



AN ANALYSIS OF THE RECENT TRENDS IN PUBLIC EXPENDITURE OF THE STATE OF KERALA

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Abstract: The objective of the study is to analyze the recent trends in public expenditure of Kerala in order to understand the fiscal stability and sustainability of the state of Kerala. The study analyses the major trends in expenditure of the State and the changing structure of public expenditure of the State. Revenue expenditure constitutes more than 90% of the total expenditure of the State and on average, more than 60 % of revenue expenditure is spent on salary, interest and pension and more than 75% of revenue receipt is used for them. While more than 90% of the total expenditure of the State was revenue expenditure, the average share of capital expenditure in total expenditure was only 9.06%. It shows that the State is not able to adequately mobilize resources for the development of infrastructure, public services and public utilities. Proper management of expenditure is required for attaining fiscal stability and sustainability for the state of Kerala.

Index Terms - Revenue expenditure, capital expenditure, development expenditure, non-development expenditure, and capital outlay.

I. INTRODUCTION

Many experts attempted to study the various issues relating to fiscal management of Kerala. The major studies relating to it are by Aiyar and Kurup (1992), George and Krishnakumar.(2012), Prakash and Jerry (2018), and Johnson (2018). The expenditure of the state, particularly revenue expenditure has been increasing at a higher pace compared to its revenue receipts; the state is going through severe fiscal strain. Since more than 90% of expenditure is revenue expenditure, the state is unable set aside fund for financing capital expenditure. It has affected the long run economic growth of the economy. In this context, we make an attempt to examine the trends in public expenditure of the state of Kerala in recent time.

II. OBJECTIVE OF THE STUDY

The objective of the study is to analyse the recent trends in public expenditure of Kerala (from 2011-12 to 2018-19) in order to understand the fiscal stability and sustainability of the state of Kerala.

III. METHODOLOGY

The study is mainly a trend analysis of expenditure and components of public expenditure of Kerala during 2011-12 to 2018-19. The data sources used for the study are Finance Accounts published by Comptroller and Auditor General (C& AG), Budget documents of the State government, various issues of Kerala Economic Review, Kerala Expenditure Committee Report etc. Simple statistical tools like average, percentage, growth rate etc. are used for analyzing the trend in revenue and expenditure.

IV. RESULT AND DISCUSSION

IV.I Total Receipts and Expenditure of the State

The state government's receipts are divided into revenue and capital receipts. The revenue receipts comprise states' own tax and non-tax revenues, share of central tax transfers and grants in aid from the centre. Capital receipts consist of recoveries of loans and advances, debt receipts from internal sources and loans and advances from the Centre. Expenditure of state includes three components, revenue expenditure, capital expenditure and expenditure on loan disbursements. Total receipt and expenditure figures of the State during 2011-19 are given in Table-1. Total receipt as well as total expenditure of the State is found to be about 15% of the GSDP of Kerala during the period.

Table-1: Total Receipts and Expenditure of the State (Rs crore)

Year	GSDP at current prices	Total Receipts		Total Expenditure	
		Amount	% of GSDP	Amount	% of GSDPO
2011-12	364048	50295	13.82	50896	13.98
2012-13	412313	59823	14.51	59228	14.36
2013-14	465041	66227	14.24	66244	14.24
2014-15	512564	76670	14.96	76744	14.97
2015-16	561994	86998	15.48	87032	15.49
2016-17	634886	102374	16.12	102383	16.13
2017-18	701577	110241	15.71	110238	15.71
2018-19	781653	120096	15.36	120070	15.36
Average %			15.03		15.03

Source: Finance Accounts of C &AG of the respective years, GoK

IV.II Trends in Revenue Expenditure

Expenditure includes revenue and capital expenditures. Revenue expenditure involves both developmental and non-development expenditure. Revenue expenditure mainly comprises of expenditure on salaries, pension, debt services, devolution to the Local Governments, social security pensions and subsidies. The operational and maintenance cost for the completed projects and programmes are also classified under the revenue account. The trends in revenue expenditure of the State during the period 2011-19 are shown in the Table-2. While the average growth rate of revenue receipt was only 13.67%, the average growth rate of revenue expenditure was 17.35% during the period 2011-19. More than 90% of the total expenditure of the State was revenue expenditure during the period which was an unhealthy indication with respect to fiscal management. Revenue Expenditure-GSDP ratio in percentage for the period is 13.67. After meeting the expenses in revenue account, the State is left with meager resources for financing its investment needs and this trend seriously affects the growth performance of the economy. On average, more than 60 % of revenue expenditure is expenditure on salary, interest and pension and more than 75% of revenue receipt is used for them. It is shown in Table-3.

Table-2: Trends in Revenue Expenditure

Year	Revenue expenditure in RS crore	Annual Growth rate in %	Revenue expenditure as percentage of total expenditure	Revenue Expenditure as % of GSDP
2011-12	46045	-	90.47	12.65
2012-13	53489	16.17	90.31	12.97
2013-14	60486	13.08	91.31	13.01
2014-15	71746	18.62	93.49	14.00
2015-16	78690	9.68	90.42	14.00
2016-17	91096	15.77	88.98	14.35
2017-18	99948	27.02	90.67	14.25
2018-19	110316	21.10	91.88	14.11
Average		17.35	90.94	13.67

Source: Computed from Finance Accounts of C &AG of the respective years

Table-3: Trends in Salary, Interest, Pension, 2011-12 to 2018-19 (Rs crore).

Year	Salary		Interest		Pension		Total salary, interest and pension as % of Revenue expenditure	Total salary, interest and pension as % of Revenue Receipt
	Amount	% of Revenue Expenditure	Amount	% of Revenue Expenditure	Amount	% of Revenue Expenditure		
2011-12	16029	34.81	6294	13.67	8700	18.89	67.38	81.62
2012-13	17257	32.2	7205	13.47	8867	16.58	62.31	75.51
2013-14	19280	31.88	8265	13.66	9971	16.48	62.02	76.29
2014-15	21334	29.74	9770	13.62	11253	15.68	59.04	73.09
2015-16	23450	29.80	11111	14.12	13063	16.60	60.52	68.99
2016-17	27954	30.69	12117	13.30	15277	16.77	60.76	73.20
2017-18	31802	31.82	15120	15.13	19938	19.95	66.89	80.54
2018-19	31406	28.47	16748	15.18	19012	17.23	60.88	72.33
Average %		31.18		14.02		17.27	62.48	75.20

Source: Finance Accounts of C &AG of the respective years

During the period, 2011-19, the average share of salary in revenue expenditure was 31%, interest payment was 14% and pension was 17%. The average share of salary, interest and pension together in revenue expenditure during the period was 75%. It shows that the lion share of the revenue expenditure of the state was spent on three items, viz, salary, interest and pension and this trend is an indication of unsustainable fiscal management of the state.

Revenue expenditure is also classified as developmental and non-developmental expenditure. Developmental expenditure refers to expenditure on activities which are directly related to economic and social development. For instance, expenditure incurred on education, health, housing, agricultural and industrial development, rural development, social welfare etc. Non-developmental expenditure refers to government expenditure incurred on essential services of routine nature. Such expenditure is essential from administrative point. Trends in developmental and non-developmental expenditure are shown in Table-4. Developmental expenditure was 54% and non-developmental expenditure was 46% of revenue expenditure. With respect the relative share in revenue expenditure, there was only small difference between these two types of expenditures and the growth rate of non-developmental expenditure was found to be greater than that of developmental expenditure. In developmental expenditure category, we have specifically analysed the trend in expenditure on education and health (Table-5).

Table-4: Trends in Revenue Expenditure- development and non-development expenditure

Year	Developmental Expenditure			Non-Developmental Expenditure		
	Amount in Rs. crore	Growth rate in %	% of total revenue expenditure	Amount in Rs. crore	Growth rate in %	% of total revenue expenditure
2011-12	25069.84	-	54.45	20974.78	-	45.55
2012-13	29889.03	19.22	55.88	23599.71	12.51	44.12
2013-14	32921.1	10.14	54.43	27564.4	16.80	45.57
2014-15	39182.19	19.01	54.61	32564.24	18.14	45.39
2015-16	41762.67	6.58	53.07	36926.8	13.40	46.93
2016-17	48602.63	16.38	53.35	42493.68	15.07	46.65
2017-18	52979.53	9.01	53.01	46968.82	10.53	46.99
2018-19	56787.99	7.19	51.48	53528.4	13.96	48.52
Average		12.50	53.78		14.34	46.22

Source: Finance Accounts of C &AG of the respective years

It is found that the average growth rate of expenditure on education during 2011-19 was 10.6% and its average share in revenue expenditure was 18.7%. In the case of health expenditure, the average growth rate was 12.7% and average share in revenue expenditure was only 6.85%. Expenditure on education and health together was only 12.7% of the developmental expenditure during the period. Enhancement of expenditure on these two areas is essential for sustaining the Kerala Model of Development.

Table-5: Share of expenditure on education and health in Revenue Expenditure

Year	Education				Health			
	Amount	Growth rate in %	% of Revenue expenditure	% of Development Expenditure	Amount	Growth rate in %	% of Revenue expenditure	% of Development Expenditure
2011-12	9424.73	-	20.47	37.59	3163.01	-	6.87	12.62
2012-13	10532.02	11.75	19.69	35.24	3643.84	15.20	6.81	12.19
2013-14	11709.84	11.18	19.36	35.57	4088.15	12.19	6.76	12.42
2014-15	12790.19	9.23	17.83	32.64	4709.63	15.20	6.56	12.02
2015-16	14133.65	10.50	17.96	33.84	5524.67	17.30	7.02	13.23
2016-17	17061.09	20.71	18.73	35.10	6662.03	20.59	7.31	13.71
2017-18	18514.86	8.52	18.52	34.95	6872.01	3.15	6.87	12.97
2018-19	18968.25	2.45	17.19	33.40	7261.34	5.67	6.58	12.79
Average		10.62	18.72	34.79		12.76	6.85	12.74

Source: Computed from Finance Accounts of C &AG of the respective years

IV.III Trends in Capital Expenditure

The trends in capital expenditure of the State during 2011-19 are shown in Table-6. Capital expenditure in the State is found to be very low compared to revenue expenditure. The capital expenditure has shown negative growth rate in some of the years during the reference period. It shows that the State is not able to mobilize resources for the development of infrastructure, public services and public utilities. While more than 90% of the total expenditure of the State was revenue expenditure, the average share of capital expenditure in total expenditure was only 9%. Similarly, Revenue Expenditure-GSDP ratio for the period is 13.67%, it is only 1.36% for Capital Expenditure-GSDP ratio.

Table-6: Trends in Capital Expenditure

Year	Capital expenditure in RS crore	Annual Growth rate in %	Capital Expenditure as percentage of total expenditure	Capital Expenditure as % of GSDP
2011-12	4851	-	9.53	1.33
2012-13	5739	18.3	9.69	1.39
2013-14	5759	0.33	8.69	1.24
2014-15	4998	-13.21	6.51	0.98
2015-16	8342	66.92	9.59	1.48
2016-17	11286	35.29	11.02	1.78
2017-18	10289	-8.83	9.33	1.47
2018-19	9753	-5.21	8.12	1.25
Average		13.37	9.06	1.36

Source: Computed from Finance Accounts of C &AG of the respective years

Components of capital expenditure in the state of Kerala are shown in the Table-7. The capital outlay, ie the part of capital expenditure incurred for acquiring capital assets and investment constituted 82.5% of capital expenditure. The remaining 17.5% of capital expenditure was used for loan disbursement. While the growth rate of loan disbursement increased from 13.78% in 2012-13 to 50.75% in 2018-19, the growth rate of capital outlay declined from 19.47% to -15.07% during the period. It very well shows the relative neglect of government investment in the economy and the growing debt problem of the government. The components of capital outlay are shown in Table-8. During 2011-19, the capital outlay as percentage of capital expenditure on irrigation declined from 5.1% to 2.79%; on agriculture and allied services declined from 6.41% to 5.58%; on industries, labour and employment declined from 6.48% to 2.84%; and on public works declined from 37.52% to 20.51%. Investment and asset creation in these areas are infrastructural investments and hence they have to be constantly stepped up to accelerate the growth rate of the state economy.

Table-7: Components of capital Expenditure

Year	Capital Outlay			Loan Disbursement		
	Amount in Rs. crore	Annual growth rate in %	% of Capital Expenditure	Amount in Rs. crore	Annual growth rate in %	% of Capital Expenditure
2011-12	3853	-	79.43	999	-	20.59
2012-13	4603	19.47	80.20	1136	13.78	19.80
2013-14	4294	-6.71	74.57	1464	28.87	25.43
2014-15	4255	-0.93	85.14	743	-49.25	14.86
2015-16	7500	76.28	89.90	842	13.34	10.10
2016-17	10126	35.01	89.72	1160	37.76	10.28
2017-18	8749	-13.60	85.03	1541	32.78	14.97
2018-19	7431	-15.07	76.19	2323	50.75	23.81
Average			82.52			17.48

Source: Finance Accounts of C &AG of the respective years

Table-8: Components of Capital Outlay in Rs. Crore (% of capital expenditure in bracket)

Year	Irrigation	Agriculture and allied services	Industries, Labour and Employment	Public works	Others
2011-12	247.19 (5.10)	310.81 (6.41)	314.47 (6.48)	1820.25 (37.52)	1160.20 (23.92)
2012-13	340.60 (5.93)	192.11 (3.35)	273.95 (4.77)	2142.92 (37.34)	1653.71 (28.82)
2013-14	342.39 (5.95)	210.62 (3.66)	342.24 (5.94)	1549.43 (26.90)	1849.65 (32.12)
2014-15	270.24 (5.41)	355.90 (7.12)	260.22 (5.21)	1578.94 (31.59)	1789.29 (35.80)
2015-16	526.23 (6.31)	473.08 (5.67)	334.94 (4.01)	2924.26 (35.05)	3241.53 (38.86)
2016-17	674.83 (5.98)	555.62 (4.92)	516.79 (4.58)	3001.88 (26.60)	5376.83 (47.64)
2017-18	544.49 (5.29)	629.83 (6.12)	548.06 (5.33)	2595.57 (25.23)	4430.92 (43.06)
2018-19	271.78 (2.79)	543.95 (5.58)	276.74 (2.84)	2000.48 (20.51)	4337.58 (44.47)

Source: Finance Accounts of C &AG of the respective years

V. SUMMARY AND CONCLUSION

The study is an attempt to analyze the recent trends in public expenditure of Kerala in order to understand the fiscal stability and sustainability of the state of Kerala. Since more than 90% of expenditure is revenue expenditure, the state is unable set aside fund for financing capital expenditure. On average, more than 60 % of revenue expenditure is expenditure on salary, interest and pension. It is found that the average growth rate of expenditure on education during 2011-19 was 10.6% and its average share in revenue expenditure was 18.7%. In the case of health expenditure, the average growth rate was 12.7% and average share in revenue expenditure was only 6.85%. Expenditure on education and health together was only 12.7% of the developmental expenditure during the period. Enhancement of expenditure on these two areas is essential for sustaining the Kerala Model of Development. It is found that the State is not able to adequately mobilize resources for the development of infrastructure, public services and public utilities. The capital outlay as percentage of capital expenditure on irrigation; agriculture and allied services; industries, labour and employment and public works are declining in Kerala. Investment and asset creation in these areas are infrastructural investments and hence they have to be constantly stepped up to accelerate the growth rate of the state economy. Proper management of expenditure is required for attaining fiscal stability and sustainability for the state of Kerala.

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