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A study on the growth of public expenditure in Kerala, India

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ABSTRACT

Being a newly born State of an erstwhile colonial empire, Kerala has been under budgetary imbalances right from her statehood in 1956, instigated by phenomenal growth of public expenditure. Contemporary studies also underpin this general belief that the State is in financial crunch. The foregoing analysis shows that the State has slipped into the inevitable financial squeeze activated by the growing expenditure, falling revenue and mounting debt. The Government even finds it difficult to spare funds for the day-to-day operations and keep the Treasury afloat. One of the possible ways to address this fiscal debacle is to augment the revenue mobilization process along with scientific management of Public expenditure. Since the former remains as a challenging proposition, the emphasis is shifted to the analysis of Public Expenditure. The present paper, therefore, sets focus on analysing the structure and growth of various components of Public Expenditure on the way to providing suggestion to improve the Public Expenditure Management practices of Government of Kerala for weathering the fiscal crisis that has hit the state.

Key Words : Expenditure, Financial, Squeeze, Deficits, Debt, Management, practices, Fiscal

INTRODUCTION

The expenditure entailed by the discharge of the functions of a government is called Public Expenditure. It is a vital aspect of the topic of Public Finance, which studies revenue, expenditure and debt of Government, with major thrust on the revenue expenditure process. Also called by Government Expenditure, Public Expenditure includes both capital and revenue expenditure. However, the subject of Public Expenditure remained neglected till the dawn of 20th century, both by the academia and economists who were guided by the doctrine of a surplus budget which gave importance to the revenue side alone. But the concept of State and its activities got drastically shifted from a police state to welfare state since the first half of the twentieth century as the aftermath of certain epoch making events such as the global depression, the world wars and the emergence of independent nations. Many countries became welfare democracies wherein the state was to provide from what is called Alpha to Omega, which took state activities to soaring heights and public expenditure has increased in size and complexity. These new dimensions necessitated scientific management of public expenditure as a vital development imperative and consequently the topic of public expenditure management emerged as a challenging proposition for all. Being an erstwhile colonial state, the situation in India was also not different; nor could the

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situation in Kerala be different too.

Literature review :

Adam Smith (1776) in Wealth of Nations made one of the pioneering attempts describe the phenomenon of the growth of public expenditure, correlating it to an increasing function of national income. Wagner (1880), holding the same view, went a step further to empirically test his proposition in Europe and states that the level of economic development triggers the growth of public expenditure. Peacock and Wiseman (1967) opposing the Wagner's Organic Theory, postulated the Displacement Effect Hypothesis/War Hypothesis. According to this theory growth in Public Expenditure is an offshoot of wars and other unforeseen events. Govinda Rao (1981) brought out that the political ideologies of parties in power have nothing to do much with the growth of expenditure in the states in India. George (1982) examining revenue expenditure imbalances in Kerala, suggests the need for more central funds to correct the fiscal maladies. The study by Ramlingam Ayer and Kurup (1992) points at the overwhelming presence of the non-plan revenue expenditure in aggravating the fiscal strain of Kerala started worsening since the late 1980s. Govinda Rao (2002) studies, the areas of reform the states should focus on to impart efficiency and improve revenue productivity and prioritisation and compression of unproductive expenditures. Isaac and Mohan (2016) examine the fiscal scene of Kerala, during the last one and a half decades, by looking at the trends in receipts and expenditure. It finds that a revenue led fiscal consolidation is the way ahead not only for sustaining and expanding the intervention in social sector, but also for stepping up capital outlay. Mittal (2016) tries to explore the effect of Social Sector Expenditure (SSE) on Human Development Index (HDI) of Indian States. It is found that SSE has a positive impact on HDI.

The studies reviewed above invariably suggest the phenomenon of growth of public expenditure attributed to varied reason in a general way which creates avenues for detailed inquiry into the nature and causes of public expenditure growth which makes the present attempt relevant.

Importance of the Study :

Being a newly born State of an erstwhile colonial empire, Kerala has been under budgetary imbalances right from her statehood in 1956, instigated by phenomenal growth of public expenditure, which is not evenly matched by adequate resources to meet it. These budgetary imbalances, in course of time, gave rise to mounting deficits sparing little for productive capital expenditure and consequent borrowings. In Kerala, however, the role of public expenditure has not been recognised crucial for huge revenue/fiscal deficits. Kerala's fiscal debacle which originates from the revenue side, consequent to rising expenditure and falling revenue, has started worsening since the late 1980s and turned into a real crisis from the mid 1990s. This gives space for analysing the expenditure of Government to better expose the situation and makes the study significant. The role of capital expenditure is negligible as it bears only a very low proportion to total expenditure. The present paper, therefore, sets focus on analysing the structure and growth of various components of Revenue Expenditure on the way to provide suggestion to improve the Public Expenditure Management practices of Government of Kerala for weathering the fiscal crisis that has hit the state.

Objectives :

1. To study the trend of growth of public expenditure of the Government of Kerala.
2. To analyse the variables influencing the growth of public expenditure.
3. To suggest measures to strengthening the Public Expenditure Management practices of

the Government of Kerala.

METHODOLOGY

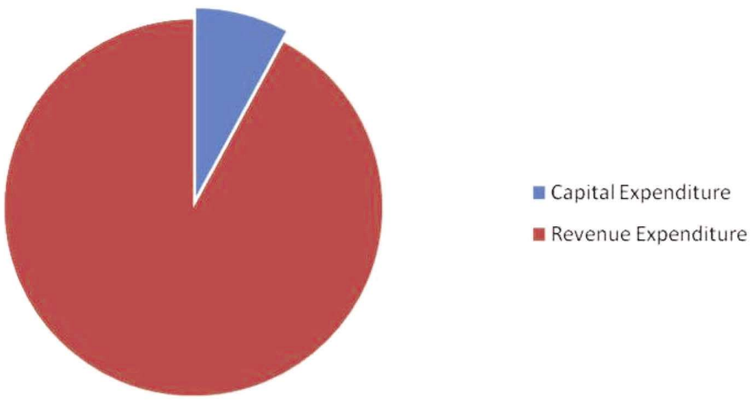
The study broadly follows the methodology suggested in the literature on state finances and uses the standard tools and techniques. The basic approach is to analyse the trends in revenue, expenditure, receipts and deficits of Kerala for the eighteen year period from 2000-01 to 2017-18. The data for the present study have been primarily compiled from the yearly reports of the Finance Accounts of Government of Kerala, audited by the Comptroller and Auditor General of India. The other sources include RBI- State Finances, Economic Review published by the Government of Kerala and Budget Documents of Government of Kerala.

Percentages, averages, ratios, charts, diagrams, Annual Growth Rates, Average Annual Growth Rates and Compound Annual Growth Rates are used to analyse the trend of growth of Public Expenditure while Polynomial trend graphs are used for future projections and correlation analysis is used for analysing growth pattern in terms of other variables.

RESULTS AND DISCUSSION

Analysis of public expenditure of Kerala :

As stated, the Expenditure of Government of Kerala is predominantly made up of the Revenue component which accounts for 93 per cent while Capital Expenditure represents only a negligible 7 per cent of the total on an average (Fig. 1). Hence emphasis is laid on the analysis of Revenue expenditure.



Source: Finance Accounts Govt. of Kerala Various Issues

Fig. 1 : Composition of total expenditure

Composition of total revenue expenditure :

The Revenue Expenditure of the State comprises expenditures falling under four broad categories that include General Services, Social Services, Economic Services and Grants -in-Aids and Contributions of which the General Service Sector is more dominant of all (Table 1). It accounts, on an average, about 44.86 per cent of Total Revenue Expenditure (TRE) and registers a CAGR of 12.53 per cent during the sixteen year period from 2000-01 to 2015-16 and is growing slightly above TRE.

Table 1 : Composition of total revenue expenditure Rs. in Crores					
Year	General services	Social services	Economic services	Grants -in-ids and contributions	TRE
2000-01	5456	4188	2217	55	11917
2001-02	5611	4076	1897	67	11651
2002-03	6678	5038	2982	58	14756
2003-04	7398	5025	2999	73	15496
2004-05	7986	5879	3307	-3	17169
2005-06	8756	5896	3772	0	18424
2006-07	8634	6478	2711	1911	19735
2007-08	12184	7790	2818	2099	24892
2008-09	12667	9363	3929	2265	28224
2009-10	13936	10467	4241	2489	31132
2010-11	15418	12111	4357	2778	34665
2011-12	20300	16224	6131	3389	46045
2012-13	22133	16988	6877	5678	51676
2013-14	24223	20223	8821	7218	60485
2014-15	31433	23718	10198	6398	71746
2015-16	36085	27603	11098	3903	78689
CAGR	12.53	12.51	10.59	30.52	12.52
Share In TRE	44.86	33.66	15.87	5.61	

Source: Finance Accounts, Budget in Brief Govt. of Kerala Various Issues

It rose from Rs. 5456 crores in 2000-01 to Rs. 36085 crores in 2015-16 showing an increase of about seven times during a span of eighteen years. Its huge share in TRE coupled with its phenomenal growth rate makes it an item of concern to watch out for the upcoming years. This could be due to the overwhelming presence of the ever increasing non-plan contents like Interest and Pension in its total makeup.

The Social Services Occupies the second slot with an average share of about 33.66 per cent in TRE. Expenditure on Education is the principal component of this Sector. There was a decline in its share towards the end of the study period. It seems as if the government is withdrawing itself from Social welfare programmes due to the ever increasing pressure from general services sector as entailed by interest and pension payments. The Social Services records a Compound Annual Growth Rate (CAGR) of 12.51 per cent, which at present does not seem to be as alarming as it grows at a slower pace when compared to the CAGR of TRE and the other components.

The Economic Services is the third major component in terms of size and growth rate. From Rs. 2217 crores in 2000-01, it rose to Rs. 11098 crores in 2015-16, with a CAGR of 10.59 per cent It accounts for about 15.87 per cent of TRE.

Though Grants-in-Aids and Contribution registers a high growth rate (CAGR 30.52), its share in the total is negligible and hence it is not an item to be reckoned with any serious concern.

From Table 2, it is observed that the Total Revenue Expenditure (TRE) took off from Rs. 11917 crores in 2000-01 to the mammoth total of Rs. 78689 crores in 2015-16 and thereafter to Rs. 101346 Crores in 2017-18. If we measure the growth rate of TRE, as in Table 2, using data for the period 2000-01 to 2017-18, it is observed that the Average Annual Growth Rate (AAGR) reached 13.75, still maintaining a noticeable upward trajectory. There is a sudden spurt towards the close of the study period. Following the trend of its major constituents; it grows so rapidly as to upset the revenue- expenditure equilibrium leaving huge revenue deficits every year. This is clearly explained in figure 3.3, as the polynomial trend lines show a sharp upward movement in various components as well as in TRE. If we take a four year polynomial projection, TRE is likely to crosss the Rs. 130000 crore marks by 2020. The TRE of Kerala stands out bearing a very high proportion to Gross State Domestic Product (GSDP) in comparison to other Indian states. This manifests the propensity of Revenue Expenditure to grow in alarming proportions, leading to consequent deficits indicating that the State is spending much beyond what is warranted by its resources.

Variables influencing the growth of public expenditure of Kerala :

The revenue deficits :

Revenue deficits (RD) are a common feature of Kerala, emerging out of the mismatch between Revenue Receipts and Revenue Expenditure, right from the late 1980s. The situation is getting worsened due to widening the gap between revenue and expenditure as the deficits rose from Rs. 3147crores in 2000-01 to Rs. 13080 crores in 2017-18, recording a fourfold increase during the period under study (Table 2). Though revenue, with an AAGR of 14.68 per cent, grows at a relatively higher rate than expenditure which grows at an AAGR of 13.7 per cent, it is not enough to weather the size and complexity of expenditure growth. The ever rising revenue deficits are the root cause of the fiscal strain of the State .As a result the State lagged behind in infrastructure investment and increasing Capital Expenditure, with the State's estimated loss of capital expenditure is approximately Rs.2516 cr. over the five years (2011-16) on this single measure. The State also lost out on achieving the incentives mentioned in the award of the Fourteenth Finance Commission for good public financial management by availing of the extra additional borrowing given as the award of 0.5 per cent of GSDP. This issue needs to be addressed with due deliberations and scientific management of revenue and expenditure.

Public debt :

The Public Debt is a direct reflection of Deficits. It rose from Rs. 23919 in 2000-01 to 210789 crores in 2017-18, with an impressive AAGR of 13.7 per cent in par with TRE which also manifests a similar growth figure slightly below the AAGR of Total Revenue Receipts (TRR) which is 14.68 per cent (Table 2). The public debt represented as a ratio of GSDP shows that it is much above All States average in almost all the years of study. In most of the years, particularly towards the end of the period, the debt liability as a percentage of GSDP was higher than the target of 29.8 per cent fixed in the Kerala Fiscal Responsibility Act as well. It is greater than the sustainable debt level of 23%, which is estimated as per the Fiscal Responsibility Act of Kerala, 2011. This questions the sustainability of Public Debt, which implies the ability of government to service debt including repayment of principal amount, for Kerala.

As depicted in Table 2, the correlation coefficient of 0.99 well exposes a high degree of positive correlation between TRR, TRE and Public Debt, indicating that increase in revenue attracts more expenditure which in the present circumstances results in deficits and consequent borrowings, creating a debt-deficits fiasco. In between TRE and Public Debt, there exists a bi-directional causality as well which can be interpreted as a rise in expenditure results in a similar rise in debt and a rise in debt results in rise in expenditure in the form of Interest Payments.

It is observed from Fig. 2 that the Annual Growth Rate (AGR) of Revenue Deficits (RD) shows wide fluctuations at times peaking at 120 per cent to eventually slide downwards to the close. While the AGR of Revenue and Expenditure is more or less evenly poised, with marked

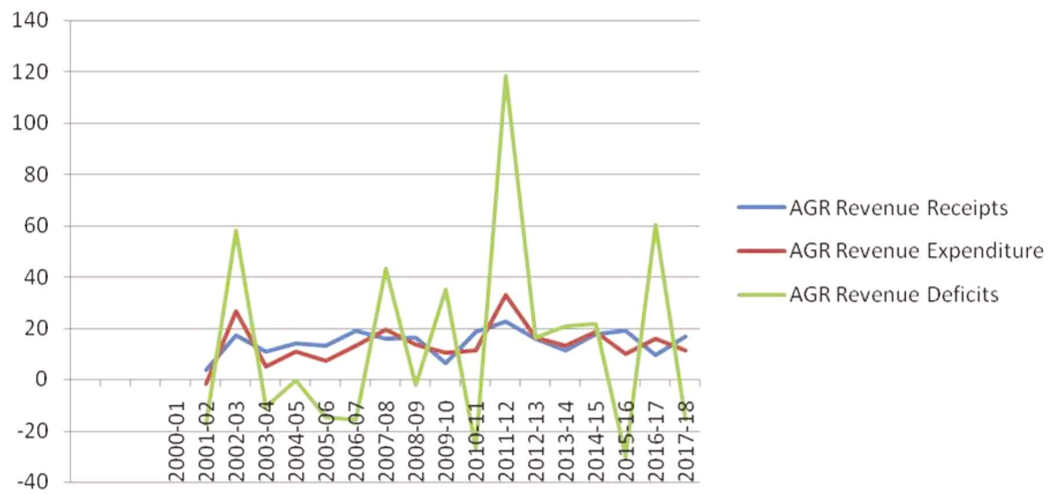
Table 2 : Revenue receipts, expenditure, deficits, public debt, TRE/GSDP (Rs. Crores)						
Year	Revenue receipts (Rs. Crores)	Revenue expenditure (Rs. Crores)	Revenue Deficits (Rs. Crores)	Public debt (Rs. Crores)	Percentage TRE/GSDP ratio	
					Kerala	All State
2000-01	8731	11878	-3147	23919		
2001-02	9056	11662	-2606	26951		
2002-03	10634	14756	-4122	31060		
2003-04	11815	15496	-3680	37452		
2004-05	13500	17169	-3669	41878		
2005-06	15295	18424	-3129	45929		
2006-07	18187	20825	-2638	49875		
2007-08	21107	24894	-3787	55410		
2008-09	24512	28224	-3712	63270		
2009-10	26109	31132	-5023	70969		
2010-11	30990	34665	-3675	78673		
2011-12	38010	46045	-8034	89418	13.8	12.8
2012-13	44137	53489	-9351	103561	13.2	12.7
2013-14	49177	60485	-11309	119009	13.3	12.9
2014-15	57950	71746	-13796	135440	13.1	12.1
2015-16	69033	78689	-9657	157370	14.1	12.2
2016-17	75612	91096	-15485	186454	14.76	12.4
2017-18	88267	101346	-13080	210789	14.76	12.1
AAGR	14.68	13.7	14.26	13.7		
r between Public Debt	0.99	0.99		0.99		

Source: Finance Accounts, Budget in Brief Govt.of Kerala Various Issues

variations in their AAGR. The highly volatile nature of AGR of RD questions the financial stability and ability to raise enough resources to meet the rising expenditure and sustainable management of Public Debt.

Revenue receipts :

The Revenue Receipts constitutes about 80 per cent of States Total Revenue. The State's Revenue Receipts comprise Own Tax Revenues, Own Non –Tax Revenues, Share of Central Tax and Grants-in-aids from centre. The major components of revenue receipts as in Table 3 reveals that States' Own Tax Revenue is the dominant component contributing about 65 per cent of the Total Revenue on an average followed by Share of central taxes and Grants –in- aids forming about 17 per cent and 10 per cent of the total, respectively. Though Own Tax Revenue is the major contributor, with a Compound Annual Growth Rate (CAGR) of only 12.49 per cent during the eighteen year period 2000-01-207-18, it does not grow at the same rate as the other components do, slowing down the growth rate of Total Revenue Receipts which grows at a CAGR of 13.72 per cent as against 17.34 per cent of Non Tax Revenue and 17.26 per cent of Grants-in-aids. What is particularly important to note, is that the share of tax revenue in the total revenue receipts of the state fell from 64 per cent in 2006 to 58 per cent in 2016 after having peaked to an all-time high of to 70 per cent in 2011. However, the share of Central Taxes recorded an impressive growth during the period with a CAGR of 14.05 per cent. The sluggish growth of Sales Tax/VAT entailed by the



Source: Finance Accounts, Budget in Brief Govt.of Kerala Various Issues

Fig. 2 : Average growth rate (AGR) Revenue Receipts, Expenditure and Deficits (In percentage)

Table 3 : Composition of Total Revenue Receipts, Revenue Expenditure and Revenue Deficits (Rs Crores)

Year	State's Own Tax Revenue (Rs.)	Non Tax Revenue	Share of Central Tax (Rs.)	Grants-in-aids	Total Revenue Receipts	Total Revenue Expenditure	Revenue Deficits
2000-01	5870	659	1586	616	8731	11878	-3147
2001-02	5923	543	1614	975	9056	11662	-2606
2002-03	7303	678	1715	938	10634	14756	-4122
2003-04	8089	807	2012	908	11815	15496	-3680
2004-05	8964	819	2405	1313	13500	17169	-3669
2005-06	9779	937	2518	2061	15295	18424	-3129
2006-07	11942	938	3212	2095	18187	20825	-2638
2007-08	14221	1210	3500	2177	21107	24894	-3787
2008-09	17265	1409	3585	2253	24512	28224	-3712
2009-10	19079	1852	4399	2233	27563	31132	-5023
2010-11	21722	1931	5142	2197	30991	34665	-3675
2011-12	25719	2592	5990	3709	38010	46045	-8034
2012-13	30077	4199	6841	3022	44137	53489	-9351
2013-14	31995	5575	7469	4138	49177	60485	-11309
2014-15	35233	7285	7926	7507	57950	71746	-13796
2015-16	38995	8425	12691	8921	69033	78689	-9657
2016-17	42176	9700	15225	8510	75612	91096	-15485
2017-18	48823	11729	16892	10823	88267	101346	-13080
CAGR	12.49	17.34	14.05	17.26	13.72	12.65	
Share in Total Revenue	0.65	0.08	0.17	0.10	100		

Source: Finance Accounts, Budget in Brief Govt. of Kerala Various Issues decreasing trend of tax revenue from Petroleum products and Alcoholic liquor has really slowed down the growth of OTR. The low growth in Own Tax Revenue puts severe pressure on the finances of Kerala as it forces the State to demand more share from the central pool, which is again handicapped by various socio-economic and political variables in the reckoning for the award of these share by the Finance Commission; generally these parameters are heavily loaded in favour of other states and Kerala gets much lesser central share. For instance the states of Bihar and Utharpradesh get more than 40 per cent of their total revenue as central Share while Kerala gets only 17 per cent.

Salaries :

Salary is a committed expenditure. As it is clear from Table 4 that salary is the most dominant of all components of TRE, when taken individually .It accounts for about 32.87 per cent of TRE, on an average. But it is quite encouraging to see that the percentage share shows a steady decrease; from 49.56 per cent in 2000-01, it dwindled sharply to 32.22 per cent in 2015-16. The AGR also varies with wide fluctuations (Fig. 4). There was a sudden spurt in the AGR in 2006-07 and in 2011-12. This might be due to Pay revision expenditure during those periods. It there after bounced back to normalcy and finally rests with an AAGR of 12.47 per cent when compared to 13.75 per cent of TRE. On the whole AGR of salary shows an upward trend. More over in absolute terms salary is reckoned to be an item of concern for the upcoming years, as the polynomial projections show that by 2020, salary is likely to cross the huge figure of Rs. 39000 crores mark (Fig. 3). Salary of

Table 4 : Salary, interest, pension and other expenditure to total revenue expenditure (TRE) (Rs. Crores)

Year	Salary	Interest	Pension	Others	TRE
	a	b	c	d	e=a+b+c+d
2000-01	4492	2258	2041	3087	11878
2001-02	4201	2490	2002	2970	11662
2002-03	4679	2947	2470	4660	14756
2003-04	5067	3328	2694	4406	15496
2004-05	5346	3613	2866	5345	17169
2005-06	5608	3930	3193	5693	18424
2006-07	8104	4190	3657	4874	20825
2007-08	8294	4552	5362	6685	24894
2008-09	9064	5004	5182	8974	28224
2009-10	10146	5568	5364	10055	31132
2010-11	11038	5690	5767	12170	34665
2011-12	16028	6294	8700	15023	46045
2012-13	16796	7045	8467	19367	51676
2013-14	19280	7205	8867	25134	60485
2014-15	23190	9598	11370	27816	71974
2015-16	23525	11111	13063	30991	78689
2016-17	28045	12117	15277	35658	91096
2017-18	31433	13526	17065	39323	101346
AAGR	12.47	11.30	14.23	8.22	13.70
r between TRE	0.99	0.99	0.98		
Share in TRE	32.87	17.11	17.21	32.81	

Source: Finance Accounts, Budget in Brief Govt. of Kerala Various Issues

Employees of State Aided Educational Institutions is one of the chief contributories of this item, coming up to 30 per cent of the total. Since in most occasions such institutions are outcomes of political affiliations or ideological leaning of the party in power, sanctity of legislative sanction must be upheld while such institutions are sanctioned or new post is created.

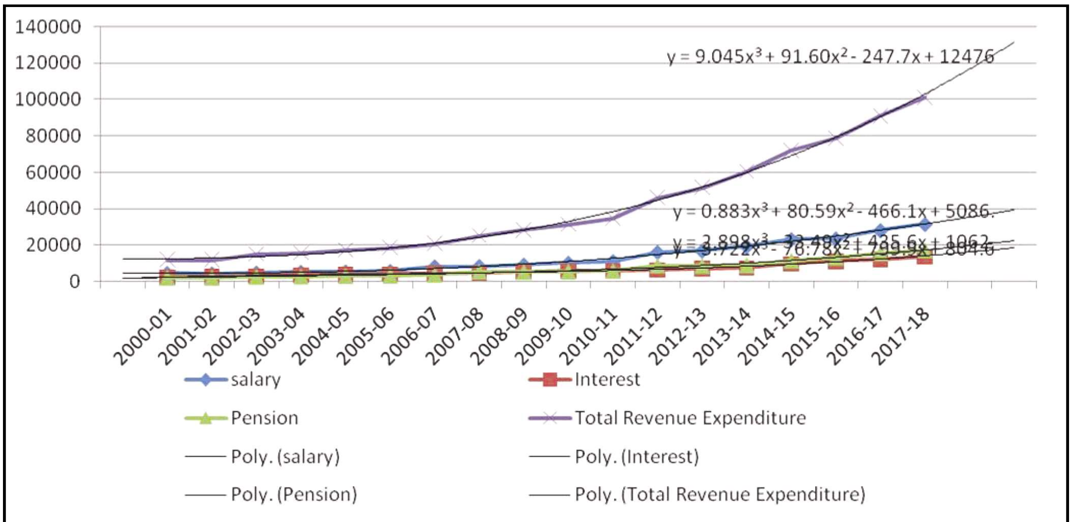
Interest :

The role of interest payment need not be over emphasized as it is yet another important factor contributing to the massive growth of Revenue Expenditure of Kerala. As depicted in Table 4 Interest payments started rising steadily from Rs. 2258 crores in 2000-01 to the maximum of Rs. 13526 crores, in 2017-18. The AGR shows an increasing trend as shown in Fig. 4. It dwindled a little towards the end before starting to rise in 2014-15. Though the AAGR is lesser than that of TRE, it still manifests its tendency to surge ahead. Its percentage share in the total is also remarkable with an average of 17.11 per cent. As shown in Fig. 3. Interest is likely to get past the massive figure of Rs. 17500 crores by 2020, rendering it an item of ominous proportions.

Table 5 : Breakup of interest

Year	Interest On Internal Debt	Percentage to Total Interest Payments	ISSPF	IL and ACG	Total Interest Payments	Revenue Expenditure
2009-10	3630	65	1513	425	5568	31132
2010-11	3715	65	1530	444	5690	34665
2011-12	4124	66	1690	480	6294	46045
2012-13	4459	63	1945	641	7045	53489
2013-14	4562	63	1964	678	7205	60485
2014-15	5547	58	2239	1812	9598	71746
2015-16	8040	72	2735	336	11111	78689
AAGR	15		11	23	13	16.95

Source: Finance Accounts, Budget in Brief Govt o Kerala



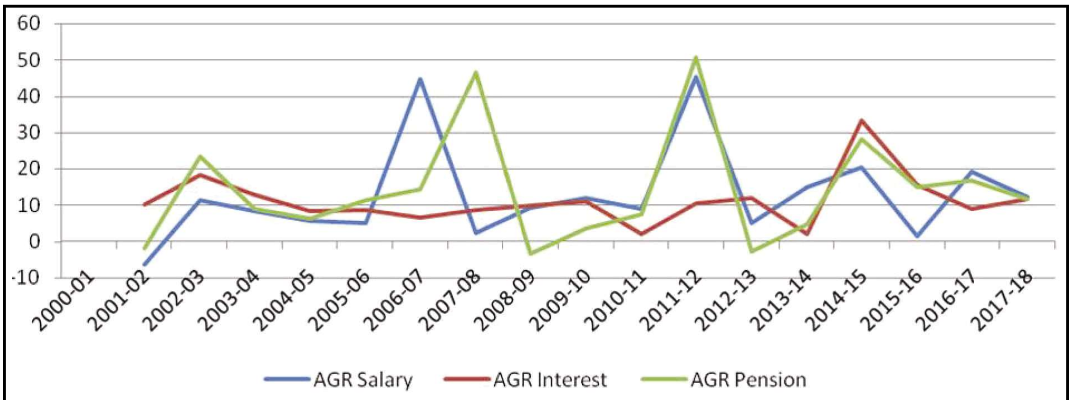
Source: Finance Accounts, Budget in Brief Govt.of Kerala Various Issues

Fig. 3 : Polynomial growth salary, interest, pension and total revenue expenditure (Figures in Crores)

The correlation coefficient between Interest and TRE is as high as 0.99, signifying the fact that Interest Payments play a decisive role in the escalation of public expenditure giving rise to Revenue as well as Fiscal Deficits. Interest Payments need to be addressed with caution. The Govt has little control over this item because it is entirely. made up of non-plan components, representing past commitments which are irreversible in nature. However the Government may switch over to low cost debts options like loans from NABARD instead of Market Loans and Loan from Financial Institutions. The breakup of Interest as in Table 5 reveals that it arises mainly from Interest on Internal Debt, which roughly works out to 66 per cent on an average to total Interest. With an AAGR of 15 per cent, it outpaces other components in the makeup. It is mainly constituted by the interest on the high cost Market Loans.

Pensions :

Pension Payments are also non –plan commitments which are irreversible in nature as well. The Govt is to incur more and more on this year after year and hence it maintains an ever increasing trend. It shot up from Rs. 2041 crores in 2000-01 to Rs. 17065 crores in 2017-18, recording an increase of about 9 times in period of eighteen years (Table 4). The growth rate was robust initially but there after dwindled a bit after 2007-08. Though it increases by ups and downs it ends up with an alarmingly high AAGR of 14.23 per cent, manifesting its ever increasing tendency to step up. The polynomial trend (Fig. 3) too supports this view as the projected value is likely to reach the huge figure of Rs. 21000 crores by 2020. As it is obvious from Fig. 4, the AGR of Pension shows a similar trend to that of Salary ,which grows at an increasing pace.



Source: Finance Accounts, Budget in Brief Govt.of Kerala Various Issues

Fig. 4 : Average Growth Rate (AGR) of Salary, Interest and Pension (In Percentage)

The breakup of pension for the period 2011-16 shows that superannuation and retirement benefits is the single largest item, contributing about 52.70 per cent, of this menacing item of expenditure. This is followed by Pension to Employees of State Aided Institutions. However the decision of the Government of Kerala to adopt Contributory Pension in the state is a highly promising step giving much relief to the government in the matter of pension payment in the future. An alarmingly high Average Annual Growth Rate of 14.23 per cent coupled with a relatively sizable share in the total of about 17.21 per cent, Pension Payments turns itself into one of the prime factors influencing the growth of public expenditure of Kerala. The correlation coefficient of 0.99

bears out the solid influence of pension on public expenditure.

Salary, Interest and Pension together account for about 68 per cent of TRE, with a relatively high growth rates. All these signal the menacing growth and magnitude of these components which would further widens the gap between revenue and expenditure to intensify the financial crisis facing the state.

The analysis clearly brings out the ever increasing trend of Public Expenditure of Kerala which is not backed by commensurate growth of revenue, culminating into deficits and the consequent Public Debt which also increases by leaps and bounds. The State finds it difficult to spare funds for productive capital investments. The growing deficit and debt burden hangs like the Damocles' sword over the state finances now. The Total Revenue Expenditure (TRE) took off from Rs. 11917 crores in 2000-01 to the mammoth total of Rs. 101346 Crores in 2017-18, with a significant AAGR of 13.75, surging ahead to newer heights, as the polynomial projections suggests that, TRE is likely to crores the Rs. 130000 crore marks by 2020. The TRE of Kerala stands out bearing a very high proportion to GSDP in comparison to other Indian states The propulsion of Salary, Interest and Pension accounting for about 68 per cent of TRE is behind the escalation of Public Expenditure.

Revenue deficits are a common feature of Kerala, emerging out of the mismatch between Revenue Receipts and Revenue Expenditure, right from the late 1980s. The situation is getting worsened due to widening the gap between revenue and expenditure as the deficits rose from Rs. 3147crores in 2000-01 to Rs. 13080 crores in 2017-18, recording a fourfold increase during the period under study .Though revenue, with an AAGR of 14.68 per cent, grows at a relatively higher rate than expenditure which grows at an AAGR of 13.7 per cent, it is not enough to weather the size and complexity of expenditure growth. The revenue enhancement drive is impeded by sluggish growth of States Own Tax Revenue contributing about 65 per cent of the Total Revenue of the State. Public Debt of the State, being a reflection of the States Deficits, rose from Rs. 23919 in 2000-01 to 210789 crores in 2017-18, with an impressive AAGR of 13.7 per cent. The public debt represented as a ratio of Gross State Domestic Product (GSDP) shows that it is much above All States average in almost all the years of study. It is greater than the sustainable debt level of 23%, which is estimated as per the Fiscal Responsibility Act of Kerala, 2011.

It is now established that the State is slipping into the inevitable financial strain triggered by the growing expenditure, falling revenue and mounting debt. Hence creative steps may be initiated to revamp the existing Public Expenditure Management practices of Government of Kerala with special reference to reprioritisation and rationalisation of expenditure, embracing private sector style of management practices including outsourcing, reduction of hierarchies, performance based remuneration, deficit reduction packages and so forth. Since the share of capital expenditure in total expenditure is getting narrowed down year after year, there should be proper change in the mix and composition of the total expenditure. To strengthen these efforts revenue enhancement schemes along with sustainable Debt management shall be recognized as a state level priority.

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