



**CHAPTER I
OVERVIEW**

CHAPTER I OVERVIEW

1.1 Profile of Kerala

The State is located at the southern end of the country, sharing borders with Tamil Nadu and Karnataka. Geographical area-wise, Kerala is ranked 22nd in the country with an area of 38,863 sq.km. The State has a population of 3.54 crore (14 in the country) and is ranked as the fifth¹ most densely populated State with a density of 860 persons per sq.km. The decadal growth rate of population was 5.57 *per cent* (3.35 crore in 2011 to 3.54 crore in 2020), which is the second lowest² among Indian states. The literacy rate of Kerala (94 *per cent*) is the highest³ among the Indian states. The Gross State Domestic Product (GSDP) in 2019-20 of the State at current prices was ₹8,54,689 crore. The General data relating to the State is given in **Appendix 1.1**.

1.1.1 Gross State Domestic Product of Kerala

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important indicator of the State's economy, as it denotes the extent of changes in the level of economic development of the State over a period.

Though the growth rate of GSDP of Kerala declined from 11.41 *per cent* in 2018-19 to 9.34 *per cent* in 2019-20, it was higher as compared to the growth rate of National GDP during the year. State's GSDP and its growth rate as well as National GDP and growth rate for the period from 2015-16 to 2019-20 are shown in **Table 1.1**.

Table 1.1: Trends in GSDP compared to GDP (at current prices)

Year	2015-16	2016-17	2017-18	2018-19	2019-20
National GDP (2011-12 Series)	13771874	15391669	17098304	18971237	20339849
Growth rate of GDP over previous year (in <i>per cent</i>)	10.46	11.76	11.09	10.95	7.21
State's GSDP (2011-12 Series)	561994	634886	701577	781653	854689
Growth rate of GSDP over previous year (in <i>per cent</i>)	9.64	12.97	10.50	11.41	9.34

Source: Ministry of Statistics and Programme Implementation website as on 31.07.2020

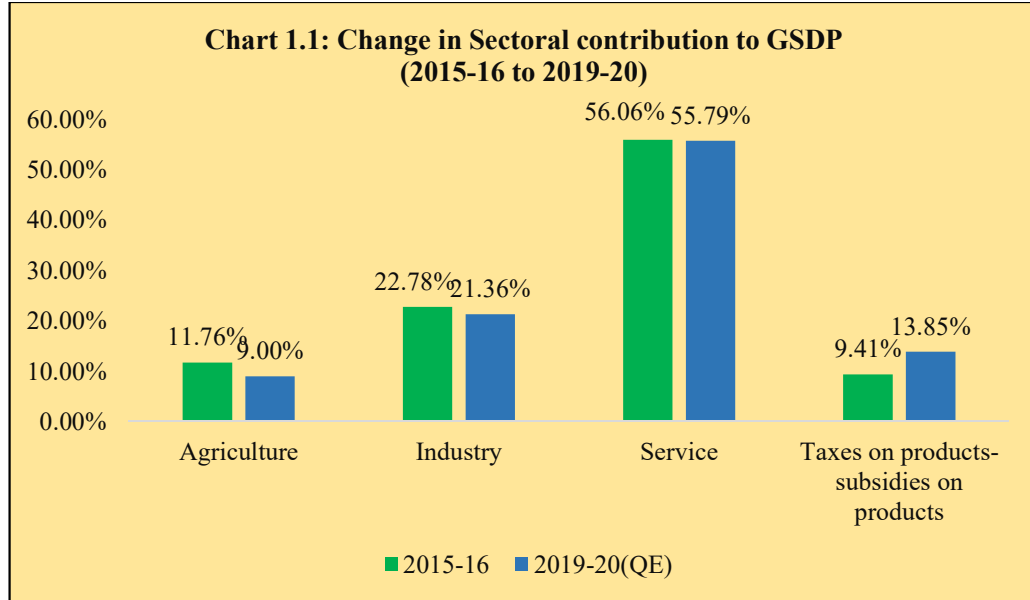
Changes in sectoral contribution to the GSDP is also important to understand the changing structure of economy. The economic activity is generally divided into Primary, Secondary and Tertiary sectors, which correspond to the Agriculture, Industry and Service sectors. A graphical presentation of change in sectoral contribution to GSDP during 2019-20 as compared to 2015-16 position is shown

¹MoSPI- Table 2.3 Statistical year Book 2018

² Furnished by Economic Adviser

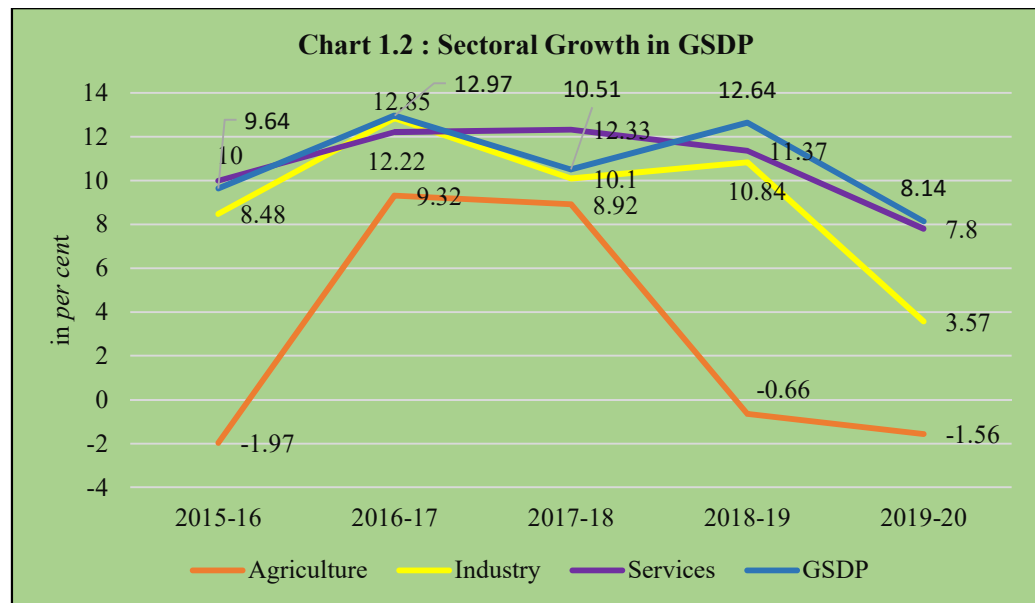
³ Furnished by Economic Adviser

below in **Chart 1.1**



Source: Department of Economics and Statistics, Kerala

From 2015-16 to 2019-20, there has not been any significant change in sectoral contribution to GSDP. Service sector continues to be the prime mover of Kerala economy by contributing 55.79 per cent of GSDP in 2019-20. Taxes on various products excluding subsidies increased from 9.41 per cent in 2015-16 to 13.85 per cent in 2019-20. Sectoral growth in GSDP over a period of five years (2015-16 to 2019-20) is given in **Chart 1.2**.



Source: Department of Economics and Statistics, Kerala

The above chart shows that all sectors have registered lower growth rates compared to previous years. The Agriculture sector has been contracting for the last two years and **Chart 1.1** shows that its contribution to GSDP has also declined from 11.76 *per cent* in 2015-16 to nine *per cent* in 2019-20.

1.2 Basis and Approach to State Finances Audit Report

In terms of Article 151 (2) of the Constitution of India, the reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The State Finances Audit Report (SFAR) is prepared and submitted under Article 151 (2) of the Constitution of India.

Accountant General (Accounts & Entitlements) prepares the Finance Accounts and Appropriation Accounts of the State annually, from the vouchers, challans and initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for keeping of such accounts functioning under the control of the State Government, and the statements received from the Reserve Bank of India. These accounts are audited independently by the Accountant General (Audit), and certified by the CAG.

Finance Accounts and Appropriation Accounts of the State constitute the core data for this report. Other sources include the following:

- Budget of the State: for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures;
- Results of audit carried out by the Offices of the Accountants General (Audit I & II);
- Other data with Departmental Authorities and Treasuries (accounting as well as MIS);
- GSDP data and other State related statistics; and
- Various audit reports of the CAG of India.

The analysis is also carried out in the context of recommendations of the XIV Finance Commission (FC), State Financial Responsibility and Budget Management Act, best practices and guidelines of the Government of India. A meeting is held with State Finance Department, wherein the audit approach is explained and the draft report is forwarded to the State Government for comments. Replies of the Government, where received, are incorporated in this Report at appropriate places.

1.3 Report Structure

The SFAR is structured into the following four Chapters:

Chapter - I	Overview This Chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of Government accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the deficits/ surplus.
Chapter - II	Finances of the State This chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2015-16 to 2019-20, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.
Chapter - III	Budgetary Management This chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.
Chapter - IV	Quality of Accounts & Financial Reporting Practices This chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.

1.4 Overview of Government Account Structure and Budgetary Processes

The Accounts of the State Government are kept in three parts:

1. Consolidated Fund of the State {Article 266 (1) of the Constitution of India}

This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans from Financial Institutions, Special Securities issued to National Small Savings Fund, etc.), Ways and Means advances extended by the Reserve Bank of India and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance with law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditure (e.g., salaries of Constitutional authorities, loan repayments etc.), constitute a charge on the Consolidated Fund of the State (Charged expenditure) and are not

subject to vote by the Legislature. All other expenditure (Voted expenditure) is voted by the Legislature.

2. Contingency Fund of the State {Article 267 (2) of the Constitution of India}

This Fund is in the nature of an imprest which is established by the State Legislature by law, and is placed at the disposal of the Governor to enable advances to be made for meeting unforeseen expenditure pending authorisation of such expenditure by the State Legislature. The fund is recouped by debiting the expenditure to the concerned functional major head relating to the Consolidated Fund of the State.

3. Public Accounts of the State {Article 266 (2) of the Constitution of India}

Apart from above, all other public moneys received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes repayables like Small Savings and Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of which are transitory heads, pending final booking). The net cash balance available with the Government is also included under the Public Account. The Public Account is not subject to the vote of the Legislature.

Annual financial Statement, a statement of estimated receipts and expenditures of the Government in respect of every financial year constitutes the main budget document. The budget must distinguish expenditure on the revenue account from other expenditures.

Revenue Receipts consists of tax revenue, non-tax revenue, share of Union Taxes/Duties, and grants from Government of India.

Revenue Expenditure consists of all those expenditures of the Government which do not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the Government departments and various services, interest payments on debt incurred by the Government, and grants given to various institutions (even though some of the grants may be meant for creation of assets).

The **Capital Receipts** consist of:

- **Debt receipts:** Market Loans, Bonds, Loans from financial institutions, Net transaction under Ways and Means Advances, Loans and Advances from Central Government, etc.;
- **Non-debt receipts:** Proceeds from disinvestment, Recoveries of loans and advances;

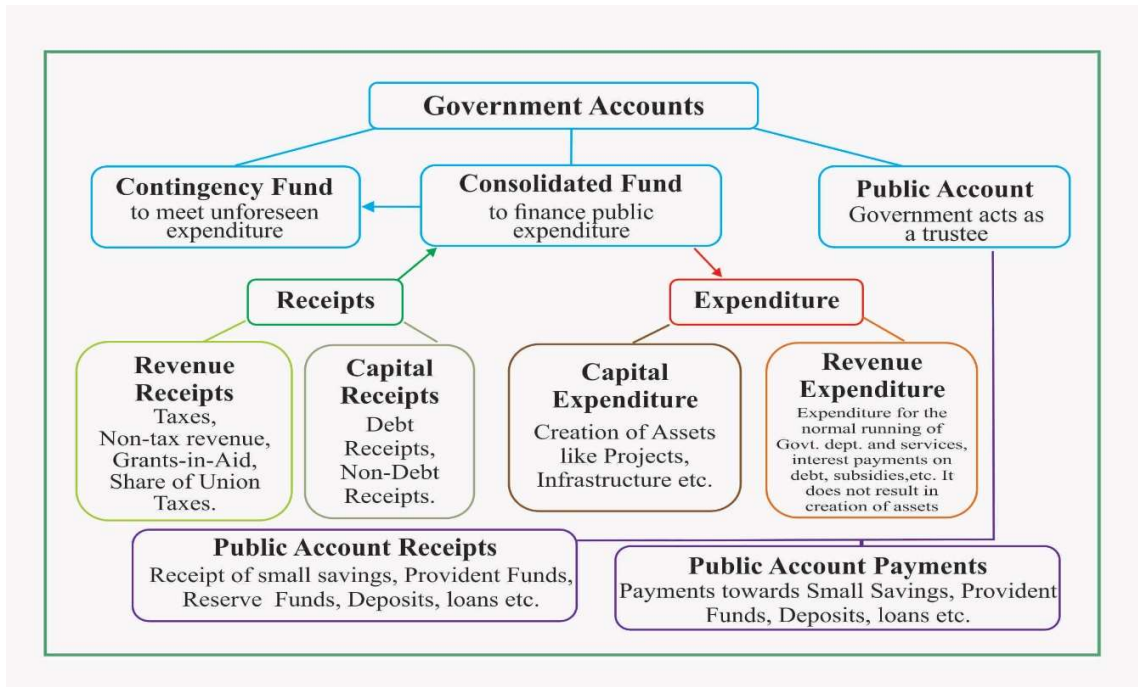
Capital Expenditure includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and loans and advances by the Government to PSUs and other parties.

At present, we have an accounting classification system in Government that is both functional and economic.

	Attribute of transaction	Classification
Standardized in LMMH by CGA	Function- Education, Health, etc. /Department	Major Head under Grants (4-digit)
	Sub-Function	Sub Major head (2-digit)
	Programme	Minor Head (3-digit)
Flexibility left for States	Scheme	Sub-Head (2-digit)
	Sub scheme	Detailed Head (2-digit)
	Economic nature/Activity	Object Head-salary, minor works, etc. (2-digit)

The functional classification lets us know the department, function, scheme or programme, and object of the expenditure. Economic classification helps organize these payments as revenue, capital, debt, etc. Economic classification is achieved by the numbering logic embedded in the first digit of 4-digit Major Heads. For instance, 0 and 1 is for revenue receipts, 2 and 3 for revenue expenditure, etc. Economic classification is also achieved by an inherent definition and distribution of some object heads. For instance, generally “salary” object head is revenue expenditure, “construction” object head is capital expenditure. Object head is the primary unit of appropriation in the budget documents.

Structure of Government Accounts



Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of a State shall cause to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State for a financial year, in the form of an **Annual Financial Statement**. In terms of Article 203, the statement is submitted to the State Legislature in the form of Demands for Grants/ Appropriations and after approval of these, the Appropriation Bill is passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund.

The State Budget Manual details the budget formulation process and guides the State Government in preparing its budgetary estimates and monitoring its expenditure activities. Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are detailed in **Chapter III** of this Report.

Appendix 1.3 provides details of receipts and disbursement as well as the overall fiscal position during the current year.

1.4.1 Snapshot of Finances

Table 1.2 provides the details of actual financial results *vis-à-vis* Budget Estimates for the year 2019-20 *vis-à-vis* actual of 2018-19.

Table 1.2: Snapshot of Finances

(₹ in crore)

Sl. No.	Components	2018-19 (Actual)	2019-20 (Budget Estimate)	2019-20 (Actuals)	Percentage of Actual to B.E.	Percentage of Actuals to GSDP
1	Tax Revenue	50644.10	65784.60	50323.14	76.50	5.89
2	Non-Tax Revenue	11783.24	15070.07	12265.22	81.39	1.44
3	Share of Union taxes/duties	19038.17	22797.61	16401.05	71.94	1.92
4	Grants-in-aid and Contributions	11388.96	11702.43	11235.26	96.01	1.31
5	Revenue Receipts (1+2+3+4)	92854.47	115354.71	90224.67	78.21	10.56
6	Recovery of Loans and Advances	210.54	292.19	295.32	101.07	0.03
7	Other Receipts	46.50	42.84	27.48	64.15	0.00
8	Borrowings and other Liabilities	26958.31	26290.59	23837.47	90.67	2.79
9	Capital Receipts (6+7+8)	27215.35	26625.62	24160.27	91.05	2.84
10	Total Receipts (5+9)	120069.82	141980.33	114384.94	80.56	13.38
11	Revenue Expenditure	110316.39	124125.00	104719.92	84.37	12.25
12	Interest payments	16747.92	17201.28	19214.70	111.71	2.25
13	Capital Expenditure	9753.43	17855.32	9665.02	54.13	1.13
14	Capital outlay	7430.54	16269.38	8454.80	51.97	0.99
15	Loan and advances	2322.89	1585.94	1210.22	76.31	0.14
16	Total Expenditure (11+13)	120069.82	141980.33	114384.94	80.56	13.38

17	Revenue Deficit (5-11)	17461.92	8770.29	14495.25	165.28	1.70
18	Fiscal Deficit {16-(5+6+7)}	26958.31	26290.58	23837.47	90.67	2.79
19	Primary Deficit (18-12)	10210.39	9089.30	4622.77	50.86	0.54

Source: Finance Accounts for 2018-19 and 2019-20, Annual Financial Statement- 2019-20

1.4.2 Snapshot of Assets and Liabilities of the Government

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Table 1.3** and **Appendix 1.5** gives an abstract of such liabilities and assets as on 31 March 2020, compared with the corresponding position as on 31 March 2019. While the liabilities in this Table consist mainly of internal borrowings, loans and advances from GoI, and receipts from the Public Account, the assets mainly comprise of the capital outlay and loans and advances given by the State Government and its cash balances.

Table 1.3: Summarised position of Assets and Liabilities

(₹ in crore)

		Liabilities					Assets		
		2018-19	2019-20	Per cent increase			2018-19	2019-20	Per cent increase
Consolidated Fund									
A	Internal Debt	150991.04	165960.03	9.91	a	Gross Capital Outlay	71642.56	80788.88	12.77
B	Loans and Advances from GoI	7243.41	8680.19	19.84	b	Loans and Advances	16557.18	17472.08	5.53
Contingency Fund		100	100				0	75	
Public Account									
A	Small Savings, Provident Funds, etc.	77397.06	85671.17	10.69	a	Advances	0.66	60.08	9003.03
B	Deposits	3550.65	4135.81	16.48	b	Remittance	1199.14	1081.60	-9.80
C	Reserve Funds	4464.28	3113.86	-30.25	c	Suspense and Miscellaneous			
D	Suspense and Miscellaneous	133.56	-119.58	-189.53		Cash balance (including investment in Earmarked Fund)	2203.15	2010.22	-8.76
E	Remittance					Total	91602.98	101487.86	10.79
						Deficit in Revenue Account	152277.02	166053.62	9.05
Total		243880.00	267541.48	9.70		Total	243880.00	267541.48	9.70

Source: Finance Accounts for 2018-19 and 2019-20

1.5 Fiscal Balance: Achievement of deficit and total debt target

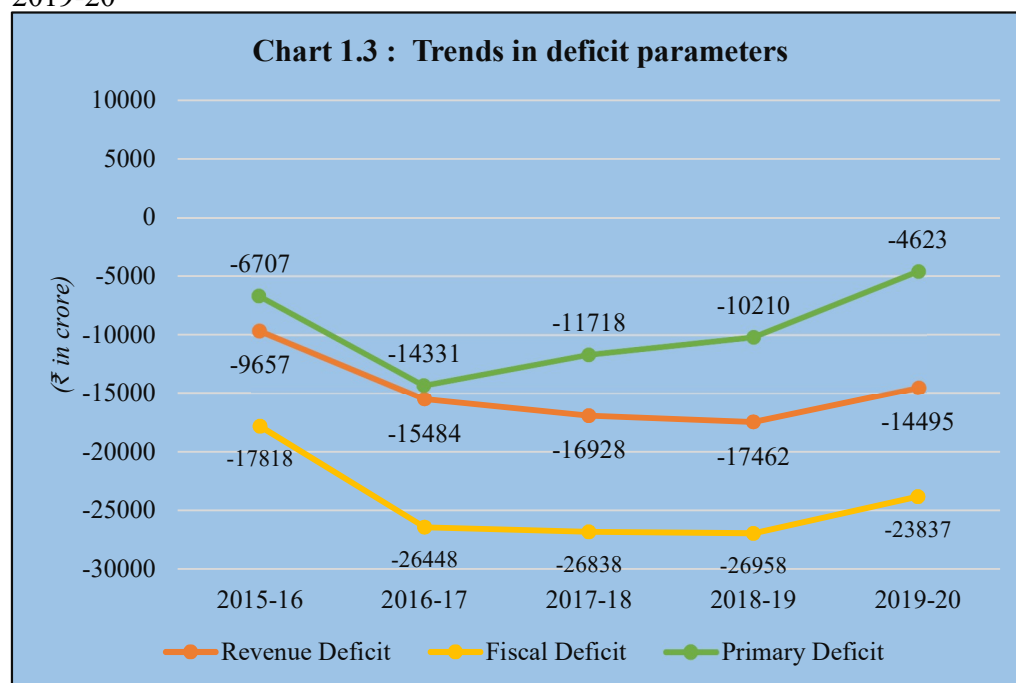
When a Government spends more than it collects by way of revenue, it incurs a deficit. There are various measures that capture Government deficit.

Revenue Deficit/ Surplus (Revenue Expenditure – Revenue Receipts)	<i>Refers to the difference between revenue expenditure and revenue receipts.</i> <ul style="list-style-type: none"> • When the Government incurs a revenue deficit, it implies that the Government is dissaving and is using up the savings of the other sectors of the economy to finance a part of its consumption expenditure.
Fiscal Deficit/ Surplus (Total expenditure – (Revenue receipts + Non-debt creating capital receipts))	<i>It is the difference between the Revenue Receipts plus Non-debt Capital Receipts (NDCR) and the total expenditure. FD is reflective of the total borrowing requirements of Government.</i> <ul style="list-style-type: none"> • Fiscal deficit is the difference between the Government's total expenditure and its total receipts excluding borrowing. • Non-debt creating capital receipts are those receipts, which are not borrowings, and, therefore, do not give rise to debt. Examples are recovery of loans and the proceeds from the sale of PSUs. • The fiscal deficit will have to be financed through borrowing. Thus, it indicates the total borrowing requirements of the Government from all sources. <p>Governments usually run fiscal deficits and borrow funds for capital/ assets formation or for creation of economic and social infrastructure, so that assets created through borrowings could pay for themselves by generating an income stream. Thus, it is desirable to fully utilize borrowed funds for the creation of capital assets and to use revenue receipts for the repayment of principal and interest.</p>
Primary Deficit/ Surplus (Gross fiscal deficit – Net Interest liabilities)	<i>Refers to the fiscal deficit minus the interest payments.</i> <ul style="list-style-type: none"> • Net interest liabilities consist of interest payments minus interest receipts by the Government on net domestic lending. • The borrowing requirement of the Government includes interest obligations on accumulated debt. To obtain an estimate of borrowing because of current expenditures exceeding revenues, we need to calculate the primary deficit.

The trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under the Kerala Fiscal Responsibility Act for the financial year 2019-20 are detailed below.

The trend of deficits over the period 2015-16 to 2019-20 are presented in **Appendix 1.4**.

Chart 1.3 presents the trends in deficit indicators over the period 2015-16 to 2019-20



- The revenue deficit and fiscal deficit of the State increased steadily during 2015-16 to 2018-19.
- Revenue Deficit of the state in 2019-20 decreased over the previous year by ₹2,967 crore. Though there was a decrease in revenue receipts by ₹2,629 crore, a decrease in revenue deficit was achieved by reduction in revenue expenditure of ₹5,596 crore.
- Fiscal Deficit of 2019-20 also decreased by ₹3,121 crore in comparison to previous year.
- Primary deficit decreased from ₹10,210 crore in 2018-19 to ₹4,623 crore in 2019-20 due to decrease in fiscal deficit and increase in interest payments (by ₹2,466 crore) during the year.

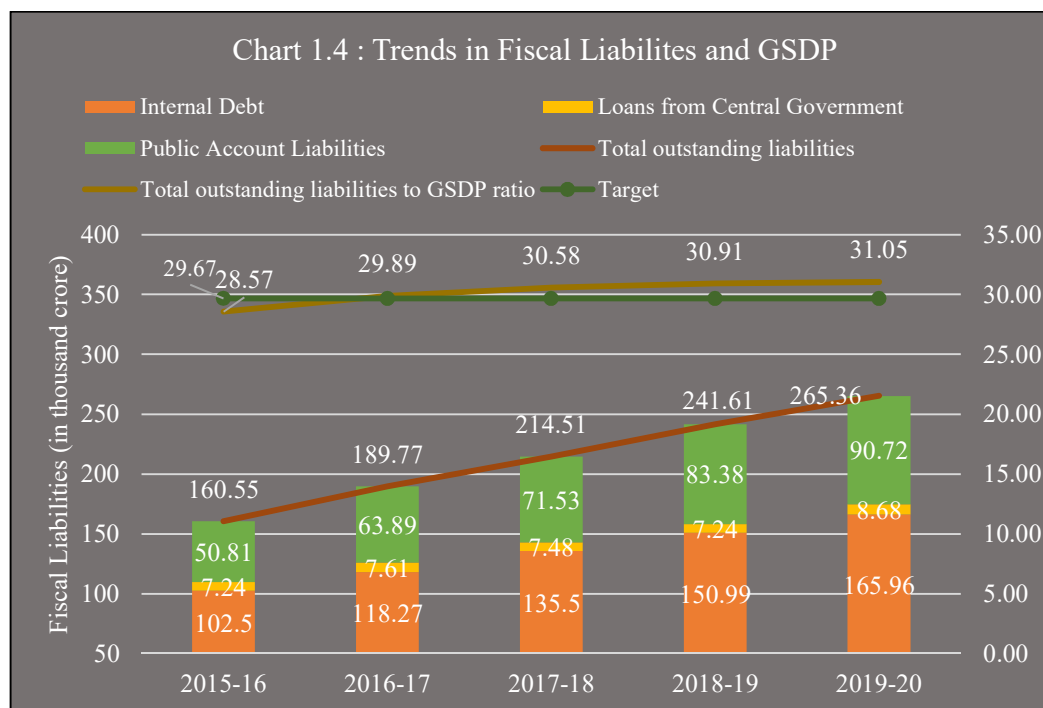
Manner of financing deficits

Deficits must be financed by borrowings, which lead to Government debt. The concepts of deficits and debt are closely related. Deficits can be thought of as a flow which add to the stock of debt. If the Government continues to borrow year after year, it leads to the accumulation of debt and the Government must pay more and more by way of interest. These interest payments themselves contribute to the debt. Fiscal liabilities of the State comprises of Consolidated Fund liabilities and Public Account liabilities. Details for the year 2019-20 are given in **Table 1.4** below:

Table 1.4: Fiscal liabilities of the State

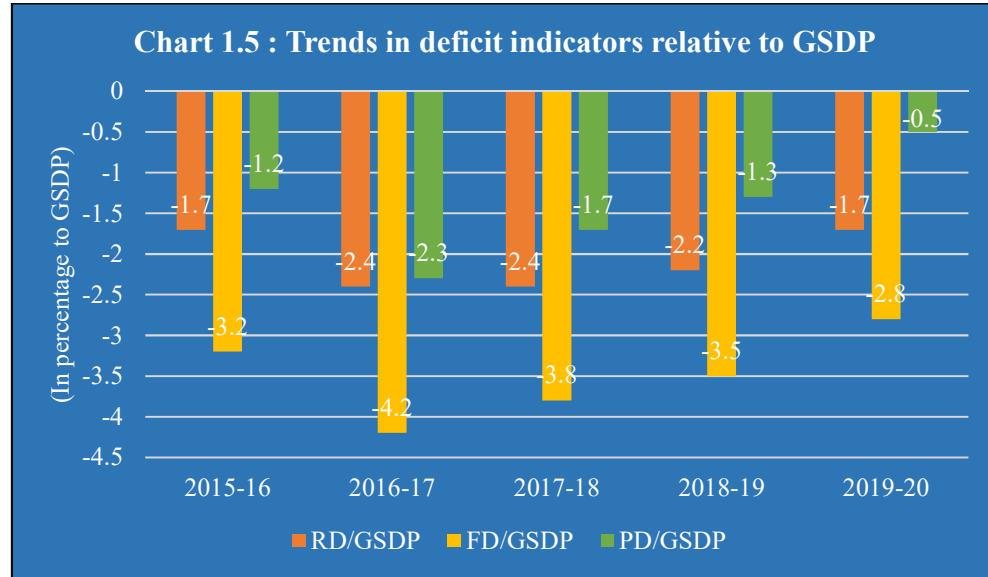
Fiscal liabilities		Amount in crores
Total Consolidated Fund liabilities		₹1,74,640.00
<i>of which,</i>	Market loans	₹1,42,336.00
	Loans from the GoI	₹8,680.00
	Other Loans	₹ 23,624.00
Total Public Account liabilities		₹90,722.00
<i>of which,</i>	Small Savings, PF etc.	₹85,671.00
	Interest bearing obligations.	₹636.00
	Non-interest-bearing obligations like Deposits and other earmarked funds	₹4,415.00

The trends of fiscal liabilities during the last five years are presented in **Chart 1.4**.



The overall fiscal liabilities of the State increased from ₹1,60,539 crore in 2015-16 to ₹2,65,362 crore in 2019-20, thus recording an increase of 65 per cent during the five year period. During 2019-20, the growth rate of fiscal liabilities was 9.8 per cent and it was the lowest during the five-year period.

Chart 1.5 presents the trends in deficit indicators relative to GSDP.



From the above, it can be seen that the ratio of revenue deficit, fiscal deficit, and primary deficit to GSDP showed an improvement in 2019-20 as compared to the previous year. However, the post audit deficit figures are higher as explained in **Para 1.6**.

Achievement of fiscal targets

As per the recommendations of the XIV FC, the State Government amended the Kerala Fiscal Responsibility Act by enacting the Kerala Fiscal Responsibility (Amendment) Act, 2018 on 31 March 2018 with revised fiscal targets for the Finance Commission period. According to the Act, the Government shall eliminate revenue deficit completely during the period from 2017-18 to 2019-20 and shall maintain the fiscal deficit to 3 per cent of GSDP during the same period.

Major fiscal variables as targeted in the Kerala Fiscal Responsibility (Amendment) Act, 2018 along with actual thereof are given in **Table 1.5**.

Table 1.5: Compliance with provisions of KFR Act

Fiscal Parameters	Fiscal targets set in the Act	Achievement				
		2015-16	2016-17	2017-18	2018-19	2019-20
Revenue Deficit (-) / Surplus (+) (₹ in crore)	Revenue Surplus	-9657	-15484	-16928	-17462	-14495
		X	X	X	X	X
Fiscal Deficit (-)/ Surplus (+) (as percentage of GSDP)	Three * per cent	-17818 (3.17)	-26448 (4.17)	-26838 (3.83)	-26958 (3.41)	-23837 (2.79)
		X	X	X	X	✓
Ratio of total outstanding debt to GSDP (in per cent)	29.67 per cent ⁴	28.57	29.89	30.58	30.91	31.05
		✓	X	X	X	X

X denotes targets not achieved and ✓ denotes targets achieved

*Provided that the State shall be eligible for additional borrowing of ₹1,471⁵ crore as a onetime dispensation in the financial year 2019-20 beyond the fiscal deficit target of three per cent of the GSDP as set out in Kerala Fiscal Responsibility (Amendment) Ordinance, 2020.

Fiscal deficit as a percentage of GSDP was 2.79 per cent and was within the fiscal deficit target of three per cent despite an additional borrowing of ₹1,471 crore provided under Kerala Fiscal Responsibility (Amendment) Ordinance, 2020 as a onetime special dispensation in the financial year 2019-20.

The Kerala Fiscal Responsibility Act, 2003 mandates that the Medium-Term Fiscal Policy (included as **Appendix 1.2**) and Strategy Statement should be presented before the State Legislature every year along with the annual budget documents. A comparison of targets for fiscal parameter projected in Medium Term Fiscal Plan presented to the State Legislature with actuals for the current year is given below in **Table 1.6**.

⁴ 29.8 per cent in 2015-16 & 2016-17, 30.40 per cent in 2017-18, 30.01 per cent in 2018-19 and 29.67 per cent in 2019-20.

⁵ GoI (Ministry of Finance), Dept of Expenditure (Public Finance-State Division) vide letter F.No. 40(22)/ PF-I/2011/ Vol II dated 26 February 2020 allowed an additional borrowing of ₹1,471 crore to the State of Kerala in 2019-20 as a one-time special dispensation, beyond the existing State eligibility of 3 per cent of GSDP. This one-time special dispensation was subject to the amendment of State's FRBM legislation for the year 2019-20 to that effect and would not be claimed or demanded by the State in the subsequent years.

Table 1.6 : Actuals vis-à-vis projection in MTFP for 2019-20

(₹ in crore)

Sl. No.	Fiscal Variables	Projection as per MTFP	Actuals (2019-20)	Variation (in per cent) with reference to Projections as per MTFP
1	Own Tax Revenue	65784.60	50323.14	23.50
2	Non-Tax Revenue	15070.07	12265.22	18.61
3	Resources from Centre (Share of Central taxes and Grant-in-aid from GoI)	34500.04	27636.31	19.89
4	Revenue Receipts (1+2+3)	115354.71	90224.67	21.78
5	Revenue Expenditure	124125.00	104719.92	15.63
6	Revenue Deficit (-)/ Surplus (+) (5-6)	(-)8770.29	(-)14495.25	65.27
7	Fiscal Deficit (-)/ Surplus (+)	(-)26290.58	(-)23837.47	9.33
8	Debt-GSDP ratio (per cent)	30.21	31.05	2.78
9	GSDP growth rate at current prices (per cent)	12.97	9.34	27.99

The above table shows that the State could not achieve any of the targets fixed in the MTFP other than Fiscal Deficit. Though there is a decrease in the revenue deficit of the State during 2019-20 when compared to the previous year, the deficit is 65.27 per cent higher than the target projected through MTFP.

1.6 Deficits and Total Debt after examination in audit

Audit examination has revealed misclassification in accounts and off-budget fiscal operations which impact the total deficit and debt figures. The deficit and debt figures after examination by audit is explained below.

1.6.1 Post audit - Deficits

Misclassification of revenue expenditure as capital and off budget fiscal operations impacts deficit figures. Besides, deferment of clear cut liabilities, not depositing cess/royalty to Consolidated Fund, short contribution to New Pension Scheme, non-contribution to sinking and redemption funds, etc. also impacts the revenue and fiscal deficit figures. In order to arrive at actual deficit figures, the impact of such irregularities need to be reversed.

Table 1.7: Revenue and Fiscal Deficit, post examination by Audit

	Impact on Revenue Deficit	Impact on Fiscal Deficit	Para reference
	Understated(+)/overstated (-) (₹ in crore)		
Off budget fiscal operations during the financial year such as borrowings by State Public Sector Companies, SPVs and other equivalent instruments, where the principal and/ or interest are to be serviced out of the State budgets (issue of completeness of recognizing overall debt)	0	(+)8773.69	2.6.2
Cesses/ Royalties not credited to Consolidated Fund	(-)242.37	(-)242.37	4.1
Non/ Short transfer of Cess to dedicated Funds in Public Account	0	-	
Deferment of clear cut liabilities to next FY	(+)624.08	(+)2974.64	4.2 & 2.3.2.4
Short contribution to New Pension Scheme	0	0	
Non-contribution to Consolidated Sinking Fund	(+)1208.07	(+)1208.07	2.5.2.1
Non-contribution to Guarantee Redemption Fund	Contribution ₹134.17 crore	(+)284.97	2.5.2.3
	Commission ₹150.80 crore		
Wrong booking of repayment of loan under revenue expenditure	0	0	
Major works budgeted/ booked under Revenue section instead of Capital	0	0	
Minor works budgeted/ booked under Capital Section instead of Revenue	0	0	
Grants-in-Aid booked under Capital section instead of Revenue	(+)14.70	0	3.3.3
Non discharge of Interest liabilities	(+)144.32	(+)144.32	2.5.2.4
Misclassification of revenue receipts as capital receipts	0	0	
Investments/ Loans made in companies, corporations or other bodies, which are loss making or whose net worth is completely eroded. (issue of quality of capex)	(+)307.72	0	2.4.3.2
Total	2341.49	13143.32	

Source: Finance Accounts and audit analysis

The Revenue and Fiscal deficit of the State are understated by ₹ 2,341.49 crore and ₹13,143.32 crore respectively. Details of Revenue and Fiscal deficit post audit is as given in the **Table 1.8** below.

Table 1.8: Post Audit Deficit (₹ in crore)

Fiscal Indicators	Pre Audit	Amount understated	Post Audit
Revenue deficit	14495.25	2341.49	16836.74
Fiscal deficit	23837.47	13143.32	36980.79

On post audit analysis, the fiscal deficit as percentage of GSDP was 4.33 *per cent* which was inclusive of the off-budget borrowings of ₹1,930.04 crore on the part of KIIFB and ₹6,843.65 crore on the part of KSSPL.

1.6.2 Post audit - Total Public Debt

Overall debt of the State is ₹ 2, 65,362 crore, post examination by audit the amount of overall debt of the state arrived at ₹2,74,136 crore as detailed in **Table 1.9** below.

Table 1.9 : Overall Debt post audit

	Particulars	Amount (₹ in crore)
1	Overall Debt as per Accounts	265362
2.	Impact on overall Debt (Understated) due to : (₹ in crore)	8774
	Off budget fiscal operations such as borrowings by State Public Sector Companies, SPVs and other equivalent instruments on behalf of the State Government where the principal and/ or interest are to be serviced out of the State budgets.	8774
	Total of (1 + 2)	274136

On post audit analysis the overall debt of the state increased by ₹8,774 crore and was ₹2,74,136 crore. The Overall debt as a percentage of GSDP for 2019-20 increased from 31.05 *per cent* to 32.07 *per cent*.

1.7 Conclusions

1. Fiscal position of the State

As per Government accounts, the ratio of fiscal deficit to GSDP improved from 3.2 *per cent* in 2015-16 to 2.79 *per cent* in 2019-20. However, on post audit analysis it is concluded that the Revenue and Fiscal deficit of the State are understated by ₹2,341.49 crore and ₹13,143.32 crore respectively. Accordingly, the Fiscal deficit as percentage of GSDP is 4.33 *per cent* for the year 2019-20.

The State did not achieve any of the targets fixed in its Medium Term Fiscal Plan or the Kerala Fiscal Responsibility Act during 2019-20. As per the recommendation of the XIV FC, fiscal deficit to GSDP ratio was to be anchored at 3 *per cent* but it was 4.33 *per cent* during 2019-20.

2. Overall Debt

The overall debt of the State including off budget borrowings is ₹2,74,136 crore. If the Government continues to borrow year after year, it leads to the accumulation of debt and the Government has to pay more and more by way of interest. These interest payments themselves contribute to the debt. Increase in debt over the years not only reduces the capital formation and growth but also acts as a burden on future generations.

1.8 Recommendation

The State Government needs to control the revenue and fiscal deficits so as to achieve the targets fixed in the Kerala Fiscal Responsibility Act.