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## UNDERSTANDING FISCAL STRESS ON INDIAN STATES IN COVID PERIOD: WITH SPECIAL REFERENCE TO KERALA AND WEST BENGAL

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### 1. INTRODUCTION

The fiscal consolidation projections provided by the Fifteenth Finance Commission, including its alternative paths, have been rendered out of alignment because of the COVID-19's deleterious economic impact. The Covid-19 pandemic is a global crisis that has hit the world on multiple fronts. As a result, India's economy has taken a massive hit. There has been a sharp contraction in economic activities in 2020. The economic impact of the COVID-19 pandemic in India has been largely disruptive. India's growth in the fourth quarter of the fiscal year 2020 went down to 3.1% according to the Ministry of Statistics. The Chief Economic Adviser to the Government of India said that this drop is mainly due to the coronavirus pandemic effect on the Indian economy. Government revenue has been severely affected with tax collection going down, and as a result the government has been trying to find ways of reducing its own costs.

The COVID-19 pandemic in India is a part of the worldwide pandemic of coronavirus disease 2019 (COVID-19) caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). As of 14 November 2022, according to Indian government figures, India has the second-highest number of confirmed cases in the world (after the United States of America) with 44,666,924 reported cases of COVID-19 infection and the third-highest number of COVID-19 deaths (after the United States and Brazil) at 530,532 deaths. In May 2022, the World Health Organization estimated 4.7 million excess deaths, both directly and indirectly related to COVID-19 to have taken place in India. India began its vaccination programme on 16 January 2021.

Fiscal Responsibility and Budget Management Act passed by the government of India in August 2003. It imposes strict fiscal discipline on the government in its overall fiscal and macroeconomic management operations. The Act was a deficit management tool for government in practice. The FRBM Act aims at the elimination of the deficit. FRBM Act is a tool for fiscal consolidation in India as prescribed by international agencies. In 2003, FRBM was installed in India with an aim to reduce fiscal burden and enhance the quality of public expenditure in India. In this context, we look upon overall impact of fiscal consolidation as prescribed by FRBM Act.

### 2. RATIONALE FOR THIS STUDY

Fiscal imbalances have grown sharply across the states since the 1980s. During the last 1993-96, the largest revenue deficit on an average was Orissa, West Bengal, Punjab and Uttar Pradesh. West Bengal has a high average revenue deficit before and after the FRBM act. Kerala like West Bengal has a high revenue deficit since the 1990s. But after the implementation of the FRBM Act, Kerala faced good changes and it translated to revenue surplus. The Fiscal Responsibility and Budget Management Act (FRBM Act), 2003, establish the financial discipline to reduce fiscal deficit. The FRBM Act aims to introduce transparency in India's fiscal management systems. The Act's long-term objective is for India to achieve fiscal stability and to give the Reserve Bank of India (RBI) flexibility to deal with inflation in India. The FRBM Act was enacted to introduce more equitable distribution of India's debt over the years.

Years after independence, West Bengal is dependent on the central government for help in meeting its demands for food; food production remained stagnant, and the Indian green revolution bypassed the state. However, there has been a significant increase in food production since the 1980s and the state now has a surplus of grains. The state's share of total industrial output in India was 9.8% in 1980-1981, declining to 5% by 1997-1998. In contrast, the service sector has grown at a rate higher than the national average. The state's total financial debt stood at ₹1,918,350 million (US\$24 billion) as of 2011.

In the period 2004-2010, the average gross state domestic product (GSDP) growth rate was 13.9% (calculated in Indian rupee terms) lower than 15.5%, the average for all states of the country. The economy of West Bengal has witnessed many surprising changes in direction. The agricultural sector in particular rose to 8.33% in 2010-11 before tumbling to -4.01% in 2012-13.

Kerala's fiscal scenario at present can be described as one which is sought to be put on a path of fiscal consolidation through renewed efforts. Along with all the Indian States, Kerala also faced increasing revenue and FDs during the latter half of the 1990s. Attempts to reduce these deficits, through temporary expenditure control measures during the early 2000s met with stiff resistance from various sections of the society. However, the State could embark on a path of revenue - led fiscal consolidation and bring all the



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major deficit indicators down during the second half of the first decade of the 2000s. But this received a setback, since 2013-14, when the State's own tax revenue grew at a significantly lower rate, while the growth rate of revenue expenditure has been downwardly inflexible. The one - time reduction in growth rate of revenue expenditure during 2015-16 made possible by postponement of committed revenue expenditure arising from State Pay Commission recommendations resulted in additional fiscal stress in the immediately following financial year, 2016-17. Here we could see that there is an imbalance among the states also. What is the impact of pandemic covid 19 viruses on our economy?

Here we made a look upon Kerala and West Bengal especially their fiscal performance at the time of covid 19, whether they were succeeding in achieving the FRBM target or not.

### 3. DATA SOURCE AND METHODOLOGY

The study utilizes secondary data for evaluating and analyzing the specific objectives of the study. The secondary information or data is collected from the Reserve Bank of India Publications, Central Statistical Organization. The major sources of data are relevant issues of Reserve Bank of India publication 'State Finances: A Study of Budgets', budget documents and other publications of Government of Kerala and Government of West Bengal. The basic approach of the study is to analyze the current fiscal situation of India (both the central and the state government) in the context of covid 19 impact and Fiscal Responsibility and Budget Management Act 2003. Here the paper made a comparison between two fiscally backward states namely Kerala and West Bengal in-terms of key fiscal indicators. For the analysis of centre and state government, we made the periods into two, Pre and Post covid periods. That is from 2016 to 2021. Data on central and state government are taken from the Reserve Bank of India Publications. For Kerala and West Bengal analysis, the paper focus on the periods 2016-17, 2018-2019, 2019-2020, 2020-2021. For this, various issues of Reserve Bank of India publication 'State Finances: A study of Budgets', the budget documents, and other publications are taken.

### 4. CENTRAL GOVERNMENT

#### Key Deficit Indicators of the central Government

Basically, there are three major indicators of fiscal imbalance fiscal deficit, revenue deficit, and primary deficit. Revenue deficit indicates the extent to which current receipts are not able to cover revenue expenditure necessitating borrowing to finance current, not asset building expenditure. It represents government consumption expenditure that requires being financed by capital receipts. These capital receipts, apart from the small portion of non-debt capital receipt, consist of net borrowing, which is called a fiscal deficit. The primary deficits are equal to fiscal deficit, which represents net inflow of borrowed funds, minus interest payments, which represent an outflow of borrowed funds in the form of transfer payments. The ratio of revenue deficit to fiscal indicates the extent to which the borrowing is used for current expenditure. An evolution of Key deficit indicators of the central government discusses here. Table 1 shows the Gross Fiscal Deficit (as a percentage of Gross Domestic Product) of pre- and post-COVID period. The gross fiscal deficit is the excess of total expenditure over total revenue.

**Table 1 GROSS FISCAL DEFICIT AS % OF GDP**

GROSS FISCAL DEFICIT AS % OF GDP	
Pre COVID-Period 2016-2018	Post Covid Period 2018-2020
4.5%	6.4%

Source: Budget documents of the Government of India.

India's fiscal deficit is seen to rise 4.5 % (2016-2018) to 6.4% (2018-2020) as the government look to increase spending to revive growth in the pandemic battered economy. From this table, we can see that in the pre- COVID period, the Gross Fiscal Deficit of the central government was 4.5 % in 2016-2018 and it increased to 6.4% in post covid period 2018-2020. When we looked into the post FRBM period, there was a reduction in gross fiscal deficit due to the Fiscal Responsibility Rules that is 4% in the period 2003-2009. Clearly, since the passing of the FRBM Act by the center in 2003, there has been some reduction in the major deficit indicator. In the period 2018-2020, the fiscal deficit again increased to 6.4%. This is because the reason that, the pandemic covid 19, increased the fiscal deficit of the central government.



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**Table 2 GROSS PRIMARY DEFICIT AS PERCEENTAGE OF GDP**

PRE COVID-PERIOD 2016-2018	POST COVID PERIOD 2018-2020
0.47%	2.2%

Source: Budget documents of the Government of India.

The table shows that there was a sudden increase in Gross Primary Deficit after the pandemic period. In the post-covid period, the Gross fiscal deficit was 2.2 %. Here we can say that after the implementation of FRBM act, the center's gross fiscal deficit showed a reduction. But when it came to the 2018-2020 period, the gross fiscal deficit was going to increase because of the global financial crisis.

**Table 3: Revenue Deficit as % of GDP**

PRE COVID-PERIOD 2016-2018	POST COVID PERIOD 2018-2020
3.4%	4.6%

Source: Budget documents of the Government of India.

It is evident on the table that, the revenue deficit of the center was increasing after the covid 29. In the period 2016-2018, the revenue deficit at central level was 3.4%, it increased to 4.6% in 2018-2020 periods.

## 5. STATE GOVERNMENT

### Key Deficit Indicators of the State Government

In the recent period after the Implementation of FRL, a significant development in respect of state finances is observed. For analyzing the situation of state government, same as earlier here also divided the period into pre and post-covid period. Here I discuss the key deficit indicators of state government and state-wise indicators also taken.

Table.2.2 shows Own revenue expenditure of the 14 selected states namely Andhra Pradesh, Bihar, Haryana, Gujarat, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Punjab, Tamil Nadu, Uttar Pradesh and West Bengal. 2.1.

**Table 4. STATE'S Own Revenue expenditure as percentage of GSDP**

STATE	2016-17	2017-2018	2019-020	2020-2021
Andhra Pradesh	47.9	46.4	44.2	39.7
Bihar	25.4	32.4	22.9	23.7
Gujarath	72.6	75.1	76.6	62.4
Haryana	62.3	69.5	62.8	56
Karnataka	67.8	67.9	61.7	57.3
Kerala	57.7	59.4	59.2	46.4
Madhya Pradesh	43.8	45.3	43.1	39.6
Maharashtra	65.6	78	63.4	59.5
Orissa	44	54.9	45.5	51
Punjab	58.2	57.3	48.2	37.8
Rajasthan	44.3	48	48.7	44.6
Tamil Nadu	61.9	63.9	62.2	49.7
Uttar Pradesh	48.1	48.6	49	42.4
West Bengal	36.7	43.1	41.2	34.6

Source: Budget documents of state governments

RE: Revised Estimates

From this table, we can see that the data not stable in respect of own revenue expenditure. All fourteen state's own revenue increased in the period 2016-2017 and 2017-2018. But in the period 2019-2020 and 2020-2021, the states showing a declining trend. This is due to the pandemic situation of covid19.



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## State-wise total outstanding liabilities

TABLE 5. Total Outstanding Liabilities of the selected States-Percentage of GSDP

STATE	2016-17	2017-2018	2019-020	2020-2021
Andhra Pradesh	24.5	37.2	30.6	31.8
Bihar	31.4	33	31.9	31.5
Gujarath	22.5	20.9	19.9	19.6
Haryana	25	26.6	25.6	25.2
Karnataka	17.8	17.5	18.5	19.2
Kerala	28.9	30.2	31.2	30.5
Madhya Pradesh	23.6	24	24.1	25.3
Maharashtra	17.9	18	16.7	16.6
Orissa	19.9	18.3	21.5	22.3
Punjab	34.4	42.8	40.3	40
Rajasthan	30.8	33.6	33.1	33.7
Tamil Nadu	19.4	21.8	24.6	24.5
Uttar Pradesh	33.9	36.7	34	33.9
West Bengal	22.7	22.8	24.2	24.7

Source: Budget Documents of State Governments

There has been a steady accumulation of the outstanding debt of State Governments, particularly in 2017-2018, on account of high revenue deficit and GFD of the States. However, the outstanding debt in terms of both growth and GDP witnessed a downward trend in the recent years.

## State-wise Revenue Receipts/GSDP.

Revenue receipts are those that do not produce any liabilities and do not result in a claim against the government. These revenue receipts are non-redeemable and are divided into two groups: tax revenue and non-tax revenue.

TABLE 6. Revenue Receipts as a percentage of GSDP

STATE	2016-17	2017-2018	2019-020	2020-2021
Andhra Pradesh	15.6	13.2	11.4	12
Bihar	26.5	24.2	20.9	28.2
Gujarath	10.5	9.4	8.8	8
Haryana	11.5	10	8.7	10
Karnataka	11.2	10.9	10.8	9.6
Kerala	12.8	11.9	10.6	11.3
Madhya Pradesh	19.7	18.5	15.8	14.2
Maharashtra	9.9	10.1	10	10.9
Orissa	20.6	19.5	18.5	19.7
Punjab	11	11.1	11.4	13.6
Rajasthan	16.11	15.2	14	15.4
Tamil Nadu	11.1	10	9.7	9.5
Uttar Pradesh	21.8	20.2	21.7	18
West Bengal	13.1	13.1	11.8	11.2

Source: Budget Documents of State Governments

The revenue receipts of the states increasing over the period of time after the implementation of Fiscal Responsibility and Budget Management Act. From 2017-2018 onwards all these states showing a declining trend in revenue receipts.



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## State-wise Revenue Expenditure

TABLE 7 Revenue Expenditure of the State's as percentage of GSDP

STATE	2016-17	2017-2018	2019-2020	2020-2021
Andhra Pradesh	16.1	15	14.1	16.5
Bihar	9.4	21.2	27.8	23.8
Gujarath	13.3	9	8.9	8.6
Haryana	11.6	11.7	11.1	11.2
Karnataka	15.3	10.6	10.4	10
Kerala	19.3	14.3	13.4	13.3
Madhya Pradesh	10.3	17.9	16.7	16.2
Maharashtra	19.3	10	11.9	11.1
Orissa	14.7	16.5	19.9	19.3
Punjab	17.7	13	15.1	14.9
Rajasthan	12.3	17.5	18.1	16.4
Tamil Nadu	19.9	11.5	11.8	12.5
Uttar Pradesh	19	19.3	19.2	19.7
West Bengal	13.3	13.5	13.5	12.7

Source: Budget documents of state governments

Reduction in revenue expenditure as a percent of GSDP was observed in seven of the fourteen states. Bihar, Madhya Pradesh, Haryana and Uttar Pradesh stand out for witnessing a stable trend in their revenue expenditure over the periods.

## 6. A COMPARISON BETWEEN KERALA AND WEST BENGAL IN THE CONTEXT OF COVID 19

The State of Kerala, located at the southern end of the country, accounts for one per cent of the total area of the country and about three per cent of the population. The State ranks high in the human development index with a literacy rate of 93.92 per cent and life expectancy at birth of 74 years when compared to the General Category States' averages. The infant mortality rate (12 per thousand) of the State is very low compared to the General Category States' average. The Gross State Domestic Product (GSDP) of Kerala has been growing at a compound annual growth rate (19 percent) as compared to other General Category States' growth rate (12.54 percent). However, the State has slightly higher urban and rural inequality compared to the All-India average.

In terms of the state's fiscal health, West Bengal has a historically high debt burden, which weighs on the state finances. The state's finances are mainly used for servicing its high debt burden (over Rs. 2 lakh crores), leaving lesser amounts for investments. The interest burden as a part of its revenue receipts is amongst the highest for West Bengal. West Bengal continues to suffer from a revenue shortfall/deficit. There has however been a progressive decline in the revenue deficit in recent years.

TABLE 8 Revenue Deficit of Kerala (as percentage of GSDP)

YEAR	Revenue Receipts	Revenue Expenditure	Revenue Deficit
2016-2017	12.8	19.3	6.5
2017-2018	11.9	14.3	2.4
2018-2019	12.9	14.5	1.6
2019-2020	10.6	13.4	2.8
2020-2021	11.3	13.3	2.0

Source: Budget documents of state governments

The revenue deficit of Kerala was 6.5 % in 2016-17. The revenue deficit to GSDP ratio had declined to 1.6 percent in 2018-19, but it increased to 2.8 percent in 2019-20. This means that the revenue receipts declined in the time due to reduction in tax rate in the time of covid19 pandemic situation. In 2020-21 revenue deficit is 2 percent.





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**TABLE 9. Revenue Deficit of WEST BENGAL (as percentage of GSDP)**

YEAR	Revenue Receipts	Revenue Expenditure	Revenue Deficit
2016-17	13	13.3	0.3
2017-2018	13.1	135	0.4
2018-2019	13	13.6	0.6
2019-2020	11.8	13.5	1.7
2020-2021	11.2	12.7	1.5

Source: Budget documents of state governments

Revenue Deficit of West Bengal showed an increasing trend up to 2020-21. Here we can see that West Bengal achieve the target of FRBM Act from 2016-17 to 2020-2021. Compared to Kerala, in the case of revenue deficit, the West Bengal showed better condition in recent year.

**TABLE 10. Decomposition of Gross Fiscal Deficit of Kerala and West Bengal (in crore)**

Period	Decomposition of GFD	Kerala	West Bengal
2016-2017	RD	139.4	94.7
	Capital Outlay	87.5	152.2
	Net Lending	8.1	6.5
	Gross Fiscal Deficit	234.6	253.4
2018-2019	RD	13027	7524.1
	Capital Outlay	9810.7	24412.4
	Net Lending	887	561.3
	Gross Fiscal Deficit	23686.4	32497.9
2019-2020	RD	17474.3	61710
	Capital Outlay	8013.4	26870
	Net Lending	753.6	1075
	Gross Fiscal Deficit	26186.2	34116
2020-2021	RD	24206.4	34345
	Capital Outlay	9390.9	14518.1
	Net Lending	1392.2	3486.9
	Gross Fiscal Deficit	34949.5	52350

Source: Budget documents of state governments

In 2016-17, the gross fiscal deficit of Kerala was 234.6 crore and west Bengal it is 253.4 crore. But in 2018-19 the Gross Fiscal Deficit of kerala was 23686.4 crore and in west Bengal it is 32497.9. Gross fical deficit of both states were increased. In 2020-21 it was 34949.5 and 52350 crore for kerala west Bengal respectively. This high fiscal deficit was due to the increase in revenue deficit.

Financing of gross fiscal deficit of Kerala and West Bengal is shown below. The gross fiscal deficit was financed by market borrowing, loans from the centre, small savings, reserve funds, deposit and advances, remittance, suspense and miscellaneous etc.

**TABLE 11. Financing of Gross Fiscal Deficit of Kerala and West Bengal**

YEAR	ITEMS	KERALA	WEST BENGAL
2017-2018	Market Borrowing	60.4	87.5
	Loans from Centre	-0.5	3.5
	Small Savings/NSSF	3.9	-20.7
	Loans from LIC, NABARD, NCC, SBI and other banks	-0.1	-
	State provident funds	26.9	4
	Reserve Funds	0.7	-4.2
	Deposit & advances	1	9



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	Suspense&Miscellaneous	45	5.7
	Remittance	-0.6	-
	Overall surplus (+)/deficit (-)	-	-1.4
	Others	3.9	13.9
	GFD	100	100
2018-2019	Market Borrowing	74.9	109.1
	Loans from Centre	2.7	1.0
	Small Savings/NSSF	3.9	-18.8
	Loans from LIC, NABARD, NCC, SBI and other banks	-0.2	-0.1
	State provident funds	26.8	3.8
	Reserve Funds	-1.2	-
	Deposit & advances	0.5	8.7
	Suspense&Miscellaneous	-11.2	-
	Remittance	0.3	-
	Overall surplus(+)/deficit (-)	-0.2	2.1
	Others	3.7	-5.8
	GFD	100	100
2019-2020	Market Borrowing	80.8	136.6
	Loans from Centre	5.0	3.6
	Small Savings/NSSF	3.0	-23.3
	Loans from LIC, NABARD, NCC, SBI and other banks	-0.2	-0.1
	State provident funds	18.7	4.8
	Reserve Funds	0.4	-0.5
	Deposit & advances	0.4	11.3
	Suspense&Miscellaneous	-13.9	-
	Remittance	0.3	-
	Overall surplus(+)/deficit(-)	-0.1	1.9
	Others	5.7	343
	GFD	100	100

Source: Budget documents of state governments

In the case of Kerala and west bengal in 2017-18 the gross fiscal deficit was financed by more on depend on market borrowing. Loans from centre, deposit and advances and remittance are negligible in the period. In recent years market borrowing were increased. In 2017-18,2018-19,2019-20,2020-21 they borrow from market largely for financing gross fiscal deficit. Kerala also highly depends on market borrowings for financing the gross fiscal deficit now.

### Developmental Expenditure

The important heads of developmental expenditure within the revenue account are social and community services, economic services and grants-in-aid to states and union territories. The largest component in this group is economic services.

**TABLE 12. Development Expenditure of Kerala and West Bengal (in crore)**

YEAR	KERALA	WEST BENGAL
2016-2017	549.8	1032.8
2018-2019	64213.5	126836.5
2019-2020	57515.9	131651.7
2020-2021	65798.6	130001.6

Source: Budget documents of state governments



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Developmental expenditure of Kerala was increasing vastly over the period of time. Developmental expenditure of West Bengal was also increasing over the years. But compared to Kerala, West Bengal having a high developmental expenditure. Development expenditure accounts for the major share of revenue expenditure in West Bengal.

**TABLE 13. Non-Developmental Expenditure of KERALA AND WEST BENGAL (IN CRORE)**

YEAR	KERALA	WEST BENGAL
2016-2017	419.4	515.5
2018-2019	52996.4	58075
2019-2020	59728.2	65701.3
2020-2021	55737.4	67975

Source: Budget documents of state governments

Like developmental expenditure, the non-developmental expenditure also increasing over the years in Kerala and West Bengal. West Bengal was having a high non-developmental expenditure when compared to Kerala.

### Gross and Net Interest Payments

Gross interest is the annual rate of interest to be paid on an investment, security or deposit account before taxes or other charges are deducted. The net interest rate is gross interest rate minus interest receipts. Gross and net interest payment in Kerala and West Bengal is shown below.

**TABLE 14. GROSS AND NET INTEREST PAYMENT (IN CRORE)**

YEAR	KERALA		WEST BENGAL	
2016-2017	GROSS	NET	GROSS	NET
	123.9	122.6	257.3	253.7
2018-2019	15626.4	15450.6	29140	27660.6
2019-2020	18434.6	18280.6	31305.8	30435.4
2020-2021	29286.3	20078.6	335933	33164.1

Source: Budget documents of state governments

In the period up to 2020-21, West Bengal having high gross and net interest payments when compared to Kerala. In the year 2016-17, the Kerala's gross interest payment was 123.9 crores and net interest payment was 122.6 crores. But in West Bengal in the same year, gross interest payment was 257.3 crore and net interest was 253.7 crore. Over the period of time, there was a rise in interest payments in both states.

**TABLE 15. Total Tax Revenue as percentage of GSDP**

YEAR	KERALA	WEST BENGAL
2016-2017	4.1	6.5
2018-2019	3.6	5.8
2019-2020	3.7	6.1
2020-2021	3	5.7

Source: Budget documents of state governments

Total tax revenue of Kerala and West Bengal is taken in percentage. In the case of tax revenue, West Bengal showing a better situation compared to Kerala. West Bengal having a high revenue in the period up to 2020-21. In 2016-17, Kerala's total tax revenue was 4.1 % and it declined to 3.6 % in 2018-19, again come back to 3.7 % in 2019-20. West Bengal's tax revenue was 6.5 % in 2016-17, and it declined to 5.8 % in 2018-19. And it comes back to 6.1 % in 2019-20 due to pandemic situation of covid.





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**TABLE 16. Total Non-Tax Revenue as percentage of GSDP**

YEAR	KERALA	WEST BENGAL
2016-2017	3.9	6.7
2018-2019	3.2	4.2
2019-2020	2.7	4.3
2020-2021	4	4.3

Source: Budget documents of state governments

Like as total tax revenue, In the case of total non-tax revenue also the West Bengal is growing faster than Kerala. In 2016-17 Kerala's non-tax revenue was 3.9% and it declined to 2.7% in 2019-20. In 2020-21, total non-tax revenue of Kerala increased to 4%. West Bengal having 6.7% non-tax revenue in 2016-17, and it declined to 4.3 % in 2019-20, 2020-21.

**TABLE 17. Total Outstanding Liabilities as percentage of GSDP**

YEAR	KERALA	WEST BENGAL
2016-2017	28.9	39.5
2018-2019	30.9	37.1
2019-2020	30.6	34
2020-2021	30.8	32.6

Source: Budget documents of state governments

Here, while looking into the table, we can see that West Bengal having high outstanding liabilities when compared to Kerala. In the year 2019-2020, there was a decline in outstanding liability of Kerala and West Bengal it was 30.6 and 34 percent respectively. There was a reduction happened in the case of outstanding liabilities.

## 8. CONCLUSION

The fifteenth finance commission has recommended that the centre's Fiscal Responsibility and Budget Management Act, 2018 should be reviewed by a high-powered intergovernmental group. The main deficiencies of the FRBM Act, 2018, pertaining to an internal inconsistency between the debt and fiscal deficit targets for both the central and state government. If the outbreak worsens over time, or if the case numbers are very high, this would elevate the risk to India's economic and fiscal recovery. The Indian economy should resume its recovery once the covid waves recede and the Indian economy will continue to grow at a faster pace than its peers at similar levels of per capita income around the world. A few measures could be undertaken as stopgap remedies to improve the situation. The first would be the relaxation of the FRBM Act norm for states for having their deficit at 3% of their SGDP, given that this is a crisis year. The FRBM Act does not specify a well-defined escape clause for the states as it does for the Centre. The escape clause is basically conditions under which the government is permitted to deviate to a certain extent from its fiscal target. In the absence of this, any deviation for the states would, at the very least, require the approval of the Centre. Centre failed in achieving the FRBM target in covid period. Centres Fiscal deficit was 6.4 %.

The basic approach of the study is to analyze the current fiscal situation of India (both the central and the state government) in the context of Fiscal Responsibility and Budget Management Act 2003 and made a comparison between two fiscally backward states namely Kerala and West Bengal in-terms of key fiscal indicators. The major sources of data are relevant issues of Reserve Bank of India publication 'State Finances: A Study of Budgets', budget documents and other publications of Government of Kerala and West Bengal. The period under study is pre and post COVID 19 pandemic situations. In the case of Kerala and West Bengal comparison, we took the period from 2016 to 2021. No doubt FRBM Act has been proved as an important development in managing Centre and States finances but this improvement may not be sustainable because mere implementation of FRBM Act cannot solve the problem further improvement is require in terms of target variable, in terms of coverage in terms of procedure and transparency. Covid 19 cause economic slowdown of the country but 2021 data showing sign of recovery.

Kerala like West Bengal have a high revenue deficit since 1990s. Kerala and West Bengal are the states which are fiscally backward in earlier decades. Revenue deficits of Kerala in relation to its revenue expenditure was steadily rising from 1996-97 after declining steeply from 1990- 91 onwards. In many years, revenue deficits formed more than ten per cent of the total revenue expenditure. Kerala's revenue deficit to GSDP ratio and gross fiscal deficit was declined in 2008-09. Here I found that Kerala's Revenue deficit was increased in recent years 2018-2020. It was due to a reduction in revenue receipts of the government. Covid 19



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disease affects the state very badly. In the case of West Bengal, the revenue deficit and gross fiscal deficit was increased but it is lower than Kerala. Bengal implemented the FRBM Act in 2010. So, after this period, the deficit indicators showed a declining trend. This reduction is due to increase in receipts. But Kerala used expenditure reducing policy to reduce the deficit. Another important thing is that, high gross fiscal deficit is due to the high revenue deficit and capital outlay in both the states. Kerala mostly depends on the market Borrowing to finance this growing fiscal deficit. West Bengal also borrowed from the market, for financing the fiscal deficit. Compared to Kerala, West Bengal takes more loans from centre. In Kerala and West Bengal total outstanding liabilities were declined over the time after the FRBM implementation. Gross and net loans from the centre are low in West Bengal compared to Kerala. Developmental expenditure, non-developmental expenditure, Plan expenditure, non-plan expenditure, gross and net interest payments and tax revenue, nontax revenue is very high in West Bengal. Kerala's tax revenue was more or less stable. West Bengal tries to eliminate deficit by way of increasing the revenue of the government. But Kerala government uses several methods to reduce the growing fiscal deficit, mainly expenditure cutting policy. The fiscal situation of Kerala and West Bengal showed a good change after the pandemic situation 2020. Both states not fully achieved the targets in such a situation, but them moving on the path of fiscal consolidation.

Kerala seeking flexibility under the FRBM. Because, the current fiscal position means that it can borrow about ₹25,000 crore during the financial year 2020-21. However, the State government is understandably concerned that the stringent borrowing cap under the fiscal responsibility laws should not constrain its borrowing and spending ability over the remaining 11 months. This is a crucial period when the state would have to meet other expenditure for routine affairs related to the running of the State's socio-economic programmes as well as the post pandemic recovery. The initial impact of Goods and Services Tax (GST), p during 2017-18, has not been very encouraging, but the State expects gains in the own tax revenue front, once the implementation of GST stabilises. At present, the State is attempting the task of a renewed fiscal consolidation, as can be seen from Kerala Budget, 2018-19 and the Medium-Term Fiscal Policy (MTFP) Statement, 2018. This is to be achieved by increase in revenue collections and rationalisation of expenditure.

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