

Kerala Budget: A Budget for the State's New Normal

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Kerala's Finance Minister unveiled the Budget for 2026-27, describing it as a "new normal" for the state. This description fits, as Kerala adapts to grow under stricter fiscal regulations, reduced Central transfers, global imbalances, and increasing social responsibilities while maintaining development priorities. Despite challenges, the government has increased its revenue sources with tax revenue estimated at Rs.1.28 lakh crore, and non-tax revenue at Rs. 15,435 crore. The estimated revenue receipt is 20 percent higher than the previous year budget estimate.

Fiscal position improved

The revenue deficit of Rs.34,586 crore, has to be seen in the context of ever increasing constraints led by the fiscal responsibility acts, rather than fiscal stress of the state. Due to the recent imposition of stricter fiscal responsibility limits, the expansion of government spending has been curtailed. The debt-to-GDP ratio has decreased from 38.4 percent in 2021 to 33.4 percent, indicating a trend towards stability. The estimated revenue deficit for 2026-27 is lower than the revised estimate of Rs. 36,889 crore for 2025-26. Regarding the fiscal deficit, it is projected to be Rs. 55,419 crore, slightly higher than the revised estimate. In terms of GSDP, the fiscal deficit for 2026-27 stands at 3.8 percent, which is marginally (0.3%) above the FRBM limit. The government could potentially keep it within 3.5 percent by boosting its own revenue through arrear collection and improved efficiency in 2026-27. The government's focus on state finances is evident in Kerala, where only 25% of the total revenue receipts are derived from the Central share, while the State independently generates 75% of its revenue. This scenario contrasts with the national average, where states typically receive more than 50% of their total revenue receipts from the Central share.

The primary expectation for this budget is however on the greater devolution through increased tax share and grants-in-aid from the 16th Finance Commission. If Commission transfers fall short of expectations, there will be heightened responsibility to boost revenue collection to meet rising expenditure needs, including capital expenditure. The average annual expenditure during the current government's five years stands at Rs.1,69,547 crore. Within constraints, the budget safeguards Kerala's legacy in the social sector. While critics might see this as motivated by upcoming Assembly elections in May 2026, the focus on welfare is embedded in structural realities. The budget reaffirms Kerala's commitment to decentralisation. Following 7th State Finance Commission recommendations, allocations to local governments through General-Purpose, Maintenance, and Development funds have increased. The budget has accepted Commission recommendation such as the Local Board of Finance for Local Governments for enhancing revenue and exploring capital markets to support local development. If implemented carefully, this could strengthen local governments' financial independence.

Elderly friendly budget

Presented as India's first "elderly budget," it responds to Kerala's growing ageing population. Higher pensions, increased allocations for women, health, and welfare programmes reflect the state's changing demographic profile.

Welfare oriented budget

This budget aims to focus on welfare while also being supportive of women, children, and the elderly. There are numerous initiatives designed to empower women and create job opportunities for them in Kerala. Making undergraduate education free for students in arts and science colleges is a step towards promoting Kerala's Knowledge Economy Mission. Increasing the honorarium for Asha and Anganwadi workers is a positive development. Government employees benefit from the assurance of a pension and pay revision. Acknowledging the challenges faced by gig workers, the establishment of gig hubs with modern amenities, funded with Rs. 20 crore, is a commendable initiative. The welfare pension has been raised from Rs. 1600 to Rs. 2000 per month. All these measures have been implemented without placing any additional financial burden on the public.

Wider insurance protection

The proposal to provide group accident and life insurance coverage for unorganized sector workers, including members of the Haritha Karma Sena, auto rickshaw and taxi workers, and lottery workers, along with extending the Medisep scheme to public sector, autonomous institution, and cooperative sector employees and retirees, implies a significant enhancement of social security measures. This initiative reflects the government's commitment to expanding welfare benefits to vulnerable and informal workforce segments, potentially improving their financial protection and access to healthcare services. It also suggests a move toward greater inclusivity in social insurance schemes, which may contribute to improved livelihoods and social stability among these groups.

Infrastructure initiatives

The budget also highlighted the significant use of the off-budget arm, KIIFB, through which the Pinarayi government has made substantial investments in infrastructure, including land acquisition, the development of hill highways, coastal highways, the Wayanad tunnel road, IT parks, cultural complexes, schools, colleges, cancer centers, hospital buildings, and a zoological park. To date, KIIFB has expended Rs. 38,535 crore, with Rs. 28,036.04 crore spent during the current government's tenure, while 1,216 projects amounting to Rs. 96,554.53 crore are approved in totality. The Finance Minister also reiterated the government's welcoming attitude towards private sector participation in infrastructure development by emphasizing the importance placed on Vizhinjam port. For the expansion of Vizhinjam port, it is estimated that the Adani group will invest Rs. 10,000 crore over the next five years in connection with the second, third, and fourth phases of development. Additionally, it is estimated that at least Rs. 30,000 crore will be invested in allied development sectors outside the port by the central and state governments and private agencies.

The 2026-27 Kerala Budget balances fiscal prudence with social welfare, navigating constraints while sustaining development priorities. By increasing revenue generation and maintaining social sector expenditure, the state shows commitment to financial stability. The budget prioritizes welfare measures, addressing demographic shifts through enhanced pensions, social security, and support for vulnerable groups, including women, gig workers, and unorganized sector employees. The focus on decentralization and local government

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empowerment, with infrastructure investments, signals a forward-looking approach to development. This budget demonstrates Kerala's resolve to adapt to economic challenges while safeguarding its social legacy and promoting equitable growth.

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