Fifteenth Kerala Legislative Assembly

Bill No. 125

THE KERALA FISCAL RESPONSIBILITY (AMENDMENT) BILL, 2022

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THE KERALA FISCAL RESPONSIBILITY (AMENDMENT) BILL, 2022

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Bill

further to amend the Kerala Fiscal Responsibility Act, 2003.

Preamble.—WHEREAS, it is expedient further to amend the Kerala Fiscal Responsibility Act, 2003 (29 of 2003) for the purposes hereinafter appearing;

BE it enacted in the Seventy-third Year of the Republic of India as follows:—

1. *Short title and commencement.*—(1) This Act may be called the Kerala Fiscal Responsibility (Amendment) Act, 2022.

(2) It shall be deemed to have come into force on the 1st day of April, 2021.

2. *Amendment of section 4.*—In section 4 of the Kerala Fiscal Responsibility Act, 2003 (29 of 2003), (hererinafter referred to as the principle Act) for sub-section (2), the following sub-section shall be substituted, namely:—

“(2) In particular and without prejudice to the generality of the foregoing provision, the Government shall, eliminate the revenue deficit completely during the period from 2021-2022 to 2025-2026 and shall;

(a) make revenue surplus in the order of 0.5 per cent, 0.8 per cent, 1.2 per cent, 1.7 per cent and 2.5 per cent of the Gross State Domestic Product in the years of 2021-2022, 2022-2023, 2023-2024, 2024-2025 and 2025-2026 respectively. The targeted loan amount within the limit of fiscal deficit shall be completely spend for asset development;

(b) reduce the fiscal deficit to 3% of estimated Gross State Domestic Product within a period of five years commencing from 1st April, 2021 and ending on 31st March, 2026 by maintaining the fiscal deficit at a level not exceeding

4.5 per cent, 4 per cent, 3.5 per cent, 3.5 per cent of the Gross State Domestic Product in the years 2021-2022, 2022-2023, 2023-2024 and 2024-2025 respectively and reducing it to 3 per cent in 2025-2026;

Note:—(i) The above upper limit of fiscal deficit is inclusive of 0.5 per cent capital expenditure linked borrowing space and an additional borrowing space of 0.5 per cent of Gross State Domestic Product linked to performance in power sector during 2021-2022 to 2024-2025.

(ii) The State shall be eligible for capital expenditure linked borrowing, if the State achieves the targeted capital expenditure fixed for the State. In order to become the State eligible for additional borrowing linked to the performance in power sector, all the entry level conditions and performance evaluation criteria stipulated for each year need to be fulfilled.

(iii) If the State is not able to fully utilise its sanctioned borrowing limit (excluding power sector borrowing), in any particular year during the first four years of Finance Commission award period (from 2021-2022 to 2024-2025), it will have the option of availing the unutilised borrowing amount in any of the subsequent years within the Finance Commission award period.

(c) Reduce the total debt liabilities of the State in the order of 34.7 per cent, 34.5 per cent, 33.7 per cent, 32.8 per cent and 32 per cent of the Gross State Domestic Product in the years of 2021-2022, 2022-2023, 2023- 2024, 2024-2025 and 2025-2026 respectively.”.

STATEMENT OF OBJECTS AND REASONS

This Bill is intended to amend the Kerala Fiscal Responsibility Act, 2003 brought by the Government to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit and sustainable debt management in a manner consistent with the fiscal stability in accordance with the revised road map of the 15th Finance Commission.

FINANCIAL MEMORANDUM

The Bill if enacted and brought into operation, would not involve any additional expenditure from the Consolidated Fund of the State.

MEMORANDUM REGARDING DELEGATED LEGISLATION

Sub-clause (2) of clause 4 of the Bill seeks to empower the Government to eliminate revenue deficit completely for the period from 2021-2022 to 2025-2026 and to maintain the revenue deficit to zero.

(a) make revenue surplus in the order of 0.5 per cent, 0.8 per cent, 1.2 per cent, 1.7 per cent and 2.5 per cent of the Gross State Domestic Product in the years of 2021-2022, 2022-2023, 2023-2024, 2024-2025 and 2025-2026 respectively. The targeted loan amount within the limit of fiscal deficit shall be completely spend for asset development;

(b) reduce the fiscal deficit to 3% of estimated Gross State Domestic Product within a period of five years commencing from 1st April, 2021 and ending on 31st March, 2026 by maintaining the fiscal deficit at a level not exceeding 4.5 per cent, 4 per cent, 3.5 per cent, 3.5 per cent of the Gross State Domestic Product in the years 2021-2022, 2022-2023, 2023-2024 and 2024-2025 respectively and reducing it to 3 per cent in 2025-2026;

(c) Reduce the total debt liabilities of the State in the order of 34.7 per cent, 34.5 per cent, 33.7 per cent, 32.8 per cent and 32 per cent of the Gross State Domestic Product in the years of 2021-2022, 2022-2023, 2023-2024, 2024-2025 and 2025-2026 respectively.”.

K. N. BALAGOPAL

EXTRACT FROM THE RELAVANT PORTIONS OF THE KERALA FISCAL RESPONSIBILITY ACT ,2003

(29 OF 2003)

** ** ** **

4. *Fiscal Management principles.*—(1) The Government shall take appropriate measures to reduce the revenue deficit and build up an adequate revenue surplus by following such principles as may prescribed.

(2) In particular and without prejudice to the generality of the foregoing provisions, the Government shall eliminate the revenue deficit completely during the period from 2017- 2018 to 2019-2020 and shall,—

(a) build up surplus amount of revenue and utilise such amount for discharging liabilities in excess of assets;

(b) maintain the fiscal deficit to 3 per cent of the Gross State Domestic product during the period from 2017-2018 to 2019-2020;

Provided that the state shall be eligible for additional borrowing of Rs. 1471 crore as a onetime special dispensation in the financial year 2019-2020 beyond fiscal deficit of 3 per cent of the Gross State Domestic product. This additional borrowing under onetime special dispensation shall be utilised during the financial year 2019-2020 itself.

Note:(i) State shall be eligible for additional reduction of 0.25 per cent over and above this, for any given year for which the borrowing limits are to be fixed if the ratio between the Gross State Domestic product and debt is less than or equal to 25 per cent in the preceding year.

(ii) State may further be eligible for additional borrowing limit of 0.25 per cent of Gross State Domestic Product in a given year for which the borrowing limits are to be fixed if the interest payments are less than or equal to 10 per cent of the revenue receipts in the preceding year.

(iii) If anyone of the above said criteria is fulfilled, the state may utilise the said cencessions either separately or if both are fulfilled the said concessions together may be utilized by the State. The maximum ratio between the fiscal deficit and Gross State Domestic Product in a prescribed year may be up to 3.5 per cent to the State accordingly;

(iv) The reductions in availing the additional limit under either of the two options or both will be available to the State only if there is no revenue deficit in the year in which borrowing limits are to be fixed and in the immediately preceding year.

The 'additional fiscal space' availing in such manner shall be utilised for the State share of the Centrally Sponsored Schemes.

(ba) State shall maintain the fiscal deficit to 3 per cent of the Gross State Domestic Product during the financial year 2020-21. State shall be eligible for additional borrowing of 2 per cent of Gross State Domestic Product for the financial year 2020-21 in addition to the fiscal deficit of 3 per cent of Gross State Domestic Product subject to the condition of four specific State level reforms implementation of One nation one Ration Card System, Ease of doing business rreforms, Urban Local body /Utility reforms and Power sector reforms. The aforesaid additional borrowing shall be utilised during the financial year 2020-21.

Note:—(i) Weightage of each State level reform is 0.25 per cent of Gross State Domestic Product totaling to one per cent additional borrowing;

(ii) The remaining borrowing limit of one per cent will be available in two installments of 0.50 per cent each to the State. The first installment of 0.50 per cent shall be available to the State as untied and the second installment on undertaking at least three out of the aforesaid four State level reforms".

(c) reduce the total debt liabilities of the State in the years of 2017-2018, 2018-2019 and 2019-2020 in the order of 30.40 per cent, 30.01 per cent and 29.67 per cent respectively of the Gross State Domestic Product".