

## **State finances of southern states during COVID 19:**

### **A comparative analysis**

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Various rating agencies estimated the contraction rate of Indian economy to be around 10 per cent in Q2. It shows the pain that the lockdown and social distancing followed by COVID-19 has inflicted on the Indian economy as it wrecked various economic activities. State finances in India are affected severely due to the outbreak of COVID-19. In the October issue of *Kerala Economy*, based on an analysis of CAG data, it was observed that own revenue mobilisation has become an issue of much concern for both Kerala and Tamil Nadu during the COVID-19 pandemic (Singh and Anitha Kumary, 2020). This article is a comparative analysis of the fiscal positions of all the southern States during the COVID period. In the analysis that follows, we shall compare Q1: 2020 with Q1: 2019.

#### **Pattern of expenditure**

The total expenditure, which comprises of revenue and capital expenditure, shows an increase in Q1:2020 vis-à-vis Q1:2019 in Andhra Pradesh, Kerala and Telangana with no change in Tamil Nadu and Karnataka. The highest growth is observed in Andhra Pradesh (118 %), followed by Telangana (33%) and Kerala (16%). Highest growth in expenditure in Andhra Pradesh is on account of the alarming expenditure of interest payments.

In the case of revenue expenditure we see a positive growth across the States. The highest growth being in Andhra Pradesh (113%) followed by Telangana (45%), Kerala (16%), Karnataka (6%) and Tamil Nadu (2%). When it comes to capital expenditure also the maximum growth is observed in Andhra Pradesh (160%) with Kerala having the second highest growth (22%). Kerala's actual capital expenditure growth could be even more if we

consider the extra budgetary expenditure incurred through Kerala Infrastructure Investment Fund Board (KIIFB).Karnataka, Tamil Nadu and Telangana experienced a negative capital expenditure growth of -57per cent, -37per cent and -32per cent, respectively.

The fiscal measures to handle the pandemic adopted by Kerala appears remarkable as is evident from the components of revenue expenditure and its sector-wise pattern. Within the revenue expenditure, the expenditure on subsidy has recorded the highest growth in Kerala (67%) during Q1:2020 as compared to Q1:2019 followed by Telangana (50%) and Andhra Pradesh (36%).

During Q1: 2019, the share of social sector expenditure in total expenditure was the lowest in Kerala (30.5%) and highest for Andhra Pradesh (59.5%), whereas the share of general sector expenditure was the highest in Kerala (53.9%) and lowest in Andhra Pradesh (17.8%). (Table 1) The composition of expenditure, however, changed substantially during the COVID period across the Southern States with a decline in the share of social sector expenditure in Andhra Pradesh (-9.4 % points) during Q1:2020 compared to Q1:2019. Rest of the Southern States experienced a rise in the share of social sector expenditure in Q1:2020 vis-à-vis 2019 with an increase of 10.8 per cent points in Kerala, 10 per cent points in Karnataka, 2 per cent points in Tamil Nadu and 0.1 per cent point in Telangana indicating a highest increase in the share of social sector in total expenditure in Kerala. One of the important features of expenditure observed in Kerala is the sharp decline in share of general sector expenditure from 53.9 per cent to 40.5 per cent. This is an indication of strong response of Kerala in addressing the Covid 19 pandemic.

**Table 1.** Composition of expenditure during Q1:2020 and Q1:2019 ( %)

Year	Q1 2020					Q1 2019				
	Andhra Pradesh	Karnataka	Kerala	Tamil Nadu	Telangana	Andhra Pradesh	Karnataka	Kerala	Tamil Nadu	Telangana
General Sector	24.1	30.1	40.5	41.3	23.1	17.8	29.1	53.9	41.7	24
Social Sector	50.1	47.6	41.4	37.7	34.1	59.5	37.6	30.5	35.8	34.1
Economic Sector	25.9	22.3	18.1	20.9	42.8	22.7	33.3	15.6	22.6	41.9

Source: Computed from C&AG (2020)

Note: General services include mainly expenditures on organs of State, fiscal services, interest payment and servicing of debt, administrative services and pension. Social services include mainly expenditures on education, health and family welfare, water supply, sanitation, housing and urban development, labour and employment, social security and nutrition. Economic Services includes mainly expenditures on, agriculture and allied services, rural development irrigation and flood control,

energy, industry and minerals, transport, communications, science, technology and environment and general economic services

### Pattern of revenue

The total revenue of the states comprises of revenue receipts and capital receipts. The capital receipts include borrowings and other liabilities, recovery of loans and advances and other receipts. The revenue receipts, which comprises of state's own tax revenue, non-tax revenue, share in central taxes (SCT) and grants-in-aid, show a negative growth in all the southern states with an exception in Andhra Pradesh (34.8%) (Table 2). Both own tax and non-tax revenue recorded negative growth in all the Southern States in Q1:2020 compared to Q1:2019 with a sharpest decline in both own-tax and non-tax revenue in Kerala.

**Table 2.** Growth in total receipts and its major components ( %)

States	Total Receipts (1+2)	Revenue Receipts (1)	Own Tax Revenue	Own Non-Tax Revenue	Capital Receipts (2)	Borrowings & Other Liabilities
Andhra Pradesh	117.5	34.8	-20.1	-29.1	255.8	256.4
Karnataka	-0.8	-23.9	-40.1	-26.4	-691.2	-678
Kerala	17.1	-30	-55.8	-74.7	112.1	112.9
Tamil Nadu	0.3	-23.2	-51.2	-42.9	87	89.4
Telangana	27.8	-22.6	-38	-23.1	179.1	179.6

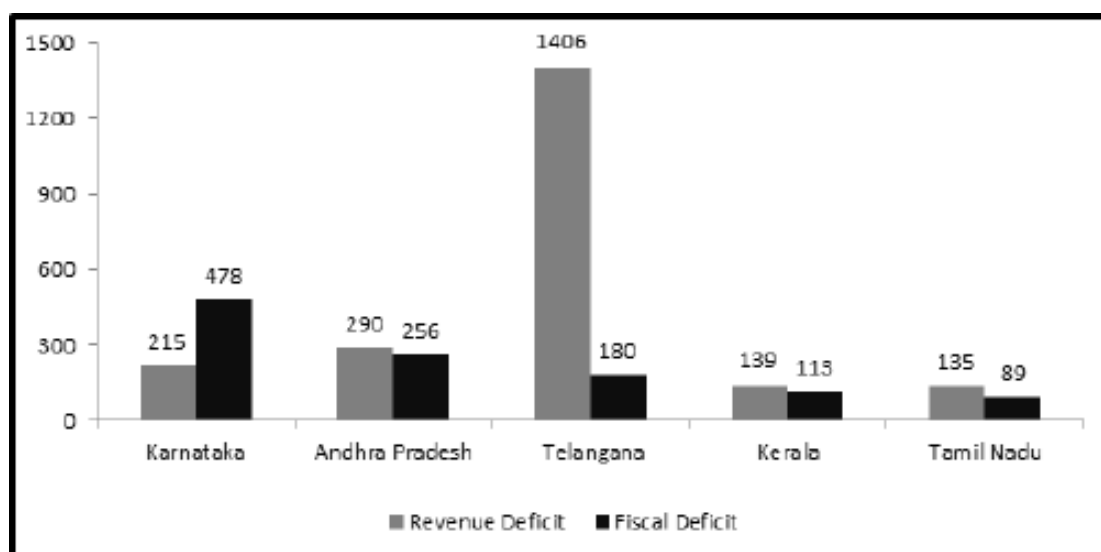
Source: Computed from C&AG(2020)

Although own tax revenue growth in Andhra Pradesh indicates a decline, the State shows a positive growth in revenue receipts which can be correlated with the positive growth in SCT and grants-in-aids in the State. Positive growth in SCT has been registered only in Andhra Pradesh and Telangana while being negative in rest of the southern states, Kerala (-28%), Karnataka (-28%) and Tamil Nadu (-26%). The shock of the lockdown is still reflected on the own tax revenue collection of the Southern States. The negative growth in the own tax revenue collection in the Southern States resulted in huge growth in the borrowings in Q1: 2020 compared to Q1: 2019 with a highest borrowing of 478 per cent in Karnataka, 256 per cent in Andhra Pradesh, 180 per cent in Telangana, 113 per cent in Kerala and 89 per cent in Tamil Nadu.

## Deficits and borrowing position

The comparative analysis of the deficit indicators suggests that revenue deficit (RD) increased by more than hundred per cent in all the Southern States (Figure 1). For Karnataka, Andhra Pradesh and Telangana the growth in RD has been more than 200 per cent. The growth in fiscal deficit is also more than 100 per cent for all the states other than Tamil Nadu (89%).

**Figure 1.** Growth in deficit indicators in southern states in Q1 2020 over 2019 (%)



Source: Computed from C&AG (2020)

The hike in revenue deficit, fiscal deficit and the corresponding swell in borrowings are the common characteristics of State finance of all the southern States during the COVID-19 period. However, the fiscal performance of Kerala is better compared to Telangana, Andhra Pradesh and Karnataka.

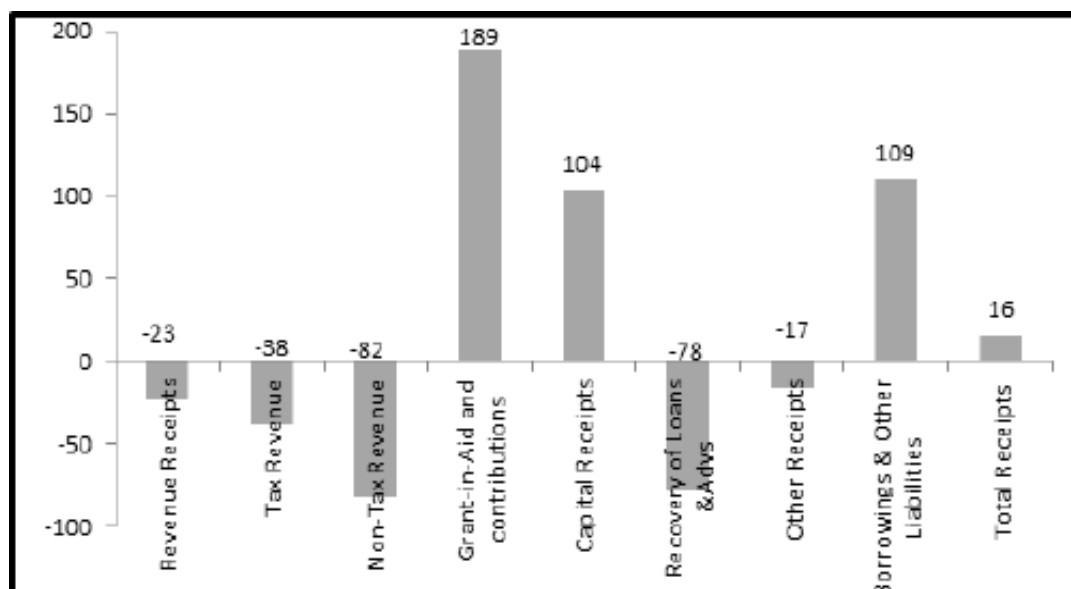
## Kerala's state finances updated

A comparative analysis of government expenditure of Kerala up to August between 2019 and 2020 (Table A given in the appendix) reveals that the total government expenditure increased by 15 per cent with an increase in revenue expenditure and capital expenditure by 14 per cent and 28 per cent, respectively. Within the revenue expenditure the maximum growth is observed in expenditure subsidy of 259 per cent followed by other revenue expenditure (36%) and interest payments (7%). The sector-wise expenditure analysis indicates a rise in social and economic expenditure by 36 per cent and 56 per cent, respectively with a decline

in general expenditure by -12 per cent. The grants-in-aid-contributions show an upward shift in growth by 189.2 per cent. Remarkable increase in subsidy expenditure in Kerala is a clear indication of state's intervention to contain the catastrophe of pandemic by providing necessary social security programs for the wellbeing of the people

The revenue loss is still persistent in the State since the economic activities are being harshly hit due to the pandemic which can be reflected from the Figure 2. The tax revenue and the non-tax revenue registered a negative growth of 38 per cent and 78 per cent, respectively. This has resulted in a fall in growth of revenue receipts by -23 per cent consequently increasing the borrowings of the State by 109 per cent in Apr-Aug 2020 vis-à-vis Apr-Aug 2019.

**Figure 2.** Revenue growth in Kerala between Apr-Aug 2020 and Apr-Aug 2019 ( % )



Source: Computed from C&AG(2020)

### Deficits position

As per Apr-Aug 2020 data, the revenue and fiscal deficits are Rs. 25759 crore and Rs. 31008.2, respectively, with an increase of 128 per cent and 109 per cent, respectively compared to Apr-Aug 2019 (Table A in appendix). A substantial increase in social and economic sector expenditures including subsidy together with negative growth in own tax and non-tax revenue of the government resulted in high growth in deficit indicators and borrowing of the state.

## Appendix A

**Table A.** State finances in Kerala: April-August 2020 and April-August 2019 (Rs. Crore)

Sl. No.	Description	Actuals upto August 2020	Actuals upto August 2019	Growth (per cent)
1	Revenue Receipts	Sep-71	34251.4	-23.5
a)	Tax Revenue	16504.1	26675	-38.1
(b)	Non-Tax Revenue	793.9	4497.1	-82.3
(c)	Grant-in-Aid and contributions	8905.5	3079.4	189.2
2	Capital Receipts	31107.2	15260.5	103.8
(a)	Recovery of Loans & Advs	92.8	431.2	-78.5
(b)	Other Receipts	6.2	7.5	-16.6
(c)	Borrowings & Other Liabilities	31008.2	14821.9	109.2
3	Total Receipts	57310.7	49511.9	15.8
4	Revenue Expenditure			
	(a+b+c+d+e)	51962.5	45550	14.1
(a)	Expenditure on Revenue Account (excluding (b),(c),(d)&(e))	20636.1	15195.7	35.8
(b)	Expenditure on Interest Payment	7115.3	6654.2	6.9
(c)	Expenditure on salaries and wages	13364.7	14333.5	-6.8
(d)	Expenditure on Pension	8444.7	8696.8	-2.9
(e)	Expenditure on Subsidy	2401.7	669.8	258.6
5	Capital Expenditure(a+b)	4297.3	3353.4	28.1
(a)	Expenditure on Capital account (excluding (b))	4256.9	3307	28.7
(b)	Expenditure on salaries and wages	40.4	46.5	-13.1
6	Sector wise Expenditure (i+ii+iii)	53034.8	46838.4	13.2
(i)	General Sector	21990.4	25095.7	-12.4
(ii)	Social Sector	19930.8	14609.6	36.4
(iii)	Economic Sector	11113.5	7133.1	55.8
7	Total Expenditure	56259.7	48903.4	15
8	Loans and Advances	1050.9	608.6	72.7
9	Revenue Surplus(+)/Deficit(-)(1-4)	-25759	-11298.5	128
10	Fiscal Surplus (+)/Deficit(-)			
	[9+2(a)+2(b)-5-8]	-31008.2	-14821.9	109.2
11	Primary Deficit(-)/Surplus(+)			
	[10+4(b)]	-23892.9	-8167.7	192.5

Source: Computed from C&amp;AG (2020)

**References**

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