

**GOVERNMENT OF KERALA**

**Law (Legislation – A) Department**

**NOTIFICATION**

No.6560/Leg.A2/2003/Law

Dated, Thiruvananthapuram, 17th September 2003  
26<sup>th</sup> Bhadra. 1925

In pursuance of clause (3) of article 348 of the Constitution of India, the Governor is pleased to authorise the publication in the Gazette of the following translation in the English language of the Kerala Fiscal Responsibility Act, 2003 (29 of 2003).

By order of the Governor,  
A.T.IGNATIUS,  
Special Secretary (Law)

**ACT 29 OF 2003**

**THE KERALA FISCAL RESPONSIBILITY ACT, 2003**

An Act to provide for the responsibility of the Government to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit and sustainable debt management consistent with fiscal stability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term fiscal frame work and for matters connected therewith or incidental thereto.

Preamble –WHEREAS it is expedient to provide for the responsibility of the Government to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit and sustainable debt management consistent with fiscal stability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term fiscal frame work and for matters connected therewith or incidental thereto.

BE it enacted in the Fifty-fourth Year of the Republic of India as follows:-

1. Short title and commencement. – (1) This Act may be called the Kerala Fiscal Responsibility Act, 2003.  
(2) It shall come into force, on such date as the Government may, by notification in the Gazette, appoint.
2. Definitions-In this Act, unless the context otherwise requires,-
  - (a) ‘annual budget’ means the annual financial statement laid before the Legislative Assembly under article 202 of the Constitution of India;
  - (b) ‘committee’ means public expenditure review committee constituted under sub section (1) of section 6.
  - (c) ‘current year’ means the year preceding the year for which the budget and medium term fiscal policy are being presented.

- (d) 'fiscal deficit' means the excess of total expenditure of the Government over the total receipts and represents the borrowing requirements, and net of repayment of debt of the Government during the year, calculated as prescribed by the Comptroller and Auditor General of India.
- (e) 'fiscal indicators' means measures such as numerical ceilings and proportions to gross state domestic products as may be prescribed for evaluation of the fiscal position of the State Government;
- (f) 'Government' means Government of Kerala;
- (g) 'medium term fiscal framework' means the frame work drawn up by the Government for a five year period from the financial year on which this Act shall come into force with the objective of progressively eliminating the Revenue Deficit;
- (h) 'prescribed' means prescribed by rules under this Act;
- (i) 'previous year' means the year preceding the current year;
- (j) 'revenue deficit' means the difference between revenue expenditure and revenue receipts and implies increase in the liabilities of the State without corresponding increase in the assets of the State calculated as prescribed by the Comptroller and Auditor General of India;
- (k) 'State' means the State of Kerala;
- (l) 'total liabilities' means liabilities upon the Consolidated Fund and public account of the State;
- (m) 'triggers' means the intra year bench marks on deficit.

### 3. Fiscal Policy Statement to be laid before the Legislative Assembly –

- (1) The Government shall lay in every financial year before the Legislative Assembly along with the annual budget, a medium term fiscal policy statement and a fiscal policy strategy statement.
- (2) The medium term fiscal policy statement shall set forth a three year rolling target for fiscal indicators with specification of underlying assumptions.
- (3) In particular and without prejudice to the provisions contained in sub –section (2) the medium term fiscal policy statement shall include assessment of sustainability relating to -
  - (a) the balance between revenue receipts and revenue expenditure;
  - (b) use of capital receipts including open market borrowings for generating productive assets.
- (4) the fiscal policy strategy statement shall, interalia, contain, -
  - (a) policies of Government for the ensuing financial year relating to taxation, expenditure, borrowings and other liabilities, lending and investment and such other activities like underwriting and guarantees which have potential budgetary implications;
  - (b) the strategic priorities of the Government for the ensuing financial year in the fiscal area;
  - (c) evaluation as to how current policies of the Government are in conformity with the fiscal management principles as set out in section 4 and the objectives set out in medium term fiscal policy statement.

4. Fiscal Management Principles- (1) The Government shall take appropriate measures to reduce the revenue deficit and build up an adequate revenue surplus by following such principles as may be prescribed.

\* (2) In particular and without prejudice to the generality of the foregoing provision, the Government shall eliminate the revenue deficit completely during the period from 2017-2018 to 2019-2020 and shall,-

- (a) build up surplus amount of revenue and utilize such amount for discharging liabilities in excess of assets;
- (b) maintain the fiscal deficit to 3 per cent of the Gross State Domestic Product during the period from 2017-2018 to 2019-2020;

Note:- (i) State shall be eligible for additional reduction of 0.25 per cent over and above this, for any given year for which the borrowing limits are to be fixed if the ratio between the Gross State Domestic Product and debt is less than or equal to 25 per cent in the preceding year;

(ii) State may further be eligible for additional borrowing limit of 0.25 per cent of Gross State Domestic Product in a given year for which the borrowing limits are to be fixed if the interest payments are less than or equal to 10 per cent of the revenue receipts in the preceding year;

(iii) If anyone of the above said criteria is fulfilled, the State may utilise the said concessions either separately or if both are fulfilled the said concessions together may be utilized by the State. The maximum ratio between the fiscal deficit and Gross State Domestic Product in a prescribed year may be up to 3.5 per cent to the State accordingly;

(iv) The reductions in availing the additional limit under either of the two options or both will be available to the State only if there is no revenue deficit in the year in which borrowing limits are to be fixed and in the immediately preceding year.

The 'additional fiscal space' availing in such manner shall be utilised for the State share of the Centrally Sponsored Schemes.

- (c) reduce the total debt liabilities of the State in the years of 2017-2018, 2018-2019 and 2019-2020 in the order of 30.40 per cent, 30.01 per cent and 29.67 per cent respectively of the Gross State Domestic Product.

5. Measures for Fiscal Transparency – (1) The Government shall take suitable measures to ensure greater transparency in its fiscal operations and minimize as far as practicable in public interest official secrecy in the preparation of annual budget:

Provided that the Government shall have the power to reserve any such information which would adversely affect the interest of the State Exchequer.

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\*Vide Act 7 of 2018, notification no. 5904/Leg. A1/2018/Law dated 31.03.2018.

(2) In particular and without prejudice to the generality of the foregoing provision the Government shall at the time of presentation of annual budget disclose in such manner as may be prescribed,-

- (a) the significant changes in the accounting standards, policies and practices affecting or likely to affect the compliance of the prescribed fiscal indicators;
- (b) as far as practicable, all outstanding contractual liabilities, revenue demands raised, but not realized, committed liability in respect of major works and supply contracts, losses incurred in providing public goods and services, off budget borrowings and contingent liabilities created by way of guarantees having potential budgetary implications.

6. Public Expenditure Review Committee.- (1) As soon as may be after the commencement of the Act, the Government may, by notification in the Gazette appointed a Committee to be called 'Public Expenditure Review Committee'.

(2) The Committee shall consists of not more than five members who are having expertise in the fields of Finance, Economic Management, Planning, Accounts and Audit and Law.

(3) The members of the Committee shall be appointed by the Government on the recommendation of the Selection Committee consisting of Chief Minister, Finance Minister and the Leader of the Opposition.

(4) The terms and conditions of the members in the Committee shall be such as may be prescribed.

7. Powers and functions of the Committee- The Committee shall submit to the Government in such form and at such intervals as may be prescribed a review report giving full account of each item where the deviation from the fiscal target have occurred during the previous year.

8. Measures to enforce compliance – (1) The Government shall specify in the annual budget the contingent measures that it would take to control the increase in deficit beyond certain specified levels during the coming year. Whenever there is either shortfall in revenue or excess of expenditure over specified levels during the course of the year, the Government shall take steps either to make proportionate reduction in the voted expenditure authorised from the consolidated Fund or to increase the revenue and in case such reduction being made it shall be without affecting the amount charged thereon. Triggers as well as corrective actions that shall be initiated upon activation of triggers shall also be the integral part of the budget.

(2) The Finance Minister of the State shall make a statement in the Legislative Assembly explaining any deviation in meeting the obligation of the Government under this Act and shall further explain whether the deviation is substantial and relates to the actual or the potential budgetary outcome and state the remedial measures that the Government propose to take in this regard.

9. Power to make rules.- (1) The Government may, by notification in the Gazette, make rules for the purpose of carrying into effect the provisions of this Act.

(2) Every rules made under this Act shall be laid, as soon as may be after it is made, before the Legislative Assembly while it is in session for a total period of fourteen days which may be comprised in one session or in two successive sessions and if, before the expiry of the session in which it is so laid or the session immediately following, the Legislative Assembly makes any modification in the rule or decides that the rule should not be made, the rule shall thereafter have effect only in such modified form or be of no effect, as the case may be; so however that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule.

10. Protection of action taken in good faith-No suit, prosecution or other legal proceeding shall lie against the Government or the Committee or any Officer of the Government or any member of the Committee for anything which in good faith done or intended to the done under this Act or the rules made thereunder.

11. Application of other laws not barred – The provisions of this Act shall be in additions to and not in derogation of the provisions of any other law for the time being in force.

12. Removal of difficulties – (1) If any difficulty arises in giving effect to the provisions of this Act, the Government may, by order, do anything not inconsistent with such provisions to remove such difficulty.

(2) No order under sub-section (1) shall be made after the expiration of a period of two years from the commencement of this Act.

(3) Every order made under this section shall be laid, as soon as may be after it is made before the Legislative Assembly.