ISSN : 2583-4436

KERALA ECONOMY
2021, VOL.2, NO. 6-7, pp 13-15.

Need to address structural challenges

R K Singh, IAS

Additional Chief Secretary (Finance), Government of Kerala

According to NITI Aayog's, SDG index rankings for states, Kerala retained its number one position because of its achievements in various fields like social sector, health, education and also in areas like telecom density, Internet coverage, environmental parameters, etc. We are narrowly followed by states like Himachal Pradesh which is just one point below and is probably going to compete with us closely in the future. We are also at the top rank in the devolution index and we are now on a per capita basis 60 per cent higher than the national average as far as per capita GDP is concerned. This is based on substantial growth of the last decade, particularly in services sector and as a result of which growth rates have normally have been in double digits for most years.

But I don't want to downplay the considerable structural challenges that we face. The two major challenges are one, that our capital expenditure, as a percentage of GDP is very low, it is only 1.1 per cent against the national average of 2.5 per cent. although, hopefully, the KIIFB interventions will lead to some increase in that. The other is that, among the major Indian states, we have the largest unemployment problem; almost 11 per cent against the all India average of 6 per cent.

There is also a structural fiscal challenge, in that we are probably spending too much on revenue expenditure and we have too much of committed liabilities as part of that revenue expenditure as compared to the rest of India. Our committed expenditure in terms of salary, pension and interest is 61 percent of total revenue expenditure, the average for other states is far less.So there is a structural problem in the economy and there are also some structural issues in our fiscal setup itself. We have to address all of these and the budget actually tries to address many of these. Not just budget, but in our policy in the last two years, in the face of the pandemic, we tried to follow a counter cyclical type of strategy, meaning we kept spending money on public works, as well as on social safety net and we tried to ensure a combination of proactive measures in the health sector and a rely universal basic income support ; while ensured , that our fatality rate revised one of the lowest in the world, while taking care of the most vulnerable sections of our population.

However, we now need to move on to a path of fiscal consolidation, because otherwise we will have a difficult time in the future and only way to actually do that is to return to the path of growth. As I mentioned our expenditure profile is such that most of our expenditures are committed expenditures and there is not much room for reduction. Other than trying to reduce the increase in a permanent establishment by not creating too many your salaried positions in government in the future, there may be some possibility of elongating the majority profile of our debt and try to reduce the interest burden a bit, but as far as the 61 per cent of our revenue expenditure is concerned, it is fairly inflexible. As Dr Isaac also mentioned our Debt - GDP ratio went up to 36 per cent in last year, mainly because we were also able to access an additional 2 per cent in borrowings which was given to us, subject to certain reform parameters, all of which we were able to achieve. There are other states which are at over 40 per cent and these include states like Punjab, Rajasthan, Uttar Pradesh, Bihar etc.

However, we unlike UP and Bihar, we don't have their much more generous levels of devolution from the Finance Commission which, of course, in our case is far less. So what I wanted to stress is that there is a two year breathing space that we have in the state, mainly because the Finance Commission has been generous enough to compensate for the lower devolution figures by giving us higher transfers in the form of revenue deficit grants, which will taper down over the next two years. Similarly the 14% protected revenue growth under the GST regime, that will also fade out by the middle of next year, though there will be some tail to that which will continue for the whole of next year.

In that two year period we basically have to return to the path of growth and also control our fairly runaway expenditure growth rate of 10-15 per cent. We need to bring it down to about 10 per cent . In that case, we should be able to ensure that the Kerala model of development that we have achieved, and which has shown such a spectacular results and outcomes, as has been recently recognized ever by the Government of India, remains sustainable. As the projection of the 15th FC indicate , over the next five years, we should be able to grow at least 13.1 per cent, in the highest growing category of Indian states along with Haryana and Goa. If we are able to achieve that I think we will be in striking distance of the FRBM targets that were mentioned earlier. Hopefully, the abatement of the pandemic and the return of tourism, which contributes almost to the extent of 10 per cent to our GDP, will also help regenerate our economy.

As I mentioned earlier, the structural challenge of lower capital expenditure is being sought to be met through higher expenditure through KIIFB, as well as through externally aided projects, many of which we have tied up in the recent past. As far as the unemployment issue is concerned, the current year's budget, had a particular focus on the second challenge, of reducing the educated unemployment, through steps for providing employment for a higher percentage of our educated under employed categories and housewives, so that they are able to access and start working in the digital economy. A new online platform that we are in the process of deploying with the help of leading international placement agencies/firms will focus on this objective. I'm cautiously optimistic that with these interventions, we will ensure higher levels of growth and help sustain our unique Kerala model of development in the short and medium term.