

Kerala Budget Analysis 2020-21

The Finance Minister, Dr. T. M. Thomas Isaac, presented the Budget for Kerala for financial year 2020-21 on February 7, 2020.

Budget Highlights

- The **Gross State Domestic Product** of Kerala for 2020-21 (at current prices) is projected to be Rs 9,78,064 crore. This is 12.2% higher than the revised estimate for 2019-20.
- **Total expenditure** for 2020-21 is estimated to be Rs 1,44,265 crore, a 14.8% increase over the revised estimate of 2019-20. In 2019-20, total expenditure is estimated to decrease by 11.5% (Rs 16,337 crore) from the budget estimates.
- **Total receipts (excluding borrowings)** for 2020-21 are estimated to be Rs 1,14,970 crore, an increase of 15.6% as compared to the revised estimate of 2019-20. In 2019-20, total receipts (excluding borrowings) are estimated to fall short of the budgeted estimate by Rs 16,233 crore (14% of the budgeted estimate).
- **Revenue deficit** for 2020-21 is targeted at Rs 15,201 crore, or 1.6% of the Gross State Domestic Product (GSDP). **Fiscal deficit** is targeted at Rs 29,295 crore (3% of GSDP).
- In 2020-21, the sectors of Water Supply, Sanitation, Housing and Urban Development, Rural Development and Social Welfare and Nutrition saw the highest increase in allocations over the revised estimate of previous year.

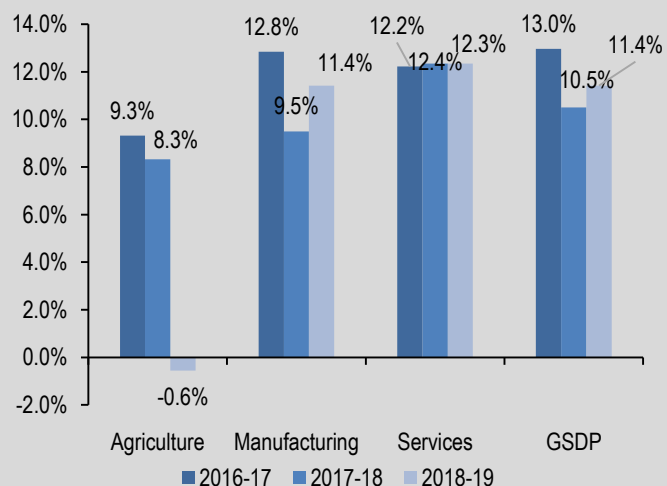
Policy Highlights

- **Tax proposals:** The tax rate on motorcycles (value upto Rs 2 lakh) will be increased by 1% and on motor cars (of value upto Rs 15 lakh) will be increased by 2%. Electric auto-rickshaws will be exempted from tax for the first five years. The fair value of land fixed by the government will be increased by 10%. The Registration Act will be amended to make registration of title deeds compulsory.
- **Infrastructure:** Dyuthi scheme worth Rs 4,000 crore is envisaged for renovation of distribution lines. 500 Mega Watt of installed capacity will be created from solar power stations. One lakh houses/flats will be constructed under Life Mission in 2020-21.
- **Education and employment:** Local Employment Assurance Programme (LEAP) will be started to give employment to 1.5 lakh people per year through local self-government institutions. A program for the renovation of laboratories in all government colleges will be implemented in 2020-21. 60 new courses for higher education are to be sanctioned. Solar units will be installed in all schools.

Kerala's Economy

- **GSDP:** The growth rate of Kerala's GSDP (at current prices) has increased from 10.3% in 2017-18 to 11.6% in 2018-19.
- **Sectors:** In 2018-19, agriculture, manufacturing, and services contributed to 11%, 25% and 64% of the GSVA. These sectors grew by -0.6%, 11.6% and 12.6%, respectively.
- **Per capita income:** The per capita GSDP of Kerala in 2018-19 (at current prices) was Rs 2,25,484. This is 11% higher than that in 2017-18.
- **Unemployment:** According to the annual report of the Periodic Labour Force Survey (2017-18), Kerala has one of the highest unemployment rates at 11.4% as compared to the all-India unemployment rate of 6.1%.

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



Sources: Kerala Economic Review 2019; PRS.
Note: All numbers are as per current prices. Numbers for 2018-19 are quick estimates from the Kerala Economic Review 2019.

Budget Estimates for 2020-21

- The total expenditure in 2020-21 is targeted at Rs 1,44,265 crore. This is 14.8% higher than the revised estimates of 2019-20. This expenditure is proposed to be met through receipts (other than borrowings) of Rs 1,14,970 crore and borrowings of Rs 29,242 crore. Total receipts for 2020-21 (other than borrowings) are expected to be 15.6% higher than the revised estimate of 2019-20.

Table 1: Budget 2020-21 - Key figures (in Rs crore)

Items	2018-19 Actuals	2019-20 Budgeted	2019-20 Revised	% change from BE 2019-20 to RE 2019-20	2020-21 Budgeted	% change from RE 2019-20 to BE 2020-21
Total Expenditure	1,20,070	1,41,980	1,25,643	-11.5%	1,44,265	14.8%
A. Receipts (except borrowings)	93,112	1,15,690	99,457	-14.0%	1,14,970	15.6%
B. Borrowings	26,985	26,265	25,886	-1.4%	29,242	13.0%
Total Receipts (A+B)	1,20,096	1,41,955	1,25,343	-11.7%	1,44,212	15.1%
Revenue Deficit	17,462	8,770	17,474	99.2%	15,201	-13.0%
As % of GSDP	2.23%	1.00%	2.01%		1.55%	
Fiscal Deficit	26,958	26,291	26,186	-0.4%	29,295	11.9%
As % of GSDP	3.45%	3.00%	3.00%		3.00%	
Primary Deficit	10,210	9,089	7,752	-14.7%	9,445	21.8%
As % of GSDP	1.31%	1.04%	0.89%		0.97%	

Notes: BE is Budget Estimate; RE is Revised Estimate. GSDP for 2020-21 is Rs 9,78,064 crore. GSDP for 2019-20 BE and 2019-20 RE taken to be Rs 8,75,514 crore, and Rs 8,71,534 crore respectively.

Sources: Kerala Budget Documents 2020-21; PRS.

Expenditure in 2020-21

- Capital expenditure** for 2020-21 is proposed to be Rs 14,428 crore, which is an increase of 58.1% over the revised estimates of 2019-20.
- 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 2020-21 is estimated to be Rs 12,913 crore, which is 61% higher than the revised estimate of 2019-20. The capital outlay towards water supply, sanitation, housing and urban development is estimated to increase by Rs 912 crore (an increase of 261%) from the revised estimates of 2019-20. The revised estimate for capital outlay is 50% lower compared to the budget estimate for the year 2019-20.
- Revenue expenditure** for 2020-21 is proposed to be Rs 1,29,837 crore, which is an increase of 11.4% over revised estimates of 2019-20. This expenditure includes payment of salaries, interest payments etc.

Grants to Local Governments

The state government provides compensation and assignments to local bodies and Panchayati Raj institutions. In 2020-21, this amount is estimated to be Rs 9,758 crore. This is a 16% increase over the revised estimates of 2019-20.

Table 2: Expenditure budget 2020-21 (in Rs crore)

Items	2018-19 Actuals	2019-20 Budgeted	2019-20 Revised	% change from BE 2019-20 to RE 2019-20	2020-21 Budgeted	% change from RE 2019-20 to BE 2020-21
Capital Expenditure	9,753	17,855	9,126	-48.9%	14,428	58.1%
of which Capital Outlay	7,431	16,269	8,013	-50.7%	12,913	61.1%
Revenue Expenditure	110,316	124,125	116,517	-6.1%	129,837	11.4%
Total Expenditure	120,070	141,980	125,643	-11.5%	144,265	14.8%
A. Debt Repayment	18,196	17,739	43,735	146.5%	24,878	-43.1%
B. Interest Payments	16,748	17,201	18,435	7.2%	19,850	7.7%
Debt Servicing (A+B)	39,944	34,940	62,169	77.9%	44,728	-28.1%

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

Sources: Kerala Budget Documents 2020-21; PRS.

Sectoral expenditure in 2020-21

The sectors listed below account for **48%** of the total budgeted expenditure of Kerala in 2020-21. 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 2020-21 (in Rs crore)

Sector	2018-19 Actuals	2019-20 Budgeted	2019-20 Revised	2020-21 Budgeted	% change from RE 2019-20 to BE 2020-21	Budget provisions for 2020-21
Education	19,441	21,089	19,275	20,862	8.2%	<ul style="list-style-type: none"> Rs 4,268 crore has been allocated as assistance to non-government primary schools. Rs 2,337 crore has been allocated for government primary schools.
Health and Family Welfare	7,099	7,227	7,186	7,856	9.3%	<ul style="list-style-type: none"> Rs 2,440 crore has been allocated for urban health services and Rs 945 has been allocated for rural health services.
Social Welfare and Nutrition	3,785	4,022	3,816	7,501	96.6%	<ul style="list-style-type: none"> Rs 1,308 has been allocated for child welfare.
Agriculture and allied activities	6,787	7,980	6,421	7,407	15.4%	<ul style="list-style-type: none"> Rs 1,672 crore has been allocated for crop husbandry and Rs 607 crore has been allocated towards agricultural research and education.
Rural Development	1,939	6,674	3,273	6,389	95.2%	<ul style="list-style-type: none"> Rs 3,845 crore has been allocated towards the Mahatma Gandhi National Rural Employment Guarantee Programme.
Transport	4,728	7,142	5,878	5,885	0.1%	<ul style="list-style-type: none"> Rs 1,251 crore has been allocated towards Road Transport.
Water Supply, Sanitation, Housing and Urban Development	2,203	3,712	1,948	3,928	101.6%	<ul style="list-style-type: none"> Rs 720 crore has been allocated for AMRUT scheme and Rs 400 crore towards Smart City Mission.
Police	3,589	3,991	3,675	3,781	2.9%	<ul style="list-style-type: none"> Rs 108 crore has been allocated towards the modernisation of police.
Welfare of SC/ ST/OBC and Minorities	2,732	3,266	2,167	3,045	40.5%	<ul style="list-style-type: none"> Rs 300 and Rs 140 crore has been allocated for housing scheme for homeless SCs and STs respectively.
Irrigation and Flood Control	848	1,141	762	1,167	53.1%	<ul style="list-style-type: none"> Capital outlay of Rs 256 crore has been allocated for flood control projects in the state.
% of total expenditure	45%	47%	44%	48%		

Source: Kerala Budget Documents 2020-21; PRS.

Committed expenditure: Committed expenditure of a state typically includes expenditure on payment of salaries, pensions, and interest. A larger proportion of budget allocated for committed expenditure items limits the state's flexibility to decide on other expenditure priorities such as capital investments.

In 2020-21, Kerala is estimated to spend Rs 73,845 crore on committed expenditure, i.e. payment of salaries, pensions, and interest. This is 4% higher than the revised estimate of 2019-20 (Rs 70,903 crore). These committed liabilities form 64% of the state's revenue receipts. Salaries form the highest component (45%) of the committed expenditure. This expenditure on salaries is estimated to increase by 3% in 2020-21 over the 2019-20 revised estimate.

Table 4: Committed Expenditure for the state in 2020-21 (in Rs crore)

Item	2018-19 Actuals	2019-20 Budgeted	2019-20 Revised	% change from BE 2019-20 to RE 2019-20	2020-21 Budgeted	% change from RE 2019-20 to BE 2020-21
Salaries	31,510	32,827	32,117	-2.2%	33,025	2.8%
Pensions	19,012	18,912	20,351	7.6%	20,970	3.0%
Interest Payments	16,748	17,201	18,435	7.2%	19,850	7.7%
Committed Expenditure	67,270	68,941	70,903	2.8%	73,845	4.1%

Sources: Kerala Budget Documents 2020-21; PRS.

Receipts in 2020-21

- The **total revenue receipts** for 2020-21 are estimated to be Rs 1,14,636 crore, an increase of 15.7% over the revised estimates of 2019-20. Of this, Rs 82,007 (72% of the revenue receipts) crore will be raised by the state through its **own resources**, and Rs 32,629 crore (28% of the revenue receipts) will be **devolved by the centre** in the form of grants and the state's share in centre's taxes.
- Non-Tax Revenue:** Kerala has estimated to generate Rs 15,070 crore through non-tax sources in 2020-21. Of this, Rs 11,570 crore is estimated to come from state lotteries.

15th Finance Commission (FC) recommendations for 2020-21

The 15th FC submitted its first report with recommendations for the year 2020-21. The final report with recommendations for the 2021-26 period will be submitted by October 30, 2020. As per the recommendations in the first report, the share of states in the centre's taxes will be decreased from 42% during the 2015-20 period to 41% for 2020-21 as Jammu and Kashmir is now a Union Territory.

Kerala's share in the divisible pool (out of 100) will decline from 2.50 during the 2015-20 period to 1.94 for 2020-21 (a decrease of 22%). As per the Union Budget 2020-21, Kerala is estimated to receive Rs 15,237 crore through devolution from the centre. In addition, the state will receive Rs 2,726 crore as grants for local bodies and calamity relief.

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

Items	2018-19 Actuals	2019-20 Budgeted	2019-20 Revised	% change from BE 2019-20 to RE 2019-20	2020-21 Budgeted	% change from RE 2019-20 to BE 2020-21
State's Own Tax	50,644	65,785	55,671	-15.4%	67,420	21.1%
State's Own Non-Tax	11,783	15,070	13,244	-12.1%	14,587	10.1%
Share in Central Taxes	19,038	22,798	19,000	-16.7%	20,935	10.2%
Grants-in-aid from Centre	11,389	11,702	11,128	-4.9%	11,694	5.1%
Total Revenue Receipts	92,854	1,15,355	99,043	-14.1%	1,14,636	15.7%
Borrowings	26,985	26,265	25,886	-1.4%	29,242	13.0%
Other receipts	257	335	414	23.6%	334	-19.3%
Total Capital Receipts	27,242	26,600	26,300	-1.1%	29,576	12.4%
Total Receipts	1,20,096	1,41,955	1,25,343	-11.7%	1,44,212	15.1%

Sources: Kerala Budget Documents 2020-21; PRS.

- Tax Revenue:** Total own tax revenue of Kerala is estimated to be Rs 67,420 crore in 2020-21. The own tax to GSDP ratio is targeted at 8.4% in 2020-21, which is in the same range as the revised estimate of 7.9% in 2019-20. This implies that growth in collection of taxes has been at par with the growth in the economy.

Table 5: Some of state's own-tax revenue (in Rs crore)

Items	2018-19 Actuals	2019-20 Budgeted	2019-20 Revised	% change from BE 19-20 to RE 19-20	2020-21 Budgeted	% change from RE 19-20 to BE 20-21	% of Revenue Receipts in 20-21
State GST	21,015	29,011	23,690	-18.3%	32,388	36.7%	28.3%
Sales Tax and VAT	19,226	23,948	21,148	-11.7%	23,263	10.0%	20.3%
State Excise Duty	2,521	2,984	2,610	-12.5%	2,801	7.3%	2.4%
Stamps Duty and Registration Fees	3,693	4,487	3,915	-12.8%	4,306	10.0%	3.8%
Taxes on Vehicle	3,709	4,712	3,709	-21.3%	3,968	7.0%	3.5%
Taxes and Duties on Electricity	62	177	69	-61.2%	75	10.0%	0.1%
Land Revenue	203	221	305	37.7%	376	23.5%	0.3%
GST Compensation Grants	2,884		4,721				

Sources: Kerala Budget Documents 2020-21; PRS.

- State Goods and Services Tax (SGST) is the largest component of tax revenue of the state. It is expected to generate Rs 32,388 crore in 2020-21. This is an increase of 37% from the revised estimates of 2019-20. SGST comprises 28% of revenue receipts budgeted for the year 2020-21. Rs 4,721 crore is estimated as the GST compensation grant for year 2019-20 (as per the revised estimates).
- In 2020-21, Kerala is expected to generate Rs 23,263 crore through levy of sales tax (on items such as petroleum products), and VAT. This is an increase of 10% over the revised estimates of 2019-20.
- Further, in 2020-21 the state is expected to generate Rs 4,306 crore from stamp duty and registration fees and Rs 3,968 crore from taxes on vehicles.

Deficits, Debts and FRBM Targets for 2020-21

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.

The budget estimates a revenue deficit of Rs 15,201 crore (or 1.6% of GSDP) in 2020-21. 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 2020-21 estimates for Kerala suggest that the state will not be meeting this target of eliminating revenue deficit. As per the 15th Finance Commission recommendations, in 2020-21, Kerala will receive revenue deficit grants of Rs 15,323 crore to eliminate its revenue deficit.

In 2020-21, Kerala is expected to spend Rs 44,728 crore on servicing its debt. This is 28% lower than the revised estimates of 2019-20. This includes Rs 24,878 crore towards repaying loans, and Rs 19,850 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 2020-21, fiscal deficit is estimated to be Rs 29,295 crore, which is 3 % of the GSDP. The estimate is equal to the 3% limit as per the FRBM Act. This limit may be relaxed to a maximum of 3.5%, if the state is able to contain its debt and interest payments to certain specified levels.

Outstanding Liabilities: Outstanding liabilities is the accumulation of borrowings over the years. In 2020-21, the outstanding liabilities are expected to be 30.1% of the GSDP. The total government guarantees at the end of year 2018-19 is estimated at Rs 26,834 crore.

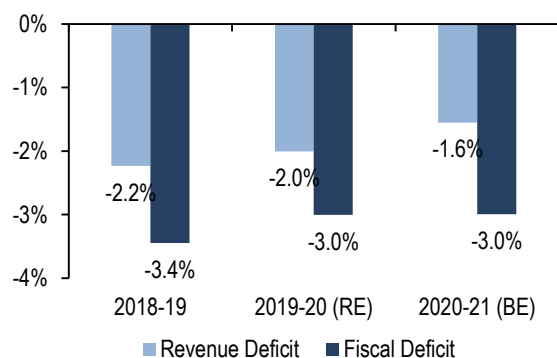
Table 6: Budget targets for deficits for Kerala in 2020-21 (% of GSDP)

Year	Revenue Deficit (-)/Surplus (+)	Fiscal Deficit (-)/Surplus (+)	Outstanding Liabilities
2018-19	-2.2%	-3.4%	30.4%
2019-20 (RE)	-2.0%	-3.0%	30.3%
2020-21 (BE)	-1.6%	-3.0%	30.1%
2021-22	-1.4%	-3.0%	29.6%
2022-23	-1.1%	-3.0%	29.2%

Sources: Kerala Budget Documents 2020-21; PRS.

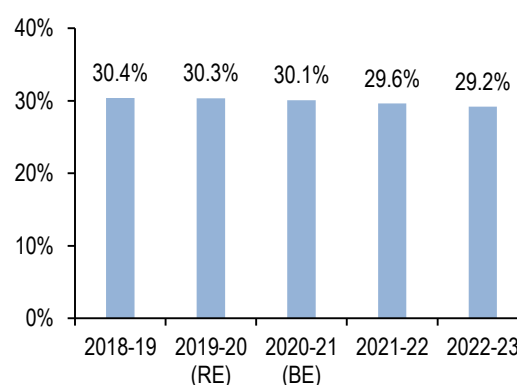
Figures 2 and 3 show the trend in deficits and outstanding liabilities targets from 2018-19 to 2022-23.

Figure 2: Revenue and Fiscal Deficit/Surplus (as % of GSDP)



Sources: Kerala Budget Documents; PRS.

Figure 3: Outstanding liabilities targets (as % of GSDP)



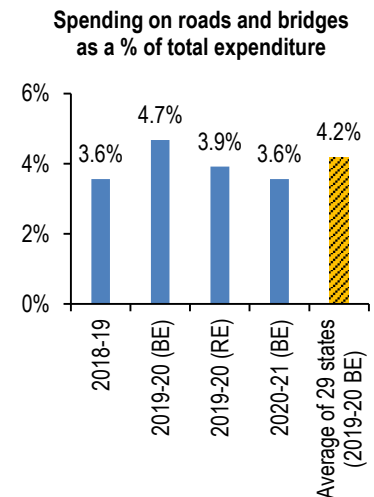
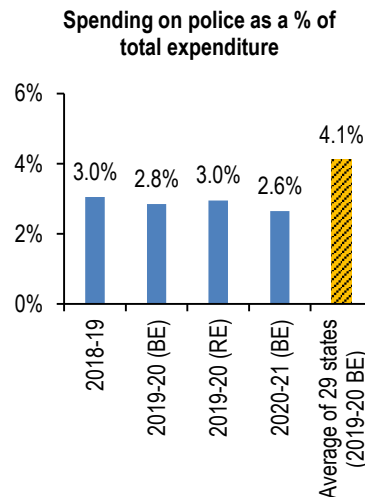
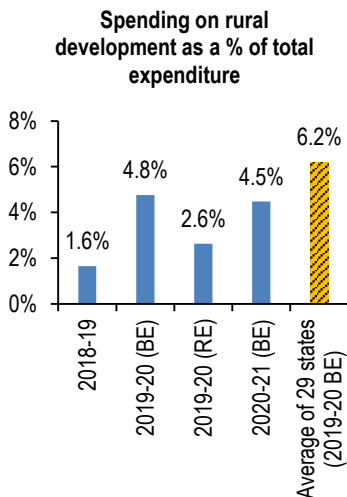
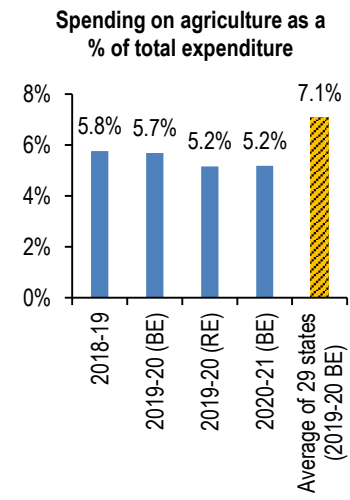
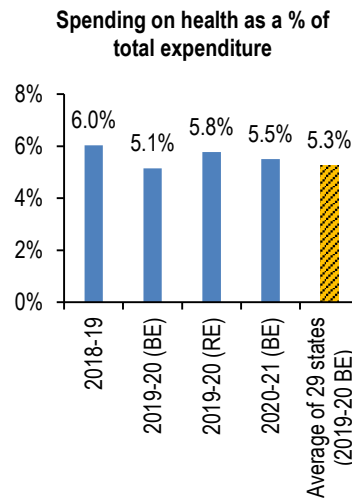
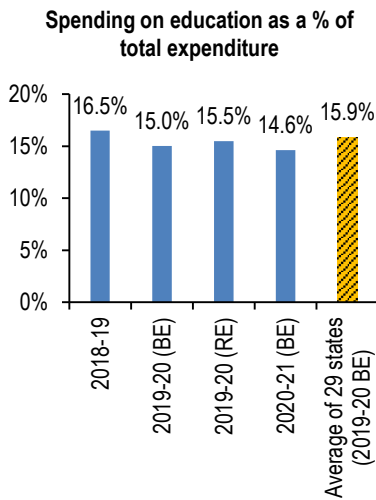
Sources: Kerala Budget Documents; PRS.

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Annexure

The graphs below compare Kerala’s expenditure on six key sectors as a proportion of its total budget, with 28 other states.¹

- **Education:** Kerala has allocated 14.6% of its expenditure on education in 2020-21. This is lower than the average budget allocation for education by 28 other states (using 2019-20 BE).
- **Health:** Kerala has allocated 5.5% of its total expenditure on health, which is marginally higher than the average expenditure of 28 other states.
- **Agriculture and allied activities:** The state has allocated 5.2% of its total budget towards agriculture and allied activities. This is lower than the allocations of 28 other states (7.1%).
- **Rural development:** Kerala has allocated 4.5% of its expenditure on rural development. This is lower than the average (6.2%) of the 28 other states.
- **Police:** Kerala has allocated 2.6% of its total expenditure on police, which is lower than the average expenditure of 28 other states (4.1%).
- **Roads and bridges:** Kerala has allocated 3.6% of its total expenditure on roads and bridges, which is lower than the average expenditure of 28 other states (4.2%).



Note: 2018-19, 2019-20 (BE), 2019-20 (RE), and 2020-21 (BE) figures are for Kerala.
 Source: Annual Financial Statement (2019-20 and 2020-21), various state budgets; PRS.

¹ The 28 other states include all states except Manipur. It includes the Union Territory of Delhi and erstwhile state of Jammu and Kashmir.

Table 7: Share of states in Centre's taxes (recommendations by 14th and 15th Finance Commission)

State	14th Finance Commission (2015-2020)		15th Finance Commission (2020-21)		% Change		Devolution for FY 2020-21 (In Rs crore)
	Share out of 42%	Share in divisible pool	Share out of 41%	Share in divisible pool	Weightage	Share in divisible pool	
Andhra Pradesh	1.81	4.31	1.69	4.11	-7%	-5%	35,156
Arunachal Pradesh	0.58	1.38	0.72	1.76	24%	28%	15,051
Assam	1.39	3.31	1.28	3.13	-8%	-5%	26,776
Bihar	4.06	9.67	4.13	10.06	2%	4%	86,039
Chhattisgarh	1.29	3.07	1.4	3.42	9%	11%	29,230
Goa	0.16	0.38	0.16	0.39	0%	3%	3,301
Gujarat	1.3	3.1	1.39	3.4	7%	10%	29,059
Haryana	0.46	1.1	0.44	1.08	-4%	-2%	9,253
Himachal Pradesh	0.3	0.71	0.33	0.8	10%	13%	6,833
Jammu and Kashmir	0.78	1.86	-	-	-	-	-
Jharkhand	1.32	3.14	1.36	3.31	3%	5%	28,332
Karnataka	1.98	4.71	1.49	3.65	-25%	-23%	31,180
Kerala	1.05	2.5	0.8	1.94	-24%	-22%	16,616
Madhya Pradesh	3.17	7.55	3.23	7.89	2%	5%	67,439
Maharashtra	2.32	5.52	2.52	6.14	9%	11%	52,465
Manipur	0.26	0.62	0.29	0.72	12%	16%	6,140
Meghalaya	0.27	0.64	0.31	0.77	15%	20%	6,542
Mizoram	0.19	0.45	0.21	0.51	11%	13%	4,327
Nagaland	0.21	0.5	0.23	0.57	10%	14%	4,900
Odisha	1.95	4.64	1.9	4.63	-3%	0%	39,586
Punjab	0.66	1.57	0.73	1.79	11%	14%	15,291
Rajasthan	2.31	5.5	2.45	5.98	6%	9%	51,131
Sikkim	0.15	0.36	0.16	0.39	7%	8%	3,318
Tamil Nadu	1.69	4.02	1.72	4.19	2%	4%	35,823
Telangana	1.02	2.43	0.87	2.13	-15%	-12%	18,241
Tripura	0.27	0.64	0.29	0.71	7%	11%	6,063
Uttar Pradesh	7.54	17.95	7.35	17.93	-3%	0%	1,53,342
Uttarakhand	0.44	1.05	0.45	1.1	2%	5%	9,441
West Bengal	3.08	7.33	3.08	7.52	0%	3%	64,301
Total	42	100	41	100			8,55,176

Sources: Report of 14th and 15th Finance Commission (Interim Report); Union Budget Documents; PRS.