

Fiscal Management and Social Sector Spending in Southern India

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This paper examines two aspects:

- 1) Fiscal management in southern states
 - 2) Social sector spending in southern states
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- Data on state finances (accounts) are available up to 2017-18
 - So our analysis is confined up to the period 2017-18
 - Source of data: (1) Reserve Bank of India (2019), State Finances : A Study of Budgets of 2019-20. (2) CAG reports on state finances, Kerala

Hypothesis

“Persistent high level of revenue deficit force the states to rely heavily on borrowing to meet non-development revenue expenditure, which in turn weaken the fiscal capacity for spending on capital items, development and social sector and push the states to a fiscal crisis trap. Among southern states in India, Kerala has been experiencing such a transition”

I. Fiscal Management in southern states

(Table 1 and 2)

- **Revenue Deficit (RD)**
- RD is the difference in revenue receipts and revenue expenditure
- RD/GSDP ratio is a fiscal indicator
- Two states having high level of RD are Andhra Pradesh and Kerala
- But Karnataka and Telengana have revenue surplus
- Revenue surplus indicates sound fiscal management
- It means that the entire borrowing can be used for capital or development expenditure

- RD indicates borrowing for meeting day to day expenditure
- Continuous RD indicates poor or inefficient fiscal management
- RD as KFR Act has been 0.0 percent since 2014-15
- But Kerala's RD ranged between 2.2% and 2.7% during 2011-12 and 2016-17 except one year
- This is a very high level of RD
- Table 1 and 2 give the details of RD
- If we revise Kerala's RD on the basis of CAG's remarks (Finance Accounts) the RD will be much higher.

Table 1
Deficit Indicators of Southern States in India (Per cent)

States	2004-08 (Average)		2016-17		2017-18	
	RD/ GSDP	GFD/ GSDP	RD/ GSDP	GFD/ GSDP	RD/ GSDP	GFD/ GSDP
Andhra Pradesh	0.0	2.8	2.5	4.4	2.0	4.0
Karnataka	(-)1.3	2.0	-0.1	2.4	-0.3	2.3
Kerala	2.3	3.2	2.4	4.2	2.4	3.8
Tamil Nadu	(-)0.6	1.4	1.0	4.3	1.5	2.7
Telangana	-	-	-0.2	5.3	-0.5	3.5
All States	0.0	2.3	0.2	3.5	0.1	2.4

Note : RD: Revenue Deficit, GSDP: Gross State Domestic Product, GFD: Gross Fiscal Deficit; Negative (-) sign indicates surplus

Source : Reserve Bank (2019), State Finances: A study of Budgets of 2019-20

Reserve Bank (2013), State Finances: A study of Budgets of 2012-13

Table 2
Revenue Deficit/Surplus of Southern States

States	2017-18 (Accounts) (₹ crore)			Revenue Surplus/Deficit as % of revenue expenditure
	Revenue Receipts	Revenue Expenditure	Revenue Surplus(-) /Deficit (+)	
Andhra Pradesh	1,05,062.1	1,21,213.8	16,151.7	13.32
Karnataka	1,46,999.6	1,42,482.3	-4,517.3	-3.17
Kerala	83,020.1	99,948.4	16,928.2	16.94
Tamil Nadu	1,46,279.7	1,67,873.6	21,593.9	12.86
Telangana	88,824.1	85,364.7	-3,459.4	-4.05
All States	23,21,241.3	23,40,080.6	18,839.3	0.81

Source : Reserve Bank (2019), State Finances: A study of Budgets of 2019-20

Gross Fiscal Deficit (GFD) in southern states (Table 1 & 3)

- GFD is the total expenditure minus revenue receipts and non-debt capital receipts
- It indicates the total borrowing required
- GFD/GSDP ratio is an indicator of GFD
- Two states having high RD and GFD are Andhra Pradesh and Kerala
- Karnataka and Telengana utilise their entire borrowing for development
- Tamil Nadu has a lower ratio of GFD

- Kerala's and AP's situation with regard to GFD are precautions
- Kerala's GFD as per KFR Act has been 3.0 percent since 2014-15
- But Kerala has not able to achieve it since 2014-15
- GFD as percent of total expenditure is another indicator
- Between 2011-12 and 2017-18 Kerala's GFD as percent of total expenditure was more than 24 percent except one year
- This suggest continuous chronic GFD of Kerala
- If we revise GFD on the basis of CAG's remarks (finance accounts) the actual GFD of Kerala is much higher

Table 3
Gross Fiscal Deficit (GFD) in Southern States

States	2017-18 (Accounts) (₹ Crore)			GFD as % of expenditure
	Receipts	Expenditure	GFD	
Andhra Pradesh	1,05,062.1	1,37,434.7	32,372.6	23.55
Karnataka	1,47,003.4	1,78,104.4	31,101.0	17.46
Kerala	83,049.4	1,09,886.8	26,837.4	24.42
Tamil Nadu	1,46,282.0	1,86,121.5	39,839.5	21.41
Telangana	88,824.1	1,15,338.0	26,513.9	22.99
All States	23,21,415.7	27,31,910.0	4,10,494.3	15.03

Source : Reserve Bank (2019), State Finances: A study of Budgets of 2019-20

RD and GFD estimates in Kerala are underestimates: CAG (Table 4)

- According to CAG an amount of ₹ 8892 crore was excluded in RD in 2017-18
- If we include it, the actual RD will be ₹25820 crore (₹16928 crore + ₹8892 crore)
- According to CAG an amount of ₹9378 crore was excluded in GFD in 2017-18
- If we include it, the actual GFD will be ₹36215 crore (₹26837 crore + ₹9378 crore)
- This indicates an alarming fiscal situation of Kerala
- This suggests that Kerala is heading towards a total collapse of its finances.

Table 4

Revised RD and FD of 2017-18 as per CAG's comments

I.	Revenue Deficit (2017-18)	
1)	Revenue Deficit	₹25820 crore (₹16928 crore + ₹8892 crore)
2)	RD as percent of revenue expenditure	23.7%
3)	RD as per cent of GSDP	3.75%
4)	RD as per KFR Act to be achieved	0.0%
II.	Gross Fiscal Deficit (GFD) (2017-18)	
1)	Gross Fiscal Deficit	₹36215 crore (₹26837 crore + ₹9378 crore)
2)	GFD as percent of total expenditure	30.3%
3)	GFD as per cent of GSDP	5.27%
4)	GFD as per KFR Act to be achieved	3.0%

Source : CAG(2018) Finance Accounts 2017-18 (Vol I)

De composition of GFD in Southern States (Table 5)

- A purpose wise analysis of GFD (borrowed funds) indicates the following
- In states having surplus RD, such as Karnataka and Telengana, more than 90 percent of borrowing is used for capital outlay.
- In Tamil Nadu, 51 percent and in Andra Pradesh, 42 percent of borrowing is spent for capital outlay
- Kerala has spent the lowest share of borrowing for capital outlay (33%)
- This indicates that 67 percent of the borrowing is spent for non-capital items or revenue expenditure in Kerala

Table 5
Decomposition of Gross Fiscal Deficit in
Southern States

States	2017-18 (Accounts) (₹ Crore)					Capital Outlay as % of GFD
	Revenue Deficit	Capital Outlay	Net Lending	Non-debt Capital Receipts	GFD	
Andhra Pradesh	16,151.7	13,490.7	2,730.2	-	32,372.6	41.67
Karnataka	-4,517.3	30,666.8	4,955.3	3.7	31,101.0	98.60
Kerala	16,928.2	8,748.9	1,189.6	29.3	26,837.4	32.60
Tamil Nadu	21,593.9	20,203.2	-1,955.3	2.2	39,839.5	50.71
Telangana	-3,459.4	23,902.0	6,071.2	-	26,513.9	90.15
All States	18,839.3	3,93,620.7	-1,791.3	174.4	4,10,494.3	95.89

Note: negative sign (-) indicates surplus

Source : Reserve Bank (2019), State Finances: A study of Budgets of 2019-20

Overall fiscal situation of the Southern States (Table 6, 7)

- States having revenue surplus such as Karnataka and Telengana have a higher own revenue expenditure ratio.
- States having RD has lower own revenue ratio (Andra Pradesh and Kerala)
- Development expenditure to total expenditure ratio is high in revenue surplus states
- Non-development expenditure total expenditure ratio is high in RD state (Kerala has the highest rate)

- Regarding interest payment revenue receipts ratio, committed expenditure revenue expenditure ratio, pension revenue expenditure ratio, Kerala rank top compared to others.
- A review of the fiscal situation using 8 fiscal indicators show that Kerala's position is the lowest in the case of 5 indicators
- The analysis shows that states having revenue surplus are financially sound and have the fiscal strength to spent for capital item and development purposes

Table 6
Major Fiscal Indicators 2017-18 (Per cent)

States	Own Revenue/ Revenue Expenditure	Development Expenditure/ Aggregate Disbursement*	Non- Developmental Expenditure/ Aggregate Disbursement*	Interest Payment/ Revenue Expenditure
Andhra Pradesh	46.4	66.7	26.8	11.4
Karnataka	67.9	73.1	19.0	9.8
Kerala	59.4	48.9	39.1	15.1
Tamil Nadu	63.9	59.8	30.2	15.5
Telangana	77.3	69.9	26.2	12.7
All States	56.0	64.2	28.2	12.5

Source : Reserve Bank (2019), State Finances: A study of Budgets of 2019-20

Table 7
Major Fiscal Indicators 2017-18 (percent)

States	Interest Payment/ Revenue Receipts	Committed Expenditure/ Revenue Expenditure	Pension/ Revenue Expenditure	Gross Transfers/ Aggregate Disbursement
Andhra Pradesh	13.2	30.4	13.4	33.9
Karnataka	9.5	22.5	8.2	28.0
Kerala	18.2	40.5	19.9	20.6
Tamil Nadu	17.8	34.0	13.3	20.5
Telangana	12.2	34.5	14.0	19.5
All States	12.6	31.2	11.8	35.2

Source : Reserve Bank (2019), State Finances: A study of Budgets of 2019-20

Outstanding Liabilities in Southern States (Table 8, 9)

- Outstanding liabilities comprises of (1) debt items and (2) other liabilities
- Debt items are internal debt, loans from government of India, other loans, small savings, provident funds etc
- Other liabilities are reserve funds, deposits and advances and contingency fund
- The states having revenue surplus have a lower liabilities GSDP ratio compared to others
- A review of the outstanding liabilities GSDP ratio for five years show that Kerala has the highest rate except one year

- Kerala had the highest liabilities GSDP ratio in 2018
- A review of the growth in outstanding liabilities indicates the following
 - Between 2001 and 2007, the liabilities increased more than 100 percent in Karnataka and Andhra Pradesh (6 years)
 - Between 2007 and 2013, the growth rate was more than 100% in Kerala and Tamil Nadu (6 years)
 - But between 2013 and 2018, the growth rate was more than 100% in Karnataka and Tamil Nadu (5 years)
 - This suggest that the public debt and other liabilities double within a period of five years.

Table 8

Total Outstanding Liabilities in Southern States (as percent of GSDP)

States	2001	2007	2013	2018
Andhra Pradesh	27.2	30.0	42.4	28.3
Karnataka	21.9	25.6	16.2	18.2
Kerala	33.4	34.0	26.7	30.9
Tamil Nadu	21.7	22.1	17.9	22.3
Telangana	-	-	-	21.3
All States	27.3	28.9	22.2	25.1

Source : Reserve Bank (2019), State Finances: A study of Budgets of 2019-20

Table 9
Total Outstanding Liabilities of southern states

States	2001	2007	2013	2018
	Amount (₹ crore)			
Andhra Pradesh	41,808.9	90,456.4	1,74,259.6	2,29,333.8
Karnataka	25,301.4	58,078.5	1,12,666.6	2,45,950.6
Kerala	26,258.6	52,318.1	1,09,966.5	2,16,499.4
Tamil Nadu	34,540.9	68,561.4	1,52,805.3	3,26,636.0
Telangana	-	-	-	1,60,296.3
All States	5,94,147.8	12,41,576.4	22,10,245.6	42,92,495.3
	Growth (%)			
Andhra Pradesh	-	116.36	92.64	31.60
Karnataka	-	129.55	93.99	118.30
Kerala	-	99.24	110.19	96.88
Tamil Nadu	-	98.49	122.87	113.76
Telangana	-	-	-	-
All States	-	108.97	78.02	94.21

Source : Reserve Bank (2019), State Finances: A study of Budgets of 2019-20

Expenditure on Wages and Salaries

(Table 10)

- This amount of expenditure on wages and salaries is determined by the staff strength of government departments and other public institutions and policies on salary and pension of state governments.
- Many of the departments and institutions started in the states during 1960s, have very little relevance today due to change in state's role, policies, introduction of IT in administration and overall economic changes that have taken place.

- Due to political and trade union pressure a lot of unnecessary establishments and institutions are retained by state governments involving huge recurring cost on salaries and pensions every year.
- A review of the growth in expenditure in wages and salaries indicates the following
- During the period of five years (2002-03 to 2007-08), the states which registered the highest increase in the item of expenditure was Karnataka (70%). Second position Kerala, third Andhra Pradesh and fourth Tamil Nadu
- Between 2007-08 and 2012-13, the highest growth was registered in Tamil Nadu, followed by Kerala, Andhra Pradesh and Karnataka

- Between 2012-13 and 2017-18, the highest growth was registered in Kerala
- Kerala which had a lower expenditure on ways and salaries compared to Karnataka in 2002-03 has a higher expenditure at present (2017-18)
- Currently the expenditure on wages and salaries in Kerala is higher than Telengana and just near to Andra Pradesh
- A basic cause for the persistent revenue deficit in Kerala since 1983-84 has been the rapid increase in the expenditure on wages and salaries
- Revision of salaries and pension once in five years in Kerala is the major reason for this.

Table 10

Expenditure on Wages and Salaries

States	2002-03	2007-08	2012-13	2017-18
	Amount (₹ crore)			
Andhra Pradesh	8,100.0	13,000.0	25,770.0	32,815.5
Karnataka	4,940.0	8,410.0	16,080.0	22,847.0
Kerala	4,750.0	7,790.0	17,560.0	32,349.1
Tamil Nadu	7,980.0	12,160.0	27,600.0	44,981.0
Telangana	-	-	-	23,813.3
All States	96,110.0	1,35,940.0	3,23,760.0	6,27,098.8
	Growth (%)			
Andhra Pradesh	-	60.49	98.23	27.34
Karnataka	-	70.24	91.20	42.08
Kerala	-	64.0	125.42	84.22
Tamil Nadu	-	52.35	126.97	62.97
Telangana	-	-	-	-
All States	-	41.44	138.16	93.69

Source : Reserve Bank (2019), State Finances: A study of Budgets of 2019-20

II. Social Sector Spending (SSS) in Southern States (Table 11)

➤ Social Sector Spending (₹ crore)

- A review of growth in SSS in southern states for 15 years gives the following
- Karnataka, a revenue surplus state has a higher rate of growth in SSS (more than 100 percent) in every five years.
- Andhra Pradesh and Tamil Nadu have a higher growth rate during the ten year period (2002-03 and 2012-13) but registered a fall since then
- Compared to other southern states, Kerala's social sector expenditure was lower.

- And there exist a correlation between revenue surplus and growth in social sector spending in the states
- **Share of SSS to total spending (Table 12)**
- The share of the SSS was highest in Kerala in 2002-03 (37.4 percent)
- But the share of SSS to total spending registered a fall and remained lowest in the subsequent years compared to other southern states.
- SSS to total spending was lowest in Kerala in 2007-08, 2012-13 and 2017-18
- In the ease of Andhra Pradesh, Karnataka the share of SSS registered a continuous increase in 2007-08, 2012-13 and 2017-18.

Table 11

Social Sector Expenditure

States	2002-03	2007-08	2012-13	2017-18
	Amount (₹ crore)			
Andhra Pradesh	11,179.2	24,470.9	49,435.2	72,855.8
Karnataka	7,569.7	17,644.5	37,829.3	76,436.5
Kerala	6,338.3	9,010.3	21,645.7	40,844.3
Tamil Nadu	9,662.3	19,994.0	46,753.2	71,792.6
Telangana	-	-	-	50,203.8
All States	1,33,647.9	2,65,466.5	6,02,942.7	12,00,934.1
	Growth (%)			
Andhra Pradesh	-	118.90	102.02	47.38
Karnataka	-	133.09	114.40	102.06
Kerala	-	42.16	140.23	88.69
Tamil Nadu	-	106.93	133.84	53.56
Telangana	-	-	-	-
All States	-	98.63	127.13	99.18

Source : Reserve Bank (2019), State Finances: A study of Budgets of 2019-20

Table 12

Social Sector Expenditure to Total Disbursement (Percent)

States	2002-03	2007-08	2012-13	2017-18
Andhra Pradesh	32.5	32.7	38.2	49.6
Karnataka	31.4	36.7	39.2	41.0
Kerala	37.4	31.4	34.9	34.9
Tamil Nadu	32.0	35.9	38.5	35.3
Telangana	-	-	-	41.8
All States	32.6	35.3	39.3	41.1

Source: Reserve Bank (2019), State Finances: A study of Budgets of 2019-20

Expenditure on Education : As ratio to total expenditure (Table 13)

- This is an indicator of social sector spending
- During 2002-03, southern states spent more than 11.7 percent of the total expenditure on education. Kerala ranked the top position (17.6%)
- After five years (2007-08) there has been a fall in the share of spending in all southern states
- After another five years (2012-13) there has been an increase in the share of spending in all southern states

- The trend in the share of spending continued only in Andhra Pradesh in 2017-18
- Between 2012-13 and 2017-18, there has been a fall in the share of spending in Karnataka, Kerala and Tamil Nadu
- A notable aspect is that the percentage of expenditure on education in Karnataka and Kerala was lower in 2017-18 compared to 2002-03

Table 13

Expenditure on Education – As ratio to aggregate expenditure

States	2002-03	2007-08	2012-13	2017-18
Andhra Pradesh	11.7	9.0	12.9	13.6
Karnataka	14.8	14.4	15.5	12.0
Kerala	17.6	15.9	17.2	16.3
Tamil Nadu	13.8	12.7	14.7	14.5
Telangana	-	-	-	10.4
All States	15.1	13.8	16.4	15.0

Source – Reserve Bank (2019), State Finances: A study of Budgets of 2019-20

Expenditure on public health: as ratio of total expenditure (Table 14)

- This is an indicator of social sector spending
- All the southern states spent more than 4 percent for the purpose during 2002-03
- After five years there had been a fall in spending on public health in all southern states (2007-08)
- But since then there has been an increase in the share of spending in all southern states

- Regarding ratio of this expenditure Kerala rank top in all the four years viz. 2002-03, 2007-08, 2012-13 and 2017-18
- All the southern states spent more than 4.2 percent of its total spending for public health during 2017-18
- The data indicate that irrespective of fiscal situation all southern states spent more funds on public health

Table 14
**Expenditure on Medical and Public Health – As
ratio to aggregate expenditure**

States	2002-03	2007-08	2012-13	2017-18
Andhra Pradesh	4.0	3.3	4.2	4.3
Karnataka	4.2	3.8	4.1	4.4
Kerala	4.8	4.5	5.2	5.5
Tamil Nadu	4.1	3.3	4.4	5.1
Telangana	-	-	-	4.2
All States	4.0	3.8	4.3	5.0

Source: Reserve Bank (2019), State Finances: A study of Budgets of 2019-20

Revenue Expenditure (2017-18) in southern states (Table 15)

- A high level of RD is usually associate with lower level of development revenue expenditure (DRE), higher level of non-development revenue expenditure (NDRE), interest and pension payments.
- The RE/GSDP ratio indicates that the ratio is high in Andra Pradesh and Kerala compared to other states
- Kerala highest NRDE/GSDP ratio, highest IP/GSDP ratio and highest in PN/GSDP ratio.
- The Andra Pradesh stands second position regarding the above indicators
- The situation in Karnataka, Tamil Nadu and telengana are better compared to Kerala and Andra Pradesh with respect to above indicators.

Table 15
Revenue Expenditure of State Governments
(2017-18)

States	RE/GSDP	DRE/GSDP	NDRE/GSDP	IP/GSDP	PN/GSDP
Andhra Pradesh	15.0	10.1	4.8	1.7	2.0
Karnataka	10.6	7.5	2.6	1.0	0.9
Kerala	14.3	6.7	6.5	2.2	2.8
Tamil Nadu	11.5	6.6	4.1	1.8	1.5
Telangana	11.3	7.2	4.1	1.4	1.6
All States	13.7	8.6	4.7	1.7	1.6

RE: Revenue Expenditure, DRE: Development Revenue Expenditure, NDRE: Non-development Revenue Expenditure, IP: Interest Payment, PN: Pension

Source : Reserve Bank (2019), State Finances: A study of Budgets of 2019-20

Development Expenditure GSDP ratio (2017-18) (Table 16)

- DEV/GSDP ratio indicates the level of development expenditure
- Usually states having revenue surplus have higher level of development expenditure
- Among the states Andhra Pradesh, Telangana and Karnataka has a better DEV/GSDP ratio in 2017-18
- Kerala has the lowest ratio
- Regarding social sector expenditure, Andhra Pradesh and telengana is in a better position compared to other states.

- Telangana and Karnataka has a higher level of capital outlay compared to other states.
- Kerala has the lowest capital outlay
- Regarding the three indicators, Kerala stands the lowest in two indicators.

Table 16
Development Expenditure : Select Indicators
(2017-18)

States	DEV/GSDP	SSE/GSDP	CO/GSDP
Andhra Pradesh	12.1	9.0	1.7
Karnataka	10.1	5.7	2.3
Kerala	8.2	5.8	1.2
Tamil Nadu	8.3	4.9	1.4
Telangana	11.1	6.7	3.2
All States	11.0	7.0	2.3

DEV: Development Expenditure, SSE: Social Sector Expenditure, CO: Capital Outlay

Source: Reserve Bank (2019), State Finances: A study of Budgets of 2019-20

Fiscal Management: Conclusions

- Revenue surplus states such as Karnataka and Telengana can be rated as state having sound fiscal management compared to others
- Revenue surplus states have a higher share of own revenue a higher share of spending on capital item and development, low level of outstanding liabilities and low share of non-development expenditure
- Among the states Tamil Nadu's position is better compared to Andhra Pradesh and Kerala
- The state having worst fiscal management is Kerala, which have persistent revenue deficit for more than three decades
- A major cause for the persistent revenue deficit in Kerala is due to alarming increase in expenditure on wages and salaries

Social Sector Spending (SSS): Conclusions

- Karnataka a revenue surplus state, has a higher rate of growth in SSS compared to others
- While there has been an increase in the share of SSS to total expenditure in Andhra Pradesh, Karnataka, Tamil Nadu and Telengana between 2002-03 and 2017-18, the share of Kerala declined
- But Kerala has the highest share of expenditure to total expenditure on education and public health compared to other states
- All southern states spent more funds on public health irrespective of their fiscal situation
- The conclusions on fiscal management and social sector spending support the hypothesis we presented in the paper.

Thank You