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 3.56 crore (14th in the country) and is ranked as the fifth most densely populated State with a density of 860 persons per sq.km. The decadal growth rate of population was 6.05 *per cent* (3.35 crore in 2011 to 3.56 crore in 2021), which is the second lowest among Indian states. The literacy rate of Kerala (94 *per cent*) is the highest among the Indian states. The Gross State Domestic Product (GSDP) in 2020-21 of the State at current prices was ₹7,58,942 crore. The General data relating to the State is given in **Appendix 1.1**.

1.1.1 Gross State Domestic Product of State

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.

The State's GDP declined from ₹8,54,689 crore in 2019-20 and recorded a negative growth rate of 11.20 *per cent* in 2020-21. As per State Economics and Statistics Directorate, the State's data since 1969 did not record any negative growth in GSDP and it's only in 2020-21, GSDP figures of the State has shown a negative growth. National GDP during the year has also shown a negative growth. State's GDP and its growth rate as well as National GDP and growth rate for the period from 2016-17 to 2020-21 are shown in **Table 1.1**.

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

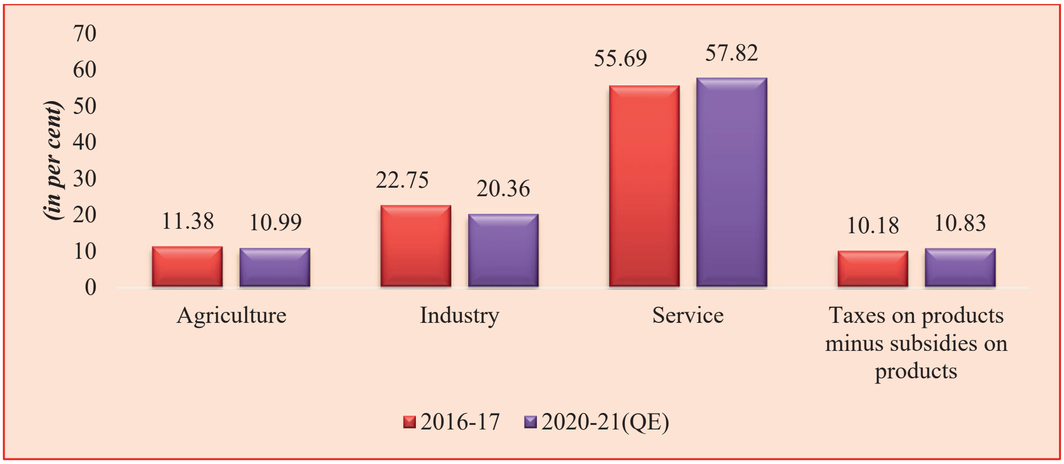
Year	2016-17	2017-18	2018-19	2019-20	2020-21
National GDP *(₹ in crore)* (2011-12 Series)	15391669	17090042	18886957	20351013	19745670
Growth rate of GDP over previous year (*in per cent*)	11.76	11.03	10.51	7.75	(-)2.97
State's GDP *(₹ in crore)* (2011-12 Series)	634886	701588	790302	854689	758942(QE)
Growth rate of GSDP over previous year (*in per cent*)	12.97	10.51	12.64	8.15	(-)11.20

Source: Ministry of Statistics and Programme Implementation website as on 02.8.2021 and Directorate of Economics and Statistics, QE-Quick Estimate

Though both National and State GDP have shown a negative growth, the decline in the State GDP is higher when compared to decline in National GDP. The steep decline in GDP reflects the delicate state of economy during 2020-21.

The changes in sectoral contribution to the GSDP is important to understand the 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 sectoral contribution to GSDP during 2020-21 as compared to 2016-17 position is shown below in **Chart 1.1**.

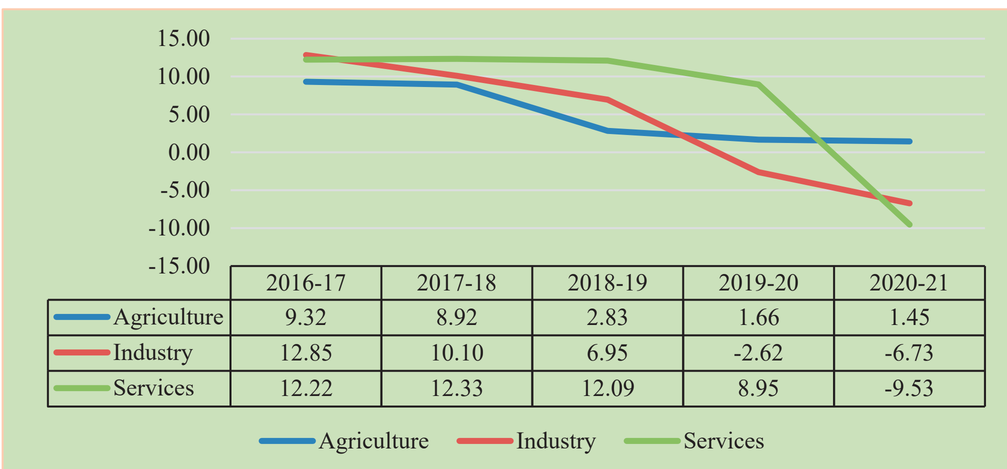
Chart 1.1: Change in Sectoral contribution to GSDP (2016-17 to 2020-21)



Source: Department of Economics and Statistics, Kerala

From 2016-17 to 2020-21, 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 57.82 *per cent* of GSDP in 2020-21. Taxes on various products excluding subsidies showed a meagre increase from 10.18 *per cent* in 2016-17 to 10.83 *per cent* in 2020-21. Sectoral growth in GSDP over a period of five years (2016-17 to 2020-21) is given in **Chart 1.2**.

Chart 1.2: Sectoral Growth in GSDP



	2016-17	2017-18	2018-19	2019-20	2020-21
Agriculture	9.32	8.92	2.83	1.66	1.45
Industry	12.85	10.10	6.95	-2.62	-6.73
Services	12.22	12.33	12.09	8.95	-9.53

Source: Department of Economics and Statistics, Kerala

The chart shows that all sectors have registered lower growth rates compared to previous years and the secondary and tertiary sectors have recorded a negative growth. The growth rate of agriculture sector has been contracting during the five-year period from 2016-17 to 2020-21, but it is the only sector which has seen a positive growth rate in the year 2020-21. The services sector has shown a very steep decline.

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 Finance Commission (FC), State Financial Responsibility and Budget Management Act, best practices and guidelines of the Government of India. A meeting was held with State Finance Department, wherein the audit approach was explained and the draft report was forwarded to the State Government for comments on 30 November 2021. An exit conference was also held on 23 December 2021. Replies of the Government, 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 2016-17 to 2020-21, 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}**

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).

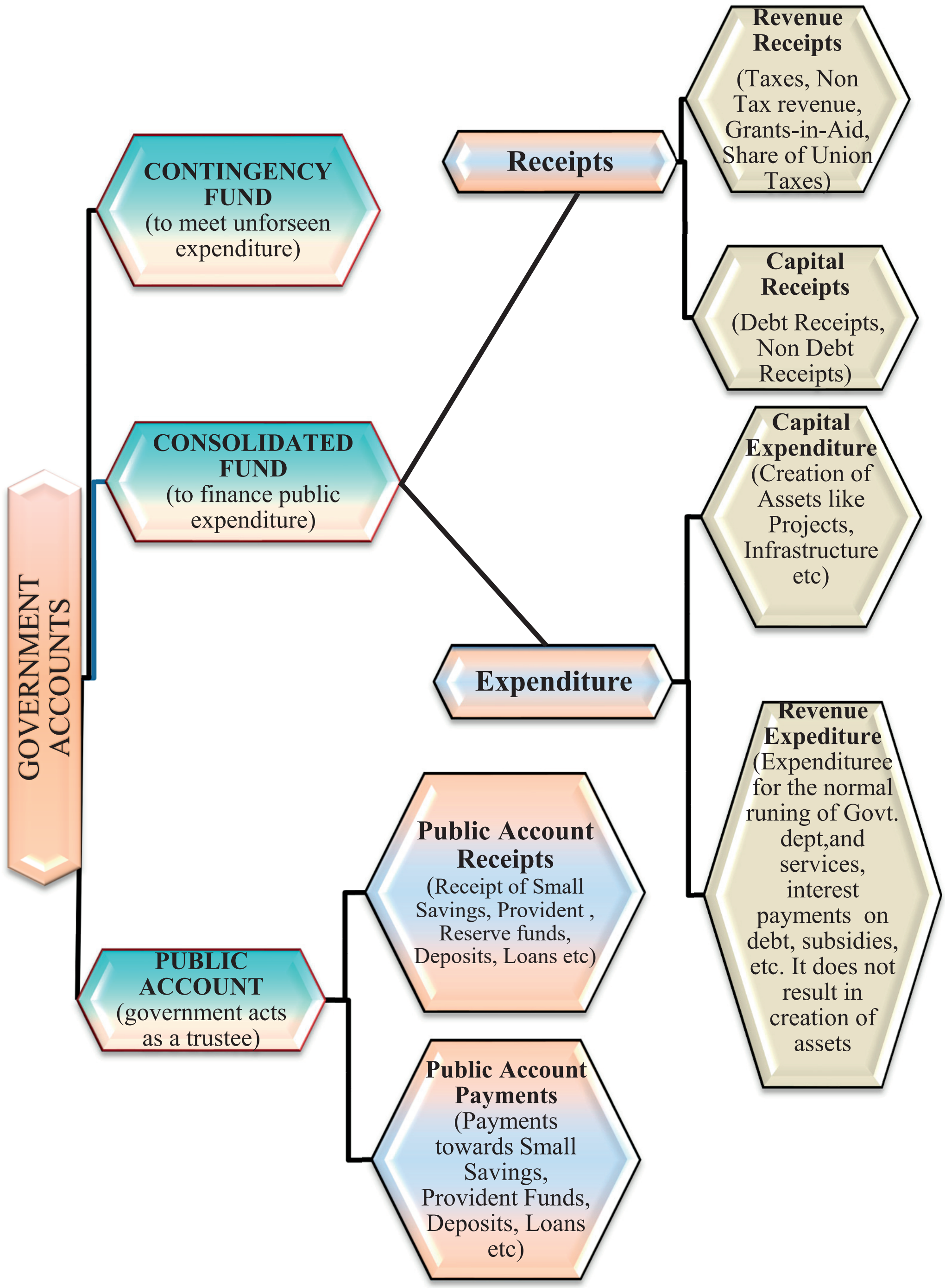
The **Capital Receipts** consist of:

- **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.

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(Section A and **Section B)** 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-a-vis* Budget Estimates for the year 2020-21 vis-a-vis actual of 2019-20.

Table 1.2: Snapshot of Finances

(₹ in crore)

Sl. No.	Components	2019-20 (Actual)	2020-21 (Budget Estimate)	2020-21 (Actuals)	Percentage of Actual to B.E.	Percentage of Actuals to GSDP
1	Tax Revenue *	50323.14	67420.01	47660.84	70.69	6.28
2	Non-Tax Revenue	12265.22	14587.00	7327.31	50.23	0.97
3	Share of Union taxes/duties **	16401.05	20934.80	11560.40	55.22	1.52
4	Grants-in-aid and Contributions ***	11235.26	11694.09	31068.28	265.68	4.09
5	**Revenue Receipts (1+2+3+4)**	**90224.67**	**114635.90**	**97616.83**	**85.15**	**12.86**
6	Recovery of Loans and Advances	295.32	284.01	263.82	92.89	0.03
7	Other Receipts	27.48	50.00	34.15	68.30	0.00
8	Borrowings and other Liabilities	23837.47	29295.39	40969.69^	139.85	5.40
9	**Capital Receipts (6+7+8)**	**24160.27**	**29629.40**	**41267.66**	**139.28**	**5.44**
10	**Total Receipts (5+9)**	**114384.94**	**144265.30**	**138884.49**	**96.27**	**18.30**

Sl. No.	Components	2019-20 (Actual)	2020-21 (Budget Estimate)	2020-21 (Actuals)	Percentage of Actual to B.E.	Percentage of Actuals to GSDP
11	**Revenue Expenditure**	**104719.92**	**129837.37**	**123446.33**	**95.08**	**16.27**
12	Interest payments	19214.70	19850.00	20975.36	105.67	2.76
13	**Capital Expenditure**	**9665.02**	**14427.93**	**15438.16**	**107.00**	**2.03**
14	Capital outlay	8454.80	12913.22	12889.65	99.82	1.70
15	Loan and advances	1210.22	1514.71	2548.51	168.25	0.34
16	**Total Expenditure (11+13)**	**114384.94**	**144265.30**	**138884.49**	**96.27**	**18.30**
17	**Revenue Deficit (5-11)**	**14495.25**	**15201.47**	**25829.50**	**169.91**	**3.40**
18	**Fiscal Deficit^ {16-(5+6+7)}**	**23837.47**	**29295.39**	**40969.69**	**139.85**	**5.40**
19	**Primary Deficit^ (18-12)**	**4622.77**	**9445.39**	**19994.33**	**211.68**	**2.63**

Source: Finance Accounts for 2019-20 and 2020-21, Annual Financial Statement- 2020-21

* *Including SGST of ₹20,028.31 crore*

** *Including CGST of ₹3,325.63 crore*

*** *Including ₹6,721.38 crore of Compensation for loss of revenue arising out of implementation of GST*

^ *Effective Borrowings and other liabilities would be ₹35,203.69 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹5,766 crore given to the State as back to back loan under debt receipts would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.*

The State received total compensation of ₹12,487.38 crore on account of loss of revenue arising out of the implementation of GST during 2020-21. Out of this, ₹6,721.38 crore was received by the State as grants under revenue receipts. However, due to inadequate balance in GST compensation fund during the year 2020-21, the State also received back to back loan of ₹5,766 crore under debt receipts of the State Government with repayment obligations from the cess collected in GST compensation Fund and not from any other resources of the State. Due to this arrangement, the revenue deficit of ₹25,829.50 crore and the fiscal deficit of ₹40,969.69 crore during the year 2020-21 may be read in conjunction with debt receipt of ₹5,766 crore in lieu of GST compensation.

Though tax revenue and non-tax revenue of the State decreased during the year 2020-21 as compared to the year 2019-20, the State was able to withstand the increase in the revenue expenditure from ₹1,04,719.92 crore in 2019-20 to ₹1,23,446.33 crore in 2020-21, mainly by the increased transfer of resources from GoI which included a post devolution deficit grant of ₹15,322.80 crore.

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 2021 compared with the corresponding position as on 31 March 2020. 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		2019-20	2020-21	*Per cent* Increase	Assets		2019-20	2020-21	*Per cent* Increase
Consolidated Fund									
A	Internal Debt	165960.03	190474.09	14.77	a	Gross Capital Outlay	80796.18	93651.68	15.91
B	Loans and advances from GoI	8680.19	14973.64*	72.50	b	Loans and Advances	17472.08	19756.77	13.08
Contingency Fund		100.00	100.00				75.00	0	
Public Account									
A	Small Savings, Provident Funds, etc.	85671.17	97219.13	13.49	a	Advances	60.08	62.27	3.65
B	Deposits	4135.81	4632.88	12.02	b	Remittance	1081.60	1042.19	
C	Reserve Funds	3113.86	3457.91	11.05	c	Suspense and Miscellaneous	0	0	0
D	Suspense and Miscellaneous	(-)119.58	519.46	534.40	**Cash balance (including investment in Earmarked Fund)**		**2010.22**	**4967.98**	**147.14**
E	Remittance	0	0	0	**Total**		**101495.16**	**119480.89**	**17.72**
					Deficit in Revenue Account		**166046.32**	**191896.22**	**13.47**
Total		**267541.48**	**311377.11**		**Total**		**267541.48**	**311377.11**	**16.38**

Source: Finance Accounts

* *Effective Loans and Advances from GoI would be ₹9,207.64 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹5,766 crore given to the State as back to back loan under debt receipts would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.*

The capital assets in Consolidated Fund increased by 15.91 *per cent* in 2020-21. The growth rate of total liabilities increased from 9.70 *per cent* in 2019-20 to 16.38 *per cent* in 2020-21. The cash balance of the State at the end of the year was ₹4,967.98 crore. The increase in the cash balance was 147.14 *per cent* over the previous year.

1.5 Fiscal Balance: Achievement of deficit and total debt target

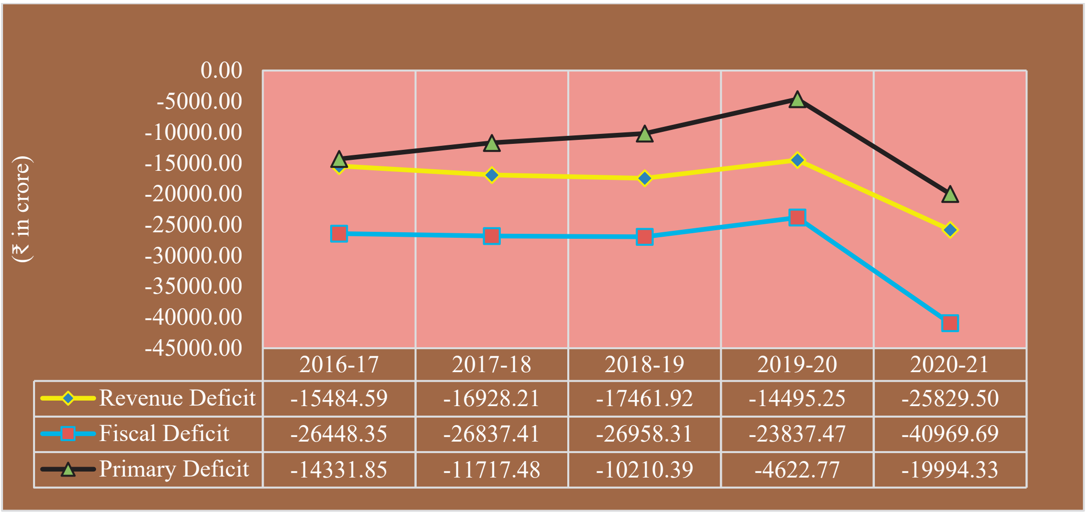
When a government spends more than it collects by way of revenue, it incurs a deficit. There are various measures that capture Government deficit.

Revenue Deficit/ Surplus (Revenue Expenditure – Revenue Receipts)	*Refers to the difference between revenue expenditure and revenue receipts.* • 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)}	*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.* • 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. 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.
Primary Deficit/ Surplus (Gross fiscal deficit – Net Interest liabilities)	*Refers to the fiscal deficit minus the interest payments.* • 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 2020-21 are detailed below.

The trend of deficits over the period 2016-17 to 2020-21 are presented in **Appendix 1.4**. **Chart 1.3** presents the trends in deficit indicators over the period 2016-17 to 2020-21.

Chart 1.3: Trends in Deficit Parameters

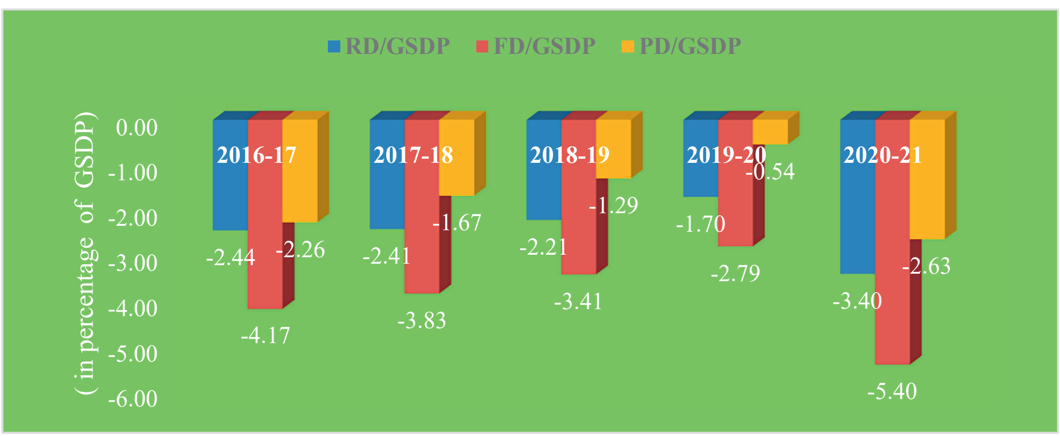


	2016-17	2017-18	2018-19	2019-20	2020-21
Revenue Deficit	-15484.59	-16928.21	-17461.92	-14495.25	-25829.50
Fiscal Deficit	-26448.35	-26837.41	-26958.31	-23837.47	-40969.69
Primary Deficit	-14331.85	-11717.48	-10210.39	-4622.77	-19994.33

- The revenue deficit of the State increased steadily from 2016-17 to 2018-19 and decreased in 2019-20. However, it increased by ₹11,334.25 crore (78.19 *per cent*) in the year 2020-21.
- Though the revenue receipts of the state increased by 8.19 *per cent*, the increase in revenue deficit was mainly due to increase in revenue expenditure by 17.88 *per cent,* which was more than two times the increase in revenue receipts.
- In the year 2020-21, fiscal deficit which represents the total borrowings of the Government increased by ₹17,132.22 crore (71.87 *per cent*) in comparison to previous year. The State had a fiscal deficit of ₹40,969.69 crore in the year 2020-21 and is the highest during the five-year period 2016-17 to 2020-21.
- Primary deficit increased from ₹4,622.77 crore in 2019-20 to ₹19,994.33 crore in 2020-21 due to increase in fiscal deficit.

Chart 1.4 provides the trends in deficit indicates relative to GSDP for the period from 2016-17 to 2020-21.

Chart 1.4: 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 increased in 2020-21 as compared to the previous year. However, the post audit deficit figures are higher as explained in **Para 1.6**.

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 2020-21 are given in **Table 1.4** below:

Table 1.4: Fiscal liabilities of the State

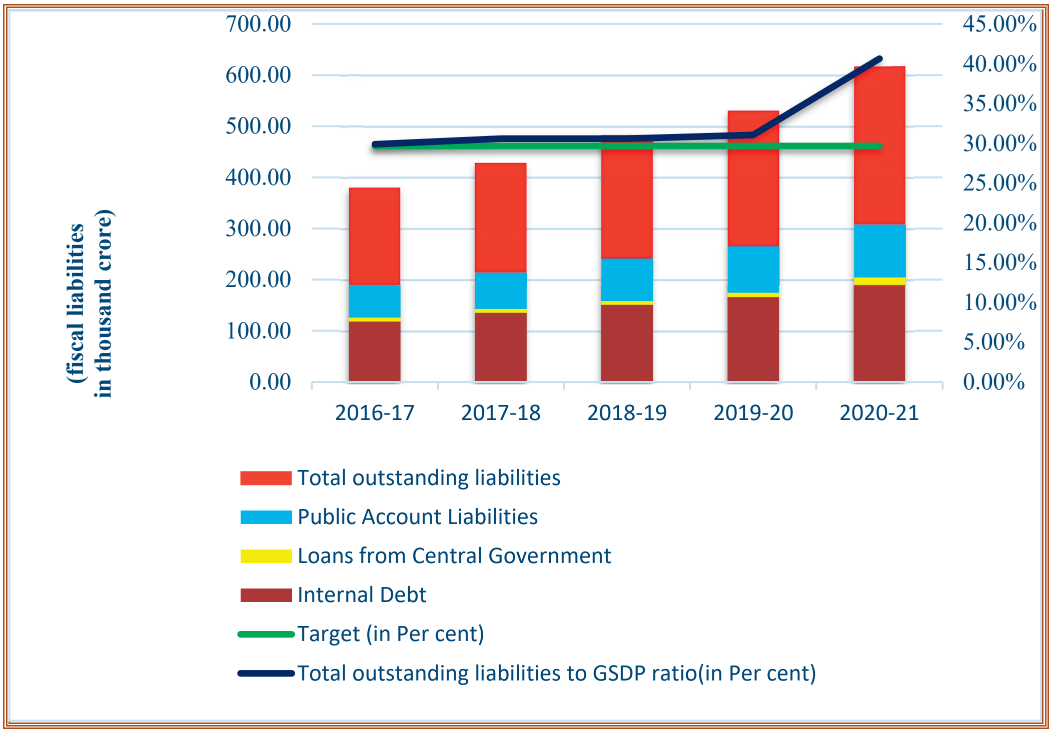
Fiscal liabilities		Amount in crore
	Total Consolidated Fund liabilities	**₹205447.73**
of which,	Market loans	₹165402.04
	Loans from the GoI	₹14973.64*
	Other Loans	₹25072.05
	Total Public Account liabilities	₹102938.28
of which,	Small Savings, PF etc.	₹97219.13
	Interest bearing obligations.	₹719.89
	Non-interest-bearing obligations like Deposits and other earmarked funds	₹4999.26

* *Effective Loans and Advances from GoI would be ₹9,207.64 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹5,766 crore given to the State as back to back loan under debt receipts would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.*

The overall fiscal liabilities of the State increased from ₹1,89,769 crore in 2016-17 to ₹3,08,386.01 crore [1] in 2020-21, thus recording an increase of 62.51 *per cent* during the five year period. During 2020-21, the growth rate of fiscal liabilities was 16.21 *per cent* as compared to 2019-20. The trends of fiscal liabilities during the last five years are presented in **Chart 1.5**.

[1] The above fiscal parameters during 2020-21 may be read in conjunction with debt receipts of ₹5,766 crore in lieu of GST compensation received from Government of India as back to back loans. Thus, the effective fiscal liabilities would be ₹3,02,620.01 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹5,766 crore given to the State as back to back loan under debt receipts would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission. The effective increase would thus, stand at 59.47 *per cent*.

Chart 1.5: Trends in fiscal liabilities and GSDP



Achievement of fiscal targets

The State Government enacted the Kerala Fiscal Responsibility Act, 2003, 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 framework and for matters connected therewith. The State Government amended its Fiscal Responsibility Act from time to time keeping in view the fiscal parameters prescribed by successive Finance Commissions.

As allowed by the GoI, the State amended the KFR Act, in July 2020 by issuing the KFR(Amendment) Ordinance, 2020, by virtue of which the State was eligible for an additional borrowing of 2 *per cent* of GSDP for 2020-21 in addition to the fiscal deficit target of 3 *per cent* of GSDP subject to conditions specified by the GoI.

Major fiscal variables as targeted in the Kerala Fiscal Responsibility (Amendment) Ordinance, 2020 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				
		2016-17	2017-18	2018-19	2019-20	2020-21
Revenue Deficit (-) / Surplus (+) (₹ *in crore*)	Revenue Surplus	(-)15484.59	(-)16928.21	(-)17461.92	(-)14495.25	(-) 25829.50
		✗	✗	✗	✗	✗
Fiscal Deficit (-)/ Surplus (+) (as *percentage of GSDP*)	Three * *per cent*	(-)26448.35 (4.17)	(-)26837.41 (3.83)	(-)26958.31 (3.41)	(-)23837.47 (2.79)	(-)40969.69 (5.40)
		✗	✗	✗	✓	✗
Ratio of total outstanding debt to GSDP (in *per cent*)	29.67 *per cent*[2]	29.89	30.58	30.57	31.05	39.87**
		✗	✗	✗	✗	✗

✗ *denotes targets not achieved and* ✓ *denotes targets achieved*

* *Provided that the State shall be eligible for additional borrowing of two per cent*[3] *of Gross Domestic Product for the financial year 2020-21 subject to the compliance of four state level reforms, implementation of One Nation One Ration Card System, Ease of doing business reforms, Urban Local body/Utility reforms and Power sector reforms as set out in Kerala Fiscal Responsibility (Amendment) Ordinance, 2021.*

** *The back to back loan (₹5,766 crore) received from GoI in lieu of GST compensation has not been considered as debt for working out the indicator.*

The ratio of total outstanding debt to GSDP (39.87 *per cent*) has been arrived at after excluding GST compensation of ₹5,766 crore given to the State as back to back loan under debt receipts from the total outstanding liabilities as the Department of Expenditure, GoI had decided that it would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.

The fiscal deficit as a percentage to GSDP was recorded at 5.40 *per cent* which is beyond the fiscal deficit target of three *per cent* and additional target of two *per cent* taken together.

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**.

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2 29.80 *per cent* in 2016-17, 30.40 *per cent* in 2017-18, 30.01 *per cent* in 2018-19 and 29.67 *per cent* in 2019-20

3 GoI (Ministry of Finance), Dept. of Expenditure (Public Finance-State Division) vide letter F. No. 40(06)/ PF-S/2017-18/ Vol V dated 17 May 2020 allowed an additional borrowing of two *per cent* of GSDP to the States in 2020-21 subject to implementation of specific State level reforms. The State shall exhaust the aforesaid additional borrowing during the year 2020-21 and will not be allowed to carry forward to the subsequent years. This was subject to the amendment of State's FRBM legislation for the year 2020-21 to that effect.

Table 1.6: Actuals vis-à-vis projection in MTFP for 2020-21

(₹ in crore)

Sl. No.	Fiscal Variables	Projection as per MTFP	Actuals (2020-21)	Variation (in *per cent*) with reference to Projections as per MTFP
1	Own Tax Revenue	67420.01	47660.84	(-)29.31
2	Non-Tax Revenue	14587.00	7327.31	(-)49.77
3	Resources from Centre (Share of Central taxes and Grant-in-aid from GoI)	32628.89	42628.68	30.65
4	Revenue Receipts (1+2+3)	114635.90	97616.83	(-)14.85
5	Revenue Expenditure	129837.37	123446.33	(-)4.92
6	Revenue Deficit (-)/ Surplus (+) (5-6)	(-)15201.47	(-)25829.50	69.91
7	Fiscal Deficit (-)/ Surplus (+)	(-)29295.38	(-)40969.69	39.85
8	Debt-GSDP ratio (*per cent*)	30.07	39.87*	32.59
9	GSDP growth rate at current prices (*per cent*)	12.22	(-)11.20	(-)191.65

Source: Finance Accounts and *MTFP*

* *The back to back loan (₹5,766 crore) received from GoI in lieu of GST compensation has not been considered as debt for working out the indicator.*

The above table shows that the State could not achieve any of the targets fixed in the 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, not depositing cess/royalty to Consolidated Fund, short contribution to New Pension Scheme, 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

<table>
<tr><th rowspan="2">Particulars</th><th>Impact on Revenue Deficit</th><th>Impact on Fiscal Deficit</th><th rowspan="2">Para reference</th></tr>
<tr><th colspan="2">Understated(+)/overstated (-)
(₹ in crore)</th></tr>
<tr><td colspan="2">Off budget fiscal operations during the financial year such as borrowings by State Public Sector Companies, SPVs and other equivalent instruments- borrowings by KIIFB and KSSPL, where the principal and/ or interest are to be serviced out of the State budgets (issue of completeness of recognising overall debt)</td><td>0</td><td>(+)9273.24</td><td>2.6.2</td></tr>
<tr><td colspan="2">Cesses/ Royalties not credited to Consolidated Fund</td><td>(-)247.61</td><td>(-)247.61</td><td>4.1</td></tr>
<tr><td rowspan="2">Non-contribution to Guarantee Redemption Fund</td><td>Contribution ₹138.78</td><td rowspan="2">(+)355.35</td><td rowspan="2">(+)355.35</td><td rowspan="2">2.5.2.3</td></tr>
<tr><td>Commission ₹216.57</td></tr>
<tr><td colspan="2">Grants-in-Aid booked under Capital section instead of Revenue</td><td>(+)46.50</td><td>0</td><td>3.3.3</td></tr>
<tr><td colspan="2">Non discharge of Interest liabilities
• Para 2.4.2.3-Interest on NPS – ₹0.024 crore
• Para 2.5.2.2-Interest on State Compensatory Afforestation Fund - ₹2.77 crore
• Para 2.5.2.3- Interest on SDRF - ₹87.82 crore</td><td>(+)90.61</td><td>(+)90.61</td><td>2.4.2.3, 2.5.2.2 & 2.5.2.3</td></tr>
<tr><td colspan="2">Total</td><td>244.85</td><td>9471.59</td><td></td></tr>
</table>

Source: Finance Accounts and audit analysis

The Revenue and Fiscal deficit of the State are understated by ₹244.85 crore and ₹9,471.59 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	25829.50	244.85	26074.35
Fiscal deficit	40969.69	9471.59	50441.28

On post audit analysis, the fiscal deficit as percentage of GSDP was 6.65 *per cent* which was inclusive of the off-budget borrowings of ₹669.05 crore on the part of KIIFB and ₹8,604.19 crore on the part of KSSPL.

1.6.2 Post audit - Total Public Debt

The State Government resorted to off-budget borrowing of ₹9,273.24 crore through KIIFB and KSSPL in 2020-21. It was in addition to the liabilities of ₹3,08,386.01 crore as mentioned in Finance Accounts 2020-21. As on 31 March 2021, KIIFB and KSSPL have an outstanding liability of ₹16,469.05 crore (para

2.6.2 of Chapter II). Thus, the overall debt of the State increased by ₹16,469.05 crore to ₹3,24,855.06 crore as on 31 March 2021.

Effective Total Public Debt would be ₹3,19,089.06 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹5,766 crore given to the State as back to back loan under debt receipts would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.

1.7 Conclusions

1. **Fiscal position of the State**

As per State Government accounts, the ratio of fiscal deficit to GSDP increased from 4.17 *per cent* in 2016-17 to 5.40 *per cent* in 2020-21. Further, on post audit analysis it was concluded that the Revenue and Fiscal deficit of the State were understated by ₹244.85 crore and ₹9,471.59 crore respectively thereby increasing the fiscal deficit to GSDP ratio to 6.65 *per cent* in 2020-21.

The State did not achieve any of the targets fixed in its Medium-Term Fiscal Plan or the Kerala Fiscal Responsibility Act during the year 2020-21. Though the fiscal deficit to GSDP ratio was to be anchored at 3 *per cent* as per KFR Act, 2003, the GoI allowed an additional borrowing of 2 *per cent* thereby increasing the overall borrowing to 5 *per cent* against which the State registered a fiscal deficit to GSDP ratio of 5.40 *per cent* during 2020-21.

2**. Overall Debt**

The overall debt of the State including off-budget borrowings (outstanding liabilities of KIIFB and KSSPL) is ₹3,24,855.06 crore[4]. 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.

4 Effective Total Public Debt would be ₹3,19,089.06 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹5,766 crore given to the State as back to back loan under debt receipts would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.