



**MEDIUM TERM FISCAL POLICY &
STRATEGY STATEMENT WITH
MEDIUM TERM FISCAL
PLAN FOR KERALA**

2021-2022 to 2023-2024



Government of Kerala

2021

MEDIUM TERM FISCAL POLICY
& STRATEGY STATEMENT
WITH MEDIUM TERM FISCAL
PLAN FOR KERALA

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FINANCE DEPARTMENT



STATEMENT OF COMPLIANCE

✎ This 2021-22 Medium Term Fiscal Policy and Strategy Statement is placed before the Legislature in compliance with section 3 of the Kerala Fiscal Responsibility Act, 2003.

✎ Section 3 of the Act requires the Medium Term Fiscal Policy Statement to include the following elements all of which have been incorporated in the document.

- ✓ A Statement of recent economic trends and prospects for growth and development.
- ✓ An Assessment of sustainability relating to the revenue deficit and the use of capital receipts for generating productive assets.
- ✓ An evaluation of the performance against targets for 2019-20 and 2020-21.
- ✓ The medium term fiscal objectives of the Government.
- ✓ Three year rolling targets for fiscal indicators with specification of underlying assumptions.
- ✓ The strategic priorities and key policies of the Government.
- ✓ Policies of Government for the ensuing financial year relating to taxation, expenditure, borrowing, other liabilities etc.

FOREWORD

The World is facing an unprecedented socio-economic crisis. The World was already in the grip of economic slowdown, when the COVID-19 pandemic struck. This has exposed disparities in income and equalities in the World. Millions of jobs were lost and livelihood of people were affected. The second wave of COVID-19 and the new strains of virus continue to haunt the World with uncertainty about the recovery.

Kerala imposed lockdown from 23rd March 2020. The lockdown halted all the economic activities and mobility, inflicting hardships to the most vulnerable categories of daily wage earners, elderly people, women and children. The immediate priority of the Government was to flatten the covid curve and provide free treatment to the people. The economic stimulus package to the tune of Rs.20000 crore announced by the Government in March 2020 helped to lessen the severity of the loss caused to the economy by the pandemic by providing livelihood relief and support to the people. The economic stimulus package of Rs.5000 crore by KIIFB was also initiated.

The sign of recovery was felt with the progressive lifting of restriction from June 2020. Emerging GST collection also signaled faster than expected recovery. Uncertainty surrounds the revival of growth, with the emergence of second wave of COVID – 19 and new strains of the virus.

Governments fiscal policy is to pursue of counter cyclical measures in the medium term while continuing on the path of fiscal

consolidation. In the current context, higher public spending is essential to spur demand and revive the growth of the economy. Despite the fiscal constraints induced by the COVID -19, the State is determined to continue the path of fiscal consolidation.

I present the Medium Term Fiscal Policy and strategy Statement before the august house seeking co-operation of all.

04.06.2021

K.N Balagopal
Minister for Finance

MEDIUM TERM FISCAL FRAMEWORK

Global Economic Outlook

As per the World Economic Outlook Report published by IMF in April 2021, Global growth is projected at 6% (from 5.5% projected earlier) in 2021, moderating to 4.4% in 2022. The upward revision is on anticipation of policy support and vaccine powered growth from some large economies.

World Merchandise Trade maintained its uptrend growing by 5.4% in February 2021. Global financial markets gained buoyancy in April on vaccine optimism after volatility in February – March 2021 period.

While vaccination programs are underway across the world, global experience suggest that economic impact from second wave is smaller than the first as economies learn to operate with COVID. The resurgence of COVID – 19 and the new variants of the virus pose down side risk to global economic growth.

National Economy

The COVID – 19 pandemic caused great destructions to the Indian economy during 2020-21. The Indian economy was experiencing a slowdown prior to COVID – 19 with consecutive decline in growth in all the four quarters of 2019-20. The real GDP growth in 2019-20 was at 4%. The demonetization in 2016 and the flawed implementation of GST were some of the reasons for the drastic decline in growth prior to covid. The pandemic and resultant lock down further aggravated the economic situation.

In the middle of May 2020, Government of India unveiled a Rs.20 Lakh crore support package for the economy branding it as AatmaNirbhar Bharat Abhiyaan. The direct stimulus effect of this package was not more than 2% of GDP as thrust was given on credit expansion to business and retail borrowers.

In the 1st quarter of 2020-21, the Indian economy contracted 22.40% and this was followed by a contraction of 7.3% in 2nd quarter. With the gradual lifting of restrictions, the economy recovered faster than expected. As per Provisional estimate released by CSO on 31.05.2021, the real GDP

contracted at 7.3% in 2020-21 as against a growth rate of 4% in 2019-20 as detailed in Table.1

Table : 1

Year	GDP Growth Rate (%)	
	Current	Constant
2019-20 (1 st RE)	7.8	4
2020-21 (PE)	-3.0	- 7.3

In the Union Budget February 2021, Fiscal Deficit (FD) is estimated at 9.5% in 2020-21 RE as against 3.5% in BE 2020-21. The slippage in FD is attributed to increased borrowing by the Centre to tide over the pandemic. For the year 2021-2022, FD is projected at 6.8% and Revenue Deficit (RD) at 5.1%. The deficit trend of Union Government is as under.

Table : 2

(in %of GDP)

	RE (2020-21)	BE(2021-22)
FD	9.5	6.8
RD	7.5	5.1
PD	5.9	3.1

GST collection showed a steady growth from October 2020 onwards and touched record level of Rs.1.41 lakh crore in April 2021 which is a very positive signal indicating improved compliance and a sign of faster recovery of economy.

Consumer Price Inflation (CPI) reached upto 5.5% in March 2021 mainly due to Food and Fuel inflation. Input prices are rising due to surge in global commodity prices. This remains a concern.

Though the economy has recorded a positive growth in the 3rd and 4th quarters of 2020-21, uncertainty looms large over the revival of growth in the wake of emergence of second wave of COVID – 19.

The demand in contact based services like Hospitality, Retail, Tourism etc. are likely to see a temporary dip in view of the second wave. The shock to demand will be moderate given lower intensity of restrictions and

adaptation of business and people to live with the virus. A durable revival of private consumption and investment would be critical for sustaining economic growth.

Kerala Economy

Kerala Economy, despite massive flood in 2018-19 had registered an impressive growth. The growth in current and constant prices were higher than the national level. The State witnessed another flood in 2019-20. The growth of the economy in that year also was better than expected. The restoration of growth in the economy was possible by the timely intervention of Government to provide compensation to those who lost property and to provide livelihood support to the affected families.

COVID – 19 inflicted adverse shock in the economy and severe stress on State finances during 2020-21. Kerala economy suffered a GSDP loss of Rs.156041 crore in 2020-21 in relation to BE 2020-21. The contraction in GSDP could have been more severe but for the economic stimulus of Rs.20000 crore announced at an earlier stage of the pandemic in March 2020. This stimulus package targeted the most vulnerable and also benefitted the entire society and greatly reduced the impact of COVID – 19 on GSDP.

The lockdown however impacted the State finances adversely especially during the 1st quarter of 2020-21. With the gradual lifting of restrictions, the economy regained growth momentum close to pre COVID – 19 level by the end of the year 2020-21.

Assuming a higher GSDP growth following an economic crisis after a pandemic, GSDP is projected at 6.6% in 2021-22 BE. The second wave of COVID – 19 and new strains of the virus are more severe and fast spreading. The State again went into lockdown from the 1st week of May 2021 to reduce the daily caseload to manageable levels. As moderate restrictions would continue in the next couple of months, uncertainty looms large over the expected faster recovery of the State economy. The State economy is more vulnerable as it has higher dependency on contact based services. The non – availability of vaccines and the resultant slow pace of vaccination are causes for concern. A stronger rebound in the growth of economy mainly depends ensuring that at least half of the

population is vaccinated at the earliest. The negative impact on the economy depends on how the covid situation in the State unfolds.

Fiscal Performance in 2019-20

Total Revenue Receipts posted a negative growth rate of 2.83%. The States Own Tax Revenue and Central Transfers recorded a negative growth rate of 0.63% and 9.17% respectively. On the Expenditure side, Revenue Expenditure posted a negative growth rate of 5.07%. The reduction in expenditure was mainly in Non SPI (Salary, Pension, Interest) items.

RD and FD were contained to 1.7% and 2.79% in 2019-20 respectively as against 2.21% and 3.41% in 2018-19. The FD was less than the budget level of 3%. As per the Fiscal Responsibility Act 2003 as amended in 2018, RD is to be maintained at 'Zero' and FD at 3% whereas the actuals were 1.7% and 2.79% respectively. In respect of the indicator of Debt/GSDP, the actual was 30.46% against the target of 29.67%.

Review of 2020-21

The lockdown impacted the State finances adversely in 2020-21. The revenue shortfall in respect of States Own Tax Revenue and States Own Non Tax Revenue respectively is Rs.22148 crore and Rs.5466 crore in relation to Budget Estimates. The shortfall in respect of Share of Central Taxes is Rs.11091 crore. As against BE of 1.55%, RD is at 2.94%. FD is at 4.25% as against the BE of 3%. This is due to the shortfall in revenue collection and additional expenditure in the light of COVID -19. Delay in the release of GST compensation arrears to the State also aggravated the situation.

As per the Kerala Fiscal Responsibility (Amendment) Ordinance 2021 promulgated to amend the Kerala Fiscal Responsibility Act 2003, Kerala is eligible for additional borrowing of 2% of GSDP in 2020-21 in addition to the normal borrowing ceiling of 3% GSDP subject to compliance of four specific state level reforms. The State completed the reforms in 2020-21 itself and became eligible for the additional borrowing. The target in respect of RD could not be achieved due to the COVID – 19 induced revenue shortfall and additional expenditure commitment.

Budget Estimates 2021-22

The revised budget for 2021-22 is presented against the backdrop of impact of the COVID-19 pandemic and the resultant short fall in revenue receipts additional expenditure commitments at a higher level.

Revenue Receipts

States Own Tax Revenue is estimated to grow at 6.5% over BE 2020-21. Encouraging GST collection is a sign of faster economic recovery. 15th Finance Commission (FC) in its final report pertaining to 2021 - 26 has reduced the share of central taxes to 1.925 from 1.943 in 2020-21. As per the 15th FC recommendation, the Share of Central Taxes for 2021-22 is fixed at Rs.12812.08 crore which is less than the amount already provided in the budget presented in January 2021 by Rs.3748 crore. An amount of Rs.19891 crore in respect of Revenue Deficit grant is also recommended which will moderate the impact on revenue due to declining Share of Central Taxes to a great extent, but RD grant tapers off by 2023-24.

Revenue Expenditure

Revenue expenditure is estimated to grow at 26% from 2020-21 RE. Capital Expenditure is projected to grow at 27.85% from 2020-21 RE. This increase in expenditure is due to the pay & pension revision commitment and also the measures being taken by the Government to counter the COVID-19 impact. This is in line with government policy that public spending should be increased for revival of growth.

Gross State Domestic Product (GSDP)

GSDP is projected to grow at 6.6% in nominal terms

Fiscal indicators.

Revenue Deficit is projected at 1.93% of GSDP as against 2.94% in 2020-21. Fiscal Deficit is projected at 3.5% of GSDP as against 4.25% in 2020-21 indicating States' commitment to fiscal consolidation.

Taxation

The revenue that has accrued to the state from GST has fallen short of expectations in the last three years. The potential of 'destination principle' remains only partially fulfilled. However, sincere efforts from the Government have laid a solid foundation for future growth, and the ironing

out of technical and structural problems hold great promise for the days ahead. This will ensure smooth sailing for the State finances beyond the GST compensation period.

Strategic Priorities

- ✓ Government is planning to quick start sectors like Tourism, MSME, Agriculture etc. to ensure a 'V' shaped recovery and generate employment.
- ✓ Capital Expenditure will be enhanced both through KIIFB and Externally Aided Projects.
- ✓ Development and welfare measures will continue.
- ✓ Health protection will be given top most priority in view of the pandemic.
- ✓ Improvement of quality of Higher Education will be given priority.
- ✓ Skill development initiatives to address the under employment and unemployment problems.
- ✓ Coastal protection schemes will be implemented to address the problems in Coastal areas due to frequent disasters.
- ✓ Sustainable development through environment friendly measures.
- ✓ E-governance initiatives will be expanded for ensuring faster service delivery.
- ✓ Public Distribution System (PDS) will be strengthened using IT.

Three year rolling targets and underlying assumptions

15th FC in its final report pertaining to 2021-26 has recommended that in view of the prevailing uncertainties, FRBM need a restructuring and states shall amend their FRBM based on the recommendation of Inter-Governmental Group to be constituted for the purpose. The commission has suggested an indicative ceiling for the fiscal indicators for the award period 2021-26.

Gross State Domestic Product (GSDP)

Assuming a higher growth following an economic crisis after pandemic, GSDP is expected to post a higher growth at 12.5% in normal terms in the forward estimated period.

Revenue Receipts

State Own Tax Revenue

State Own Tax Revenue is projected to grow at 14% in the forward estimates period. Non-Tax Revenue is projected to grow at 15%. Measures being taken in sand mining and quarrying will help the State in the mop-up of Non – Tax Revenue.

Central Transfers

Share of Central Taxes is projected to grow at 15%. RD grant is reckoned based on the recommendation of 15th FC which taper off from 2021-22 and hence decline in the growth rate of Central Transfers.

Revenue Expenditure

Revenue Expenditure is estimated to grow at 7.5% and 9.3% respectively in the forward estimated period which is reflective of the thrust given to Health, Education and Social Sector spending. The lower growth in 2022-23 is due to the high base effect factor.

Borrowings: Public Debt and other Liabilities

The Union Government has extended the additional borrowing of 2% of GSDP in addition to the FD of 3% of GSDP to counter the pandemic situation in 2020-21. In the BE for 2021-22, this is kept at 3.5% indicating Governments commitment to fiscal consolidation. Government intends to keep FD at 3% and 2.95% of GSDP for the years 2022-23 and 2023-24 respectively by targeting reduction in RD and FD without compromising on the commitment in spending under priority sectors.

Salaries

The higher salary expenditure in the forward estimates period is on account of the payment of arrears arising from the 11th pay commission award.

Pension

The higher provision for pension in the forward estimated period is on account of the arrear payment arising from the 11th pay commission award.

Interest

Interest is calculated on outstanding debt each year in the forward estimates period. The effective interest rate applied is 7.4%.

Subsidies

Provision for subsidies in 2020-21 is on the higher side because of the intervention in connection with COVID-19. This is likely to come down because of the reduced requirement in the forward estimated period. Rs.2050 crore and Rs.2000 crore have been provided for the years 2022-23 and 2023-24 respectively.

Devolution to LSGs

6th SFC recommendations will cover the forward estimates period. Devolution to Local Bodies is based on the recommendation of 6th SFC.

Capital Expenditure

Capital Expenditure is estimated to grow at 14% and 12 % for the years 2022-23 and 2023-24 respectively.

Revenue and Fiscal Deficit

The State has tried to reduce RD and FD in a calibrated manner from 2016-17. The RD and FD targets are upset by the COVID – 19 pandemic in 2020-21. The State is however moving towards fiscal consolidation after a temporary pause caused by COVID – 19 as indicated in Table.3. In spite of spike in expenditure due to the implementation of the Pay Commission Award and SFC recommendations, the RD shows a moderation. In line with States' commitment to fiscal consolidation, FD is kept at 3% and 2.95% in 2022-23 and 2023-24 respectively. Debt/GSDP is also coming down during the forward estimated period. The forward estimates are presented in Table 4 as shown below:

Table :3

MTFP Targets

Fiscal Indicators	2020-21 RE	2021-22 BE	2022-23	2023-24
RD/GSDP (%)	2.94	1.93	1.40	1.36
FD/GSDP (%)	4.25	3.50	3.00	2.95

Table 4
Medium Term Fiscal Plan 2021-2022

(Rs.in crore)

Item	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Accounts	Accounts	Accounts	RE	BE	Forward Estimates	
Revenue Receipts	83020.14	92854.47	90224.67	93115.11	130981.06	145209.99	158757.59
State's own tax revenue	46459.61	50644.10	50323.14	45272.15	71833.28	81889.94	93354.53
Non Tax Revenue	11199.61	11783.24	12265.22	9121.27	14335.79	16486.16	18959.08
Resources from Centre	25360.92	30427.13	27636.31	38721.69	44811.99	46833.89	46443.98
Revenue Expenditure	99948.35	110316.39	104719.92	117321.54	147891.18	159029.89	173829.75
Non-Interest Revenue Expenditure	84828.42	93568.47	85505.22	97035.27	125950.98	133689.19	146163.75
Interest	15119.93	16747.92	19214.70	20286.27	21940.20	25340.71	27666.01
Salaries	31905.92	31405.69	31774.87	28108.94	39837.34	43233.27	46714.11
Pensions	19938.41	19011.94	19064.29	19412.45	23105.98	26376.58	29974.24
Non SPI Revenue Expenditure	32984.09	43150.84	34666.06	49513.88	63007.66	64079.33	69475.40
Subsidies	1583.79	1663.01	1378.19	4124.12	2084.55	2050.00	2000.00
Devolution to LSGs	8470.23	10278.46	6861.97	8289.15	12398.23	12436.06	13914.67
Other Revenue Expenditure	22930.07	31209.37	26425.90	37100.61	48524.88	49593.28	53560.74
Revenue Surplus/Deficit	-16928.21	-17461.92	-14495.25	-24206.43	-16910.12	-13819.90	-15072.16
Capital Expenditure	10289.46	9753.43	9665.02	11061.08	14141.21	16126.08	18089.21
Capital Outlay	8748.87	7430.54	8454.80	9390.93	12596.27	14503.89	16385.91
Loan disbursements	1540.59	2322.89	1210.22	1670.15	1544.94	1622.19	1703.30
Non Debt Capital Receipts	380.25	257.04	322.80	318.02	353.74	371.43	390.00
Fiscal Deficit/Surplus	-26837.42	-26958.31	-23837.47	-34949.50	-30697.59	-29574.55	-32771.37
Primary Fiscal Deficit/Surplus	-11717.49	-10210.39	-4622.77	-14663.23	-8757.39	-4233.85	-5105.36
End of the period Debt	198608.13	223196.94	247971.44	278564.52	312236.19	342441.98	373864.94
Debt Service	15119.93	16747.92	19214.70	20286.27	21940.20	25340.71	27666.01
Salary+Pension+Interest	66964.26	67165.55	70053.86	67807.66	84883.52	94950.56	104354.35
Debt Stock	210762.37	235631.50	260311.37	296817.67	327654.70	357229.25	390500.62
Government Guarantees	17356.46	26834.65	27757.01				
Interest/Revenue Receipts (%)	18.21	18.04	21.30	21.79	16.75	17.45	17.43
Debt/Revenue (%)	253.87	253.76	288.51	318.76	250.15	246.01	245.97
(Salary+Pen+Interest)/Revenue (%)	80.66	72.33	77.64	72.82	64.81	65.39	65.73
(Salary+Pen+Interest)/GSDP (%)	9.54	8.50	8.20	8.25	9.69	9.63	9.41
(Salary+Pen)/GSDP (%)	7.39	6.38	5.95	5.78	7.18	7.06	6.91
Rev Deficit/Rev Receipt (%)	20.39	18.81	16.07	26.00	12.91	9.52	9.49
RD/GSDP (%)	2.41	2.21	1.70	2.94	1.93	1.40	1.36
FD/GSDP (%)	3.83	3.41	2.79	4.25	3.50	3.00	2.95
Debt Stock/GSDP (%)	30.04	29.82	30.46	36.11	37.39	36.24	35.21
GSDP	701588	790302	854689	822023	876283	985818	1109046
Nominal GSDP Growth Rate (%)	10.51	12.64	8.15	-3.82	6.60	12.50	12.50
Average Interest Rate (%)	7.61	7.50	7.75	7.28	7.03	7.40	7.40

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