

## **Disquieting tumble in state revenues of southern states**

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An economy is said to be in recession when there is a significant decline in general economic activity in two consecutive quarters. The negative GDP growth (-13.3%) in India during first half of the current fiscal resulting from -23.9 per cent growth in Q1 and -7.5 per cent growth in Q2, (NAS, 2020-21), undoubtedly implies a recession. Such a context calls for an activist role for the state inter alia for reviving the economy and help those affected by the recession. The state's ability to intervene, however, is contingent on the fiscal position of the state. How has the observed recessionary trends at national and sub-national levels affected the state's fiscal position? This article explores this question by analysing revenue, expenditure, borrowing and deficit of Kerala in a comparative perspective with other southern states- Andhra Pradesh, Karnataka, Telangana, and Tamil Nadu. Since we have already dealt with the fiscal position in Q1,2020 (Anitha Kumary and Chakravarti, 2020), the focus here shall be on first half (H1) of the current fiscal as compared to H1 in 2019. We shall also highlight the changes in Q2 as compared to Q1

### **Government receipts**

The southern states in general recorded a decline in the overall revenue receipts (comprising of own tax revenue, own non-tax revenue, share in central taxes and grants-in-aid) during the first half of the current fiscal as compared to the corresponding period in the previous year. The largest fall in revenue receipts is observed in Karnataka (-22.5%) followed by Tamil Nadu (-19%), Kerala (-17.9%), Andhra Pradesh (-14.6%) and Telangana (-14.4%) (Appendix Table A1). Here it is important to note that the recorded negative growth in revenue in Andhra Pradesh and Telangana is on par with the fall in GDP growth at the national level whereas the decline in revenue growth in Karnataka, Tamil Nadu and Kerala was much higher when compared to the GDP growth.

Both own tax revenue and non-tax revenue growth shows a decrease in all the states with a steepest fall in own tax revenue growth observed in Kerala of -31.5 per cent during H1 2020 from H1 2019, then in Tamil Nadu (-26.7%), Andhra Pradesh (-26.2%), Karnataka (-23.4%) and Telangana (-13.1%). The decline in own non-tax revenue growth is observed to be highest in Kerala of -75.6 per cent followed by Tamil Nadu (-37.6%), Telangana (-30%), Karnataka (-19%) and then Andhra Pradesh (-9.4 %) during H1 2020 with respect to H1 2019. State's share of central taxes have strikingly registered a fall for all the states with a steepest fall in Karnataka (-38.4 %) and Kerala (-38.1 %). With the negative growth in own tax revenue, non-tax revenue and share in central taxes, the fall in the aggregate revenue receipts would have been at a more severe degree without the positive growth in grants-in-aid and contributions in all the states except Karnataka (Appendix Table A1).

Capital receipts comprising of recovery of loans and advances, other receipts and borrowings and other liabilities show a positive growth in all the states contributed by maximum positive growth in borrowings and other liabilities (Appendix Table A1).

Disaggregating the half-yearly analysis into first and second quarter we observed that the performance of all the states have improved in terms of revenue receipts growth except in Andhra Pradesh during Q2 compared to Q1. Even though the growth in revenue receipts is decreasing in Q2, the extent of fall as compared to Q1 has reduced with a better performance observed in Kerala (Appendix Table A1).

### **Government expenditure**

The total expenditure consisting of revenue and capital expenditure shows a positive growth in three states, Andhra Pradesh (55 per cent), Telangana (9.8 per cent) and Kerala (3.9 per cent) during H1 2020 vis-à-vis 2019 with a negative growth registered in Karnataka (-8.5 per cent) and in Tamil Nadu (-6.5 per cent). Positive growth in both revenue and capital expenditure is noted in the same states having positive growth in total expenditure and it is similar for the states having negative growth. Highest revenue expenditure growth is observed in Andhra Pradesh (48.4 per cent), Telangana (12.9 per cent) and in Kerala (2.5 per cent). Revenue expenditure on subsidies registered a highest growth in Kerala of 217.4 per cent during H1 2020 compared to 2019 (Appendix Table A1). It indicates the state's timely response to safeguard the lives and livelihood of the people during the COVID-19 pandemic by disbursing welfare pensions, payment of relief to BPL families, providing financial aid through Welfare fund boards, providing food security to all including migrant workers

through starting community kitchens, distribution of free ration to all categories of ration card holders, financial support to the health sector, micro credit to Kudumbashree groups, providing free food kits so on and so forth (Government of Kerala, 2020).

The capital expenditure shows a positive growth only in two states, Andhra Pradesh (165.2 per cent) and Kerala (22.1 per cent) with a negative growth in rest of the southern states during H1 2020 vis-à-vis 2019 (Appendix Table A1)

Total state government expenditure during Q2, 2020 over 2019 registered a fall in growth rate in all southern states except in Andhra Pradesh. This decrease in aggregate expenditure growth is accompanied by a decrease in revenue expenditure growth in the states implying the restriction, states are having on the fiscal space. A positive growth is observed in capital expenditure for all states except for Tamil Nadu during Q2 2020 vis-à-vis 2019 indicating that the states are implementing measures for revival of economic growth. Government of Kerala had initiated an alternative mode for financing capital investment over and above the budgeted capital expenditure.

### **Financing capital expenditure in Kerala**

The basic difference in the pattern of expenditure of Kerala lies in the substantially higher share of social and community services in the total expenditure compared to the share of economic services. This difference in priorities in state's expenditure led the Kerala model of development (George, 1993). As a result, Kerala is having high committed expenditures like salary, pension and interest payments leading to perennial revenue deficit. The balance from state's own revenue is almost nil for meeting capital expenditure. A major portion of borrowing (within the FRBM limit) has been utilized for adjusting revenue deficit. It is evident from Table 1 that the capital investment in Kerala was only 0.9 per cent of GSDP in 2013-14 and marginally declined to 0.8 per cent in 2014-15. In 2015-16, a small increase of 1.3 per cent based on fiscal rule based conditionalities. Even if we include the development fund transfers to local governments, (lion share of it is being invested as road and non road assets) the capital investments come only around 2 per cent of GSDP. Under this context, Government of Kerala in 2016-17 budget, revamped the then existing Kerala Infrastructure Investment Fund Board (KIIFB) and started mobilizing funds for investment.

**Table 1.**Capital expenditure in Kerala (Rs. crore)

Year	Capital Outlay(1)	GSDP(2)	Capital Outlay as a percent of GSDP(3)	Development exp to local governments (4)	Col 1 plus Col 4 (5)	Col 5 as a percent of GSDP
2013-14	4294	465041	0.9	4012.2	8306.2	1.8
2014-15	4255	526002	0.8	5266.5	9521.5	1.8
2015-16	7500	561994	1.3	3060.9	10560.9	1.9
2016-17	10126	634886	1.6	4182.6	14308.6	2.3
2017-18	8749	701577	1.2	5752.2	14501.2	2.1
2018-19	7431	781653	1	6197.5	13628.5	1.7
2019-20 (RE)	8013	871534	0.9	6816.4	14829.8	1.7
2020-21(B.E)	12913	978064	1.3	7864.5	20777.7	2.1

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

KIIFB came into existence on 11.11.1999 under the Kerala Infrastructure Investment Fund Act 1999 to manage the Kerala Infrastructure Investment Fund. KIIFB has been functioning as the key Special Purpose Vehicle (SPV) for mobilising and channeling the funds to the various infrastructure SPVs outside the Budget of Government of Kerala. The other operations of the KIIFB are mobilising funds through KSFE, NRI Chitty, KIIFB -Masala Bond Issuance, availing Term Loans from various banks worth Rs.3000 crore and setting up of Infrastructure Fund Management Company.

Presently, KIIFB acts as the main arm of Government to facilitate planned, hassle-free and sustained development of both physical and social infrastructure badly needed in the state for generating employment and income opportunities in the state. Borrowing for capital investment is being done through KIIFB. Better borrow today and pay only the interest rather than paying for inflation, other cost escalation and interest by postponing investment.

Though the investments of KIIFB are from off budget borrowing, a provision has been made for transferring petroleum cess and a portion of tax revenue from motor vehicle tax to KIIFB. Accordingly, 10 per cent of the vehicle tax in the initial year (2016-17), 20 per cent in the second year, 30 per cent in the third year, 40 per cent in the fourth year and 50 per cent thereafter will be transferred. An annuity scheme is being introduced to address the repayment of loans by the state. Based on the annuity scheme the cost of the activities undertaken through KIIFB will be repaid by the Government within a period of 15 to 20

years especially for the investments of low return making assets like education, health, public works etc. The contractors are allowed to fix the rate by considering the interest and maintenance of the period concerned.

### **Projects initiated by KIIFB**

From 2016-17, KIIFB has approved funding of projects worth Rs.42306.1 crore as on 31-03-2019 (Annual Report, KIIFB, 2018-19). The projects initiated by KIIFB are spread over almost all the sectors of Kerala economy. As of now, KIIFB initiated 2228 projects across 26 departments. Highest number of projects is being initiated in General Education Department. Public works Department, Water Resources Department, Fisheries Department, Health and Family Welfare Department are placed in second, third, fourth and fifth positions respectively (Box A). These projects are spread out in all the 14 districts and in 140 constituencies of Kerala. The timely successful completion of these projects is crucial for the infrastructural development of Kerala. Any slackness in undertaking already sanctioned projects of KIIFB due to unanticipated reasons could affect adversely the infrastructural needs amidst of the financial crisis of the state.

**Box A** KIIFB projects under various Departments

SL.No.	Departments having KIIFB projects	No of Projects
1	Agricultural Department	4
2	Ayush Department	1
3	Backward class development Department	1
4	Coastal Shipping and Navigation Department	9
5	Cultural Affairs Department	24
6	Dewasom Department	26
7	Fisheries Department	167
8	Forest and Wild Life Department	6
9	General Education Department	644
10	Health and Family Welfare Department	121
11	Higher Education Department	96
12	Home Department	6
13	Industries Department	9
14	Information Technology Department	2
15	Labour and Skill Development	13
16	Local Self Government Department	45
17	Power Department	61
18	Public Works Department	636
19	Registration Department	39

SL.No.	Departments having KIIFB projects	No of Projects
20	Revenue Department	2
21	Schedule Caste Development Department	10
22	Sports ad Youth Affairs Department	55
23	Tourism Department	27
24	Transport Department	4
25	Water Resource Department	198
26	SC Department	22
	Total	2228

Source: Computed from KIIFB website data-www.kiifb.org

### **Borrowing and deficit position in southern states**

A combination of a decline in tax revenue and an increase in expenditure referred to as scissor crisis (Tarschys, 1983) is observed in all the southern states forcing them to increase their borrowings to meet both revenue and capital expenditure. We can see from table 2 that the primary deficit (borrowing to meet expenses other than the interest payments) is showing a positive growth during Q1 2020 and H1 2020 for all the southern states but it has improved in Q2 2020 from 2019 in Karnataka, Kerala and Telangana with a negative growth in primary deficit in the respective mentioned states.

Borrowing, which is equivalent to fiscal deficit (FD) shows a positive growth during H1 for all the states with highest growth observed in Karnataka (450.6 per cent) followed by Andhra Pradesh (230.2 per cent), Telangana (76.7 per cent), Kerala (58.4 per cent) and then Tamil Nadu (55.9 per cent) during H1 2020 vis-a-vis 2019. Q1, 2020 over 2019 shows a positive growth in FD in all the southern states, however a fall in the growth of fiscal deficit is observed in Kerala (-0.2 per cent) and in Telangana (-0.8 per cent) during Q2. The half-yearly analysis shows Andhra Pradesh and Kerala are the two southern states crossing the FRBM threshold of FD as percentage of GSDP of 3 per cent with 5.7 per cent and 3.3 per cent of GSDP, respectively. With an increase in the borrowing in all the states during H1 2020, it is expected that the FD as percentage of GSDP of all southern states would be expected to rise more than 5 per cent during Q3 and Q4 as well.

Period	States	Growth between 2020 and 2019 (In %)			As % GSDP in 2020			As % GSDP in 2019		
		RD	FD	PD	RD	FD	PD	RD	FD	PD
Q1	Andhra Pradesh	289.7	256.4	218.2	2.8	3.4	3	0.8	1.1	1.1
	Karnataka	-214.7	478	160.3	0.4	0.5	0.2	-0.4	-0.1	-0.4
	Kerala	138.9	112.9	177.7	1.9	2.3	1.9	0.9	1.2	0.7
	Tamil Nadu	135.4	89.4	215.9	0.9	1	0.6	0.5	0.6	0.2
	Telangana	1405.8	179.6	239.2	1.5	1.8	1.5	0.1	0.7	0.5
Q2	Andhra Pradesh	1232.8	197.1	5114.4	1.9	2.2	1.9	0.2	0.9	0
	Karnataka	16.2	503.8	-58.8	-0.1	1.4	0.2	-0.2	-0.4	0.6
	Kerala	-17.8	-0.2	-7.8	0.6	1	0.5	0.8	1.1	0.6
	Tamil Nadu	15.5	21.4	60.6	0.3	0.6	0.3	0.3	0.6	0.2
	Telangana	-23.5	-0.8	-29.2	0.2	0.9	0.4	0.3	1	0.7
H1	Andhra Pradesh	446.1	230.2	440.5	4.7	5.7	4.9	1	1.9	1
	Karnataka	148.8	450.6	107.2	0.2	0.9	0.4	-0.5	0.3	0.2
	Kerala	63.8	58.4	97.6	2.6	3.3	2.3	1.7	2.3	1.3
	Tamil Nadu	84.2	55.9	141.1	1.3	1.7	0.9	0.8	1.2	0.4
	Telangana	327.1	76.7	82.6	1.7	2.7	1.9	0.4	1.7	1.2

Source: Computed from monthly indicators from C&AG and State Finances: A Study of Budget, 2020-21, RBI.

Note: RD, FD and PD refers to revenue, fiscal and primary deficits, respectively.

Revenue deficit shows a positive growth during H1 2020 vis-à-vis 2019 in all the southern states. Q1 2020 over 2019 registered a fall in revenue deficit growth only in Karnataka with rest of the states showing a positive growth. The performance of Kerala and Telangana is observed to have improved during Q2, 2020 from 2019 in terms of revenue deficit growth with a fall in revenue deficit growth of -17.8 and -23.5 per cents, respectively.

It is important to note that the Aatma Nirbhar Package announced in May 2020 stated an increase in borrowing limit from 3 per cent to 5 per cent of GSDP for 2020- 21 (RBI, 2020). Although the borrowing limits are increased, it is still expensive for the states to borrow with interest rate differentials for states and central government. The weighted average yield are 6.85 per cent and 5.87 per cent during 2019-20 and 2020-21 (up to Sept 2020), respectively for Centre and the weighted average yield for state development loans issued during 2019-20 and 2020-21(up to Sept 2020) are 7.24 per cent and 6.43 per cent, respectively. Even though the relative price of weighted average yield is high for the States, the states had to rely on higher borrowings to meet the expenditures in recent times due to dampening down of revenues.

The fall in revenue receipts in the states need to be cushioned from central government by sufficient grant-in-aid and higher share in central taxes for the states to overcome the fiscal stress faced due to the pandemic. Here it is pertinent to state that the states are having great expectations on the Fifteenth Finance Commission transference of tax and grants in aid including revenue deficit grant particularly during COVID-19 pandemic period.

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## Appendix

Table A1: State finances of southern states: Growth rate in 2020 from 2019 during Q1, Q2 and H1

	Q1					Q2					H1				
	Andhra Prades	Karna taka	Kerala	Tamil Nad	Telan gana	Andhra Prades	Karna taka	Kerala	Tamil Nadu	Telan gana	Andhra Prade	Karna taka	Kerala	Tamil Nadu	Telan gana
1. Revenue Receipts	34.8	-23.9	-30	-23.2	-22.6	-35.4	-21.1	-7.5	-15.4	-8.2	-14.6	-22.5	-17.9	-19	-14.4
a.Own Tax Revenue	-20.1	-40.1	-55.8	-51.2	-38	-29.4	-6.6	-7.4	-4.3	12.1	-26.2	-23.4	-31.5	-26.7	-13.1
b. Own non-Tax Revenue	-29.1	-26.4	-74.7	-42.9	-23.1	12.3	-13.1	-76.2	-31.6	-36.9	-9.4	-19	-75.6	-37.6	-30
c. State's share of Union Taxes	5129.8	-27.8	-27.6	-25.6	22.6	-74.7	-46.2	-45.9	-19.4	-51.2	-36.7	-38.4	-38.1	-22.4	-30.3
d. Grants-in-aid	111.7	36.5	210.5	160.8	820.5	4.1	-51.5	118	-42.6	-37.7	48.2	-9.7	154.2	22.9	3
2. Capital Receipts	255.8	466	112.1	87	179.1	196.5	149	-3.7	-16.5	-0.7	229.7	246.6	55.2	26.5	76.6
a. Recovery of Loans & Adv.	-61	-84.1	-12.3	-43.3	-24.9	-23.2	-59	-82.9	-95.8	25.5	-42	-73.8	-74.5	-93.7	-0.1
b.Borrowings	256.4	478	112.9	89.4	179.6	197.1	150.6	-0.2	21.4	-0.8	230.2	250.6	58.4	55.9	76.7
3. Total Receipts	117.5	-7.3	17.1	0.3	27.8	3.2	-9.4	-6.4	-15.7	-6.3	44.4	-8.4	4.8	-8.5	8.3
4. Revenue Expenditure	113.2	6	15.9	2.4	45	10.3	-21.4	-9.8	-12.1	-9.8	48.4	-8.7	2.5	-5.2	12.9
a. Interest payment	2673.9	19.9	4.9	16	63.2	-55.8	12.8	7.8	0.1	65.2	-5.4	16.4	6.5	8.1	64.2
b. Salaries	12.5	—	-22.3	—	-21.7	14.3	—	-23.1	—	-5.1	13.4	—	-22.7	—	-12.8
c. Pension	111.1	-0.8	-17.8	-7.2	166.3	-71.5	-2.8	-2.5	-16.9	-84.3	-31.8	-1.8	-10.1	-11.7	-53.2
d. Subsidy	35.9	—	66.7	—	49.5	-23.5	—	478	—	51.5	-14.4	—	217.4	—	50.4
5. Capital Expenditure	160.4	-57.3	21.8	-36.8	-31.8	174.2	17.4	22.3	-11	9.6	165.2	-7.7	22.1	-19.3	-11.2
6. Sector wise Expenditure	117.7	-1	12.7	1.7	33.2	15.4	-1	-7.6	-12.9	-7.6	55	—	2.2	-6.5	9.8
a.General Sector	193.7	2.4	-15.2	0.8	27.9	-47.9	4.4	-15.9	-6.9	-28.8	2.7	3.4	-15.6	-2.8	-8.9
b.Social Sector	83.3	25.2	52.7	7.2	33.4	73.6	-27.7	-20.8	2.7	-1.7	78.1	-4.1	11.6	4.9	12.3
c.Economic Sector	148.2	-33.6	31.2	-5.6	36.1	26.9	-10.1	49.1	-37.8	8.9	88.1	-20.1	40.4	-25.8	23
7. Grants-in-aid-Contributions	602.9	24	113	-43.8	—	4800	-48.9	-5.1	16.9	—	722.9	-29.9	39.6	-3.5	—
8. Total Expenditure	117.7	-0.5	16.3	0	33.2	15.4	-15.1	-7.5	-12	-7.6	55	-8.5	3.9	-6.5	9.8
9. Revenue Deficit	289.7	-214.7	138.9	135.4	1405.8	1233	-16.2	-17.8	15.5	-23.5	446.1	-148.8	63.8	84.2	327.1
10. Fiscal Deficit	256.4	478	112.9	89.4	179.6	197.1	-233	-0.2	21.4	-0.8	230.2	-450.6	58.4	55.9	76.7
11. Primary Deficit	218.2	-160.3	177.7	215.9	239.2	-5114	-58.8	-7.8	60.6	-29.2	440.5	107.2	97.6	141.1	82.6

Source: Computed from monthly indicators, C&amp;AG