

## Chapter 2

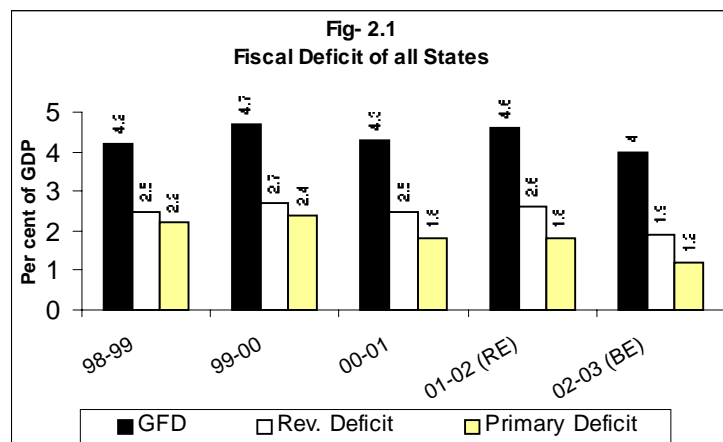
### STATE FINANCES

#### All States: Trend

Finances of the State Governments have been under severe stress over the years, especially from the second half of 1990's. This is evident from the Table-2.1 and fig 2.1, which exhibit the prime indicators of the fiscal health of all States put together. The GFD-GDP ratio of all States, which was 2.6 per cent in 1995-96, increased year after year and attained a peak level of 4.7 per cent in 1999-00. Revenue deficits and primary deficits also behaved almost in the same manner.

2.2 Inadequate buoyancy in revenue receipts and the rising level of revenue expenditures are the major factors that contribute to the higher rate of deficits. Significant part of borrowed funds are

being utilised for meeting revenue expenditure. Dependence on borrowings under public account for financing of GFD has been on the increase in many States (Table-2.2).



**Table 2.1**  
**Combined Fiscal Deficits of All States**  
(Rs. crore)

Year	Gross Fiscal Deficit (GFD)	Revenue Deficit	Primary Deficit
1993-94	20596 (2.4)	3813 (0.4)	4795 (0.6)
1994-95	27697 (2.7)	6156 (0.6)	8284 (0.8)
1995-96	31426 (2.6)	8201 (0.7)	9494 (0.8)
1996-97	37251 (2.7)	16114 (1.2)	11675 (0.9)
1997-98	44200 (2.9)	16333 (1.1)	14087 (0.91)
1998-99	74254 (4.2)	43642 (2.5)	38381 (2.2)
1999-00	91480 (4.7)	53797 (2.7)	46309 (2.4)
2000-01	89532 (4.3)	53569 (2.5)	37830 (1.8)
2001-02 (RE)	106595 (4.6)	60540 (2.6)	42092 (1.8)
2002-03 (BE)	102848 (4.0)	48223 (1.9)	30562 (1.2)

\*Figures in brackets are percentages to GDP at current market prices.

Source: State Finance; A study of Budget, 2002-03; RBI, February 2003. RBI, January 2002.

**Table-2.2**  
**Financing of GFD through Public Account Borrowings**  
(Per cent)

States	1990-91	1999-00	2000-01 (RE)
1. Andhra Pradesh	13.7	12.4	6.7
2. Bihar	20.3	24.4	23.8
3. Goa	33.4	32.3	27.8
4. Gujarat	56.6	41.9	13.2
5. Haryana	37.6	32.5	21.7
6. Karnataka	66.2	38.2	23.1
7. Kerala	42.2	63.3	35.0
8. Madhya Pradesh	54.7	27.0	26.0
9. Maharashtra	41.3	41.7	27.6
10. Orissa	33.5	43.7	29.4
11. Punjab	12.4	38.0	21.9
12. Rajasthan	26.3	29.4	21.4
13. Tamil Nadu	31.7	43.3	17.4
14. Uttar Pradesh	30.6	10.6	34.8
15. West Bengal	28.7	36.6	15.5
All States' Average	32.5	33.4	21.9

Source: State Finance; A Study of Budget, 2001-02;

RBI, January 2002.

2.3 The above situation has put on all States severe constraints in taking up development activities. Heavy commitments on salaries, pension and interest payments are the worrisome feature of all the States. In order to face this situation, many States have initiated measures such as revenue augmentation, containment of non-essential expenditures, enactment of fiscal responsibility and budget management legislations, public sector reforms etc. and as a result, combined fiscal position of States improved in 2000-01. The GFD of the States declined from 4.7 per cent of GDP in 1999-00 to 4.3 per cent of GDP in 2000-01. However, this

trend could not be sustained in 2001-02 due to short-fall in revenue receipts on account of general slowdown in the economy and hence the GFD-GDP ratio again rose to 4.6 per cent in 2001-02. The Budget Estimate figures for 2002-03 indicated signs of recovery, but later figures suggest that the situation is far from stabilised.

2.4 Some general reasons for the deterioration in the State Finances and the restructuring and reforms that have to be taken for the improvement of the finances, summed by Dr. C. Rangarajan, Chairman, Twelfth Finance Com-

### Box -2. 1

#### Deterioration of State finances: Reasons and Reforms

##### Reasons

- Under the constitutional arrangements in India, as in most federal countries, resources are more centralised while the responsibilities are more decentralised.
- Most of the social and economic services fall within the purview of the State Governments.
- The combination of rising revenue and fiscal deficits in conjunction with rising committed expenditures like interest payments and pensions.

Interest Payment as percentage to Revenue Receipts	
Below 15%	Arunachal Pradesh, Goa, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Uttranchal
15 to 18%	Chattisgarh, Jammu & Kashmir, Karnataka, Assam, Madhya Pradesh, Maharashtra, Manipur, Tamil Nadu
18 to 22 %	Andhra Pradesh, Bihar, Gujarat

- The revision of salaries and pensions of State Government Employees following the recommendations of the Fifth Central Pay Commission.
- Erosion in the buoyancy of Central indirect taxes which led to a fall in tax devolution.
- As the States tried to make up for the resource gap through additional borrowing, they faced unusually high nominal interest rate towards the end of the nineties.
- Borrowing for capital assets has remained unviable as the returns on investment remained negligible.

##### Reforms

- Revenue augmentation through :
  1. Non-distortionary taxation like VAT,
  2. Revamping of the planning strategy that emphasizes the quality of expenditure,
  3. Improving efficiency through reducing the volume of subsidies and targeting them better
  4. Undertaking capital expenditure for social and economic infrastructure
  5. Emphasizing maintenance of assets and
  6. Putting in place an effective strategy for controlling the growth of debt, by a suitable legislation, if necessary
- The falling capital expenditure-GDP ratio and the depleting share of maintenance expenditure in the overall revenue expenditure should be considered as priority reforms.
- Reforms of State level Public Enterprises, particularly in the power and transport sector, constitute a critical component of the overall restructuring. The performance of the State Electricity Boards is known to constitute the Achilles heel of State Finances.
- Public spending in areas such as roads, water supply, power, primary education and primary health will need to be stepped up to provide the appropriate physical and social infrastructure necessary for accelerating growth.

Source : ADB INDIA, Economic Bulletin, September 2003

mission are significant in this context (Box 2.1).

## KERALA

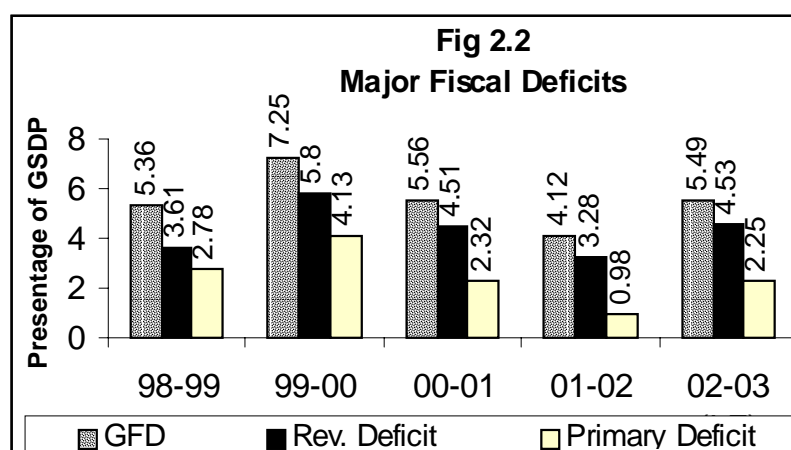
### Overall Fiscal Position

2.5 In 2002, the latest year for which final accounts are available, the overall fiscal health of the State witnessed a positive trend as is evident from the level of relevant fiscal indicators given in Table-2.3 and fig 2.2. The revenue deficit declined from Rs. 3147.06 crores (4.51 per cent of GSDP) in 2000-01 to Rs. 2605.64 crores (3.28 per cent of GSDP) in 2001-02. The Gross Fiscal Deficit (GFD) declined from Rs. 3877.8 crores (5.56 per cent of GSDP) in 2000-01 to Rs. 3269.4 crores (4.12 per cent of GSDP) in 2001-02. Primary deficit also witnessed similar trend. It declined from Rs. 1620.2 crores (2.32 per cent of GSDP) in 2000-01 to 779.93 crores (0.98 per cent of GSDP) in 2001-02. At the same time, the latest estimate for 2002-03 depicts

a slippage. This is mainly attributable to settlement of several pending claims including two instalments of DA. The revenue deficit is estimated to go up by Rs.1516.52 crore (58.20 per cent), from Rs.2605.64 crore in 2001-02 to Rs.4122.16 crore (4.53 per cent of GSDP) in 2002-03. The gross fiscal deficit is estimated to increase by Rs.1724.14 (52.74 per cent), from Rs.3269.4 crore in 2001-02 to Rs.4993.54 crore (5.49 per cent of GSDP) in 2002-03. Almost similar trend is seen in primary deficit also. The over all trend reveals that in spite of the fiscal reform measures taken by the State, fiscal deficit remains high.

### Revenue Receipt

2.6 The total revenue receipt of the State during the last decade is exhibited in Table-2.4 and Fig 2.3. During this period revenue receipt grew by a rate of 11.03



**Table-2.3**  
**Major Deficit Indicators**

Year	Fiscal Deficit		Revenue Deficit		Primary Deficit	
	Amount	% to GSDP	Amount	% to GSDP	Amount	% to GSDP
1993-94	935.45	3.52	371.6	1.40	248.29	0.93
1994-95	1108.65	3.48	399.88	1.25	288.98	0.91
1995-96	1302.66	3.36	402.82	1.04	378.5	0.98
1996-97	1542.48	3.47	643.03	1.45	439.07	0.99
1997-98	2413.85	4.88	1122.9	2.27	1127.76	2.28
1998-99	3012.2	5.36	2029.96	3.61	1565.94	2.78
1999-00	4534.56	7.25	3624.21	5.80	2582.29	4.13
2000-01	3877.8	5.56	3147.06	4.51	1620.2	2.32
2001-02	3269.4	4.12	2605.64	3.28	779.93	0.98
2002-03(LE)	4993.54	5.49	4122.16	4.53	2046.78	2.25

Sources:1. Finance Department, Govt. of Kerala  
2. Budget in Brief, Kerala: 2003-04

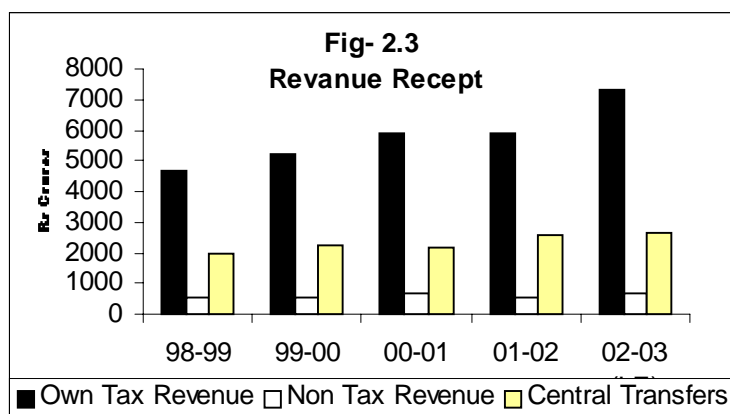
per cent. Incidentally, it is significant to note that during this period the growth of revenue expenditure was much faster, 13.35 per cent. The component-wise growth rate of revenue receipts are; 12.28 per cent by States' own tax revenue, 6.72 per cent by States' own non-tax revenue and 9.49 per cent by share of Central

taxes and grants. In 2001-02, the total revenue receipt increased by Rs. 325.53 crore, compared to the previous year. This was contributed by the increase in Central Transfers, by Rs.388.08 crore. The own revenue of State was short by Rs.62.55 crore due to the heavy fall (Rs.115.71 per cent) in non-tax revenue collection. Own tax revenue during this period was up by Rs.53.15

crores. As per the latest estimate for 2002-03, revenue receipt is estimated to increase by Rs.1577.5 crore, out of which, Rs. 1513.51 crore is by way of own revenue and Rs.63.99 crore by way of share of Central taxes and grants. The growth characteristics of the revenue receipts of the State over the last three decades are shown in Table-2.5. The growth of revenue which was 18.05 per cent in the first half of 1990's came down to 10 per cent in the second half of 1990's.

#### State's own Tax Revenue

2.7 The growth of State's own tax revenue



**Table-2.4**  
**Revenue Receipt**

(Rs. crore)

Year	State's Own Revenue			Share of Central Taxes and Grants	Total Revenue (4+5)
	State's Own Tax Revenue	State's Own Non Tax Revenue	Total (2+3)		
1	2	3	4	5	6
1993-94	2344.87	322.92	2667.79	1253.96	3921.75
1994-95	2799.09	396.35	3195.44	1470.97	4666.41
1995-96	3382.68	535.49	3918.17	1505.39	5423.56
1996-97	3898.5	513.8	4412.3	1732.78	6145.08
1997-98	4501.05	552.11	5053.16	2065.06	7118.22
1998-99	4649.56	557.66	5207.22	1990.90	7198.12
1999-00	5193.5	530.71	5724.21	2217.53	7941.75
2000-01	5870.26	659.09	6529.35	2201.51	8730.86
2001-02	5923.42	543.38	6466.8	2589.59	9056.39
2002-03(LE)	7302.55	677.76	7980.31	2653.58	10633.89
Growth rate(1993-94 to 01-02)	12.28	6.72	11.70	9.49	11.03

Sources: 1. Finance Department, Govt. of Kerala

2. Budget in Brief, Kerala: 2003-04

**Table – 2.5**  
**Growth Characteristics of Revenue Receipts**

30 year Growth Rate	G R 70's	G R 80's	G R 90's	GR 1970-1975	GR 1976-1980	GR 1981-1985	GR 1986-1990	GR 1991-1995	GR 1996-2000
14.87%	16.49%	13.69%	12.67%	17.56%	13.90%	15.13%	10.55%	18.05%	10.00%

. Sources: Finance Department, Govt. of Kerala

in 2001-02 was very marginal, 0.9 percent only (Rs. 53.16 crore), as against a growth rate of 13 per cent (Rs. 676.75 crore) in 2000-01 (Table-2.6). The total tax realised during 2001-02 was Rs.5923.42 crore, out of which, Rs.4440.85 crore (75 per cent) was by way of sales tax and R.394.28 (6.66 per cent) crore by way of fees on stamps and registration. The excise duty sharply declined by Rs.147.48 crores, from Rs.688.94 crore in 2000-01 to Rs.541.66 crore in 2001-02, the

heaviest decline in the decade. As per the latest estimate for 2002-03, the own tax revenue is estimated to have increased by Rs.1379.13 crore (23.28 per cent), compared to 2001-02. However, a fact to be noticed is that on an average only 50 per cent of the State's total revenue expenditure can be met with the State's own tax revenue, normally. The growth characteristics of major tax revenue are given in Table-2.7. In 1990's, compared to the first half, growth was slower in the

**Table-2.6**  
**State's Own Tax Revenue**

Year	Land Revenue	Stamps and Registration fees	State Excise Duties	Sales Tax	Motor Vehicle Tax	Others	Total
1993-94	19.8	230.15	330.95	1533.24	151.06	79.647	2344.87
1994-95	22.65	295.81	353.21	1864.93	183.90	78.59	2799.09
1995-96	23.71	353.79	449.29	2285.96	222.87	47.06	3382.68
1996-97	22.33	360.30	418.53	2772.28	247.59	77.47	3898.5
1997-98	23.75	331.36	543.41	3084.09	301.63	216.81	4501.05
1998-99	32.73	301.15	529.62	3366.62	323.31	96.13	4649.56
1999-00	34.67	279.65	591.1	3853.54	380.83	53.72	5193.51
2000-01	39.35	341.1	688.94	4344.33	394.85	61.69	5870.26
2001-02	34.93	394.28	541.46	4440.85	452.18	59.72	5923.42
2002-03(LE)							7302.55
Growth rate(1993-94 to 01-02)	7.35	6.96	6.35	14.22	14.69	-3.54	12.28

Sources: 1. Finance Department, Govt. of Kerala

2. Budget in Brief, Kerala: 2003-04

**Table 2.7**  
**Growth characteristics of major tax revenues**

30 years Growth	GR 70's	GR 80's	GR 90's	GR 1970-75	GR 1976-80	GR 1981-85	GR 1986-90	GR 1991-95	GR 96-2000
<b>Own Tax Revenue</b>									
16.62%	18.01%	15.63%	14.37%	16.11%	16.16%	16.58%	13.97%	20.21%	11.31%
<b>Sales Tax</b>									
17.72%	19.21%	16.15%	15.19%	19.11%	13.52%	16.46%	13.80%	20.06%	13.95%
<b>State Excise</b>									
16.12%	22.30%	12.60%	13.41%	11.64%	29.67%	11.36%	13.82%	19.12%	7.10%
<b>Stamps and Registration</b>									
14.84%	15.29%	17.90%	8.82%	15.84%	14.64%	13.61%	25.02%	24.79%	-5.71%
<b>Motor Vehicles Tax</b>									
15.41%	12.55%	15.04%	17.29%	-0.52%	20.00%	19.26%	10.38%	25.50%	14.33%

Source: Finance Department, Govt. of Kerala

second half. Speedy measures are required to augment State's own tax revenue, otherwise, the State will be constrained to go in for high cost borrowings to meet revenue expenditure, which is not a healthy fiscal practice

### State's own non-tax revenue

2.8 On an average, State's own non-tax revenue constitutes only about 6 to 8 per cent of the total revenue receipts. In 2001-02, non-tax realisation was far from satisfactory. It declined by Rs.115.66 crore, from Rs. 659.04 crore in 2000-01 to Rs. 543.38 crores in 2001-02 (Table 2.8). However, as per the latest estimate for 2002-03, non-tax revenue is expected to increase by Rs.134.38 crore (24.7 per cent), from Rs.543.38 crore

in 2001-02 to Rs.677.76 crore in 2002-03 (LE). During the period from 1993-94 to 2001-02, when the State's own tax revenue increased by a growth rate of 12.28 per cent, State's own non-tax revenue increased only by a slow pace of 6.72 per cent. The major component of non-tax revenue in the State is the revenue from forests and it constitutes about 20-30 per cent of the total non-tax revenue. However, its annual growth is very low, only 1.25 per cent. Possibility of generating more revenue from forest sector needs to be explored in this situation. In most sectors, the level of non-tax revenue does not bear any

relation to the expenditure incurred by the State in providing the corresponding service. Health and Education are two of such major sectors. The total non-tax revenue collection in relation to GSDP was also on the decline in the State. The ratio which was 1.06 per cent in 1996-97, declined to 0.94 per cent in 2000-01 and further to 0.68 per cent in 2001-02.

2.9 A comparative position of non-tax revenue in the four neighbouring States as per their revised estimate for 2000-01 is shown in Table 2.9. When the ratios between non-tax revenue and revenue expenditure in Andhra Pradesh, Karnataka and Tamil Nadu are 11.8 per cent, 7.8 per cent and 6.4 per cent respectively, in Kerala, it is only 5.33 per cent. The growth

**Table-8**  
**STATE'S OWN NON TAX REVENUE**

Year	Forest	Debt Services (Interest)	Social Development Services*	Others	Total
1993-94	102.96	27.6	68.25	124.11	322.92
1994-95	136.88	37.76	83.48	138.23	396.35
1995-96	160.77	100.32	96.42	177.98	535.49
1996-97	162	55.73	86.3	209.77	513.8
1997-98	144.91	53.48	106.73	246.99	552.11
1998-99	121.03	70.96	122.66	243.01	557.66
1999-00	109.88	37.31	118.41	265.11	530.71
2000-01	141.24	36.81	165.02	315.97	659.04
2001-02	113.7	31.08	135.51	263.09	543.38
2002-03(RE)	149.58	34.4	173.93	348.63	677.76
Growth rate(1993-94 to 01-02)	1.25	1.50	8.95	9.85	6.72

Sources: 1. Finance Department, Govt. of Kerala  
2. Budget in Brief, Kerala: 2003-04

\*: It includes Education, Medical and Public Health, Agriculture, Rural Development, Animal Husbandry, Co-operation, Industries, Community Development, NES etc and miscellaneous Social Organisations

**Table - 9**  
**Comparative position of Non-Tax Revenue in four neighbouring states 2000-01**  
**(Latest Estimates)**

States	Andra Pradesh	Karnataka	Kerala	Tamil Nadu
Non Tax Revenue of State	2695.92	1332.93	669.72	1432.19
Revenue Expenditure (RE)	22830.29	17086.86	12563.84	22318.23
Revenue Receipts (RR)	19717.35	14911.89	9332.07	18395.96
NTR / RE	11.81%	7.80%	5.33%	6.42%
NTR / RR	13.67%	8.94%	7.18%	7.78%

Source: Finance Department, Govt. of Kerala

characteristics of non- tax revenue for the last three decades are given in Table 2.10. It shows a very dismal picture. The growth rate of non-tax revenue declined from 18.01 per cent in 1991-95 to -0.22 per cent in 1996-2000. In this context, it is desirable to study deeply, scientifically and judiciously the need and scope for increasing the non-tax revenue in the State and come out with rational measures, without affecting the welfare of poor. It has become inevitable in view of the increasing rate of investment being made by the State in service sectors and also considering the

emphasis being given by the Government for providing better service delivery to the society.

### Central Transfers

2.10 The transfers from the Centre to State comprise of tax devolution and grant. The component-wise Central transfers to the State from 2000-01 to 2002-03 (LE) are shown in the Table-2.11. The total transfer increased by 17.6 per cent in 2001-02, over the previous year. The total share of Central taxes and transfers from 1993-94 to 2002-03 (LE) are exhibited in Table-2.12. Share in Central taxes and grants- in- aid anticipated in the latest estimate for 2002-03 is Rs. 2653.58 crore, which shows an increase of only 2.47 per cent

**Table – 10**  
**Growth Characteristics of Non Tax Revenues: Forest and others**

GR 30 yrs	GR - 70s	GR - 80s	GR - 90s	GR 1970-75	GR over the previous year. 1976-80	GR 1981-85	GR 1986-90	GR 1991-95	GR 96-2000
Non Tax Revenue									
8.30%	14.03%	2.35%	10.96%	22.21%	5.98%	15.37%	-4.52%	18.01%	-0.22%
Of which Forest									
9.79%	18.73%	-1.79%	10.29%	18.74%	19.04%	-7.20%	-6.76%	38.38%	-9.08%
Other than Forests									
7.94%	12.95%	3.36%	11.17%	22.90%	2.65%	21.97%	-4.28%	11.64%	2.94%

Source: Finance Department, Govt. of Kerala

**Table-2.11**  
**Central Transfers: Component- wise**

	2000-01	2001-02	2002-03 (LE)
1. Share in Central Taxes and duties	1585.61	1614.26	NA
2. Plan grants	497.72	820.15	
3. Finance Commission's Award	79.34	130.14	
4. Other non-plan grant	38.84	25.04	
<b>Total</b>	<b>2201.51</b>	<b>2589.59</b>	<b>2653.58</b>

Sources: 1. Finance Department, Govt. of Kerala

2. Budget in Brief, Kerala: 2003-04

**Table-2.12**  
**Central Transfers: 1993-94 to 2002-03 (LE)**  
**(Rs. in crore)**

Year	Share of Central Taxes & Grant in Aid	Growth rate %
1993-94	1253.96	8.82
1994-95	1470.97	17.31
1995-96	1505.39	2.34
1996-97	1732.78	15.11
1997-98	2065.06	19.18
1998-99	1990.9	-3.59
1999-00	2217.53	11.38
2000-01	2201.51	-0.72
2001-02	2589.59	17.63
2002-03 (LE)	2653.58	2.47

Source: Finance Department, Govt. of Kerala

### Eleventh Finance Commission

2.11 The criteria adopted by the Eleventh Finance Commission for devolution of resources to the States were extremely unfavourable to the State. The parameters chosen and the weights assigned to them are : population (10 per cent), income (62.5 per cent), area (7.5 per cent), index of infrastructure (7.5 per cent), tax effort (5 per cent) and fiscal discipline (7.5 per cent). The State argued that the assumption that a State with larger area would have larger non-development expenditure and construction of index of infrastructure, a mix of social and economic infrastructure, were not objective criteria. But the Commission did not consider it. Reduction in the share of population (1971 figures) from 20 per cent adopted by the Tenth Finance Commission to 10 per cent for Eleventh Finance Commission also unfavourably affected the State. Another adverse point was that, of the total sharable revenue, 68.1 per cent was distributed to the States with

per capita income below the national average and the balance 31.9 per cent of the share only was distributed to the other States, including Kerala, with per capita income above national average. The estimated reduction in transfers for the period 2000-05 as per Eleventh Finance Commission Award as compared to the previous commission has been worked out to be Rs. 3664 crores ( Table-2.13).

### Expenditure Pattern

#### Revenue Expenditure

2.12 The Revenue Expenditure in the State is on the increase, regardless of the revenue receipts. During the period from 1993-94 to 2001-02, when the revenue expenditure increased by a growth rate of 13.35 per cent, the revenue receipt increased by a growth rate of 11.03 per cent only (Table-2.14 and 2.4). At the same time, in 2001-02 the revenue expenditure could be contained by Rs. 215.89 crores (1.82 per cent), from Rs. 11877.92 crores in 2000-01 to Rs. 11662.03 crores in 2001-02. However, as per the latest estimate for 2002-03, the revenue expenditure has shot up by Rs. 3094.02 crores (26.53 per cent), compared to 2001-02. Another disquieting fact noticed was that the share of development expenditure in the total revenue expenditure is on the decline, especially after 1998-99. The share of development expenditure, which was 61 per cent in 1998-99 declined to 56 per cent in 1999-00, 54 per cent in 2000-01 and fur-

**Table-2.13**  
**Finance Commission Award : Share**

Item	Eleventh Finance Commission	Tenth Finance Commission
Population share	3.490%	3.438%
Share of Taxes	3.057%	3.498%
Share of Grants	1.387%	2.498%
Share of Total transfers	2.832%	3.407%
Estimated reduction in transfers in the EFC , compared to that inTFC	Rs. 3664 crore	

Source : Finance Department, Govt. of Kerala.

**Table 2.14**  
**TREND IN REVENUE EXPENDITURE**

Year	Development Expenditure						Non Development Expenditure				Rev.Expr.
	Edn	Health	Agri, AH, and Coop	Labour and Empl	Others	Total	Interest payment	Pension	Others	Total	
93-94	1145.49	367.44	288.22	110.01	674.81	2585.97	687.16	464.72	555.51	1707.39	4293.36
94-95	1351.08	431.57	346.46	132.25	754.02	3015.38	819.67	565.45	665.8	2050.92	5066.3
95-96	1435.13	498.62	388.96	157.83	931.62	3412.16	924.16	716.85	773.21	2414.22	5826.38
96-97	1616.45	535.33	474.75	201.42	1220	4047.96	1103.41	753.67	883.06	2740.14	6788.1
97-98	1761.05	634.12	575.65	214.61	1845.8	5031.26	1286.09	913.02	1010.75	3209.86	8241.12
98-99	1957.9	694.86	615.43	191.75	2182.1	5642.03	1446.26	1154.32	985.47	3586.05	9228.08
99-00	2609.49	870.38	643.67	216.87	2169.8	6510.24	1952.27	1808.29	1295.16	5055.72	11566
00-01	2620.24	837.04	594.69	178.34	2166.2	6396.5	2257.6	1929.48	1294.34	5481.42	11877.9
01-02	2471	861.21	487.57	176.36	2032.2	6028.34	2489.47	1837.93	1306.29	5633.69	11662
02-03(LE)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	14756.1
GRt 93-94 to 01-02	10.61	11.15	9.02	7.11	15.4	11.8	15.87	18.92	11.2	15.45	13.35

Sources: 1. Finance Department, Govt. of Kerala

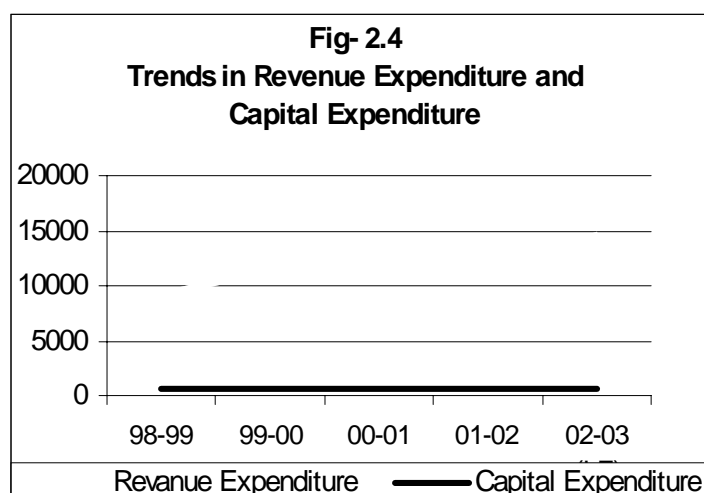
2. Budget in Brief, Kerala: 2003-04

ther to 52 per cent in 2001-02. In other words, the share of non-development revenue expenditure is on the increase. The growth characteristics of revenue expenditure for the last three decades are given in Table 2.15.

### Capital Expenditure

2.13 The capital expenditure in the State during the period from 1993-94 to 2002-03 is given in Table-2.16 and Fig 2.4. The trend shows decline over the years. Capital expenditure declined from Rs. 648.10 crores in 1999-2000 to Rs. 577.20 crores (11 per cent) in 2000-01 and further (3.3 per cent) to Rs. 558.36 crore in 2001-02. In terms of capital expenditure-GSDP ratio, the ratio which was 1.4 per cent in 1996-97 declined to 0.83 per cent in 2000-01 and further to 0.70 per cent in 2001-02. This is partly due to the accounting system followed. The transfer of plan assistance to the local Governments to the extent of about 30-35 per cent of plan outlay is under revenue head. But the major share of this transfer to the local bodies is being utilised as capital expenditure for asset creation. Assuming an expenditure of at least 50 per cent of the the assistance to local Governments for asset creation as capital, the capital expenditure of the State will go up. But even with this the proportion of

capital expenditure in the total expenditure may not attain a desirable level as is evident from the trend of growth in expenditures given in Tables 2.16 and 2. 17. The latest estimate for 2002-03 anticipates an increase of Rs.140.30crore (25.13 per cent) in total capital expenditure, compared to 2001-02. The most disturbing feature of State finances is that despite growth in borrowing the capital expenditure is very low.



**Table 2.15**  
**Growth Characteristics of Revenue Expenditure**

30 year Growth Rate	GR 70'S	GR 80'S	GR 90'S	GR 1970-75	GR 1976-80	GR 1981-85	GR 1986-90	GR 1991-95	GR 96-2000
15.79%	15.03%	15.93%	14.69%	15.12%	10.73%	14.28%	12.29%	15.72%	18.70%

Sources: Finance Department, Govt. of Kerala

**Table-2.16**  
**Trend in Capital Expenditure**

Year	Irrigation	Agriculture and allied Services	Industries	Public Works	Others	Total
1993-94	131.46	18.68	57.83	80.19	75.17	363.33
1994-95	137.39	37.33	84.38	109.16	77.75	446.01
1995-96	170.34	52.49	91.50	137.05	112.09	563.47
1996-97	187.59	51.14	110.69	155.65	117.46	622.53
1997-98	188.29	53.57	106.11	236.04	154.86	738.87
1998-99	177.76	40.57	80.06	182.68	80.56	651.63
1999-00	169.75	54.67	68.79	241.96	113.01	648.18
2000-01	154.5	36.69	58.2	187.99	139.82	577.2
2001-02	147.21	29.18	30.24	222.14	129.59	558.36
2002-03(LE)	NA	NA	NA	NA	NA	698.66

Table- 2.17

30 year Growth Rate	GR 70'S	GR 80'S	GR 90'S	GR 1970-75	GR 1976-80	GR 1981-85	GR 1986-90	GR 1991-95	GR 96-2000
12.31%	16.82%	8.13%	12.06%	8.22%	21.76%	8.20%	3.07%	14.89%	3.56%

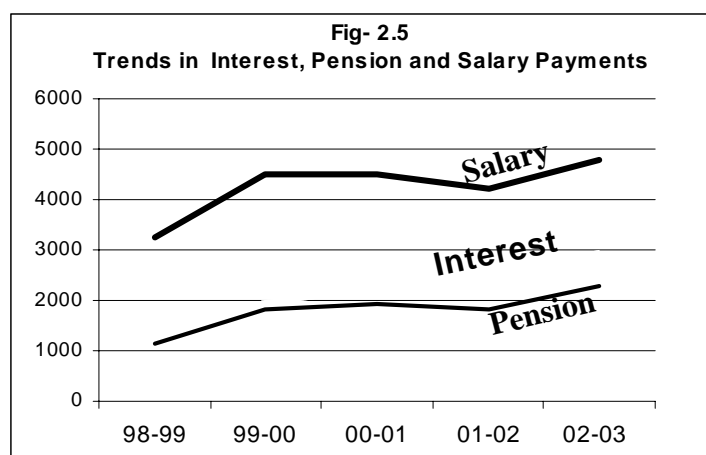
Source: Finance Department, Govt. of Kerala

## Interest, Pension and Salaries

### Interest, Pension and Salaries

2.14 One of the major factors that contributes to the rise in gross fiscal deficit is the heavy expenditure commitment on account of interest, pension and salaries. In the fiscal year 2001-02, 94.2 per cent of the revenue receipt had to be utilized for meeting the above three commitments; 27.5 percent for interest payment, 20.3 per cent for pension and 46.4 per cent for Salaries (Table-2.18 and Fig 2.5). The latest estimate for 2002-03 also shows almost similar trend. During the period 1993-94 to 2001-02, the revenue receipt of the State

grew by only 11.03 per cent, whereas, the total commitment for the above three items grew by a higher rate of 14.01 per cent. The item-wise growth rates are 17.45 per cent for interest, 18.75 per cent for pension and 10.90 per cent for Salary. However, the share of salary on total revenue receipt is on decline. The total salary as a percentage to total revenue, which was 56.68 per cent in 1999-2000 declined to 51.45 per cent in 2000-01, 46.39 percent in 2001-02 and as per the latest estimate for 2002-03 it is estimated to decline further to 45.14 per cent. The growth characteristics of interest, pension and salaries are given in Table-2.19.



**Table 2.18**  
**INTEREST, PENSION AND SALARIES**

Year	Interest	Pension	Salaries	Total	Revenue Receipts	Total as a percentage of Revenue receipts
1993-94	687.16	464.72	1836.13	2988.01	3921.76	76.19
1994-95	819.67	565.45	2194.25	3579.37	4666.42	76.70
1995-96	924.16	716.85	2230.4	3871.41	5423.56	71.38
1996-97	1103.41	753.67	2616.66	4473.74	6145.07	72.80
1997-98	1286.09	913.02	2803.26	5002.37	7118.19	70.28
1998-99	1446.26	1154.32	3254.68	5855.26	7198.12	81.34
1999-00	1952.27	1808.29	4502.86	8263.42	7941.75	104.05
2000-01	2257.6	1929.48	4491.61	8678.69	8730.86	99.40
2001-02	2489.47	1837.93	4200.82	8528.22	9056.39	94.17
2002-03 (LE)	2946.76	2282.90	4800.24	10029.90	10633.89	94.32
Growth rate: 93-94 to 01-02	17.45	18.75	10.90	14.01	11.03	

Sources: 1. Finance Department, Govt. of Kerala

2. Budget in Brief, Kerala: 2003-04

**Table -2.19**  
**Growth characteristics of Interest, Pensions and Salaries**

30 year Growth Rate	GR 70'S	GR 80'S	GR 90'S	GR 1970-75	GR 1976-80	GR 1981-85	GR 1986-90	GR 1991-95	GR 96-2000
<i>Interest</i>									
17.26%	10.51%	23.08%	16.65%	10.83%	8.76%	25.93%	23.13%	24.55%	20.56%
<i>Pension</i>									
21.80%	20.57%	22.95%	18.39%	14.53%	16.60%	24.28%	19.43%	17.85%	26.03%
<i>Salaries</i>									
N.A	12.03%	17.85%	11.30%	NA	NA	14.19%	20.87%	6.86%	19.20%

*Source: Finance Department, Govt. of Kerala*

### Debt Profile

2.15 Debt burden of the State is a major problem. Debt of the State and its growth characteristics are given in Table- 2.20 and 2.21. Burgeoning revenue expenditure, growing budget deficits, high proportion of loans in Central assistance to State plans etc .are some of the major factors for higher growth in debt liabilities. Internal debt, small savings/provident fund and loans & advances from the Central Government are the three components of debt liabilities of the State. During the period 1993-94 to 2001-02, the total debt liability of the State grew by a rate of 17.94 per cent. Internal debt of the State grew much faster, with a growth rate of 23.43 per cent. As per the latest estimate for 2002-03, the total debt of the State was Rs. 31060 crore. The debt profile of the State is shown in Table 2. 22. The gross retention (receipts minus disbursement) as well

as net retention (gross retention minus interest) attained their peak levels in 1999-00 at Rs. 4424.39 crores and Rs.2494.23 respectively and thereafter the gross retention declined to a level of Rs.2946.26 and the net retention to a level of Rs.494.89 in 2001-02. State's debt-GSDP ratio as well as the per capita debt liability of the State is much higher than that of neighbouring States' and all States' average (Table 2.23). The per capita debt of Kerala, which was Rs.3630 in 1997 increased to Rs. 8342 in 2002(RE). The per capita debt of neighbouring States in 2002(RE) were only Rs. 5100 for Karnataka, Rs. 5443 for Tamil Nadu and Rs.5711 for Andhra Pradesh; all States' average being Rs.5737. So also was the case with Debt-GSDP ratio. When the ratios of neighbouring States ranged between 21 per cent and 26 per cent in 2001-02, that of Kerala was as

**Table-2.20**  
**DEBT OF THE STATE**

Year	Internal Debt	Small Savings provident Fund, Others	Loans and advances from the central Govt.	Total
1993-94	1734.68	2349.76	3114.22	7198.66
1994-95	2079.32	3015.5	3726.05	8820.87
1995-96	2486.28	3389.01	4238.25	10113.54
1996-97	2970.85	3837.52	4612.54	11420.91
1997-98	3585.12	4292.51	4990.51	12868.14
1998-99	4424.36	5627.78	5648.13	15700.27
1999-00	5735.61	8537.67	5902.79	20176.1
2000-01	7627.34	10189.75	6101.88	23918.97
2001-02	9342.46	11261.65	6346.46	26950.57
2002-03 (LE)	NA	NA	NA	31060.00
Growth rate: 92-93 to 01-02	23.43	21.64	9.31	17.94

*Sources: 1. Finance Dept., Govt. Kerala  
Budget in Brief 2003-04*

**Table -2.21**  
**Growth characteristics of Debt**

30 year Growth Rate	GR 70'S	GR 80'S	GR 90'S	GR 1970-75	GR 1976-80	GR 1981-85	GR 1986-90	GR 1991-95	GR 96-2000
17.48%	15.65%	16.67%	16.73%	20.84%	14.33%	18.06%	17.13%	16.12%	22.98%

*Source: 1. Finance Department, Govt. of Kerala*

Table -2.22

## Debt Profile of the State (1990-91 to 2001-02)

Item	Year	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	99-2000	2001-02
<b>Loans and Advances from Government of</b>	Receipts	408.42	575.03	529.55	595.85	749.42	655.45	539.94	567.15	869.59	1072.97	
	Disbursements	138.58	305.91	243.29	202.67	137.59	143.25	165.65	189.18	211.96	246.95	
	Interest	138.33	231.15	237.62	278.16	330.7	418.07	494.16	550.71	606.54	703.74	
	GROSS RECEIPTS	269.84	269.12	286.26	393.18	611.83	512.2	374.29	377.97	657.63	826.02	
	NET RECEIPTS	131.51	37.97	48.64	115.02	281.13	94.13	-119.87	-172.74	51.09	122.28	-
<b>Small Savings and Deposits</b>	Receipts	786.85	996.95	1268.78	1629.29	1880.9	1887.17	1988.28	2396.71	3875.61	6986.41	6
	Disbursements	709.16	905.35	1142.05	1504.39	1581.54	1824.76	1809.58	2168.57	2935.66	4981.87	5
	Interest	23.14	27.37	40.19	45.79	103.26	64.62	62.46	76.70	78.92	273.00	
	GROSS RECEIPTS	77.69	91.6	126.73	124.9	299.36	62.41	178.70	228.14	939.95	2004.54	
	NET RECEIPTS	54.55	64.23	86.54	79.11	196.1	-2.21	116.24	151.44	861.03	1731.54	
<b>State Provident Funds</b>	Receipts	382.04	369.22	405.07	692.14	773.16	800.9	880.10	972.17	1128.11	1713.92	1
	Disbursements	180.41	226.38	337.98	368.82	428.2	513.36	636.32	779.95	770.01	859.97	1
	Interest	77.73	89.97	101.92	174.13	159.33	176.04	214.66	253.69	276.32	364.19	
	GROSS RECEIPTS	201.63	142.84	67.09	323.32	344.96	287.54	243.78	192.22	358.10	853.95	
	NET RECEIPTS	123.9	52.87	-34.83	149.19	185.63	111.5	29.12	-61.47	81.78	489.76	
<b>Internal Debt</b>	Receipts	1355.5	1859.13	2162.62	1143.35	509.32	427.64	623.01	947.81	3101.91	4858.25	6
	Disbursements	1143.87	1635.48	1831.94	1102.81	164.68	20.68	138.44	333.54	2262.67	4118.37	5
	Interest	97.56	124.61	154.98	180.9	216.41	253.63	318.08	388.50	465.38	589.23	
	GROSS RECEIPTS	211.63	223.65	330.68	40.54	344.64	406.96	484.57	614.27	839.24	739.88	1
	NET RECEIPTS	114.07	99.04	175.7	-140.36	128.23	153.33	166.49	225.77	373.86	150.65	1
<b>TOTAL DEBT</b>	Receipts	2932.81	3800.33	4366.02	4060.63	3912.8	3771.16	4031.33	4883.84	8975.22	14631.55	15
	Disbursements	2172.02	3073.12	3555.26	3178.69	2312.01	2502.05	2749.99	3471.24	6180.30	10207.16	11
	Interest	336.76	473.1	534.71	678.98	809.7	912.36	1089.36	1269.60	1427.16	1930.16	2
	GROSS RECEIPTS	760.79	727.21	810.76	881.94	1600.79	1269.11	1281.34	1412.60	2794.92	4424.39	3
	NET RECEIPTS	424.03	254.11	276.05	202.96	791.09	356.75	191.98	143.00	1367.76	2494.23	1

Source : Finance Department, Govt. of Kerala

**Table 2. 23**  
**DEBT POSITION: COMPARISON WITH OTHER STATES**

States	Debt/GSDP Ratio(%)					Per capita Debt (Rupees)					
	1997	98	99	00	01	1997	98	99	00	01	02(RE)
Andhrapradesh	19	21	21	24	26	2303	2722	3223	3882	4724	5711
Karnataka	17	08	18	20	21	2256	2574	3029	3623	4254	5100
Kerala	26	26	28	31	32	3630	4090	4940	6285	7414	8342
Tamil Nadu	16	16	16	19	21	2352	2701	3216	3877	4644	5443
All States	18	18	18	22	24	2543	2944	3522	4257	4996	5737

Source: Budget in Brief (Kerala) : 2003-04

high as 32 per cent. As per the latest estimate for 2002-03, Kerala's per capita debt will go upto Rs.9755 and debt GSDP ratio 34 per cent.

### Contingent Liabilities

2.16 Contingent liabilities are not direct debt burden of the State. But, in the event of default by borrowing units, for which Government is a guarantor, the State will be required to meet the obligations. In such cases, like other debt liabilities, contingent liabilities will also become a debt obligation to the State. In the past, there were instances where Government guarantees have been invoked and the Government had to pay the liability. Since the level of guarantee is rising without limit, considering its fiscal implications, like some other States, Kerala has also brought a ceiling on Government guarantees by enactment of 'The Kerala Ceiling On Government Guarantees Act, 2003'. As per the ceiling, the outstanding Government guarantees as on the first day of April of any year shall not exceed Rs. 14000 crores. The current level of (up to 2001-02) outstanding guarantees of the State Government are given in Table-2.24. The outstanding liabilities increased over five fold during the period 1992-93 to 2001-02, from Rs. 2295.73 crore in 1992-93 to Rs. 11817.53 crores in 2001-02.

**Table-2.24**  
**Outstanding Guarantees**

Year	Maximum amount guaranteed	Amount outstanding
1992-93	2732.51	2295.73
1993-94	3680.76	2319.99
1994-95	4407.14	3228.64
1995-96	5167.48	2082.32
1996-97	5867.82	1948.97
1997-98	6656.89	3292.29
1998-99	9078.16	5112.96
99-2000	11431.59	7952.24
2000-01	12797.80	9553.17
2001-02	14122.46	11817.53

Source: Finance Department, Govt. of Kerala

### OUTLOOK

2.17 Mounting fiscal deficits and high growth in non-development expenditure are the two major problems confronting State's fiscal position. During the period 1993-94 to 2001-02, the fiscal deficit grew by a rate of 16.9 per cent and the non-development expenditure by 15.50 per cent. The unique achievements that the State made in several sectors are getting undermined for want of adequate resources for their maintenance. Health, education and infrastructure are the sectors most affected by the situation. The problem of elderly, mounting unemployment, increasing rate of morbidity, re-emergence of fatal diseases, deterioration in the quality of education, high cost in health care and education etc are some of the problems facing the State. To address these issues, large-scale investments are required. Besides, the total investment required for attaining the Tenth Plan targeted growth rate of 6.5 per cent is estimated to be around Rs 50000 crore, including the State Plan outlay of Rs. 24000 crores. Unless speedy measures are taken towards a purposeful fiscal consolidation, the State would not be in a position to have the required resources to prevent diversion of loans to revenue expenditure and thereby get the ability to make higher capital investments

2.18 Fiscal consolidation requires augmentation of revenue and restraining of expenditure. Own revenue realisation needs to be streamlined and boosted; especially non-tax revenue. Considering the higher allocations being provided for the public spending, it has become inevitable to rationally enhance the user charges of services being rendered by the Government, in a progressive manner. The State Government has argued before the Twelfth Finance Commission its case strongly for basic changes in the scheme of Central transfers and grants. The States' fiscal problems can be tackled only if its own efforts are supported by

higher Central transfers and comprehensive debt relief. Even while demanding alteration in devolution criteria, all possible efforts are to be made for availing of maximum assistances under discretionary grant/project based grant by raising State's special problems such as acute unemployment, problems of elderly, second generation problems, industrial backwardness, low level of Central sector investment etc.

2.19 The total expenditure of the State during 2001-02 was 15.38 per cent of GSDP, which is comparatively moderate. But, what matters is not the level of expenditure but the composition of expenditure. The concern is that the share of non-development revenue expenditure in the State is disproportionately increasing; especially pension and interest payments. High cost borrowings and too much dependence on ways and means advances and over drafts from RBI, for which the rate of interest is comparatively higher, are the two major factors, which increase the burden on interest. Very poor return from public sector units is another burden to the State. The rate of return on investment in these units is abysmally low, 0.2 per cent. The public sector units are to be made self-supportive by taking appropriate steps, including reform measures. Maintenance and renewal of assets already cre-

ated is another problem facing the State. The capital assets are languishing on account of poor investment for maintenance. The State has been in a position to utilise only around 3 per cent of the total revenue expenditure for asset renewal/maintenance.

2.20 The State Government has already initiated many fiscal reform measures. Enactment of 'The Kerala Fiscal Responsibility Act, 2003', 'The Kerala Ceiling on Government Guarantees Act, 2003', closure of TP Accounts, measures for debt swap in the context of current low interest rates, re-deployment and restructuring initiatives for an efficient Civil Service etc. are some of the important measures taken. 'The Kerala Fiscal Responsibility Act, 2003' envisages reduction of the revenue deficit to 'nil' and the fiscal deficit to 2 per cent of the GSDP, by the end of March, 2007. Prioritisation of expenditures, restructuring of public sector units, growth oriented sectoral policies, speedy and time-bound completion of long pending feasible projects, new budget cycle facilitating early budget implementation, legal authority for financial management and responsibilities, improved asset management system etc are certain other measures being taken up by the Government, with which it is expected that the State can achieve fiscal soundness and sustainability in two to three years.