

KERALA BUDGET ANALYSIS FY 2026–27

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Kerala Budget Analysis 2026-27

The Finance Minister of Kerala, Mr. K. N. Balagopal presented the Budget for the state for the financial year 2026-27 on January 29, 2026.

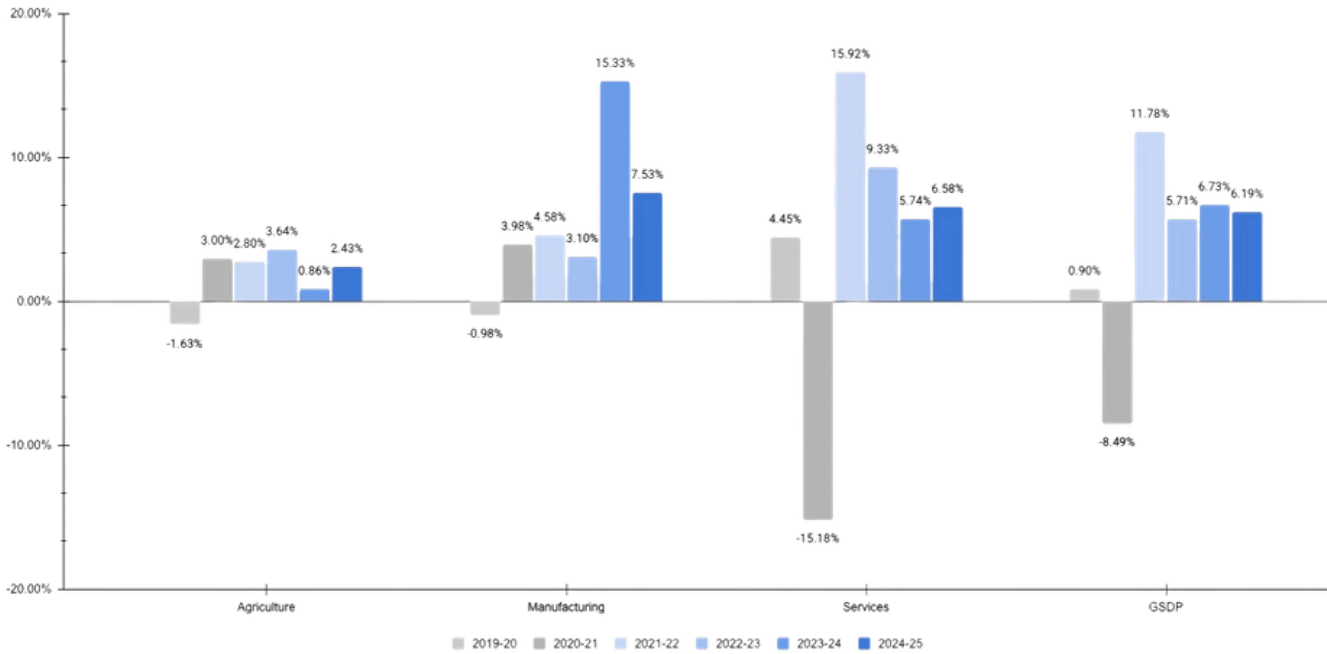
Kerala's Gross State Domestic Product (GSDP) for 2026-27, at current prices, is projected at ₹16,29,072.51 crore, reflecting a growth of 14% over the revised estimates for 2025-26. The state's expenditure, excluding debt repayment, is estimated at ₹2,39,907.13 crore in 2026-27, marking a 25% increase compared to the revised estimates of the previous year. Additionally, the state plans to repay debt amounting to ₹1,39,964 crore. Receipts excluding borrowings are estimated at ₹1,84,488 crore, representing a 33% increase from the revised estimates of 2025-26. The revenue deficit for 2026-27 is projected at 2.12% of GSDP (₹34,586.66 crore), showing an improvement from the revised estimate of 2.58% of GSDP (₹36,889.19 crore) in 2025-26. The fiscal deficit for 2026-27 is targeted at 3.40% of GSDP (₹55,419.5 crore), while the revised estimates for 2025-26 place the fiscal deficit at 3.78% of GSDP, slightly higher than the budgeted 3.16%.

The budget also outlines several key policy priorities. In the area of women's safety and welfare, ₹3,720 crore has been allocated for the Chief Minister's Women's Safety Scheme. To promote employment and livelihood generation, ₹400 crore has been earmarked for the Chief Minister's Connect to Work Scholarship Scheme, along with ₹20 crore for establishing a modern Gig Hub to support gig workers. In technology and innovation infrastructure, ₹30 crore has been allocated under a Public-Private Partnership (PPP) model to develop a Cyber Valley at Kochi Infopark, focusing on artificial intelligence and advanced technologies. The budget also emphasises education and human capital development by extending free education beyond Class 12, making degree courses in Science and Arts free in government and aided institutions.

Kerala's Economy

Kerala's economic landscape reflects moderate growth, with a dominant services sector and improving income levels.

Figure 1: Growth in Kerala's GSDP at constant prices (2011-12)



Note: These numbers are as per constant prices (2011-12) which implies that the growth rate is adjusted for inflation.
Sources: Handbook of statistics on Indian States, RBI; MoSPI

GSDP

- In 2024-25, Kerala's GSDP (at constant prices) is estimated to grow by 6.19% over the previous year. In comparison, India's GDP is estimated to grow by 6.5% in 2024-25.

SECTORS

- In 2024-25, agriculture, manufacturing, and services sectors are estimated to contribute 9.1%, %, 23.7% and 67.3% of Kerala's economy, respectively (at current prices).

PER CAPITA GSDP

- In 2024-25, Kerala's per capita GSDP (at current prices) is estimated to be Rs 346437, an increase of 9.42% over 2023-24. In 2024-25, India's per capita GDP is estimated to increase by 8.8% over 2023-24 to Rs 2,34,859.

Budget Estimates for 2026-27

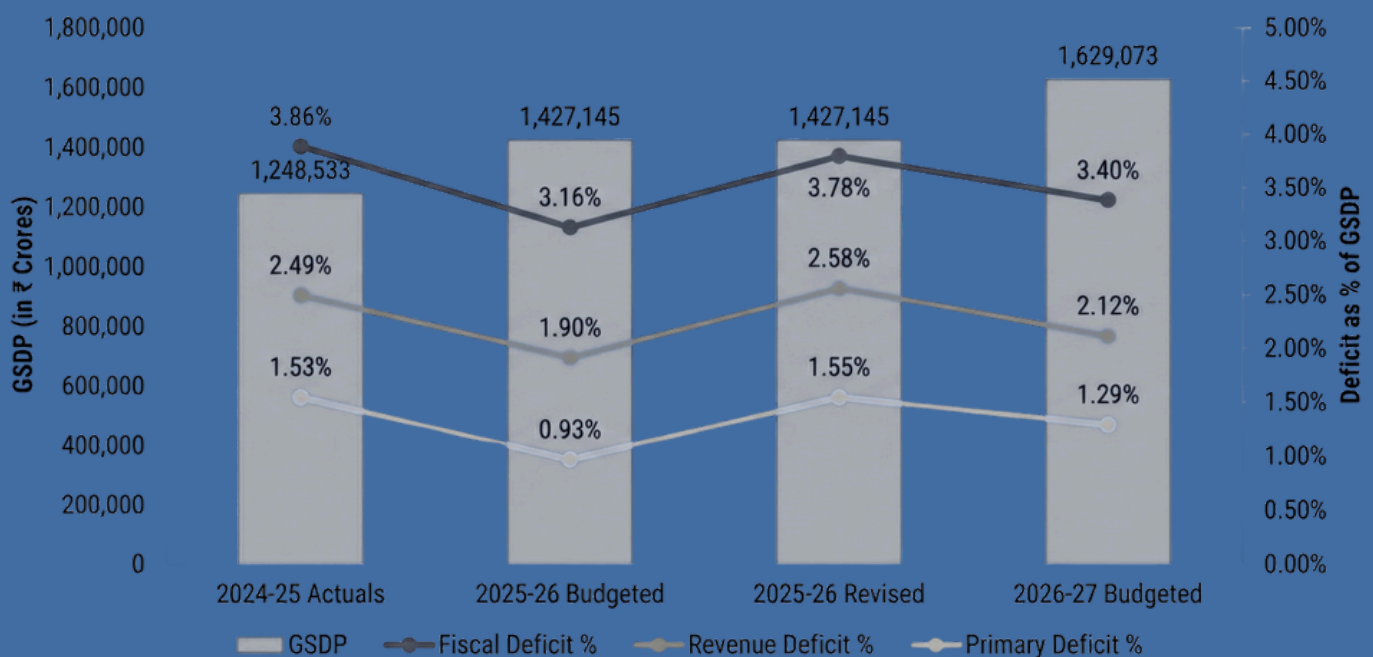
Table 1: Budget 2025-26 - Key findings (Rs in crore)

Items	2024-25 Actuals	2025-26 Budgeted	2025-26 Revised	% change from BE 25-26 to RE 25-26	2026-27 Budgeted	% change from RE 25-26 to BE 26-27
Total expenditure	285725.99	313543.28	312906.62	-0.20%	379871.24	21.40%
(-) Repayment of debt	111918.42	114960.89	120451.01	4.78%	139964.11	16.20%
Net Expenditure (E)	173807.57	198582.39	192455.61	-3.09%	239907.13	24.66%
Total Receipts	279503	309352.98	308865.92	-0.16%	375830.23	21.68%
(-) Borrowings	153944.31	155809.1	170359.82	9.34%	191342.6	12.32%
Net Receipts (R)	125558.69	153543.88	138506.1	-9.79%	184487.63	33.20%

Note: BE is Budget Estimates; RE is Revised Estimates. Sources: Annual Financial Statement, Kerala Budget Documents 2026-27.

- Total expenditure (excluding debt repayment) in 2026-27 is targeted at Rs 239907.13 crore. This is an increase of 24.66% from the revised estimate of 2025-26. This expenditure is proposed to be met through receipts (excluding borrowing) of Rs 184487.63 crore and net borrowings of Rs. 51378 crore. Total receipts for 2026-27 (other than borrowings) are expected to register an increase of 15% over the revised estimate of 2025-26.

Figure 2: State Budgetary Outlook: GSDP and Deficit Profiles



Note: BE is Budget Estimates; RE is Revised Estimates. Sources: Annual Financial Statement, Kerala Budget Documents 2026-27.

- Fiscal deficit for 2026-27 is targeted at 3.40% of GSDP (Rs 55419.5 crore), lower than the revised estimates for 2025-26 (3.78% of GSDP). In absolute terms, the fiscal deficit is estimated to increase in 2026-27 (Rs 55419.5 crore) over the revised estimate for 2025-26 (Rs 53949.51 crore). Due to the 14% growth estimated in GSDP, the fiscal deficit for 2026-27 as a percentage of GSDP is estimated to be less than the revised estimate for 2025-26.
- The state estimates a revenue deficit of 2.12% of GSDP (Rs 34586.66 crore) in 2026-27, as compared to a revenue deficit of 2.58% of GSDP as per revised estimates for 2025-26.

Expenditure in 2026-27

For 2026–27, revenue expenditure is estimated at Rs 2,17,558.76 crore, reflecting a 25.05% increase over the revised estimate of 2025–26. This expenditure primarily covers recurring obligations such as salaries, pensions, interest payments, grants, and subsidies. The capital outlay for 2026–27 is proposed at Rs 19,451.16 crore, marking a 24.13% rise compared to the revised estimate of the previous year, and represents investments directed towards asset creation and infrastructure development. Additionally, loans and advances by the state are projected to reach Rs 2,897.22 crore in 2026–27, registering a modest increase of 2.97% over the revised estimate of 2025–26.

Table 2: Expenditure budget 2026-27 (in Rs crore)

Items	2024-25 Actuals	2025-26 Budgeted	2025-26 Revised	% change from BE 25-26 to RE 25-26	2026-27 Budgeted	% change from RE 25-26 to BE 26-27
Revenue Expenditures	155920.79	179476.2	173971.8	-3.07%	217558.76	25.05%
Capital Outlay	15082.41	16938.1	15670.22	-7.49%	19451.16	24.13%
Loans given by the state	2804.36	2168.11	2813.58	29.77%	2897.22	2.97%
Net Expenditure	173807.56	198582.41	192455.6	-3.09%	239907.14	24.66%

Sources: Annual Financial Statement, Kerala Budget Documents 2026-27.

Committed Expenditure

It typically includes spending on salaries, pensions, and interest payments. A larger share of the state budget allocated towards such committed expenditure reduces the government’s flexibility in prioritising other developmental spending, particularly capital outlay. In 2026–27, Kerala is estimated to spend Rs 1,30,603 crore on committed expenditure, accounting for 71% of its projected revenue receipts. This includes expenditure on salaries (32% of revenue receipts), interest payments (19%), and pensions (21%). In comparison, actual figures for 2024–25 indicate that 78% of the state’s revenue receipts were utilised towards meeting committed expenditure obligations.

Table 3: Committed Expenditure in 2026-27 (in Rs crore)

Expenditure Committed	2024-25 Actuals	2025-26 Budgeted	2025-26 Revised	% change from BE 25-26 to RE 25-26	2026-27 Budgeted	% change from RE 25-26 to BE 26-27
Salaries	39872.2	44114.35	43853.79	-1%	57558	31%
Pension	27875.21	29459.8	29414.59	0%	38669	31%
Interest payment	29138.23	31823.72	31816.01	0%	34376	8%

Sources: Annual Financial Statement, Kerala Budget Documents 2026-27.

Sector-wise expenditure: The sectors listed below account for 44% of the total expenditure on various sectors by the state in 2026-27.

Table 4: Sector-wise expenditure under Kerala Budget 2026-27 (in Rs crore)

Sector	2024-25 Actuals	2025-26 BE	2025-26 RE	2026-27 BE	% change from RE 25-26 to BE 26-27	Demand Provisions (2026-27)
Education, Sports, Arts and Culture	23712.86	26397.88	25425.15	33882.47	33.26%	<ul style="list-style-type: none"> Assistance to Non-Govt. Secondary Schools (Aided) has been allocated a substantial sum Rs 7,493.81 cr. While Rs. Rs 4,176.88 cr has been allocated towards government primary schools, 99% (Rs 4,155.3 cr) of the government primary school allocation dedicated to salaries and wages. Rs 658 cr has been allocated towards the PM Poshan Shakti Nirman scheme.
Social welfare and Nutrition	15456.35	16054.01	16306.46	21224.71	30.16%	<ul style="list-style-type: none"> Kerala Social Security Pension Limited (KSSPL) is the central mechanism for welfare, receiving Rs 14,500 crore (approx. 69% of the sector's total budget). An amount of 11.93 crore has been allocated for nutrition.
Health and Family Welfare	10544.05	10873.97	10798.55	13146	21.74%	<ul style="list-style-type: none"> Rs 2,631.11 cr has been allocated for urban health (hospitals and dispensaries)
Agriculture & Allied Activities	6563.71	8258.58	7664.57	9494.87	23.88%	<ul style="list-style-type: none"> Rs 1,751.75 crore has been allocated for crop husbandry. Rs 700.00 crore has been allocated towards the rubber production incentive scheme Rs 742.00 crore for paddy procurement through Supplyco.
Rural Development	3070.78	8020.75	3915	9514.03	143.01%	<ul style="list-style-type: none"> Rs 4,150.43 crore has been allocated towards VB G RAM - G scheme.
Transport	4836.26	5410.56	5005.22	5999.73	19.87%	<ul style="list-style-type: none"> Rs 3,385.76 crore has been allocated as capital outlay for roads and bridges. Rs 845.55 cr for Kochi Metro (operational cost loss)
Police	4547.55	5098.07	5095.02	6634.13	30.21%	<ul style="list-style-type: none"> Rs 4,488.43 cr has been allocated for district police; Rs 323.03 cr for criminal investigation vigilance.
Welfare of SC, ST, OBC, and Minorities	2573.82	2405.56	2422.76	2683.91	10.78%	<ul style="list-style-type: none"> Rs 1,174.12 cr for the welfare of scheduled castes; Rs 511.24 cr for scheduled tribes.
Urban Development	1881.5	2048.51	1004.76	1589.6	58.21%	<ul style="list-style-type: none"> Rs ₹299.62 crore has been allocated as state share for the AMRUT 2.0 scheme; Rs 66.73 cr Life Paripada Mission (Urban).
Water Supply and Sanitation	1783.5	1298.91	1120.09	1332.88	19.00%	<ul style="list-style-type: none"> Rs 560 cr has been allocated as state share Jal Jeevan Mission
% of total expenditure on all sectors	43.13%	43.24%	40.92%	43.98%		

Sources: Annual Financial Statement, Kerala Budget Documents 2026-27

Receipts in 2026-27

Total revenue receipts for 2026–27 are estimated at Rs 1,82,972.1 crore, marking a 33% increase over the revised estimates for 2025–26. Of this, Rs 1,14,358 crore (63%) will be mobilised through the state’s own resources, while Rs 68,614 crore (37%) will be sourced from the Centre. Central transfers include the state’s share in central taxes, accounting for 23% of revenue receipts, and grants, constituting 14%. The state’s share in central taxes is projected at Rs 42,114 crore in 2026–27, reflecting a 54% increase over the revised estimates of 2025–26. Grants from the Centre are estimated at Rs 26,500 crore, registering a 268% increase over the revised estimates of 2025–26. Notably, in 2025–26, the state is expected to receive Rs 7,209 crore as grants, which is 45% lower than the budget estimate of Rs 13,075 crore.

Table 5: Break-up of the state government’s receipts (in Rs crore)

Items	2024-25 Actuals	2025-26 Budgeted	2025-26 Revised	% change from BE 25-26 to RE 25-26	2026-27 Budgeted	% change from RE 25-26 to BE 26-27
State's Own Tax	76642	91514.75	83730.96	-9%	94002.47	12%
State's Own Non-Tax	16486.62	19145.53	18760.72	-2%	20355.77	9%
Share in Central Taxes	24772.38	28616.5	27382.06	-4%	42114.32	54%
Grants-in-aid from Centre	6959.87	13074.9	7208.87	-45%	26499.54	268%
Revenue Receipts	124861.07	152351.67	137082.61	-10%	182972.1	33%
Non-debt Capital Receipts	698.36	1192.21	1423.49	19%	1515.53	6%
Net Receipts	125559.43	153543.88	138506.1	-9.79%	184487.63	33%

Note: BE is Budget Estimates; RE is Revised Estimates. Sources: Annual Financial Statement, Kerala Budget Documents 2026-27

Kerala’s own tax revenue is estimated at Rs 94,002.47 crore in 2026–27, indicating a 12% increase over the revised estimates for 2025–26. Own tax revenue as a share of GSDP is projected to remain stable at 5.7% in 2026–27, the same as the revised estimates for 2025–26. However, this represents a slight decline compared to the actual figure of 6.1% recorded in 2024–25, suggesting modest moderation in the tax-to-GSDP ratio over the period.

Composition of State Tax Revenue

In 2026–27, State GST is projected to remain the largest contributor to own tax revenue, accounting for a 40% share, and is estimated to grow by 11% compared to the revised estimates of 2025–26.

Revenue from Sales tax/VAT in 2026–27 is expected to register an 11% increase over the revised estimates for 2025–26, while revenue from state excise is projected to rise by 10% during the same period.

Revenue from electricity duty is estimated at Rs 1,475 crore in 2026–27. In comparison, the revised estimates for 2025–26 place electricity duty collections at Rs 100 crore, significantly lower than the budget estimate of Rs 1,100 crore for that year.

Table 6: Major Sources of State's own tax revenue (in Rs crore)

Head	2024-25 Actuals	2025-26 BE	2025-26 RE	% change from BE 25-26 to RE 25-26	2026-27 BE	% change from RE 25-26 to BE 26-27
State GST	32314.7	37763.18	34445.71	-8.78%	38062.51	10.50%
Sales Tax/VAT	27693.86	33591.44	30718.72	-8.55%	34100.9	11.01%
Taxes on Vehicles	6634.98	7396.78	7829.28	5.85%	8623.2	10.14%
Stamps Duty and Registration Fees	6127.56	7343.24	6740.32	-8.21%	7424.35	10.15%
State Excise	2871.63	3150	3149.95	0.00%	3464.97	10.00%
Taxes and Duties on Electricity	95.16	1100	100	-90.91%	1475	1375.00%
Land Revenue	608.73	843	469.58	-44.30%	515.87	9.86%
GST Compensation Grants	66.89	-	-		-	

Sources: Annual Financial Statement, Kerala Budget Documents 2026-27.

Deficits, Debt, and FRBM Targets for 2026-27

The Kerala Fiscal Responsibility Act, 2003 provides annual targets to progressively reduce the outstanding debt, revenue deficit and fiscal deficit of the state government.

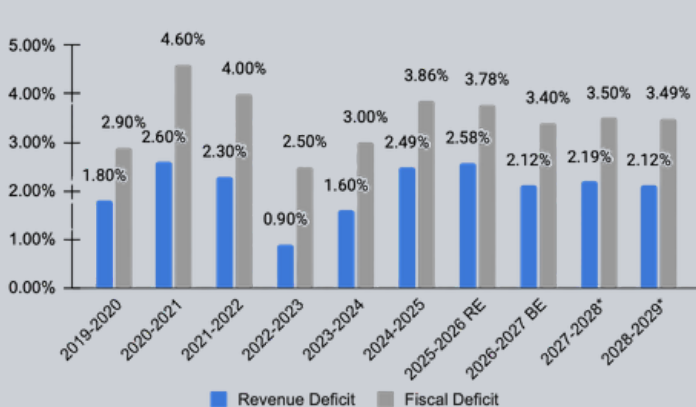
Revenue deficit: It is the difference between revenue expenditure and revenue receipts. A revenue deficit implies that the government needs to borrow to finance those expenses which does not increase its assets or reduces its liabilities. The budget estimates a revenue deficit of Rs 34,587 crore (or 2.1 % of the GSDP) in 2026-27.

Fiscal deficit: It is the excess of total expenditure over total receipts. This gap is filled by borrowings by the government and leads to an increase in total liabilities. In 2026-27, the fiscal deficit is estimated to be 3.4% of GSDP. For 2026-27, the central government has permitted a fiscal deficit of up to 3% of GSDP to states.

As per the revised estimates, in 2025-26, the fiscal deficit of the state is expected to be 3.7% of GSDP. This is marginally higher than the budget estimate of 3.1% of GSDP (for 2025-26).

Outstanding debt: Outstanding debt is the accumulation of total borrowings at the end of a financial year. At the end of 2026-27, the outstanding debt is estimated to be 33.4% of GSDP, marginally lower than the revised estimate for 2025-26 (34.2% of GSDP).

Figure 3: Revenue and Fiscal Deficit (% of GSDP)



Note: *Figures from 2027-28 onwards are projections. RE is Revised Estimates; BE is budget estimates.
Sources: Medium Term Fiscal Policy and Strategy Statement, Kerala Budget Documents 2026-27

Figure 4: Outstanding Debt (as % of GSDP)



Note: *Figures for 2027-28 onwards are projections. BE is budget estimates.
Sources: Medium Term Fiscal Policy and Strategy Statement, Kerala Budget Documents 2026-27

Annexure 1: Comparison of 2024-25 Budget Estimates and Actuals

The following tables compare the actuals of 2024-25 with budget estimates for that year.

Table 7: Overview of Receipts and Expenditure (in Rs crore)

Particular	2024-25 (BE)	2024-25 Actuals	% change from BE to Actuals
Net Receipts (1+2)	139798.36	125559.43	-10%
1. Revenue Receipts (a+b+c+d)	138655.16	124861.07	-10%
a. Own Tax Revenue	84884.51	76642.19	-10%
b. Own Non-Tax Revenue	18356.46	16486.62	-10%
c. Share in central taxes	23882.4	24772.38	4%
d. Grants-in-aid from the Centre	11532.8	6959.87	-40%
2. Non-Debt Capital Receipts	1143.2	698.36	-39%
3. Borrowings	107046.58	153944.31	43.81%
Net Expenditure (4+5+6)	184327.43	173807.2	-6%
4. Revenue Expenditure	166501.21	155920.79	-6%
5. Capital Outlay	15663.22	15082.41	-4%
6. Loans and Advances	2163	2804	30%
7. Debt Repayment	71058.3	111918.42	
Revenue Deficit	27846.05	31059.72	12%
Revenue Deficit (as % of GSDP)	2.10%	2.50%	
Fiscal Deficit	44528.96	48248.14	8%
Fiscal Deficit (as % of GSDP)	3.40%	3.90%	

Sources: Kerala Budget document of various years

Table 8: Key Components of State's Own Tax Revenue

Tax Source/Head	2024-25 (BE)	2024-25 Actuals	% change from BE to Actuals
Taxes and Duties on Electricity	1100	95.16	-91.35%
State GST	35874.63	32314.7	-9.92%
Sales Tax/ VAT	30267.31	27693.86	-8.50%
Taxes on Vehicles	6704.22	6634.98	-1.03%
State Excise	3107.46	2871.63	-7.59%
Stamps Duty and Registration Fees	6661.84	6127.56	-8.02%
Land Revenue	841.9	608.73	-27.70%

Sources: Kerala Budget document of various years



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