Kerala

Mea culpa: Kerala’s FY27 budget and calculus of retrospective voting

Fiscal Consolidation has been achieved primarily through own-revenue buoyancy, not deep expenditure compression.

Lekha Chakraborty / 30th Jan, 2026 at 8:17 AM

Mea culpa. For years, a dominant narrative painted Kerala as fiscally irresponsible—high debt, unsustainable deficits, on the verge of collapse. Critics repeatedly warned of fiscal anarchy and impending crisis which never occured. Instead, the Reserve Bank of India and the Comptroller and

Auditor General have congratulated the State for the judicuous medium term fiscal framework towards consolidation. Had the Finance Minister then chosen the easier path of harsh fiscal consolidation to quickly tame the headline fiscal deficit and debt numbers amid volatile intergovernmental transfers, mindless fiscal austerity through huge expenditure cuts would indeed have followed with workers going months without salaries, health and education investments slashed to the bone, infrastructure projects stalled, and the state’s cherished social model eroded. Yet that path was deliberately avoided.

Today, as K. N. Balagopal presented the 2026-27 budget—the last full budget of the current Left Democratic Front government before the 2026 assembly elections—the record stands in clear rebuttal. A decade of systematic fiscal reforms has delivered prudent fiscal consolidation through revenue buoyancy, sustained high quality public services, and resilient human development, all while navigating federal constraints and geopolitical uncertainties.

The recent Reserve Bank of India report on state finances applied innovative “text-mining” techniques to budget speeches across nine states, offering fresh insights into subnational policy priorities. Using Latent Dirichlet Allocation for 2025-26 speeches, it identified four dominant themes: infrastructure development and social welfare leading, followed by agriculture and education/skills. A longer-term dictionary-based analysis (2016-17 to 2025-26) showed social welfare as a consistent narrative anchor, with infrastructure gaining prominence post-pandemic as states prioritized capital expenditure. The rhetoric also revealed a marked shift from traditional subsidies to direct benefit transfers, alongside a spike in fiscal prudence language during the pandemic years that later moderated toward developmental and welfare emphases. Applied this “text mining” technique to Kerala’s 2026-27 speech, this framework highlights the state’s enduring leadership in social welfare narratives—through care-economy transfers, elderly budgeting, and human development outcomes—while expanding into forward-looking themes like AI, innovation, demographic transition, and fiscal resilience that extend beyond the average state profile.

This final pre-election budget is inherently retrospective. In the calculus of voting, citizens judge governments primarily on delivered outcomes—the tangible linkage between taxation, public spending, and welfare gains—rather than on promises alone. Voters will assess whether the government has honoured that implicit contract: managing finances responsibly without fiscal austerity or endless populist freebies, while preserving Kerala’s social model despite central squeezes. The evidence presented today answers firmly in the affirmative.

A Record of Revenue-Led Prudence

Kerala operates within India’s fiscal responsibility framework, capping deficits at 3.5 percent of GSDP (with conditional flexibility). The 2026-27 fiscal deficit is pegged at 3.40 percent - disciplined adherence reflecting steady progress from pandemic peaks of 4.6 percent (2020-21) and 4.1 percent (2021-22). Revenue receipts stand at ₹1,82,972 crore against revenue expenditure of ₹2,17,559 crore, yielding a revenue deficit of ₹34,587 crore (2.12 percent of GSDP). This accommodates Kerala's hallmark social infrastructure commitments without compromising capital formation, with net capital outlay at ₹19,385 crore.

Fiscal Consolidation has been achieved primarily through own-revenue buoyancy, not deep expenditure compression. Over the government's tenure, Kerala mobilised an additional ₹1,27,747 crore in own-tax revenue and over ₹1,52,645 crore including non-tax sources—despite the discontinuation of GST compensation and unpredictable central grants. This self-reliance has minimised economic growth drag, sustained fiscal policy initially as a counter-cyclical policy tool, engsged in structural reforms and refuted earlier fears of fiscal unsustainability.

Public debt dynamics offer the clearest rebuttal to past criticisms. The debt-to-GSDP ratio has declined to 33.44 percent in 2026-27 from 38.47 percent in 2021—outperforming peers like Punjab (above 44 percent) and West Bengal (around 38 percent). Kerala comfortably meets the debt sustainability condition that the nominal GSDP growth exceeds the effective interest rate on borrowings.

With recent real growth above 6.19 percent as noted in the 2026 Economic Review and nominal growth in double digits, the state is effectively "growing out of debt."

Long-term maturity profiles further reduce refinancing risks, ensuring intergenerational equity. The RBI 2026 data shows that Kerala has consciously made efforts in issuing 22.3 percent of outstanding State Government Securities (SGSs) of more than 20 years.

In retrospective voting terms, these metrics resonate. Citizens recognise that revenue-led consolidation avoids the pain of expenditure cuts while delivering stability—building willingness to support fiscal efforts when benefits are evident.

Linking Taxes to Tangible Welfare

The calculus of retrospective voting hinges on perceived fairness: voters reward governments that forge clear connections between tax paid and outcomes. Kerala’s expenditure priorities strengthen this link.

Social services remain the cornerstone, sustaining outcomes like an infant mortality rate of 5 per 1,000 live births—lower than the United States (5.6) and far below India’s national average of ~25. The 2026 Kerala budget pioneers India’s first “elderly budgeting” framework, addressing demographic transition highlighted in recent RBI reports.

Structural measures dominate over populist handouts with the 12th Pay Commission is announced for systematic wage revisions, and the announcements are not just confined to, ₹1,000 monthly transfers to women in the care economy, enhanced social welfare pensions, but formidable salary hikes including for frontline workers like ASHA personnel.

Poverty’s dynamic nature - any chance of slipping again into capability deprivation - is acknowledged through sustained preventive allocations, even after eradicating ultra-poverty. Expanded job guarantee schemes function as “employer of last resort,” while gender budgeting preserves space for care-economy initiatives.

AI and Innovation reflects forward-thinking stewardship with allocations for AI, quantum computing, a Critical Mineral Mission, rare-earth hubs, potential blue bonds with marine PPP, and the space economy. Climate-resilient policies and global engagements, latest in Davos World Economic Forum have transformed investment perceptions about the State, reinforced by top ranking for Kerala for ease-of-doing-business. Branding Kerala as a top investment destination given the infrastructure and high human capital.

Budget Credibility and Principle of Subsidiarity

Improved fiscal marksmanship—narrower deviations between BE, RE and Actuals for own revenues—enhances predictability and credibility, contrasting with grant volatility.

Enhanced State Finance Commission transfers, respecting the ‘principle of subsidiarity ’ (bold public finance decisions to be taken at the level of government closest to people) and investments in urban mobility and rapid transit systems (RRTS) promote participatory governance and grassroots transparency.

This credibility is electoral currency. In retrospective judgment, voters value governments that deliver efficient, transparent spending without shifting burdens unduly to future generations.

The Last Budget as Vindication

As the final full budget before elections, 2026-27 is a culmination and a defence. It recaps a decade of reforms that turned perceived weaknesses into strengths: declining debt, contained deficits, and unwavering human development amid fiscal federal headwinds.

The old narrative of fiscal profligacy demands a mea culpa—not from the state, but from those who advanced it without nuance. Kerala's record demonstrates how subnational resilience is built: through revenue buoyancy, prudent fiscal management, and inclusive priorities that honour the implicit social contract—revising salaries upwards on time, paying pensions, sustaining health and education, and pushing infrastructure forward.

In the calculus of retrospective voting, citizens will decide if this performance merits continuation. The budget's message also made clear several times about the "culture of economic growth" with unwavering focus on development perspectives and Leave Noone Behind (LNOB). Kerala's 2026-27 budget is not just an annual statement; it is a fiscal maturity that invites voters to think if this merits continuation or a change is due.

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