



Summary Report for the State of Kerala



1. Demography

As per Census population projections for 2022-23, Kerala has a population of 35.8 million and represents 2.6 per cent of India's total population.¹ The State's projected population growth rate is lower than the national average, as of 2022-23. As per 2021 projections, Kerala's population density, at 913 persons per sq. km, is more than double the national average (415 persons per sq. km). Its dependency ratio (58.5 per cent) is slightly higher than the national average (55.7 per cent), as per 2021 projections. According to the 2022-23 projections, 75.3 per cent of its population resides in urban areas. As per NFHS V (2019-21), the sex ratio in Kerala (951 females per 1000 males) is higher than the national average. However, it has declined compared to the previous level recorded in NFHS IV (2015-16).

The annual Unemployment Rate in the State decelerated during the five-year period 2017-18 to 2022-23 but is still higher (7 per cent in 2022-23) compared to the national average (3.2 per cent). The Female Labour Force Participation Rate, at 37.5 per cent, is close to the national average, as of 2022-23. The working population in the State is predominantly concentrated in the Services (45.6 per cent); Agriculture, Forestry, and Fishing (27.3 per cent); and Construction sectors (15.4 per cent), as of 2022-23.²

2. Economic Structure (Growth and Sectoral Composition)

Kerala's real GSDP grew at an average rate of 4.8 per cent during the period 2012-13 to 2021-22, which is lower than the national average growth of 5.6 per cent.³ The State's share in India's nominal GDP has declined after 1996 and returned to its 1991 level of 4 per cent by 2022. However, its nominal per capita income as a ratio to India's nominal per capita income has increased since 1991 and was more than 50 per cent above the national per capita income in 2021-22.

The Services sector in the State accounts for nearly two-thirds of the total GSVA (64.2 per cent), which is higher than the States' average (51 per cent), in 2021-22. The industry sector commands a share of 24.9 per cent of the State's GSVA and the Agriculture sector contributes 10.8 per cent to its GSVA, in 2021-22. At a disaggregated level, the Real Estate, Ownership of Dwellings and Business Services sector has shown the highest growth (7.5 per cent) in the GSVA during the period 2012-13 to 2021-22. This sector is closely followed by Banking and Insurance, which also recorded a growth of 7.0 per cent during the same period.

¹ Projected data on population growth rate, dependency ratio, population density, and urban population is sourced from "Population Projections for Indian States 2011-2036" by the Technical Group on Population Projections, National Commission on Population, Ministry of Health and Family Welfare, Government of India.

² Data on unemployment, female labour force participation, and workforce distribution is from the Periodic Labour Force Survey, 2017-18 to 2023-24.

³ Data used in Section 3 on Economic Growth is sourced from Ministry of Statistics and Programme Implementation (MoSPI), as of August 2023.

3. Socio-economic Indicators

Kerala's literacy rate has increased rapidly over the decades and remains significantly higher, at 94 per cent, as compared to the national average of 73 per cent, as of 2011.⁴ As of 2016-17, the State has a lower school drop-out rate (12.8 per cent for Classes VIII to X) and higher pass percentages (97.8 per cent for Class X) as compared to the respective national averages. The Gross Enrolment Ratio at the Higher Secondary level (77.6 per cent in 2015-16) and at the Higher Education level (43.2 per cent in 2021) is above that of the national average.⁵ For people aged 18 to 23 years, the Gender Parity Index in higher education (the ratio of girls to boys enrolled in higher education institutions) and the college density are both significantly higher than the respective national averages, as of 2021.⁶

As of 2020, life expectancy in Kerala, at 75 years, is higher than the national average of 70 years. The Infant Mortality Rate, at 6 deaths per 1000 live births in 2020, and the Total Fertility Rate, at 1.8 children per woman in 2019-21, are both below the respective national averages. The percentage of fully immunised children, at 77.8 per cent, is slightly higher than the national average of 76.4 per cent, as of 2019-20. As of 2019-21, the household access to sanitation in the State (98.5 per cent) is significantly above the national average (69.3 per cent); the access to electricity (99.5 per cent) is slightly above the national average (96.5 per cent); and, access to drinking water (95.9 per cent) is almost at par with the national average (94.9 per cent).

4. State of Public Finances and Tax Devolutions

As of 2022-23, Kerala's debt-to-GSDP ratio, at 38.2 per cent in 2022-23,⁷ is significantly higher than that of a median State. Its contingent liabilities are also higher than those of a median State, as of 2022-23. The fiscal deficit, at 3.6 per cent, is at par with that of a median State and the primary deficit, at 1.2 per cent, is lower than that of a median State, as of 2022-23.⁸ Additionally, Kerala has a revenue deficit of 1.9 per cent of GSDP in 2022-23, while a median State has a revenue deficit of 0.4 per cent.

The State collects less revenue as compared to that of a median State in 2022-23. In 2022-23, Kerala's total revenue receipts (own tax, own non-tax, and shared by the Centre) were about 7 percentage points lower than what a median State collected, at 12.6 per cent of its GSDP. The State's own tax and non-tax revenues, at 6.9 per cent and 1.5 per cent of its GSDP respectively, were both marginally higher than a median state, as of 2022-23. Transfers from the Centre, at

⁴ Literacy data is sourced from Office of the Registrar General and Census Commissioner, Ministry of Home Affairs and is for the year 2011.

⁵ Data on dropout rates, pass percentage of students and Gross Enrolment Ratio at Higher Secondary Level is taken from Unified District Information System for Education, 2015-16.

⁶ Data on Gross Enrolment Ratio at Higher Education Level, Gender Parity Index, and college density is taken from the All-India Survey on Higher Education, 2020-21.

⁷ Data on fiscal variables is sourced from Reserve Bank of India, State Finances Report, as of December 2023.

⁸ For calculation of a median State, the variable as a percentage of GSDP was computed for each State, with the median across 22 major States shown (excluding all Union Territories and the North-eastern States, except Assam). The Macro and Fiscal Landscape State brief includes this benchmark in the States' Median (Large States), Column 6, Table 4A.

4.3 per cent of its GSDP, are lower than that of a median State, and constitute 34 per cent of its revenue receipts, as of 2022-23.

The State's public debt has steadily increased since 2011-12, reaching 38.2 per cent of its GSDP in 2022-23, which is 6 percentage points higher than that of a median State. Its contingent liabilities have declined since 2001-02, but as of 2021-22, these were 3.2 percentage points higher than that of a median State.

The Debt Sustainability Analysis shows that across five diverse scenarios (against a baseline scenario where debt level, primary deficit, real GDP growth, real effective interest rate remains constant at their decadal average from 2012-13 to 2021-22), the debt-to-GSDP ratio for the State is not projected to decline any time soon. If contingent liabilities are absorbed at 20 per cent each year for the next five years (starting from 2021-22), the State's debt-to-GSDP ratio will increase by nearly 10 percentage points. Even in the most optimistic scenario of higher growth and lower primary deficit, the debt-to-GSDP ratio is projected to decrease by only a minuscule amount.

The State's share in taxes from the Centre, as per the recommendations of the Finance Commission (FC), decreased from 2.5 per cent under the 14th FC to 1.9 per cent under the 15th FC. However, the State's share in the total Grants-in-Aid increased by 2.1 percentage points under the 15th FC, as compared to the 14th FC due to an increase in the Revenue Deficit Grants recommended by the 15th FC.

5. Fiscal Rules

The Kerala Fiscal Responsibility (KFR) Act 2003, enacted in line with the Union Fiscal Responsibility and Budget Management Act, 2003 (FRBM Act), established fiscal targets to eliminate the revenue deficit by 2007 and reduce the fiscal deficit to 2 per cent of GSDP by March 2007.⁹ Under the Act, the State is required to present the following three fiscal policy statements along with the budget: Macroeconomic Framework Statement, Medium Term Fiscal Policy Statement, and the Fiscal Policy Statement. Since 2003, the Act has been amended five times in 2011, 2018, 2021, and 2022.

2011 Amendment: This amendment revised the targets for the State to achieve a zero-revenue deficit by 2014-15, and a fiscal deficit not exceeding 3 per cent of GSDP by 2013-14, and to reduce the total debt liabilities below 29.8 per cent of GSDP by 2014-15.

2018 Amendment: This amendment adopted the 14th FC recommendations to maintain a maximum fiscal deficit of 3.5 per cent of GSDP and reduce the total debt liabilities to 29.67 per cent of GSDP by 2019-20.

2021 Amendment: This amendment granted a one-time additional borrowing of Rs 1,471 crore as a one-time dispensation for 2019-20 and an extra 2 per cent of GSDP for 2020-21 beyond the fiscal deficit limit of 3 per cent of GSDP, of which 1 per cent was contingent on specific

⁹ Data is sourced from the State Audit Report of the CAG for the respective years and the State Government Gazette.

reforms in the following specific areas—one nation one ration card, ease of doing business, urban local body/utility, and power distribution.

2022 Amendment: This amendment mandated elimination of the revenue deficit, maintenance of a revenue surplus of 2.5 per cent of GSDP by 2025-26, anchoring of the fiscal deficit to not exceed 3 per cent of GSDP by 2025-26, and reduction of the total debt liabilities to 32 per cent of GSDP by the same year (2025-26).

Fiscal Discipline: As per the State Finances Audit Report of the Comptroller and Auditor General of India (CAG), during the period 2017-18 to 2021-22, the State could not eliminate its revenue deficit or contain its total outstanding liabilities (as a percentage of GSDP) within the targets stipulated in the FRBM Act. The State was able to achieve its fiscal deficit target only in one year, that is, 2019-20 during this five-year period.