A Publication of Gulati Institute of Finance and Taxation

# Kerala Economy

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GIFT GULATI INSTITUTE OF FINANCE AND TAXATION

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A Publication of Gulati Institute of Finance and Taxation



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# Editorial
## Penalising performance?

Today India is more ambitious and forward looking than ever before. The ultimate outcome, however, would be contingent on the performance of the states. But our policy towards the states appears to be one of "only carrot" and not "carrot and stick"; equity considerations are at the fore and efficiency at the back. As a result, under the cooperative fiscal federalism, those states that work towards the national ambitions are restrained as they are receiving a steadily dwindling share of taxes collected by the Centre. What is more, the Centre works towards shrinking the divisible pool by raising the share of cesses and surcharges in total tax collections. Is there a need for change in our outlook?

**Dreaming with India**

India is presently the fifth largest and the fastest growing economy in the world and attracts much global attention. By 2029 India will be overtaking Germany and Japan to become the third largest in the world. The new dream is to become a developed country by 2047. Presently, as per the World Bank criterion India, with a per capita income of around \$2,256, is a lower middle income country. The per capita income should cross \$4,095 to join the middle income group and overcome the challenges of middle-income trap, that today's middle-income countries are confronted with, to become a high income county with per capita income exceeding \$12,695. A higher income per se need not necessarily make it developed. Challenges remain. India now holds the first position in global multidimensional poverty index, ranks 140 out of 156 in global gender gap index, rank in HDI is 132 out of 191 and in global SDG index the rank is 121 out of 163.  Our destination is far away and the road ahead is rather rocky and curly. The states have a key role in Smoothening and straightening the road. Our Chief Minister turned Prime Minister could not have been more committed, correct and perceptive in the statement "when the states grow India grows".

**Whether the States are made to grow?**

The existing centre-state financial relations in our country is one wherein the states, although having the key role in accomplishing the national vision, are being restrained from performing. As observed by the 15th Finance Commission, the states together account for over 62% of the national expenditure while their share in total revenue is only about 37%. Keeping 62% of the revenue with the Centre presumes that the social marginal product of a rupee spent by the Centre is higher than that of the states and therefore spending by the Centre works better for the national vision. There is hardly any credible empirical evidence to support this. Since the states have built up enormous capacity to address development problems and there are numerous instances wherein states have shown to be more efficient in terms delivering development outcomes, this perception has to change sooner than later. It is said that 41% of the tax revenue is shared with the states. But only less than 30% has been actually shared in 2021-22 (RE). This is because the share of cess and surcharges in the total tax revenue of the Centre, which are not to be shared with the states, has been increasing overtime. To be more specific, their share in the total tax revenue of the Centre stood at as high as 23% in 2021-22 (RE), up from 6.5% in 2009-10. A nearly fourfold increase within a short span of 12 years. If this trend continues there would be very little left behind for sharing with the states by the Finance Commission for enabling them to work for the national dream.

**Stick for the performers**

Unfortunately the states that incur heavy expenditure for realising the national dream get penalised. Tenth FC provided for 3.9% of the central taxes for Kerala, 6.6% for Tamil Nadu and 5.3% for Karnataka. These three states, holding first, second and third position respectively in SDG index, witnessed a sharp decline in their share of central taxes to 1.9%, 4.1% and 3.7% during the 15th FC. Kerala, with its share more than halved had the hardest hit although she holds first rank in HDI and SDG index, apart from being internationally acclaimed for building a vibrant start-up ecosystem and building a knowledge economy, working in tandem with the national agenda. With the declining contribution from the Centre, the states have hardly any other option than borrowing. But the performers, very often than not, are beaten up with the FRBM stick. Any inquiry into the root of the problem will lead us to the doorsteps of the criterion used by the Finance Commission for distributing the sharable pool. Given the perspective of our Prime Minster, one could be optimistic that the 16th Finance Commission will redesign the criteria keeping in mind the national dream.

**From bad to worse**

The recently released data for 17 major states by CAG with respect to the fiscal performance of states during 2022-23 tends to suggest that the situation has gone from bad to worse. Invariably, those states which performed better in terms of revenue receipts are the ones with higher growth either in the grants in aid from Centre, share in union taxes or both. While the annual growth rate in the grants in aid received by Kerala was -9.1%, and that of Tamil Nadu grew only by 7.8%, Karnataka (23%), Maharashtra (32%), Chhattisgarh (29%), Uttar Pradesh (53%) and Telangana (53%) recorded significantly higher growth.

However, Tamil Nadu and Kerala survived thanks to their high growth (22.3% and 22.1% respectively) in their own tax revenue, significantly lower only to Maharashtra (25.6%) and Gujarat (28.4%). For Kerala, the share of own taxes in the total tax revenue recorded the highest increase of 2.5% to reach the highest level of 85.5% among the Indian states. With its stellar performance in mobilizing own tax revenue and prudent expenditure measures, the state displayed an excellent fiscal consolidation record. The revenue deficit declined (-74%) at a much higher rate than the all state average (-49%) and the primary deficit also declined (-96%) at a faster rate than all state average (-11%). When it comes to fiscal deficit (borrowing) the rate of decline in Kerala has been as high as -47%. Yet, the state is being penalised once again. The Centre imposed a sharp cut in her borrowing limit in the name of off-budget borrowing for infrastructure development while the Centre presumably has been following the same strategy for some of its prime projects like national highway development.

To cut the long story short, we need to reconcile the fact that the states today are different from what they were at the time of independence. Hence we need to reimagine the role of states in Indian development and redesign the centre state financial relations within the framework of a dynamic cooperative fiscal federalism. Otherwise we are unlikely to realise the much desirable dream of transforming India to a developed country by 2047.

(This is a modified version of the article published in Financial Express on 16 June 2023)

**K J Joseph**

# Can the idea of social democracy be rescued?

Olle Tornquist

Good discussions about the present challenges require a historical perspective. The right-wing nationalist successes came relatively late in the Nordics, perhaps due to the strength of the trade unions and the welfare state. Elsewhere, Social Democracy is often considered a spent force. At least if it is defined as it was at its apex from 1930 to 1980. Then there were interest- based popular movements and parties with democracy taken as principle and method. Social rights reforms provided the basis for agreements on economic development between unions, farmers, and employers. These reforms and agreements were fought for by way of the struggles of interest and issue-based organisations, expansion of the public sector, cooperatives and welfare programmes against the effects of capitalism, together with transformative reforms to change the destructiveness of its logic. Strong efforts for maintaining national independence were necessary to make it all possible, which required cooperation with anti-colonial and other forces against great power dominance and trade monopolies.

So why was the project undermined? The debate is often limited to the Global North and to the question of why social democrats have lost elections. The social base and the values of wage earners have become increasingly heterogeneous. Social Democracy lacks a powerful vision and voters go in different directions - mostly to the left, to the greens and sometimes to the centre, but also (and only to some extent and when issues such as migration and crime are at stake) to right-wing nationalist parties that otherwise primarily attract conservatives.[1] But the basic questions remain as to what the power relations are that have caused the decline of Social Democracy, and what can be done to bring about its rejuvenation.

Olof Palme and Willy Brandt were among those who responded already in the 1970s.

***The social base and the values of wage earners have become increasingly heterogeneous. Social Democracy lacks a powerful vision and voters go in different directions***

***The first factor is the absence of common class interests. The wave of democracy was not backed up with inclusive social and economic policies as in Western Europe after the Second World War The limited industrialisation in the South was combined with the plundering of nature, inequality, miserable working conditions, widespread unemployment, lack of class identity and organisation.***

In the South, anti-colonial democratisation had been held back by support for authoritarian regimes. Some of these also enjoyed oil rents or invested in low-wage industrialisation for export, in cooperation with international companies and financiers. In the North, Social Democracy was run over when the international currency regulation established at Bretton

Woods was abolished in 1971, and when capital was internationalised, to avoid national rules and agreements. In addition, the oil countries did not invest in inclusive development that could have created increased international demand. Consequently, said Palme, Brandt and others, nationally limited Keynesianism and Social Democracy must be internationalised. They launched a "New Economic World Order", "Partnership between North and South" and "Common Security". But their initiatives failed.

Instead, neoliberalism broke through and became global, from the late 1970s, with Margaret Thatcher and Ronald Reagan in the forefront. Radical Social Democracy, as was attempted in Francois Mitterrand's France and Sweden's wage earners funds had to be shelved. The new keyword was "structural adjustment". Credit markets were deregulated. Financial ventures became more profitable than productive investments. The North became post-industrial. Tony Blair and Gerhard Schroder's "third way" sought to combine neoliberalism and welfare but failed to build a broad coalition of modest winners and losers. And then there was the financial crisis of 2008. Meanwhile, Scandinavia and Sweden in particular was also affected by economic inequalities and cultural differences within the country. On the one hand, there were those with the right education, jobs in competitive sectors and opportunities to obtain their own insurance and to speculate on housing and cheap credit. On the other hand, were the regions, wage earners and small business owners who were only given standing room. Among them - through rarely women - were many who considered migrants to be the main competitors for jobs and welfare. This fed right-wing nationalism. The refugee crisis was a turning point.

In the meantime, the hope was that democratisation in the South and East would create better conditions. The wave of democracy began when the United States lost in Vietnam, the liberation movements in the Portuguese colonies

***The second reason is the lack of democratic representation. In countries where dictatorships were replaced by democratic rules of the game, these came to be dominated - with international support - by elites and businessmen, who had no interest in including others in politics and in fighting corruption***

contributed to the fall of the dictatorship in Lisbon, and Spain showed that a transition from fascism to democracy could be negotiated. The Socialist International was revitalised in support of democrats in the South and East. There was much progress - but for some time now there has been a trend of autocratisation, which has affected Social Democracy in the North as well. So why did the democracy wave collapse? To move forward, we need to know.

It is well known that Michail Gorbachev's social democratically oriented attempts at reform were not supported, and instead Russia was taken over by Boris Yeltsin and neoliberal shock therapy. This created social and economic insecurity for ordinary people but delivered opportunities for the oligarchs to loot the state - followed by support for a "strong man", Vladimir Putin. Eastern Europe in general is beset by similar problems. It is also known that the West's "war on terror" made matters worse in Iraq, Afghanistan and Libya; as well as the insufficient support for the progressives in Syria, Turkey and Kurdistan. But why did things go wrong even in the many promising cases in the South - where, for example, military dictatorships fell in Latin America, dictators like Ferdinand Marcos and General Suharto were deposed, Nelson Mandela took over in South Africa and a centre-left front won the national elections in India. In my studies with colleagues, we arrived at three major factors.[2]

First, the absence of common class interests. The wave of democracy was not backed up with inclusive social and economic policies as in Western Europe after the Second World War. The limited industrialisation in the South was combined with the plundering of nature, inequality, miserable working conditions, widespread unemployment, lack of class identity and organisation. There were constant difficulties in uniting people with insecure jobs. Popular movements cannot be built in workplaces alone, because the

***The third factor is that "bottom up" was Insufficient. But civil society groups, unions and social movements that really tried to build democracy on the ground and combine different interests and issues rarely made a political difference***

***The main exception was the Indian state of Kerala where popular movements ran educational campaigns, mapping of local resources and brought about a huge state. Coordinated programme for popular participation in planning at the municipal level. even there it has been difficult to institutionalise the advances***

majority of people with temporary jobs and in the informal sector are ignored. Scandinavian growth strategies that require relatively low unemployment and strong parties in the labour market are insufficient, painfully illustrated in South Africa.

The second reason is the lack of democratic representation. In countries where dictatorships were replaced by democratic rules of the game, these came to be dominated - with international support - by elites and businessmen, who had no interest in including others in politics and in fighting corruption. So genuine democrats and embryonic popular movements had little opportunity to make a political difference. There were exceptions, but frustration and protests grew. Things went wrong even in celebrated examples of liberal democratisation, such as in the Philippines, Indonesia, South Africa, and Brazil. Democratisation in Burma was crushed by the same military that the West had said would accept it. Neither was left-wing populism with popular enthusiasm behind charismatic leaders a solution when these were not controlled through democratic representation, from, for example, Joseph Estrada in the Philippines to Hugo Chavez in Venezuela.

The third factor is that "bottom up" was insufficient. Ideally, it would be possible to promote democracy and inclusive development from below. But civil society groups, unions and social movements that really tried to build democracy on the ground and combine different interests and issues rarely made a political difference. Marginalised in internationally guided negotiations for transition from dictatorship to democracy, they mostly became fragmented pressure groups that failed to broaden their base even as politics was decentralised. The dominance of political bosses, businessmen and vigilantes was not challenged. Even Brazil's participatory local budgeting could not stop corruption higher up in the system. The main exception was the Indian state of Kerala where popular movements ran educational campaigns, mapping of local resources and brought about a huge state-coordinated programme for popular participation in planning at the municipal level. Yet, until recently, even there it has been difficult to institutionalise the advances that have been made, to promote production, engage sceptical citizens and left-wing bosses, and to create links to other administrative levels and other actors than those involved in the public planning.

***Research shows that it is possible to build fronts with progressive politicians and different movements when they focus on demands for more democracy to promote coherent reforms - against economic and social insecurity, and for sustainable development. Broad alliance in Indonesia around 2010***

All in all, many positive movements gained more room for action during the wave of democracy but could not build a credible social democratic alternative to neoliberalism. As in the North, it led to frustration and protests. This allowed right-wing populist nationalists to take over. Compliant oligarchs were acquitted, while migrants, addicts, LGBTQ people, the left, and ethnic and religious minorities were blamed.

In the North, meanwhile, social democrats ignored their unredeemed internationalisation, which was also made more difficult by the setbacks in the East and South. This became particularly clear in Sweden from 2012 when the new party leader and prime minister Stefan Lofven's team tried to return to the basics of Social Democracy. The agenda emphasised more welfare, cooperation between unions and employers, a corresponding "global deal" around the world, cooperation with the Greens against the climate crisis, feminist and human rights-based foreign policy, and support for refugees. But to realise such priorities remained at least as difficult as it had been for Mitterrand and Palme in the early 80s. The employers ignored cooperation with state and unions, nationally and internationally. The unions were sceptical of the Greens and put the profitability of export industry and good jobs within it ahead of radical foreign policy. This also lacked strong foreign partners. At the same time, a lack of broad international commitment to the progressives of the Middle East and North Africa contributed to a wave of refugees that the Swedish municipalities could not cope with. So in the fall of 2015, Lofven gave up. After this the party leadership first adjusted to the increasingly strong right-wing nationalist opinion, following the pattern of the Danish social democrats - and then, when Russia invaded Ukraine, abandoned Sweden's 200-year-old non-alignment in favour of NATO. The aim was to win the 2022 election, but this was lost. There was no analysis of the consequences of the shift in policy for social democratic partners, which instead Turkey's President

***Kerala then proved how reforms can be followed up. The cooperation there between municipalities and civil society that began in the 90s was supplemented by state health and welfare programs in the fight against the pandemic, followed by the setting out of a knowledge-based development strategy***

***There is the potential for collaboration to secure fair and sustainable development. If at least such issues are linked to non-alignment and promoted by an ecumenical left Democratic network with good roots in the South, the internationalisation of Social Democracy can resume.***

Erdogan keeps illustrating by calling for an end to Swedish support for Turkish and Kurdish pro-democrats to support Swedish membership in NATO.

Ukraine must be supported. But Putin is not the only right-wing nationalist in the world who prevents democratic struggle against the existential crises - from nuclear threat and climate collapse to social insecurity, inequality, and more refugees. NATO is not meant to solve this. For that, other alliances are required. We must return to Palme and Brandt's analysis that the nationally limited Social Democracy needs to be internationalised to become strong again.

Palme and Brandt's main hurdle was that they had only weak partners. That problem might have been solved during the global democracy wave, but as we have seen, it collapsed. We

also know what is needed, and why: support for democratic development as in Europe after the Second World War, broader alliances than on the shop floor level, more inclusive democratic rules of the game, unification of the progressive forces. But can this be achieved?

Research shows that it is possible to build fronts with progressive politicians and different movements when they focus on demands for more democracy to promote coherent reforms - against economic and social insecurity, and for sustainable development. A prime example was the broad alliance in Indonesia around 2010 (with the support of international Social Democracy) for a universal healthcare reform. The problem was the lack of follow-up reforms and a democratic negotiation system for action groups, unions, employers, and politicians. Kerala then proved how reforms can be followed up. The cooperation there between municipalities and civil society that began in the 90s was supplemented by state health and welfare programs in the fight against the pandemic, followed by the setting out of a knowledge-based development strategy. As a result, the left was victorious in the elections. Narendra Modi's right-wing nationalism didn't stand a chance. In Chile, a similar broad alliance for democratic reform and social rights recently paved the way for the Left Front. In Colombia there is the front for peace and Social Democracy. In Brazil, Lula built a broad coalition against right-wing nationalism and is trying to combine social rights reforms with the fight against climate change.

The challenges are myriad, including outlining transformative reforms and democratic negotiation systems between politicians, action groups, unions, and employers. But we have experience of that in Western Europe and especially Scandinavia. There is the potential for collaboration to secure fair and sustainable development. If at least such issues are linked to non-alignment and promoted by an ecumenical left-democratic network with good roots in the South, the internationalisation of Social Democracy can resume. And perhaps also contribute to peace in Ukraine on more democratic grounds than the recent negotiation proposals by BRICS countries.

*(After the electoral breakthrough of the right-wing nationalist Swedish Democrats, even North Americans who deemed Scandinavia to be a good example are asking whether the left s focus on national welfare and security is sufficient. Olle Tornquist was recently invited to "discuss what is missing - if both North and South are taken into account" within the lecture series On the Frontlines of Democracy at the Toronto Public Library on May 11. This is his summary of the arguments.)*

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**End Note**

[1] See Tarik Abou-Chadi, Reto Mitteregger, Cas Mudde, L*eft Behind by the Working Class? Social Democracy's Electoral Crisis and the Rise of the Radical Right* (fes.de) https://library.fes.de/pdf-files/a-p-b/18074.pdf

[2] Olle Tornquist, *In Search of New Social Democracy. Insights from the South - Implications for the North,* London and New York: Zed-Bloomsbury(2022) https://www.bloomsbury.com/uk/in-search-of-new-social-democracy- 9780755639793/ and https://olle-tornquist.com/

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# Five trillion economy: Challenges and prospects

Mary George

When the economy dreams of reaching higher and higher levels of Gross Domestic Product, it should be enshrined by the goals of equity and social justice. Father of the nation, Mahatma Gandhi warned that *"let no one commit the mistake of thinking that Rama-Rajya means a rule of the Hindus. My Rama is another name for Khudai or God. I want Khudai Raj, which is the same thing as the kingdom of god on earth. The establishment of such a Rajya would not only mean welfare of the whole of the Indian People, but of the whole world. But now,* As Rajan (2020) puts it *"communities get trapped in vicious cycles where economic decline fuels social decline …… The consequences are devastating. Alienated individuals, bereft of the hope and the feeling of belonging that comes from being grounded in a healthy community, become prey to demagogues on both the extreme Right and Left, who cater to their worst prejudices."* In addition to such demagogues, most devastating presence is that of caste in many colours and size. Ambedkar (2017) points out that *"turn in any direction you like, Caste is the monster that crosses your path. You cannot have political reforms, you cannot have economic reform, unless you kill this monster."* Ambedkar prescribes the following for the successful functioning of democracy;

(a) Absence of glaring inequalities

(b) Need of a strong apposition

(c) Equality in law and administration

(d) Observance of constitutional morality

(e) No tyranny of majority over minority

(f) Moral order in the society and

(g) Strong presence of public conscience.

***Banerjee Abhijit et al underlines that macro-economic stability is a pre-requisite to sustainable growth and job creation. They pointed out that "every time macro stability has been traded off to boost growth, the economy has been pushed towards a crisis, the consequences of which have undermined the very growth that was the initial policy focus.***

***Rangarajan (2022) underlines that "the best performance was between 2005-06 and 2010-11 when GDP grew by 8.8%, showing clearly what the potential growth rate of India was. This is the highest growth experience by India over a sustained period of five to six years. This was despite the fact that this period included the global crisis year of 2008-09. During this period the investment rate reached a peak of 39.1% in 2007-08 There was a corresponding increase in the savings rate. The current account deficit in the Balance of payments (BoP) remained at an average of 1.9%.***

At present it is shocking that across India, none of these conditions is prevailing. Jalan (2018) highlights that *" in considering future policy options, it is necessary to distinguish between `ends' and ` means'. Thus, political freedom, alleviation of poverty, universal literacy, equal economic opportunities and so on, are objectives or `ends'. While these objectives are non-negotiable, the specific policies or ` means' that are adopted to achieve them are matters of choice".* Jalan also asserts that "there are very few developing countries that are as well placed as India to take advantage of the phenomenal changes that have occurred in production technologies, international trade ,capital movement and the deployment of skilled man power. As a result, India today has the knowledge and skills to produce and process a wide variety of products and services at competitive costs".

Amidst macro-economic instability and jobless growth, augmented by rapid technological changes and re-entry of crony capitalism, Indian economy tries to carve out a path of progress of its own. At this juncture Abhijit Banerjee et al (2019) underlines that macro-economic stability is a pre-requisite to sustainable growth and job creation. They point out that "every time macro stability has been traded off to boost growth, the economy has been pushed towards a crisis, the consequences of which have undermined the very growth that was the initial policy focus". They continue to add that "ensuring macro-economic stability has at least three elements to it: maintaining low and stable inflation; ensuring the consolidated fiscal deficit leaves enough space for private investment; and ensuring that the CAD is sustainable and can be financed largely through stable capital flows, to help insulate the economy from sudden swings in global sentiment".

In this context, one has to analyse the retrospect and prospect of reaching five trillion-dollar economy by 2024-25. When we look back, in the pre-independent period India had to comply with 0.89 percent annual growth rate for five decades while population growth was at 0.83%. Independent India until 1970 had to be satisfied with 3% to 3.6% annual growth rate which Raj Krishna called the Hindu rate of growth. During this period, since population was growing at 2.2 per cent, percapita income could grow only at 1.4 per cent.

***GDP growth: Ups and Doven since 2011-12, the first reason was demonetization.***

Bank nationalization of 1969 and 1980 could usher in a phase of deposit expansion and priority sector lending with differential interest rate policy with political will and policy focus on `garibi hattao' or `poverty eradication' worked wonders to build the new India. The green revolution technology which started from mid-1960s took the Indian economy from a hand-to-mouth existence position to one of food self-sufficiency and much beyond to an exporter of food grains. Green revolution technology would not have been successful unless bank nationalisation preceded it with focus on agriculture, micro, small and medium enterprises.

In the 1980s, understanding that as the mixed economy with `commanding heights' in the public sector had a series of inherent weaknesses, which prevented the growth of trade and industry on par with other Southeast Asian countries, policy of liberalisation was started with. This helped India to attain GDP growth of 5.6 percent in the 1980s. However, political instability, over dependence on external debt, unsustainable fiscal policy, among others, led the economy to the worst macro-economic crisis in 1991-92 period.

In order to overcome the economic crisis India needed external financial assistance which was made conditional by International donors like IMF. India had to go for liberalisation, privatisation and globalisation policies. India, after overcoming the crisis, between 1992-93 and 2000-01, could enjoy GDP growth (at factor cost) annually by 6.2%. Between 2001-02 and 2012-13, it grew by 7.4%. Growth rate between 2013-14 and 2019-20 was 6.7% (which was achieved after shifting the base year from 2004-05 to 2011-12 and some data cooking is pointed out later by a member who left NITI Aayog after demonitisation. Rangarajan (2022) underlines that *"the best performance was between 2005-06 and 2010-11 when GDP grew by 8.8%, showing clearly what the potential growth rate of India was. This is the highest growth experience by India over a sustained period of five to six years. This was despite the fact that this period included the global crisis year of 2008-09. During this period the investment rate reached a peak of 39.1% in 2007-08 There was a corresponding increase in the savings rate. The current account deficit in the Balance of payments (BoP) remained at an average of 1.9%".*

GDP growth: Ups and Downs since 2011-12: First reason was the abolition of planning commission which worked from March 1950 when it was started by an Act of parliament. This body was formulated for the most effective and balanced utilisation of resources with priorities of growth with equity. Its vast experience and knowledge of the nook and corner of the country and resource base is far beyond

***Indian economy hit stopped as its lubricant, cash and currency, is withdrawn at the stroke of a second. The economy was paralysed. This was, perhaps, the biggest blunder that Independent India ever experienced. Then NITI Aayog CEO Rajeev Kumar had to accept in a short while that the `country is experiencing 75 years' serious liquidity crunch and 45 years' high unemployment.***

expression, irrespective of its bureaucratic weaknesses. Though NITI Aayog was constituted in the place of Planning Commission, its rudimentary experience of the macro-economy, budgeting and fiscal balancing could not but fail. Panagaria, the first vice-Chairman of NITI Aayog, voluntarily left the position, after understanding the failure of the institution. After a while, Prime Ministers' Economic advisor Aravind Subramanian also left the position.

**Demonetization conundrum:**

On November 8, 2016, in one shot, government withdrew 86.4% of the currency in circulation. It may be likened to a situation of a running vehicle that hit stopped as the lubricant is exhausted abruptly. Indian economy hit stopped as its lubricant, cash and currency, is withdrawn at the stroke of a second. The economy was paralysed. This was, perhaps, the biggest blunder that Independent India ever experienced. Then NITI Aayog CEO Rajeev Kumar had to accept in a short while that the `country is experiencing 75 years' serious liquidity crunch and 45 years' high unemployment. As Ramakumar (2023) observes "the RBI printed the new Rs.2000 notes in a new size …….. Consequently, every one of the 2.2 lakh ATMs in India had to be "re-calibrated" It is that series of Rs. 2000 which created such a lot of havoc in the country which was withdrawn from circulation on May 19, 2023.

**Attack on secularism and democracy:**

Opposition in the parliament pin-points anti-democratic attitude of the ruling national party. They raise the important observation that there is a government led strategy to disrupt parliament and prevent the opposition from raising issues of grave concern to the country and its people such as unemployment, inflation and social divisions, Congress Chairperson (2023) points out. She further highlights serious issues like the misuse of the Central Bureau of Investigation and the enforcement Directorate. There is a systematic effort to undermine the judiciary by even calling some retired as "anti-national" by the Union Law Minister. Similarly, onslaught and intimation of media goes unscrupulously.

Akeel Bilgram et al (2023) remembers *"the remarkable achievements of India's distant and more recent past, above all, its singular achievement of learning to live with*

***Vir Sheila (2022) observes that even after seven decades of independence, India is afflicted by public health issues such as child malnutrition (25.5% stunted, 67.1% anaemic) attributing to 68.2% of under- five child mortality. Poor nutrition not only adversely impacts health and survival but also leads to diminished learning capacity and poor school performance. And in adult hood, it means reduced earnings and increased risks to chronic diseases such as diabetes, hypertension and obesity.***

*religious and cultural differences, are now at risk, under the government of Narendra Modi.*

Many a schemes in the name of Prime Minister is launched to bring prosperity and growth to girl- child and women. Lion's share of amounts set apart for such schemes is spent on their advertisements with a view to build up the image of the party amidst voters across the country. BJP is having majority in the parliament as well as in the Rajya Sabha. It could easily enact `Women's reservation Bill' 1996. But not even name sake an attempt is made so far with that intention.

**Recent GDP growth behaviour**

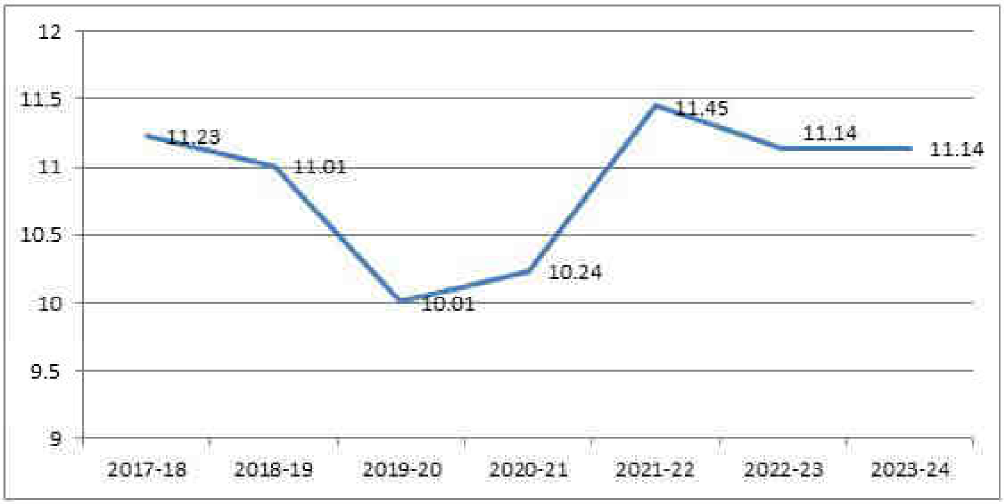
Key to growth lies in the linkage between revenue - savings- capital formation and sustainable debt. Low tax/GDP ratio is a bottleneck to Indian economy's growth. Shome (2017) identified that the Central Government's tax/GDP ratio is around 10 percent, with slightly higher collection from commodity taxes (5+%) than income taxes (5%). He further points out that the economy has to contend with lower revenue buoyancy until the tax administration is able to significantly expand the base of income tax payers. Shome identified high tax/GDP ratio of 46.75 (Sweden) and low tax/GDP ratio of 18.01% in India (P.111).

Gross central taxes include Corporation tax + Income Tax + Customs + Excise + Central GST (CGST) +Service Tax. From 2021-22, a little improvement is noticed in the tax/GDP ratio thanks to corporation and income tax improvement (Fig 1). CBGA reports that corporates in India saw profit growth rate between 75% to 62% after the Covid -19 Pandemic. This is attributed to shrinking of the informal economy as the formal sector takes over the market share of the informal sector through e-commerce and similar other means. Union Government's pro-corporate policies like drastic corporate tax cut, huge capital expenditure to improve ease of doing business and reducing logistic costs etc helped the growth of corporate profits.

**Non-tax revenue:**

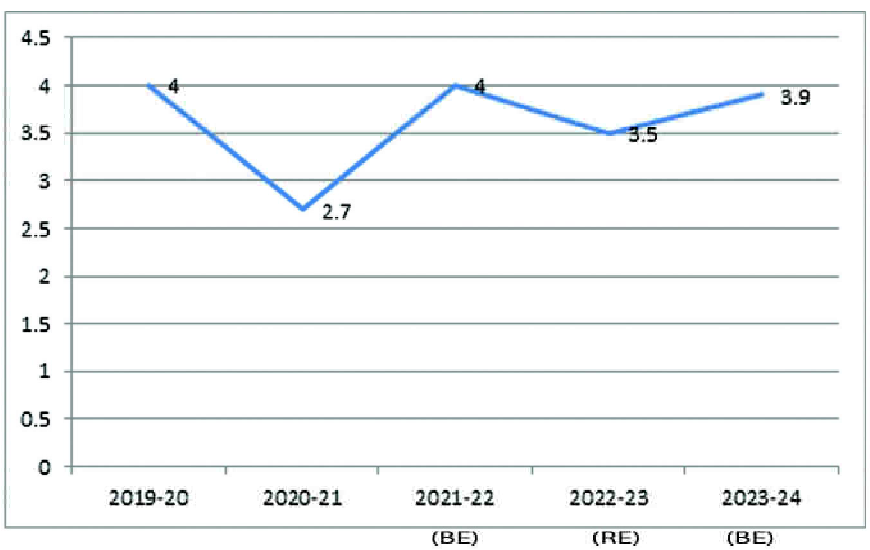
According to the World Bank's World Development Indicators (World Bank, 2003), in or around 2002, roughly 39% of revenues of the 166 countries covered there, not just resource rich economics, were from non-tax revenues. However, in India from 2019-20, it is 4% or less than

**Figure-1** Tax/GDP Ratio of India (2017-18 to 2023-24) (Gross Central Taxes as percentage of GDP)




*Source: Union Budget ( various years)*

**Figure-2** Non-tax revenue/ gross Revenue Ratio of Central Government



***Annual Status of Education Report Rural (ASER) 2022 shows that children's basic reading ability has dipped sharply to pre-2012 levels. The percentage of children in class -3 in government or private schools who can read at class 2 level is down from 27.3% in 2018 to 20.5% in 2022. How children cope with these looming challenges, will depend a lot on their access to and participation in quality learning offered by India's school education system.***

that of the gross revenue of the government (Fig 2).

Potential for non-tax revenue collection is infinite in India, provided the revenue administration is efficient.

Thus, revenue mobilization - both tax and non-tax revenue - is highly inefficient in India and hence with a low revenue base it is difficult to move ahead to 5 Trillion dollar economy, unless revenue barrier is broken.

**Expenditure pattern:** What ever be the size of the budget, its expenditure pattern is of paramount importance. It one examines the Central Budgets from 2014-15 onwards, heavy investment in defence and physical infrastructure is visible. Defence expenditure is 15.2 percent of the total expenditure and 2% of GDP respectively in the Budget (BE) 2023-24.

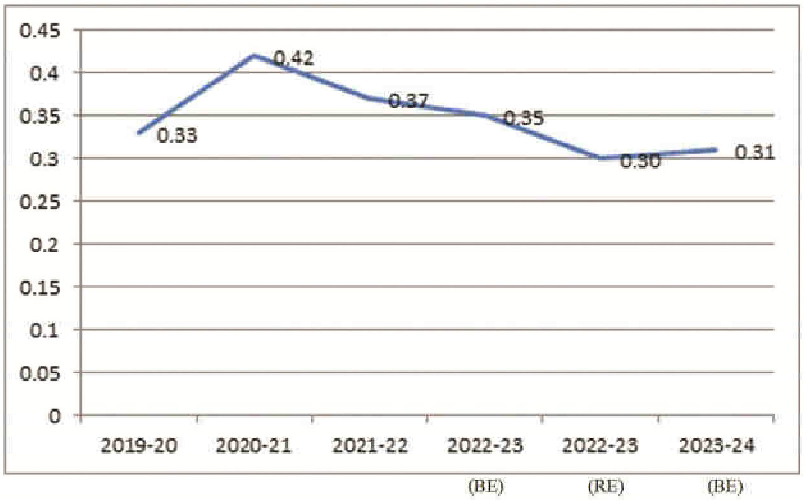
India ranks 3rd in Defence expenditure with 5.93 lakh crore, compared to Rs.61.40 Lakh crore by the U.S and Rs.22.44 lakh crore by China. (Stockholm International peace Research Institute). Similarly, capital expenditure on physical infrastructure increased from 2.5lakh crore in 2016 to 7.3 lakh crore in 2022-23 to 10 lakh crore in 2023-24. This is 22.2% of the total budget expenditure and 3.3 percent of GDP. These are all growth promoting expenditures. At the same time priority for social infrastructure is also worth examining.

**Expenditure on social infrastructure:**

Growth leads to development when it is distributed equitably. This distribution is routed through expenditure in health and education. Health precedes education. Hence, health in the Narendra Modi period be examined first. National Health Policy 2017 is the striking policy initiative during this period. The policy's stated objectives are to inform, clarify, strengthen and prioritize the role of the government in shaping health system in India. Key highlights are gradually to increase public health expenditure to 2.5 percent of GDP by the centre (by 2022) and 8 percent of the GSDP by the states by 2020) and a policy shift in Primary Health Care from selective care to assured comprehensive care. The graph below shows the present position.

Fig 3 shows that in 2021-22 instead of spending 2.5 percent of the GDP, only 0.37% is provided. Only a healthy and educated population would be able to acquire their share in economic growth, if that growth creates employment opportunities.

**Figure-3** Health expenditure as percentage of GDP (From 2019-20 to 2023-24)




*Source: Union budget various years*

In 1978, India adopted the Alma-Ata Declaration for providing comprehensive primary health care to all its people. Further in 1983, India's first National Health Policy with emphasis on primary health care decided to increase health expenditure to 2% of GDP. In spite of all these policies, Covid -19 Pandemic taught us that the entire health system, including primary health care is no where near requirement. Floating dead bodies of covid victims bear testimony to this.

Vir (2022) observes that even after seven decades of independence, India is afflicted by public health issues such as child malnutrition (25.5% stunted, 67.1% anaemic) attributing to 68.2% of under-five child mortality. Poor nutrition not only adversely impacts health and survival but also leads to diminished learning capacity and poor school performance. And in adult hood, it means reduced earnings and increased risks to chronic diseases such as diabetes, hypertension and obesity."

National Family Health Survey -5 (2019-21) showed that India was among the 10 countries that together accounted for 60% of global maternal death, still births and new born deaths. According to the National Rural Health statistics 2021-22 released recently reports that 21,920 specialist doctors were required in the rural areas across India. However, only 4,485 were available, which means that there was a short fall of 17,435 specialist doctors ie. 79.5%

Prime Minister, on October 2, 2019 declared all the villages in the 36 states and Union Territories as open defecation free

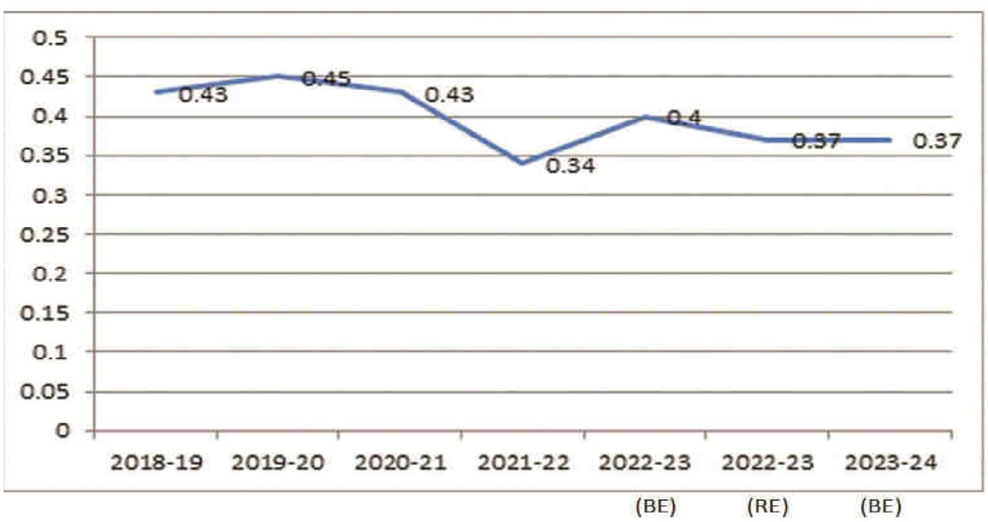
(ODF). However, NFHs -5 shows that none of the 30 states and Union Territories surveyed are open defecation free. Survey shows that residents in over 25% of the rural households in India defecated in the open. In states such as Bihar and Jharkhand, the share of such rural households was higher than 40%. Also access to toilets varied widely based on caste and wealth, the survey found. In fact, health system in India is seriously sick which needs a universal treatment. Once health is ailing, education cannot produce desired results.

**Education: The catalyst of growth and development**

Education Commission Reports, right from Dr. S. Radhakrishnan onwards reiterated the centrality of investing 5 percent or more of GDP in education. When advanced and developing countries spend much more than 5% of GDP on education, India is lagging behind. Fig 4 throws light to that.

Fig. 4 shows the apathy with which Narendra Modi government deals with education. According to the National Achievement Survey (NAS) 2021 "there has been a progressive decline in the learning out comes of students across all grades in almost all subjects". Annual Status of Education Report Rural (ASER) 2022 shows that children's basic reading ability has dipped sharply to pre-2012 levels. The percentage of children in class 3 in government or private schools who can read at class 2 level is down from 27.3% in 2018 to 20.5% in 2022. How children cope

**Figure-4** Education expenditure as percentage of GDP 2018-19 to 2023-24




*Source: Budget document, various years.*

***Vidyalaya Abhiyan was lunched by the Human Resources Development Ministry in September 2014 to meet the Right to Education Act's mandate that all schools must have separate toilets for boys and girls. Lack of dedicated funds, poor maintenance and poor water availability in toilets were identified as major challenges.***

with these looming challenges, will depend a lot on their access to and participation in quality learning offered by India's school education system.

National Education Policy 2020 (NEP) envisages universal access to quality education from pre-primary to higher secondary by 2020. Towards this journey Foundational Literacy and Numeracy (FLN) are critical for improving learning. The NEP 2020 states that" the rest of this policy will became relevant for our students only if this most basic learning requirement is first achieved." However, India could not satisfy the required conditions and hence sustainable Development Goals (SDF) No.4 `quality education' could not also be satisfied.16 At present close to 63% of students in India are part of government/Government aided schools. But more than 50% of new admissions in the last two years were in private schools. This shift is attributed to poor quality and closure of government schools. Again one in seven government schools are one teacher schools. (The Hindu Data Point).

The Swachh Vidyalaya Abhiyan was lunched by the Human Resources Development Ministry in September 2014 to meet the Right to Education Act's mandate that all schools must have separate toilets for boys and girls. However, CAG (2020), presented in the Parliament, revealed that over 70% of the government schools did not have running water facilities in the toilets, while 75% were not being maintained hygienically. Lack of dedicated funds, poor maintenance and poor water availability in toilets were identified as major challenges.

**Status of higher education**

Higher Education Commission of India (Repeal of University Grants Commission Act) Bill 2018 (HECI) aims to replace a historical statutory body, the `UGC' push for more government control; and stifle critical thinking on campuses. When global rating report of Universities came out, our Prime Minister laments that `among' the world's top 500 Universities none is from India. It should be understood that `Youth is dividend to a nation if it is made productive by making optimum investment in health, education and research and development (R&D). After analysing the approach of the newly formed Higher Education Commission of India draft Bill which was passed in the Parliament in 10 days without giving time for productive suggestions and improvements one can infer that free and fair education is not the intent of the bill. Education is meant for the overall development of an individual to the optimum level. That means education must open up avenues for the development of the instrumental freedoms that Amartya Sen put forward. Instrumental freedoms, according to him, are (1) Political freedom (2) economic facilities, (3) Social opportunities, (4) Transparency guarantees and (5) Protective security." These freedoms complement each other to enhance the space of each other and ensure an environment for an optimum life. Nobel Prize winner Abhijith Banerji et al (2019) points out that the Right to Education Act focuses on input requirements for schools that have little bearing on learning outcomes, which have deteriorated alarmingly. Learning must be our central focus, with all schools, public and private, responsible for delivering a minimum, level of basic skills to every child. Bringing those falling behind up to par through remedial teaching will be critical. It is too late to launche a quality revolution in education in India.

**Sustainable development norms**

The World Economic Forum's Global Risks report for 2021 states that environmental risks continue to threaten the global economy. The top five risks identified are (a) climate action failure (b) extreme weather (c) human environmental damage, (d) infectious diseases and € bio-diversity loss. Challam (2021) observes that "with high human densities - among the highest diversity of mammals in the world - and a saturated interface between humans and wildlife, India is considered to be among the hotspots for zoonotic, emerging and re-emerging infectious diseases.

Destruction of environment should no longer be justified in the name of development. Rampant destruction of natural habitats, especially due to mining, and infrastructure construction like ports continued with accolades. In Kerala when Vallarpadam container terminal works at 30% capacity, why another similar port at Vizjhinjam is being constructed which is only 180 notical mile away from Vallarpadom. Swaminathan (2006) warned that Integrated Coastal Zone Management policy should pay concurrent attention to the management of about 10km of land surface and 10km of sea surface from the shoreline to ensure that land-based occupations do not cause damage to ocean fisheries as a result of release of effluents and other pollutant's. Port-dam - quarry triangle disturb the entire ecosystem of India at the peril of the generations to come. Palliative measures through budgets would not save the country from peril.

**Growing inequality**

When economic policy decisions are for political advantage, they may sponsor the interests of the rich and the corporate. Election bonds give a classic example. Unlike progressive taxation in the Europe and the U.S. it is not progressive in India. Piketty 20 the author of `capital in the Twenty-first century' observed that "the current tax-to-GDP ratio is insufficient for meeting India's huge challenges of inequalities. The aim should be to evolve the ratio toward the 30 percent to 50 percent levels now seen in the U.S and some of the West European countries". Everybody knows that just like poor tax/ GDP ratio, expenditure on health and education are also low. Piketty Pinpoints that" the public health system in India has a budget of less than one percent of GDP as compared with almost three percent in China. China has fared better than India at collecting taxes from the elite." He also categorize India in the category of countries where top 10% of the population holds income of 50% to 60%. OXFAM (2023) reported their finding on India that just 1 percent of Indians hold 40% of the wealth. While the richest 10% holds 63% of wealth of the country, 64% of the goods and services tax (GST) revenue is contributed by bottom 50 percent. Most importantly top 10% accounts only for 4 percent of GST revenue.

**Inclusive India:** Ministry of Social Justice and Empowerment (2022) has shown that there are 58,000 workers engaged in Manuel scavenging. Between 2017 and 2022, 347 such workers died in accident while working. Out of the total workers engaged in scavenging 42,594 ie. 73.44% are

**Table -1** Global comparison of a few development indicators:

GDP of selected countries in Trillion $ (2023)

| Country | GDP in Trillion | Rank |
|---|---|---|
| United States of America | 26.85 | 1 |
| China | 19.4 | 2 |
| Japan | 4.41 | 3 |
| Germany | 4.31 | 4 |
| India | 3.74 | 5 |
| Great Britain | 3.16 | 6 |

*Source : IMF*

**Table -2** UNDP - Human development index (selected countries)

| HDI Rank | Country | HDI Value |
|---|---|---|
| 9 | Germany | 0.942 |
| 18 | United Kingdom | 0.929 |
| 19 | Japan | 0.925 |
| 21 | United States | 0.921 |
| 79 | China | 0.768 |
| 132 | India | 0.633 |

*Source UNDP (Period 2021-22)*

dalits. This is the type of `inclusion' that marginalized and deprived Indians experience.

When we compare the GDP of US and that of India, our GDP is only 13.9 percent of that of US. Let us compare the population of these countries and work out the per capita income which will highlight the glaring disparities between these countries.

Next, we have to examine Human Development Index prepared by United Nations Development Programme (UNDP) based on a series of parameters like standard of living, gender gap, women empowerment, environment, socio-economic attainments, longevity etc, When HDI of 191 countries is prepared, India's position is 132 while the second populous country China is 79. India's HDI value of 0.633 is much lower than that of other countries in the list. Switzerland with rank one has HDI value of 0.962 (Not shown in the table).

U.N sustainable Development Solutions Net Work released the world happiness report 2023 which ranks 146 countries. Key factors used to prepare the Index are: Social support, income, health, freedom, generosity, and absence of corruption.

Global Hunger Index is usually published by U.S. based International Food Policy Research Institute. It is an index of countries where there is hunger. 120

**Table -3** World happiness index - 2023 (of 146 countries)

| Rank | Name of the Country |
|---|---|
| 19 | U.S |
| 82 | China |
| 55 | Japan |
| 13 | Germany |
| 136 | India |
| 17 | U.K |

*Source: United Nations sustainable development solutions Net work.*

**Table -4** Global hunger index (2022) of 120 countries

| Name of the country | Hunger index |
|---|---|
| China | 1-17 |
| India | 107 |

*Source : IFPI*

countries experience hunger and those countries represent the Index.

Rank 1-17 represents minimum level of hunger. China belongs to that category. While the U.S, Japan, Germany, U.K etc. have eradicated hunger and hence are not in the rank list, India, with 107 on 120 depicts a pitiable position. Rangarajan (2020) identified 22% of India's population was below poverty line. Piketty (2016), in his study of inequality observed that "human societies have moved fitfully toward a more just distribution of income and assets, a reduction of social and gender inequalities, and the greater access to health care, education and the rights of citizenship". If we closely watch his observation, it would be clear that India has not made reasonable achievement in any of these indicators.

In the march towards $5 trillion GDP or more, investment/GDP ratio has to be improved. This in turn requires that gross Fixed Capital Formation is raised from the current level of 28% of GDP to 33% or more of GDP. When public investment increases, private investment would crowd in. This calls for a sustainable fiscal and financial climate conducive for growth. Shome (2017) observed that in the rush to introduce GST in the last mile, many essential elements of a robust GST have been shaved off, so the current version of GST is neither sufficiently aligned to easing the ways of doing business nor internationally bench-marked one. GST must be revived by making changes in sync with parliamentary committee recommendation. Further, non-tax revenue system as such has to be revived, since now only around 15% of non-tax revenue potential is utilised.

To sum up, Swaminathan (1994) recommends "a paradigm shift from a growth model based entirely on economic criteria to one based on concurrent attention to the principle of ecology, equity and employment, in addition to economics". His views are in sync with Cop 27 mandates. Similar growth and development views are also shared by Pitroda (2021), an Indian American with over 100 patents to his credit and the one behind India's telecom revolution. He, not only wanted to re-design India but also the whole planet. In his re-designing he observes "the planet and the people are at the centre. It is built on the foundations of sustainability, inclusion, equality, equity and justice, so that everyone on earth can enjoy peace and prosperity. It is not an idealist or a utopian vision, but one with humanity at its core". In nutshell when GDP grows, the re-distribution of it between the factors of production should also grow equitably. When growth is distributed it becomes development. Without development, growth is meaningless and would, finally lead to upheavals.

■

(Former Chairperson, Public Expenditure Review Committee, Govt. of Kerala)

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# The mirage of Indian economic recovery

D Narayana

Recent growth projections of the global economy suggest weaker outlook for 2023 and 2024 despite the easing of food and energy inflation. Private investment remains subdued even when newer opportunities have opened up in the renewable energy and digitilisation spheres. In this uncertain global environment, India, official sources assert, "has experienced macroeconomic and financial stability with a steady pick up in the momentum of growth" (RBI, 2023: pp.1-2). They congratulate themselves taking credit for it in the sound macroeconomic policy and resilience of the economy. See the recent speech of the Chief Economic Adviser: "Both the ministry of finance and the RBI are on the same page with the growth forecast for the current fiscal which is 6.5% with risks evenly balanced. The domestic economic growth momentum is strong enough to overcome external risk factors". Continuing on the same theme he said, "We also benefit from lower oil prices and overall domestic macroeconomic stability" (The Hindu, 11 June 2023). A critical look at the claim of growth momentum is in order as the GDP growth numbers for the year 2022-23 are just out.

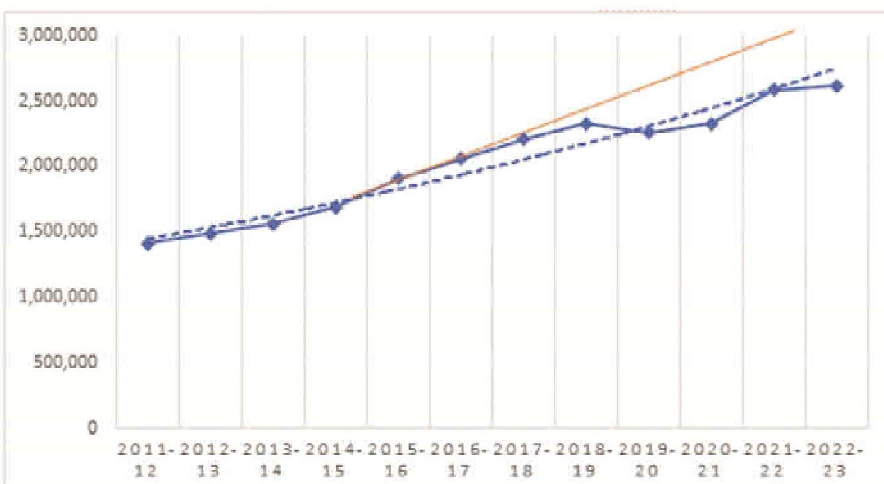
We adopt a simple method to assess the claims of growth recovery. It is worth recalling that in a number of economic sectors growth had begun decelerating since 2016-17; it was not a phenomenon that occurred during the COVID 19 year. If recovery is taking place, then the growth rate over the period 2011-12 to 2022-23 should be equal to or higher than the growth rate achieved during 2011-12 to 2016-17. This can be illustrated by comparing the value added in constant prices of Indian manufacturing sector with electricity, gas and water supply or construction sectors. If growth had not decelerated since 2016-17, then the path of the manufacturing sector would have been

***Indian economic growth had begun decelerating since 2016 and not since the COVID 19 years. The recent recovery is still way below the growth path till 2016 and it is especially worrying for the manufacturing sector.***

as shown by the red line in Figure 1. The deceleration in growth, the COVID 19 effect and the low growth post COVID 19 has pulled the trend line below the red line suggesting that the sector has a long way to go for recovery. Taking the slopes of the lines, that are the growth rates, it may be seen that the compound annual growth rate was 8.02 per cent during 2011-12 to 2016-17 and it has fallen to 6.02 per cent during 2011-12 to 2022-23 owing to the deceleration despite the so-called recovery from COVID 19 (Table 1). It has to remain above 8 per cent for a few years to surpass the growth of the first half of 2010s. These are confirmed by the growth numbers shown in Table 1, (Figure 1).

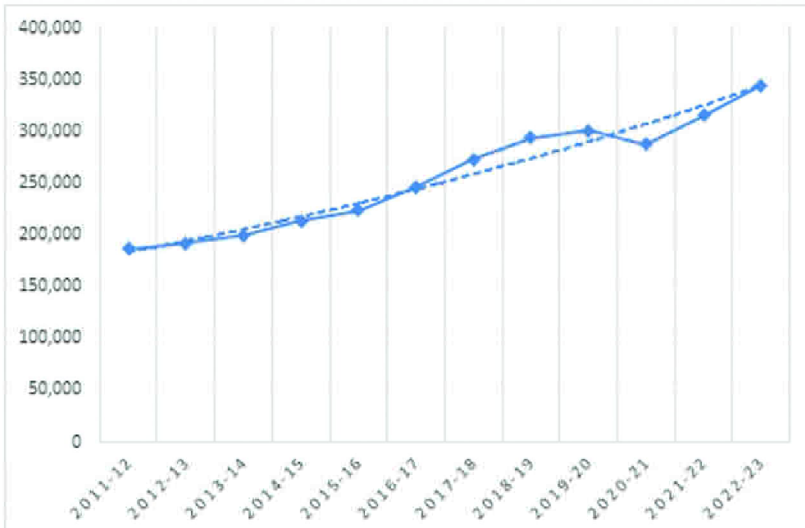
Let us contrast the growth paths of electricity, gas, water supply and other utilities, and construction (Figures 2 and 3) with that of manufacturing (Figure 1). The fall in growth during COVID 19 (2020-21) in these two sectors were higher than that in manufacturing. Despite the higher negative effect of COVID, in both these sectors the long term growth rates have surpassed the growth till 2016-17. It may be said that the utility and construction sectors have fully recovered but not manufacturing. The growth rates shown in Table 1 further confirm it. In electricity, gas and utilities the long term growth at 5.91 per cent is higher than that till 2016-17 at 5.67 per cent and in

**Figure 1.** Manufacturing value added (Rs crore)



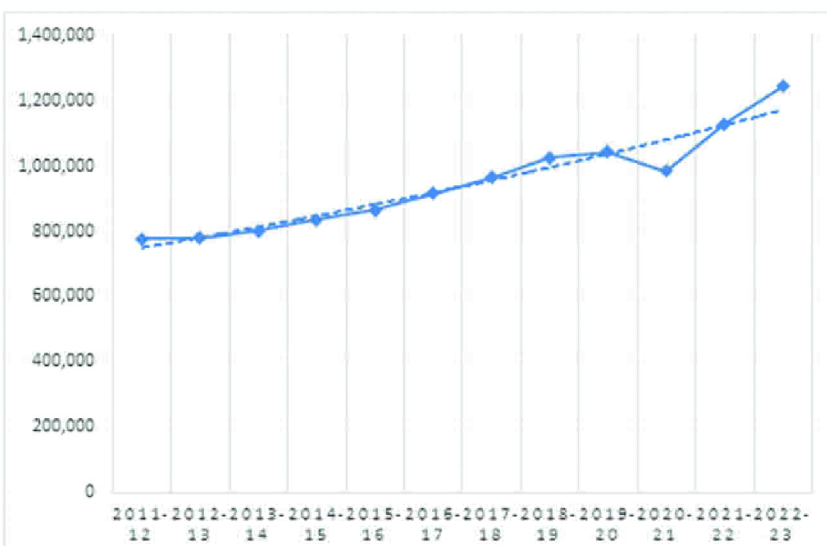

*Source: MOSPI, Second advance estimates of national income and expenditure components of GDP, 2022-23 (at 2011-12 prices); provisional estimates, 2022-23.*

**Figure 2.** Electricity, gas, water supply and other utilities value added (Rs crore)




*Source: Same as figure 1.*

**Figure 3.** Construction (Rs crore)




*Source: Same as figure 1.*

**Figure 4.** Mining and quarrying (Rs crore)

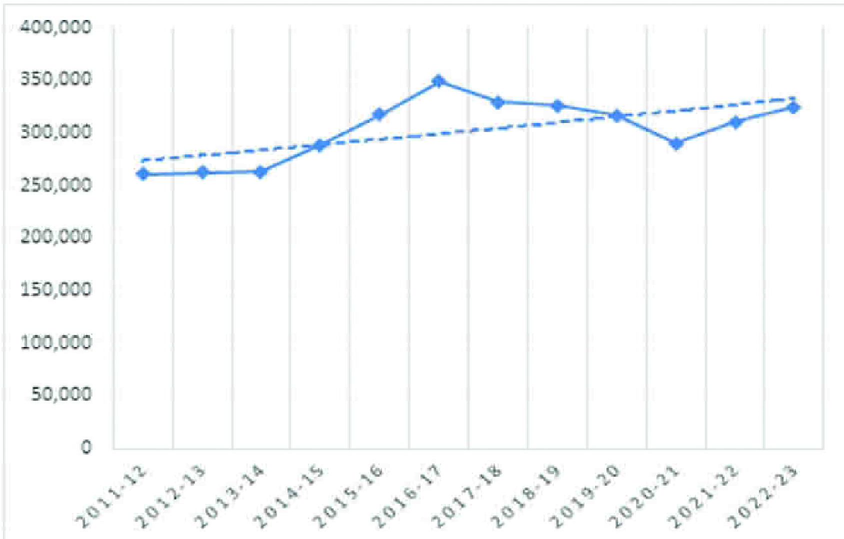
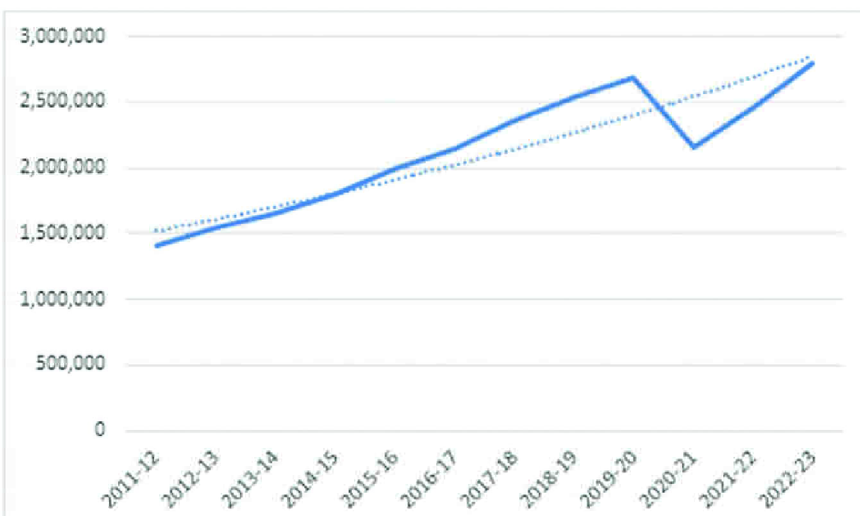



**Figure 5.** Trade, hotels and transport etc



construction, the long term growth is 4.14 per cent and that till 2016-17 only 3.42 per cent (Figure 2, Figure 3, Figure 4, Figure 5).

It may be seen from Figures 4 to 7 that except for the two sectors of electricity, gas and utilities, and construction growth recovery has not been witnessed. The worst performer is mining and quarrying where growth deceleration has been deep since 2016-17, the COVID 19 pushing the levels of value added to that of 2014-15. In 2022-23, the level achieved in 2015-16 has just been crossed. The long-term growth at 1.79 per cent is way below that till 2016-17 at 6.25 per cent. All other major sectors too show similar gaps in growth rates (Table 1). Surprisingly, public administration and defence too has not fully recovered, the gap in growth rates being 0.5 percentage point. In the two major sectors, namely trade, hotels, transport and communication, and financial, real estate and professional

**Figure 6.** Financial services, real estate and professional services (Rs crore)

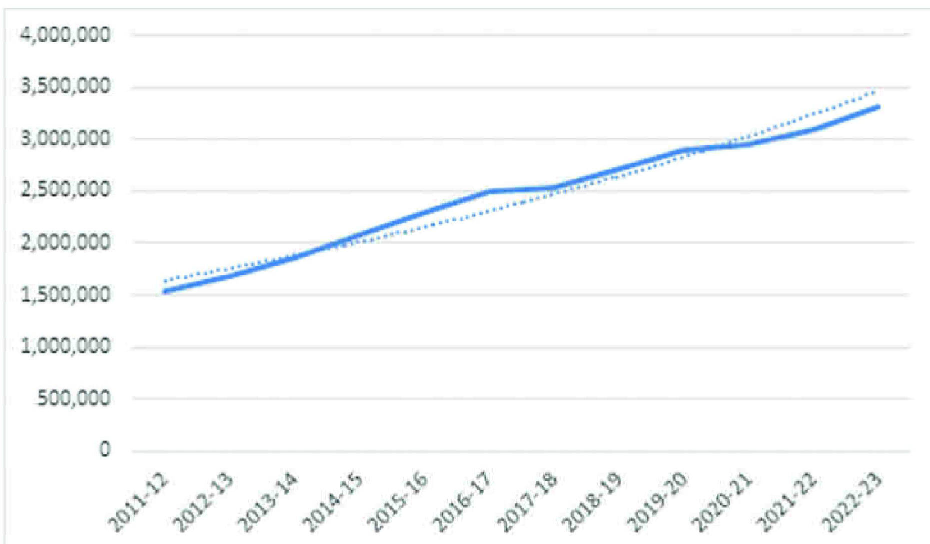


**Figure 7.** Public administration, defence and other services (Rs crore)

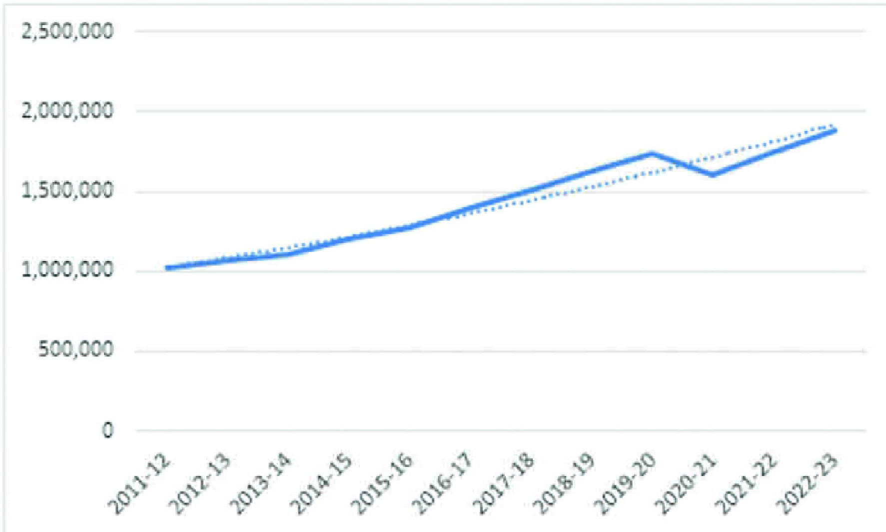



**Table 1.** Compound annual growth rates of the industrial sectors in india

| Industry | Compound annual growth rates (%) | |
|---|---|---|
| | **2011-12 to 2016-17** | **2011-12 to 2022-23** |
| Agriculture, Forestry and Fishing | 2.51 | 3.06 |
| Mining and Quarrying | 6.25 | 1.79 |
| Manufacturing | 8.02 | 6.02 |
| Electricity, Gas, Water Supply and Other Utility Services | 5.67 | 5.91 |
| Construction | 3.42 | 4.14 |
| Trade, Hotels, Transport, Communication and Services Related to Broadcasting | 9.28 | 6.72 |
| Financial, Real Estate and Professional Services | 10.45 | 7.03 |
| Public Administration, Defence and Other Services | 6.34 | 5.87 |
| GVA at Basic Prices | 6.97 | 5.55 |

*Source: Same as Figure 1*

services accounting for more than 40 per cent of the total value added, the long term growth rates are still around 3 percentage points lower than the high growth till 2016-17. It is the poor recovery of the major sectors that has resulted in the long term growth rate of Gross Value Added at 5.55 per cent being 1.42 percentage points lower than the growth rate of the first five years of the last decade (Figure 6,Figure 7, Table 1.).

It is too early to say that Indian economic growth has picked up momentum. The three major sectors of the economy, namely manufacturing, trade, hotels, transport and communications and financial, real estate and professional services accounting for over 60 percent of the economy are yet to see the vitality of the mid years of the last decade. Some pondering over the question of deceleration of the economy in the pre-COVID period would do us some good.

■

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## State of State Finances

# Turnaround in own tax mobilisation yet the fiscal stress : Kerala in a comparative perspective

K J Joseph, Anitha Kumary L and Raj Krishna

### Introduction

The policy reforms in developing countries under globalisation were characterised by a major change in the role of state in development. The shift in policies essentially involved state taking a backseat while the market being in the forefront for addressing imperatives of development. Yet, states do play important role in many of the development related issues confronted by the people. The available empirical evidence indicates that the tax base of developing countries in general has been at a much lower level as compared to developed countries. This indeed sets serious limits to the role that state could play in addressing development problems. As the reforms were instrumental in further reducing the tax revenue, the issues got further compounded. The lower tax base of developing countries and the underlying factors therein have attracted much academic attention. In this context, it is heartening to note that although the higher-income countries today raise much higher taxes than poorer countries, the tax share in GDP of today's developing countries looks very similar to what it did a century ago in the now-developed economies of the world (Besley and Persson 2014)

India has not been an exception and the need for further increasing the tax base remain an issue of much concern and we need to know more. It appears that the structure of the economy, among others, does matter, we are referring to the predominance of informal sector. Although higher economic growth is important in widening the tax net and

***The tax revenue showed a growth rate of 18.5 per cent in Kerala which is 3 per cent higher than by all states. The compositional change was highly significant in Kerala; the share of own Tax Revenue in revenue receipts increase from 54.2% to 58.2%. An increase of 4 percentage points in one year is a clear indication of turnaround.***

***The state's own tax revenue in Kerala showed a remarkable growth rate of 22.11 per cent in 2022-23 over 2021-22. Our Own tax revenue increased from Rs 63,000 Crore to Rs 77,000 crore (an increase of Rs 14,000 crore) indicating a growth rate of 22.1%. This growth rate of own tax revenue is one of the highest among states. Only two states - Maharashtra (25.6%) and Gujarat (28.4%), with sound manufacturing base, recorded better performance than Kerala***

increasing the tax base, it need not necessarily get translated into a higher tax revenue. Piketty and Qian (2009) have shown that increasing exemptions in India seem to have led to a situation wherein income-tax revenues stagnated at around 0.5 percent of GDP since 1986. Rao (2000) observed that from the 1970s to mid-1980, the tax GDP ratio increased in sync with the buoyant economic conditions and accelerated rate of growth of the economy. To be more specific, the tax GDP ratio, increased from about 11 per cent in 1970-71 to 14.6 per cent in 1980-81and reached the peak of about 17 per cent in 1987-88 to decline thereafter to 13.9 per cent in 1993-94 and gradually recovered to 14.6 per cent in 1997-98. Isaac et al (2019) also made similar observation. It was shown that the combined revenue of the Centre and states increased from 7.6% of GDP in 1950-51 to 18.0% (2.5 times increase!) in 1986-87 and thereafter stagnated around the same level for the next two decades with the level being only 20.7% in 2015-16.

Kerala appears to have been in the same boat. Kerala's per capita GSDP is almost 1.6 times that of the national per capita GDP. As argued by Kannan and Hari (2002) state's modified per capita GSDP, which includes the substantial remittance that the state receives, would be still higher. Yet, our tax GSDP ratio is only on par with the national average. This is a matter of much concern; although the people are rich the government is poor. The fiscal position of the state becomes all the more precarious when it "competes" with the Scandinavian countries as regards social protection with African level taxation.

This article, while dealing with the state of Kerala state finances during 2022-23 as compared to 2021-22 in comparison with other major states, highlights a

***The share of own tax revenue in the tax revenue is the third highest in Kerala (85.5%) next only to Haryana and Karnataka. The increase in own tax revenue in Kerala was majorly contributed by GST. It's share in Tax revenue increased from 38% to 38.4 %***

**Fiscal performance of kerala compared to major states in india**

Table 1

Annual growth rate in different components of revenue receipts- 2022-23 over 2021-22 (%)

| Description | ue Receipts (a+b) | Tax Revenue | State's own tax revenue | Goods and Services Tax | Stamps and registration fees | Land Revenue | Sales Tax | State Excise Duties | State' share of Union Taxes | Other Taxes and duties | Non-Own Tax Revenue | Grants in aid |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| All India | 14.2 | 15.6 | 19.0 | 19.2 | 20.9 | 17.4 | 13.4 | 16.4 | 7.7 | 35.3 | 13.9 | 8.1 |
| Kerala | 13.7 | 18.5 | 22.1 | 19.4 | 28.0 | 52.9 | 19.7 | 41.5 | 0.7 | 33.5 | 44.8 | -9.1 |
| Andhra Pradesh | 5.1 | 9.2 | 9.2 | 13.4 | 5.1 | 119.7 | -13.5 | 0.6 | 9.6 | 129.2 | 20.2 | -8.0 |
| Bihar | -21.0 | -19.5 | 1.9 | -8.9 | 23.5 | 26.9 | 43.8 | -193.0 | -39.2 | 25.6 | 16.2 | -32.7 |
| Karnataka | 17.1 | 15.7 | 18.2 | 20.5 | 26.4 | 100.5 | -1.0 | 13.4 | 2.7 | 41.6 | 20.4 | 23.0 |
| Odisha | -1.8 | 13.5 | 14.2 | 13.5 | -17.4 | 11.2 | 20.2 | 16.8 | 12.7 | 17.3 | -21.3 | -9.1 |
| Punjab | 12.1 | 13.0 | 13.4 | 16.6 | 27.8 | 11.3 | -17.9 | 37.0 | 12.1 | 8.1 | 30.9 | 5.3 |
| Rajasthan | 6.0 | 12.2 | 16.8 | 22.9 | 26.1 | -23.4 | 10.3 | 12.9 | 5.9 | 13.6 | 9.8 | -17.9 |
| Uttarakand | 14.0 | 15.1 | 20.6 | 22.9 | 33.6 | 62.9 | 11.0 | 8.2 | 7.2 | 46.1 | 58.4 | 4.8 |
| Harayana | 18.8 | 21.5 | 23.6 | 39.4 | 13.3 | 5.4 | 0.4 | 21.9 | 10.6 | 30.9 | 21.4 | -5.7 |
| Tamil Nadu | 17.5 | 17.9 | 22.3 | 18.9 | 22.5 | 20.8 | 21.5 | 26.5 | 3.4 | 46.8 | 45.1 | 7.8 |
| Chattisgarh | 18.0 | 17.7 | 22.3 | 19.1 | 14.6 | -8.6 | 20.8 | 32.8 | 13.3 | 29.1 | 10.9 | 29.6 |
| Gujarat | 20.0 | 23.0 | 28.4 | 21.3 | 36.2 | 61.0 | 27.3 | 21.2 | 6.2 | 42.5 | 32.6 | -3.7 |
| Madhya Pradesh | 9.7 | 8.4 | 9.8 | 6.2 | 8.8 | 30.5 | 9.5 | 25.4 | 7.0 | 0.4 | 29.9 | 6.2 |
| Maharashtra | 21.7 | 22.6 | 25.6 | 24.6 | 27.2 | -20.7 | 18.8 | 24.9 | 10.5 | 48.6 | -13.9 | 32.4 |
| Uttar Pradesh | 16.5 | 11.7 | 15.0 | 11.7 | 23.9 | 47.8 | 18.2 | 13.6 | 6.3 | 26.9 | 19.0 | 53.2 |
| West Bengal | 9.7 | 13.5 | 17.7 | 21.7 | -6.7 | 15.7 | 19.0 | 20.1 | 9.0 | 20.5 | 36.8 | -4.5 |
| Telangana | 25.0 | 15.1 | 16.3 | 21.5 | 15.0 | 3.8 | 9.8 | 5.7 | 6.4 | 52.6 | 120.8 | 52.9 |

***The share of Grants in aid from the Centre in Revenue Receipts recorded the highest decline in Kerala from 25.8% to 20.6% - a decline of 5.2 percentage points.***

significant turnaround in its tax mobilisation during the last fiscal. The article also presents strong evidence of commendable fiscal consolidation as evidenced by the highest decline in the revenue deficit and fiscal deficit compared to other states. Yet the stressful fiscal situation continues primarily on account of the faulty fiscal policy of the Centre towards states in general and Kerala in particular.

**Revenue receipts of states**

Revenue mobilization from own tax and non-tax revenue is an important agenda of state governments including Kerala. In order to meet the high committed expenditures, it is seen that the state has to resort to own revenue mobilisation along with the central share of taxes and grants in aid. The role of own revenue mobilization assumes added importance in the present context of fiscal restrictions imposed on states by the Union government in the name of the borrowing limit. The inclusion of off-budget borrowing in previous years into the borrowing limit has aggravated the issue.

The revenue receipts in Kerala increased from Rs 1.16 Lakh in 2021-22 to Rs 1.32 Lakh in 2022-23; an increase of Rs 16,000 crore (Table 4). This indicates an annual growth rate 13.7% in 2022-23 which is marginally lower than the all India average (14.2%). Telangana registered the highest rate of growth of revenue receipts (25.0) followed by Maharashtra with a growth rate of 21.7 per cent (Table 1). The revenue receipts consist of tax revenue and non tax revenue which registered an average growth rates of 14.2 per cent by all states. The tax revenue showed a growth rate of 18.5 per cent in Kerala which is 3 per cent higher than that of all states average. Gujarat (23.0%), Maharashtra (22.6%) and Haryana (21,5) were ahead of Kerala in the case of tax revenue growth.

The state's own tax revenue in Kerala showed a remarkable growth rate of 22.1 per cent in 2022-23 over 2021-22, from Rs 63,000 Crore to Rs 77,000 crore (an increase of Rs 14,000 crore) (Table 4). This

***GST, Kerala recorded a 1.2% increase in its share which was higher than Maharashtra and Gujarat. Kerala's performance in state excise duties wherein growth rate was 41.5 %. This growth rate is the highest among the states considered. The growth rate of stamp duty and registration showed a growth rate of around 28 per cent***

**Table 2 -** Change in share of different components in total revenue receipts for selected states during 2022-23 over 2021-22 (2%)

| Description | Year | Revenue Receipts (a+b) | Tax Revenue | State's own tax revenue | Goods and Services Tax | Stamps and registration fees | Land Revenue | Sales Tax | State Excise Duties | State' share of Union Taxes | Other Taxes and duties | Non-Own Tax Revenue | Grants aid Contri butions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| All India | 22-23 | 100.0 | 76.3 | 54.7 | 23.4 | 6.3 | 0.5 | 12.1 | 7.2 | 21.6 | 5.2 | 7.8 | 15.9 |
| | 21-22 | 100.0 | 75.4 | 52.5 | 22.4 | 5.9 | 0.5 | 12.2 | 7.1 | 22.9 | 4.4 | 7.8 | 16.8 |
| Kerala | 22-23 | 100.0 | 68.1 | 58.2 | 26.1 | 4.7 | 0.5 | 20.3 | 2.2 | 9.9 | 4.4 | 11.3 | 20.6 |
| | 21-22 | 100.0 | 65.3 | 54.2 | 24.9 | 4.2 | 0.4 | 19.3 | 1.7 | 11.1 | 3.7 | 8.9 | 25.8 |
| Andhra Pradesh | 22-23 | 100.0 | 73.4 | 56.2 | 24.5 | 5.1 | 0.1 | 11.4 | 9.3 | 17.3 | 5.8 | 3.8 | 22.8 |
| | 21-22 | 100.0 | 70.7 | 54.1 | 22.8 | 5.1 | 0.0 | 13.8 | 9.8 | 16.6 | 2.6 | 3.3 | 26.0 |
| Bihar | 22-23 | 100.0 | 82.1 | 49.7 | 32.9 | 5.2 | 0.3 | 8.0 | 0.0 | 32.4 | 3.3 | 3.3 | 14.6 |
| | 21-22 | 100.0 | 80.6 | 38.5 | 28.5 | 3.3 | 0.2 | 4.4 | 0.0 | 42.1 | 2.1 | 2.2 | 17.2 |
| Karnataka | 22-23 | 100.0 | 77.8 | 66.9 | 31.3 | 7.8 | 0.2 | 8.4 | 13.2 | 10.9 | 6.0 | 6.0 | 16.2 |
| | 21-22 | 100.0 | 78.7 | 66.3 | 30.5 | 7.2 | 0.1 | 9.9 | 13.6 | 12.4 | 5.0 | 5.9 | 15.4 |
| Odisha | 22-23 | 100.0 | 59.6 | 31.0 | 12.4 | 1.3 | 0.5 | 8.0 | 4.3 | 28.6 | 4.5 | 28.4 | 12.0 |
| | 21-22 | 100.0 | 51.6 | 26.6 | 10.7 | 1.6 | 0.4 | 6.5 | 3.6 | 24.9 | 3.8 | 35.4 | 13.0 |
| Punjab | 22-23 | 100.0 | 67.9 | 48.3 | 20.7 | 4.8 | 0.1 | 6.4 | 9.6 | 19.6 | 6.6 | 7.1 | 25.0 |
| | 21-22 | 100.0 | 67.3 | 47.8 | 19.9 | 4.2 | 0.1 | 8.8 | 7.9 | 19.6 | 6.9 | 6.1 | 26.6 |
| Rajasthan | 22-23 | 100.0 | 74.8 | 45.2 | 17.5 | 4.2 | 0.3 | 11.8 | 6.9 | 29.6 | 4.6 | 9.8 | 15.3 |
| | 21-22 | 100.0 | 70.7 | 41.1 | 15.1 | 3.6 | 0.3 | 11.3 | 6.5 | 29.7 | 4.3 | 9.5 | 19.8 |
| Uttarakhand | 22-23 | 100.0 | 56.5 | 34.8 | 15.0 | 4.0 | 0.1 | 5.2 | 7.2 | 21.6 | 3.3 | 8.9 | 34.6 |
| | 21-22 | 100.0 | 55.9 | 32.9 | 13.9 | 3.5 | 0.1 | 5.3 | 7.6 | 23.0 | 2.6 | 6.4 | 37.7 |
| Haryana | 22-23 | 100.0 | 83.5 | 71.7 | 32.5 | 9.8 | 0.0 | 12.8 | 11.0 | 11.8 | 5.5 | 8.4 | 8.1 |
| | 21-22 | 100.0 | 81.6 | 68.9 | 27.7 | 10.3 | 0.0 | 15.2 | 10.7 | 12.7 | 5.0 | 8.2 | 10.2 |
| Tamil Nadu | 22-23 | 100.0 | 78.1 | 62.1 | 22.2 | 7.3 | 0.1 | 24.4 | 4.3 | 16.0 | 3.7 | 6.3 | 15.6 |
| | 21-22 | 100.0 | 77.9 | 59.7 | 22.0 | 7.0 | 0.1 | 23.6 | 4.0 | 18.2 | 3.0 | 5.1 | 17.0 |
| Chattisgarh | 22-23 | 100.0 | 69.6 | 35.2 | 12.0 | 2.4 | 0.9 | 6.9 | 7.2 | 34.4 | 5.8 | 16.4 | 14.0 |
| | 21-22 | 100.0 | 69.8 | 34.0 | 11.9 | 2.4 | 1.2 | 6.7 | 6.4 | 35.9 | 5.3 | 17.4 | 12.7 |
| Gujarat | 22-23 | 100.0 | 79.2 | 62.7 | 26.4 | 7.1 | 2.2 | 18.5 | 0.1 | 16.5 | 8.4 | 9.3 | 11.6 |
| | 21-22 | 100.0 | 77.2 | 58.6 | 26.1 | 6.3 | 1.7 | 17.4 | 0.1 | 18.6 | 7.1 | 8.4 | 14.4 |
| Madhya Pradesh | 22-23 | 100.0 | 72.1 | 35.7 | 11.5 | 4.3 | 0.5 | 8.7 | 6.4 | 36.5 | 4.4 | 9.7 | 18.1 |
| | 21-22 | 100.0 | 73.0 | 35.6 | 11.9 | 4.4 | 0.4 | 8.7 | 5.6 | 37.4 | 4.8 | 8.2 | 18.7 |
| Maharashtra | 22-23 | 100.0 | 83.4 | 68.5 | 29.9 | 11.2 | 0.6 | 13.5 | 5.3 | 14.8 | 8.0 | 4.0 | 12.7 |
| | 21-22 | 100.0 | 82.7 | 66.4 | 29.2 | 10.7 | 0.9 | 13.8 | 5.2 | 16.3 | 6.6 | 5.6 | 11.6 |
| Uttar Pradesh | 22-23 | 100.0 | 82.7 | 53.4 | 27.0 | 6.0 | 0.1 | 7.7 | 9.9 | 29.2 | 2.8 | 3.1 | 14.2 |
| | 21-22 | 100.0 | 86.2 | 54.1 | 28.1 | 5.6 | 0.1 | 7.6 | 10.2 | 32.0 | 2.5 | 3.0 | 10.8 |
| West Bengal | 22-23 | 100.0 | 79.4 | 42.8 | 19.5 | 3.5 | 1.6 | 6.1 | 8.3 | 36.6 | 3.8 | 1.1 | 19.5 |
| | 21-22 | 100.0 | 76.7 | 39.9 | 17.6 | 4.1 | 1.5 | 5.6 | 7.6 | 36.8 | 3.5 | 0.9 | 22.4 |
| Telangana | 22-23 | 100.0 | 79.5 | 70.7 | 26.3 | 8.9 | 0.0 | 18.6 | 11.6 | 8.8 | 5.3 | 12.3 | 8.3 |
| | 21-22 | 100.0 | 86.3 | 76.0 | 27.1 | 9.7 | 0.0 | 21.2 | 13.7 | 10.3 | 4.3 | 6.9 | 6.8 |

***In the case of state's own non tax revenue also registered a substantially higher growth rate (44.83%). Non Tax revenue in Kerala increased from about Rs 10,000 to Rs15,000 Crore***

growth rate of own tax revenue is one of the highest among states. Only two states - Maharashtra (25.6%) and Gujarat (28.4%), with sound manufacturing base, recorded better performance than Kerala. (Table 1).

The compositional change also was highly significant in Kerala; the share of own Tax Revenue in revenue receipts increased from 54.2% to 58.2% during the period. An increase of 4 percentage points in one year is a clear indication of turnaround. This has to be compared with an average state level increase of only 2.2 percentage point from 52.5% to 54.7 %.. Bihar registered the highest percentage increase (11,2 ) in their share in own tax revenue from 2022-23 over 2021-22. Gujarat, Rajasthan and Odisha are also come up in similar position as Kerala.

The share of own tax revenue in tax revenue is the third highest in Kerala (85.5%) next only to Haryana and Karnataka . However, what is striking is that, Kerala recorded the highest increase from 83% to 85.5% (2.5%). At the same time, Kerala also recorded a decline in the State's share of Union taxes. It declined from 17% to 14.5% (2.5% decline) while Tamil Nadu registered a 3 % decline(Table 2). The increase in own tax revenue in Kerala was majorly contributed by GST. It's share in Tax revenue increased from 38% to 38.4 % , lower in Karnataka and Haryana. Odisha (48%) , Madhya Pradesh (50.6%), West Bengal (46%) and Rajasthan (39.6) are getting the higher share of central taxes.

At the same time, the share of Grants in aid from the Centre in Revenue Receipts recorded the highest decline in Kerala from 25.8% to 20.6% - a decline of 5.2 percentage points (Table 2). Even in Rajasthan which recorded lowest growth in Grants in aid, the share declined only by 4.5% . In the case of Kerala share of central taxes declined from 11.13% to 9.38% (1.27% point decline), in other states also the share declined except in Orissa (increased 3.67 %) and Andhra Pradesh (0.70%).

Coming to the various components of own tax revenue in Kerala, GST recorded a 1.2% increase in its share which was higher than that of Maharashtra and Gujarat (Table 2). Haryana and Bihar recorded more than 4% increase in their share of GST in revenue receipts. The efforts initiated by Government of Kerala is reflected in the rate of growth of GST collection (19.4%) (Table 1). GST being a destination based tax with strong indications of economic revival, there appears to be room for further improving our GST performance.

Especially notable has been Kerala's

**Table 3 -** Annual growth in expenditure and deficit components 2022-23 over 2021-22 (%)

| Description | Revenue Expen diture | Expenditure on Revenue | Expenditure on Interest | Expenditure on Salaries/ wages | Expenditure on Pension | Expenditure on subsid | Capital Expenditure | Borrowing and other liablities | Revenue Surplus (+)/Defici t(-) (1-4) | Fiscal Surplus(+)/ Deficit (-) | Primary Deficit (8-4b) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| All India | 11.5 | 10.1 | 7.1 | 13.8 | 12.2 | 19.6 | 12.4 | 5.0 | -49.1 | 5.0 | -11.2 |
| Kerala | -2.6 | 7.8 | 9.6 | -13.5 | -3.0 | -60.3 | -2.4 | -47.0 | -74.3 | -47.0 | -96.4 |
| Andhra Pradesh | 26.1 | 32.7 | 12.6 | 19.7 | 11.1 | 56.6 | -54.9 | 104.2 | 403.3 | 104.2 | 628.7 |
| Bihar | 14.7 | 16.3 | 9.3 | 4.9 | 14.1 | 33.7 | 29.0 | 231.7 | 2802.2 | 231.7 | 455.6 |
| Karnataka | 3.2 | -11.6 | 14.8 | 0.0 | 16.2 | 0.0 | 13.1 | -36.8 | -513.5 | -36.8 | -66.9 |
| Odisha | 16.1 | 24.3 | -18.7 | 9.5 | 13.0 | -16.6 | 45.1 | -168.1 | -48.2 | -168.1 | 0.0 |
| Punjab | 17.0 | 11.5 | 0.1 | 15.4 | 23.7 | 42.0 | -18.1 | 19.4 | 40.9 | 19.4 | 57.0 |
| Rajasthan | 9.0 | 8.8 | 9.1 | 4.6 | 18.2 | 12.0 | -6.3 | 15.3 | 30.4 | 15.3 | 21.0 |
| Uttarakand | 12.1 | 14.1 | 8.6 | 9.4 | 12.7 | 99.3 | 8.8 | -25.6 | 32.4 | -25.6 | 246.2 |
| Harayana | 8.8 | 8.9 | 18.2 | 1.2 | 16.8 | -1.9 | 7.7 | -8.2 | -22.4 | -8.2 | -34.9 |
| Tamil Nadu | 8.9 | -5.3 | 11.7 | 18.5 | 23.4 | 36.3 | 6.6 | -5.1 | -33.9 | -5.1 | -21.1 |
| Chattisgarh | 14.1 | 19.8 | 2.9 | 9.5 | 2.6 | 26.4 | 25.9 | -15.9 | 85.8 | -15.9 | -107.9 |
| Gujarat | 10.5 | 12.3 | -1.1 | 15.3 | 8.8 | 14.3 | 26.9 | -40.9 | 216.9 | -40.9 | 286.9 |
| Madhya Pradesh | 12.2 | 15.2 | 7.7 | 13.8 | 10.5 | 0.0 | 9.0 | 16.9 | -67.6 | 16.9 | 24.7 |
| Maharashtra | 16.1 | 14.8 | 1.2 | 15.6 | 11.9 | 48.2 | 32.3 | 2.8 | -91.0 | 2.8 | 4.8 |
| Uttar Pradesh | 13.9 | 18.8 | 0.5 | 9.6 | 16.2 | 5.5 | 33.3 | 38.0 | 54.7 | 38.0 | 209.7 |
| West Bengal | 5.8 | 9.0 | 9.8 | 2.9 | -7.7 | 2.9 | 27.2 | -1.9 | -16.5 | -1.9 | -28.4 |
| Telangana | 11.1 | 10.7 | 12.1 | 16.1 | 12.7 | -5.8 | -38.1 | -32.7 | -164.0 | -32.7 | -61.5 |

Source: *Computed from C&AG, 2021-22 and 2022-23*

Note: *RD, FD and PD refers to revenue, fiscal and primary deficits, respectively.*

***It is observed that there is sharp decline in borrowing in seven states in the year 2022-23. The highest decline in borrowing recorded in Odisha (-168.1 per cent). The sharp decline happened in Kerala also (-47 per cent).. This is on account of the severe restrictions on borrowing on Kerala in the name of off budget borrowing.***

performance in state excise duties wherein growth rate was 41.5%. This growth rate is the highest among the states considered. The growth of stamp duty and registration showed a rate of around 28 per cent. It is evident from Table 1 that all the components of state's own tax revenue increased considerably during 2022-23 over 2021-22 which indicates a strong sign of turnaround after the COVID 19 pandemic. This has to be viewed against the background of a minimal growth in the share of central taxes to Kerala (0.7%) (Table 1)

In the case of state's own non tax revenue also Kerala registered a substantially higher growth rate (44.83%); an increase from Rs 10,000 to Rs15,000 Crore (Table 4). Telangana, Uttarakhand and Tamil Nadu are the states ahead of Kerala in the case of own non tax revenue mobilisation.

**Revenue expenditure**

Expenditure rationalisation is one of the measures to achieve fiscal turnaround. Highest revenue expenditure growth is observed in Andhra Pradesh (26.1 per cent), Punjab (17 per cent), Maharashtra (16.1 per cent) and in Odisha (16.1) (Table 3). Kerala is the only state that reported a decline in Revenue expenditure. The growth rate of revenue expenditure in Kerala showed a decline of -2.63 per cent during the period while for all India it increased by 11.5%. Salary and pension expenditure registered a decline in growth rate (-13.51% and -3. 02%). The growth of interest payment in Revenue expenditure shows a growth rate of 9.63 per cent in 2022-23. For Kerala, there has been a massive decline (-60%) in subsidy expenditure while it increased by 19.6% for all the states put together. Decline in subsidy expenditure has to be viewed in the highest spending on subsidy during the pandemic period by providing required social security benefits for protecting the lives and livelihood of the people.

***In Kerala , the revenue deficit declined by -74% while for all India the decline was 49%. The fiscal deficit for Kerala declined by 47% while for the country as a whole, there was a fiscal surplus that increased by 5%. Orissa (168%) and Gujarat (41%) also recorded faster decline in fiscal deficit***

***Kerala is compelled to reduce its fiscal deficit on account of the arbitrary fiscal conditionalities of central government on borrowings of the state. Because of these restrictions, the state was not able to borrow 3 per cent of GSDP which is entitled to state as per the FRBM Act.***

**Table 4 -** Fiscal position of kerala in 2022-23 over 2021-22 (Rs. in Crore)

| Sl.No | Description | Mar-23 | Mar-22 | Growth rate (%) |
|---|---|---|---|---|
| 1 | Revenue Receipts (a+b) | 132536.77 | 116546.50 | 13.72 |
| a) | Tax Revenue | 90230.04 | 76160.58 | 18.47 |
| | State's own tax revenue | 77164.84 | 63191.75 | 22.11 |
| | Goods and Services Tax | 34641.72 | 29002.48 | 19.44 |
| | Stamps and registration fees | 6216.71 | 4857.33 | 27.99 |
| | Land Revenue | 720.10 | 470.81 | 52.95 |
| | Sales Tax | 26912.74 | 22487.42 | 19.68 |
| | State Excise Duties | 2875.95 | 2032.23 | 41.52 |
| | State' share of Union Taxes | 13065.20 | 12968.83 | 0.74 |
| | Other Taxes and duties | 5797.62 | 4341.48 | 33.54 |
| b) | Non-Own Tax Revenue | 15021.27 | 10371.80 | 44.83 |
| | Grants aid Contributions | 27285.46 | 30014.12 | -9.09 |
| 2 | Capital Receipts | 23132.08 | 43518.61 | -46.85 |
| | Borrowing and other liabilities | 22672.50 | 42785.97 | -47.01 |
| 3 | Total Receipts (1+2) | 155668.85 | 160065.11 | -2.75 |
| 4 | Revenue Expenditure | 139359.95 | 143128.64 | -2.63 |
| 4(a) | Expenditure on Revenue account | 50463.52 | 46831.94 | 7.75 |
| b) | Expenditure on Interest Payment | 21840.77 | 19923.09 | 9.63 |
| c) | Expenditure on Salaries/wages | 39425.93 | 45585.43 | -13.51 |
| d) | Expenditure on Pension | 26087.46 | 26898.66 | -3.02 |
| e) | Expenditure on subsidy | 1542.27 | 3889.52 | -60.35 |
| 5 | Capital Expenditure | 13521.03 | 13851.86 | -2.39 |
| 6 | Total Expenditure (4+5) | 152880.98 | 156980.5 | -2.61 |
| 7 | Revenue Surplus (+)/Deficit (-) (14) | -6823.18 | -26582.14 | -74.33 |
| 8 | Fiscal Surplus (+)/Deficit (-) | -22672.5 | -42785.97 | -47.01 |
| 9 | Primary Deficit(8-4b) | -831.73 | -22862.88 | -96.36 |

## Capital expenditure

Capital expenditure showed a positive growth in thirteen states . The highest growth recorded in Odisha . (45.1 per cent) and the highest decline in capital expenditure observed in Andhra Pradesh (-54.9 percent), Telangana (-38.1 per cent) , Punjab (-18.1 per cent) and in Rajasthan (-6.1 per cent) (Table 3). In Kerala, the growth of capital expenditure showed a marginal decline during the period under study. While considering the growth of capital expenditure in Kerala, the expenditure incurred through KIFBI also have to take into consideration. Capital expenditure also declined by 2% one of the lowest among the Indian states; but actual capital expenditure Kerala would be higher if we consider the capital expenditure by KIIFB also.

**Borrowing, debt and deficit**

It is observed that there is sharp decline in borrowing in seven states in the year 2022-23. The highest decline in borrowing was recorded in Odisha (-168.1 per cent) a sharp decline occurred in Kerala also (-47 per cent). This could be seen in the context of severe restrictions on borrowing on Kerala in the name of off budget borrowing. It goes without saying that restrictions on borrowing severely affected the capital expenditure growth.

Revenue deficit showed a negative growth in 2022-23 vis-à-vis 2021-22 in eleven states. In Kerala, the revenue deficit declined by -74% while for all states, the decline was 49%. Telangana (-164%) and Maharashtra (-91%) recorded higher decline in revenue deficit than Kerala (Table 3) States like Karnataka, has no revenue deficit. Hence they have balance in current revenue for meeting capital expenditure. Whatever borrowing made by them is being used for capital investment. The highest increase in revenue deficit was recorded in Bihar , Andhra Pradesh and Gujarat.

The fiscal deficit for Kerala declined by 47% while for the country as a whole, there was a fiscal surplus that increased by 5%. Orissa (168%) and Gujarat (41%) also recorded faster decline in fiscal deficit. However, states like Andhra Pradesh and Bihar registered sharp increase in fiscal deficit. Kerala has been confronted with a rather paradoxical situation wherein the fiscal deficit target that the Central government failed to follow has been imposed on the states including Kerala. While the fiscal deficit of the Central government has been 6.4 per cent in 2021-23 and envisaged to bring it down to 5.9 per cent in 2023-34, the Central government did not permit the states to borrow more than 3 per cent of GSDP in the pretext of FRBM. This indicates that the Central government imposes and preaches to the states what it failed to practice. Although there is reason to believe that FRBM is a mindless piece of legislation from the perspective a developing country, and its strict implementation during the post pandemic period when the debt GDP ratio at the global level remained at the highest level since the great depression, we would like to reserve the detailed discussion on it to later issue of this journal. To say the least, such tendencies not only erode the fiscal space of the state but also negate the basics of cooperative federalism that we uphold.

As far as primary deficit is concerned, Kerala showed a negative growth rate (-96.4 per cent). States like Andhra Pradesh, Bihar, Gujarat, Uttarakand and Uttar Pradesh also registered higher growth in primary deficit.

**Conclusion**

To conclude, Kerala recorded one of the highest growth rates in state's own tax revenue along with strong evidence of fiscal consolidation by being in the company of some of the other states. This however, coincided with the highest decline in the grants in aid from the centre and negligible growth in the share of Central taxes coupled with the unprecedented restrictions on borrowing to adhere to the FRBM Act, which the Centre also failed in adhering to, severely impacting upon capital expenditure on the one hand and the fiscal freedom on the other. Kerala has been compelled to reduce its fiscal deficit/borrowing on account of the arbitrary fiscal conditionalities of central government on borrowings of the state by the inclusion of off budget borrowing of the state in the previous years to the 3 per cent borrowing limit. Because of these restrictions, the state has not been able to borrow even 3 per cent of GSDP which is entitled to the state as per the FRBM Act. Thus the state has been confronted with a severely constrained fiscal space given an apparent shift in fiscal federal relations presumably from cooperative federalism to coercive federalism. Given this less friendly central state financial relations Kerala is left with hardly any other option but to explore further the untapped tax potential of the state. In this context the strategy of the tax department to increase own revenue substantially through high standard audit training deserves much appreciation. At the same time, there is an urgent need to bring together other states to ensure a paradigm shift in India's centre state financial relations such that the democratically elected state governments, that shoulder 62% of the national expenditure with access to only 37% of the revenue, are not reduced further to subjects of a subordinated federalism.

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# Six years of GST: An interstate analysis

Jerome Joseph and Kiran Kumar Kakarlapudi

## Introduction

The Goods and Services Tax (GST) in India, implemented on 1st July 2017, is one of the most significant indirect tax reforms since independence. The simplified tax system was expected to boost the revenues of both union and state governments on account of increased compliance. It subsumed several existing taxes levied by the union and state Governments. The states have surrendered more taxing powers than the union, thus raising concerns about the revenue autonomy of states. Sustaining the revenue stream which is subsumed into GST is essential for sustainable Public Finance Management (PFM) for states (Mukherjee, 2023). The GST (Compensation to States) Act was enacted to ease concerns about declining revenue in 2017. This act assured all states of an annual growth rate of 14% in their GST revenue compared to the base year of 2015-16, spanning five years from July 2017 to June 2022 (Gupta and Rajaraman, 2020). However, the compensation period ended on 30th June 2022. The hasty GST implementation process was yet to be fully stabilised by the time the COVID-19 pandemic hit the economy, significantly affecting the economy and tax revenues. Hence, some scholars have made a case for extending the compensation period (Rao, 2022).

Meanwhile, it has been one year since the compensation is over, and recent reports suggest that the monthly GST collection in India is touching a record high every month, crossing over Rs 1.5 lakh crores. The monthly GST revenue collection in the first quarter of FY 2023-24 is Rs 1.69 lakh crores. In this context, it is important

***The comparison of growth differences between pre-and post-GST reveals that Gujarat, Maharashtra, Odisha, Punjab and Tamil Nadu have experienced the highest increase. Interestingly, Gujarat, Maharashtra and Tamil Nadu are the top-producing states in the country. This result negates the argument that producing states will be the net losers as GST is a destination-based tax.***

***The states with the lowest growth rates in the GST regime are Jharkhand (10.7%), followed by Kerala and Chhattisgarh (both with a growth rate of 12.3 percent). This finding goes against the argument that consumption states benefit due to GST.***

to analyse the state-wise revenue performance of GST over the past six years and compare it with the pre-GST era.

Therefore, the main objective of this paper is to provide a comprehensive analysis of state-wise GST performance in India. We try to analyse the state-level performance of GST and the states' tax performance pre- and post-GST. We also try to analyse the intensity of how states were affected by the end of the GST compensation era.

The structure of the entire discussion is as follows. First, we shall look at the annual growth rates of tax revenue of the states and compare the growth rates of the pre-GST and post-GST eras to check whether there is any significant improvement/deterioration in the tax revenue growth rates after implementing GST. We shall also see whether the share of indirect tax revenue in Gross State Domestic Product (GSDP) has improved after implementing GST by analysing the tax-to-GDP ratio. In the next section, we shall figure out states' tax buoyancy before and after the implementation of GST to check whether it has improved after implementing GST and finally, we shall try to find how states have been affected by the end of GST compensation to the states.

**Data and methodology**

We take 16 major states in India for the analysis. Since the scope of our analysis starts from before 2014, the year in which Telangana was separated from Andhra Pradesh to become a separate state, we have combined the data of both those states into 'Andhra Pradesh'. The analysis period is from 2012-13 to 2022-23; i.e., 5 years pre-GST period and 5 years post-GST period. The year 2017-18 has not been considered, as this was the transition year. Further, since both the union and state governments settled transitional credits of pre-GST taxes with GST liability, GST collection is not likely to reflect actual GST potential in 2017-18 (Mukherjee, 2023). The pre-GST tax collection data for Gujrat and Haryana were unavailable in the GST portal. In this regard, we have used the same estimations from Mukherjee (2020).

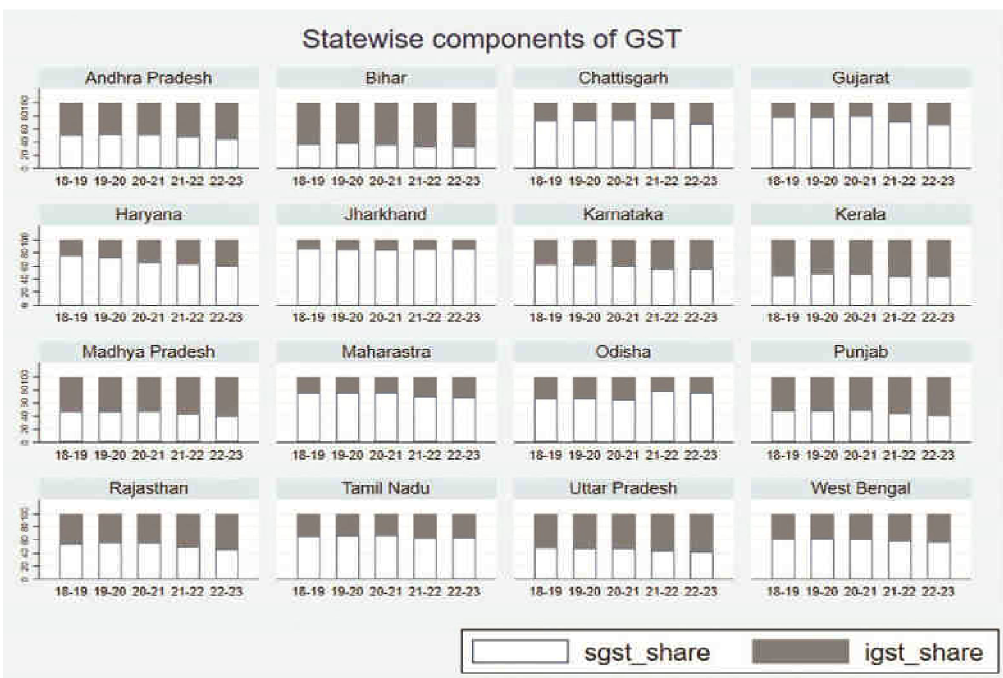
States' revenue has been calculated as the sum of State Goods and Services Tax (SGST) and Integrated Goods and Services Tax (IGST) settlement to the states. The GSDP and GST revenue data of the states were collected from the Ministry of Statistics and Programme Implementation (MoSPI) and the GST portal,[1] respectively.

**The composition of GST revenue collection across states**

The states' GST revenue includes two components. State Goods and Services Tax (SGST) and settlement of Integrated Goods and Services Tax (IGST) by the Centre. For any intra-state transactions, 50 percent of revenue is collected by the state (SGST) and the remaining by the union (Central Goods and Services Tax). In the case of interstate transactions, the entire GST will go to the IGST account and then will be apportioned equally among the Union and the destination state. This amount which will be apportioned to the states on account of interstate transactions is the IGST settlement.

A state with a high share of SGST implies that the state has more intrastate transactions. On the other hand, a state with more share of IGST settlement in its revenue will be a state whose revenue is dependent mainly on inter-state transactions. Since GST is a destination-based tax, it was anticipated that primarily consuming states would benefit compared to the producing states. Figure 1 illustrates the relative share of SGST and IGST in total revenue collection of the states over the years (Figure 1).

**Figure 1:** Components of states' GST revenue




*Source: Authors' own calculation using data from the GST Portal*

The states could be organised into those with a higher relative share of IGST settlement and those with a higher share of SGST settlement. Chhattisgarh, Gujrat, Haryana, Jharkhand, Maharashtra, Odisha, Tamil Nadu, and West Bengal have a larger share of SGST in their GST revenue, implying that they have a large amount of intra-state transactions. In other words, these states are less dependent on other states for their consumption. On the other hand, states like Bihar, Kerala, Madhya Pradesh, Rajastan, Punjab, and Uttar Pradesh have a larger share of IGST settlement. These states depend largely on interstate transactions. Figure 1 indicates that states with relatively higher share of IGST settlement are low-income states except Kerala and Punjab.

### GST revenue growth

Simplifying the tax structure after implementing GST is expected to enhance tax revenue collections. However, studies have shown significant variation in GST revenue collection across states (Dash and Kakarlapudi, 2022). Further, the pandemic has disproportionately affected the GST revenue of some states (Dash and Joseph, 2022). To assess whether states have really gained after

**Table 1:** Pre and post-GST revenue growth rates of states

| Name of State | Pre GST | | | | | Post GST | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 13-14 | 14-15 | 15-16 | 16-17 | Avg | 19-20 | 20-21 | 21-22 | 22-23 | Avg |
| Andhra Pradesh | 5.6 | -1.1 | 6.9 | 17.7 | 7.3 | 8.1 | -7.1 | 30.7 | 23.4 | 13.8 |
| Bihar | 23.8 | 4.0 | 27.8 | 15.5 | 17.8 | 15.6 | -2.2 | 22.8 | 23.2 | 14.9 |
| Chhattisgarh | 8.5 | 5.1 | 7.6 | 9.7 | 7.7 | 8.6 | -3.4 | 21.3 | 22.7 | 12.3 |
| Gujarat | 4.4 | 6.9 | -0.3 | 4.2 | 3.8 | 8.4 | -11.7 | 49.3 | 22.9 | 17.2 |
| Haryana | 7.5 | 14.8 | 10.7 | 12.1 | 11.3 | 13.8 | -4.2 | 31.8 | 25.9 | 16.8 |
| Jharkhand | 9.2 | 11.9 | 2.4 | 25.7 | 12.3 | 14.8 | -10.5 | 20.3 | 18.2 | 10.7 |
| Karnataka | 13.8 | 13.9 | 9.8 | 9.3 | 11.7 | 13.9 | -9.4 | 33.7 | 24.1 | 15.6 |
| Kerala | 9.8 | 9.2 | 6.6 | 10.3 | 9.0 | 5.5 | -8.9 | 27.8 | 24.9 | 12.3 |
| Madhya Pradesh | 5.8 | 9.0 | 8.3 | 13.3 | 9.1 | 10.6 | -7.8 | 24.4 | 25.1 | 13.1 |
| Maharashtra | 2.5 | 5.4 | 1.4 | 11.5 | 5.2 | 9.2 | -14.6 | 41.8 | 24.7 | 15.3 |
| Odisha | 8.7 | 7.2 | 2.7 | 14.8 | 8.3 | 22.9 | -1.8 | 27.6 | 16.2 | 16.2 |
| Punjab | 13.1 | 7.1 | -18.2 | 27.4 | 7.4 | 13.2 | -11.5 | 38.3 | 19.1 | 14.8 |
| Rajasthan | 10.1 | 20.6 | 9.0 | 3.1 | 10.7 | 5.2 | -7.4 | 35.5 | 25.3 | 14.6 |
| Tamil Nadu | 3.3 | 7.4 | 7.2 | 5.1 | 5.8 | 8.7 | -12.7 | 32.2 | 21.7 | 12.5 |
| Uttar Pradesh | 1.1 | 9.0 | 8.3 | 9.2 | 6.9 | 12.7 | -11.0 | 29.9 | 19.4 | 12.7 |
| West Bengal | 17.8 | 8.4 | 2.8 | 12.7 | 10.4 | 11.5 | -9.8 | 25.7 | 24.0 | 12.9 |

*Source: Own calculation using data from the GST portal.*

***If compensation had been provided in the fiscal year 2022-23, the majority of states would have received a substantial increase of at least 20 percent in their actual revenue collections***

GST implementation, Table 1 compares the growth of taxes subsumed under GST and GST revenue collection before and after the reform. Since the tax reform was implemented in 2017-18, this analysis considers data from 2018-19. The average growth of yearly GST collections from 2013-14 to 2016-17 (pre-GST period) is compared with the average growth of 2019-20 to 2022-23 (post-GST period) (Table 1).

Notwithstanding the absolute decline in GST revenues in the pandemic year (2020-21), states on average, recorded higher revenue growth after GST implementation with the exception of Bihar and Jharkhand.

It is important to note that Bihar and Jharkhand were the top-performing states in terms of growth prior to GST implementation. Significant growth performance changes have occurred before and after the policy reform. Except for Haryana and Karnataka, low-income states such as Bihar, Jharkhand, Rajasthan, and West Bengal have registered double-digit growth rates before GST. However, post-GST reform, the top performers are Gujarat (17.2%), Haryana (16.8%), Odisha (16.2%), Karnataka (15.6%) and Maharashtra (15.3%). The comparison of growth differences between pre-and post-GST reveals that Gujarat, Maharashtra, Odisha, Punjab and Tamil Nadu have experienced the highest increase. Interestingly, Gujarat, Maharashtra and Tamil Nadu are the top-producing states in the country. This result negates the argument that producing states will be the net losers as GST is a destination-based tax.

On the other hand, the states with the lowest growth rates in the GST regime are Jharkhand (10.7 %), followed by Kerala and Chhattisgarh (both with a growth rate of 12.3 percent). This finding goes against the argument that consumption states benefit due to GST. In fact, Kerala's rank in growth of GST revenue decelerated from 8th position before the implementation to 14th position after GST. Among the states that showed lower GST growth than their pre-GST period growth, Kerala ranks among the bottom five states, along with Bihar, Jharkhand, West Bengal, and Rajasthan. Interestingly, Kerala is the only high-income state with the lowest GST increase after the GST implementation.

**Tax-GDP ratio**

The tax to gross domestic product (GDP) ratio is total tax revenue as a percentage of GDP, which indicates the share of a country's output that the government collects through taxes. It can be regarded as one measure of the degree to which the government controls the economy's resources (Asian Development Bank, 2021). The tax-to-GDP ratio is a standard indicator of tax base. A higher Tax-GDP ratio is always desirable, indicating that more tax is collected for a fixed GDP.

Table 2 compares GST to GSDP ratio between pre and post GST period. Jharkhand was the only state that managed to improve its tax-to-GDP ratio (3.1 to 6 per cent) following the implementation of GST, thereby attaining the highest tax-to-GDP ratio in the GST regime. All other states have shown a decline in the share of GST to GSDP ratio. However, it is encouraging to note that the ratio shows an increasing trend from 2020-21 onwards in almost all the states. Among others, Maharashtra and Punjab experienced the highest increase in the ratio, from 2.7 and 2.1 per cent in 2020-21 to 3.5 and 2.9 per cent in 2022-23, respectively, followed by Gujarat, Haryana and Utter Pradesh.

Prior to GST, Punjab (4.6%), Karnataka (3.5%), and Odisha (3.4%) were the top states with the highest GST to GSDP ratio. Similarly, Rajasthan (2.4%), West Bengal (2.6%) and Tamil Nadu (2.6 %) are

**Table 2:** Pre- and post-GST Tax to GDP ratio of states

| State | Pre GST | | | | | | Post GST | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 12-13 | 13-14 | 14-15 | 15-16 | 16-17 | Avg | 18-19 | 19-20 | 20-21 | 21-22 | 22-23 | Avg |
| Andhra Pradesh | 3.3 | 3.1 | 2.7 | 2.5 | 2.6 | 2.9 | 2.3 | 2.3 | 2.1 | 2.3 | 2.5 | 2.3 |
| Bihar | 2.7 | 3.0 | 2.9 | 3.4 | 3.5 | 3.1 | 2.5 | 2.6 | 2.5 | 2.7 | 2.6 | 2.6 |
| Chhattisgarh | 3.4 | 3.1 | 3.1 | 3.3 | 3.1 | 3.2 | 2.1 | 2.2 | 2.1 | 2.2 | 2.4 | 2.2 |
| Gujarat | 3.6 | 3.4 | 3.1 | 2.8 | 2.6 | 3.1 | 2.1 | 2.1 | 1.9 | 2.3 | 2.6 | 2.2 |
| Haryana | 3.2 | 3.0 | 3.1 | 3.1 | 3.0 | 3.1 | 2.4 | 2.6 | 2.4 | 2.7 | 3.0 | 2.6 |
| Jharkhand | 2.9 | 3.0 | 2.9 | 3.1 | 3.4 | 3.1 | 5.6 | 6.3 | 5.8 | 6.1 | 6.2 | 6.0 |
| Karnataka | 3.7 | 3.5 | 3.6 | 3.5 | 3.3 | 3.5 | 2.5 | 2.6 | 2.4 | 2.6 | 2.8 | 2.6 |
| Kerala | 3.2 | 3.1 | 3.1 | 3.0 | 2.9 | 3.1 | 2.3 | 2.4 | 2.3 | 2.5 | 2.8 | 2.5 |
| Madhya Pradesh | 3.2 | 3.0 | 3.0 | 2.8 | 2.7 | 2.9 | 2.0 | 2.0 | 1.8 | 1.9 | 2.0 | 2.0 |
| Maharashtra | 3.8 | 3.4 | 3.4 | 3.1 | 3.1 | 3.3 | 3.0 | 3.1 | 2.7 | 3.2 | 3.5 | 3.1 |
| Odisha | 3.5 | 3.4 | 3.4 | 3.4 | 3.2 | 3.4 | 2.1 | 2.4 | 2.4 | 2.5 | 2.5 | 2.4 |
| Punjab | 4.9 | 5.0 | 5.0 | 3.7 | 4.3 | 4.6 | 2.2 | 2.4 | 2.1 | 2.7 | 2.9 | 2.4 |
| Rajasthan | 2.4 | 2.4 | 2.6 | 2.5 | 2.3 | 2.4 | 2.3 | 2.2 | 2.0 | 2.2 | 2.4 | 2.2 |
| Tamil Nadu | 2.9 | 2.7 | 2.6 | 2.5 | 2.4 | 2.6 | 2.3 | 2.3 | 1.9 | 2.2 | 2.4 | 2.2 |
| Uttar Pradesh | 3.4 | 3.0 | 3.0 | 2.9 | 2.8 | 3.0 | 2.6 | 2.7 | 2.5 | 2.8 | 3.1 | 2.8 |
| West Bengal | 2.6 | 2.7 | 2.7 | 2.5 | 2.6 | 2.6 | 2.2 | 2.3 | 2.1 | 2.2 | 2.4 | 2.2 |

*Source: Authors' own calculation using data from the GST portal and MoSPI*

***Even though most states have a higher growth rate in their tax revenue after the implementation of GST, no states have improved their tax-to-GDP ratio in the GST era.***

at the bottom. States' relative position has changed substantially from 2018-19 to 2022-23. Punjab, which had the highest tax GDP ratio in the pre-GST regime, was unable to maintain the momentum in the GST regime, experiencing a significant decline from 4.6 to 2.4 per cent. Jharkhand, Maharashtra, and Uttar Pradesh have emerged as the top-performing states post-GST implementation, while West Bengal and Rajasthan remain in the bottom three, along with Madhya Pradesh. Due to improvements in the last three fiscal years, Kerala's position marginally improved from 9th position to 8th position (Table 2).

The improvement in the GST-GSDP ratio during the last three years could result from initiatives such as introducing e-invoicing and increased consumption post-pandemic recovery. However, lower average ratio post-GST implementation compared to its pre-GST average indicates potential for increasing the tax base further. All the states could further increase the tax base and augment state revenues.

**Tax buoyancy**

The buoyancy of a tax system measures the total response of the revenue both to changes in national income and to discretionary changes in tax policies over time, and it is traditionally interpreted as the percentage change in revenue associated to a one per cent change in income (Dudine and Jalles, 2017).

A buoyancy of one would imply that an extra one per cent of GDP would increase tax revenue by one per cent, thus leaving the tax-to-GDP ratio unchanged. When tax buoyancy exceeds one, however, tax revenue increases more than GDP which could lead to reduction in government debt and deficit (Blanchard, Dell' Aricia and Mauro, 2010). In contrast, when tax buoyancy is less than one, tax revenues are structurally decreasing, and weak taxes pose a risk to fiscal sustainability in the absence of spending cuts. Finally, a buoyancy of one implies that tax revenues are structurally stable, rising in tandem with GDP (Hill, Jinjarak, and Park, 2022). Table 3 illustrates the average tax buoyancy[2] for 4 years before and after GST.

Seven out of sixteen states under study (Jharkhand, Kerala, Maharashtra, Odisha, Punjab, Uttar Pradesh, and West Bengal) made an improvement in terms of tax buoyancy in the GST regime while the remaining nine states exhibited a higher tax buoyancy in the pre-GST regime. During the pre-GST regime, Bihar (1.73%), Chhattisgarh (1.49%) and West Bengal (1.05%) depict the highest buoyancy, while Gujarat (0.29%), Maharashtra (0.49%) and Andhra Pradesh (0.53%) are the states with lowest buoyancy. During the post-GST period, there has been a drastic shift in tax buoyancy of the states. Maharashtra (4.67) recorded the highest tax buoyancy in the GST regime, followed by Punjab (4.45) and Jharkhand (3.93). It is interesting to note that Maharashtra, which recorded one of the lowest buoyancy in the pre-GST regime became the state with highest buoyancy. On the other hand, Karnataka (-1.5), Gujarat (-1.07), and Andhra Pradesh (-0.46) recorded negative tax buoyancy during the period. Kerala's GST buoyancy increased from 0.78 during the pre-GST regime to 1.87 during post-GST regime (Table 3).

**How can the end of GST compensation affect the states?**

GST compensation scheme was a system which is designed to bestow compensation to the States for five years to surpass the revenue loss on account of the implementation of GST. This provision of compensation has been enacted through the 101 Constitution Amendment Act, 2016. Section 7 of the GST Compensation Cess Act determines the calculation of the compensation

**Table 3:** Pre- and post-GST Tax to GDP ratio of states

| Name of State/UT | Pre GST | | | | | Post GST | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 13-14 | 14-15 | 15-16 | 16-17 | Avg | 19-20 | 20-21 | 21-22 | 22-23 | Avg |
| Andhra Pradesh | 0.4 | -0.1 | 0.5 | 1.3 | 0.53 | 0.96 | -5.93 | 1.67 | 1.44 | -0.46 |
| Bihar | 1.9 | 0.5 | 3.3 | 1.2 | 1.73 | 1.51 | -2.71 | 1.52 | 0.85 | 0.29 |
| Chhattisgarh | 0.5 | 0.7 | 4.1 | 0.6 | 1.49 | 1.60 | -3.82 | 1.26 | 1.80 | 0.21 |
| Gujarat | 0.4 | 0.5 | 0.0 | 0.3 | 0.29 | 1.00 | -9.62 | 2.51 | 1.82 | -1.07 |
| Haryana | 0.5 | 1.6 | 0.8 | 0.9 | 0.94 | 2.90 | -3.16 | 1.83 | 1.82 | 0.85 |
| Jharkhand | 1.2 | 0.7 | -0.4 | 1.8 | 0.82 | 9.81 | 3.39 | 1.44 | 1.06 | 3.93 |
| Karnataka | 0.8 | 1.2 | 0.7 | 0.6 | 0.81 | 1.56 | -10.88 | 1.62 | 1.70 | -1.50 |
| Kerala | 0.8 | 0.9 | 0.7 | 0.8 | 0.78 | 1.75 | 1.72 | 1.58 | 2.43 | 1.87 |
| Madhya Pradesh | 0.4 | 1.0 | 0.6 | 0.7 | 0.67 | 0.90 | -2.15 | 1.34 | 1.53 | 0.41 |
| Maharashtra | 0.2 | 0.7 | 0.1 | 1.0 | 0.49 | 1.80 | 12.99 | 2.28 | 1.62 | 4.67 |
| Odisha | 0.7 | 1.2 | 0.6 | 0.8 | 0.80 | 2.89 | 4.31 | 1.18 | 1.02 | 2.35 |
| Punjab | 1.1 | 1.0 | -1.8 | 2.9 | 0.81 | 2.76 | 9.21 | 3.79 | 2.06 | 4.45 |
| Rajasthan | 0.9 | 1.8 | 0.8 | 0.3 | 0.93 | 0.54 | -3.58 | 1.82 | 1.58 | 0.09 |
| Tamil Nadu | 0.3 | 0.7 | 0.7 | 0.5 | 0.54 | 1.26 | -3.41 | 2.27 | 1.58 | 0.42 |
| Uttar Pradesh | 0.1 | 1.2 | 0.7 | 0.7 | 0.66 | 1.70 | 3.19 | 1.79 | 2.83 | 2.38 |
| West Bengal | 1.2 | 1.4 | 0.3 | 1.3 | 1.05 | 1.65 | 4.95 | 1.43 | 1.72 | 2.43 |

*Source: Authors' own calculation using data from the GST portal and MoSPI* amount payable to the states. Compensation payable to the states is calculated as the difference between actual GST collection and protected revenue. The projected revenue for any year in a State shall be calculated by applying the projected growth rate of 14 percent over that State's base year (2015-16) revenue. If the base year revenue for 2015-16 for a concerned State is 100, then the projected revenue for the financial year 2018-19 shall be as follows- Projected Revenue for 2018-19=100 (1+14/100)3.

GST compensation was a huge relief to the states, significantly whose revenue shrunk post-GST implementation. However, the tenure of GST compensation, which was five years, ended in June 2022 (Table 4).

Apart from Jharkhand, no states were able to achieve the protected revenue target of 14 percent in 2022-23. Furthermore, there has been a huge disparity between the protected revenue and actual revenue generated by the states. The states who came closer to the protected revenue figures are Andhra Pradesh (-13.7), Maharashtra (-17.3), and Rajasthan (-20.9).

If compensation had been provided in the fiscal year 2022-23, the majority of states

**Table 4:** The protected and actual revenues for 2021-22

| Name of State | 15-16 | 2022-23 | | | |
|---|---|---|---|---|---|
| | | Protected Revenue | Actual Revenue | Difference | % |
| Andhra Pradesh | 29982 | 75023 | 64763 | -10260 | -13.7 |
| Bihar | 12621 | 31580 | 22649 | -8931 | -28.3 |
| Chhattisgarh | 7357 | 18409 | 10960 | -7449 | -40.5 |
| Gujarat | 28856 | 72206 | 56235 | -15971 | -22.1 |
| Haryana | 15231 | 38111 | 29972 | -8140 | -21.4 |
| Jharkhand | 6411 | 16041 | 24798 | 8757 | 54.6 |
| Karnataka | 36144 | 90442 | 63406 | -27036 | -29.9 |
| Kerala | 16821 | 42092 | 28197 | -13895 | -33.0 |
| Madhya Pradesh | 15329 | 38358 | 26912 | -11446 | -29.8 |
| Maharashtra | 60505 | 151399 | 125258 | -26140 | -17.3 |
| Odisha | 11049 | 27648 | 18927 | -8721 | -31.5 |
| Punjab | 14472 | 36212 | 18506 | -17707 | -48.9 |
| Rajasthan | 17159 | 42935 | 33978 | -8958 | -20.9 |
| Tamil Nadu | 29786 | 74533 | 56361 | -18172 | -24.4 |
| Uttar Pradesh | 33388 | 83545 | 64041 | -19505 | -23.3 |
| West Bengal | 20098 | 50290 | 37815 | -12475 | -24.8 |

*Source: Authors' own calculation using data from GST Portal* would have received a substantial increase of at least 20 percent in their actual revenue collections. For instance, states like Punjab and Chhattisgarh could have received an additional 48.9 percent and 40.5 percent, respectively, above their actual revenue collections. This highlights the potential impact that compensation could have had on the financial position of states.

**Conclusion**

Not as a mere part, but being the major component of a tax system, revenue is a matter of interest to the government and policymakers. Therefore, analysis of revenue is one of the best ways of measuring the efficiency of the tax system.

Even though most states have a higher growth rate in their tax revenue after the implementation of GST, no states have improved their tax-to-GDP ratio in the GST era. Therefore, the increased growth rate in the tax revenue could be attributed to other economic factors, especially the rebound of the economy after the downfall of the COVID-19 pandemic and penetration of digital payments (Joseph, 2023) . This is more evident from the tax buoyancy of the states. Even though many of the states have improved their buoyancy in the GST regime, still many states have a buoyancy of less than one, including Kerala. This necessitates further improvement in the tax governance of the country.

Some states like Gujrat which were lagging behind in the pre-GST regime were able to emerge as the top performers in many aspects of the GST. Many states who have performed better in the pre-GST regime have also come down in the GST regime. Therefore, it is certain that there has been a structural change in the tax-earning capacity of the states after implementing a destination-based tax. Therefore, compensation was a necessity for a majority of the states. No states have achieved the protected growth rate of 14 percent per annum in 2021-22 when the GST compensation was ended. This is going to adversely affect the financial position of the states seriously.

■

(Shri Jerome Joseph is PhD Scholar, GIFT and Dr Kiran Kumar Kakarlapudi is Assistant Professor, GIFT )

**End Note**

1 www.gst.gov.in

2 Tax buoyancy = % change in tax revenue/ % change in GDP

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# Rising inflationary pressures in Kerala

Joyal P Joseph and Kiran Kumar Kakarlapudi

## Introduction

Among many adverse effects, the COVID-19 pandemic has led to an unprecedented rise in global inflation in 2021 and 2022, mainly fuelled by surging prices of crude oil and other commodities. According to data from the World Bank, there has been a notable increase in consumer price inflation, rising from 3.5% in 2021 to 8.3% in 2022. The recent publication of IMF's World Economic Outlook (2023) shows that 84 countries are expected to lower inflation in 2023. Global inflation is expected to fall from 8.8 per cent in 2022 to 6.6 per cent. To arrest the demand side factors, governments across the world have been following restrictive monetary policies. After experiencing a steep price rise during the pandemic, India's Consumer Price Index - Combined (CPI-C) inflation rate decreased from 6.2% in FY 21 to 5.5% in FY 22. Nonetheless, it remained high compared to the pre-pandemic period due to high inflation in 'oils & fats', 'fuel & light' and 'transport & communication' (Economic Survey, 2023). Though inflationary pressures have been reducing, the emerging concern is higher rural inflation in India. Monthly data shows that rural inflation was more significant than urban inflation for 11 months in the 2022-23 FY. Higher rural inflation is due to an increase in food prices. The main distinction in calculating inflation rates between rural and urban areas lies in the weights for food and beverages. In rural regions, the food and beverage sector alone constitute approximately 54.18 per cent of the Consumer Price Index (CPI) basket. Conversely, in urban areas, this sector carries a weight of 36.29 per cent, representing slightly over a third of the overall consumption basket. This divergence in weightage is due to the inclusion of housing price trends in the CPI index for urban areas, while such

***Though inflationary pressures have been reducing, the emerging concern is higher rural inflation in India. Monthly data shows that rural inflation was more significant than urban inflation for 11 months in the 2022-23 FY.***

***For the first time since the COVID-19 pandemic, Kerala's inflation recorded higher than the national average, indicating trends similar to the pre-pandemic situation.***

trends are not incorporated in the rural areas index. Consequently, rural consumers are more vulnerable to food inflation compared to their urban counterparts, and this is precisely what has occurred.

Kerala had shown exemplary performance in reversing the price trends during the pandemic when the country was reeling with inflationary pressures through active state intervention (Renjith and Kakarlapudi, 2021). The distribution of 'food kits' in Kerala contributed to arresting food prices, and this resulted in lower rural inflation than urban inflation since food has the highest weight in rural areas. This contrasted with other southern states, where urban prices were lower than rural prices during the same period (Kakarlapudi & Renjith, 2020; 2021). This article analyses the recent price trends in Kerala compared to other South Indian states. The critical question is, since the food-kit distribution was withdrawn many months ago, are the rural prices rising faster than urban prices in Kerala? Additionally, the article conducts a component-wise analysis to identify the factors that contribute the most to rural and urban CPI inflation in Kerala.

The analysis has been carried out using monthly Consumer Price Index (CPI) data provided by MOSPI. The period for the analysis starts from the second quarter of 2021 since the price trends during the pandemic have been extensively covered by Kakarlapudi and Renjith (2021) and Renjith and Kakarlapudi (2022) The analysis covers eight quarters from July-Sep (Q2) 2021-22 to Q1 2023-24, the latest quarter covers data for only two months.

**Price trends in kerala: A comparative analysis**

Kerala maintained the lowest inflation among all the South Indian states till 2022-23 Q1 and lower inflation than the national average till 2022-23 Q4 (Table 1). It is evident that Kerala successfully arrested inflationary pressures by distributing food kits. However, inflation in Kerala has been gradually rising from 2021-22 Q3 to 2022-23 Q4, while at the national level, there is a southward trend in inflation from 2022-23 Q1. Apart from Tamil Nadu, all other states have shown a downward price trend. The gap between Kerala's and India's inflation has systematically reduced from 2021-22 Q4. Kerala's inflation was almost 30 per cent lower in 2021-22 Q4, and it narrowed to almost zero in 2022-23 Q4. Most importantly, Kerala's inflation though declined marginally to 5.03 per cent in 2023-24Q1, is now higher than the national average (4.48 per cent). For the first time since the COVID-19 pandemic, Kerala's inflation recorded higher than the national average, indicating trends

**Table 1.** CPI -Combined growth (%)

| Year | All India | Andhra Pradesh | Karnataka | Kerala | Tamil Nadu | Telangana |
|---|---|---|---|---|---|---|
| 2021-22 Q2 | 5.08 | 6.51 | 6.57 | 3.84 | 5.97 | 7.56 |
| 2021-22 Q3 | 5.01 | 5.29 | 5.93 | 3.78 | 5.76 | 6.54 |
| 2021-22Q4 | 6.34 | 5.44 | 5.67 | 4.35 | 4.72 | 7.06 |
| 2022-23 Q1 | 7.28 | 8.18 | 6.34 | 5.10 | 5.39 | 9.51 |
| 2022-23 Q2 | 7.04 | 7.37 | 5.18 | 5.84 | 5.62 | 8.49 |
| 2022-23 Q3 | 6.12 | 7.11 | 4.87 | 6.02 | 6.03 | 8.17 |
| 2022-23 Q4 | 6.20 | 7.60 | 5.56 | 6.18 | 6.77 | 8.25 |
| 2023-24 Q1* | 4.48 | 4.30 | 3.84 | 5.03 | 5.09 | 5.39 |

*Source: Author's calculation using MOSPI data*
**Average of April and May 2023*

similar to the pre-pandemic situation (Table -1).

A comparison of Kerala's inflation with its southern counterparts reveals a similar trend. Kerala's post-pandemic inflation rate was lower than most of the southern states. During the second quarter of 2021, Kerala experienced an inflation rate that was 96% lower than Telangana and 71% lower than Karnataka, which had the highest inflation rates among the southern states. However, by the fourth quarter of 2022, Kerala surpassed Karnataka in terms of inflation numbers, and the relative gap between Kerala and Telangana decreased to 48%. In fact, the gap in inflation between Kerala and all other southern states declined consistently over the quarters. In the latest quarter (2023-24 Q1), Kerala recorded the highest inflation than Karnataka and Andhra Pradesh and marginally lower than Tamil Nadu and Telangana. The emerging inflation trends in Kerala are alarming as they pressure the people.

**Shift in inflationary pressures**

The previous research has shown that Kerala had higher rural inflation than urban areas before the pandemic, and during the pandemic, rural inflation was lower (Kakarlapudi and Renjith, 2020). However, rural inflation in Kerala has gradually increased since 2022-23 Q1 and surpassed urban inflation. Interestingly, other states started showing higher inflation after 2021-22 Q3, except in Karnataka, where rural inflation has been higher than urban inflation since 2022-

***In Kerala and other South Indian states, urban inflation gradually declined, while rural inflation increased. A faster decline in rural inflation drives the observed decline in inflation across the states.***

**Table2:** CPI in rural and urban areas in %

| Year | All India | Andhra Pradesh | Karnataka | Kerala | Tamil Nadu | Telangana |
|---|---|---|---|---|---|---|
| Rural | | | | | | |
| 2021-22 Q2 | 4.97 | 6.17 | 5.61 | 3.62 | 5.68 | 9.18 |
| 2021-22 Q3 | 4.57 | 4.9 | 4.85 | 3.17 | 5.22 | 6.48 |
| 2021-22Q4 | 6.72 | 5.07 | 5.06 | 3.88 | 4.91 | 7.87 |
| 2022-23 Q1 | 7.52 | 8.32 | 5.66 | 4.82 | 5.63 | 10.54 |
| 2022-23 Q2 | 7.17 | 6.91 | 4.69 | 5.84 | 5.69 | 8.34 |
| 2022-23 Q3 | 6.37 | 7.19 | 4.9 | 6.14 | 6.47 | 8.7 |
| 2022-23 Q4 | 6.36 | 7.98 | 5.83 | 6.37 | 6.9 | 8.47 |
| 2023-24 Q1* | 4.43 | 4.13 | 3.91 | 5.16 | 5.04 | 4.86 |
| Urban | | | | | | |
| 2021-22 Q2 | 5.24 | 7.07 | 7.4 | 4.22 | 6.17 | 6.24 |
| 2021-22 Q3 | 5.49 | 5.9 | 6.83 | 4.95 | 6.12 | 6.6 |
| 2021-22Q4 | 5.92 | 6.04 | 6.22 | 5.21 | 4.59 | 6.38 |
| 2022-23 Q1 | 7.01 | 7.94 | 6.89 | 5.72 | 5.24 | 8.6 |
| 2022-23 Q2 | 6.83 | 8.15 | 5.6 | 5.81 | 5.57 | 8.6 |
| 2022-23 Q3 | 5.85 | 7.02 | 4.86 | 5.75 | 5.75 | 7.75 |
| 2022-23 Q4 | 6 | 6.98 | 5.32 | 5.82 | 6.65 | 8.08 |
| 2023-24 Q1* | 4.56 | 4.64 | 3.83 | 4.79 | 5.11 | 5.89 |

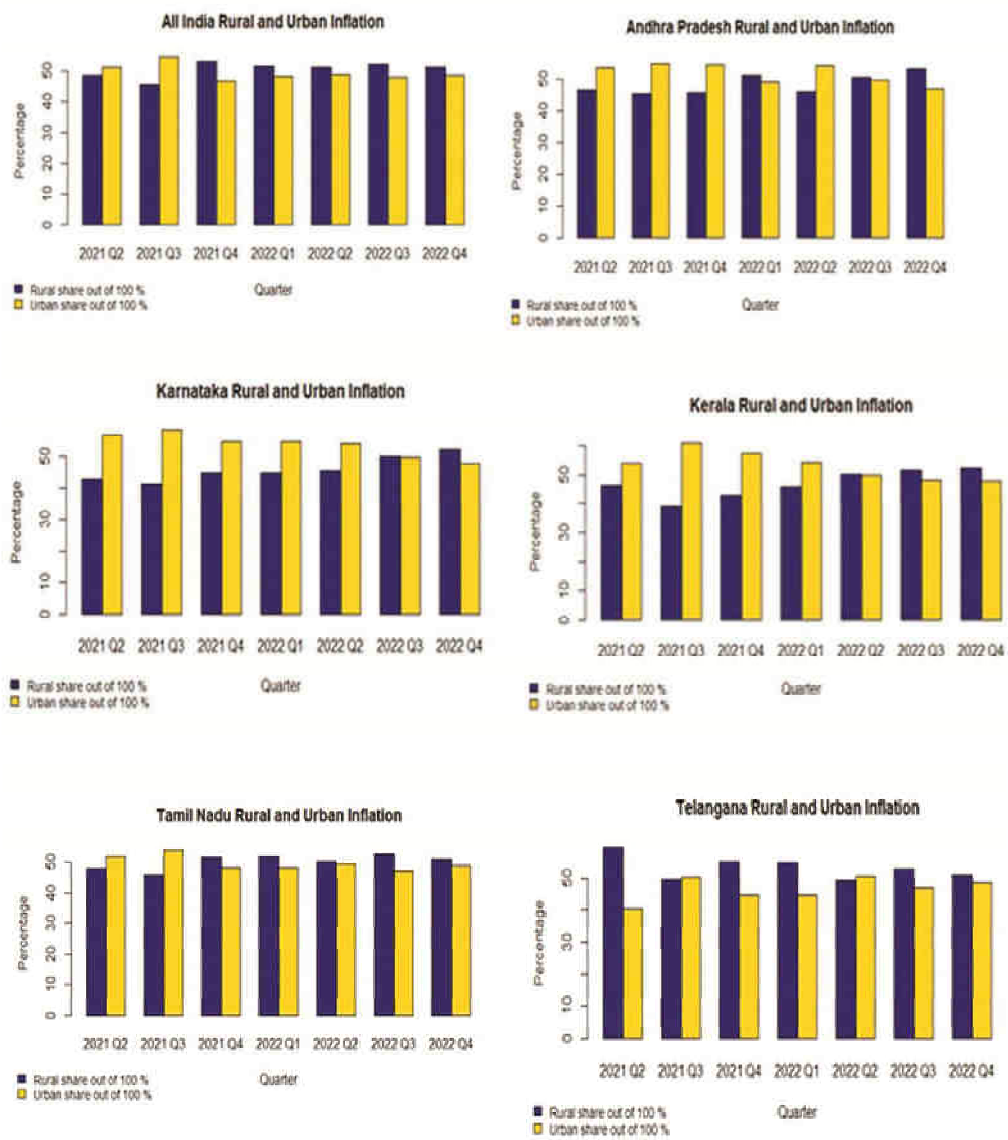
*Source: Author's calculation using MOSPI data*
**Average of April and May 2023*

23 Q3 (Table 2). The decline in inflation at the aggregate level for India was due to a faster decline in urban inflation until the latest quarter (2023-24 Q1) (Table-2).

In Kerala and other South Indian states, urban inflation gradually declined, while rural inflation increased. A faster decline in rural inflation drives the observed decline in inflation across the states. For example, Andhra Pradesh showed a 3.85 per cent decline in rural inflation while urban inflation declined by 2.34 per cent. Similarly, in Telangana, the decline is 3.61 per cent and 2.19 per cent, respectively. It is important to note that Kerala registered the lowest decline in inflation in the latest quarter, both in rural and urban areas (Table 2).

In the second quarter of 2021, rural inflation accounted for 48% of the total inflation. However, in the subsequent quarter, its share decreased to 38%. From the fourth quarter of 2021 onwards, the proportion of rural inflation in the total inflation of Kerala started to rise steadily. It surpassed 50% by the last quarter of 2022, as illustrated in Figure 1.

**Figure 1:** Rural-urban inflation (in 100%)



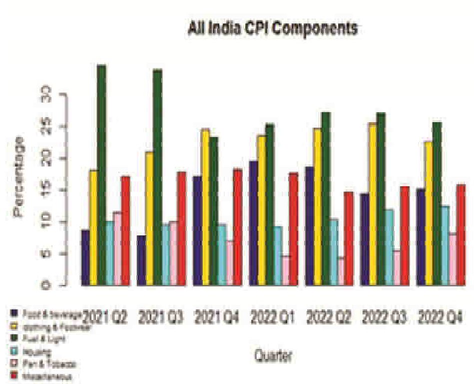

*Source: Authors calculation using MOSPI data*

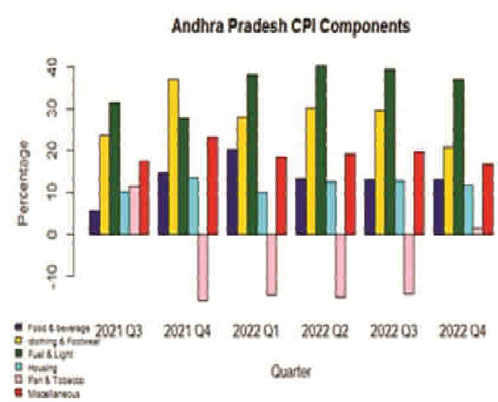
***In Kerala, inflation of miscellaneous commodities accounts for a large proportion of inflation after fuel which is different from other states where clothing and footwear registered high inflation.***

In India, the shift towards rural-driven inflation became evident much earlier in the last quarter of 2021, with rural inflation reaching more than 50%. Subsequently, rural inflation consistently outpaced urban inflation with minimal fluctuations. This trend was also observed in other southern states. By the fourth quarter of 2022, rural inflation took the lead in all southern states except Telangana. Interestingly, Telangana experienced a decline in the share of rural inflation starting from the second quarter of 2021 (see Figure 1)

**Composition of inflation**

Food inflation has been the key driver of inflation during the pandemic. The relative contribution of food inflation to overall inflation has reduced in 2021-22 compared to the previous fiscal. States that have been able to control food prices during the pandemic through fiscal policies have successfully tamed inflation. In the advent of rising rural inflation across states as well as in Kerala, Figure 2 shows the drivers of overall inflation. Fuel and light inflation are the highest in India and in all the South Indian states. This could be due to Russia Ukraine war and also disruption of supply chains, fuel prices increased dramatically. The next component with highest inflation is clothing and footwear. This should be seen as an outcome of pent up demand as people's movement was restricted. Post pandemic, there has been a lot of demand for clothing and FMCG products. At the national level, food inflation showed an



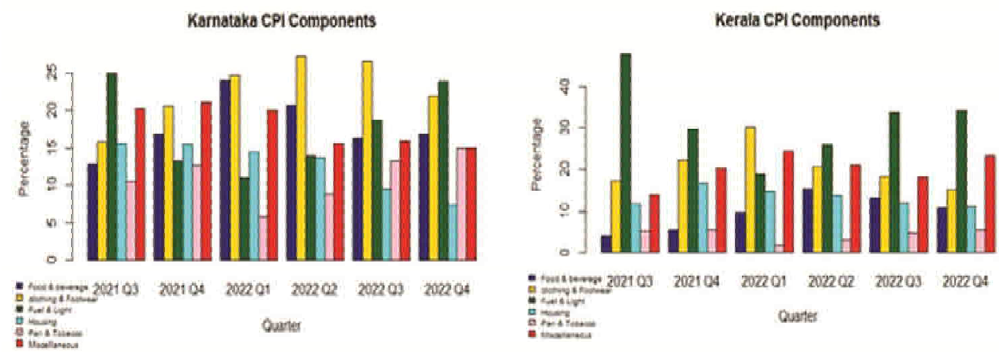
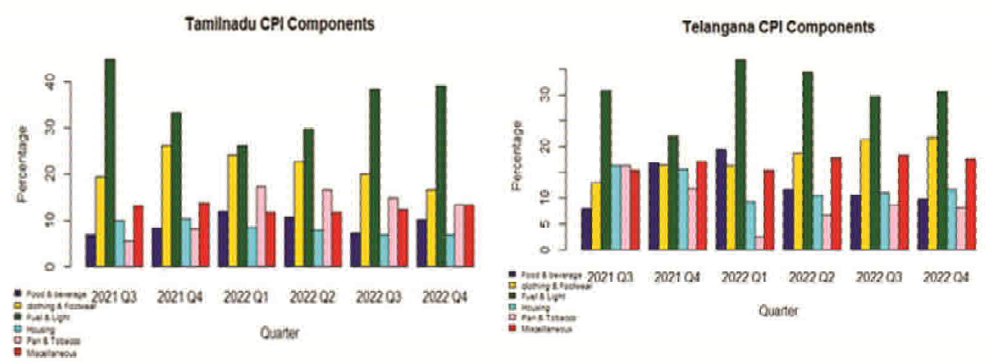



**Figure 2 :** CPI components, combined series (in 100%)




*Source: Authors calculation using MOSPI data*

increased trend till 2022Q1 followed by a decline thereafter. A similar trend could be observed in all the South Indian states with varying levels. As shown in the previous studies, food inflation in Kerala has been the lowest during the pandemic. Notwithstanding a marginal increase in 2022Q2, Kerala's food inflation is still the lowest and Karnataka shows relatively higher food inflation among the comparators. In Kerala, inflation of miscellaneous commodities accounts for a large proportion of inflation after fuel which is different from other states where clothing and footwear registered high inflation.

From the trends thus far, it could be concluded that miscellaneous commodities are playing a major role in increase in inflation in the recent past since accounts for second highest weight in the commodity basket (Figure - 2).

**Conclusion**

Since 2021, there has been a global increase in consumer prices, leading to a devaluation of money and a gradual erosion of wealth. In India, the Consumer Price Index (CPI) has shown a decrease in inflation in FY 22 but remains elevated compared to the pre-pandemic period. However, the inflation pattern in the state of Kerala differs from the national average and other southern states. During the pandemic Kerala has experienced lower rural prices compared to urban prices, which was contrary to the national trend. This can be attributed to proactive state intervention and the supply of essential goods during the pandemic. However, in the post-pandemic phase, the inflation pattern in Kerala has undergone changes.

A study on Kerala's CPI inflation in the post-pandemic phase reveals some noteworthy findings. The inflation gap between India and Kerala has been narrowing since the second quarter of 2021-22, and Kerala's inflation rates surpassed the national numbers by the first quarter of FY 24. Among its southern counterparts, Kerala is the only state which has consistently experienced a rise in CPI inflation since the second quarter of FY 22. A closer analysis of inflationary pressures in Kerala reveals that since the third quarter of FY 23, rural prices have replaced urban prices as the driving force behind the inflation rates in the state. Food inflation remains low for Kerala and its inflation is primarily driven by higher prices of fuel and light followed by miscellaneous products. These observations indicate a reversal in the inflation trends in Kerala, resembling its pre-pandemic phase.

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# Recent trends in female labour force participation in Kerala: A comparative analysis

Vipasha Ray Hajong and Kiran Kumar Kakarlapudi

## Introduction

One of the key indicators of economic development is gender equality. The UN has emphasised its importance as the fifth Sustainable Development Goal (SDG). An important aspect of gender equality is women's participation in the labour market, which ultimately contributes to the country's GDP. Female labour force participation (FLFPR) is critical for economic development and gender equality, attracting significant scholarly attention. In the context of India, a nation characterised by a vast population and diverse socio-cultural fabric, understanding the dynamics and determinants of women's engagement in the workforce is of paramount importance.

Women constitute almost half (48 per cent approximate) of the largest democracies in the world. Despite this, the FLFPR, for almost three decades, has remained below many other developing countries. In a country where it is one's fundamental right to work, it is crucial to determine the root cause of this decline. India continues to grapple with significant gender disparities in its labour force, with women facing barriers to equal participation across various sectors and regions. Over the years, India has witnessed fluctuations in female labour force participation rates, influenced by demographic, economic, and social transformations. While there have been periods of progress, such as the increase in women's labour force participation during the 2000s, recent trends indicate stagnation and a decline in overall participation rates. The issue largely stems from two different strands, as suggested by the literature-one from a micro and the other from a macro strand (Mehrotra & Parida, 2017). The set of individual and household-level socio-economic characteristics play an important role in determining female labour force participation from the micro

***India's FLFPR, for almost three decades, has remained below many other developing countries.***

***The observed trend shows Feminisation U Hypothesis with very high levels of female LFPR in low-income and high-income countries and low female LFPR in middle-income countries, as postulated by many previous studies.***

perspective. While the macro perspective arises from the "U-shaped" theory, where FLFPR is high in low-income and high-income countries. India being a lower-middle income country, has a relatively low FLFPR.

The socioeconomic structure of India acts as a sieve that allows few women to be a part of the labour force actively. A binding constraint on women entering the labour force is that of traditional gender roles explained by the separate spheres' ideology where men participate in the public sphere and women in the private sphere (Pande & Roy, 2021). This leads to a gender-based division of work, limiting women's role in the market. This gender ideology shapes cultural norms, societal expectations, and discriminatory practices and affects educational attainment, access to resources etc. Although these are progressive times, the pace of growth of FLFPR in India has not kept with that of its GDP.

Another curious case with regard to the decline in FLFPR is the discouragement that arises from a failure to find jobs that meet one's educational qualification-leading to a mismatch of labour supply and demand. This is very peculiar to states like Kerala, where, contrary to the rising human development and living standards, FLFPR was declining (Mathew, 2015).

The paper attempts to reveal the latest trends of India's FLFPR, which is seen to be increasing, although nominally. This is a deviation from the long-existing narrative of a declining FLFPR and is made evident from the latest data. The paper is divided into mainly five sections. Section 1 deals with the introduction, and section 2 explains the data sources and methods. The analysis of the FLFPR is given in Section 3. Section 4 presents the disaggregate trends in female LFPR, and the conclusion is given in Section 6.

**Data sources and approach**

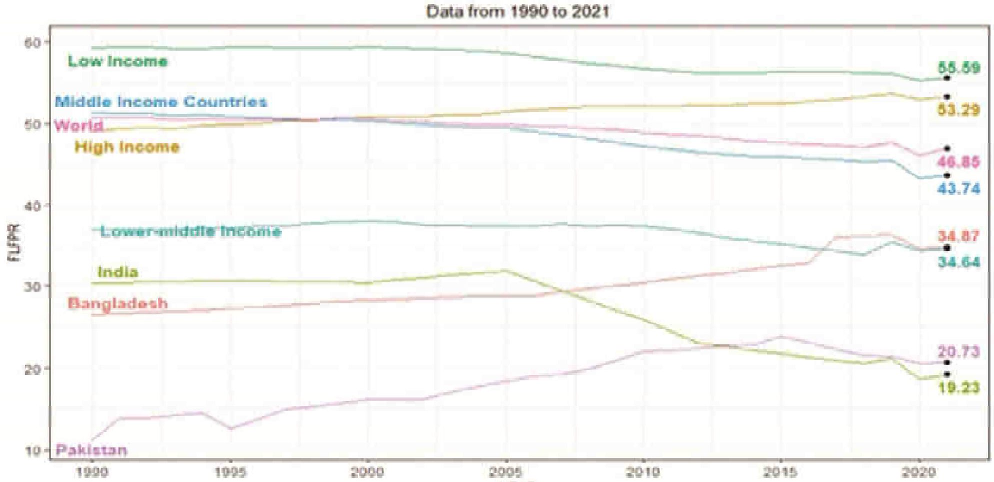
The study uses multiple rounds of Employment and Unemployment Surveys (EUS) conducted by the NSSO from 1993-94 to 2011-12, followed by the Periodic Labor Force surveys (PLFS) from 2017-18 to 2020-21. The published data used in this study draws from EPWRF, which compiled data from the published reports of the NSSO. We consider people aged 15 and above to analyse labour force participation. NSSO publishes labour force and workforce participation according to the principal status (PS) and subsidiary status (SS). We use the combined status for the analysis. We have considered nineteen significant states for the analysis, which account for almost ninety per cent of the total GDP and population.

**Female LFPR: How does india compare with others?**

The female labour force participation[1] worldwide increased consistently till the mid-2000s on account of rising female education, declining fertility, and robust economic growth in almost all developing countries (Klasen et al., 2018). Despite the confluence of the encouraging trends, female participation shows a downward trend in the previous decade in all the country groups except in the high-income category (Figure 1). Low-income countries have the highest female LFPR, followed by high-income countries. The lower-middle-income countries depict the lowest female LFPR among all other country groups. The observed trend shows Feminisation U Hypothesis with very high levels of female LFPR in low-income and high-income countries and low female LFPR in middle-income countries, as postulated by many previous studies. This hypothesis was developed based on an analysis of 169 countries between 1990 and 2013. It reveals that during the initial stages of economic growth, there is a decrease in female labour force participation. This occurs because women who were previously employed to meet their basic needs now have the option to leave the workforce due to higher household incomes. However, women tend to re-enter the workforce as incomes continue to rise. A decline in both fertility rates and the gender education gap often accompanies this increase in economic activity (Figure-1).

A disquieting trend is that female labour force participation in South Asia, in general, and India has been very low, even compared to low-income countries. There is a secular decline in India's female LFPR from 2005 onwards, while that of Bangladesh and Pakistan shows an

**Figure 1: Female Labour Force Participation Rate: World and India**
Data from 1990 to 2021




Source: Generated in R using ILOSTAT and World Bank Datasets

**This study shows an increase in FLFPR in recent years after a consistent decline from mid-2000. During the period from 2017-18 to 2020-21, the LFPR among women increased from 23.3 per cent to 32.5 per cent, marking a substantial nine per cent rise, driven mainly by rural areas.**

increasing trend (Figure 1). In fact, female LFPR in India has been lower than in Pakistan since 2014. The observed downward trend in female LFPR developing countries has attracted considerable scholarly attention. Many studies analysed the patterns and determinants across and within countries (Klasen and Pieters, 2012, Klasen, 2019).

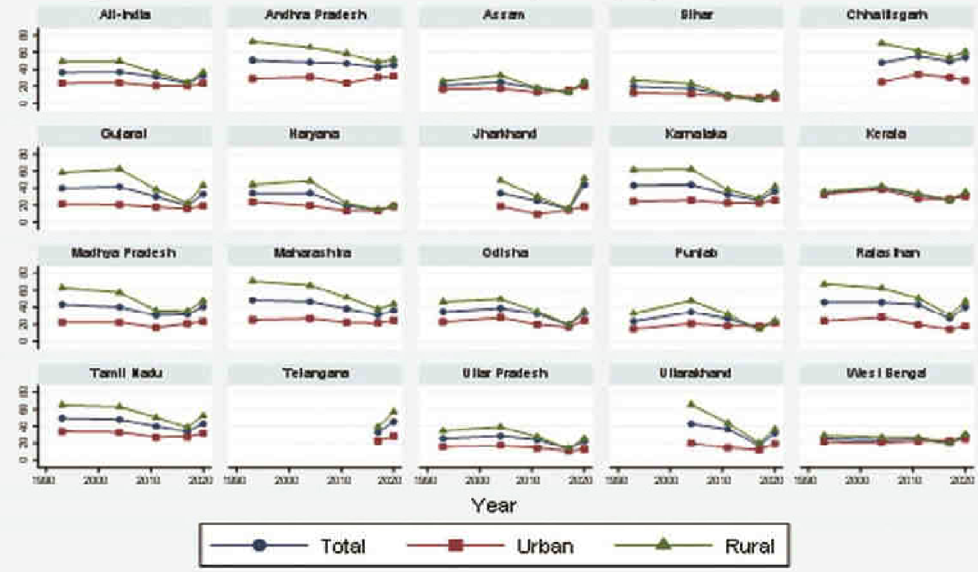
### Emerging trends in India's FLPR

The phenomenon of declining FLPR in India is termed 'de-feminisation' or 'missing women.' This trend after 2004 is puzzling, especially because India registered an annual average growth rate of 8 per cent during 2004-2009. In many countries decline in fertility rates corresponded with increased female LFPR. On the contrary, in India, female LFPR declined at a time when fertility rates declined steadily from 3.1 in 2000 to 2.6 in 2011 (Kapos et al., 2014). Further, the decline coincides with enacting a large-scale public programme promoting employment in rural areas (Mahatma Gandhi National Rural Employment Guarantee Act, (MGNREGA)) 2005. Several scholars have put forth various explanations for the observed phenomenon. Some studies argued that declining female LFPR could result from increased female enrolment in education (Rangarajan et al., 2011). The other explanations include agricultural stagnation and the slowdown of the rural economy (Kannan and Raveendran, 2012), the reversal of the exceptional increase in female labour supply caused by agrarian distress and the mechanisation of agriculture (Abraham, 2009, Klasen and Pieters, 2012, Thomas, 2012, Siddique et al, 2017) and increased general income levels leading to U shaped curve in female LFPR (Abraham, 2012; Mehrotra and Parida, 2017).

As depicted in Figure 2, there has been a consistent and noteworthy decline in the female labour force participation rate (LFPR) in India. Starting at 36.9 per cent in 2004-05, the rate declined to 31 per cent in 2011-12 and dropped to 23.3 per cent in 2017-18. This decline can be attributed mainly to a decrease in female LFPR in rural areas, which accounted for a significant portion of the overall decline. The decline in rural areas stood at 15 per cent, while in urban areas, it was lower at 4 per cent (Figure-2).

It is crucial to highlight, however, that there has been a notable reversal in the trend of female LFPR since 2018-19. During the period from 2017-18 to 2020-21, the LFPR among women increased from 23.3 per cent to 32.5 per cent, marking a

Figure 2: Female Labor Force Participation (%) 1993-94 to 2020-21



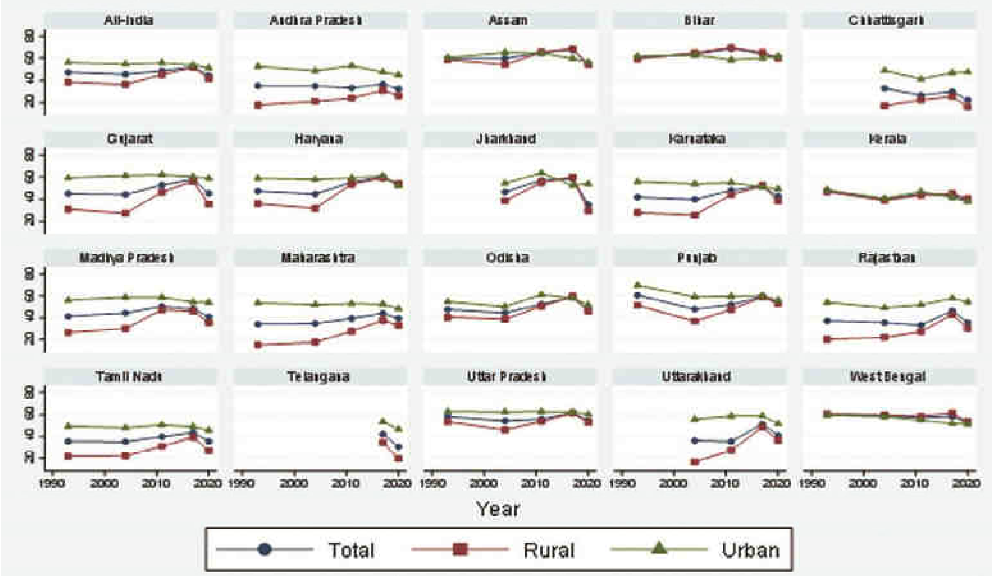

Source: EUS and PLFS, NSSO, various rounds

substantial nine per cent rise. This increase is accompanied by a 12 per cent increase in rural areas and a 3 per cent increase in urban areas. This upward shift in LFPR could potentially indicate employment driven by distress, as previous studies have indicated a rise in labour supply among rural women during periods of agrarian distress.

Previous research has provided insights into India's overall declining female LFPR trend. However, it is essential to acknowledge the significant heterogeneity across states regarding female LFPR. From 2004 to 2017, certain states such as Gujarat, Jharkhand, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, and Uttarakhand experienced a more pronounced decline in female LFPR compared to the national average. In contrast, Chhattisgarh was the only state to witness increased female LFPR during this period. West Bengal, Andhra Pradesh, and Madhya Pradesh exhibited a slower decline. Furthermore, the decline in female LFPR aligns with national trends and is predominantly driven by rural areas.

When considering the level of female LFPR across states, it does not appear to follow a U-shaped curve, as poorer states like Bihar, Assam, Odisha, and Uttar Pradesh exhibit relatively lower levels of LFPR. In 2020, Chhattisgarh had the highest level of female LFPR at 53%, followed by Andhra Pradesh, Telangana, and Tamil Nadu. It is clear from Figure 2 that there is no definite trend with the level of per-capita income of the states. All the states have shown an increase in female LFPR after 2017. The increase is found to be highest in

Figure 3: Gender gap in LFPR (in %) 1993-2020




Source: EUS and PLFS, various rounds

Jharkhand, followed by Orissa Uttarakhand and Gujarat.

Figure 2 shows high rural-urban differences in female LFPR across states. In 2004-05, female LFPR in rural areas was 25 per cent higher than in urban areas, which declined to 4.2 per cent in 2017-18 and increased to 13.3 per cent in 2020-21. Chhattisgarh, Uttarakhand, Gujarat, Madhya Pradesh, Maharashtra, and Andhra Pradesh show more than 30 per cent difference between rural and urban areas. Though the gap declined significantly in 2020-21, Chhattisgarh, Jharkhand, Rajasthan, and Telangana show double the gap at the national average. Interestingly, Kerala shows very low rural-urban disparities in female LFPR throughout the period under consideration, followed by West Bengal, Bihar, Assam, Haryana, and Punjab (Figure-3).

A thorough empirical analysis is required to understand the factors driving the recent improvement in India's LFPR. The current aggregate trends do not provide a clear indication of whether this increase is a result of ongoing structural changes, such as declining fertility rates and improved women's education, or if it is driven by distress-related employment, as observed during the period from 1993-94 to 2004-05. The initial evidence suggests that the rise in female LFPR may be attributed to distress-driven employment, as women in rural areas enter the workforce during a period of economic sluggishness.

***Kerala's FLFPR, which was below the national average before 2017, showed an increase in recent years.***

Although India has seen improvements in female LFPR, it remains significantly lower than male participation (57.5 per cent). About 70 per cent of Indian women of working age are currently not part of the labour force. The gender gaps in LFPR could adversely affect overall women's empowerment. Figure 3 shows the gender gaps in LFPR. The decline in female LFPR during 2004-2027, especially in rural areas, increased the gender gaps. It is evident from Figure 3 that the states that have experienced a faster decline in female LFPR in rural areas witnessed rising gender gaps and vice-versa. Further, improvement in female LFPR in rural areas from 2017 led to declining gender gaps in all the states. A gradual decline in gender gaps is evident only in West Bengal and Kerala. In the case of gender gaps in urban areas, many states showed no significant decline.

**Behind the increase in female LFPR in Kerala**

In what follows, we analyse the disaggregate trends in female LFPR across income and educational categories to understand the composition of recent improvements in female LFPR. We compare Kerala's performance with All India trends. We have considered Kerala for disaggregate analysis for the following reasons. First, the female LFPR in Kerala can be identified in two distinct phases, notwithstanding the recent trends. These phases are characterised by 1993-94 to 2004-05 and the period after 2004-05 to 2017-18. Prior to 2004-05, the urban labour market in Kerala had significant aspects, such as a high rate of female participation in the workforce but a low level of employment, leading to a substantial increase in unemployment. Among the highly educated individuals, the participation rate ranged from 70 to 80 per cent, like rates observed in developed countries, and more than double the average rate in the rest of the country (Mathew, 2018). In the second phase, as observed in many other states, Kerala also experienced a decline in female LFPR in Kerala (Thomas and Shyjan, 2022). However, declined below the national average, making the state one of the low females LFPR. Nevertheless, the decrease in Kerala was more significant compared to the average decline at the national level. Specifically, the decline in Kerala was from 33 per cent to 25 per cent, while the national average declined from 20.4 per cent to 17.8 per cent, from 2004-05 to 2011-12.

Second, Kerala makes an interesting case because of its historical advantages of high female education and human development. One would expect that these socio-demographic advances created an environment conducive to women's entry into the paid activities in the market on a considerable scale. Since educated women participate in the labour force in Kerala, the decline after 2004-05 is puzzling.

***The disparity in female LFPR between all-India and Kerala is particularly notable for individuals with post-graduate and above qualifications, with a difference of nearly 25 per cent.***

**Income status**

Figure 4 displays the female LFPR across different consumption quintiles, with Panel A showing rural areas and Panel B showing urban areas. To ensure accurate comparisons, we analyse the trends in 2017-18 and 2019-20, as the year 2020-21 may have been influenced by abnormal conditions caused by the pandemic. Contrary to the findings of previous studies, the trends do not demonstrate a clear U-shaped pattern indicating the feminisation of work. In the lowest quantile, both Kerala and the entirety of India exhibit similar levels of female LFPR. However, as income increases, there is a consistent rise in female LFPR at the national level for both years analysed. Notably, this increase is more pronounced in higher quintiles during 2019-20. Interestingly, Kerala does not show a linear progression in female LFPR as we move from lower to higher consumption groups. In 2017-18, there are indications of a U-shaped relationship with income quintiles, as female LFPR declined for the third quintile and increased afterwards. Moreover, as noted in previous studies at higher income quintiles, Kerala boasts significantly higher female LFPR than the entire country. The gap is particularly prominent in the fourth income quintile, reaching nearly 10 percentage points. Between 2017-18 and 2019-20, there was an overall rise in female labour force participation rate (LFPR) across all quintiles, particularly in the higher quintiles in Kerala. In urban India (as shown in Figure 4, panel B), Kerala consistently displays higher female LFPR across all income quintiles compared to the national average, and this gap widens in the higher income quintiles. Interestingly, even urban areas in Kerala exhibit a U-shaped curve in 2017-18, while such a trend is not observed for India. It is worth noting that in 2019-20, female LFPR decreased in the lowest income quintiles in Kerala but increased in higher income quintiles. Both in rural and urban areas, the highest increase in female LFPR is observed in the middle-income quintiles, which contrasts with previous studies. Previous research emphasized a U-shaped curve for the national average, but Kerala did not exhibit a clear pattern (Mathew, 2018). In 2017-18, there is a reversal of this trend, indicating changing dynamics in the female labour market (Figure-4A, 4B).

**Education status**

The literature on female FLPR emphasised that education plays crucial in women's work. Hence, we analyse the trends in female FLPR by the level of educational attainment in urban India and Kerala. In

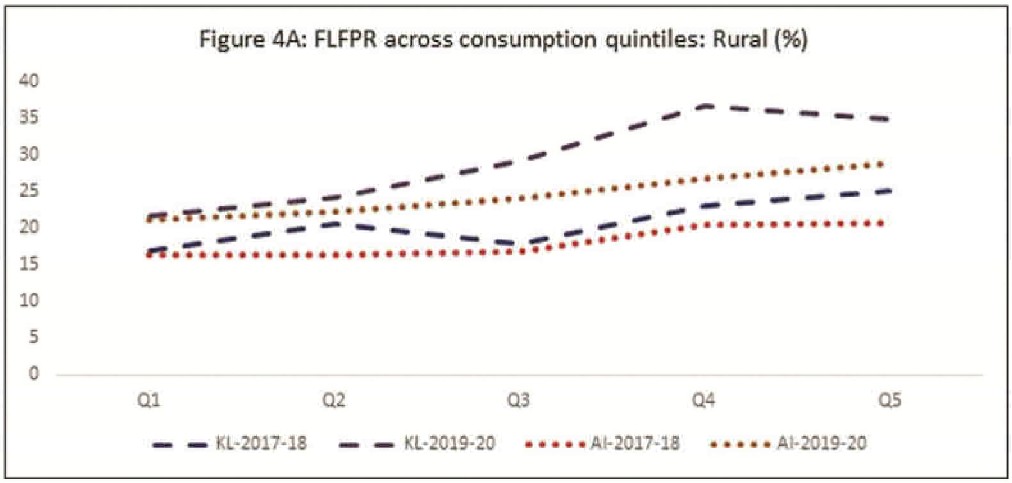


Figure 4A: FLFPR across consumption quintiles: Rural (%)
40
35
30
25
20
15
10
5
0
Q1
Q2
Q3
Q4
Q5
KL-2017-18
KL-2019-20
AI-2017-18
AI-2019-20

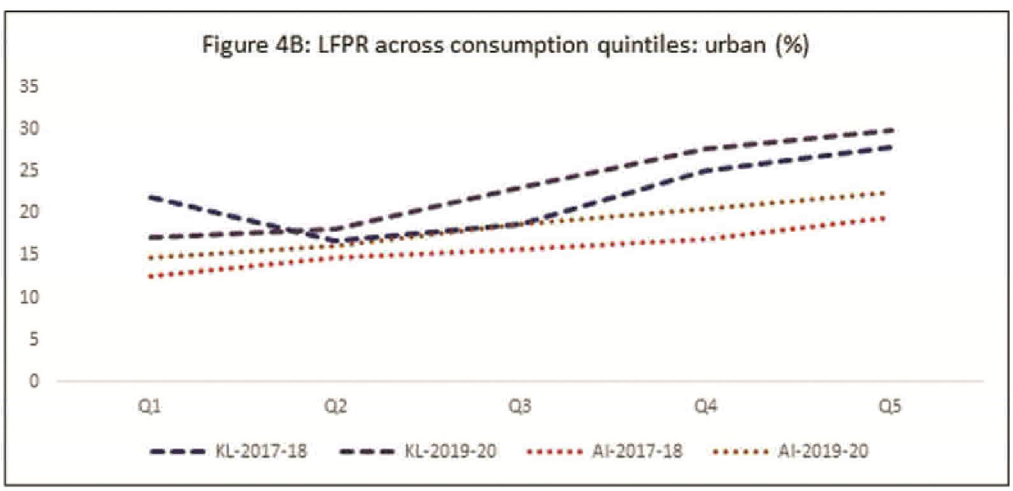



Figure 4B: LFPR across consumption quintiles: urban (%)
35
30
25
20
15
10
5
0
Q1
Q2
Q3
Q4
Q5
KL-2017-18
KL-2019-20
AI-2017-18
AI-2019-20

***Kerala has shown an increase in FLFPR in the higher quintiles in rural areas, while in the urban areas, there was an increase in the middle quintiles.***

the case of India as a whole, both years demonstrate a U-shaped relationship with educational achievement, except for a significant rise in the labour force of individuals holding diplomas or certificates. This trend is consistent across rural and urban areas in India. Much of the increase in female LFPR for among the people with lower levels of education, as there is a significant rise in LFPR for people with a diploma and above. Further, this rise is higher in rural and urban areas (Figure 5). The increase in female LFPR at lower levels of education, especially in rural areas, indicates distress-driven migration. As the previous studies highlighted, women at low income join the labour force to support their family income.

The dynamics of female LFPR in Kerala exhibit a higher level of complexity compared to the national average. Notably, there are significant variations in the changes observed in employment and participation patterns, as illustrated in Figures 5A, 5B, and 5C. The following trends deserve attention and discussion.

First, the female LFPR in Kerala is lower than the national average at lower levels of education but significantly higher at higher levels of education. For instance, the participation rate among post-graduate females in Kerala was approximately 70 per cent, which is comparable to rates observed in developed countries in East Asia, Iceland, and Denmark. This finding aligns with the existing literature, which highlights the higher educational attainment and labour force participation rates among women in Kerala compared to the national average. The disparity in female LFPR between all-India and Kerala is particularly notable for individuals with post-graduate and above qualifications, with a difference of nearly 25 per cent.

Second, in line with the national trend, a significant portion of the increase in participation rates in Kerala occurred among individuals with lower levels of education, particularly in rural areas. However, it is important to note that there has been a decline in participation among individuals with post-graduate degrees in urban areas of Kerala. Specifically, the participation rate for this group decreased from 73 per cent in 2017-18 to 64.7 per cent in 2019-20. In contrast, at the national level, there was a marginal increase from 44 per cent to 46 per cent during the same period. These trends highlight the complex interplay of education, rural-urban dynamics, and the overall context of female labour force participation in Kerala. They reflect the changing patterns and challenges faced by highly educated women in urban areas of Kerala. Given the increasing proportion of higher educated women in Kerala and this state's record of high labour force participation among

Figure 5A: FLPR across education category:Total (%)

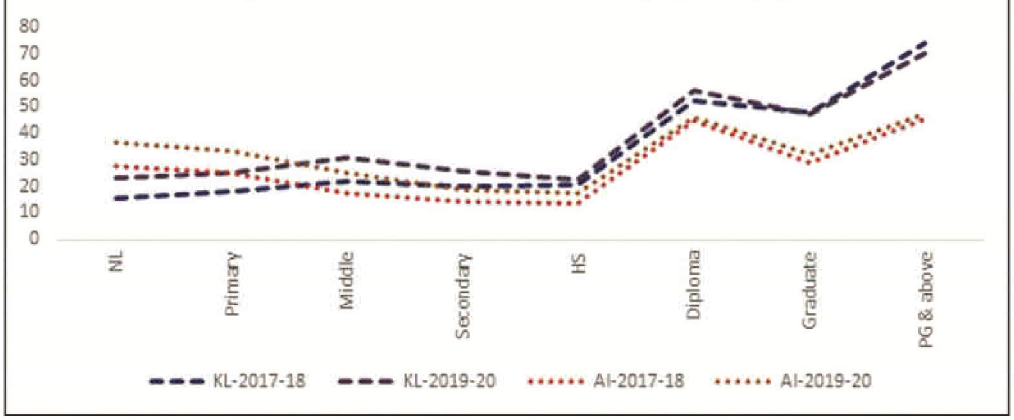



Figure 5B: FLPR across education category: Rural (%)

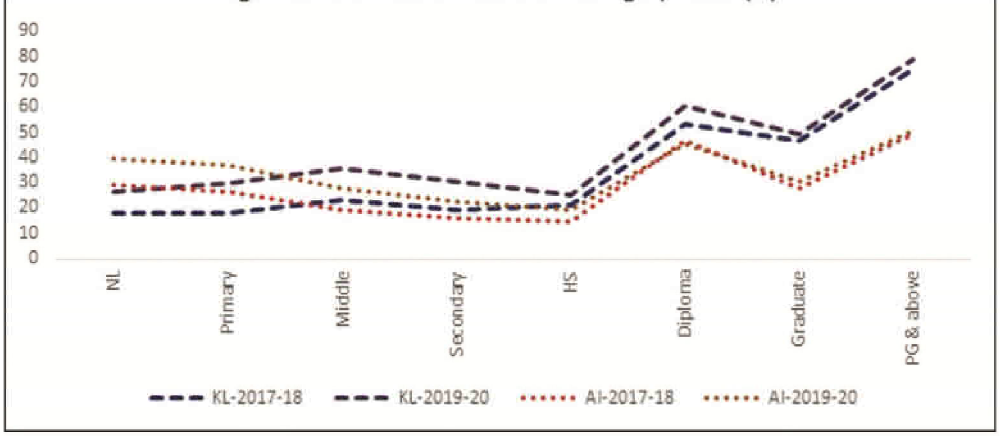
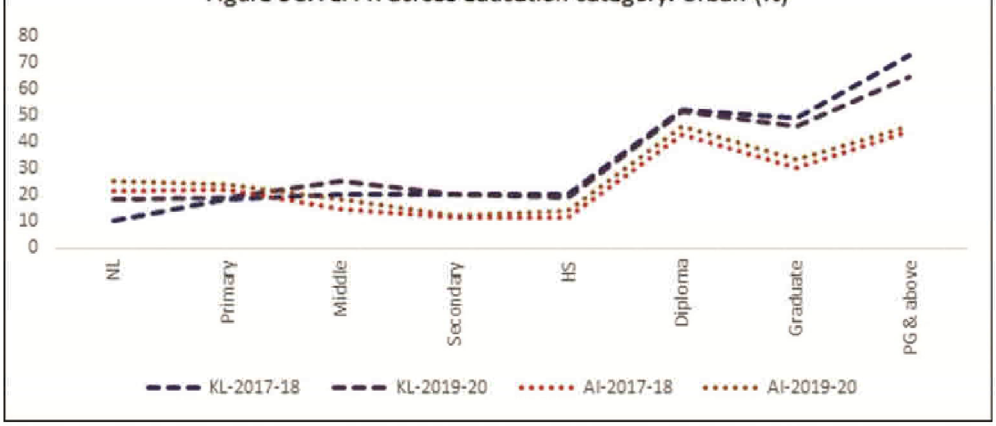



Figure 5C: FLFPR across education category: Urban (%)



***The recent increase in FLFPR, especially in rural areas, indicates rural and agrarian distress.***

educated women, this substantial drop in female participation needs a detailed examination (Figure-5A, 5B & 5C).

**Conclusion and the way forward**

India stands at one of the lowest in terms of FLFPR compared to its contemporaries. Moreover, the declining female LFPR in India, especially after 2004, when India's fertility rate was declining, and the economy was on a high growth trajectory, has attracted considerable attraction. There is no unanimity in the literature on the reasons behind the observed decline, ranging from an increase in female enrolment in education, higher level of income and the discouraged worker effect.

This study analyses the trends and patterns of female LFPR from 1993-94 through 2020-21 and shows a trend reversal in all the states, though with varied intensity. Contrary to the famous thesis on U-shaped feminisation of work, a cross-sectional analysis of female LFPR did not exhibit such a relationship since many low-income states such as Bihar, Assam, and Madhya Pradesh have very low levels of LFPR. The rural areas mainly drive the increase in female participation in the labour force, whereas urban areas did not exhibit a strong trend reversal. The trends are indicative of distress-driven employment as the rural women who withdrew from the labour force from 2004 to 2017 started joining the labour force. This could be partly attributed to the ongoing job crisis and slow-down in the economy.

Among other states, Kerala makes a critical case given its high female literary and human development. Kerala maintained a higher FLFPR than the national average till 2004 and a decline after that to become one of the states with low female LFPR in 2017, followed by an increase. A disaggregate analysis of trends in FLFPR across consumption quintiles and education categories in Kerala revealed exciting trends in the composition of an increase in female labour participation. The state has shown an increase of FLFPR in the higher quintiles in rural areas, while in the urban areas, there was an increase in the middle quintiles. With respect to education categories, a faster increase in labour participation in lower education groups and a decline at post-graduate and above shows the nature of changes in the labor market in Kerala that are distinct from national average, where there is a marginal increase in female LFPR at higher educational groups.

It is essential to determine the causes of this latest increase in the FLFPR. If it is, in fact, due to the rural and agrarian distress, then the contribution of the urban sector towards the same will be overshadowed. This is already visible with the higher

FLFPR among the lower levels of education, while a drop is seen among the graduates in Kerala. The changing dynamics of the FLFPR, especially that of the urban sector, must be focused on to bring a balanced outcome.

■

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## End Note

1 Labour Force Participation refers to individuals who are involved in employment, whether it is paid or for the purpose of gaining profit and have dedicated a specific number of hours during a given timeframe. This includes individuals who were jobless but actively seeking work and those who created goods for their personal use.

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GIFT GULATI INSTITUTE OF FINANCE AND TAXATION

# Gender disparity in financial access and use: Trends and patterns

Lekshmi Prasad and Kiran Kumar Kakarlapudi

Gender equality defined as the equality in opportunities or resources, rights and voice rather than the equality of outcomes between men and women (World Bank, 2001) has been at the centre of development discourses for promoting inclusive and sustainable growth outcomes. Gender inequality has proved to have a positive correlation to household poverty in the developing world (World Bank, 2001; Strauss and Thomas, 1995) while has a positive correlation to economic growth via returns to education (Schultz, 2002) and increased savings (Seguino and Floro, 2003; Stotsky, 2006). Thus, gender equality is a legitimate policy goal (Morrison et al., 2007) which was got manifested in Millennium Development Goals (MDGs) as the third one and later in the Sustainable Development Goals (SDGs) as the fifth one. The goal has multiple targets, including encouraging reforms to ensure women equal rights to resources.

Among the various opportunities, studies have shown that access to financial resources is critical for women's empowerment and gender equality as it could influence other economic decisions. To attain higher levels of financial inclusion, a large number of policies and programs were implemented all over the world, and some policies are particularly focusing on the financial inclusion of women. In the Indian case, the self-help group-bank linkage program was the world's largest microfinance program in terms of client base and outreach, starting in the early 1990s. Transferring the benefits of the government workfare program directly into the bank accounts of the women and not into the account of the male household head proved to have to empower impact on women compared to those who paid in cash (Field et al., 2021). Further, implementing Pradhan Mantri Jan Dhan Yojana (PMJDY) in 2014 also

***India is witnessing a gender gap in favour of women with respect to access dimension of financial inclusion which is measured in terms of bank account ownership.***

envisaged access to a formal banking system for all, irrespective of social and gender identities. This has resulted in account growth never seen before in history. India had performed at par with the high-income OECD countries regarding the percentage of the adult population owning bank accounts (Prasad and Kakarlapudi, 2023).

Notwithstanding various efforts to achieve universal financial inclusion, the evidence suggests that there exists a clear gender disparity in access to formal financial services in favour of men (Demirguc-Kunt, 2018; Allen *et al.*, 2015; Trivelli *et al.*, 2018). Antonijevic *et al.*, (2022) reaffirm with the evidence from 144 economies that a statistically significant difference exists between men and women in all seven segments they considered for measuring financial inclusion. Using the microdata Ghosh and Vinod (2017) found that on average, female-headed households are less likely to have access to and use both formal and informal financial services in India when compared to their male-headed counterparts. The existence of the gender gap has been further proved by Kaur and Kapuria (2020) that the female headed-households are showing less probability to access both formal and informal sources of finance and comparatively male-headed households are better off in terms of their higher accessibility to institutional finance. Women are more likely than men to be unbanked due to many barriers such as lack of proper identity documents, and inaccessibility to mobile phones or other technology and lower financial capability (Findex Report, 2021). The key question in this context is how far the policy initiatives towards accelerating the process of financial inclusion have helped bridge the gender gap in formal banking services.

Against this backdrop, the study tries to analyse the extent to which the financial inclusion programs and policies addressing the gender gap beyond the general matrix of bank account growth in India when compared to other country groups using the Global Findex Data published by the World Bank. The paper focuses on how the achievements in financial inclusion have been distributed among the two genders in absolute as well as comparative terms.

The Findex data published by the World Bank allow us to delve into the problem in detail as it has the data pertaining to various components of financial access and use by individuals across 148 economies of the world and the gender divide is one of the many dimensions in which the data Findex provide information. The remainder of the paper broadly discusses the access component

***The growth rate of account ownership and corresponding gender gap in favour of women is not getting translated into the use of services provided by the formal financial system such as deposit and credit in India.***

of financial inclusion and how gross achievement is divided among male and female adults. The second section deals with the achievements in the usage dimension and what is happening to the gender gap there in using two indicators.

**Access**

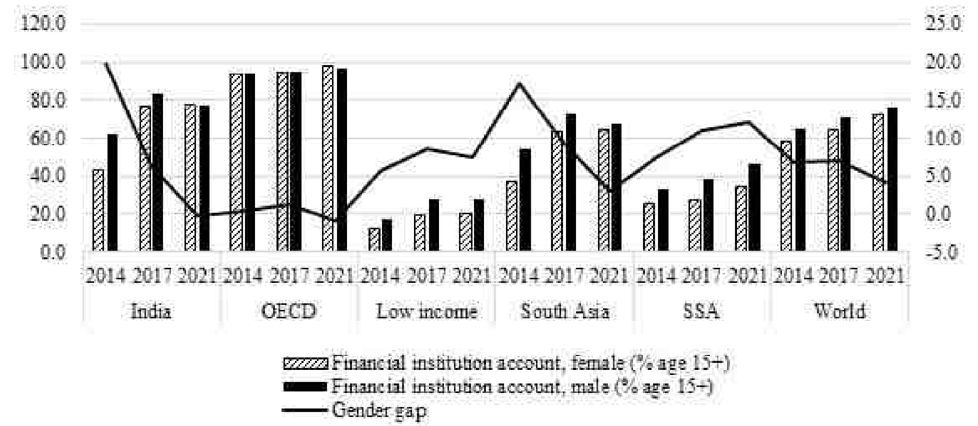
The incidence of financial inclusion starts with ownership of accounts with formal financial institutions. It is an indicator of access to the formal financial system as it is the first point of contact for the user to the same (Prasad and Kakarlapudi, 2023). The world as a whole witnessing consistent growth in the percentage of the adult population owning an account. Despite the progress, there is a clear gender divide in access to formal financial services (Figure 1). However, it is encouraging to note that the gap is narrowing over the years across all the country groups. The same is getting reflected in a continuously falling gender gap in the ownership of bank accounts at the world level from 6.9 percentage points in 2014 to 4.1 percentage points in 2021. Nevertheless, the story is quite different across various country groups. The negative sign of the gender gap in India indicates preference in favour of women compared to men owing to overall account ownership growth. A fall of more than 20 percentage points in less than eight years and taking a turn in favour of women is a significant achievement in financial inclusion considering its access dimension and the achievement can be attributed to PMJDY which is primarily focusing on enabling accessibility to a formal bank account to hitherto unbanked or underbanked population. The high-income OECD countries are the comparator to India in this attainment where the gender gap recorded is hovering around zero. South Asia as a country group also witnessed a steady fall in the gender gap between the years under consideration. On the other hand, overall account ownership growth is leading to the widening the gender gap in SSA countries and low-income economies. The low-income and Sub-Saharan African countries. They are showing a similar trend of widening the gender gap in terms of account ownership. The curve is steeper in the case of SSA. In low-income economies, there is a slight fall in the gap between 2017 and 2021 and with respect to SSA, the gap is expanding (Figure-1).

So even though the world witnessing an overall growth in account access and a corresponding convergence in the access to the formal financial system by women and men, there are exceptions when considering country groups separately. In some regions, the growth of access is aggravating the issue of the gender divide.

**Use**

The ownership of a bank account is not an end in itself but is necessary because it provides the opening to the formal financial system. But financial inclusion in its true sense lies in its usage dimension, as the aim of financial inclusion is the ability to use necessary financial services from the formal financial system at affordable cost and at the right time. So, it is important to take it forward to consider the measures of usage dimension of financial inclusion. The basic services

Figure 1: Gender Gap in Account Ownership




provided by the banking institutions are the facility for deposits and the distribution of credit. Thus, at the very base, we consider these two indicators to measure the usage dimension of financial inclusion.

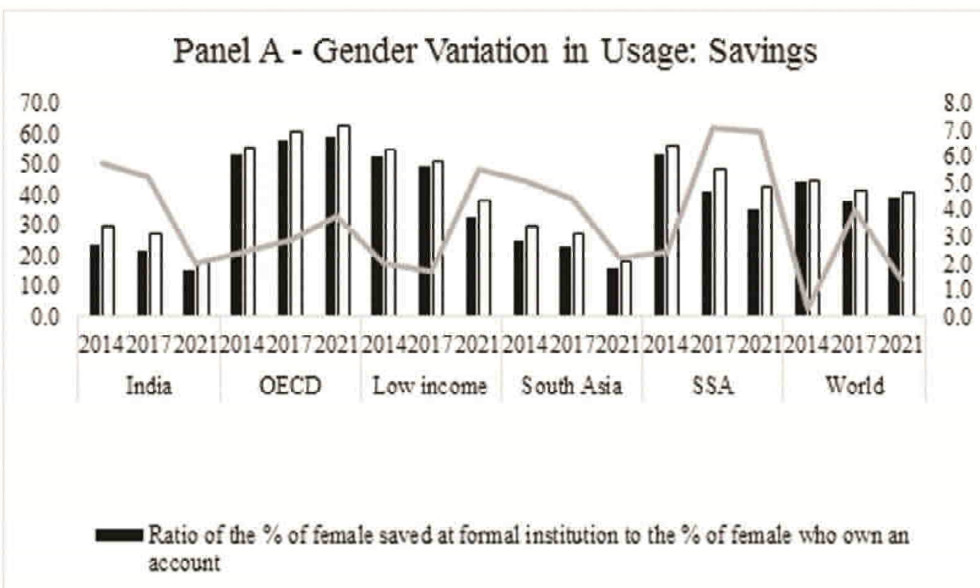
The dependence on the formal financial system for basic banking services such as deposit and credit has shown in panels A and B of Figure 2, respectively. The extent of the use is measured in terms of the ratio of the percentage of females and males who use formal institutions to save and borrow from to the percentage of females and males who own an account in a formal financial institution and the denominator of both the percentages is the adult female and male population. Figure 2 depicts a different scenario from the access dimension. When account growth was on a perpetual increase, it is evident that the growth momentum was, in fact not getting translated into the use of the services provided by a banking system. At the world level, the ratio of the percentage of people who saved at an institution among the percentage of the population who own account is on a decline in the period under consideration but the gender gap is oscillating from a low point of 0.3 to 4 and then to 1.4 in 2014, 2017 and 2021 respectively (Figure 2 - Panel A). Considering India, the ratio is comparatively lower than in SSA countries and low-income countries and is on a continuous decline but corresponded with a decline in the gender gap from 5.7 to 2 percentage points between 2014 and 2021. All the country groups exhibit the same declining ratio of saving with formal institutions except high-income OECD countries where the gender gap is also widening. Low-income countries and the SSA countries are pulling the world trend as they are showing a pattern of declining dependence on formal institutions but

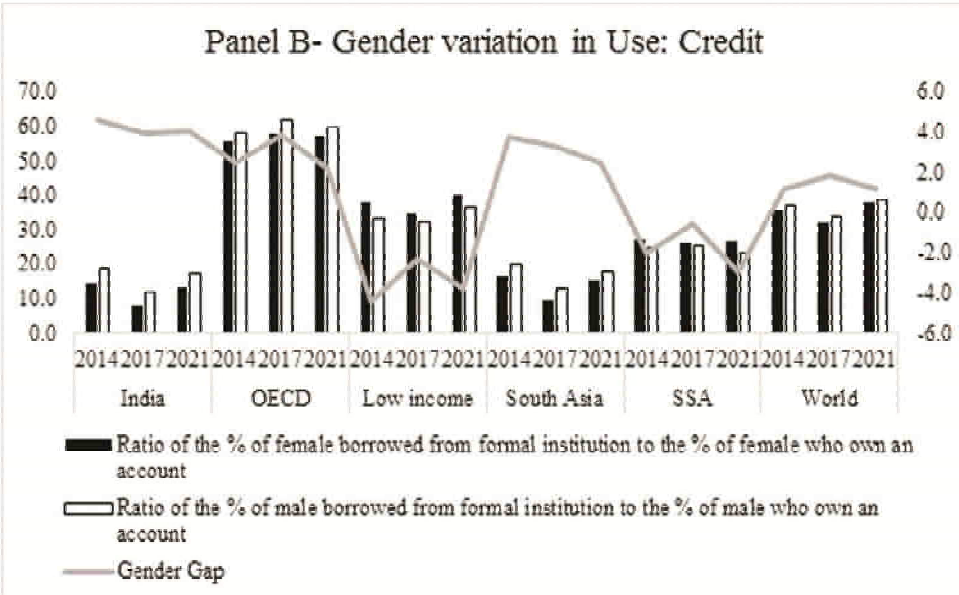
***Considerable share of inactive accounts along with a widening gender gap is peculiar to India.***

fluctuating gender gaps. But all the distortions pertaining to the use of financial institutions to save might be attributed to the availability of alternatives that are more convenient to the users such as semi-formal options and informal options like saving clubs or simply keeping cash at home or in the form of assets such as livestock, jewelry or real estate or can be in the form of financial assets (Findex Report, 2021) (Figure-2).

When considering credit as the measure of use, the dependence on the formal banking sector witnessed a fall between 2014 and 2017 succeeded with a rise between 2017 and 2021 except for OECD countries (Figure 2 - Panel B). The years between 2017 and 2021 witnessed a decline in the gender gap in the availability of credit terms. That is a positive signal that the financial inclusion policies are implemented in the right direction as it is not only improving the overall financial access and use but also catering to solving the problem of level differences in access and use across gender groups. But there

**Figure 2:** Gender gap in uasage in terms of the extent of the percentage of population depending on formal financial institutions for their saving and credit needs





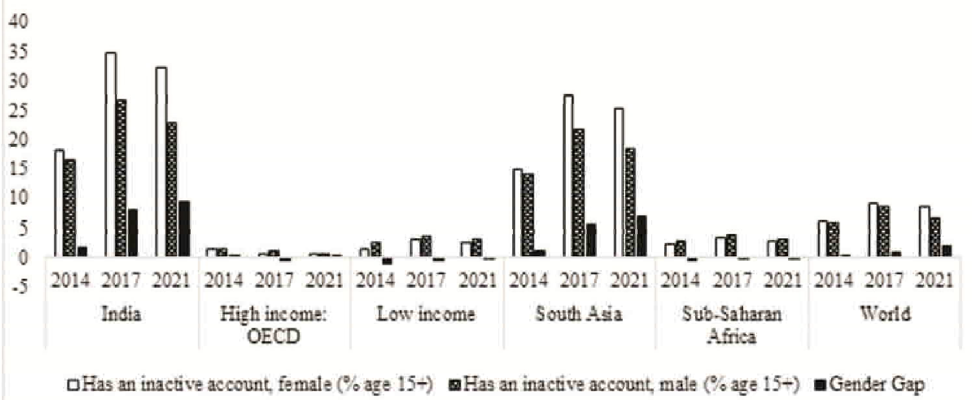

are glaring cross-country differences. The ratio of the percentage of females and males who avail credit to the percentage of females and males those who own accounts is lower in India when compared to low-income economies and SSA. More importantly, the gender gap is also considerably high when compared to the same and is higher than the world average. Thus if the trend in the growth of access to banking is not getting translated into the utilisation of various services provided by the formal financial system, especially the basic services like deposit and credit, the programs' focus should be shifted to intensifying the usage dimension. Further, the intensification should be at par across different classes and groups of people.

**Inactive accounts**

The ownership account doesn't mean it is being used, the other possibility is it can be dormant or inactive. A person with an account cannot be counted in as an active participant and financially included until and unless he uses the services provided by the formal financial sector. That is an important limitation of the metric of account ownership as a measure of financial inclusion (Figure-3).

Figure 3 represents the percentage of females and males self-reporting that they have an inactive account. India has the highest percentage of inactive accounts among the comparators and it was on a rise till 2017 and witnessed a slight decline thereafter. Another alarming fact is that the percentage of females having inactive accounts is growing at a higher than proportionate rate when compared to men which is leading to widening gender

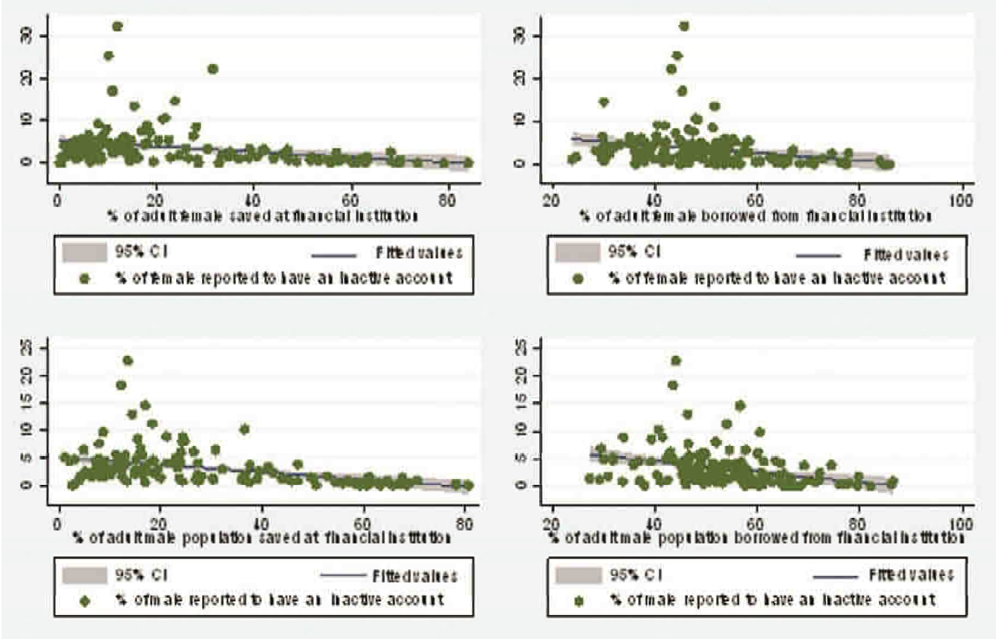
**Figure 3:** Percenatge of Female and Male has an Inactive Account




gap. In all other countries, the share of inactive accounts is very low and the gender gap is either negligible or negative, means that a higher percentage of men having an inactive account than women. From this, it is clear why the high growth rate in access is not getting translated into use in at the same rate in India. A considerable percentage of accounts opened under PMJDY remain inactive or dormant (Sinha and Azad, 2018). But the evidence does not talks about the gender disparity in the inactive accounts. Further , as per the 2021 Findex survey another 38 percentage of the respondents in 2021 in India reported that they opened their first financial institution account to receive payments from government. This also may indicate that they are not using the account for either deposit or credit, rather they simply use it for making withdrawals of the transfers made by the government. It is important to note that even though earlier evidence suggests the persistence of account dormancy, the women hold the majority of it and it is growing. This raises serious questions about womens' command over resourecs and opportunities (Figure-4).

Figure 4 depicts the relationship between inactive accounts and the intensity of use the accounts for deposit or credit purpose across gender ctaegories. It is clear that there exsists a negative association between the two. So it can be argued that one of the reason for achievements in the access indicator is not getting translated into use is the presence of inactive accounts. As the percentage of inactive accounts increases, the gap between access and use will increase and vice versa. Eventhough gender wise responses for the reason for not using the inactive acccounts is not available from the survey, 49 percent of the account holding adults reported that the

Figure 4: Relationship between Inactive Accounts and Usage Indicators across Gender - 2021*




Source: Global Findexdatabse, 2021.
*138 countries and 21 country groups

distance to the bank as the hindernace and another 46 percent reported that they do not neeed an account.

**Conclusion**

The call for financial inclusion grounded on the need for equal opportunity and inclusive growth has achieved positive impacts in terms of bringing more people into the ambit of formal financial institutions which is getting reflected in the growing percentage of adult population owning bank account. But the quality of the impact may be gauged upon the equality of the distribution of the achievements across different groups of people. Ensuring equal opportunity for men and women is also an inbuilt agenda of the financial inclusion programs and polices implemented all over the world.

India's policy initiative can be considered as a success as it lead to minimizing the gender gap in account ownership over and above achieving massive increament in the percentage of adults who own bank account. But the issue which can defeat the purpose is the growing share of inactive accounts with a higher weight to female account holders. Considering the usage dimension, the gender gap in the share of people who use the account for savings among those who have an account has come down drastically in India, but this has not been reflected in credit side. Rather the gap has widened. There is an absolute decline in the percentage of the population depending on formal institutions for saving and the fall is resulting in reducing the gender gap around the world and this is true for India. This may be indicating that the availability of alternative methods for savings but requires further inquiry to substantiate the same. The dependency on the formal institution for credit is on the rise but the intensity of availability of credit in India is nowhere near SSA or low-income economies India and the world as a whole witnessing a reduction in the gender gap in terms of credit use between 2017 and 2021.

The effectiveness of India's policy raises a question as it leads to a massive rise in the number of bank accounts but translating it into use faces impediments as a large share of accounts remains dormant and the share is higher for women in India and further it is on a rise. So for India, it is time to shift the focus to sustainable ways to improve financial inclusion with a stress on those who are less privileged and more prone to exclusion when compared to others by ensuring the delivery of services rather than depending on the matrix of bank account growth. The reasons cited for not using the bank accounts should be taken care with suitable policy interventions as they are mainly supply bottlenecks.

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# Kerala's debt position: A prolonged subject of discussion

P S Renjith and Abin Joseph

**Introduction**

The extended discourse in Kerala has primarily centered around its elevated fiscal deficit and the growing burden of debt. This issue has been under scrutiny, particularly since the early 2000s when Kerala's debt crossed the 30 percent threshold relative to its Gross State Domestic Product (GSDP). However, the implementation of the Fiscal Responsibility and Budget Management (FRBM) Act and other strategies aimed at fiscal consolidation helped mitigate the escalating debt challenge, reducing the intensity of discussions. In 2012, Kerala was once again in the spotlight when the Government of India (GOI) identified it (Times of India 2012), along with Punjab and West Bengal, as fiscally unsound among the states falling within the general category (Das 2015). This categorization was based on the debt-GSDP ratio, which had been on an upward trajectory for Kerala. Yet, it is noteworthy that Kerala's debt-GSDP ratio has not displayed an exponential pattern over the past 25 years, apart from the exceptional year of the COVID-19 pandemic. According to the RBI's assessment in 2022, Kerala has once again attracted attention due to its designation as one of the most financially unsustainable states. This classification is primarily based on its performance during the year of the COVID-19 pandemic.

Nonetheless, it's important to note that academic discussions and research endeavors have only partially delved into the factual dimensions of Kerala's debt situation. The ongoing discourse has also been shaped by significant political considerations. Many scholarly studies have lent support to the political arguments put forth in these discussions. Notably, there has been a tendency to misconstrue the absolute debt figures, leading to a misperception of the actual

***The upsurge in the debt-GSDP ratio during the pandemic primarily stems from the denominator effect - a decline in GSDP - rather than signifying inherent fiscal mismanagement.***

***The current state of Kerala's fiscal situation is influenced by the historical burden of past public interventions.***

situation. The most recent development in expanding the scope of this debate involves moving beyond the traditional debt metrics. This evolution includes the incorporation of off-budget liabilities and an exploration of associated accounting practices.

Against this backdrop, we aim to provide interpretations of certain viewpoints raised by scholars regarding Kerala's public debt. The rest of the study is structured as follows: Section 2 delves into Kerala's debt patterns over the past 25 years. In Section 3, we undertake a thorough analysis of the sustainability issues investigated by various scholars, subsequently offering critiques of the study conducted by RBI (2022). Moving forward, Section 4 sheds light on potential future directions. Finally, the study concludes with summarizing remarks in Section 6.

**Debt obligations of the state**

Table 1 presents the debt status of Kerala spanning from 2000-01 to 2021-22. The data reveals a consistent linear increase in the absolute value of public debt, progressing from 25,721 crores to 3,57,391 crores. Throughout this period, the ratio of outstanding debt to the Gross State Domestic Product (GSDP) oscillated between 28.11% and 38.33%, a range consistently surpassing the benchmarks stipulated by the KFR Act, 2003, and the finance commission. Notably, except for the pandemic-impacted period of 2021-22, Kerala consistently maintained a debt-to-GSDP ratio surpassing the 25% threshold due to its deliberate focus on directing investments towards social infrastructure. However, it's worth noting that the upsurge in the debt-GSDP ratio during the pandemic primarily stems from the denominator effect - a decline in GSDP - rather than signifying inherent fiscal mismanagement.

To maintain a stable level of debt and maintain Intertemporal budget constraint (IBC),[1] the key requirement is that the increase in debt should be slower than the growth rate of the state's GDP, (RBI, 2014). However, excluding the period spanning from 2004-05 to 2012, which saw fiscal consolidation efforts, the Kerala government has failed to meet this criterion in any given year. This is a matter of significant concern, as the escalating debt burden is attributable to the rapid pace of debt accumulation. This, in turn, has led to the need for repeated borrowing to service the existing debt. Encouragingly, there has been a positive development in this regard in the recent trend observed in 2021-22.

Throughout the period, the predominant factor driving the state's yearly outstanding debt has consistently been Open Market Loans. This significantly

**Table 1:** Debt profile of kerala from 2000-01 to 2021-22

| Year | Total Outstanding Debt (in Crores) | GSDP (Current) (in Crores) | Rate of Growth of Public Debt (%) | Rate of Growth of GSDP (%) | Total Debt as % of GSDP |
|---|---|---|---|---|---|
| 2000-01 | 25721 | 91505 | 18.66 | 5.05 | 28.11 |
| 2001-02 | 29025 | 98135 | 12.85 | 7.25 | 29.58 |
| 2002-03 | 33782 | 109433 | 16.39 | 11.51 | 30.87 |
| 2003-04 | 39231 | 121779 | 16.13 | 11.28 | 32.21 |
| 2004-05 | 43,697 | 138858 | 11.38 | 14.02 | 31.47 |
| 2005-06 | 47832 | 159324 | 9.46 | 14.74 | 30.02 |
| 2006-07 | 52,161 | 179051 | 9.05 | 12.38 | 29.13 |
| 2007-08 | 58,108 | 203916 | 11.40 | 13.89 | 28.50 |
| 2008-09 | 66,097 | 236099 | 13.75 | 15.78 | 28.00 |
| 2009-10 | 74,223 | 270114 | 12.29 | 14.41 | 27.48 |
| 2010-11 | 82420 | 307109 | 11.04 | 13.70 | 26.84 |
| 2011-12 | 93,132 | 364048 | 13.00 | 18.54 | 25.58 |
| 2012-13 | 108477 | 412313 | 16.48 | 13.26 | 26.31 |
| 2013-14 | 124081 | 465041 | 14.38 | 12.79 | 26.68 |
| 2014-15 | 141947 | 512564 | 14.40 | 10.22 | 27.69 |
| 2015-16 | 160539 | 561994 | 13.10 | 9.64 | 28.57 |
| 2016-17 | 189769 | 634886 | 18.21 | 12.97 | 29.89 |
| 2017-18 | 214518 | 701588 | 13.04 | 10.51 | 30.58 |
| 2018-19 | 241615 | 788286 | 12.63 | 12.36 | 30.65 |
| 2019-20 | 265327 | 812935 | 9.81 | 3.13 | 32.64 |
| 2020-21 | 308386 | 771724 | 16.23 | -5.07 | 39.96 |
| 2021-22 | 357393 | 932470 | 15.89 | 20.83 | 38.33 |

*Source:https://cag.gov.in/en/state-accounts-report?defuat_state_id=77 (Debt) & https://mospi.gov.in/data (GSDP)*

contributes to the interest payments, which constitute over 15 percent of both the state's revenue expenditure and revenue receipts. To address this challenge, the state could explore options such as obtaining loans from favourable interest rate markets, seeking central government financial assistance, and utilizing lower interest rate sources within the public account.

## Debt sustainability analyses for Kerala: A critical review

Kerala, as a state, has been subject to thorough analysis by scholars from various fields, encompassing academicians, politicians, and media analysts. This comprehensive scrutiny has resulted in a range of conclusions, given

***RBI's call for contractionary policy for states is inappropriate, as active state intervention is crucial during economic shocks, necessitating increased public expenditure and borrowing to restore performance and demand, which in turn raises the public debt ratio.***

the diverse perspectives involved. Many studies underscore that Kerala is marked by pronounced fiscal disparities (RBI, 2013; Kaur et al. 2018; Das, 2015). While metrics such as revenue deficit, fiscal deficit, and the ratio of public debt to GSDP in Kerala tend to surpass the average figures observed among all states, it is important to note that the state's expenditure pattern portrays a distinct emphasis on recurring social service expenditures. Throughout its history, Kerala has consistently prioritized investments in social infrastructure, leading to a significant commitment in this regard (Isaac and Ramkumar, 2006).

Indeed, the current state of Kerala's fiscal situation is influenced by the historical burden of past public interventions. However, there exists a lack of consensus among scholars regarding whether the state should adopt a pessimistic or optimistic approach to deficit financing. Drawing from an interdisciplinary framework, historical context, and political economy perspectives, the optimistic viewpoint suggests that Kerala should maintain its deficit financing nature, focusing instead on strengthening fiscal/ debt management to ensure compliance with intertemporal budget constraints (Joseph and Kumar, 2022). Conversely, the pessimistic stance argues for the state to cut back on social and committed expenditures, following arbitrary targets to mitigate the burden of increasing debt on future generations (RBI 2022). Amidst these contrasting views, some studies adopt a realistic standpoint, acknowledging that although Kerala displays signs of fiscal stress, the state has the potential to regain equilibrium in the future (Das, 2013). Empirical investigations further compound the complexity, yielding mixed results. Certain studies contend that Kerala's fiscal situation is unsustainable (RBI, 2022; Shanmugam and Renjith, 2021)), while others suggest a weaker form of sustainability (Renjith, 2022). This diversity of perspectives underscores the intricate nature of Kerala's fiscal dynamics and the ongoing discourse among scholars regarding the most appropriate approach to address its fiscal challenges.

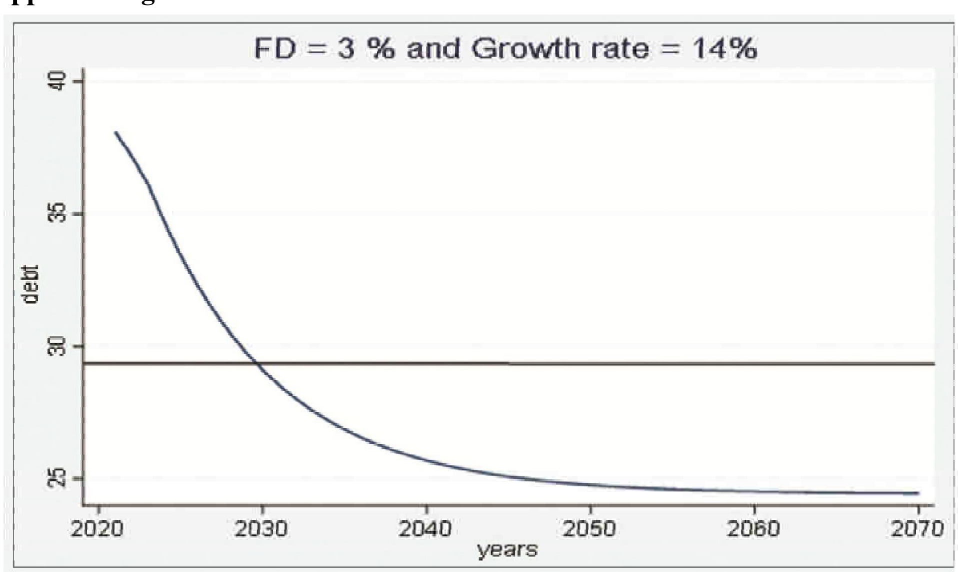
Taking a realistic stand, this study further critiques RBI's (2022) risk analysis, particularly its assessment that Kerala is among India's most fiscally vulnerable states. First of all, RBI's call for contractionary policy for states is inappropriate, as active state intervention is crucial during economic shocks, necessitating increased public expenditure and borrowing to restore performance and demand, which in turn raises the

***The state's sustainable debt position is 27.8 percent of GSDP, necessitating a subsequent 10 percent point reduction from the present level in the upcoming years.***

public debt ratio. The comparison of Kerala with Sri Lanka's debt crisis is flawed, as Indian states are governed by Article 293 of the Indian constitution. The pandemic's impact justifies Kerala's fiscal concerns, but using the pandemic year's debt-GSDP ratio overlooks varying effects on states. Kerala saw a 9% GSDP loss, Maharashtra, Haryana, and Odisha followed. Issues include state and indicator choice, unexplained result disparities, and methodological limitations. A conclusive statement based on statistical insignificance is unwarranted, as it suggests less alarm in increased debt's impact on primary balances. Lastly, clarity is lacking on the reference period and methodology used for projections of primary deficit, debt-GSDP ratio, real interest rate, and real GDP growth.

While critiquing specific existing findings, this study acknowledges that the current debt-GSDP ratio is indeed concerning. It goes on to explore Kerala's debt position, evaluating whether the state is significantly distant from a sustainable position. The study aims to identify methods for

**Appendix Figure 1:** Simulation results




*Source: Authors' estimation*

managing the state's debt without undermining essential social and public interventions, paving the way for the exploration detailed in the next section.

**Can kerala's debt position be intervened upon?**

We tackled this question through three exercises: (i) assessing the sustainability of Kerala's debt and the extent to which we deviate from a sustainable position, (ii) determining the level at which state debt spurs economic growth, and (iii) devising a strategic approach to achieve a sustainable debt position by manipulating fiscal indicators. Employing discrete threshold regression model and Bohn's Suatainability Framework,[2] we established the sustainability threshold for the debt-GDP ratio. Our findings indicate that the state's sustainable debt position is 27.8 percent of GSDP, necessitating a subsequent 10 percent point reduction from the present level in the upcoming years (see Appendix Table 1). Applying the ARDL model, we identified a nonlinear relation between public debt and economic growth. Our analysis revealed that up to a debt level of 27.8 percent, debt positively influences growth in the state, while beyond this threshold, it becomes a hindrance to growth. Furthermore, through a simulation exercise, we formulated strategies to achieve a debt position of 27.8 percent using the framework proposed by Rangarajan and Srivastava (2005). The initial values considered were: (i) a debt-to-GSDP ratio of 38.33 percent for 2022-23; (ii) a fiscal deficit of 3.6 percent for 2022-23 and 3.5 percent for 2023-24; and (iii) a growth rate of 12 percent for 2021-22. By targeting an average growth of 14% along with a 3 percent fiscal deficit, or a growth of 12% with a 2.5 percent fiscal deficit, we project reaching the 27.8 percent threshold level by 2032 (see Appendix Fig.1).

In summary, the state's debt position is currently outside the sustainable zone; however, it has the capability to restore it to a sustainable level of 27.8 percent. It is imperative for the state to avoid compromising critical public interventions through indiscriminate debt reduction. The key lies in enhancing debt management practices. This entails ensuring that debt utilization is driven by specific needs and aligns with sustainability benchmarks. By adopting such a comprehensive approach, the state can strike a balance between managing its debt responsibly and upholding its essential public initiatives.

**Conclusions and policy suggestions**

This study contributes to the ongoing discourse surrounding Kerala's debt position, a topic of sustained debate. Similar to other studies, we acknowledge that the current stance surpasses sustainable limits. However, our approach diverges from existing observations that emphasize curtailing essential public interventions. Instead, we identified a sustainable threshold at 27.8 percent for the state and devised strategies to attain this position. By aiming for an average growth of 14% alongside a 3 percent fiscal deficit, or a growth of 12% with a 2.5

percent fiscal deficit, we anticipate reaching the 27.8 percent target by 2032. Maintaining the integrity of crucial public interventions is of utmost importance for the state. Therefore, we advocate for the improvement of debt management practices, aiming to strike a harmonious balance between responsible debt management and the preservation of essential public initiatives.

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## End Note

1 In order to meet the IBC, the outstanding debt at present must align with the present value of future primary surpluses, as emphasized by Greiner and Fincke (2015).

2 See Shanmugam and Renjith (2022) for the details

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## Appendix

**Appendix Table1.**Threshold regression results

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| **$D_{t-1} < 27.9$ (region 1)** | | | | |
| lagged debt- GSDP | 0.67 | 0.006 | 11.35 | 0.000 |
| **$27.9 < D_{t-1}$ (region 2)** | | | | |
| Lagged debt- GSDP | 0.4 | 0.005 | 8.543 | 0.000 |
| **Non threshold variables** | | | | |
| Output Gap | 0.0001 | | 0.0003 | 3.33 |
| 0.001 | | | | |
| Expenditure Gap | -0.00001 | 0.00008 | -1.73 | 0.082 |
| R-squared | 0.39 | Mean dependent var | 1.31 | |
| Adjusted R-squared | 0.33 | S.D. dependent var | 0.72 | |
| S.E. of regression | 0.59 | Akaike info criterion | 1.89 | |
| Sum squared resid | 13.18 | Schwarz criterion | 2.06 | |
| Log likelihood | -34.92 | Hannan-Quinn criterion | 1.95 | |
| F-statistic | 12.5 | Durbin-Watson stat | 0.99 | |
| Prob(F-statistic) | 0.00 | | | |

# Role of government capital expenditure in India's capital formation

Ashkar K and Divya Kannan K R

## Introduction

Over the past three decades, developing countries, including India, have been facing crucial challenges in their development paths. One notable concern is the widening gap between revenue and capital expenditure. This discrepancy arises from the exponential growth of revenue expenditure and the comparatively slower linear increase in capital expenditure. The latter plays a crucial role in the economy, since capital investments are well-justified, as they hold the potential to trigger a substantial multiplier effect on both economic growth and employment (Bose and Bhanumoorthy 2013). The primary goal of it is to bolster the economy's productive capabilities, thereby facilitating the optimal utilization of previously untapped labour and natural resources (RBI, 2023). Moreover, these strategic investments play a vital role in fostering efficiency and stimulating innovation across various sectors of the economy. By wisely channelling resources into projects that boost infrastructure and expand key sectors, governments can set the stage for sustainable economic development and overall progress. Against this back drop this study aims to analyse trends and patterns of India's capital formation and specifically focuses on the role of government capital expenditure in contributing to India's capital formation.

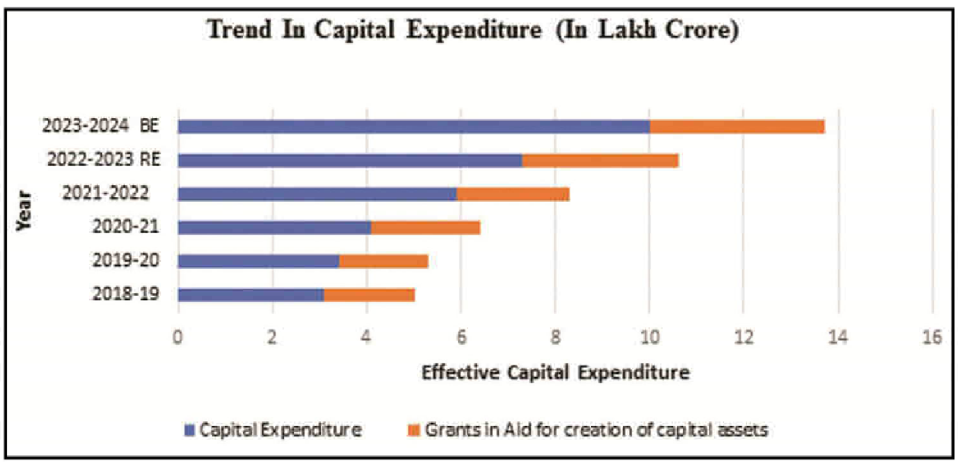
The analysis is divided into six sections. Section two examines the trends and patterns of India's capital expenditure over the years. Section three and four are focused on the role of capital expenditure in India's capital formation, specifically analysing its impact on the Union Budget 2023-24 and overall capital formation. The discussion concludes with presenting the findings derived from the analysis.

## Trends and patterns of India's capital expenditure

The trends in allocation for capital expenditure over different budgets (Figure 1) shows that considering the past five years, allocation for capital expenditure has gone through a drastic shift. 2021-22 budget onward allocation for both capital expenditure and grants in aid for creation of capital assets for states also witness a major hike, in 2018-19 the effective capital expenditure was 5 lakh crore which increased by 174 percentage that is 13.7 lakh crore in 2023-24 budget (Figure 1).

***Capital investments play a significant role as they have the potential to trigger a substantial multiplier effect on economic growth and employment. In Indian context data from the National Statistical Organisation shows that general governments' contribution to the country's overall capital formation has been increasing. While investment in capital expenditure can indeed boost the economy, it is equally crucial for the government to address the growth and demand for human capital. A comprehensive approach that considers both capital and human capital investments is essential for fostering sustainable economic growth and ensuring a resilient and prosperous future for the nation***

**Figure 1:** Trends in effective capital expenditure



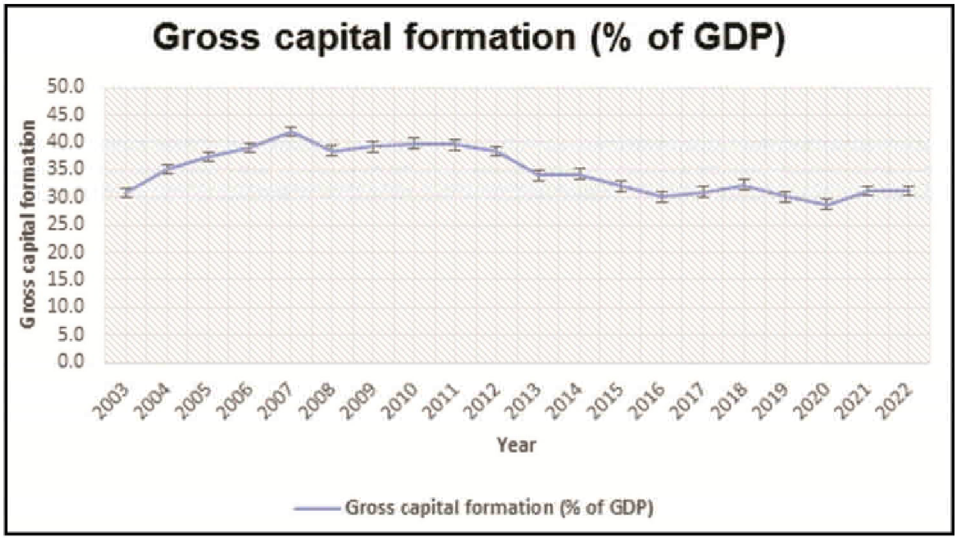

*Source: -Various Union Budget documents*

**India's capital expenditure: A pivotal force for capital formation**

As an emerging economy, India places significant emphasis on capital formation to drive sustainable economic growth and development. Figure-2 illustrates that India's gross capital formation has exhibited fluctuations over the years, reflecting the nation's economic cycles and the impact of policy interventions. According to the World Development Indicator Database, India's capital investment to GDP ratio stood at 31.2% in 2022, which is notably higher than that of other BRICS countries (Fiqure-2)

This higher capital investment to GDP ratio also indicates India's potential for increased productivity, job creation, and economic diversification. By directing substantial investments into various

**Fiqure-2:** India, Gross capital formation (% of GDP)



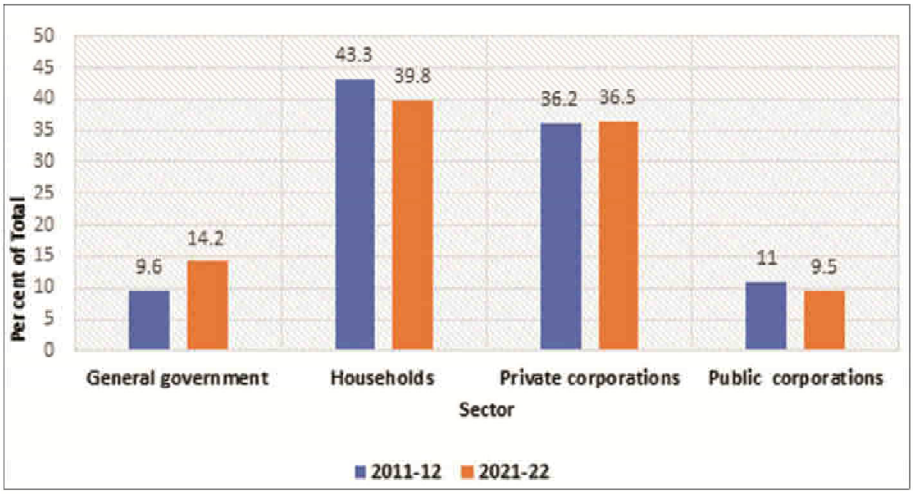

*Source: WDI, World Bank*

sectors, India is laying the foundation for sustained economic expansion and enhancing its global competitiveness. Additionally, the increase in gross capital formation is also a testament to India's efforts to foster an investment-friendly environment. Government initiatives like "Make in India," "Startup India," and "Atmanirbhar Bharat" have incentivized both domestic and foreign investors to participate in India's growth story. Moreover, the emphasis on digitalization, innovation, and research and development has attracted significant investments in technology and knowledge-intensive sectors.

One significant aspect of India's Gross Capital Formation is the notable contributions made by different sectors, namely households, private sector, and general government. Official data indicates that these three sectors play critical roles in driving the country's capital formation. A sector-wise analysis of India's Gross Capital Formation in Figure-3 reveals that in 2022, the household sector contributed approximately 40 percent, the private sector contributed 36.5 percent, and the general government contributed 14.2 percent to India's overall capital formation in 2021-22 (Figure-3).

The household sector's substantial contribution reflects the participation of individuals and households in savings and investments, which supports the growth of the economy. However, over the years, there has been a slight reduction in

**Figure-3:** Gross capital formation in india -sector wise




*Source: National statistics office (NSO)*

households' contribution to gross capital formation.

On the other hand, the private sector's contribution remains significant and indicates the robustness of entrepreneurship and investment activities in India. Moreover, the general government's increasing contribution to gross capital formation highlights the government's role in infrastructure development, social investments, and public expenditure. The government's initiatives in investing in key sectors such as healthcare, education, and transportation contribute to the overall growth and development of the nation.

**Does the union budget 2023-24 contribute to the capital formation process?**

To accelerate the upward cycle of investment and job creation, the capital expenditure budget increased by 37.4% in BE 2023-24 to a staggering Rs. 10 lakh crores over Rs. 7.28 lakh crore in RE 2022-23. This is consistent with the government's focus on and commitment to the Four I's - infrastructure, investment, innovation, and inclusion for a long-term perspective. Over and above that, it is an indication that the new budget seeks to ensure the equity and equality of these investments throughout the country.

The capital expenditure is allocated across various sectors, including transport, rural development, railway, and defence. The transport sector, which includes roads, ports, and railways has been allotted the highest capital expenditure of 5 lakh crore. This is in line with the government's focus on improving the country's transportation infrastructure to enhance connectivity and promote economic growth. Another important sector which comes under the capital expenditure head is the defence sector, the sector has been allotted a capital expenditure of Rs. 1.72 lakh crore, among various ministries; ministry of communication (63 lakh crore), and ministry of urban affairs (25 lakh crore) are allocated more fund for capital expenditure.

According to RBI report this increase in the allocation for capital expenditure, will have a dynamic capital expenditure multiplier which rises from 1 in the first year to 2.45 in the second year, 3.14 in the third year and peaks at 3.25 in 2026-27. Capex on railways and loan assistance to States will contribute 43 per cent of this increased income while investment in logistics is expected to generate 19 per cent of the increased income during 2023-27.

**Is capital expenditure only matter for economic growth?**

Capital expenditure is undoubtedly vital for economic growth; however, it is equally crucial for the budget to address the growth and demand for human capital simultaneously. This can only be achieved by a balanced investment plan in both capital and social sector. When we are considering certain programmes like MNREGP, the budget is keeping with the recent trend of cutting the allocation for its flagship rural jobs programme. The budget allocation for the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) is only 60,000 crores. That is 18% lower than the ?73,000 crore budget estimates for FY 2022-23 and 33% lower than the ?89,000 crore revised estimates of FY 2022-23. This trend was preceded in FY 2021-22 as well. There was a slash of 25% to ?73,000 crores from 2021-22 revised estimates. Apart from MGNREGS, some of the vital segments of the economy such as rural development receive less allocation as it was reduced to 238204 crore which is less than revised estimates for 2022-23. The Micro, Small and Medium Enterprises (MSME) sector is a vital contributor to India's rural economic growth, providing employment opportunities and contributing to the country's GDP. But the current budget gives only less weightage to this sector, the allocation for MSMEs is not adequate and there is not much improvement in fund allocation for this sector. However, an increase in infrastructure investment without sufficient employment elasticity and a reduction in social sector spending could negatively impact social indicators and contribute to inequality. Therefore, while investment in capital expenditure can boost the economy, it is crucial for the budget to simultaneously focus on growth and demand for human capital. This would involve not only investing in physical infrastructure but also supporting education and skill development to create a more educated and skilled workforce that is better equipped to meet the demands of the economy for the future. In conclusion, a balanced approach that considers both capital and revenue expenditure and prioritizes human capital development is necessary to ensure sustainable economic growth and reduce inequality.

## Concluding remarks

The primary goal of capital expenditure is to strengthen the economy's productive capabilities, facilitating the optimal utilization of previously untapped labour and natural resources. Over the past five years, there has been a significant shift in the allocation for capital expenditure. For instance, in 2018-19, effective capital expenditure was 5 lakh crores, and it surged by a remarkable 174% to reach 13.7 lakh crore in the 2023-24 budget. Data from the National Statistical Office further indicates that the government's contribution to the country's overall capital formation has been increasing. It rose from 9.6% in 2011-12 to 14.2% by 2021-22. This growing contribution highlights the government's efforts in boosting capital expenditure. While capital expenditure is crucial, a balanced approach is equally important, encompassing both capital and revenue expenditure, to ensure sustainable economic growth and reduce inequality effectively. By wisely considering both aspects, the government can foster an environment conducive to lasting economic development and equitable prosperity.

■

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**GST updates**

Relfi Paul

# Six years of GST: Fiscal story so far

The GST regime continues to make significant impact on India's fiscal federalism since its inception. The journey has completed six years and when we look at the fiscal story so far, it is understood that the Union government has gained a lot from GST but most of the States have not been able to achieve the desired annual growth of 14% from the base year even after six years. The RBI report, which analyses the State's budgets, shows that the latter's revenues from GST (both SGST and share of IGST) has grown at a compounded annual rate of just 7.8 %. This is mainly because of the rate reduction without considering RNR, structural issues on revenue sharing formula and IGST settlement.

On the other side, the revenue performance of Union government under GST regime is remarkable especially since 2021-22. The first full financial year 2018-19 witnessed healthy growth with Rs 11.7 lakh crore even among the series of initial technical glitches and other confusions. In the backdrop of rate reduction without considering the 'Revenue Neutral Rate', the collection during financial year 2019-20 was below estimates and marginally grew at 4% over previous financial year to reach Rs 12.2 lakh crore. While the early months of 2020-21 were heavily impacted by the Covid-19 pandemic, there was an improvement in the later months of the year and managed to reach Rs 11.32 crore, even though it was lower than the previous year. There was a strong recovery in 2021-22, with total collections reached Rs 14.76 lakh crore, which is 28% higher than the previous year. This trend has continued in 2022-23 also, the collection raised to Rs 18.10 lakh crore, stood annual growth at 22%.

The average monthly gross revenue collection has risen from Rs 89,000 crore in 2017-18 to Rs 1,58,000 crore in the financial year 2022-23. This year so far the average monthly collection again gone up to 1.72 lakh crore. The monthly Average Gross GST Revenue from the year of inception are given below:

When we look at the GST monthly collection of the first quarter of FY 2023-24, the Gross GST collection in April 2023 is all time high, Rs 19,495 crore more than the next highest collection of Rs. 1,67,540 crore. For the first time gross GST

| Year | GST Revenue (in lakh Cr.) |
|---|---|
| 2017-18 | 0.89 |
| 2018-19 | 0.98 |
| 2019-20 | 1.00 |
| 2020-21 | 1.08 |
| 2021-22 | 1.23 |
| 2022-23 | 1.5 |
| 2023-24* | 1.72 |

Source: Compiled from PIB press releases

GST shows impressive growth in first quarter FY 2023-24

| | April | May | June |
|---|---|---|---|
| CGST | 38,440 | 28,411 | 31,013 |
| SGST | 47,412 | 35,828 | 38,292 |
| IGST | 89,158 | 81,363 | 80,292 |
| Cess | 12,025 | 11,489 | 11,900 |
| Total | 1,87,035 | 1,57,090 | 1,61,497 |

Source: Compiled from PIB press releases

collection has crossed Rs.1.75 lakh crore mark. It also records the highest ever tax collection on a single day, on 20th April 2023, Rs. 68,228 crore was collected through 9.8 lakh transactions. The gross Good & Services Tax (GST) revenue collected in the month of May, 2023 is Rs.1,57,090 crore which is 12% higher than the same month last year. In June 2023, the gross GST revenue collected amounted to Rs.1,61,497 crore which is 12% higher than the same month last year. It is for the fourth time, the gross GST collection has crossed Rs. 1.60 lakh crore mark. The average monthly gross GST collection for the first quarter of the FY 22-23 & FY 23-24 are Rs.1.51 lakh crore and Rs.1.69 lakh crore respectively.

This growth indicates hat the economy has fully recovered from the impact of the pandemic. It also shows the favorable impact of various policy and administrative measures that have been taken by the GST Council for the last few years. The initiatives like enhancement of system capacity, nudging non-filers after last date of filing of returns, auto-population of returns, blocking of e-way bills and passing of input tax credit for non-filers, e-invoicing, data analytics, use of artificial intelligence etc. have led to consistent improvement in the filing of returns and thereby revenue especially for the last two years. Various rate rationalisation decisions to correct the inverted duty structure have also contributed largely to this account.

Moreover, the Central enforcement agencies have conducted nationwide searches and raids places of business for suspected tax evaders. The Director General GST Intelligence (DGGI) have detected evasion to the tune of Rs 1,01,300 crore in 2022-23. Of this, recovery of Rs 21,000 crore have been made. In 2021-22, they detected evasion of over Rs 54,000 crore and made a tax recovery of over Rs 21,000 crore. In 2022-23, the total number of evasion cases has gone up from 12,574 to 14,000. In a reply to the Lok Sabha in March, 2023, the Finance Minister said that total GST evasion detected between July 2017 to February 2023 was close to Rs 3.08 lakh crore, of which over Rs 1.03 lakh crore was recovered. GST authorities had arrested 1,402 persons for evading taxes in the last five-and-a-half years till February 2023.

**Kerala's GST revenues up in first quarter FY 2023-24**

As per the state-wise data on national-level GST revenues performance for June 2023 published by PIB, the State has been able to collect Rs. 2725 core in June 2023 which recorded 26% growth over same month of previous year. The State had reported an 11% increase in May 2023 over May 2022 and 12% increase in April. Collection in April 2023 had stood at Rs.3,010 crore, going up from Rs.2,689 crore in the same month in 2022. State-level GST figures for May 2022 and 2023 put Kerala's collection at respectively Rs.2,064 crore and Rs.2,297 crore. It is clear from the above statistics that the State's fiscal performance under GST regime has shows steady increase in the first quarter of 2023-24 compared to the corresponding period in 2022-23.

When we look at the Kerala's GST performance during the last few years, in 2018-19 it has been able to collect Rs. 24650 crore from SGST, share of IGST and compensation. Then the next year this has increased to Rs. 27,474 crore. In 2020-21, the collection got decreased to Rs 18,595 crore because of the COVID-19 pandemic and flood. In 2021-22, it picked up to Rs. 31,486 crore, but there is nothing to be proud of because out of this Rs 8739 crore were received from compensation account. However, the situation has gradually improved, the SGST revenue and share of IGST has shown positive growth in the 2022-23, the State has been able to collect Rs. 32329 crore, even though the compensation has ended in June 2022. It's true that there is a YoY increase. But the actual growth rate is remained below 10% even after six years of implementation.

State-wise GST revenue and its growth

| State | June 2022 | June 2023 | Growth (%) |
|---|---|---|---|
| J&K | 370.83 | 588.68 | 58% |
| Himachal Pradesh | 693.14 | 840.61 | 21% |
| Punjab | 1682.50 | 1965.93 | 17% |
| Chandigarh | 169.7 | 227.06 | 34% |
| Uttarakhand | 1280.92 | 1522.55 | 19% |
| Haryana | 6713.89 | 7988.18 | 19% |
| Delhi | 4313.36 | 4744.11 | 10% |
| Rajasthan | 3385.95 | 3892.01 | 15% |
| Uttar Pradesh | 6834.51 | 8104.15 | 19% |
| Bihar | 1232.06 | 1437.06 | 17% |
| Sikkim | 256.37 | 287.51 | 12% |
| Arunachal Pradesh | 58.53 | 90.62 | 55% |
| Nagaland | 33.58 | 79.2 | 136% |
| Manipur | 38.79 | 60.37 | 56% |
| Mizoram | 25.85 | 55.38 | 114% |
| Tripura | 62.99 | 75.15 | 19% |
| Meghalaya | 152.59 | 194.14 | 27% |
| Assam | 972.07 | 1213.05 | 25% |
| West Bengal | 4331.41 | 5053.87 | 17% |
| Jharkhand | 2315.14 | 2830.21 | 22% |
| Odisha | 3965.28 | 4379.98 | 10% |
| Chhattisgarh | 2774.42 | 3385.21 | 9% |
| Madhya Pradesh | 2837.35 | 3385.21 | 19% |
| Gujarat | 9206.57 | 10119.71 | 10% |
| Dadra &Nagar, Daman | 349.70 | 339.31 | -3% |
| Maharashtra | 22341.40 | 26098.78 | 17% |
| Karnataka | 8844.88 | 11193.20 | 27% |
| Goa | 428.63 | 480.43 | 12% |
| Lakshadweep | 0.64 | 21.86 | 3316% |
| Kerala | 2160.89 | 2725.08 | 26% |
| Tamil Nadu | 8027.25 | 9600.63 | 20% |
| Puducherry | 182.46 | 210.38 | 15% |
| Andaman & Nicobar | 22.36 | 35.98 | 61% |
| Telangana | 3901.45 | 4681.39 | 20% |
| Andhra Pradesh | 2986.52 | 3477.42 | 16% |
| Ladakh | 13.22 | 14.57 | 10% |
| Other Territory | 205.3 | 227.42 | 11% |
| Central Jurisdiction | 143.42 | 179.62 | 25% |
| Grand Total | 103317.18 | 121433.52 | 18% |

Source: PIB press release dated 1 july 2023

| Year | SGST | Share of IGST | Adhoc-Settlement | Compensation Received | Total |
|---|---|---|---|---|---|
| 2018-19 | 8269.59 | 10114.95 | 2734.37 | 3532.00 | 24650.91 |
| 2019-20 | 9453.21 | 9926.19 | -15.83 | 8111.00 | 27474.57 |
| 2020-21 | 8337.35 | 9343.07 | - | 914.63 | 18595.05 |
| 2021-22 | 9887.02 | 12440.48 | 419.70 | 8739.31 | 31486.51 |
| 2022-23 | 12311.49 | 15855.33 | 1028.23 | 3134.47 | 32329.52 |

Source: https://keralataxes.gov.in/tax-collection-2019-20/

# Notifications

**Last date for exercise of option by GTA to pay GST under forward charge - extended**

The Government vide the said Notification No. 05/2023 - Central Tax (Rate) has made necessary amendments in Notification No. 11/2017-CT (Rate) dated 28.06.2017 to extend the time for exercising option to opt for forward charge tax liability by Goods Transport Agencies (GTAs) for 2023-24. The new time line shall be on or before 31.05.2023, instead of 15.03.2023. The required declaration can now be filed up to 31.05.2023 before jurisdictional authorities. Further, GTA who commences new business or crosses threshold for registration during any financial year, may exercise the option to itself pay GST on the services supplied by it during that financial year by making a declaration in Annexure V before the expiry of forty-five days from the date of applying for GST registration or one month from the date of obtaining registration, whichever is later. Similar Notification has been issued under IGST / UTGST Acts.

*Source: Notification No. 05/2023 - CT (Rate), Notification No. 05/2023-UTGST (Rate) and Notification No. 05/2023- IGST (Rate) dated 09.05.2023*

**E-invoicing for the taxpayers having aggregate turnover exceeding Rs. 5 Crores**

The Government vide notification No. 10/2023 has notified that the threshold limit for issuance of e-invoices shall stand reduced to Rs. 5 crore from existing Rs. 10 crore w.e.f. 01.08.2023. Notification No. 13/2020-CT dated 21.03.2020 has been amended to this effect.

*Source: Notification No. 10/2023 -Central Tax dated 10.05.2023*

**Due date for furnishing returns for April, 2023 in the State of Manipur - extended**

The Government vide Notifications No. 11/2023 - CT, No. 12/2023 - CT, No. 13/2023 - CT has extended the due date of filing GSTR-1, GSTR-3B & GSTR-7 of April-2023 tax period till 31.05.2023 for all the taxpayers having principal place of business in the state of Manipur. These shall be deemed to have come in force 11.05.2023, 20.05.2023 and 10.05.2023 respectively.

*Source: Notification No. 11/2023 - Central Tax, Notification No. 12/2023- Central Tax and Notification No. 13/2023- Central Tax, all dated 24.05.2023*

**Guidelines for all India drive against fake GST registrations**

The Government has decided to carry out a two month special drive to detect fake GST registrations and check fake input tax credit related frauds from 16.05.2023 to 15.07.2023. CBIC has issued guidelines vide the said Instructions for special drive against fake registrations under GST. Following guidelines have been issued for such concerted action on fake dealers/ fake billers:

- Based on data analytics and risk parameters, GSTN will identify fraudulent GSTIN's for Central / State Tax authorities and share the same for initiating verification drive. Various tax authorities would also supplement this list by data analysis at their own end using various available analytical tools like BIFA, ADVAIT, NIC Prime, E-Way analytics, etc, as well as through human intelligence, Aadhar database, other local learnings and the experience gained through the past detections and modus operandi alerts.
- Information sharing mechanism will be through designated nodal officers, appointed immediately by each of the Zonal CGST Zone and State to ensure seamless flow of data and for coordination with GSTN/ DGARM and other Tax administrations.
- Time bound verification shall be conducted by field formations which may even include examining the case for blocking of ITC. Action may also be taken to identify the masterminds/ beneficiaries behind such fake GSTIN's for further action, where ever required, and also for recovery of Government dues and/ or provisional attachment of property/ bank accounts, etc. as per provisions of section 83 of CGST Act.
- An action taken report will be provided by each of the State as well as CGST Zones to GST Council Secretariat on weekly basis on the first working day after completion of the week
- There will be a National Coordination Committee headed by Member (GST), CBIC to monitor the drive. The unique modus operandi found during this special drive will be compiled by GST Council Secretariat and presented before National Coordination Committee, which will be subsequently shared with Central and State Tax administrations across the country.

*Source: Instruction issued by CBIC No. 01/ 2023-GST dated 04.05.2023*

**Review meeting with CBIC chaired by Union Finance Minister**

A review meeting with CBIC has been conducted on 29th April, 2023 at New Delhi under the chairmanship of Minister for Finance & Corporate Affairs. In that meeting the Minister emphasised the need for continuously improving tax payer services. With respect to grievance redressal, the Minister desired that in each Zone interaction should be organised with members of trade and industry who are part of the GST ecosystem to know their issues and suggestions, so as to systematically identify matters for working out a redress for them. She also directed to put in place a system to take feedback on grievances redressed so as to improve quality of grievance redressal.

In the course of review, the Minister has briefed on the final revenue achievement in total indirect tax collections for the year 2022-23. She also directed CBIC to introduce its automated GST return scrutiny by next week and to implement an action plan to increase the taxpayer base through enhanced use of technology. In order to intensify its drive against fake billing/ ITC, Smt. Sitharaman desired that CBIC may undertake a comprehensive root cause analysis by studying the typology of cases already booked and come up with recommendations on technology based solutions to address the menace and prevent its occurrence. The Finance Minister also advised CBIC to take measures for employee welfare. Cadre restructuring, capacity building and training, timely promotions and effective and timely action in disciplinary matters were also discussed during the meeting.

*Source: GST Council Newsletter, April 2023*

**Best Practices by State:**

As part of the special drive to detect fake GST registrations and fake input tax credit availment, the GST intelligence units of Kerala and Karnataka have conducted a coordinated search in June 2023. This has uncovered the existence of 30 fake registrants spread across the country, operating under benami firms. The illicit operation had an estimated total business turnover of Rs. 850 crore recorded between October 2022 and June 2023 across India. Falsified invoices for arecanut and fabricated e-way bills were systematically generated to conceal the illicit transportation of goods from Kerala and Karnataka to North India. The cartel capitalised on benami registrations, manipulating personal credentials such as Aadhaar and PAN numbers to acquire mobile connections, Aadhaar updates, establish bank accounts, and secure GST registrations. The seamless collaboration between the intelligence formations of Kerala and Karnataka was instrumental in the success of this operation.

*Source: Press Reports, June 2023*

**Best Practices by Centre:**

The GST National Co-ordination meeting for Central and State Tax officers organised by GST Council Secretariat was held under the aegis of Revenue Secretary Sh. Sanjay Malhotra on 24th April, 2023 at New Delhi. The Meeting was attended by Central and State GST officials. The aim of the meeting was to provide a common platform for knowledge sharing between Centre and State GST officers and also to encourage coordination between them. During the course of meeting presentations were made by States and Central tax zones, CBIC on the best practices developed by them. Further, discussions and deliberations were held on the various issues faced by the tax officials on enforcement front and measures were suggested to tackle the same. Further, it proved to be an ideal platform to come up with measures for better coordination between the authorities for ensuring a robust and resilient GST regime.

*Source: GST Council Newsletter, April 2023*

# New studies on Kerala

Young Scholars' Forum, GIFT
Led by Arun Paul

## Economics

**Scopus indexed**

1. Vivek, M. V., Murugesan, P., & Lavanya, V. (2023). Tax capacity assessment for COVID-19 resource mobilisation: evidence from an Indian state. International Journal of Economic Policy in Emerging Economies, 17(2), 220-238.

The COVID-19 pandemic has disrupted global trade and commerce, posing challenges for emerging economies to mobilize resources for pandemic response. India, ranking second in COVID-19 cases, faces the immense task of safeguarding its population. This paper examines the tax capacity of Kerala, a state with the highest case count in India as of January 2021. Using stochastic frontier analysis, the study assesses the variables influencing tax capacity and technical inefficiency. Two models are constructed to analyse the impact of these variables. Findings indicate limited potential for additional resource mobilization through taxation, given significant challenges in tax capacity variables and the presence of technical inefficiency.

2. Paul, M., & Mandal, S. (2023). Debt-financed emigration, migration experience, and household economy: insight from Kerala, India. South Asian Diaspora, 1-19.

This present study intends to investigate the pattern and predictor of debt-financed emigration and its impact on migration experience and the household economy in Kerala using the Kerala Migration Survey (KMS), 2018 data. Bivariate and multivariate analyses (binary logistic regression) were performed, and the debt-to-income ratio (DTI) was computed to fulfil the study's objective. The result shows that 45.52% of Keralite emigrants borrow debt regarding their socio-economic status to finance their emigration process. Debt-financed emigrants spend high costs on visas, air tickets, and passports as a majority of them are recruited through agents than non-debt-financed emigrants.

3. Thamizhvel, D., & Shambu, K. K. (2023) DIMENSIONAL ANALYSIS OF FACTORS AFFECTING SUCCESS OF WOMEN ENTREPRENEURSHIP IN KERALA. Business, Management, and Economics Engineering. Vol. 21,1232-1244

The study aimed at identifying various dominant factors that affect the success of women entrepreneurship in Kerala. The study is empirical research done with a descriptive approach in order to understand the predominant elements that are impacting the success rates of female company owners while they are operating their companies. Path analysis was used in this research project in order to investigate the nature of the cause-and-effect connection between the many elements that have a role in determining the level of success rates by women business owners. The women are requiring focus and training in the areas of Lacking Knowledge of Digital Marketing Skill and Factors of Production - LKDFP, Dominant Financial Cost and Changes in Regulations - FCCR and Labor Problems and Structural Development - LPSD for women in the less privileged region would boost their chances of success.

4. Shabna, P. (2023). Muslim Women's Rights Discourses in Kerala: Case Study of a Marginalized Group. Journal of International Women's Studies, Vol.25(4), 10.

This paper is a case study of NISA, an autonomous Muslim women's organization in the South Indian state of Kerala. This paper elaborates on the limitations of the Islamic framework embraced by women's associations affiliated with sectarian Muslim groups in Kerala by comparing NISA's works and strategies and explaining their unwelcome position within the community. The paper also considers Muslim women's organizations in Kerala from a global perspective compared to international platforms like Musawah while exploring their limitations in forming a transnational alliance with such organizations.

5. Chacko, A. M., & Scaria, S. (2023). Land Ownership and Well-Being of Women in a Village in Kerala. South Asia Research, Vol.43

This article scrutinizes to what extent land ownership improves the well-being of women, focusing on a village in Kerala, a South Indian state known for its land reforms 'model' that provided land to the tiller and ownership rights to tenants. However, have these radical land reforms actually succeeded in providing ownership rights to women, thereby contributing to their well-being? We ask in this intensive village study to what extent these admittedly radical land reforms provide adequate land rights to women in Kerala in terms of such ownership translating into absolute and effective rights.

6. Natarajan, A., Najmudeen, T. M., Gopalan, M. K., Kuriakose, S., Ratheesan, A. N., Salim, S. S., ... & Achamveetil, G. (2023). Economic and livelihood impacts of the decline in Indian oil sardine landings in Kerala state, India. Regional Studies in Marine Science, Vol. 62, 102963.

This study analyses the economic impact of oil sardine decline on the marine fisheries sector and its impacts on the livelihood of small-scale fishers. The economic impacts were assessed in terms of changes in gross value and inflation at landing centre and retail levels during 2011-2020. A survey was conducted at 500 fisher households to assess the livelihood impacts based on loss of employment, income, and alternate livelihood options. The gross value of oil sardine declined from ?12,562 million to ?1,710 million at the landing centre level and from ?22,869 million to ?2,687 million at the retail level during 2011-2020. The annual income earned by the fish workers declined from ?335,593 to ?90,260 due to the decline in oil sardine landings. Likert scale analysis of the fisher's perceptions indicated climate change, over-exploitation, and marine pollution as the major causes of catch decline.

**Other Journals**

1. Sheeja, J. (2022) Socio-Economic Background of Long-Distance Inter-State Migrants in Kerala.Journal of Research in Humanities and Social Science. Vol. 10,22-30

Interstate migration plays a vital role in Kerala's economy, with migrant workers contributing to its growth across various sectors. This study focuses on the socio-economic background of long-distance migrants in the construction sector of Kerala. Primary data was collected from 369 construction workers in Trivandrum and Ernakulam districts. The findings reveal that a majority of the respondents originated from

West Bengal, followed by Odisha and Uttar Pradesh. The study identifies low income, poverty, and lack of employment opportunities as the main push factors for migration, while better wage rates and employment prospects in Kerala serve as significant pull factors that attract migrants from distant states like West Bengal, Odisha, and Uttar Pradesh.

2. Kakarlapudi, K. K., (2023) Employment loss during COVID-19 in Kerala: Impact and recovery. Vol.1,23-32

This study examines the employment impact of COVID-19 in Kerala and its subsequent recovery. Kerala experienced the highest decline in employment during the first and second waves of the pandemic, with one out of eight people losing their jobs. The construction and manufacturing sectors were particularly affected, leading to significant job losses. Interestingly, Kerala demonstrated unique employment patterns compared to national trends, with a lower impact on youth employment and better recovery rates. The study emphasizes the urgent need for policy interventions to enhance the quality of employment and social security for informal sector workers, given the growth of informal employment and temporary jobs. Targeted support for vulnerable groups, including SC-STs, is also crucial for their employment recovery. Recommended interventions include upskilling programs, social protection schemes, and improvements in the quality of work and employment conditions in the informal sector.

3. Joseph, K. J., & Vijayamohanan Pillai, N. (2023). State and the COVID-19 pandemic Kerala in the context of global, national and subnational experiences. Kerala Economy.Vol.4,6-22

This study examines the role of the state in the context of the global, national, and subnational experiences during the COVID-19 pandemic. Despite the varied nature and extent of state intervention worldwide, Kerala stood out for its exceptional initiatives in social protection. The state ensured the provision of essential goods to all citizens for an extended period, surpassing the efforts of other states. Kerala witnessed a significant growth of 165% in social welfare expenditure in 2020-21, demonstrating its prioritization of public welfare. While this care came at the cost of increasing public debt, it underscores the invaluable lesson that collective care during a crisis carries a price. This study highlights the importance of state intervention and the impact of social protection measures in times of crisis.

4. Chakravarti, P., & Anita Kumary, L(2023). Impact of COVID-19 on mobility of migrants in Kerala and state level policy intervention. Kerala Economy.Vol.4,70-78

This study examines the impact of COVID-19 on the mobility of migrants in Kerala and the policy interventions implemented at the state level. Analysis of data from the CPHS and GIFT survey indicates a significant increase in the number of return migrants and a reduction in out-migration rates, leading to a decline in remittance income for households in Kerala. This decline in income, coupled with the negative GDP growth in 2020-21, posed economic distress for the state heavily reliant on remittances. However, the economy is showing signs of revival with a positive GDP growth in 2021-22. The study also highlights the economic and social challenges faced by return migrants, including income and job loss, household debt burdens, health issues, and depression. Government welfare schemes and interventions were found to be beneficial for these migrants. The findings emphasize the importance of policy measures to support and address the needs of return migrants during and after the pandemic.

5. Markose, Nimi. (2023). The Prospects and Challenges of Developing Hydel Tourism

Destinations in Kerala: A Scope for Responsible Tourism Practices. Journal of Tourism &Hospitality.Vol.12,1-8

This study explores the prospects and challenges of developing hydel tourism destinations in Kerala, focusing on responsible tourism practices. The aim is to leverage the natural surroundings of hydel projects while preserving the ecosystem and promoting eco-friendly activities. The study highlights the importance of responsible tourism in benefiting the local community and government, particularly in the aftermath of natural calamities such as floods. It aims to develop a hydel tourism circuit as a model of responsible tourism. This research sheds light on the potential of hydel tourism and the need for sustainable practices in its development.

6. Arun, M. R., & Devassy, S. P.(2023), Industrial and Commercial development assessment parametersin Kerala, focusing on Business and Production environment. International Journal of Advances in Engineering and Management (IJAEM).Vol. 5, 1121-1128

This paper proposes an assessment framework to attract investment, improve regulations, enhance skills through training and education, and developing infrastructure which can help eventually advance in its industrial and commercial sectors. The framework will facilitate the evaluation of progress and identification of areas requiring improvement, enabling the state government to enhance the business and production environment. This assessment parameters will serve as a valuable tool to promote industrial and commercial development, attract investment, and generate employment opportunities in Kerala.

7. Pramod, P. V., & Ramachandran, R. The mediating effect of social media use in the relationship between social capital and entrepreneurial opportunity recognition. In Interdisciplinary Research in Technology and Management (pp. 345-351). CRC Press.

The growth of the gig economy has led to a rise in the number of micro-entrepreneurs who rely on it. The purpose of the paper is to assess the effect of social capital on opportunity recognition among micro-entrepreneurs through the use of social media. Alongside this, the level of social media use among the manufacturing sector and service sector micro-entrepreneurs is also analyzed. The study draws upon the Social Information Processing Theory. The cross-sectional survey was conducted among micro-entrepreneurs in the state of Kerala, India. The results reveal that social media mediates the relationship between social capital and opportunity recognition and also social media use is higher among micro-entrepreneurs in the service sector.

8. Hajong, V. R., & Kakarlapudi, K. K.(2023) Gender budgeting for women-led development? A comparative analysis of Kerala and India.Kerala Economy.Vol.4.95-106

This study examines the allocation patterns of gender budgeting for women-centric schemes (Part A) and pro-women schemes (Part B) in the Union and Kerala budgets from 2017-18 to 2023-24. Through the lens of gender and development, this study evaluates whether gender budgeting in India adheres to a 'women-led' development that incorporates the GAD or at least the WAD framework. The findings reveal that the annual average growth of gender budget allocations is higher than the total budget expenditure in both Union and Kerala budgets. The results indicate that Kerala has attempted to follow the GAD approach at the aggregate level as the share of gender budget allocations in total plan outlay has doubled in the last seven years. Conversely, with a constant share, it is possible to infer that the Union government has followed the WID approach.

9. Haris, H., & Geetha, S.(2022). SUPPLY CHAIN MANAGEMENT OF PADDY SECTOR IN KERALA WITH SPECIAL REFERENCE TO

ALAPPUZHA DISTRICT.INTERNATIONAL JOURNAL OF FOOD AND NUTRITIONAL SCIENCES.Vol.11.4288-4295

This paper concentrates on the supply chain management (SCM) of paddy in Kerala and helps to understand the different channels in SCM, the obstacles in SCM, the issues, and the spread of SCM prices. It was found that the existing supply chain is not efficient and also the marketing efficiency was high in the system where intermediaries cum retailers sell their products directly to the consumers compared to the other channel primarily because of the elimination of the marketing margin of the retailers involved in the marketing. Besides, the farmers get more prices per kg of the produce in this groove. The principal reason for the difference between marketing effectiveness and the price received by farmers is due to higher marketing costs and the profit margin of intermediaries. Hence, farmers produce more benefits if they trade their merchandise straight to the consumers without affecting any of the commission agents with less intervention of the mediators.

10. Rajendran, R., & Soumya, S. (2023, May). Impact of Covid-19 on Pilgrim Tourism with special reference to Sabarimala Temple. In AIP Conference Proceedings (Vol. 2773, No. 1). AIP Publishing.

Pilgrimage is considered the foremost tourism mode to come into existence a long time ago. Pilgrimage Tourism helps pilgrims to flourish mentally and spiritually. This article tries to study the impact of Covid 19 on Pilgrim Tourism in Kerala with special reference to Sabarimala. The data used for the study is secondary data like newspaper articles, magazines, and media Reports. The findings suggest that the pandemic and the measures adopted by the government to overcome the pandemic situation had adversely affected the revenue and administration of the Travancore Devaswom Board (TDB).

11. Krishnan, C.(2023) FINANCIAL HEALTH OF THE UNIVERSITIES: A STUDY IN TWO SELECTED UNIVERSITIES OF KERALA.Sambodhi.Vol.43.113-118

The aim of this study is to examine the sources of financing of selected State and Central Universities from Kerala and to analyse the uses of funds in the selected Universities. The study uses primary and secondary data sources like Annual reports and Budget Estimates of the Selected Universities from Kerala. The study found that the government is the major financier of higher education at the central and state universities. It is clear from this study that the dependence of state and central universities on government grants is very high. The major share of the income comes from government grants. The dependency on the grants is almost the same even in the later period. At the same time, the state universities' own sources share is growing; this means that the state university is trying to be self-sufficient. A similar observation is found in the case of fee income. The state university's examination fee is much higher than that of the central university because a fee is the main internal component of a state university. But, in the case of 'other fees', they are higher at Central University.

**Projects**

1. Hari, S. G., Praveen, R. D., & Menon, A. S. (2023). Study on Entrepreneurial Attitude among Engineering Students: Strategic Study with Reference to Start Up Ventures of Engineering Students in Kerala.Bookwell Delhi

This study examines the entrepreneurial attitudes of engineering students, with a specific focus on those studying mechanical engineering in Kerala colleges. The research explores the shifting role of the Union and State Governments of Kerala from employers to promoters of entrepreneurship, driven by challenges such as youth unemployment, difficulties in securing jobs from college campuses, and rapid technological advancements. Entrepreneurship is viewed as a means to overcome poverty and foster innovation. The study investigates how engineering students perceive start-up ventures and other entrepreneurial endeavours, considering the inspiring role played by Innovation and Entrepreneurship Development Centres on campuses.

2. TS, S., & Thomas, T. (2023). Entrepreneurship Education and Training Ecosystems in the Promotion of Entrepreneurial Intention and Culture among the Educational Institutions in Kerala.Bookwell Delhi

Entrepreneurs play a crucial role in driving economic growth and societal development. They inspire innovation, create jobs, and contribute to individual achievement. Entrepreneurship is influenced by individual attributes and the surrounding culture and system. Cultivating an entrepreneurial culture is essential for fostering innovation, risk-taking, and business knowledge. However, a weak entrepreneurship culture can hinder entrepreneurial growth. This study explores the relationship between entrepreneurship education, training ecosystems, and the development of entrepreneurial intention and culture among educational institutions in Kerala. The findings emphasize the strategic connection between academia, students, and institution-led activities to foster entrepreneurial intentions among the youth.

**Books**

1. Renuka, S., & Abraham, A. (2023). Low female labour force participation: Evidence from urban Kerala. In Higher Education, Employment, and Economic Development in India (pp. 238-256). Routledge India.

The low levels and declining trends of female labour force participation have been widely discussed in the literature. However, there is a lack of micro-level studies that go beyond macro-statistics to understand the societal and kinship dynamics influencing women's decisions to work. This study addresses this gap by conducting a primary survey of 100 women in the working age group in urban Kerala, known for its high female literacy rate and low female labour force participation. By challenging the notion of "family support" and questioning the voluntary nature of women's decisions to exit the labour force after marriage and motherhood, the research sheds light on the social expectations placed on women. The findings highlight the need to view these decisions as consequences of societal norms rather than individual choices, contributing to a deeper understanding of the low female labour force participation in urban Kerala.

2. Bashir, S., & Majeed, M. (2023). Are Remittance Inflows Good for Economic Growth? Evidence from India Using the Linear ARDL Approach. In Indian Migration to the Gulf (pp. 119-134). Routledge India.

This study examines the relationship between remittance inflows and economic growth in India, specifically focusing on the Gulf migration and remittances in the state of Kerala. While Gulf remittances have traditionally been seen as a significant pillar of Kerala's economy, this chapter argues that they may not be a sustainable source of economic stability, particularly in light of the COVID-19 crisis. The chapter explores the unique impact of the pandemic on Kerala's economy, its effects on return migrants and guest labourers, and the potential utilization of social remittance for their resettlement. Data from the Government of Kerala's COVID-19 statistics dashboard is used for the analysis.

3. Charan, J. (2023). Indian Diaspora in the Gulf: Impact and Advantages. In Indian Migration to the Gulf (pp. 15-27). Routledge India.

The Covid-19 pandemic has significantly impacted Gulf migrants, particularly those returning to developing countries like India. Kerala, a popular destination for Indian immigrants, relies heavily on the Gulf workforce. This study examines the response of the state of Kerala to the crisis and the challenges faced by return migrants. Many migrants worked in the informal sector, making advocacy for their rights and improved working conditions difficult. Without the support of extended families or the state, it becomes challenging for migrants to lead a normal life upon their return. This research focuses on the socio-economic struggles faced by abandoned migrants who are no longer integrated into the social fabric of Kerala. The study aims to shape new regulations and provide a positive outlook for the lives of return migrants, particularly in the context of the Covid-19 situation.

## Environment

### Other Journals

1. Jacob, A., Prasad, K. A., Manickam, S., Balasubramani, K., & Vyshnav, R. (2023, January). Mapping a Landslide Event on Puthumala, Kerala, India using SAR Interferometry. International Conference on Machine Intelligence for GeoAnalytics and Remote Sensing (MIGARS) Vol. 1, 1-4

This paper focuses on the mapping of slow-moving ground displacements caused by landslides, which can have severe consequences in populated regions, leading to casualties and economic losses. The study aims to achieve millimeter precision in mapping using non-invasive, high-resolution, cost-effective earth observation data with wide area coverage. Synthetic Aperture Radar Interferometry (InSAR) is employed, specifically analyzing phase differences in multi-temporal SAR images. The research utilizes Persistent Scatterer Interferometry (PS-InSAR) to identify coherent measurement points indicating potential deformations. Additionally, the effectiveness of the Stamps/MTI toolkit is investigated in measuring surface deformation in the Puthumala region using a time series of 29 SAR images from 2019 to 2022.

## Agriculture and Rural Economy

### Scopus indexed

1. Suresh, A. (2023). Contextualising credit transactions in artisanal marine fishing: insights from Kerala, India. Reviews in Fish Biology and Fisheries, 1-17.

The study examined the structure of credit in marine fishing and its composition; interlocked credit market and credit-labour transactions; segmentation of credit market; interest rate variations, and the potential reasons for the high penetration of informal credit in marine fisheries in the background of relatively better developed formal financing system in sectors outside fishing. The study concludes that the risk-sharing role of the informal credit in addressing the high variability of the income stream in marine fishing and the failure of the formal system to develop credit products internalizing the risk element perpetuates the informal credit dominated by output-credit interlocking between fishers and auctioneer-creditors. However, the system is not without "exploitative elements" triggered by the monopoly power of stakeholders, particularly auctioneer-lenders. The traditional "triadic system" involving fishers, auctioneer-lenders, and the society as regulators of trust that sustained the informal credit system is weakening due to extraneous forces. The study highlights the need to have credit products that bundle insurance.

**Other journals**

1. Sajesh, V. K., Suresh, A., & Mohanty, A. K. (2023). Marine Fisheries in Kerala, India: An Extension Perspective. Fishery Technology, Vol.60, 1-7.

The marine fisheries sector plays a crucial role in Kerala's economy, providing food, employment, and export earnings. However, the sector faces various challenges that adversely affect the livelihoods of fisherfolk. To address these challenges and achieve sustainable development, there is a need for a reimagined extension system that goes beyond traditional technology transfer. This study emphasizes an extension-plus approach, focusing on enhancing the income of fishers and promoting sustainable livelihoods instead of solely increasing production. Effective implementation of this approach requires collaborative efforts from diverse stakeholders along the value chain. The study highlights the importance of a new extension perspective to consolidate gains and mitigate challenges in the marine fisheries sector of Kerala.

2. Nijas, V. P., Srivastava, A., & Das, B. K. (2023). Identification of Tourism Potential of Vagamon (Idukki, Kerala) for Caravan Park. International Journal of Innovative Research in Science, Engineering and Technology, 12(4), 2733-2740.

The tourism industry has gained immense global significance, offering economic growth and employment opportunities. Kerala, known as "God's own country," has prioritized tourism development in various forms. The rural region of Vagamon, with its tea plantations, pine forests, and meadows, possesses abundant natural beauty. However, the influx of vehicles and disturbance to the environment have raised concerns. This paper aims to assess the tourism potential of Vagamon, specifically for Caravan Tourism, while promoting sustainable development and preserving the local environment. Local sustainable materials, such as clay, laterite stones, bamboo, and timber, are utilized in the construction of the area. The objective is to manage tourism in Vagamon in a positive manner, ensuring its long-term sustainability.

3. Meethal, S. V. K.(2023). Performance of Agro Service Centres in Kerala as Perceived by Farmers: A Comparative Analysis.Indian Research Journal on Extension Education.Vol. 23 (2), 46-51

This study examines the perceived performance of Agro Service Centers (ASCs) in Kerala as assessed by farmers. The research was conducted in three districts of Kerala, namely Thrissur, Kannur, and Kottayam, during the year 2018-19. A sample of 120 farmers from 26 ASCs was surveyed to determine the Performance Effectiveness Index (PEI) of the ASCs. The study employed frequency and percentage analysis to assess farmers' perceptions and conducted a Kruskal Wallis test to compare the PEI scores among the three districts. The results indicate that a significant proportion of farmers rated ASCs highly in terms of PEI across all three districts. The findings suggest that farmers in these districts had similar perceptions regarding the performance effectiveness of ASCs. This study sheds light on the performance of ASCs and provides valuable insights for enhancing their effectiveness in serving small and marginal farmers.

4. Surya Babu, S., & Thomas, K. R. (2023).Conservation Status, Feeding Guilds and Diversity of Wetland Avifauna in the Pokkali Wetlands of Ernakulam District, Kerala, India.Ziechen Journal.Vol.9.1-4

The paper deals with the conservation status, feeding guilds, and diversity of wetland birds. The collection of basic data on these avifauna is necessary for the effective implementation of the conservation strategy. These incredibly nutritious and biodiverse habitats provide numerous ecological and economic services. An intensive study was carried out from 01 January 2016 to 01 January 2020 in the selected Pokkali wetlands of Ernakulam District, Kerala. The presence of these birds in the study area denotes the healthy nature of the environment.

## Education

### Other Journals

1. Ancy, A., Chitra, B., Saji, J., Achankumju, S., Biju, S., & Benzily, A. (2023). A Descriptive Study to Assess the Knowledge regarding Infection control among First year B. Sc. Nursing Students at selected Nursing Colleges with a view to developing an Instructional Package on Infection control. Asian Journal of Nursing Education and Research, 13(1), 36-38.

This research project aimed to assess the knowledge of infection control among first-year B.Sc nursing students in selected nursing colleges and develop an instructional package. A non-experimental survey design was adopted, and a quantitative approach was used. The study involved 50 first-year B.Sc. nursing students from Bishop Benziger College of Nursing in Kollam, selected through convenient sampling. Data was collected using a reliable, self-structured questionnaire. Results indicated that 18% had poor knowledge, 64% had average knowledge, and 18% had good knowledge regarding infection control. No significant associations were found with demographic variables. The implications of the study contribute to nursing practice, administration, and education.

## Health

### Scopus Indexed

1. Abraham, R., Koshy, N., & Jose, R. (2023). Utilization of Supplementary Nutritional Services of ICDS by Pediatric Beneficiaries of Central Kerala, India: A Cross-sectional Study. JOURNAL OF CLINICAL AND DIAGNOSTIC RESEARCH, Vol.17(5), LC18-LC23.

The aim of the study is to evaluate the utilization of supplementary nutritional services of ICDS and also to assess the reasons for not utilizing the same by pediatric beneficiaries. A community-based cross-sectional study was conducted in the Department of Community Medicine, Government Medical College (selected Rural Community Health Centre), Thrissur district, Kerala, India, from January 2019 to August 2019. Univariate analysis and logistic regression were used for statistical analysis to find the factors affecting the non-utilization of ICDS services. The study found that regular utilization of supplementary nutrition was poor. Those who were staying away from Anganwadi and who had higher maternal education had lower utilization of ICDS nutritional services. Public-private partnerships in providing hot cooked meals from Anganwadi in playschools can be explored to increase utilisation.

2. Philip, P. J., & Panda, G. R. (2023). Catastrophic Health Expenditure for Hospitalization in Urban Kerala: Determinants, Inequality and Policy Implications. Interdisciplinary Research in Technology and Management.(1st Edition).CRC Press

This research paper examines the health expenditure incurred by inpatients in Urban

Kerala, a southern province in India known for its commendable health indicators. Despite its reputation, the state grapples with a significant burden of Out-of-Pocket Expenditure (OOPE), as evidenced by the 'National Sample Survey' (NSS). This paper aims to estimate out-of-pocket expenditure and explores the determinants of Catastrophic Health Expenditure (CHE). and also investigates the inequality in the incidence of CHE and the factors contributing to it. Descriptive statistics, logistic regression, Concentration index, and its Decomposition are employed in the study. Results indicate that covariates such as social group, medical institution type, and consumption expenditure correlate with CHE. Further, reveals the socio-economic inequality in CHE incidence and highlights the significant contribution of the type of medical institution and consumption expenditure to the total inequality. The study emphasises the need for multi sectoral collaborations and changes in design features in order to address supply-side inefficiencies and moral hazards that can hinder equitable health finance.

## Banking and Finance

### Other Journals

1. Renjith, P. S.(2023) Household borrowing and credit market access in Kerala during COVID-19. Kerala Economy.Vol.4,59-69

This study examines the impact of COVID-19 on household borrowing and credit market access in Kerala. Inadequate credit market access during the pandemic can hinder economic recovery due to reduced household spending. Despite maintaining pre-pandemic levels of household credit dependency, credit market participation has not fully recovered. Uncertainty in accessing formal credit sources during the pandemic has led to a significant shift from banks to Self Help Groups (SHGs) and select Microfinance Institutions (MFIs). These informal intermediaries have provided substantial loans when banks withdrew during the crisis. Policy interventions, particularly in monetary and fiscal domains, are crucial to respond to demand and supply shocks and support economic recovery. Banks and similar institutions should announce measures to offer credit facilities tailored to the needs of distressed customers, considering factors such as family income, social status, employment status, and regional differences. Failure to address these challenges may impede economic growth as the crisis persists.

# What is new(s) from GIFT

## A. Webinar

**Webinar on Fiscal Policy and Transmission: "The Case of India's States" organised on 28 April 2023**

Dr Nikhil Damodaran , O P Jindal University, Sonipat presented the paper. Dr G V Nadhanael, RBI, was the discussant of the paper. Prof. K J Joseph welcomed the participants. Dr Kiran Kumar karkalapudi proposed the vote of thanks.

**Abstract:** The paper examined the fiscal policy of India's states to evaluate aggregate and regional implications of state level fiscal shocks. The paper finds two distinct uses of fiscal policies by states with a limited set of instruments. First, certain states employ government spending as a means to stimulate their own economy. Second, despite the relative strength of a government spending-led stimulus, the use of tax cuts by other states imply different uses of fiscal policy. We find that inter-state trade could explain the simultaneous variations in both spending and taxes across states. States which use government spending, aim to stimulate their own economy, but end up with unintended positive benefits to the entire country. While states which rely on tax cuts rely on terms-of-trade deterioration to improve their 'current account balance', resulting in beggar-thy-neighbor policies. The paper made two key contributions to the broader literature of fiscal policy transmissions. First, they have used a currency union New Keynesian model and examined the sub-national trade transmission of fiscal policies for states in India. The study did so under a variety of settings - lumpsum tax, distortionary taxes and government debts - which explore the possibility of diverging fiscal policies as a result of differences in implementation of fiscal instruments. Second, unlike the usual literature, the study computed the model implied tax multiplier for indirect taxes and examined their impact. This is referred to as an 'unconventional' fiscal policy because of its infrequent use, but in our setting is often the only policy that state continue to use to impact a stimulus.

**GIFT in collaboration with the International Institute of Migration and Development (IIMAD) organised a round table discussion on 'the impact of a pandemic on nurse migration' on 2 May 2023.**

Prof. K J Joseph welcomed the participants. Presenters include Prof Irudaya Rajan, Prof. Yuko Tsujita, and Prof Hisaya Oda. Moderator: Prof. Gini Zacharia Oommen. Prof B A Prakash made the concluding remarks

**Webinar on 'Sectoral Productivity Shock, Regional Differences in Intersectoral Linkages, and Structural Transformation in Ghana organized on 15 May 2023 by Dr Soumik Paul, New Castle University, UK..**

The chair of the seminar was Prof KJ Joseph, Director GIFT , welcomed the participants.. Dr Vipasha Ray Hajong, PhD Scholar GIFT

**Abstract:** The study analysed the effect of a local sectoral productivity shock on subnational structural transformation. The analysis is based on regional input-output tables we construct for 2004 and 2013 and available censuses of firms in 2003 and 2013 for Ghana. Based on our data, we confirm the occurrence of a mining productivity shock. Between 2004 and 2013, mining grew dramatically as a share of gross domestic product. The mining shock occurred primarily in the south of Ghana with much larger increases in mining's share in regional output, in the number of mining firms, and in mining employment than in the north of the country. We find that the mining productivity shock led to growing regional (north-south) differences in intersectoral linkages, with greater intermediate use of mining output and a larger sectoral total factor productivity ratio between mining and manufacturing in the south than in the north. Informed by international evidence of strong intersectoral linkages between mining and heavy manufacturing industries, we examine the performance of heavy manufacturing in response to the mining productivity shock. The elasticity of heavy manufacturing to mining employment growth is 50 percent larger in the south than in the north, generated by an increase in both average firm employment and the entry of new firms. We interpret these north-south differences as possibly due to weak interregional production linkages.

**Webinar on 'Entrepreneurial Ecosystem: Theory and Empirical Reality in India organized on 24 May 2023 by Prof Jeemol Unni, Ahmedabad University, Gujarat**.

The chair of the seminar was Shri C Balagopal, Chairman Federal Bank, Founder and former Managing Director Terumo Penpol Ltd .Prof KJ Joseph, Director GIFT welcomed the participants.. Dr Kiran Kumar Kakarlapudi, Asistant Professor, GFT proposed the vote of thanks.

**Abstract:** Traditional economic models predict that people choose entrepreneurship when returns are higher than wage or salary. However, this traditional model is questioned as only a few entrepreneurs succeed and many fail or receive meagre returns. This puzzle contradicted entrepreneurship theory of pursuit of business opportunity and profit orientation. Why do entrepreneurs persist in running business for long periods with low returns?

**Webinar on 'Wasting among Children: The Blindspot in India's nutrition story organized on 29 May 2023 by Dr Zakria Siddiqui, Economist, Department of Social Services, Australia and Adjunct Faculty, GIFT**

Prof Udaya Shankar Mishra, International Institute for Population Sciences, Mumbai chaired the session.Prof KJ Joseph, Director GIFT welcomed the participants. Simantini Mukhopadhyay, Assistant Professor, Institute of Development Studies, Kolkata was the discussant of the programme. Dr Kiran Kumar Kakarlapudi, Asistant Professor, GFT proposed the vote of thanks.

**Abstract:** Despite registering good economic growth, India struggles to progress in social indicators. Improving the nutritional performance of children has been one of the most formidable challenges for India. We argue that there has been a lack of attention to other indicators of child nutrition. The key measure used for assessing child nutrition in most studies is stunting, or height faltering, squarely ignoring wasting where India turns out to be the worst country in the world for which we have the data.

India has not improved in wasting prevalence in the last 20 years. Besides, medical literature using longitudinal measures indicates that cross-sectional measures for wasting are a five-fold underestimate of the actual prevalence of wasting. Further, longitudinal estimates also indicate that past wasting events are often a precursor for stunting. We provide a data-based contextual discussion that India's slow progress in addressing child nutrition is due to the fact that wasting has never been in the calculus of policy response.

**Public Lecture Series on Issues in Indian Public Finance, 12-06-2023 to14-06-2023**

Prof M Govinda Rao Former Director NIPFP, Member 14th Finance Commission and Distinguished Fellow GIFT delivered the public lecture series. Three Lectures were given (1) An Overview of Indian Public Finance or emerging issues in Indian Public Finance, (2) Tax Policy and Reforms in India and (3) Fiscal Federalism and Intergovernmental Transfers: Theory and Practice in India.

**Webinar on: Distributive Politics of the NDA Governments with the Union Health Budget organized on 16 June , 2023 presented by Ms Aswathy M A and Prof D Narayana**

Prof K J Joseph, Director, GIFT welcomed the participants. The chair and discussant of the seminar was Prof Achin Chakraborty, Professor of Economics and Former Director, Institute of Development Studies, Kolkata

**Abstract:**Distributive politics or the politics of pork barrel was popularized by the researchers in the United States in the 1960s. It showed that incumbents in legislatures try to allocate disproportionately high public expenditure to their constituencies to improve their chances of getting re-elected. Political parties try to do the same to get back to power. Visibility plays an important role here and hence the allocation is for new programmes with big outputs at the cost of more efficient ones with lower visibility. This paper argues that the National Democratic Alliance (NDA) governments in recent years have been playing distributive politics with Union health budgets. Health in India is a state subject but in the initial decades of planned development, the Central government designed national programmes for the eradication/ control of communicable diseases and population control and trained manpower for implementation of the programmes by the state governments. However, with communicable diseases on the decline the initial years of the 21st century saw the Central government make three major interventions, namely (Prime Minister's Swasthya Suraksha Yojana (PMSSY), National Rural Health Mission (NRHM) and Rashtriya Swasthya Bima Yojana (RSBY) aimed at correcting the imbalances in the provision of tertiary care, provision of accessible, affordable and quality healthcare to the rural and vulnerable and in particular reduce IMR and MMR, and to protect people from catastrophic health expenditures respectively. The United Progressive Alliance (UPA) government (2004-2014) redesigned PMSSY to upgrade Government Medical Colleges, introduced NRHM and RSBY. The NDA government (2014 to the present) set up AIIMS like institutions, neglected NRHM and renamed RSBY and raised the sum assured to a visibly high amount. Continuing the trend, it refused to accept the recommendations of the XV Finance Commission that recognized the health infrastructure deficits and the resulting lives lost during COVID-19. Post-COVID Union budgets too show the neglect of primary care and national disease control programmes at the cost of large projects under Central control confirming the play of distributive politics.

**GIFT, in collaboration with the International Institute of Migration and Development (IIMAD) organised a book talk on The Migration-Development Regime: 'How class shapes Indian Emigration. 20-06-2023.**

Prof Rina Agarwala the author of the book presented the outline. Prof K J Joseph welcomed the participants. Prof Irudaya Rajan moderated the session.

**B. Teaching and Training programmes**

**1. Post Graduate Diploma in GST (PGDGST)**

**Examination for 2022-23 Batch**

During June and July examination for the 5th Batch of PGD-GST course were conducted in three centres. (Thiruvananthapuram, Ernakulam and Kozhikode). Total 150 students have appeared for the examination in all three centres. The examination for 5 papers were conducted in five Sundays. The result is expected to be announced during second week of September 2023

**Admission 2023-24**

GIFT has announced PGD-GST course for the academic year 2023-24. This is the sixth batch after the introductions of GST. This is of one-year duration and will be imparted through online and hybrid training programme of 150 hours covering theoretical and practical aspects of GST. The curriculum of the course consists of five papers. The training will consist of theoretical and practical sessions to equip the students to understand and comply with various provisions in the CGST/SGST/IGST Acts, Rules & Forms and Accounting. The program is open to graduate in any discipline, final year graduate students and employed persons are also eligible to apply. Attractive fees concessions are available for 14 different categories of aspirants. For prospectus, syllabus, fees and admission procedure, please visit GIFT website - www.gift.res.in. For further clarification you may contact our helpline number: 9746683106, 9388958074 email- pgdgst@gift.res.in. So far 182 students have joined the course.

Course Coordinators : Dr N Ramalingam and Smt. L Anitha Kumary (till 31 May , 2023). For more details: https://www.gift.res.in/index.php/course/detail/14/PGD-GST

**2. Primer to GST Audit Training to the State GST officials, Government of Kerala**

To strengthen the audit structure, the State GST Department of Government of Kerala has developed, through a restructuring process, 140 audit teams to operative throughout the 14 districts of Kerala working in Seven Zones (Each team consists of two Assistant Commissioners/ State Tax officers and three Assistant State Tax Officers with the total manpower of 700 officials. These officials will be supervised by the Deputy Commissioners at the District level and Joint Commissioners at the Zone level. The Additional Commissioner Audit will supervise at the State level.

To impart in-depth and rigorous training to these audit officials of State GST Department of Kerala, GIFT has initiated a training programme with its 30 years of experience in tax training and research combined with the experience and expertise of individuals or external training agency of national repute in the GST Audit. Training. The idea of obtaining the external expertise and experience is mooted by the Commissioner of State GST in his letter to Director GIFT.

For preparing the officials for the Audit Training, 60 hours base level training is mooted by GIFT. This Primer training programme proposes training in Accounting and Returns.

Sixty (60) hours training programme is imparted and conducted in two hours slots of 30 days in online mode (Zoom Platform). (11.00 am to 1.00 pm). The training is imparted during April & May 2023. The faculty members who handled the programme are Dr N Ramalingam, Associate Professor, GIFT & Dr Thomas Joseph Thoomkuzhy, Associate Professor, GIFT

The primer to GST training envisages training and performance objectives as follows:

**The Training objectives**

At the end of the 60 hours training programme, the participant officials should be able to

(1) Prepare journal, ledger, trail balance and final accounts

(2) Prepare the relevant GST returns from the accounts

(3) Read the base accounts, financial statements and integrate with the relevant returns

**The Performance Objectives**

After the completion of the training programme the Audit officials will be able to analytically integrate the taxpayers accounts, relevant source documents with the monthly, quarterly and annual returns.

**3. PhD programme**

The activities in PhD programme during April, May and June 2023 are listed below.

**Update from the First Batch, 2018**

Suha AM, fourth-year PhD Scholar , Published An article titled "Federal Transfers and Sub-National Spending in India: An Analysis of the Stimulatory Effect" in the journal of Asia Pacific Economy, co-authored with Dr. P S Renjith

**Update from the Third Batch, 2021**

Shagishna K, third-year PhD scholar,Published Article titled "Faith-based Financial Exclusion in India: Impact on Branch Density and Access to Loans" in Economic and Political Weekly (vol LVIII No 15), co-authored with prof D Narayana

Three scholars from the Third batch, Shagishna K, Athira Karunakaran and Vipasha Ray Hajong Participated in a three-day Executive Programme in Social Science Research Methodology organised by the Department of Humanities, Indian Institute of Space Science Technology, Thiruvananthapuram.

**Update from fourth batch, 2022**

As part of their coursework , all the nine scholars from the fourth batch prepared and presented a term paper on various issues pertaining to economics and finance. Currently, they are revising the term papers based on the feedback received from the evaluators

**Course Coordinators:** Prof. K J Joseph and Dr Anoop S Kumar

**C.Publications**

**1. Kerala Tax Reporter (KTR)**

April and May 2023 issues of KTR published Online and offline. https://www.gift.res.in/ktr

**2.Innovation and Development**

A Routledge journal from GIFT, Volume 13, No. 2 (2023) published, Editor in Chief, K J Joseph.

For details, please visit https://www.tandfonline.com/toc/riad20/current

**3. Weekly update on Finance, Taxation and the Indian Economy**

This is an attempt by the Young Scholar' Forum in GIFT, led by Smt. Shency Mathew to update on important developments on Finance, Taxation and the Indian economy. Latest issue: 24-30 June 2023.

For details, please visit https://www.gift.res.in/index.php/publish/publish_list/14/Weekly-Updates-on-Finance.

Gulati Institute of Finance and Taxation (GIFT), formerly Centre for Taxation Studies (CTS), is conceived as a premier national Institute to promote theoretically grounded empirical research with an interdisciplinary perspective to aid policy making at the national and sub-national level and GIFT offers a Ph D programme in Social Sciences focusing on Public Economics. Recognized by the Indian Council of Social Science Research (ICSSR) and affiliated to Cochin University of Science and Technology. It conducts two other programmes: Post Graduate Diploma in Goods and Service Taxation (PGD-GST) and Research Capacity Building Programme (RCBP), besides offering training for capacity building of different stakeholders, including Government officials. GIFT brings out two publications: *Kerala Economy* (Quarterly) and *Kerala Tax Reporter* (Monthly).

The Governing Body and Executive Committee of GIFT consist of scholars of eminence and senior administrators representing both the Central and the State Governments. Shri K. N. Balagopal, Minister of Finance, Government of Kerala, is the Chairperson of the Institute.

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