

State government expenditure response to pandemic in southern states

Parma Chakravarti

Assistant Professor, Gulati Institute of Finance and Taxation, Thiruvananthapuram

The role of fiscal policy during economic recession is widely accepted for stabilizing the economy and creating stimulus. However, the policy to address the economic recession should be different than the policy addressing pandemic recession as argued by Romer (2021) and requires different policy responses for the following reasons. First, the objective of policy in an ordinary recession is to stimulate the aggregate demand, in general but a policy associated with pandemic is to stimulate the production and employment in a relatively safe manner as possible by not spreading the virus. Second, the impacts of these two different types of recession are different among different types of workers. Employment in the sectors like, hotel and restaurants, constructions, etc., are likely to be affected which could not be operational due to COVID restrictions unlike the sectors which could provide work from home. According to Romer (2021), fiscal policy during a pandemic should be specific to those who are directly affected rather than toward increasing aggregate demand more generally. The policy should aim at providing social insurances and should focus on other targeted aid.

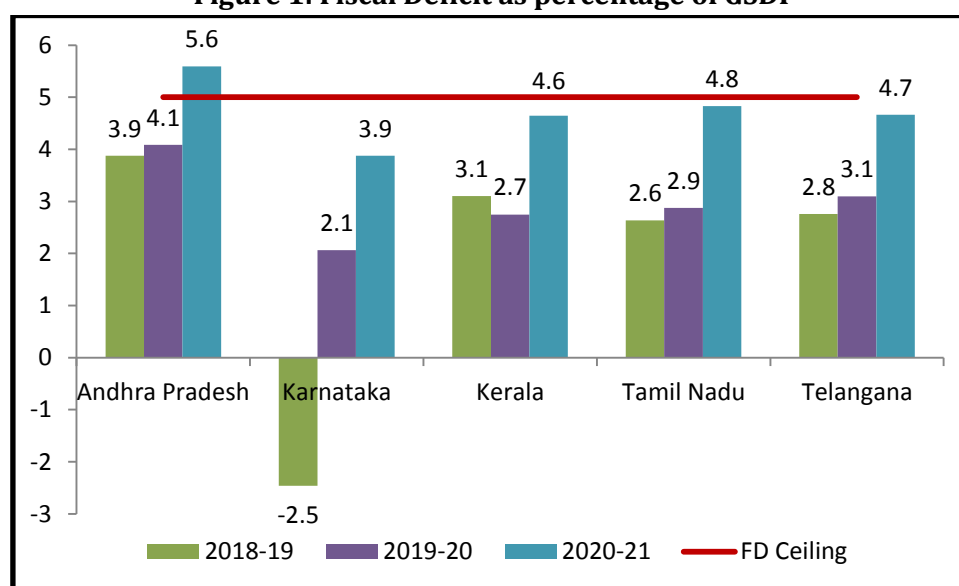
We are in the second year of the pandemic and it is necessary to trace the fiscal policy response of the country. This article attempts to assess the fiscal position of the southern states and also attempts to assess the fiscal response of the states in terms of government expenditure as a result of pandemic. Since the state government does not enjoy the power of taxation, the policy response of the state government is expected on account of government expenditure. The period of study is from 2018-19 (normal year prior to pandemic) to 2020-21.

Deficit position

Revenue deficit (RD) which is the gap between revenue expenditure and receipts have experienced an increase in all the states. RD increased from 2.7 per cent of GSDP in 2019-20 to 3.6 per cent of GSDP in 2020-21 in Andhra Pradesh. In Tamil Nadu it increased from 1.6 percent during 2019-20 to 3.2 per cent of GSDP in 2020-21. In Kerala RD as per cent of GSDP increased from 1.7 per cent in 2019-20 to 2.8 per cent in 2020-21. In Telangana, it increased to 1.9 percent during 2020-21 from 0.4 per cent during 2019-20 and Karnataka also experienced a revenue deficit of 1 per cent of GSDP during 2020-21 from revenue surplus of 06 percent of GSDP during 2019-20.

Fiscal deficit (FD) as per cent of GSDP also increased following the pandemic but it is below the increased upper ceiling of 5 per cent of GSDP for 2020-21 for all the states except Andhra Pradesh. In 2020-21, FD as per cent of GSDP is highest in Andhra Pradesh (5.6 %), followed by Tamil Nadu (4.8 %), Telangana (4.7%), Kerala (4.6 %) and Karnataka (3.9 %).

Figure 1: Fiscal Deficit as percentage of GSDP



Source: Computed from State Accounts Report, Comptroller and Auditor General of India and various state budgets

The rise in fiscal deficit can be attributed to the rise in state government expenditure along with a fall in state's own tax revenue and non-tax revenue.

State own tax and non-tax revenue

State own tax revenue (SOTR) which includes SGST, agricultural income tax, land revenue, stamps and registration, state excise, sales tax, vehicle taxes, electricity taxes and duties indicates a declines as per cent of GSDP from 2019-20 onwards for all the states. Similarly, state own non-tax revenue (SONTR) which includes interest, dividends, profits, lotteries, police, forestry and wildlife, etc is also showing a decline as per cent of GSDP since 2019-20 in all the states.

SOTR as per cent of GSDP is highest in Telangana (6.8%) in 2020-21, followed by Andhra Pradesh (5.8%), Karnataka (5.8%), Kerala (5.5%) and Tamil Nadu (5.0%). Kerala (0.78%) has the highest SONTR as per cent of GSDP as per 2020-21 among other southern states.

Table 1. State own tax and non-tax revenue as percentage to GSDP (%)

SOTR % GSDP	2018-19	2019-20	2020-21
Andhra Pradesh	6.74	5.93	5.82
Karnataka	6.54	6.24	5.82
Kerala	6.41	5.89	5.51
Tamil Nadu	6.51	5.42	5.01
Telangana	7.65	7	6.81
SONTR % GSDP			
Andhra Pradesh	0.5	0.34	0.34
Karnataka	0.45	0.45	0.47
Kerala	1.33	1.37	0.78
Tamil Nadu	0.65	0.66	0.47
Telangana	1.18	0.76	0.52

Source: Computed from State Accounts Report, Comptroller and Auditor General of India and various state budgets

Government expenditure and total revenue

The pandemic shock have led to an increase in total expenditure of the state government to combat the disease with highest growth of 25 per cent experienced in Kerala, 12.8 per cent growth in Andhra Pradesh, 11.6 per cent growth in Tamil Nadu, 7.4 per cent growth in Telangana and 5.6 per cent growth is observed in Karnataka during 2020-21. The increase in total expenditure of the state government is on account of increase in both revenue and capital expenditure of the state. The data on revenue expenditure (RE), capital expenditure (CE), total expenditure (TE), revenue receipts (RR), share in central taxes (SCT), grants and

non-debt capital receipts (NDCR) as per cent of GSDP is given below in table 2. The absolute numbers are given in table A (Appendix A).

Table 2. Government expenditure and revenue as percentage of GSDP of southern states

RE % GSDP	2018-19	2019-20	2020-21
Andhra Pradesh	14.52	14.15	15.47
Karnataka	10.66	10.15	10.39
Kerala	13.59	11.97	14.59
Tamil Nadu	11.73	11.01	12.09
Telangana	11.04	11.06	12.12
CE % GSDP			
Andhra Pradesh	2.35	1.26	1.92
Karnataka	2.42	2.3	2.75
Kerala	0.9	0.94	1.54
Tamil Nadu	1.5	1.36	1.71
Telangana	2.69	1.77	1.65
TE % GSDP			
Andhra Pradesh	16.87	15.42	17.4
Karnataka	13.08	12.45	13.15
Kerala	14.49	12.9	16.13
Tamil Nadu	13.23	12.37	13.8
Telangana	13.73	12.83	13.77
RR % GSDP			
Andhra Pradesh	13.17	11.43	11.87
Karnataka	11.01	10.71	9.41
Kerala	11.56	10.26	11.76
Tamil Nadu	10.44	9.42	8.89
Telangana	11.92	10.62	10.21
SCT %GSDP			
Andhra Pradesh	2.76	2.08	1.75
Karnataka	1.76	1.36	0.93
Kerala	1.77	1.37	1
Tamil Nadu	1.88	1.43	1.28
Telangana	1.6	1.19	0.92
Grants %GSDP			
Andhra Pradesh	2.23	2.25	3.23
Karnataka	1.71	2.12	1.81
Kerala	1.42	1.1	3.78
Tamil Nadu	1.43	1.51	1.68
Telangana	0.96	1.2	1.58
NDCR % GSDP			
Andhra Pradesh	0.03	0.45	0.11
Karnataka	0	0.01	0.02
Kerala	0.13	0.05	0.04
Tamil Nadu	0.41	0.29	0.27
Telangana	0.08	0.01	0.01

Source: Computed from State Accounts Report, Comptroller and Auditor General of India and various state budgets

TE as percentage to GSDP shows an increase in all the states in 2020-21 viz-a-viz 2019-20 as a result of increase in RE as percentage of GSDP for all the states along with an increase in CE as percentage of GSDP in all states except Telangana (Table2).

Table 3. Composition of revenue expenditure (in %)

States	Year	Expenditure on Interest payment	Expenditure on Salaries/Wages	Expenditure on Pension	Expenditure on Subsidy
Andhra Pradesh	2018-19	11.30	27.40	12.10	1.90
	2019-20	12.80	26.30	12.60	4.60
	2020-21	13.10	26.20	11.40	3.20
Karnataka	2018-19	8.40	—	9.50	0.00
	2019-20	9.70	—	9.90	0.00
	2020-21	12.70	—	10.90	0.00
Kerala	2018-19	13.50	30.30	17.70	1.50
	2019-20	15.80	32.20	18.60	1.30
	2020-21	15.00	24.00	15.80	5.30
Tamil Nadu	2018-19	13.50	—	14.30	—
	2019-20	13.80	—	13.60	—
	2020-21	15.50	21.90	11.50	10.70
Telangana	2018-19	12.70	24.50	10.00	6.60
	2019-20	12.80	22.70	9.50	6.00
	2020-21	13.50	20.80	9.70	8.10

Source: Computed from State Accounts Report, Comptroller and Auditor General of India

Note: -- data not available

Within the revenue expenditure, the shares of interest payment expenditure have increased in all the states except in Kerala in 2020-21 compared to 2019-20. The share of expenditure on salaries shows a decline in the states of Kerala, Andhra Pradesh and Telangana. The data is not available for other states on expenditure on salaries/wages. The share of pension expenditure in revenue expenditure also shows a decline in all the states except Karnataka and Telangana. The share of subsidy expenditure in total revenue expenditure shows an increase in Kerala (from 1.3% in 2019-20 to 5.3% in 2020-21) and Telangana (from 6% in 2019-20 to 8.1% in 2020-21).

Table 4: Sectoral Composition of Total Expenditure (In %)

States	Year	General sector	Social sector	Economic sector
Andhra Pradesh	2018-19	37.5	45.7	27
	2019-20	48.6	46.9	20.4
	2020-21	47.8	41.5	26.2
Karnataka	2018-19	27.3	41.5	37
	2019-20	29.8	39.2	37.8
	2020-21	35.8	34.4	39.3
Kerala	2018-19	82.3	38	16.9
	2019-20	100.7	34.2	15.6
	2020-21	61.5	38.3	23.6
Tamil Nadu	2018-19	50.9	38.5	27.8
	2019-20	51.5	37.5	28.5
	2020-21	46.4	39.8	28.5
Telangana	2018-19	37.9	38.9	33.7
	2019-20	38.9	38.5	33.5
	2020-21	38.3	36.2	36.1

Source: Computed from State Accounts Report, Comptroller and Auditor General of India

The sectoral composition of total expenditure in table 4 shows that the social sector expenditure as a share of total expenditure increased during the pandemic year in Kerala (from 34.2 % in 2019-20 to 38.3% in 2020-21) and Tamil Nadu (from 37.5% in 2019-20 to 39.8 % in 2020-21). In rest of the southern states, the share of social sector expenditure in total expenditure shows a decline. The share of economic sector expenditure shows an increase in all the states in 2020-21 compared to 2019-20. The share of general sector expenditure only increased in Andhra Pradesh and Karnataka.

The total revenue receipts as percentage of GSDP have also fallen in Karnataka, Tamil Nadu and Telangana as a result of fall in state own tax and non-tax revenue along with fall in share in central taxes in these states percentage to GSDP (Table 2). Grants as percentage to GSDP also decreased in Karnataka during 2020-21 compared to 2019-20. There is a nominal increase in RR as percentage to GSDP in Kerala and Andhra Pradesh due to an increase in grants as percentage of GSDP in these states during 2020-21 compared to 2019-20. However, the SCT as percentage to GSDP shows a decline in these states as well, along with the fall in both state own tax revenue and non-tax revenue (Table 2).

The increase in state government expenditure, given the fall in share in central taxes as percentage of GSDP, fall in state own tax and own non-tax revenue have led to an increase in

fiscal deficit in the state. However, the fiscal deficit is below the upper ceiling of 5 per cent of GSDP in all the states except in Andhra Pradesh.

Items	Andhra Pradesh			Karnataka			Kerala			Tamil Nadu			Telangana		
	2018-19	2019-20	2020-21	2018-19	2019-20	2020-21	2018-19	2019-20	2020-21	2018-19	2019-20	2020-21	2018-19	2019-20	2020-21
Revenue Receipts	114684	111034	117136	164069	174511	156716	91388	87697	96674	170151	173898	172722	101419	102544	99903
a) Tax Revenue	90836	85843	81869	131929	132608	118747	69683	66531	59205	136172	133855	131077	83233	83585	79340
i) Goods and Service Tax	29349	28241	26095	51522	50921	43947	26089	24310	22315	38533	38374	37942	28786	28053	25905
ii) Stamps and registration Fees	5428	5318	5603	10789	11308	10576	3693	3614	3490	11065	10856	11675	5344	6671	5243
iii) Land Revenue	57	21	143	144	203	184	203	332	493	178	258	211	0	1	1
iv) Sales Tax	21914	21410	17800	14004	16405	16028	19226	20317	18728	42696	44518	43489	20291	20674	20904
v) State Excise Duties	6220	6915	11575	19944	21584	23332	2521	2255	2329	6863	7206	7822	10638	11992	14370
vi) State's share of Union Taxes	24049	20228	17237	26246	22126	15437	14002	11669	8207	30639	26392	24925	13613	11451	8977
vii) Other Taxes and duties	43818	3710	3415	9280	10061	9243	3949	4034	3642	6197	6250	5014	4561	4743	3940
b) Non-Tax Revenue	4391	3315	3395	6661	7402	7894	10511	11750	6420	10642	12260	9068	10008	7361	5092
c) Grant in aid and Contributions	19457	21876	31872	25480	34502	30076	11194	9416	31049	23337	27783	32577	8178	11598	15471
Capital Receipts	34029	44042	56231	36669	33743	64880	25530	23877	38509	49595	58423	99136	24136	29964	45697
a) Recovery of Loans and Advances	277	4355	1063	17	58	270	961	370	285	6670	5384	5244	666	62	58
b) Other	0	0	0	-6	28	45	47	27	34			0	0	0	0

Receipts															
c) Borrowings & Other Liabilities	33751	39687	55168	36658	33657	64565	24523	23479	38190	42926	53039	93893	23470	29902	45639
Total Receipts	148713	155076	173367	200739	208254	221596	116918	111574	135182	219746	232321	271859	125555	132509	145600
Revenue Expenditure	126410	137475	152677	158841	165292	173086	107379	102275	119930	191265	203237	234957	93895	106724	118550
Capital Expenditure	20459	12245	18975	36108	37529	45841	7151	8007	12678	24465	25062	33170	22909	17085	16181
Sector wise Expenditure	146855	149717	171652	189525	196396	213247	105631	104219	123116	215730	228298	268127	116799	123801	134724
General Sector	40045	48974	55488	40598	45098	56264	47686	52286	46873	67826	72513	79915	32080	34676	37333
Social Sector	67124	70157	71193	78740	77054	73282	40141	35641	47140	77448	80034	100553	45399	47666	48710
Economic Sector	39645	30570	44950	70187	74244	83701	17804	16292	29103	55848	60766	71863	39315	41460	48681
Total Expenditure	146870	149720	171652	194949	202821	218927	114529	110282	132609	215730	228298	268127	116804	123809	134732
Loans and Advances disbursed	1843	5356	1715	5790	5433	2669	2389	1291	2574	4017	4022	3732	8750	8700	10868
Revenue Surplus/Deficit	-11726	-26441	-35540	5228	9219	-16369	-15991	-14578	-23256	-21114	-29339	-62235	7524	-4179	-18647
Fiscal Surplus/Deficit	-33751	-39687	-55168	36658	-33657	-64565	-24523	-23479	-38190	-42926	-53039	-93893	-23470	-29902	-45639
Primary Deficit (-) / Surplus (+)	-19448	-22034	-35150	23368	17622	-42605	9982	-7304	-20178	17185	-25001	-57396	-11578	-16260	-29628

Source: State Accounts Report, Comptroller and Auditor General of India

References

GoI (2020), "Fifteenth Finance Commission Report", Finance Commission, India.

Romer, Christina D. (2021), " The Fiscal Policy Response to the Pandemic" , Brookings Paper on Economic Activity, March 25, 2021.