

## **Dwindling revenue and galloping expenditure in pandemic times**

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The deteriorating effect of the global economic slowdown had its serious impact on the finance of Kerala for the last couple of years and the state is facing serious revenue - expenditure gap. The COVID- -19 pandemic adds to the pain of the state, since spending on social security initiatives and public health is mounting up heavily. The undue delay of the central government in filling the revenue gap through the timely disbursement of GST compensation adversely affects the fiscal space of state. The revenue shrinkage coupled with the higher revenue expenditure naturally resort the Government to borrow more. The latest data shows that the borrowing has increased substantially by 112.9 per cent to meet the higher expenditure needs.

Revenue, expenditure, debt and deficit/surplus constitute the four major components of state finance. The revenue entails the State's tax and non-tax revenues and Central Finance Commission's net proceeds to states and other grants-in aid from the Central Government. The finance accounts of Kerala for FY 2018-19 shows 11.9 per cent and 14.1 per cent of Gross State Domestic Product (GSDP) as Revenue Receipts (RR) and Revenue Expenditure (RE) respectively. The revised estimate for 2019-20 was fixed as 11.4 per cent for RR and 13.4 per cent for RE which is a slightly pegged down estimate from the previous year. During 2020-21 the budget estimate figured at 11.7 per cent and 13.3 per cent of GSDP. These are realistic budget figures, compared to the previous couple of years under normal economic situation. But the effect of COVID-19 emulates with a 'new normal situation' which in turn tumbles the budgeted targets of 2020-21 (Table.1).

**Table 1.** State finances - Kerala 2018-19 to 2020-21(Rs. Lakh Crore)

Sl. No.	Particulars	2020-21	2019-20	2018-19	Percentage on GDP		Growth Rate (%)		
					2020-21 (BE)	2019-20 (RE)	2018-19 Accounts	2020-21 over 2019-20	2019-20 over 2018-19
1	Total revenue receipts (2+3)	114.6	99	92.9	11.7	11.4	11.9	15.7	6.7
2	Tax revenue	88.4	74.7	69.7	9	8.6	8.9	18.3	7.2
3	Non tax revenue	26.3	24.4	23.2	2.7	2.8	3	7.8	5.2
4	State's own revenue (5+6)	82	68.9	62.4	8.4	7.9	8	19	10.4
5	State's own tax revenue	67.4	55.7	50.6	6.9	6.4	6.5	21.1	9.9
6	State's own non tax revenue	14.6	13.2	11.8	1.5	1.5	1.5	10.1	12.4
6a	Lotteries	11.6	10.5	9.3	1.2	1.2	1.2	10.2	13.2
7	Central govt.transfers	32.6	30.1	30.4	3.3	3.5	3.9	8.3	-1
7a	Share of central taxes	20.9	19	19	2.1	2.2	2.4	10.2	-0.2
7b	Grants in aid	11.7	11.1	11.4	1.2	1.3	1.5	5.1	-2.3
8	Total revenue expenditure (9+11)	129.8	116.5	110.3	13.3	13.4	14.1	11.4	5.6
9	Total development expenditure	68.2	55.4	56.8	7	6.4	7.3	23.2	-2.5
10	Total social and development services	53.2	42.9	42.7	5.4	4.9	5.5	24.2	0.5
10a	Education	20.5	19	19	2.1	2.2	2.4	8	0
10b	Medical & public health, family welfare	8	7.4	7.3	0.8	0.8	0.9	8.9	1.4
11	Non development expenditure	61.6	61.1	53.5	6.3	7	6.8	0.8	14.2
11a	Interest payment	19.9	18.4	16.7	2	2.1	2.1	7.7	10.1
11b	Pension	21	20.4	19	2.1	2.3	2.4	3	7
12	Capital expenditure	12.9	8	7.4	1.3	0.9	1	61.1	7.8
13	Total expenditure (8+12)	144.3	125.6	120.1	14.8	14.4	15.4	14.8	4.6
14	Revenue deficit/surplus(1-8)	-15.2	-17.5	-17.5	-1.6	-2	-2.2	-13	0.1
15	Fiscal deficit/surplus	-29.3	-26.2	-27	-3	-3	-3.4	-11.9	-2.9
16	Primary deficit (15-11a)	-9.4	-7.8	-10.2	-1	-0.9	-1.3	-21.8	-24.1
17	Outstanding debt	292.1	262.3	235.6	29.9	30.1	30.1	11.4	11.3
18	Borrowing	29.2	25.9	27	3	3	3.5	13	-4.1
19	GSDP	978.1	871.5	781.7					

Source: Computed from Budget Documents Data, Government of Kerala \*BE-Budget Estimate, RE - Revised Estimate

### **Revenue receipts**

The state's own non tax revenue expected as 1.5 per cent of GSDP for all the three years. The major component of state's own non tax revenue is gross revenue from lottery which is 78.9 per cent of the total non-tax revenue of the state. The other components of the kitty are interest receipts, dividends and profits, receipts from education, sports and culture, medical and public health and forestry and wild life. The Central transfers accounts to 3.9 per cent of GSDP for 2018-19 which is also pegged down as revised estimate and budgeted estimate during 2019-20 and 2020-21 as 3.5 per cent and 3.3 per cent respectively.

### **Revenue expenditure**

Revenue expenditure consists of developmental and non developmental expenditure. Social and development services, expenditure on irrigation, public works (roads and bridges), forest, transport and communication (other than roads) and housing and urban development are the major components of development expenditure. The account 2018-19 says it as 7.3 per cent of GSDP. The revised estimate for 2019-20 is stretched down to 6.4 per cent with 7 per cent in 2020-21 budget. The major expenditure under the head of social and development services are education and health. For all the three years the share on education and health lingers around 2.2 per cent and 0.8 per cent of GSDP respectively.

The Non development expenditure consist of pension payments, interest payments, collection charges of taxes and duties, compensation and assignments, administrative services expenses such as police and vigilance, jails, administration of justice, parliament & state legislature and general administration. Though the non development expenditure accounts to 6.8 per cent of GSDP in 2018-19, the revised budget fixed it in a slightly higher plane as 7 per cent. But the budget for the current year (2020-21) has pulled down to 6.3 per cent of GSDP.

Capital expenditure with the limited upper cap of our borrowing power, constitutes only 1 per cent of GSDP as per the accounts for 2018-19. This as a share on GSDP has increased to 1.3 per cent while budgeting 2020-21. To facilitate increased capital expenditure, as an off-budget activity a Special Purpose Vehicle (SPV), Kerala Infrastructure Investment Fund Board (KIIFB) has been established for mobilising and investing funds in infrastructure development.

Excess of revenue expenditure over revenue receipts is termed as revenue deficit. Though the accounts for the year 2018-19 figured revenue deficit as 2.2 per cent of GSDP the budgeted

figures truncated it to 1.6 per cent during 2020-21 with a revised estimate of 2 per cent for 2019-20.

Fiscal deficit is the difference between total receipt (other than borrowings) and total expenditure. Fiscal deficit figured as per the accounts during 2018-19 is 3.4 per cent of GSDP which is above the Fiscal Responsibility and Budget Management Act (FRBM) ceiling of 3 per cent. Though this is budgeted as 3 per cent during the subsequent two years, due to COVID-19 impact the likelihood of tumbling the target is more. This determines the borrowing limit of the state. Fiscal deficit is expected to grow at a rate of 11.9 per cent on year on year basis under normal conditions.

Primary deficit is the fiscal deficit minus interest payments. Primary deficit registered 1.31 per cent of GSDP in the year 2018-19 and targeted at 1 per cent during 2020-21. Total outstanding debt accounted as 30.1 per cent of GSDP in the year 2018-19. The estimated debt outstanding in Kerala are expected in the same proportion during 2019-20 and 2020-21 with an expected year-on-year growth rate of 11.4 per cent (Table 1).

### **COVID-19 reverberations on state finance**

Revenue receipts fall to the tune of Rs. 81,180.5 crore from the budget estimate of Rs. 114,636 crore is predicted during 2020-21 due to the multifarious impact of COVID-19 on the economy (GIFT 2020). Consequent to this a revenue deficit will be Rs.33,333.9 crore even after obtaining the full revenue deficit grant of Rs.15,323 crore from the 15th Finance Commission . In order to meet the budgeted revenue expenditure and beyond due to COVID-19, the state government has no other way other than resort to extra borrowings. In the context of enhancement of the borrowing limit of states from 3 per cent of GSDP to 5 per cent by the Government of India, Kerala would get a fiscal space of Rs.18,087 crore (Government of Kerala 2020) .

COVID- impacted state finance during first quarter of 2020-21 is analysed with the monthly fiscal indicator data of Kerala by the Comptroller and Auditor General (C&AG). The data of the various components of the state finances for the quarter are compared to the same period of 2019 (Table-2). A flat 30 per cent fall of revenue receipts is figured in the provisional accounts published by C&AG. In absolute terms the state has lost Rs.5715 crore during the first quarter of 2020 when compared to the same period of 2019. The tax revenue element within the revenue receipt has seriously hit by a short-fall of 51 per cent due to lock down.

**Table 2.** State finance in Kerala 2020 - Quarter 1 (Rs. Crore)

Sl. No.	Description	April to June 20	April to June 19	Revenue Difference	Growth rate (Percentage)
1	Revenue Receipts (a+b)	13329.85	19044.86	-5715.01	-30
a)	Tax Revenue	7533.11	15541.71	-8008.6	-51.5
b)	Non-Tax Revenue	5796.74	3503.15	2293.59	65.5
2	Capital Receipts	20000.71	9430.13	10570.58	112.1
2a	Borrowings & Other Liabilities	19951.05	9372.47	10578.58	112.9
3	Total Receipts (1+2)	33330.56	28474.99	4855.57	17.1
4	Revenue Expenditure	30316.52	26154.26	4162.26	15.9
4(a)	Expenditure on Interest Payment	3690.23	3516.61	173.62	4.9
4(b)	Expenditure on salaries and wages	6897.24	8873.97	-1976.73	-22.3
4(c)	Expenditure on Pension	4188.25	5096.94	-908.69	-17.8
4(d)	Expenditure on Subsidy	802.37	481.36	321.01	66.7
5	Capital Expenditure	2396.55	1967.03	429.52	21.8
5(a)	Expenditure on Capital account	2375.22	1935.98	439.24	22.7
6	Sector wise Expenditure	30569.51	27115.12	3454.39	12.7
7	Total Expenditure(4+5)	32713.07	28121.29	4591.78	16.3
8	Revenue Surplus(+)/Deficit(-)(1-4)	-16986.7	-7109.4	-9877.27	138.9
9	Fiscal Surplus/Deficit	-19951.1	-9372.47	-10578.58	112.9
10	Primary Deficit(10-4a)	-16260.8	-5855.86	-10404.95	177.7

\*\*Sector wise expenditure include general , social and economic sectors and grants-in-aid-contributions

Source: Computed from C&AG Data

As predicted, the revenue expenditure has swelled by 15 per cent the first quarter of 2020 when compared to 2019. The revenue shrinkage coupled with the higher revenue expenditure naturally resort the Government to borrow more. The data shows that the borrowing has increased substantially by 112.9 per cent to meet the higher expenditure needs. This is followed by a rise of 66.7 per cent in the case of subsidy expenditure and 21.8 per cent in capital expenditure. Revenue deficit shoots up disturbingly to 138.9 per cent in the first quarter of 2020 compared to the same period in 2019. Fiscal deficit shows an alarming hike of 112.9 per cent during the first three months of 2020 itself. The mobilisation of own revenue has become a sweltering issue for the State during the pandemic period. The state of state finance equation to the layman is simple - a fall in revenue with a committed rise in expenditure recurses borrowings.

## References

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