KERALA'S FISCAL HEALTH

A Status Report

This page is intentionally left blank

Contents

List of Tables 7
List of Figures 11
Acronyms and Abbreviations 13
Preface 17
Executive Summary 21
Chapter 1 31
Why This Status Report **31**
1.1 Kerala at a Crossroads: The Case for Fiscal Transparency, Accountability and Reform 31
1.2 The Moment Kerala Is At 32
1.2.1 A Generation with Higher Expectations 32
1.2.2 A Fiscal Position Under Structural Stress 33
1.2.3 A Parallel Fiscal Authority: The KIIFB Problem 36
1.2.4 A Dead Weight on the Budget: The PSU Burden 37
1.2.5 The External Constraint: Centre-State Fiscal Relations 38
1.2.6 A Structural Economic Vulnerability 39
1.3 Why a Status Report - and Why Now 39
1.3.1 Transparency - An Honest Baseline 40
1.3.2 Accountability - A Measurable Baseline 40
1.3.3 Reform Mandate - An Analytical Foundation for Action 41
1.4 What This Status Report Is - and Is Not 42
1.5 Specific Objectives of This Report 42
1.6 Scope and Coverage 43
1.7 Structure of This Report 44
1.8 A Note on Tone and Intent 44
Chapter 2 **47**
Cash Management, Inherited Liabilities and the Structural Roots of Kerala's Fiscal Stress **47**
2.1. Treasury Cash Balances - Annual and Monthly Position 48
2.1.1 Annual Closing Balances - 2015-16 to 2025-26 49
2.1.2. Monthly Cash Flows - The Full Turbulence 50
2.2. Open Market Borrowings - Scale, Pattern and Dependence 52
2.2.1 OMB - Annual Trend 53
2.2.2 OMB Monthly Distribution - The March Problem 55
2.3. The RBI Safety Net and Overdraft 57

2.4. Inherited Arrears - Obligations as on 31 March 2026 60
2.5. The Structural Roots of Fiscal Stress 63
2.5.1. High Committed Expenditure and Shrinking Fiscal Space 63
2.5.2. The Cost of Fiscal Pre-emption: Declining Capital Expenditure 65
2.5.3. A Weakening Revenue Base 67
2.5.4. Persistent Non-Compliance with Fiscal Rules 71
2.5.5. Declining and Uncertain Central Transfers 72
2.6. Conclusion - Operations Reflect Structure 74
Chapter 3 79
Budget Management and Fiscal Discipline 79
3.1 Introduction 79
3.2 Burgeoning Deficits 79
3.3 Revenue Receipts 83
3.4 Expenditure 85
3.5 Large Shortfall in Central Transfers in 2026-27 Budget 87
3.6 Conclusion 88
Chapter 4 89
Kerala Infrastructure Investment Fund Board – Where Does It Stand? 89
4.1 Overview 89
4.2 Origins and Evolution 89
4.3 Organisational Structure and Capacity 90
4.4 Current Financial Position 93
4.5 The C&AG Finding and Its Implications 95
4.6 Cost of Borrowing: KIIFB vs Government 96
4.7 Project Prioritisation and Distributional Concerns 98
4.8 Issues of Governance and the Way Forward 100
4.9 Recommendations 101
4.10 Conclusion 102
Chapter 5 103
Public Sector Enterprises and Fiscal Stress 103
5.1 Profile of Public Sector Enterprises in Kerala 103
5.2 Financial Performance of Public Sector Enterprises 107
5.3 Fiscal Impact of PSEs Performance 110
5.4 Performance of three public utilities 113
5.4.1 Kerala State Electricity Board Limited (KSEBL) 113
5.4.2 Kerala State Road Transport Corporation (KSRTC) 118

5.4.3 Kerala Water Authority (KWA) 119
5.5 Recommendations 120
Chapter 6 127
Development Expenditure and Fiscal Stress **127**
6.1 Trends in plan expenditure and its composition. 128
6.2 Plan expenditure for Scheduled Caste & Scheduled Tribes development 134
6.3 Conclusions and Recommendations 139
Chapter 7 **141**
The Way Forward **141**
7.1 Part A 141
7.2 Part B 147
APPENDIX A 157
Revenue Performance of Kerala in a Comparative Perspective **157**
A.1 Introduction 157
A.2 Composition of Revenue 159
A.3 Central Devolution and Non-Tax Revenue 165
A.4 Revenue Buoyancy 167
APPENDIX B 169
Kerala's Expenditure, Debt and Deficit: A Comparative Analysis **169**
B.1 Introduction 169
B.2 Composition of Expenditure 169
B.3 Debt Profile 176
B.4 Deficits 177
APPENDIX C **181**
C.1 Worsening Centre-State Fiscal Relations: Kerala as an Illustration 181
C.2.The Shrinking Divisible Pool 181
C.3 Conditional Transfers & the Re-centralisation of Expenditure Authority 183
C.4 Decline in Kerala's Share in Inter Se Distribution 186
C.4.1 Comparing the Sixteenth Finance Commission Award with Budget Estimates 2026-27 187
C.5 Asymmetric Fiscal Discipline 188
C.6 Conclusion 190
A Note to the Readers on Data and Sources **191**
ACKNOWLEDGEMENTS **195**

This page is intentionally left blank

List of Tables

Table 1.1: Fiscal Profile of Kerala in a comparative perspective 33
Table 1.2: Purpose of the Status Report 42
Table 1.3: Scope of approach of the report 43
Table 1.4: An outline of the Status Report 44
Table 2.1: Kerala Treasury- Annual Closing Balances and Open Market Borrowings (OMB), 2015–16 to 2025–26 49
Table 2.2: Monthly Treasury Cash Balances and Negative-Balance Count, 2021–22 to 2025–26 (₹ Crore) 51
Table 2.3: Open Market Borrowings, Committed Liability (CL) Outflows, and Net Cash Flow, 2021–22 to 2025–26 53
Table 2.4: Concentration of Open Market Borrowings in March: Annual Distribution, 2021–22 to 2025–26 56
Table 2.5: RBI Liquidity Support Tiers: Structure, Limits, and Interest Rates 58
Table 2.6: Kerala Treasury: Days in Ways and Means Advances and Overdraft, 2011–2026 59
Table 2.7: Accumulated Payment Arrears Inherited by the New Government as on 31 March 2026 (₹ Crore) 61
Table 2.8: Revenue Performance Indicators: Kerala vs. Major States Average, 2015–16 and 2025–26 (% of GSDP) 68
Table 3.1a: Growing Deficits (as % GSDP), 2016-17 to 2025-26 80
Table 3.1b: Growing Deficits and Debt (as % GSDP), 2016-17 to 2025-26 82
Table 3.2: Budget Estimate and Actuals of State’s Own Tax Revenue 84
Table 3.3: Budget Estimate and Actuals of Revenue, Capital and Plan Expenditure 86
Table 3.4: Interim Budget Assumptions of Central Transfers and the Union Budget Actuals (₹ crore) 87
Table 4.1: KIIFB – Inflows (As on 31.03.2026) 93
Table 4.2: KIIFB – Outflows (As on 31.03.2026) 94
Table 4.3: Fund Balance (As on 31.03.2026) 94
Table 4.4: Projects Approved and Payments (As on 31.03.2026) 95
Table 4.5: Interest Rate on Borrowings: Government of Kerala vs KIIFB 97
Table 4.6: Distribution of KIIFB Projects by Districts 99
Table 5.1: Sector-wise distribution of State-level Public Enterprises in Kerala 104
Table 5.2: Status of ownership of SLPEs in Kerala 104
Table 5.3: Investment by the State Government in SLPEs (in ₹ crore) 105
Table 5.4: Top ten Enterprises in terms of investment (Financial) in 2024-25 (₹ in crore) 106
Table 5.5: Range of investments in SLPEs in 2024-25 106
Table 5.6: Performance of the SLPEs in the last decade (amount in ₹ crore) 108

Table 5.7: Net Profit/Loss SLPSE: Sector-wise (₹ in crore) 109
Table 5.8: Enterprises having highest negative net worth in 2024-25 (₹ in crore) 109
Table 5.9: PSEs and Kerala's Budget (₹ in crore) 111
Table 5.10: Arrears in the loan repayment to State government (₹ in crore) (as on March 31, 2025) 112
Table 5.11: Revenue, expenditure and net profit of KSEBL (₹ in crore) 115
Table 5.12: Financial Ratios KSEBL (₹ in crore) 116
Table 5.13: Share of different components in total cost of KSEBL (in percent) 116
Table 5.14: Internal generation and Power purchase by KSEBL 117
Table 5.15: Cost and Revenue per unit of electricity(in ₹) 118
Table 5.16: Performance of KSRTC (₹ in crore) 119
Table 5.17: Performance of Kerala State Water Authority (₹ in crore) 120
Table 5. A1: Top ten loss making enterprises in 2021-22 124
Table 5. A2: Top ten loss making enterprises in 2022-23 (in ₹ crore) 124
Table 5. A3: Top ten loss making enterprises in 2023-24 (in ₹ crore) 125
Table 5. A4: Top ten loss making enterprising in 2024-25 125
Table 6.1 Trends in State annual plan outlay and plan expenditure (₹ in crores) 129
Table 6.2: State plan expenditure (from state budget) relative to State’s total expenditure (₹ in crores) 130
Table 6.3: Composition of State’s plan expenditure (from State budget) by broad service category (in percent) 132
Table 6.4: State plan expenditure by head of development (in per cent) 133
Table 6.5: Plan expenditure on the welfare of SC/ST/OBC and minorities (in per cent) 135
Table 6.6 SCSP Plan outlay and Expenditure (₹ in crores) 137
Table 6.7 STP Plan outlay and Expenditure (₹ in crores) 138
Table A.1: Revenue Receipts as a Share of GSDP (per cent) 159
Table A.2: Share of Own Revenue in Total Revenue Receipts (per cent) 160
Table A.3: Own Revenue as a Share of GSDP (per cent) 161
Table A.4: Tax Revenue as a Share of GSDP (per cent) 162
Table A.5: Own Tax Revenue as a Share of GSDP (per cent) 163
Table A.6: Taxes on Commodities and Services as a Share of GSDP (per cent) 164
Table A.7: State GST as a Share of GSDP (per cent) 165
Table A.8: Tax on Property and Capital Transactions as a Share of GSDP (per cent) 165
Table A.9: Central Tax Devolution as a Share of GSDP (per cent) 166
Table A.10: Non-Tax Revenue as a Share of GSDP (per cent) 167
Table A.11: Buoyancy of Major Revenue Heads with respect to GSDP, 2015-16 to 2025-26 168
Table B.1: Revenue Expenditure as a Share of Total Expenditure (per cent) 170
Table B.2: Capital Expenditure as a Share of GSDP (per cent) 171

Table B.3: Revenue Expenditure as a Percentage of GSDP (per cent) 172
Table B.4: Salaries and Wages as a Share of Revenue Receipts (per cent) 173
Table B.5: Salaries and Wages as a Share of Revenue Expenditure (per cent) 173
Table B.6: Interest Payments as a Share of Revenue Receipts (per cent) 174
Table B.7: Interest Payments as a Share of Revenue Expenditure (per cent) 175
Table B.8: Committed Expenditure as a Share of Revenue Receipts (per cent) 176
Table B.9: Outstanding Liabilities as a Share of GSDP (per cent) 177
Table B.10: Revenue Deficit as a Share of GSDP (per cent) 178
Table B.11: Gross Fiscal Deficit as a Share of GSDP (per cent) 179
Table C.1: Tax, Non-Tax, and Own Revenue: Union Government and Kerala (Amount in ₹ crore) 185
Table C.2: Kerala's Inter Se Share of Union Taxes (per cent) 187
Table C.3: Gross Fiscal Deficit as a Share of GDP / GSDP (per cent) 189

This page is intentionally left blank

List of Figures

Figure C.1: Share of divisible pool in Gross Tax Revenue of the Union Government (in %) 182

Figure C.2: Share of Finance Commission and Non-Finance Commission Grants in Transfers 184

This page is intentionally left blank

Acronyms and Abbreviations

Abbreviation	Expansion
AIW	Administrative Inspection Wing
ALM	Asset-Liability Management
AP	Andhra Pradesh
BDS	Bill Discounting System
BE	Budget Estimate
C&AG	Comptroller and Auditor General of India
CDS	Centre for Development Studies
CEO	Chief Executive Officer
CFI	Consolidated Fund of India
CL	Committed Liability
CMD	Chairman and Managing Director
CSF	Consolidated Sinking Fund
CSS	Centrally Sponsored Schemes
DA	Dearness Allowance
DR	Dearness Relief
DSRA	Debt Service Reserve Account
EAP	Externally Aided Projects
ESG	Environmental, Social and Governance
FC	Finance Commission
FD	Fiscal Deficit
FRBM	Fiscal Responsibility and Budget Management (Act)
FTAC	Fund Trustee and Advisory Commission
GDP	Gross Domestic Product
GFD	Gross Fiscal Deficit
GFR	General Financial Rules
GIC	General Insurance Corporation
GoK	Government of Kerala
GRF	Guarantee Redemption Fund
GSDP	Gross State Domestic Product
GST	Goods and Services Tax

GSVA	Gross State Value Added
HR	Haryana
HUDCO	Housing and Urban Development Corporation
IFG	Institutional Finance Group
IGBC	Indian Green Building Council
IGST	Integrated Goods and Services Tax
IMR	Infant Mortality Rate
ISMS	Investment and Security Management System
KA	Karnataka
KASP	Karunya Arogya Suraksha Padhathi
KFC	Kerala Financial Corporation
KIIFB	Kerala Infrastructure Investment Fund Board
KMSCL	Kerala Medical Services Corporation Limited
KSEBL	Kerala State Electricity Board Limited
KSERC	Kerala State Electricity Regulatory Commission
KSFE	Kerala State Financial Enterprises
KSRTC	Kerala State Road Transport Corporation
KSSPL	Kerala Social Security Pensions Limited
KWA	Kerala Water Authority
LIC	Life Insurance Corporation
LSG(D)	Local Self Government Department
MH	Maharashtra
NABARD	National Bank for Agriculture and Rural Development
NCDC	National Cooperative Development Corporation
NPS	National Pension System
NSDP	Net State Domestic Product
NSSF	National Small Savings Fund
OBC	Other Backward Classes
OD	Overdraft
OMB	Open Market Borrowings
PAD	Project Appraisal Division
PAT	Profit after Tax

PB	Punjab
PFC	Power Finance Corporation
PFMS	Project and Finance Management System
PGCIL	Power Grid Corporation of India Limited
PLFS	Periodic Labour Force Survey
PMAS	Project Monitoring and Assessment System
PSE / PSU	Public Sector Enterprise / Undertaking
RBI	Reserve Bank of India
RD	Revenue Deficit
RDG	Revenue Deficit Grant
RE	Revised Estimate
REC	REC Limited (formerly Rural Electrification Corporation)
SAGARMALA	Sagarmala Programme (port-led development initiative)
SASCI	Scheme for Special Assistance to States for Capital Investment
SC	Scheduled Caste
SCDD	Scheduled Caste Development Department
SCP	Special Component Plan
SCSP	Scheduled Caste Sub Plan
SDF	Special Drawing Facility
SEBI	Securities and Exchange Board of India
SGST	State Goods and Services Tax
SHA	State Health Agency
SLPE	State-Level Public Enterprise
SLPSE	State-Level Public Sector Enterprise
SONTR	State's Own Non-Tax Revenue
SOTR	State's Own Tax Revenue
SPMS	Spatial Project Monitoring System
SPV	Special Purpose Vehicle
ST	Scheduled Tribe
STDD	Scheduled Tribe Development Department
STP	Scheduled Tribe Plan

TIW	Technical Inspection Wing
TN	Tamil Nadu
TRR	Total Revenue Receipts
TS	Telangana
TSP	Tribal Sub Plan
UGC	University Grants Commission
UNFCCC	United Nations Framework Convention on Climate Change
WB	West Bengal
WMA	Ways and Means Advances

Preface

Sound public policy rests on a clear understanding of the State's financial position. A government entrusted with the resources of its people must account for them with transparency, integrity, and responsibility. Only then can it make informed decisions on development priorities, social welfare, public investment, and long-term economic sustainability. This Status Paper has been prepared in that spirit. It seeks to provide a candid assessment of Kerala's fiscal position and to support the collective effort required to meet the aspirations of our people.

The purpose of this report is not to revisit the past in a spirit of criticism, but to understand the challenges before us with clarity and objectivity. Successive governments have had to make difficult choices under significant constraints. Kerala, in particular, has faced persistent fiscal pressures arising from structural factors, including the gradual decline in central transfers, which created substantial gaps in the State's revenue framework. The assumptions underlying the 2026–27 Budget have proved to be fundamentally flawed, particularly in projecting a substantial Revenue Deficit Grant and an unduly optimistic level of Central tax devolution. This has resulted in a significant shortfall for the new Government. Addressing these challenges requires an honest diagnosis and a shared commitment to reform.

The findings presented in this report underscore the need for sustained fiscal consolidation, prudent expenditure management, enhanced revenue mobilisation, and institutional reforms. The path ahead will not be without challenges. However, Kerala has repeatedly demonstrated resilience, adaptability, and collective resolve in overcoming difficult circumstances.

Our citizens rightly expect openness about the challenges we face and seriousness in addressing them. This Government is committed to both.

I place on record my sincere appreciation to the distinguished Committee that prepared this report. Shri K. M. Chandrasekhar, IAS (Retd.), former Cabinet Secretary to the Government of India, provided exemplary leadership as Chairman and brought to this exercise his vast experience in public administration and governance. Prof. D. Narayana, former Director of the Gulati Institute of Finance and Taxation (GIFT), and Prof. C. Veeramani, Director of the Centre for Development Studies (CDS), contributed their deep expertise and scholarship on Kerala's economy. Prof. M. Parameswaran of CDS and Dr. Kiran Kumar Kakarlapudi of GIFT provided valuable research and analytical support in the preparation of the report.

I also acknowledge the contributions of Shri K. R. Jyothilal, IAS, Additional Chief Secretary (Finance), who served as Convener to the Committee and played a pivotal role throughout this exercise. Shri Ajit Patil, IAS, Secretary (Finance), and the officers of the Finance Department provided extensive data, analysis, and institutional support. Shri Md. Shafiq, IAS, Director of Programme Implementation, Evaluation and Monitoring, and his team made valuable contributions at various stages of the work. I thank all of them for their dedication and professionalism. I also express my gratitude to the Centre for Development Studies for hosting and facilitating the Committee's deliberations.

I hope this report stimulates informed public discussion and contributes to a broader understanding of the fiscal challenges and opportunities before Kerala. The State's financial future is not solely a matter for the

government; it is a shared responsibility that concerns every citizen. With transparency, discipline, and collective effort, I am confident that Kerala can strengthen its fiscal foundations and secure sustainable and inclusive growth for the years ahead.

V. D. Satheeshan

Chief Minister and Minister for Finance

Government of Kerala

This page is intentionally left blank

Executive Summary

In the 2026 elections Kerala voted not merely for change but for a future fulfilling their aspirations beyond basic amenities. The State’s finances are the means of keeping the promise and the Status Report seeks to make a candid assessment of Kerala’s finances. The Status Report is an evidence based attempt to understand the financial inheritance of the new government and an act of democratic accountability. It is an honest confrontation with the underlying hard reality of numbers – what the State truly receives, what it truly spends and how, and what it owes to whom. It is a look behind the veil of the annual Budget.

A Status Report published at the start of a government's tenure creates a documented baseline, a picture of current realities. It allows the Legislature, civil society, the media, and the public to measure progress over the five-year term against a shared set of facts. It is a comprehensive picture of the fiscal health, including off-budget liabilities, but not a forensic audit.

Kerala’s social indicators such as literacy, Infant Mortality Rate (IMR), and gender parity remain exceptional. These achievements are to be protected and strengthened. But the challenge before the new government is to ensure that the State’s fiscal capacity can sustain the expenditures to take Kerala a few rungs higher. Kerala currently faces a large burden of outstanding liabilities (₹ 5.07 lakh crore), committed expenditures (77% of Total Revenue Receipts - TRR), and interest payments (20.9% of TRR). Kerala’s capital expenditure at 1.3% of its Gross State Domestic Product (GSDP) is one of the lowest among the Indian states despite running one of

the highest Fiscal Deficits. Kerala has been violating the basic tenet of ‘borrow to invest, growth will repay’ in a big way, weakening the growth generating capacity.

The fiscal stress has been compounded by parallel governance structures such as Kerala Infrastructure Investment Fund Board (KIIFB) draining part of the revenue flow on the one side and creating massive liabilities on the other side. Added to this structure is a large number of Public Sector Enterprises (PSE) draining budgetary resources further and creating another set of liabilities. Until recently, some cushion was being provided by Goods and Services Tax (GST) compensation and substantial Revenue Deficit grants, both of which have come to an end. The stance of the XVI Finance Commission, although it raised the horizontal devolution share of Kerala by 0.4 percentage point, complicates the situation further by ending the Revenue Deficit grant completely and taking a stringent stand on the fiscal deficit target. The poor flow of private investment too has depressed the economy, with GSDP growth in recent years remaining relatively low.

The fiscal stress first shows up in Treasury operations. When the size of inflows (tax, non-tax, and central transfers) is smaller than the size of outflows, the State has to borrow from the Reserve Bank of India (RBI) through which the treasury operations are carried out. The RBI rules stipulate that when the treasury balance falls below the prescribed minimum of ₹1.66 crore, the State draws on the Reserve Bank's three-tier support mechanism. The first line of borrowing, the Special Drawing Facility (SDF), is secured against four classes of collateral: the Consolidated Sinking Fund (CSF), the Guarantee Redemption Fund (GRF), Government Securities (G-Secs), and Auction Treasury Bills (ATBs). The

applicable interest rate is the RBI repo rate minus 2 percent for the CSF and GRF, and the repo rate minus 1 percent for G-Secs and ATBs. The SDF is capped at ₹ 3,362.9 crore. Once the State exhausts this first line, it must resort to Ways and Means Advances, charged at the repo rate plus 1 percent. The Ways and Means Advances limit for Kerala now is ₹ 2,308 crore. When that too gets drawn the last resort is Overdraft at an interest rate of RBI Repo rate plus 2%. The State is seen to have availed Ways and Means Advances since 2015 (18 days) every year. During the COVID-19 years of 2020 and 2021, Kerala used Ways and Means Advances on 234 and 195 days and Overdraft on 57 and 35 days respectively. While 2022 and 2023 showed slight improvement, in 2024 and 2025 the situation has become alarming. In 2024, the State was on Ways and Means Advances on 125 days and in 2025, 262 days, and on Overdraft on 67 and 84 days respectively. There also is a serious cost element to the RBI borrowings (Chapter 2).

There are two ways to limit the RBI borrowings. One, to raise the inflows by Open Market Borrowings. But, the inadequacy of Open Market Borrowings becomes evident when we look at the committed expenditures, that is the total of salary, pension and interest payments. It is seen that in every year the committed expenditure has overshot Open Market Borrowings leaving little room for comfort. A major component of the State’s Own Tax Revenue, namely Goods and Services Tax, too, has been performing poorly in Kerala in recent years; it stands below the all-state average in performance. The central transfers, tax share plus Revenue Deficit grant gave some comfort until 2023-24. But that too has fallen drastically during the last two years and treasury operations have taken a massive hit.

As regards outflows, committed expenditure with definite timelines takes away around three-fourths of all receipts. One of the ways the outflow is reduced is by not paying Dearness Allowance to employees and Dearness Relief to retirees. The new government inherits a specific set of accumulated payment arrears - obligations already incurred and legally due, but not yet discharged- ₹ 21,670 crore under Dearness Allowance arrears, and ₹14,387 crore under Dearness Relief. Payments due to banks and contractors on bill discounting add up to ₹ 3,431 crore. Together with few other deferred payments the total is not less than ₹ 48,733 crore, according to the data furnished by the Finance Department (Chapter 2). This is almost as large as Kerala’s net annual borrowing!

Budget is an estimation of revenue, expenses, or changes in finances over a year. As per the Budget Manual, any large deviation of actuals from the budget estimates is indicative of ‘defective’ budgeting. Kerala has not been able to balance its revenue account for long and the trend of running huge deficits –revenue, fiscal and primary- has continued during the last ten years. Not only are the deficits large, but also the deviations of actuals from budgetary projections are large (Chapter 3). It may further be seen that the realised, or actuals of both Revenue Deficit and Fiscal Deficit are off the targets. In the case of Revenue Deficit, by 2019-20 Kerala should have eliminated the revenue deficit, or balanced the books. But except for the COVID-19 year (2020-21), every recent year reports large Revenue Deficits which are 1.5 to five percentage points higher than the targets. The same is true for Fiscal Deficits. Primary Deficits (defined as Fiscal Deficit less Interest Payments) too are high and actuals are significantly higher than budget estimates. The outstanding liabilities (debt) as percentage of GSDP hit a high of 40.3% in 2020-21 and has been coming down but still

overshot the target by more than one percentage point at 33.22% in 2025-26 RE. Large deviations could also occur between estimates of an interim budget and the regular budget that follows in an election year. If it happens to be the transition year between two Union Finance Commission awards, as in 2026-27, the deviations can indeed be very large – a shortfall of the order of Rs 20,000 crore in central transfers. This has significant implications for the plan size. The plan expenditure for 2026-27 BE is estimated to be ₹33183.48 crore which is likely to be declined by ₹20000 crore with its severe consequences for the minorities as discussed in Chapter 6.

One of the major reasons for actuals deviating from the budget estimates is the similar deviations in State's own revenue receipts, the bulk of which are tax revenues. The actuals of State's Own Tax Revenue are consistently below the budget estimates by around 10%. Such large deviations are, however, not to be seen in the case of expenditures understandably because around 80% of them are committed expenditures. What is disturbing in the case of Plan Expenditures is that the actuals are significantly higher than the budget estimates (7% to 19%). This is financial sleight of hand: the actuals include KIIFB and some Public Sector Enterprises' spending whereas the budget estimates do not include them. Such 'injudicious' formulations accentuate the already fragile health of the fiscals. The lack of credibility of the data presented makes it difficult to carry out any realistic assessment of the underlying economic reality (Chapter 3).

Kerala Infrastructure Investment Fund Board (KIIFB) was established in its current form in 2016 to raise financial resources from the market through innovative methods. Following the C&AG audit in 2024-25 and

the questioning of its independent status, the following questions have become relevant: (i) Has KIIFB raised financial resources through innovative methods and saved money for the State? (ii) Has it implemented projects efficiently and prioritised projects to fill infrastructure gaps? (iii) Does the governance structure of KIIFB violate the Rules of Business of the Government? (Chapter 4).

Currently, KIIFB has an unmet loan liability of around ₹ 21,000 crore whose repayment will fall on the State and projects costing around ₹ 35,000 crore still to be funded. The findings of the Comptroller and Auditor General (C&AG) suggest that KIIFB lacks a sufficient independent revenue base and that its debt is effectively State debt implies KIIFB cannot function as an independent fund raiser without directly and adversely affecting the State's own borrowing capacity. Its cost of raising funds is about 1 to 1.5 percentage points higher than that of the State.

KIIFB's prioritization and distributional outcomes in terms of projects raise serious questions. It is seen that Kannur district alone accounts for over 20% of total approved amounts and 19% of payments released. Adding Thiruvananthapuram (17% approved, 17% released) and Ernakulam (11% approved and released), three districts absorb nearly half the total. Neither human development indices nor economic need indices provide an obvious justification for this concentration. Lastly, a government order in 2017 had conferred powers of ex-officio secretary, Finance (Infrastructure) Department on the CEO of KIIFB. The Rules of Business of the State Government do not permit this. This is not good financial management as officers outside the governmental system must not be empowered to issue

spending orders on behalf of the Government. This is a structural irregularity that was corrected only in 2025.

KIIFB was a bold institutional innovation and was an attempt to create a professionally managed, market-facing infrastructure financier that could bypass the fiscal constraints binding the State budget. Over nine years it has built real organisational capacity, financed significant infrastructure, and pioneered quality, sustainability and digital management practices that the state government would do well to retain. But its fundamental premise has been undermined. Its borrowings are now state borrowings. Its financing costs are consistently higher than government borrowing rates. Its project distribution reflects political rather than strategic prioritisation.

The question is no longer whether KIIFB should continue in its current form as the C&AG has effectively answered that. The question is how to manage the transition: honouring committed liabilities, retaining institutional capacity, amending the legal framework, and ensuring that the costs accumulated are transparently accounted for and prudently managed in the years ahead.

Among the Indian states, Kerala has the largest number of Public Sector Enterprises (PSE). Of the total, 132 are active with multiple units in manufacturing, trading, infrastructure development and so on. Ownership structure too is different. But five enterprises accounted for 86% of the total investment. The majority of them are making losses, with the accumulated loss increasing from ₹ 31,571 crore in 2021-22 to ₹ 78,851 crore in 2024-25. In 2024-25, KSRTC, KSSPL and KWA accounted for 72% of the net loss. The Government has made large investments in the establishment of these PSEs and persistent loss has led to the erosion of net

worth of these enterprises and their continuation is dependent on continuous budgetary resources. The fiscal impact of the operations of the PSEs is large and cannot be ignored. In this context, the Committee recommends that essential public utilities must continue to remain accessible and affordable to poorer sections of society. However, social responsibilities should not be used to mask operational inefficiencies or financial mismanagement. A way out is to transform the system from production based subsidies to consumption based subsidies. Further, violation of the cardinal principle that revenues of the Government must flow to the Consolidated Fund should not be permitted such as electricity duty not being remitted by the KSEBL.

The Committee observed that the Kerala State Beverages (Manufacturing and Marketing) Corporation has been paying substantial amounts as income/ corporate tax on its profits. In contrast, the Kerala Civil Supplies Corporation continues to incur significant annual losses on account of subsidised sales of essential commodities. The Committee is of the view that merging these two enterprises into a single corporation with separate divisions for liquor distribution and civil supplies/provisions would enable the Government to offset the losses of the civil supplies division against the profits of the beverages division, thereby substantially reducing the tax outgo. Non-strategic public sector enterprises may be considered for disinvestment, privatisation, or closure (Chapter 5).

The consequence of the severe fiscal stress is felt on the development spending of the State. Plan expenditure has stagnated in nominal terms and as a share of total expenditure has been on a steady decline falling below 18% by 2025-26 (RE). The cut in plan expenditure has fallen heavily on

the marginalised sections of the population. The plan expenditure for the welfare of SC/ST/OBC and minorities as percentage of total plan expenditure declined from 9.24 percent in 2017-18 to 3.85 in 2025-26 (RE). The sectors that faced systematic compression are social services, and plan assistance to local governments. Agriculture and allied services and education too have faced declines in expenditure. Planning in Kerala was conceived as an instrument for social transformation and distributive justice. The fiscal squeeze of the last decade has dulled what Kerala has long stood for.

The recommendations of the Committee are based on analysis of the evidence carried out in four chapters of the report using publicly available data and a number of useful suggestions received from retired and serving officers during the course of its deliberations. While numerous recommendations have been made to address the immediate short term problems, the Committee firmly believes that in the long run, there is a limit to how much we can address the problem by tightening our belts. The best way forward is to put in place measures to promote growth, investment and employment. In the absence of adequate resources with the State, the solution lies in resolutely encouraging private investment, cooperative investment and through local governments raising funds from the market, which falls outside the scope of off-budget borrowing. Any future growth in the sunrise sectors is conditional on plentiful power availability which calls for opening the power sector to private investment. We will also need to recast our laws and processes, whether they be land or labour laws, or established procedures, and focus on creating industrial infrastructure. The local governments will have to play a big role in promoting industry beyond carrying out their mandatory functions.

Our recommendations, based on our brief study, may be seen in Chapter 7.

This page is intentionally left blank

Chapter 1

Why This Status Report

1.1 Kerala at a Crossroads: The Case for Fiscal Transparency, Accountability and Reform

Kerala has long held a special place in India's development story. Its achievements in literacy, public health, social equity, and human development have drawn admiration from policymakers and scholars across the world. The 'Kerala Model' - development with social justice - has been invoked as evidence that a state can care for its people without waiting to be rich.

The May 2026 election has returned a new government with a strong mandate. The people of Kerala voted not merely for change - they voted for a future. The new generation of Keralites demands more than doles and basic amenities. They aspire to economic opportunity, quality employment at home, world-class public services, and a government capable of delivering on its promises without mortgaging their future.

Yet any government policy action is empty without adequate financial support. A new government - however well-intentioned - that does not clearly understand the state of its own finances cannot make sound decisions about where to invest, what to reform, or how to protect the most vulnerable. This Status Report is intended precisely to serve that purpose.

The people's mandate is a promise. The State's finances are the means of keeping it. An honest accounting of one is the precondition for honouring the other. This is the rationale for this Status Report.

1.2 The Moment Kerala Is At

Four converging realities make a candid assessment of Kerala's finances not just useful but urgent.

1.2.1 A Generation with Higher Expectations

Kerala's population is among the most educated in India, yet it faces a paradox of prosperity that the data lays bare with uncomfortable clarity. According to the Periodic Labour Force Survey (PLFS) Annual Report 2023-24 (Table 24), the unemployment rate among females with higher secondary education in Kerala stands at 20.7 per cent - nearly five times the national average of 4.5 per cent for the same group. For all persons with higher secondary education, Kerala's unemployment rate is 10.9 per cent, against a national average of 3.2 per cent. Even among all females aged 15 and above, regardless of education level, Kerala's unemployment rate of 11.6 per cent is more than three times the national figure.

The pattern is deeply paradoxical: in Kerala, the more educated a woman becomes, the less likely she is to find work at home. It is a State that invests in its people and then watches them leave. Over 2.2 million Keralites live and work abroad - a testament to both the talent the State produces and its inability to create enough opportunity at home. Remittances, estimated to bear a ratio of 23.2 per cent to Net State Domestic Product, sustain household consumption but cannot substitute for a productive domestic economy.

The 2026 election was fought on a terrain that included not just political loyalty but economic anxiety. The new government carries a clear mandate from a generation that is better educated than any before it, yet faces the highest unemployment rates among the educated. This generation will not be satisfied with welfare alone; it demands a State that enables the fulfilment of their aspirations.

1.2.2 A Fiscal Position Under Structural Stress

Behind Kerala's social achievements lies a fiscal structure that is under serious and growing strain. Consider the following:

Table 1.1: Fiscal Profile of Kerala in a comparative perspective

Outstanding liabilities (2025-26 BE)	Committed expenditure (2024-25)	Development Expenditure (2024-25, RE)	Capital Expenditure (2025-26, BE)	Interest Payment (2025-26, BE)
₹5.07 lakh crore (35.5% of GSDP)	**77.6%** of revenue receipts (Actuals) for Kerala	**39.9%** of aggregate disbursement	**1.34%** of GSDP	**20.9%** of Revenue receipts
National average:29.2% BE Major states: 28.81% BE	National average: 46.1% RE	National average: 63.5% RE	National average: 3.2% BE Major states: 3.01% BE	National average: 12.2% BE Major states: 12.36 % BE

Source: Reserve Bank of India, State Finances: A Study of Budgets of 2025-26

The five indicators in the table above (Table 1.1) tell the story in compressed form - and each deserves elaboration.

On liabilities: Kerala's outstanding liabilities are estimated at ₹5.07 lakh crore in 2025-26 BE, equivalent to 35.5 per cent of GSDP - well above the national average of 29.2 per cent and the major states average of

28.81 per cent. The C&AG's State Finances Audit Report for 2023-24 found that the overall liabilities, including off-budget borrowings, grew at an average annual rate of 11.61 per cent between 2019-20 and 2023-24, with the liabilities-to-GSDP ratio rising from 34.38 per cent to 37.84 per cent over the same period.

On committed expenditure: In 2024-25, Kerala's committed expenditure - salaries (₹39,904 crore), pensions (₹27,885 crore), and interest payments (₹29,138 crore) - totalled ₹96,927 crore, consuming 77.6 per cent of all revenue receipts. This is projected at 77 per cent in 2025-26 revised estimates. Against a national average of 46.1 per cent, Kerala's committed expenditure burden is more than one-and-a-half times what comparable states carry, leaving barely one rupee in four for everything else: schools, hospitals, roads, welfare programmes, and support to local governments.

On development expenditure: The corollary of high committed expenditure is low developmental spending. At 39.9 per cent of aggregate disbursements in 2024-25, Kerala's development expenditure stands at barely three-fifths of the national average of 63.5 per cent. This is the human cost of fiscal stress - not merely a statistical divergence, but a direct constraint on the government's ability to invest in its people's future.

On capital expenditure: The compression of development spending is sharpest in capital investment - the spending that creates roads, schools, hospitals, and productive infrastructure. At 1.3 per cent of GSDP in 2025-26, Kerala's capital expenditure is less than half of major states of 3.01 per cent, and less than half the national average of 3.2 per cent. A

state that cannot invest adequately in capital formation today is also constraining its own revenue growth tomorrow: capital expenditure, if well-directed, generates economic activity, employment, and eventually the tax revenues that help service the debt incurred to finance it. When borrowing finances current consumption instead, as Kerala's persistent revenue deficit shows, the debt stock grows without a corresponding expansion in productive capacity.

On interest payments: At 20.9 per cent of revenue receipts in 2025-26, Kerala's interest burden is substantially higher than the major states’ average of 12.36 per cent and nearly double the national average of 12.2 per cent. More than one rupee in five of the State's entire revenue spending is absorbed in servicing past debt; before a single rupee is spent on public services or development. The significance of this lies not only in the size of the burden but also in its self-reinforcing nature: high interest obligations reduce fiscal flexibility, compress developmental and capital expenditure, and compel further borrowing to sustain routine commitments. In effect, debt servicing itself becomes a driver of future indebtedness.

More troubling than the quantum of borrowing is its purpose. The C&AG's State Finances Audit Report (2023-24) found that only 5.18 per cent of borrowings during the period were directed towards capital creation; the overwhelming majority financed current consumption, revenue deficits, and repayment of existing liabilities. This distinction is critical to assessing debt sustainability. Conventional debt sustainability analysis assumes that borrowed resources are deployed towards productive investment, thereby generating future growth and revenues,

sufficient to service the associated liabilities. Under such conditions, even relatively high debt levels may remain sustainable so long as economic growth exceeds the effective cost of borrowing. Kerala's recent fiscal pattern, however, increasingly departs from this logic. When borrowings are used predominantly to finance committed expenditure, revenue deficits, and the servicing of accumulated debt rather than productive asset creation or knowledge generation, the growth-generating capacity of debt weakens considerably. The result is a structurally fragile fiscal dynamic in which rising liabilities lead to rising interest obligations, with little or no corresponding expansion in productive capacity or the State's long-term revenue base.

1.2.3 A Parallel Fiscal Authority: The KIIFB Problem

Kerala’s fiscal stress has been compounded by a structural governance problem that is unique in its scale among Indian states: the creation of the Kerala Infrastructure Investment Fund Board (KIIFB) as a large, autonomous borrowing entity operating outside the normal budgetary framework. Established to accelerate infrastructure investment by circumventing the State’s Net Borrowing Ceiling, KIIFB has in effect created a parallel fiscal authority - a second government with its own borrowing programme, its own project pipeline, and its own debt service obligations - but without the revenue streams, accountability mechanisms, legislative oversight, or expenditure controls that govern the State budget.

The consequences for fiscal management are serious. First, KIIFB operates under a soft budget constraint: its borrowings do not count against the State’s official deficit, reducing the fiscal discipline. Second,

KIIFB’s debt service obligations are ultimately backed by dedicated State revenue streams (petroleum cess, Motor Vehicle Tax), and any shortfall falls on the State treasury. The draining of substantial revenue inflows by KIIFB has serious implications for revenue deficit and fiscal deficit. The Finance Department does not exercise full control over KIIFB’s borrowing decisions or expenditure commitments, yet carries the fiscal consequences when those commitments fall due. Third, the exclusion of KIIFB borrowings from the official budget creates a systematically incomplete picture of the State’s true liabilities - one that misleads the Legislature, the public, and credit markets about the actual scale of Kerala’s indebtedness. A fuller examination of KIIFB’s financial position, project execution record, and reform options is provided in Chapter 4.

1.2.4 A Dead Weight on the Budget: The PSU Burden

Kerala’s public sector undertakings (PSUs) represent another major structural drain on the State’s finances - one that is largely self-inflicted and long overdue for reform. The State has over a hundred PSUs spanning manufacturing, transport, plantation, finance, and social services. Collectively, they have been making losses year after year for decades. Far from generating a return on the government’s investment, the majority of Kerala’s PSUs have seen their net worth eroded - in many cases turning deeply negative. Instead of receiving dividends or equity returns, the State government has been compelled to provide budgetary support merely to keep these enterprises alive: meeting their wage bills, servicing their debts, and honouring their pension obligations. This budgetary support, which should properly be directed toward schools,

hospitals, infrastructure, and welfare, flows instead into sustaining enterprises that, in many cases, could deliver far greater public value at far lower fiscal cost if properly restructured and professionally managed. The fiscal cost of PSU losses, government guarantees on PSU borrowings, and equity infusions has compounded Kerala’s overall fiscal stress considerably. A detailed examination of PSU finances and the case for reform is provided in Chapter 5.

1.2.5 The External Constraint: Centre-State Fiscal Relations

Kerala’s fiscal challenges must also be understood within the broader context of evolving Centre-State fiscal relations. Three external factors have materially shaped the State’s fiscal operating environment in recent years. First, the end of the GST compensation regime in June 2022 put a stop to a revenue stream of several thousand crore rupees annually that Kerala had come to depend upon - with no equivalent replacement. Second, Kerala’s Net Borrowing Ceiling, determined by the Ministry of Finance under Article 293 of the Constitution, has been progressively tightened - and the disputed treatment of KIIFB borrowings within this ceiling has further compressed the State’s fiscal space. Third, changes in the composition of Finance Commission transfers, with a shift away from revenue deficit grants toward more conditioned and tied transfers, have reduced the flexibility with which the State can deploy central funds (see Appendix C for details). These are not excuses for fiscal underperformance; they are structural constraints that any honest assessment of Kerala’s fiscal position must acknowledge.

1.2.6 A Structural Economic Vulnerability

Kerala's economy is the 11th largest in India, with one of the highest per capita GSDPs among Indian states. However, the underlying growth model faces important structural constraints. The economy is dominated by services (about 65 per cent of GSVA), while manufacturing remains relatively modest in scale. It is sustained in large part by remittances from a diaspora whose economic fortunes are tied to the Gulf region - a dependency that introduces risk from oil price cycles, geopolitical shifts, and the accelerating automation of semi-skilled work.

Despite Expressions of Interest worth ₹1.53 lakh crore signed at Invest Kerala Global Summit 2025, actual investment on the ground remains a small fraction of announced intent - a pattern consistent with previous editions of the summit. High land costs, high wages, and labour market constraints continue to deter industrial investment. The result is an economy that consumes well but produces insufficiently - sustained by remittances rather than investment, and by welfare rather than productivity growth.

Kerala's social indicators - literacy, life expectancy, infant mortality, gender parity remain exceptional, and are achievements to be protected and built upon. But the challenge before the new government is to ensure that the State's fiscal capacity can sustain and expand these achievements, rather than erode under the pressure of structural imbalance.

1.3 Why a Status Report - and Why Now

The preparation of this Status Report is an act of democratic accountability. It is not an exercise in self-flagellation, nor a partisan

indictment of any administration. It is a serious, evidence-based attempt to understand the financial inheritance of the new government - so that the people who elected it, the legislature that oversees it, and the institutions that work with it can hold it accountable and support its reform agenda.

1.3.1 Transparency - An Honest Baseline

Governance that lacks a clear-eyed accounting of available resources cannot set realistic priorities. Kerala's budgets have historically displayed a pattern of systematic revenue overestimation and expenditure bunching that has made fiscal planning difficult and eroded the credibility of budget projections. A Status Report forces an honest confrontation with the hard reality of numbers - what the State truly receives, what it truly spends, and what it truly owes.

This document draws on Comptroller and Auditor General reports, Reserve Bank of India State Finance publications, Finance Commission data, and Kerala's own budget documents. It presents a consolidated picture - including off-budget entities like KIIFB and KSSPL - that reflects the full extent of the State's financial commitments, not just what appears in the official budget.

1.3.2 Accountability - A Measurable Baseline

A Status Report published at the start of a government's tenure creates a documented baseline against which future performance can be measured. It allows the Legislature, civil society, the media, and the public to measure progress over the five-year term against a shared set of facts.

Without such a baseline, fiscal performance becomes a matter of competing claims rather than verifiable outcomes.

This is particularly important in Kerala's context, where the fiscal narrative has often been contested - with one side pointing to debt levels and the other to social achievements - without a common factual foundation on which rational policy debate can rest.

1.3.3 Reform Mandate - An Analytical Foundation for Action

The new government has inherited not just office but obligation - obligation to the millions of Keralites who depend on the State for pensions, healthcare, schools, and livelihoods. Fulfilling this obligation requires fiscal space: the ability to spend on priorities, to invest in the future, and to respond to crises when they arise.

That fiscal space is currently compressed - by committed expenditure, by accumulated debt, by off-budget liabilities, and by structural weaknesses in revenue generation. Creating fiscal space requires reform - of PSUs, of local government finances, of capital budgeting, of borrowing structures. Hardly any of this is possible without first understanding the scale and nature of the challenge. This Status Report provides that understanding.

1.4 What This Status Report Is - and Is Not

Table 1.2: Purpose of the Status Report

This Status Report IS	This Status Report is NOT
✓ An honest, evidence-based account of Kerala's fiscal inheritance	✗ A political attack on any previous administration
✓ A comprehensive picture including off-budget liabilities	✗ A complete audit or forensic investigation
✓ A baseline for measuring future performance	✗ A finalised reform programme or policy document
✓ A public document prepared for all citizens of Kerala	✗ An internal advisory to be withheld from scrutiny
✓ A call to reform grounded in fiscal reality	✗ A counsel of despair or a declaration of crisis

1.5 Specific Objectives of This Report

This Status Report seeks to achieve four specific objectives, each corresponding to a set of analytical questions that the subsequent chapters address:

Objective 1: To present a comprehensive, factual picture of Kerala's revenue, expenditure, debt and liquidity position as of 2025-26.

At the most basic level, the Government and the public must know what they are dealing with. This requires consolidating data across the State budget, off-budget entities (KIIFB, KSSPL), contingent liabilities, PSU losses, deferred payments, and LSG finances into a single, coherent picture.

Objective 2: To assess structural vulnerabilities - in PSUs, LSGs, KIIFB, and committed expenditure - that constrain fiscal space

The headline deficit numbers do not fully reveal where the fiscal stress originates. This paper examines the underlying structural drivers - the chronic PSU losses, the expanding off-budget borrowings, the under-performing local governments - that create persistent fiscal drag.

Objective 3: To evaluate budgetary discipline and the credibility of fiscal projections

A budget that consistently over-projects revenue and under-performs on capital expenditure is not a planning document - it is a ritual. This paper assesses the quality and credibility of Kerala's budgetary process and identifies where reforms in practice are needed.

Objective 4: To identify priority reform areas and provide a framework for the new government's five-year fiscal roadmap.

1.6 Scope and Coverage

Table 1.3: Scope of approach of the report

Time Period	2016-17 to 2025-26 - a decade of fiscal trends; 2025-26 as the base year for current position assessment
Fiscal Boundary	Consolidated State Government finances, including off-budget entities - KIIFB, KSSPL, and guaranteed obligations of PSUs
Analytical Depth	Revenue, expenditure, debt, cash and liquidity, PSU finances, local self-government finances, budgeting practices, and allocations for marginalised communities
Approach	Evidence-based narrative supported by standardised data tables, peer-state comparisons, and broad pointers and recommendations
Data Sources	RBI State Finances publications, Kerala Budget documents, KIIFB Annual Reports, C&AG Finance and Appropriation Accounts, Finance Commission awards, PRS Legislative Research analyses
Intended Audience	The people of Kerala, the Legislature, the Council of Ministers, civil society organisations, media, research institutions, and development finance partners

1.7 Structure of This Report

The subsequent six chapters of this Status Report address the following dimensions of Kerala's financial position:

Table 1.4: An outline of the Status Report

Ch.	Title	Key Question Addressed
02	Cash Management, Inherited Liabilities and the Structural Roots of Kerala’s Fiscal Stress	Can the State pay its bills? How deep is the cash crisis the new government has inherited - and what obligations are overdue?
03	Budget Management and Fiscal Discipline	Does Kerala’s budget mean what it says? Is Kerala's budget a credible planning and accountability document, or a ritual of optimism?
04	Kerala Infrastructure Investment Fund Board – Where Does It Stand?	What is the true size of Kerala's off-budget debt burden, and what is the fiscal risk to the State?
05	Public Sector Enterprises and Fiscal Stress	How much does it cost to keep Kerala’s public enterprises alive? What is the path to reform?
06	Fiscal Stress and Development Expenditure	When fiscal space shrinks, who suffers first? What happens to capital investment and to the allocations that protect the marginalised and most vulnerable?
07	The Way Forward	What if nothing changes? The cost of continuing as before.

1.8 A Note on Tone and Intent

This Status report does not seek to alarm. It seeks to inform. Kerala's challenges are real, but they are not unique, nor are they beyond the capacity of an energetic, reform-minded government to address. States that have faced deeper fiscal stress - including some that are today's models of fiscal management - have turned their finances around by

confronting their numbers with honesty and acting on them with resolve, even when unpopular.

Kerala's people have demonstrated, generation after generation, that they can build something remarkable with limited resources. The purpose of this paper is to ensure that the government they have elected has the clearest possible picture of those resources - and the full measure of the trust placed in it to manage them wisely.

This page is intentionally left blank

Chapter 2

Cash Management, Inherited Liabilities and the Structural Roots of Kerala’s Fiscal Stress

The previous chapter established the structural context of Kerala's fiscal position in broad terms. This chapter brings that analysis to ground level across three related dimensions: (i) how has the Government been managing its cash from month to month; (ii) what the treasury data reveals about the lived reality of that structural stress; and (iii) what immediate liabilities - arrears to employees, pensioners, banks, contractors, and healthcare providers - the new government has inherited and must now discharge.

The true test of a government's finances is not what the budget says, but what the treasury can actually pay - and when. In Kerala, as the data in this chapter shows, a government that presents technically compliant fiscal deficit figures has simultaneously been drawing on emergency RBI credit lines for much of the year, running negative treasury balances in ten out of twelve months, and accumulating arrears across the full range of its payment obligations.

The daily cash stress in the treasury is the operational expression of a structural imbalance that has deepened over the past decade: an expenditure structure dominated by committed and largely inflexible outlays that leave almost nothing for discretionary spending, set against a revenue base that has steadily weakened relative to the size of the economy. The chapter is organised as follows. Section 2.1 to 2.4

examines operational cash management and inherited liabilities and section 2.5 examines the structural roots of the fiscal stress. Key concepts, technical terms, and acronyms used in this chapter are explained in plain language in the Appendix Table at the end of this Chapter.

2.1. Treasury Cash Balances - Annual and Monthly Position

The treasury’s closing balance at the end of each financial year provides the headline measure of the State's cash position; the monthly data reveals the pattern beneath that headline. When the cash balance is insufficient to meet daily payment obligations, the State draws on the RBI’s three-tier support: Special Drawing Facility, Ways and Means Advances (WMA), and Overdraft (OD). The data on cash balances and liquidity management over the past decade tells a story of accelerating fiscal stress. Consider the following.

2.1.1 Annual Closing Balances - 2015-16 to 2025-26

Table 2.1: Kerala Treasury- Annual Closing Balances and Open Market Borrowings (OMB), 2015–16 to 2025–26

Financial Year	Closing Balance (₹ Cr)	Total OMB Raised (₹ Cr)
2015-16	1,643.49	15,000
2016-17	1,950.23	17,300
2017-18	887.15	20,500
2018-19	188.15	19,500
2019-20	**(-529.82)**	18,073
2020-21	2,809.64	28,566
2021-22	5,232.60	27,000
2022-23	7,096.31	30,839
2023-24	4,053.16	42,438
2024-25	2,076.17	53,666
2025-26	6,322.36	49,788
Apr-26	5,263.74	-
May-26 (as on 16 May)	2,211.93	-

Source: Monthly cash flow statements 2021-22 to 2025-26. Department of Treasuries, Government of Kerala
Note: Figures in parenthesis are negative values

Three patterns in this data are central to understanding Kerala's fiscal condition (Table 2.1):

Pre-COVID structural erosion: The cash buffer fell from ₹1,950 crore in 2016-17 to negative territory by 2019-20 - a systematic decline that predates the pandemic and reflects the growing mismatch between committed expenditure growth and revenue growth.

COVID-period distortion: The sharp improvement between 2020-21 and 2022-23 reflects extraordinary central transfers - special borrowing permissions, revenue deficit grants and GST compensation payments - not any improvement in underlying fiscal health. During this period, the state received from the centre a cumulative amount of ₹77,201 crore as

revenue deficit grants (₹48388 crore) and GST compensation grants (₹28813 crore). In addition, the cumulative government borrowing from the open market during this period stood at ₹86405 crore.

Collapse in 2024-25: The end of GST compensation in June 2022 followed by the end of revenue deficit grants immediately reversed the treasury situation. The most alarming data point is 2024-25, when the treasury ran negative balances in 10 out of 12 months - meaning the Government was effectively dependent on RBI liquidity support mechanisms for the overwhelming majority of the year. The positive year-end figure of ₹2,076 crore was achieved only through a large concentration of OMB in March (₹12,744 crore, 24% of the year's total).

2.1.2. Monthly Cash Flows - The Full Turbulence

The annual closing balance conceals the intra-year reality. The monthly data for 2021-22 through 2025-26 (Table 2.2) reveals a picture of chronic cash stress, managed month-to-month through a combination of open market borrowings, RBI Ways and Means Advances, and Overdraft.

Table 2.2: Monthly Treasury Cash Balances and Negative-Balance Count, 2021–22 to 2025–26 (₹ Crore)

Month	2021-22	2022-23	2023-24	2024-25	2025-26
Apr	3075.6	3191.8	2423.0	**(-353.0)**	53.7
May	818.8	**(-405.6)**	2106.9	**(-798.9)**	**(-3315.3)**
Jun	2238.1	5444.8	**(-624.9)**	605.5	**(-2234.7)**
Jul	2995.2	1434.6	3689.7	**(-1985.1)**	**(-580.7)**
Aug	**(-678.4)**	3704.2	1522.2	**(-509.8)**	**(-2224.4)**
Sep	1712.1	591.1	1623.4	**(-3886.1)**	**(-592.3)**
Oct	5459.6	2135.6	729.1	**(-1785.2)**	**(-212.2)**
Nov	5465.6	4073.4	**(-347.1)**	**(-2020.3)**	916.0
Dec	1977.1	730.8	328.1	**(-3836.8)**	1380.7
Jan	2087.2	1085.4	**(-41.5)**	**(-1180.3)**	587.6
Feb	2554.9	1483.1	164.4	**(-1115.8)**	**(-1417.3)**
Mar	5232.6	7095.8	4053.2	2076.2	6322.4
Negative months	1	1	3	10	7

Source: Government of Kerala Treasury Directorate.
Note: *Negative balances shown in parentheses*

The shift from 2022-23 (one negative month) to 2024-25 (ten negative months) is not a matter of degree - it represents a qualitative change in the State's cash condition. For most of 2024-25, the treasury balance was negative, and the Government was dependent on the RBI's WMA and overdraft facility to keep daily payments flowing - a situation that carries significant financial cost given the penal interest rates applicable to overdraft.

In 2025-26, despite a somewhat improved overall position, 7 months still closed in negative territory. The year-end balance of ₹6,322 crore reflected two year-end factors: ₹8,450 crore of March OMB and an

additional ₹4,969 crore in central transfers - Finance Commission grants, IGST, GST compensation, EAP loans and election funds - received after 24 March 2026. Neither factor represents a structural improvement; both are year-end corrections, one within the State's control and one entirely dependent on the timing of central releases.

The fragility of this year-end position was immediately apparent in the new financial year: by April 2026 the balance had fallen to ₹5,264 crore, and by 16 May 2026 - just six weeks into 2026-27 - it had dropped further to ₹2,212 crore, a total decline of ₹4,110 crore from the March year-end position. A year-end balance inflated by borrowed funds and last-minute central transfers dissolves within weeks - the structural cash pressure reasserts itself regardless of how the books are closed. The year-end closing balance therefore functions less as a measure of fiscal comfort than as a snapshot shaped by the timing of borrowings and transfers.

2.2. Open Market Borrowings - Scale, Pattern and Dependence

Open Market Borrowings (OMB) - the State Government's issuance of securities to the market - are the primary mechanism through which Kerala finances the gap between its revenue receipts and expenditure obligations. The scale, trend, and monthly distribution of OMB reveals both the growing fiscal dependence on borrowed funds and the distorted borrowing patterns that compound cash stress.

2.2.1 OMB - Annual Trend

The escalation in OMB tells only half the story. Between 2021-22 and 2024-25, annual OMB nearly doubled - from ₹27,000 crore to ₹53,666 crore - yet net cash flow turned negative (Table 2.3). The explanation is straightforward: the ₹77,201 crore in Revenue Deficit Grants and GST Compensation that had been filling Kerala's structural revenue-expenditure gap during 2020-21 to 2022-23 disappeared.

Table 2.3: Open Market Borrowings, Committed Liability (CL) Outflows, and Net Cash Flow, 2021–22 to 2025–26

Financial Year	Total OMB (₹ Cr)	OMB as % of Total Inflow	Total CL Outflow (₹ Cr)	CL as % of OMB	Net Cash Flow (₹ Cr)
2021-22	27,000	16.0%	30,481.2	113%	2,423.0
2022-23	30,839	17.8%	35,739.3	116%	1,862.8
2023-24	42,438	24.0%	40,140.0	95%	**-3,043.1**
2024-25	53,666	27.8%	43,434.5	81%	**-1,976.1**
2025-26	49,788	23.3%	55,170.7	111%	4,243.3

Source: Kerala Treasury monthly statements.
Note: CL = Debt-service and loan-related committed liability outflow (OMB repayments, NSSF, LIC, GIC, NCDC, central loans, EAP, NABARD etc.).

By 2024-25 they had effectively ceased. The State could not simply borrow more to replace them - market borrowings are subject to the Net Borrowing Ceiling prescribed by the Ministry of Finance under Article 293 of the Constitution, which limits how much Kerala can raise from the market in any year. Caught between vanishing transfers and a borrowing ceiling, and with own revenues insufficient to cover the gap, the cash position deteriorated. The treasury stress of 2024-25 is the unmasking of a structural fiscal gap that the transfer windfall had concealed.

The relationship between OMB and CL (debt-service and loan-related committed liability outflow) tells a separate but connected story about debt sustainability. In 2021-22 and 2022-23, total committed liability outflows exceeded total OMB raised - at 113% and 116% respectively - meaning debt service alone consumed more than all new borrowing. Operational needs were being met in those years largely through the central transfer windfall. The scaling up of OMB in 2023-24 and 2024-25 temporarily brought CL below OMB (at 95% and 81%), but this was accompanied by the collapse in transfers and the cash stress documented above. In 2025-26, committed liabilities have risen again to ₹55,171 crore against OMB of ₹48,788 crore - 111% of OMB, at nearly double the absolute scale of 2021-22.

Each year's OMB adds a permanent annual interest obligation to the State's future CL. At the weighted average rate of 7.43% applicable for OMB in 2025-26, the ₹49,788 crore raised that year alone will add an estimated ₹3,699 crore to annual interest outflows - every year, for the life of those securities. The near-doubling of OMB between 2021-22 and 2024-25 has added over ₹1,950 crore in incremental annual interest obligations in just four years. Total debt-service and loan-related committed liability outflow has consequently grown from ₹30,481 crore in 2021-22 to ₹55,171 crore in 2025-26 - an increase of 81% in four years. This is the mechanism through which today's borrowing becomes tomorrow's committed expenditure.

The annual OMB flows have a cumulative consequence that is best measured as the outstanding liabilities of the State - the total stock of borrowings expressed as a share of GSDP. Kerala's outstanding liabilities

rose from 28.9 per cent of GSDP in 2015-16 to a peak of 40.3 per cent in 2020-21 - a rise of 11.4 percentage points in five years, driven by the combination of large borrowings and a pandemic-year contraction in GSDP. The subsequent decline to 35.5 per cent in 2025-26 reflects both partial fiscal consolidation and GSDP recovery. However, at 35.5 per cent, Kerala's outstanding liabilities remain 6.7 percentage points above the major states average of 28.81 per cent and above the 15th Finance Commission's indicative ceiling of 33 per cent. In 2015-16, Kerala's outstanding liabilities at 28.9 per cent were already 5 percentage points above the major states average of 23.9 per cent; by 2025-26 this gap has widened to 6.7 percentage points, reflecting the faster accumulation of borrowings in Kerala relative to its peers. (See the Appendix B for details).

For 2025–26, market loans account for 64.4 per cent of the total outstanding debt. As the most interest rate-sensitive component of debt, market loans are raised at prevailing market rates (currently at a weighted average interest rate of 7.43 per cent) and have emerged as the fastest-growing component of the debt stock.

2.2.2 OMB Monthly Distribution - The March Problem

The monthly distribution of OMB reveals a structural distortion: an excessive concentration in March, the final month of the financial year (Table 2.4). A large March OMB inflates the year-end cash balance - creating an optical improvement - while doing nothing to address the cash stress of the preceding eleven months. A borrowing pattern heavily concentrated in March weakens cash smoothing across the financial year and converts market borrowing into an instrument of year-end balance

management rather than liquidity management.

In 2023-24, a remarkable 32% of the entire year's market borrowing - ₹13,608 crore - was raised in March alone. In 2024-25 it was 24% (₹12,744 crore). This pattern reflects a combination of factors: conservative borrowing in the first half to stay within RBI guidelines, revenue shortfalls forcing larger late-year borrowing, and a structural tendency to use year-end borrowing to manage the closing balance optics.

Table 2.4: Concentration of Open Market Borrowings in March: Annual Distribution, 2021–22 to 2025–26

Financial Year	Total OMB (₹ Cr)	March OMB (₹ Cr)	March alone (%)	Monthly Average (excl. March)
2021-22	27,000	7,000	26%	7%
2022-23	30,839	7,800	25%	7%
2023-24	42,438	13,608	32%	6%
2024-25	53,666	12,744	24%	7%
2025-26	49,788	8,450	17%	7%

Source: Kerala Treasury monthly cash flow statements 2021-22 to 2025-26.

The year-end closing balance of ₹6,322 crore in 2025-26 presents an appearance of fiscal comfort that the underlying data does not support. It reflects two year-end phenomena rather than any improvement in the State's cash position. First, ₹8,450 crore in market borrowings were raised in March alone - continuing the structural pattern of back-loading borrowings to inflate the closing balance. Second, ₹4,969 crore in additional central receipts - Finance Commission grants, IGST, EAP loans, GST compensation, and election funds - arrived in the treasury after 24 March 2026, heavily concentrated in the final week of the financial year. Neither factor reflects an improvement in the State's

underlying fiscal capacity. Both are year-end corrections - one within the State's control and one entirely dependent on the timing of central releases - that dissolve within weeks, as the April and May 2026 data confirm.

The concentration of borrowing and expenditure in March has a further consequence that extends beyond cash management. Capital allocations released in the final days of the financial year cannot be translated into completed projects within that timeframe. The result is a recurring pattern of year-end fund releases against works that are incomplete or not yet begun - expenditure that appears in the accounts but does not correspond to productive asset creation. Successive C&AG audit reports on Kerala have flagged this fourth-quarter bunching, noting the persistent gap between financial disbursement and physical progress. Kerala's already-low capital expenditure - at 1.3% of GSDP - therefore delivers less productive value than even that modest figure would suggest. Addressing this requires more than a borrowing management instruction: rationalising the annual borrowing and expenditure calendar, coordinated with the RBI and implemented across departments, is a prerequisite for improving the quality and efficiency of public capital investment.

2.3. The RBI Safety Net and Overdraft

Under an agreement with the RBI, the State Government has to maintain a minimum cash balance of ₹1.66 crore with the Bank. The Bank intimates to the Government the daily balances with the Bank at the close of each working day. If the balance falls below the agreed minimum on any day, the deficiency is made good by using a special drawing facility - ways and means advances / overdrafts from time to time (Table 2.5).

Understanding this mechanism is essential context for interpreting the negative monthly balances documented above.

Table 2.5: RBI Liquidity Support Tiers: Structure, Limits, and Interest Rates

Facility	Limit / Basis	Interest Rate	Design Purpose
Special Drawing Facility (SDF)	Against CSF, GRF, G-secs and ATBs Limit: ₹3362.9 crore	RBI Repo rate minus 2% (CSF/GRF) or RBI Repo rate minus 1% (G-secs)	First line - low-cost, asset-backed
Ways and Means Advance (WMA)	Kerala's limit: ₹2,308 crore	RBI Repo rate; Repo plus1% if >3 months	Second line - unsecured short-term
Overdraft (OD)	If WMA exhausted or overdue	RBI Repo rate plus 2% (≤100% of WMA); RBI Repo rate plus 5% (>100% of WMA)	Emergency only - penal rates

Source: Reserve Bank of India; Government of Kerala, Treasury Directorate.

The penal rates on overdraft - RBI Repo rate plus 2% to RBI Repo rate plus 5% - are designed to discourage routine use. At the prevailing RBI Repo rate of 5.25% (as of May 2026), overdraft costs the State 7.25% to 10.25% per annum. Every day spent in overdraft represents an avoidable cost to the exchequer - over and above the interest already embedded in the State's market borrowings.

The fifteen-year sweep of this data (Table 2.6) tells a story that no single year's figure can convey. During 2011-13, Kerala did not draw a single day of WMA - the treasury was entirely self-sufficient. By 2019, the State was in WMA for 67 days; by 2025, it was in WMA for 262 days and in Overdraft for 84 days. This deterioration from fiscal self-sufficiency to chronic RBI credit dependence - accelerating sharply after 2020 - is the operational face of the structural fiscal stress that this status report documents.

Table 2.6: Kerala Treasury: Days in Ways and Means Advances and Overdraft, 2011–2026

Year	Days in WMA	Days in Overdraft	Assessment
2011	0	0	No stress - treasury self-sufficient
2012	0	0	No stress - treasury self-sufficient
2013	0	0	No stress - treasury self-sufficient
2014	1	0	Isolated WMA
2015	18	6	Early warning signs
2016	23	0	Early warning signs
2017	25	0	Early warning signs
2018	50	0	Gradual deterioration
2019	67	0	Gradual deterioration
2020	234	57	Crisis - COVID-19 compounds structural weakness - but RDG and GST compensation of ₹28,152 cr begins to cushion
2021	195	35	Persistent stress despite peak RDG and GST compensation of ₹32,741 cr
2022	110	14	GST compensation ends June 2022; RDG and GST compensation fall to ₹16,308 cr; stress partially contained by residual RDG
2023	54	1	Relatively low stress in the post-2019 period - RDG and GST compensation reduced to ₹5,487 cr; last year of meaningful RDG support
2024	125	67	Sharp deterioration - RDG and GST compensation effectively cease; structural gap fully exposed
2025	262	84	Worst year on record - structural liquidity crisis
2026	145	12	Stress persists

Sources: Department of Treasuries, Government of Kerala; RBI records. 2011–2015 data from Treasury Directorate records.

A less visible but highly revealing indicator of cash stress is the progressive tightening of the Ways and Means limit for bill payments at district treasuries - the threshold below which bills are cleared on a first-come-first-served basis without requiring specific Finance

Department authorisation. This limit has been revised eight times between 2021 and 2025, oscillating between ₹5 lakhs and ₹25 lakhs as the Finance Department alternately tightened and relaxed controls in response to the treasury’s cash condition. The limit - which stood at ₹5 crore before 2021- was reduced to ₹1 crore in July 2021, then progressively to ₹10 lakhs (February 2023) and ₹5 lakhs (August 2023) - a 99 per cent reduction from the pre-2021 level. Each tightening episode corresponds directly to periods of acute treasury stress visible in the monthly cash balance data. This is not merely an administrative procedure; it is a real-time rationing of government payments - a signal that the treasury cannot meet all its obligations as they fall due, and must prioritise among them. The frequency of these changes - eight in five years - reflects a government operating in a state of recurring fiscal triage.

2.4. Inherited Arrears - Obligations as on 31 March 2026

Beyond the daily and monthly cash management challenge, the new government inherits a specific set of accumulated payment arrears - obligations already incurred and legally due, but not yet discharged. The table below (Table 2.7) consolidates these as on 31 March 2026.

Table 2.7: Accumulated Payment Arrears Inherited by the New Government as on 31 March 2026 (₹ Crore)

Category	Total Arrears payable as on 31 March 2026 (₹ Crore)
DA Arrears - State employees & teachers	21,670
DR Arrears - Pensioners	14,387
Bill Discounting System (BDS) - banks & contractors	3,431
UGC DA Arrears - university & college staff	1,500
SHA / KASP - health scheme claims	2,017
Supplyco	2,893
KMSCL	476
SC/ST Scholarship Arrears	377
LSGD Third Instalment Arrears (2025-26)	1,982
Total	**48,733**

Source: Government of Kerala, Finance Department.

The aggregate arrear burden of ₹48,733 crore as on 31 March 2026 spans obligations of different character and urgency. The largest component - DA and DR arrears of ₹36,057 crore owed to serving employees, teachers, and pensioners - will be settled in eight instalments over four years under a commitment formalised through G.O.(P) No.44/2026/FIN dated 06 March 2026. The remaining arrears - bill discounting dues to banks and contractors, unpaid hospital claims under KASP, scholarship arrears owed to SC/ST students, dues to Supplyco and KMSCL, and the LSGD third instalment - are immediate obligations whose continued deferral carries direct human and institutional consequences. These are not abstract fiscal numbers; they represent deferred obligations to specific groups of people and institutions who have already delivered the services or borne the costs that the government has yet to pay for.

The previous government announced in the Budget Speech of 29 January 2026 a commitment to clear DA and DR arrears due from 01 January 2021 to 28 February 2026 in eight equal installments over four years - two per year - beginning 2026-27. The first two installments fall due in 2026-27, amounting to ₹9,014 crore. All remaining arrears listed in Table 2.7 are immediate obligations with no scope for deferral, given their direct impact on service delivery, employee welfare, and institutional relationships. Thus, of the total inherited arrears of **₹48,733** crore, ₹21,690 crore is assessed as immediate additional obligation in 2026-27. This is over and above the State's regular salary, pension, interest, and capital expenditure commitments.

The eventual settlement of these arrears will place additional pressure on future budgets and treasury liquidity, effectively shifting past fiscal stress into future years. The scale of the challenge is clear from a simple comparison: the treasury balance as on 16 May 2026 stood at ₹2,212 crore, while the budgeted monthly outflow on salary, pension, and interest alone in 2026-27 is approximately ₹11,000 crore. On top of this recurring monthly obligation, the new government must find ₹21,690 crore in 2026-27 to discharge the immediate additional liabilities documented above. The treasury balance at any point in the financial year therefore represents days, not weeks, of payment capacity - underlining why structural reform of both revenues and expenditure is an immediate operational necessity, not a deferred aspiration.

2.5. The Structural Roots of Fiscal Stress

The treasury stress documented above is the operational consequence of a structural fiscal imbalance that has deepened over time. On the expenditure side, committed expenditure - salaries, pensions, and interest - has for many years consumed nearly three-quarters of all revenue receipts, leaving barely one rupee in four for health, education, infrastructure, or welfare. On the revenue side, Kerala's own tax revenue as a share of GSDP (tax effort) has weakened steadily - from a position above the major states average a decade ago to below it today. Together, rising expenditure obligations against a weakening revenue base are the structural explanation for everything the treasury data shows.

The analysis in this section draws on detailed time-series data for Kerala and eight comparator states - Tamil Nadu, Karnataka, Telangana, Andhra Pradesh, Maharashtra, West Bengal, Punjab and Haryana - covering 2015-16 to 2025-26. The Appendix A and B to this report provides the full year-wise data tables for all indicators and comparator states, the averages for 18 major states, and a detailed analytical discussion of revenue performance and fiscal trends over the period.

2.5.1. High Committed Expenditure and Shrinking Fiscal Space

The most direct structural explanation for Kerala's treasury stress is the share of its revenue that is pre-empted before any discretionary decision can be made. Committed expenditure - salaries and wages, pensions, and interest payments combined - consumed 69.5 per cent of Kerala's revenue receipts in 2015-16 and 77 per cent in 2025-26, against the all-states average of 39.3 per cent and 46.4 per cent respectively. The gap of

approximately 30 percentage points has persisted across the entire decade. For every ₹100 Kerala receives in revenue, ₹77 is already committed - leaving only ₹23 for schools, hospitals, roads, welfare, capital investment, and support to local governments. The all-states average leaves ₹54 in every ₹100 for these purposes. Among comparable states, only Punjab (73.6 per cent) approaches Kerala's level of fiscal pre-emption.

Within this overall picture, the three components tell different stories. Salaries have actually fallen as a share of revenue receipts - from 34.5 per cent in 2015-16 to 30.10 per cent in 2025-26 - and the gap with the major states average has narrowed from 18.1 to 9.8 percentage points as other states have expanded their own workforces. The salary burden, while high, is not the growing problem.

Pensions have moved in the opposite direction - rising from approximately 18.9 per cent of revenue receipts in 2015-16 to 21.5 per cent in 2025-26. Unlike salaries, the pension liability cannot be reduced by attrition or recruitment policy - it is already crystallised, driven by the size of Kerala's large pre-NPS government workforce, longevity trends, and periodic DA revisions. The transition to NPS for new entrants will eventually moderate this growth, but the full relief is decades away given the large stock of legacy employees still on the defined benefit scheme.

Interest payments tell the most alarming story. Kerala's interest burden has risen from 16.1 per cent of revenue receipts in 2015-16 to 20.9 per cent in 2025-26 - an increase of 4.8 percentage points - while the major states average has remained in the range of 11 to 12 per cent for most of the years. The gap between Kerala and the major states average has more

than doubled - from 4.3 percentage points in 2015-16 to 8.5 percentage points in 2025-26.

Unlike salaries or pensions, interest payments are entirely driven by current borrowing decisions - they are the contractual cost of accumulated market borrowings, due on fixed dates and non-deferrable. Every year of large open market borrowing adds permanently to the interest obligation in subsequent years. This is the mechanism through which today's borrowing becomes tomorrow's committed expenditure - and tomorrow's committed expenditure becomes the next year's treasury stress.

The consequence is a government with almost no room to govern. The ₹23 left in every ₹100 after committed expenditure must cover the entire range of public services. When revenue falls short of projections - as it routinely does - even this residual shrinks. The treasury stress documented above is the direct operational result.

2.5.2. The Cost of Fiscal Pre-emption: Declining Capital Expenditure

The most visible casualty of Kerala's high committed expenditure burden is capital investment. When three rupees in four of every revenue rupee is pre-committed to salaries, pensions, and interest, capital expenditure - the spending that builds roads, schools, hospitals, and irrigation - is the first item to be compressed.

Kerala's capital expenditure as a share of GSDP stood at 1.48 per cent in 2015-16 and has declined further to 1.3 per cent in 2025-26. Over the same period, the all-states average has risen from 3.08 per cent to 3.20 per cent, and the major states average stands at 3.09 per cent in 2025-26.

Kerala invests approximately one-third of what its major state peers invest as a share of their economies. Among the eight comparator states, Kerala's capital expenditure is the lowest - below Tamil Nadu (1.85%), Karnataka (2.32%), Maharashtra (1.89%), and well below Telangana (3.21%) and Andhra Pradesh (2.56%) (see Appendix B).

The consequence is not merely a budgetary number. Low capital expenditure means fewer assets created, slower infrastructure development, and a weaker productive base from which future revenues might be generated. A state that cannot invest adequately in capital formation today is also limiting its own revenue growth tomorrow - compounding the structural revenue weakness documented in the next sub-section. The committed expenditure burden and the capital expenditure deficit are not separate problems; they are two sides of the same fiscal constraint.

It was partly to address this capital investment deficit that KIIFB was established - to finance infrastructure outside the regular budget and beyond the borrowing ceiling. Whether KIIFB has succeeded in creating productivity-generating capital assets, or has added to the State's debt burden without commensurate economic returns, is examined in Chapter 4. The answer, as that chapter shows, gives limited grounds for reassurance.

Low capital expenditure also has implications for debt sustainability that extend beyond the current budget cycle. Capital investment - if well-directed - generates economic activity, employment, and eventually tax revenues that help service the debt incurred to finance it. When borrowing is used instead for current consumption, as Kerala's persistent

revenue deficit shows, the debt stock grows without a corresponding expansion in the productive capacity or revenue base needed to service it. This weakens debt sustainability over time and adds to the structural fiscal pressure documented throughout this chapter.

2.5.3. A Weakening Revenue Base

The third structural root is on the revenue side. While committed expenditure has consumed an ever-larger share of what the State earns, the revenue base itself has been weakening relative to the size of the economy. The two trends together define the structural fiscal imbalance; neither alone is sufficient to explain its severity.

Kerala's revenue receipts as a share of GSDP fell from 12.28 per cent in 2015-16 to 10.68 per cent in 2025-26 - a decline of 1.60 percentage points. Over the same period, the major average remained broadly stable at around 13.2 per cent throughout - from 13.4 per cent in 2015-16 to 13.9 per cent in 2025-26. Kerala was already 1.2 percentage points below this average in 2015-16; by 2025-26, this gap had widened to 3.22 percentage points. The table below sets out the key indicators for the two benchmark years (Table 2.8).

The three broad revenue indicators - revenue receipts, own revenue, and own tax revenue as shares of GSDP - tell a consistent story: each has fallen for Kerala while rising for other states. The most significant is its own tax revenue, the most direct measure of the State's tax effort. In 2015-16, Kerala raised 6.94 per cent of its GSDP as its own tax revenue - 0.39 percentage points above the major states average of 6.35 per cent. Kerala was then a stronger-than-average revenue mobiliser. By 2024-25,

Kerala's ratio fell below the all-states average for the first time. By 2025-26, at 6.41 per cent, Kerala now stands below the major states average 7 per cent. A state that led on its own tax effort against every benchmark a decade ago now trails all of them.

Table 2.8: Revenue Performance Indicators: Kerala vs. Major States Average, 2015–16 and 2025–26 (% of GSDP)

	Kerala		18 Major States	
Indicator	**2015-16 Actual**	**2025-26 (BE)**	**2015-16 Actual**	**2025-26 (BE)**
Revenue Receipts / GSDP (%)	12.28	10.68	13.46	13.90
Own Revenue / GSDP (%)	8.44	7.75	7.48	8.19
Own Tax Revenue / GSDP (%)	6.94	6.41	6.35	7.0
SGST / GSDP (%)	1.95 (2017-18)	2.65	2.07 (2017-18)	3.09
Tax on Property / GSDP (%)	0.57	0.59	0.79	0.95

Source: RBI, State Finances: A Study of Budgets, various issues

The weakest component within own tax revenue is State GST. When the GST regime was introduced in 2017-18, Kerala's SGST stood at 1.95 per cent of GSDP, below the major states average of 2.07 per cent - meaning Kerala was already trailing its major state peers from the very start of the GST regime. The destination-based design of GST was widely expected to benefit consumer states with high household consumption like Kerala. The data through the post-compensation period has not borne out this expectation. By 2025-26, Kerala's SGST-to-GSDP ratio stands at 2.65 per cent, against the major states average of 3.09 per cent - a gap of 0.45 percentage points, which has widened from the 0.21 percentage point gap that existed when the GST regime began. In the three years from 2023-24

to 2025-26, Kerala's own tax revenue grew at an average of 8.40 per cent annually - the slowest in the nine-state comparator group - against the major states average of 13.10 per cent. SGST growth has been 8.63 per cent against the major states average of 15.93 per cent. Every comparator state grew its SGST faster than Kerala in this period.

Part of the explanation lies in the structure of Kerala's economy. Kerala's tax base is shallower than the level of state income would suggest. Much of household consumption is met from goods produced outside the state, while remittances - estimated to bear a ratio of 23.2 per cent to Net State Domestic Product - support spending without correspondingly enlarging the State's own production or transactions tax base. The expectation that consumer states like Kerala would benefit from the destination-based GST rests on an incomplete analytical foundation. The destination principle delivers the final consumption tax to Kerala - but only that. The value added in producing the goods Kerala consumes accrues in the producing states, generating wages, profits, and supplier linkages there. Through income multiplier effects and backward linkages, this creates further consumption and production in those states, generating additional GST collections at multiple stages of the value chain - all flowing to the producing state, not to Kerala. Remittance-funded consumption amplifies this effect: income earned abroad enters Kerala and exits through purchases of goods produced elsewhere, with the economic multiplier generated entirely outside the State. The GST design assumption that consumer states benefit more than producer states does not adequately account for this dynamic.

This is a structural feature of Kerala's economy that cannot be wished away by better tax administration alone. The implication for fiscal strategy is direct: since the destination principle will continue to deliver consumption tax on goods produced elsewhere, Kerala's revenue future depends on two things it currently underperforms on - expanding the services sector, where value addition and tax incidence both accrue within the State, and building a stronger domestic production base that captures the multiplier effects of household spending rather than exporting them.

Tax buoyancy - the responsiveness of revenue to economic growth - summarises the structural relationship between the revenue base and the economy over the full eleven-year period. Kerala's own tax revenue has a buoyancy coefficient of 0.96 with respect to GSDP, against the major states aggregate of 1.09. A coefficient below unity means the own tax-to-GSDP ratio falls every year as the economy grows faster than the tax base. A sub-unitary buoyancy is not a temporary problem correctable by a good revenue year. It is a structural condition in which every year of economic growth leaves the revenue base relatively weaker. Without deliberate policy action to broaden the tax base - particularly in SGST - Kerala's own revenue will continue to fall as a share of the economy regardless of how fast the economy grows.

The revenue weakening does not stand apart from the treasury stress documented above. When revenue receipts grow at 5.06 per cent annually while committed expenditure obligations grow faster, the gap between what comes in and what must go out widens every year. This gap was partially bridged between 2020-21 and 2022-23 by the ₹77,201

crore in Revenue Deficit Grants and GST Compensation received from the Centre. When those transfers ended, the underlying gap stood fully exposed. The treasury stress of 2024-25 is the direct operational consequence of a revenue base that has been losing ground to the economy for a decade while expenditure commitments have been moving in the opposite direction.

2.5.4. Persistent Non-Compliance with Fiscal Rules

The two structural roots examined above are not independent problems - they operate simultaneously on the same fiscal account. High committed expenditure drives up the obligatory claims on revenue; a weakening revenue base reduces what is available to meet them. The inevitable consequence is a persistent revenue deficit. Kerala has run a positive revenue deficit - current expenditure exceeding current revenue - in every single year from 2008-09 to 2025-26 without exception. The State's FRBM law has required a zero revenue deficit since 2014-15 and a progressively larger revenue surplus from 2020-21. The target has never once been met.

In 2025-26, Kerala's revenue deficit stands at 1.90 per cent of GSDP against major states average at 0.28 per cent of GSDP. Telangana maintained revenue surpluses or near-balance through most of the period; Maharashtra's revenue deficit has remained below 1 per cent throughout. Only Punjab (2.69%) runs a higher revenue deficit among comparable states. This is not a consequence of Kerala's social commitments alone - it is a structural condition in which committed expenditure persistently outpaces revenue. Every rupee borrowed to bridge this gap adds to the debt stock without adding to productive capacity, feeding the interest

payment spiral identified above. The revenue deficit, the weakening revenue base, and the rising interest burden form a single reinforcing loop.

The outstanding liabilities show the accumulated consequence. Kerala's debt stock rose from 28.9 per cent of GSDP in 2015-16 to a peak of 40.3 per cent in 2020-21, declining to 35.5 per cent in 2025-26 - above the FRBM ceiling in eight consecutive years and above the 15th Finance Commission's indicative ceiling of 33 per cent. Karnataka (26.5.0%), Maharashtra (19.0%), and Telangana (27.5%) operate with substantially lower debt burdens.

The FRBM Act has been amended four times - in 2011, 2018, 2021, and 2022. Some amendments reflect genuine shocks. The broader pattern, however, is one of revising targets when compliance becomes difficult rather than adjusting behaviour to meet original commitments. This has weakened the credibility of the fiscal rules framework - a cost that is not merely reputational. The Ministry of Finance uses FRBM compliance as a criterion in determining Kerala's net borrowing ceiling; persistent non-compliance risks a reduction in that ceiling, directly constraining the new government's ability to finance even its committed expenditures at a time when the treasury is already under severe stress.

2.5.5. Declining and Uncertain Central Transfers

The structural roots examined above are primarily products of Kerala's own fiscal choices and economic structure. The fourth is partly external: the central transfers that have historically supplemented Kerala's own

revenues have declined in predictability and, in some components, in absolute terms.

The constitutional framework distributes a defined share of Union taxes to states through the divisible pool. Over the past decade, the effective share available for distribution has shrunk - not because vertical devolution rates have fallen, but because cesses and surcharges, excluded from the divisible pool under Article 270, expanded from 10.4 per cent of Union gross tax revenue in 2011-12 to between 15 and 20 per cent in recent years. The Fourteenth Finance Commission's increase in vertical devolution from 32 to 42 per cent was substantially neutralised by this parallel expansion. Simultaneously, Union non-tax revenue - not constitutionally shareable - has more than doubled in absolute terms, from ₹2,51,260 crore in 2015-16 to ₹6,67,662 crore in 2025-26, consistently accounting for roughly one rupee in every five of Union fiscal capacity. The shareable base has been compressed from both directions.

The composition of transfers has also shifted adversely. The share of unconditional, formula-based Finance Commission grants has fallen as Centrally Sponsored Scheme transfers have expanded. CSS funds require states to spend first and claim reimbursement - a process that routinely locks up thousands of crore rupees in state funds for months, directly contributing to the treasury stress documented in Part One. Conditional grants are not substitutes for predictable, formula-based devolution.

Kerala's *inter se* share in central tax distribution fell from 3.875 per cent under the Tenth Finance Commission to 1.925 per cent under the Fifteenth - a reduction of nearly two percentage points over three

decades. The Sixteenth Finance Commission has raised the share to 2.382 per cent (See Appendix C). However, this nominal gain is offset by the discontinuation of post-devolution revenue deficit grants, sector-specific grants, and state-specific grants, under which Kerala received ₹40,226 crore over the Fifteenth Finance Commission period. The Commission's stated rationale - that revenue deficit grants foster fiscal complacency - does not adequately address the reality that Kerala's post-devolution revenue deficit reflects structural revenue constraints rather than fiscal indiscipline.

Kerala's Budget Estimates for 2026-27 anticipated transfers approximately ₹20,500 crore higher than the Sixteenth Finance Commission has provided - based on assumptions about continuing revenue deficit grants that have not materialised. Bridging this gap within the binding fiscal deficit ceiling will require a combination of own revenue mobilisation and expenditure prioritisation that cannot be achieved without deliberate structural reform.

2.6. Conclusion - Operations Reflect Structure

A year-end cash balance of ₹6,322 crore in March 2026 might suggest the State is financially comfortable. Six weeks later, the balance had fallen to ₹2,212 crore. In 2024-25, the treasury was in negative balance for 10 of 12 months. Open market borrowings nearly doubled in four years, yet the net cash position deteriorated - not because debt service outpaced borrowing, but because the ₹77,201 crore in Revenue Deficit Grants and GST Compensation that had been bridging the structural gap

disappeared, and the borrowing ceiling prevented the State from simply replacing them with market debt.

These operational realities are not separate from the structural fiscal imbalance examined in section 2.5 - they are its daily expression. A government whose committed expenditure consumes 77 paise in every rupee of revenue will inevitably face chronic cash stress. A government whose own tax revenue has fallen below the 18 major states average for the first time, and whose revenue receipts grow at 5 per cent while expenditure obligations grow faster, will inevitably depend on continuous borrowing to maintain payment continuity. A government that has run a revenue deficit in every single year - borrowing for current consumption throughout - will inevitably accumulate a debt burden that compounds its interest obligations in each subsequent year.

Better treasury management - more disciplined borrowing calendars, Treasury Single Account implementation, CSS reimbursement recovery, improved cash flow forecasting - can reduce the severity and cost of this stress. But it cannot eliminate it. Only structural reform of the underlying fiscal position can do that: reform of the expenditure composition to create fiscal space, reform of the revenue base to restore buoyancy, and restoration of the credibility of fiscal rules so that the borrowing ceiling constraint is earned through compliance rather than imposed through penalty.

Two further structural issues compound the picture examined in this chapter and receive dedicated treatment in Chapters 4 and 5 respectively: the off-budget borrowing programme through KIIFB, which has expanded Kerala's effective debt burden well beyond what the official

accounts show; and the fiscal drain from State public sector undertakings, whose chronic losses and government-funded survival impose a direct and growing cost on an already stressed budget. Together with the four structural roots documented in Section 2.5, they define the full scale of the structural challenge that the new government must confront.

Treasury stress is not a cash management problem with a treasury solution. It is the day-to-day operational manifestation of a structural imbalance between the State's expenditure commitments and its fiscal capacity - an imbalance built over the years, deepened by adverse external developments, and now requiring structural reform on multiple fronts simultaneously.

Appendix 2A : Glossary of Key Fiscal and Treasury Terms	
Term	**Plain English Explanation**
Budget vs. Treasury	The *budget* is the government's annual plan - what it expects to receive and proposes to spend. The *treasury* is the operational reality - the government's actual bank account. A budget can look reasonable on paper while the treasury executing it is under severe daily stress.
Treasury Cash Balance	The amount of money the government holds in its account with the RBI at any point. When positive, the government can meet its obligations. When negative, it has run out of its own funds and must borrow from the RBI to keep payments flowing.
Open Market Borrowings (OMB)	Money the State Government raises by issuing bonds to banks and institutional investors. OMB must be repaid with interest on fixed dates. Every rupee borrowed today permanently adds to future expenditure obligations - regardless of what revenues look like then.
Special Drawing Facility (SDF)	The first tier of RBI emergency credit - low cost, backed by securities the government holds. Available before WMA is drawn upon.
Ways and Means Advances (WMA)	The second tier of RBI emergency credit - unsecured, at the repo rate - available when the treasury balance falls to zero. Kerala's WMA limit is ₹2,308 crore. Designed as a short-term bridge, not routine financing.
Overdraft (OD)	The third and costliest tier - drawn when WMA is exhausted. Carries penal interest of repo rate plus 2 to 5 per cent. Spending over a hundred days a year in overdraft, as Kerala did in 2025, is a serious warning signal.
Committed Expenditure	Spending the government has no practical ability to reduce in the short term: salaries to serving employees, pensions to retired ones, and interest on borrowed money.
Revenue Deficit	When day-to-day spending (salaries, pensions, interest, subsidies) exceeds day-to-day income (taxes, fees, central transfers). The government is borrowing not to build assets but to meet current expenses - the equivalent of a household taking a loan to pay its monthly bills.
Fiscal Deficit	The broader gap between all government spending - including capital investment - and all receipts. A revenue deficit is the more

Appendix 2A : Glossary of Key Fiscal and Treasury Terms	
Term	**Plain English Explanation**
	troubling component: it produces no asset in return for the debt it creates.
KIIFB	Kerala Infrastructure Investment Fund Board - a government-owned entity that borrows to fund infrastructure outside the regular budget.
KSSPL	Kerala Social Security Pensions Limited - a similar off-budget entity for social security pension payments.
BDS (Bill Discounting System)	A facility under which banks pay contractors on behalf of the government and are later reimbursed. BDS arrears are amounts owed to banks for payments they have already made.
CSS (Centrally Sponsored Schemes)	Programmes funded jointly by the Centre and states, where states must typically spend first and claim reimbursement later.

Chapter 3

Budget Management and Fiscal Discipline

3.1 Introduction

Article 114(3) of the Constitution provides that no money shall be withdrawn from the Consolidated Fund of India (CFI) except under appropriations made by law. Further, General Financial Rules (GFR)2017 stipulate that no expenditure which might lead to authorisation under the total Grant or Appropriation being exceeded will be incurred, except after obtaining a supplementary Grant or an advance from the Contingency Fund. Excesses, if any, are required to be regularised by Parliament under Article 115(1) (b) of the Constitution. Any large deviations of actuals from the budget estimates are indicative of defective budgeting as well as shortfall in budget performance in a Grant or Appropriation. Such large deviations are a result of injudicious formulation of budget and these could have been significantly reduced by making realistic budgetary projections. This chapter analyses the deviations of revenue receipts, expenditure, debt and deficits during the last ten years.

3.2 Burgeoning Deficits

Kerala has not been able to balance its revenue account for long and the trend of running a huge revenue deficit has continued during the last ten years (Table 3.1a). Not only that the deficits are large but also the deviations of actuals from budgetary projections are large. As regards the Revenue Deficit (RD), the deviations range between 1.5 percentage points on the positive side (actual is less than budgeted) to 1.27

percentage points on the negative side (actual is higher than budgeted). These qualify to be called ‘injudicious formulation of budget’. More or less similar is the story with regard to fiscal deficit as well. The deviations range from 1.47 percentage points on the positive side to 1.4 percentage points on the negative side. The picture is no different when it comes to primary deficit as its difference from the fiscal deficit is the interest payment as a proportion of GSDP. Thus, whichever deficit indicator we take, the actuals tend to be vastly different from the estimates made in the budget suggesting ‘defective budgeting’.

Table 3.1a: Growing Deficits (as % GSDP), 2016-17 to 2025-26

	Revenue Deficit			Fiscal Deficit		
	Budget Estimate	Accounts	FRBM Target	Budget Estimate	Accounts	FRBM Target
2016-17	1.50	2.51	0	3.03	4.28	-
2017-18	2.14	2.41	0	3.43	3.83	3
2018-19	1.66	2.23	0	3.10	3.45	3
2019-20	1.00	1.76	0	3.00	2.89	3
2020-21	1.55	2.51	Surplus	3.00	4.40	3
2021-22	1.93	2.23	-0.5	3.50	3.99	< 4.5
2022-23	2.30	0.88	-0.8	3.91	2.44	< 4.0
2023-24	2.11	1.60	-1.2	3.50	3.02	< 3.5
2024-25	2.12	2.49	-1.7	3.40	3.86	< 3.5
2025-26 RE	1.90	2.58	-2.5	3.16	3.78	3

Source: Budget in Brief; RE-Revised Estimate;For targets- Medium Term Fiscal Policy Statement of Kerala for various years.
Note: Negative numbers for revenue deficit denote revenue surplus.

It may be seen from Table 3.1a that the realised, or actuals of both RD and FD are off the targets. In the case of RD, by 2019-20 Kerala should have eliminated the revenue deficit, or balanced the books. But except for the COVID-19 year (2020-21) every recent year reports large revenue

deficits which are 1.5 to 5 percentage points higher than the targets. Instead of a rising surplus, Kerala has a rising deficit. In the case of fiscal deficit, the targets have seen a rise post-COVID-19. Kerala adhered to those higher targets in the immediate post-COVID-19 period but the last two years have seen Kerala going back to the ‘normal’ of high fiscal deficits exceeding the targets.

Table 3.1b: Growing Deficits and Debt (as % GSDP), 2016-17 to 2025-26

Year	Primary Deficit		Debt		
	Budget Estimate	Accounts	Budget Estimate	Accounts	FRBM Target
2016-17	1.11	2.32	26.54	29.37	29.8
2017-18	1.62	1.67	27.68	30.04	30.4
2018-19	1.17	1.31	30.7	30.4	30.01
2019-20	1.04	0.56	30.21	32.02	29.67
2020-21	0.97	1.70	30.07	38.51	31.67
2021-22	1.00	1.50	37.39	35.92	≤ 34.7
2022-23	1.32	0.04	37.18	34.62	≤ 34.5
2023-24	1.18	0.64	36.05	34.29	≤ 33.7
2024-25	1.21	1.53	35.15	34.15	≤ 32.8
2025-26 RE	0.93	1.55	33.77	33.22	≤ 32.0

Source: Budget in Brief; RE-Revised Estimate;For targets- Medium Term Fiscal Policy Statement of Kerala for various years.
Note: Negative numbers for revenue deficit denote revenue surplus.

In the case of debt, actuals were higher than the budget estimates from 2016-17 to 2020-21 but during the last five years it is just the other way round (Table 3.1b). The trend too shows an interesting pattern. Debt has steadily been rising till the COVID-19 year. Since then there has been a falling tendency. Probably, Centre's 50-year interest free loan under the Scheme for Special Assistance to States for Capital Investment (SASCI) must be playing a role here. But debt has also remained above the target.

Turning now to the trends in deficits and debt during the last ten years, it may be seen that the five years from 2016-17 saw steady consolidation with both RD and FD coming down with falls of 0.75 percentage points and 1.39 percentage points respectively over 2016-17 to 2019-20. The coming of COVID-19 changed the course completely nullifying all the gains of four years in one go. The last five years, however, shows a trend

that is steadily worsening. The RD which was below 1% in 2022-23 steadily went up to reach 2.58% by 2025-26. The FD that was below 3% in 2022-23 jumped up to reach 3.86% and 3.78% in 2024-25 and 2025-26 repeatedly. Sticking to a 3% FD in such a case meant leaving almost no resources for capital spending from the borrowed funds. The FD went up to hit the 4% mark the last two years.

Primary deficit of zero value essentially means all the FD or borrowings go for debt servicing as seen in the year 2022-23. When looked at differently, the RD of the last two years has gone entirely to finance debt servicing leaving only about 1.5% of GSDP for capital spending. In such a situation, the interest burden will come down only if that small part of borrowing goes to finance very high income and in turn tax generating investments. In Kerala, such an eventuality does not exist raising the burden of interest payment and in turn FD. How can Kerala then bring down FD? Necessarily, answers have to be found in revenue and expenditure forecasts and achievements.

3.3 Revenue Receipts

Consistent underestimation of RD and FD, except for the two COVID-19 years can arise when the revenue receipts are overestimated and expenditures are underestimated. This fact takes us to the analysis of revenue receipts and expenditures. Total revenue receipts of states in India consist of three components: State's own tax revenue (SOTR), state's own non tax revenue (SONTR), and central transfers.

Table 3.2: Budget Estimate and Actuals of State's Own Tax Revenue

Year	State's own tax revenue (₹ crore)	
	Budget Estimate	**Accounts (% of BE)**
2016-17	47044	42176 (90)
2017-18	53411	46460 (87)
2018-19	58588	50644 (86)
2019-20	65785	50323 (77)
2020-21	67420	47661 (71)
2021-22	71833	58340 (81)
2022-23	74098	71968 (97)
2023-24	81039	74329 (92)
2024-25	84884	76642 (90)
2025-26	91515	83731 (92)

Source: Budget in Brief; RE-Revised Estimate; For targets- Medium Term Fiscal Policy Statement of Kerala for various years.

Central transfers are of three types: tax assignment, Finance Commission grants, and other grants. Finance Commission grants are fixed amounts and there is hardly any issue of estimates. Tax assignment is the state's share in the divisible pool and once the Central Government presents the budget, there is an estimate of the share of the State and an issue of forecasting does not arise.

In the Kerala context, around 17% of the state's own revenue receipts is accounted for by SONTR the bulk of which is lotteries. It suffers from a peculiar problem as the sale value of lottery tickets is shown as revenue receipts; expenditure on commissions and prize money is shown as revenue expenditure. It does not truly reflect the revenue (gains from lotteries) and obfuscates the accounts. So, we do not wish to discuss the Budget Estimates and Actuals of Lotteries. Instead, we offer a brief review of the gains from lotteries (sale value minus expenditure) during

the last ten years. Between 2015-16 and 2018-19, the gains from lotteries steadily went up from ₹1148 crore to ₹1946 crore. The economic downturn of 2019-20 saw the gains fall to ₹1499 crore. The COVID-19 year saw the lottery sales collapse and the gain fell to just ₹246 crore. The recovery has been slow and recent years have seen the gain not crossing ₹1200 crore when the sale value of tickets is almost twice the value in the mid-2010s. The need for a clear analysis of this issue is called for.

Turning to the Budget Estimate and Accounts of state's own tax revenue (SOTR), it may be seen that in every year from 2016-17 to 2025-26, the actual realisation is lower than the budget estimate (Table 3.2). In other words, the budget estimates are overestimates of tax revenue without exception. The question is only about the magnitude of overestimation. As regards the magnitude, it is interesting to see that it has come down over the years. Whereas the initial three years reported an average 87% realisation, the last three years show over 90% realisation. The budget estimate of SOTR is unmistakably an optimistic guess rather than an estimate based on scientific analysis of the data. Credible estimates could be over as well as under estimates. Consistent over-estimation cannot be taken as credible. It is an estimate in name but not in substance.

3.4 Expenditure

The deviations between Budget Estimates and Accounts in revenue expenditure, capital spending and plan expenditure is in stark contrast with that in the case of revenue receipts. The realisation is very close to the budget estimates. While the actuals of revenue expenditure were close to budget estimates throughout the period, as regards capital spending

there is a clear divide between the pre-COVID-19 period and post COVID-19 period. In the pre-COVID-19 period, capital expenditure was more of a residue and as revenue receipts fell when compared to the budget estimates, the pressure fell on capital spending. That is probably the reason capital spending fell below 50 percent of the budget estimates in a few years. Post COVID-19 the situation has changed with the Centre supporting capital spending with the 50 year zero interest loans under the **'Scheme for Special Assistance to States for Capital Investment' (SASCI)** launched in 2020–21. A firmness to capital spending came about. The actuals of capital spending meeting the budget estimates became a reality.

Table 3.3: Budget Estimate and Actuals of Revenue, Capital and Plan Expenditure

Year	Revenue Expenditure		Capital Expenditure		Plan Expenditure	
	Budget Estimate	Accounts (% of BE)	Budget Estimate	Accounts (% of BE)	Budget Estimate	Accounts (% of BE)
2016-17	93990	91096 (97)	24288	18992 (78)	24288	22813 (94)
2017-18	109628	99948 (91)	23580	10290 (44)	26839	25556 (95)
2018-19	115662	110316 (95)	26265	9753 (37)	28623	21998 (77)
2019-20	124125	104720 (84)	17855	9665 (54)	30657	21183 (69)
2020-21	129837	123446 (95)	14428	15438 (107)	28003	32290 (115)
2021-22	147891	146180 (99)	14141	17046 (121)	29060	34460 (119)
2022-23	157066	141951 (90)	16522	16788 (102)	30575	32750 (107)
2023-24	159361	142626 (89)	16728	16880 (101)	29329	34311 (117)
2024-25	166501	155921 (94)	17826	17086 (96)	29313	33106 (113)
2025-26	179476	173972 (97)	19106	18484 (97)	31397	33779 (108)

Source: Budget in Brief; RE-Revised Estimate;For targets- Medium Term Fiscal Policy Statement of Kerala for various years.
Note: Amount in ₹. crore.

The Plan Expenditure also behaved exactly like the capital expenditure falling below the budget estimates by 20 to more than 30 percent till 2020-21 and overtaking the budget estimate since then. However, the reasons for the actuals of Plan Expenditure moving above the budget estimates is a result of financial sleight of hand. While showing the realised Plan Expenditure under an item called 'Others', KIIFB and some PSE spending are included.

The point of concern is the stagnancy of both capital spending as well as Plan Expenditure during the last five years. Although capital spending has almost doubled between 2019-20 and 2025-26, the latter figure is still lower than the achievement in 2016-17. Plan Expenditure too has refused to move up during this period despite the financial sleight of hand.

3.5 Large Shortfall in Central Transfers in 2026-27 Budget

Large deviations could occur between estimates of an interim budget and the regular budget that follows in an election year. If it happens to be the transition year between two Union Finance Commission awards, as in 2026-27, the deviations can be very large. The interim budget of 2026-27 assumed the estimates of central transfers shown in Table 3.4.

Table 3.4: Interim Budget Assumptions of Central Transfers and the Union Budget Actuals (₹ crore)

Central Government Transfers	Interim Budget	Revision Based on Union Budget	Shortfall
Share of Central Taxes	42114.32	36355.39	5958.93
Revenue Deficit Grants	14137.69	0	14137.69
Others	3522.00	2918.25	603.75
Total	**59774.11**	**39273.64**	**20500.47**

It is a large shortfall of Rs 20,000 crore as both the components, share in taxes and grants-in-aid, showed large deviations. The shortfall in the share of central taxes arises owing to the Finance Commission award of 2.38% against the 2.8% assumed in the Interim Budget. The XVI Finance Commission made no award of Revenue Deficit grants whereas the Interim Budget assumed the trend of the past. That applies to the Health grant in the 'Others' category as well. This has significant implications for the plan size. The plan expenditure for 2026-27 BE is estimated to be ₹33183.48 crore which is likely to be declined by ₹20000 crore with its severe consequences for the minorities as discussed in Chapter 6.

3.6 Conclusion

In Kerala, actuals of deficits are consistently higher than the budget estimates suggesting 'defective budgeting' going by the Budget Manual. Targets too are set but hardly ever achieved. Such 'injudicious' formulations accentuate the already fragile health of the fiscals. The lack of credibility of the data presented, makes it difficult to carry out any realistic assessment of the underlying economic reality.

Chapter 4

Kerala Infrastructure Investment Fund Board – Where Does It Stand?

4.1 Overview

KIIFB was established in its current form in 2016 to raise financial resources from the market through innovative methods, as the State was unable to mobilise adequate resources through the budgetary process under the constraints of the Fiscal Responsibility and Budget Management Act. Capital expenditure in Kerala averaged ₹5,300 crore in the early 2010s - just 1.24% of GSDP, one of the lowest among the Indian states. KIIFB was conceived as an efficient infrastructure financier using state-of-the-art technology, widening the scope of infrastructure to include social infrastructure such as schools and health facilities alongside physical infrastructure.

This chapter examines four key questions: (i) Is KIIFB relevant following the C&AG strictures? (ii) Has KIIFB raised financial resources through innovative methods and saved money for the state? (iii) Has it implemented projects efficiently and prioritised projects to fill infrastructure gaps? (iv) Does the governance structure of KIIFB violate the Rules of Business of the Government?

4.2 Origins and Evolution

KIIFB was established on 11 November 1999 under the Kerala Infrastructure Investment Fund Act (Act 4 of 2000) as the principal

funding arm of the Government of Kerala, channelling funds for critical and large public infrastructure projects. The 1999 Act covered electric power, roads, irrigation, ports, airports, water supply, inland navigation, solid waste management, and drainage.

In its early years KIIFB raised ₹ 507 crore in 1999 at 13.25% (Series I) and ₹ 506 crore in 2003 at 11% (Series III). Both tranches were deposited in the Treasury and used for general fund management rather than infrastructure investment. No project was funded because appraisals found none financially viable. By 2012 the Government was considering closing KIIFB, which had effectively become a mere borrowing-lending intermediary.

A 2014 committee under Sri K M Chandrasekhar recommended restructuring KIIFB as a genuine infrastructure financier. The 2016 election brought a new government that fundamentally reimagined the institution through the KIIFB Amendment Act 2016, expanding its mandate to cover both physical and social infrastructure, authorising borrowing through instruments approved by SEBI and RBI, and establishing dedicated governance structures including a Fund Trustee and Advisory Commission (FTAC) to ensure investor confidence and fund integrity. The appointment of Dr K M Abraham as CEO in August 2016 marked the beginning of KIIFB's transformation into a substantial operational organisation.

4.3 Organisational Structure and Capacity

KIIFB's governance combines statutory, professional, and market-based oversight. The Board is chaired by the Chief Minister, with the Finance

Minister as Vice-Chairperson, senior secretaries, and seven independent experts in finance, banking and economics. The Executive Committee, chaired by the Finance Minister, oversees implementation. The FTAC - comprising the former C&AG, a former RBI Executive Director, and a former CMD of a major public sector bank acts as trustee of the fund, issues half-yearly Fidelity Certificates on fund utilisation and repayment capability, and has statutory powers to seek information and protect investor interests.

The organisation has grown considerably. The **Project Appraisal Division (PAD)**, with an effective strength of about 59 personnel including officers on deputation and professionals on contract, verifies Detailed Project Reports, undertakes technical and financial appraisal, issues financial sanction orders, coordinates with administrative departments and Special Purpose Vehicles (SPVs), monitors project implementation, and scrutinises tender documents, contract proposals, and SPV payment claims.

The **Inspection Authority**, constituted under Section 17A of the KIIF Act, provides independent inspection and compliance oversight. Its **Technical Inspection Wing (TIW)** oversees quality assurance and implementation monitoring, ensuring adherence to approved scope, design, specifications, timelines and financial provisions. It has introduced technologies including Full Depth Reclamation for roads, steel-concrete composite and precast segmental bridges, pre-engineered building systems, and centralized quality monitoring through a Quality Monitoring Studio and mobile Auto Lab facilities - in collaboration with institutions such as IITs, NITs, CRRI, NIOT and NCCR. The

Administrative Inspection Wing (AIW) focuses on procedural and contractual compliance, scrutinising contract files and high-value bills and investigating complaints.

The **Finance and Administration Division**, led by an Additional Secretary (Finance) as Joint Fund Manager, handles fund mobilisation, project fund releases, investment of surplus funds, HR, external ratings, and coordination of statutory, C&AG and internal audits. Within it, the **Institutional Finance Group (IFG)** structures and raises funds from banks, financial institutions and capital markets, manages the Asset-Liability Management (ALM) system and annual borrowing plan, and monitors covenant and rating requirements.

The **ESG Wing**, established in 2019 as a 15-member multidisciplinary team, drives climate-resilient and sustainable infrastructure development through Climate Resilience Policies, a Green Finance Framework, and the SRISHTI sustainability rating system. KIIFB has mandated GRIHA, IGBC and EDGE certifications for buildings above 2,500 sq. m, with 86 green building projects covering nearly 1 million sq. m. The ESG Wing is exploring additional climate finance windows including the UNFCCC Loss and Damage Fund.

The **IT Division** has built an integrated digital platform supporting end-to-end processing across nearly 5,000 work packages and 59 SPVs under 29 departments. Key applications include the Project and Finance Management System (PFMS), Project Monitoring and Assessment System (PMAS), Spatial Project Monitoring System (SPMS), Investment and Security Management System (ISMS), and an AI-enabled ALM module. KIIFB has, in sum, taken project appraisal, inspection,

sustainability and digital management well beyond what state departments typically achieve.

An independent evaluation of these capacities to identify what could be adopted by government departments would be worthwhile.

4.4 Current Financial Position

The Government has contributed on average around ₹ 3,000 crore per year over the nine years since 2017-18. Total inflows to KIIFB as of 31 March 2026 stand at ₹ 74,171 crore, comprising government contributions of ₹ 26,497 crore, borrowings of ₹ 42,053 crore, project repayments of ₹ 3,700 crore and other income of ₹ 1,920 crore (Table 4.1).

Table 4.1: KIIFB – Inflows (As on 31.03.2026)

Sl. No.	Sources	Amount (₹ crore)
1	**Government Contribution**	**26,497.11**
1.1	Initial Corpus	2,498.00
1.2	Motor Vehicle Tax Share	17,593.57
1.3	Fuel Cess	4,929.84
1.4	Additional Contribution	1,393.77
1.5	Others (LAC, ADS/PTA Share, etc.)	81.93
2	**Borrowings**	**42,053.20**
2.1	Term Loans from Banks	9,200.00
2.2	Masala Bond	2,150.00
2.3	Domestic Bond	8,649.97
2.4	Loans from HUDCO, PFC, REC, NABARD, KFC & SAGARMALA	19,620.73
2.5	Bonds to KSFE	2,101.60
2.6	NORKA Scheme	330.90
3	**Repayment from Revenue-Generating Projects**	**3,699.91**
4	**Other Income**	**1,920.46**
	Total	**74,170.68**

Source: KIIFB website (compiled by author).

The most important single source of government contribution is 50% of Motor Vehicle Tax, which stood at ₹ 17,593.57 crore in 2025-26 alone - a recurring and significant drain on state revenue receipts (Table 4.1). Of the ₹ 42,053 crore borrowed, less than ₹ 10,000 crore has been repaid (Table 4.2). The finance cost - at ₹ 10,198 crore - is as large as the principal repaid . The fund balance remaining with KIIFB is about ₹ 11,000 crore (Table 4.3), leaving an unmet loan liability of around ₹ 21,000 crore whose repayment will fall on the State.

Table 4.2: KIIFB – Outflows (As on 31.03.2026)

Sl. No.	Destination	Amount (₹ crore)
1	Loan Repayments	
1.1	Repayment of Principal	9,865.73
1.2	Finance Cost (including Guarantee Commission)	10,198.34
2	Project-Related Payments	42,904.63
3	Administrative Expenses	571.25
	Total	**63,539.95**

Source: KIIFB website (compiled by author).

Table 4.3: Fund Balance (As on 31.03.2026)

Sl. No.	Sources	Amount (₹ crore)
1	With Treasury (including Corpus)	4,111.29
2	With Banks	
2.1	DSRA	3,059.56
2.2	Fixed Deposit	2,002.06
2.3	Savings Balance	1,487.11
3	Other Investments	62.22
	Total	**10,722.25**

Source: KIIFB website (compiled by author).

Table 4.4: Projects Approved and Payments (As on 31.03.2026)

Sl. No.	Category	Value (₹ crore)
1	Approved Projects (including LA pool)	1,00,340.61
2	Completed Projects	24,911.63
3	Work in Progress	43,936.37
4	Projects in other stages (Tendered / Land Acquisition / TS / Financial Sanction Issued / Deferred / Dropped / Cancelled, etc.)	31,492.61
4.1	Approved projects ready to tender	2,326.90
4.2	Approved projects ready to award	2,865.33
	Total Payments Made	**41,609.92**

Source: KIIFB website (compiled by author).

Approved projects total over ₹ 1 lakh crore. Completed projects account for ₹ 25,000 crore and payments made total ₹ 41,610 crore, leaving projects costing around ₹ 35,000 crore still to be funded (Table 4.4). Combined with the unmet loan liability of ₹ 21,000 crore, the State faces a total obligation of approximately **₹ 56,000 crore** to repay outstanding loans and fund already-approved projects before accounting for ongoing financing costs.

4.5 The C&AG Finding and Its Implications

The most consequential development for KIIFB's future is the C&AG audit of its accounts for 2024-25. Until then, KIIFB's borrowings were treated as separate from state borrowings and did not affect Kerala's Annual Borrowing Ceiling (ABC). The C&AG audit fundamentally changed this position.

The Audit concluded that KIIFB's debt is serviced not from its own revenues but from budgetary allocations - that is, from the Consolidated Fund of the State. Since KIIFB lacks a sufficient independent revenue base, its debt is effectively state debt. Consequently, the Annual Borrowing Ceiling of the State must be reduced by the amount borrowed by KIIFB and similar institutions.

This finding strikes at the foundational rationale for KIIFB. The institution was created precisely to mobilise market resources outside the budget framework, circumventing FRBM constraints. If KIIFB's borrowings count against the state's borrowing limit, then the entire off-budget mechanism loses its purpose. KIIFB can no longer provide additional fiscal space; it can only redirect borrowings that the state could have undertaken directly - at lower cost.

The implications are immediate and structural. KIIFB cannot function as an independent fund raiser without directly and adversely affecting the state's own borrowing capacity. Every rupee KIIFB borrows is now, in effect, a rupee the state borrows. The Board, Executive Committee, and FTAC - constituted under the 2016 Act to govern an independent financing institution - lose much of their rationale if the institution is, fiscally speaking, simply an arm of the state. Logically, the 2016 Act requires amendment.

4.6 Cost of Borrowing: KIIFB vs Government

A key argument advanced for KIIFB was that a professionally managed, market-facing institution would borrow more efficiently than the Government of Kerala. The data do not support this claim.

Table 4.5: Interest Rate on Borrowings: Government of Kerala vs KIIFB

Year	End-of-Period Debt (₹ crore)	Interest Payment (₹ crore)	Avg. of Closing & Opening Balance (₹ crore)	Effective Interest Rate (%)	KIIFB Borrowings (₹ crore)	Interest Rate of KIIFB Loans (%)
2016-17	1,71,912	12,117	1,59,159	7.61	-	-
2017-18	1,98,608	15,120	1,85,260	8.16	560	8.80 / 9.00
2018-19	2,24,197	16,748	2,11,403	7.92	4,150	9.56
2019-20	2,47,971	19,215	2,36,084	8.14	2,252	9.20
2020-21	2,78,606	20,975	2,63,289	7.97	800	7.90
2021-22	3,16,271	23,303	2,97,439	7.83	8,799	9.05
2022-23	3,48,917	25,176	3,32,594	7.57	4,848	8.85
2023-24	3,77,063	26,986	3,62,990	7.43	5,151	9.15
2024-25	4,13,624	29,138	3,95,344	7.37	8,240	8.27
2025-26 (RE)	4,62,112	31,816	4,37,868	7.27	6,269	8.87

Source: Computed based on data from the KIIFB website and State Budget documents

In only one year - 2020-21, the COVID-19 year - did KIIFB marginally outperform the Government, and that year involved an unusually small amount at abnormal market conditions. In every other year, KIIFB's borrowing cost was at least 1.5 percentage points higher than what the state paid. Over a borrowing portfolio of ₹ 42,000 crore, even a one-percentage-point differential represents excess annual interest of approximately ₹ 420 crore - a significant and recurring cost that the state ultimately bears. The argument that KIIFB saves money through cheaper borrowing is simply not maintainable based on the evidence.

4.7 Project Prioritisation and Distributional Concerns

Projects financed through KIIFB must be declared in the Budget Speech or approved by the Council of Ministers. The SPV prepares a Detailed Project Report submitted to KIIFB's PFMS; the Project Appraisal Division undertakes technical and financial appraisal before the Executive Committee and Board approve. KIIFB thus provides a structured processing route rather than independent prioritisation.

The distributional outcomes raise questions. Table 4.6 shows that Kannur district alone accounts for over 20% of total approved amounts and 19% of payments released. Adding Thiruvananthapuram (17% approved, 17% released) and Ernakulam (11% approved and released), three districts absorb nearly half the total. Neither human development indices nor economic need indices provide an obvious justification for this concentration.

Table 4.6: Distribution of KIIFB Projects by Districts

District	Approved Amount		Payment Released	
	Amount (₹ crore)	Percent	Amount (₹ crore)	Percent
Thiruvananthapuram	19,982.70	16.7	14,791.29	17.0
Kollam	4,715.50	3.9	4,653.61	5.4
Pathanamthitta	2,894.07	2.4	2,266.60	2.6
Alappuzha	6,589.84	5.5	5,996.71	6.9
Kottayam	4,046.13	3.4	3,811.36	4.4
Idukki	2,385.51	2.0	2,113.01	2.4
Ernakulam	13,563.30	11.4	9,935.76	11.4
Thrissur	5,384.24	4.5	4,785.18	5.5
Palakkad	17,893.34	15.0	7,609.82	8.8
Malappuram	4,979.62	4.2	6,029.44	6.9
Kozhikode	5,545.18	4.6	4,513.08	5.2
Wayanad	1,699.59	1.4	1,353.51	1.6
Kannur	24,406.54	20.4	16,599.71	19.1
Kasaragod	5,326.91	4.5	2,378.55	2.7
Total	**1,19,412.47**	**100.0**	**86,837.62**	**100.0**

Source: Based on the data from KIIFB website

Sectorally, 68% of approved amounts flow to just three departments: Public Works (34%), Industry (25%), and Health and Family Welfare (9%). What rationale guided such large sectoral concentration - at the expense of education, water supply, sanitation or local infrastructure - is not clearly articulated.

These distributional patterns suggest that project selection has followed political and administrative channels rather than a systematic infrastructure gap assessment. Since projects are ultimately approved by

the Council of Ministers and declared in Budget Speeches, this is a governance question that goes beyond KIIFB's own institutional design.

4.8 Issues of Governance and the Way Forward

Several governance concerns warrant attention beyond the headline question of KIIFB's fiscal status.

Conferral of Secretary Powers on CEO. A government order in 2017 conferred ex-officio Secretary powers on the CEO of KIIFB. The Rules of Business of the State Government do not permit this. This is a structural irregularity that was corrected only in 2025.

Diversion of State Revenue. Fifty percent of Motor Vehicle Tax - ₹ 3,300 crore in 2025-26 alone - is diverted to KIIFB under a statutory earmarking. Given that KIIFB borrowings now count against the State's borrowing ceiling, continuing to lock away a major revenue stream in an escrow-type arrangement reduces the State's fiscal flexibility without providing the off-budget benefits originally envisaged.

Masala Bond Costs and Consultancy Payments. The cost incurred in raising the Masala Bond at over ₹ 11 crore appears high. Auditors have noted that supporting documents pertaining to payments were not made available for scrutiny. Additionally, large sums passed through CMD under consultancy services whose terms are not entirely transparent. These warrant detailed forensic audits.

Inefficient Liability Management. In several years, loans contracted with banks were almost entirely deposited back with banks, incurring unnecessary expenditure. Borrowing facilities with commitment charges

would have served the purpose without the carry cost. This points to gaps in liquidity planning.

4.9 Recommendations

i. KIIFB's borrowings are now fully reckoned as government borrowings by the Government of India when computing Kerala's open market borrowing limit, negating the original purpose. Simultaneously, substantial state revenue is diverted to KIIFB, reducing resources available for budgetary spending. It is not prudent to continue diverting state revenue into an escrow account. KIIFB should be directed to utilise budgetary borrowings to meet its committed liabilities.

ii. Since KIIFB's borrowings are priced on average about one percentage point above government borrowing rates, and since they now adversely affect the state's borrowing capacity, KIIFB should not be permitted to borrow independently from external sources. The Finance Department should borrow at more favourable terms and channel funds to KIIFB to meet its financial obligations.

iii. With the changes in (i) and (ii) above, KIIFB's continuation under the 2016 Act becomes untenable. The Act should be amended accordingly.

iv. KIIFB has built genuine institutional capacity in market borrowing, project appraisal, technical and administrative inspection, climate-resilient infrastructure, and integrated IT platforms. It would be wasteful to dismantle this. These capacities should be absorbed into or made available to government departments to improve project preparation and implementation quality.

v. A forensic audit of KIIFB's accounts should be conducted, covering the Masala Bond issuance costs, consultancy payments through CMD, and instances where borrowed funds were deposited back with banks.

vi. In the interim, KIIFB should systematically document its full obligations - repayment of principal, interest payments due, project funding commitments and project monitoring and completion timelines -to give the Government and the Legislature a complete and transparent picture of the liabilities the State is committed to honouring.

4.10 Conclusion

KIIFB was a bold institutional innovation - an attempt to create a professionally managed, market-facing infrastructure financier that could bypass the fiscal constraints binding the State budget. Over nine years it has built real organisational capacity, financed significant infrastructure, and pioneered quality, sustainability and digital management practices that the state government would do well to retain.

But its fundamental premise has been undermined. Its borrowings are now state borrowings. Its financing costs are consistently higher than government borrowing rates. Its project distribution reflects political rather than strategic prioritisation. And the State faces a combined obligation of roughly ₹ 56,000 crore in loan repayments and project funding commitments - a burden whose full weight is only beginning to be felt.

The question is no longer whether KIIFB should continue in its current form - the C&AG ruling has effectively answered that. The question is how to manage the transition: honouring committed liabilities, retaining institutional capacity, amending the legal framework, and ensuring that the costs accumulated are transparently accounted for and prudently managed in the years ahead.

Chapter 5

Public Sector Enterprises and Fiscal Stress

This chapter analyses the fiscal implications of the performance of public sector enterprises (PSEs) in the State. It is organised into five sections. The first section presents an overview of State-level PSEs. The second section examines their financial performance, while the third section assesses the fiscal implications of their performance. The fourth section provides a detailed analysis of the financial performance of three major public utility enterprises - Kerala State Electricity Board Limited (KSEBL), Kerala State Road Transport Corporation (KSRTC), and Kerala Water Authority (KWA). The last section contains the general recommendations for improving the fiscal effects of public sector enterprises.

5.1 Profile of Public Sector Enterprises in Kerala

As per the latest *Kerala Public Enterprises Review 2024-25*, there are 132 active public enterprises in Kerala owned fully or partially by the Government of Kerala. These enterprises are grouped into seven sectors; the sectoral distribution of public enterprises is given in Table 9.1. The Table shows that the majority of the enterprises are in the sector called Manufacturing & Production (36 in number), followed by Development & Infrastructure (31 in number). Out of the 132 enterprises, 65 are wholly owned by the government and the remaining are owned jointly by the Government of Kerala (GoK) and other entities (see Table 5.2). In Kerala, public sector enterprises are also classified into government companies and statutory bodies. According to the 2024-25 Public

Enterprise Review, there are 126 government companies and 6 statutory bodies.

Table 5.1: Sector-wise distribution of State-level Public Enterprises in Kerala

No.	Sector	No. of SLPEs	Percent of total
1	Manufacturing & Production	36	27.27
2	Development & Infrastructure	31	23.48
3	Services/Trading/Consultancy	25	18.94
4	Traditional & Welfare	18	13.64
5	Agriculture/Plantation/Livestock	12	9.09
6	Financial Services	6	4.55
7	Public Utilities	4	3.03
	Total	**132**	**100**

Source: A Review of Public Enterprises in Kerala 2024-25

Table 5.2: Status of ownership of SLPEs in Kerala

No.	Status of Ownership	No. of SLPEs	% of Total
1	Wholly owned by Government of Kerala	65	49.24
2	Joint ownership of Government of Kerala and Others	24	18.18
3	Joint ownership of Government of Kerala, Public and Others	16	12.12
4	Joint ownership of Government of Kerala and Central Government	10	7.58
5	Joint ownership of Government of Kerala, SLPEs and Others	12	9.09
6	Joint ownership of Government of Kerala, Central Government and Others	4	3.03
7	Joint ownership of Government of Kerala and NRls	1	0.76
	Total	**132**	**100**

Source: A Review of Public Enterprises in Kerala 2024-25

Table 5.3: Investment by the State Government in SLPEs (in ₹ crore)

No	Particulars	2020-21	2021-22	2022-23	2023-24	2024-25
1	Paid up Capital by Government of Kerala in SLPEs	15029.99	16745.93	18715.69	20999.85	22780.97
2	% of Total Share Capital by Government of Kerala	81.37%	79.45%	73.54%	72.31%	71.65%
3	Terms Loan by Government of Kerala in SLPEs	13483.43	16981.30	19242.48	20023.84	22065.03
4	% of Total Term Loans by Government of Kerala	29.63%	28.27%	29.76%	29.12%	36.64%
	Total Investment by Gok(1+3)	28513.42	33727.23	37958.17	41023.7	44846.00
	Total Investment (Financial) in SLPEs	54850.31	81536.01	90948.14	91476.58	86793.97
	% of Total Investment by GoK in SLPEs	51.98%	41.36%	41.74%	44.85%	51.66%

Source: Review of Public Enterprises in Kerala, various issues.

Table 5.3 presents the trends in the total investment by the government of Kerala in the PSEs for the five years starting from 2020-21. The total investment increased from ₹ 28513.42 crore to ₹ 44846.0 crore during this five-year period - suggesting that during the reported five years the government investment in PSEs increased by ₹ 16332 crore. Analysis of the distribution of investment in PSEs shows that five enterprises, namely Kerala Water Authority (KWA), Kerala State Road Transport Corporation (KSRTC), Kerala State Electricity Board Limited (KSEBL), Kerala Financial Corporation and Kerala Industrial Infrastructure Development Corporation accounted for 86.0 per cent of the total public sector

investment and eight enterprises account for 90 percent of the total investment (see Table 5.4). Similarly, eight enterprises have investments exceeding ₹1,000 crore, of which three have investments of more than ₹10,000 crore (see Table 5.5).

Table 5.4: Top ten Enterprises in terms of investment (Financial) in 2024-25 (₹ in crore)

SI No.	Name of Enterprise	Investment	% of total investment
1	Kerala Water Authority	35508.38	40.91
2	Kerala State Road Transport Corporation	16934.82	19.51
3	Kerala State Electricity Board Limited	10483.70	12.07
4	Kerala Financial Corporation	6721.17	7.70
5	Kerala Industrial Infrastructure Development Corporation	5170.59	5.90
6	Kerala State Backward Classes Development Corporation Limited	1660.70	1.91
7	Kerala State Housing Board	1122.67	1.29
8	Vizhinjam International Seaport Limited	935.25	1.07
9	The Kerala State Women's Development Corporation Limited	867.40	0.99
10	Kerala State Industrial Development Corporation Limited	628.53	0.72

Source: A Review of Public Enterprises in Kerala 2024-25

Table 5.5: Range of investments in SLPEs in 2024-25

No.	Investment Range	Number of SLPEs	% of Total Investment (Financial) in SLPEs
1	Above 10,000 Crore	3	67.97
2	Above 1,000 Crore up to 10,000 Crore	5	22.16
3	Above 500 Crore up to 1,000 Crore	3	2.63
4	Above 100 Crore up to 500 Crore	26	5.07
5	Above 50 Crore up to 100 Crore	15	1.17
6	50 Crore and below	80	1
	Total	**132**	**100**

Source: Review of Public Enterprises in Kerala 2024-25

5.2 Financial Performance of Public Sector Enterprises

Table 5.6 presents the financial performance of the PSEs, separately for government companies and statutory corporations during the ten years starting from 2015-16. The Table shows that the majority of the companies are making losses during this ten-year period and they record a combined loss in all the years, except in the first year. Similarly, statutory corporations also registered combined loss throughout the period. Although few in number, statutory corporations generally incurred higher losses than companies during the period. Analysis of the performance of PSEs, presented in Table 5.7, reveals that enterprises belonging to Financial Services, Traditional and Welfare, and Public Utilities, taken together, recorded loss during the four years beginning from 2021-22. Among the sectors, enterprises belonging to the Public Utilities sector recorded the highest loss in all the years. The last row of Table 5.7 presents the accumulated loss of all PSEs. It reveals that the accumulated loss increased from ₹31,517.1 crore in 2021 to ₹72,851.2 crore in 2024-25.

Table 5.6: Performance of the SLPEs in the last decade (amount in ₹ crore)

Year	No. units	Paid up Capital	Investment (Financial)	No. Profit making units	Amount of Profit	No. Loss making units	Amount of loss	Net Profit/Loss
A. Government companies								
2015-16	88	2925.70	15307.10	39	534.30	48	344.90	189.40
2016-17	90	6712.50	17318.80	39	322.60	48	1942.80	-1620.20
2017-18	97	7345.20	29713.20	42	657.00	52	1277.40	-620.40
2018-19	109	7275.50	28307.10	47	575.90	59	915.20	-339.30
2019-20	121	7794.50	23330.60	47	323.20	64	985.10	-662.00
2020-21	122	7530.00	37433.40	50	829.00	62	1506.10	-677.10
2021-22	124	8063.25	37279.80	55	832.40	63	2767.40	-1935.00
2022-23	126	8210.26	38554.80	55	829.40	56	2858.50	-2029.10
2023-24	126	8371.29	33216.73	53	1586.73	66	5516.20	-3929.47
2024-25	126	8515.52	21278.88	57	1488.99	60	1659.29	-170.30
B Statutory Bodies								
2015-16	8	11458.30	28195.50	2	49.30	5	2134.60	-2085.40
2016-17	7	8756.00	23510.80	2	6.10	4	2194.80	-2188.80
2017-18	7	9646.50	29092.90	3	15.80	3	2607.40	-2591.60
2018-19	7	9065.80	25340.10	4	659.50	2	1224.20	-564.70
2019-20	7	9550.30	30960.70	3	21.90	3	1734.00	-1712.20
2020-21	7	10610.30	36318.00	3	24.80	3	2725.90	-2701.20
2021-22	7	13622.20	44256.30	3	22.60	3	2846.60	-2824.00
2022-23	6	17857.50	52393.40	3	59.80	3	2842.40	-2782.60
2023-24	6	21110.17	58259.85	3	87.68	3	1947.89	-1860.21
2024-25	6	23958.44	65515.09	3	110.73	3	1916.59	-1805.86

Source: Review of Public Enterprises in Kerala, various issues.

Table 5.7: Net Profit/Loss SLPSE: Sector-wise (₹ in crore)

No	Sector	2021-22	2022-23	2023-24	2024-25
1	Development & Infrastructure	1.21	63.96	43.56	56.98
2	Financial Services	-192.45	-690.97	-2311.21	-269.09
3	Agriculture/Plantation/Livestock	-11.71	-27.99	-28.55	38.42
4	Manufacturing & Production	169.77	-110.49	-214.85	-281.41
5	Traditional & Welfare	-91.00	-43.99	-19.86	-218.88
6	Services/Trading/Consultancy	-103.75	-144.70	170.13	24.48
7	Public Utilities	-1875.92	-3857.55	-1109.67	-1326.66
	Total Net Profit/Loss	-1718.95	-4811.73	-3470.46	-1962.73
8	Accumulated loss of all PSEs	-42930.4	-54475.4	-78069.2	-72851.2

Source: Review of Public Enterprises in Kerala, various issues.

Table 5.8: Enterprises having highest negative net worth in 2024-25 (₹ in crore)

No.	Name of Enterprise	Negative net worth
1	Kerala State Electricity Board Limited	35149.12
2	Kerala State Road Transport Corporation	19820.63
3	The Kerala State Cashew Development Corporation Limited	1920.88
4	The Kerala State Civil Supplies Corporation Limited	1195.24
5	Kerala State Housing Board	702.39
6	Kerala State Textile Corporation Limited	684.84
7	Kerala Small Industries Development Corporation Limited	356.79
8	Kerala Automobiles Limited	226.99
9	Traco Cable Company Limited	223.83
10	The Travancore Cements Limited	176.54

Source: Review of Public Enterprises in Kerala 2024-25

To identify the enterprises contributing most significantly to the aggregate loss, we analysed the losses incurred by the individual enterprises over the last four years. The results are tabulated in an Appendix 5A to this chapter in Tables 5.A1 to Table 5.A4. In 2021-22, Kerala State Transport Corporation (KSRTC), Kerala Water Authority (KWA) together accounted for 79.42 percent of the total net loss of the PSEs in Kerala, of which KSRTC alone accounted for 54.36 percent. In

2022-23, KSRTC, KWA, and Kerala State Electricity Board Limited (KSEBL) together accounted for 64.67 percent of the total net loss of the PSEs in Kerala. In 2023-24 Kerala Social Security Pension Limited (KSSPL) and KSRTC accounted for 88.74 per cent of the total net loss. In 2024-25, KSRTC, KSSPL and KWA accounted for 72.0 percent of the total net loss. The analysis in general shows that three public utility enterprises accounted for the lion’s share of the total loss of PSEs in Kerala. One consequence of persistent losses is the erosion of the net worth of the enterprises. As shown in Table 5.8, the net worth of several enterprises, including KSEBL and KSRTC, turned negative.

5.3 Fiscal Impact of PSEs Performance

As we have seen in section one, the Government of Kerala made huge investments in the establishment and development of the public sector enterprises in the State. High operational efficiency of these enterprises could have contributed to the fiscal health of the State. However, as we have seen in the above section, persistent loss of these enterprises led to the erosion of their net worth and continuous cash loss, forcing many of them to depend on budgetary resources to continue their operation. This is in addition to the fact that poor performance of many public utilities can have spillover effects throughout the State economy.

Table 5.9: PSEs and Kerala's Budget (₹ in crore)

Year	Subsidies/Grants Received from GoK	Budgetary Support from GoK	Dividend and Profit receipt	Guarantee commission paid
2020-21	4569.79	2449.04	110.19	94.37
2021-22	1654.71	2928.39	227.98	116.29
2022-23	1444.75	1267.6	48.93	20.92
2023-24	1641.85	1987.83	242.68	130.21
2024-25	1504.04	2401.83	248.79	153.39

Source: Review of Public Sector Enterprises,various issues and RBI’s State Finances:A Study of Budgets Database

Table 5.9 reveals that the poor financial performance of PSEs resulted in an insignificant return to the State in the form of dividends and profits. At the same time, these enterprises continued to rely heavily on substantial budgetary support, subsidies, and grants, the magnitude of which far exceeded their fiscal contribution. Another way, poor financial performance of the public sector enterprises affected the State finance is through their inability to repay and service the loans taken from the government. Table 5.10 presents the top ten enterprises having arrears in principal and interest payment as on March 31, 2025. The Table reveals that three public utility enterprises, namely KSRTC, KWA, and KSEBL respectively occupy top three positions and together account for 69 percent of total arrears owing to the Government of Kerala by PSEs, municipal corporations and cooperative societies.

Table 5.10: Arrears in the loan repayment to State government (₹ in crore) (as on March 31, 2025)

No	Enterprise	Principal	Interest	Total	As % of total arrears	Earliest period to which arrears relate
1	Kerala State Road Transport Corporation	8958.70	2719.94	11678.64	46.38	1983-84
2	Kerala Water Authority	2332.63	1597.19	3929.82	15.61	2007-08
3	Kerala State Electricity Board	1159.22	677.83	1837.04	7.30	1970-71
4	Kerala State Housing Board	1169.22	592.33	1761.54	7.00	1980-81
5	Kerala State Cashew Development Corporation Ltd.	279.61	581.90	861.51	3.42	1996-97
6	Kerala State Co-operative Textile Federation (TEXFED)	354.83	425.41	780.24	3.10	1996-97
7	Kerala Industrial Infrastructure Development Corporation	559.70	18.63	578.33	2.30	2008-09
8	Kerala State Rubber Co-operative Ltd. (RUBCO)	187.13	271.47	458.60	1.82	2009-10
9	Kerala State Textile Corporation Ltd.	236.29	205.03	441.32	1.75	2007-08
10	Kerala State Drugs and Pharmaceuticals Ltd.	141.79	113.99	255.78	1.02	1997-98
11	Kerala State Co-operative Consumer Federation	85.11	130.25	215.36	0.86	1991-92

Source: Finance Accounts 2024-25, Comptroller and Auditor General of India

5.4 Performance of three public utilities

Analysis of the performance of the Public Sector Enterprises (PSEs) revealed that three entities - KSEBL, KSRTC, and KWA - accounted for the overwhelming share of the aggregate losses. To the extent that these losses reflect inefficiencies in the provision of essential public utility services, they have significant implications for the State’s fiscal health. The poor performance of these utilities not only imposes a direct fiscal burden through the need for budgetary support and financial assistance but also generates broader economic costs. As providers of critical infrastructure and public services, the efficiency of KSEBL, KSRTC, and KWA has a substantial bearing on the productivity and competitiveness of other sectors of the economy. Persistent inefficiencies in these utilities can increase the cost of doing business, constrain economic activity, and weaken the State’s attractiveness as an investment destination. Consequently, the poor financial performance of these public utilities can adversely affect the State’s fiscal position both directly, by absorbing scarce budgetary resources, and indirectly, by impeding economic growth and thereby limiting revenue generation. Given their fiscal and economic significance, this section examines the performance of KSEBL, KSRTC, and KWA in greater detail.

5.4.1 Kerala State Electricity Board Limited (KSEBL)

The Kerala State Electricity Board Limited (KSEBL), a wholly State-owned company incorporated in 2011, is engaged in the generation, transmission, and distribution of electricity in Kerala. Table 5.11 presents key indicators of its financial performance. The company recorded losses throughout the period under review, except in the last two years. In

2022-23, despite total expenditure exceeding total revenue, KSEBL reported a profit of ₹212.45 crore owing to an exceptional item of ₹752.52 crore. The Profit and Loss Statement for 2023-24 indicates that this amount represents compensation received from the Government of Kerala for losses taken over by the State Government[1]. Consequently, the reported profit cannot be considered as an indicator of its operational efficiency[2]. Consequently, the profit and loss figures would also require corresponding revision. The persistent losses incurred by KSEBL over the years have led to the complete erosion of its net worth, resulting in a negative net worth position, as shown in Table 12.

[1] Government of Kerala vide G.O. (Rt) No 8908/2023/Fin dated 16-12-2023 has taken over the loss incurred by the KSEBL for the financial year 2022-23 to fulfil the conditions for additional borrowing space of 0.50 percent of GSDP linked to power sector performance.

[2] Further, KSEBL is retaining the electricity duty collected from consumers instead of remitting it to the Consolidated Fund of the State. If the revenue reported in the Balance Sheet does include the electricity duty collected, the actual revenue accruing to the company would be lower than that reported here.

Table 5.11: Revenue, expenditure and net profit of KSEBL (₹ in crore)

	Revenue/Expense	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
A	Revenue											
1	Non-Tariff Income	533.52	759.44	550.09	608.19	481.74	210.16	1116.07	1034.38	485.62	1360.73	963.54
2	Revenue from tariff	9879.35	10487.7	11036.8	12057.3	13521.2	14644.4	14053.5	15962	18453.3	20441.8	21719.26
	Total Revenue	**10412.9**	**11247.2**	**11586.9**	**12665.5**	**14002.9**	**14854.6**	**15169.6**	**16996.4**	**18938.9**	**21802.5**	**22682.80**
B	Expenditure											
1	Power Generation	209.91	104.26	23.45	2.08	3.29	5.17	4.8	1.17	0.64	0.34	5.17
2	Power Purchase	6782.76	6336.82	7664.4	7526.03	7869.32	8680	7977.2	8532.16	11240.6	12982.6	12749.65
3	Employee Cost	2893.71	3292.82	3373.76	3038.4	3354.62	3508.42	3910.78	3867.35	4147.99	3936.71	4377.30
4	Other Expenses	2036.99	2088.79	2177.71	3349.76	3789.57	3697.96	999.25	1118.64	4531.12	5416.85	5455.45
	Total Expenditure	**11923.4**	**11822.7**	**13239.3**	**13916.3**	**15016.9**	**15892.1**	**12892**	**13519.3**	**19920.4**	**22336.5**	**22587.57**
C	Net Profit/Loss after Tax (PAT)	-1272.9	-313.29	-1652.5	-784.09	-290	-269.55	-475.08	97.66	-991.78	212.45	95.23

Source: Audited Financial Statement of the KSEBL

Table 5.12: Financial Ratios KSEBL (₹ in crore)

	Indicators	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
1	Net worth	-10605.59	-15470.95	-30223.28	-31907.49	-34044.32	-35149.12
2	Investment (Financial)	9476.87	10086.11	9442.21	11146.78	10896.32	10483.70
3	Capital Employed	-4627.77	-8883.89	-24280.12	-24259.76	-266647.05	-28164.47
4	Working Capital	-5341.66	-5394.69	-6153.30	-6636.90	-6938.18	-8698.80
5	Accumulated Profit(+)/ Loss(-)	-5565.56	6040.64	-33722.33	-35406.54	-37543.37	-38648.17

Source: Review of Public Enterprises in Kerala, for the years 2021-22, 2022-23, 2023-24, 2024-25

Table 5.13: Share of different components in total cost of KSEBL (in percent)

Year	Power Generation	Power Purchase	Employee Cost	Other Expenses	Total
2014-15	1.7605	56.89	24.27	17.08	100.00
2015-16	0.8819	53.60	27.85	17.67	100.00
2016-17	0.1771	57.89	25.48	16.45	100.00
2017-18	0.0149	54.08	21.83	24.07	100.00
2018-19	0.0219	52.40	22.34	25.24	100.00
2019-20	0.0325	54.62	22.08	23.27	100.00
2020-21	0.0372	61.88	30.33	7.75	100.00
2021-22	0.0087	63.11	28.61	8.27	100.00
2022-23	0.0032	56.43	20.82	22.75	100.00
2023-24	0.0015	58.12	17.62	24.25	100.00
2024-25	0.0229	56.45	19.38	24.15	100.00

Source: Computed using data from Audited Financial Statements of KSEBL

Table 5.14: Internal generation and Power purchase by KSEBL

Year	Internal Generation (in %)	Power Purchase (in %)	PGCIL Losses (in %)	Net Generation
2015-16	29.8	72.7	2.4	100.0
2016-17	18.5	84.4	2.9	100.0
2017-18	22.6	80.4	2.9	100.0
2018-19	29.6	73.2	2.8	100.0
2019-20	21.9	80.9	2.9	100.0
2020-21	27.9	74.7	2.6	100.0
2021-22	34.0	68.2	2.3	100.0
2022-23	28.8	73.7	2.5	100.0
2023-24	17.7	85.1	2.7	100.0
2024-25	21.7	80.9	2.5	100.0

Source: KSEBL Power System Statistics 2024-25.
Note: PGCIL Losses is the Power Grid Corporations of India Limited’s interstate transmission losses.

As can be seen from Table 5.13, power purchase accounts for more than half of the total cost of KSEBL, while the share of internal generation is extremely low. Table 5.14 reveals that, on average, only about 25 per cent of the State’s electricity requirement is met through internal generation, with the remaining demand being met through power purchases from outside the State. As can be derived from the above two tables, the cost of electricity generated within the State is substantially lower than the cost of purchased power. Given the company's heavy reliance on purchased power and its significantly higher cost, the increasing dependence on external procurement appears to be a major contributor to its weak financial performance. The inadequate recovery of high cost of electricity through tariff revisions resulted in persistent excess of cost of supply over revenue per unit of electricity as shown in Table 5.15 resulted in the increasing accumulation of total revenue gap, which reached ₹ 6645.301 crore by the financial year 2023-24. (see Annual Administration Report, KSEBL - 2024-25, page 13).

Table 5.15: Cost and Revenue per unit of electricity(in ₹)

Year	Revenue	Cost	Surplus/Loss
2010-11	3.54	4.38	-0.84
2011-12	3.46	4.65	-1.19
2012-13	4.29	6.66	-2.37
2013-14	5.29	5.87	-0.58
2014-15	5.26	6.22	-0.96
2015-16	5.41	5.86	-0.45
2016-17	5.49	6.48	-0.99
2017-18	5.80	6.55	-0.75
2018-19	6.07	6.45	-0.38
2019-20	6.5	6.63	-0.13
2020-21	6.16	6.97	-0.81
2021-22	6.12	5.83	0.29
2022-23	6.62	7.00	-0.38
2023-24	7.43	7.88	-0.45
2024-25	7.95	7.75	0.20

Source: Annual Administration Report, KSEBL, various years.

5.4.2 Kerala State Road Transport Corporation (KSRTC)

The Kerala State Road Transport Corporation (KSRTC) was established with the objective of providing an efficient, adequate, economical, and well-coordinated system of road transport across the State. Table 5.16 presents key indicators of the Corporation's financial performance. The data reveal that KSRTC incurred losses in every year under review, leading to a steady accumulation of losses over time, as reflected in the last row of the table. The accumulated losses have reached such a magnitude that they have completely eroded the Corporation's net worth, which remained negative throughout the period. The persistently weak financial position of KSRTC has significant fiscal implications. It not only places a substantial burden on the State's already constrained fiscal resources through continued budgetary support, but also limits the

Corporation's capacity to undertake the investments required to expand and modernise public transport services. This is particularly concerning at a time when the development of a reliable and efficient public transportation system is essential for promoting sustainable mobility and advancing the State's transition towards a climate-resilient and environmentally sustainable society.

Table 5.16: Performance of KSRTC (₹ in crore)

	Indicator/ Year	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
1	Net worth	-11128.86	-13619.39	-15618.45	-17343.19	-18307.17	-19820.63
2	Investment (Financial)	8864.51	10863.10	12870.86	14396.33	15477.06	16934.82
3	Capital Employed	8912.75	10968.22	12978.14	14484.55	15584.34	17042.60
4	Working Capital	11370.37	9587.41	15505.82	17272.16	18304.08	19897.31
5	Profit (+)/Loss(-)	-1204.05	-2120.37	-2040.79	-1544.08	-1325.43	-1580.38
6	Accumulated Profit(+)/Loss(-)	-12159.10	-14524.10	-16564.88	-18330.18	-19380.98	-20961.36

Source: Review of Public Enterprises in Kerala, various issues.

5.4.3 Kerala Water Authority (KWA)

The Kerala Water Authority (KWA) is a statutory public sector undertaking established under the Kerala Water Supply and Sewerage Act, 1986. It is responsible for the development and regulation of water supply and wastewater collection and disposal systems in the State. As shown in Table 5.17, KWA incurred losses in all the years under review. However, unlike KSEBL and KSRTC, its accumulated losses have not been large enough to erode its net worth and render it negative. Nevertheless, the table indicates that the accumulated losses of KWA

more than doubled over the six-year period, reflecting a continued deterioration in its financial position.

Table 5.17: Performance of Kerala State Water Authority (₹ in crore)

No	Indicator / Year	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
1	Net worth	4725.8	5284.2	7432.9	10090.3	12563.3	14827.5
2	Investment (Financial)	16941.1	19057.0	23250.8	28313.1	31835.8	35508.4
3	Capital Employed	17297.7	19413.5	23607.3	28669.7	32192.3	35864.9
4	Working Capital	5176.7	5877.6	7254.0	8131.7	8133.4	8551.1
5	Profit (+)/Loss (-)	-516.96	-594.11	-824.34	-1312.35	-6153.36	-317.63
6	Accumulated Profit(+)/ Loss(-)	-3493.0	-4087.1	-4911.4	-6223.8	-6839.1	-7156.8

Source: Review of Public Enterprises in Kerala for 2021-22, 2022-23, 2023-24, 2024-25.

5.5 Recommendations

The public sector enterprises in Kerala consist of a variety of enterprises engaged in highly diverse activities. Given the time frame of this committee, it is impossible for it to go into the details to suggest measures for improving the operational performance. Therefore, the government has to look into this issue in detail with the objective of restructuring public sector enterprises in Kerala so that they will no longer be a drain to the exchequer and also act as a catalyst for economic growth in the state.

1. The Committee proposes a broad framework for the restructuring of public sector enterprises, along with certain specific recommendations. In particular, it is imperative that the three major public utility enterprises are reformed in a manner that prevents them from continuing as a persistent burden on the State

exchequer while also enabling them to contribute more effectively to the growth of the economy. Although these enterprises must increasingly operate on sound commercial principles, the reform process should remain sensitive to their social and welfare obligations. Essential public utility services must continue to remain accessible and affordable to poorer sections of society. However, social responsibilities should not be used to mask operational inefficiencies or financial mismanagement. Accordingly, the Committee recommends that subsidies intended for deserving beneficiaries should be provided directly to consumers rather than through the continued absorption of enterprise losses by the Government. In other words, the system should shift from production-based subsidies to consumption-based subsidies. Such a transition would make subsidy payments more transparent, improve fiscal accountability, and ensure that support reaches the actual beneficiaries. It would also allow eligible consumers to avail subsidies even when they procure services or goods from alternative providers in areas where public utilities are absent or inadequate. With the widespread adoption of digital platforms and direct benefit transfer mechanisms, implementing such a system is both practical and administratively feasible.

2. If an entity provides goods or services with the characteristics of a public good and is therefore unable to recover costs through user charges, the government must fully subsidise the activity.
3. It is imperative for the State to significantly expand its electricity generation capacity. Emerging sectors such as artificial

intelligence, data centres, cloud computing, advanced manufacturing and digital services are highly energy-intensive and require a reliable and competitively priced power supply. Without adequate availability of affordable electricity, Kerala risks losing investment and employment opportunities in these future-oriented industries. The government must therefore adopt a long-term energy strategy aimed at ensuring energy security and reducing the cost of power. This requires actively facilitating and incentivising investment in diverse energy sources, including solar, hydel and nuclear power, while also strengthening transmission and storage infrastructure. A sustained expansion of low-cost and reliable electricity generation is not merely an energy policy objective; it is a prerequisite for Kerala's future industrial growth and technological transformation.

4. The Committee observed that the Kerala State Beverages (Manufacturing and Marketing) Corporation has been paying substantial amounts as tax on its profits - ₹ 48.41 crore in 2022-23, ₹ 84.66 crore in 2023 -24, and ₹ 47.33 crore in 2024- 25. In contrast, the Kerala Civil Supplies Corporation continues to incur significant annual losses on account of subsidised sales of essential commodities. In this context, the Committee recommends merging these two enterprises into a single corporation with separate divisions for liquor distribution and civil supplies/provisions. Such an institutional restructuring would enable the Government to offset the losses of the civil supplies division against the profits of the beverages division, thereby substantially reducing the tax outgo and, in turn, lowering

the subsidy burden on the Government. This would improve overall fiscal efficiency without affecting the functional objectives of either activity.

5. Non-strategic public sector enterprises may be considered for disinvestment, privatisation, or closure in cases where they are potentially non-viable, while fully safeguarding the interests and livelihoods of workers. Many such enterprises hold vast tracts of land and other valuable assets that remain underutilised and economically unproductive. The Government should therefore explore the possibility of redeploying these assets, particularly land, towards activities with higher productive potential and stronger growth prospects for Kerala's economy. Such a restructuring strategy would not only reduce the fiscal burden of sustaining loss-making enterprises but also enable more efficient utilisation of scarce public resources in sectors capable of generating employment, investment, and long-term economic growth.
6. The government must ensure that all PSEs maintain updated and timely audited accounts.

Appendix Tables 5A

Table 5. A1: Top ten loss making enterprises in 2021-22

No.	Name of Enterprise	Amount of Net Loss	% of Total Net Loss
1	Kerala State Road Transport Corporation	1787.9	54.36
2	Kerala Water Authority	824.34	25.06
3	The Kerala State Civil Supplies Corporation Limited	95.06	2.89
4	The Kerala State Cashew Development Corporation Limited	76.63	2.33
5	Cochin Smart Mission Limited	55.54	1.69
6	Kerala Transport Development Finance Corporation Limited	43.47	1.32
7	Traco Cable Company Limited	42.24	1.28
8	Kerala State Textile Corporation Limited	40.49	1.23
9	Kerala Tourism Development Corporation Limited	38.69	1.18
10	Transformers and Electricals Kerala Limited	25.88	0.79

Source: Review of Public Enterprises in Kerala 2021-22.

Table 5. A2: Top ten loss making enterprises in 2022-23 (in ₹ crore)

No.	Name of Enterprise	Amount of Net Loss	% of Total Net Loss
1	Kerala State Road Transport Corporation	1521.82	26.69
2	Kerala Water Authority	1312.34	23.02
3	Kerala Social Security Pension Limited	1043.46	18.3
4	Kerala State Electricity Board Limited	1023.62	17.96
5	The Kerala State Civil Supplies Corporation Limited	190	3.33
6	The Kerala State Cashew Development Corporation Limited	75.52	1.32
7	Kerala State Textile Corporation Limited	67.09	1.18
8	Kerala Transport Development Finance Corporation Limited	59.13	1.04
9	Travancore Titanium Products Limited	51.27	0.9
10	Kerala Feeds Limited	42	0.74

Source: Review of Public Enterprises in Kerala 2022-23.

Table 5. A3: Top ten loss making enterprises in 2023-24 (in ₹ crore)

No.	Name of Enterprise	Amount of Net Loss	% of Total Net Loss
1	Kerala Social Security Pension Limited	-3321.07	61.69
2	Kerala State Road Transport Corporation	-1314.05	24.41
3	The Kerala State Civil Supplies Corporation Limited	-77.89	1.45
4	Travancore Titanium Products Limited	-75.32	1.4
5	The Kerala State Cashew Development Corporation Limited	-71.29	1.32
6	Kerala State Textile Corporation Limited	-61.27	1.14
7	Traco Cable Company Limited	-34.05	0.63
8	Malabar Cements Limited	-28.43	0.53
9	The Travancore-Cochin Chemicals Limited	-27.79	0.52
10	Autokast Limited	-25.35	0.47

Source: Review of Public Enterprises in Kerala 2023-24.

Table 5. A4: Top ten loss making enterprising in 2024-25

No.	Name of Enterprise	Amount of Net Loss	% of Total Net Loss
1	Kerala State Road Transport Corporation	-1580.38	44.20
2	Kerala Social Security Pension Limited	-669.80	18.73
3	Kerala Water Authority	-317.64	8.88
4	Kerala State Backward Classes Development Corporation Limited	-139.27	3.89
5	Kerala Automobiles Limited	-125.89	3.52
6	The Kerala State Civil Supplies Corporation Limited	-105.38	2.95
7	The Kerala State Cashew Development Corporation Limited	-81.16	2.27
8	Kerala State Power and Infrastructure Finance Corporation Limited	-76.33	2.13
9	Kerala State Textile Corporation Limited	-64.88	1.81
10	Malabar Cements Limited	-61.92	1.73

Source: Review of Public Enterprises in Kerala 2024-25.

This page is intentionally left blank

Chapter 6

Development Expenditure and Fiscal Stress

For the affluent, the government is often a regulator; for the poor, it is frequently a provider, employer, educator, healer, and insurer of last resort. Therefore, every fiscal crisis becomes a crisis for the poor.

Chapter two demonstrated that the State’s finances are under severe stress. The preceding chapters also identified several structural factors contributing to this situation, including the narrowing of fiscal space, the accumulation of off-budget liabilities through the Kerala Infrastructure Investment Fund Board (KIIFB), and the persistent losses of public sector enterprises, all of which place a substantial burden on public finances. Against this backdrop, the present chapter examines the impact of the fiscal crisis on the government’s development expenditure.

Fiscal adjustment during periods of financial stress often follows the path of least political resistance. Expenditures that are difficult to curtail - such as salaries, pensions, and interest payments - tend to be protected, both because they are contractual obligations and because their beneficiaries are organised and politically visible. Consequently, the burden of adjustment is frequently borne by the more discretionary and future-oriented components of public spending, particularly plan expenditure, which is intended to expand opportunities, strengthen public services, and support long-term development.

This chapter analyses the trends in the State’s plan expenditure, its sectoral composition, and the extent to which development spending has been directed towards historically disadvantaged communities,

particularly Scheduled Castes (SCs) and Scheduled Tribes (STs). In doing so, it assesses whether fiscal stress has disproportionately affected those expenditures that are most critical for inclusive and equitable development. The analysis in this chapter is done using data collected from Budget in Brief 2026-27 and Economic Review 2025. This chapter is organised in three sections. The first section examines the trends in plan expenditure and its composition. The second section examines the trends in the allocation of plan expenditure to the development of SC and ST communities and the last section concludes the chapter.

6.1 Trends in plan expenditure and its composition.

Before examining the trends and composition of plan expenditure, it is useful to clarify the concept of plan spending in the State. In this chapter, a distinction is made between *plan outlay* and *plan expenditure*. Plan outlay refers to the allocation provided in the State’s Five-Year Plan. It represents the government's intention to invest a specified amount of money and is therefore a statement of intent. Plan expenditure, on the other hand, refers to the actual expenditure incurred on various schemes included in the plan. In Kerala, Five-Year Plans are implemented through Annual Plans, and a separate outlay is fixed for each Annual Plan. To achieve the objectives of the plan, resources are mobilised not only through State expenditure but also through funds received under Centrally Sponsored Schemes (CSS). Further, development plans in Kerala are implemented through both the State Government and local self-governments. Consequently, a portion of the funds devolved to the local governments is provided as plan grants.

Table 6.1 Trends in State annual plan outlay and plan expenditure (₹ in crores)

Year	Total State Plan Outlay	Total State plan expenditure	Plan expenditure as percent of outlay
2017-18	26,500	29896.8	112.82
2018-19	29,150	26047.3	89.36
2019-20	30,610	24445.2	79.86
2020-21	27,610	36214.2	131.16
2021-22	27,610	39281.8	142.27
2022-23	30,370	37241.5	122.63
2023-24	30,370	38714.9	127.48
2024-25	30,370	41287.7	135.95

Source: Budget in Brief - 2026-27 and Economic Review 2025.
Note: Total State plan expenditure is the sum of expenditure by the State government and local self-governments.

Table 6.1 presents the State annual plan outlay and its total State plan expenditure, incurred by the State government and local self-governments combined for the period 2017-18 to 2024-25. It shows that in all the years, except two, plan expenditure exceeded the outlay. It is learned that one of the reasons for the excess of the expenditure over outlay is the clubbing of expenditure made by the KIIFB, loans to KSRTC and expenditure by some other agencies with the expenditure incurred on plan schemes. As we have seen in the previous chapters, recently KIIFB emerged as a prominent infrastructure development arm of the State and it functions outside the planning framework of the State, and hence not mandated to follow norms, priorities and modalities of development planning. This has significant implications that will be discussed in detail later.

Table 6.2: State plan expenditure (from state budget) relative to State's total expenditure (₹ in crores)

Year	Plan Expenditure including CSS	Total expenditure	Plan Expenditure as percent of total expenditure
2015-16	19,004.59	87,031.76	21.84
2016-17	22,813.25	1,02,382.55	22.28
2017-18	25,556.23	1,10,237.81	23.18
2018-19	21,997.95	1,20,069.82	18.32
2019-20	21,182.72	1,14,384.95	18.52
2020-21	32,290.03	1,38,884.49	23.25
2021-22	34,459.79	1,63,225.53	21.11
2022-23	32,749.98	1,58,738.43	20.63
2023-24	34,310.51	1,59,506.51	21.51
2024-25	33,105.74	1,73,807.57	19.05
2025-26 (RE)	33,779.46	1,92,455.60	17.55

Source: Budget in Brief 2026-27.
Notes: (1) RE stands for Revised Estimate and CSS for Centrally Sponsored Schemes (2) The expenditure reported in column 2 does not include that incurred by local self-governments.

Table 6.2 presents the trends in plan expenditure financed from the State Government's budget as a share of its total expenditure. This is an important indicator of the government's capacity to allocate resources towards development and future growth. The table reveals that the share of plan expenditure has generally declined over the period, or at best remained stagnant. In the post-pandemic period, the share of resources allocated to the plan is generally lower. This suggests that growing fiscal pressures have significantly constrained the government's ability to expand development spending. As a result, a larger proportion of public resources appears to have been absorbed by current expenditures, such as salaries, pensions, interest payments, and other committed liabilities,

leaving relatively less fiscal space for investments that support long-term development.

When faced with a severe fiscal crisis, the government not only reduces the share of resources devoted to development, but also within development spending it re-prioritise schemes. The government may prioritise the strengthening of governance and economy rather than social development as erosion in governance and economy can have severe future consequences. The composition of plan expenditure confirms this reprioritisation (See Table 6.3). It shows that the share of general services and economic services in the total plan expenditure increased. The share of general services, which include many services given by the government like general administration, public order and safety and so on, increased from 2.53 percent in 2017-18 to 16.13 percent. Similarly, the share of economic services, which focus on improving the economic activities in different sectors of the economy, also increased from 38.29 to 47.52 percent. The sector that faced large decline is the social services which includes services related to education, health, water supply, welfare of scheduled caste and scheduled tribes and minorities and so on. The share of the social sector declined from 53.78 percent to 30.68 percent. This evidence is quite disturbing because Kerala built its reputation by treating planning and social development as the first claim on public money rather than a residual.

Table 6.3: Composition of State’s plan expenditure (from State budget) by broad service category (in percent)

Year	General Services	Social Services	Economic Services	Loan Disbursement
2017-18	2.53	53.78	38.29	5.40
2018-19	5.09	48.55	40.32	6.04
2019-20	12.59	37.73	44.05	5.64
2020-21	9.66	36.95	45.91	7.48
2021-22	14.51	38.13	39.18	8.18
2022-23	12.03	39.17	42.29	6.51
2023-24	19.60	33.66	39.07	7.68
2024-25	10.67	37.83	45.03	6.47
2025-26 (RE)	16.13	30.68	47.52	5.68

Source: Budget in Brief 2026-27. *Note: RE stands for Revised Estimate.*

The distribution of State’s total plan expenditure - including spending through the State government budget and Local Self-Governments - across major development heads shown in Table 6.4 reveals a decline in the share of plan resources allocated to Social and Community Services, Scientific Services and Research, Rural Development, and Local Self-Government programmes. As we have mentioned above, Community and Social Services include Education, Health, and Welfare of disadvantaged sections in the society. This trend is particularly concerning because it is occurring at a time when overall plan expenditure as percent of total government expenditure is stagnant or declining. Consequently, these key development sectors are experiencing a disproportionate squeeze in resources, potentially undermining the State’s long-term development objectives.

Table 6.4: State plan expenditure by head of development (in per cent)

Head of Development	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26 (RE)
Agriculture & Allied Services	6.19	6.33	4.95	5.44	3.55	4.72	4.09	3.46	3.20	2.97	2.70
Rural Development	11.10	6.34	12.47	7.64	6.91	7.77	4.46	6.37	5.15	5.97	6.14
Co-operation	0.46	0.48	0.66	1.72	0.48	1.48	0.22	0.65	0.06	0.10	0.10
Irrigation & Flood Control	1.89	2.37	1.57	0.91	1.02	0.68	0.94	0.93	0.79	0.91	0.89
Power	4.75	4.95	5.00	5.42	8.48	5.69	5.46	5.21	3.98	8.08	8.66
Industry & Minerals	3.32	4.08	3.90	3.11	2.29	3.32	2.85	2.95	2.77	2.74	2.29
Transport & Communications	13.17	13.29	14.28	13.37	15.98	16.15	16.20	13.58	14.00	13.49	10.89
Scientific Services & Research	0.34	0.54	0.48	0.51	0.26	0.31	0.25	0.39	0.27	0.23	0.21
Social & Community Services	33.27	38.02	34.76	32.85	28.65	28.89	30.63	30.85	27.19	27.43	19.55
Economic Services	4.13	9.40	4.66	6.68	9.14	7.93	8.74	10.53	12.17	11.38	10.85
General Services	0.68	0.53	1.34	3.01	8.67	6.37	10.40	8.80	16.13	8.31	10.53
Local Governments' Plan Programmes	20.70	13.66	15.93	19.32	14.56	16.69	15.76	16.28	14.29	18.40	27.17

Source: Budget in Brief 2026-27. *Note: RE indicates revised estimates are reported.*

6.2 Plan expenditure for Scheduled Caste & Scheduled Tribes development

The Five-Year Plans in Kerala incorporate special provisions to safeguard and advance the interests of Scheduled Castes (SCs) and Scheduled Tribes (STs), in accordance with the mandate of Article 46 of the Constitution of India. To promote their socio-economic development and ensure equitable access to public resources, the planning framework provides for the Special Component Plan for SC and ST communities, respectively known as Scheduled Caste Sub Plan (SCSP) and the Tribal Sub Plan (TSP). As noted in the *Kerala Economic Review* (2016), "the constitutional mandate of the State requires it to create a regime of equality, including social equality, through comprehensive measures of social justice." Reflecting this commitment, allocations to the SCSP and TSP are earmarked from the State Plan outlay in proportion to the share of SCs and STs in the State's population. Accordingly, the prescribed shares of the total plan outlay are 9.81 per cent for the SCSP and 2.83 per cent for the TSP. The share of the two together should, then, be at least 12.64 percent of the total plan expenditure.

It may be seen that the share of SC/ST/ OBC and minorities has consistently been much lower than 12.64 percent (Table 6.5). Further, it has been steadily falling during the last eight years. The decline is so severe that what has been spent should have gone entirely to the scheduled tribe as 3.85 is just one percentage point above the rightful TSP share of 2.83 percent. The fiscal crisis has almost eliminated these vulnerable sections of the population from the plan expenditure schema of the government.

Table 6.5: Plan expenditure on the welfare of SC/ST/OBC and minorities (in per cent)

Year	As percent of total plan expenditure	As percent of plan expenditure on social services
2017-18	9.24	19.01
2018-19	9.52	23.14
2019-20	7.05	21.31
2020-21	6.87	22.61
2021-22	6.04	21.01
2022-23	6.01	19.95
2023-24	5.68	22.49
2024-25	5.28	18.42
2025-26 (RE)	3.85	16.35

Source: Budget in Brief for various years. *Note RE stands for Revised Estimate.*

Tables 6.6 and 6.7 present the trends in plan outlays and actual expenditures under the Scheduled Caste Sub Plan (SCSP) and Tribal Sub Plan (TSP), respectively. Expenditure under these programmes is incurred by both the Government of Kerala and Local Self-Government Institutions (LSGIs). Within the State government, spending is undertaken primarily by the Scheduled Caste Development Department (SCDD) and the Scheduled Tribe Development Department (STDD), along with several other departments implementing SCSP and TSP schemes.

The tables reveal a persistent gap between outlay and actual expenditures. In the case of the State government, actual spending under the SCSP consistently remained below the outlay, with expenditure ranging from a high of 89 per cent to a low of 45 per cent of the outlay. A similar pattern is evident under the TSP, where expenditure varied between 93 per cent and 59 per cent of the outlay.

Local Self-Government Institutions also recorded significant shortfalls in expenditure compared to the outlay. Under the SCSP, expenditure ranged between 92 per cent and 54 per cent of the outlay, while under the TSP it varied between 91 per cent and 54 per cent.

Table 6.6 SCSP Plan outlay and Expenditure (₹ in crores)

Year	State Plan outlay	Scheduled Caste Development Department (SCDD)			SCSP to Local self-governments			Total expenditure as % of total outlay
		Outlay	Expenditure	Expenditure as % of outlay	Outlay	Expenditure	Expenditure as % of outlay	
2017-18	2599.65	1427.6	1275.26	89.33	1172.05	929.85	79.34	84.82
2018-19	2859.62	1570.36	1167.4	74.34	1289.26	1057.69	82.04	77.81
2019-20	3002.84	1649	753.9	45.72	1353.84	735.39	54.32	49.60
2020-21	2708.54	1487.39	1313.3	88.3	1221.15	1125.87	92.2	90.05
2021-22	2708.54	1487.39	1290.77	86.78	1221.15	1082.75	88.67	87.63
2022-23	2979.4	1638.1	1316.57	80.37	1341.3	1127.35	84.05	82.03
2023-24	2979.4	1638.1	1271.34	77.61	1341.3	930.02	69.34	73.89
2024-25	2979.4	1638.1	1346.26	82.18	1341.3	1141.25	85.09	83.49

Source: Economic Review 2025 and Budget in Brief 2026-27

Table 6.7 STP Plan outlay and Expenditure (₹ in crores)

Outlay				TSP funds to STDD and other Departments			TSP to local self-governments			Total expenditure as % of total outlay
Year	From State Plan	From CSS	Total	Outlay	Expenditure	Expenditure as % of outlay	Outlay	Expenditure	Expenditure as % of outlay	
2017-18	751.08	126.31	877.4	575.08	533.75	92.81	175.58	135.76	77.32	76.31
2018-19	826.19	137.91	964.1	632.59	502.23	79.39	193.6	151.29	78.15	67.79
2019-20	866.26	101.87	968.1	663.27	428.46	64.60	202.99	110.55	54.46	55.68
2020-21	781.36	80.3	861.7	598.26	400.59	66.96	183.10	167.07	91.25	65.88
2021-22	781.36	80.32	861.7	598.26	569.41	95.18	183.10	164.27	89.72	85.15
2022-23	859.5	87.91	947.4	657.95	584.45	88.83	201.55	173.59	86.13	80.01
2023-24	859.5	78.56	938.1	657.95	387.97	58.97	201.55	140.1	69.51	56.29
2024-25	859.5	76.55	936.1	657.95	454.81	69.13	201.55	145.69	72.28	64.15

Source: Economic Review 2025 and Budget in Brief 2026-27

The combined expenditure performance of the State government and LSGIs indicates substantial underspending for the welfare of SCs and STs compared to the outlay. Under the SCSP, total expenditure never exceeded 90 per cent of the total outlay during the period under review and fell to nearly 50 per cent in 2019-20, a year marked by severe fiscal stress. The performance of the TSP was similarly weak: total expenditure never exceeded 85 per cent of the outlay and declined to just 56 per cent in 2019-20. These findings indicate that expenditure on the welfare and development of SC and ST communities consistently falls short of the mandated levels, with the shortfall becoming particularly pronounced during periods of fiscal crisis. This is also quite disturbing when we see the shortfall in expenditure in the context of aggregate expenditure exceeding the total outlay.

Has the shortfall been made good by the KIIFB spending on the Scheduled Castes and the Scheduled Tribes? It has not, as these two communities barely appear in the list of projects approved or released by KIIFB. The amounts approved and released for the projects of the Scheduled Castes Department are at ₹ 92 crore and ₹ 64 crore are just 0.07% each. In the case of the Scheduled Tribes Department, it is worse: at ₹ 49 crore and ₹ 18 crore, they are 0.04% and 0.02 % of the total respectively. They are an insignificant dot in the map of KIIFB spending. Neither the Plan of the State nor the KIIFB have spent much on these marginalised communities.

6.3 Conclusions and Recommendations

This chapter examined the impact of fiscal stress on development expenditure in Kerala. As noted in the introduction, periods of fiscal crisis often compel governments to curtail expenditures that are relatively flexible and attract less political resistance. Such expenditures typically fall within the category of development spending. Consequently, fiscal

crises can have long-lasting effects on society by constraining investments that are critical for economic development, social progress, and equity.

We conclude that, during the period under review, the share of plan expenditure devoted to social development and to the welfare and development of Scheduled Castes (SCs) and Scheduled Tribes (STs) has declined. This trend is particularly concerning because it occurred despite actual plan expenditure exceeding the approved plan outlay in most years, reaching as high as 142 per cent of the outlay in one year. In other words, while aggregate development expenditure increased, the relative allocation of resources to key social sectors and historically disadvantaged communities diminished.

This outcome can be attributed, at least in part, to the gradual weakening of the planning system. An increasing share of development expenditure is now undertaken outside the formal planning framework through agencies that are not required to adhere to the principles and allocation norms that guide the State’s planning process. Their allocations on the disadvantaged communities have been insignificant. In contrast, Kerala’s planning system has traditionally been based on a deliberative and participatory approach, enabling a more balanced assessment of developmental priorities and social needs. But it has been failing with the mounting fiscal pressure.

Erosion of spending on education, health, community welfare, and programmes targeted at SC and ST communities could undermine Kerala’s long-standing development achievements and weaken the State’s capacity to promote inclusive growth. More importantly, they risk further marginalising communities that have historically remained at the periphery of the development process and are most dependent on public intervention for social and economic advancement.

Chapter 7

The Way Forward

The 2026 elections in Kerala is a wake-up call telling the world that ‘business as usual’ is not acceptable and that their vote is for those who fulfill their aspirations. The State’s finances are the means of keeping the promise and the Status Report is an evidence based attempt to understand the financial inheritance of the new government and an act of democratic accountability.

The recommendations of the Committee are based on analysis of the evidence that is publicly available and a number of useful suggestions received from retired and serving officers during the course of its deliberations. While, due to extreme shortage of time, we have not been able to study or follow through all these suggestions in detail, it would be useful for the Government to set up mechanisms for quick study of these suggestions and initiate further action. This chapter has organised the discussion in two parts with Part A offering a summary of our findings and Part B specific recommendations.

7.1 Part A

Kerala has been going through severe fiscal stress for the past many years. The fiscal stress first shows up in Treasury operations. When the size of inflows (tax, non-tax, and central transfers) is smaller than the size of outflows, the State has to borrow from the RBI through which the treasury operations are carried out. The RBI rules stipulate that when the treasury balance falls below the prescribed minimum of ₹1.66 crore, the State draws on the Reserve Bank's three-tier support mechanism. These

are borrowing by pledging the financial assets, taking Ways and Means Advance, and or go for an Overdraft. The State has been using the lifeline of the RBI borrowings for long. But the situation has become alarming in 2024 and 2025. In 2024, the State was on Ways and Means Advances on 125 days and in 2025, 262 days, and on Overdraft on 67 and 84 days respectively. In addition to restrictions on payments, there is a serious cost element to the RBI borrowings. The State has to strive hard to move out of this situation.

Open Market Borrowings do not offer a solution as the inadequacy of Open Market Borrowings becomes evident when we look at the committed expenditures, that is, the total of salary, pension and debt servicing. It is seen that in every year the committed expenditure has overshot Open Market Borrowings leaving little room for comfort. A major component of the State’s Own Tax Revenue, namely Goods and Services Tax, too, has been performing poorly in Kerala in recent years; it stands below the all-state average in performance. The central transfers, tax share plus Revenue Deficit grant gave some comfort until 2023-24. But that too has fallen drastically during the last two years and treasury operations have taken a massive hit.

As regards expenditure, committed expenditure with definite timelines takes away around three-fourths of all receipts. One of the ways the outflow is reduced is by not paying Dearness Allowance to employees and Dearness Relief to retirees. The new government inherits a specific set of accumulated payment arrears - obligations already incurred and legally due, but not yet discharged- ₹ 21,670 crore under Dearness Allowance arrears, and ₹14,387 crore under Dearness Relief. Payments

due to banks and contractors on bill discounting add up to ₹ 3,431 crore. Together with few other deferred payments the total is not less than ₹ 48,733 crore, according to the data furnished by the Finance Department. This is almost as large as Kerala’s net annual borrowing!

Budget is an estimation of revenue, expenses, or changes in finances over a year. As per the Budget Manual, any large deviation of actuals from the budget estimates is indicative of ‘defective’ budgeting. In Kerala, not only are the deficits large, but also the deviations of actuals from budgetary projections are large. It may further be seen that the realised, or actuals of both Revenue Deficit and Fiscal Deficit are off the targets. Primary Deficits (defined as Fiscal Deficit less Interest Payments) too are high and actuals are significantly higher than budget estimates. The debt stock hit a high of 38.51% of GSDPin 2020-21 and has been coming down but still overshoots the target by more than one percentage point at 33.32% in 2025-26 RE. The actuals of deficits, debt stock, and revenue receipts all suffer from large deviations and are off the targets indicative of ‘injudicious’ budget formulation. It is time serious efforts are made to bring back the credibility of budgeting.

From the preceding chapters, the extent of Kerala’s financial crisis is crystal clear. The crisis can also be seen as an opportunity to change the economic landscape of the State. This requires strong decisions, decisive action and overall change in procedures to make the administration responsive to the needs of the people while at the same time maintaining economic and financial stability. In view of the acute shortage of resources at the state level on account of high costs of administration, inadequate revenue and heavy debt burden, the State must create

conditions for heavy private sector investments, a greater role for the co-operative sector to invest in development and job creation and make room for heavy investment by the Central public sector.

Kerala Infrastructure Investment Fund Board (KIIFB) was established in its current form in 2016 to raise financial resources from the market through innovative methods. Following the Government of India restrictions on off-budget borrowing and the C&AG questioning its independent status in 2024-25, its liabilities fall squarely on the Government. Currently, KIIFB has an unmet loan liability of around ₹ 21,000 crore whose repayment will fall on the State and projects costing around ₹ 35,000 crore are still to be funded. As KIIFB’s cost of raising funds is about 1 to 1.5 percentage points higher than that of the State, the Government has to take over its liabilities in full.

KIIFB’s prioritization and distributional outcomes in terms of projects raise serious questions. It is seen that Kannur district alone accounts for over 20% of total approved amounts and 19% of payments released. Adding Thiruvananthapuram (17% approved, 17% released) and Ernakulam (11% approved and released), three districts absorb nearly half the total. Neither human development indices nor economic need indices provide an obvious justification for this concentration.

Among the Indian states, Kerala has the largest number of Public Sector Enterprises (PSE). Five enterprises accounted for 86% of the total investment in Public Sector Enterprises. The majority of them are making losses, with the accumulated loss increasing from ₹ 31,571 crore in 2021-22 to ₹ 78,851 crore in 2024-25. The persistent loss of the Public Sector Enterprises has led to the erosion of net worth of these enterprises

and their continuation is dependent on continuous budgetary resources. The fiscal impact of the operations of the PSEs is large and cannot be ignored. In this context, the Committee recommends that essential public utilities must continue to remain accessible and affordable to poorer sections of society. However, social responsibilities should not be used to mask operational inefficiencies or financial mismanagement. A way out is to transform the system from production based subsidies to consumption based subsidies. Further, violation of the cardinal principle that revenues of the Government must flow to the Consolidated Fund should not be tolerated and hence electricity duty should not be withheld by the KSEBL.

The consequence of the severe fiscal stress is felt on the development spending of the State. Plan expenditure has stagnated in nominal terms and as a share of total expenditure has been on a steady decline falling below 18% by 2025-26 RE. The cut in Plan expenditure has fallen heavily on the marginalised sections of the population. The share of plan expenditure for the welfare of SC/ST/OBC and minorities in total plan expenditure recorded a steady decline from 9.24 percent to 3.85. Actual expenditures under SCSP and TSP are much lower than outlay in some years. Planning in Kerala was conceived as an instrument for social transformation and distributive justice. The fiscal squeeze of the last decade has dulled what Kerala has long stood for.

The four chapters of this report have clearly indicated the deep financial crisis that the State faces and its impact on development expenditure. Not only is there very little fiscal space to finance developmental schemes, but borrowing is constrained by Government of India limits; debts have

mounted, and the burden of repaying loans taken by KIIFB will increase over the three financial years starting 2026-27. The 16th Finance Commission recommendations have not been helpful to the State. The share of horizontal devolution has increased from 1.92% to 2.38%, but the beneficial impact of this change has been offset by the total elimination of the Revenue Deficit grant, which amounted to ₹ 37,000 crore during the 15th Finance Commission period. There is no recommendation on the vertical devolution side to enlarge the divisible pool of Gross Tax Revenue by restricting the Centre’s ability to tighten access to Centrally Sponsored Schemes (CSS) or by suggesting a limit on its power to impose taxes and surcharges that are not shared with States.

In the long run, there is a limit to how much we can address the problem by tightening our belts. The best way forward is to put in place measures to promote growth, investment and employment. In the absence of adequate resources with the State, the solution lies in resolutely encouraging private investment. There are opportunities across several sectors, including higher education, artificial intelligence, cloud technology, IT applications, and the development of our rare-earth resources. Significant growth demands a substantial increase in power generation capacity, 6000 MW through solar power. 8000 MW through pumped hydro-electric projects and even more through closed-loop reactors developed by BARC and through Small Modular Reactors. As KSEBL neither has the resources nor has established a reputation for completing projects on time, the State must allow private-sector investment and Central public sector investment in the power sector, which will facilitate rapid growth in generation and provide a solid base for the development of certain types of industry.

We will also need to recast our laws and processes, whether they be land or labour laws, or established procedures, and focus on creating industrial infrastructure. The local bodies will have to play a big role in promoting industry, as was done in China, and their performance will need to be evaluated based on the investments they generate and their capacity to tap the market for resources to promote industry and job creation. They could also deploy the resources available with primary agricultural credit cooperatives in their areas to generate productive and employment generating activity. Ballpark figures show that PACS have a credit base of about ₹ 1.3 lakh crore and that their credit- deposit ratio is about 78%. The Kerala Bank has a total volume of business about ₹ 1.3 lakh crore. The cooperative sector holds potential for generating productive activity,

7.2 Part B

1. About KIIFB, there are fundamental flaws in its constitution ab initio. According to Article 266(1) of the Constitution, "all revenues received by the Government of India, all loans raised by that Government by the issue of treasury bills, loans or ways and means advances and all moneys received by that Government in repayment of loans shall form one consolidated fund to be entitled 'the Consolidated Fund of India', and all revenues received by the Government of a State, all loans raised by that Government by the issue of treasury bills, loans or ways and means advances and all moneys received by that Government in repayment of loans shall form one consolidated fund to be entitled 'the Consolidated Fund of the State'."

This cardinal principle has been breached by earmarking revenue streams, principally 50% of the Motor Vehicle Tax and the entire Petroleum Cess, directly to KIIFB year after year. The right way would have been to pass on funds through the State Plan and the Budget on the expenditure side. The present system cannot obviously continue. Besides, KIIFB was conceptualised initially to raise funds outside the budget. This role cannot be performed anymore because off-budget borrowing is now included within the State’s permissible borrowing limit; hence, no additional borrowing will be available. State borrowing is 1-1.5% below the rate at which KIIFB borrows; hence, the State will lose if KIIFB borrowing is allowed.

Besides, by this device and through other orders issued by the Government on KIIFB’s request, neither the administrative department concerned nor the Finance Department has effective control over KIIFB, which seems to be exercising independent governmental authority, virtually as a dual government. This is poor budgetary management.

KIIFB also seems to be virtually outside the scope of audit by the C&AG, even though it deals with large amounts of revenue, spends public money raised through loans, and virtually functions outside governmental control, with the onus of repayment falling squarely on the government through guarantees and other instruments.

The Committee therefore suggests that KIIFB be brought under the budgetary control of the concerned administrative departments and the Finance Department. It should also be subjected to a Performance Audit by the C&AG immediately. While we have not had time to study the organisation in detail, it would be prudent for the government to take an

early call on the future of KIIFB, keeping in mind also the legal status of the bonds issued and possible impact on the status of funds raised on the strength of direct budget flows.

Having said that, the committee noted that there are some good elements in KIIFB, which could be preserved within the governmental system. These include the Institutional Finance Group, which could be deployed for issue of local body bonds, which fall outside the scope of off-budget borrowing and the monitoring and inspection mechanism, which could find a role in the State Planning Board. Similarly, a role may need to be found for the spinoff consultancy company, called KIIFCON, a wholly owned subsidiary of Kerala Infrastructure Investment Fund Board established to function as a professional engineering consultancy and project management organization. There is another spinoff company for raising alternate investment funds, namely Kerala Infrastructure Fund Management Limited. While conceptually this is a good concept, which falls outside the scope of “off-budget borrowing “, it has raised no funds until now and it subsists on a “commitment charge” of ₹ 2.17 crore provided yearly by the KIIFB. The continuance of this organisation is another call the State would have to take.

2. Public Sector Enterprises have been a constant drain on the resources of the State. Most of the leakage of resources can be attributed to KSEBL, KWA and KSRTC. Like KIIFB, KSEBL too has been violating the cardinal principle that all revenues of the state should flow to the Consolidated Fund by withholding electricity duty collected from the consumers during the last three decades.

Separate studies need to be commissioned to determine how to make these three organisations more efficient. It is noted that the transport organisation of Tamil Nadu was revamped and rendered efficient some years ago. There are many routes available to KSEBL to improve their purchase functions, reduce costs, set up more hydel units on the West Kallada model, improve battery storage capacity and substantially step up digital networks. It is gratifying that the KSERC is applying pressure on them to improve their functioning. One big problem that was noticed has been the recent trend of appointing Chairmen for short tenures. To make significant change, the chief executive should continue unchanged for at least 3 years, preferably 5 years. It is better also to appoint professional Chairpersons by selection. Power is too important a subject to be left to short term official chairpersons.

KWA would need to look at the availability of Central funding and also whether they can raise loans on the strength of their assets. It would also be good to bring local bodies into the process of distribution; besides greater efficiency and direct contact with consumers, it could also provide more access to Central funds. The smaller PSUs need to be carefully studied. Those that have been making losses consistently and those that have not updated annual accounts should be wound up. Unused assets should be monetised. Those that have been doing well should be allowed to expand with private participation.

Organizations like K Disc and K Rail would have to be examined to ascertain the contributions they have made to the State. KFone should be allowed to expand on its own by attracting private participation. The Kochi Metro loses ₹ 35 crore a month. Two more metros are proposed at

Thiruvananthapuram and Kozhikode. The possibility of appointing a regulatory commission to fix user charges, as in the case of electricity, may be considered.

3. **Salaries, Pensions and Retirement**: The State spends almost 80% of its resources on salaries, pensions and interest, far more than many other states. It is not right to take taxes from the people and spend most of it on salaries and pensions. Many committees and commissions have gone into this problem and made many recommendations. We do not need to traverse the same ground again and again. Now is the time for hard political decisions. There have been a number of suggestions made to us on raising the age of retirement to the same level as the Government of India. Our state officers are retiring far too early, when they are still at the fag end of their youth (given the present life expectancy rates), when they have acquired experience and can still contribute to the State. Besides, the State will save retirement benefits of about ₹ 6000 crore with each increase in the age of retirement by one year. Another related suggestion is to have pay commissions only once in ten years as in the Central government. Government efficiency and accountability also have to improve. We have done a great deal of digitisation work: putting our forms on to the internet without changing the format and without changing the processes. This only makes life more difficult for users, many of whom are not digitally proficient. A three-month target should be given to each department to complete a process of digitalisation, by which time forms and procedures should be simplified.

4. **Employment Generation**: Unemployment, particularly of educated youth, is a humongous problem facing the State. While we downsize the

government, we need to pay careful attention to creating more and more employment opportunities. This would entail significant reform in laws relating to agriculture, land reforms, building of skills and start-ups in industry, creation of reasonably priced industrial infrastructure, expansion of tourism, services (particularly IT and AI) in collaboration with industry and strongly developing our coastal network. Higher education can be the next hub of Kerala’s growth story and we have to provide easy access to private universities, including foreign universities. Some of the estates now lying defunct and unused buildings can be deployed for setting up educational institutions. These are issues not really within the remit of this committee, but they are mentioned briefly only because we need to find economies in State spending even while providing opportunities elsewhere for our educated youth.

5. GST Collection: There is also a need for a detailed study by a competent agency to expand our tax collection, particularly GST. As municipal and local body bonds are not part of official-budget borrowing, we have to examine whether we can expand the capacity of local bodies to borrow from the market for spending on infrastructure through the issue of bonds and create a mechanism to help them. Perhaps the IFG in KIIFB could be deployed for this purpose, either within KIIFB or in a separate format, as government may decide

6. **State Planning Board**: The State Planning Board needs to be restructured to become a more effective organisation. While it will continue its present activities, it should also be redesigned to serve as a think tank for the government. It must be a repository of ideas received from all over. These ideas have to be processed and, where feasible, sent

to the Government. Likewise, there are many civil society organisations working sincerely in many parts of the State. The SPB, with the help of District administrations and the Government’s approval, should organise them into a strong second line to strengthen government work in select areas. A third important function is to monitor projects identified by the Government and submit monthly reports to the Cabinet on their progress. Perhaps the project monitoring wing of KIIFB may serve the purpose. It should also maintain close links with NITI Aayog and seek its assistance in various areas of development.

7. **Administration:** There is a need to introduce a performance management system in government. Tools (already available) should be used to measure performance and link it to the budget. The heart of government is the Secretariat. Quick movement of files within the Secretariat is essential. For this purpose, each file should have an addendum indicating the time taken at each level. At higher levels, unnecessary and frequent file transfers between departments should be effectively controlled. As we have already stated elsewhere in the report, while the State has undertaken digitisation in a number of areas, it is necessary to proceed quickly to digitalisation within a short time frame to make access to government services easier for the people. The problem of too many teachers and too many schools and too few students has plagued the State for long. There is certainly scope for redeployment here with the resultant saving.

8. Welfare Pension Distribution: Instead of distribution of pensions through KSSPL, savings will be found through Aadhaar linked direct

benefit transfer. Of course, some time will need to be given to pensioners to correct and link their Aadhaar cards wherever necessary.

9. Centre-State Fiscal Relations: Fiscal relations between the Centre and States have deteriorated sharply. The divisible pool of gross tax revenue from which resources are distributed to the States has shrunk significantly with the Centre's increasing resort to cesses and surcharges. The systems of control over CSS have made the schemes difficult to access. With its strained resources, the State finds it difficult to deploy its 40% share upfront. No off-budget borrowing is allowed beyond the 3% limit. At the same time, the Centre gives itself time to correct its fiscal deficits. There seems to be no regular conversation between the Centre and the States. This is an area in which the State must work with other States in a similar position and take the initiative to start serious discussions with the Centre.

10. Consultants and Recruitment: A close look must be taken at the number of consultants engaged by the State and its agencies. All appointments to parastatals and to all government departments should be done through the statutorily established Kerala State Selection and Recruitment Board.

11. Local Bodies and Investment: The local bodies must play a big role in the growth process. At the local level, their performance in promoting investment would have to be assessed, as would their performance in other critical areas, such as solid waste management. There should be performance parameters laid down, and devolution of Plan funds should be linked to these.

12. Urban Local Self-Government: As Kerala is highly urbanised, the need for reorganisation of local self-government and the creation of more municipal bodies should be considered, particularly in the light of the recent instructions of the Government of India based on the latest population figures in accordance with the directions of the 16th Finance Commission. These instructions may also negatively affect the availability of funds under the VB-G RAM G scheme.

The above points are by no means exhaustive. There are many other ideas that would arise from people, sector experts, and academics. We have suggested that the State Planning Board may receive, process, and submit to the Government feasible proposals that do not further strain the State’s fragile finances.

Reform is a continuous process. Liberalisation, which commenced in real earnest in India in 1991, is still ongoing. This status paper is intended to generate new thinking, which, in turn, will bring a stream of reforms in its wake to build a new Keralam.

This page is intentionally left blank

APPENDIX A

Revenue Performance of Kerala in a Comparative Perspective

A.1 Introduction

The fiscal position of any state government rests on the volume and the composition of its revenues. In Kerala, both have moved in directions that distinguish the state from most of its peers and from the all-India pattern. This chapter examines the composition of Kerala's revenues over the eleven years from 2015-16 to 2025-26, the period spanning the introduction of the Goods and Services Tax, two consecutive natural disasters, the COVID-19 pandemic, the expiry of the GST Compensation arrangement, and the implementation of the Fifteenth Finance Commission award. The subsequent sections of the chapter examine revenue effort, growth, and buoyancy of major revenue heads.

Three structural features of the Kerala economy bear directly on its revenue position. Per capita income has been consistently above the all-India average, while the service sector accounts for over two-thirds of state income. The demographic profile is the oldest among the major states, with a working-age share that began to decline before the rest of the country. Migration, both internally and to the Gulf, has been a defining feature of the economy for several decades. Each of these features has shaped the state's revenue base in ways that complicate direct comparison with production-oriented states. Kerala's tax base is shallower than the level of state income would suggest, because much consumption is met from goods produced outside the state, while

remittances support household spending without correspondingly enlarging the state’s own production or transactions tax base.

Against this structural background, the period under review has been one of recurring shocks and structural breaks. The Goods and Services Tax replaced the state’s principal indirect tax instruments in July 2017, with rate-setting authority moving to the GST Council. The protected revenue arrangement under the GST Compensation Cess expired in June 2022. The Fifteenth Finance Commission reduced Kerala’s share in the divisible pool of central taxes from 2.5 per cent under its predecessor to 1.925 per cent. Revenue deficit grants under the Commission, which had supported Kerala’s revenue account through the award period, taper to a close with 2025-26. Cyclone Ockhi struck the state in 2017, followed by severe floods in 2018 and 2019, and the COVID-19 pandemic from early 2020. Each event left a mark on the revenue accounts of the years that followed.

In this report, the analysis is carried out for 18 major states that contribute to more than 90 per cent of the economy’s GDP. Eight states have been selected for comparison: Telangana, Karnataka, Haryana, West Bengal, Punjab, Tamil Nadu, Maharashtra, and Andhra Pradesh. The selection rests on three considerations: the size of state GSDP, the level of economic development, and the structure of the economy. For ease of reading, the report presents the average of eight states and the average of 18 major states. The all-states aggregate, as published by the Reserve Bank of India in its annual State Finances: A Study of Budgets, serves as the broader benchmark. Data for 2024-25 are Revised Estimates and those for 2025-26 are Budget Estimates. The gap between Budget

Estimates and final accounts is typically wider in years that follow structural changes in the fiscal framework, and the most recent figures should be read with that in mind.

A.2 Composition of Revenue

Kerala's revenue receipts as a share of GSDP have moved in the opposite direction to the all-states and major-states averages over the period (Table A.1).

Table A.1: Revenue Receipts as a Share of GSDP (per cent)

Year	Kerala	TS	KA	HR	WB	PB	TN	MH	AP	Eight States	Major States	All States
2015-16	12.28	13.17	11.37	9.60	13.76	10.64	10.97	9.41	14.67	11.37	13.46	13.31
2016-17	11.91	12.58	11.03	9.35	13.50	11.24	10.77	9.31	14.46	11.16	13.36	13.30
2017-18	11.83	11.84	11.03	9.81	13.47	11.25	9.98	10.36	13.36	11.20	13.51	13.58
2018-19	11.78	11.83	11.15	9.43	13.25	12.15	10.66	11.03	13.12	11.47	13.79	13.86
2019-20	11.10	10.79	10.86	9.19	12.12	11.47	10.01	10.66	11.99	10.84	13.16	13.28
2020-21	12.65	10.70	9.55	9.25	13.00	12.77	9.74	10.32	11.97	10.77	12.80	13.03
2021-22	12.62	11.34	9.83	8.90	13.30	12.45	10.01	10.60	13.30	11.08	13.46	13.67
2022-23	12.78	12.16	9.88	9.15	12.90	12.65	10.27	11.14	12.05	11.21	13.39	13.59
2023-24	10.96	11.58	9.12	9.33	12.13	11.56	9.84	10.62	12.22	10.62	12.87	13.05
2024-25	10.65	12.32	8.94	9.28	12.54	12.37	9.42	11.84	11.05	10.82	13.67	14.14
2025-26	10.68	12.76	9.53	9.49	13.09	12.54	9.29	11.36	11.94	10.96	13.90	14.36

State abbreviations: Kerala; TS: Telangana; KA: Karnataka; HR: Haryana; WB: West Bengal; PB: Punjab; TN: Tamil Nadu; MH: Maharashtra; AP: Andhra Pradesh.

Source: RBI, State Finances: A Study of Budgets, various issues. 2024-25 are Revised Estimates; 2025-26 are Budget Estimates.

Kerala stood at 12.28 per cent in 2015-16, above the comparable-states average (11.37) but below the major-states (13.46) and all-states (13.31) averages. By 2025-26, Kerala's ratio has declined to 10.68 per cent. Comparable states have eased to 10.96 per cent, while major states have improved to 13.90 per cent and all states to 14.36 per cent. Kerala's revenue base, measured against the size of its economy, is now below all

three peer averages, and the gap against the all-states average has widened from about one percentage point of GSDP to about four.

The share of own revenue in total revenue receipts (Table A.2) appears to tell a different story. Kerala collected 72.6 per cent of its revenue from its own sources in 2025-26, against 70.3 percent for comparable states, 58.9 per cent for major states and 58.2 per cent for all states. Kerala has remained well above the major-states and all-states averages throughout the period. This higher own-revenue share, however, does not reflect greater fiscal effort on the part of Kerala. It is largely the arithmetic outcome of a structurally lower share of central tax devolution, which is examined separately below.

Table A.2: Share of Own Revenue in Total Revenue Receipts (per cent)

Year	Kerala	TS	KA	HR	WB	PB	TN	MH	AP	Eight States	Major States	All States
2015-16	68.69	71.44	68.09	75.03	40.42	70.66	69.29	75.68	50.57	65.44	55.58	54.60
2016-17	68.61	70.26	66.62	76.62	41.09	70.04	68.36	72.94	49.88	64.54	53.87	52.90
2017-18	71.50	74.31	65.86	81.27	46.33	67.56	73.31	77.31	53.52	68.02	57.11	56.44
2018-19	67.64	74.00	63.23	76.98	44.86	63.26	69.26	73.19	55.00	65.40	55.41	54.71
2019-20	69.37	73.10	62.72	74.01	44.70	59.52	68.96	71.77	54.86	64.74	56.38	55.61
2020-21	56.33	72.09	66.97	72.34	44.13	49.54	66.97	66.88	51.91	61.52	52.99	52.10
2021-22	58.99	78.55	83.00	77.82	40.85	53.87	65.05	72.07	50.48	65.38	54.59	53.31
2022-23	65.61	79.39	68.80	80.39	43.88	55.33	68.63	72.54	52.89	65.98	56.79	55.93
2023-24	72.84	80.11	75.69	79.57	46.55	61.09	73.01	75.06	53.72	69.45	58.58	57.82
2024-25	74.88	76.80	75.59	80.55	45.32	66.28	75.15	74.09	57.94	70.11	57.66	56.88
2025-26	72.63	77.07	76.79	80.18	45.82	67.53	75.31	74.98	58.78	70.31	58.91	58.17

State abbreviations:TS: Telangana; KA: Karnataka; HR: Haryana; WB: West Bengal; PB: Punjab; TN: Tamil Nadu; MH: Maharashtra; AP: Andhra Pradesh.

Source: RBI, State Finances: A Study of Budgets, various issues. 2024-25 are Revised Estimates; 2025-26 are Budget Estimates.

The picture from Table A.3, which measures own revenue as a share of GSDP, makes this point directly. Kerala's own revenue stood at 8.44 per cent of GSDP in 2015-16, above all three peer benchmarks. By 2025-26 the ratio has slipped to 7.75 per cent. Comparable states stand at 7.71 per

cent, major states at 8.19 per cent and all states at 8.36 per cent. The advantage Kerala held in 2015-16 has been lost against every benchmark.

Table A.3: Own Revenue as a Share of GSDP (per cent)

Year	Kerala	TS	KA	HR	WB	PB	TN	MH	AP	Eights States	Major States	All States
2015-16	8.44	9.41	7.74	7.20	5.56	7.52	7.60	7.12	7.42	7.44	7.48	7.27
2016-17	8.17	8.84	7.35	7.16	5.55	7.87	7.36	6.79	7.21	7.20	7.20	7.03
2017-18	8.46	8.80	7.26	7.98	6.24	7.60	7.32	8.01	7.15	7.62	7.72	7.67
2018-19	7.97	8.75	7.05	7.26	5.94	7.69	7.38	8.07	7.22	7.50	7.64	7.59
2019-20	7.70	7.89	6.81	6.81	5.42	6.82	6.90	7.65	6.58	7.02	7.42	7.39
2020-21	7.13	7.71	6.40	6.69	5.74	6.32	6.52	6.90	6.21	6.63	6.78	6.79
2021-22	7.44	8.91	8.16	6.93	5.43	6.71	6.51	7.64	6.72	7.24	7.35	7.29
2022-23	8.38	9.65	6.79	7.36	5.66	7.00	7.05	8.08	6.37	7.39	7.60	7.60
2023-24	7.99	9.28	6.91	7.43	5.65	7.06	7.18	7.97	6.56	7.37	7.54	7.54
2024-25	7.97	9.46	6.76	7.47	5.68	8.20	7.08	8.77	6.40	7.59	7.88	8.04
2025-26	7.75	9.83	7.32	7.61	6.00	8.47	7.00	8.52	7.02	7.71	8.19	8.36

State abbreviations: TS: Telangana; KA: Karnataka; HR: Haryana; WB: West Bengal; PB: Punjab; TN: Tamil Nadu; MH: Maharashtra; AP: Andhra Pradesh.

Source: RBI, State Finances: A Study of Budgets, various issues. 2024-25 are Revised Estimates; 2025-26 are Budget Estimates..

Total tax revenue, which combines own tax revenue and central tax devolution, declined from 9.20 per cent of GSDP in 2015-16 to 8.42 per cent in 2025-26 for Kerala (Table A.4). Over the same period, the all-states average rose from 9.83 to 11.12 per cent, the major-states average from 10.06 to 10.88 per cent, and the comparable-states average from 8.82 to 9.06 per cent. The widening gap is the combined effect of weaker own tax mobilisation and a lower share of central devolution.

Table A.4: Tax Revenue as a Share of GSDP (per cent)

Year	Kerala	TS	KA	HR	WB	PB	TN	MH	AP	Eight States	Major States	All States
2015-16	9.20	9.05	9.52	7.35	9.99	8.90	8.57	7.87	10.23	8.82	10.06	9.83
2016-17	9.04	9.61	9.25	7.24	10.33	8.75	8.48	7.75	10.29	8.80	10.05	9.88
2017-18	9.02	9.72	8.92	7.58	10.47	8.71	8.25	8.72	9.98	8.98	10.22	10.16
2018-19	8.84	9.71	8.97	7.27	10.57	8.50	8.35	9.07	10.39	9.10	10.43	10.38
2019-20	8.21	8.80	8.25	6.77	9.22	7.51	7.68	8.48	9.27	8.31	9.35	9.33
2020-21	7.67	8.41	7.24	6.62	9.20	7.52	7.33	7.69	8.37	7.76	8.90	8.90
2021-22	8.24	9.79	7.73	7.19	10.20	8.38	7.74	8.76	9.40	8.57	9.97	9.98
2022-23	8.69	9.66	7.69	7.52	10.23	8.58	7.96	9.27	8.87	8.74	10.07	10.08
2023-24	8.46	9.27	8.00	7.82	10.59	8.77	7.93	9.21	9.26	8.81	10.21	10.23
2024-25	8.58	9.53	7.88	7.91	10.79	9.68	7.86	9.90	9.23	9.03	10.64	10.87
2025-26	8.42	9.74	8.47	7.99	10.81	9.98	7.82	9.67	9.13	9.06	10.88	11.12

State abbreviations: TS: Telangana; KA: Karnataka; HR: Haryana; WB: West Bengal; PB: Punjab; TN: Tamil Nadu; MH: Maharashtra; AP: Andhra Pradesh.

Source: RBI, State Finances: A Study of Budgets, various issues. 2024-25 are Revised Estimates; 2025-26 are Budget Estimates.

The decline shows up most clearly in own tax revenue (Table A.5). Kerala's own tax revenue stood at 6.94 per cent of GSDP in 2015-16, against 6.59 per cent for comparable states, 6.35 per cent for major states and 6.15 per cent for all states. Kerala therefore began the period with a tax effort that was about 0.8 percentage points of GSDP above the all-states benchmark. By 2025-26, Kerala is at 6.41 per cent and is below all three benchmarks: comparable states at 6.84, major states at 7.00 and all states at 7.14.

Table A.5: Own Tax Revenue as a Share of GSDP (per cent)

Year	Kerala	TS	KA	HR	WB	PB	TN	MH	AP	Eight States	Major States	All States
2015-16	6.94	6.92	7.23	6.24	5.33	6.84	6.84	6.44	6.60	6.59	6.35	6.15
2016-17	6.64	7.35	6.87	6.06	5.21	6.50	6.60	6.21	6.46	6.41	6.09	5.93
2017-18	6.86	7.76	6.78	6.55	5.92	6.69	6.58	7.30	6.67	6.84	6.67	6.61
2018-19	6.47	7.59	6.59	6.12	5.61	6.21	6.51	7.45	6.72	6.71	6.48	6.43
2019-20	6.19	7.11	6.34	5.80	5.15	5.59	6.16	7.11	6.22	6.34	6.12	6.09
2020-21	6.18	7.07	5.91	5.74	5.28	5.56	5.94	6.29	5.87	6.02	5.92	5.90
2021-22	6.31	8.12	6.06	6.08	5.30	5.95	5.93	7.03	6.27	6.40	6.25	6.24
2022-23	6.93	8.16	6.19	6.46	5.52	6.10	6.33	7.62	5.96	6.70	6.56	6.55
2023-24	6.55	7.65	6.39	6.68	5.45	6.12	6.22	7.45	6.04	6.62	6.48	6.48
2024-25	6.54	7.89	6.25	6.75	5.50	6.91	6.18	8.11	5.96	6.81	6.77	6.89
2025-26	6.41	8.08	6.78	6.84	5.54	7.10	6.19	7.85	5.97	6.84	7.00	7.14

State abbreviations:TS: Telangana; KA: Karnataka; HR: Haryana; WB: West Bengal; PB: Punjab; TN: Tamil Nadu; MH: Maharashtra; AP: Andhra Pradesh.
Source: RBI, State Finances: A Study of Budgets, various issues. 2024-25 are Revised Estimates; 2025-26 are Budget Estimates.

The bulk of Kerala's own tax revenue comes from taxes on commodities and services (Table A.6). Kerala collected 6.37 per cent of GSDP under this head in 2015-16, well above the all-states average of 5.35 per cent. By 2025-26, Kerala stands at 5.82 per cent against 5.83 for comparable states, 6.04 for major states and 6.16 for all states. The Kerala lead of about one percentage point in 2015-16 has been erased. Within this category, State GST tells a particularly sharp story (Table A.6). When GST was introduced in 2017-18, Kerala's collections stood at 1.95 per cent of GSDP, close to the comparable-states (2.02), major-states (2.07) and all-states (2.07) averages. By 2025-26, Kerala is at 2.65 per cent against 2.92 for comparable states, 3.09 for major states and 3.17 for all states. State GST collections have improved across the board, but Kerala's improvement has been smaller, and the gap against the all-states average has widened from 0.12 percentage points in 2017-18 to 0.52 percentage points in 2025-26.

Table A.6: Taxes on Commodities and Services as a Share of GSDP (per cent)

Year	Kerala	TS	KA	HR	WB	PB	TN	MH	AP	Eight States	Major States	All States
2015-16	6.37	6.29	6.34	5.59	4.44	6.20	6.08	5.13	5.94	5.70	5.52	5.35
2016-17	6.12	6.69	6.13	5.47	4.36	6.00	6.03	5.07	5.86	5.63	5.37	5.24
2017-18	6.32	7.13	6.01	5.89	5.03	6.21	5.95	5.98	6.06	6.01	5.90	5.86
2018-19	5.96	6.89	5.78	5.31	4.79	5.73	5.82	6.13	6.04	5.86	5.71	5.66
2019-20	5.68	6.34	5.55	4.98	4.35	5.13	5.53	5.86	5.60	5.52	5.36	5.34
2020-21	5.64	6.45	5.19	5.03	4.50	5.06	5.27	5.14	5.24	5.25	5.17	5.16
2021-22	5.72	6.97	5.44	5.22	4.50	5.38	5.23	5.71	5.55	5.52	5.41	5.41
2022-23	6.24	7.02	5.35	5.57	4.81	5.45	5.58	6.23	5.30	5.76	5.68	5.68
2023-24	5.96	6.61	5.52	5.71	4.77	5.52	5.50	6.06	5.32	5.69	5.60	5.61
2024-25	5.93	6.94	5.36	5.59	4.79	6.12	5.44	6.59	5.26	5.83	5.85	5.97
2025-26	5.82	6.97	5.80	5.61	4.75	6.25	5.45	6.37	5.20	5.83	6.04	6.16

State abbreviations: TS: Telangana; KA: Karnataka; HR: Haryana; WB: West Bengal; PB: Punjab; TN: Tamil Nadu; MH: Maharashtra; AP: Andhra Pradesh.
Source: RBI, State Finances: A Study of Budgets, various issues. 2024-25 are Revised Estimates; 2025-26 are Budget Estimates.

Taxes on property and capital transactions, which include stamp duty and registration receipts, have been a chronic area of underperformance (Table A.8). Kerala's collections under this head have remained within a narrow band of 0.51 to 0.69 per cent of GSDP through the entire period. The all-states average has moved from 0.76 to 0.95 per cent, comparable states from 0.83 to 0.98, and major states from 0.79 to 0.94. The shortfall of roughly 0.3 to 0.4 percentage points of GSDP has been stable across years, indicating structural rather than cyclical factors.

Table A.7: State GST as a Share of GSDP (per cent)

Year	Kerala	TS	KA	HR	WB	PB	TN	MH	AP	Eight States	Major States	All States
2015-16	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.00	0.00	n.a.
2016-17	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.00	0.00	n.a.
2017-18	1.95	1.96	2.05	1.81	2.05	1.91	1.87	2.29	1.75	2.02	2.07	2.07
2018-19	2.71	2.82	2.88	2.69	2.56	2.64	2.40	3.29	2.43	2.79	2.74	2.73
2019-20	2.52	2.48	2.61	2.56	2.32	2.37	2.20	3.11	2.18	2.57	2.51	2.51
2020-21	2.60	2.35	2.30	2.50	2.28	2.19	2.12	2.68	1.93	2.36	2.32	2.33
2021-22	2.61	2.57	0.00	2.61	2.33	2.48	2.18	3.10	2.10	2.19	2.42	2.55
2022-23	2.84	2.77	2.65	2.93	2.51	2.62	2.27	3.33	2.14	2.73	2.68	2.70
2023-24	2.69	2.69	2.78	3.13	2.48	2.71	2.30	3.50	2.19	2.80	2.77	2.79
2024-25	2.69	2.78	2.78	3.09	2.53	3.00	2.45	3.71	2.28	2.90	2.96	3.04
2025-26	2.65	2.83	3.00	3.12	2.45	3.10	2.62	3.57	2.23	2.92	3.09	3.17

State abbreviations: TS: Telangana; KA: Karnataka; HR: Haryana; WB: West Bengal; PB: Punjab; TN: Tamil Nadu; MH: Maharashtra; AP: Andhra Pradesh.

Source: RBI, State Finances: A Study of Budgets, various issues. 2024-25 are Revised Estimates; 2025-26 are Budget Estimates.

Table A.8: Tax on Property and Capital Transactions as a Share of GSDP (per cent)

Year	Kerala	TS	KA	HR	WB	PB	TN	MH	AP	Eight States	Major States	All States
2015-16	0.57	0.57	0.80	0.65	0.83	0.64	0.76	1.20	0.62	0.83	0.79	0.76
2016-17	0.52	0.60	0.66	0.59	0.80	0.49	0.57	1.04	0.56	0.72	0.68	0.66
2017-18	0.54	0.58	0.69	0.66	0.83	0.47	0.64	1.22	0.57	0.79	0.74	0.72
2018-19	0.52	0.64	0.74	0.81	0.77	0.46	0.69	1.21	0.65	0.81	0.74	0.73
2019-20	0.51	0.72	0.71	0.82	0.74	0.43	0.64	1.16	0.59	0.78	0.72	0.71
2020-21	0.53	0.56	0.66	0.71	0.73	0.47	0.67	1.05	0.60	0.73	0.72	0.71
2021-22	0.59	1.10	0.06	0.87	0.75	0.54	0.70	1.23	0.70	0.77	0.78	0.80
2022-23	0.69	1.09	0.78	0.89	0.66	0.62	0.75	1.31	0.64	0.90	0.85	0.84
2023-24	0.59	0.98	0.82	0.97	0.63	0.58	0.72	1.32	0.70	0.89	0.85	0.84
2024-25	0.61	0.90	0.84	1.16	0.66	0.75	0.74	1.43	0.68	0.94	0.89	0.90
2025-26	0.59	1.06	0.93	1.23	0.74	0.81	0.74	1.40	0.75	0.98	0.94	0.95

State abbreviations: TS: Telangana; KA: Karnataka; HR: Haryana; WB: West Bengal; PB: Punjab; TN: Tamil Nadu; MH: Maharashtra; AP: Andhra Pradesh.
Source: RBI, State Finances: A Study of Budgets, various issues. 2024-25 are Revised Estimates; 2025-26 are Budget Estimates.

A.3 Central Devolution and Non-Tax Revenue

Central tax devolution as a share of GSDP has remained substantially lower for Kerala than for the major-states and all-states averages throughout the period (Table A.9).

Table A.9: Central Tax Devolution as a Share of GSDP (per cent)

Year	Kerala	TS	KA	HR	WB	PB	TN	MH	AP	Eight States	Major States	All States
2015-16	2.26	2.14	2.29	1.11	4.66	2.05	1.73	1.43	3.62	2.23	3.71	3.68
2016-17	2.40	2.26	2.38	1.18	5.11	2.25	1.88	1.53	3.84	2.39	3.96	3.95
2017-18	2.16	1.97	2.14	1.03	4.55	2.03	1.66	1.42	3.32	2.14	3.55	3.54
2018-19	2.37	2.12	2.38	1.16	4.96	2.30	1.84	1.63	3.68	2.39	3.95	3.95
2019-20	2.02	1.68	1.91	0.96	4.07	1.93	1.51	1.36	3.05	1.97	3.23	3.24
2020-21	1.50	1.35	1.32	0.88	3.92	1.97	1.39	1.40	2.50	1.74	2.98	3.00
2021-22	1.93	1.67	0.00	1.11	4.89	2.44	1.81	1.73	3.13	1.92	3.65	3.74
2022-23	1.76	1.50	1.49	1.06	4.71	2.48	1.63	1.65	2.92	2.03	3.51	3.53
2023-24	1.92	1.62	1.61	1.14	5.15	2.64	1.71	1.76	3.21	2.18	3.73	3.75
2024-25	2.05	1.65	1.63	1.16	5.29	2.77	1.68	1.79	3.27	2.22	3.88	3.98
2025-26	2.01	1.66	1.69	1.15	5.27	2.88	1.63	1.82	3.15	2.22	3.88	3.98

State abbreviations: TS: Telangana; KA: Karnataka; HR: Haryana; WB: West Bengal; PB: Punjab; TN: Tamil Nadu; MH: Maharashtra; AP: Andhra Pradesh.

Source: RBI, State Finances: A Study of Budgets, various issues. 2024-25 are Revised Estimates; 2025-26 are Budget Estimates.

Kerala received 2.26 per cent of GSDP in 2015-16 and is budgeted to receive 2.01 per cent in 2025-26. Comparable states are broadly at the same level (2.23 in 2015-16, 2.22 in 2025-26). The all-states and major-states averages, however, are roughly double Kerala's level: 3.98 and 3.88 per cent of GSDP respectively in 2025-26. The gap reflects the formula used by successive Finance Commissions, which assigns lower weights to states with higher per capita income and slower population growth. This is a structural feature that is not within the state's control.

Non-tax revenue showed a temporary spike during the pandemic, when disaster grants and other extraordinary receipts pushed Kerala's collections to 4.98 per cent of GSDP in 2020-21 (Table A.10). The post-pandemic figures have moved sharply lower. Kerala collected 2.26 per cent of GSDP under this head in 2025-26, against 1.90 per cent for comparable states, 3.02 per cent for major states and 3.24 per cent for all states. Kerala began the period at roughly the middle of the pack but has fallen below the major-states and all-states averages.

Table A.10: Non-Tax Revenue as a Share of GSDP (per cent)

Year	Kerala	TS	KA	HR	WB	PB	TN	MH	AP	Eight States	Major States	All States
2015-16	3.09	4.12	1.85	2.25	3.77	1.75	2.40	1.54	4.44	2.55	3.40	3.48
2016-17	2.87	2.97	1.78	2.11	3.18	2.49	2.28	1.56	4.17	2.37	3.31	3.42
2017-18	2.81	2.12	2.11	2.24	3.00	2.54	1.74	1.64	3.38	2.21	3.30	3.43
2018-19	2.94	2.12	2.18	2.15	2.67	3.65	2.30	1.96	2.73	2.37	3.36	3.48
2019-20	2.89	2.00	2.61	2.43	2.90	3.95	2.33	2.18	2.72	2.53	3.81	3.96
2020-21	4.98	2.29	2.31	2.63	3.80	5.24	2.40	2.63	3.60	3.01	3.90	4.13
2021-22	4.38	1.55	0.00	1.71	3.10	4.07	2.28	1.85	3.90	2.19	3.40	3.68
2022-23	4.09	2.50	2.19	1.63	2.67	4.07	2.31	1.87	3.17	2.47	3.31	3.51
2023-24	2.50	2.31	1.12	1.52	1.53	2.79	1.91	1.40	2.96	1.81	2.66	2.82
2024-25	2.06	2.78	1.06	1.37	1.75	2.69	1.56	1.94	1.82	1.79	3.03	3.27
2025-26	2.26	3.02	1.06	1.49	2.29	2.56	1.48	1.69	2.82	1.90	3.02	3.24

State abbreviations:TS: Telangana; KA: Karnataka; HR: Haryana; WB: West Bengal; PB: Punjab; TN: Tamil Nadu; MH: Maharashtra; AP: Andhra Pradesh.
Source: RBI, State Finances: A Study of Budgets, various issues. 2024-25 are Revised Estimates; 2025-26 are Budget Estimates.

A.4 Revenue Buoyancy

The buoyancy of revenue with respect to GSDP captures whether revenue is growing faster (buoyancy above one) or slower (below one) than the economy. For Kerala, the picture is uniformly below unity for the period 2015-16 to 2025-26 (Table A.11). Own tax revenue shows a buoyancy of 0.96 for Kerala, against 1.04 for comparable states, 1.09 for major states and 1.14 for all states. Taxes on commodities and services have a buoyancy of 0.94 for Kerala, against 1.02, 1.03 and 1.12 for the three benchmarks. State GST shows a buoyancy of 1.24 for Kerala but 1.33 for comparable and major states and 1.43 for all states. Taxes on property and capital transactions are at 1.18 for Kerala, against 1.24 to 1.32 for the benchmarks. Own non-tax revenue has a buoyancy of 0.93 for Kerala, against 1.10 for comparable states and 1.05 for all states.

Table A.11: Buoyancy of Major Revenue Heads with respect to GSDP, 2015-16 to 2025-26

Indicator	Kerala	TS	KA	HR	WB	PB	TN	MH	AP	Eight States	Major States	All States
Own Tax Revenue	0.96	1.11	0.92	1.12	1.02	1.04	0.92	1.23	0.89	1.04	1.09	1.14
Tax on Commodities & Services	0.94	1.05	0.89	1.03	1.07	0.99	0.90	1.23	0.86	1.02	1.03	1.12
of which: State GST	1.24	1.27	1.44	1.53	1.18	1.57	1.24	1.44	1.15	1.33	1.33	1.43
of which: Non-GST C&S	0.51	0.69	0.46	0.39	0.53	0.43	0.51	0.63	0.46	0.40	0.43	0.59
Tax on Property & Capital Transactions	1.18	1.64	1.03	1.71	0.77	1.49	1.13	1.27	1.21	1.24	1.25	1.32
Own Non-Tax Revenue	0.93	1.06	1.21	0.51	0.69	1.26	1.14	0.92	0.96	1.10	0.96	1.05

State abbreviations: TS: Telangana; KA: Karnataka; HR: Haryana; WB: West Bengal; PB: Punjab; TN: Tamil Nadu; MH: Maharashtra; AP: Andhra Pradesh.

Source: RBI, State Finances: A Study of Budgets, various issues. 2024-25 are Revised Estimates; 2025-26 are Budget Estimates.

Note: For GST, the buoyancy is estimated using data from 2017-18

From the trends , every major revenue head in Kerala has grown more slowly than GSDP over the eleven years, and more slowly than the corresponding revenue head for each of the three peer averages. The single exception is the residual category of non-GST commodities and services taxes, where Kerala's buoyancy is higher than that of the comparable and major-states groupings, though this is a small base of declining importance. The decline in Kerala's revenue receipts to GSDP ratio, the erosion of its own tax revenue lead, and the consistent below-unity buoyancy of major revenue heads together describe a revenue base that has not kept pace with the state's economic growth. These trends, viewed alongside the rigidity of committed expenditure described in the previous chapter, are consistent with the persistence of Kerala's revenue deficits and the slow accumulation of debt.

APPENDIX B

Kerala's Expenditure, Debt and Deficit: A Comparative Analysis

B.1 Introduction

Kerala's fiscal situation has been a subject of concern for the better part of two decades. Three features stand out. The composition of expenditure is dominated by committed items, namely salaries, pensions and interest payments, that together absorb the bulk of the state's revenue receipts. The outstanding debt stock is well above the average of comparable states and has been so for many years. And the state has run a revenue deficit consistently, which means a part of its borrowing has funded current expenditure rather than capital formation. Like in the case of revenues, Kerala's position over the eleven years from 2015-16 to 2025-26 is set against three benchmarks: the average for a group of comparable states, the average for major states, and the all-states average.

B.2 Composition of Expenditure

Revenue expenditure has accounted for around 90 per cent of Kerala's total expenditure in nearly every year of the period (Table B.1).

Table B.1: Revenue Expenditure as a Share of Total Expenditure (per cent)

Year	Kerala	TS	KA	HR	WB	PB	TN	MH	AP	Eight States	Major States	All States
2015-16	90.41	80.13	84.56	74.61	89.95	84.72	86.86	88.84	86.60	85.99	81.18	81.27
2016-17	88.98	68.89	81.43	85.74	91.44	54.75	76.62	87.01	88.07	81.19	80.28	80.36
2017-18	90.67	73.92	79.94	83.07	87.95	95.25	86.27	89.67	88.16	86.03	84.47	84.43
2018-19	91.88	75.59	80.76	82.77	86.42	95.23	86.50	87.95	85.49	85.62	84.41	84.42
2019-20	91.55	80.98	81.48	81.72	90.41	80.30	87.65	88.67	88.65	86.33	85.86	85.85
2020-21	88.88	82.14	78.55	92.98	92.08	94.18	86.50	90.65	88.07	87.69	86.73	86.62
2021-22	89.56	78.56	80.08	89.12	91.87	90.98	86.21	87.69	89.58	86.69	85.35	85.27
2022-23	89.42	79.68	78.06	88.28	90.80	93.39	85.68	86.01	95.71	86.67	84.77	84.71
2023-24	89.42	76.84	81.09	85.00	88.36	95.96	86.26	85.14	89.83	85.70	83.30	83.29
2024-25	90.69	78.82	83.29	89.02	90.03	93.81	85.26	83.78	89.95	86.03	82.87	82.76
2025-26	90.38	79.69	81.38	87.70	88.26	92.54	84.96	86.69	84.30	85.61	82.14	82.01

State abbreviations: TS: Telangana; KA: Karnataka; HR: Haryana; WB: West Bengal; PB: Punjab; TN: Tamil Nadu; MH: Maharashtra; AP: Andhra Pradesh.
Source: RBI, State Finances: A Study of Budgets, various issues. 2024-25 are Revised Estimates; 2025-26 are Budget Estimates.

In 2025-26, the ratio stands at 90.4 per cent for Kerala, against 85.6 per cent for comparable states, 82.1 per cent for major states and 82.0 per cent for all states. The position in 2015-16 was almost identical. Kerala has therefore consistently spent a larger share of its budget on running expenses than its peers, with the gap against the all-states average remaining around eight percentage points across the period.

The mirror image of this pattern is visible in capital expenditure (Table B.2). Kerala's capital outlay was 1.34 per cent of GSDP in 2025-26, against 2.04 for comparable states, 3.09 for major states and 3.20 for all states. Kerala lagged every benchmark in nearly every year of the period. The one exception was 2020-21, when Kerala (2.00) marginally exceeded the comparable-states average (1.86), though it still trailed the major and all-states averages in that year. By 2025-26, the shortfall against major states is close to two percentage points of GSDP.

Table B.2: Capital Expenditure as a Share of GSDP (per cent)

Year	Kerala	TS	KA	HR	WB	PB	TN	MH	AP	Eight States	Major States	All States
2015-16	1.48	3.26	2.04	4.07	1.67	2.31	1.81	1.22	2.46	1.98	3.13	3.08
2016-17	1.78	5.59	2.49	2.03	1.44	10.71	3.59	1.45	2.30	2.83	3.36	3.31
2017-18	1.47	4.01	2.68	2.34	1.98	0.66	1.82	1.18	2.07	1.95	2.52	2.52
2018-19	1.24	3.66	2.65	2.30	2.23	0.74	1.89	1.45	2.50	2.04	2.57	2.58
2019-20	1.19	2.69	2.45	2.57	1.46	3.47	1.70	1.44	1.90	1.93	2.27	2.29
2020-21	2.00	2.84	2.93	0.93	1.34	0.99	2.06	1.23	2.11	1.86	2.26	2.30
2021-22	1.84	3.32	2.61	1.37	1.39	1.53	1.96	1.56	1.64	1.93	2.39	2.44
2022-23	1.62	2.99	2.61	1.45	1.49	1.16	1.97	1.82	0.69	1.87	2.46	2.49
2023-24	1.49	3.47	2.21	1.84	1.80	0.64	1.84	1.91	1.69	1.96	2.65	2.68
2024-25	1.33	3.21	1.98	1.33	1.65	1.04	1.89	2.41	1.57	1.98	2.96	3.07
2025-26	1.34	3.21	2.32	1.54	1.97	1.23	1.85	1.89	2.56	2.04	3.09	3.20

State abbreviations: TS: Telangana; KA: Karnataka; HR: Haryana; WB: West Bengal; PB: Punjab; TN: Tamil Nadu; MH: Maharashtra; AP: Andhra Pradesh.

Source: RBI, State Finances: A Study of Budgets, various issues. 2024-25 are Revised Estimates; 2025-26 are Budget Estimates.

Revenue expenditure as a share of GSDP shows a slightly different pattern (Table B.3). Kerala stood at 14.0 per cent in 2015-16, about two percentage points above comparable states (12.17) and modestly above the all-states average (13.35). The ratio rose to 16.0 per cent during the pandemic year and has eased to 12.58 per cent in 2025-26. Kerala is now in line with comparable states (12.13) and below the major and all-states averages (14.19 and 14.59 respectively). This moderation reflects the denominator effect of GSDP growth in the post-pandemic recovery rather than a corresponding compression in revenue spending itself.

Table B.3: Revenue Expenditure as a Percentage of GSDP (per cent)

Year	Kerala	TS	KA	HR	WB	PB	TN	MH	AP	Eight States	Major States	All States
2015-16	14.00	13.13	11.20	11.95	14.90	12.84	11.98	9.68	15.88	12.17	13.52	13.35
2016-17	14.35	12.37	10.92	12.18	15.35	12.95	11.76	9.70	16.97	12.22	13.67	13.56
2017-18	14.25	11.38	10.69	11.47	14.47	13.26	11.46	10.27	15.42	11.98	13.69	13.69
2018-19	13.99	11.32	11.11	11.04	14.19	14.71	12.10	10.56	14.72	12.16	13.91	13.96
2019-20	12.88	11.45	10.78	11.50	13.79	14.13	12.07	11.30	14.85	12.18	13.80	13.89
2020-21	16.00	13.06	10.73	12.31	15.58	15.96	13.22	11.90	15.60	13.25	14.74	14.90
2021-22	15.81	12.17	10.51	11.22	15.68	15.39	12.26	11.12	14.06	12.55	13.95	14.10
2022-23	13.67	11.70	9.29	10.92	14.70	16.41	11.80	11.19	15.37	12.14	13.68	13.82
2023-24	12.56	11.53	9.49	10.43	13.68	15.21	11.52	10.96	14.94	11.75	13.23	13.36
2024-25	12.99	11.96	9.85	10.75	14.92	15.79	10.91	12.42	14.08	12.20	14.31	14.73
2025-26	12.58	12.61	10.15	11.01	14.83	15.22	10.46	12.29	13.76	12.13	14.19	14.59

State abbreviations: TS: Telangana; KA: Karnataka; HR: Haryana; WB: West Bengal; PB: Punjab; TN: Tamil Nadu; MH: Maharashtra; AP: Andhra Pradesh.

Source: RBI, State Finances: A Study of Budgets, various issues. 2024-25 are Revised Estimates; 2025-26 are Budget Estimates.

Within revenue expenditure, the committed items shape the picture. Salaries and wages absorbed 30.1 per cent of Kerala's revenue receipts in 2025-26, against all its comparable states (Table B.4). On the revenue expenditure base, the comparable figures are 25.6 per cent for Kerala, the highest among the comparable states (Table B.5). Both ratios have eased from their pre-pandemic peaks for Kerala, but the gap against the comparable states has remained.

Table B.4: Salaries and Wages as a Share of Revenue Receipts (per cent)

Year	Kerala	TS	KA	HR	WB	PB	TN	MH	AP	All States
2015-16	34.52	24.10	18.09	n.a.	n.a.	n.a.	28.78	n.a.	30.99	16.43
2016-17	37.65	23.51	16.14	30.06	n.a.	45.28	28.61	35.21	32.86	24.06
2017-18	38.97	26.81	15.54	27.52	28.80	43.79	30.75	31.10	31.23	27.02
2018-19	35.21	21.00	19.28	29.23	28.46	39.06	30.24	28.75	28.55	26.35
2019-20	36.62	23.71	24.36	30.91	n.a.	40.09	33.14	36.01	38.43	27.28
2020-21	29.56	21.51	27.93	47.28	38.18	37.03	32.96	39.56	38.44	33.04
2021-22	39.36	21.17	24.03	44.28	33.33	35.93	29.22	n.a.	32.72	24.52
2022-23	29.76	22.69	21.85	27.61	30.84	36.72	28.14	n.a.	27.78	23.78
2023-24	32.24	35.98	26.36	25.86	31.46	37.84	28.36	n.a.	n.a.	22.81
2024-25	32.08	28.45	27.88	25.91	30.67	33.29	27.72	n.a.	n.a.	22.09
2025-26	30.10	27.57	29.36	25.02	27.56	32.60	27.28	n.a.	n.a.	22.20

State abbreviations:TS: Telangana; KA: Karnataka; HR: Haryana; WB: West Bengal; PB: Punjab; TN: Tamil Nadu; MH: Maharashtra; AP: Andhra Pradesh.

Source: RBI, State Finances: A Study of Budgets, various issues. 2024-25 are Revised Estimates; 2025-26 are Budget Estimates.

Note: All states average suffers from the paucity of data for some comparable states in the RBI publications. Hence we do not compare Kerala's average with all states

Table B.5: Salaries and Wages as a Share of Revenue Expenditure (per cent)

Year	Kerala	TS	KA	HR	WB	PB	TN	MH	AP	All States
2015-16	30.28	24.18	18.36	n.a.	n.a.	n.a.	26.33	n.a.	28.63	16.39
2016-17	31.25	23.91	16.30	23.07	n.a.	39.30	26.19	33.80	28.00	23.59
2017-18	32.37	27.90	16.03	23.55	26.80	37.16	26.79	31.37	27.07	26.80
2018-19	29.64	21.94	19.35	24.96	26.57	32.26	26.64	30.04	25.47	26.17
2019-20	31.55	22.34	24.53	24.72	n.a.	32.54	27.48	33.96	31.04	26.09
2020-21	23.37	17.61	24.86	35.51	31.85	29.61	24.27	34.32	29.49	28.90
2021-22	31.41	19.72	22.47	35.13	28.25	29.06	23.87	n.a.	30.95	23.77
2022-23	27.83	23.57	23.22	23.14	27.06	28.30	24.50	n.a.	21.77	23.39
2023-24	28.14	36.14	25.35	23.14	27.88	28.74	24.23	n.a.	n.a.	22.28
2024-25	26.30	29.30	25.31	22.37	25.77	26.08	23.93	n.a.	n.a.	21.21
2025-26	25.55	27.91	27.54	21.54	24.33	26.84	24.24	n.a.	n.a.	21.85

State abbreviations: Kerala; TS: Telangana; KA: Karnataka; HR: Haryana; WB: West Bengal; PB: Punjab; TN: Tamil Nadu; MH: Maharashtra; AP: Andhra Pradesh.

Source: RBI, State Finances: A Study of Budgets, various issues. 2024-25 are Revised Estimates; 2025-26 are Budget Estimates.

Note: All states average suffers from the paucity of data for some comparable states in the RBI publications. Hence we do not compare Kerala's average with all states

Table B.6: Interest Payments as a Share of Revenue Receipts (per cent)

Year	Kerala	TS	KA	HR	WB	PB	TN	MH	AP	Eight States	Major States	All States
2015-16	16.09	9.93	9.04	17.42	21.06	23.56	13.48	13.93	11.11	14.28	11.76	11.69
2016-17	16.02	10.40	9.03	20.08	21.81	24.26	14.64	13.94	11.82	14.82	12.38	12.28
2017-18	18.21	12.20	9.48	19.08	21.39	28.93	17.78	13.55	13.18	15.85	12.80	12.63
2018-19	18.04	12.41	9.35	20.57	19.81	26.19	16.55	12.19	13.38	15.13	12.33	12.18
2019-20	21.30	14.03	10.56	22.97	22.16	28.53	18.32	11.85	15.90	16.55	13.33	13.16
2020-21	21.49	16.69	13.99	25.33	22.76	26.29	20.97	13.72	17.09	18.51	15.23	14.96
2021-22	19.98	15.03	12.76	23.51	20.58	24.39	20.03	12.05	14.72	16.75	13.45	13.25
2022-23	18.97	13.69	12.41	22.53	20.46	22.72	19.25	10.28	0.31	14.38	12.39	12.55
2023-24	21.68	14.38	13.21	21.32	21.28	25.28	20.24	10.60	16.97	16.66	13.08	12.90
2024-25	22.37	8.77	14.21	21.92	20.31	23.09	20.54	10.19	17.58	15.90	12.45	12.25
2025-26	20.89	8.43	15.59	20.52	18.33	22.37	20.84	11.53	16.06	15.96	12.36	12.18

State abbreviations: TS: Telangana; KA: Karnataka; HR: Haryana; WB: West Bengal; PB: Punjab; TN: Tamil Nadu; MH: Maharashtra; AP: Andhra Pradesh.
Source: RBI, State Finances: A Study of Budgets, various issues. 2024-25 are Revised Estimates; 2025-26 are Budget Estimates.

The harder pressure comes from interest payments. Interest absorbed 20.9 per cent of Kerala's revenue receipts in 2025-26, against 16.0 per cent for comparable states, 12.4 per cent for major states and 12.2 per cent for all states (Table B.6). On the revenue expenditure base, the figures are 17.7 per cent for Kerala against 14.4, 12.1 and 12.0 per cent respectively (Table B.7). The gap between Kerala and the all-states average has widened from about four percentage points in 2015-16 to nearly nine percentage points in 2025-26. Of the three components of committed expenditure, interest is the only one whose relative burden on Kerala's revenue account has grown over the period.

Table B.7: Interest Payments as a Share of Revenue Expenditure (per cent)

Year	Kerala	TS	KA	HR	WB	PB	TN	MH	AP	Eight States	Major States	All States
2015-16	14.12	9.96	9.18	13.98	19.45	19.53	12.33	13.54	10.26	13.33	11.70	11.65
2016-17	13.30	10.57	9.12	15.41	19.19	21.05	13.40	13.38	10.07	13.54	12.09	12.04
2017-18	15.13	12.69	9.78	16.33	19.90	24.55	15.49	13.67	11.42	14.81	12.63	12.53
2018-19	15.18	12.96	9.39	17.56	18.49	21.62	14.58	12.74	11.93	14.26	12.22	12.10
2019-20	18.35	13.22	10.63	18.37	19.48	23.16	15.20	11.18	12.84	14.72	12.71	12.59
2020-21	16.99	13.67	12.45	19.03	18.99	21.02	15.44	11.90	13.11	15.05	13.22	13.08
2021-22	15.94	14.01	11.93	18.66	17.45	19.73	16.36	11.48	13.93	14.78	12.98	12.85
2022-23	17.74	14.22	13.19	18.89	17.96	17.51	16.76	10.23	0.25	13.27	12.12	12.35
2023-24	18.92	14.45	12.71	19.09	18.86	19.21	17.30	10.27	13.88	15.06	12.73	12.60
2024-25	18.34	9.04	12.90	18.93	17.06	18.09	17.73	9.71	13.79	14.11	11.89	11.76
2025-26	17.73	8.53	14.63	17.67	16.19	18.42	18.52	10.65	13.93	14.42	12.11	11.99

State abbreviations: TS: Telangana; KA: Karnataka; HR: Haryana; WB: West Bengal; PB: Punjab; TN: Tamil Nadu; MH: Maharashtra; AP: Andhra Pradesh.

Source: RBI, State Finances: A Study of Budgets, various issues. 2024-25 are Revised Estimates; 2025-26 are Budget Estimates.

The combined effect is captured in Table B.8. Committed expenditure absorbed 70.3 per cent of Kerala's revenue receipts in 2025-26, second highest after Punjab among the comparable states. The Kerala ratio peaked at 81.2 per cent in 2017-18 and has hovered around 70 per cent through most of the period. About seven rupees out of every ten that Kerala collects on revenue accounts are pre-committed before the budget exercise begins.

Table B.8: Committed Expenditure as a Share of Revenue Receipts (per cent)

Year	Kerala	TS	KA	HR	WB	PB	TN	MH	AP	All States
2015-16	69.54	44.82	36.60	n.a.	n.a.	n.a.	56.41	n.a.	54.79	39.26
2016-17	73.88	44.78	33.65	60.92	n.a.	87.83	57.50	57.39	57.69	47.39
2017-18	81.19	52.44	32.97	60.61	61.30	91.97	63.82	52.28	59.87	51.51
2018-19	73.73	44.73	37.78	62.15	59.27	81.45	63.84	48.29	55.27	50.55
2019-20	79.05	49.27	45.41	66.90	n.a.	85.33	68.76	57.66	69.99	53.38
2020-21	70.45	51.67	54.00	86.99	75.36	83.13	69.50	65.26	70.45	62.26
2021-22	82.40	47.20	47.35	81.39	68.89	79.16	61.90	n.a.	60.94	50.74
2022-23	68.39	46.31	44.75	64.04	63.90	80.23	60.59	n.a.	42.40	49.05
2023-24	74.52	60.31	50.22	60.50	64.90	85.64	62.85	n.a.	n.a.	48.21
2024-25	75.20	42.98	53.74	61.16	62.09	75.29	62.35	n.a.	n.a.	46.08
2025-26	70.33	41.71	57.82	58.44	55.63	73.54	62.07	n.a.	n.a.	46.36

State abbreviations: Kerala; TS: Telangana; KA: Karnataka; HR: Haryana; WB: West Bengal; PB: Punjab; TN: Tamil Nadu; MH: Maharashtra; AP: Andhra Pradesh.

Source: RBI, State Finances: A Study of Budgets, various issues. 2024-25 are Revised Estimates; 2025-26 are Budget Estimates.

Note: All states average suffers from the paucity of data for some comparable states in the RBI publications. Hence we do not compare Kerala's average with all states

B.3 Debt Profile

Kerala's outstanding liabilities as a share of GSDP have remained above peer averages throughout the period (Table B.9). The ratio stood at 28.9 per cent in 2015-16, against 22.8 per cent for comparable states, 24.0 per cent for major states and 23.7 per cent for all states. By 2019-20, on the eve of the pandemic, Kerala was at 32.9 per cent and the three peer averages were clustered between 26.6 and 26.8 per cent. The pandemic pushed Kerala's ratio to 40.3 per cent in 2020-21. The decline since then has been partial. The 2025-26 figure is 35.5 per cent for Kerala, against 28.9 for comparable states, 28.8 for major states and 29.2 for all states.

Table B.9: Outstanding Liabilities as a Share of GSDP (per cent)

Year	Kerala	TS	KA	HR	WB	PB	TN	MH	AP	Eight States	Major States	All States
2015-16	28.90	15.70	17.80	25.00	39.50	34.40	19.40	17.90	24.50	22.84	23.97	23.70
2016-17	30.20	12.40	17.50	26.60	38.70	42.80	21.80	18.00	37.20	24.43	25.30	25.10
2017-18	30.90	21.40	18.40	26.20	38.10	41.40	22.30	18.40	29.20	24.75	25.46	25.10
2018-19	30.90	22.20	19.40	26.80	36.70	41.40	24.60	17.40	30.30	25.11	25.63	25.30
2019-20	32.90	23.70	21.00	29.70	37.80	42.80	26.50	18.10	33.20	26.68	26.80	26.60
2020-21	40.30	28.80	25.70	33.80	43.60	47.90	31.80	21.00	36.10	31.19	31.19	31.00
2021-22	38.90	28.00	25.30	31.90	40.90	45.40	32.20	19.30	33.60	29.82	29.30	29.10
2022-23	37.90	26.50	24.50	31.70	39.50	46.80	31.70	18.10	33.00	28.91	28.41	28.20
2023-24	36.30	27.00	25.30	31.30	39.70	46.50	31.00	18.50	34.60	29.02	28.29	28.10
2024-25	36.20	27.30	25.40	30.20	40.00	46.90	30.20	18.60	35.50	28.89	28.61	28.40
2025-26	35.50	27.50	26.50	29.90	38.90	46.40	29.20	19.00	35.40	28.94	28.81	29.20

State abbreviations: TS: Telangana; KA: Karnataka; HR: Haryana; WB: West Bengal; PB: Punjab; TN: Tamil Nadu; MH: Maharashtra; AP: Andhra Pradesh.

Source: RBI, State Finances: A Study of Budgets, various issues. 2024-25 are Revised Estimates; 2025-26 are Budget Estimates.

The gap against peers has not narrowed over the period. In 2015-16, Kerala was about six percentage points above the all-states average; in 2025-26 the gap is about six and a half percentage points. Against the comparable-states average, the gap is roughly seven percentage points of GSDP. The rising interest burden on the revenue account, noted earlier, is consistent with this debt position.

B.4 Deficits

Kerala has run a revenue deficit in every year of the period (Table B.10). The deficit stood at 1.72 per cent of GSDP in 2015-16 and is budgeted at 1.90 per cent in 2025-26. The all-states average, by contrast, moved from a marginal surplus of 0.02 per cent of GSDP in 2015-16 to a small deficit of 0.23 per cent in 2025-26. Major states moved from 0.03 to 0.28 per cent, and comparable states from 0.81 to 1.17 per cent. Kerala's revenue deficit is therefore larger than every benchmark in nearly every year,

including against the closer comparable-states grouping. The implication is direct: borrowing in Kerala is partly used to meet current expenditure.

Table B.10: Revenue Deficit as a Share of GSDP (per cent)

Year	Kerala	TS	KA	HR	WB	PB	TN	MH	AP	Eight States	Major States	All States
2015-16	1.72	-0.04	-0.17	2.36	1.14	2.19	1.02	0.27	1.21	0.81	0.03	-0.02
2016-17	2.44	-0.21	-0.11	2.83	1.84	1.71	1.00	0.39	2.51	1.06	0.30	0.23
2017-18	2.41	-0.46	-0.34	1.65	1.01	2.01	1.47	-0.09	2.05	0.79	0.18	0.11
2018-19	2.22	-0.51	-0.05	1.61	0.94	2.56	1.44	-0.47	1.59	0.69	0.12	0.09
2019-20	1.78	0.66	-0.07	2.30	1.67	2.66	2.06	0.64	2.86	1.34	0.64	0.60
2020-21	3.35	2.36	1.18	3.06	2.59	3.20	3.49	1.58	3.63	2.47	1.94	1.87
2021-22	3.20	0.83	0.69	2.32	2.39	2.94	2.25	0.52	0.76	1.47	0.49	0.43
2022-23	0.89	-0.45	-0.58	1.77	1.80	3.76	1.53	0.05	3.32	0.94	0.30	0.23
2023-24	1.60	-0.05	0.36	1.09	1.56	3.66	1.68	0.34	2.72	1.13	0.36	0.31
2024-25	2.34	-0.36	0.91	1.47	2.38	3.42	1.49	0.59	3.03	1.38	0.64	0.59
2025-26	1.90	-0.15	0.63	1.53	1.74	2.69	1.17	0.93	1.82	1.17	0.28	0.23

State abbreviations: TS: Telangana; KA: Karnataka; HR: Haryana; WB: West Bengal; PB: Punjab; TN: Tamil Nadu; MH: Maharashtra; AP: Andhra Pradesh.

Source: RBI, State Finances: A Study of Budgets, various issues. 2024-25 are Revised Estimates; 2025-26 are Budget Estimates.

The gross fiscal deficit presents a different trajectory (Table B.11). Kerala's GFD was 3.17 per cent of GSDP in 2015-16 and is budgeted at 3.16 per cent in 2025-26. Over the same period, the all-states average moved from 3.05 to 3.29 per cent, major states from 3.13 to 3.23, and comparable states from 2.73 to 3.14. Kerala's headline GFD has therefore converged with the peer averages and is fractionally below the all-states figure in 2025-26. The qualification lies in the composition. Of Kerala's GFD of 3.16 per cent of GSDP in 2025-26, the revenue deficit accounts for 1.90, or roughly 60 per cent of the total. For the all-states average, the revenue deficit of 0.23 against a GFD of 3.29 means current expenditure absorbs about 7 per cent of the borrowing. A similar headline GFD therefore funds very different mixes: in the all-states pattern, most of the borrowing finances capital outlay; in Kerala, the larger share funds current expenditure.

Table B.11: Gross Fiscal Deficit as a Share of GSDP (per cent)

Year	Kerala	TS	KA	HR	WB	PB	TN	MH	AP	Eight States	Major States	All States
2015-16	3.17	3.20	1.83	6.35	2.62	4.45	2.77	1.44	3.62	2.73	3.13	3.05
2016-17	4.17	5.35	2.37	4.68	2.91	12.38	4.31	1.76	4.52	3.75	3.57	3.48
2017-18	3.83	3.53	2.33	2.99	2.97	2.65	2.72	1.02	4.12	2.55	2.45	2.40
2018-19	3.42	3.14	2.60	3.14	3.04	3.13	2.90	0.91	4.06	2.57	2.47	2.45
2019-20	2.93	3.34	2.36	4.14	3.12	3.13	3.45	2.03	4.29	2.97	2.62	2.61
2020-21	5.31	5.20	4.09	3.93	3.91	4.18	5.26	2.74	5.64	4.25	4.08	4.05
2021-22	4.98	4.15	3.29	3.62	3.77	4.44	3.95	2.05	2.21	3.32	2.79	2.77
2022-23	2.46	2.48	2.01	3.18	3.28	4.90	3.45	1.86	4.01	2.78	2.72	2.68
2023-24	3.02	3.42	2.56	2.90	3.27	4.29	3.36	2.23	4.41	3.04	2.93	2.91
2024-25	3.58	2.85	2.88	2.68	4.02	4.38	3.25	2.93	4.61	3.31	3.53	3.58
2025-26	3.16	3.00	2.95	2.67	3.60	3.84	3.00	2.76	4.38	3.14	3.23	3.29

State abbreviations: Kerala; TS: Telangana; KA: Karnataka; HR: Haryana; WB: West Bengal; PB: Punjab; TN: Tamil Nadu; MH: Maharashtra; AP: Andhra Pradesh.

Source: RBI, State Finances: A Study of Budgets, various issues. 2024-25 are Revised Estimates; 2025-26 are Budget Estimates.

Read together, the eleven tables describe a state whose expenditure mix is tilted heavily towards revenue and committed items, whose capital spending is the lowest among all peer averages, whose debt stock remains six to seven percentage points of GSDP above peers, and whose revenue deficit, while smaller than during the pandemic, continues to be structurally larger than the comparator averages. The gross fiscal deficit has converged with peer numbers, but the quality of that deficit is poorer.

This page is left intentionally blank

APPENDIX C

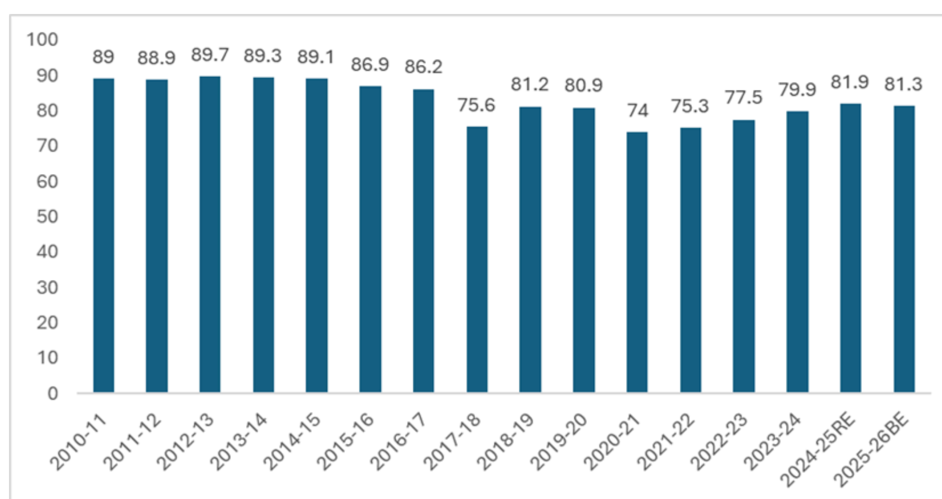
C.1 Worsening Centre-State Fiscal Relations: Kerala as an Illustration

The fiscal autonomy of Indian states depends on three things. The first is the share of central taxes that flow to them through statutory devolution. The second is the volume and predictability of grants-in-aid. The third is the room available under deficit and borrowing rules. Recent trends in all three have moved against the states. This chapter examines those trends and uses Kerala to illustrate their fiscal consequences.

C.2.The Shrinking Divisible Pool

The divisible pool is the share of Union tax revenue that is constitutionally shareable with states. Article 270 of the Constitution excludes cesses and surcharges from this pool. Successive Finance Commissions have raised the vertical devolution rate within the pool, from 32 per cent under the Thirteenth Finance Commission to 42 per cent under the Fourteenth, and 41 per cent under both the Fifteenth and Sixteenth, with the marginal reduction reflecting the reorganisation of Jammu and Kashmir.

Figure C.1: Share of divisible pool in Gross Tax Revenue of the Union Government (in %)



Source: Based on the Union Budget Documents, Various Years

The effective share reaching states has nonetheless fallen, because the divisible pool itself has shrunk relative to gross tax revenue. According to Figure C.1, the divisible pool fell from about 87 per cent of gross tax revenue in the early 2010s to about 78 per cent in recent years. The share of cesses and surcharges in gross tax revenue rose from 10.4 per cent in 2011-12 to 15.3 per cent in 2020-21 on Finance Commission data, and reached 19.9 per cent in 2020-21 on the India Ratings estimate, before moderating in subsequent years. The Fourteenth Commission's increase in vertical devolution from 32 to 42 per cent was therefore partly neutralised by the parallel expansion of cesses and surcharges over the same period.

The Sixteenth Finance Commission has defended the current arrangement on three grounds: that states already command more than two-thirds of non-debt revenue resources after transfers; that further increases would compress Union fiscal space; and that cesses finance

centrally sponsored schemes that benefit states through devolved expenditure. The Commission also draws on historical experience, particularly the period following the Fourteenth Commission's increase in devolution, to argue that aggressive vertical sharing tends to induce a compensating shift by the Union towards non-shareable taxes.

These arguments do not address the underlying issue. A growing portion of Union fiscal capacity lies outside the constitutional sharing framework. The states operate under binding deficit and borrowing constraints. When unconditional transfers stagnate as a share of Union gross revenue while expenditure mandates expand, the adjustment falls on capital and discretionary social spending.

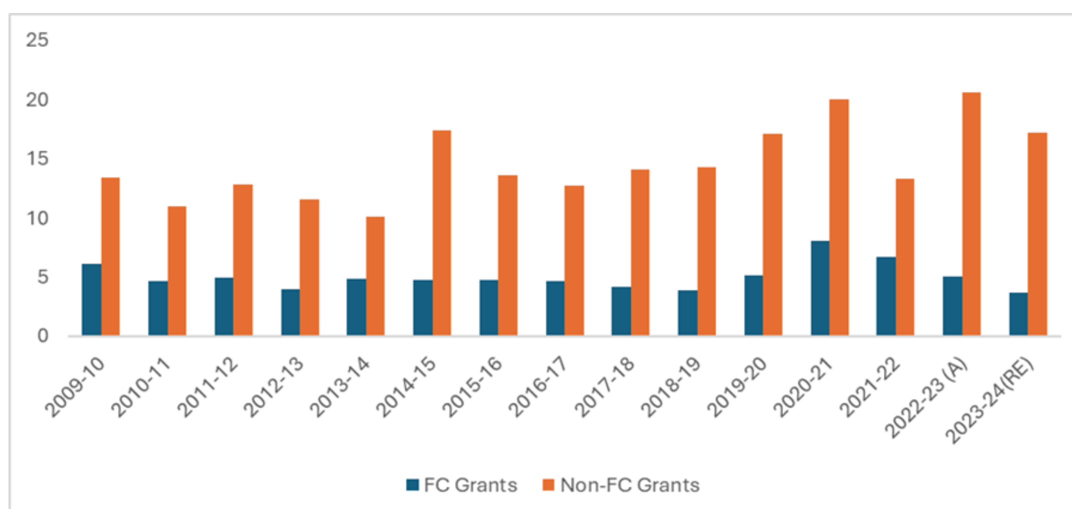
C.3 Conditional Transfers & the Re-centralisation of Expenditure Authority

The shift towards non-Finance Commission grants intensifies the vertical imbalance by altering the qualitative nature of central transfers. Centrally Sponsored Schemes are programmes designed by the Union government and implemented across states, often with conditions on the use of funds and matching contributions required from states. While aggregate transfers have not declined, their composition has changed. The share of unconditional Finance Commission grants in total central transfers has fallen as transfers under Centrally Sponsored Schemes have expanded.

From a fiscal federalism perspective, this constitutes a re-centralisation of expenditure authority. Conditional grants convert states into implementing agents of centrally determined priorities. Three concerns follow. First, uniform programme designs produce systematic

mismatches between state requirements and realised transfers. Second, discretionary grants are less predictable than statutory transfers, complicating medium-term planning and weakening fiscal accountability. Third, the conditions attached to scheme funds reduce state autonomy in expenditure design. The Sixteenth Finance Commission's argument that cesses finance schemes benefiting states does not resolve these concerns. Conditional and discretionary grants are not substitutes for predictable, formula-based devolution.

Figure C.2: Share of Finance Commission and Non-Finance Commission Grants in Transfers



Source: Based on the Union Budget Documents, Various Years

A further feature of the asymmetry is the scale of non-tax revenue in the Union's revenue base. Non-tax revenue is not constitutionally shareable and accrues to whichever level of government collects it. Over the period 2015-16 to 2025-26, non-tax revenue accounted for between 12 and 21 per cent of the Union's own revenue receipts. For Kerala the corresponding share was between 5 and 8 per cent. The Union's non-tax revenue base has also expanded sharply, particularly through dividends

and profits from public sector financial institutions, which rose from about ₹ 1 lakh crore in 2023 to about ₹ 3.25 lakh crore estimated for 2026. The point is not that the Union should share its non-tax revenue with states. It is that the share of Union resources lying within the constitutional sharing framework has compressed from two directions: the rise in cesses and surcharges within tax revenue, and the faster growth of non-tax revenue outside it. Table C.1 sets out the comparison.

Table C.1: Tax, Non-Tax, and Own Revenue: Union Government and Kerala (Amount in ₹ crore)

Year	Union Government				Kerala			
	Tax	Non-Tax	Own Rev.	NT Share (%)	Tax	Non-Tax	Own Rev.	NT Share (%)
2015-16	9,43,765	2,51,260	11,95,025	21.03	38,995	3,303	42,298	7.81
2016-17	11,01,372	2,72,831	13,74,203	19.85	42,176	3,708	45,884	8.08
2017-18	12,42,488	1,92,745	14,35,233	13.43	48,160	3,572	51,732	6.90
2018-19	13,17,211	2,35,704	15,52,915	15.18	51,019	3,964	54,983	7.21
2019-20	13,56,902	3,27,157	16,84,059	19.43	50,323	3,790	54,113	7.00
2020-21	14,26,287	2,07,633	16,33,920	12.71	47,661	2,701	50,361	5.36
2021-22	18,04,793	3,65,112	21,69,905	16.83	58,341	3,798	62,139	6.11
2022-23	20,97,786	2,85,421	23,83,207	11.98	71,968	4,146	76,114	5.45
2023-24	23,27,251	4,01,785	27,29,036	14.72	74,329	4,945	79,274	6.24
2024-25	25,00,039	5,36,580	30,36,619	17.67	81,627	6,184	87,811	7.04
2025-26	26,74,661	6,67,662	33,42,323	19.98	91,515	6,018	97,533	6.17

Source: Union Budget documents and Government of Kerala Budget documents, various years. 2024-25 values are Actuals and 2025-26 values are Revised Estimates.

C.4 Decline in Kerala's Share in Inter Se Distribution

Kerala's share in the inter se distribution of central taxes has declined across successive Finance Commissions, with one interruption under the Fourteenth Finance Commission. The trajectory is shown in Table C.2. Kerala's share fell from 3.875 per cent under the Tenth Finance Commission to 1.925 per cent under the main award of the Fifteenth Finance Commission, a reduction of about 1.95 percentage points across the period. The Sixteenth Finance Commission has raised Kerala's share to 2.382 per cent, an increase of 0.457 percentage points over the previous award. Kerala records the second largest absolute increase among states under the new award, after Haryana.

The nominal increase does not, however, translate into a net gain for the state. The Sixteenth Finance Commission has discontinued three categories of grants that were part of the Fifteenth Finance Commission award: post-devolution revenue deficit grants, sector-specific grants, and state-specific grants. Kerala received ₹ 37,814 crore as revenue deficit grants over the five-year award period of the Fifteenth Finance Commission. The state also received ₹ 2,412 crore under state and sector-specific grants. Both heads have been removed for the 2026-31 period.

Table C.2: Kerala's Inter Se Share of Union Taxes (per cent)

Finance Commission	Award Period	Kerala's Share
Tenth FC	1995-2000	3.875
Eleventh FC	2000-2005	3.057
Twelfth FC	2005-2010	2.665
Thirteenth FC	2010-2015	2.341
Fourteenth FC	2015-2020	2.500
Fifteenth FC (interim)	2020-2021	1.943
Fifteenth FC (main)	2021-2026	1.925
Sixteenth FC	2026-2031	2.382

Source: Reports of the respective Finance Commissions. The Fifteenth Finance Commission submitted an interim report covering 2020-21 followed by a main report covering 2021-22 to 2025-26.

The Commission's stated rationale for discontinuing revenue deficit grants is that they foster fiscal complacency in recipient states. The countervailing consideration, not addressed in the report, is that abrupt discontinuation places the immediate adjustment burden on recipient states, including states whose post-devolution revenue deficits reflect structural revenue constraints rather than discretionary fiscal indiscipline.

C.4.1 Comparing the Sixteenth Finance Commission Award with Budget Estimates 2026-27

Kerala's Budget Estimates for 2026-27 anticipate transfers of about ₹ 20,500 crore more than the Sixteenth Finance Commission has provided for the state. The gap reflects two assumptions in the budget that the Commission's recommendations have not borne out: a continuation of revenue deficit grants at levels comparable to the previous award, and a higher effective transfer through grants beyond pure tax devolution. The Commission's discontinuation of revenue deficit grants and other

discretionary grants has invalidated these assumptions. Bridging the gap will require aggressive mobilisation of own revenue and prioritisation of expenditure, both within the binding fiscal deficit ceiling.

The transition between the two award periods also presents administrative constraints. In March 2026, an amount of ₹ 2,341.85 crore was released as the final tranche of grants under the Fifteenth Finance Commission. A substantial portion of this is required to be transferred to local bodies within ten days of receipt. Compliance is a condition for the release of Sixteenth Finance Commission grants from June 2026 onwards. Non-compliance carries the risk of forfeiture of the new grant, which would compound the revenue stress already in train.

C.5 Asymmetric Fiscal Discipline

The Sixteenth Finance Commission has reinforced fiscal discipline for states. It has recommended that states maintain a fiscal deficit at 3 per cent of GSDP. It has also recommended that the practice of off-budget borrowings be ended, that all such liabilities be brought into the state budget with regular annual reporting preferably as part of the budget documents, and that the definitions of fiscal deficit and debt be expanded to uniformly include all off-budget borrowings.

Table C.3: Gross Fiscal Deficit as a Share of GDP / GSDP (per cent)

Fiscal Year	Union	Kerala	All States
2015-16	3.90	3.17	3.00
2016-17	3.50	4.17	3.50
2017-18	3.50	3.83	2.40
2018-19	3.40	3.42	2.40
2019-20	4.60	2.93	2.60
2020-21	9.20	5.31	4.10
2021-22	6.70	4.98	2.80
2022-23	6.50	2.46	2.70
2023-24	5.50	3.02	2.90
2024-25	4.80	3.86	3.60
2025-26	4.40	3.78	3.30

Source: Union Budget documents (Budget at a Glance, various years); RBI, State Finances: A Study of Budgets, various issues.

Note: For the Union and Kerala, 2024-25 are Revised Estimates and 2025-26 are Revised Estimates and Budget Estimates respectively. For All States, 2024-25 are Revised Estimates and 2025-26 are Budget Estimates.

For the Union government, the Commission has recommended a gradual reduction of the fiscal deficit to 3.5 per cent of GDP by 2030-31. The Union government has not, in practice, been adhering to its own FRBM deficit targets and has instead followed a multi-year glide path. The asymmetry between the two adjustment paths is visible in two respects. The Union ceiling at the end of the adjustment period is 0.5 percentage points higher than the state ceiling. The Union operates on a multi-year glide path while states face a binding annual ceiling. The actual fiscal deficits over the past decade are shown in Table C.3.

The Union fiscal deficit has remained above the states' ceiling throughout the period under review, and above the Union's own medium-term target through most of the post-pandemic years. The all-states aggregate has

remained closer to its statutory target. Kerala's fiscal deficit has been variable but has stayed within or near the 3 per cent ceiling in recent years.

For Kerala, the binding state ceiling becomes more demanding in the context of the revenue shortfalls described in Section 3. Adjustment must come through compression of expenditure, expansion of own revenue, or both. The composition of adjustment matters. Capital expenditure is easier to compress in the short run than committed expenditure on salaries, pensions, and interest payments. The risk is that fiscal consolidation pressure transmits primarily to public investment, which is already low relative to other states.

C.6 Conclusion

Three trends in Centre-State fiscal relations have moved against Kerala over the period under review. The divisible pool has shrunk as a share of Union gross tax revenue, reducing the absolute volume of resources available for sharing even at a constant vertical devolution rate. The composition of transfers has shifted from formula-based devolution to discretionary, conditional grants, reducing state autonomy and the predictability of central support. Kerala's specific share in inter se distribution has fallen across most Finance Commissions over the past three decades, and the partial recovery under the Sixteenth Finance Commission is offset by the discontinuation of revenue deficit and other grants. The fiscal discipline framework applies stricter rules to states than to the Union, leaving states with less room to absorb the resulting revenue shortfalls.

A Note to the Readers on Data and Sources

This note sets out the data conventions adopted in this status paper and explains, at the outset, certain differences in the figures that a careful reader will encounter across the chapters. We provide it in the interest of full transparency, so that the basis of every number, and the reason for any apparent discrepancy, is clear before the substantive analysis begins.

The governing principle: At the commencement of its work, the Committee resolved to rely, wherever possible, on the latest available data from official sources. In practice, fiscal data are published at three successive vintages of increasing finality: Budget Estimates (BE), which are projections made at the time the budget is presented; Revised Estimates (RE), which incorporate part-year information; and Actuals, which record realised outcomes once the accounts are audited (shown as Accounts). Actuals are the most authoritative, and the Committee accordingly preferred the most settled vintage obtainable for each part of the analysis.

Two principal sources, two coverage horizons: Two official sources were central to the report, and they differ in how recently their data extend:

Source	Latest Actuals	Revised Estimates	Budget Estimates
RBI, State Finances: A Study of Budgets	2023–24	2024–25 (RE)	2025–26 (BE)
Government of Kerala, Budget in Brief	2024–25	2025–26 (RE)	

The RBI publication compiles the budgets of all States on a uniform, comparable basis, but its consolidated nature means it lags the individual State documents by one year. The State’s own Budget in Brief is more current for Kerala but, by definition, offers no comparable data for other States.

The convention adopted: Given these features, the Committee applied a consistent rule.

For all inter-State comparisons, the report draws on the RBI State Finances data, which alone provides figures placed on a like-for-like basis across States. The tables presenting such comparisons therefore report Actuals up to 2023–24, Revised Estimates for 2024–25, and Budget Estimates for 2025–26. Within the time available to it, the Committee was not in a position to assemble the latest figures for every State manually from the respective State budget documents, and it judged the uniformity of the RBI series to be the more important consideration for comparative purposes.

For all analysis pertaining to Kerala alone, the report uses the more recent Budget in Brief data, which extend to Actuals for 2024–25 and Revised Estimates for 2025–26.

The resulting difference, and why it does not disturb the findings: A direct consequence of this convention is that the figures for the two most recent years will not always agree between the comparative tables (and the appendix chapters) and the Kerala-specific chapters: a year shown as a Revised Estimate in the inter-State tables may appear as an Actual in the Kerala chapters, and a Budget Estimate in the former may appear as a

Revised Estimate in the latter. These differences arise solely from the vintage of the data and not from any inconsistency in measurement. The Committee has satisfied itself that the gaps between RE and Actuals, and between BE and RE, are minor in magnitude and do not alter the broad patterns, trends, or conclusions drawn in the report.

KIIFB: Data relating to the Kerala Infrastructure Investment Fund Board (KIIFB) are drawn from more than one source. Some divergence exists between the figures reported on the KIIFB website and those in the Finance Department's records. Where such differences occur, they have been noted, and the analysis has been framed so as not to rest on the resolution of these discrepancies.

Plan expenditure: The chapter on plan expenditure draws on two sources, the Budget in Brief and the State Planning Board's Economic Review.

Verification and reliance on public data: To the best of our ability, we have set out the relevant notes and clarifications and have cross-checked the figures across the different sources used. The Committee has relied exclusively on data already in the public domain; consequently, every figure cited and every conclusion reached in this report can be independently verified by the reader.

This page is intentionally left blank

ACKNOWLEDGEMENTS

The Committee acknowledges the research support provided by Mohammed Izudheen (Research Associate, CDS), Vineesh T.B. (Research Associate, CDS), Abdulla M.K. (Research Assistant, CDS), Noha K. Jacob (Intern, CDS), and Arush Krishnan K. (Intern, CDS) during the preparation of this report. Their assistance with data collection is gratefully acknowledged. The Committee also acknowledges the logistical support provided by CDS staff members [in particular, Emmanuel, Praveen and Ajayanandam] in organizing the meetings of the Committee.