgeted	2017-18 Revised	% change from BE 2017-18 to RE 2017-18	2018-2019 Budgeted	% change from RE 2017-18 to BE 2018-19
State's Own Tax	42,176	53,411	48,823	-8.6%	58,588	20.0%
State's Own Non-Tax	9,700	12,038	11,729	-2.6%	14,271	21.7%
Share in Central Taxes	15,225	16,892	16,892	0.0%	19,932	18.0%
Grants-in-aid from Centre	8,510	11,244	10,823	-3.7%	10,009	-7.5%
<b>Total Revenue Receipts</b>	<b>75,612</b>	<b>93,585</b>	<b>88,267</b>	<b>-5.7%</b>	<b>1,02,801</b>	<b>16.5%</b>
Borrowings	26,440	25,279	22,082	-12.6%	23,881	8.2%
Other receipts	322	261	310	18.9%	335	8.0%
<b>Total Capital Receipts</b>	<b>26,763</b>	<b>25,540</b>	<b>22,392</b>	<b>-12.3%</b>	<b>24,217</b>	<b>8.1%</b>
<b>Total Receipts</b>	<b>1,02,374</b>	<b>1,19,124</b>	<b>1,10,659</b>	<b>-7.1%</b>	<b>1,27,018</b>	<b>14.8%</b>

\*includes additional resource mobilisation.

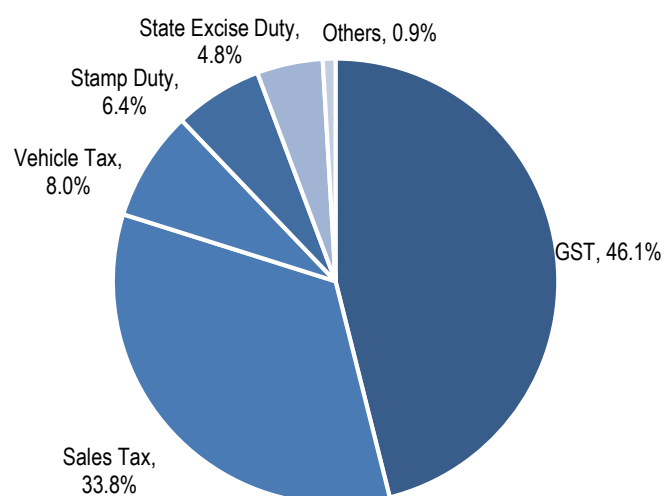
Sources: Kerala Budget Documents 2018-19; PRS.

- **Tax Revenue:** Total own tax revenue of Kerala is estimated to be Rs 58,588 crore in 2018-19. The composition of the state's tax revenue is shown in Figure 2. The tax to GSDP ratio is targeted at 7.6% in 2018-19, which is higher than the revised estimate of 7.1% in 2017-18.

The state is expected to get additional tax revenue of Rs 60 crore through increased tax on alcohol.

Vehicles owners with vehicles registered in Puducherry but using them in Kerala can pay tax to the state by April 2018 and get themselves exempted from legal proceedings. Through this measure, the government expects to generate Rs 100.

**Figure 2: Composition of Tax Revenue in 2018-19 (BE)**



- GST is expected to be the largest component of Kerala's tax revenue. State GST is expected to contribute Rs 27,000 crore. Out of this amount, transfer-in from IGST is expected to be Rs 13,035 crore.
- Sales tax is the second largest component of tax revenue of the state. Sales tax is expected to generate Rs 19,791 crore in 2018-19. This is an increase of 13% from the revised estimates of 2017-18.
- Further, the government is expected to generate Rs 4,683 crore through taxes on vehicles. This is an increase of 24.7% over the revised estimates of 2017-18.
- Stamp Duty will contribute Rs 3,766 crore, an increase of 13%, over the revised estimates of 2017-18. About 1% of the tax revenue will be generated through land revenue, levy of electricity tax, etc.

## Deficits, Debts and FRBM Targets for 2018-19

The Kerala Fiscal Responsibility and Budget Management (FRBM) Act, 2003 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.

Debt as a percentage of GSDP has been increasing over the past few years. It has gone up from 25.6% in 2013-14 to 30.2% in 2016-17.

The budget estimates a revenue deficit of Rs 12,860 crore (1.7% of GSDP) in 2018-19. This implies that revenue receipts are expected to be lower than the revenue expenditure, resulting in a deficit. The 14<sup>th</sup> Finance Commission had recommended that states should eliminate revenue deficits. The estimates in the Kerala Budget 2018-19 suggest that the state will not be meeting this target of eliminating revenue deficit.

**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 2018-19, fiscal deficit is estimated to be Rs 23,957 crore, which is 3.1% of the GSDP. The estimate exceeds the 3% limit prescribed by the 14<sup>th</sup> Finance Commission. While setting the 3% target, the Finance Commission has recommended that 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 2018-19, the outstanding liabilities are expected at 30.7% of the GSDP.

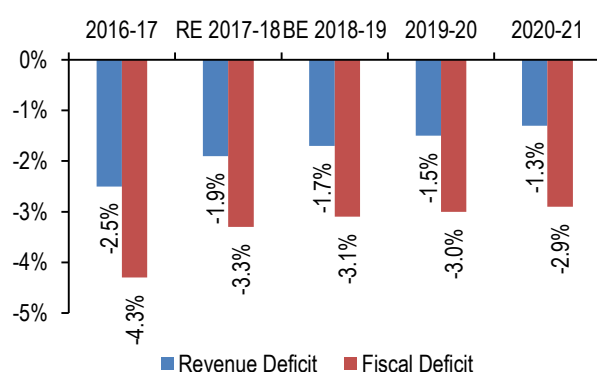
**Table 5: Budget targets for deficits for Kerala in 2018-19 (% of GSDP)**

Year	Revenue Deficit (-)/Surplus (+)	Fiscal Deficit (-)/Surplus (+)	Outstanding Liabilities
2016-17	-2.5%	-4.3%	30.2%
RE 2017-18	-1.9%	-3.3%	30.7%
BE 2018-19	-1.7%	-3.1%	30.7%
2019-20	-1.5%	-3.0%	30.1%
2020-21	-1.3%	-2.9%	29.7%

Sources: Kerala Budget Documents 2018-19; PRS.

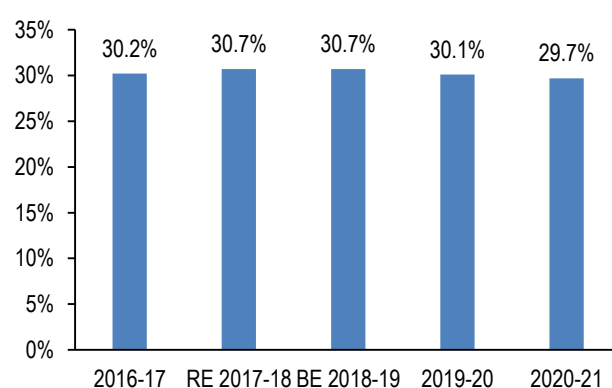
Figures 3 and 4 show the trend in deficits and outstanding liabilities targets from 2016-17 to 2020-21.

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



Note: Figures for 2019-20 and 2020-21 are projections.  
Sources: Kerala Budget Documents; PRS.

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



Note: Figures for 2019-20 and 2020-21 are projections.  
Sources: Kerala Budget Documents; PRS.

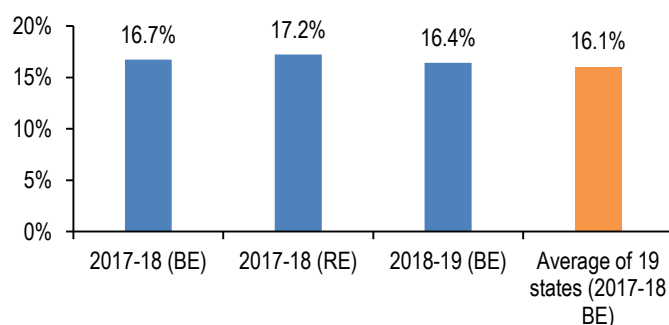
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## Annexure

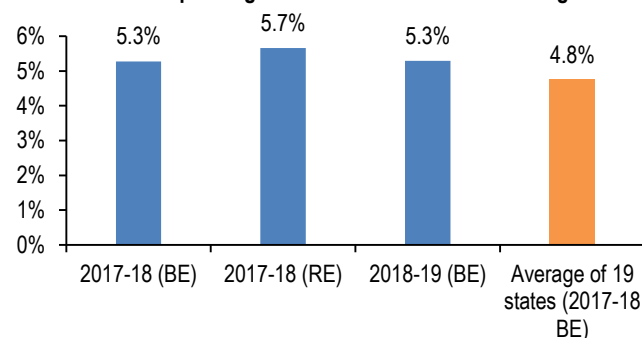
The graphs below compare Kerala's expenditure on four key sectors as a proportion of its total budget, with 18 other states.<sup>1</sup>

- **Education:** Kerala has allocated 16.4% on education in 2018-19. This is marginally higher than the average expenditure allocated to education by 18 other states (using 2017-18 BE).
- **Health:** Kerala has allocated 5.3% of its total expenditure on health, which is higher than the average expenditure of 18 other states.
- **Agriculture and allied activities:** The state has allocated 5.7% of its total budget on agriculture and allied activities. This is lower than the allocations of 18 other states (6.4%).
- **Rural development:** Kerala has allocated 3.5% of its expenditure on rural development. This is significantly lower than the average (5.6%) of the 18 other states.

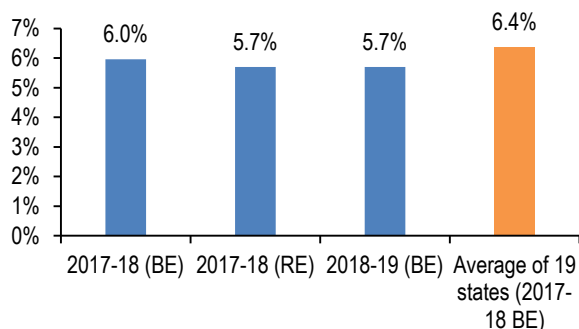
**Kerala's spending on education as a % of its total budget**



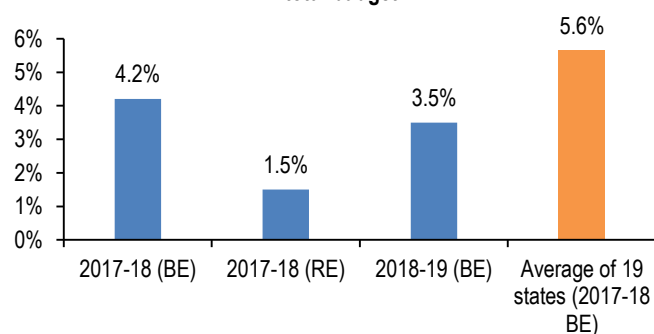
**Kerala's spending on health as a % of its total budget**



**Kerala's spending on agriculture as a % of its total budget**



**Kerala's spending on rural development as a % of its total budget**



Note: 2017-18 (BE), 2017-18 (RE), and 2018-19 (BE) figures are for the state of Kerala.

Source: Annual Financial Statement (2017-18 and 2018-19), various state budgets; PRS.

<sup>1</sup> The 18 states apart from Kerala are: Andhra Pradesh, Assam, Bihar, Chhattisgarh, Delhi, Gujarat, Haryana, Jammu and Kashmir, Karnataka, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh, and West Bengal.