

**STATE SERIES: OUR EXCLUSIVE REPORT ON STATE FINANCES****MARCH 18, 2019**  
**ISSUE NO:98, FY19****KERALA STATE BUDGET: RESURRECTING GOD'S OWN COUNTRY**

The Kerala Budget was an expansive budget in light of rebuilding the state after the devastating floods which have caused damage to the tune of Rs 15,000-20,000 crore according to industry sources. Though there are concerns on the dampened revenue trends, the budget reiterated the State's commitment to achieve 3% fiscal deficit target.

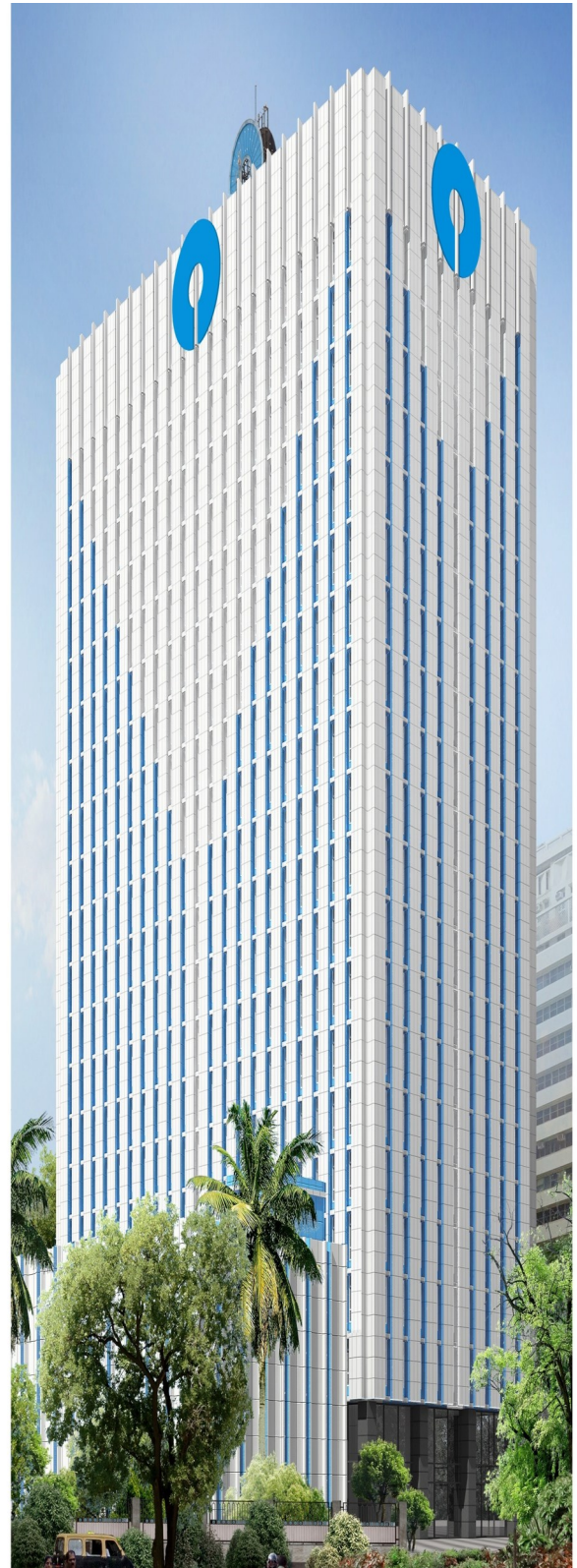
Overall, **the Kerala Budget has kept the FY20 fiscal deficit at 3.0%** of GSDP with the nominal GSDP for FY20 estimated to grow 13% higher than the revised estimates for FY19. The revised estimates also show a reduction of FY19 fiscal deficit by 4 bps to 3.06% of GSDP from the budgeted deficit.

What makes Kerala budget and the governance creditable is the control on expenditure and fiscal restraint exercised by the Government machinery in FY19, which in a way insulates it from the fiscal crack-up seen in the couple of previous financial years in the form of unmanageable growth in the non-plan revenue expenditure.

The total expenditure of the Government has increased by 13.9% in relation to FY19 revised estimate. The expenditure also aims to protect the economy from falling into recession as the income from the Gulf countries, which has been driving the state's growth, has been seeing a decline in the recent past. 25 projects have been put forth in the budget under which the various expenditure amounts have been enumerated. These focus on infrastructure facilities and social security of the state. A new Rebuild Kerala initiative is being planned which would work on the development of coastal areas. All such initiatives will improve the employment and income growth of the economy.

On the capital expenditure front, the Capital outlay under various services is expected to grow by a whopping 65.8% in FY20. The major part of this increase is focused on the economic services. Total capital expenditure is expected to grow by 53%. A 1% flood cess has been proposed for supply of goods coming within the GST tax bucket. A 0.25% flood cess will be levied on all goods coming under the fifth schedule including gold, silver and platinum ornaments on the value of supply.

Overall Revenue expenditure for FY20 is expected to grow by 9.8%. The total revenue receipts for FY20 are estimated to increase by 15.4% over the revised estimates of FY19. Of this 70% will be raised by the state through its own resources, and rest will be devolved by the Centre in the form of grants and the state's share in taxes. Overall the budget is focused on building the State. However, the own tax revenue projections are a tad optimistic if we go by past trends.



## KERALA STATE BUDGET ANALYSIS

- ◆ The recently published Kerala Budget pegs the FY20 fiscal deficit at 3.0% of GDP with the nominal GSDP for FY20 (Rs 8,75,514 crore), estimated to grow 13% higher than the revised estimates for FY9.
- ◆ The revised estimates also show a reduction of FY19 fiscal deficit by 4 bps to 3.06% of GDP from the budgeted deficit, as the reduction in revenue receipts to the tune of Rs 2775.49 crore is offset by curtailed revenue expenditure by Rs 2627.48 crore. Managing the expenditure has been a big support in optimising the fiscal targets.
- ◆ Kerala remains a revenue deficit state with FY20 revenue deficit projected at 1.00% of State GDP. On the revenue expenditure side, Pension and Other Retirement Benefits (the largest contributor in revenue expenditure) with total expenditure of 19189.32 crore as per RE2019 are expected to grow at -1.4% in FY20. The other major component, interest payments with total outlay of Rs 15626.45 crore in FY19, is expected to grow by 10.1% in FY20.
- ◆ Within revenue expenditure, outlay on CSS/CPS has been increased by a massive 81.8% in FY20 to Rs 7904.08 crore. This being the Centrally Sponsored Scheme (CSS) and the Central Plan Schemes CPS), much of the expenditure would be owned up by the Central Government as a response to the flood devastated revival package for the state. Overall Revenue expenditure for FY20 is expected to grow by 9.8% to Rs 124124.99 crore.
- ◆ On the capital expenditure front, capital outlay under various services is expected to grow by a whopping 65.8% in FY20 to Rs 16269.38 crore from Rs 9810.71 crore in FY19 RE. The major part of this increase is focused on the economic services. Total capital expenditure is expected to grow by 53% to Rs 17855.32 crore.
- ◆ As against the budgeted estimate of Rs 23881.40 crore, Borrowings and Other Liabilities is revised at Rs 23249.86 crore in FY19, showing an yearly decline of 13.4%. However, these are expected to increase by 13% in FY20. In 2019-20, the outstanding liabilities are expected at 30.2% of the GSDP.

Budget 2019-20 - Key figures (in Rs crore)

Items	2017-18 Actuals	2018-19 Budgeted	2018-19 Revised	% change from BE 2018-19 to RE of 2018-19	2019-20 Budgeted	% change from RE 2018-19 to BE 2019-20
<b>Total Expenditure</b>	110238	127093	124679	-1.9%	141980	13.9%
A. Capital Expenditure	10289	11432	11645	1.9%	17855	53.3%
of which Capital Outlay	8749	10330	9811	-5.0%	16269	65.8%
B. Revenue Expenditure	99948	115661	113034	-2.3%	124125	9.8%
<b>Total Receipts (A+B)</b>	110241	127018	124242	-2.2%	141955	14.3%
A. Receipts (except borrowings)	83400	103136	100992	-2.1%	115690	14.6%
B. Borrowings	26841	23881	23250	-2.6%	26265	13.0%
<b>Revenue Deficit</b>	16928	12860	13027	1.3%	8770	-32.7%
<b>As % of GSDP</b>	2.46%	1.66%	1.68%		1.00%	
<b>Fiscal Deficit</b>	26837	23957	23686	-1.1%	26291	11.0%
<b>As % of GSDP</b>	3.91%	3.10%	3.06%		3.00%	
<b>Primary Deficit</b>	11717	9019	8060	-10.6%	9089	12.8%
<b>As % of GSDP</b>	1.71%	1.17%	1.04%		1.04%	

## TAX PROPOSALS

- ◆ 0.25% flood cess will be levied on all goods coming under the fifth schedule including gold, silver and platinum ornaments on the value of supply. For supply of goods coming within the GST tax bucket of 12%, 18% and 28% and on all services, 1% flood cess will be imposed on the value of supply, for a period of two years. The Kerala Flood Cess will be levied only on the value of intra state supply made within the State by registered dealers, at the last supply point. Rs 600 crore additional revenue per year is expected through this measure.
- ◆ A comprehensive amnesty scheme has been announced. This amnesty scheme will be applicable to arrears relating to the period up to March 31st, 2005 for Kerala General Sales Tax Act; arrears relating to the period up to June 30th, 2017 under Kerala Value Added Tax Act, Kerala Tax on Luxuries Act and Kerala Surcharge on Taxes Act, Central Sales Tax Act; and arrears relating to the period up to March 31st, 2017 under Kerala Agricultural Income Tax Act.
- ◆ The local bodies will be permitted to levy 10% entertainment tax on cinema tickets and the onetime tax on new motor cycles, motor cars and private service vehicles used for private purpose will be increased by 1%.
- ◆ The tax rate on the first sale of all kinds of foreign liquor including beer and wine will be increased by 2%. An additional revenue of Rs 180 crore is expected from this measure.
- ◆ All charges and fees for services provided by various departments will be increased by 5%.

## KERALA STATE BUDGET: REVENUE ANALYSIS

- ◆ The total revenue receipts for 2019-20 are estimated to be Rs 1,15,355 crore, an increase of 15.4% over the revised estimates of 2018-19. Of this, Rs 80,855 (70% of the revenue receipts) crore will be raised by the state through its own resources, and Rs 34,500 crore (30% of the revenue receipts) will be devolved by the centre in the form of grants and the state's share in taxes.
- ◆ The FY19 revised estimates show Kerala's own tax growth rate at 14.3%. For FY20 this is expected to go to 23.9% on account of increased GST, Sales Tax and VAT collections. GST collections are expected to go up by 27.1%, while Sales Tax and VAT collections are expected to exhibit growth of 25.5%. For own non tax revenue, the growth in FY20 is the same as growth in FY19, i.e. at 16%. The major revenue under this head comes from the lotteries (FY20 collection BE: Rs 11873 crore vis a vis FY19 collection RE: Rs 10210 Crore).
- ◆ State Goods and Services Tax (SGST) is the largest component of tax revenue of the state. It is expected to generate Rs 29,011 crore in 2019-20. This is an increase of 27% from the revised estimates of FY19.
- ◆ In 2019-20, Kerala is expected to generate Rs 23,948 crore through levy of sales tax (on items such as petroleum products), and VAT. This is an increase of 25.5% over the revised estimates of FY19.
- ◆ The share of Central Taxes has remained the same in BE19 and RE19 at Rs 19932.27 crore. This is expected to grow by 14.4% in FY20 to Rs 22797.61 crore. The grant in aid from Central Government, which shot up in FY19 due to non plan grant on account of Kerala floods, is expected to moderate at Rs 11702.43 crore in FY20 from Rs 13971.76 crore in FY19(FY19 BE: Rs 10009.39 crore).
- ◆ As Kerala was hit by massive floods in August 2018, Centre has cleared a grant of Rs 3048 crore to Kerala, which has supplemented revenue receipts which saw a loss in state own tax revenue of Rs 5478 crore in FY19.

## Kerala Budget at a Glance( Rs crore )

	FY18 Accounts	FY19 BE	FY19 RE	FY20 BE	FY18 (% yoy growth)	FY19 RE (% yoy growth)	FY20 (% yoy growth)
<b>Revenue Receipts</b>	<b>83020</b>	<b>102801</b>	<b>100007</b>	<b>115355</b>	9.8	20.5	15.3
1 State Own Tax Revenue	46460	58588	53111	65785	10.2	14.3	23.9
2 State Own Non-Tax Revenue	11200	14271	12992	15070	15.5	16.0	16.0
3 Central Govt. Transfers	25361	29942	33904	34500	6.8	33.7	1.8
i) Share of Central Taxes	16833	19932	19932	22798	10.6	18.4	14.4
ii) Grant-in- Aid	8528	10009	13972	11702	0.2	63.8	-16.2
<b>Capital Receipts</b>	<b>27221</b>	<b>24217</b>	<b>24236</b>	<b>26600</b>	1.7	-11.0	9.8
1 Recoveries of Loans	351	297	948	292	20.1	170.0	-69.2
2 Other Receipts	29	38	38	43	-3.2	30.6	12.0
3 Borrowings and Other Liabilities	26841	23881	23250	26265	1.5	-13.4	13.0
i) Public Debt (Net)	17102	22289	19191	23236	5.9	12.2	21.1
ii) Public Account (Net)	9739	1593	4059	3030	-5.3	-58.3	-25.4
<b>Total Receipts</b>	<b>110241</b>	<b>127018</b>	<b>124242</b>	<b>141955</b>	7.7	12.7	14.3
<b>Total Expenditure</b>	<b>110238</b>	<b>127093</b>	<b>124679</b>	<b>141980</b>	7.7	13.1	13.9
1 On Revenue Account	99948	115661	113034	124125	9.7	13.1	9.8
a. Of which Interest Payments	15120	14938	15626	17201	24.8	3.4	10.1
2 On Capital Account	10289	11432	11645	17855	-8.8	13.2	53.3
i) Capital outlay	8749	10330	9811	16269	-13.6	12.1	65.8
ii) Loan Disbursements	1541	1102	1835	1586	32.8	19.1	-13.6

Source: Kerala Budget Documents, SBI Research

**SECTOR HIGHLIGHTS**

- ◆ 25 projects have been put forth in the budget under which the various expenditure amounts have been enumerated. These focus on infrastructure facilities and social security of the state.
- ◆ Rs 2,500 crore will be expended in Agricultural sector for rejuvenating agriculture from flood disaster. Total amount of Rs 450 crore is set apart for Animal Husbandry sector.
- ◆ 16,000 micro, small and medium industrial units requiring an investment of Rs 1,550 crore will be established in FY20. The three new schemes, which will be started this year are interest subsidy for land acquisition expenditure, financial assistance for flood related audit, and interest subsidy for them.
- ◆ Health sector outlay amounts to Rs 1,406 crore. Apart from this Rs 600 crore will be received from NHM. Medical Insurance is expected to cost around Rs 800 crore.
- ◆ Rs 992 crore is the total outlay for general education. Rs 695 crore is the allocation for Higher Education and Rs 249 crore for Technical Education. Thus the state plan outlay for 2019-20 is Rs 1,938 crore. The total outlay for education sector including Central share comes to Rs 3,154 crore. The total outlay for Universities is Rs 1,513 crore.
- ◆ Rs 1,000 crore has been earmarked for Rebuild Kerala initiative in the plan in which work on the development of coastal areas will be done. Rs 400 crore has been allocated towards Smart City Mission, and Rs 500 crore for AMRUT.
- ◆ The outlay for Local Government Institutions comes to Rs 11,867 crore. From this, Rs 1,210 crore is for Corporations, Rs 1,617 crore for Municipalities, Rs 1,564 crore for District Panchayats, Rs 1,090 crore for Block Panchayats and Rs 6,334 crore for Grama Panchayats.
- ◆ The total plan outlay for energy sector in 2019-20 is Rs 1781 crore. Of this, Rs 476 crore is for transmission and Rs.563 crore is for generation.
- ◆ In FY20 budget, the total outlay for schemes meant entirely for women is enhanced to Rs 1,420 crore.
- ◆ Sustainable employment opportunities for 25,000 women getting an income of Rs 400 - 600 will be created by livelihood intervention during 2019-20. Bank loans worth Rs 3,500 crore, with an interest rate of 4% , will be made available to 65,000 neighbourhood groups in FY20.

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## ABOUT US

The Economic Research Department (ERD) in SBI Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of “tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis”.

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team now taking on multidimensional functionalities in the area of risk management , corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

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