



REPORT OF THE KERALA PUBLIC EXPENDITURE REVIEW COMMITTEE

7TH COMMITTEE

FIRST REPORT
2021-2022 to 2023-2024



January 2026

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THE KERALA PUBLIC EXPENDITURE
REVIEW COMMITTEE**

SEVENTH COMMITTEE

[Constituted as per Gazette Notification No. G.O. (P) No. 161/2025/Fin. dated 31.12.2025
(S.R.O. No. 6/2026) as prescribed under Section 6 of the Kerala Fiscal Responsibility Act,
2003]

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Preface and Acknowledgements

The Seventh Kerala Public Expenditure Review Committee was constituted as per Gazette Notification No. G.O. (P) No. 161/2025/Fin. dated 31.12.2025. This is the Committee's first report and covers the period from 2021-22 to 2023-24. The Committee held three formal meetings and regular interactions to determine the study's broad approach and to review each member's contributions.

The interaction with Shri K.N. Balagopal, Hon'ble Finance Minister, Government of Kerala, provided deeper insights into the broader contours and specific constraints within which the government operated during the period under review. The Committee greatly benefited from the valuable insights provided by Shri K. R. Jyothilal, IAS, Additional Chief Secretary (Finance).

The Committee places on record its sincere appreciation and thanks to the faculty at GIFT, especially Smt. L. Anitha Kumary & Dr N Ramalingam (Visiting Faculty), Dr. Kiran Kumar Kakarlapudi, Coordinator of the Research Pillar on Public Revenue, Dr. Renjith P.S., Coordinator of the Research Pillar on Debt and Deficit, Dr. Aswathy Rachel Varughese, Coordinator of the Research Pillar on Expenditure, Dr. Nirmal Roy V.P., Coordinator of the Research Pillar on Local Finance, Dr. Sumalatha B.S., Coordinator of the Research Pillar on Fiscal Federalism and Dr. U P Anilkumar., Coordinator of the Research Pillar on Financing Development. Interactions with other faculty members at GIFT on specific issues were also extremely beneficial. The Committee is especially thankful to Mr Ajith S., Secretary to the Committee.

The Committee also records its special appreciation for the excellent research assistance provided by Niveditha Rajeev, Vishnu V., and Krishnasree P.P.



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Member



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Contents

	Title	Page
	Preface	iii
	List of Tables	vii
	List of Boxes	viii
	List of Figures	viii
	Abbreviations	ix
	Chapter 1_ Introduction	1
	Chapter 2_ The State of Kerala State Finances: An Overview	9
	Chapter 3_ Revenue Profile	19
	Chapter 4_ Expenditure Profile	31
	Chapter 5_ Debt Management	51
	Chapter 6_ Analytical and Conceptual Issues	59
	Chapter 7_ Summary and Conclusions	71
	References	77
	Appendix	85

List of Tables

Table No.	Title	Page
2.1	Trends in Revenue receipts: 2014-15 to 2023-24	10
2.2	Trends in Expenditure: 2014-15 to 2023-24	13
2.3	Trends in Deficits and Debt: 2014-15 to 2023-24	15
3.1	Annual Average Growth Rate in the Components of Revenue Receipts	21
3.2	Average Growth rate of own tax revenue and its components	23
3.3	Trends in IGST and SGST Revenue in Kerala	24
4.1	Trends of Revenue and Capital Expenditure in Kerala	35
4.2	Year-on-Year Growth Rate of Different Expenditures in Kerala	37
4.3	Trends in Salary, Interest, Pension: 2014-15 to 2023-24	39
4.4	Percentage Share of Salary, Pension, and Interest payment to Revenue expenditure and Receipts from 2014-15 to 2023-24	39
4.5	Administrative Services Expenditure (A(d)) among South Indian States from 2014-15 to 2023-24	45
4.6	The Quinquennial Subhead Expenditure of General Services in Five South Indian States	46
5.1	Pattern of Debt Composition	53
5.2	Distribution of Debt Components	54
5.3	Effective Interest Rate of the Composition of Debt	54
A-1	Revenue Receipts in Kerala	85
A-2	Structure of Own Tax Revenues in Kerala	86
A-3	Structure of Own Non-Tax Revenues in Kerala	88
A-4	Revenue (RE), Capital (CE) And Combined (TE) Expenditure of Andhra Pradesh, Karnataka, Kerala, Tamil Nadu and Telangana FROM 2014-15 TO 2023-24	89
A-5	Per Capita Social Expenditure in Selected Heads among South Indian States From 2014-15 To 2023-24	90

List of Figures

Figure No.	Title	Page
4.1	Expenditure of Kerala from 2014-15 to 2023-24	35
4.2	Expenditure to GSDP ratio from 2014-15 to 2023-24 in Kerala	38
4.3	Committed expenditure as a share of Revenue receipts	40
4.4	Share of Revenue expenditure to Total expenditure among South Indian States	42
4.5	Share of Capital expenditure to Total expenditure among South Indian States	43
4.6	Administrative Services Expenditure (A(d)) among South Indian States	44
4.7	Per capita Social expenditure on Education, Arts, Sport and Culture	47
4.8	Per capita Social Expenditure on Health and Family Welfare	48
4.9	Per capita Social expenditure on Labour and Labour Welfare	48
5.1	Debt Sustainability Ratios	55
5.2	Growth Rate of GSDP and Effective Interest Rate	56

List of Boxes

Box No.	Title	Page
1.1	Why FRBM? A Layperson's Guide	2
5.1	On the definition and measurement of public debt	52
6.1	Limits of FRL Framework at Subnational Level: Evidence from Kerala	65

Abbreviations

A(d)	Administrative Services Expenditure
BE	Budget Estimates
CAG	Comptroller and Auditor General of India
CE	Capital Expenditure
CRTY	Current Reporting Ten Years
ERC	Expenditure Review Committee
FC	Finance Commission
FD	Fiscal Deficit
FRA	Fiscal Responsibility Act
FRBM	Fiscal Responsibility and Budget Management
FRL	Fiscal Responsibility Legislation
GDP	Gross Domestic Product
GR	Growth Rate
GSDP	Gross State Domestic Product
GST	Goods and Services Tax
GSVA	Gross State Value Added
HC	Human Capital
IGST	Integrated Goods and Services Tax
IMF	International Monetary Fund
IP	Interest Payments
KPERC	Kerala Public Expenditure Review Committee
MTFP	Medium Term Fiscal Policy
NSSF	National Small Savings Fund
OECD	Organisation for Economic Cooperation and Development
PRTY	Previous Reporting Ten Years
PSC	Public Service Commission
RD	Revenue Deficit
RE	Revenue Expenditure
RR	Revenue Receipts
SGST	State Goods and Services Tax
SOTR	State's Own Tax Revenue
SP	Stationery and Printing
TA	Treasury and Accounts
TE	Total Expenditure
VAT	Value Added Tax
VFI	Vertical Fiscal Imbalance
WHO	World Health Organization

Chapter 1

Introduction

1.1 The Context and the Journey of FRBM in India

In India economic liberalisation initiated in the 1980s, and sustained thereafter, has led to a significant increase in GDP growth. But by late 1990s the issue of stability came up front. India's combined fiscal deficit of the Centre and States had crossed 9 per cent of GDP by the early 2000s and public debt had risen to unsustainable levels. Large revenue deficits implied that borrowing was used to finance current consumption rather than productive investment. Against this background, India enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2003, which sought to introduce rule-based fiscal discipline, improve transparency in fiscal operations, and ensure long-term macroeconomic stability by mandating explicit targets for fiscal deficit, revenue deficit, and public debt (Please refer to Box 1.1).

The original FRBM Act laid down two central fiscal objectives. First, it mandated the elimination of the revenue deficit by 31 March 2008, thereby ensuring that public borrowing was confined to capital expenditure. Second, it required the fiscal deficit of the Union Government to be reduced to not more than 3 per cent of GDP by the same date, with a minimum annual reduction of 0.3 percentage points. In addition, the Act prohibited direct monetisation of the fiscal deficit through borrowing from the Reserve Bank of India, except under exceptional circumstances. It also mandated the presentation of a Medium-Term Fiscal Policy Statement, a Fiscal Policy Strategy Statement, and a Macroeconomic Framework Statement along with the annual Budget in order to enhance fiscal transparency and accountability.

The implementation of the FRBM framework during the period 2003–08 coincided with a phase of strong economic growth and fiscal consolidation. The revenue deficit was eliminated, and the fiscal deficit was brought down to 2.5 per cent of GDP in 2007–08. However, the global financial crisis of 2008–09 necessitated a temporary suspension of the FRBM targets in order to allow for counter-cyclical fiscal stimulus. As a result, the fiscal deficit rose sharply to above 6 per cent of GDP during 2008–10, reflecting the priority accorded to supporting economic recovery.

In the aftermath of the crisis, the FRBM framework was reinstated through the FRBM (Amendment) Act, 2012, which recalibrated the fiscal consolidation path. The amended Act targeted a reduction of the fiscal deficit to 3 per cent of GDP by 2016–17 and provided

for the progressive reduction of the revenue deficit. It also introduced the concept of “effective revenue deficit,” defined as revenue deficit net of grants for capital asset creation, thereby recognising the developmental role of certain categories of revenue expenditure.

Recognising the need for a more robust and credible fiscal architecture, the Government of India constituted the FRBM Review Committee in 2016 under the chairmanship of Shri N. K. Singh. The Committee recommended a shift from rigid annual deficit targets towards a debt-anchored fiscal framework. It proposed a central government debt target of 40 per cent of GDP and a general government (Centre and States combined) debt target of 60 per cent of GDP, to be achieved over the medium term. It also recommended the creation of an independent Fiscal Council to provide objective analysis and oversight of fiscal policy.

Box 1.1: Why FRBM? A Layperson’s Guide

In many ways, economic policy design is analogous to the designing of an automobile. In designing an automobile, the engineer does not focus solely on engine capacity for higher speed. Equal attention must be paid to suspension, climate control, thermal management, and energy efficiency in order to ensure safety, comfort, reliability, and sustainability. Analogously, while ensuring higher GDP growth, policymakers must also ensure that it is associated with employment generation, inflation - which disproportionately hurts the poor - remains under control, that public borrowing is kept within prudent limits to avoid fiscal distress, and that macroeconomic stability is preserved. Fiscal Responsibility Legislations (FRLs) are intended precisely to achieve this balance between growth and stability.

However, just as vehicle design varies across different models and use conditions, fiscal rule frameworks must be tailored to the specific economic context in which they operate. An FRL designed for a mature, developed economy cannot be mechanically transplanted to a developing economy, where structural constraints, informality, and low-level equilibrium traps alter the dynamics of demand, investment, and fiscal multipliers. Similarly, a fiscal framework designed for a fiscally sovereign nation-state cannot be directly applied to a subnational government that operates under constrained revenue powers, borrowing controls, and limited macroeconomic policy autonomy.

These and other considerations raise three distinct but interrelated questions. The first is whether fiscal responsibility frameworks developed for advanced economies can be meaningfully applied to developing economies, where growth constraints are often supply-side and excess demand pressures are weaker. The second is whether fiscal rules designed for sovereign governments can be transplanted to subnational entities within a federal system. The third is a deeper conceptual issue. Whether investment in human capital is a revenue expenditure or capital expenditure in the modern knowledge-based economies, where human capital and innovation now constitute the most important drivers of long-term growth. These issues will be taken up for more detailed discussion in the penultimate chapter of this report.

These recommendations were largely incorporated through the FRBM (Amendment) Act, 2018, which introduced a debt anchor into India's fiscal framework. The amended Act provided for a central government debt ceiling of 40 per cent of GDP and a general government debt ceiling of 60 per cent of GDP, to be achieved by 2024–25. The fiscal deficit target was retained at 3 per cent of GDP, but with the introduction of an “escape clause” allowing temporary deviation of up to 0.5 percentage points of GDP under exceptional circumstances such as national security exigencies, major structural reforms, or sharp declines in output growth.

The COVID-19 pandemic represented an unprecedented macroeconomic shock that once again necessitated a temporary relaxation of the FRBM targets. The fiscal deficit of the Union Government rose to 9.2 per cent of GDP in 2020–21 as part of the emergency fiscal response. In the post-pandemic period, the Government has articulated a medium-term fiscal consolidation path, with a calibrated reduction in fiscal deficit alongside a strong emphasis on capital expenditure-led growth and the quality of public spending. The fiscal deficit was brought down to 6.4 per cent of GDP in 2022–23 and further to 5.9 per cent in 2023–24, with a commitment to reduce it to below 4.5 per cent of GDP by 2025–26.

Thus, over the past two decades, India's FRBM framework has evolved from a rigid deficit-targeting regime into a more flexible, debt-anchored fiscal architecture. While preserving the core principles of fiscal prudence and transparency, the contemporary framework recognises the importance of counter-cyclical policy, growth-supporting public investment, and long-term debt sustainability. In this evolving fiscal architecture, the role of States has become increasingly central, as they account for about two thirds of public expenditure and are key to achieving general government fiscal sustainability.

1.2 States and the FRBM

Considering the importance of fiscal discipline at the subnational level for the success of the national Fiscal Responsibility and Budget Management (FRBM) framework, the Act explicitly encouraged States to adopt similar fiscal responsibility legislation. As per the recommendations of the Twelfth Finance Commission, all States were required to enact their own Fiscal Responsibility Acts as a precondition for accessing debt relief, fiscal restructuring, and incentives linked to fiscal consolidation. Accordingly, between 2003 and 2007, almost all States enacted Fiscal Responsibility Acts or Fiscal Responsibility and Budget Management Acts. These legislations typically mandated the presentation of Medium-Term Fiscal Policy Statements, Fiscal Policy Strategy Statements, and Macroeconomic Framework Statements along with the annual Budget. They also laid down time-bound paths for the elimination of revenue deficit and for the containment of fiscal deficit within sustainable limits. Over time, the FRBM framework for States has been further strengthened through successive Finance Commission recommendations and through borrowing limits linked to fiscal performance and reform outcomes. For example,

the 15th Finance Commission provided for an additional borrowing space of 0.5% of the GSDP, subject to the power sector reforms. As in the case of the FRBM Act at the national level, the states also amended their Acts in response to the changing contexts.

1.3 Kerala and FRBM

Kerala responded promptly to the national fiscal responsibility initiative by enacting the Kerala Fiscal Responsibility Act, 2003¹. The Act represented a significant shift towards a rule-based and transparent fiscal regime in the State. It committed the Government to clearly defined medium-term fiscal objectives, including the containment of fiscal deficit, reduction of revenue deficit, and prudent management of public debt. The Act mandates the presentation of fiscal policy statements along with the annual Budget, including the Medium-Term Fiscal Policy Statement, Fiscal Policy Strategy Statement, and Macroeconomic Framework Statement. It also provides for institutional mechanisms to monitor fiscal performance and ensure accountability in public financial management.

In sync with the national trend and subnational trends, the FRBM Act at the state level was also subjected to amendments and thus evolved over time. Accordingly, the *Kerala Fiscal Responsibility (Amendment) Act, 2022*, that set the fiscal targets (as inserted into Section 4 of the original Act), may be stated as follows:

“(2) In particular and without prejudice to the generality of the foregoing provision, the Government shall eliminate the revenue deficit completely during the period from 2021-2022 to 2025-2026 and shall;

(a) make revenue surplus in the order of 0.5 per cent, 0.8 per cent, 1.2 per cent, 1.7 per cent and 2.5 per cent of the Gross State Domestic Product in the years of 2021-2022, 2022-2023, 2023-2024, 2024-2025 and 2025-2026 respectively and the targeted loan amount within the limit of fiscal deficit shall be completely spent for asset development;

(b) reduce the fiscal deficit to 3% of estimated Gross State Domestic Product within a period of five years commencing from 1st April, 2021 and ending on 31st March, 2026 by maintaining the fiscal deficit at a level not exceeding 4.5 per cent, 4 per cent, 3.5 per cent, 3.5 per cent of the Gross State Domestic Product in the years 2021-2022, 2022-2023, 2023-2024 and 2024-2025 respectively and reducing it to 3 per cent in 2025-2026;”

¹ The Kerala Fiscal Responsibility Act, 2003 (Act 29 of 2003) was enacted by the Kerala Legislative Assembly on 17 September 2003 and was brought into force on 5 December 2003 following its notification by the State Government. This legislation was enacted in the backdrop of the national fiscal reform initiative, after the Parliament of India passed the Fiscal Responsibility and Budget Management (FRBM) Act, 2003, on 26 August 2003, which received Presidential assent on the same date and came into force subsequently on 5 July 2004.

(c) Reduce the total debt liabilities of the State in the order of 34.7 per cent, 34.5 per cent, 33.7 per cent, 32.8 per cent and 32 per cent of the Gross State Domestic Product in the years of 2021-2022, 2022-2023, 2023-2024, 2024-2025 and 2025-2026 respectively.”.

1.4 Kerala Public Expenditure Review Committee (KPERC)

An important institutional feature of the Kerala Fiscal Responsibility Act is the provision for periodic independent review of public expenditure and fiscal management. Kerala Fiscal Responsibility Act, 2003 provides for the constitution of a Public Expenditure Review Committee (PERC) to undertake a comprehensive examination of the State’s public finances and expenditure patterns. This also reflects Kerala’s long-standing tradition of fiscal transparency and evidence-based policy-making. The Committee is mandated to review the State’s fiscal position, assess expenditure patterns and efficiency, and make recommendations for strengthening fiscal sustainability.

The Committee is mandated to:

- Review the State’s fiscal position in relation to the targets set under the Act,
- Examine trends in revenue, expenditure, deficit and debt,
- Assess the quality and composition of public spending, and
- Make recommendations for improving fiscal sustainability and expenditure efficiency.

In accordance with this statutory requirement, the Government of Kerala has periodically constituted Public Expenditure Review Committees. The present Committee is the Seventh Public Expenditure Review Committee, entrusted with the task of undertaking a comprehensive review of Kerala’s public finances in the contemporary macroeconomic and fiscal context.

Accordingly, as per the Gazette Notification G.O. (P) No. 161/2025/Fin. dated 31.12.2025 (S.R.O. No. 6/2026), as prescribed under Section 6 of the Kerala Fiscal Responsibility Act, 2003 (29 of 2003), the Government appointed the 7th Public Expenditure Review Committee.

Through the enactment and continued implementation of its Fiscal Responsibility Act, Kerala has aligned its fiscal governance framework with the national FRBM architecture while adapting it to the State’s distinctive socio-economic model and development priorities. The present Seventh Public Expenditure Review Committee is a continuation of this institutional commitment to fiscal discipline, transparency and accountable public finance.

The Seventh Public Expenditure Review Committee has been constituted at a time when State finances across India are undergoing a significant transformation. The introduction of the Goods and Services Tax (GST), changes in the system of intergovernmental fiscal transfers following the Fourteenth and Fifteenth Finance Commissions, the fiscal impact of the COVID-19 pandemic, and the evolving demands on public expenditure in areas such as health, education, infrastructure and social protection have collectively reshaped the fiscal landscape.

Against this backdrop, the first report of this Committee seeks to:

- Provide an evidence-based assessment of Kerala's fiscal performance,
- Analyse trends in revenue mobilisation and expenditure composition,
- Examine the sustainability of the State's debt and deficit position, and
- Identify emerging challenges and medium-term fiscal risks.

The overarching objective is to support informed policy-making and strengthen Kerala's fiscal governance framework in a manner consistent with the spirit and letter of the Fiscal Responsibility Act.

1.5 Approach and Methodology

The analysis in this Report is based on data from Budget Documents, Finance Accounts, Comptroller and Auditor General (CAG) Reports, Reserve Bank of India publications, and official databases of the Government of Kerala. The focus of the committee is three years, 2021-22 to 2023-24. This is the period after the report of the 6th KPERC and until the most recent data (accounts) is available. At the same time, performance during the three years under consideration has been compared with that of the last decade: 2014-15 to 2023-24.

The Committee has sought to balance fiscal prudence with developmental imperatives, recognising Kerala's distinctive socio-economic model, demographic transition, and long-standing commitment to human development and social welfare.

1.6 Organisation of the Report

The first Report of the Seventh Public Expenditure Review Committee is organised into seven chapters.

- **Chapter 1** sets out the institutional and fiscal context, the statutory basis for the Committee, and the objectives and scope of the review.
- **Chapter 2** provides an overview of the state of Kerala State finances, highlighting long-term and recent trends in revenue, expenditure, debt, and deficit.

- **Chapter 3** presents a detailed analysis of the State's revenue sources, with special emphasis on Goods and Services Tax (GST), its buoyancy, volatility, and structural determinants.
- **Chapter 4** examines the patterns and composition of public expenditure, with a focus on sectoral allocation, committed expenditure, capital outlay, and the quality of spending.
- **Chapter 5** deals with the evolution of public debt, assessing their sustainability in the context of the FRBM targets and medium-term fiscal framework.
- **Chapter 6** discusses certain analytical and conceptual issues that merit future consideration in the design of fiscal responsibility legislations in India.
- **Chapter 7** presents the Summary and concluding observations

Chapter 2

The state of Kerala State Finances: An Overview

2.1 Introduction

This chapter provides an integrated and evidence-based overview of Kerala's state finances over the period 2014–15 to 2023–24, with particular emphasis on the three-year review window from 2021–22 to 2023–24. The analysis is academically rigorous yet accessible to legislators, situating Kerala's fiscal performance within the framework of the Fiscal Responsibility and Budget Management (FRBM) Act and the evolving architecture of Indian fiscal federalism. By examining revenues, expenditures, and deficit–debt dynamics together, the chapter offers a coherent assessment of fiscal capacity, fiscal effort, and fiscal sustainability.

The chapter proceeds in four parts. Section 2.2 analyses trends and composition of revenue receipts, distinguishing between the State's own revenue (tax and non-tax) and transfers from the Union government. This enables an evaluation of revenue mobilisation, fiscal autonomy, and the changing role of intergovernmental transfers, while comparing recent outcomes with decadal patterns. Section 2.3 examines expenditure trends and composition, with a focus on the balance between revenue and capital spending, the predominance of committed expenditure, and the post-pandemic process of expenditure rationalisation. The discussion places Kerala's spending profile in comparative perspective with all-State averages and interprets outcomes through the lens of public finance and growth theory. Section 2.4 assesses deficits and debt, including the revenue deficit, fiscal deficit, primary deficit, and outstanding liabilities. Section 2.5 concludes with general observations on the fiscal trends and the state's compliance with the targets under the Kerala Fiscal Responsibility (Amendment) Act, 2022.

2.2 Revenue Receipts

An assessment of the fiscal capacity of a subnational government must necessarily begin with a careful examination of the trends and composition of its revenue receipts. Revenue receipts constitute the core resource base for financing public expenditure and are therefore central to any evaluation of fiscal sustainability, fiscal autonomy, and compliance with the Fiscal Responsibility and Budget Management (FRBM) framework. In the case of Kerala, revenue receipts reflect not only the performance of the State's own revenue mobilisation efforts but also the evolving nature of fiscal federal relations, particularly the scale and structure of transfers from the Union government.

Table 2.1 presents the trends in Kerala's revenue receipts and its broad components over the 10-year period from 2014-15 to 2023-24. This allows for a comparison of the 3-year period from 2021-22 to 2023-24 that is under review in this report against the longer-term trends in the past decade.

Table 2.1: Trends in Revenue receipts: 2014-15 to 2023-24											
No.	Item	2014-15	2015-16	2016-17	2017- 18	2018- 19	2019-20	2020-21	2021-22	2022-23	2023-24
	Revenue Receipts (Rs. crore)	57,950	69,033	75,612	83,020	92,854	90,225	97,617	1,16,640	1,32,725	1,24,486
	% Annual Growth Rate	17.84	19.12	9.53	9.80	11.85	-2.83	8.19	19.49	13.79	-6.21
	% of GSDP	11.31	12.28	11.91	11.83	11.78	11.10	12.65	12.62	12.97	10.86
1	Own Revenue (Rs. crore)	42,516	47,421	51,876	57,659	62,427	62,588	54,988	68,803	87,086	90,675
	% Annual Growth Rate	13.17	11.54	9.40	11.15	8.27	0.26	-12.14	25.12	26.57	4.12
	% of GSDP	8.29	8.44	8.17	8.22	7.92	7.70	7.13	7.44	8.51	7.91
	% of total revenue receipts	73.37	68.69	68.61	69.45	67.23	69.37	56.33	58.99	65.61	72.84
1.1	Own Tax Revenue (Rs. crore)	35,233	38,995	42,176	46,460	50,644	50,323	47,661	58,341	71,968	74,329
	% Annual Growth Rate	10.12	10.68	8.16	10.16	9.01	-0.63	-5.29	22.41	23.36	3.28
	% of GSDP	6.87	6.94	6.64	6.62	6.42	6.19	6.18	6.31	7.03	6.49
	% of total revenue receipts	60.80	56.49	55.78	55.96	54.54	55.78	48.82	50.02	54.22	59.71
1.2	Own Non-Tax Revenue (Rs. crore)	7,284	8,425	9,700	11,200	11,783	12,265	7,327	10,463	15,118	16,346
	% Annual Growth Rate	30.65	15.68	15.13	15.46	5.21	4.09	-40.26	42.79	44.50	8.12
	% of GSDP	1.42	1.50	1.53	1.60	1.49	1.51	0.95	1.13	1.48	1.43
	% of total revenue receipts	12.57	12.21	12.83	13.49	12.69	13.59	7.51	8.97	11.39	13.13
2	Transfers from Centre (Rs. crore)	15,434	21,612	23,735	25,361	30,427	27,636	42,629	47,837	45,639	33,811
	% Annual Growth Rate	32.98	40.03	9.82	6.85	19.98	-9.17	54.25	12.22	-4.60	-25.92
	% of GSDP	3.01	3.85	3.74	3.61	3.86	3.40	5.52	5.17	4.46	2.95
	% of total revenue receipts	26.63	31.31	31.39	30.55	32.77	30.63	43.67	41.01	34.39	27.16
2.1	Share of central taxes (Rs. crore)	7,926	12,691	15,225	16,833	19,038	16,401	11,560	17,820	18,261	21,743
	% Annual Growth Rate	6.13	60.11	19.97	10.56	13.10	-13.85	-29.51	54.15	2.47	19.07
	% of GSDP	1.55	2.26	2.40	2.40	2.42	2.02	1.50	1.93	1.78	1.90
	% of total revenue receipts	13.68	18.38	20.14	20.28	20.50	18.18	11.84	15.28	13.76	17.47
2.2	Grants in Aid (Rs. crore)	7,508	8,921	8,510	8,528	11,389	11,235	31,068	30,017	27,378	12,068
	% Annual Growth Rate	81.43	18.82	-4.61	0.21	33.55	-1.35	176.52	-3.38	-8.79	-55.92
	% of GSDP	1.46	1.59	1.34	1.22	1.44	1.38	4.03	3.25	2.67	1.05
	% of total revenue receipts	12.96	12.92	11.26	10.27	12.27	12.45	31.83	25.73	20.63	9.69
Source: Finance Accounts of CAG, various years											

As shown in Table 2.1, Kerala's total revenue receipts increased from Rs 57,950 crore in 2014-15 to Rs 1.24 lakh crore in 2023-24, registering an average annual growth rate of about 10.06 per cent. However, during the last three years - the period of focus - the increase was from Rs 1.16 lakh crore in 2021-22 to Rs 1.24 lakh crore in 2023-24, with the average annual growth rate for the period declining marginally to 9.01 per cent. This deceleration, however, was not uniform across the review period. In fact, the first two years, 2021-22 and 2022-23, recorded robust performance, with an average annual growth rate of 16.6 per cent - significantly exceeding the decadal average. The overall slowdown during the review period was therefore driven entirely by the terminal year, 2023-24, when total revenue receipts declined sharply by Rs 8,239 crore, resulting in a negative growth rate of 6.2 per cent.

The sharp contraction in 2023-24 merits closer examination, as it represents an exceptional departure from the trend observed over the previous decade, during which revenue receipts did not record negative growth in any year. The revenue receipts of the state broadly consist of two components: a) State's own revenue and b) Transfers from the Centre. While the former comprises the State's own tax revenue and the State's own non-tax revenue, the latter comprises the State's share of central tax devolution as well as grants-in-aid from the Union government. The point of enquiry concerns whether the decline was on account of an across-the-board decline in all the components or a decline in any single component.

From Table 2.1, it is evident that two components that come under the State's own revenue continued to exhibit positive growth rates. During the last three years own revenue increased by about Rs 22,000 crore, an unmatched record, with the increase being only of the order of Rs 6000 crore during the previous three years (due to the pandemic and deluge) and Rs 15000 during the three years prior to that. This view is supported by comparing Kerala's own revenue performance to that of other Indian states. According to CAG reports, Kerala's own tax revenue amounted to 6.49 per cent of GSDP in 2023-24, which is equal to the all-State average, while own non-tax revenue stood at 1.43 per cent of GSDP, which is higher than the all-State average of 1.08 per cent. An examination of revenue receipts as a proportion of GSDP further supports this observation. The share of the State's own revenue in GSDP stood at 7.91 per cent in 2023-24, which is broadly in line with its ten-year average of around 8 per cent. This indicates that own revenue mobilisation in the terminal year remained broadly consistent with underlying economic activity.

Now coming to the transfers, although there has been an overall decline in central transfers, the share in central taxes showed an upward trend. Hence, the only component that showed a negative growth rate was Grants-in-aid from the Centre. More specifically, grants-in-aid declined by Rs 15,310 crore in 2023-24. The transfers from the Centre declined sharply from 5.17 per cent of GSDP in 2021-22 to 2.95 per cent in 2023-24, falling well below the ten-year average of almost 4 per cent. The main highlight, however,

is that despite the unprecedented decline in transfers from the Centre, the decline in total revenue receipts was only Rs 8,239 crore, owing to an increase of Rs 3,589 crore in the State's own tax revenue. Kerala's own revenue thus played a crucial role in mitigating the impact of the steep fall in grants-in-aid in the terminal year.

Further insights emerge from a comparison of the composition of revenue receipts in Kerala with the all-State average. Over the past ten years, Kerala's revenue structure has been characterised by a relatively higher reliance on its own revenue. On a decadal average basis, own revenue accounted for about 67 per cent of Kerala's total revenue receipts, compared to 55 per cent for all States. This became even more pronounced in 2023-24, when own revenue constituted 73 per cent of Kerala's total revenue receipts, as against 58 per cent for all States. Similarly, over the past decade, own tax revenue accounted for an average of 55 per cent of Kerala's total revenue receipts, compared to 47 per cent for all States. In 2023-24, this share increased to 60 per cent in Kerala, while the all-State average stood at 50 per cent. This indicates that, despite the contraction in aggregate revenue receipts during the terminal year, Kerala's revenue structure remained more strongly anchored in its own sources relative to other States.

In contrast, Kerala's dependence on central transfers remains significantly lower than the all-State average. Over the ten-year period, central transfers accounted for about 33 per cent of Kerala's total revenue receipts, compared to 45 per cent for all States. In 2023-24, this share declined further to 27 per cent in Kerala, while the all-State average stood at 42 per cent. This divergence is evident across both components of central transfers. The share of central taxes in Kerala's revenue receipts averaged 17 per cent over the decade and remained at the same level in 2023-24, whereas the corresponding all-State figures were substantially higher at 28 per cent and 30 per cent, respectively. Grants-in-aid, which had assumed greater importance during the pandemic years, declined sharply in 2023-24, with their share in Kerala's revenue receipts falling to 10 per cent, compared to a ten-year average of 16 per cent and an all-State average of 12 per cent in the same year.

Taken together, these inter-State comparisons reinforce the interpretation that the decline in Kerala's revenue receipts in 2023-24 was driven primarily by the contraction in central transfers rather than by any relative deterioration in the State's own revenue effort. Kerala also displays a higher reliance on its own revenue and a lower dependence on central transfers than the all-State average, a pattern that continued to be observed in the terminal year. Having said that, it goes without saying that a more detailed examination of different sources of revenue, especially the important source like GST, is needed for definite conclusions, which is reserved for Chapter 3.

2.3 Expenditure

Table 2.2 presents trends in Kerala's total expenditure over the period 2014-15 to 2023-24, including trends in its two main components: revenue expenditure and capital expenditure.

Table 2.2: Trends in Expenditure: 2014-15 to 2023-24											
No.	Item	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Total Expenditure (Rs crore)	76,744	87,032	1,02,383	1,10,238	1,20,070	1,14,385	1,38,884	1,63,226	1,58,738	1,59,507
	<i>% of GSDP</i>	14.97	15.49	16.13	15.71	15.23	14.07	18.00	17.66	15.51	13.92
1	Revenue Expenditure (Rs crore)	71,746	78,689	91,096	99,948	1,10,316	1,04,720	1,23,446	1,46,180	1,41,951	1,42,626
	<i>% of GSDP</i>	14.00	14.00	14.35	14.25	13.99	12.88	16.00	15.81	13.87	12.44
	<i>% of total expenditure</i>	93.49	90.41	88.98	90.67	91.88	91.55	88.88	89.56	89.42	89.42
2	Capital Expenditure (Rs crore)	4,998	8,342	11,286	10,289	9,753	9,665	15,438	17,046	16,787	16,880
	<i>% of GSDP</i>	0.98	1.48	1.78	1.47	1.24	1.19	2.00	1.84	1.64	1.47
	<i>% of total expenditure</i>	6.51	9.58	11.02	9.33	8.12	8.45	11.12	10.44	10.58	10.58
Source: Finance Accounts of CAG, various years											

Table 2.2 makes evident that Kerala's total expenditure as a share of GSDP has largely remained within a range of 14 to 16 per cent, before rising sharply during the pandemic period. In 2020-21 and 2021-22, total expenditure peaked at around 18 per cent of GSDP, reflecting pandemic-related spending dedicated to saving lives and protecting people's livelihoods, which drew global attention following the implementation of pay revision in 2021-22. By 2023-24, total expenditure declined to 13.92 per cent of GSDP, which is not only lower than the pandemic peak but also below the decadal average of 15.7 per cent and the all-State average of 16.15 per cent. This suggests a successful process of post-pandemic expenditure rationalization and path of fiscal consolidation.

A defining feature of Kerala's expenditure profile, and highlighted time and again, is the predominance of revenue expenditure, which has its historical roots. Throughout the decade, revenue expenditure has consistently accounted for close to 90 per cent of total expenditure, compared to 80-87 per cent for all states where investment in human capital and health are yet to catch up with that of Kerala. In 2023-24, revenue expenditure constituted 89.42 per cent of total expenditure, substantially higher than the all-State average of 83.25 per cent. While this limits space for capital expenditure, it is important to consider the underlying nature of this spending. A significant portion of Kerala's revenue expenditure is in the form of committed expenditure, comprising salaries, pensions, and interest payments. In 2023-24, committed expenditure accounted for 63.92 per cent of revenue expenditure in Kerala, compared to 43.28 per cent for all States.

Within committed expenditure, salaries form a major component and play a key role in supporting human capital formation and development, particularly in sectors such as education and health. According to endogenous growth theory, human capital and knowledge are the primary engines of long-term economic growth (Lucas, 1988; Romer, 1990). In this framework, education, health, and research are not consumption goods but investments that permanently raise an economy's productive capacity. Unfortunately, however, as per the theoretical premises of public finance on which fiscal responsibility legislations are based, growth is driven only by investment in physical capital (elaborated in Chapter 7). As a result, investments in education and health are classified as revenue expenditure. Here, we also hasten to add that, being a subnational entity, other states as well as the Union benefit from Kerala's investment in health and education *inter alia* through human capital spillovers (explored in detail in Chapter 7).

On the other hand, capital expenditure in Kerala accounted for 10.58 per cent of total expenditure and 1.47 per cent of GSDP in 2023-24, both of which are lower than the all-State averages. The high share of committed expenditure constrains the State's ability to significantly expand capital outlays. Here again, as formerly noted by the first Public Expenditure Review Committee, what is accounted as capital expenditure at best presents a partial picture. It does not consider capital expenditure by local self-governments and spending through initiatives like KIIFB. The major issue is the exclusion of investment in human capital.

2.4 Debt and Deficits

An assessment of fiscal sustainability at the subnational level necessarily rests on a careful examination of the dynamics of deficits and public debt. The magnitude of debt and deficit is fundamentally shaped by the structure of revenues and expenditures. In a fiscal federal system, however, subnational governments exercise limited control over both revenue mobilisation and expenditure obligations. In such a setting, the analytical foundations for imposing prefixed debt and deficit targets—by transplanting a framework originally designed for sovereign governments to subnational entities—warrant closer scrutiny (see Chapter 6). Under the Fiscal Responsibility Act (FRA) framework, the trajectories of the revenue deficit, fiscal deficit, primary deficit, and outstanding liabilities constitute the principal indicators for assessing the quality of fiscal adjustment, the extent of intergenerational equity, and the long-term solvency of public finances. For a State such as Kerala, characterised by a mature welfare economy, high social sector commitments, and a relatively narrow tax base, the evolution of these indicators assumes particular analytical and policy significance.

Over the last decade, Kerala's fiscal position has been shaped by a combination of structural expenditure pressures, cyclical macroeconomic fluctuations, and extraordinary exogenous shocks arising from natural disasters and the COVID-19 pandemic, along with the evolving Centre-state financial relations. The pandemic period, in particular, marked

a significant inflection point, during which revenue mobilisation was severely disrupted while expenditure obligations expanded sharply in response to public health exigencies and income support requirements. The post-pandemic period, therefore, provides an appropriate context for assessing the extent to which the State has been able to restore fiscal discipline and realign its deficit and debt indicators with the medium-term consolidation path envisaged under the FRBM framework. Against this backdrop, the present section examines the trends in Kerala's revenue deficit, fiscal deficit, primary deficit and outstanding debt over the period under review, with particular emphasis on the transition from the pandemic-induced fiscal expansion to the subsequent phase of consolidation and stabilisation. The analysis situates Kerala's fiscal

Table 2.3: Trends in Deficits and Debt: 2014-15 to 2023-24											
	Item	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
1	Revenue Deficit (crore)	13,796	9,657	15,485	16,928	17,462	14,495	20,064	20,800	9,226	18,140
	<i>% of GSDP</i>	2.69	1.72	2.44	2.41	2.22	1.78	2.60	2.25	0.90	1.58
2	Fiscal Deficit (crore)	18,642	17,818	26,448	26,837	26,958	23,837	35,204	37,306	25,555	34,258
	<i>% of GSDP</i>	3.64	3.17	4.17	3.83	3.42	2.93	4.56	4.04	2.50	2.99
3	Primary Deficit (crore)	8,872	6,708	14,332	11,717	10,210	4,623	14,228	14,004	378	7,272
	<i>% of GSDP</i>	1.73	1.19	2.26	1.67	1.30	0.57	1.84	1.51	0.04	0.63
4	Outstanding Public Liabilities (Crore)	135,440	157,370	186,454	210,762	235,631	260,311	296,901	335,641	362,192	391,934
	<i>% of GSDP</i>	26.42	28.00	29.37	30.04	29.89	32.02	38.47	36.31	35.38	34.20
5	Public Debt (Crore)	96,133	109,731	125,883	142,985	158,234	174,640	205,448	234,480	252,506	282,495
	<i>% of GSDP</i>	18.76	19.53	19.83	20.38	20.07	21.48	26.62	25.36	24.67	24.65
<i>Source: Finance Accounts of CAG and Budget in Brief, GoK, various years</i>											

performance within both its own decadal trajectory and the broader all-State context, thereby providing a comprehensive perspective on the sustainability and resilience of the State's public finances. Here, it may be noted that there is significant difference in the conceptualisation of public debt and outstanding liabilities by the Government of Kerala and the CAG (see Box 5.1). For example, while the CAG includes GST compensation as a part of state's liabilities, Budget in Brief does not consider it as a liability; as per the GST Compensation Act, the state is not expected to repay it.

Table 2.3 presents the trends in revenue deficit, fiscal deficit, primary deficit, outstanding public liabilities, and public debt of the State over the period 2014-15 to 2023-24 (see Box 5.1 for the composition of outstanding liabilities and public debt). As shown in Table 2.3, Kerala observed a revenue deficit throughout the period under review, reflecting the structural gap between revenue receipts and revenue expenditure. As a proportion of GSDP, the revenue deficit generally ranged between 1.7 per cent and 2.7 per cent during the pre-pandemic years, widened during the pandemic year 2020-21, and improved in the immediate post-pandemic period. In 2023-24, Kerala's revenue deficit stood at 1.58 per cent of GSDP, lower than the decadal average of 2.06 per cent.

Kerala's fiscal deficit largely remained within the range of 3 per cent to 4 per cent of GSDP during the pre-pandemic period, rose sharply during the pandemic, and subsequently moderated. In 2023-24, the fiscal deficit stood at 2.99 per cent of GSDP, which is within the indicative benchmark of 3 per cent recommended, and lower than the 10-year average of 3.52 per cent. In an all-State context, this places Kerala broadly in line with the fiscal consolidation path observed across States in 2023-24, a year in which fiscal deficits exceeded the 3 per cent threshold in 18 States. During the pandemic years, the states were allowed to borrow up to 5 per cent of their GSDP.

The trajectory of the primary deficit provides additional insight into Kerala's underlying fiscal stance. After widening during the pandemic, the primary deficit declined sharply in the post-pandemic period and was nearly eliminated in 2022-23, standing at just 0.04 per cent of GSDP. Although it widened again to 0.63 per cent of GSDP in 2023-24, this level remains well below the decadal average of 1.27 per cent.

Kerala's outstanding public liabilities increased steadily in absolute terms over the decade. As a share of GSDP, debt rose from 26.4 per cent in 2014-15 to a peak of 38.5 per cent in 2020-21, reflecting pandemic-related borrowing and the contraction in economic activity. Since then, the ratio has declined to 34.2 per cent in 2023-24, indicating partial stabilization in the post-pandemic period. Evidently, the ratio of liabilities to GSDP is only marginally above the limit of 33.7% prescribed by the FRA Amendment 2022 Act and the Fifteenth Finance Commission. Additionally, going by the narrow definition of public debt, the ratio has declined from 25.36% in 2021-22 to 24.65% in 2023-24. It is noteworthy that there is significant variation in debt positions across States, with total liabilities ranging from as low as 16.7 per cent of GSDP in Odisha to over 50 per cent in Arunachal Pradesh. In this spectrum, Kerala occupies an intermediate position, reflecting elevated but not extreme debt levels.

2.5 Concluding Observations

The concluding observations on trends in the key fiscal parameters and the extent of compliance with prefixed fiscal targets must be viewed in the context of the limitations inherent in transplanting frameworks developed for sovereign countries to subnational

entities that exercise only limited control over their revenue and expenditure. Further, while a sovereign country has the potential of reaping all the returns from its expenditure, for a subnational entity, especially those engaged in non-tradables like human capital, much of the returns to their investment may accrue to other subnational entities and the Union through human capital-related spillovers.

The aggregate overview of Kerala's state finances over the period 2014–15 to 2023–24 reveals a fiscal trajectory shaped by the structural characteristics of a mature welfare economy, compounded by extraordinary shocks arising from natural disasters and the Covid-19 pandemic. The decade under review is marked by three distinct phases: a period of relative stability prior to 2019–20, a phase of acute fiscal stress during the pandemic, and a subsequent phase of recovery and consolidation.

On the revenue front, Kerala continues to display a comparatively strong reliance on own-source revenues relative to other States, reflecting a relatively high degree of fiscal autonomy. The contraction in total revenue receipts in 2023–24 represents a notable deviation from the longer-term trend and is attributable primarily to the sharp decline in grants-in-aid from the Union government, indicating less friendly centre-state financial relations. This being the case, we highlight the importance of strengthening domestic revenue mobilisation, particularly through base broadening, improvements in tax compliance and non-tax revenue generation. At the same time, there is a need to uphold the state's entitlements with the union.

On the expenditure side, the post-pandemic period is characterised by a clear process of expenditure rationalisation. Total expenditure as a share of GSDP has declined from its pandemic peak and now stands below both the decadal average and the all-State average, indicating strong evidence of fiscal consolidation. At the same time, the predominance of committed expenditure—mainly salaries, pensions and interest payments—continues to constrain fiscal flexibility and limits the scope for a substantial expansion of capital outlays. This highlights the need for a careful reprioritisation of spending towards productivity-enhancing investments, including physical and human capital.

The analysis of deficits and debt indicates a gradual return to the fiscal consolidation path envisaged under the Kerala Fiscal Responsibility (Amendment) Act, 2022 (see Chapter 1 for the details of the Act). While the revenue deficit remains a structural concern, fiscal deficit and debt indicators show signs of stabilisation in the post-pandemic period. The challenge going forward is to balance fiscal prudence with developmental imperatives, ensuring that consolidation is achieved not through compression of essential social expenditure but through durable improvements in revenue capacity and expenditure efficiency.

There is, thus, differentiated progress across the FRA targets. The State did not achieve the envisaged transition towards revenue surplus during the period under review.

Although the revenue deficit narrowed substantially in 2022-23, it widened again to 1.58 per cent of GSDP in 2023-24. The underlying factors behind this slip has been dealt with in Chapter 3. In contrast, fiscal deficit performance has been broadly aligned with the statutory path. The fiscal deficit declined from 4.04 per cent of GSDP in 2021-22 to 2.50 per cent in 2022-23 and stood at 2.99 per cent in 2023-24, remaining well ahead of the targeted convergence towards the 3 per cent norm by 2025-26 envisaged under the FRA.

Debt dynamics also show gradual improvement in the post-pandemic period. The debt-GSDP ratio declined from its pandemic peak to 34.2 per cent in 2023-24, moving closer to the medium-term anchor specified under the FRA. While the pace of adjustment has been slower than that envisaged under the amended Act, the downward trajectory indicates partial compliance with the debt consolidation objective.

Chapter 3

Revenue Profile

3.1 Introduction

An assessment of the revenue performance of the State needs to be undertaken in the broader macroeconomic, institutional, and fiscal context within which public finances have evolved in recent years. Kerala's revenue position has been shaped not only by the normal cyclical movements of the economy but also by a series of structural changes and exogenous shocks that have significantly altered the revenue landscape. These include the introduction of the Goods and Services Tax (GST), major natural calamities, the COVID-19 pandemic, and changes in the pattern and magnitude of transfers from the Union Government.

The period following the introduction of GST represents a fundamental departure from the earlier tax regime. The replacement of multiple origin-based taxes with a destination-based tax system altered the composition of the State's own tax revenues, reduced the fiscal autonomy of States in rate-setting, and made State revenues increasingly dependent on the efficiency of intergovernmental settlement mechanisms. For a consumption-oriented State such as Kerala, GST was expected to yield stable and buoyant revenues over time, particularly through Integrated GST (IGST) settlements. However, the actual revenue outcomes have fallen short of these expectations.

At the same time, the State's public finances have been subjected to repeated shocks. The floods of 2018 and 2019 and the COVID-19 pandemic led to a sharp slowdown in economic activity, adversely affecting own revenue mobilisation. These shocks coincided with a period of declining central grants, especially after the discontinuation of GST compensation and revenue deficit grants. The withdrawal of these transfers has had a disproportionate impact on fiscally constrained States with high committed expenditures, such as Kerala. These development challenges arising from exogenous shocks need to be borne in mind while analysing the State's revenue position.

Despite these constraints, the State has continued to shoulder substantial welfare and development responsibilities, including increased health and social sector spending during and after the pandemic. This has heightened the importance of sustaining and strengthening the State's own revenue base. In this context, an evaluation of revenue performance cannot be confined to aggregate growth alone but must examine issues of buoyancy, composition, and structural adequacy. In addition, a decline in central transfers, particularly grants-in-aid following the discontinuation of GST compensation and

revenue deficit grants, has further strained the State's finances. At the same time, welfare commitments and high levels of committed expenditure, conditionalities on borrowing, and the immediate implementation of pay revision after COVID-19 have placed significant pressure on the State, necessitating greater own revenue mobilisation.

Against this backdrop, the analysis of revenue performance in this chapter focuses on the aggregate behaviour of revenue receipts, the performance of the State's own tax and non-tax revenues, and the evolving structure of these components. Emphasis is placed on growth rates, revenue buoyancy, and key ratios, such as revenue receipts and own revenues as a proportion of GSDP, to assess the State's revenue-raising capacity and its responsiveness to economic growth. The assessment is intended to provide a clear and objective basis for understanding recent revenue trends and the underlying structural strengths and constraints of the State's fiscal position.

3.2 Growth and Composition of Revenue Receipts

The state's revenue receipts consist of its own revenue and resource transfers from the Union Government. Own revenue includes own tax revenue and own non-tax revenue. Transfers from the Union Government include the share of central taxes and grants-in-aid. Kerala's revenue receipts have shown an upward movement in absolute terms over the last decade, broadly in line with the growth of the State economy. Revenue receipts as a proportion of GSDP have remained relatively stable at around 12 per cent in recent years, suggesting that the State has broadly maintained its revenue-raising capacity. However, this stability masks important underlying weaknesses. As noted in Chapter 2, the State's revenue receipts over the ten-year period from 2014-15 to 2023-24 increased from Rs 57,950 crore in 2014-15 to Rs 1,24,486 crore in 2023-24, registering an average annual growth rate of 10.06 per cent (see Appendix Table 1). For the more recent period, which is the Committee's concern (2021-22 to 2023-24), average revenue receipts were significantly higher at Rs 1,24,617 crore, reflecting a clear upward shift in the revenue base in the post-pandemic years.

Revenue growth has been uneven, with periods of sharp deceleration and contraction coinciding with economic slowdowns. More importantly, the buoyancy of total revenue receipts has remained below unity on average, indicating that revenues have grown more slowly than nominal GSDP. As highlighted in earlier ERC reports, this reflects the limited responsiveness of the tax base, the structural features of the State economy, and the impact of repeated exogenous shocks. However, revenue receipts of Kerala recorded a growth rate of 10.06 per cent during the ten-year period from 2014-15 to 2023-24. There is a slight decline in the growth rate of revenue receipts during the last three years after the Covid 19 period, primarily due to the decline in grants-in-aid from the Centre. The ten-year average growth of grants in aid was 23.65 per cent, which plummeted to -22.70 percent during the last three-year period. Hence, an overall decline in the share of central transfers (-6.10%) was noticed in the last three years. Own revenue of the state registered

a higher growth of 18.61 per cent during the last three-year period compared to the decadal growth rate of 9.74 per cent (Table 3.1). Analysing the half yearly performance it was noted that performance of Kerala with respect to tax revenue was highly encouraging with a growth rate of 42.2 per cent which was exceeded only by Maharashtra with 45.5 per cent (Joseph and Kumari 2023)

Table 3.1: Annual Average Growth Rate in the Components of Revenue Receipts (%)

No.	Item	Ten-year average (2014-15 to 2023-24)	Last three-year average (2021-22 to 2023-24)
1	Revenue Receipts	10.06	9.02
2	Own Revenue	9.74	18.61
3	Own Tax Revenue	9.12	16.35
4	Own Non-Tax Revenue	14.14	31.80
5	Transfers from Centre	13.64	-6.10
6	Share of central taxes	14.22	25.23
7	Grants in Aid	23.65	-22.70

Source: Budget in Brief, Government of Kerala, various years

The growth trajectory of revenue receipts, however, has not been uniform. While strong growth was recorded during 2014-15 and 2015-16 (above 17 per cent), the growth rate moderated in the subsequent years and turned negative in 2019-20 (-2.83 per cent) and again in 2023-24 (-6.21 per cent). These contractions coincide with periods of economic stress, indicating the sensitivity of State revenues to macroeconomic shocks. Despite these fluctuations, the long-term trend suggests resilience, with revenue growth broadly aligned with economic expansion.

Revenue receipts as a proportion of GSDP remained relatively stable, averaging 11.93 per cent over the decade and improving marginally to 12.15 per cent during 2021-23. This indicates that the State has broadly maintained its revenue-raising capacity in relation to the size of the economy, even though there has been no significant structural increase in this ratio.

The buoyancy of total revenue receipts averaged 0.56 over the ten-year period, suggesting that revenue growth has, on average, been less responsive than GSDP growth. This pattern cannot be delinked from a host of factors that include domination of the service sector, where taxing power until 2017 was with the union. Further, much of the service sector, being in the informal sector, remained out of the tax net, and health and education were also out of the tax net. Exogenous shocks like the pandemic and natural calamities recurred during this period. The relatively lower buoyancy in recent years suggests constraints on revenue responsiveness despite the economic recovery.

State's own taxes continue to form the backbone of revenue receipts. Own tax revenue increased from Rs 35,233 crore in 2014-15 to Rs 74,329 crore in 2023-24, with an average annual growth of 9.12 per cent over the decade and a much stronger average growth of 16.35 per cent during 2021-23 (Table 3.1). State's own revenue recorded a still higher growth rate of 18.61 per cent during the last three years, while the decadal growth was only 9.74 per cent. However, the own tax to GSDP ratio remained broadly stagnant at around 6.6 per cent, indicating limited improvement in tax effort relative to economic growth. This cannot be delinked from the performance of GST, which forms the largest component of own tax revenue, especially the operational deficiencies in the IGST, to which we can turn later.

Own non-tax revenue exhibited higher volatility but recorded a strong average growth of 14.14 per cent over the decade, accelerating sharply to an average of 31.80 per cent during 2021-23. Despite this improvement, non-tax revenue as a share of GSDP averaged only 1.40 per cent, underscoring its limited contribution to the overall revenue base.

Central transfers showed considerable year-to-year volatility, with growth ranging from a high of 54.25 per cent in 2020-21 to sharp contractions in 2019-20 and 2023-24. Central transfers recorded an average growth of 13.74 per cent over the decade, decelerating sharply to an average of -6.10 per cent during 2021-23. Coming to the component of central transfers, the share of central taxes registered a 14.22 per cent decadal growth. A 25.3 per cent growth was recorded during the last three years. Grants in aid from the centre registered 23.65 per cent average decadal growth, but a sharp fall was noticed in the last three years (-22.70 %). (Table 3.1) This volatility has implications for fiscal planning, as fluctuations in central transfers can significantly impact the State's overall revenue position.

In sum, the State has succeeded in expanding its revenue base over time, but revenue responsiveness to economic growth remains modest. The stability of revenue-to-GSDP ratios alongside fluctuating buoyancy highlights the need for sustained efforts to strengthen own revenue mobilisation and reduce vulnerability arising from volatility in central transfers.

3.3 Components of Own Tax Revenues

The state's own tax revenue continues to constitute the principal component of revenue receipts. However, its composition has undergone a marked transformation following the introduction of GST. Sales tax/VAT, which accounted for nearly four-fifths of own tax revenue prior to GST, is now largely confined to petroleum products and alcoholic liquor. GST has emerged as the single largest source of own tax revenue, contributing over 40 per cent in recent years. Along with this shift, the own tax-to-GSDP ratio has remained broadly stagnant at around 6.5–6.6 per cent. This suggests that the transition to GST has

not resulted in a sustained improvement in the State's tax effort. The expected efficiency and buoyancy gains from GST have not fully materialised at the State level.

The Appendix Table 2 depicts the composition and growth pattern of the State's own tax revenues over the period from 2014-15 to 2023-24 in detail. It clearly brings out both structural changes in the tax base and the differential performance of individual tax components over the decade. The average decadal and the last three-year growth of components of own tax revenue are shown in Table 3.2.

Table 3.2: Average Growth rate of own tax revenue and its components (%)

No.	Item	Ten-year average	Three-year average
1	Goods and Services Tax*	8.3	15.5
2	Sales Tax/VAT*	8.4	16.6
3	Excise Duty	5.2	10.4
4	Motor Vehicle Tax	12.0	23.5
5	Stamp Duty and Registration	9.0	19.6
6	Land Revenue	27.1	15.7
7	Others**	3.4	17.0
8	Total (SOTR) (1 to 7)	9.1	16.3

*Goods and services and sales tax average growth from 2019-20 to 2023-24 for comparable purpose

** Others include Agricultural Income Tax, Electricity duty and remaining other taxes

Source: Budget in Brief, Government of Kerala, various years

Sales Tax/VAT was the dominant source of own tax revenue in the initial years of the period under review, accounting for nearly 79 per cent of total own tax revenue in 2014-15. However, its share declined sharply following the introduction of the Goods and Services Tax (GST) regime. By 2023-24, the share of Sales Tax/VAT had fallen to about 37 per cent, reflecting a significant structural shift in the State's tax system. However, sales tax collection is from three major commodities, such as Alcohol, Petrol and Diesel.

3.3.1 GST Related Issues

India introduced GST with great expectations in terms of higher GDP, improved ease of doing, increased competitiveness, improved tax compliance and higher GDP growth (Rao, Mukherjee and Bagchi 2019, Das 2017; Kumar 2015 among others). Being a destination based tax, a consumer state Kerala had greater expectations (Joseph and Kumary 2003). Like has been introduced with great expectations GST has emerged as a major component of own tax revenue since its introduction. From 2017-18 onwards, GST collections increased steadily, and by 2023-24, GST accounted for over 41 per cent of total own tax revenue. The average GST collection during 2021-23 was Rs 28,082 crore, highlighting its growing importance in the State's revenue structure. The buoyancy of GST improved significantly in recent years, reaching levels well above

unity during 2021-22 and 2022-23, indicating that GST revenues have become increasingly responsive to economic growth in the post-pandemic recovery phase. However, Kerala has not been able to generate much revenue from IGST settlement. As a consumer state, Kerala exports commodities worth around Rs 550 billion to other states, while importing items worth almost Rs 1.5 trillion from them. The trade deficit is approximately Rs 1 trillion (Rs one lakh crore) with the rest of the country (Khanna, 2020).

Considering this, the SGST-to-IGST ratio in Kerala would be at least 3. But the IGST share in Kerala is only 1.2, which is a puzzle yet to be resolved. This implies that Kerala's dependence on other states through interstate purchases has not improved its IGST ratio. At the time of introduction of GST, there has been expectation of more GST revenue from IGST settlement in Kerala. But from the available evidence that a consumer state like Kerala has not been able to collect reasonable GST revenue from IGST settlement. From Table 3.3, it is evident that the ratio of IGST to SGST is only at a low level of 1.2, indicating a significant loss of revenue for the state.

Table 3.3: Trends in IGST and SGST Revenue in Kerala

Year	SGST (crores)	IGST settlement (crores)	IGST/SGST ratio (%)
2017-18	5399	6065	1.1
2018-19	8269	10114	1.2
2019-20	9453	9926	1.1
2020-21	8337	9343	1.1
2021-22	9887	12440	1.3
2022-23	12311	15855	1.3
2023-24	13934	16977	1.2

Source: keralataxes.gov.in

A major concern in the post-GST period relates to the flow of revenue to the State through IGST settlement. The GST framework envisages that consumption-oriented States should benefit from IGST accruals reflecting final demand. Kerala, with its substantial dependence on interstate supplies, fits this profile. However, evidence indicates that the State has not realised the anticipated gains from IGST settlement. This is inconsistent with the State's trade profile, which is characterised by large net interstate imports. This anomaly points to systemic issues in IGST settlement, including deficiencies in place-of-supply rules, concentration of registrations in producing States, and inadequate capture of interstate service consumption. The persistence of this pattern in the post-pandemic recovery phase suggests that the problem is structural rather than transitory.

3.3. 2 Other Components of Own Tax Revenue

Excise duty maintained a relatively stable share of own tax revenue throughout the period, fluctuating around 4 to 5 per cent. While excise revenue recorded positive growth in several years, it also experienced sharp declines, notably in 2019-20 and 2021-22. The average growth rate of excise duty over the decade stood at 5.2 per cent, with an average buoyancy of 1.52, suggesting moderate responsiveness to GSDP growth. A 10.38 per cent growth was recorded in excise duty during the last three years. The sharp increase in excise revenue in 2022-23 reflects policy-driven rate adjustments rather than broad-based expansion.

Motor vehicle tax exhibited relatively robust growth over the period, with the revenue increasing from Rs 2,365 crore in 2014-15 to Rs 6,340 crore in 2023-24. The average growth rate of 11.97 per cent and buoyancy consistently above unity in several years indicate that this tax has performed better than many other components. Motor Vehicle tax showed a robust growth (23.5 %) during the last three-year period. The increase in its share from 6.7 per cent to over 8.5 per cent of total own tax revenue points to rising vehicle ownership and enhanced compliance.

Stamp duty and registration charges also showed a steady upward trend, with revenue nearly doubling over the decade. However, the growth pattern has been uneven, with sharp increases during periods of buoyant real estate activity and contractions during economic slowdowns. The average growth rate of about 9 per cent for the ten-year period and buoyancy of 0.73 suggest that this source remains cyclical and sensitive to market conditions. It is interesting to note that a higher growth rate (19.6%) of stamp duty was registered in the last three years.

Land Revenue registered an average decadal growth rate of 27.1 per cent, and 15.7 per cent is the growth rate for the last three years. Land revenue collection was only Rs 139 crores in 2014-15, which increased to Rs 493 crores in 2020-21 and then rose to Rs 719 crores in 2022-23 and thereafter to Rs 712 crores in 2023-24.

Electricity duty and the category of 'Others' together constituted a small share of own tax revenue, each accounting for less than 2 per cent on average. Although certain years witnessed high growth rates, these were from a low base and did not significantly alter the overall revenue structure.

In aggregate, own tax revenue grew at an average rate of 9.12 per cent over the decade, which improved substantially to 16.35 per cent during the 2021-23 period. However, the own tax to GSDP ratio remained largely stagnant at around 6.6 per cent, indicating that despite changes in tax composition and periods of high growth, the overall tax effort of the State relative to economic output has not improved significantly. The State has taken different initiatives, particularly in the GST department, to improve own tax collection, which will improve buoyancy and tax-to-GSDP ratios for strengthening the State's fiscal capacity.

3.4 Components of State's own non-tax revenue

The own non-tax revenue of the states comprises interest receipts, dividends and profits, other non-tax revenue from education, sports & culture, Medical and Public Health, forestry and wildlife, revenue from royalty, revenue from lottery (selected states), other fees, fines, etc. Appendix Table 3 presents the composition and growth pattern of the State's own non-tax revenues over the period from 2014-15 to 2023-24. Overall, own non-tax revenue increased from Rs 7,284 crore in 2014-15 to Rs 16,346 crore in 2023-24, recording an average annual growth rate of 14.14 per cent over the decade. The growth momentum was particularly strong during the post-pandemic period, with an average growth of 31.80 per cent during 2021-23, reflecting both recovery effects and improvements in certain revenue components.

Despite this growth, the State's own non-tax revenue continues to account for a relatively small proportion of the State's economic output. The non-tax revenue to GSDP ratio averaged 1.40 per cent over the ten-year period and declined marginally to 1.34 per cent during 2021-23. This indicates that while absolute non-tax revenues have expanded, their contribution relative to the size of the economy remains limited, echoing concerns highlighted in earlier reports.

Lottery revenue (gross) remains the single largest component of own non-tax revenue throughout the period under review. Its share consistently exceeded 70 per cent in most years and averaged about 75.5 per cent over the decade. The gross lottery revenue increased sharply from Rs 5,445 crore in 2014-15 to Rs 12,531 crore in 2023-24. This growth reflects policy measures such as the introduction of new lottery schemes, restructuring of prize money, and aggressive marketing strategies. However, as noted in earlier analyses, gross figures tend to overstate the actual fiscal gain, as the net contribution after deducting prize pay-outs and related expenses is substantially lower.

Forest revenue, which constituted a modest but stable component of non-tax revenue, showed moderate fluctuations over the period. Although absolute receipts remained broadly stable, the share of forest revenue in total non-tax receipts declined steadily from over 4 per cent in 2014-15 to around 1.6 per cent in 2023-24. This could be due to the forest conservation policy of the Union Government, which leads to revenue loss to the state exchequer.

Interest receipts remained a minor source of non-tax revenue, averaging about 1.45 per cent of total non-tax receipts over the decade. While there was a temporary spike in 2020-21, likely reflecting exceptional financial transactions or recoveries, interest income has otherwise remained subdued, suggesting limited returns on the State's financial assets.

Receipts from Education, Sports, Art and Culture, and Medical and Public Health together accounted for less than 5 per cent of non-tax revenue on average. Although these heads recorded some increase in absolute terms, their declining shares point to the continued

under-exploitation of user charges in social sector services. This pattern is consistent with earlier observations that user fees in the State remain low and inadequately indexed to costs.

Revenue from Cooperation and other miscellaneous sources exhibited moderate growth, with noticeable increases during the post-pandemic years. The category ‘Others’ displayed considerable volatility, reflecting the non-recurring and unpredictable nature of several items included under this head. Its share peaked during certain years but did not show a stable long-term trend.

In aggregate, it is evident from Appendix Table 3 that the growth in own non-tax revenue has been driven predominantly by lottery receipts, while other components have either stagnated or grown slowly. The persistently low non-tax revenue to GSDP ratio underscores the structural weakness of this revenue stream. As emphasised in earlier reports, there remains considerable scope for enhancing non-tax revenues through rationalisation of user charges, better returns from public sector investments, and more systematic exploitation of economic services, without compromising access or equity.

To sum up, the analysis of the revenue position of Kerala reveals that the State has broadly maintained its revenue-raising capacity with a robust increase in the rate of growth of own tax revenue and own non-tax revenue. There is a slight decline in the growth rate of revenue receipts during the last three years after the COVID-19 period, primarily due to the decline in grants-in-aid from the Centre. Though there is a marginal improvement in the growth of central taxes, overall, there has been a decline in the central share in recent years especially in the grants-in-aid components. Because of the sharp decline in grants-in-aid, the state of Kerala is not able to reap the full benefits of its own resource mobilisation. In a federal structure, a decline in the share of central transfers will definitely have an adverse impact on the developmental commitments of a state like Kerala.

3.5 Concluding Observations and the Way Forward

The foregoing analysis brings out that Kerala’s revenue performance in recent years has been shaped as much by structural and institutional factors as by short-term economic fluctuations. In absolute terms, the State has been able to sustain its revenue receipts and recover from the sharp disruptions caused by natural calamities and the COVID-19 pandemic. However, the underlying trends point to increasing pressure on the revenue system and a growing mismatch between the State’s expenditure responsibilities and its revenue-raising capacity.

A central feature of the post-GST period has been the limited improvement in the State’s own tax effort. While GST has emerged as the dominant source of own tax revenue, the anticipated gains for a consumption-oriented State have not fully materialised. The ratio of SGST to IGST in the state even today remains at 1.0:1.2, much below the expectation

of the state. The persistently low flow of revenues through IGST settlement has constrained the growth of GST receipts. This appears to be a structural issue arising from the design and administration of the GST framework, rather than a transitory shortfall, and one that lies largely beyond the unilateral control of the State.

At the same time, the decline in grants-in-aid from the Centre has altered the fiscal environment in which the State operates. Central transfers had played an important role in offsetting the slowdown in own revenues during earlier years. Kerala's dependence on central transfers remains significantly lower than the all-State average. Over the ten-year period, central transfers accounted for about 33 per cent of Kerala's total revenue receipts, compared to 45 per cent for all States. In 2023-24, this share declined further to 27 per cent in Kerala, while the all-State average stood at 42 per cent.

The study observed that own revenue of the state registered a higher growth of 18.61 per cent during the last three-year period compared to the decadal growth rate of 9.74 per cent. Over the past ten years, Kerala's revenue structure has been characterised by a relatively higher reliance on its own revenue. On a decadal average basis, own revenue accounted for about 67 per cent of Kerala's total revenue receipts, compared to 55 per cent for all States. This became even more pronounced in 2023-24, when own revenue constituted 73 per cent of Kerala's total revenue receipts, as against 58 per cent for all States. Similarly, over the past decade, own tax revenue accounted for an average of 55 per cent of Kerala's total revenue receipts, compared to 47 per cent for all States. In 2023-24, this share increased to 60 per cent in Kerala, while the all-State average stood at 50 per cent. This indicates that, despite the contraction in aggregate revenue receipts during the terminal year, Kerala's revenue structure remained more strongly anchored in its own sources relative to other States.

Within the State's own revenue sources, certain patterns warrant attention. The growth observed in land revenue and some non-GST taxes reflects policy adjustments and improved administration, but these sources continue to account for only a small share of total revenues. With the land records of over 400 villages being computerised, land revenue administration could improve in the years to come. Non-tax revenue, though it has grown rapidly in recent years, remains heavily concentrated in lottery receipts. While lotteries have provided a stable flow of gross revenue, their net contribution is modest, and excessive dependence on a single source exposes the revenue system to risks and limitations.

The analysis also suggests that some areas of potential remain under-utilised. User charges and fees in sectors such as health and education continue to play a marginal role in revenue mobilisation, despite the scale and quality of public services provided. The issue here is not one of revenue maximisation, but of gradual rationalisation and better alignment between costs, service delivery, and recovery, with due regard to equity and access.

Looking ahead, improvements in GST outcomes will depend significantly on reforms at the national level and on continued engagement in intergovernmental forums. At the State level, sustained attention to administrative efficiency, data systems, and compliance, along with selective and carefully calibrated policy adjustments, can help improve revenue responsiveness over time.

In sum, Kerala's revenue challenge is not one of immediate crisis, but of structural adequacy and long-term sustainability. Addressing this challenge will require persistence, institutional coordination, and a realistic appreciation of constraints. Such an approach would help ensure that the State's revenue system remains capable of supporting its developmental priorities and social commitments in an increasingly constrained fiscal environment.

Chapter 4

Expenditure Profile

4.1. Introduction

The mandate of the expenditure review, according to the Fiscal Responsibility Act, is to examine how prudent the expenditure pattern in the state has been during the assessment year. In the process of expenditure evaluation, several debates are in the foray. While engagement with all these issues is impossible, unveiling some of the glaring and active debates on certain basic conceptions that loom in the public domain is pertinent. One such multilogue is the change of income or output in an economy and its association with public expenditure. A variety of conceptual and empirical discussions are placed around this theme, and no expenditure review process escapes an evaluation of the income-expenditure debate. The first customary issue, other than the review of expenditure of the assessment year, is the association of income and expenditure within the rationalisation of the composition and efficiency of spending, along with the mandate of FRBM. Another much mooted argument is the concern of fiscal profligacy of the state. Often, economists, politicians, and public commentators cite that expenditure incurred in the general administrative services lead to fiscal mismanagement and profligacy, which need to be empirically verified in the context of Kerala by comparing it with other similar entities. For comparison, the report uses the neighbouring South Indian states of Tamil Nadu, Karnataka, Andhra Pradesh, and Telangana to address whether there is any undisciplined fiscal management in Kerala. The third and final issue we examine is whether Kerala has moved away from its much-touted Kerala model of social expenditure in the recent period. Lastly, we undertake a comparative analysis of social expenditure in the South Indian states, comparing Tamil Nadu, Karnataka, Andhra Pradesh, and Telangana, with Kerala.

Importantly, these debates are relevant, considering Kerala's current fiscal inflection point. The State is simultaneously grappling with multiple structural pressures that constrain expenditure choices and magnify the importance of prudent fiscal management. An ageing population has led to rising pension liabilities, imparting a degree of rigidity to revenue expenditure. High committed expenditures in the form of salaries, pensions, and interest payments have progressively compressed the discretionary fiscal space available for developmental and capital spending. At the same time, the post-GST fiscal conditions and the less favourable Centre-state relations have significantly limited the State's revenue autonomy and fiscal space, reducing its ability to respond to expenditure pressures through own-tax policy adjustments. These longstanding constraints are further

compounded by emerging expenditure demands linked to climate change and disaster vulnerability, which have become increasingly salient in recent years. Recurrent floods, landslides, and extreme weather events have imposed additional fiscal burdens that are largely non-discretionary and often inadequately accommodated within conventional budget frameworks. Against this backdrop, the objective of the Expenditure Review is not to adjudicate ideological positions on the size of government, but to assess whether Kerala's expenditure pattern during the assessment period reflects fiscal prudence, appropriate prioritisation, and sustainability, given its structural constraints and developmental responsibilities.

4.2 Public Expenditure: Conceptual and Theoretical Perspectives

Adolph Wagner, the German economist, conducted an in-depth study of the rise in government expenditure in the late 19th century, called “the law of increasing state activity”. Wagner's hypothesis states that “as the output of the economy increases over time, the activities and functions of the government increase”, which includes the increase in revenue and expenditure of the state; this refers to the income and expenditure of the state as a *consequence* of higher output rather than the cause (Wagner, 1958). Peacock and Wiseman studied public spending in the United Kingdom and found that Wagner's hypothesis is still valid (Peacock & Wiseman, 1979). Both hypotheses emphasize that public spending tends to increase over time, i.e., government expenditure increases due to the growth of the state's output.

Though the association and analysis of GSDP and expenditure of national and subnational levels are frequently evaluated, we need to be cautious of, and sensitive to, an observation on spending made by Maffeo Pantaleoni in what is a classic paper on the theory of public finance (Pantaleoni, 1958). He is of the view: “Parliament decides the distribution of public expenditure rather than the degree of utility developed by Jevons and Walras”. This observation extends the analysis of expenditure beyond a purely economic or functional relationship with growth, situating it instead within the realm of political economy. Public expenditure, and its expansion or contraction, reflects the preferences, priorities, and ideological orientation of governments, rather than emerging as a natural outcome of economic processes alone (Musgrave & Peacock, 1958).

Unlike Wagner or Peacock and Wiseman, the *General Theory of Employment, Interest and Money* by John Maynard Keynes proposed a different relationship between state expenditure and economic expansion (Keynes, 2009). When the state spends in the form of stimulus, the effects are realized in a multidimensional way. That is, an increase in government expenditure directly augments the purchasing power of economic agents. This rise in demand subsequently incentivizes producers to expand output, a process that necessitates the creation of additional employment. Crucially, Keynes introduces the concept of the multiplier effect to formalize this relationship. This economic principle holds that an initial injection of government spending generates a more than proportional

increase in national income, as the initial expenditure circulates through the economy. Thus, the multiplier effect provides a theoretical and quantitative linkage between fiscal policy - specifically government spending and the broader growth of national revenue and output. He contends that aggregate demand, driven primarily by government spending, is the principal determinant of economic growth. According to this framework, during periods of depression or recession, private sector demand becomes insufficient to maintain full employment. Keynes argues for deliberate and temporary state intervention to counteract this deficiency. Within this model, increased saving is viewed as a leakage from the circular flow of income, thereby exacerbating economic contraction, whereas increased expenditure stimulates aggregate demand. Given the argument, of late, there are arguments placed from different corners citing that the growth of debt or public borrowing offsets the growth of the economy. This gives rise to address the issue of whether borrowing-led expenditure offsets the growth of the economy, and ultimately the key question of whether borrowing and debt are unsustainable in Kerala.² Especially in the aftermath of COVID-19, Although the focus here is not the national economy but a subnational government, the underlying principle remains relevant: assessing whether public expenditure in Kerala has effectively stimulated GSDP growth.

To continue the argument of both Pantaleoni and Keynes in a social democratic³ framework, the justification for government expenditure is rooted in the essentiality of spending for the prosperity, inclusivity, and resilience of the society⁴. Unlike the Keynesian idea of economic crisis management through government expenditure, the expenditure of the government in a social democracy is seen to boost the performance of human capital, social stability, and sustainable growth, both pre and post crisis. This is orderly through the lens of the interventionist role of state from political, social, and economic interests; in that context, one cannot limit expenditure only through the logic of crisis management as the policy of the expenditure of the state suggested by Keynesians. Among umpty number of cases, the evidence from Nordic countries shows a cogent case of high social spending correlating with high productivity, innovation, and economic resilience (Basu, 1989; Blau, 1989; Petring et al., 2012; Sandmo, 1998). This reminds us that during crises, robust welfare systems act as automatic stabilisers if and only if they exist⁵; and then, and only then, do they shore up domestic demand and prevent a potential recession.

² A detailed analysis of borrowing and debt with sustainability question of growth of GSDP will be discussed in the next chapter.

³ Social democracy is a social, political, and economic ideology that advocates for a balance between a market economy and social welfare programs. It supports political democracy alongside social ownership of the means of production, aiming to achieve its goals through state regulation and democratic processes.

⁴ Most of the democrats in USA, the Labour Party members in UK and many left and socialist groups across the world subscribe the idea spending as a primary political economy act of the government and governance.

⁵ During COVID-19 pandemic this was evident in our day to day description and experience - who withstood and who fell deeper in the time of crisis in global and local scale (Boettke & Powell, 2021; Cafruny & Simona Talani, 2023; Chathukulam & Tharamangalam, 2021; Choolayil & Putran, 2021; de

4.3. Expenditure Pattern in Kerala: A Review

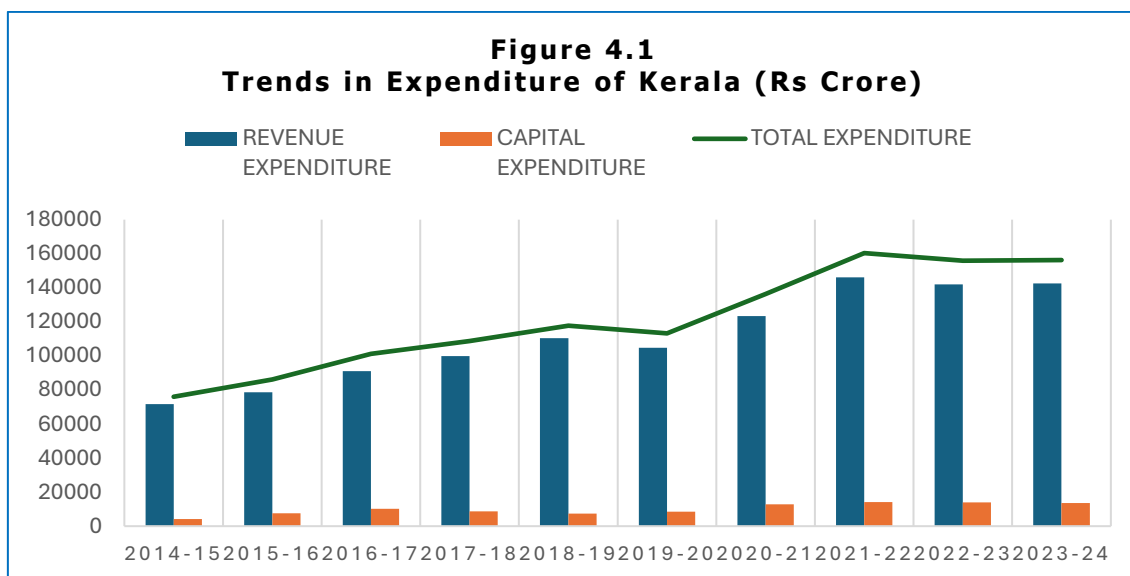
The expenditure of Kerala or any other Indian state needs to be evaluated in the context and mandate of the FRBM Act⁶. If we review the growth of GSDP in Kerala, we observe an almost similar case as in Peacock and Wisemen. For example, in the growth of GSDP of Kerala in 2016-17, according to the estimate of the Department of Economics and Statistics at current prices is 12.97 percent, which stooped into 3.13 percent and minus 5.07 percent respectively in 2019-20 and 2020-21⁷. The COVID-19 shock had indeed brought down the steady growth of the state in an unprecedented manner, and the same effect was observed all over the states in India and the world. The next year, the recovery was compensating and reached 19.79 percent, and gradually the growth stabilised and became better than the 2019-20 GSDP. The same can have some effect due to the spending, as the concept of Peacock and Wisemen observed. The statistics are important from the perspective of the theory of public expenditure, which is indeed directly reflected in the expenditure pattern of the state of Kerala. That is, the growth of expenditure and output as GSDP is associated. An interesting observation during the assessment years (2021-22 to 2023-24) we can make is that the three-year average revenue and capital expenditure to GSDP (15.44) is slightly less than the previous three years (2018-19 to 2020-21) average revenue and capital expenditure to GSDP (15.46), exhibiting fiscal prudence.

As in the proposition of Wagner or Peacock and Wisemen, the Kerala economy strives to keep spending at a pace that it can afford, i.e., the trend of total expenditure of the state is *prima facie* increasing with some turn. If we specifically investigate the details of total expenditure, it can be divided into revenue and capital expenditure. Examining the trend in revenue expenditure in the last ten years, amidst the secular increasing trend, we observe a fall in expenditure in 2019-20 and a jump in revenue spending in 2021-22. The former year was following the worst flood Kerala had experienced in a hundred years, and at the dawn of COVID-19 pandemic, while the latter year saw a hike of revenue expenditure due to salary reforms amidst the post-Covid ravage and subsequent slowdown of the economy. As a result, there is a remarkable mismatch between the income of the state and its expenditure. Interestingly, the capital expenditure in the post-flood period shows a steady upward trend during the period, which is a positive case as far as the performance and evaluation of the expenditure of the state is concerned (Figure 4.1). The fall of the revenue expenditure in 2022-23 and 2023-24 marks the efforts of the state positive in this concern.

Souza et al., n.d.; Ghosh, 2020; Mustafa et al., 2020; Papageorgiou & Pissinas, 2025; Rashmi & Lekshmi, 2021; WHO, 2020).

⁶ The letter and spirit of the FRBM Act is to check the balance of this political economy of rationalised spending.

⁷ The growth estimate we used is DES and the same data is relied on and reported by CAG. The estimate we cited is available at <https://www.ecostat.kerala.gov.in/storage/publications/1813.pdf>.



Source: Summary data on revenue and capital expenditure from Finance Accounts of C & AG of the respective years (Government of Kerala, 2015)

To put it differently, the combined revenue and capital expenditure had increased over the period except during 2019-20 and 2022-23 - the former year followed the unprecedented deluge and the reduction in the latter period is due to a higher committed revenue expenditure following salary and pension hikes and arrears committed in the year 2021-22 based on the quinquennial pay revision in Kerala (Table 4.1).

Table 4.1: Trends of Revenue and Capital Expenditure in Kerala

Year	Revenue Expenditure (D1)	Interest payments (D1i)	Capital Expenditure [D2=D2i+D2ii]	Capital Outlay (D2i)	Loan Disbursements (D2ii)	Total Expenditure (D1+D2)
2014-15	71746	9770	4998	4255	743	76744
2015-16	78689	11111	8342	7500	842	87031
2016-17	91096	12117	11286	10126	1160	102382
2017-18	99948	15120	10290	8749	1541	110238
2018-19	110316	16748	9754	7431	2323	120070
2019-20	104720	19215	9665	8455	1210	114385
2020-21	123446	20975	15439	12890	2549	138885
2021-22	146179	23302	17046	14192	2854	163225
2022-23	141950	25176	16788	13997	2791	158738
2023-24	142626	26986	16880	13584	3296	159506

Source: Finance Accounts of C&AG of the respective years (Government of Kerala, 2015)

The increased expenditure of 2020-21, during the pandemic, was also accompanied by higher revenue realised through grants from central government, as well as capital

receipts in the same year, but in other years it did not realise due to various concerns of the union government. In general, it is evident that three-year average expenditure indeed point towards an affirmative policy of the state government.

To explore further, we can investigate the year-on-year growth (Table 4.2). The total revenue expenditure has fallen only in 2019-20, but as expected, interest payments, which is a part of revenue expenditure, has not come down, implying that the absolute revenue expenditure other than interest payment declined drastically. If we examine capital expenditure, there is no increasing pattern, but it is also not decreasing; rather it oscillates with the quantum of asset creation the government commits, which coincides the observation of Pantaleoni, Keynesians and Social Democrats. The conceptual issue in defining capital investment previously highlighted needs to be kept mind here.

The trend is clear from Table 4.2, where the total expenditure on a year-on-year basis fell during 2017-18, 2019-20, 2022-23, and 2023-24. While the year 2019-20 saw significant reduction in revenue, capital, and consequently, total expenditure, this was not due to any expenditure rationalisation, but rather a sheer decline in capital and revenue receipts following the effects of the deluge and the first wave of the pandemic. In the year 2020-21, though marked by COVID, the government began taking initiative to increase expenditure to stimulate the economy, a move that was aided by the pending grants from the Centre the same year. The dwindling grants distribution from the union government creates an impasse even in the committed expenditure. The fall in revenue expenditure during 2022-24 was due to normalisation of the revenue expenditure in terms of salary and pension, which was accounted at a high rate in 2021-22 due to the implementation of pay revision. As we observed in the table 4.1, there is no considerable fall in the salary and pension otherwise. Corroborating this, the fall in union transfer indeed had reduced the receipts and expenditure in 2022-24 as mentioned elsewhere.

Interestingly, the ten-year expenditure average reported in the first report of the 6th Kerala expenditure review committee was higher than the current assessment ten-year average in all fronts, showing that there is a fiscal consolidation happening in the long run, when keeping aside the fluctuations occurring in specific years due to exceptional events. Usually, unprecedented fiscal conditions emerge due to external factors like flood, pandemics etc. To understand the short-run trend, we calculated the three-year average of year-on-year growth of the assessment period (2021-22 to 2023-24) and the period before (2018-19 to 2020-21). A striking observation evident in Table 4.2 is that the revenue expenditure during the assessment period is considerably reduced (from 7.73 to 5.34 percent) along with its interest payment component (from 11.55 to 8.79 percent) and the higher capital expenditure corresponded during the flood and the COVID period was harnessed to 3.15 percent in the assessment period. The combined expenditure in the two corresponding periods (assessment period and the previous) showed a decrease (from 8.54 to 5.09), indicating a clear control of expenditure during the assessment year of 2021-22 to 2023-24.

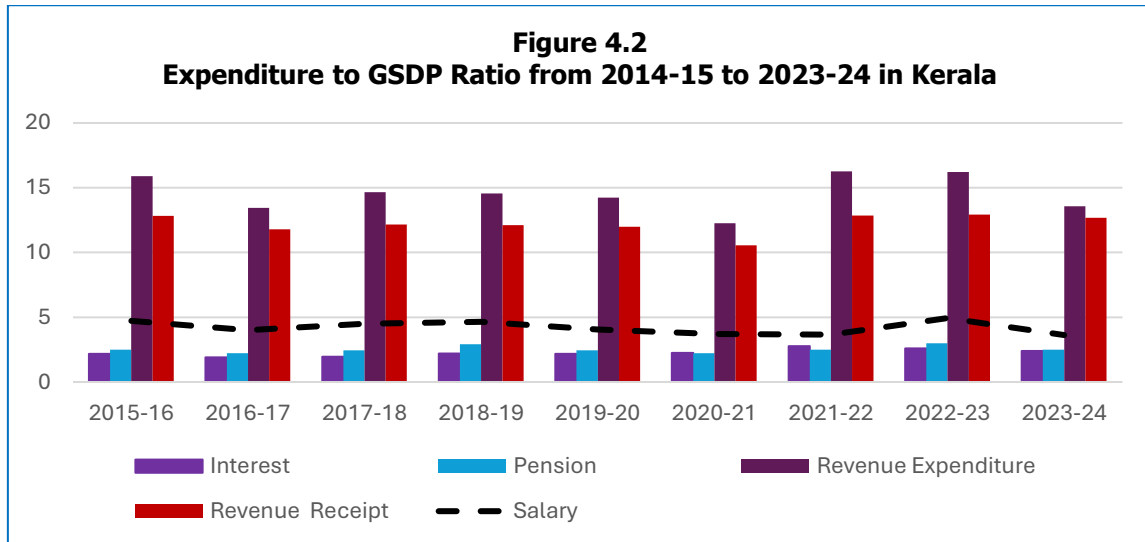
Table 4.2: Year on Year Growth Rate of Different Expenditure in Kerala

Year	Revenue Expenditure (D1)	Interest payments (D1i)	Capital Expenditure [D2=D2i+D2ii]	Capital Outlay (D2i)	Loan Disbursements (D2ii)	Total Expenditure (D1+D2)
2014-15	18.62	18.21	-13.20	-0.91	-49.25	15.85
2015-16	9.68	13.73	66.91	76.26	13.32	13.40
2016-17	15.77	9.05	35.29	35.01	37.77	17.64
2017-18	9.72	24.78	-8.83	-13.60	32.84	7.67
2018-19	10.37	10.77	-5.21	-15.06	50.75	8.92
2019-20	-5.07	14.73	-0.91	13.78	-47.91	-4.73
2020-21	17.88	9.16	59.74	52.45	110.66	21.42
2021-22	18.42	11.09	10.41	10.10	11.97	17.53
2022-23	-2.89	8.09	-1.51	-1.37	-2.21	-2.75
2023-24	0.48	7.19	0.55	-2.95	18.09	0.48
Average [^]	9.29	12.68	14.32	15.37	17.60	17.68
Average [*]	11.80	14.40	16.94	17.85	21.21	12.04
Average ^{^^}	5.34	8.79	3.15	1.93	9.28	5.09
Average ^{**}	7.73	11.55	17.87	17.06	37.83	8.54

[^]Current Reporting Ten Years Average; ^{^^} Current Reporting Three Years Average; ^{*}Previous Reporting Ten Years Average ^{**} Previous Reporting Three Years Average (Government of Kerala, 2024)

Source: Finance Accounts of C &AG of the respective years (Government of Kerala, 2015)

To understand whether expenditure growth is *a la* Wagner, we need to examine the trend in terms of GSDP. It is clear from Figure 4.2 that the expenditure increases during a normal expansion of the economy but falls in abnormal economic situations. After the demonetisation, total expenditure started to fall, but the fall was much evident during the COVID-19 pandemic year 2020-21. The pandemic necessitated increased spending in the subsequent year, even though revenue receipts were lower than usual. The graphical representation gives a quick grasp of this fall and the subsequent jack-up in the post COVID period. However, there is a stabilisation of expenditure that can be observed since 2021-22, followed by an expenditure decline and a catch-up of revenue receipts – aligning with the observation made by Peacock and Wiseman. The lowest ebb of the combined salary, pension, and interest payment was in the demonetisation year, where the highest point of the same can be observed in the post COVID period and that too with a higher allocation due to pay reforms. Amidst the crisis bestowed by the pandemic, the political will of the government is the determining factor of such an unprecedented hike, corroborating the statement of Maffeo Pantaleoni we cited above. However, we need to be cautious of the increasing trend of interest payments, which amounts to the debt burden of the state. Notably, in the last three years, this condition has improved considerably in terms of GSDP, which reflects positively on the state's efforts towards fiscal consolidation.



Source: Finance Accounts of C & AG of the respective (Government of Kerala, 2015)

To understand revenue expenditure in detail, we must first consider the major components of revenue expenditure: Salary, Interest, and Pension. Together, they accounted for a total of Rs. 94,694 crores during 2021-22, which is double that of the expenditure incurred by the three components in 2015-16 (Table 4.3).

Let's understand the scenario from a long-term lens. The ten year (2011-12 - 2020-21) average expenditures on salary, pension, and interest payment was estimated at 30.22, 17.77, and 14.75 per cent, respectively (Government of Kerala, 2024). During the current 10-year period (since 2014-15) salary declined to 28.74%, pension declined to 15.94% and only interest increased to 17.45% (Table 4.4). Thus, except for interest payment, the performance of the ten-year average of salary, pension, and combined expenditure reflects the mandate laid in the fiscal responsibility, whereas the increase in the interest payment demands further attention.

Table 4.3: Trends in Salary, Interest, Pension – from 2014-15 to 2023-24

Year	Salary	Interest	Pension	Total	Revenue Expenditure	Revenue Receipt
2014-15	21334	9770	11253	42357	71746	57950
2015-16	23450	11111	13063	47624	78690	69033
2016-17	27954	12117	15277	55348	91096	75612
2017-18	31802	15120	19938	66860	99948	83020
2018-19	31406	16748	19012	67166	110316	92854
2019-20	31676	19215	19064	69955	104720	90225
2020-21	27728	20975	18943	67646	123446	97617
2021-22	44494	23302	26898	94694	146179	116640
2022-23	37902	25176	26090	89168	141950	132724
2023-24	38541	26986	25644	91291	142626	124486
<i>Source: Finance Accounts of C & AG of the respective years (Government of Kerala, 2015)</i>						

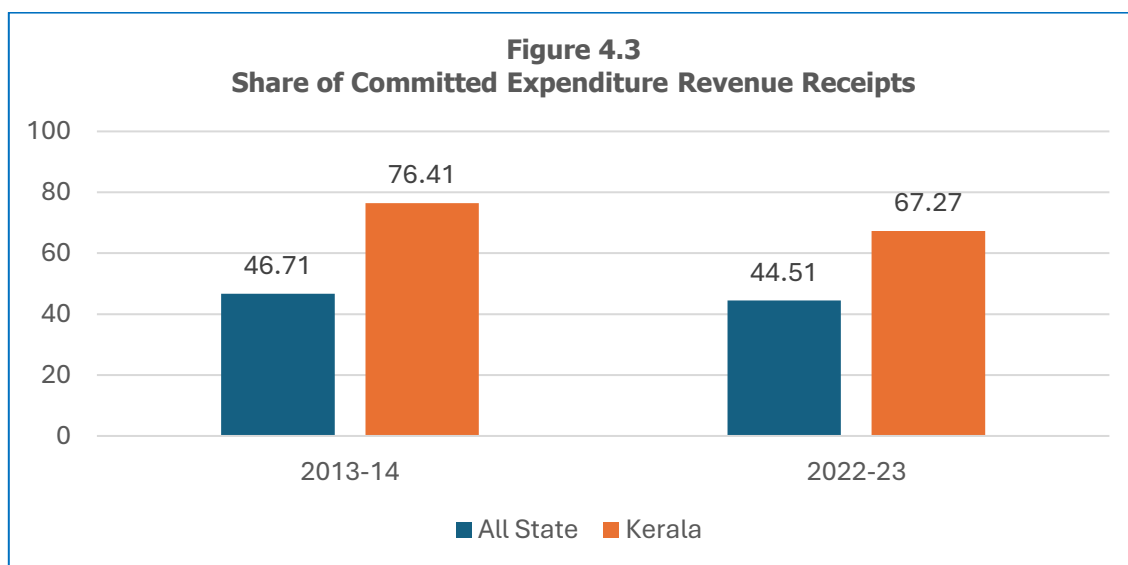
Table 4.4: Percentage Share of Salary, Pension, and Interest Payment to Revenue Expenditure and Receipt from 2014-15 to 2023-24

Year	Percentage on Revenue Expenditure				Percentage on Revenue Receipt			
	Salary	Interest	Pension	Total	Salary	Interest	Pension	Total
2014-15	29.74	13.62	15.68	59.04	36.81	16.86	19.42	73.09
2015-16	29.80	14.12	16.60	60.52	33.97	16.10	18.92	68.99
2016-17	30.69	13.30	16.77	60.76	36.97	16.03	20.20	73.20
2017-18	31.82	15.13	19.95	66.89	38.31	18.21	24.02	80.53
2018-19	28.47	15.18	17.23	60.89	33.82	18.04	20.48	72.34
2019-20	30.25	18.35	18.20	66.80	35.11	21.30	21.13	77.53
2020-21	22.46	16.99	15.35	54.80	28.4	21.49	19.41	69.30
2021-22	30.44	15.94	18.40	64.78	38.15	19.98	23.06	81.18
2022-23	26.70	17.74	18.38	62.82	28.56	18.97	19.66	67.18
2023-24	27.02	18.92	17.98	64.01	30.96	21.67	20.60	73.33
PRTY Average	30.22	14.75	17.77	62.14	36.39	17.77	20.68	74.84
CRTY Average	28.74	15.94	17.45	62.13	34.11	18.87	20.69	73.67
Average*	28.05	17.53	18.25	63.87	32.56	20.20	21.11	73.90
PRTY Average meaning Previous Reporting Ten Year, and CRTY Average is Current Reporting Ten Year. *Current three-year average.								
<i>Source: Finance Accounts of C & AG of the respective years (Government of Kerala, 2015)</i>								

In a similar vein, the evaluation of the current assessment period of three years gives a lower salary payment than that of the long-term average. Amidst the pay revision hike in the assessment year, the reduction in salary payment seems plausible. Whereas the interest and pension average is higher as expected. If we average the last two years, the performance of revenue spending in terms of expenditure and receipt is decelerating, which indicates a positive control over expenditure.

4.3.1. Creating Fiscal Space: Evidence of Adjustment under Constraint

The evidence in this section (Figure 4.3) suggests that Kerala has made conscious attempts to create fiscal space for capital expenditure, despite operating under significant structural and institutional constraints. Fiscal space creation in Kerala cannot be assessed merely through headline deficit numbers; it must be understood through changes in the composition of expenditure, particularly the management of committed liabilities relative to revenue receipts.



Source: *Finance Accounts of C & AG of the respective years*

A key indicator in this regard is committed expenditure as a percentage of revenue receipts, which captures the degree of rigidity in the budget and the room available for discretionary spending. Between 2013–14 and 2022–23, Kerala’s committed expenditure ratio declined from 76.41 per cent to 67.27 per cent, indicating a meaningful moderation in expenditure rigidity. While Kerala continues to exhibit a higher committed expenditure ratio than the all-states average, reflecting its demographic profile, mature public sector, and pension obligations, the downward movement is noteworthy. The decline has occurred during a period marked by GST implementation, pandemic-induced shocks, and heightened borrowing constraints, underscoring the fiscal effort involved. On the contrary, the all-states average committed expenditure ratio declined only marginally, from 46.71 per cent to 44.51 per cent over the same period. This comparison highlights that Kerala’s fiscal challenge is structural rather than discretionary: higher inherited commitments limit flexibility, but the State has nonetheless improved its internal expenditure composition over time.

The persistence of a relatively high committed expenditure ratio, however, signals the limits of adjustment (Table 4.3 & 4.4). Ageing-related pension liabilities, salary

commitments, and interest payments continue to absorb a large share of revenue receipts, constraining the pace at which discretionary space can be expanded. This reinforces the importance of viewing Kerala's fiscal stance not through the lens of profligacy, but as a case of fiscal management under tight structural constraints, where marginal improvements in composition carry significant policy relevance. In sum, the evidence indicates that Kerala has not been fiscally inert. Within the confines of FRBM norms, limited revenue autonomy under GST, and rising non-discretionary obligations, the State has made measurable efforts to create fiscal space.

4.4. Kerala's Expenditure in Comparison with Other South Indian States

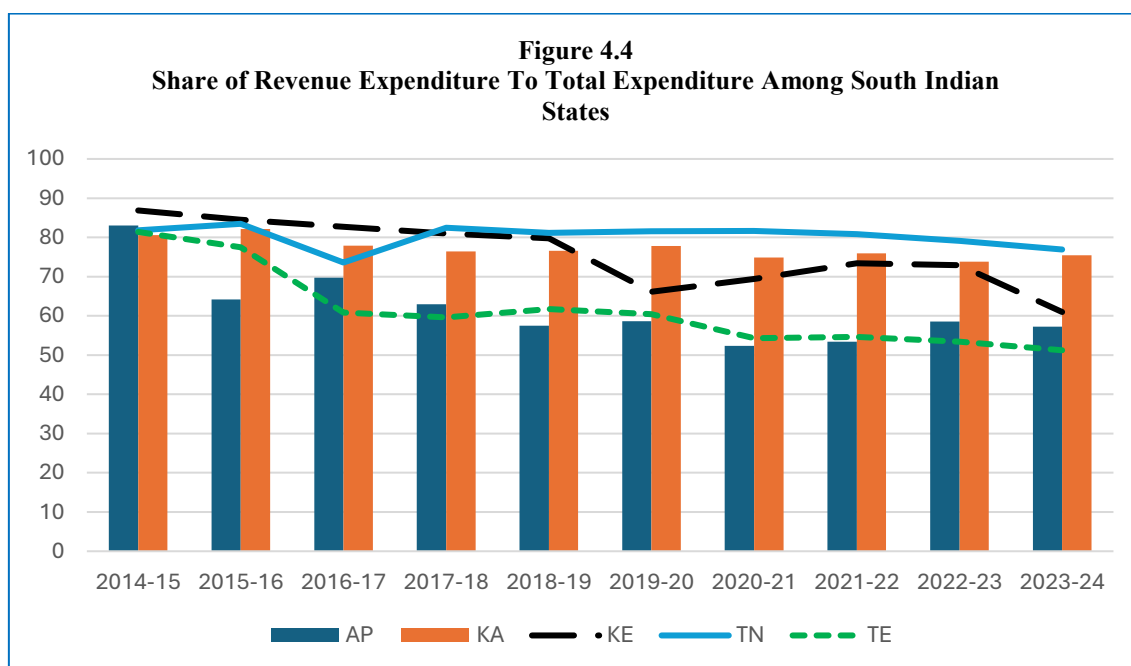
To understand the relevance of the expenditure mismanagement debate we mentioned in the beginning, a subnational level analysis of South Indian states⁸ may be helpful to observe the nitty-gritty of the debate in the long term (ten-year) and short term (assessment years (three years) perspective. To avoid any confusion or prejudice, we considered all five south Indian states to have a picturesque experience of revenue and capital expenditure as a proportion to the total liability of the state that comprises as the liability entered in the public accounts of the respective state (Appendix Table 4). The graphical presentation indeed gives a compelling narrative on the proportion of revenue and capital expenditure along with other liabilities - indicative of no room for any missing out of expenditure and liabilities.

4.4.1. Comparison of Revenue Expenditure

The percentage of revenue expenditure to the total expenditure in the consolidated fund for the states of Kerala (KE), Tamil Nadu (TN), Karnataka (KA), Andhra Pradesh (AP), and Telangana (TE) in 2014-15 was in the range of 80-86 percent (Figure 4.4). Kerala shows the highest (86.87) percent of revenue expenditure in 2014-15, and the lowest (80.55) percentage of revenue expenditure to total expenditure was observed in Karnataka. The highest proportional fall in the revenue expenditure marked during the ten-year period is in Telangana (from 81 percent to 51 percent), and the lowest change was in Tamil Nadu (from 81.8 percent to 76.9 percent). Interestingly, the high rate of change experienced by Andhra Pradesh and Telangana during the period was due to a high proportion of capital expenditure incurred due to the state's bifurcation, coupled with central transfers apparently for infrastructure development in the states. Barring this, the highest proportion of fall in revenue expenditure is experienced in Kerala. The often-positated narrative on fiscal mismanagement due to higher revenue expenditure withers from the evidence of falling revenue expenditure in comparison to total expenditure of the state. It is also worth mentioning that the expenditure in the last three years shows a

⁸ State vs Centre in terms of expenditure is no match or compatible set to evaluate due to several reasons. One of the crucial factors is the sovereignty of income and expenditure of state and centre. The second one is the freedom and source of income the state and centre enjoy, etc. Hence, comparing subnational entity makes sense.

clear decline – 73.41 percent in 2021-22 to 60.98 percent in 2023-24, a whopping 13 percent fall. During the same years, neighbours having a relatively low pace in their revenue expenditure reduction, indicate that the narrative of profligacy in terms of revenue expenditure to that of total expenditure is no more valid (Figure 4.4).



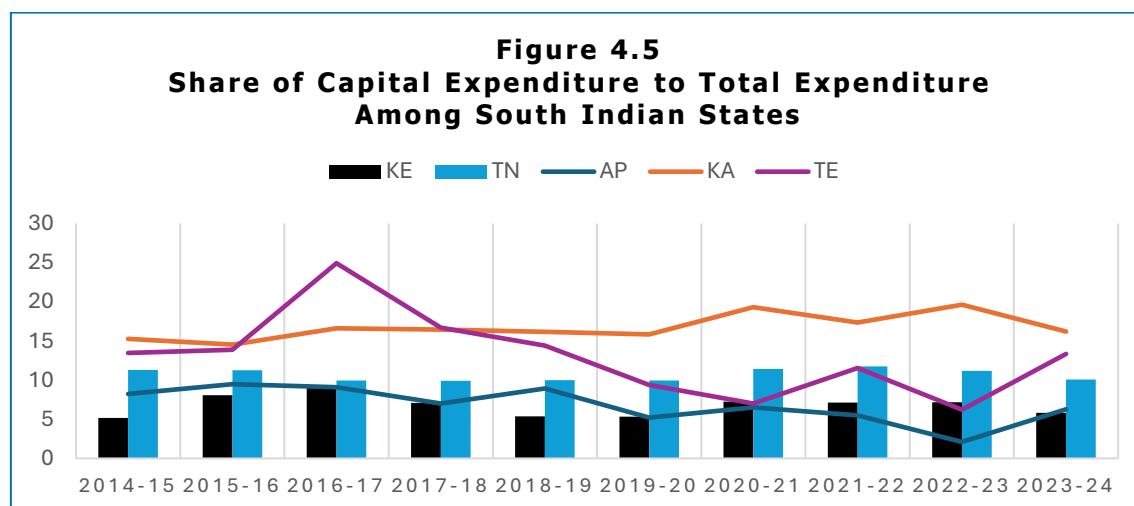
Source: Summary data on revenue expenditure calculated from Finance Accounts of C & AG of the respective years in five south Indian states (Government of Andhra Pradesh, 2015; Government of Karnataka, 2015; Government of Kerala, 2015; Government of Tamil Nadu, 2015; Government of Telangana, 2015)

4.4.2. Comparison of Capital Expenditure

Capital expenditure, which effectively adds more physical capital and amounts to long term development in proportion to the total expenditure, ranged between 5 and 15 percent in 2014-15 in all five states, which slightly improved between 5.8 to 16.2 percent in 2023-24 (Figure 4.5). Interestingly, the highest and lowest capital expenditure incurred states in 2014-15 and 2023-24 remained the same – the former is Karnataka, and the latter is Kerala, indicating that capital expenditure in Kerala needs to improve compared to Karnataka and other states⁹. Despite the only marginal increase over the ten-years, a hopeful improvement in the capital expenditure is happening in the state in the last five years, which is positive as far as the analysis period of capital expenditure is concerned. This is indeed obvious from the effective capital expenditure calculation. Accordingly, the percentage share of effective capital expenditure during 2022-23 and 2023-24 was

⁹ The capital expenditure incurred by Kerala State through its much discussed off budgets borrowing and spending for capital investment during the period routing through Kerala Infrastructure Investment Fund Board is excluded.

11.11 percent and 8.85 percent respectively, which corresponds to Tamil Nadu's figures. If the trend continues, then the level of infrastructure and long-term growth trajectory of the state may perhaps advance to the next level. In terms of capital expenditure, the performance of Andhra Pradesh is not better off during the assessment years when compared to other states, including Telangana and Tamil Nadu. The narrative of Kerala being the poor performer in terms of capital expenditure is no longer valid, but there is always room for positive improvement in the shifting trajectory.



Source: Summary data on revenue expenditure calculated from Finance Accounts of C & AG of the respective years in five south Indian states (Government of Andhra Pradesh, 2015; Government of Karnataka, 2015; Government of Kerala, 2015; Government of Tamil Nadu, 2015; Government of Telangana, 2015)

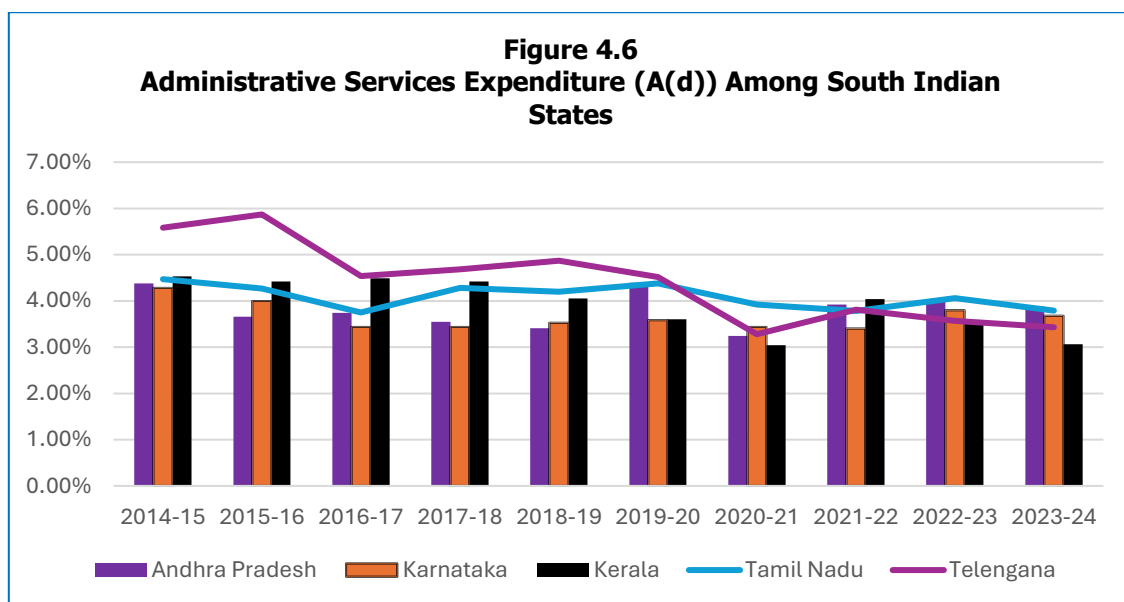
4.4.3. General Administrative Services Expenditure

Rationalising public expenditure, such as expenditure on governance, often occupies a crucial discourse regarding governmentality and expenditure of the state. The incident of having higher general and administrative expenditure calls for the need to unravel the share of general and administrative services expenditure to the total expenditure in Kerala and compare it with that of other south Indian states. To examine the relevance of the narrative of fiscal profligacy and mismanagement of expenditure going around in the public sphere, an analysis of spending in core administrative services is required. This expenditure is part of the revenue expenditure of the state, which made those narratives persuasive. As in the previous exercise, the long- and short-term lens can perhaps be used to better understand the situation.

The expenditure of public service commission, secretariat general service, district administration, treasury and accounts, public works, police, jails, stationery and printings, and others comes under this category of administrative services (Table 4.5). The decadal analysis of administrative expenditure to that of general administrative expenditure shows

that the percentage of general administrative services (entered in the C&AG finance audit report entry as (d of A)) to total expenditure in all five states is declining. It indicates that in a normal long run, general administrative services expenditure complies with the fiscal consolidation act in terms of expenditure minimisation. A clear picture is presented through Figure 4.6. As we discussed in the above paragraph, the rate of expenditure in the entry (d of A) for Telangana was the highest in 2014-15, and in the same year, Karnataka had the lowest among the south Indian states. The second-highest spending rate was that of Kerala, which probably evoked the discussion of profligacy. Over the years, the spending in general administrative services came down drastically, with fluctuations in the years of disturbances¹⁰ (Figure 4.6).

If we compare the assessment year, the expenditure in administrative services (A(d)) has reduced from 4.04 percent in 2021-22 to 3.06 percent in 2023-24 - a sharp and consistent fall that counters the narrative of fiscal mismanagement and profligacy.



Source: Summary data on revenue expenditure calculated from Finance Accounts of C &AG of the respective years in five south Indian states (Government of Andhra Pradesh, 2015; Government of Karnataka, 2015; Government of Kerala, 2015; Government of Tamil Nadu, 2015; Government of Telangana, 2015)

¹⁰ The years of disturbance we mean the internal (higher or lower spending) or external (flood, covid19, etc.) factors.

Table 4.5: Administrative Services Expenditure (A(d)) Among South Indian States from 2014-15 to 2023-24

Year	Andhra Pradesh	Karnataka	Kerala	Tamil Nadu	Telangana
2014-15	4.38	4.28	4.53	4.47	5.58
2015-16	3.66	4.00	4.42	4.27	5.87
2016-17	3.74	3.44	4.49	3.75	4.54
2017-18	3.55	3.44	4.42	4.28	4.68
2018-19	3.41	3.53	4.05	4.20	4.87
2019-20	4.39	3.58	3.60	4.38	4.52
2020-21	3.24	3.44	3.04	3.92	3.28
2021-22	3.92	3.40	4.04	3.78	3.81
2022-23	3.98	3.80	3.57	4.06	3.57
2023-24	3.88	3.68	3.06	3.79	3.43
<i>Source: Summary data on revenue expenditure calculated from Finance Accounts of C &AG of the respective years in five south Indian states (Government of Andhra Pradesh, 2015; Government of Karnataka, 2015; Government of Kerala, 2015; Government of Tamil Nadu, 2015; Government of Telangana, 2015)</i>					

The change in expenditure can also be understood in terms of three-year average, which is presented in Table 4.6. The data shows that except secretariat general services in Andhra Pradesh, district administration, police and others in Karnataka, public works in Kerala and Tamil Nadu, all the three-year assessment average in the last assessment period and its previous has come down in these subheads of expenditure. This shows that the mandate of fiscal consolidation is being followed South India and the narrative of mismanagement seems puzzling from the data, which is contrary to the criticisms.

Table 4.6: The Three-Year Average of Subhead Expenditure under General Services in Five South Indian States (%)

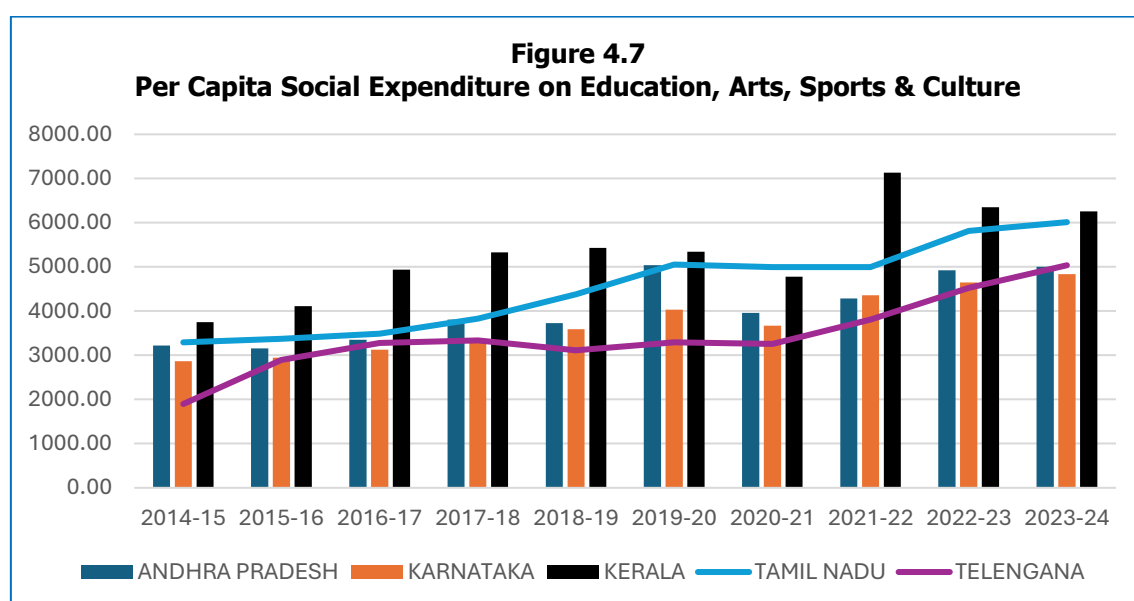
Three Years Average		AP	KA	KE	TN	TE
2018-19 TO 2020-21	PSC	0.01	0.02	0.10	0.03	0.02
2021-22 TO 2023-24		0.01	0.02	0.10	0.03	0.02
2018-19 TO 2020-22	SGS	0.26	0.11	0.16	0.11	0.09
2021-22 TO 2023-25		1.20	0.09	0.15	0.10	0.08
2018-19 TO 2020-22	DA	0.47	0.18	0.28	0.54	0.58
2021-22 TO 2023-25		0.36	0.20	0.28	0.48	0.36
2018-19 TO 2020-22	TA	0.12	0.09	0.18	0.14	0.09
2021-22 TO 2023-25		0.10	0.09	0.18	0.12	0.09
2018-19 TO 2020-21	POLICE	2.19	2.47	2.23	2.76	3.04
2021-22 TO 2023-24		1.92	2.59	2.21	2.61	2.80
2018-19 TO 2020-22	JAILS	0.07	0.09	0.09	0.12	0.06
2021-22 TO 2023-25		0.06	0.10	0.09	0.11	0.05
2018-19 TO 2020-22	SP	0.01	0.04	0.09	0.06	0.03
2021-22 TO 2023-25		0.01	0.03	0.08	0.04	0.02
2018-19 TO 2020-22	PW	0.10	0.36	0.08	0.17	0.10
2021-22 TO 2023-25		0.08	0.30	0.19	0.18	0.10
2018-19 TO 2020-21	OTHERS	0.46	0.16	0.28	0.24	0.10
2021-22 TO 2023-24		0.18	0.22	0.27	0.21	0.10
PSC=public service commission, SGS= secretariate general services, DA= district administration, TA= Treasury & Accounts, SP= stationery and printing, PW= public works.						
Source: Summary data on revenue expenditure calculated from Finance Accounts of C &AG of the respective years in five south Indian states (Government of Andhra Pradesh, 2015; Government of Karnataka, 2015; Government of Kerala, 2015; Government of Tamil Nadu, 2015; Government of Telangana, 2015)						

4.5. Key Social Sector Expenditure: A Comparison

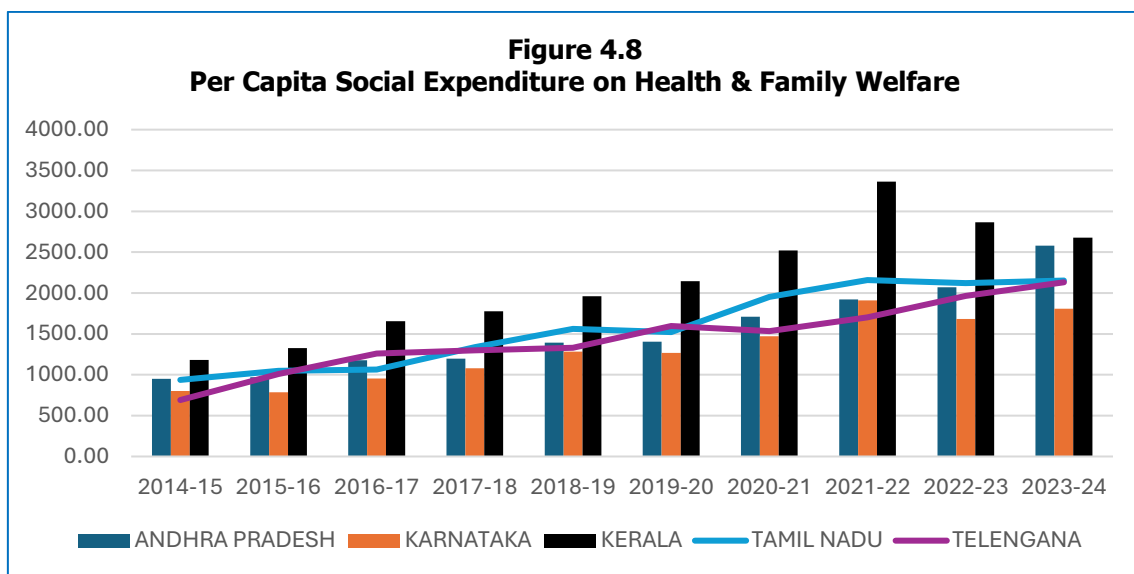
To understand social sector expenditure, we need to compare state-level per capita expenditure in different sectors in the five South Indian states. This will convey the point that the state of Kerala has a comparative edge in terms of spending in the social sector. The reports of both the union and the states highlight that the social sector achievements in terms of education, arts and sports, health and family welfare, expenditure on labour, water supply, sanitisation, housing and urban development, nutrition, information and communication, etc are the key pillars of Kerala's better rankings in terms of social outcomes. The sectors we examine due to time and space constraints are education, arts and sports, health and family welfare, and expenditure on labour. For the evaluation, we estimate the per capita expenditure on these sectors to see how Kerala fares in comparison to other South Indian states (Appendix Table 5).

As in the education sector, Kerala and Tamil Nadu are leading in per capita expenditure, whereas Andhra Pradesh spends less, followed by Karnataka and Telangana (Figure 4.7). An understandable fall in the per capita expenditure in education, arts, and culture can be observed during the pandemic, and in the subsequent period, there was a jack up of expenditure, which shows the swift response of the government and its commitment toward the spending.

Regarding health and family welfare, Kerala has the highest per capita spending, followed by Tamil Nadu, and the lowest per capita spending is observed in Karnataka, followed by Telangana and Andhra Pradesh (Figure 4.8). The health expenditure was jacked up during the health emergency caused by COVID in all the states, as in the case of education and allied activities.

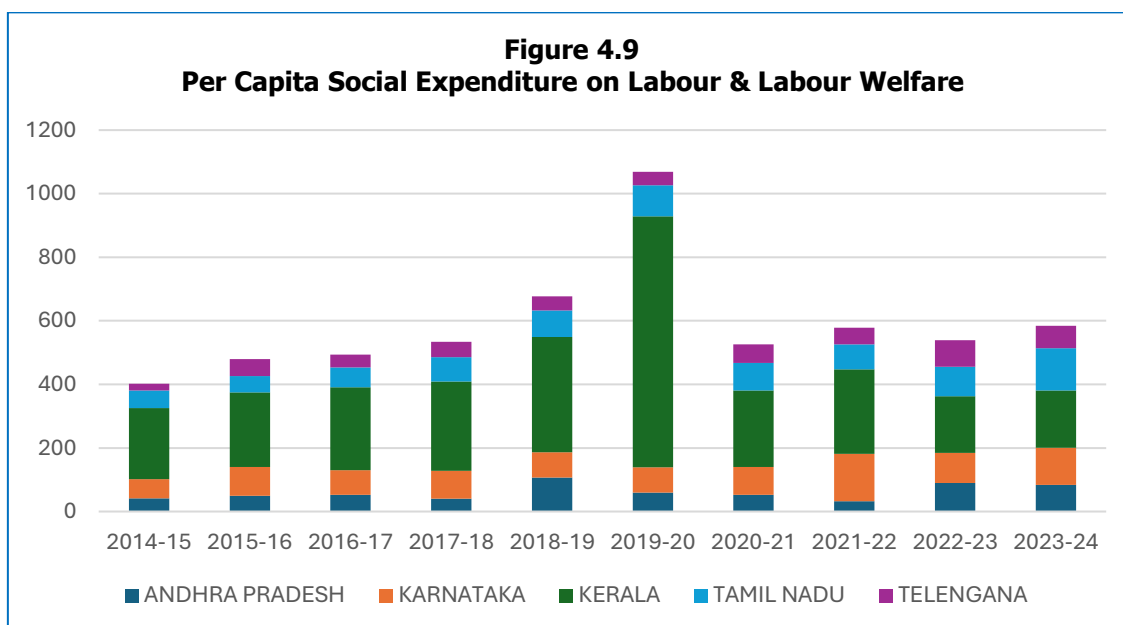


Source: Summary data on revenue expenditure calculated from Finance Accounts of C &AG of the respective years in five south Indian states (Government of Andhra Pradesh, 2015; Government of Karnataka, 2015; Government of Kerala, 2015; Government of Tamil Nadu, 2015; Government of Telangana, 2015)



Source: Summary data on revenue expenditure calculated from Finance Accounts of C &AG of the respective years in five south Indian states (Government of Andhra Pradesh, 2015; Government of Karnataka, 2015; Government of Kerala, 2015; Government of Tamil Nadu, 2015; Government of Telangana, 2015)

Regarding the expenditure on labour welfare, Kerala is at the forefront in per capita spending. Though every state spent a little higher during the pandemic, which created a health emergency, Kerala spent the most in terms of per capita income (Figure 4.9).



Source: Summary data on revenue expenditure calculated from Finance Accounts of C &AG of the respective years in five south Indian states (Government of Andhra Pradesh, 2015; Government of Karnataka, 2015; Government of Kerala, 2015; Government of Tamil Nadu, 2015; Government of Telangana, 2015)

Given the basic achievement of Kerala in terms of education, health, and labour welfare, the expenditure in these areas was never cut back by the government, which shows the interest and commitment of the government to advance social sector spending and achieve higher living standards. This reinforces Kerala's position as a leader in its flagship development path - widely recognised as the Kerala Model.

4.6. Concluding Observations

The chapter on expenditure examines four key issues. First, it assesses the prudence of State expenditure during the assessment period and finds that spending broadly remained within the objectives laid down under the FRBM framework, although certain mandated fiscal targets require greater policy focus in the subsequent period. Second, it analyses the dynamics of income and output growth in the economy and their relationship with public expenditure. Third, it evaluates the quality of spending, which is often alleged in the public discourse to reflect fiscal mismanagement and profligacy. To examine this issue empirically, the chapter undertakes a comparative analysis of general administrative services expenditure in Kerala vis-à-vis neighbouring South Indian States—Tamil Nadu, Karnataka, Andhra Pradesh, and Telangana. The comparative evidence does not indicate any association between Kerala's expenditure pattern and fiscal mismanagement.

The study observed that the revenue expenditure during the assessment period has considerably reduced (from 7.73 to 5.34 percent) along with its interest payment component (from 11.55 to 8.79 percent). The total expenditure in the two corresponding periods (assessment period and the previous) showed a decrease (from 8.54 to 5.09), indicating a clear control of expenditure during the assessment year of 2021-22 to 2023-24.

For historical reasons, Kerala is known for high committed expenditure. However, during the past decade, including the review period, a striking transformation is in place. To be specific, Kerala's committed expenditure as a percentage of revenue receipts declined from 76.41 per cent to 67.27 per cent, indicating a meaningful moderation in expenditure rigidity. On the contrary, the all-states average committed expenditure ratio declined only marginally, from 46.71 per cent to 44.51 per cent over the same period. Yet another issue with expenditure of Kerala is the low proportion of capital expenditure in total expenditure. While the Committee has reservations with respect to the definition of capital used in public accounts, estimation of 'effective capital expenditure' articulated by the First Expenditure Review Committee, it is observed that Kerala's capital expenditure is in sync with even Tamil Nadu.

The fourth issue relates to concerns regarding a possible drift in social sector spending, leading to apprehensions that Kerala's historically strong social development performance may weaken. To assess this, the report reviews social sector expenditure in three major areas in which Kerala has recorded remarkable achievements—education,

health, and workers' welfare. The analysis clearly demonstrates that public expenditure in these sectors has remained robust. Consequently, the argument in the public domain regarding fiscal profligacy or mismanagement in social sector spending finds no empirical support in the data published by the Comptroller and Auditor General of India for Kerala.

Overall, the assessment for the period 2021–22 to 2023–24 indicates a moderate and stable performance in fiscal discipline, consistent with the mandate of the FRBM framework.

Chapter 5

Debt Management

5.1 Introduction

It was largely argued until the Keynesian revolution that Budget deficits and accumulation of debt would lead to bankruptcy of the government. Neoclassical theories view that fiscal deficits increase public dissaving and raise interest rates, which in turn crowds out private investment and reduces growth. With the advent of Keynesian economics (1936), budget deficits were even considered as essential instruments for macroeconomic stabilisation. This policy acceptance naturally raised questions regarding the long-run implications of debt-financed expenditure. In this context, Domar (1944) claimed that even if the government mobilises its expenditure through borrowing, the public debt and the proportion of debt to GDP could be stable in the long run provided the growth rate of the output of the economy exceeds rate of growth of interest. Building on Domar's seminal insight, a range of alternative debt sustainability frameworks subsequently gained analytical and empirical relevance, reflecting evolving theoretical developments and empirical testing strategies (Bohn, 1998; Greiner and Fincke, 2015; Renjith & Shanmugam, 2018). Consequently, persistent fiscal deficits and mounting public debt at both the national and subnational levels worldwide underscore the need to assess debt sustainability, which should guide the design and implementation of appropriate fiscal consolidation measures.

Given this context, the present chapter deals with the debt management aspects of Kerala economy as mandated by the Kerala Fiscal Responsibility Act in 2003. The chapter assesses- whether key fiscal indicators, especially debt-GSDP ratio and the ratio of interest payments to revenue receipts- have adhered to the targets set by the successive Finance Commissions (FCs). For this purpose, the structural distribution of debt, its growth and composition are examined for the period of 2014-2015 to 2023-24, using data from CAG's finance accounts of Kerala, for the corresponding years. Further, an exercise is undertaken to assess the variations in the cost of borrowings of various debt components. In addition, the returns on borrowing and the associated cost of finance are analysed through debt sustainability, drawing on the theoretical insights of Domar (1944) and to examine whether the prevailing trends are consistent with the thresholds proposed by successive Financial Commissions (FCs) and the existing literature. This chapter has divided in to four sections including introduction and conclusion. Section 5.2 analyses the structure, composition of Debt and the cost of finance. Debt sustainability ratios have been analysed at length in section 5.3, which is followed with a conclusion.

5.2 Structure and Composition of Debt

The following section analyses the structure and composition of debt for the period 2014-15 to 2023-24. It is evident that there is a considerable difference between CAG and the Government of Kerala in terms of the measurement of public debt. Ideally, the starting point of any serious discussion should be addressing these issues. In this chapter, total debt is defined as the sum of internal debt, loans and advances from the central government, and public account liabilities, which include small savings, Provident fund, etc.¹¹ The reason for the difference in the value of debt stated here and that of Chapter 2 should be evident from box 5.1.

Box 5.1 On the definition and measurement of public debt

There are significant differences in the definition and measurement of outstanding liabilities between the CAG and the State Budget for Kerala, leading to variations in reported debt figures. There are also conceptual differences across different report of CAG (see Finance and Accounts 203-24 and State Finances 2023-24) The CAG follows the concept of total liabilities, including internal debt (market loans, Ways and Means Advances from the RBI, bonds, loans from financial institutions, and special securities issued to the NSSF), loans and advances from the Central Government including GST compensation, and other public account liabilities such as small savings, provident funds, reserve funds, and deposits. In contrast, the Budget adopts a narrower definition of debt: GST compensation loans received from the Government of India (₹5,766 crore in 2020–21 and ₹8,739.31 crore in 2021–22) are treated as grant-in-aid for fiscal indicator calculations, as their repayment is not expected to be met from the State’s own resources, and reserve funds, deposits are excluded from debt. Consequently, the Budget-defined debt equals total liabilities net of GST compensation, reserve funds, and deposits, whereas the CAG includes these items, explaining why the Budget-reported debt GDP ratio of 34.20 per cent is lower than the CAG estimate.

Kerala raised resources through loans from the Centre in order to meet the expenditure during the Covid crisis in 2020-21 and 2021-22 (Table 5.1). The debt mobilized from the Centre during the Covid crisis grew by 72.5 per cent from the level of Rs. 8,680 crores in 2019-20 to Rs. 14,973 crores in 2020-21. Loan from the Centre grew even further to the level of Rs 23,688 crore and at the rate of 58.2 per cent during 2020-21 to 2021-22. And thus, the total debt during the Covid year 2020-21 and 2021-22 witnessed an annual growth of 16.27 per cent and 15.68 per cent respectively, and the debt outstanding reached Rs. 2,96,901 crore and 3,50,145 crores respectively (Table 5.1). However, the total debt grew at a much lower rate during the post-Covid years as compared to the Covid period.

The debt to GSDP ratio increased from the level of 26.42 per cent in 2014-15 to 32 per cent in 2019-20. This ratio in 2020-21 and 2021-22 stood at 38.47 per cent and 36.31 per

¹¹ It excludes reserve funds and deposits.

cent, respectively. Although there is a slight improvement in this ratio, which stood at the level of 35.38 and 34.2 per cent during 2022-23 and 2023-24, this ratio is only marginally above the threshold level set by the Fifteenth Finance Commission and FRA Amendment 2022. The proposed sustainable threshold of 27.8 per cent (Renjith and Joseph, 2023)¹² is achievable by a gradual reduction, with given GSDP growth and the prevailing FRBM target, by the early 2030s.

Table 5.1: Pattern of Debt Composition (Rs crore)

Year	Internal Debt			Loans from the Centre	PF, Small Savings, etc	Total Outstanding Liabilities (Total Debt)	GSDP at Current Price	Outstanding liabilities / GSDP	Public Debt /GSDP
	Internal Debt	of which Market loan	of which NSSF						
2014-15	89068	71960	11806	7065	39307	135440	512564	26.42	18.76
2015-16	102496	84845	12537	7235	47639	157370	561994	28.00	19.53
2016-17	118269	99531	13509	7614	60571	186454	634886	29.36	19.83
2017-18	135500	115735	14557	7484	67777	210761	701588	30.04	20.38
2018-19	150991	129719	15608	7243	77397	235631	788286	29.89	20.07
2019-20	165960	142336	17396	8680	85671	260311	812935	32.02	21.48
2020-21	190474	165402	19833	9208	97219	296901	771724	38.47	26.62
2021-22	210791	183522	22566	9183	115666	335641	924465	36.31	25.36
2022-23	227137	199142	23599	10864	124190	362192	1023602	35.38	24.67
2023-24	257157	225780	27417	10832	124994	391934	1146109	34.20	24.65

Source: Finance Accounts, Volume I, various issues.

The distribution of the debt components reveals that the debt is mainly mobilized through market borrowings and through public accounts such as small savings and provident funds (Table 5.2). Further, it is observed that the share of internal borrowings especially through market borrowings, had increased from 53 per cent to 55 per cent during 2014-15 to 2018-19, a reverse trend is observed since then up to the period 2022-23. (Table 5.2). Especially notable is the steady decline in the share of NSSF which carries a relatively higher rate of interest. Table 5.3 presents the effective interest rates (interest payment for debt in the previous year) of various debt components of Kerala's outstanding liabilities relative to GSDP from 2014-15 to 2023-24. Internal debt and market borrowings consistently carry the highest effective interest rates, though these rates show a gradual decline over the period, reflecting moderating borrowing costs. Loans from the Centre exhibit significantly lower effective rates, particularly in the post-pandemic years, indicating an increasing reliance on concessional borrowing. PF and small savings maintain relatively stable rates, contributing moderately to the overall cost of debt. Consequently, the total effective interest rate of debt declines from 8.2 to 8.13% in 2014-15 to 2019-20. And this rate has further declined to 7.16% in 2023-24, aided by both lower-cost borrowings and recovery in GSDP, highlighting an improvement in the

¹² This estimate is constructed based on Threshold regression model by using Bohn's sustainability framework explained in Renjith and Shanmugam (2018).

cost-efficiency of Kerala's debt portfolio over the period. Interestingly, the cost of finance through various sources is falling, which is indicative better debt management.

Table 5.2: Distribution of Debt Components (%)

	Internal Debt	of which Market loan	of which NSSF	Loans from the centre	PF and Small savings	Total Debt	IP/RR
2014-15	65.76	53.13	8.72	5.22	29.02	100	16.87
2015-16	65.13	53.91	7.97	4.60	30.27	100	16.07
2016-17	63.43	53.38	7.25	4.08	32.49	100	16.00
2017-18	64.29	54.91	6.91	3.55	32.16	100	18.18
2018-19	64.08	55.05	6.62	3.07	32.85	100	18.18
2019-20	63.75	54.68	6.68	3.33	32.91	100	21.24
2020-21	62.93	54.65	6.55	4.95	32.12	100	21.28
2021-22	60.20	52.41	6.44	6.77	33.03	100	17.57
2022-23	60.30	52.87	6.26	6.73	32.97	100	18.16
2023-24	63.11	55.41	6.73	6.22	30.67	100	18.63

Source: Finance Accounts, vol.I, various issues; IP=Interest Payments; RR=Revenue Receipt.

Table 5.3: Effective Interest Rate of the Composition of Debt (%)

Year	Internal Debt	Market Borrowings	Loans from the Centre	PF & Small savings	Total Debt	GR of GSDP
2014-15	9.05	9.00	5.27	6.96	8.21	10.22
2015-16	9.01	8.96	4.75	6.96	8.19	9.64
2016-17	8.86	8.90	4.63	5.62	7.68	12.97
2017-18	8.98	8.87	4.14	6.86	8.09	10.51
2018-19	8.68	8.64	4.33	7.07	8.00	12.36
2019-20	8.56	8.60	4.31	7.61	8.13	3.13
2020-21	8.51	8.57	3.29	7.42	7.98	-5.07
2021-22	8.17	8.19	1.56	7.62	7.70	19.79
2022-23	7.90	7.78	1.15	7.10	7.19	10.72
2023-24	7.96	7.88	1.55	6.82	7.16	11.97

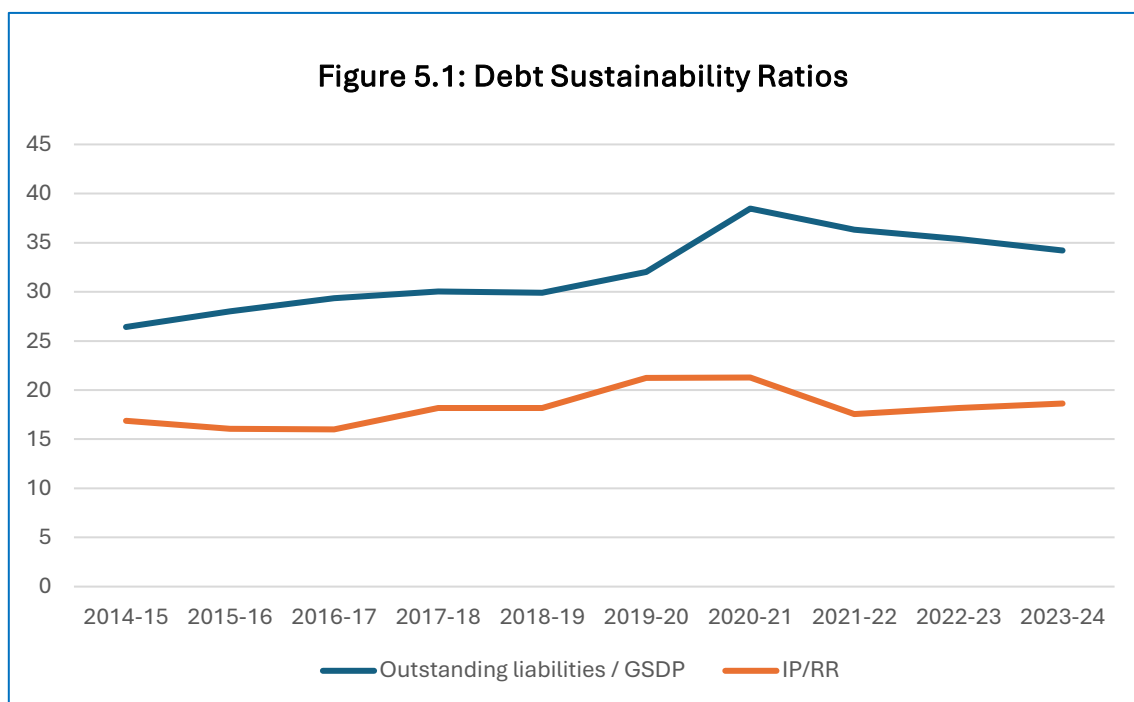
Source: Finance Accounts, vol.I, various issues; IP=Interest Payments; RR=Revenue Receipt.

5.3 Debt Sustainability of the State

This section is divided into two parts. The first part examines trends in the debt-to-GSDP ratio and interest payments relative to revenue receipts. While the debt-to-GSDP ratio illustrates the overall debt burden over the years, the interest payment-to-revenue ratio highlights the fiscal pressure arising from servicing that debt. The second part applies the Domar condition, which compares the growth rate of GSDP with the effective interest rate on debt (interest payments relative to previous debt). If the recent trends satisfy this

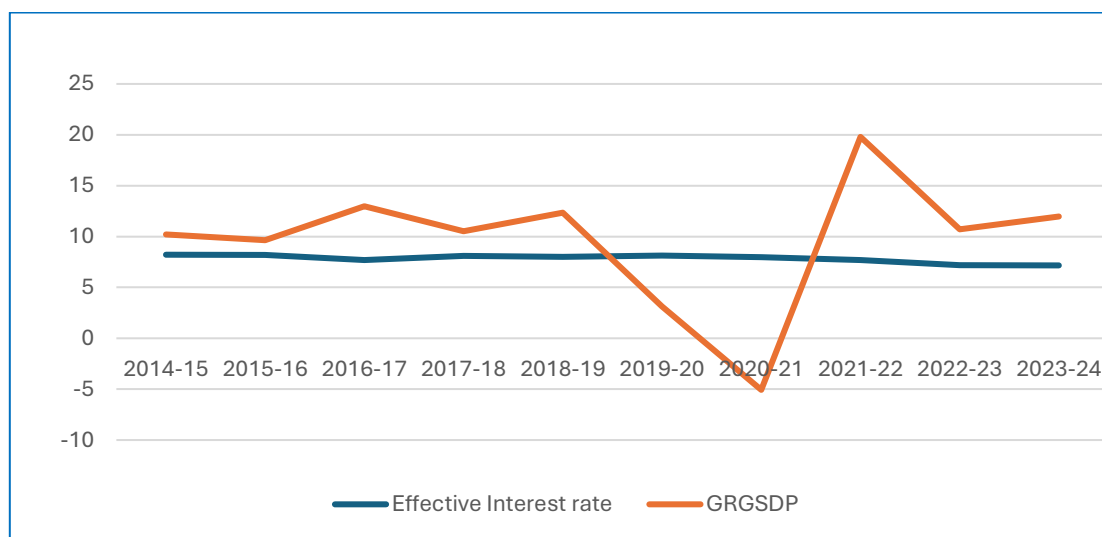
condition-that is, if the growth rate exceeds the effective interest rate- it can be inferred that the debt-to-GSDP ratio is moving toward a sustainable long-term range.

The various indicators related to debt sustainability have revealed that the Kerala state has been performing better during the post-Covid period. This ratio of Debt to GSDP has sharply increased from the level of 26.42 per cent to 38.47 percent during 2014-15 to 2020-21. However, this ratio has declined to 34.2 per cent during 2023-24. Similarly, although the ratio of interest payments to revenue receipts has shown a steep increase during 2014-15 to 2020-21, this ratio has slightly declined since then (Figure 5.1). Further, our analysis revealed that the GSDP grew at a much faster rate as compared to the rate of growth of interest payment.



IP=Interest Payments; RR=Revenue Receipt.

Figure 5.2: Growth Rate of GSDP and Effective Interest Rate



IP=Interest Payments; RR=Revenue Receipt.

Figure 5.2 reveals that there is a sharp fall in the GSDP growth, especially during 2019-20 and 2020-21, as compared to 2014-15. Such a fall could be partly due to the unexpected rainfall and subsequent flood that hit by the Kerala economy, and also due to the impact of COVID-19. The narrowing down of the Domar gap (the gap between the rate of growth of GSDP at constant price and the effective interest rate) during COVID-19 is not a good indication as far as the public finance of the state is concerned. However, the Domar gap has significantly improved since 2021-22 (Figure 5.2). The improvement in the Domar gap is found to be largely associated with the rise in the rate of growth of GSDP. This is in sync with CAG's observation that during 2021-22 to 2023-24, the Domar gap became positive along with the primary deficit, which reflect that the overall debt as a percentage of GSDP tends towards a stable value and is therefore sustainable.

5.4 Conclusion

The analysis undertaken in this chapter clearly shows that there is clear evidence of improved borrowing management with an increasing share of low interest-bearing borrowing. The debt to GSDP ratio decreased from 36.31 per cent in 2021-22 to 34.2 per cent in 2023-24, which is only marginally above the threshold level set by the Fifteenth Finance Commission and FRA Amendment 2022. It is also seen that the period under consideration is characterised by debt sustainability, as per commonly used indicators in public debt literature. More importantly, the observation is corroborated by the CAG in the State Finances 2023-24 report. Additionally, during 2021-22 to 2023-24, the Domar gap became positive along with the primary deficit, which reflect that the overall debt as a percentage of GSDP tends towards a stable value and is therefore sustainable.

This needs to be viewed in a context of declining grants in aid from the Centre and less than potential performance of GST. At the same time, the growing burden of interest payments is likely to have its bearing on the spending on capital formation. Any government that does not generate enough revenue to service its debt must either default on its obligations. Otherwise, the government would have to borrow more in order to pay off past debt through various debt instruments which is known as a Ponzi game (Rajaraman and Mukhopadhyay, 2005, p.320). It has also been argued that expansionary policy through public debt can crowd-in private investment by increasing capacity utilisation, public investment in infrastructure and the social sector (Rakshit, 2015, p.377). The study therefore underlines the importance of mobilising resources through various means in order to meet the capital and revenue expenditure for boosting the growth of the economy.

Chapter 6

Analytical and Conceptual Issues

6.1 Introduction

The Fiscal Responsibility and Budget Management (FRBM) Act was enacted by India in 2003 to promote fiscal discipline and improve transparency in public finances. The Act set targets for reducing revenue and fiscal deficits, managing public debt sustainably, and strengthening fiscal accountability through mandatory medium-term fiscal statements. Following this framework, most States enacted Fiscal Responsibility Legislations during the mid-2000s, aligned with FRBM Act objectives. Kerala was the first state to enact the Kerala Fiscal Responsibility Act (FRA) in 2003 to institutionalise prudent fiscal management. The Act provided for the Kerala Public Expenditure Review Committee (KPERC) to assess the State's fiscal performance, examine deviations from FRA targets, and provide recommendations. So far, six committees have been appointed. The Seventh Committee evaluates Kerala's fiscal performance over 2021-22, 2022-23, and 2023-24.

It is now well established in the development literature that institutions play a central role in shaping long-term economic performance, irrespective of a country's stage of development (North, 1990; Acemoglu, Johnson, & Robinson, 2005; Rodrik, 2007). At the same time, a growing body of research emphasises that institutions are not static and must evolve in response to changing economic, social, and political conditions (Aoki, 2001; Rodrik, 2004; Khan, 2010). Institutional arrangements that fail to adapt to changing circumstances can themselves become binding constraints on development, thereby transforming from enablers into impediments to growth.

In the context of fiscal governance, this perspective is particularly relevant for an assessment of the Fiscal Responsibility and Budget Management (FRBM) framework in India. The FRBM legislation was enacted in a specific historical and macroeconomic context characterised by concerns over fiscal consolidation, debt sustainability, and macroeconomic stability in the early 2000s (Government of India, 2003; Rangarajan & Srivastava, 2005). Since then, however, the development aspirations and macroeconomic objectives of the country have undergone a fundamental transformation. India has now articulated an explicit national vision of attaining developed economy status by 2047, which necessarily entails sustained high growth, large-scale public investment, and structural transformation.

In this altered context, it becomes imperative to examine whether the existing FRBM framework has adequately adapted to the evolving economic circumstances, policy priorities, and development ambitions of the country. The question is not merely one of fiscal discipline, but of whether the design of fiscal rules remains compatible with the country's current growth strategy and investment requirements. It is against this background that we raise a set of important analytical and conceptual issues relating to the relevance, appropriateness, and future direction of India's fiscal responsibility framework.

There are three separate, yet connected, questions to be considered. While the first two are more analytical, the last one is conceptual in nature.

1. Whether fiscal responsibility frameworks, which are designed for advanced economies driven by demand, can be effectively applied to developing countries, where growth is often limited by supply-side factors and demand pressures are less intense.
2. Whether fiscal rules intended for national sovereign governments can be transplanted to subnational entities within a federal system.
3. How to measure capital in today's knowledge-based economies, where human capital and innovation have become the primary forces driving long-term growth.

Before dealing with these, a brief discussion on the background of the Fiscal responsibility legislations is in order.

6.2 Fiscal Responsibility Legislations

6.2.1 The Context

The modern wave of fiscal responsibility legislation emerged in the late twentieth century in response to persistent deficits, rising public debt, and macroeconomic instability. Governments across advanced and developing economies sought to institutionalize fiscal discipline through rule-based frameworks to constrain political economy pressures, improve budgetary credibility, and anchor market expectations (Kopits & Symansky, 1998; OECD, 2015). Although institutional designs vary across countries, most frameworks combine numerical fiscal rules (covering deficits, debt, or expenditure), medium-term fiscal frameworks, transparency and reporting obligations, escape clauses for shocks, and - in advanced systems - independent fiscal councils, evolving into a core pillar of modern public financial management worldwide, adapted to diverse contexts.

6.2.2 Early Development

New Zealand enacted the first comprehensive fiscal responsibility law through the FRA 1994. The model focused on principles of responsible fiscal management, medium-term strategy statements, and transparency requirements rather than rigid numerical deficit or

debt ceilings. It emphasized procedural discipline, accountability, and forward-looking fiscal planning instead of mechanical targets. This transparency framework became a global reference for subsequent fiscal reforms (Schick, 1996; Janssen, 2001). The European Union established fiscal rules through the Maastricht Treaty (1992), introducing a fiscal deficit ceiling of 3 per cent of GDP and a public debt ceiling of 60 per cent of GDP. These rules were reinforced through the Stability and Growth Pact (1997) and reforms after the global financial crisis. Europe became the largest laboratory for rule-based fiscal governance, with national frameworks embedded in a common convergence architecture (Buti et al., 2005; Debrun et al., 2008). The United States introduced statutory fiscal discipline through the Budget Enforcement Act (1990), incorporating PAYGO rules and discretionary spending caps. Although these mechanisms were periodically suspended and reinstated, they shaped global debates on fiscal rules and expenditure control.

6.2.3 From Global North to the Global South

Fiscal responsibility legislation spread rapidly across regions and to the Global South from the late 1990s. In Latin America, Brazil's Fiscal Responsibility Law (2000) became a global benchmark for subnational fiscal discipline and intergovernmental coordination. It imposed limits on borrowing, personnel expenditure, and debt across government tiers and restored fiscal credibility after decades of instability (World Bank, 2003; Alesina et al., 2019). In Asia, India enacted its Fiscal Responsibility and Budget Management (FRBM) Act in 2003, while Indonesia adopted fiscal rules following the Asian Financial Crisis. In Africa, countries introduced fiscal responsibility frameworks through debt relief initiatives and IMF-supported reforms. By the 2010s, fiscal rules had become central to public financial management systems in advanced and emerging economies (IMF, 2018). By the 2020s, over 100 countries had adopted fiscal rules or responsibility frameworks (IMF, 2018). Emphasis shifted from rigid austerity towards counter-cyclical flexibility, climate and disaster-related escape clauses, medium-term debt anchors, and independent fiscal institutions. The COVID-19 pandemic tested fiscal rules globally, leading to widespread escape clause activation and debates on rule design, credibility, and growth compatibility.

6.2.4 Fiscal Responsibility Legislation at the Subnational Level

Fiscal responsibility legislation (FRL) at the subnational level is a key tool in modern public financial management in federal and quasi-federal systems. Subnational governments—states, provinces, and local governments—account for a large share of public expenditure, especially in social sectors, infrastructure, and local services. Their fiscal behaviour impacts service delivery, development outcomes, national macroeconomic stability, and debt sustainability. Excessive borrowing or fiscal imbalances at the subnational level can create systemic risks, undermine investor

confidence, and pressure central governments for bailouts, leading to soft budget constraints (Kornai, 1986; Rodden et al., 2003). To address these risks, many countries have extended fiscal rule frameworks to subnational entities. Subnational FRLs aim to institutionalize fiscal discipline, enhance creditworthiness, improve transparency, and align subnational fiscal behaviour with national macroeconomic and debt sustainability goals (Ter-Minassian & Craig, 1997; Sutherland et al., 2005; IMF, 2021).

6.2.5 Subnational Fiscal Responsibility Frameworks: Country experiences

Brazil was the earliest to introduce the most influential subnational fiscal responsibility regime through the Fiscal Responsibility Law of 2000. While the framework applies uniformly to the federal government, states, and municipalities, it sets binding limits on debt, borrowing, and personnel expenditure, mandates transparency and reporting requirements, and provides administrative and legal sanctions for non-compliance. The Brazilian law restored fiscal credibility and became a global benchmark for subnational fiscal discipline and intergovernmental coordination (World Bank, 2003; Alesina et al., 2019). In the Indian case, most states adopted fiscal responsibility legislations during 2005-10 after the 2003 national Fiscal Responsibility and Budget Management (FRBM) Act. These reforms were supported by incentives linked to Finance Commission awards, debt restructuring packages, and market borrowing permissions. State-level FRLs set fiscal deficit and debt targets, mandate medium-term fiscal frameworks, and require enhanced fiscal reporting. India's experience demonstrates how a large federation attempted to embed rule-based fiscal discipline across government tiers (Rangarajan & Srivastava, 2005; Chakraborty, 2016).

Similar subnational fiscal rules operate across countries. Argentina adopted a Fiscal Responsibility Law in 2004 (revised in 2017), Mexico enacted the Fiscal Discipline Law for Subnational Governments in 2016, Spain introduced the Budget Stability Law in 2012 following the euro crisis, and Indonesia embedded subnational fiscal rules within its post-2003 decentralisation framework. These reforms reflect a global trend towards integrating subnational fiscal behaviour within national macro-fiscal frameworks (IMF, 2021; Canavire-Bacarreza et al., 2020).

Against this background, and as already indicated, we would like to raise a few issues of analytical and conceptual significance. These issues relate, first, to the adoption of analytical frameworks developed in the context of advanced economies and their application to developing economies, and second, to the transplantation of frameworks evolved for sovereign nations to subnational entities. In what follows, we discuss these two issues in some detail.

6.2.6 The Relevance of Northern Frameworks for the South

The foregoing discussion makes it evident that fiscal responsibility legislations have largely evolved in the context of advanced developed economies with the primary objective of ensuring macroeconomic stability. However, the initial conditions prevailing in developed economies are fundamentally different from those in developing countries. Consequently, there are strong reasons to believe that the stability conditions prescribed in the North may not be entirely appropriate or relevant for the South.

In advanced economies, macroeconomic instability often arises from excess demand conditions. In contrast, developing economies are typically characterised by supply-side constraints. Viewed in this perspective, while stability is the prime concern of developed economies, the core challenge for countries in the South is to achieve growth with stability. It is therefore evident that policy prescriptions found effective in the former context cannot be mechanically replicated in the latter.

As highlighted in the low-level equilibrium trap hypothesis advanced by Richard Nelson (1956), an economy remains poor because incomes are low; incomes are low because investment is inadequate; and investment is inadequate because savings are low. Since income itself is at a low level, domestic savings are insufficient to finance the investment required for growth. Breaking out of this low-level equilibrium trap, therefore, requires a substantial increase in investment. Therefore, if a developing economy lacks adequate domestic savings to finance such investment, the only viable option is to borrow from those who are able to save. In this context, an important question arises: under such conditions, what is more appropriate for a developing economy — a Fiscal Responsibility and Budget Management Act focused primarily on deficit control, or a Fiscal Responsibility and Borrowing Utilisation Act that ensures every rupee borrowed is productively invested?

6.2.7 Relevance of Fiscal Rules of Sovereign States to Subnational Governments

Fiscal responsibility frameworks were originally developed in the context of sovereign nation-states that enjoy broad autonomy over taxation, borrowing, monetary policy, and expenditure priorities and the ability to reap the full benefits of the expenditure incurred. Transplanting such frameworks to subnational governments raises a number of conceptual and operational challenges.

1. Subnational governments operate with limited revenue autonomy. Their tax bases are narrow and inelastic, rate-setting powers are restricted, and own-source revenues form only a small share of total receipts. Often, Union decisions adversely affect states' fiscal autonomy and revenue without assured compensation for revenue loss, as seen with GST 2.0 and Kerala's revenue loss

(See Box. 1). Their revenue performance is driven more by central tax policy, tax devolution formulas, and macroeconomic conditions than by their own fiscal effort (Boadway & Shah, 2009; Eyraud & Lusinyan, 2013). Deficit and debt targets framed without recognising this structural dependence risk penalising states for revenue outcomes they barely control.

2. Subnational governments face rigid, mandated expenditure responsibilities. They must deliver education, healthcare, social protection, urban services, and basic infrastructure. These expenditures are politically non-discretionary and mandated by national legislation or judicial directives. Moreover, social expenditure rises during economic downturns when fiscal space is constrained. Rigid deficit ceilings can force compression of development expenditure, undermining service delivery and growth (Martinez-Vazquez & McNab, 2003; Ahmad & Brosio, 2015).
3. While the sovereign could harness the economic outcomes of its expenditure fully, the outcomes of expenditure by a subnational entity may benefit the other states or the Union. In the case of Kerala, expenditure in human capital, for example, also benefits the Union and other states, without any returns (see Box 6.1)
4. Vertical fiscal imbalance implies that subnational fiscal outcomes depend critically on the design, predictability, and adequacy of intergovernmental transfers. A fiscal rule framework that ignores this imbalance risks turning fiscal discipline into a problem of short-term cash management rather than genuine fiscal sustainability (Oates, 1972; Rodden, 2006).
5. Unlike sovereign governments, subnational entities face borrowing controls from higher governments. They may require central approval, have limited access to external markets, and face administratively determined borrowing limits. Their debt dynamics are shaped by central policy and their fiscal behaviour. Applying sovereign-style debt rules without aligning borrowing controls and transfer policies can weaken accountability and dilute framework credibility (Rodden et al., 2003; Ter-Minassian, 2015).
6. Subnational governments lack macroeconomic stabilisation instruments. They cannot use monetary policy, have limited access to stabilisation funds, and often operate under balanced-budget constraints. During downturns, they must make pro-cyclical expenditure cuts or tax increases, amplifying economic shocks rather than smoothing them (Rodden & Wibbels, 2010; IMF, 2020).

Box 6.1

Limits of FRL Framework at Subnational Level: Evidence from Kerala

Fiscal responsibility legislations originated in sovereign countries with fiscal freedom regarding revenue and expenditure, where they could ensure the full benefit of expenditure incurred. This differs for subnational entities under a fiscal federal context, characterized by vertical inequality and revenue entitlements governed by Union policies. The introduction of GST has affected Kerala's fiscal autonomy. GIFT's study estimates GST 2.0 could reduce state GST revenue by Rs 8000 cr. Central policies impact state government expenditure, with studies showing VB-G-RAM-G would add a burden of Rs 1500 crores annually.

Kerala has heavily invested in public education and healthcare, creating one of India's most skilled and mobile workforces, leading to high committed expenditure. However, the economic returns largely accrue outside the state, as other states gain access to Kerala-trained human capital without bearing the costs. Kerala's educational and health systems thus subsidise labour markets across India, creating positive interjurisdictional spillovers. This fiscal externality is even more pronounced at the international level. Kerala's educated workforce drives major overseas migration. With 2.7 per cent of India's population, Kerala accounts for 23 per cent of India's remittances. These remittances strengthen India's balance of payments, stabilise the rupee, and improve sovereign creditworthiness. Yet the fiscal burden of producing this workforce is borne by the Kerala state government, which Finance Commissions ignore in devolution formulas.

A similar asymmetry exists in IT. Kerala contributes nearly 20 per cent of India's 5.8 million IT professionals, who generate software and IT services exports of about USD 224 billion. These export earnings strengthen India's external account and macroeconomic stability, but the returns are not internalised within Kerala's fiscal system.

What is more, despite the growth-enhancing nature of education and health expenditure, India's FRBM framework classifies such spending as revenue expenditure and subjects it to compression during fiscal consolidation. For a development-oriented state like Kerala, this creates a paradox: the more the state invests in long-term growth and national competitiveness, the more it is penalised under deficit-based fiscal rules.

The Kerala case therefore, highlights the need for a differentiated FRBM framework that recognises human capital expenditure as growth-enhancing investment, incorporates mechanisms to compensate for inter-state and external spillovers, and restores a degree of revenue flexibility to high-performing development states. Vertical fiscal imbalance implies that subnational fiscal outcomes depend critically on the design, predictability, and adequacy of intergovernmental transfers. A fiscal rule framework that ignores this imbalance risks turning fiscal discipline into a problem of short-term cash management rather than genuine fiscal sustainability (Oates, 1972; Rodden, 2006).

6.2.8 Subnational fiscal responsibility frameworks versus the realities of fiscal federalism

International experience suggests that effective subnational fiscal responsibility frameworks must be adapted to the realities of fiscal federalism rather than mechanically transplanted from sovereign contexts. A central lesson from comparative studies is that the credibility of subnational fiscal rules depends as much on the broader intergovernmental fiscal architecture as on the numerical design of the rules themselves (Sutherland et al., 2005; Canavire-Bacarreza et al., 2020).

1. There is a growing consensus that excessive reliance on annual deficit ceilings can be distortionary. Greater emphasis is needed on medium-term debt sustainability, supported by credible adjustment paths and transparent monitoring mechanisms (IMF, 2021).
2. Well-designed escape clauses are essential to allow flexibility during economic downturns, natural disasters, and other large shocks, while preserving medium-term fiscal discipline (IMF, 2020).
3. Predictable and rule-based intergovernmental transfer systems are crucial for making fiscal rules operationally meaningful at the subnational level. Without stable revenue flows, fiscal discipline risks becoming an exercise in expenditure compression rather than sustainable fiscal management (Boadway & Shah, 2009; Eyraud & Lusinyan, 2013).
4. Medium-term fiscal frameworks aligned with national macro-fiscal policy can help integrate subnational budgeting into a coherent national fiscal strategy. Finally, transparent accounting of off-budget liabilities, guarantees, and public sector enterprises is essential to prevent circumvention of fiscal rules.

In general, the transplantation of sovereign fiscal rule frameworks to subnational governments must be approached with care. Subnational entities operate under tighter revenue constraints, mandated expenditure responsibilities, vertical fiscal imbalances, and borrowing controls imposed by higher levels of government. A credible and effective subnational FRL framework must therefore be embedded within a coherent system of intergovernmental fiscal relations, rather than treated as a simple extension of sovereign fiscal rules. Only such an integrated approach can reconcile fiscal discipline with development, service delivery, and macroeconomic stability in decentralised systems.

6.3 Conceptual issues: Outdated Concept of Capital

6.3.1 Knowledge and Human Capital in the Modern Economy

The global economy is fundamentally a knowledge economy where productivity growth is driven less by physical capital accumulation and more by skills, innovation, and learning. Endogenous growth theory established that human capital and knowledge are the primary engines of long-term economic growth (Lucas, 1988; Romer, 1990). In this framework, education, health, and research are not consumption goods but investments that raise an economy's productive capacity. Empirical evidence reinforces this perspective. The World Bank's Human Capital Project demonstrates that differences in education, health, and skills explain a substantial share of cross-country income disparities (World Bank, 2019). The OECD has shown that investment in intangible assets—such as software, research and development, training, and organisational capital—now exceeds tangible investment in many advanced economies (OECD, 2013). Despite this transformation in growth, public finance accounting systems continue to treat most human capital expenditure as revenue spending, while reserving capital status for physical infrastructure.

6.3.2 Accounting Conventions and their Developmental Bias

Under the IMF's Government Finance Statistics framework and India's budgetary classification, capital expenditure is defined as spending that creates tangible fixed assets. Expenditure on school and university education, public health, nutrition, skill development, and research institutions is recorded as revenue expenditure, even though these outlays generate durable economic returns over decades. This convention reflects an industrial-era conception of capital and creates three major distortions.

1. First, it understates public investment in countries with large social-sector spending, making them appear "consumption-heavy" when building long-term productive capacity.
2. Second, it introduces bias under fiscal responsibility frameworks, which protect capital expenditure during consolidation while compressing revenue expenditure. Since human capital spending is classified as revenue, it becomes fiscally vulnerable.
3. Third, it creates intergenerational inequity by permitting borrowing for physical assets that benefit future generations while discouraging borrowing for education and health, despite their higher long-term returns.

6.3.3 The Indian Context: Human Capital and Development Strategy

India's post-Independence development strategy was shaped by a heavy-industry paradigm where public investment meant steel plants, dams, power stations, and infrastructure. These legacy shapes fiscal accounting conventions. However, India's growth since the 1990s—especially in IT services, pharmaceuticals, and knowledge-intensive manufacturing—has shown that human capital is India's critical growth asset. Indian economists have emphasized this point. While Sen (1999) argued that education and health are intrinsically valuable and instrumentally critical for growth, Drèze and Sen (2013) demonstrated that India's underinvestment in the social sector constrains productivity and inclusive growth. Panagariya (2008) and Rangarajan (2015) also highlighted that India's transition to high growth depends on sustained human capital accumulation.

6.3.4 Fiscal Responsibility and the Bias Against Human Capital

While India's Fiscal Responsibility and Budget Management (FRBM) Act, 2003, established a fiscal consolidation framework with deficit and debt ceilings, where capital expenditure is seen as growth-enhancing and protected, while revenue expenditure is viewed as consumption. This creates a bias against education and health spending, which are cut during fiscal stress despite high social and economic returns. The NK Singh Committee on FRBM Review (2017) recognized the need for a growth-friendly fiscal framework and argued for protecting "productive expenditure." However, it stayed within the conventional definition of capital expenditure, reflecting existing accounting norms' limits. Indian scholars like Rao and Singh (2005), Rangarajan and Srivastava (2005), and Chakraborty (2016) have noted that fiscal consolidation often cuts developmental and social expenditure, affecting long-term productivity and equity.

6.3.5 Emerging Contours and Reform Options

While India has not reclassified human capital spending as capital expenditure, there is growing recognition of its investment character. The Economic Survey (2020–21) described human capital as India's "most important national asset". The National Education Policy (2020) frames education as the foundation of India's knowledge economy, while the National Health Policy (2017) treats health as a determinant of economic growth. The Fifteenth Finance Commission emphasised health and education as critical for intergenerational equity and fiscal sustainability. Measurement challenges remain. Human capital is embodied in people rather than owned by the state, depreciation and valuation are complex, and returns depend on labour markets and migration. Most reform proposals favour satellite human capital accounts, modified fiscal rules protecting education and health spending, and a "golden rule" allowing borrowing for growth-enhancing investment, tangible and intangible.

Although is a state that highlighted its strategy of transforming it to knowledge economy (Joseph et al 2024), the conventional conceptual frameworks results is untenable conclusions like Capital expenditure was only 5.18 per cent of the total borrowings in 2023-24 and the borrowed funds were being used mainly for meeting current consumption and repayment of borrowings instead of capital creation/development activities. In the modern knowledge economy, human capital is the most important form of capital. Yet India's fiscal institutions continue to reflect an industrial-era view of development in which only physical assets are treated as investment. As India aspires to become a high-income, innovation-driven economy, there is a compelling conceptual and policy case for rethinking the treatment of public expenditure on education, health, skills, and research—not as consumption (revenue expenditure), but as the most fundamental form of national investment (capital Investment).

6.4 Concluding Observations

This chapter has examined the Fiscal Responsibility and Budget Management framework through an analytical and conceptual lens, situating it within the broader evolution of fiscal institutions, development theory, and fiscal federalism. While fiscal responsibility legislation has become a core pillar of modern public financial management worldwide, its design and application must be understood as historically contingent and institutionally embedded. Frameworks that emerged in the Global North to address problems of macroeconomic instability, excess demand, and debt overhang cannot be mechanically transplanted into developing country contexts characterised by supply-side constraints, investment gaps, and structural transformation challenges.

For developing economies such as India, the central fiscal challenge is not stability alone, but growth with stability. The persistence of low domestic savings, the need to break out of low-level equilibrium traps, and the imperative of large-scale public investment raise fundamental questions about the appropriateness of deficit-centric fiscal rules. A framework focused narrowly on deficit compression risks constraining precisely the public investment needed to accelerate long-term growth.

At the subnational level, these challenges are further compounded by the realities of fiscal federalism. States operate under limited revenue autonomy, rigid expenditure mandates, vertical fiscal imbalances, and borrowing controls imposed by the Union. The transplantation of sovereign-style fiscal rules to subnational governments without corresponding reforms in intergovernmental transfers, borrowing frameworks, and revenue powers risks turning fiscal discipline into short-term cash management rather than genuine fiscal sustainability. The Kerala experience illustrates how development-oriented states investing heavily in human capital and social infrastructure are

paradoxically penalised under deficit-based fiscal rules, despite generating large positive national and interjurisdictional spillovers.

Finally, the chapter has highlighted certain deeper conceptual limitation embedded in existing fiscal frameworks: the outdated industrial-era conception of capital. In a knowledge-driven economy, human capital, innovation, and skills are the primary drivers of long-term growth. Yet public expenditure on human capital like education, health, and research continues to be treated as consumption (revenue expenditure) rather than investment (capital expenditure), creating a systematic bias against the most productive forms of national investment.

As India aspires to become a developed economy by 2047, there is a compelling case for rethinking fiscal responsibility not merely as deficit control, but as responsible borrowing, productive investment, and intergenerational sustainability. A growth-compatible, federal-sensitive, and knowledge-oriented fiscal framework is therefore not only desirable, but essential for India's long-term development trajectory.

Chapter 7

Summary and Conclusions

7.1 Introduction

The Public Expenditure Review Committees are formed under section 6 of the Kerala Fiscal Responsibility Act of 2003 (Act 29 of 2003). The Seventh Public Expenditure Review Committee (KPERC) has been constituted under the said Act, as part of the State's long-standing institutional commitment to fiscal discipline, transparency, and evidence-based public finance management. The Act mandates periodic independent review of the State's fiscal position, expenditure patterns, and debt sustainability in relation to the targets laid down under the Fiscal Responsibility framework. The Seventh KPERC has undertaken its mandate at a time when subnational public finances across India are undergoing profound transformation, shaped by the post-GST fiscal architecture, changes in intergovernmental transfers following the Fourteenth and Fifteenth Finance Commissions, the fiscal shock of the COVID-19 pandemic, and rising developmental demands in health, education, infrastructure, and social protection.

The present review covers the period 2021–22 to 2023–24 and situates recent fiscal performance within the longer-term trajectory from 2014–15 onwards. The Committee has sought to balance fiscal prudence with developmental imperatives, recognising Kerala's distinctive socio-economic model, demographic transition, and long-standing commitment to human development and social welfare. The overarching objective of this report is to support informed policy-making and strengthen Kerala's fiscal governance framework in a manner consistent with the spirit and letter of the Fiscal Responsibility Act.

7.2 Major Findings

- The aggregate overview of Kerala's public finances over the period 2014–15 to 2023–24 reveals a fiscal trajectory shaped by the structural characteristics of a mature welfare economy, compounded by extraordinary shocks arising from repeated natural disasters and the COVID-19 pandemic. The decade may be analytically divided into three distinct phases: a period of relative fiscal stability prior to 2019–20, a phase of acute fiscal stress during 2020–21 to 2021–22, and a subsequent phase of recovery, consolidation, and adjustment during 2021–22 to 2023–24.

- On the revenue front, Kerala continues to exhibit a comparatively strong reliance on own-source revenues, reflecting a relatively high degree of fiscal autonomy. On a decadal average, own revenue accounted for about 67 per cent of the State's total revenue receipts, significantly higher than the all-State average of 55 per cent. This reliance intensified in 2023–24, when own revenue rose to 73 per cent of total receipts, compared to 58 per cent for all States. However, the contraction in total revenue receipts observed in 2023–24 represents a significant deviation from the longer-term trend and is attributable primarily to the sharp decline in grants-in-aid from the Union government. Over the past decade, central transfers constituted 33 per cent of Kerala's total revenue receipts, compared to 45 per cent for all States; in 2023–24, this share declined further to 27 per cent, while the all-State average stood at 42 per cent. This shift has materially altered the fiscal environment, intensifying the State's reliance on domestic revenue mobilisation at a time when fiscal space is constrained by high committed expenditures and statutory borrowing limits.
- A defining feature of the post-GST period has been an unexpected “slip between the cup and lips”, wherein GST—a destination-based tax—failed to yield the anticipated revenue gains for a consumption-oriented State like Kerala. Although GST has emerged as the dominant source of own tax revenue, the expected buoyancy has not materialised. Even several years after GST implementation, the SGST–IGST ratio remains at approximately 1.0:1.2, substantially below the State's expectations. Persistently low IGST settlement flows have constrained GST revenue growth, pointing to a structural limitation in the design and administration of the GST framework, largely beyond the State's unilateral control.
- Within own revenues, select non-GST taxes—such as motor vehicles tax, stamp duty and registration fees, and land revenue—have recorded notable growth, driven by policy interventions and administrative improvements. Nevertheless, land revenue continues to account for only a marginal share of total receipts, and comparative evidence suggests that Kerala's land revenue potential remains under-exploited when benchmarked against States such as West Bengal. Non-tax revenue growth has been driven predominantly by lottery receipts; however, their net contribution remains modest, and excessive dependence on a single source exposes the revenue system to volatility and risk. User charges in sectors such as health and education continue to remain marginal, despite the scale and quality of public service delivery. This underscores the need for a systematic reassessment of departmental revenue contributions, aligned with improvements in service quality and efficiency.

- On the expenditure side, the post-pandemic period is marked by a clear and deliberate process of expenditure rationalisation. After peaking during the COVID-19 crisis, total expenditure as a share of GSDP has steadily declined and now lies below both the decadal average and the all-State average. During the assessment period (2021–22 to 2023–24), revenue expenditure declined from 7.73 per cent to 5.34 per cent, while interest payments fell from 11.55 per cent to 8.79 per cent. Total expenditure growth moderated from 8.54 per cent in the earlier period to 5.09 per cent in the assessment period, providing clear evidence of fiscal consolidation and a return to prudence following crisis-induced expansion.
- At the same time, the structure of public expenditure continues to reflect a high share of committed expenditure—primarily salaries, pensions, and interest payments—which constrains fiscal flexibility and limits the scope for rapid expansion of capital outlays. Historically high committed expenditure has, however, shown meaningful moderation. Over the past decade, committed expenditure as a proportion of revenue receipts declined from 76.41 per cent to 67.27 per cent, a far sharper adjustment than the marginal decline observed at the all-State level (from 46.71 per cent to 44.51 per cent). These structural rigidities have been examined in detail by earlier committees, particularly in relation to pension reforms and staffing rationalisation, and their recommendations remain relevant and are reintegrated into the present assessment.
- Importantly, the quality of public expenditure does not support the narrative of fiscal profligacy. Comparative analysis of expenditure on general administrative services vis-à-vis neighbouring South Indian States—Tamil Nadu, Karnataka, Andhra Pradesh, and Telangana—reveals no evidence of mismanagement or excessive administrative spending. On the contrary, revenue expenditure as a share of total expenditure has declined over time, and administrative expenditure has moderated. While these findings counter popular perceptions, the need for deeper outcome-based evaluations of expenditure effectiveness remains and is deferred to subsequent reports.
- Social sector expenditure has remained robust and resilient, reaffirming Kerala’s commitment to its historically strong human development model. Spending on education, health, and workers’ welfare has been protected even under conditions of fiscal stress, with per capita expenditure in these sectors remaining among the highest in the country. This reflects a conscious policy choice to safeguard social outcomes, though it simultaneously heightens the importance of improving expenditure efficiency and service delivery outcomes—an issue warranting closer scrutiny in future assessments.

- During 2021–22 to 2023–24, Kerala’s expenditure and deficit management broadly adhered to the objectives of the Fiscal Responsibility Act. The fiscal deficit declined from 4.04 per cent of GSDP in 2021–22 to 2.50 per cent in 2022–23, and stood at 2.99 per cent in 2023–24, close to the statutory norm of 3 per cent. The debt-to-GSDP ratio declined from 36.31 per cent in 2021–22 to 34.2 per cent in 2023–24, approaching the ceiling prescribed under the Fifteenth Finance Commission and the Kerala Fiscal Responsibility (Amendment) Act, 2022. Debt sustainability indicators remain favourable: the emergence of a positive Domar gap alongside the primary deficit during this period suggests that the debt ratio is converging towards a stable path, a conclusion corroborated by the Comptroller and Auditor General.
- Overall, the assessment for 2021–22 to 2023–24 points to moderate and stable fiscal discipline, consistent with the FRBM framework, achieved under significant structural constraints. Kerala’s principal fiscal challenge does not stem from indiscipline or profligacy, but from persistent limitations in revenue adequacy—arising from GST design, declining central transfers, demographic pressures, and rising interest obligations. Addressing these challenges will require sustained efforts at revenue augmentation, diversification of non-tax sources, and continued rationalisation of expenditure to create durable fiscal space for capital formation and long-term growth.

7.3 Concluding Observations

The analysis undertaken by the Committee clearly establishes that Kerala is operating in an increasingly constrained and less-than-supportive Centre–State fiscal environment. At the same time, the State’s own fiscal capacity and growth dynamics remain decisive in shaping its medium- and long-term fiscal sustainability. The evidence points to the inevitability of a dual approach: one that simultaneously addresses intergovernmental fiscal constraints while strengthening the State’s internal revenue and growth fundamentals.

On the intergovernmental front, Kerala’s fiscal outcomes are significantly influenced by the structure of Union transfers, GST design features, and IGST settlement mechanisms. These structural characteristics have had a bearing on the State’s revenue buoyancy and fiscal space. Concurrently, the State’s capacity to expand its own tax base is closely linked to the pace and composition of economic growth. Achieving higher growth—particularly growth led by tradable and productive sectors—has a disproportionately positive impact on revenue mobilisation compared to non-tradable activities. The initiatives undertaken over the last decade to strengthen productive sectors thus emerge as central to Kerala’s fiscal trajectory.

The fiscal record indicates that broadening the tax base, improving compliance, and adopting data-driven tax administration have become central pillars of Kerala's revenue performance. Incremental adjustments in non-GST taxes and land-related revenues have demonstrated the potential to enhance revenue responsiveness over time, underscoring the importance of sustained institutional strengthening in tax administration.

The Committee's examination reveals a structural dependence on lottery receipts within non-tax revenues with very low net revenue, highlighting underlying vulnerabilities. At the same time, user charges and fees in sectors such as health and education remain underutilised instruments of fiscal management. The evolving role of departments as contributors to resource mobilisation, rather than claimants on budgetary allocations, represents an important shift in the State's fiscal architecture. This will necessarily call for excellence in service delivery.

The constraints embedded in the current GST framework, particularly those relating to revenue sharing and settlement mechanisms, have tangible implications for Kerala's fiscal position. Continued engagement in GST Council deliberations and broader intergovernmental fiscal forums has therefore emerged as a defining feature of the State's fiscal strategy in addressing systemic issues within India's federal fiscal structure.

Kerala's commitment to social sector expenditure remains a defining characteristic of its development model. However, the expenditure analysis indicates the growing importance of reprioritising spending towards productivity-enhancing investments in both physical and human capital. Improvements in expenditure quality—through outcome orientation, performance monitoring, and efficiency gains—are increasingly central to sustaining development outcomes within constrained fiscal space.

Public debt management has a direct bearing on fiscal sustainability. The Committee's assessment highlights the significance of improvements in the maturity profile and cost structure of debt in moderating interest burdens. Containing the growth of interest payments emerges as a key determinant of the fiscal space available for capital formation and development-oriented expenditure.

Kerala's fiscal outlook is shaped not only by current balances but also by emerging medium-term risks. Demographic transition, climate-related shocks, and macroeconomic volatility pose increasing challenges to fiscal stability. The importance of forward-looking fiscal assessment, improved forecasting, and contingency planning is underscored by these evolving risks.

From a more analytical perspective the Committee's analysis reaffirms that the central challenge facing developing and emerging economies is not excess demand but persistent supply-side constraints and inadequate investment. Fiscal frameworks that prioritise stability through narrow deficit control, largely derived from advanced economy contexts,

do not adequately address the growth imperatives of such economies. The persistence of low-level equilibrium traps underscores the role of a decisive investment push—often supported by borrowing—in breaking cycles of low growth. The critical issue, therefore, is not borrowing per se, but the productivity and growth impact of the expenditure financed by borrowing.

Fiscal responsibility frameworks were originally conceptualised for sovereign states with comprehensive control over taxation, borrowing, monetary policy, and expenditure, and with the ability to internalise the full returns from public spending. The application of similar frameworks to subnational governments, which operate under significant constitutional, fiscal, and institutional constraints, raises important conceptual and operational issues. The Committee’s review highlights the need for deeper academic scrutiny of how sovereign-style fiscal rules interact with the limited autonomy and asymmetric responsibilities of subnational entities.

Kerala is in the process of transforming itself into a knowledge economy where investment in human capital is the key component of the creation of knowledge, acting as foundational investment for future growth. However, the prevailing public finance perspective considers such investment as revenue expenditure with limited recognition of their bearing on development. When India is aspiring to be a developed economy, such outdated analytics and conceptual foundations might emerge as the most stumbling block to development and need to change sooner than later. For the aspirational India, fiscal responsibility can no longer be defined solely in terms of deficit and debt ratios. A broader conception—one that integrates responsible borrowing, productive investment, intergenerational equity, excellence in service delivery, effective use of technology, especially AI, and federal sensitivity—emerges as essential for sustaining long-term growth and development.

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Appendix Table A1

Revenue Receipts in Kerala (Rs. crore)												
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Average (10 years)	Average last 3 Years
Revenue Receipts	57950.47	69032.66	75611.73	83020.14	92854.47	90224.67	97616.83	116640.2	132724.7	124486.2	94016.21	124617.03
Growth rate (%)	17.84	19.12	9.53	9.8	11.85	-2.83	8.19	19.49	13.79	-6.21	10.06	9.02
TRR/GSDP (%)	11.31	12.28	11.91	11.83	11.78	11.1	12.65	12.62	12.97	10.86	11.93	12.15
Buoyancy	1.75	1.98	0.73	0.93	0.96	-0.91	-1.62	0.98	1.29	-0.52	0.56	0.58
State's Own Taxes	35232.5	38995.15	42176.38	46459.61	50644.10	50323.14	47660.84	58340.52	71968.16	74329.01	51612.94	68212.56
Growth rate (%)	10.12	10.68	8.16	10.16	9.01	-0.63	-5.29	22.41	23.36	3.28	9.12	16.35
Own taxes/GSDP (%)	6.87	6.94	6.64	6.62	6.42	6.19	6.18	6.31	7.03	6.49	6.57	6.61
Buoyancy	0.99	1.11	0.63	0.97	0.73	-0.20	1.04	1.13	2.18	0.27	0.88	1.19
State's non-tax	7283.69	8425.49	9699.98	11199.61	11783.24	12265.22	7327.309	10462.51	15117.96	16345.96	10991.10	13975.48
Growth rate (%)	30.65	15.68	15.13	15.46	5.21	4.09	-40.26	42.79	44.5	8.12	14.14	31.80
Own non-taxes/GSDP (%)	1.42	1.5	1.53	1.6	1.49	1.51	0.95	1.13	1.48	1.43	1.40	1.34
Buoyancy	3.00	1.63	1.17	1.47	0.42	1.31	7.94	2.16	4.15	0.68	2.39	2.33
Central Transfers	15434.28	21612.02	23735.37	25360.92	30427.13	27636.31	42628.68	47837.21	45638.54	33811.18	31412.16	42428.98
Growth rate (%)	32.98	40.03	9.82	6.85	19.98	-9.17	54.25	12.22	-4.6	-25.92	13.64	-6.10
GSDP (at current prices)	512564.1	561993.6	634886.4	701588.3	788285.6	812934.6	771723.9	924465.4	1023602.46	1146108.67	787815.30	1031392.18
Growth rate (%)	10.22	9.64	12.97	10.51	12.36	3.13	-5.07	19.79	10.72	11.97	9.62	14.16
<i>Source: Finance Accounts of C&AG and Budget in Brief, GoK, various years</i>												

Appendix Table A2

Structure of Own Tax Revenues in Kerala (Rs. crore)												
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Average (10 years)	Average (2021-23)
Sales Tax/VAT	27908.33	30736.78	33453.49	24577.81	19225.75	19649.64	17689.17	22487.43	26875.78	27690.43	25029.46	25684.55
Growth Rate	12.15	10.13	8.84	-26.53	-21.78	2.2	-9.98	27.13	19.51	3.03	2.47	16.56
Buoyancy	1.19	1.05	0.68	-2.52	-1.76	0.71	1.97	1.37	1.82	0.25	0.48	1.15
GST	0	0	0	12008	21015	20446.95	20028.31	24169.81	29513.28	30563.6	15774.50	28082.23
Growth Rate						-2.70	-2.05	20.68	22.11	3.56	8.32	15.45
Buoyancy	0	0	0	0	0	-0.86	0.40	1.04	2.06	0.30	0.29	1.13
Excise Duty	1777.42	1964.15	2019.3	2240.423	2521.398	2255.279	2329.217	2032.231	2875.954	2944.02	2295.94	2617.40
Growth Rate	-8.46	10.51	2.81	10.95	12.54	-10.55	3.28	-12.75	41.52	2.37	5.22	10.38
Buoyancy	1.5	1.91	0.75	0.54	-0.54	2.84	3.07	1.11	3.87	0.20	1.52	1.73
Motor Vehicle Tax	2364.95	2814.3	3107.23	3662.853	3708.611	3721.144	3386.278	4037.097	5386.806	6340.46	3852.97	5254.79
Growth Rate	9.433	19	10.409	17.882	1.249	0.338	-8.999	19.219	33.433	17.704	11.97	23.45
Buoyancy	0.923	1.97	0.802	1.702	0.101	0.108	1.775	0.971	3.12	1.48	1.29	1.86
Stamp Duty & Regn	2659.02	2877.73	3006.59	3452.561	3693.166	3615.011	3489.588	4857.327	6216.713	5694.88	3956.26	5589.64
Growth Rate	2.53	8.23	4.48	14.83	6.97	-2.12	-3.47	39.19	27.99	-8.39	9.02	19.60
Buoyancy	0.25	0.85	0.35	1.41	0.56	-0.68	0.68	1.98	2.61	-0.70	0.73	1.30
Electricity Duty	48.71	57.66	63.3	66.873	62.3776	67.92	57.336	69.918	72.353	85.49	65.19	75.92
Growth Rate	15.29	18.37	9.78	5.64	-6.72	8.89	-15.58	21.94	3.48	18.16	7.93	14.53
Buoyancy	-0.83	1.09	0.22	1.04	1.01	-3.38	-0.65	-0.64	0.32	1.52	-0.03	0.40
Others	474.07	544.53	526.47	451.392	418.0865	567.195	680.937	686.711	1027.268	1010.13	638.68	908.04
Growth Rate	27.64	14.86	-3.32	-14.26	-7.38	35.66	20.05	0.85	49.59	-1.67	12.20	16.26
Buoyancy	2.7	1.54	-0.26	-1.36	-0.6	11.41	-3.96	0.04	4.62	-0.14	1.40	1.51
Percentage to Total												
Sales Tax/VAT	79.21	78.82	79.32	52.90	37.96	39.05	37.11	38.55	37.34	37.25	51.75	37.71
GST	0	0	0	25.85	41.50	40.63	42.02	41.43	41.01	41.12	27.36	41.19
Excise Duty	5.04	5.04	4.79	4.65	4.94	4.48	4.89	3.48	4	3.96	4.53	3.81

Motor Vehicle Tax	6.71	7.22	7.37	7.61	7.27	7.39	7.1	6.92	7.48	8.53	7.36	7.64
Stamp Duty & Regn	7.55	7.38	7.13	7.17	7.24	7.18	7.32	8.33	8.64	7.66	7.56	8.21
Electricity Duty	0.14	0.15	0.15	0.14	0.12	0.13	0.12	0.12	0.1	0.12	0.13	0.11
Others	1.35	1.4	1.25	0.94	0.82	1.13	1.43	1.18	1.43	1.36	1.23	1.32
Total	100	100	100	100	100	100	100	100	100	100		
Growth of Own Taxes	10.12	10.68	8.16	10.16	9.01	-0.63	-5.29	22.41	23.36	3.28	9.12	16.35
Own Tax to GSDP Ratio	6.87	6.94	6.64	6.62	6.42	6.19	6.18	6.31	7.03	6.49	6.57	6.61
Yearly buoyancy of Taxes	0.99	1.11	0.63	0.97	0.73	-0.20	1.04	1.13	2.18	0.27	0.88	1.19
GSDP (at current prices)	512564.1	561993.6	634886.4	701588.3	788285.6	812934.6	771723.9	924465.4	1023602.46	1146108.67	787815.30	1031392.18
Growth rate	10.22	9.64	12.97	10.51	12.36	3.13	-5.07	19.79	10.72	11.97	9.62	14.16

Source: Finance Accounts of C&AG and Budget in Brief, GoK, various years

Appendix Table A3

Structure of Own Non-Tax Revenues in Kerala (Rs. Crore)												
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Average (10 years)	Average (2021-23)
Forests	300.4	283.04	296.85	245.416	287.2084	255.845	236.606	200.572	290.606	262.4	265.8943	251.1927
Lottery (Gross)	5444.88	6271.41	7283.29	9034.165	9264.66	9973.666	4873.012	7134.929	11892.88	12530.91	8370.38	10519.57
Interest Receipts	102.15	105.03	143.51	144.498	132.3771	84.946	246.635	177.05	171.954	175.35	148.35	174.7847
Education., Sports, Art & Culture	246.41	243.63	282.35	257.784	256.7333	237.681	225.622	245.163	281.629	230.34	250.7342	252.3773
Medical & Public Health	139.33	151.12	218.22	181.529	335.0663	244.052	285.17	294.572	334.683	313.5	249.7242	314.2517
Cooperation	121.41	159.5	146.64	194.822	186.5722	202.408	158.181	249.543	285.923	267.95	197.2949	267.8053
Others	929.11	1211.76	1329.12	1141.397	1320.62	1266.623	1302.083	2160.678	1860.283	2565.51	1508.718	2195.49
Total Own Non-Tax Revenues	7283.69	8425.49	9699.98	11199.61	11783.24	12265.22	7327.309	10462.51	15117.96	16345.96	10991.1	13975.47
Percentage to Total												
Forests	4.12	3.36	3.06	2.19	2.44	2.09	3.23	1.92	1.92	1.61	2.59	1.81
Lottery (Gross)	74.75	74.43	75.09	80.66	78.63	81.32	66.5	68.2	78.67	76.66	75.49	74.51
Interest Receipts	1.4	1.25	1.48	1.29	1.12	0.69	3.37	1.69	1.14	1.07	1.45	1.3
Education., Sports, Art & Culture	3.38	2.89	2.91	2.3	2.18	1.94	3.08	2.34	1.86	1.41	2.43	1.87
Medical & Public Health	1.91	1.79	2.25	1.62	2.84	1.99	3.89	2.82	2.21	1.92	2.32	2.32
Cooperation	1.67	1.89	1.51	1.74	1.58	1.65	2.16	2.39	1.89	1.64	1.81	1.97
Others	12.76	14.38	13.7	10.19	11.21	10.33	17.77	20.65	12.31	15.7	13.9	16.22
Total Own Non-Tax Revenues	100	100	100	100	100	100	100	100	100	100		
Growth Rate	30.65	15.68	15.13	15.46	5.21	4.09	-40.26	42.79	44.5	8.12	14.14	31.8
Own Non-Tax to GSDP ratio	1.42	1.5	1.53	1.6	1.49	1.51	0.95	1.13	1.48	1.43	1.40	1.34
<i>Source: Finance Accounts of C&AG and Budget in Brief, GoK, various years</i>												

Appendix Table A4

Year	Revenue (RE), Capital (CE) and Combined (TE) Expenditure of Andhra Pradesh, Karnataka, Kerala, Tamil Nadu and Telangana FROM 2014-15 TO 2023-24 (Crore)														
	Andhra Pradesh			Karnataka			Kerala			Tamil Nadu			Telangana		
	RE	CE	TE	RE	CE	TE	RE	CE	TE	RE	CE	TE	RE	CE	TE
2014-15	114866	11405	126271	103614	19622	123237	71746	4255	76001	128828	17803	146631	50673	8373	59046
2015-16	95950	14172	110121	117029	20713	137742	78689	7500	86190	140993	18995	159988	75896	13590	89486
2016-17	116215	15144	131359	131921	28150	160071	91096	10126	101222	153195	20709	173905	81432	33371	114803
2017-18	121214	13491	134704	142482	30667	173149	99948	8749	108697	167873*	20203	188076	85364	23902^	109267
2018-19	128570	19976	148546	164300	34659	198959	110316	7431	117747	197201	24311	221511	97083	22640^^	119724
2019-20	137475	12242	149717	174257	35529	209787	104720	8455	113175	210435	25632	236066	108798	16858~	125657
2020-21	152677	18975	171652	176054	45406	221460	123446	12890	136336	236402	33068	269470	123212	15922**	139134
2021-22	159163	16373	175536	209428	47874	257302	146180	14192	160371	254030	37011	291041	136803	28874***	165678
2022-23	201256	7244	208500	215584	57348	272932	141951	13997	155947	279964	39530	319494	153407	17880##	171287
2023-24	212450	23330	235780	242614	52120	294735	142626	13584	156211	309718	40500	350218	168514	43917~~	212432
Source: Summary data on revenue expenditure (RE), capital expenditure (CE) and combined expenditure (TE) from Finance Accounts of C & AG of the respective years for all the five states.															
*-Excludes ₹9.82 crore related to Grants in Aid wrongly classified under capital expenditure. ^ Includes an amount of ₹ 335.86 crore incurred under Grants in Aid. ^^ Includes an amount of ₹48.60 crore incurred under Grants in Aid. ~ Includes an amount of ₹ 5.86 crore incurred under Grants in Aid. ** Includes an amount of ₹ 0.55 crore incurred under Grants in Aid. *** Includes an amount of ₹ 0.29 crore incurred under Grants in Aid. ## Includes an amount of ₹ 5.09 crore incurred under Grants in Aid. ~~ Includes an amount of ₹ 0.12 crore incurred under Grants in Aid															

Appendix Table A5

PER CAPITA SOCIAL EXPENDITURE IN SELECTED HEAD AMONG THE SOUTH INDIAN STATES FROM 2014-15 TO 2023-24 (Rs Crore)															
Education, Arts, Sports & Culture						Health & Family Welfare					Labour & Labour Welfare				
Year	Andhra Pradesh	Karnataka	Kerala	Tamil Nadu	Telangana	Andhra Pradesh	Karnataka	Kerala	Tamil Nadu	Telangana	Andhra Pradesh	Karnataka	Kerala	Tamil Nadu	Telangana
2014-15	3218	2868	3750	3292	1897	949	803	1183	937	691	41	60	224	55	21
2015-16	3152	2944	4111	3374	2894	969	788	1325	1047	1011	49	91	235	51	53
2016-17	3351	3127	4934	3488	3279	1177	956	1657	1066	1259	53	77	261	62	40
2017-18	3805	3291	5326	3828	3335	1198	1079	1776	1337	1299	40	87	281	77	48
2018-19	3724	3589	5428	4378	3112	1391	1282	1959	1561	1329	106	80	363	84	45
2019-20	5037	4030	5344	5052	3291	1404	1267	2146	1521	1599	59	80	790	97	43
2020-21	3959	3666	4776	4997	3259	1709	1473	2522	1955	1533	52	88	240	87	58
2021-22	4285	4359	7129	4998	3806	1921	1910	3364	2159	1702	33	149	266	78	53
2022-23	4926	4648	6350	5815	4523	2071	1681	2865	2120	1965	90	95	178	93	83
2023-24	5002	4834	6254	6013	5037	2581	1808	2677	2154	2132	84	116	181	133	71
Source: Summary data on revenue expenditure calculated from Finance Accounts of C & AG of the respective years in five south Indian states (Government of Andhra Pradesh, 2015; Government of Karnataka, 2015; Government of Kerala, 2015; Government of Tamil Nadu, 2015; Government of Telangana, 2015)															



കേരള ഗസറ്റ് KERALA GAZETTE

അസാധാരണം EXTRAORDINARY

ആധികാരികമായി പ്രസിദ്ധപ്പെടുത്തുന്നത്
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കേരള സർക്കാർ

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എസ്. ആർ. ഒ. നമ്പർ 6/2026

2003-ലെ കേരള ധനസംബന്ധമായ ഉത്തരവാദിത്വ ആക്റ്റിലെ (2003-ലെ 29) 6-ാം വകുപ്പു പ്രകാരം നൽകപ്പെട്ട അധികാരങ്ങൾ വിനിയോഗിച്ചുകൊണ്ടും 2022 സെപ്റ്റംബർ 16-ാം തീയതിയിലെ സ. ഉ. (അ) നമ്പർ 108/2022/ധനം ആയി പുറപ്പെടുവിച്ചതും 2022 സെപ്റ്റംബർ 17-ാം തീയതിയിലെ 3162-ാം നമ്പർ കേരള അസാധാരണ ഗസറ്റിൽ എസ്. ആർ. ഒ. നമ്പർ 892/2022 ആയി പ്രസിദ്ധപ്പെടുത്തിയതുമായ വിജ്ഞാപനം അതിലംഘിച്ചുകൊണ്ടും കേരള സർക്കാർ, താഴെപ്പറയുന്ന അംഗങ്ങളെ ഉൾപ്പെടുത്തി പൊതുചെലവ് പുനഃപരിശോധനാ കമ്മിറ്റി എന്ന പേരിൽ ഒരു കമ്മിറ്റിയെ ഇതിനാൽ നിയമിക്കുന്നു, അതായത്:—



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2005-ലെ കേരള ധനസംബന്ധമായ ഉത്തരവാദിത്വ ചട്ടങ്ങളിലെ 8-ാം ചട്ടം (1)-ാം ഉപചട്ടപ്രകാരം നൽകപ്പെട്ട അധികാരങ്ങൾ വിനിയോഗിച്ചുകൊണ്ട് പ്രൊഫ. കെ. ജെ. ജോസഫിനെ പൊതു ചെലവ് പുനഃപരിശോധനാ കമ്മിറ്റിയുടെ അധ്യക്ഷനായി കേരള സർക്കാർ ഇതിനാൽ നിയമിക്കുന്നു.

ഗവർണ്ണറുടെ ഉത്തരവിൻപ്രകാരം,
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ധനകാര്യ അഡീഷണൽ ചീഫ് സെക്രട്ടറി.



വിശദീകരണക്കുറിപ്പ്

(ഇത് വിജ്ഞാപനത്തിന്റെ ഭാഗമല്ല. എന്നാൽ, അതിന്റെ പൊതു ഉദ്ദേശ്യം വെളിപ്പെടുത്തുന്നതിന് ഉദ്ദേശിച്ചുകൊണ്ടുള്ളതാണ്.)

2022 സെപ്റ്റംബർ 16-ാം തീയതിയിലെ സ. ഉ. (അ) നമ്പർ 108/2022/ധനം പ്രകാരം എസ്. ആർ. ഒ. നമ്പർ 892/2022 ആയി 2022 സെപ്റ്റംബർ 17-ാം തീയതിയിലെ 3162-ാം നമ്പർ കേരള അസാധാരണ ഗസറ്റിൽ പ്രസിദ്ധീകരിച്ച വിജ്ഞാപനപ്രകാരം നിയമിച്ച പൊതുചെലവ് പുനഃപരിശോധനാ കമ്മിറ്റിയുടെ കാലാവധി 2025 സെപ്റ്റംബർ 16-ാം തീയതി അവസാനിച്ചു. ആകയാൽ, 2003-ലെ കേരള ധനസംബന്ധമായ ഉത്തരവാദിത്വ ആക്റ്റിലെ (2003-ലെ 29) 6-ാം വകുപ്പിൽ വ്യവസ്ഥ ചെയ്യുന്ന പ്രകാരം ഒരു കമ്മിറ്റിയെ നിയമിക്കുവാൻ സർക്കാർ തീരുമാനിച്ചു.

മേൽപ്പറഞ്ഞ ഉദ്ദേശ്യം നിറവേറ്റുന്നതിനുവേണ്ടിയുള്ളതാണ് ഈ വിജ്ഞാപനം.



GOVERNMENT OF KERALA
Finance (Planning-A) Department
 NOTIFICATION

G. O. (P) No. 161/2025/Fin.

Dated, Thiruvananthapuram, 31st December, 2025
16th Dhanu, 1201.

S. R. O. No. 6/2026

In exercise of the powers conferred by section 6 of the Kerala Fiscal Responsibility Act, 2003 (29 of 2003), and in supersession of the notification issued under G. O. (P) No. 108/2022/Fin. dated 16th September, 2022 and published as S. R. O. No. 892/2022 in the Kerala Gazette Extraordinary No. 3162 dated 17th September, 2022, the Government of Kerala hereby appoint a Committee called Public Expenditure Review Committee consisting of the following members, namely:—

- | | |
|---|-----------|
| 1. Prof. K. J. Joseph,
Director, Gulati Institute of Finance and Taxation,
Thiruvananthapuram, Kerala. | .. Member |
| 2. Dr. P. L. Beena,
Professor, Centre for Development Studies,
Prasanth Nagar, Ulloor, Thiruvananthapuram, Kerala. | .. Member |
| 3. Shri Siddik Rabiyyath,
Director, Inter University Centre for Alternative
Economics and Assistant Professor, Department of Economics,
University of Kerala, Kariavattom Campus,
Thiruvananthapuram, Kerala. | .. Member |
| 4. Dr. Syam Prasad,
Assistant Professor, School of Economics,
Central University of Kerala. | .. Member |

In exercise of the powers conferred by sub-rule (1) of rule 8 of the Kerala Fiscal Responsibility Rules, 2005, the Government of Kerala hereby appoint Prof. K. J. Joseph as the Chairman of the Public Expenditure Review Committee.

By order of the Governor,

K. R. JYOTHILAL,
Additional Chief Secretary (Finance).



Explanatory Note

(This does not form part of the notification, but is intended to indicate its general purport.)

The term of the Public Expenditure Review Committee, appointed as per Notification issued under G. O. (P) No. 108/2022/Fin. dated 16th September, 2022 and published as S.R.O. No. 892/2022 in the Kerala Gazette Extraordinary No. 3162 dated 17th September, 2022, expired on the 16th day of September, 2025. Therefore, the Government have decided to appoint a Committee as provided in section 6 of the Kerala Fiscal Responsibility Act, 2003 (29 of 2003).

The notification is intended to achieve the above object.



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