



**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 22<sup>nd</sup> in the country with an area of 38,863 sq.km. The State has a population of 3.56 crore (14<sup>th</sup> in the country) and is ranked as the sixth most densely populated State with a density of 917.15 persons per sq.km. The decadal growth rate of population was 5.92 *per cent*, 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 2021-22 of the State at current prices was ₹9,01,997.83 crore. The general data relating to the State is given in **Appendix 1.1**.

### 1.2 Gross State Domestic Product of Kerala

Gross Domestic Product (GDP) is the value of all the goods and services produced within the boundaries of a country in a given period of time; whereas Gross State Domestic Product (GSDP) is the value of goods and services produced in a State.

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 GSDP increased from ₹7,99,571.11 crore in 2020-21 to ₹9,01,997.83 crore recording a growth rate of 12.81 *per cent* in 2021-22, it was lower as compared to the growth rate of GDP. Growth rate of GSDP and GDP for the period from 2017-18 to 2021-22 are shown in **Table 1.1**.

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

SI No	Year	2017-18	2018-19	2019-20	2020-21	2021-22(PE)
1	GDP (₹ in crore) (2011-12 Series)	1,70,90,042.36	1,88,99,668.44	2,00,74,855.79	1,98,00,913.82	2,36,64,636.99
2	Growth rate of GDP over previous year (in <i>per cent</i> )	11.03	10.59	6.22	(-)1.36	19.51
3	GSDP (₹ in crore) (2011-12 Series)	7,01,588.26	7,88,285.58	8,24,374.20	7,99,571.11	9,01,997.83
4	Growth rate of GSDP over previous year (in <i>per cent</i> )	10.51	12.36	4.58	(-)3.01	12.81

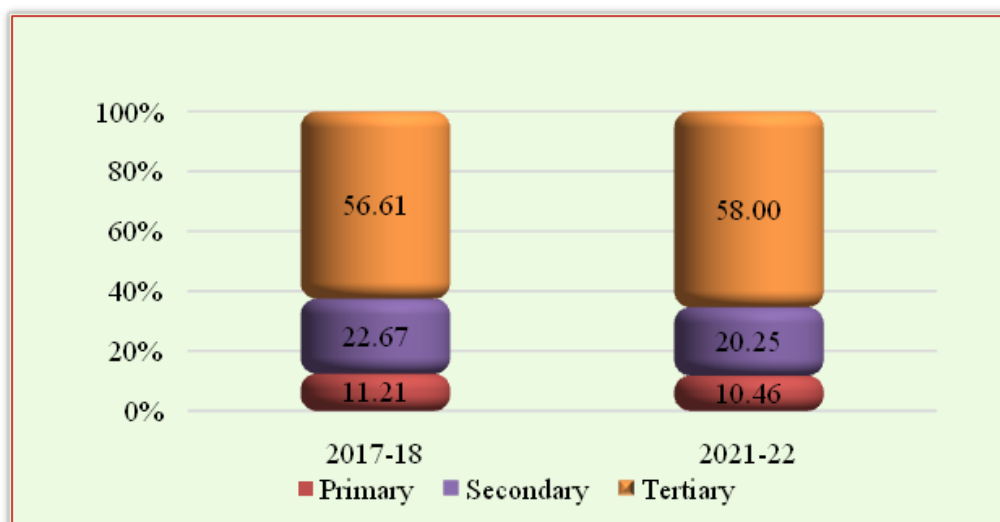
Source : Ministry of Statistics and Programme Implementation website as on 15/03/2022 and Directorate of Economics and Statistics, PE-Provisional Estimate.

Kerala ranked 11th among all the States in the contribution to National GDP. During the five-year period from 2017-18 to 2021-22, the growth of GSDP was highest in the year 2021-22 (12.81 *per cent*). The significant growth in the year 2021-22 was mainly due to the fall in the GSDP in the previous year (negative growth) due to COVID 19 pandemic.

### 1.2.1 Sectoral Contribution to GSDP

The economic activities are generally divided into Primary sector consisting of agriculture, mining, forestry, fishing *etc.*, Secondary sector consisting of manufacturing, construction *etc.*, and Tertiary sector consisting of services. A graphical presentation of sectoral contribution to GSDP during 2021-22 as compared to 2017-18 is shown below in **Chart 1.1**.

**Chart 1.1: Sectoral contribution to GSDP 2017-18 and 2021-22**



Source: Details furnished by Directorate of Economics and Statistics, Kerala.

Note : This excludes the Taxes and Subsidies on products which constitute 9.51 *per cent* and 11.29 *per cent* of GSDP for the year 2017-18 and 2021-22 respectively.

The comparison of sectoral contribution to GSDP over the years from 2017-18 to 2021-22 is given in **Table 1.2** below:

**Table 1.2: Sectoral contribution to GSDP**

(in per cent)

Sl No.	Sectors	2017-18	2018-19	2019-20	2020-21	2021-22
1	Primary	11.21	10.26	9.98	10.93	10.46
2	Secondary	22.67	21.58	20.09	19.95	20.25
3	Tertiary	56.61	56.48	58.84	58.46	58.00
4	<b>Total*</b>	90.49	88.32	88.91	89.34	88.71

Source : Details furnished by Directorate of Economics and Statistics, Kerala.

\* Taxes and subsidies excluded.

The Tertiary sector continues to be the prime mover of Kerala economy and its contribution to GSDP increased from 56.61 *per cent* to 58 *per cent* of GSDP during the five-year period. The contribution of Primary and Secondary Sectors to GSDP decreased from 11.21 *per cent* and 22.67 *per cent* in 2017-18 to 10.46 *per cent* and 20.25 *per cent* in 2021-22 respectively. Sectorwise growth of GSDP in 2021-22 compared to 2020-21 and percentage contribution of some major economic activities to GSDP is given in the **Table 1.3** below:

**Table 1.3 : Some major economic activities and their contribution to GSDP**

*( ₹ in crore)*

Sl No.	Sectors	Components	2020-21 (QRE)	2021-22 (PE)	Percentage increase/decrease	Percentage contribution to GSDP
A	Primary	Agriculture, forestry and fishing	84,700.00	91,024.99	7.47	10.09
		Mining and quarrying	2,709.79	3,314.51	22.32	0.37
B	Secondary	Industries- Manufacturing	61,765.61	71,916.51	16.43	7.97
		Construction	87,418.34	99,489.38	13.81	11.03
		Electricity, gas, water supply & other utility services	10,300.27	11,207.88	8.81	1.24
C	Tertiary	Trade, repair, hotels and restaurants	1,49,346.46	1,69,930.94	13.78	18.84
		Real estate, ownership of dwelling & professional services	1,21,417.44	1,35,983.85	12.00	15.08
		Others + Taxes on Products - Subsidies	2,81,913.20	3,19,129.77	13.20	35.38
D		<b>GSDP</b>	<b>7,99,571.11</b>	<b>9,01,997.83</b>	<b>12.81</b>	<b>100.00</b>

Source: Details furnished by Directorate of Economics and Statistics, Kerala.  
QRE- Quick Revised Estimate, PE - Provisional Estimate

In the Primary Sector, substantial growth rate was recorded by the Mining and quarrying (22.32 *per cent*), when compared to previous year. The major components in GSDP such as Agriculture and Industries Sectors which are crucial in determining the development, continue to lag far behind among the sectors. The Secondary sector recorded a positive growth in 2021-22 due to sharp increase in all the components in the sector viz. Manufacturing (16.43 *per cent*), Construction (13.81 *per cent*) and Electricity, gas, water supply & other utility services (8.81 *per cent*).

### 1.3 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.

The Principal Accountant General (Accounts and Entitlement) 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 Principal 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-a-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 Principal 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.

An entry meeting was held with Finance Secretary, Finance Department, Government of Kerala, wherein the audit approach was explained, and the draft report was forwarded to the State Government for comments. An exit conference was also held and the replies of the Government, are incorporated in this Report at appropriate places.

### 1.4 Report Structure

The State Finances Audit Report is structured into the following five Chapters:

<b>Chapter - I</b>	<p><b>Overview</b></p> <p>This Chapter provides an overview of the finances of the State including macro-fiscal analysis of key indices and State's fiscal position including the deficits.</p>
<b>Chapter - II</b>	<p><b>Finances of the State</b></p> <p>This Chapter provides a detailed analysis of the revenue and expenditure of the State and is based on the Finance Accounts of the State.</p>
<b>Chapter - III</b>	<p><b>Budgetary Management</b></p> <p>This Chapter reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management. It is based on Appropriation Accounts.</p> <p>Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are also detailed in this Chapter.</p>
<b>Chapter - IV</b>	<p><b>Quality of Accounts &amp; Financial Reporting Practices</b></p> <p>This Chapter comments on the quality of accounts rendered by various authorities of the State Government like completeness, non-discharge of liabilities etc.</p>
<b>Chapter - V</b>	<p><b>Financial performance of Public Sector Undertakings</b></p> <p>This Chapter presents the summary of financial performance of PSUs as revealed from their latest finalised accounts, their contribution to the GSDP of the State and makes an analysis of the operating efficiency of the PSUs.</p>

## 1.5 Overview of Government Accounts

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.;

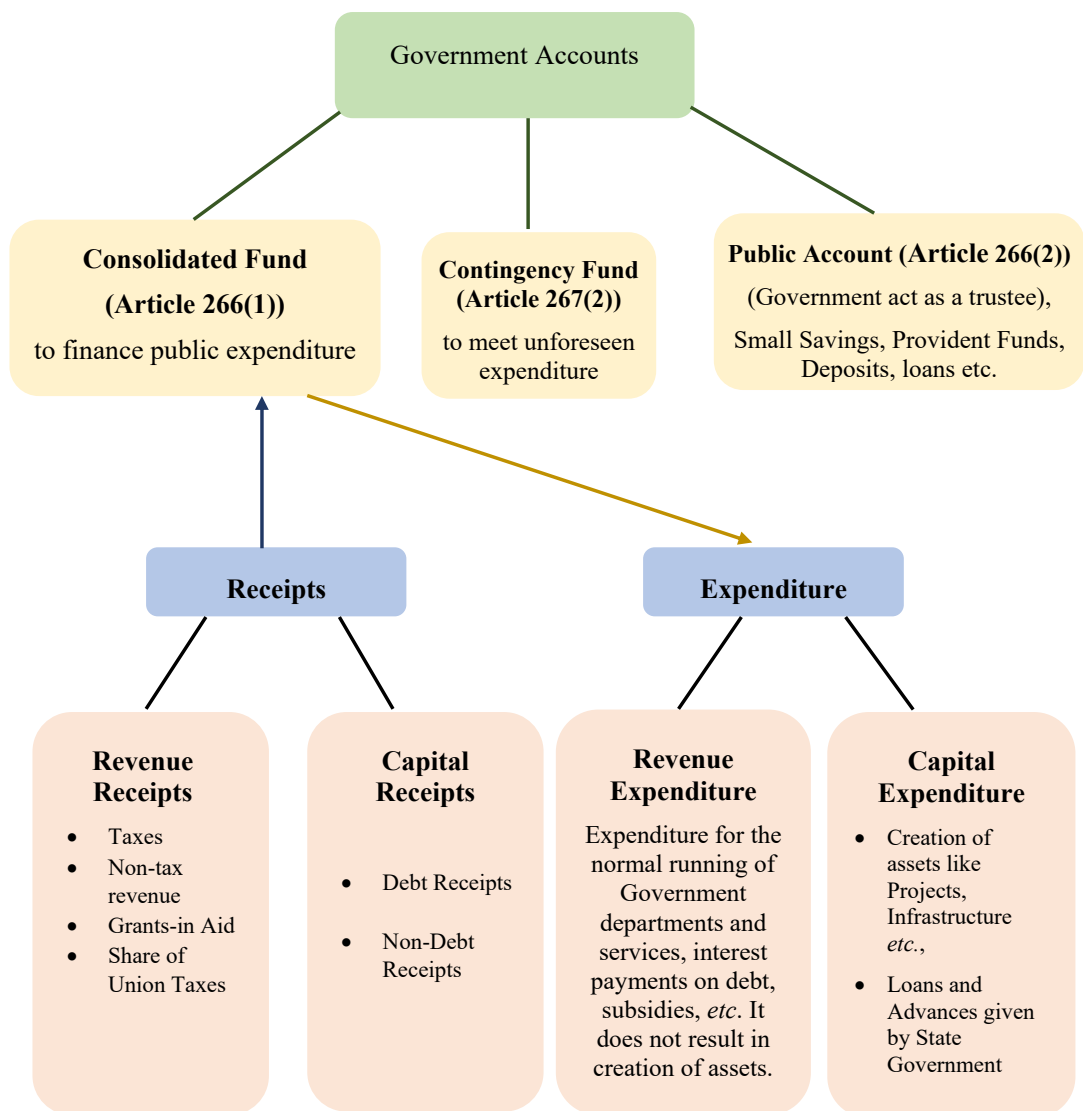


- **Non-debt receipts** : Proceeds from disinvestment, Recoveries of loans and advances;

**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.

A pictorial representation of the structure of Government accounts is given in **Chart 1.2** below:

**Chart 1.2: Structure of Government Accounts**



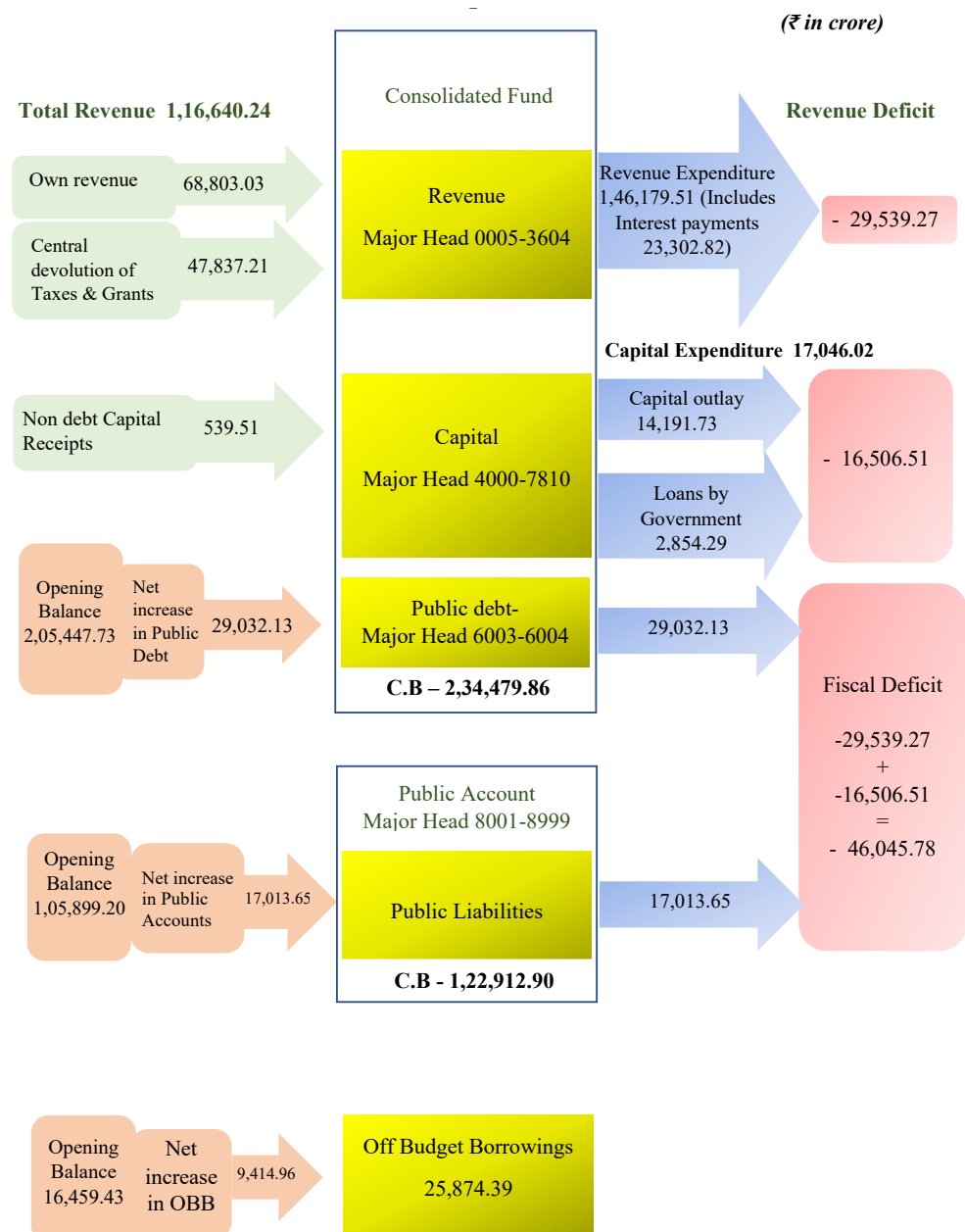
## 1.6 Snapshot of the Finances of State Government

A snapshot of the various aspects of the finances of the State Government are as follows.

### 1.6.1 Snapshot of Financial Results 2021-22

A snapshot of the details of the actual financial results for year 2021-22 is given in **Chart 1.3** below:

**Chart 1.3 : Snapshot of Financial results**



<b>Total liabilities as on 31/03/2022</b>	<b>(₹ in crore)</b>
<b>(2, 34,479.86+1, 22,912.90+25,874.39)</b>	<b>= 3,83,267.15</b>
<b>Effective total liabilities after excluding GST compensation</b>	<b>= 3,68,761.84</b>
<b>Revenue Deficit = Revenue Expenditure - Revenue Receipts</b>	<b>= 29,539.27</b>
<b>Fiscal Deficit = Total Revenue - Total Expenditure</b>	<b>= 46,045.78</b>
<b>Primary Deficit = Fiscal Deficit - Interest payments</b>	<b>= 22,742.96</b>

1. On post audit analysis, the Fiscal deficit and Revenue deficit increased to ₹62,415.21 crore and ₹30,007.35 crore respectively as detailed in Paragraph 1.8.1 of this Chapter. This may be read in conjunction with ₹8,739.31 crore received as back-to-back loan in lieu of GST compensation.
2. The outstanding liabilities increased to ₹3,83,267.15 crore on account of the off-budget borrowing by KIIFB, KSSPL and through bill discounting system as detailed in paragraph 1.8.2. Effective outstanding liabilities would be ₹3,68,761.84 crore after excluding GST compensation of ₹14,505.31 crore received as back to back loan.

## 1.6.2 Snapshot of the Finances

**Table 1.4** provides the details of Actuals *vis-a-vis* Budget Estimates for the year 2021-22 *vis-a-vis* actuals of 2020-21. Details of five years is given in **Appendix 1.2**.

**Table 1.4 : Snapshot of the Finances**

(₹ in crore)						
Sl. No.	Components	2020-21 (Actuals)	2021-22 (Budget Estimate)	2021-22 (Actuals)	Percentage of Actuals to B.E.	Percentage of Actuals (2021-22) to GSDP
1.	<b>Tax Revenue</b>	<b>59,221.24</b>	<b>84,645.36</b>	<b>76,160.61</b>	<b>89.98</b>	<b>8.44</b>
i	Own Tax Revenue	47,660.84	71,833.28	58,340.52	81.22	6.47
ii	Share of Union taxes / duties	11,560.40	12,812.08	17,820.09	139.09	1.98
2	Non-Tax Revenue	7,327.31	14,335.79	10,462.51	72.98	1.16
3.	Grants-in-aid and Contributions	31,068.28	31,999.91	30,017.12	93.80	3.33
4.	<b>Revenue Receipts (1+2+3)</b>	<b>97,616.83</b>	<b>1,30,981.06</b>	<b>1,16,640.24</b>	<b>89.05</b>	<b>12.93</b>
5.	Recovery of Loans and Advances	263.82	303.64	479.24	157.83	0.05
6.	Other Receipts	34.15	50.10	60.27	120.30	0.01
7.	Borrowings and other Liabilities	40,969.69	30,697.59	46,045.78	150.00	5.10

Sl. No.	Components	2020-21 (Actuals)	2021-22 (Budget Estimate)	2021-22 (Actuals)	Percentage of Actuals to B.E.	Percentage of Actuals (2021-22) to GSDP
8.	<b>Capital Receipts (5+6+7)</b>	<b>41,267.66</b>	<b>31,051.33</b>	<b>46,585.29</b>	<b>150.03</b>	<b>5.16</b>
9	<b>Total Receipts (4+8)</b>	<b>1,38,884.49</b>	<b>1,62,032.39</b>	<b>1,63,225.53</b>	<b>100.74</b>	<b>18.10</b>
10.	<b>Revenue Expenditure</b>	<b>1,23,446.33</b>	<b>1,47,891.18</b>	<b>1,46,179.51</b>	<b>98.84</b>	<b>16.21</b>
11.	Interest payments (included in Sl. No.10)	20,975.36	21,940.20	23,302.82	106.21	2.58
12.	<b>Capital Expenditure</b>	<b>15,438.16</b>	<b>14,141.21</b>	<b>17,046.02</b>	<b>120.54</b>	<b>1.89</b>
13	Capital outlay	12,889.65	12,596.27	14,191.73	112.67	1.57
14	Loans and advances	2,548.51	1,544.94	2,854.29	184.75	0.32
15	<b>Total Expenditure (10+12)</b>	<b>1,38,884.49</b>	<b>1,62,032.39</b>	<b>1,63,225.53</b>	<b>100.74</b>	<b>18.10</b>
16	<b>Revenue Deficit (4-10)</b>	<b>25,829.50</b>	<b>16,910.12</b>	<b>29,539.27</b>	<b>174.68</b>	<b>3.27</b>
17	<b>Fiscal Deficit {15-(4+5+6)}</b>	<b>40,969.69</b>	<b>30,697.59</b>	<b>46,045.78</b>	<b>150.00</b>	<b>5.10</b>
18	<b>Primary Deficit (17-11)</b>	<b>19,994.33</b>	<b>8,757.39</b>	<b>22,742.96</b>	<b>259.70</b>	<b>2.52</b>

Source: Statement 2 of Finance Accounts for 2020-21 and 2021-22.

The State received total compensation of ₹12,594.86 crore on account of loss of revenue arising out of the implementation of GST during 2021-22. Out of this, ₹3,855.55 crore was received by the State as grants under revenue receipts. However, during the year 2021-22, the State also received back to back loan of ₹8,739.31 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 ₹29,539.27 crore and the fiscal deficit of ₹46,045.78 crore during the year 2021-22 may be read in conjunction with debt receipt of ₹8,739.31 crore in lieu of GST compensation.

Though revenue receipts of the State increased by ₹19,023.41 crore (19.49 per cent) during 2021-22 as compared to the previous year, there was a considerable increase in revenue expenditure by ₹22,733.18 crore (18.42 per cent) which led to an increase in revenue deficit by ₹3,709.77 crore during the year. Fiscal deficit also increased by ₹5,076.09 crore during 2021-22.

### 1.6.3 Abstract of Receipts and Disbursements 2021-22

**Table 1.5** below provides details of Receipts and disbursements during the year 2021-22.

**Table 1.5: Abstract of Receipts and Disbursements 2021-22**

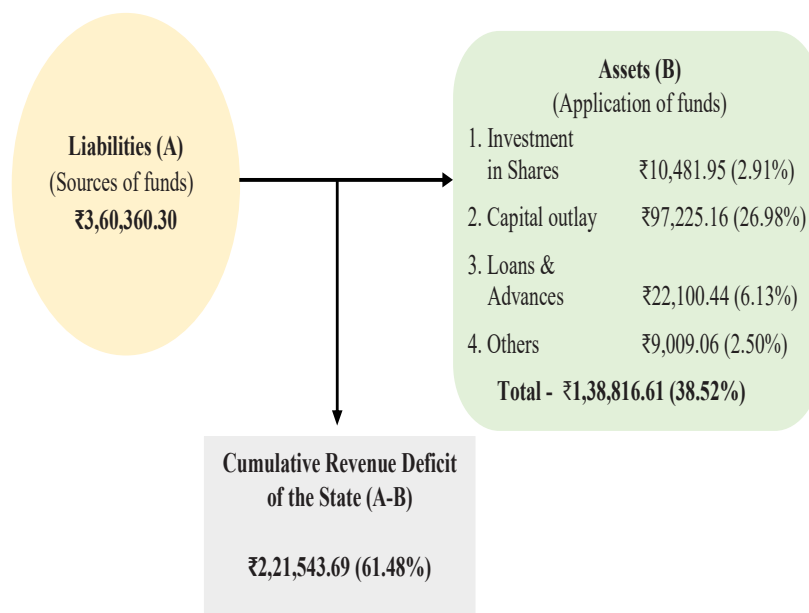
(₹ in crore)

Sl. No.	Receipts	Amount	Disbursement	Amount
	<b>Section A</b>			
1	Revenue Receipts	1,16,640.24	Revenue Expenditure	1,46,179.51
2	Revenue Deficit	29,539.27		
<b>3</b>	<b>Total</b>	<b>1,46,179.51</b>	<b>Total</b>	<b>1,46,179.51</b>
	<b>Section B</b>			
4	Opening Balance of Cash	4,967.98	Revenue Deficit brought down	29,539.27
5	Miscellaneous Capital Receipts	60.27	Capital Outlay	14,191.73
6	Recoveries of Loans and Advances	479.24	Loans and Advances Disbursed	2,854.29
7	Public Debt Receipts	64,932.14	Public Debt Repayment	35,900.00
8	Public Account Receipts	3,55,961.24	Public Account Disbursement	3,36,440.12
9			Closing Balance of Cash	7,475.46
<b>10</b>	<b>Total</b>	<b>4,26,400.87</b>	<b>Total</b>	<b>4,26,400.87</b>

Source : Statement No.2 of Finance Accounts 2021-22.

### 1.6.4 Snapshot of Assets and Liabilities as on 31 March 2022

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 capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Table 1.6**, **Chart 1.4** give an abstract of such assets and liabilities as on 31 March 2022. While the liabilities consist mainly of internal borrowings, loans and advances from GoI, and receipts from the Public Account, the assets mainly comprises the capital outlay and loans and advances given by the State Government and its cash balances.

**Chart 1.4: Position of Assets and Liabilities***(₹ in crore)*

State Government has an accumulation of liabilities of ₹3,60,360.30<sup>1</sup> crore for its activities as on 31 March 2022. Against which only ₹1,07,707.11 crore (29.89 *per cent*) was used for capital creation. ₹2,21,543.69 crore (61.48 *per cent*) was used for meeting the cumulative revenue deficit of the State. In other words, in each financial year more than 61 *per cent* of additional liabilities are being created to meet its revenue expenditure. The same pattern is repeated in 2021-22, wherein 61.48 *per cent* of the additional liabilities created is for meeting the revenue deficit of the State.

**Table 1.6 : Statement of Assets and Liabilities as on 31 March 2022***(₹ in crore)*

Sl. No.	Liabilities	Amount	Assets	Amount
1	Consolidated Fund Liabilities	2,34,479.86	Consolidated Fund Assets	1,29,807.55
2	Contingency Fund	100.00	Public Account, Cash Balance, Investments etc.	9,009.06
3	Public Account Liabilities	1,25,780.44	Accumulated deficit up to previous year	1,92,003.62
4			Add deficit for the year	29,540.07
5	<b>Total Liabilities</b>	<b>3,60,360.30</b>	<b>Total Assets</b>	<b>3,60,360.30</b>

<sup>1</sup> This differs from the total liabilities (₹3,57,392.76 crore) mentioned in paragraph 1.7 due to inclusion of Contingency Fund (₹100 crore), Investments from earmarked funds (₹2,545.51 crore) and Suspense and Miscellaneous (₹322.03 crore).

Summarised position of Assets and Liabilities is given in **Appendix 1.3 (Part A and Part B)** Capital assets increased by 15.10 *per cent* in 2021-22. The total liabilities increased by 15.73 *per cent* during the year. The cash balance of the State at the end of the year increased by 50.47 *per cent* to ₹7,475.46 crore.

## 1.7 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.

The trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-a-vis* targets set under the Kerala Fiscal Responsibility Act (KFR) for the financial year 2021-22 are detailed below.

### 1.7.1 Revenue Deficit

Revenue Deficit is the difference between revenue expenditure and revenue receipts in the Consolidated fund. 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. The revenue deficit for the year 2021-22 is ₹29,539.27 crore as compared to ₹25,829.50 crore in 2020-21. The revenue deficit of the State increased by ₹3,709.77 crore (14.36 *per cent*) in the year 2021-22 when compared to 2020-21. This indicates that for day-to-day affairs, the Government have to resort to borrowings.

### 1.7.2 Fiscal Deficit

Fiscal deficit (FD) is the gap between total receipts (excluding borrowings) and total expenditure in the Consolidated fund. This gap, therefore, indicates the extent to which expenditure is financed by borrowings. The fiscal deficit for the year was ₹46,045.78 crore as compared to ₹40,969.69 crore in 2020-21. In the year 2021-22, fiscal deficit which represents the total borrowings of the Government increased by ₹5,076.09 crore (12.39 *per cent*) in comparison to previous year. During the current year the FD/GSDP ratio stood at 5.10 *per cent* against 5.12 *per cent* in the previous year. The State had a fiscal deficit of ₹46,045.78 crore in the year 2021-22 and is the highest during the five-year period 2017-18 to 2021-22. This increase in deficit led to borrowings and eventually increased the overall debt liabilities of the State.

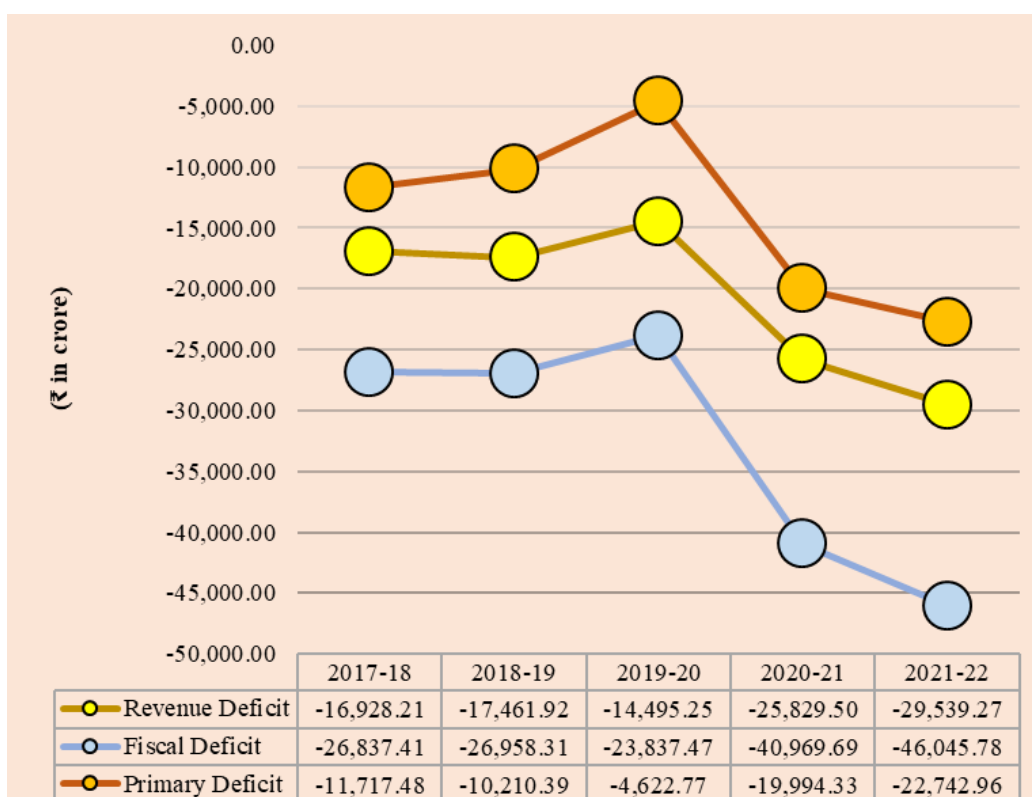
### 1.7.3 Primary Deficit

Primary deficit refers to the fiscal deficit minus the interest payments. The primary deficit for the year 2021-22 was ₹22,742.96 crore which highlights that

out of fiscal deficit of ₹46,045.78 crore, the amount available for growth and developmental activities was only ₹22,742.96 crore. Primary deficit increased by ₹2,748.63 crore (13.75 per cent ) from ₹19,994.33 crore in 2020-21 to ₹22,742.96 crore in 2021-22. This indicates that the borrowing requirement of the State Government has increased over the years.

The trend of deficits over the period 2017-18 to 2021-22 are presented in **Appendix 1.4** and **Chart 1.5** presents the trends in deficit indicators over the period 2017-18 to 2021-22.

**Chart 1.5: Trends in Deficit Parameters**



Source: Finance Accounts of respective years.

#### 1.7.4 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 2021-22 compared to previous year are given in **Table 1.7** below:



Table 1.7 Fiscal liabilities of the State

	Fiscal liabilities	₹ in crore)		
		2020-21	2021-22	Difference Increase(+) Decrease(-)
<b>A</b>	<b>Total Consolidated Fund liabilities</b>	<b>2,05,447.73</b>	<b>2,34,479.86</b>	<b>29,032.13</b>
i	Market loans	1,65,402.04	1,83,522.04	18,120.00
ii	Loans from the GoI	14,973.64*	23,688.27*	8,714.63
iii	Other Loans	25,072.05	27,269.55	2,197.50
<b>B</b>	<b>Off Budget Borrowings</b>	<b>16,459.43</b>	<b>25,874.39</b>	<b>9,414.96</b>
<b>C</b>	<b>Total Public Account liabilities</b>	<b>1,02,938.28</b>	<b>1,22,912.90</b>	<b>19,974.62</b>
i	Small Savings, PF etc.	97,219.13	1,15,666.60	18,447.47
ii	Interest bearing obligations	719.89	472.25	(-247.64)
iii	Non-interest-bearing obligations like Deposits and other earmarked funds	4,999.26	6,774.05	1,774.79
	<b>Total (A+B+C)</b>	<b>3,24,845.44</b>	<b>3,83,267.15</b>	<b>58,421.71</b>

\* Effective Loans and Advances from GoI for the year 2021-22 would be ₹9,182.96 crore (₹23,688.27 crore - ₹5,766 crore - ₹8,739.31 crore) as the Department of Expenditure, GoI had decided that GST compensation of ₹14,505.31 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 Consolidated fund liabilities increased by 14.13 per cent and the Public Account Liabilities increased by 19.40 per cent when compared to 2020-21.

### 1.7.5 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 per KFR, (Amendment) Act 2022, Government shall eliminate the Revenue deficit completely during the period from 2021-22 to 2025-26 and shall make Revenue Surplus in the order of 0.50 per cent, 0.80 per cent, 1.20 per cent, 1.70 per cent and 2.50 per cent of the GSDP in the respective years. However, it was observed that during 2021-22, the RD/ GSDP ratio stood at (-)3.27 per cent which is an indication of the fact that the State is far from achieving the KFR Act targets.

Major fiscal parameters as targeted in the KFR (Amendment) Act, 2022 along with actuals thereof are given in **Table 1.8**.

**Table 1.8: Compliance with provisions of KFR Act**

Sl. No.	Fiscal Parameters	Fiscal targets	Actuals				
			2017-18	2018-19	2019-20	2020-21	2021-22
1	Revenue Deficit	zero	(-)16,928.21	(-)17,461.92	(-)14,495.25	(-)25,829.50	(-)29,539.27
2	Fiscal Deficit (as percentage of GSDP)	3 per cent (up to 2019-20)	3.83	3.42	2.89	-	-
3		5 per cent in 2020-21 and 4 per cent in 2021-22	-	-	-	5.12	5.10
4	Ratio of total outstanding debt to GSDP (in per cent)	34.70 per cent in 2021-22 <sup>2</sup>	30.58	30.65	32.19	37.85	38.01

Source: Statement 2 of Finance Accounts and KFR Act.

The ratio of total outstanding debt to GSDP (38.01 per cent) during 2021-22 has been arrived at after excluding GST compensation of ₹14,505.31 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 State Government had not made any disclosure on the Off budget borrowings through KIIFB (₹13,066.18 crore), KSSPL (₹11,206.49 crore) and also the Bill Discounting System (₹1,601.72 crore) in the State budget, which led to an understatement of Government liabilities by ₹25,874.39 crore. Taking into account the off-budget borrowing of the State (including deferred liabilities

<sup>2</sup> 30.40 per cent in 2017-18, 30.01 per cent in 2018-19, 29.67 per cent in 2019-20 and 2020-21.

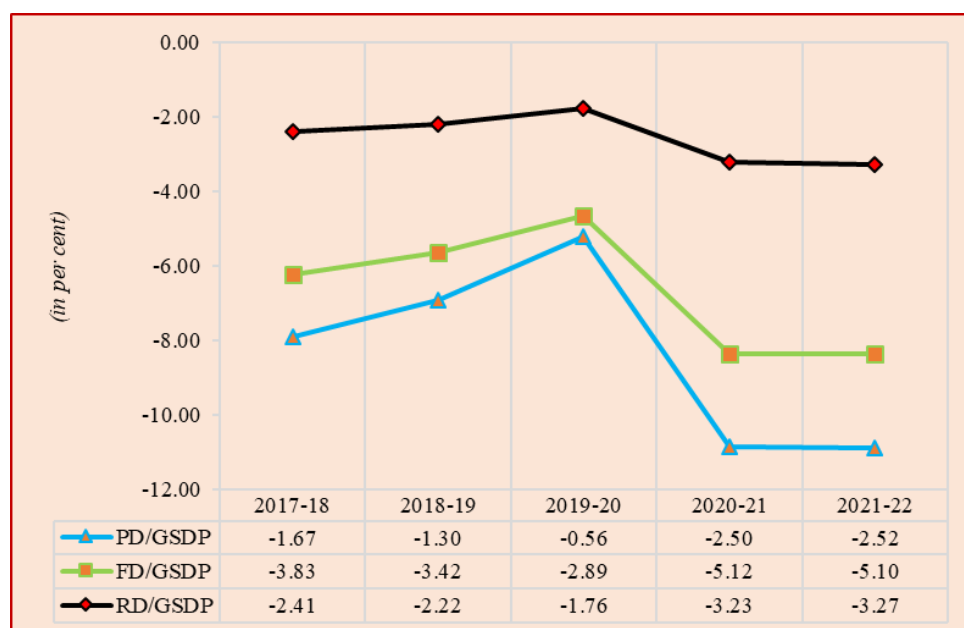
under Bill Discounting System), the Debt / GSDP ratio stands at 40.88 *per cent* (excluding back to back loan of ₹14,505.31 crore).

Though the target prescribed in KFR Act over the years was to eliminate Revenue deficit completely and to achieve revenue surplus during 2017-18 to 2021-22, the State continued to be revenue deficit during the period. The State did not achieve the fiscal target set out in the Act during the period 2017-18 to 2021-22 except for the year 2019-20. The ratio of total outstanding debt to GSDP also remained beyond the target fixed in the Act during the period.

The State did not achieve any of the fiscal targets prescribed in the KFR (Amendment) Act, 2022 during 2021-22.

**Chart 1.6** provides the trends in deficit indicators relative to GSDP for the period from 2017-18 to 2021-22.

**Chart 1.6: Trends in deficit indicators relative to GSDP**



Source: Compiled from Finance Accounts of respective years

From the above, it can be seen that the ratio of revenue deficit and primary deficit to GSDP increased in 2021-22 as compared to the previous year. The post audit deficit figures are higher as explained in paragraph 1.8.

The fiscal deficit as a percentage to GSDP was recorded at 5.10 *per cent* during 2021-22 which is beyond the fiscal deficit target of four *per cent*. This is mainly attributable to the fact that the revenue expenditure has exceeded the revenue receipts by 25 *per cent* during the current year. Further, the increase in GSDP was also not proportionate to the increase in expenditure. When compared to national GDP growth rate of 19.51 *per cent* the GSDP growth rate was merely 12.81 *per cent*.

In accordance with the Kerala Fiscal Responsibility Act, 2003 the State Government presents the Medium-Term Fiscal Policy (MTFP) and Strategy Statement (included as **Appendix 1.5**) before the State Legislature every year.

A comparison of targets for fiscal parameters projected in MTFP presented to the State Legislature with actuals for the current year is given below in **Table 1.9**.

**Table 1.9 : Actuals vis-a-vis projection in MTFP for 2021-22**

(₹ in crore)

Sl. No.	Fiscal Variables	Projection as per MTFP	Actuals (2021-22)	Variation (in per cent) with reference to Projections as per MTFP
1	Own Tax Revenue	71,833.28	58,340.52	(-)18.78
2	Non-Tax Revenue	14,335.79	10,462.51	(-)27.02
3	Resources from Centre (Share of Central taxes and Grant-in-aid from GoI )	44,811.99	47,837.21	6.75
4	Revenue Receipts (1+2+3)	1,30,981.06	1,16,640.24	(-)10.95
5	Revenue Expenditure	1,47,891.18	1,46,179.51	(-)1.16
6	Revenue Deficit (-) (4 - 5)	(-)16,910.12	(-)29,539.27	74.68
7	Fiscal Deficit (-)/ Surplus (+)	(-)30,697.59	(-)46,045.78	50.00
8	Debt-GSDP ratio (per cent)	37.39	38.01*	
9	GSDP growth rate at current prices (per cent)	6.60	12.81	

Source: Statement No.2 of Finance Accounts and Medium-Term Fiscal Policy.

\* The back to back Loan (₹14,505.31crore) 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 by the State Government in its MTFP during 2021-22. This indicates that the fiscal parameters achieved by the State during 2021-22 stands clearly outside the fiscal policies and indicators as laid out in the MTFP.

## 1.8 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.

### 1.8.1 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 rectified.

**Table 1.10: Revenue and Fiscal Deficit post examination by Audit**

(₹ in crore)

Sl No.	Particulars	Revenue Deficit	Fiscal Deficit	Paragraph reference
1	Pre Audit deficit	29,539.27	46,045.78	
2	Audit findings having an impact on deficit <sup>\$</sup>			
a	Off budget fiscal operations KIIFB - 7,762.78 KSSPL - 6,550.00 Bills Discounting System - 1601.72		(+)15,914.50	2.9.1
b	Non-contribution to Guarantee Redemption Fund	(+)413.76	(+)413.76	2.9.2 2.9.2.1
	Contribution 183.00			
	Commission 230.76			
c	Grants-in-aid booked under Capital section instead of Revenue	(+)20		3.3.1(a)
d	Grants-in-aid booked under Revenue section instead of Capital	(-)6.85		3.3.1(b)
e	Non discharge of Interest liabilities • Interest on NPS – 0.01 • Interest on State Compensatory Afforestation Fund - 2.37 • Interest on SDRF - 38.79	(+)41.17	(+)41.17	2.4.2.1 2.5.2.1 2.5.2.2
<b>3</b>	<b>Total of all post audit findings</b>	<b>468.08</b>	<b>16,369.43</b>	
<b>4</b>	<b>Post Audit deficit* (1+3)</b>	<b>30,007.35</b>	<b>62,415.21</b>	

Source: Compiled from Finance Accounts and audit analysis.

\$ Understated (+) and overstated (-).

\* This may be read in conjunction with ₹8,739.31 crore received as back-to-back loan in lieu of GST compensation during the year.

The Revenue and Fiscal deficit of the State are understated by ₹468.08 crore and ₹16,369.43 crore respectively. On post audit analysis, the fiscal deficit as percentage of GSDP was 6.92 per cent.

### 1.8.2 Post audit - Total Public Debt

The State Government resorted to off-budget borrowing of ₹15,914.50 crore through Kerala Infrastructure Investment Fund Board (KIIFB) (₹7,762.78 crore), Kerala Social Security Pension Limited (KSSPL) (₹6,550.00 crore) and through bill discounting system (₹1,601.72 crore) in 2021-22. It was in addition to the

liabilities of ₹3,57,392.76 crore as mentioned in Finance Accounts 2021-22. As on 31 March 2022, KIIFB and KSSPL together have an outstanding liability of ₹24,272.67 crore (Chapter II). Thus, the overall debt of the State increased by ₹25,874.39 crore (including deferred liabilities under BDS) from ₹3,57,392.76 crore to ₹3,83,267.15 crore as on 31 March 2022. Taking into account these off-budget borrowing of the State, the Debt / GSDP ratio stands at 40.88 *per cent* (excluding back to back loan of ₹14,505.31 crore).

## 1.9 Conclusions

1. The contributions from Agriculture and Manufacturing Sectors which are the main stay of the economy have declined from 11.21 *per cent* and 22.67 *per cent* in 2017-18 to 10.46 *per cent* and 20.25 *per cent* in 2021-22 respectively. This indicates that the State is relying more on the Service sector.
2. The revenue deficits have been on an increasing trend during the last five years and as compared to 2020-21, it increased by 14 *per cent*. Fiscal deficit to GSDP ratio has also increased considerably during the last five years. The State could not even achieve the FD-GSDP target of four *per cent* and it stood at 5.10 *per cent*. The Debt-GSDP ratio is way above the target of 34.70 *per cent* and it stood at 38.01 *per cent*. Thus, none of the fiscal parameters set in the Kerala Fiscal Responsibility Act were achieved.

## 1.10 Recommendations

1. *The Government needs to strive for a balanced growth by taking measures to improve the Agriculture and Manufacturing Sector.*
2. *The Government should adopt a fiscal consolidation path so that the targets fixed for revenue and fiscal deficits in the Kerala Fiscal Responsibility Act could be achieved.*