

Budget Analysis

Kerala Budget 2013-14

The Minister of Finance, K.M Mani , presented the General Budget 2013 to the State Assembly on March 15, 2013. In his address, he commented on the fiscal performance of the State in 2012-13 and laid out his budget proposals for 2013-14.

This document presents a brief analysis covering important features of the Budget.

Highlights

Receipts

(see table 2)

- Receipts for 2012-13 are projected at Rs 48,389, marginally exceeding the 2012-13 budget estimate (Rs 48,249 crore).
- In 2013-14, receipts are to increase by 20% to Rs 58,058 crore, mainly because of increased tax receipts (20%).
- Sales tax is projected to increase by 23% and drive tax receipts growth.

Expenditure

(see table 3)

- In 2012-13, total expenditure is projected at Rs 59,734 crore, slightly overshooting the budget estimate of Rs 58,976 crore.
- Total spending for 2013-14 expected to total Rs 70,076 crore, a 17% increase over 2012-13.
- Major increases in spending on social services and transport.

Deficit and Debt

(see table 1 and figure 1)

- The fiscal deficit for 2012-13 is projected at Rs 11,345 crore (3.1% of GSDP).
- In 2013-14, the fiscal deficit is projected to decrease to 2.82% of GSDP while debt is projected to reduce to 27.14% of GSDP. Significant proportion of Kerala's debt is in the form of market borrowings. Kerala is set to meet its FRBM requirements.

Economy

(see figure 2)

- Economy projected to grow at 9.6% in 2012-13 (after 9.5% in 2011-12).
- The tertiary sector (services), accounting for 70% of GSDP, is the most important component of Kerala's economy.

Budget at a glance

- Around 80% of Kerala's receipts come through taxes. Total tax revenue is expected to increase by 22% in 2013-14. Overall, receipts are expected to increase by 20%.
- Non-tax revenue includes grants from the central government and state government collections through social services like housing and education; and economic services like road transport and industry. In 2013-14, non-tax revenue is projected to increase by 15%.
- Expenditure is projected to increase by 17% to Rs 70,076 crore. Approximately 26% of total spending is plan expenditure. For a detailed breakdown of expenditure, refer to Table 3.
- The fiscal deficit is the difference between expenditure and receipts. Kerala's fiscal deficit is expected to decrease to 2.8% of gross state domestic product (GSDP) in 2013-14.

Revenue vs Capital

Both receipts and expenditure can be classified as either revenue or capital. Receipts from sources such as taxation, dividends from companies owned by the government and user charges on public services are classified as revenue receipts. Receipts from sources such as borrowing and disinvestment of public sector companies are classified as capital receipts. Capital receipts reduce assets or increase liabilities.

Plan vs Non-plan

Expenditure can also be split into plan and non-plan. Plan expenditure covers expenditure on schemes and projects covered by the five-year Plans. Non-plan expenditure is expenditure not covered by the Plans and includes items such as interest payments on government debt, expenditure on police, and even maintenance of existing government establishments such as schools and hospitals.

Table 1: Kerala Budget key indicators (Rs. Crore)

	2011-12	2012-13	2012-13	2013-14	% Change over last year
	Actuals	Budget Estimates	Revised Estimates	Budget Estimates	
			(A)	(B)	(B-A)/(A)
Total Revenue Receipts (a)	38,010	48,142	48,269	58,058	20%
Tax Revenue	31,709	39,226	38,543	46,915	22%
Non Tax Revenue	6,301	8,916	9,726	11,143	15%
Total Capital Receipts (b)	71	108	120	146	22%
Recoveries of loans	55	88	99	124	25%
Misc. Receipts	16	20	21	22	5%
Total Receipts (a + b)	38,081	48,249	48,389	58,204	20%
Total non-plan expenditure (c)	41,754	47,102	47,470	55,536	17%
Total plan expenditure (d)	9,142	11,875	12,264	14,540	19%
Total Expenditure (c + d)	50,896	58,976	59,734	70,076	17%
Fiscal Deficit (Total Expenditure – Total Receipts)	12,815	10,727	11,345	11,873	5%
Fiscal Deficit (% of State GDP)	4.07%	2.74%	3.12%	2.82%	

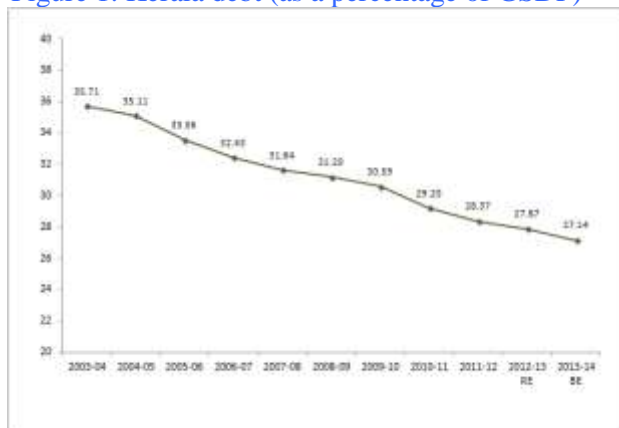
Source: State budget documents; PRS.

Debt position

- When a government spends more than it collects by way of revenue, it incurs a deficit. This fiscal deficit is financed by borrowing.
- The Fiscal Responsibility and Budget Management Act is a target-based framework to ensure that public finances are managed to create a stable growth path. Under the Act, Kerala's debt level should be under 29.8% of GSDP by 2014-15.

- Currently Kerala's debt for 2012-13 is projected at 27.9%. The government has targeted a debt ratio of 27.14% for 2013-14.
- Government debt is largely in the form of market borrowings (47% of total debt) i.e. state issued bonds. The other major components are special securities issued to the National Small Savings Fund and Provident Fund (31%) and borrowing from the centre (6%).

Figure 1: Kerala debt (as a percentage of GSDP)



Source: State budget documents; PRS.

Revenue analysis

- Total tax revenue is expected to increase by 22% to Rs 46,915 crore in 2013-14.
- Within taxes, sales tax is the major driver – accounting for nearly 60% of tax revenues. In 2013-14, sales tax revenue is expected to increase by 23% to Rs 28,457 crore.
- State share of central taxes is another important tax revenue source (17.7% in 2012-13). Revenues depend on central government tax collection and the share is determined by the Finance Commission. The 13th Finance Commission had allocated Kerala 2.34% of total states share.
- The other major increase in tax revenue is expected through vehicle and passenger tax which is projected to collect an additional Rs 621 crore (or 32% more) in 2013-14.

Table 2: Tax revenue (Rs. Crore)

	Actuals (2011-12)	Budget Estimates (2012-13)	RE (2012-13)	Budget Estimates 2013-14	% Change in Budget Estimates over last year
			(A)	(B)	(B-A)/(A)
Total Tax Revenue (a + b)	31,709	39,226	38,543	46,915	22%
Share of Central Taxes (a)	5,990	7,103	6,841	8,144	19%
State Tax Collection (b)	25,719	32,122	31,702	38,771	22%
Sales Tax	18,939	23,451	23,094	28,457	23%
Stamps and Registration	2,987	3,776	3,621	4,207	16%
State Excise	1,883	2,551	2,376	2,802	18%
Vehicle and Passenger Tax	1,587	1,694	1,950	2,571	32%
Luxury and Entertainment	139	165	170	204	20%

Source: State budget documents; PRS.

Expenditure analysis

- In 2013-14, the Kerala government is expected to spend Rs 70,076 crore with around 88% of spending in the form of revenue expenditure. Spending can also be split up into development (items like education, irrigation and transport) and non-development (tax collection, interest charges etc) expenditure.
- Development expenditure accounting for around 60% of total spending is expected to increase by 20% in 2013-14. In particular, spending will increase significantly for education (18% increase), transport (43%) and other economic services (194%) .
- The major component of non-development expenditure is money spent on pensions (13% of total spending and interest charges (11%). Total non development spending is expected to increase by 14%.
- The other major spending item not explicitly covered by the table is salaries. In 2012-13, the Kerala government is estimated to spend Rs 16,796 crore on salaries. This is expected to increase by 17% in 2013-14 to Rs 19,711 crore.

Table 3: Budgeted expenditure on major sectors (Rs. Crore)

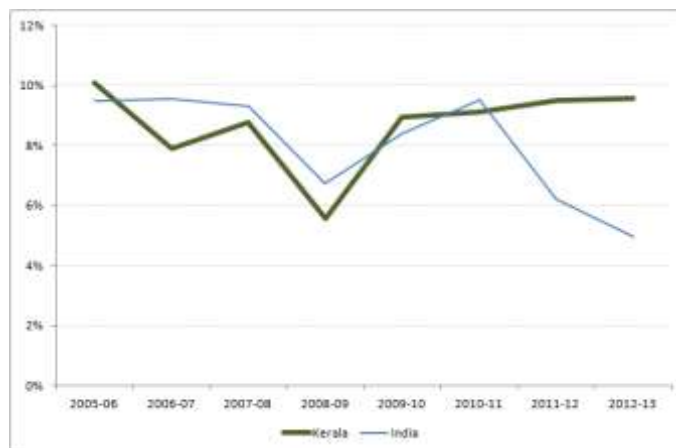
	2011-12		2012-13		2013-14		% Change in Budget Estimates over last year
	Actual	% of total exp	R.E.	% of total exp	B.E.	% of total exp	
Social services	16,819	33%	19,458	33%	23,597	34%	21%
Education	9,504	19%	10,284	17%	12,163	17%	18%
Medical and public health	3,371	7%	3,935	7%	4,661	7%	18%
Other social services	3,943	8%	5,239	9%	6,773	10%	29%
Economic services	9,390	18%	13,721	23%	16,061	23%	17%
Agriculture, animal husbandry and co-operation	3,119	6%	3,437	6%	3,842	5%	12%
Irrigation	609	1%	1,022	2%	1,160	2%	13%
Public works	2,824	6%	4,821	8%	2,840	4%	-41%
Industries, labour and employment	1,057	2%	1,420	2%	1,587	2%	12%
Transport and communication	511	1%	1,490	2%	2,134	3%	43%
Others	1,270	2%	1,532	3%	4,498	6%	194%
Local self governments	2,714	5%	3,337	6%	4,212	6%	26%
Total development expenditure	28,923	57%	36,517	61%	43,869	63%	20%
Interest charges	6,294	12%	7,045	12%	7,673	11%	9%
Admin services	4,249	8%	4,613	8%	5,778	8%	25%
Pensions	8,700	17%	8,467	14%	9,438	13%	11%
Tax collection	948	2%	1,010	2%	1,107	2%	10%
Others	1,782	4%	2,081	3%	2,210	2%	6%
Non-development expenditure	21,973	43%	23,218	39%	26,207	37%	13%
Total expenditure	50,896	100%	59,734	100%	70,076	100%	

Source: State budget documents; PRS.

Kerala economy

- The Kerala economy is projected to grow by 9.6% in 2012-13 a slight acceleration from 9.5% in 2011-12. Over the last five years, the annual growth rate has averaged 8.8%.
- The size of the economy is estimated at Rs 3.6 lakh crore in 2012-13, increasing to Rs 4.2 lakh crore in 2013-14 (a 17% increase).
- The Kerala economy is driven by the tertiary sector which accounts for around 70% of GSDP. In 2011-12, the services sector grew at 11.8%, industrial sector by 7% while the agriculture sector contracted by 0.7%.

Figure 2: Economic growth (%)



Source: State budget documents; PRS.

DISCLAIMER: This document is being furnished to you for your information. You may choose to reproduce or redistribute this report for non-commercial purposes in part or in full to any other person with due acknowledgement of PRS Legislative Research ("PRS"). The opinions expressed herein are entirely those of the author(s). PRS makes every effort to use reliable and comprehensive information, but PRS does not represent that the contents of the report are accurate or complete. PRS is an independent, not-for-profit group. This document has been prepared without regard to the objectives or opinions of those who may receive it.