

# An Economic Analysis of Kerala's Budget History

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**Abstract:** *The budget is a tool that the government employs to control the whole economy. Budgetary allotments are always in accordance with the socioeconomic priorities of the government. Budget analysis would provide insight into many government initiatives, particularly those related to education and health. Each allocation has a unique impact on individuals. The impact of budgets varies by gender, class, and community. To ascertain whether or not they are in line with these priorities, it is necessary to examine current plans, initiatives, and policies. Secondary data is utilised to comprehend the pattern and trend of budgetary allocations. Budgetary records from 1957–1958 to 2025–2026 are examined. To determine each head's share of the overall budgetary allotments, the budget document and grant demand are reviewed. By dividing each head's allocation by the overall budgetary allocation, the percentage allotted to each head is determined. The allocations are determined using budget estimations. Although the distribution pattern remained mostly constant, the allocation trend is decreasing. This downward trend is seen in the top four allocation categories: health, education, salary and assignment, and pension and miscellaneous. The only area where the opposite trend was noticeable was in the allocation to social security and welfare.*

**Keywords:** Budgetary allocations, Education, Health, social security, welfare

## 1. Introduction

A state's historical, cultural, political, economic, and institutional elements all influence its budgetary allocations. Historical trends and current patterns were analysed in order to comprehend government agendas, resource allocations, and their socioeconomic effects. By analysing allocations, policymakers, stakeholders, and academics can identify areas of underinvestment and enhance fiscal transparency and accountability. The creation of evidence-based policy will be based on this in-depth analysis. In order to effectively address social demands, it will ensure equitable distribution and sensible resource allocation. This paper's goal is to analyse the budgetary allocation patterns and trends of Kerala, a developed Indian state, from 1957–1958 to 2025–2026.

## 2. Literature Review

Budgets affect the economy in both macro and microeconomic ways. The impact of a government's budget on people, society, and the economy is a concern shared by economists, taxpayers, and consumers. The most significant fiscal document addressing socioeconomic issues and plans for the upcoming year, along with the government's suggested course of action for their resolution and execution, is the budget. A budget is a declaration of the financial strategy of the government. The budget is the tool that the government uses to regulate the whole economy. The government's socioeconomic priorities are always aligned with budget recommendations. Budget analysis would shed light on various aspects of government policy, especially in the fields of health and education. Every allocation affects people differently. Their current skill set determines these effects. Budget allocations won't benefit those who lack the requisite skills. This indicates that depending on their current capabilities, budgets affect gender, class, and community differently. This necessitates determining if

current plans, policies, and activities align with these priorities. (Nishanthi, 2020).

All people's lives are impacted by public policy. The government employs a number of tools to improve people's quality of life and impact their way of life. One of them is the budget. Despite being the government's financial statement, the budget also represents the government's priorities and points of view. Budgets are seen as a tool and a technique to improve the lives of the poor in all developing nations. A strong budget allocation system is essential to India's use of the budget as a tool for accomplishing the government's strategic goals and objectives. This system necessitates a variety of workable processes or platforms to manage relationships and accommodate different role players. Every platform serves as the foundation for starting the subsequent phase and is characterised in terms of better results. Budget preparation, internal controls, accounting, internal and external audits, procurement, monitoring, and reporting procedures are all included in the spending section of the budget cycle (Omar, M. A., & Minja, D. 2017). With a focus on public financial management capability, accountability, and responsiveness, the budget allocation system fosters good governance by highlighting the relationships between different role actors in the various components (World Bank Group, 2020). The approach allows for group decision making, accountability, and citizen expression of preferences. The budget allocation system provides for operational efficiency in the use of resources, fiscal transparency, strategic prioritisation in the composition of expenditures with the budget as a fundamental instrument to achieve government programs, and overall fiscal discipline.

The effective allocation of county resources is made possible by active participation in the financial process. The structure of the institutional framework has a major influence on the budgetary allocation process. Using modern appraisal techniques will expedite the completion of certain activities and processes. Evaluations of the

Volume 14 Issue 12, December 2025

Fully Refereed | Open Access | Double Blind Peer Reviewed Journal

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budget greatly improve the allocation procedure. Examining the budget improves the effectiveness and efficiency of local service delivery across the country. Frequent financial assessments will draw attention to areas that need more attention, increasing the efficacy of the process (Reshma Mahato, 2021). Budgeting is the decision on the level of expenditures and on the repartition of resources among organizational subunits and can be conceived as a critical organizational process, which is closely related to key choices concerning strategic priorities and to resources acquisition strategies. (Lepori, Benedetto & Usher, John & Montauti, Martina, 2013). Kerala's public finances suffer from persistently high levels of fiscal and revenue deficits, low levels of public investment in capital projects, increased use of borrowed money to pay for revenue expenditures, mounting debt liabilities, a heavier burden of interest payments, and declining efforts to raise revenue on their own (Hashik Madakkara, 2023). Kerala is no exception to trend and its public finances suffers from continued high levels of fiscal and revenue deficits, low levels of public spending on capital works, utilisation of borrowed funds more to fund revenue expenditure, mounting debt liabilities, higher interest payment burden and falling own revenue mobilisation efforts (State Finance of Kerala Performance, Challenges and the Way Ahead, 2017).

Enhancement of expenditure on two areas, education and health, is essential for sustaining the Kerala Model of Development. It is found that the State is not able to adequately mobilize resources for the development of infrastructure, public services and public utilities. The capital outlay as percentage of capital expenditure on irrigation; agriculture and allied services; industries, labour and employment and public works are declining in Kerala. Investment and asset creation in these areas are infrastructural investments and hence they have to be constantly stepped up to accelerate the growth rate of the state economy. Proper management of expenditure is required for attaining fiscal stability and sustainability for the state of Kerala (Abraham, Nithin, 2021). Kerala is among India's better-performing states in terms of public investment on the social sector and human development. On several social development indices, the state has consistently outperformed and remained ahead of all other Indian states. This high degree of social formation is caused by a number of factors, including social movements and welfare governments that have a track record of elevating socially disadvantaged candidates to mainstream positions. By examining Kerala's exceptional human development statistics, one can learn more about the state's social spending patterns and how they affect different metrics related to human development. Given the interdependence of social sector spending and human development, it has been noted that human development is an incremental function of growth in social sector spending. Policymakers must bolster evidence-based decision-making through thorough analysis and the creation of strong monitoring and evaluation systems around the crucial indicators of social sector growth in order to promote efficient and sustainable human development in Kerala (Bipin, K., Viswanathan, P.K. 2024).

This section involves review of theories underlying the study. The theories discussed in this study are Agency theory, Rational choice theory and Theory of Budgeting. Agency theory is based on the principal-agent relationship whereby one party acts on behalf of another designated party, protecting their interests in the process. It was theory was developed by Jensen and Meckling in 1976, with their intention being to accurately describe the relationship between managerial behavior and the interest of other relevant stakeholders. It also included the aspects of agency costs and capital structure within the organization. The founders divided this theory into two key parts; namely the positivist agency theory and the principal-agent theory. Both are closely related as the principal's main objective is to get the maximum return from investment while the agent's key concern is to receive adequate compensation (Schaltegger & Burritt, 2010).

To ensure that collective goals are achieved, it is important to form crowds, groups, associations and organizations according to the resource mobilization theory which involves mobilization (Aras and Crowther, 2019). Resources are the major factors that are used to emerge organizations. Social movements study is formed from sociological theory in resource mobilization. All organizations have goals and thus they use resources to ensure that they are able to mobilize people so as to be able to acquire resources. Resources are very important factors when it comes to the growth and success of any organization and they make efforts to ensure that the resources do not diminish but grow in number (Camison, 2019).

Hirst advanced the theory of budgeting in 1987. The theory recommends that there should be a control system in order to establish opportunities and control possible risks and opportunities by planning using an effective budgetary control. A good budgetary performance can be attained through organizational objectives and performance that result from a good budget according to Shields and Young (1993). A strategy enables an organization to have financial viability that predicts its financial performance through the budget. Most of the organizations prepare annually so as to formalize its budgeting process, control its performance and monitoring its variances (Silva & Jayamaha, 2012).

### Research Gap

Literatures shows that no studies have been conducted to understand the history of Kerala Budget. Besides, no studies have been conducted to understand the changes in the budgetary allocations from the beginning of the budget in 1957-58 to till the date.

### Objectives of the Study

This study is conducted

- 1) To understand the history of Kerala budget.
- 2) To analyse the budgetary allocations during the period 1957-58 to 2025-26 to find out top heads of the budgetary allocations

### 3. Methodology

Secondary data is utilised to understand the history of budgetary allocations. Budgetary records from 1957–58 to 2025–2026 are examined. To determine each head's share in the overall budgetary allocations, budgetary document, demand for grant is perused. The percentage share for each head is calculated by dividing the allocation by the total budgeted allocation. The allocations are examined using budget estimations. Conclusions about budgetary allocations are based on the percentage share of each head in relation to overall budgetary allocations.

#### Brief History of Budget Presentations in Kerala

Kerala was created on November 1st, 1956, a long time after Indian independence on August 15th, 1947. Malabar, Cochin, and Travancore were its three separate provinces before that. The Kerala government approved the States Reorganisation Act of 1956, which created the state of Kerala. Travancore-Cochin State, Madras state's Malabar district, and South Canara's Kasargod were combined for the establishment. Kerala, which is currently divided into 14 districts. On June 7, 1957, Sri C. Achutha Menon, Kerala's Finance Minister at the time, presented the first state budget for the fiscal year 1957–1958, when Sri E.M.S. Namboothiripad served as Chief Minister. With a total of 13 budget presentations, the late K.M. Mani holds the record for the most in the Kerala Assembly. On January 15, 2021, T.M. Thomas Isaac gave the longest budget speech, which lasted three hours and seventeen minutes. On March 28, 1987, then-Chief Minister E.K. Nayanar gave the briefest address, which lasted about six minutes. Due to the installation of President's Rule in the state, the Lok Sabha passed Kerala's budget three times (1965–66, 1966–67, and 1982–83). In order to promote public involvement in planning, the annual planning and budgeting cycle incorporating local self-governments (Panchayati Raj system) was implemented in 1996. Significant fiscal issues have been present in recent years, with discussions centred on the management of public debt, the lowering of the central tax share, and the state's borrowing restrictions. The Fiscal Responsibility Act, which was introduced in 2003, established the government's obligation to maintain fiscal stability and prudence through the gradual elimination of revenue deficits, sustainable debt management that is consistent with fiscal stability, and increased transparency in the government's fiscal operations. In Kerala, gender budgeting began at the local government level (LSGs) in 1998 with the Women Component Plan (WCP) and was adopted at the state level in 2008–09. The Child Budget was formally established with a separate declaration in the 2010–11 budget. The 2024–2025 Budget, which was presented in February 2024, included Kerala's first-ever stand-alone "Environment Budget" as a separate document,

incorporating green initiatives into its financial planning. Although plans for it were previously discussed, the Chief Minister announced it for the 2023–2024 year. Following similar themed publications like Gender Budgets, this was a major step towards putting environmental concerns at the centre of fiscal policy. Along with other subject publications like the Gender and Child Budget and the Environment Budget, the Finance Department released a "Citizen's Guide to Budget" in 2025 as part of a shift towards openness and public involvement. Additionally, the state's first paperless budget was created in 2022–2023.

#### Decadal Analysis of Budgetary Allocations after the Formation of the State

The decadal averages of budgetary allocations on education and health are depicted in the Table 2. Education and health are the two areas where increased allocations had been in Kerala from the period of Maharajis and maharajas. Governments of post-formation period of Kerala also followed the same policy of the rulers of early kingdoms. They realised the importance of education and health care in economic development and their positive externalities and continued what the rulers had followed. Increased public expenditure along with certain other factors resulted in what the women have achieved in the area of life expectancy, age at the time of marriage, infant mortality etc. Even though there are so many other factors for what women have achieved, the role increased public expenditure is not all a small one. The governments of Kerala in the post-formation period continued this increased expenditure on education and health. This could be understood from the following table.

**Table 2:** Decadal average of budgetary allocations for education and health from 1957–58 to 2025–26.

Year	BE on Education (Decadal average)	BE on Health (Decadal average)
1957-1958 to 1966-1967	17.73	6.16
1967-1968 to 1976-1977	20.79	7.33
1977-1978 to 1986-1987	22.02	9.12
1987-1988 to 1996-1997	20.28	5.78
1997-1998 to 2006-2007	16.70	4.37
2007-2008 to 2016-2017	15.01	4.39
2017-2018 to 2025-2026	9.97	4.23

Source: Budget Documents, GoK., Values are in Percentages

The table above illustrates the decadal average of budgetary allocations for education and health. During the first decade, from 1957-58 to 1966-67, the financial allocation for education was 17.73, while for health it was 6.13. Until 2013-14, education received the highest fiscal allocations. Health was also included as one of the top cost categories. The table below lists the top expenditures of the Kerala government from 1957 to 1958.

**Table 3: Top Heads of Budget Allocations from 1957-58 to 2025-26**

Heads/Years	57-58	59-60	69-70	79-80	89-90	09-10	14-15	19-20	23-24	25-26
Police	2.12(6)	2.43 (6)	2.60 (5)	2.75 (6)	2.50 (8)	2.23 (6)	2.71(7)	2.55(6)	1.88(7)	1.65(6)
Public woks	12.21(2)	10.58 (2)	7.20 (3)	5.65 (4)	3.79 (5)	3.5 (5)	3.87(5)	4.52(4)	1.96(6)	1.63(7)
Pension and miscellaneous	2.09 (7)	1.43 (8)	1.93 (6)	2.60 (8)	8.85 (2)	11.85 (2)	15.29(1)	18.92(1)	16.09(1)	13.47(1)
Education	17.19 (1)	15.6 (1)	19.94 (1)	22.29 (1)	19.1 (1)	13.80 (1)	15.08(2)	13.36(2)	9.51(2)	8.43(2)
Health	9.64 (3)	7.20 (3)	7.80 (2)	9.10 (2)	4.68 (3)	3.62 (4)	4.77(4)	4.18(7)	3.75(5)	3.30(5)
Agriculture	0.03 (8)	2.36 (7)	1.4 (7)	4.3 (5)	3.57 (6)	1.8 (7)	.54(10)	2.45(8)	1.32(8)	1.13(8)
Compensation assignments	NA	NA	.21 (8)	.08 (9)	1.30 (9)	5.3 (3)	6.62(3)	6.19(3)	5.91(3)	5.06(3)
Irrigation	4.28 (4)	4.74 (4)	3.4 (4)	6.23 (3)	4.6 (4)	1.03 (9)	1.25(8)	.49(10)	.33(10)	.279(10)
Transportation	4.11 (5)	3.55 (5)	0.11 (9)	0.48 (10)	0.76 (10)	0.46 (10)	0.77(9)	.87(9)	.71(9)	.59(9)
Social Security and welfare	NA	NA	NA	2.65 (7)	3.5 (7)	1.68 (8)	2.97(6)	2.60(5)	4.70(4)	4.97(4)

Source: Budget Documents, GoK. Figures in Brackets shows ranking according to allocation.

The table above shows data on the heads with the largest budgetary appropriations from 1957-58 to 2025-26. Allocations to heads varied over the period 1957-58 to 2025-26. During the fiscal year 1957-58, education received the biggest budgetary allocation. Public works and health ranked second and third, respectively. Up to 2013-14, education received the highest allocations. From 2014-15 forward, education allocation fell to second place, while pension and miscellaneous became first. The rank of health in terms of allocation fluctuates between second and fourth. The table demonstrates that education and health received the biggest financial allocations throughout the post-formation period. Pension and miscellaneous became

the first allocation category in 2014-15. After 2014-15, pension and education ranked first and second, respectively, until 2025-26. Compensation and assignments are ranked third, followed by social security and welfare in fourth. The head of health fell to fifth place in terms of budgetary allocations. In 1957-58, the top allocation heads were education, public works, health irrigation, transportation, police, pensions, miscellaneous, and agriculture. In 2025-26, pension and miscellaneous became the most important allocation categories. Education and health ranked second and fourth in terms of allocations, respectively.

**Table 4: Top Heads of Budgetary Allocations in Kerala Budget from 2017 to 2026**

Year	Pension and Miscellaneous	Education	Compensation assignment	Health	Social Welfare and security
2017-18	18.97	15.09	6.15	4.71	3.30
2018-19	18.56	14.65	6.40	6.8	3.28
2019-20	18.92	13.16	6.19	4.18	2.60
2020-21	18.85	11.18	5.72	4.33	4.49
2021-22	17.97	11.20	4.90	3.49	5.06
2022-23	15.38	11.14	4.32	4.09	5.74
2023-24	17.32	9.51	5.9	3.38	4.97
2024-25	15.30	9.51	5.9	3.38	4.97
2025-26	13.47	8.43	5.06	3.30	4.97

Source: Budget Documents, GoK, Figures represent the percentage share of each head

Table 4 shows the change in the allocation of top five heads of budgetary allocations. Pension and miscellaneous continued as the number one among other budgetary allocations during 2017-18 to 2025-26. Top five heads of budgetary allocations remained unchanged during 2023-24 to 2025-26 period. But the percentage share of education, pension and miscellaneous, compensation and assignment, health has been declining during 2017-2026. The share of social security and welfare has been increasing gradually.

**4. Conclusion**

There have been shifts in the government's priorities over time. Education received the largest portion of the budget in the years 1957–58. Early on, social sectors like education and health were the main focus. Health spending stayed at a moderate level. The allocation pattern has altered as Kerala approaches 2025–2026. Pension and miscellaneous, education, compensation and assignments, social security, and welfare are the top allocation heads, in that order. The allocation trend also shifted. Funding for health and education has been steadily declining. At the

same time, a new head- social welfare and security- appears, which was not the case at first. The amount allotted to this head has been steadily rising. Additionally, decadal analysis reveals a steady decline in funding for health and education over time. Allocations for welfare and social security also somewhat increased over this period. The trend of allocation is lower even if the pattern stayed almost unchanged. The top four allocation heads— education, salary and assignment, health, and pension and miscellaneous- all show this declining tendency. Only the amount allocated to social security and welfare showed an upward trend. In conclusion, the Kerala Government is shifting toward a more welfare-oriented approach, placing greater emphasis on social security, education, and health.

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