



Finance Department
Government of Kerala



REVISED
Medium Term Fiscal Policy & Strategy Statement
with Medium Term Fiscal Plan for Kerala
2026-2027 to 2028-2029

REVISED MEDIUM TERM
FISCAL POLICY &
STRATEGY STATEMENT
WITH MEDIUM TERM
FISCAL PLAN FOR
KERALA

2026-27 to 2028-29

FINANCE DEPARTMENT

2026

STATEMENT OF COMPLIANCE

- This 2026-27 Revised Medium Term Fiscal Policy and Strategy Statement is placed before the Legislature in compliance with section 3 of the Kerala Fiscal Responsibility Act, 2003.
- Section 3 of the Act requires the Medium Term Fiscal Policy Statement to include the following elements all of which have been incorporated in the document.
 - ✓ A Statement of recent economic trends and prospects for growth and development.
 - ✓ An Assessment of sustainability relating to the revenue deficit and the use of capital receipts for generating productive assets.
 - ✓ An evaluation of the performance against targets for 2024-25 and 2025-26.
 - ✓ The medium term fiscal objectives of the Government.
 - ✓ Three year rolling targets for fiscal indicators with specification of underlying assumptions.
 - ✓ The strategic priorities and key policies of the Government.
 - ✓ Policies of Government for the ensuing financial year relating to taxation, expenditure, borrowing, other liabilities etc.

FOREWORD

This Budget is being presented on the backdrop of deterioration of State finances over the past decade, substantial shortfall in revenue arising from the unrealistic projection of share of Central taxes and Grant in Aid from 16th Finance Commission award in the Interim Budget 2026-27. The persisting decline in Central share of centrally sponsored schemes has also compounded the fiscal stress.

GSDP is estimated to grow at 14.15% in the FY 2026-27 keeping with the growth momentum. Kerala economy is also facing headwinds from geopolitical tensions. The fiscal strategy is to enhance growth oriented expenditure to facilitate growth, income and job. The Government is committed to fiscal consolidation, striking a balance between welfare spending and fiscal prudence.

I present the Revised Medium Term Fiscal Policy and Strategy Statement before the august house seeking co-operation of all.

19/06/2026

V.D.Satheesan
Chief Minister and Minister for Finance

Global Economy

Global economy faces a major challenge as the war related issues in the Middle East threatens to disrupt growth and disinflation. As per the latest World Economic Outlook Report of IMF, global growth is projected to be 3.1% in 2026 and 3.2% in 2027. Global headline inflation is expected to rise modestly to 4.4% in 2026 and decline to 3.2% in 2027.

Slowdown in growth and inflation are expected to be particularly pronounced in emerging market and developing economies. The downside risk dominate the outlook with prolonged geo political conflicts, high public debt and renewed trade tensions.

Indian Economy

RBI has projected real GDP growth and CPI inflation at 6.6% and 5.1% respectively for the Financial Year 2026-2027 taking into account the prevailing geopolitical and trade related uncertainties.

Kerala Finances

The Status Report on Kerala's Fiscal Health, laid on the table of the Kerala State Legislative Assembly on 04/06/2026, has

brought out the fiscal deterioration of the State over the last decade. The report has highlighted the structural roots of the fiscal stress which lies in rising Expenditure obligation specifically committed expenditure and weakening Revenue base. The treasury stress is due to the operational consequence of the fiscal indiscipline. The major findings of the report based on the trends of key fiscal indicators - Revenue, Expenditure and Debt -is as follows:

1. Revenue Receipts as a percentage of GSDP fell from 12.28% in 2015-16 (Actuals) to 10.68% in 2025-26 BE as against 13.46% and 13.90% respectively for 18 major States over the same period.
2. Own Tax Revenue fell from 6.94% in 2015-16 (Actuals) to 6.41% in 2025-26 BE as against 6.35% and 7% respectively for 18 major States over the same period.
3. SGST as a percentage of GSDP stands at 2.65% in 2025-26 BE as against 3.09% for 18 major States.
4. The buoyancy of Own Tax Revenue is 0.96 with respect to GSDP ratio as against the major States aggregate of 1.09
5. Committed Expenditure stands at 69.5% of Revenue Receipts in 2015-16 (Actuals) and 77.6% for 2025-26 BE as against National average of 39.3 % and 46.4% respectively over the same period.

6. Capital Expenditure as a share of GSDP which stood at 1.48% in 2015-16 (Actuals) had declined to 1.3% in 2025-26 BE. Over the same period all States average has risen from 3.08% to 3.20% and the major States average stands at 3.09% in 2025-26 BE.
7. Interest payment has risen from 16.1% of revenue receipts in 2015-16 (Actuals) to 20.9% in 2025-26 BE while the major States average has remained in the range of 11% to 12% for most of the years.
8. Debt Stock rose from 20.9% of GSDP in 2015-16(Actuals) to a peak of 40.3% in 2020-21, declining to 35.5% in 2025-26 which is above 15th FC indicative ceiling of 33%.
9. The deferred payments amount to Rs.48,733 Crore. Payment obligation by KIIFB works out to the tune of Rs.56, 000 Crore towards loan repayment and project funding commitments.
10. The findings of the report requires immediate steps to address the significant fiscal challenge before the Government through enhanced revenue mobilization, rationalization of expenditure, prudent debt management and Institutional reforms to promote growth , investment and job. The report of the 16th FC has turned out to be another setback to the State Government. The increase in

the State's share of taxes from 1.925% to 2.382 % has been fully neutralized by the elimination of Revenue Deficit grant which amounted to Rs 37,814 crore in the 15th FC period (2021-2026). The declining Central Transfers including Central Share of CSS and the arbitrary cut in the borrowing ceiling by Government of India is another issue which is putting further stress in State Finances.

Fiscal Performance 2024-25

As compared to 2024-25 BE, State's Revenue Receipts decreased by 10 % (2024-25 Actuals). As against BE for the FY 2024-25 State's Tax Revenue declined by 9.7% (2024-25 Actuals). State Non Tax Revenue saw a negative growth rate of 10%. Central Transfers fell by 10%. Revenue expenditure declined by 6%. Capital outlay decreased by 4%. Revenue Deficit as a percentage of GSDP increased from 2.12% in 2024-2025 BE to 2.49 % (2024-25 Actuals) due to the shortfall in Revenue Receipts. Fiscal Deficit as a percentage of GSDP increased from 3.4 % in 2025-2026 BE to 3.86 % (2024-25 Actuals). Debt outstanding increased from 34.15 % in 2024-25 BE to 34.87 % (2024-25 Actuals).

Review 2025-2026

As compared to 2024-25 BE State's Revenue Receipts decreased by 10% in 2025-26 RE. State's Own Tax Revenue declined by 8.5% as against Budget Estimates. Central Transfers fell by 17% with grant - in - Aid shrinking to 45%. Revenue Expenditure decreased by 3%. Capital outlay witnessed a negative growth of 7.49%. Revenue Deficit as a percentage of GSDP increased from 1.90 % in 2025-2026 BE to 2.58 % in RE due to the shortfall in Revenue Receipts. Fiscal Deficit as a percentage of GSDP increased from 3.16 % in 2025-2026 BE to 3.78 % in 2025-26 RE. Debt outstanding as a percentage of GSDP increased from 33.77 in 2025-2026 BE % to 34.26 % in 2025-26 RE.

Three Year Rolling Targets and Underlying Assumptions

GSDP

Nominal GSDP is projected to grow at 14.15% keeping with the growth momentum.

Revenue Receipts

State's Own Tax Revenue (SOTR) is projected to grow at 18.24% as against 2025-26 RE. State's Own Non Tax Revenue (SONTR)

is projected to grow at 13.83% compared to 2025-26 RE. Central Transfers is projected to grow at 42.49 % over 2025-26 RE.

Revenue Expenditure

Revenue Expenditure is projected to grow at 17.84% as against 2025-26 RE due to increase in Salary and Pension expenditure and DA/DR disbursements.

Devolution to LSGs

Devolution to LSGs is based on the norms of 7th SFC. 6% each of Net SOTR (t-2) is provided as General Purpose Fund (of which 1.5% is statistical adjustment only) and Maintenance Fund. 28.50% of State Plan Outlay is provided as Development Fund.

Revenue Deficit & Fiscal Deficit

Revenue Deficit and Fiscal Deficit as a percentage of GSDP is estimated at 2.17% and 3.46% respectively. Additional borrowing of 0.50% for Power reforms is also reckoned with. Debt - GSDP ratio is estimated at 33.50% which is showing a declining trend.

Taxation

The strategy of Government is to enhance tax collection and detect tax evasion leveraging digital technology tools.

Strategic Priorities

- ✓ Economic growth with social Justice
- ✓ To enhance investment for generation of income and creation of jobs
- ✓ Health and Education will be the priority areas
- ✓ To transform Higher education institutions to centers of excellence, innovation and research
- ✓ Strengthening Public Health Institutions
- ✓ Sports and Youth, Skill development.
- ✓ Care economy
- ✓ Woman empowerment
- ✓ Sustainable development and Environmental protection.
- ✓ To transform the State into an integrated port-led and aviation hub.
- ✓ Welfare of the poor and vulnerable sections of the society
- ✓ To support Micro, Small and Medium Enterprises.
- ✓ Information Technology, Artificial intelligence, Quantum and other future technology, Startups, Biotechnology, Tourism, Creative Industries and the knowledge Economy

Forward Estimates and underlying Assumptions

GSDP

Nominal GSDP is projected to grow at 12% for the forward estimate period 2027-28 and 2028-29.

Revenue Receipts

State Own Tax Revenue is estimated to grow at 12% in the forward estimate period. Non Tax Revenue is projected to grow at 8% and 7% for the forward estimate period 2027-28 and 2028-29.

Central Transfers

Share of Central Taxes is estimated to grow at 10% for the forward estimate period 2027-28 and 2028-29. Grant in Aid is estimated to grow at 8% and 6% respectively in the forward estimate period.

Borrowing, Public Debt and Other Liabilities

Borrowing ceiling is fixed at 3.5% of GSDP in the forward estimate period in anticipation of additional borrowing to the extent of 0.50% for Power sector reforms. Debt – GSDP ratio

stands at 33.42% and 33.33% for 2027-28 and 2028-29 respectively.

Interest

Interest is worked out by applying effective interest at the rate of 6.60 % on outstanding debt.

Subsidies

An allocation of Rs.2000 crore each is provided for subsidies for both the years.

Devolution to LSGs

The norms of 7th SFC is adopted for estimation of devolution for the forward estimate period. The Development Fund is kept at the level of 28.50% for the forward estimate period.

Capital Expenditure

Capital Expenditure is projected to grow at 15% and 18% respectively for the years 2027-28 and 2028-29.

Revenue Deficit and Fiscal Deficit

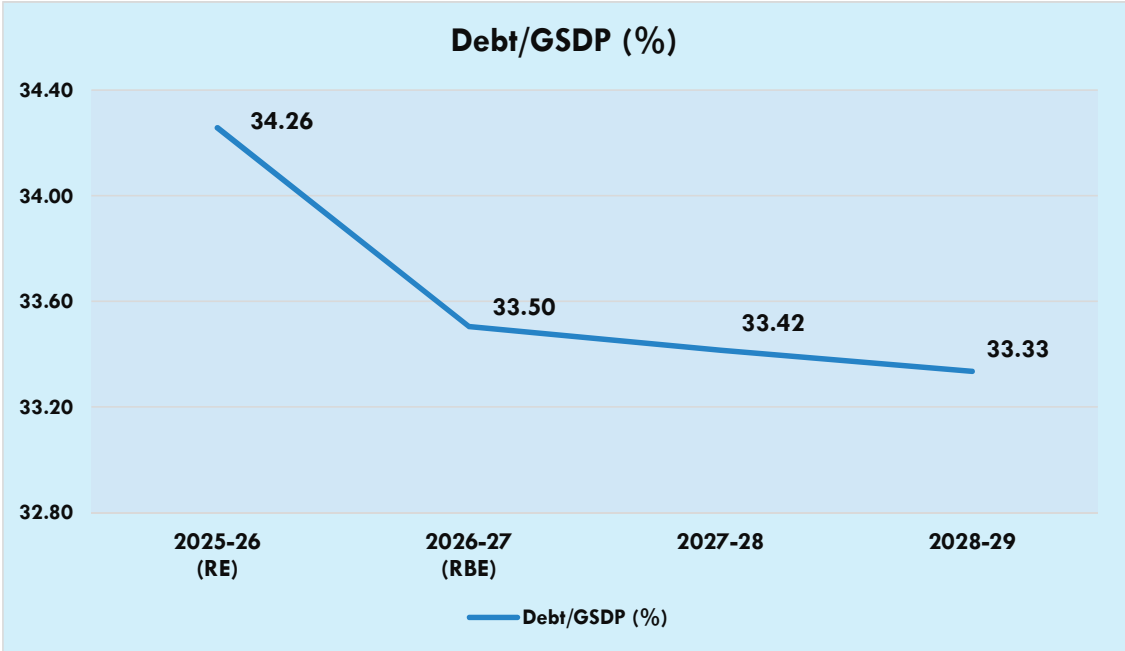
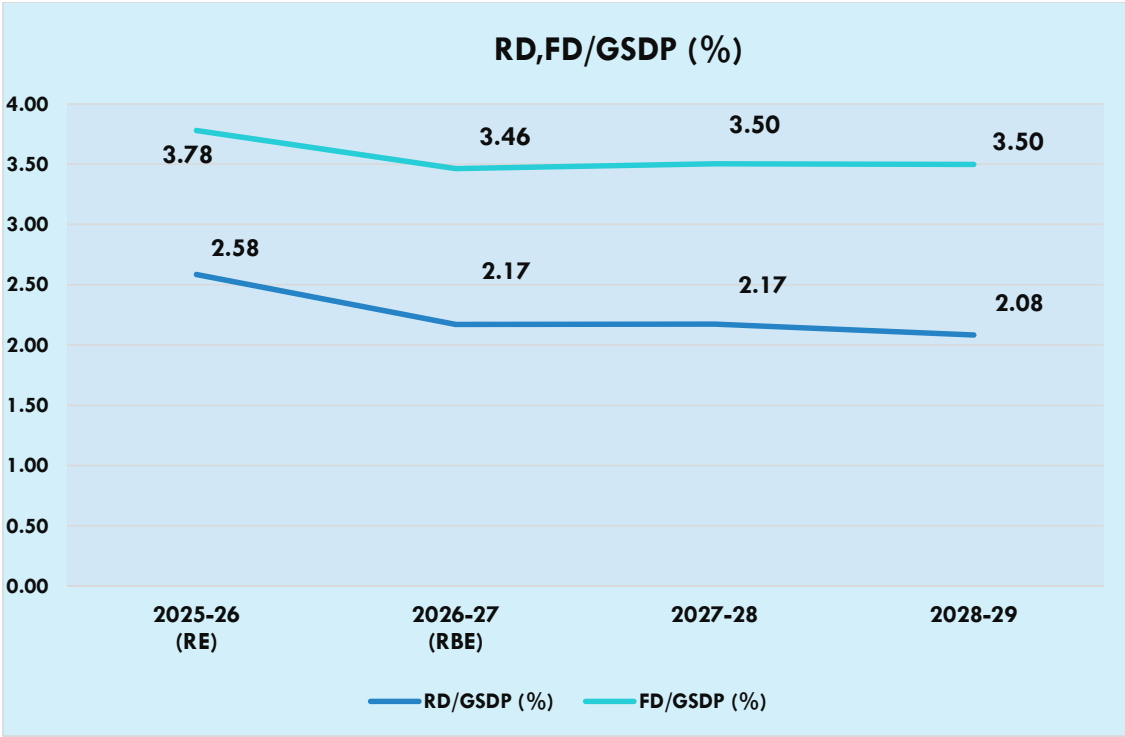
Revenue Deficit as a percentage of GSDP is projected at 2.17% and 2.08% in the forward estimate period. Fiscal Deficit as a percentage of GSDP is projected at 3.50% for the forward estimate period. Debt as a percentage of GSDP is projected at 33.42% and 33.33% in the forward estimate period of 2027-28

and 2028-29 in line with states commitment to fiscal consolidation.

MTFP Targets

Item	2025-26	2026-27	2027-28	2028-29
	RE	RBE	Forward Estimates	
RD/GSDP (%)	2.58	2.17	2.17	2.08
FD/GSDP (%)	3.78	3.46	3.50	3.50
Debt/GSDP (%)	34.26	33.50	33.42	33.33

Fiscal Consolidation Path



State's Fiscal Plan 2026-27

(Rs.in Crore)							
Item	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
	Accounts	Accounts	Accounts	RE	RBE	Forward Estimate	
Revenue Receipts	132724.65	124486.15	124861.07	137082.61	169646.37	187925.29	207728.05
State's own tax revenue	71968.16	74329.01	76642.19	83730.96	99002.47	110882.77	124188.70
Non Tax Revenue	15117.96	16345.96	16486.62	18760.72	21355.77	23064.23	24678.73
Resources from Centre	45638.54	33811.18	31732.25	34590.93	49288.13	53978.29	58860.62
Revenue Expenditure	141950.94	142626.34	155920.79	173971.80	205001.67	227551.85	250307.04
Non-Interest Revenue Expenditure	116774.58	115640.12	126782.56	142155.79	170625.65	189420.46	207708.03
Interest	25176.36	26986.22	29138.23	31816.01	34376.02	38131.39	42599.01
Salaries	37902.84	38572.85	39903.81	43853.79	52561.05	55977.52	59616.06
Pensions	26090.04	25644.24	27875.21	29414.60	35438.92	37742.45	40195.71
Non SPI Revenue Expenditure	52781.70	51423.03	59003.54	68887.40	82625.68	95700.50	107896.26
Subsidies	1542.50	1446.77	1490.42	1690.42	2340.83	2000.00	2000.00
Devolution to LSGs	10838.47	9021.07	14010.05	14257.59	16367.90	17000.80	18898.37
Revenue Expenditure excld SPI,subsidies & Devol.to LSGIs	40400.73	40955.19	43503.07	52939.39	63916.95	76699.70	86997.89
Revenue Surplus/Deficit	-9226.29	-18140.19	-31059.72	-36889.19	-35355.30	-39626.57	-42578.99
Capital Expenditure	16787.49	16880.17	17886.77	18483.80	22565.59	25862.82	30586.84
Capital Outlay	13996.56	13584.45	15082.41	15670.22	19717.71	22872.54	27447.05
Loan disbursements	2790.93	3295.72	2804.36	2813.58	2847.88	2990.27	3139.79
<i>Non Debt Capital Receipts</i>	<i>459.23</i>	<i>762.31</i>	<i>698.36</i>	<i>1423.49</i>	<i>1515.53</i>	<i>1591.31</i>	<i>1670.87</i>
Fiscal Deficit/Surplus	-25554.54	-34258.05	-48248.14	-53949.50	-56405.36	-63898.08	-71494.96
Primary Deficit/Surplus	-378.18	-7271.83	-19109.90	-22133.49	-22029.34	-25766.69	-28895.95
End of the period Debt	348916.52	377063.06	413623.94	462112.08	517364.51	577748.34	645439.56
Debt Service	25176.36	26986.22	29138.23	31816.01	34376.02	38131.39	42599.01
Salary+Pension+Interest	89169.24	91203.31	96917.25	105084.40	122375.99	131851.36	142410.78
Debt Stock	362191.89	391934.23	435313.65	488910.50	545818.52	609678.16	681200.96
Government Guarantees	50374.49	62387.93	73799.14				
Interest/Revenue Receipts (%)	18.97	21.68	23.34	23.21	20.26	20.29	20.51
Debt/Revenue (%)	272.89	314.84	348.64	356.65	321.74	324.43	327.93
(Salary+Pen+Interest)/Revenue (%)	67.18	73.26	77.62	76.66	72.14	70.16	68.56
(Salary+Pen+Interest)/GSDP (%)	8.58	8.03	7.76	7.36	7.51	7.23	6.97
(Salary+Pen)/GSDP (%)	6.16	5.66	5.43	5.13	5.40	5.14	4.88
Rev Deficit/Rev Receipt (%)	6.95	14.57	24.88	26.91	20.84	21.09	20.50
RD/GSDP (%)	0.89	1.60	2.49	2.58	2.17	2.17	2.08
FD/GSDP (%)	2.46	3.02	3.86	3.78	3.46	3.50	3.50
Debt Stock/GSDP (%)	34.87	34.52	34.87	34.26	33.50	33.42	33.33
GSDP	1038734	1135372	1248533	1427145	1629073	1824561	2043509
Nominal GSDP Growth Rate (%)	12.36	9.30	9.97	14.31	14.15	12.00	12.00



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