International Journal of Advanced Research and Development
www.multireviewjournal.com
ISSN: 2455-4030
Received: 07-12-2025, Accepted: 06-01-2026, Published: 21-01-2026
Volume 11, Issue 1, 2026, Page No. 141-144

Kerala's debt scenario: An ongoing debate

Vinati
Assistant Professor, Pt. NRS Govt. College, Rohtak, Haryana, India
DOI: https://doi.org/10.66856/ijard.2026.11.1.11065

Abstract
Kerala's rising public debt has remained a subject of intense academic and policy debate, particularly in the context of concerns regarding fiscal sustainability and adherence to fiscal responsibility norms. This paper critically examines the state's debt scenario over the period 2000–01 to 2021–22 by analysing debt trends, debt sustainability, and the competing perspectives surrounding Kerala's fiscal position. Using secondary data from the Comptroller and Auditor General (CAG), RBI publications, and other official sources, the study reviews the evolution of Kerala's debt profile and evaluates the sustainability of its borrowing through Bohn's Sustainability Framework, threshold regression, and the Autoregressive Distributed Lag (ARDL) model. The findings indicate that although Kerala's debt-to-GSDP ratio has consistently remained above the prescribed fiscal threshold and increased significantly during the COVID-19 pandemic, the rise is largely attributable to economic contraction rather than fiscal mismanagement. The study estimates a sustainable debt-to-GSDP threshold of 27.8 percent, beyond which public debt adversely affects economic growth. Simulation results suggest that Kerala can restore debt sustainability by 2032 through a combination of higher economic growth and prudent fiscal management without compromising essential investments in health, education, and social welfare. The paper argues against simplistic interpretations of debt indicators and critiques conventional assessments that advocate contractionary fiscal policies. Instead, it emphasizes balanced debt management strategies that preserve Kerala's development-oriented public expenditure while ensuring long-term fiscal sustainability. The study contributes to the ongoing discourse on sub-national fiscal management by proposing a pragmatic framework for achieving sustainable debt without undermining inclusive development.

Keywords: Public debt, debt sustainability, fiscal sustainability, kerala economy, debt-to-GSDP ratio

Introduction
The discourse on Kerala's fiscal situation has largely focused on its high fiscal deficit and mounting debt burden. This concern has been particularly prominent since the early 2000s, when the state's debt exceeded 30 percent of its Gross State Domestic Product (GSDP). The introduction of the Fiscal Responsibility and Budget Management (FRBM) Act, along with other fiscal consolidation measures, helped ease the escalating debt pressure, reducing the intensity of related debates. In 2012, Kerala once again came under scrutiny when the Government of India (GOI) identified it, along with Punjab and West Bengal, as fiscally unsound among the general category states, based on its rising debt-GSDP ratio (Times of India, 2012; Das, 2015) [2, 8]. Nevertheless, Kerala's debt-GSDP ratio has not shown a sharply exponential increase over the past 25 years, except during the extraordinary circumstances of the COVID-19 pandemic. According to the RBI's 2022 assessment, the state has once again been highlighted as one of the most financially unsustainable states, primarily due to its performance during the pandemic year.

It is important to note that academic research has only partially explored the factual aspects of Kerala's debt scenario, with political considerations significantly shaping the discourse. Many scholarly works have reinforced political arguments, and there has been a recurring tendency to misinterpret absolute debt figures, leading to misconceptions about the actual fiscal situation. More recently, the debate has evolved to move beyond conventional debt indicators, incorporating off-budget liabilities and examining related accounting practices.

In this context, the present study seeks to interpret certain perspectives offered by scholars on Kerala's public debt. The study is structured as follows: Section 2 examines Kerala's debt patterns over the last 25 years, while Section 3 provides a detailed analysis of sustainability issues explored by various scholars, along with a critique of the RBI (2022) [6] study. Section 4 highlights potential directions for the future, and the study concludes with summarizing remarks in Section 6.

Debt obligations of the state
Table 1 illustrates the debt status of Kerala from 2000-01 to 2021-22, revealing a steady linear increase in the absolute value of public debt, rising from 25,721 crores to 3,57,391 crores. Over this period, the debt-to-Gross State Domestic Product (GSDP) ratio fluctuated between 28.11% and 38.33%, consistently exceeding the limits set by the Kerala Fiscal Responsibility (KFR) Act, 2003, and the finance commission. Notably, except during the pandemic-affected year of 2021-22, Kerala maintained a debt-to-GSDP ratio above the 25% threshold, reflecting its deliberate policy of investing in social infrastructure. The surge in the debt-GSDP ratio during the pandemic, however, is largely attributable to the denominator effect—a contraction in GSDP—rather than inherent fiscal mismanagement.

For debt sustainability and adherence to the Intertemporal Budget Constraint (IBC), it is essential that debt growth remains slower than the state's GDP growth (RBI, 2014). Excluding the period from 2004-05 to 2012, when fiscal consolidation measures were implemented, Kerala has largely failed to meet this criterion in any year. This trend is concerning, as the rapid accumulation of debt has necessitated repeated borrowing to service existing liabilities. Encouragingly, the trend observed in 2021-22 indicates some improvement in this regard.

Throughout the period, Open Market Loans have consistently been the primary driver of Kerala's annual outstanding debt, significantly contributing to interest payments, which account for over 15% of both the state's revenue expenditure and revenue receipts. To mitigate this challenge, the state could explore strategies such as accessing loans at favourable interest rates, seeking financial support from the central government, and leveraging lower-interest instruments within the public account.

Table 1: Debt profile of Kerala from 2000-01 to 2021-22

	Total Outstanding Debt (in Crores)	GSDP (Current) (in Crores)	Rate of Growth of Public Debt (%)	Rate of Growth of GSDP (%)	Total Debt as % of GSDP
2000-01	25721	91505	18.66	5.05	28.11
2001-02	29025	98135	12.85	7.25	29.58
2002-03	33782	109433	16.39	11.51	30.87
2003-04	39231	121779	16.13	11.28	32.21
2004-05	43,697	138858	11.38	14.02	31.47
2005-06	47832	159324	9.46	14.74	30.02
2006-07	52,161	179051	9.05	12.38	29.13
2007-08	58,108	203916	11.40	13.89	28.50
2008-09	66,097	236099	13.75	15.78	28.00
2009-10	74,223	270114	12.29	14.41	27.48
2010-11	82420	307109	11.04	13.70	26.84
2011-12	93,132	364048	13.00	18.54	25.58
2012-13	108477	412313	16.48	13.26	26.31
2013-14	124081	465041	14.38	12.79	26.68
2014-15	141947	512564	14.40	10.22	27.69
2015-16	160539	561994	13.10	9.64	28.57
2016-17	189769	634886	18.21	12.97	29.89
2017-18	214518	701588	13.04	10.51	30.58
2018-19	241615	788286	12.63	12.36	30.65
2019-20	265327	812935	9.81	3.13	32.64
2020-21	308386	771724	16.23	-5.07	39.96
2021-22	357393	932470	15.89	20.83	38.33

Source:https://cag.gov.in/en/state-accounts-report?defuat_state_id=77 (Debt)& https://mospi.gov.in/data (GSDP)

Debt sustainability analyses for Kerala: A critical review

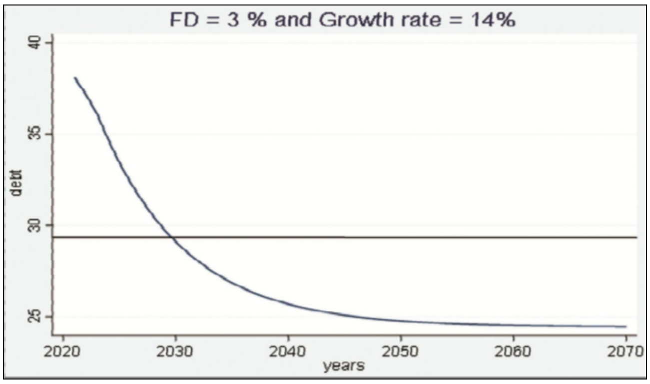
Kerala's fiscal position has long been a subject of extensive scrutiny by scholars, policymakers, and media analysts, resulting in a wide spectrum of interpretations due to the diversity of perspectives. Several studies underscore the state's significant fiscal disparities (RBI, 2013; Kaur *et al.*, 2018; Das, 2015) [2, 6], noting that key indicators such as revenue deficit, fiscal deficit, and the debt-to-GSDP ratio frequently exceed national averages. These indicators point to the persistent structural challenges faced by the state in aligning expenditures with revenue generation. However, a closer examination of Kerala's expenditure patterns reveals a deliberate and sustained prioritization of recurring social service commitments, particularly in health, education, and welfare sectors. Historically, the state has maintained a policy of significant investment in social infrastructure, which has yielded long-term developmental benefits such as high literacy rates, improved health outcomes, and relatively better human development indices compared to other Indian states (Isaac and Ramkumar, 2006). These social expenditures, while improving the overall quality of life, have contributed to a higher fiscal burden, reflecting a trade-off between social development and fiscal prudence.

Kerala's current fiscal condition is also shaped by the cumulative effects of past public interventions, including welfare schemes, subsidies, and sector-specific investments, which have created a legacy of sustained expenditure commitments. Scholars, however, remain divided on the optimal approach to managing these commitments within the framework of deficit financing. The optimistic perspective, grounded in interdisciplinary, historical, and political economy analyses, suggests that Kerala can continue deficit financing strategically, provided that fiscal and debt management practices are strengthened to adhere to intertemporal budget constraints (Joseph and Kumar, 2022). This view emphasizes that maintaining social investments, while carefully managing borrowing and debt service obligations, can support sustainable growth and fiscal resilience. In contrast, the pessimistic approach argues for significant reductions in social and committed expenditures, recommending adherence to arbitrary fiscal targets to limit future debt burdens (RBI, 2022) [6]. Proponents of this view caution that unchecked deficit financing could exacerbate fiscal stress, potentially imposing heavier debt obligations on future generations. Meanwhile, a more balanced, realistic stance recognizes Kerala's fiscal challenges but suggests that with prudent management, the state has the capacity to restore fiscal equilibrium over time (Das, 2013).

Empirical evidence further complicates the discourse, producing mixed results regarding the sustainability of Kerala's fiscal position. Certain studies classify the state's fiscal stance as unsustainable, citing persistent deficits and rising debt-to-GSDP ratios (RBI, 2022; Shanmugam and Renjith, 2021) [6], whereas others argue for a weaker, conditional form of sustainability that acknowledges fiscal stress but also the potential for corrective measures (Renjith, 2022). This multiplicity of perspectives underscores the complex and multi-dimensional nature of Kerala's fiscal dynamics, highlighting the need for nuanced analysis rather than simplistic policy prescriptions.

In this context, the present study adopts a pragmatic lens, offering a critical review of RBI's (2022) risk analysis, which designates Kerala among India's most fiscally vulnerable states. The recommendation for contractionary fiscal policies, as suggested by RBI, is arguably inappropriate in the context of economic shocks, such as the COVID-19 pandemic, where active state intervention is necessary. Increased public expenditure and borrowing during such periods are essential to stabilize demand, support economic activity, and mitigate the negative socio-economic impacts of the shock, even though these measures temporarily elevate the debt ratio. Additionally, comparisons between Kerala and international cases such as Sri Lanka's debt crisis are misleading, given the constitutional and institutional differences governing Indian states under Article 293. Furthermore, the use of the pandemic year's debt-GSDP ratio as a benchmark does not adequately reflect the heterogeneity in economic impact across states: while Kerala experienced a 9% contraction in GSDP, other states such as Maharashtra, Haryana, and Odisha faced comparatively lower shocks. Methodological concerns also arise, including the choice of states for comparison, selection of fiscal indicators, unexplained disparities in results, and a reliance on statistically insignificant conclusions, all of which tend to understate the actual implications of rising debt on primary balances. Moreover, RBI's projections for primary deficit, debt-GSDP ratio, real interest rates, and real GDP growth lack transparency regarding the reference periods and the modelling assumptions employed, raising questions about the reliability of its conclusions.

Despite acknowledging that Kerala's current debt-GSDP ratio is a matter of concern, this study emphasizes that the state is not beyond the possibility of restoring fiscal sustainability. By exploring strategies that allow debt management without compromising essential public services, the study aims to provide actionable insights for policymakers. It examines mechanisms to optimize borrowing, align expenditures with sustainability thresholds, and implement prudent fiscal management practices that maintain social investments while gradually reducing the debt burden. This sets the stage for the subsequent sections, which offer a detailed analysis of Kerala's debt patterns, the implications for growth, and policy recommendations aimed at achieving a sustainable and balanced fiscal trajectory.



Source: Authors' estimation

Fig 1: Simulation results

Can Kerala's debt position be intervened upon?

We approached this issue through three key exercises: (i) evaluating the sustainability of Kerala's debt and quantifying its deviation from a sustainable position, (ii) identifying the level of state debt that promotes economic growth, and (iii) developing a strategic plan to attain a sustainable debt level by adjusting fiscal indicators. Using a discrete threshold regression model and Bohn's Sustainability Framework, we determined that the state's sustainable debt-to-GSDP ratio is 27.8 percent, implying the need for a 10-percentage point reduction from current levels in the coming years (see Appendix Table 1). Employing the ARDL model, we uncovered a nonlinear relationship between public debt and economic growth, showing that debt positively contributes to growth up to the 27.8 percent threshold, but beyond this point, it impedes growth.

Additionally, through a simulation exercise based on the Rangarajan and Srivastava (2005) framework, we formulated strategies to achieve the 27.8 percent debt target. The initial values considered were: a debt-to-GSDP ratio of 38.33 percent for 2022-23; a fiscal deficit of 3.6 percent for 2022-23 and 3.5 percent for 2023-24; and a growth rate of 12 percent for 2021-22. Projections indicate that by targeting an average growth rate of 14% with a 3 percent fiscal deficit, or maintaining 12% growth with a 2.5 percent fiscal deficit, Kerala can achieve the sustainable debt threshold of 27.8 percent by 2032 (see Appendix Fig. 1).

In summary, Kerala's current debt position lies outside the sustainable range, yet the state possesses the capacity to restore it to the sustainable threshold of 27.8 percent. It is crucial that debt reduction efforts do not undermine vital public interventions. The focus should be on strengthening debt management practices, ensuring that borrowing is purpose-driven and aligned with sustainability targets. By following this comprehensive strategy, the state can achieve a balance between responsible debt management and the continued support of essential public initiatives.

Conclusions and policy suggestions

This study adds to the ongoing debate on Kerala's debt position, a subject of sustained scholarly and policy discussion. Like previous research, we recognize that the current debt level exceeds sustainable limits. However, our approach differs from studies that focus on reducing essential public interventions. Instead, we establish a sustainable threshold of 27.8 percent for the state and outline strategies to achieve it. By targeting an average growth rate of 14% with a 3 percent fiscal deficit, or 12% growth with a 2.5 percent fiscal deficit, Kerala is projected to reach this threshold by 2032. Preserving the integrity of vital public interventions remains a priority. Accordingly, we advocate for enhanced debt management practices to balance responsible fiscal management with the continued support of essential public initiatives.

References

1. To satisfy the Intertemporal Budget Constraint (IBC), the current outstanding debt must correspond to the present value of future primary surpluses, as highlighted by Greiner and Fincke, 2015.
2. For further details, see Shanmugam and Renjith, 2022.
3. Das, N. Subnational level fiscal health in India: Stability and sustainability implications. Economic Change and Restructuring,2015:48:71-91.

4. Greiner, A, Fincke B. Public debt, sustainability and economic growth. Springer International Publishers, 2015.
5. Kaur B, Mukherjee A, Ekka AP. Debt sustainability of states in India: An assessment. Indian Economic Review,2018:53:93-129.
6. RBI State Finances: A Risk Analysis, RBI Bulletin June, 2022
7. Shanmugam KR, Renjith PS. Sustainability and Threshold Value of Public Debt of Centre and All State Governments in India. Indian Public Policy Review,2023:4(3):43-66.
8. Times of India. Government mulls cash bailout for West Bengal, Punjab and Kerala. In: Times of India, 9, 2012. http://articles.timesofindia.indiatimes.com/ 2012-06-09/india/32139909_1_debtrelief- moratorium-revenue-deficit