

Kerala and the union budget 22-23: Synergies and opportunities

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Economic Survey and the Union Budget are two important public finance documents in India that always attract much attention not only of the media but also scholars and common people, and this is indicative of the immense information that they provide and their impact on the people at large. Since the Union and State Governments are collectively responsible for development, the Union Budget could provide the states with a number of opportunities to make use of and at the same time the Union Budget could be synergetic with the States. In what follows I shall approach the Union Budget 2022-23 from this perspective.

It is by now evident that the fiscal space of states in general and Kerala in particular has been shrinking. This is to a great extent on account of the declining share of the state in the devolution by different Finance Commissions. Evidently, the criteria that the successive Commissions have been using for tax devolution like population etc. have not been in favour of Kerala. A superior demographic performance evidenced by reduced population growth does not provide for a better share in the devolution of the divisible pool of the central taxes, simply because more than 60% of the weightage for such devolution is based on population and per capita income distance.

The fact that Kerala's per capita income is 60% higher than the national average also means that the state is in a disadvantageous position when it comes to such devolutions by the Finance Commission. What is more, the Finance Commission has used 2011 census figures that further work against Kerala. The fiscal situation is likely to be further stressed with the phasing out of the GST compensation regime by June 2022. Along with this, we need to factor in the tapering off of the revenue deficit grants under the Finance Commission award.

All these amount to the shrinking fiscal headroom for the State unless the state records robust economic growth in the near future.

The Economic Survey 2021-22, indicates a revival from the pandemic status with an expected growth rate of 9.2% in 2021-22. This is expected to take the economy to the pre pandemic level and the expected growth is about 8.5% in 2022-23. The Economic Survey and Budget apparently articulate a cyclical fiscal strategy. However, it is also admitted that unlike the developed countries India doesnot have the needed "deep-pockets" that would ensure huge fiscal stimulus. As a result, the fiscal package at the national level, as per the IMF data has been only of the order of 4% as compared with 25% in the US and 15% in Germany for example. Evidently India's approach has been essentially focused on credit linked incentives in order to bring back growth. Such an approach is also justified given the well-established public sector led banking system in the country. It has also claimed that India is the only nation which used the pandemic crisis to bring about structural reforms in its economy through various reform measures, some of which of course failed, for example, the agricultural sector reforms had to be withdrawn. But some of the other elements in the ease of doing business and focus on shifting some of the expenditure to the capital side are expected to help revive growth.

Coming to the Union Budget, it may be of relevance to reflect on what are its key highlights and what implications the budget has for Kerala, and for the other states as well. The budget has four priorities, it focuses on a national infrastructure pipeline, which is called PM Gati Shakti and prioritizes it, along with other capital investments in sunrise sectors including emerging opportunities in the clean energy sector; and inclusive development.

The national infrastructure pipeline is focused on seven areas, the roads, railways, airports, ports, mass transport waterways and logistics infrastructure. The budget aims at completing 25,000 kilometers of national highways in 2023. Incidentally, some part of that package does benefit Kerala significantly. This is because for the first time, after almost 20 years of struggle, the entire NH 66 redevelopment packages, all 13 of them, have now been awarded by NHAI. Once we complete the land acquisition, which is also in the final stages, we are going to have about Rs 40,000 crores worth of investment, in the national highway redevelopment in Kerala. Towards this end, the state has incurred an expenditure of the order of 25% of the land acquisition costs. This may be seen in a context wherein the Government of India felt that land acquisition cost in Kerala is very high; and only Kerala among the

Indian states had to incur a part of the land acquisition costs. With the state coming forward, the logjam has been cleared and Kerala will have a 45-meter national highway from Kasaragod to Trivandrum in the next 3 4 years.

Along with National Highways the other components of the infrastructure development envisaged in the Union Budget, such as Logistics parks, Vande Bharat trains etc. are also going to be of much benefit for the state if harnessed effectively. Vande Bharat trains may be of much interest because theoretically we could, without giving up on K- rail, still think about getting one or two of those trains for Kerala. Of course, there are issues with curvature which prevents speeds of 100 kilometers an hour in Kerala. However, being EMUs, these trains have fast acceleration and deceleration and therefore could reduce commuting time. Hence Kerala could try to get some access to some of these Vande Bharat trains. The Budget also has provided for a national ropeways development plan. Although Kerala is yet to take up such projects, it may be time to think about and take advantage of such projects at Sabrimala or in any of the other pilgrim towns and even areas like Thiruvananthapuram itself, as it could replace the more expensive metro and light metro type of interventions.

The agricultural sector focus of the budget is on the delivery of high tech and digital services to farmers, including the financing of agriculture startups through a combination of Government funds and Bank funds. It is another area where Kerala could perhaps see how we can add value to agriculture and reduce wastage, as far as our agriculture is concerned.

Interestingly, the budget also draws upon a lot of ideas that Kerala has actually pioneered. One of these is the Digital University, which we have already established in the previous budget, and the Union budget also talks about establishing a national level Digital university, and about a "one class one TV channel" program to be expanded to 200 TV channels. Those are the kinds of service delivery that Kerala is already doing, but of course we should take advantage of the national initiatives and secure additional funding for our programmes.

In the area of skill development similarly, the budget deals with a digital ecosystem for skilling and livelihood. Here again, it is very interesting that our State Innovation Council has already prepared a detailed project report on how to use Kerala's educated manpower and how to link them to the digital economy and enable them to work from home through an online "platform of platforms" which will link various National and international job portals.

Interestingly, this idea is also something that Kerala has already pioneered and is now being talked about and taken up at the national level.

Similarly, in the health sector, the budget deals with national digital health ecosystem project. Here again Kerala already has a digital E-health card program which has already covered some 300 odd government hospitals. I am inclined to believe that the national program to an extent draws from our experience. Kerala's pioneering initiatives could be used as a kind of a template for replicating in other states as well.

The Union Budget also envisages upgrading 2 lakh Anganwadis under the Saksham Anganwadis scheme. This is a scheme where Kerala should take advantage for modernizing our Anganwadis. Another major initiative under this program of which Kerala could take advantage of is Jal Jeevan mission, which aims at providing universal tap connections. Even though this initiative has its critics, as it tends to provide a kind of a "one size fits all" approach as it focuses on piped water and does not use some of the local initiatives, (for example, Kerala has a well-established tradition of relying on wells for drinking water purposes); since it's a national program Kerala should be going ahead with it, and we should complete this over the next two years taking advantage of the National scheme

Other notable elements of the budget include its attention to ease of doing business and ease of living index. Each of these are areas which affect both the entrepreneurs and the citizen, and we will of course partner with the Government of India. Among these initiatives is the Unique Land Parcel Identification Number for the better management of land records. Kerala has already taken the initiative last year, under the Rebuild Kerala Initiative, with a provision of about Rs 300 crore, for a fully digital Re-survey of the whole state. Thus, there will be a single service portal, to combine the functions and services of the registration department, the Land Revenue department and the Survey department through a single window. This in turn would provide citizens the option of obtaining their land records through a single window with a customized map of their holdings. That is the kind of thing that Kerala has been doing, and this is again something that the Government of India wants to support and Kerala can take advantage of that scheme as well.

Importantly the budget also talks about prioritizing capital expenditure. The key initiative here is the provision for a long term 50-year interest free loan for the states to fund and prioritize the capital expenditure. During the last year, the amount provided for this was only

Rs 15,000 crore that has been significantly increased to about one Rs one lakh crore this year. Kerala, by virtue of its population being about 2% of the country should get about 2% of this corpus. It is a useful supplement to our capital expenditure and could be made use of to complete some of our ongoing infrastructure projects. The funds that are consequently being released from the state plan side could be used for other schemes of the state.

In terms of the borrowing space, the state has been able to do the reforms to get the enhanced borrowing every year, and since the reform-linked borrowing program was introduced Kerala got 5% last year, out of which we rolled over .5% to the current year. This year again (2021-2022), Kerala got the full 4% available and we can roll over some portion of it to the next year. Even though, in principle, we do not agree that these borrowings, whose repayment is entirely our own liability, should be linked to reform in the power sector, but given the context, we have gone ahead with this agenda simply in order not to lose out on this additional fiscal resources that the State needs to balance its budget from time to time, particularly during these tough times arising from the pandemic, which has increased our liabilities, both in terms of our expenditure on health, as well as on social security.

The other element that has some implications for Kerala, which has a robust cooperative sector, are the tax proposals of the budget to reduce the alternative minimum tax rate and the surcharge for the cooperatives. This would be a great help for the very vibrant credit cooperative sector of Kerala and, therefore, something that should be welcomed. As a matter of interest, the budget also provided some prospect for digital currency and digital assets to be, perhaps, legalized in the long run. The initiatives for national digital currency and providing a tax regime for crypto currency treating them as an asset class, on which a 30% tax will be imposed, deserves mention given the long term implications. It de facto amounts to some level of legitimization of the of the digital currencies on the private sector side, and I presume that it will be followed by some further regulation for the future. In any case, this at least provide some level of legitimacy of this sector, which has seen a lot of investment by Indians, particularly young Indians, in the last few years.

These are the broad points that I discern from the budget. On the whole, I would consider the budget as a conservative one, which stresses the fact that the Indian Government did not follow the pattern of other developed states in coming up with a huge fiscal handout. It focuses on monetary and credit measures combined with structural reforms and on fiscal consolidation with renewed priorities on capital expenditure and a reduction in revenue

expenditure. It is to be appreciated that the Budget is also trying to introduce greater transparency in the sense that some of the off budget subsidies that were fairly large, such as the food subsidy, (almost 2 lakh crore), that used to be kept off budget in the earlier years are brought into the budget. Therefore, in a way, the Central Government will be in a stronger moral position to tell the states that some of their borrowings, whether it is through KIIFB or through various other SPVs (Social security pension company, etc), are to be brought into the budgeting exercise. The States may have to look at that option, because ultimately, that is the most transparent way of handling both real liabilities, as well as our contingent liabilities that arise from time to time to take care of our society in these very turbulent and difficult times.

On the whole there are enormous opportunities in the context of the Union Budget for reflecting on public finances and the Centre -State fiscal relations which could be appropriately modulated, to the benefit of Kerala, which is an outlier state in many ways, and therefore often tends to get neglected when it comes to these kinds of debates in the Country.

(Based on the special address delivered by the Additional Chief Secretary (Finance), Government of Kerala) at the Seminar on the Economic Survey 2021-22 and the Union Budget 2022-23 organised by GIFT jointly with S B College Changanacherry and the Central University of Kerala Kasaragod on 10 February 2022.)

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