

Fiscal concerns and challenges of Kerala: A comparative perspective

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Introduction

It is generally recognized that there exists a congenital inequality between the Union and the states in India with respect to the distribution of revenue and expenditure on the one hand and rights and responsibilities on the other. The states, being closer to the citizens and based on the principle of subsidiarity, are destined to shoulder much of the developmental responsibilities and expenditure. But their revenue entitlements are at a much lower level. The reforms, like the introduction of GST, initiated at the instance of the Union, seem to have added to the downward flexibility and upward rigidity of states' revenue. The 15th Finance Commission estimated that the respective shares of states in expenditure and revenue were of the order of 62 percent and 37 percent. Needless to say, the fiscal health of subnational governments in India is contingent on the revenue that they receive from the divisible pool as decided ex-ante by the Finance Commissions. The fiscal stress of the states gets further accentuated when the Union, at its wisdom and will, designs strategies that reduce the size of the divisible pool. If the available evidence is any indication, the union has been increasingly resorting to such strategies such that the share of cess and surcharges (which are not shared with the states) in the total revenue of the union has recorded an almost four-fold increase during the past 12 years from about 5.2 percent in 2009-10 to 17.1 percent in 2022-23. Even after accounting for the GST compensation cess, the increase has not been insignificant.

Since India's development is made mostly by the states, there is an imperative of increased equity in the Centre-state financial relations and concerted effort by the states to raise their own tax effort. In an earlier article (Joseph and Kumary, 2022), strong signs of fiscal turnaround in Kerala during 2022-23 were noted, which was driven mainly by an unprecedented growth in own tax revenue (22.1%). What has been the trend in Kerala's fiscal

position during the first five months (April-August 2023) of the current fiscal year? This article is an attempt to explore this question. We approach this issue in a comparative perspective with the Union and the major states in India.

Revenue receipts

From Table 1, it is evident that the revenue receipts of Kerala registered a negative growth (-12.01%) during April- August 2023 (5 months) compared to the same period in 2022. This amounted to a decline of about Rs 6000 crore in the state's revenue receipts. The Tax revenue, which accounted for about 79% of the revenue receipts of the state during the period under consideration, recorded a modest growth rate of 6.82 % adding a little over Rs 2302 crore . Of which, the share of Central taxes was only 32 % although it recorded a growth rate of 18%. In the case of own non tax revenue, there has been a substantial increase in growth rate (26.3%) in April- August 2023. This led to an addition of about Rs 1200 crore to the state's revenue. Thus viewed, the addition to the state's revenue on account of the total tax revenue and own non tax revenue amounted to over Rs 3500 crore. Yet the decline of Rs 6000 crore in the revenue receipts of the state has to be seen in the context of the drastic decline in the grants in aid from the Centre which could be construed as the discretionary component of the Central share. To be more specific, the decline in grants in aid during the period under consideration was as high as 72 %, resulting in a loss of revenue of the order of Rs 10,000 crore, although the decline had its beginning in the previous year (-9%). (Table 1). On the whole, any inquiry into the drastic decline in the revenue receipts of the state invariably would lead one to the doorsteps of the Centre's approach to the state. At the same time, the evidence presented also indicates the need for further accelerating the revenue mobilization by the state.

Description	April-August 2022	April-August 2023	Growth rate for April-August 2023 (%)	Growth rate for 22-23(%)
Revenue receipts (1)	51650.91	45445.87	-12.01	13.72
Tax revenue (a+b)	33746.72	36048.73	6.82	18.47
Own tax revenue (a)	29841.77	31410.86	5.26	22.11
State's share in Union Taxes (b)	3904.95	4637.87	18.77	0.74
Own non tax revenue (i)	4505.10	5692.48	26.36	44.83
Grant in Aid and contributions (ii)	13399.09	3704.66	-72.35	-9.09
Total non tax revenue (i+ii)	17904.19	9397.14	-47.51	17.87
Capital receipts(2)	14122.69	24156.75	71.05	-46.85
Borrowings and other liabilities	14023.93	23735.00	69.25	-47.01
Total receipts (1+2)	65773.60	69602.62	5.82	-2.75
Revenue expenditure (3)	59834.30	63564.64	6.23	-2.63
Expenditure on interest (3a)	9026.83	9444.35	4.63	9.63
Expenditure on salaries /wages	16416.07	17244.59	5.05	-13.51
Expenditure on pension	11829.68	12199.38	3.13	-3.02
Expenditure on subsidy	915.65	527.12	-42.43	-60.38
Capital expenditure (4)	5101.00	4738.25	-7.11	-2.39
Total expenditure (3+4)	64935.30	68302.89	5.19	-2.61
Revenue surplus/deficit (+/-)(1-3)	-8183.39	-18118.80	121.41	-74.33
Fiscal surplus/ deficit(+/-) (5)	-14023.93	-23735.00	69.25	-47.01
Primary deficit /Surplus(+/-) (5-3a)	-4997.10	-14290.70	185.98	-96.36

Source: CAG, Monthly indicators (August 2022 and August 2023)

At a point wherein the state is confronted with a drastic cut in grants in aid, one is inclined to look into the revenue position of the Centre. It is evident from Table 2 that the revenue receipts of the Centre recorded a growth rate of over 24% . This robust growth has enabled the Centre to increase the revenue expenditure by about 15% while keeping a check on the growth of the revenue deficit which declined by 12%. The Centre also managed to invest substantially in future growth as is evident from 48% growth in capital expenditure. Unfortunately, however, the Centre's vision in making India a developed economy is yet to get adequately reflected in its approach towards the provision of grants in aid to state like Kerala which substantially contributes towards the national development.

Description	April- August 2022 Union	April- August 2023 Union	Growth rate(%)	April- August 2022 Kerala	April- August 2023 Kerala	Growth rate(%)
Revenue receipts	816898	1013526	24.1	51651	45446	-12.0
Tax revenue	1020589	1189180	16.5	33747	36049	6.8
Tax Revenue (net)	700094	803944	14.8	29842	31411	5.3
Non tax revenue	116804	209582	79.4	4505	5692	26.4
Borrowings and other liabilities	541601	642826	18.7	14024	23735	69.3
Total receipts	848425	1028931	21.3	65774	69603	5.8
Revenue expenditure	1137698	1297958	14.1	59834	63565	6.2
Expenditure on interest payment	338637	367539	8.5	9027	9444	4.6
Capital expenditure	252328	373799	48.1	5101	4738	-7.1
Total expenditure	1390026	1671757	20.3	64935	68303	5.2
Revenue surplus/deficit (+/-)	-320800	-284432	-11.3	-8183	-18119	121.4
Fiscal surplus/ deficit(+/-)	-541601	-642826	18.7	-14024	-23735	69.3
Primary deficit/surplus(+/-)	-202964	-275287	35.6	-4997	-14291	186.0

Source: CGA and CAG , Monthly indicators

Expenditure and deficit

Though the revenue receipts have shown a negative growth of 12.01 per cent up to August 2023, the revenue expenditure registered a positive growth of 6.23 per cent. A point of concern however is the observed sharp fall in the expenditure on subsidy during the period under consideration.

One of the indicators for evaluating the fiscal strength of a state, apart from revenue and expenditure, is its deficit position. The recorded revenue deficit in Kerala was Rs. 18119 crore for April-August 2023, an increase of Rs 9935 crore almost equal to the reduction in grants-in-aid, compared to the same period in 2022. The recorded growth was as high as 121.4 per cent. The fiscal deficit registered a growth of 69.3 per cent. (Table 1). This clearly indicates increased borrowing and other liabilities. The borrowing also recorded a growth of 69.3 per cent given the sharp fall in grants in aid from the Centre

Components of tax revenue

Tax revenue increased by about Rs 2300 crore during April-August 2023 compared to the same months of 2022, of which own tax revenue contributed Rs 1569 crore (Table 3). Among the components of state's own tax revenue the share of GST, which is the major component

of own tax revenue, increased from 47 percent to 49 percent backed by a recorded growth 9.8 per cent and thus added a little over Rs 1400 crore to the revenue receipts. The second major item, sales tax, recorded only a marginal growth of 1.5% whereas stamp duty and registration fees (-7.3%) and state excise duty (-8.4%) recorded negative growth. Table 3 further indicates that, given the higher growth the state's share in union taxes, the growth in own tax revenue was lower than the total tax revenue. Thus viewed, the tax collection needs to improve significantly in the coming months given the negligible and negative growth in some items and growth in others being at best modest.

Table 3			
Growth in the tax revenue April - August 2023 over April-August 2022 (Rs crore)			
Description	April-August 2022	April-August 2023	Growth April-August 2023 (%)
1.Goods and Services Tax (GST)	14211.68	15609.56	9.84
2.Stamps and registration fees	2255.25	2090.14	-7.32
3.Land revenue	331.87	368.61	11.07
4.Sales tax	9358.88	9497.99	1.49
5.State excise duty	1346.73	1233.83	-8.38
6.Other taxes and duties*	2337.36	2610.73	11.70
7.Own tax revenue (sum of 1 to 6)	29841.77	31410.86	5.26
8.State's share on union taxes	3904.95	4637.87	18.77
9. Tax revenue (7+8)	33746.72	36048.73	6.82
*Motor vehicle tax is included in other taxes and duties			
Source: CAG monthly indicators (August 2022 and August 2023)			

Fiscal position of states compared

Analysis of the state of state finances in Kerala in comparison with other states shows that in Kerala the share of tax revenue in revenue receipts increased from 65.4 per cent to 79.3 per cent (14% point increase) during the first five months of the current fiscal as compared to the corresponding period in the previous fiscal year (Table 4) The all-states average share of tax revenue increased from 77.4% to 81.5%, marking a four point increase during April-August 2023. Kerala witnessed a substantial rise in the share of its own tax revenue, increasing from 57.8 per cent to 69.1 per cent, representing a significant 12 percent point increase, which is marginally lower than that of Punjab (12.7% point increase) which recorded the highest increase among the major states. All-states average in the share of own tax revenue increased from 58.1 per cent to 60.1 per cent, registering a 2.3% point increase. States like Karnataka (9.5%), Telangana (4.7%), Maharashtra (5.2%), Madhya Pradesh (3.0%), Tamil Nadu (2.9%), Uttar Pradesh (2.6%), and West Bengal (2.2%) witnessed an increase in the share of

state's own tax revenue during April-August 2023. Haryana (4.1%), Gujarat (3.4%) and Andhra Pradesh (3.7%) experienced a drop in their share of state's own tax revenue during the period under study.

States	Period	Tax Revenue	Own Tax revenue	Share in central tax	Own non tax revenue	GIA	Total non- tax
Andhra Pradesh	Aug 23	69.59	55.73	13.86	3.14	27.27	30.41
	Aug 22	73.25	59.43	13.82	2.85	23.90	26.75
Chhattisgarh	Aug-23	75.73	40.54	35.19	14.94	9.33	24.27
	Aug-22	71.74	38.20	33.54	17.03	11.23	28.26
Gujarat	Aug-23	75.66	60.65	15.01	9.26	15.08	24.34
	Aug-22	78.54	64.05	14.49	8.60	12.86	21.46
Haryana	Aug-23	81.17	70.92	10.26	6.69	12.14	18.83
	Aug-22	83.74	75.00	8.73	11.25	5.01	16.26
Jharkhand	Aug-23	77.18	37.84	39.34	16.02	6.80	22.82
	Aug-22	74.50	36.19	38.30	16.20	9.31	25.50
Karnataka	Aug-23	90.61	80.42	10.19	5.78	3.60	9.39
	Aug-22	79.38	70.65	8.73	5.89	14.73	20.62
Kerala	Aug-23	79.32	69.12	10.21	12.53	8.15	20.68
	Aug-22	65.34	57.78	7.56	8.72	25.94	34.66
Madhya Pradesh	Aug-23	79.22	43.79	35.44	6.66	14.12	20.78
	Aug-22	75.05	40.76	34.28	6.61	18.34	24.95
Maharashtra	Aug-23	90.47	74.92	15.55	4.35	5.19	9.53
	Aug-22	83.16	69.77	13.39	3.61	13.23	16.84
Odisha	Aug-23	57.59	30.90	26.68	33.14	9.27	42.41
	Aug-22	58.79	32.33	26.45	34.79	6.43	41.21
Punjab	Aug-23	81.86	60.15	21.71	6.02	12.12	18.14
	Aug-22	64.45	47.41	17.04	5.83	29.73	35.55
Rajasthan	Aug-23	79.90	49.63	30.27	9.20	10.90	20.10
	Aug-22	76.51	49.25	27.26	10.98	12.50	23.49
Tamil Nadu	Aug-23	84.78	67.99	16.78	5.44	9.79	15.22
	Aug-22	79.20	65.09	14.12	5.19	15.61	20.80
Uttar Pradesh	Aug-23	88.99	62.39	26.59	2.41	8.61	11.01
	Aug-22	84.25	59.82	24.43	3.28	12.47	15.75
West Bengal	Aug-23	87.37	47.83	39.54	1.62	11.00	12.63
	Aug-22	79.21	45.64	33.57	1.24	19.55	20.79
Telangana	Aug-23	76.02	69.07	6.94	19.86	4.13	23.98
	Aug-22	80.75	73.82	6.93	12.74	6.52	19.25
All states	Aug-23	81.54	60.10	21.44	8.39	10.06	18.46
	Aug-22	77.43	58.07	19.35	7.91	14.66	22.57

Note: GIA- Grants in Aid; Aug 22 and Aug 23 may be read as April -August 2022 and April August 2023 respectively

Source: CAG monthly indicators (August 2022 and August 2023)

Across all states, an increase in the share of central taxes was noticed. West Bengal witnessed a significant increase from 33.6 per cent to 39.5 per cent marking a 6 percent point increase. Kerala also had a significant improvement in its share of own non-tax revenue, increasing from 8.7 per cent to 12.5 per cent, marking a 3.8 per cent point increase. Andhra Pradesh, Punjab, Gujarat and Maharashtra experienced a slight increase in states' own non tax revenue. States like Haryana, Rajasthan, Uttar Pradesh, Chhattisgarh and Orissa experienced a decrease in the share of their own non-tax revenue in April-August 2023. In Kerala, there was a sharp fall in the share of Grants in Aid from 25.9 per cent to 8.2 per cent, a significant decline (18% points) followed by Punjab (17.6% points). A decrease in the share of Grants in Aid was observed in states like Tamil Nadu (5.8%), Maharashtra (8.0%) and Karnataka (11.1%) and West Bengal (8.6%). Andhra Pradesh, Gujarat, Haryana and Odisha have registered an increase in their share of Grants in Aid, in sync with the all-states average that declined from 14.1 per cent to 10.0 per cent.

Description	Revenue Receipts	Tax revenue	own tax revenue	share in central tax rev	Own non tax rev	GIA	Total - non tax
Andra Pradesh	18.4	12.5	11.1	18.8	30.5	35.2	34.7
Chhattisgarh	14.7	21.1	21.7	20.4	0.7	-4.7	-1.5
Gujarat	16.2	12.0	10.1	20.4	25.1	36.4	31.9
Haryana	24.8	21.0	18.0	46.6	-25.8	202.2	44.5
Jharkhand	17.2	21.4	22.5	20.4	15.9	-14.3	4.9
Karnataka	1.8	16.2	15.9	18.8	0.0	-75.1	-53.6
Kerala	-12.0	6.8	5.3	18.8	26.4	-72.4	-47.5
Madhya Pradesh	16.5	22.9	25.1	20.4	17.2	-10.3	-3.0
Maharashtra	3.6	12.7	11.3	20.3	24.8	-59.4	-41.3
Odisha	19.3	16.9	14.0	20.4	13.7	72.2	22.8
Punjab	-5.5	20.0	19.9	20.4	-2.3	-61.5	-51.8
Rajasthan	8.4	13.2	9.3	20.4	-9.2	-5.5	-7.2
Tamil Nadu	1.3	8.4	5.8	20.4	6.0	-36.5	-25.9
Telangana	9.1	15.3	13.8	18.8	-19.9	-24.7	-23.7
Uttar Pradesh	1.9	12.4	6.8	20.1	33.8	-42.6	-38.1
West Bengal	18.5	11.5	10.9	18.8	84.7	-25.0	47.6
All states	8.6	14.3	12.3	20.2	15.1	-25.5	-11.2

Source: Same as Table 4

Haryana recorded the highest growth rate in revenue receipts of around 24.8 per cent, conversely, Kerala experienced a highest decline (-12.0%) followed by Punjab (-5.5%) as compared to the same period in 2022 (Table 5). The growth rates for Tax Revenue exhibited substantial heterogeneity among states, with an average growth rate of 14.3 per cent for all states. Notably, Madhya Pradesh (22.9%) Haryana (21.0%) Chhattisgarh (21.1%) Jharkhand (21.4%) stands out with the highest growth rate of tax revenue, while Kerala experienced the lowest growth rate of 6.8 per cent.

The average growth rate for own tax revenue across all states was 12.3 per cent. Madhya Pradesh reported the highest growth with 25.1 per cent. In contrast, Kerala recorded the lowest growth rate of 5.3 per cent. The growth rate for the share in central tax was 18.8 per cent in Kerala. The recorded growth rate of (46.6%) for Haryana stood way above the state average (20.2%) and most other states. Incidentally, none of the states experienced a decline in the growth rate of Central taxes during April-August 2023 compared to the same period in 2022.

The average growth rate of Own Non-Tax was 15.1 per cent across the major states. West Bengal reported the highest growth rate in this category (84.7 per cent). Kerala also recorded a relatively higher growth (26.4%) along with other states like Uttar Pradesh (33.8%) and Andhra Pradesh (30.5%). Here we need to reckon with the fact that the non-tax revenue of Kerala is not strictly comparable with other states because much of it (over 80%) is accounted by lotteries wherein the net revenue (after price monies, commission etc) is marginal. This points towards the need for more concerted effort towards mobilizing more own non-tax revenue in Kerala. Haryana recorded a decline in growth of own non tax revenue (-25.8%) along with other states like Punjab, Rajasthan and Telangana. The growth rates for Grants-in-Aid (GIA) displayed substantial disparities among states, with an average decline of -25.5 per cent for all states. With an exceptional growth rate, (202.2%) Haryana remained as an outlier in this category. Both Kerala and Karnataka experienced significant reductions in GIA.

The average growth rate for Total Non-Tax was -11.2 per cent for all states, highlighting an overall decline in non-tax revenues. West Bengal exhibited the highest growth rate in Total Non-Tax at 47.6 per cent. Kerala (-47.5%), Karnataka (-53.6%), Maharashtra(-41.3%), Punjab(-51.8%) and Uttar Pradesh (-38.1%) witnessed significant decline in the growth of

Total Non-Tax revenue. Decline in growth rate of non-tax revenue of states was due to the fall in growth of grants in aid from Centre.

States	Period	Exp on Revenue A/C excluding (a,b,c & d)	Exp on interest payment(a)	Exp on salaries /wages(b)	Exp on pension©	Exp on subsidy(d)
Andhra Pradesh	Aug-23	50.3	10.0	20.3	8.1	11.3
	Aug-22	44.6	9.4	21.3	8.6	16.0
Chhattisgarh	Aug-23	38.5	5.0	36.8	11.9	7.9
	Aug-22	37.6	5.8	36.6	11.1	8.9
Gujarat	Aug-23	54.2	15.8	10.6	10.4	9.0
	Aug-22	54.7	15.1	8.9	9.9	11.4
Haryana	Aug-23	41.6	13.7	20.7	14.2	9.8
	Aug-22	43.7	18.3	21.0	13.3	3.7
Jharkhand	Aug-23	45.0	7.5	26.1	15.1	6.4
	Aug-22	41.6	7.4	25.8	16.2	9.0
Karnataka	Aug-23	61.7	15.4	11.7	11.2	0.0
	Aug-22	73.7	14.4	0.0	11.9	0.0
Kerala	Aug-23	38.0	14.9	27.1	19.2	0.8
	Aug-22	36.2	15.1	27.4	19.8	1.5
Madhya Pradesh	Aug-23	47.0	8.6	27.4	9.8	7.3
	Aug-22	43.5	8.8	29.6	10.4	7.7
Maharashtra	Aug-23	28.7	11.2	40.5	15.2	4.4
	Aug-22	26.1	10.4	43.8	15.8	3.9
Odisha	Aug-23	54.2	2.3	25.8	16.8	0.9
	Aug-22	43.2	3.7	32.3	18.3	2.5
Punjab	Aug-23	23.0	17.1	25.3	15.4	19.1
	Aug-22	22.5	14.6	30.3	17.2	15.3
Rajasthan	Aug-23	37.9	10.9	29.3	11.2	10.7
	Aug-22	34.4	10.7	29.8	12.8	12.3
Tamil Nadu	Aug-23	0.0	16.4	0.0	15.1	0.0
	Aug-22	0.0	16.3	0.0	14.4	0.0
Uttar Pradesh	Aug-23	46.0	9.9	19.0	19.0	6.3
	Aug-22	44.6	10.6	19.9	19.9	5.0
West Bengal	Aug-23	53.0	16.3	16.3	12.0	2.4
	Aug-22	48.7	16.2	15.7	13.2	6.2
Telangana	Aug-23	52.0	11.5	22.1	9.1	5.2
	Aug-22	46.3	12.0	24.0	11.5	6.3
All states	Aug-23	43.4	12.0	23.3	13.4	6.8
	Aug-22	41.6	12.1	25.4	14.1	7.4

Source: same as table 4

Note: Data on salaries and wages for Tamil Nadu has not been given and also in the case of Karnataka expenditure on wages and salaries and subsidy are not been provided

In Kerala, there is a marginal decline in the share of revenue expenditure on salaries/wages, pension, and interest payments in April-August 2023 over April-August 2022. Share of salary expenditure in Kerala reduced from 27.4 per cent to 27.1 per cent, which is higher than the all-states average (23.3%) (Table 6). States like Chhattisgarh, Maharashtra, and Rajasthan reported a higher share of salary expenditure than in Kerala. Kerala's share of pension expenditure in revenue expenditure (19.2%) showed a decline only 0.6 per cent in April-August 2023 but its share remains very high compared to the all-state average 13.4 per cent. Uttar Pradesh also reported a higher share of pension expenditure (19.0%). All other states have a share of expenditure on pension lower than Kerala and Uttar Pradesh. Kerala's share of subsidy expenditure (0.8%) was considerably low compared to the all-states average (6.8%). States like Punjab (19.1%), Andhra Pradesh (11.3%), Haryana (9.8%), Rajasthan (10.7%) and Madhya Pradesh (7.3%) recorded a higher share of subsidy expenditure than the all-states average.

States	Month	GST	Stamps and registration fees	Land revenue	Sales tax	State excise duties	States share on union taxes	Other taxes and duties
Andhra Pradesh	2023	37.7	8.3	0.0	16.0	13.6	19.9	4.5
	2022	35.9	8.0	0.0	17.5	15.2	18.9	4.6
Chattisgarh	2023	19.3	3.5	1.1	8.6	11.6	46.5	9.5
	2022	19.3	3.7	1.4	10.2	10.1	46.8	8.6
Gujarat	2023	36.1	10.2	6.6	20.3	0.1	19.8	6.9
	2022	33.8	8.6	2.6	25.8	0.1	18.5	10.7
Haryana	2023	40.7	11.5	0.0	14.2	14.8	12.6	6.2
	2022	36.5	13.2	0.0	18.0	15.4	10.4	6.4
Jharkhand	2023	20.6	3.2	4.4	11.9	3.7	51.0	5.2
	2022	21.9	2.3	3.0	13.1	3.2	51.4	5.2
Karnataka	2023	43.1	9.3	0.8	11.0	17.9	11.2	6.6
	2022	41.9	10.0	0.2	11.9	18.3	11.0	6.7
Kerala	2023	43.3	5.8	1.0	26.3	3.4	12.9	7.2
	2022	42.1	6.7	1.0	27.7	4.0	11.6	6.9
Madhya Pradesh	2023	25.6	5.9	0.6	9.9	8.2	44.7	5.1
	2022	18.6	6.2	0.6	12.8	10.0	45.7	6.2
Maharashtra	2023	41.7	13.1	0.6	15.7	6.0	17.2	5.7
	2022	39.4	12.1	0.6	19.2	6.1	16.1	6.5
Odisha	2023	23.3	2.4	0.7	11.7	7.1	46.3	8.5
	2022	22.9	2.6	0.8	13.5	7.7	45.0	7.6
Punjab	2023	32.5	6.9	0.2	10.3	14.6	26.5	9.0

	2022	32.9	7.4	0.2	11.5	16.3	26.4	5.3
Rajasthan	2023	25.6	6.5	0.3	15.8	8.5	37.9	5.4
	2022	25.1	6.3	0.3	17.7	10.5	35.6	4.5
Tamil nadu	2023	31.5	9.5	0.1	29.0	5.5	19.8	4.6
	2022	30.0	9.7	0.1	31.9	6.0	17.8	4.4
Uttar Pradesh	2023	38.4	7.8	0.1	8.0	11.7	29.9	4.0
	2022	37.7	8.3	0.1	9.1	12.7	29.0	3.0
West Bengal	2023	24.8	4.2	2.0	6.9	11.2	45.3	5.6
	2022	26.9	5.0	2.4	7.7	10.6	42.4	5.1
Telangana	2023	33.8	10.6	0.0	22.3	18.3	9.1	5.8
	2022	32.9	12.2	0.0	24.9	14.4	8.6	7.1
All states	2023	34.3	8.3	1.0	14.8	9.6	26.3	5.8
	2022	32.9	8.4	0.7	17.2	9.9	25.0	5.9

Source: Same as Table 4

From table 7 it is evident that the share GST in tax revenue in Kerala is highest in the country (43.3%) way above the state average of 34% and marginally higher than that of Karnataka which has the second highest share (43.1%) followed by Maharashtra (41.7%) and Haryana (40.7%). The share of stamp duty registration fees in Kerala, which is lower than that of all state average, declined in Kerala from 6.7 per cent to 5.8 per cent, in April-August 2023 compared to the same period in 2022 (Table 7) Share of land revenue share in Kerala, which is on par with the state average, showed no change. In states like Gujarat, Jharkhand and West Bengal share of land revenue is significantly higher and there is the need for a closer examination of the underlying reasons. It is understood that the land revenue of West Bengal, with 2.3 times the land area of Kerala, is almost four times that of Kerala presumably because the tax imposed is on the basis of the use of land. This is to highlight the relevance of more detailed inquires by taking into account of other relevant states than drawing any definite conclusion.

Sales Tax share in Kerala has declined from 27.7 per cent to 26.3 per cent in April-August 2023. Similar decline in share has been noticed in all states average and also in majority of the states. The share of state excise duties in the state also declined (4.0% to 3.4%) along with that of all states (9.9% to 9.6%) while that of in Chhattisgarh, West Bengal, Telangana. The demand for the products that contribute these taxes are presumably inelastic, the underlying reasons deserve further exploration (Table 8).

States	Month	Revenue surplus/deficit	GR %	Fiscal surplus/deficit	GR%	Primary deficit/surplus	GR%	Borrowings and other liabilities	GR%
Andra pradesh	2023	-37326.7		-53557		-42739.2		53557.0	
	2022	-36983.3	0.9	-44582.6	20.1	-35491.3	20.4	44582.6	20.1
Chattisgarh	2023	1571.5		-3742.2		-1957.4		3742.2	
	2022	4415.9	-64.4	1199.2	-412.0	2825.4	-169.3	-1199.2	-412.0
Gujarat	2023	27029.0		7529.1		17277.4		-7529.1	
	2022	15769.1	71.4	5039.4	49.4	14201.6	21.7	-5039.3	49.4
Haryana	2023	1471.9		-4530.1		840.3		4530.1	
	2022	-6347.6	-123.2	-9671.6	-53.2	-2516.1	-133.4	9671.6	-53.2
Jharkhand	2023	7404.7		621.3		2472.7		-1127.8	
	2022	3787.3	95.5	859.9	-27.7	2614.3	-5.4	-1043.5	8.1
Karnataka	2023	10295.7		3914.6		15590.8		-3914.6	
	2022	10842.5	-5.0	-1391.8	-381.3	9264.6	68.3	1391.8	-381.3
Kerala	2023	-18118.8		-23735.0		-14290.7		23735.0	
	2022	-8183.4	121.4	-14023.9	69.2	-4997.1	186.0	14023.9	69.2
Madhyapradesh	2023	5308.5		-17859.6		-11027.4		17859.6	
	2022	3886.5	36.6	-12621.5	41.5	-6578.8	67.6	12621.5	41.5
Maharashtra	2023	20612.1		8870.5		23969.8		-8870.5	
	2022	15831.7	30.2	6046.3	46.7	19966.1	20.1	-6046.3	46.7
Odisha	2023	15929.3		2768.3				-2768.3	
	2022	17911.2	-11.1	12021.3	-77.0			-12021.3	-77.0
Punjab	2023	-14819.8		-16075.4		-8101.4		16075.4	
	2022	-3830.7	286.9	-5589.3	187.6	-107.2	7459.4	5589.3	187.6
Rajasthan	2023	-15050.9		-26008.0		-16079.2		26008.0	
	2022	-12480.0	20.6	-19445.9	33.7	-10593.6	51.8	19445.9	33.7
Tamilnadu	2023	-17615.0		-33142.8		-14991.3		33142.8	
	2022	-5189.2	239.5	-16304.1	103.3	-490.4	2957.1	16304.2	103.3
Uttar Pradesh	2023	12328.6		-11754.7		3077.4		11754.7	
	2022	16280.2	-24.3	-3360.8	249.8	10752.0	-71.4	3360.8	249.8
West Bengal	2023	-9927.5		-17920.0		-4489.4		17920.0	
	2022	-9689.8	2.5	-16487.7	8.7	-3420.1	31.3	16487.7	8.7
Telangana	2023	-3715.4		-26158.5		-17306.7		26158.5	
	2022	-4778.7	-22.2	-17842.6	46.6	-9884.1	75.1	17842.6	46.6

Source: Same as Table 4

Among the major states seven recorded revenue deficit and Kerala reported one the highest growth (121.4%) and that of Tamil Nadu and Panjab being higher than that of Kerala. All southern states except Telangana reported revenue deficit in April-August 2023. Karnataka has reported the highest revenue surplus. Fiscal deficit recorded a growth rate of 69.2 per cent in Kerala while the all states average growth rate was 54.2 per cent. (Table 8). Revenue surplus states could utilise the borrowed money to meet their capital expenditure needs to the fullest extent. Primary deficit (Fiscal deficit minus interest payments) was Rs-14290.7 crore in April-August 2023 with a highest increase in growth rate (186.0%) in Kerala. . Borrowing in Kerala increased to 69.2 per cent during the period under study. While all states average growth of borrowing showed an increase of 54.6 per cent. It is observed that in 10 out of the 16 states recorded an increase in growth rate of borrowing during the period under analysis. Decrease in the growth of borrowing was registered only in Haryana and Orissa.

By way of conclusion

Revenue receipts of Kerala registered a negative growth (-12.01%) during the period under consideration as compared to the same period in 2022 resulting in a revenue shortfall of about Rs 6000 crore. The tax revenue recorded a modest growth rate of 6.82 per cent adding a little over Rs 2302 crore, of which, the share of Central taxes was only 32 per cent although it recorded a growth rate of 18 per cent. In the case of own non tax revenue, an addition of about Rs 1200 crore has been made to the state's revenue. Thus viewed, the addition to the state's revenue on account of the total tax revenue and own non tax revenue amounted to over Rs 3500 crore. However, there has been a decline in the grants in aid from the Centre (amounting to Rs 10000 crore), which could be construed as the discretionary component of the Central share. Hence the observed decline in the revenue receipts of the state has to be seen in the context of the drastic decline in the grants in aid from the Centre.

From our analysis of the Kerala's fiscal position with that of the Centre revealed that robust revenue growth (24%) has enabled the Centre to increase the revenue expenditure by about 15% while keeping a check on the growth of the revenue deficit which declined by 12 per cent. The Centre also managed to invest substantially in future growth as is evident from 48 per cent growth in Capital Expenditure. Unfortunately, however, the Centre's vision of making India a developed economy is yet to be reflected in its approach towards the provision of grants in aid to state like Kerala. This observation becomes especially relevant

when Kerala invested substantially and contributes significantly to the national vision *inter alia* through its outstanding performance in HDI, SDG among others.

Analysis of the state of state finances in Kerala in comparison with other states shows that the share of tax revenue in Kerala increased from 65.39 per cent to 79.32 per cent (13.9 % point increase) during the period under consideration. Although the all-states' average (81.5%) is marginally higher than Kerala, the notable point is that while Kerala recorded a 14 per cent point increase, that of all states average was only 4 per cent. The above performance was an outcome of a notable increase in the tax efforts of Kerala, wherein the share of its own tax revenue is increased by 12 per cent point which is the second highest in the country; Punjab reported first position (12.7% point).

Analysis of the components of tax revenue shows that the share of GST in Kerala improved from 42.1 per cent to 43.3 per cent in 2023 which is the highest among the major states. The share of GST in Karnataka was reported as 43.1 per cent and placed in second followed by Maharashtra and Haryana. In the case of stamp duty and registration, their share declined in Kerala from 6.7 per cent to 5.8 per cent in April-August 2023 compared to the same period in 2022. The all states average also showed a decline in share of stamp duty and registration in April-August 2023 from 8.4 per cent to 8.3 per cent. The analysis indicates, that although there are strong silver lines in the tax performance of the state, given the modest growth in major items like GST and negligible or negative growth on other important items, there is substantial room for further improving the tax performance of the state.

Kerala reported the higher growth in revenue deficit (121.4%) while Punjab (286.9%) and Tamil Nadu (239.5%) are having the highest revenue deficit in April-August 2023. Fiscal deficit recorded a growth rate of 69.2 per cent in Kerala. Revenue surplus states are able to utilise the borrowed money to meet their capital expenditure needs to the fullest extent. Borrowing in Kerala increased to 69.2 per cent during the period under study.

To conclude, the decline in revenue receipts of the state has to be seen in the context of the drastic decline in the grants in aid from the Centre. This discretionary component of the Central share recorded a decline of 72 per cent, although the decline had its beginning in the previous year (-9%). Even though there are signs improved performance with respect to the tax base as manifested in the growing share of own tax revenue, a point of much concern is the relatively low rate of growth recorded in own tax revenue. While a definite conclusion

regarding the underlying factors calls for a detailed analysis of the state of the economy and the tax system, it needs to be reiterated that the state cannot afford to forgo any potential sources of revenue at this juncture. Although, any inquiry into the drastic decline in the revenue receipts of the state invariably would lead one to the doorsteps of the Centre's approach to the state including borrowing restrictions, the evidence presented also indicates the need for further accelerating the own revenue mobilization by the state.

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