

CHAPTER II

FINANCES OF THE STATE

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This Chapter analyses the Finance Accounts of the State for the year 2021- 22 to unravel the underlying causes of deficit and areas of fiscal concern as well as positive trends.

2.1 Major Changes in Key Fiscal Aggregates *vis-a-vis* 2020-21

The major changes in key fiscal aggregates of the State during the year 2021-22, compared to the previous year are given in **Table 2.1**.

Table 2.1: Changes in key fiscal aggregates in 2021-22 compared to 2020-21

(₹ in crore)

Particulars		2020-21	2021-22	Increase (+)/ Decrease (-)
A	Revenue Receipts			
	Revenue Receipts	97,616.83	1,16,640.24	19.49
	Own Tax Revenue	47,660.84	58,340.52	22.41
	Non-Tax Revenue	7,327.31	10,462.51	42.79
	State's share of Union taxes and duties	11,560.40	17,820.09	54.15
	Grants- in-aid from Govt. of India	31,068.28	30,017.12	(-) 3.38
Revenue Receipts of the State increased by ₹19,023.41 crore mainly due to increase in Own tax Revenue by ₹10,679.68 crore followed by State's share of Union Taxes and duties by ₹6,259.69 crore.				
B	Revenue Expenditure			
	Revenue Expenditure	1,23,446.33	1,46,179.51	18.42
	Social Services	44,832.44	50,695.61	13.08
	Economic Services	18,760.72	15,713.81	(-) 16.24
	General Services	50,360.72	70,110.00	39.22
	Grants-in-aid	9,492.45	9,660.09	1.77
The revenue expenditure under General Services increased by ₹19,749.28 crore contributing to an increase of ₹22,733.18 crore in the total revenue expenditure of the State.				

	Particulars	2020-21	2021-22	Increase (+)/ Decrease (-)	
C	Capital Expenditure	Capital Outlay	12,889.65	14,191.73	10.10
		Social Services	2,277.90	3,342.63	46.74
		Economic Services	10,351.91	10,580.84	2.21
		General Services	259.84	268.26	3.24
		An increase of ₹1,064.73 crore in the Social Services Sector contributed to an increase of ₹1,302.08 crore in the Capital expenditure of the State.			
D	Loans and Advances	Disbursement of Loans and Advances	2,548.51	2,854.29	12.00
		Recovery of Loan & Advances	263.82	479.24	81.65
		Though there has been an increase in the recovery of Loans and Advances, the amount recovered was only 2.17 per cent of the outstanding loan balance			
E	Public Debt	PD Receipts*	69,735.36	64,932.14	(-) 6.89
		PD Disbursement	38,927.85	35,900.00	(-) 7.78
F	Public Account	PA Receipts	3,50,861.94	3,55,961.24	1.45
		PA Disbursement	3,37,817.00	3,36,440.12	(-) 0.41
		The net accretions in the Public Account increased from ₹13,044.94 crore to ₹19,521.12 crore.			
G	Cash balance	Closing Balance	4,967.98	7,475.46	50.47

*Effective Public Debt Receipts for the year 2021-22 would be ₹56,192.83 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹8,739.31 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 Public Debt Receipts for 2020-21 was ₹63,969.36 crore and the GST compensation received as back to back loan for the year was ₹5,766.00 crore.

The major pattern evolving from these aggregates are.

1. The revenue receipts of the State including GoI transfers could fund only 80 per cent of the revenue expenditure. Thus, the State is forced to depend on borrowings to meet the increased revenue expenditure.
2. Only 10 per cent of the total expenditure was spent on creation of capital assets. This was due to the insufficiency of revenue receipts to fund the revenue expenditure.

2.2 Sources and Application of Funds

The components of the sources and application of funds of the State during the financial year compared to the previous year is given below in **Table 2.2**.

Table 2.2 : Details of Sources and Application of funds during 2020-21 and 2021-22

(₹ in crore)

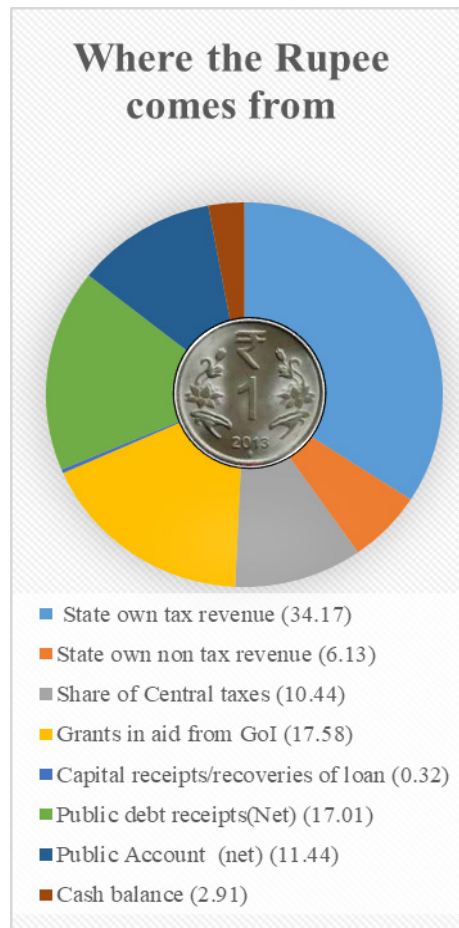
Particulars		2020-21	2021-22	Increase (+)/ Decrease (-) (in per cent)
Sources	Opening Cash Balance	2,010.22	4,967.98	147.14
	Revenue Receipts	97,616.83	1,16,640.24	19.49
	Capital Receipts	34.15	60.27	76.49
	Recoveries of Loans and Advances	263.82	479.24	81.65
	Public Debt Receipts (Net) *	30,807.51	29,032.14	(-)5.76
	Public Account Receipts (Net)	13,044.94	19,521.12	49.65
	Contingency fund	75.00	0.00	
	Total	1,43,852.47	1,70,700.99	
Application	Revenue Expenditure	1,23,446.33	1,46,179.51	18.42
	Capital Expenditure	12,889.65	14,191.73	10.10
	Disbursement of Loans and Advances	2,548.51	2,854.29	12.00
	Closing Cash Balance	4,967.98	7,475.46	50.47
	Contingency fund	0.00	0.00	
	Total	1,43,852.47	1,70,700.99	

Source: Finance Accounts for 2020-21 and 2021-22

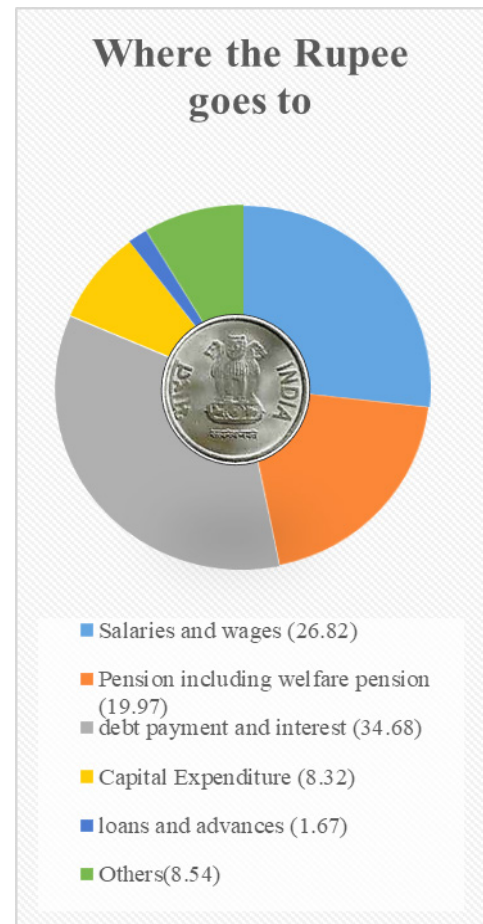
* Effective Public Debt Receipts (Net) for the year 2021-22 would be ₹20,292.83 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹8,739.31 crore given to the State as back to back loan under debt receipts would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission. The Public Debt Receipts (Net) for 2020-21 was ₹25,041.51 crore and the GST compensation received as back to back loan for the year was ₹5,766 crore.

The details of the sources and application of funds of the State during the financial year 2021-22 is given in **Chart 2.1** and **Chart 2.2** as ‘where the rupee comes from’ and ‘where the rupee goes to’.

**Chart 2.1 Composition of resources
(in per cent)**



**Chart 2.2 Application of resources
(in per cent)**

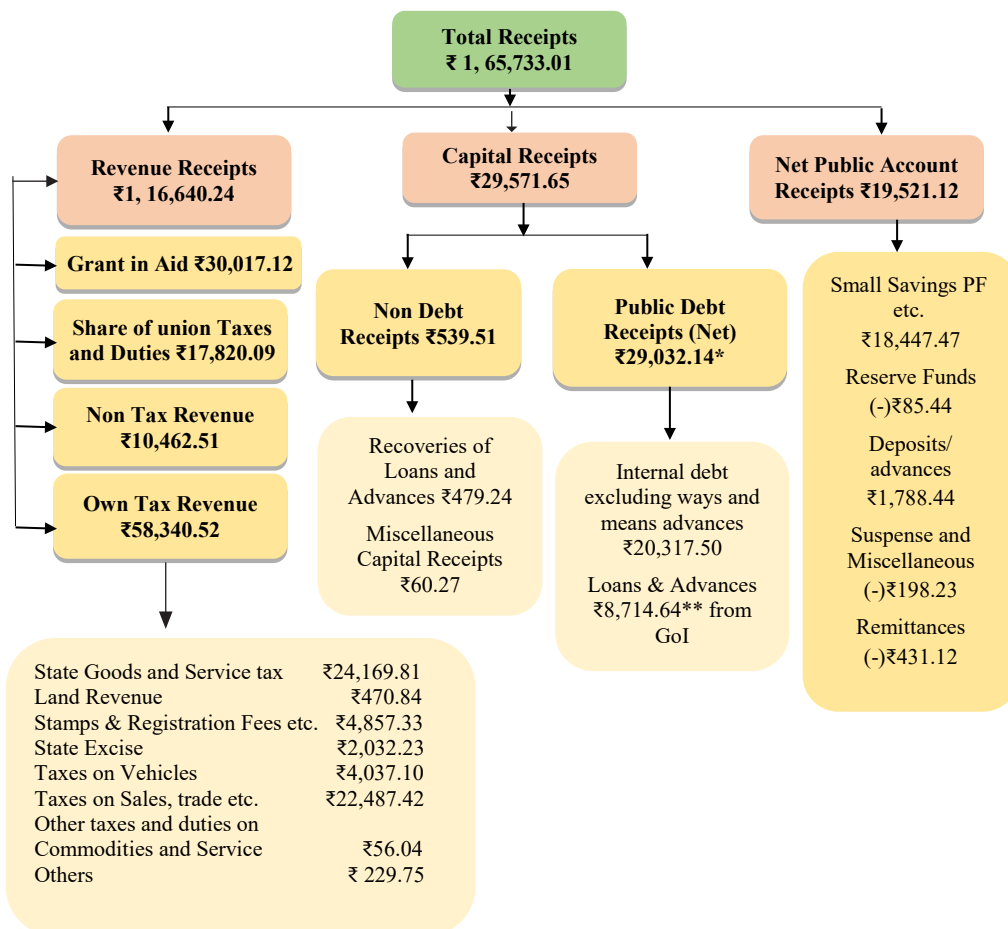


2.3 Resources of the State

The resources of the State come mainly from Revenue receipts, Capital receipts and from net Public Account receipts. The Revenue receipts consist of the State's own tax and non-tax revenues, share of Central tax transfers and Grants-in-aid from GoI. This is supplemented by Capital receipts (debts and loans). Besides the Capital and Revenue Receipts, funds available in the Public Account are also utilised by the Government to finance its deficit. Fiscal Responsibility and Budget Management (FRBM) Act defines revenue deficit as the excess of revenue expenditure over revenue receipts in a given financial year. The composition of the receipts of the State is as given in **Chart 2.3**.

Chart 2.3: Composition of receipts of the State during 2021-22

₹ in crore)



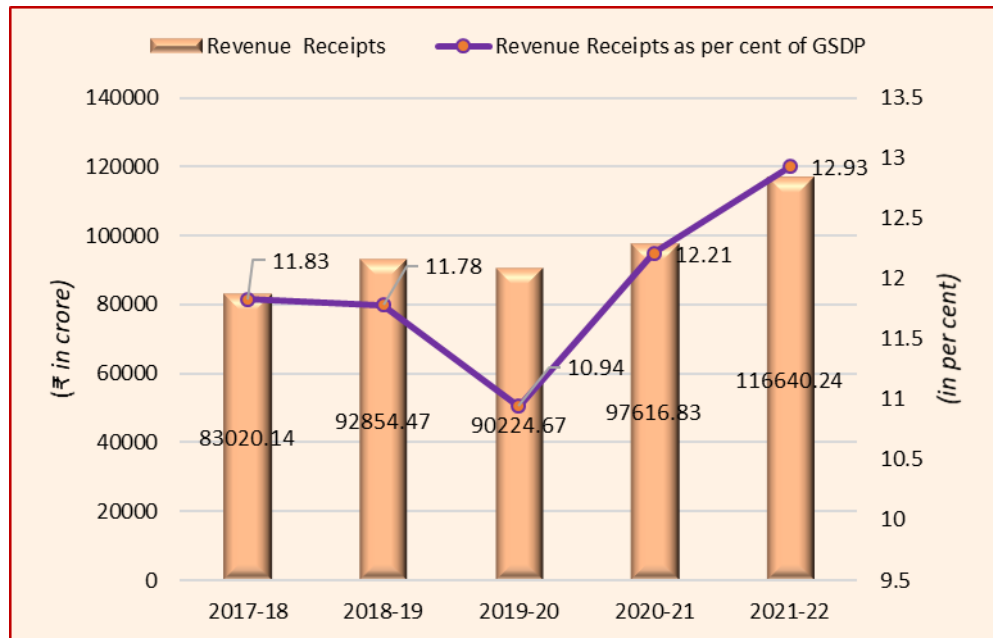
* Effective Public Debt Receipts (Net) would be ₹20,292.83 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹8,739.31 crore given to the State as back to back loan under debt receipts would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.

** Effective Loans & Advances from GoI would be (-) ₹24.67 crore as the Department of Expenditure, GoI had decided that GST compensation of ₹8,739.31 crore given to the State as back to back loan under debt receipts (6004-Loans and Advances from GoI) would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.

2.3.1 State's Revenue Receipts

The paragraph gives the trend of the revenue receipts, its components and its relation with GSDP for a period of five years (2017-2022) as shown in **Chart 2.4**.

Chart 2.4: Trend of Revenue Receipts



2.3.1.1 Trends and growth of Revenue Receipts

The total revenue receipts of the State during 2021-22 was ₹1,16,640.24 crore. There was an increase of ₹19,023.41 crore (19.49 *per cent*) when compared to ₹97,616.83 crore in 2020-21. When compared to the year 2018-19 (pre-covid period) the total revenue receipts increased by 25.62 *per cent*.

A major portion (59 *per cent*) of revenue receipts during 2021-22 came from State's own revenue. The trends of components of revenue receipts is given in **Table 2.3** below.

Table 2.3: Trend in Revenue Receipts

Parameters	2017-18	2018-19	2019-20	2020-21	2021-22
Revenue Receipts (RR) (₹ in crore)	83,020.14	92,854.47	90,224.67	97,616.83	1,16,640.24
Rate of growth of RR (per cent)	9.80	11.85	(-) 2.83	8.19	19.49
Own Tax Revenue	46,459.61	50,644.10	50,323.14	47,660.84	58,340.52
Non-Tax Revenue	11,199.61	11,783.24	12,265.22	7,327.31	10,462.51
Rate of growth of Own Revenue (Own Tax and Non-tax Revenue) (per cent)	11.15	8.27	0.26	(-) 12.14	25.12
Gross State Domestic Product (₹ in crore)	7,01,588.26	7,88,285.58	8,24,374.20	7,99,571.11	9,01,997.83
Rate of growth of GSDP (per cent)	10.51	12.36	4.58	(-) 3.01	12.81
RR/GSDP (per cent)	11.83	11.78	10.94	12.21	12.93
Buoyancy Ratios³					
Revenue Buoyancy w.r.t GSDP	0.93	0.96	(-) 0.62	(-) 2.72	1.52
State's Own Revenue Buoyancy w.r.t GSDP	1.06	0.67	0.06	4.04	1.96

Source: Finance Accounts of respective years; for GSDP, Ministry of Statistics and Programme Implementation website as on 15/03/2022.

- During 2021-22, Own Revenue (tax plus non-tax) of the State increased by ₹13,814.88 crore recording a growth rate of 25.12 per cent compared to the previous year.
- The revenue receipts as a percentage of GSDP showed a meagre increase from 12.21 per cent in 2020-21 to 12.93 per cent in 2021-22.

2.3.2 State's own revenue

State's revenue consists of own tax revenue and non-tax revenue.

2.3.2.1 Own tax revenue

Own tax revenue of the State consists of State specific taxes like State GST, Excise etc. The trend of own tax revenue and analysis of its components during the period 2017-2022 is shown in **Table 2.4**.

³ Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable.

Table 2.4: Components of States' own tax revenue

Sl No.	Revenue Head	2017-18	2018-19	2019-20	2020-21	2021-22	As Percentage of total Own Tax revenue during 2021-22
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	State Goods and Services tax	12,007.69	21,014.71	20,446.95	20,028.31	24,169.81	41.43
2	Taxes on Sales, Trade etc.	24,577.82	19,225.75	19,649.64	17,689.17	22,487.42	38.55
3	Stamps and Registration Fees	3,452.56	3,693.17	3,615.01	3,489.59	4,857.33	8.33
4	State Excise	2,240.42	2,521.40	2,255.28	2,329.22	2,032.23	3.48
5	Taxes on Vehicles	3,662.85	3,708.61	3,721.14	3,386.28	4,037.10	6.92
6	Land Revenue	162.17	202.78	332.42	493.35	470.84	0.81
7	Other Taxes and Duties on Commodities and Services	99.58	37.57	39.31	48.80	56.04	0.10
8	Others	256.52	240.11	263.39	196.12	229.75	0.39
9	Total	46,459.61	50,644.10	50,323.14	47,660.84	58,340.52	100.00
10	Growth rate (in per cent)	10.16	9.01	(-)0.63	(-)5.29	22.41	

Source: Statement 3 of Finance Accounts of respective year.

- State's own tax revenue increased by ₹10,679.68 crore from ₹47,660.84 crore in 2020-21 to ₹58,340.52 crore in 2021-22 marking a growth of 22.41 per cent. If compared with the pre-covid period, i.e. 2018-19, the growth rate was 15 per cent. The significant increase is attributable to the negative growth rates during the last two pandemic years. But as percentage to Revenue receipts, it was 56 per cent during 2017-18 while during 2021-22, it was 50 per cent, thus indicating that in real terms, the own tax revenue has not grown much like it grew in pre-covid period.
- The revenue collection under State Excise decreased by ₹489.17 crore (19.40 per cent) from ₹2,521.40 crore in 2018-19 (pre covid period) to ₹2,032.23 crore in 2021-22.
- The growth rate of revenue collection under Land revenue declined sharply from 48.41 per cent in 2020-21 to (-) 4.56 per cent in 2021-22. Out of the total collection of ₹470.84 crore in 2021-22, ₹239.48 crore (51 per cent) was the receipts collected under the Kerala Conservation of Paddy and Wetland (Amendment) Act, 2018.

2.3.3 Analysis of arrears of revenue and assessment

The arrears of revenue indicate delayed realisation of revenue due to the Government. Similarly, arrears of assessment indicate a potential revenue which is blocked due to delayed assessment. Both deprive the State of potential revenue receipts and ultimately affect the revenue deficit.

2.3.3.1 Arrears of revenue

Audit noticed that there were huge arrears of revenue in 16 cases in ten departments pending realisation as detailed in **Table 2.5**.

Table 2.5 : Arrears of revenue as on 31 March 2022

(₹ in crore)

Sl. No	Name of Department / Heads of Account	Amount
1	State Goods and Services Tax Department	13,410.12
2	Motor vehicles Department (MH 0041)	2,868.47
3	Taxes and duties on electricity (MH 0043)	3,118.50
4	Registration Department (MH 0030)	590.86
5	Forest Department (MH 0406)	377.07
6	Police Department (MH 0055)	346.64
7	Excise Department (MH 0039)	281.63
8	Mining and Geology Department *	133.23
9	Kerala State Audit Department (MH 0070)	85.72
10	Printing	58.32
11	Stationery (MH 0058)	29.95
12	Factories and Boilers (MH 0230)	2.58
13	Labour Department	1.98
14	Kerala Maritime Board (Erstwhile Department of Ports)	1.42
15	Finance Department-Arrears in interest receipts (MH 0049)	5,979.91
16	Finance Department-Arrears in Guarantee commission (MH 0075)	306.22
	Total arrears	27,592.62

Source : Information collected from Departments

* Information from seven districts awaited

In addition to the above, Land revenue department failed to furnish the details of arrears of revenue pending realisation as on 31 March 2022. The arrears

of revenue pending realisation by this department as on 31 March 2021 was ₹397.59 crore.

2.3.3.2 Arrears of Assessment

The particulars regarding the arrears in assessments, such as cases pending at the beginning of the year, cases becoming due for assessment, cases disposed off during the year and number of cases pending for finalisation at the end of the year 2020-21 were furnished by the Departments (April 2022) as given in **Appendix 2.1**.

Non-reporting of arrears by the departments concerned and improper follow up by the Revenue departments resulted in accumulation of arrears of revenue.

2.3.3.3 Evasion of tax detected by the department.

The cases of evasion of taxes detected by the department, cases finalised and demands for additional tax raised are important indicators of revenue collection efforts of the State Government. The promptness in disposal of these cases is an important indicator of performance of the departments concerned.

The details of cases of evasion of tax detected by four departments, cases finalised and demands for additional tax raised, as reported by the departments are given in **Table 2.6** below:

Table 2.6 : Details of evasion of tax

Sl No	Particulars		0030-Stamps & Registration fees	0041-Taxes on Vehicles	0406 Forestry and Wildlife	SGST
1	Number of Cases pending as on 31 March 2021		1,47,699	48	3	3,080
2	Number of Cases detected during 2021-22		9,188	6	0	21,078
3	Total		1,56,887	54	3	24,158
4	Cases in which assessment/ investigation completed and additional demand with penalty <i>etc.</i> raised	Number of cases	9,493	16	0	11,803
		Amount of demand (₹ in crore)	14.57	0.50	0	3,272.03
5	Number of cases pending for finalisation as on 31 March 2022		1,47,394	38	3	12,355

Source: Information collected from departments

The details of cases of evasion of tax detected by the departments were called for by Audit from 16 departments out of which six⁴ departments did not detect any case of evasion of tax. The details from Transport, Health, Agriculture, Land revenue, Electrical Inspectorate, Printing Department have been called for (September 2022), their remarks are awaited.

2.3.4 Non-Tax Revenue

Non-Tax revenue consists of State lotteries, dividends and profits, Forestry and wildlife, interest receipts, *etc.* as shown in **Table 2.7**. Receipts under State Lotteries is the major non-tax revenue of the State and its share in non-tax revenue was 68.20 *per cent* during the year.

Table 2.7: Main components of State's non-tax revenue

(₹ in crore)

Sl No	Revenue Heads	2017-18	2018-19	2019-20	2020-21	2021-22
1	State Lotteries	9,034.17	9,264.66	9,973.67	4,873.01	7,134.93
2	Dividends and profits	126.48	132.12	100.33	110.19	227.98
3	Forestry and Wildlife	245.42	287.21	255.85	236.61	200.57
4	Interest receipts	144.50	132.38	84.95	246.64	177.05
5	Other non-tax receipts	1,649.04	1,966.87	1,850.42	1,860.86	2,721.98
6	Non Tax revenue	11,199.61	11,783.24	12,265.22	7,327.31	10,462.51
7	Total Revenue Receipts	83,020.14	92,854.47	90,224.67	97,616.83	1,16,640.24
8	Non-tax revenue as a percentage of revenue receipts	13.49	12.69	13.59	7.51	8.97
9	GSDP	7,01,588.26	7,88,285.58	8,24,374.20	7,99,571.11	9,01,997.83
10	Non Tax revenue as a percentage of GSDP	1.60	1.49	1.49	0.92	1.16
11	Share in Non-tax revenue (in per cent)					
12	Share of Lotteries	80.67	78.63	81.32	66.50	68.20
13	Share of Dividends / Profits	1.13	1.12	0.82	1.50	2.18
14	Share of Forestry & Wildlife	2.19	2.44	2.09	3.23	1.92
15	Share of Interest receipts	1.29	1.12	0.69	3.37	1.69
16	Other non-tax receipts	14.72	16.69	15.08	25.40	26.01

Source: Statement 14 of Finance Accounts of respective years

The non-tax revenue which ranged between 7.51 *per cent* to 13.59 *per cent* of the own revenue of the State during the last five years increased by ₹3,135.20 crore (42.79 *per cent*) during 2021-22 over the previous year. This increase in non-tax revenue in 2021-22 was mainly due to increase in the receipts under the head State Lotteries (₹2,261.92 crore).

⁴ Excise Department, Stationary Department, PWD Roads, PWD Bridges, Animal Husbandry Department, Department of Lotteries

The non-tax revenue which is collected on the basis of services rendered is showing a declining trend over the years. Thus, the major potential source of revenue like Forestry and wildlife, mining *etc.*, are left untapped by the State.

2.3.4.1 State Lotteries

Lotteries yield GST on the sales value, as well as non-tax revenue on the sales value of tickets as shown in **Table 2.8** below:

Table 2.8: Revenue from State Lotteries for the period 2017-2022

(₹ in crore)

Sl No	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
1	Sales Revenue	9,034.17	9,264.66	9,973.67	4,873.01	7,134.93
2	GST	841.69	1,111.52	1,273.56	1,375.03	2,000.47
3	Total Revenue	9,875.86	10,376.18	11,247.23	6,248.04	9,135.40

Lotteries organised by GoI or Government of a State is a Union subject but the tax on sale of such lotteries is a State subject. States are allowed to organise the lotteries subject to observance of the provisions in the ‘Lotteries Regulation Act, 1998’ and rules made there under. Against the actual sale proceeds of ₹7,134.93 crore during 2021-22, the GST collected on sales value is ₹2,000.47 crore. Thus, revenue from State lotteries is a very important source of own revenue of the Government contributing ₹9,135.40 crore.

2.3.5 State’s performance in mobilisation of resources

The State’s actual tax and non-tax revenue for the year 2021-22 *vis-a-vis* projections made by XV-FC and Budget Estimates are presented in **Table 2.9** below.

Table 2.9: Tax and Non-Tax receipts *vis-a-vis* projections for the year 2021-22

(₹ in crore)

Particulars	XV-FC Projections	Budget Estimates	Actual	Percentage variation of actual over	
				FC Projections	Budget Estimates
Own Tax Revenue	64,233.00	71,833.28	58,340.52	(-)9.17	(-)18.78
Non-Tax Revenue	3,529.00	14,335.79	10,462.51	196.47	(-)27.02
Total	67,762.00	86,169.07	68,803.03	1.53	(-) 20.15

Source: XV-FC report, Annual Financial Statement and Statement 2 of Finance Accounts of 2021-22

The actual tax revenue of the State in 2021-22 was lower than the projections made in the XV-FC and budget estimates. Though the actuals of non-tax revenue was lower than the budget estimates it was higher than XV-FC projections.

As seen from the table above XV-FC projections in respect of own tax revenue was not achieved with variations being 9.17 *per cent* against FC projections and 18.78 *per cent* against budget estimates.

A major part of the State's tax and non-tax revenue is collected from few commodities like Petroleum, Alcoholic Beverages, Lotteries *etc.* As per the budget estimate of the State, the total own revenue of the State was estimated at ₹86,169.07 crore, whereas the total own revenue collected during the year was ₹68,803.03 crore which is 20.15 *per cent* less than the budget estimates. Significant decrease in the Own tax revenue of the State when compared to the budget estimate was noticed in State Goods and Services Tax (34.54 *per cent*) and State Excise (24.75 *per cent*). In respect of non-tax revenue, the major reduction was in revenue collected under State Lotteries which is less by 38.90 *per cent* of the budget estimate. Kerala State Beverages Corporation (KSBC) is the single largest source of revenue which contributed 22 *per cent* of tax revenue (₹12,706.95 crore) in 2021-22.

Table 2.10: Analysis of Own Revenue of the State for the year 2021-22 in comparison with the Budget Estimates

SI No	Particulars	Budget Estimate	Actual	Difference	
A	Own Tax Revenue		(₹ in crore)		(in per cent)
1	State Goods and Services Tax	36,922.45	24,169.81	(-)12,752.64	(-)34.54
2	Land Revenue	440.00	470.84	30.84	7.01
3	Stamps and Registration Fees	4,156.24	4,857.33	701.09	16.87
4	State Excise	2,700.67	2,032.23	(-)668.44	(-)24.75
5	Taxes on Sales, Trade etc.	23,101.38	22,487.42	(-)613.96	(-)2.66
6	Taxes on vehicles	4,179.32	4,037.10	(-)142.22	(-)3.40
7	Other Taxes and Duties on Commodities and Services	45.00	56.04	11.04	24.53
8	Others	288.22	229.75	(-)58.47	(-)20.29
9	Total (1 to 8)	71,833.28	58,340.52	(-)13,492.76	(-)18.78

Sl No	Particulars	Budget Estimate	Actual	Difference	
B	Non-Tax Revenue				
10	State Lotteries	11,677.00	7,134.93	(-)4,542.07	(-)38.90
11	Dividends and profits	109.49	227.98	118.49	108.22
12	Forestry and Wildlife	343.09	200.57	(-)142.52	(-)41.54
13	Interest receipts	214.42	177.05	(-)37.37	(-)17.43
14	Other non-tax receipts	1,991.79	2,721.98	730.19	36.66
15	Total (10 to14)	14,335.79	10,462.51	(-)3,873.28	(-)27.02
16	Grand Total (9+15)	86,169.07	68,803.03	(-)17,366.04	(-)20.15

Source: Annual Financial Statement and Statement 2 of Finance Accounts of 2021-22

2.3.6 Capital Receipts

Capital receipts comprise of public debt receipts and non-debt receipts. The share of public debt receipts to capital receipts stood at 98.73 per cent in 2021-22 as shown in Table 2.11.

Table 2.11: Trends in growth and composition of Capital receipts

(₹ in crore)

Sl No	Sources of State's Receipts	2017-18	2018-19	2019-20	2020-21	2021-22
1	Capital Receipts	24,278.53	24,004.84	24,984.68	40,810.58	42,597.17
2	Non-Debt Receipts	380.26	257.04	322.80	297.97	539.51
3	<i>Miscellaneous Capital Receipts</i>	29.28	46.50	27.48	34.15	60.27
4	<i>Recovery of Loans and Advances</i>	350.98	210.54	295.32	263.82	479.24
5	Public Debt Receipts*	23,898.27	23,747.80	24,661.88	40,512.61	42,057.66
6	<i>Internal Debt</i>	23,453.50	23,295.63	22,511.19	33,493.87	32,592.64
7	<i>Loans and advances from GoI</i>	444.77	452.17	2,150.69	7,018.74	9,465.02
8	Rate of growth of Debt Capital Receipts (in per cent)	14.20	(-) 0.63	3.85	64.27	3.81
9	Rate of growth of Non-Debt Capital Receipts (in per cent)	17.92	(-) 32.40	25.58	(-) 7.69	81.06

Sl No	Sources of State's Receipts	2017-18	2018-19	2019-20	2020-21	2021-22
10	GSDP	7,01,588.26	7,88,285.58	8,24,374.20	7,99,571.11	9,01,997.83
11	Rate of growth of GSDP (in per cent)	10.51	12.36	4.58	(-) 3.01	12.81
12	Debt Receipts/Capital Receipts (in per cent)	98.43	98.93	98.71	99.27	98.73
13	Rate of growth of Capital Receipts (in per cent)	14.26	(-) 1.13	4.08	63.34	4.38

Source: Statement 2 and 6 of Finance Accounts of respective years; for GSDP, Ministry of Statistics and Programme Implementation website as on 15/03/2022.

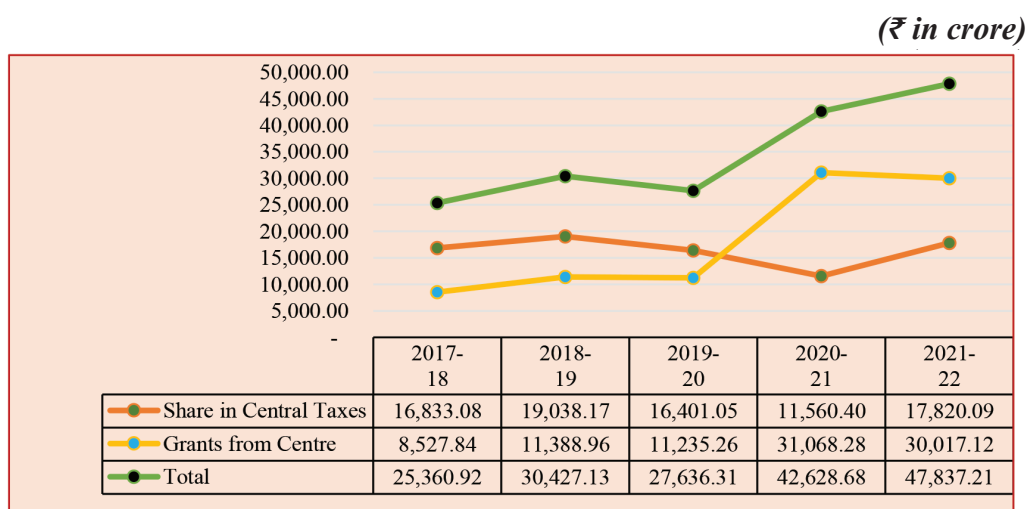
*excluding ways and means advance

Capital Receipts increased by 75.45 per cent from ₹24,278.53 crore in 2017-18 to ₹42,597.17 crore in 2021-22. During 2021-22, 76.51 per cent of Capital Receipts came from net internal debt.

2.3.7 Transfers from the Centre

Transfers from Government of India including State's share of Union taxes and Grants-in-aid from Government of India during the period from 2017-18 to 2021-22 are shown in **Chart 2.5**.

Chart 2.5: Transfers from the Centre

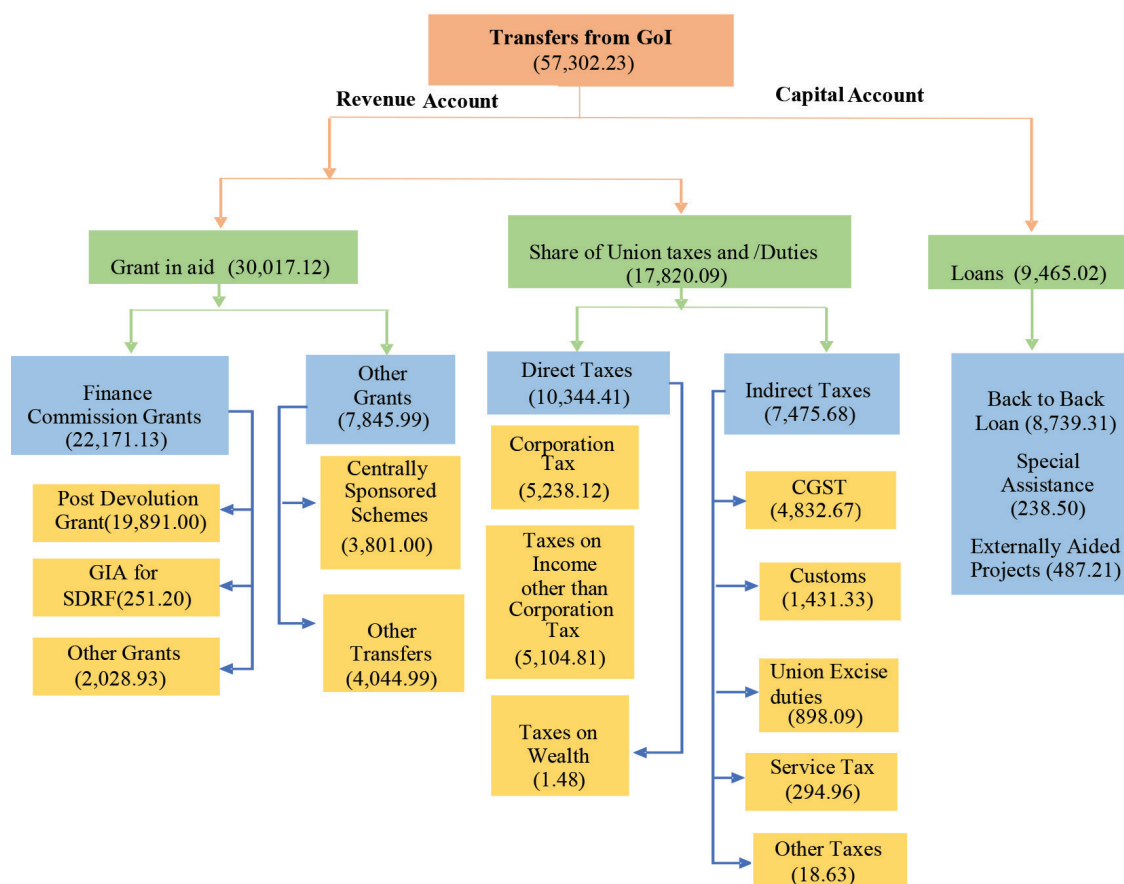


Source: Statement 2 of Finance Accounts of respective years

Component wise transfers from GoI for the year 2021-22 are given in **Chart 2.6**.

Chart 2.6: Component wise transfer of funds from the Centre

(₹ in crore)



The transfers from Centre increased by 88.63 per cent from ₹25,360.92 crore in 2017-18 to ₹47,837.21 crore in 2021-22. The share of transfers from Centre as percentage of revenue receipts peaked from 30.55 per cent in 2017-18 to 43.67 per cent in 2020-21 and marginally dipped to 41.01 per cent in 2021-22.

2.3.7.1 Share of Central Tax

The XV Finance Commission recommended an aggregate share of 41 per cent of the net proceeds of Union taxes (divisible pool) to be devolved to States in the year 2021-22. Inter se share of Kerala in the net proceeds of the taxes (divisible pool) as recommended by the Commission is 1.925 per cent out of the 41 per cent of the net proceeds of Union taxes. The XIV Finance Commission (FC) had recommended the State's share of Central taxes as 42 per cent and Kerala's share in the net proceeds of Central tax and Service tax was fixed at 2.500 per cent and 2.526 per cent respectively for the award period 2015-20. Further details of Central tax transfers to the State during the 2017-18 to 2021-22 are given in **Table 2.12**.

Table 2.12: Details of divisible share of Central Tax to the State**(₹ in crore)**

Sl No.	Head	2017-18	2018-19	2019-20	2020-21	2021-22
1	Direct taxes					
2	Corporation Tax	5,156.64	6,621.02	5,592.06	3,546.02	5,238.12
3	Taxes on Income other than Corporation Tax	4,354.40	4,876.10	4,381.76	3,642.70	5,104.81
4	Taxes on Wealth	(-) 0.15	2.44	0.25	0	1.48
5	Total of Direct Taxes (A)	9,510.89	11,499.56	9,974.07	7,188.72	10,344.41
6	Indirect taxes					
7	Central Goods and Services Tax (CGST)	239.98	4,699.14	4,654.19	3,325.63	4,832.67
8	Integrated Goods and Services Tax (IGST)	1,699.96	375.00	0	0	0
9	Customs	1,699.40	1,349.57	1,039.60	591.59	1,431.33
10	Union Excise Duties	1,776.40	897.00	722.80	380.78	898.09
11	Service Tax	1,906.55	174.00	0	62.54	294.96
12	Other Taxes ⁵	0	44.31	10.39	11.14	18.63
13	Total of Indirect Taxes (B)	7,322.19	7,538.61	6,426.98	4,371.68	7,475.68
14	Central Tax transfers (A+B)	16,833.08	19,038.17	16,401.05	11,560.40	17,820.09
15	Percentage of increase over previous year	10.56	13.10	(-) 13.85	(-) 29.51	54.15
16	Percentage of Central tax transfers to Revenue Receipts	20.28	20.50	18.18	11.84	15.28

Source: Statement 3 of Finance Accounts of respective years

The Central tax transfers stood at ₹17,820.09 crore in 2021-22, registering an increase of 54.15 per cent (₹6,259.69 crore) over the previous year, due to increase in the direct taxes and indirect taxes by ₹3,155.69 crore (43.90 per cent) and ₹3,104.00 crore (71 per cent) respectively. Of the total Central tax transfers, the direct tax transfers were ₹10,344.41 crore and indirect tax transfers was ₹7,475.68 crore which included the Central Goods and Services Tax of ₹4,832.67 crore. The components received under the GST regime, increased by 45.32 per cent over the previous year.

2.3.7.2 Grants-in-aid from GoI

Grant-in-aid (GIA) received from the Government of India contributed to 25.73 per cent of the revenue receipts of the State during 2021-22. Details of GIA received by the State Government from GoI during 2017-18 to 2021-22 is given in **Table 2.13**.

⁵ Include Other Taxes on Income and Expenditure, Other Taxes and Duties on commodities and Services.

Table 2.13 : Grants-in-aid from Government of India*(₹ in crore)*

SI No	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
1	Grants for Plan Schemes	(-)0.47	(-)0.97	--	--	(-) 0.74
2	Grants for Centrally Sponsored Schemes	3,213.58	3,771.07	3,262.65	5,141.92	3,801.74
3	Finance Commission Grants	3,182.04	1,646.22	2,343.01	18,048.80	22,171.13
4	Other transfers/ Grants to States/ Union Territories with Legislature	2,132.69	5,972.64	5,629.60	7,877.56	4,044.99
5	Total	8,527.84	11,388.96	11,235.26	31,068.28	30,017.12
6	Percentage of increase over the previous year	0.21	33.55	(-) 1.35	176.52	(-) 3.38
7	Percentage of GIA to Revenue Receipts	10.27	12.27	12.45	31.83	25.73

Source: Statement 3 of Finance Accounts of respective years.

During the year 2021-22 the Grants-in-aid from GoI decreased by ₹1,051.16 crore (3.38 per cent) over the previous year. The Finance Commission grants increased by ₹4,122.33 crore, Grants for Centrally Sponsored Schemes and other transfers/ Grants to States/ Union Territories with Legislature decreased by ₹1,340.18 crore and ₹3,832.57 crore respectively.

2.3.7.3 Fifteenth Finance Commission award amount in 2021-22

The Fifteenth Finance Commission (XV-FC) was constituted by the President of India under Article 280 of the Constitution of India and was mandated to make recommendations on i) the distribution of net proceeds of taxes between the Union and the States, ii) the Principles which should govern the Grants-in-aid of the revenues of the States and iii) the measures needed to augment the Consolidated Fund of the State to supplement the resources of Local Bodies.

Later, the XV-FC was mandated to submit two reports, one for the year 2020-21 and the final Report for the period 2021-22 to 2025-26. The XV-FC submitted its first Report covering the financial year 2020-21 to the President on 5th December 2019.

The Grants-in-aid for the State of Kerala recommended by the XV-FC under Article 275 of the Constitution of India for 2021-22 amounted to ₹22,559 crore.

State's share in Union taxes and duties: Actual devolution *vis-a-vis* Finance Commission projections are given in **Table 2.14**. When compared to the pre covid period (2018-19), the transfer from Centre during 2021-22 increased by 57.22 *per cent*. Transfer from Centre constituted 41.01 *per cent* of the total revenue receipts.

Table 2.14 : State's share in Union taxes and duties: Actual devolution *vis-a-vis* Finance Commission projections

(₹ in crore)

Sl No.	Year	Finance Commission projections	Projections in FCR	Actual tax devolution	Difference	
					Amount	In <i>per cent</i>
1	2015-16	42 per cent of net proceeds of all shareable taxes excluding service tax and 2.526 per cent of net proceeds of sharable service tax (As per recommendations of XIV-FC)	14,482	12,691	(-)1,791	(-) 12.37
2	2016-17		16,711	15,225	(-)1,486	(-) 8.89
3	2017-18		19,308	16,833	(-)2,475	(-)12.82
4	2018-19		22,336	19,038	(-)3,298	(-)14.77
5	2019-20		25,869	16,401	(-)9,468	(-)36.60
6	2020-21	41 <i>per cent</i> of net proceeds of Union taxes (As per recommendations of XV-FC)	16,616	11,560	(-)5,056	(-)30.43
7	2021-22		12,679	17,820	5,142	40.56

Source: Reports of the XIV-FC, XV-FC and Statement 2 of Finance Accounts.

The State was not able to achieve the projections made by the Finance Commission in any of the years since 2015-16 except during 2021-22. The percentage of short collection ranged from nine to thirty-seven *per cent* which is indicative of lapses in planning and mobilisation of revenue. The projections of FC enable the State to improve their fiscal position.

The XV-FC recommended transfer of funds in respect of four types of grants viz. Revenue deficit grant, grants to local bodies, disaster management grants and grant for health sector. The Grants-in-aid recommended by XV-FC and the grants released to the State is shown in **Table 2.15**.

Table 2.15: Grants recommended by XV-FC for the State of Kerala in 2021-22*(₹ in crore)*

SI No.	Particulars	Award amount for 2021-22	Amount Released
1	Revenue deficit grant	19,891.00	19,891.00
2	Grants to Local Bodies	1,795.00	1,539.00
3	Disaster Management Grants	314.00	314.00
4	Grant for Health Sector	559.00	427.13
	Total	22,559.00	22,171.13

Source: Statement 2 of Finance Accounts of respective years

During the award period 2021-22, the State received an amount of ₹22,171.13 crore and the shortfall in release is ₹387.87 crore (Local bodies ₹256 crore and Health Sector ₹131.87 crore) than the amount recommended by the XV-FC.

The State Government replied (February 2023) that an amount of ₹350.30 crore was released by GoI in 2022-23.

2.4 Application of Resources

The State Government is vested with the responsibility of improving the quality of life of its citizens by spending its resources on health, education, agriculture, industry, infrastructure *etc.* An analysis of growth and composition of expenditure is detailed in the succeeding paragraphs.

2.4.1 Trend of expenditure

State's total expenditure consists of Revenue Expenditure, Capital Outlay and disbursement of loans and advances as given in the **Table 2.16**.

The total expenditure showed a steady increase from ₹1,10,237.81 crore in 2017-18 to ₹1,63,225.53 crore in 2021-22, except 2019-20. The annual growth rate increased from 7.67 *per cent* to 17.53 *per cent* during the period. The decline in 2019-20 can be attributed to various austerity measures in the wake of Covid-19 like stoppage of leave-encashment *etc.* The growth of capital expenditure in 2019-20 (13.78 *per cent*) was due to the additional expenditure for Jal Jeevan mission, Rebuild Kerala *etc.*

Table 2.16: Total Expenditure and its compositions

(` in crore)

Sl No.	Parameters	2017-18	2018-19	2019-20	2020-21	2021-22
1	Total Expenditure (TE)	1,10,237.81	1,20,069.82	1,14,384.94	1,38,884.49	1,63,225.53
2	Change (in per cent)	7.67	8.92	(-4.73)	21.42	17.53
3	Revenue Expenditure (RE)	99,948.35	1,10,316.39	1,04,719.92	1,23,446.33	1,46,179.51
4	Change (in per cent)	9.72	10.37	(-5.07)	17.88	18.42
5	Capital Expenditure (CE)	8,748.87	7,430.54	8,454.80	12,889.65	14,191.73
6	Change (in per cent)	(-13.60)	(-15.07)	13.78	52.45	10.10
7	Loans and Advances	1,540.59	2,322.89	1,210.22	2,548.51	2,854.29
8	Change (in per cent)	32.78	50.78	(-47.90)	110.58	12.00

Source: Statement 2 of Finance Accounts of respective years

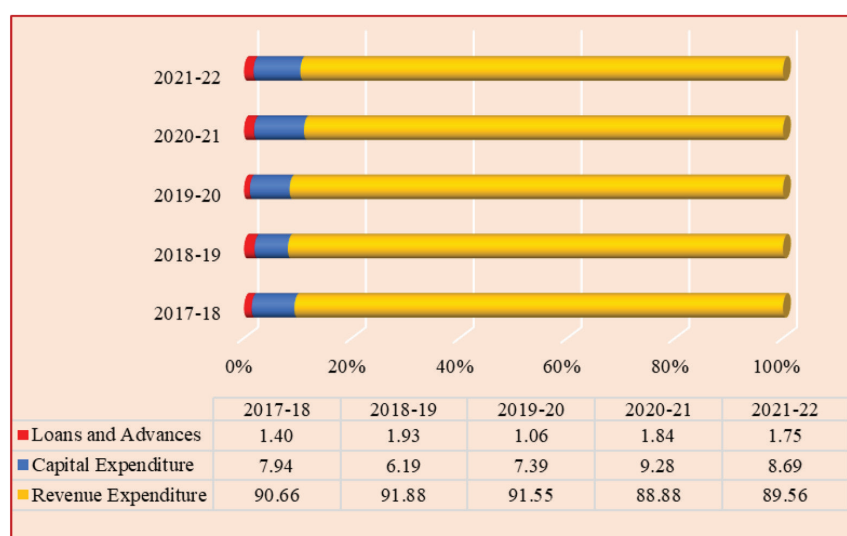
In 2021-22, the rate of growth of revenue expenditure was 18.42 per cent while that of Capital expenditure was 10.10 per cent.

2.4.1.1 Trend of growth of Components of Expenditure

The focus of the expenditure remained on revenue expenditure rather than the development activities and disbursement of loans and advances to PSUs, ABs, other bodies *etc.*, over the years.

The share of Revenue Expenditure, Capital Expenditure and Loans and Advances for the years 2017-18 to 2021-22 are given in **Chart 2.7**.

Chart 2.7: Total Expenditure: Trends in share of its components



Source: Statement 2 of Finance Accounts of respective years.

Table 2.17: Expenditure in relation to GSDP

Sl No	Parameters	2017-18	2018-19	2019-20	2020-21	2021-22
1	GSDP (₹ in crore)	7,01,588.26	7,88,285.58	8,24,374.20	7,99,571.11	9,01,997.83
2	TE/GSDP	15.71	15.23	13.88	17.37	18.10
3	RE/GSDP	14.25	13.99	12.70	15.44	16.21
4	CE/GSDP	1.25	0.94	1.03	1.61	1.57
5	Loans and advances/GSDP	0.22	0.29	0.15	0.32	0.32

Source: Compiled from Finance Accounts of respective years; for GSDP Ministry of Statistics and Programme Implementation website as on 15/03/2022.

In 2021-22, though the TE to GSDP ratio of the State increased to 18.10 *per cent*, the capital expenditure to GSDP ratio declined during the period.

2.4.2 Revenue Expenditure

Revenue expenditure is incurred to maintain the current level of services and to pay for the past obligation. As such, it does not result in any addition to the State's infrastructure and service network.

The overall Revenue Expenditure, its rate of growth, its ratio to Total Expenditure and buoyancy *vis-a-vis* GSDP and Revenue Receipts are indicated in **Table 2.18** and the sectoral distribution of Revenue expenditure pertaining to 2021-22 is given in **Chart 2.8**.

Table 2.18: Revenue expenditure – Basic parameters

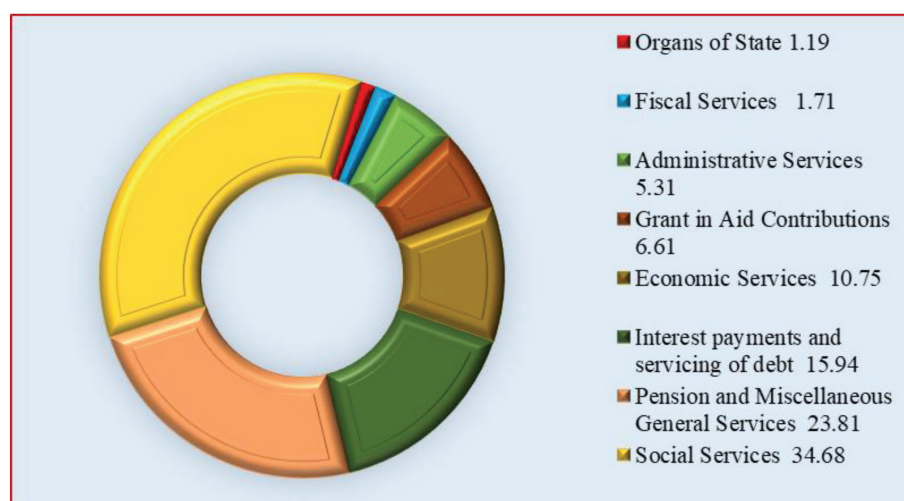
Particulars	(₹ in crore)				
	2017-18	2018-19	2019-20	2020-21	2021-22
Total Expenditure (TE)	1,10,237.81	1,20,069.82	1,14,384.94	1,38,884.49	1,63,225.53
Revenue expenditure (RE)	99,948.35	1,10,316.39	1,04,719.92	1,23,446.33	1,46,179.51
Rate of Growth of RE (<i>per cent</i>)	9.72	10.37	(-)5.07	17.88	18.42
Revenue Receipts (RR)	83,020.14	92,854.47	90,224.67	97,616.83	1,16,640.24
Rate of growth of Revenue Receipts	9.80	11.85	(-)2.83	8.19	19.49
GSDP	7,01,588.26	7,88,285.58	8,24,374.20	7,99,571.11	9,01,997.83
Rate of growth of GSDP	10.51	12.36	4.58	(-)3.01	12.81
Revenue expenditure as percentage to TE	90.67	91.88	91.55	88.88	89.56
RE as percentage of RR	120.39	118.81	116.07	126.46	125.33
RE/GSDP (<i>per cent</i>)	14.25	13.99	12.70	15.44	16.21

Buoyancy of Revenue Expenditure with					
GSDP (ratio)	0.92	0.84	(-)1.11	(-) 5.94	1.44
Revenue Receipts (ratio)	0.99	0.88	1.79	2.18	0.94

Source: Finance Accounts of respective years; for GSDP Ministry of Statistics and Programme Implementation website as on 15/03/2022.

Chart 2.8: Sector-wise distribution of revenue expenditure

(in per cent)



Source: Finance Accounts

- The expenditure pattern of the State revealed that, revenue expenditure hovered around 89 to 92 *per cent* of the total expenditure during the period (2017-18 to 2021-22) leaving inadequate resources for creation of assets.
- The share of revenue expenditure in total expenditure during 2021-22 was 89.56 *per cent* compared to 88.88 *per cent* in 2020-21, indicating no improvement in priority assigned for capital expenditure during the year.
- The revenue receipts were not sufficient to meet its revenue expenditure during the year. The State had to resort to borrowed funds for meeting the revenue expenditure which is not a good indicator of a prudent fiscal path.
- The revenue expenditure for the year 2021-22 increased by ₹22,733.18 crore (18.42 *per cent*) when compared to 2020-21.
- When compared to 2020-21, during 2021-22 Social Services (Revenue Sector) increased by ₹5,863.17 crore (13.08 *per cent*) mainly due to increase in expenditure in the components 'Education, Sports, Art and Culture' (50.34 *per cent*), 'Health and Family Welfare' (37.03 *per cent*),

and ‘Labour & Labour Welfare’(11.25 per cent) which was partly set off by decrease in expenditure in the components ‘Water Supply, sanitation, Housing and Urban Development’ (30.22 per cent), Information and Broad casting (12.45 per cent), Welfare of SC/ ST (2.45 per cent), Social Welfare and Nutrition (34.97 per cent) and Others (35.62 per cent).

- During 2021-22, there was increase under General Services (Revenue Sector) by 39.22 per cent (₹19,749.28 crore) when compared to 2020-21. Expenditure under all the components in General Services increased during the year viz. ‘Pension and Miscellaneous General Services’(64.19 per cent), ‘Administrative Services’(51.80 per cent), ‘Organs of State’ (34.22 per cent), ‘Fiscal Services’ (40.56 per cent), interest payment and servicing of debt (11.10 per cent).
- Economic Services (Revenue Sector) decreased by ₹3,046.91 crore (16.24 per cent) during the year 2021-22.
- The buoyancy of revenue expenditure with reference to GSDP is 1.44 per cent and with reference to revenue receipts is 0.94 per cent.

Table 2.19 shows the eight major heads of account where there was significant variation (₹1,000 crore and above) with regard to revenue expenditure of the State during the current year and the previous year.

Table 2.19: Variations in Revenue Expenditure during 2021-22 compared to 2020-21

(₹ in crore)					
Sl No.	Major Head of Account	2020-21	2021-22	Increase (+)/ Decrease(-)	Variation (in per cent)
1	2049 - Interest Payment	20,975.36	23,302.82	2,327.46	11.10
2	2055 - Police	3,245.58	4,962.07	1,716.49	52.89
3	2071 - Pension and Other Retirements Benefits	18,942.85	26,898.69	7,955.85	42.00
4	2202 - General Education	15,199.63	23,258.38	8,058.74	53.02
5	2075 - Miscellaneous General Services	2,257.44	7,910.31	5,652.87	250.41
6	2210 - Medical and Public Health	8,013.18	10,910.66	2,897.48	36.16
7	2235 - Social Security and Welfare	13,572.74	8,661.04	(-) 4,911.70	(-)36.19
8	2408 - Food, Storage and Warehousing	5,955.04	3,656.16	(-) 2,298.87	(-)38.60

Source: Statement 15 of Finance Accounts

Increase in Revenue Expenditure in all the above Heads of Account is mainly due to the increase in Salaries and Pension, consequent on revision of pay and allowances of State Government employees. The increase in Major head '2075' is mainly due to increase of expenditure under 'Lotteries' by ₹2,037.34 crore.

2.4.2.1 Committed expenditure

Interest payments, expenditure on salaries and wages, pension *etc.* have the first charge on the Government resources as committed expenditure. Higher the committed expenditure leaves the Government with lesser flexibility for development sector.

Table 2.20 presents the trends in the components of committed expenditure during 2017-18 to 2021-22. Percentage of component wise committed expenditure in Revenue Expenditure during 2017-18 to 2021-22 is given in **Chart 2.9**.

Table 2.20: Components of Committed Expenditure

(₹ in crore)

Sl No	Components of Committed Expenditure	2017-18	2018-19	2019-20	2020-21	2021-22
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Salaries & Wages	32,242.99 (13.64)	32,520.66 (0.86)	32,942.28 (1.30)	28,767.46 (-12.67)*	45,780.08 (59.14)
2	Expenditure on Pensions	19,938.41 (30.51)	19,011.94 (-4.65)	19,064.29 (0.28)	18,942.85 (-0.64)	26,898.69 (42.00)
3	Interest Payments	15,119.93 (24.79)	16,747.92 (10.77)	19,214.70 (14.73)	20,975.36 (9.16)	23,302.82 (11.10)
4	Total	67,301.33 (20.68)	68,280.52 (1.45)	71,221.27 (4.31)	68,685.67 (-3.56)	95,981.59 (39.74)
As a percentage of Revenue Receipts						
5	Revenue Receipts (RR)	83,020.14 (9.80)	92,854.47 (11.85)	90,224.67 (-2.83)	97,616.83 (8.19)	1,16,640.24 (19.49)
(a)	State's Own Revenue	57,659.22 (11.15)	62,427.34 (8.27)	62,588.36 (0.26)	54,988.15 (-12.14)	68,803.03 (25.12)
(b)	Revenue from Centre	25,360.92 (6.85)	30,427.13 (19.98)	27,636.31 (-9.17)	42,628.68 (54.25)	47,837.21 (12.22)
6	Salaries & Wages	38.84	35.02	36.51	29.47	39.25
7	Expenditure on Pensions	24.02	20.47	21.13	19.40	23.06
8	Interest Payments	18.21	18.04	21.30	21.49	19.98
9	Total	81.07	73.53	78.94	70.36	82.29

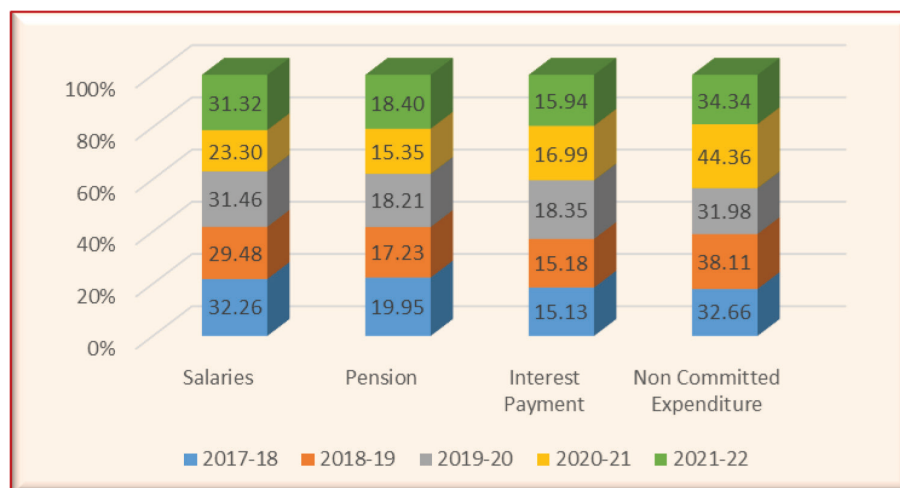
Sl No	Components of Committed Expenditure	2017-18	2018-19	2019-20	2020-21	2021-22
As a percentage of Revenue Expenditure						
10	Revenue expenditure (RE)	99,948.35 (9.72)	1,10,316.39 (10.37)	1,04,719.92 (-5.07)	1,23,446.33 (17.88)	1,46,179.51 (18.42)
11	Salaries & Wages	32.26	29.48	31.46	23.30	31.32
12	Expenditure on Pensions	19.95	17.23	18.21	15.35	18.40
13	Interest Payments	15.13	15.18	18.35	16.99	15.94
14	Total	67.34	61.90	68.01	55.64	65.66

Source: Statement 2 and 4 of Finance Accounts of respective years.
Figures in brackets shows the yearly percentage change in the amount.

* The decrease in salaries and pension during 2020-21 is attributed to deferment of pay and allowances and freezing of leave surrender during the Pandemic period.

Chart 2.9: Share of Salaries, Pension & Interests in RE

(in per cent)



Source: Compiled from Finance Accounts of respective years.

Salaries, Pension and Interests expenditure constituted over 65.66 per cent of the revenue expenditure of the State in 2021-22, while it accounted for over 82.29 per cent of the revenue receipts during the year. As a percentage of revenue expenditure, the committed expenditure showed a fluctuating trend from 2017-18 to 2021-22. The committed expenditure increased by ₹27,295.92 crore (39.74 per cent) in 2021-22 as compared to the previous year.

The components of committed expenditure are discussed in the succeeding paragraphs.

Salaries and wages

Expenditure on Salaries & wages increased by ₹17,012.62 crore (59.14 *per cent*) during the year 2021-22 when compared to 2020-21. It contributed to 31.32 *per cent* of the total revenue expenditure. Salaries and wages as a percentage of revenue receipts increased from 29.47 *per cent* in 2020-21 to 39.25 *per cent* in 2021-22.

The drastic increase in salaries and wages (59.14 *per cent*) and pension (42 *per cent*) is due to the revision of pay and allowances and pension (paid from April 2021), as per the 11th State pay revision commission recommendations. The State revises the pay and allowances of its employees once in five years and the next revision is due in the year 2024. The increase in financial burden on account of salaries and pension in 2021-22 was ₹24,968.46 crore. Thus, the pay revision has scaled up the committed expenditure from ₹47,710.31 crore to ₹72,678.77 crore and the own revenue of the State of ₹68,803.03 crore was not sufficient to meet the committed expenditure ₹72,678.77 crore on Salary, wages and Pension. Hence, the Government has to resort to borrowings to meet its committed liability, which has a consequent impact on the interest payment as well. The interest payment of the State had increased by 54 *per cent* during the last five years. Thus, the overall committed expenditure involving payment of salaries and wages, pension and interest payments mounted from ₹68,685.67 crore to ₹95,981.59 crore.

Pensions

The expenditure during the year 2021-22 on pension and other retirement benefits to employees of State Government, Aided institutions, personal staff of Ministers *etc.* was ₹26,898.69 crore (23.06 *per cent* of Revenue Receipts), showing an increase of ₹7,955.84 crore when compared to ₹18,942.85 crore for the year 2020-21. This increase was due to revision of pension on account of pay revision taking place once in every five years.

The expenditure on pensions during 2021-22 includes ₹11,966.12 crore to 3,25,697 State Government pensioners, ₹4,785.35 crore to 1,07,690 pensioners of State Aided institutions, ₹8.22 crore to 1,386 Personal Staff of Ministers, Leader of opposition and Government Chief Whip *etc.*

Interest Payments

Interest payments of the State comprise interest on internal debt including Market Loans, National Small Savings Fund *etc.*, interest on small savings, provident funds *etc.* including deposit in Treasury Savings bank accounts, interest on Loans and Advances from GoI and interest on Reserve Funds.

Interest payments increased from ₹20,975.36 crore in 2020-21 to ₹23,302.82 crore in 2021-22. The increase in interest paid on market loan stood at 5.75 per cent (₹1,340.52 crore) of the total interest payment; while on Small Savings, Provident Fund etc. accounted for 4.50 per cent (₹1,049.78 crore) of the total interest payment.

During 2021-22, interest payment on market loans was 57.60 per cent of the total interest payments while interest on Small Savings, Provident Fund etc. stood at 31.80 per cent of the total interest payments. The expenditure on interest payment as percentage of revenue receipts decreased from 21.49 per cent in 2020-21 to 19.98 per cent in 2021-22 due to increase in Revenue receipts by ₹19,023.41 crore during the year.

2.4.2.2 Undischarged liabilities in National Pension System

The Government of Kerala introduced the Defined Pension Scheme Contribution, (NPS) to all new entrants joining the State Government Service on or after 01 April 2013.

As per the guidelines of the Scheme, the employee contributes 10 per cent of his basic pay and dearness allowance every month which is matched by the State Government and the entire amount is transferred to the designated fund manager through National Securities Depositories Limited (NSDL)/ Trustee Bank. The employees' and employer's contribution are initially credited to Public Account and then transferred to designated fund manager through NSDL/ Trustee Bank.

During the year 2021-22, the State Government collected ₹1,668.41 crore on account of Government's contribution and as share of employees' contribution (₹833.42 crore) towards NPS in respect of 1,69,636 employees. The State Government transferred/ remitted ₹1,668.23 crore to NSDL leaving a balance of ₹0.35 crore under the Head of Account as on 31 March 2022.

During the year 2021-22, ₹830.85 crore has been debited from the revenue expenditure head '2071-00-117' towards Government contribution to NPS, but the amount credited under the Public Account under '8342-00-117' during the year was ₹834.99 crore. Excess credit of ₹4.14 crore to the Public Account needs to be reconciled.

As per Finance Accounts, ₹0.01 crore was the interest due on the balance amount. Non-payment of interest resulted in understatement of revenue and fiscal deficit by ₹0.01 crore. Uncollected, unmatched and untransferred amounts, with accrued interest, represent outstanding liabilities under the New Pension Scheme.

2.4.2.3 Subsidies

Subsidies are the benefits offered by the Government to the people and it results in reduction in value of the subsidised product. The reduction in value is reflected in the State Accounts as revenue expenditure. The subsidies as a percentage of both revenue receipts and revenue expenditure recorded a decreasing trend from 2017-18 to 2021-22 except for the year 2020-21. The expenditure on payment of subsidies decreased by ₹2,393.51 crore from ₹6,547.48 crore in 2020-21 to ₹4,153.97 crore in 2021-22 as detailed in **Table 2.21** below:

Table 2.21: Expenditure on subsidies during 2017-2022

<i>(₹ in crore)</i>						
Sl No	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
1	Subsidies	1,583.84	1,663.01	1,429.01	6,547.48	4,153.97
2	Revenue Receipts	83,020.14	92,854.47	90,224.67	97,616.83	1,16,640.24
3	Revenue Expenditure	99,948.35	1,10,316.39	1,04,719.92	1,23,446.33	1,46,179.51
4	Subsidies as percentage of Revenue Receipts	1.91	1.79	1.58	6.71	3.56
5	Subsidies as percentage of Revenue Expenditure	1.58	1.51	1.36	5.30	2.84

Source: Statement 2 of Finance Accounts of respective years

The main items of subsidies given during the year 2021-22 included Grant to Kerala State Civil Supplies Corporation Limited for market intervention operations (₹1,825.19 crore), Ration Subsidy (₹1,068.16 crore), Paddy Procurement through Kerala State Civil Supplies Corporation and Other Agencies. (₹759.86 crore), Interest Subsidy to Kerala Urban and Rural Development Finance Corporation (KURDFC) towards the loan availed from Housing & Urban Development Corporation (HUDCO) for the implementation of Life-Parppida Mission (₹184.01 crore).

2.4.2.4 Financial assistance to Local Bodies and Others

Financial assistance is provided by the State Government to Local Bodies and Other Institutions by way of Grants-in-aid and loans to meet the pay and allowances, other miscellaneous expenses and for creation of capital assets. The quantum of assistance provided by way of grants and loans to Local Bodies, and other institutions during 2017-18 to 2021-22 is presented in **Table 2.22**.

Table 2.22: Financial assistance to Local Bodies, Educational Institutions etc.*(₹ in crore)*

SI No	Financial Assistance to Institutions	2017-18	2018-19	2019-20	2020-21	2021-22
1	(A) Local Bodies					
2	Municipal Corporation and Municipalities	3,178.62	3,287.46	2,296.24	3,653.02	2,584.33
3	Panchayati Raj Institutions	11,335.87	10,426.56	5,711.11	8,692.14	7,601.76
4	Total (A)	14,514.49	13,714.02	8,007.35	12,345.16	10,186.09
5	(B) Others					
6	Public Sector Undertakings (Government Companies and Statutory Corporations)	1,862.03	1,879.81	1,489.07	2,966.98	3,584.48
7	Educational Institutions (Universities)	1,483.81	1,524.64	1,564.63	1,569.61	1,713.01
8	Cooperative Institutions	76.56	64.70	50.50	193.97	139.56
9	Other Institutions	1,616.71	2,199.45	1,020.49	3,429.13	3,489.70
10	Total (B)	5,039.11	5,668.60	4,124.69	8,159.69	8,926.75
11	Total (A +B)	19,553.60	19,382.62	12,132.04	20,504.85	19,112.84
12	Revenue Expenditure	99,948.35	1,10,316.39	1,04,719.92	1,23,446.33	1,46,179.51
13	Assistance as percentage of Revenue Expenditure	19.56	17.57	11.59	16.61	13.07

Source: Statement 7 and 10 of Finance Accounts of respective years

As can be seen from the table above, financial assistance to PSUs and other Institutions increased over the five-year period respectively from ₹1,862.03 crore and ₹1,616.71 crore in 2017-18 to ₹3,584.48 crore and ₹3,489.70 crore in 2021-22.

The financial assistance to local bodies and other institutions decreased from ₹20,504.85 crore in 2020-21 to ₹19,112.84 crore in 2021-22. The table above shows that the percentage of assistance with reference to revenue expenditure was 13.07 *per cent* during 2021-22 as compared to 16.61 *per cent* in 2020-21. Grants in respect of Local Bodies during 2021-22 decreased when compared to the previous year.

2.4.2.5 Allocation of expenditure booked under Centrally Sponsored Scheme

The total expenditure booked under Centrally Sponsored Schemes (CSS) as on 31 March 2022 is ₹3,859.50 crore (Revenue expenditure ₹ 2,632.03 crore and Capital expenditure ₹1,227.47 crore), which includes expenditure out of Central Assistance and State share for CSS.

2.4.2.6 State Finance Commission

The State Finance Commission is constituted by Government of Kerala⁶ to study the financial position of the Panchayats and Urban Local Bodies and to make recommendations to the Governor.

Starting with the first SFC formed in 1994, State is in the middle of the sixth State Finance Commission (latest) which started functioning from November 2019. The Finance Commission would review the financial position of the Panchayats and Municipalities and make recommendations on devolution aspects and non-devolution aspects which were to be given by December 2020 and August 2021 respectively.

Pursuant to the above, the sixth SFC made recommendations vide first report of December 2020 and second report of September 2021.

State Government approved the recommendations of the second report of sixth State Finance Commission on 22 June, 2022 with amendments.

2.4.3 Capital Expenditure

Capital Expenditure is the expenditure on creation of fixed infrastructure assets, such as buildings, roads, bridges *etc.* The overall capital expenditure, its growth over previous year and its percentage to GSDP during the last five years (2017-2022) are indicated in **Table 2.23**.

Table 2.23 : Trend of Capital Expenditure during the last five years (2017-22)

Particulars	(₹ in crore)				
	2017-18	2018-19	2019-20	2020-21	2021-22
Capital expenditure (CE)	8,748.87	7,430.54	8,454.80	12,889.65	14,191.73
Growth in CE (in per cent)	(-)13.60	(-)15.07	13.78	52.45	10.10
Total expenditure	1,10,237.81	1,20,069.82	1,14,384.94	1,38,884.49	1,63,225.53
CE/TE in per cent	7.94	6.19	7.39	9.28	8.69
GSDP	7,01,588.26	7,88,285.58	8,24,374.20	7,99,571.11	9,01,997.83
CE/GSDP	1.25	0.94	1.03	1.61	1.57

Source: Statement 2 of Finance Accounts of respective years

Capital expenditure increased from ₹8,748.87 crore in 2017-18 to ₹14,191.73 crore in 2021-22 except for a decrease in 2018-19. Of the total capital expenditure of ₹14,191.73 crore incurred in 2021-22, ₹3,373.66 crore (23.77 per cent) was spent on 'Other General Economic Services' followed by ₹3,270.99 crore

⁶ Under clause 1 of Article 243 (I) and (Y) of the Constitution of India read with sections 186 of the Kerala Panchayat Raj Act, 1994 and Section 205 of the Kerala Municipalities Act, 1994

(23 per cent) on Roads and Bridges. The capital expenditure incurred over these five years ranged between 0.94 to 1.61 per cent of the GSDP.

Capital Expenditure (₹14,191.73 crore) during the current year increased by ₹1,302.08 crore (10.10 per cent) over the previous year (₹12,889.65 crore).

2.4.3.1 Major changes in Capital Expenditure

Significant variations under various Heads of Account with regard to Capital Expenditure of the State during the current year and the previous year is given in **Appendix 2.2**.

The Capital expenditure on 'Education, Sports, Arts and Culture' was at variance when compared to the previous year by ₹102.02 crore which was attributed mainly due to increase in the expenditure on infrastructure development such as buildings, hostels *etc.* of educational institutions.

There was a surge in the capital expenditure under the component 'Water Supply and Sanitation' in 2021-22 as compared to previous year. This was due to the increase in the expenditure of ₹1,045.65 crore under the project 'Jal Jeevan Mission ((NRDWP)-50% CSS).

The major increase in the outlay on Other General Economic Services was attributed to assistance to KIIFB on repayment and redemption of obligations amounting to ₹322.07 crore during 2021-22. Further, Government incurred an additional expenditure of ₹286.70 crore for post-flood projects under Rebuild Kerala Initiative Project. A detailed analysis on Rebuild Kerala Initiative is included in Chapter III of this report.

2.4.3.2 Quality of Capital Expenditure

This section presents an analysis of Investments and other Capital Expenditure undertaken by the Government.

In the post-Fiscal Responsibility and Budget Management framework, the State is expected to keep its fiscal deficit (and borrowings) not only at low levels but also meet its capital expenditure/ investment (including loans and advances) requirements from its own sources of revenue. In addition, in a transition to complete dependence on market-based resources, the State Government is required to initiate measures to earn adequate returns on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidies. This section presents the broad financial analysis of Investments and other Capital Expenditure undertaken by the Government during the current year *vis-a-vis* previous years. **Table 2.24** shows the return on investments from 2017-18 to 2021-22.

Table 2.24: Return on investments

	(₹ in crore)				
Investment/ return/ cost of borrowings	2017-18	2018-19	2019-20	2020-21	2021-22
Investment at the end of the year (₹ in crore)	7,981.81	8,246.22	8,775.35	9,354.02	9,767.48
Return (₹ in crore)	126.48	132.12	100.33	110.19	227.98
Return (in per cent)	1.58	1.60	1.14	1.18	2.33
Average rate of interest on Government Borrowings (in per cent) ⁷	7.48	7.34	7.58	7.31	7.00
Difference between interest rate and return (in per cent)	5.90	5.74	6.44	6.13	4.67
Difference between interest on Government borrowings and return on investment (₹ in crore) ⁸	470.93	473.33	565.13	573.40	456.14

Source: Statement 8 of Finance Accounts of respective years.

During 2021-22 the Government invested ₹37.46 crore in Statutory Corporations, ₹278.28 crore in Government Companies, ₹105.11 crore in Joint Stock Companies and ₹34.49 crore in Co-operative Banks and Societies. Progressive expenditure on investments decreased by ₹76.02 crore in Government Companies and ₹60.27 crore in Co-operative Banks and Societies. The State Government's investment increased by ₹1,785.67 crore from ₹7,981.81 crore in 2017-18 to ₹9,767.48 crore in 2021-22.

The average return on investments during 2017-22 in these Companies/ Corporations / Institutions was 1.57 per cent while the Government paid an average interest of 7.34 per cent on its borrowing during the same period.

2.4.3.3 Loans and Advances by the State

In addition to investments in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operative Societies, the Government also provides loans and advances to these institutions. Table 2.25 presents the status of loans and advances disbursed, recoveries of loan and interest received *vis-a-vis* interest paid by the State Government on its borrowings during 2017-18 to 2021-22.

⁷ Interest Payment/ [(Amount of previous year's Fiscal Liabilities + Current year's Fiscal Liabilities) / 2] *100.

⁸ Investment at the end of the year *Difference between interest rate and return.

Table 2.25: Quantum of loans disbursed and recovered during five years

(` in crore)

Sl No.	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
1	Opening Balance of loans outstanding	13,877.23 ⁹	15,163.04 ¹⁰	16,557.18 ¹¹	17,472.08	19,725.39 ¹²
2	Amount advanced during the year	1,540.59	2,322.89	1,210.22	2,548.51	2,854.29
3	Amount recovered during the year	350.98 ¹³	210.54 ¹⁴	295.32 ¹⁵	263.82 ¹⁶	479.24 ¹⁷
4	Closing Balance of the Loans Outstanding	15,066.84	17,275.39	17,472.08	19,756.77	22,100.44
5	Net addition	1,189.61	2,112.35	914.90	2,284.69	2,375.05
6	Interest received	37.53	40.81	50.59	42.83	53.36
7	Interest rate on loans and Advances given by the Government ¹⁸ (in per cent)	0.26	0.25	0.30	0.23	0.26
8	Rate of Interest paid on the outstanding borrowings of the Government (in per cent)	7.48	7.34	7.58	7.31	7.00
9	Difference between the rate of interest paid and interest received (in per cent)	7.22	7.09	7.28	7.08	6.74

Source: Statement 7 of Finance Accounts of respective years.

2.4.3.4 Arrears in recoveries of loans

Government gives loans and advances to various departments/ institutions by raising loans from various sources including market loans. There is also

⁹ Difference of ₹0.71 crore with reference to previous year's closing balance was on account of *pro forma* adjustments vide footnote (o) of Statement no. 18 of Finance Accounts 2017-18.

¹⁰ Difference of ₹96 crore with reference to previous year's closing balance was on account of *pro forma* adjustments vide footnote (p) of Statement no. 18 of Finance Accounts 2018-19.

¹¹ Difference of ₹718 crore with reference to previous year's closing balance was on account of *pro forma* adjustments vide footnote (q) of Statement no. 18 of Finance Accounts 2019-20.

¹² Decreased *pro forma* due to reclassification of conversion of loan into equity for Kerala Electrical and Allied Engineering Company Limited (₹31.38 crore).

¹³ Includes ₹0.30 crore being the irrecoverable loans written off.

¹⁴ Includes ₹0.40 crore being the irrecoverable loans written off.

¹⁵ Includes ₹0.30 crore being the irrecoverable loans written off.

¹⁶ Includes ₹0.23 crore being the irrecoverable loans written off.

¹⁷ Includes ₹0.15 crore being the irrecoverable loans written off.

¹⁸ Interest Received / (Opening balance + Closing balance of Loans and Advances)/2)*100

huge arrears of recoveries of loans and advances. During the year, the State Government had released an amount of ₹2,854.29 crore as loans and advances to various institutions. Outstanding loans at the end of March 2022 was ₹22,100.44 crore. During the year ₹479.24 crore was received as loan recovery, which was only 2.43 per cent of the outstanding loan balance in the beginning of the year. Interest received on loans during 2021-22 was ₹53.36 crore.

Though the institutions are bound to repay the loans with interest in stipulated installments, they have defaulted in this regard and arrears in repayment at the end of March 2022 from 64 such organisations were ₹18,171.99 crore (principal ₹12,198.21 crore and interest ₹5,973.78 crore). About 72 per cent of the arrears pertain to the following four institutions/organisations as shown in **Table 2.26**.

Table 2.26: Major defaulting institutions in loan repayment

Sl. No.	Loanee entity	Amount of arrears as on 31 March 2022 (₹ in crore)			Earliest period to which arrears relate
		Principal	Interest	Total	
1	Kerala State Electricity Board	1,137.34	657.36	1,794.70	1970-71
2	Kerala State Road Transport Corporation	4,293.52	1,301.90	5,595.42	1983-84
3	Kerala Water Authority	2,332.63	1,597.19	3,929.82	2007-08
4	Kerala State Housing Board	1,165.21	590.31	1,755.52	1980-81
Total		8,928.70	4,146.76	13,075.46	

Source: Statement 18 of Finance Accounts.

2.4.3.5 Expenditure Priorities

Enhancing human development levels requires the States to step up their expenditure on key social services like Education, Health *etc.* Low fiscal priority (ratio of expenditure under a category to aggregate expenditure) is attached to a particular sector, if the allocation is below the respective national average. The higher the ratio of these components to total expenditure, the quality of expenditure is considered to be better.

Table 2.27 analyses the fiscal priority of the State Government with regard to Health, Education and Capital Expenditure during 2017-18 and 2021-22.

Table 2.27: Expenditure priority of the State with regards to Health, Education and Capital expenditure

(in per cent)

	TE / GSDP	CE /TE	Education /TE	Health & FW / TE
States other than North Eastern and Himalayan States (2017-18)	16.13	15.56	15.17	4.76
Kerala	15.71	9.33	16.96	5.98
Tamil Nadu	13.28	13.73	15.03	5.36
Karnataka	13.37	20.06	12.17	4.55
States other than North Eastern and Himalayan States (2021-22)	15.84	14.41	14.66	6.20
Kerala	18.10	10.44	15.27	7.32
Tamil Nadu	14.27	13.80	13.02	6.45
Karnataka	12.76	19.92	11.53	5.87

TE- Total Expenditure, CE- Capital Expenditure,

Source: Information furnished by Economic Advisor and based on Finance Accounts.

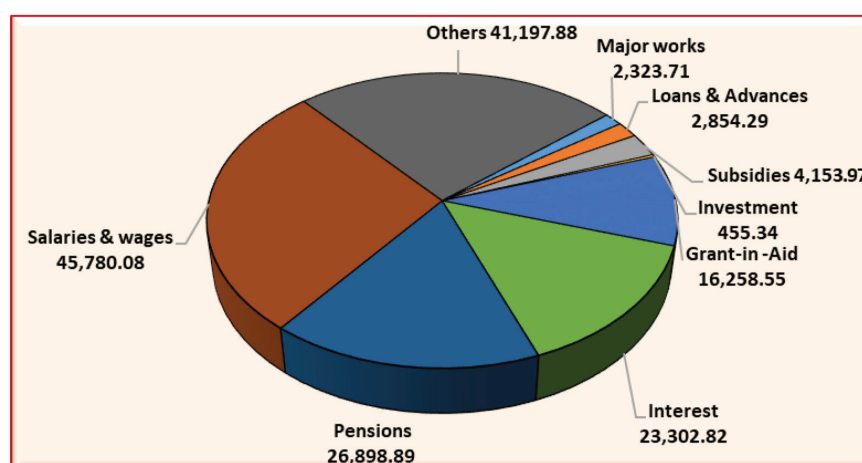
In 2021-22, the percentage of total expenditure to GSDP for the State was more than that of the States other than North Eastern and Himalayan States whereas the percentage of Capital Expenditure to Total Expenditure for the State was less. The State's share of expenditure on Education and Health in the total expenditure was more than that of States other than North Eastern and Himalayan States.

2.4.3.6 Object head wise expenditure

The Total Expenditure for the year 2021-22 was ₹1,63,225.53 crore. The **Chart 2.10** below gives information about object / purpose of the expenditure.

Chart 2.10: Object head wise expenditure

(₹ in crore)



From the above Table, it can be seen that out of the total expenditure, the expenditure on salaries and wages were the highest followed by pension and interest payments.

2.5 Public Accounts

Receipts and Disbursements in respect of certain transactions such as Small Savings, Provident Funds, Reserve Funds, Deposits, Suspense, Remittances *etc.*, which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266 (2) of the Constitution and are not subject to vote by the State Legislature. The Government acts as a banker in respect of these. The balance after disbursements during the year is the fund available with the Government for use for various purposes.

2.5.1 Net Public Account Balances

Component-wise net balances in Public Account of the State as on 31 March 2022 are shown below in **Table 2.28**.

Table 2.28: Components-wise net balances

(₹ in crore)

Sector	Sub Sector	2017-18	2018-19	2019-20	2020-21	2021-22
I. Small Savings, Provident Funds <i>etc.</i>	Small Savings Provident Funds	7,206.84	9,619.21	8,274.11	11,547.96	18,447.47
J. Reserve Funds	(a) Reserve Funds bearing Interest	171.22	1,826.90	(-)1,478.41	83.97	(-)247.82
	(b) Reserve Funds not bearing Interest	137.76	154.12	127.99	260.08	162.38
K. Deposits and Advances	(a) Deposits bearing Interest	(-)1.32	(-)0.30	0.23	(-)0.15	0.17
	(b) Deposits not bearing interest	267.23	392.70	584.93	497.22	1,786.29
	(c) Advances	0	(-)0.23	(-)59.42	(-)2.19	1.98
L. Suspense and Miscellaneous	(b) Suspense	691.76	(-)534.98	17.05	(-)328.46	814.09
	(c) Other Accounts	510.92	(-)226.68	(-)270.19	967.49	(-)1,011.51
	(d) Accounts with Government of Foreign Countries	0	0	0	0	0
	(e) Miscellaneous	(-)0.15	(-)0.57	(-)0.06	(-)20.39	(-)0.81
M. Remittances	(a) Money Orders, and other Remittances	(-)61.62	(-)90.82	35.18	86.49	(-)460.35
	(b) Inter Governmental Adjustment Account	(-)104.35	39.30	82.36	(-)47.08	29.23
Total		8,818.29	11,178.65	7,313.77	13,044.94	19,521.12

Source: Statement 21 of Finance Accounts of respective years.

The net receipts from the Public Account increased by ₹6,476.18 crore (49.65 *per cent*) from ₹13,044.94 crore in 2020-21 to ₹19,521.12 crore in 2021-22, mainly due to increase under Small Savings, PF *etc.* (₹6,899.51 crore).

2.5.2 Reserve Funds

Reserve funds are created for specific and defined purposes under the Public Account of the State Government. These Funds are met from contribution of grants from the Consolidated Fund of the State.

Details of Significant Reserve funds are given below:

Reserve Funds bearing Interest:

2.5.2.1 State Disaster Risk Management Fund (SDRMF)

On the recommendation of XV Finance Commission the SDRMF was divided into State Disaster Response Fund (SDRF) and State Disaster Mitigation Fund (SDMF) for addressing the full cycle of disaster management needs- response and relief, recovery and reconstruction, preparedness, capacity building and mitigation. The SDRF receives 80 *per cent* of the total SDRMF while the State Disaster Mitigation Fund (SDMF) receives 20 *per cent* of the allocation.

State Disaster Response Fund (SDRF)

The State Governments are required to pay interest to the SDRF at the rate applicable to overdrafts under overdraft Regulation Guidelines of the RBI. The accretions to the SDRF together with the income earned on the investment of SDRF is to be invested in Central Government dated Securities, Auctioned Treasury Bills and other interest earning deposits with Scheduled Commercial Banks. However, this was not done till date.

The size of the Fund for Kerala for the year 2021-22 fixed by XV Finance Commission is ₹335.20 crore, 75 *per cent* of which was to be contributed by the Central Government and 25 *per cent* by the State Government.

During the year, an amount of ₹436.29 crore was credited to the Fund, Central share of ₹251.20 crore, ₹84 crore of State share and ₹101.09 crore on account of interest on uninvested balances for the years 2020-21. In the beginning of the year 2021-22 there was a balance of ₹646.47 crore in the Fund. After setting off the expenditure for disaster relief operations to the extent of ₹749.49 crore, the balance in SDRF as on 31 March 2022 is ₹333.27 crore.

As per Finance Accounts, ₹38.79 crore was the interest due on the opening balance (₹646.47 crore) of the fund. Non-payment of interest resulted in understatement of Revenue and Fiscal deficit by ₹38.79 crore.

State Disaster Mitigation Fund (SDMF)

State Disaster Mitigation Fund was constituted (2021-22) in the Public Account under Reserve Fund bearing interest in the Major Head 8121-General and Other Reserve Funds-130-State Disaster Mitigation Fund in the accounts of the State. As per guidelines, the State Government shall invest the SDMF as per provisions in the guidelines and pay interest to SDMF at the rate applicable to overdrafts under Overdraft Regulation Guidelines of the RBI for the amount not invested from SDMF. The size of the Fund for the State of Kerala for the year 2021-22 fixed by the XV Finance Commission is ₹83.80 crore, 75 per cent of which is contributed by the Central Government in the form of grant and balance 25 per cent is contributed by the State Government.

During the year 2021-22, ₹83.80 crore consisting of Government of India share of ₹62.80 crore and State Government share of ₹21.00 crore was credited to SDMF. No expenditure was incurred on mitigation measures during the year. The balance in SDMF as on 31 March 2022 was ₹83.80 crore.

2.5.2.2 State Compensatory Afforestation Fund

The Compensatory Afforestation Fund Act, 2016, is an Act to provide for the establishment of funds under the Public Accounts of India and the Public Accounts of each State and crediting thereto the monies received from the user agencies towards compensatory afforestation, additional compensatory afforestation, penal compensatory afforestation, net present value and all other amounts recovered from such agencies under the Forest (Conservation) Act, 1980, constitution of an authority at national level and at each of the State and Union territory Administration for administration of the funds and to utilise the monies so collected for undertaking artificial regeneration (plantations), assisted natural regeneration, protection of forests, forest related infrastructure development, Green India Programme, wildlife protection and other related activities and for matters connected therewith or incidental thereto

The monies received by the State Governments from the user agencies is credited in 'State Compensatory Afforestation Deposits' under interest bearing section in Public Account of the State below the Major Head 8336-Civil Deposits. Further as per Section 3(4) of the Act, 90 per cent of the fund needs to be transferred to the Major Head 8121-General and Other Reserve Funds in Public Account of the State and balance 10 per cent to be credited to the National Fund on yearly basis.

No amount was received from Central Fund during the year 2021-22. The total balance in the State Compensatory Afforestation Fund as on 31 March 2022 was ₹54.67 crore. As per Finance Accounts, ₹2.37 crore was the interest due on the opening balance in the fund. Non-payment of interest resulted in understatement of Revenue and Fiscal deficit by ₹2.37 crore.

Reserve Funds not bearing Interest:

2.5.2.3 Consolidated Sinking Fund

In line with the recommendations of the XII Finance Commission, the State Government set up Consolidated Sinking Fund (CSF) with effect from the financial year 2007-2008. The Fund is to be utilised as an amortisation fund for redemption of all outstanding liabilities of the Government commencing from the financial year 2012-13. The State Government may contribute to the Fund on a modest scale of at least 0.50 *per cent* of the outstanding liabilities as at the end of the previous year.

2.5.3 Management of Cash Balance

As per agreement with the Reserve Bank of India, State Government has to maintain a minimum daily cash balance of ₹1.66 crore with the Bank. The amount over and above the minimum cash balance on a day is invested in short term treasury bills by RBI. The interest earned from such investments are credited as receipts under the head '0049-Interest Receipts'. During the year 2021-22, interest of ₹14.80 crore was earned against short term investments with a closing balance of ₹5,230.30 crore in 14 days treasury bills.

If the daily cash balance falls below the agreed minimum on any day, the deficiency is made good by taking ordinary Ways and Means Advances (WMA)/ Special Drawing Facility (SDF) / Overdrafts (OD) from time to time. The limit for ordinary WMA to the State Government during the year 2021-22 was ₹1,944 crore.

- During the year the State Government resorted to WMA of ₹22,874.48 crore and paid an interest of ₹13.90 crore. The State Government was able to maintain a minimum cash balance of ₹1.66 crore for 255 days during 2021-22 without taking any advance. However, the State Government had to resort to Ways and Means Advance (₹18,099.25 crore) for 106 days, Special Drawing Facility (₹1,513.90 crore) for four days to maintain minimum cash balance. There was a shortfall from the agreed minimum cash balance amounting to ₹9.96 crore.
- Overdraft (₹3,251.37 crore) was taken on 14 days.
- The State Government repaid the amount of ₹22,874.48 crore obtained under Special Drawing Facility, Ways and Means Advances *etc.* leaving no amount to be repaid.

The cash balance and Investments of cash balances made by the State Government during the year are shown in **Table 2.29**.

Table 2.29: Cash balance and Investment of cash balance**(₹ in crore)**

Sl No.	Particulars	Opening balance on 01 April 2021	Closing Balance on 31 March 2022
	A. General Cash Balance		
1	Cash in treasuries	37.06	35.92
2	Deposits with Reserve Bank of India	(-)244.42	(-)330.31 ¹⁹
3	Deposits with other Banks ²⁰		
4	Remittance in transit-Local	0.94	0.54
	Total	(-)206.42	(-)293.85
	Investment held in Cash Balance investment account (14 days Treasury bills)	2,809.86	5,230.30
	Total (A)	2,603.44	4,936.45
	B. Other Cash Balances and Investments		
1	Cash with departmental officers viz., Public Works, Forest Officers	(-)7.63	(-)7.63
2	Permanent advances for contingent expenditure with department officers	0.53	1.13
3	Investment in earmarked funds	2,371.64	2,545.51
	Total (B)	2,364.54	2,539.01
	Total (A+B)	4,967.98	7,475.46
	Interest realised	4.05	14.80

Source: Statement 2 of Finance Accounts

No investments were made in Long term GoI Securities by the State Government for the past several years being a Revenue Deficit State.

2.6 Profile of Public debt and Public Account Liabilities

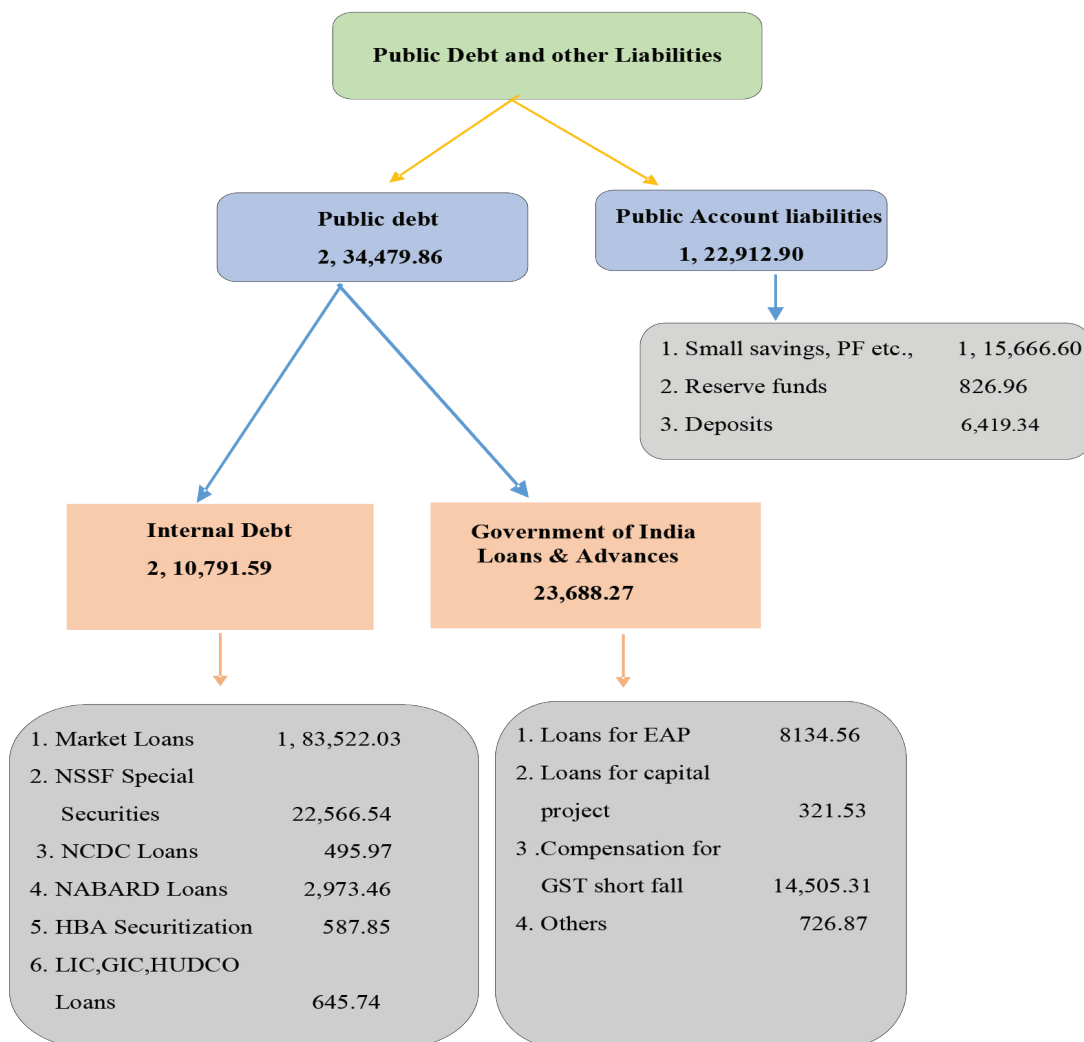
Total debt of the State Government typically comprises Internal Debt of the State (market loans, ways and means advances from RBI, special securities issued to National Small Savings Fund and loans from financial institutions, etc.), loans and advances from the Central Government and Public Account Liabilities.

¹⁹ There was a difference of ₹332.10 crore (debit) between the figures reflected in accounts (credit item ₹330.31 crore) and that communicated by Reserve Bank of India (credit item ₹1.79 crore) as on 31 March 2022. Out of the difference, an amount of ₹192.24 crore (net credit) was cleared in 2022-23. The balance difference of ₹139.87 crore (net debit) is under reconciliation.

²⁰ Represents cash held with State Bank of India (amount negligible).

Chart 2.11 Profile of Public Debt and Public Account Liabilities

(₹ in crore)



2.6.1 Outstanding Public debt and Public Account liabilities

Total Public debt and public account liabilities of the State as on 31 March 2022 was ₹3,57,392.76 crore as shown in **Table 2.30**.

**Table 2.30: Public debt and other Public Account Liabilities from
2017-18 to 2021-22**

(₹ in crore)

Sl No	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
1	Liabilities of Public Debt-Total	1,42,984.52	1,58,234.45	1,74,640.22	2,05,447.73	2,34,479.86
a	Increase	17,101.67	15,249.93	16,405.77	30,807.51	29,032.13
b	<i>Per cent</i>	13.59	10.67	10.37	17.64	14.13
2	Liabilities of Public Account	71,533.70	83,380.06	90,722.14	1,02,938.28	1,22,912.90
a	Increase	7,648.30	11,846.06	7,342.08	12,216.14	19,974.62
b	<i>Per cent</i>	11.97	16.56	8.81	13.47	19.40
3	Total Liabilities	2,14,518.22	2,41,614.51	2,65,362.36	3,08,386.01	3,57,392.76
a	Increase	24,749.67	27,096.29	23,747.85	43,023.65	49,006.75
b	<i>Per cent</i>	13.04	12.63	9.83	16.21	15.89
4	Population	3.60	3.63	3.54	3.56	3.56
5	Per capita Debt (₹)	59,588.48	66,560.47	74,961.12	86,625.28	1,00,391.22
6	GSDP	7,01,588.26	7,88,285.58	8,24,374.20	7,99,571.11	9,01,997.83
7	Per capita GSDP (₹)	1,94,885.63	2,17,158.56	2,32,874.07	2,24,598.63	2,53,135.53

Total public debt and public account liabilities of the State grew between 9.83 *per cent* and 16.21 *per cent* during the five-year period 2017-2022.

2.6.2 Receipts and Payments during the year 2021-22

During the year, the total receipts were ₹2,40,321.38 crore and payments were ₹1,91,314.62 crore leading to a net increase of ₹49,006.75 crore. This was used to finance the fiscal deficit. Outstanding liabilities under the Public Debt and Public Account as on 31 March 2022 is shown in **Table 2.31**.

Table 2.31: Outstanding Liabilities under Public Debt and Public Account as on 31 March 2022*(₹ in crore)*

Particulars	2017-18	2018-19	2019-20	2020-21	2021-22			
	CB	CB	CB	CB	Receipt	Repayment	Net	CB
Public Debt	1,42,984.52	1,58,234.45	1,74,640.22	2,05,447.73	64,932.13	35,900.00	29,032.13	2,34,479.86
Public Account	71,533.70	83,380.06	90,722.14	1,02,938.28	1,75,389.25	1,55,414.63	19,974.62	1,22,912.90
Total Liabilities	2,14,518.22	2,41,614.51	2,65,362.36	3,08,386.01	2,40,321.38	1,91,314.63	49,006.75	3,57,392.76

2.7 Liabilities Upon Consolidated Fund

The Public Debt consists of Internal debt and Loans and Advances from the Central Government. The internal debt comprises of Market loans, Loans from Special Securities issued to National Small Savings Fund of the Central Government, loans from banks / financial institutions and Ways & Means advances from RBI. The amount outstanding under various components of Public Debt as well as receipts and payments during the year 2021-22 are given in **Table 2.32**.

Table 2.32: Outstanding loans under various components of Public Debt*(₹ in crore)*

Sl No	Particulars	2021-22				
		OB	Receipt	Repayment	Net	CB
1	A. Internal Debt					
2	Market Loans	1,65,402.03	27,000.00	8,880.00	18,120.00	1,83,522.03
3	Special Securities issued to National Small Savings Fund of the Central Government	19,833.71	4,996.03	2,263.20	2,732.83	22,566.54
4	National Co-operative Development Corporation	523.60	76.77	104.40	(-)27.63	495.97
5	NABARD	3,103.71	519.84	650.09	(-)130.25	2,973.46
6	Loans from Bank - Securitisation of House Building Advance	736.07	0.00	148.22	(-)148.22	587.85
7	Loans from Banks/ Financial Institutions	874.97	0.00	229.23	(-)229.23	645.74
8	Ways and Means Advances from the RBI	0.00	22,874.48	22,874.48	0.00	0.00
9	Total (A)	1,90,474.09	55,467.12	35,149.62	20,317.50	2,10,791.59

Sl No	Particulars	2021-22				
		OB	Receipt	Repayment	Net	CB
10	B Loans and Advances from Central Government					
11	Loans for Externally Aided Projects	8,151.61	487.21	504.25	(-)17.04	8,134.56
12	Loans for Capital Projects	83.03	238.50	0.00	238.50	321.53
13	Loans for shortfall in GST Compensation	5,766.00	8,739.31	0.00	8,739.31	14,505.31
14	Others	973.00	0.00	246.13	(-)246.13	726.87
15	Total (B)	14,973.64	9,465.02	750.38	8,714.64	23,688.27
16	Total (A+B)	2,05,447.73	64,932.14	35,900.00	29,032.14	2,34,479.86

2.7.1 Trend of Public Debt

The details relating to total outstanding Debt, repayment of debt and the actual quantum of debt available to the State during the five-year period 2017-18 to 2021-22 are given in the **Table 2.33**.

Table 2.33: Trend of Public Debt

(₹ in crore)

Sl. No.	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
1	Outstanding Public Debt	1,42,984.52	1,58,234.45	1,74,640.22	2,05,447.73	2,34,479.86 ²¹
2	Rate of growth of outstanding debt (<i>per cent</i>)	13.59	10.67	10.37	17.64	14.13
3	Total Public Debt receipts	30,233.76	33,445.92	60,407.05	69,735.36	64,932.13
4	Total Public Debt repayments	13,132.10	18,196.00	44,001.28	38,927.85	35,900.00
5	Interest on Public Debt	10,937.67	12,086.29	13,273.79	14,409.57	15,774.79
6	Net Public Debt available	6,163.99	3,163.63	3,131.98	16,397.94	13,257.34
7	Debt Repayments (including interest) / Debt receipts (<i>per cent</i>)	79.61	90.54	94.82	76.49	79.58

²¹ Effective outstanding Public Debt as on 31 March 2022 would be ₹2,19,974.55 crore (₹1,99,681.73 crore as on March 2021) as the Department of Expenditure, GoI had decided that GST compensation of ₹8,739.31 crore (₹5,766 crore for 2020-21) 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.

Total outstanding Public Debt of the State grew from ₹1,42,984.52 crore to ₹2,34,479.86 crore during the five year period 2017-2022. The outstanding debt as on 31 March 2022 grew by 15.89 per cent when compared to the previous year. The total public debt raised during the year decreased by ₹4,803.23 crore (6.89 per cent) which is a positive indicator of the Government depending lesser on debt to meet the rising expenditure from ₹1,38,884.49 crore in 2020-21 to ₹1,63,225.53 crore in 2021-22. However, from the **Table 2.32**, it is obvious that 76.49 per cent to 94.82 per cent of the debt receipts were utilised for repayment of outstanding Debt. This indicates a poor debt management by the State Government.

2.8 Liabilities Upon Public Account

Public Account liabilities is the liabilities outstanding under the sectors Small Savings, Provident Fund etc., Deposits, Reserve Funds. Component-wise outstanding balances under these sectors in Public Account as on 31 March 2022 is given in **Table 2.34**.

Table 2.34: Outstanding liabilities in Public Account as on 31 March 2022

(₹ in crore)

Sectors	OB	Addition	Decrease	Net	CB
Small Savings Provident Funds	97,219.13	1,67,886.07	1,49,438.60	18,447.47	1,15,666.60
Reserve Funds	1,086.27	1,505.69	1,765.00	(-) 259.31	826.96
Deposits	4,632.88	5,997.49	4,211.03	1,786.46	6,419.34
Total	1,02,938.28	1,75,389.25	1,55,414.63	19,974.62	1,22,912.90

Source Statement No.6 of Finance Accounts 2021-22

Trend of Public Account Liabilities of the above sectors from 2017-18 to 2021-22 is given in **Table 2.35**.

Table 2.35: Trend of Public Account Liabilities from 2017-18 to 2021-22

(₹ in crore)

Sl. No.	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
1	Small Savings, Provident Fund	67,777.85	77,397.06	85,671.17	97,219.13	1,15,666.60
2	Reserve Funds	597.60	2,432.35	915.16	1,086.27	826.96
3	Deposits	3,158.25	3,550.65	4,135.81	4,632.88	6,419.34
4	Total	71,533.70	83,380.06	90,722.14	1,02,938.28	1,22,912.90

Sl. No.	Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
5	Additions	89,994.00	1,13,053.44	1,23,102.16	1,76,045.51	1,75,389.25
6	Repayment	82,346.00	1,01,207.08	1,15,760.08	1,63,829.37	1,55,414.63
7	Net Increase	7,648.00	11,846.36	7,342.08	12,216.14	19,974.62
8	<i>Per cent</i> increase	11.97	16.56	8.81	13.47	19.40
9	Interest Paid	4,158.08	4,812.35	5,911.47	6,531.40	7,510.29

Total outstanding Public Account liabilities of the State grew from ₹71,533.70 crore to ₹1,22,912.90 crore during the five year period 2017-2022. The outstanding Public Account as on 31 March 2022 grew by 19.40 *per cent* when compared to the previous year.

2.9 Other Liabilities of the State

The State Government also has liabilities such as, off budget borrowings, guarantees given by the Government on repayment of principal and interest on loans raised by Statutory Corporations/ Government Companies, Local Bodies, Joint Stock Companies, Cooperative Institutions *etc.* Details of other liabilities for 2020-21 and 2021-22 are shown in **Table 2.36**.

Table 2.36: Details of Other liabilities

(₹ in crore)

Sl. No.	Particulars	2020-21	2021-22
1	Off-budget borrowings	16,459.44	25,874.39
2	Guarantees	36,600.99	44,369.85
3	Pending/incomplete works	1,362.35	1,199.78
	Total	54,422.78	71,444.02

The other liabilities of the State increased by ₹17,021.24 crore (31.28 *per cent*) from ₹54,422.78 crore in 2020-21 to ₹71,444.02 crore in 2021-22.

2.9.1 Off budget borrowing

The borrowings by State Public Sector Companies/ Corporations, Special purpose vehicles (SPVs) and other equivalent instruments, where principal and/ or interest are to be serviced out of the State Budgets and/ or by assignment of taxes/ cess or any other State's revenue, shall be considered as borrowings made by the State itself for the purpose of issuing the consent under Article 293(3) of the Constitution of India.

As per the recommendations of the XV Finance Commission, all committed expenditures and developmental expenditures should be met from the augmented borrowing space recommended for the State Governments, without resorting to off-budget or any non-transparent means of financing for any expenditures.

State Government resorted to off-budget borrowings for infrastructural projects through KIIFB and for social security and welfare pensions through KSSPL. The outstanding balance of loans as on 31 March 2022 borrowed by KIIFB was ₹13,066.18 crore (**Appendix 2.3 - Part A**) and KSSPL ₹11,206.49 crore (**Appendix 2.4 - Part A**). Total off-budget borrowing of the above two institutions comes to ₹24,272.67 crore. The off-budget borrowings of the State Government have not been disclosed in the State Budget. The entity wise details of off budget borrowings are shown in **Table 2.37**.

Table 2.37: Entity-wise details of off-budget borrowings

(₹ in crore)

Name of the Entity	Outstanding Off Budget Borrowings as on 31 March 2021	Off Budget Borrowings during 2021-22	Repayment during 2021-22		Closing Balance
			Principal	Interest	
Kerala Infrastructure Investment Fund Board	5,610.82	7,762.78	307.42	739.66	13,066.18
Kerala Social Security Pension Limited	10,848.61	6,550.00	6,192.12	743.94	11,206.49
Total	16,459.43	14,312.78	6,499.54	1,483.60	24,272.67

Source: Information furnished by KIIFB and KSSPL

Off-budget borrowing through KIIFB and KSSPL are explained in the succeeding paras:

2.9.1.1 Kerala Infrastructure Investment Fund Board (KIIFB)

The Kerala Infrastructure Investment Fund Board (KIIFB) is a statutory body constituted (November 1999) and controlled by the State Government under the Kerala Infrastructure Investment Fund Act to manage the Kerala Infrastructure Investment fund with the objective of providing investment for critical and large infrastructure projects in Kerala. The State Government undertakes for the payment of principal and interest of the loans raised by Kerala Infrastructure Investment Fund Board as per section 9 (1) of the Kerala Infrastructure Investment Fund (Amendment) Act, 2016. Thus, the loan taken by KIIFB are the direct liabilities of the State Government, and are therefore, off-budget borrowings for the State. The State Government has allotted the petroleum cess and 50 per cent of the Motor Vehicle Tax for servicing the loans of KIIFB.

During the year 2021-22, KIIFB raised off-budget loans amounting to ₹7,762.78 crore from various sources as detailed in **Appendix 2.3 (Part B)**.

Government (February 2023) replied that KIIFB's borrowings are neither on budget or off budget borrowings of Government of Kerala but are done by KIIFB as part of its agency function to build infrastructure projects for Government of Kerala. It was also stated that there is no liability/contingency associated with KIIFB's borrowing liabilities on the State Government.

The contention of the Government is not acceptable, as KIIFB has no revenue of its own and the State Government has to defray the debt obligations of KIIFB by transferring its own revenue through budget every year.

2.9.1.2 Kerala Social Security Pension Limited (KSSPL)

Kerala Social Security Pension Limited was incorporated in August 2018 under the Companies Act 2013. The Company is wholly owned by the Government of Kerala under Finance Department and the Company was formed with the objective of improving the disbursement of various Social Security and welfare pensions to the beneficiaries in Kerala.

As per the Government Order G.O. (Ms) No 232/2018/FIN dated 26 June 2018 of Finance (SS) Department, anticipated expenditure for Social Security Pension would be provided through Budget every year and amount from Government of India under National Social Assistance Programme (NSAP) would also be infused into the Company. The Government would bear the repayment liabilities of the Company arising on account of pension disbursement. The Company is also authorised to raise funds from the Public, Public Sector Undertakings and other institutions through suitable financial instruments including deposits and loans which would be serviced/ redeemed with the funds provided by the Government through its budget. The funds required for repayment of loans are mobilised through short term financial instruments and financial assistance from the Government.

As the loans raised by KSSPL were for meeting the liability of the State Government and the repayment of loan and interest are from the Consolidated Fund of the State, the loan raised by KSSPL is an off-budget borrowing of the State Government. During 2021-22 KSSPL raised off-budget loans amounting to ₹6,550.00 crore as detailed in **Appendix 2.4 (Part B)**.

The year-wise details of Government Grants given to KSSPL for the last four years is shown in **Table 2.38**.

Table 2.38: Year-wise details of Grants given to KSSPL from 2018-19 to 2021-22
(₹ in crore)

Sl. No.	Year	Grant
1	2018-19	5,579.28
2	2019-20	2,100.00
3	2020-21	11,924.14
4	2021-22	6,939.00
Total		26,542.42

As per the information received from KSSPL, an amount of ₹11,206.49 crore is outstanding as on 31 March 2022 as detailed in **Appendix 2.4 (Part B)**. Since KSSPL is a Government company, the outstanding loan of ₹11,206.49 crore is also an additional liability of the Government.

Non-disclosure of off-budget borrowing has the impact of diluting public financial management and oversight role of the Legislature and placing major sources of funding of Government's crucial infrastructure projects beyond the control of the Legislature.

2.9.1.3 Borrowings under Bill discounting system

The State Government also resorted to short term borrowings for settling the pending bills of contractors through bill discounting system. The promissory notes issued during the year amounting to ₹1601.72 crore, remained unsettled, but was not reflected in the Accounts. This has consequently, resulted in deferment of clear-cut liabilities to the next financial year with an avoidable interest liability.

These off-budget borrowings have increased the overall liabilities of the State from ₹3,57,392.76 crore²² to ₹3,83,267.15 crore as on 31 March 2022.

The debt-GSDP ratio for the year 2021-22 was 38.01²³ per cent against the targeted ratio of 34.70 per cent. Taking into account the off-budget borrowings of the State Government, the Debt-GSDP ratio stands at 40.88 per cent.

2.9.2 Guarantees

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee was extended.

²² Effective outstanding Public Debt would be ₹ 2,19,974.55 as the Department of Expenditure, GoI had decided that GST compensation of ₹ 8,739.31 crore in 2021-22 and ₹ 5,766 crore for 2020-21 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.

²³ After excluding GST compensation of ₹14,505.31 crore given to the State as back to back loan.

The Government provides guarantees for repayment of loans, *etc.*, raised by Statutory Corporations, Government Companies, Co-operative Banks and Societies *etc.* In terms of the Section 3 of Government Guarantees Act, 2003, amended vide Kerala Finance (No.2) Act, 2018, the total outstanding Government Guarantees as on the first day of April of any year shall not exceed five *per cent* of the Gross State Domestic Product (GSDP) of the State as calculated by the Department of Economics and Statistics for the respective financial year. The outstanding guarantees of ₹44,369.85 crore (Principal plus interest) as on 31 March 2022 works out to 4.92 *per cent* of the GSDP of the year 2021-22 (₹9,01,997.83 crore) which was within the limit of five *per cent* of the GSDP for the year.

As per the Act, 0.75 *per cent* of outstanding guarantee at the beginning of the year should be collected as guarantee commission every year. While ₹230.76 crore was received as guarantee commission during the year, ₹306.22 crore of guarantee commission was pending collection from various institutions as on 31 March 2022. Major defaulters are shown in **Appendix 2.5**.

2.9.2.1 Non-Constitution of Guarantee Redemption Fund

As per the recommendations of the Twelfth Finance Commission (2005-2010), State Governments are required to constitute a Guarantee Redemption Fund (GRF) to be utilised for meeting the payment of obligations arising out of the guarantees issued by the Government. The Fund is operated outside the State Government account and administered by the Reserve Bank of India.

Under the guidelines, the State Government is required to make minimum annual contribution of 0.50 *per cent* of outstanding guarantee at the beginning of the year. The amount to be contributed by the State Government in the Fund during the year is ₹183.00 crore.

In terms of the Kerala Ceiling on Government Guarantees Act 2003, the guarantee commission received annually are to be transferred to the Public Account and these contributions shall form the corpus of the Guarantee Redemption Fund under Public Account of the State. As the State Government has not constituted GRF, Guarantee commission of ₹1,697.92 crore collected from 2003-04 to 2021-22 was credited under the revenue receipts head ‘0075-108-Guarantee Fee’.

2.10 Cost of Public Debt and other liabilities

The cost of debt is the effective interest rate that the Government is required to pay on its long-term debt obligations. Interest paid on Public Debt and other liabilities during the last five year period are shown in **Table 2.39**.

Table 2.39 : Cost of debt and other liabilities**(₹ in crore)**

Sl No.	Item	2017-18	2018-19	2019-20	2020-21	2021-22
1	Outstanding Public Debt	1,42,984.52	1,58,234.45	1,74,640.22	2,05,447.73	234,479.86
2	Interest on Market loans	8,824.25	9,996.20	11,159.82	12,203.37	13,543.89
3	Interest on other debt	2113.42	2090.09	2113.97	2206.20	2230.90
4	Total Interest on Public Debt	10,937.67	12,086.29	13,273.79	14,409.57	15,774.79
5	Average interest rate on Public Debt*	8.14	8.02	7.98	7.58	7.17
6	Outstanding Public Account	71,534.00	83,380.00	90,722.00	1,02,938.00	1,22,913.00
7	Interest paid on Public Account	4,158.08	4,812.35	5,911.47	6,531.40	7,510.29
8	Average interest rate on public Accounts *	6.14	6.21	6.79	6.75	6.48
9	Total Interest Paid	15,095.75	16,898.64	19,185.26	20,940.97	23,285.08#
10	Revenue Receipts	83,020.14	92,854.47	90,224.67	97,616.83	1,16,640.24
11	Interest paid on total debt as percentage of revenue receipts (9÷10)	18.18	18.20	21.26	21.45	19.96

* Average interest rate = Interest payment / (Average of opening and closing balance of debt) * 100

Interest payment is not inclusive of charges for management of debt. The amount for the year 2021-22 is ₹30.23 crore.

Although, the average interest rate on debt showed a declining trend, the actual interest paid on debt consistently increased across the five-year period. The interest paid in 2017-18 was ₹10,938 crore which increased to ₹15,775 crore in 2021-22, an increase of 44 per cent over the five-year period, due to increase in Public Debt. The interest on Public Account also increased from ₹4,158.08 crore in 2017-18 to ₹7,510.29 crore in 2021-22. Out of ₹7,510.29 crore, interest paid on Treasury Savings Bank Deposits was ₹4,205.03 crore, State Provident Fund ₹2,522.81 crore, Insurance and Pension Fund ₹681.36 crore and SDRF ₹101.09 crore. On an average, about 20 per cent of the revenue receipts are utilised for payment of interest on overall debt of the State alone.

2.11 Net Borrowing Ceiling

GoI had fixed Net Borrowing Ceiling of the State for 2021-22 in line with the recommendations of Finance Commission at four per cent of projected GSDP. The projected GSDP for Kerala for the year 2021-22 was ₹9,02,166 crore. Out of the normal NBC of four per cent of projected GSDP for the year 2021-22, borrowings ceiling of 0.50 per cent of the projected GSDP was earmarked for the incremental capital expenditure incurred by the State during 2021-22. Kerala

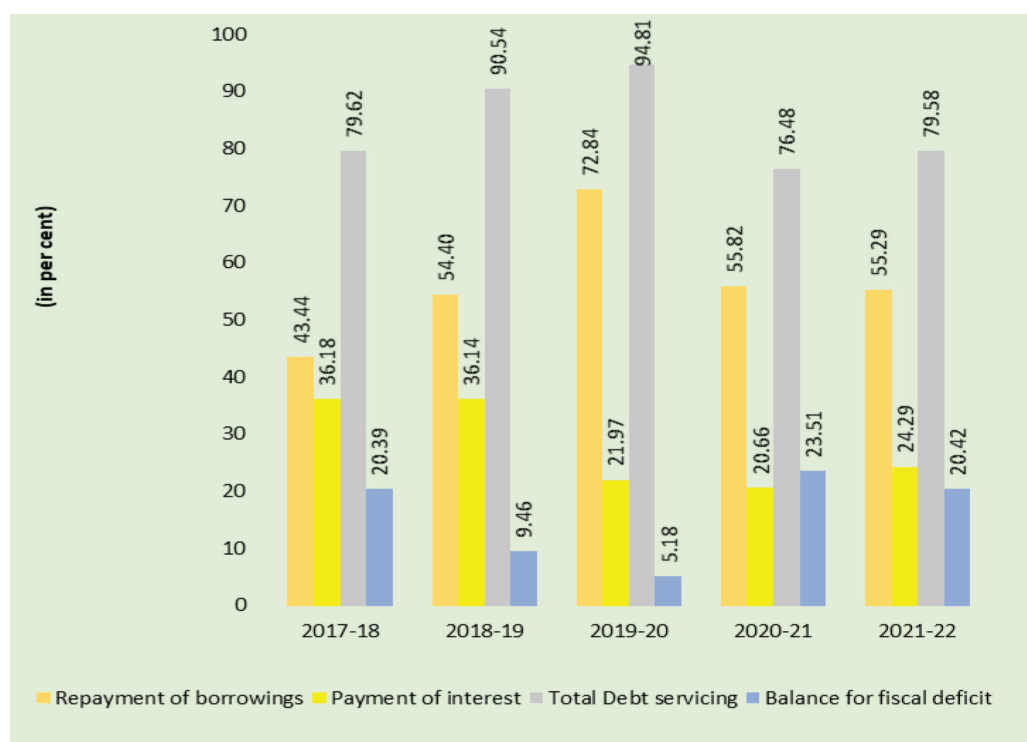
was allowed to borrow additional 0.50 *per cent* of GSDP, as the State achieved the target set by the Ministry of Finance for the capital expenditure.

The NBC for Kerala at the rate of four *per cent* of projected GSDP for the year 2021-22 as communicated by Ministry of Finance was ₹36,087 crore. Government of Kerala had borrowed ₹46,045.78 crore (fiscal deficit) including accretions on Public Account during 2021-22. After excluding the back-to-back loan of ₹8,739.31 crore in lieu of GST compensation and ₹238.50 crore as interest free loan for Capital expenditure received during the year, net borrowing comes to ₹37,067.97 crore, which is ₹980.97 crore more than the admissible amount of ₹36,087 crore.

2.12 Utilisation of borrowed funds

During 2021-22, Government had borrowed ₹64,932.13 crore. Details of utilisation of borrowed funds are given in **Chart 2.12** below.

Chart 2.12: Trends of Utilisation of borrowed funds



In all the five years, major portion of the borrowed funds is utilized for repayment of borrowings. Borrowed funds should ideally be used to fund capital creation and development activities. During 2021-22, 80 *per cent* of the borrowed funds was utilised for debt servicing. Net borrowed funds available for developmental activities after servicing of debt was only 20 *per cent*. Use of borrowed funds for meeting current consumption and debt servicing of outstanding loan is not a prudent financial management practice.

2.13 Debt Sustainability Analysis (DSA)

Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. Debt Sustainability Analysis considers the feasibility of meeting debt related financial obligations during a period beginning with the present, and is a crucial aspect for assessing financial health of an economy. The cornerstone of DSA is the Debt-GSDP ratio. A sustainable fiscal policy is one where the debt to GSDP ratio is stable or declining over the long term.

2.13.1 Debt Stabilisation – Debt Sustainability Indicators

This section assesses the sustainability of the debt of the Government in terms of rate of growth of public debt, ratio of total outstanding debt to GSDP, ratio of interest payment to revenue receipt, debt repayment to debt receipt, net debt available to the State *etc.* Trends in fiscal variables determining the debt stabilisation are shown in **Table 2.40**.

Table 2.40: Trends in Debt Sustainability Indicators

Sl. No.	Debt Sustainability Indicators	2017-18	2018-19	2019-20	2020-21	2021-22
1	Outstanding Public Debt (₹ in crore)	1,42,984.52	1,58,234.45	1,74,640.22	2,05,447.73	2,34,479.86
2	Rate of Growth of outstanding Public Debt	13.59	10.67	10.37	17.64	14.13
3	GSDP (₹ in crore)	7,01,588.26	7,88,285.58	8,24,374.20	7,99,571.11	9,01,997.83
4	Rate of Growth of GSDP	10.51	12.36	4.58	(-)3.01	12.81
5	Public Debt/GSDP	20.38	20.07	21.18	25.69	26.00
6	Interest paid on Public Debt (₹ in crore)	10,937.67	12,086.29	13,273.79	14,409.57	15,774.79
7	Average interest rate of outstanding Public Debt ²⁴	8.14	8.02	7.98	7.58	7.17
8	Percentage of Interest payment to Revenue Receipt	13.17	13.02	14.71	14.76	13.52
9	Percentage of Revenue Receipt to outstanding debt	58.06	58.68	51.66	47.51	49.74
10	Net debt available to State ²⁵ (₹ in crore)	6,164.00	3,163.64	3,131.98	16,397.94	13,257.35
11	Debt repayment to Debt receipt	43.44	54.40	72.84	55.82	55.29

²⁴ Average interest rate - Interest paid / (OB of Public Debt + CB of Public Debt) / 2 x 100.

²⁵ Net Debt available=Public debt receipt during the year-repayment of principal amount -Interest paid on public debt.

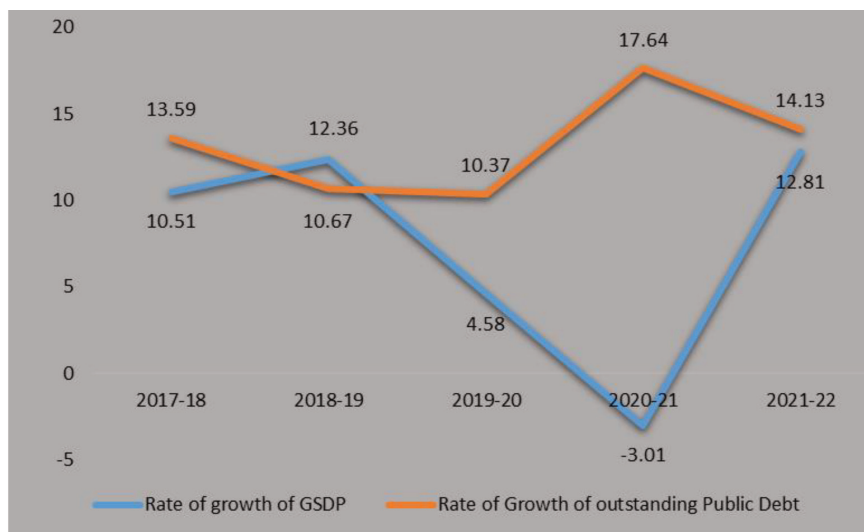
Sl. No.	Debt Sustainability Indicators	2017-18	2018-19	2019-20	2020-21	2021-22
12	Interest Spread ²⁶	2.37	4.34	(-)3.40	-10.59	5.64
13	Quantum Spread ²⁷	3,388.73	6,867.38	(-)5,937.77	(-)21,756.91	13,224.66
14	Fiscal deficit (₹ in crore)	(-)26,837.41	(-)26,958.31	(-)23,837.47	(-)40,969.69	(-)46,045.78
15	Primary deficit (₹ in crore)	(-)11,717.48	(-)10,210.39	(-)4,622.78	(-)14,228.33	(-)22,742.96
16	Debt Stabilisation (Quantum spread + Primary Deficit) (₹ in crore)	(-)8,328.75	(-)3,343.01	(-)10,560.55	(-)35,985.24	(-)9,518.30

The sustainability of the debt of the State is analysed through the following Debt Sustainability Indicators.

2.13.1.1 Rate of growth of outstanding Public Debt

Rate of growth of outstanding public debt should be lower than the rate of growth of nominal GSDP. High levels of public debt could be detrimental to growth and low economic growth could itself lead to high levels of public debt. Rate of growth of Public Debt and rate of growth of GSDP for the period from 2017-18 to 2021-22 are given in **Chart 2.13**.

Chart 2.13: Rate of Growth of Outstanding Public Debt vis-a-vis Rate of Growth of GSDP



From the chart, it can be seen that the rate of growth of debt was more than the rate of growth of GSDP during the five-year period 2017-2022, except for the year 2018-19. The gap between these two ratios was very high in 2020-21.

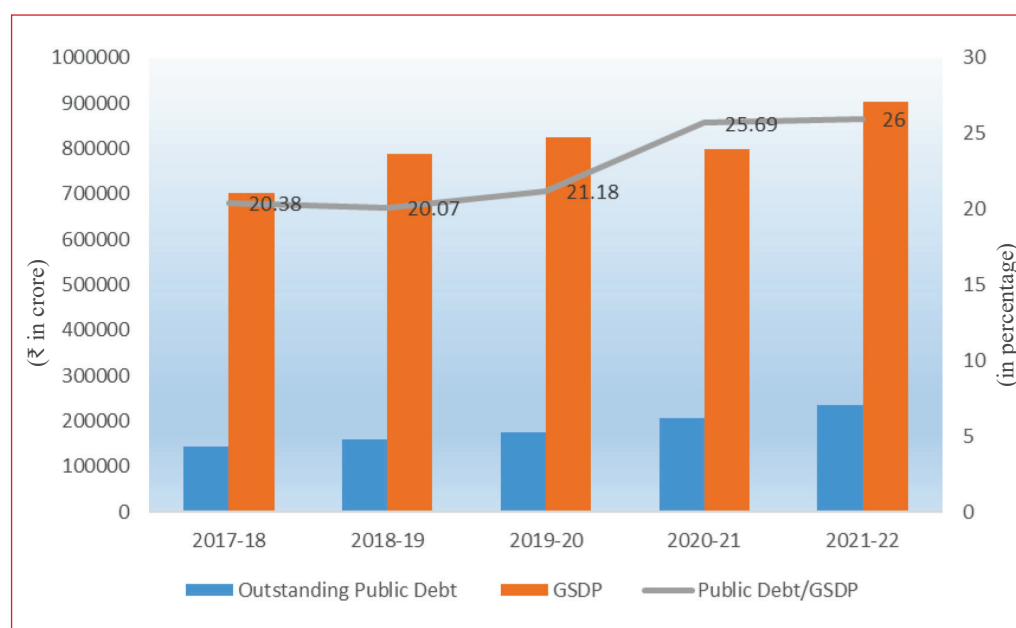
²⁶ Interest Spread = Rate of Growth of GSDP – Average interest rate of outstanding Public Debt.

²⁷ Quantum Spread = Outstanding Public Debt x Interest Spread / 100

2.13.1.2 Ratio of outstanding debt to GSDP

The debt-to-GSDP ratio is the metric comparing a State's public debt to its Gross State Domestic Product. By comparing what a State owes with what it produces, the debt-to-GSDP ratio reliably indicates the State's ability to pay back its debts. A low debt-to-GDP ratio indicates that an economy produces goods and services sufficient to pay back debts without incurring further debt. A falling debt-to-GSDP ratio can be considered as leading towards stability. If debt-to-GSDP ratio increases rapidly and goes above a threshold, then the current level of the primary balance is not sufficient to stabilize the debt-to-GSDP ratio. The debt to GSDP ratio for the period from 2017-18 to 2021-2022 is given in Chart 2.14.

Chart 2.14 : Ratio of total outstanding debt to GSDP



The debt-to-GSDP ratio is steadily increasing from 20.38 *per cent* in 2017-18 to 26.00 *per cent* in 2021-22, except for a slight decline in 2018-19.

2.13.1.3 Ratio of Revenue receipts to total outstanding debt

If ratio of revenue receipts to total outstanding debt is increasing, it would be easier for the Government to repay its debt using its own resources. Though revenue receipts increased from ₹83,020.14 crore in 2017-18 to ₹1,16,640.24 crore in 2021-22, the percentage of revenue receipts to total outstanding debt decreased from 58.06 *per cent* in 2017-18 to 49.74 *per cent* in 2021-22. This will put more stress on the State Government for meeting the debt obligations.

2.13.1.4 Cost of Public borrowings to growth of GSDP and primary balance:

The rate of interest payable on the outstanding debt should be lower than the rate of growth of GSDP and there should be a primary surplus. If the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt GSDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. It can be seen from **Table 2.40** that during last five years, except in 2019-20 and 2020-21, the rate of growth of economy (rate of growth of GSDP) exceeded the interest rate or cost of public borrowings. However, throughout the five-year period the primary balances (primary deficit) remained highly negative resulting in non-fulfilment of necessary condition of debt stabilisation.

From the above it can be seen that the conditions for debt sustainability were not fulfilled in most of the period.

2.13.1.5 Domar's approach towards debt stability

Fiscal liabilities are considered sustainable if the Government is able to service the stock of these liabilities over the foreseeable future and the debt-GSDP ratio does not grow to unmanageable proportions. The Domar model is one of the models for analysis of public debts, which lays down that the debt-GDP ratio is likely to be stable if the rate of growth of the economy exceeds the rate of interest on the debt. **Table 2.41** provides the Domar sustainability condition:

Table 2.41 : The dynamics of public debt depending on the interest rate, the growth rate of GDP and the primary budget balance

$g-r$ (g : real economic growth rate; r : real interest rate), called Domar gap	$s < 0$ (primary deficit)	$s > 0$ (primary surplus)
$g-r > 0$ (strong economic growth)	Public debt as a percentage of GSDP tends towards a stable value and is therefore sustainable. Depending on the stock of debt, it will either increase or decrease in time to reach a stable level greater than zero.	Public debt as a percentage of GSDP should converge to a stable level less than zero leading to public savings
$g-r < 0$ (slow economic growth)	Public debt as a percentage of GSDP will increase indefinitely, without converging to a stable level	Undefined situation

Applying the Domar analysis to Kerala showed that fiscal liabilities should converge to a stable level, as shown in the following **Table 2.42**.

Table 2.42 : Public Debt Sustainability-real growth and real interest

Year	Real economic growth (g)	Real Interest rate (r)	Domar gap (g-r)	Primary deficit (-)/ Surplus(+)
	(in per cent)		(₹ in crore)	
2017-18	6.36	1.48	4.88	(-) 11,717.48
2018-19	7.37	2.44	4.93	(-) 10,210.39
2019-20	2.22	1.48	0.74	(-) 4,622.77
2020-21	-9.20	1.31	(-)10.51	(-) 19,994.33
2021-22	7.10	3.00	4.10	(-) 22,742.96

- Real economic growth rate has been calculated for real GSDP (i.e., at constant prices*).
- Real interest rate is calculated as average interest rate on fiscal liabilities minus inflation. Average inflation** has been obtained from RBI.

* Information furnished by Directorate of Economics and Statistics.

** As published by RBI on November 19, 2022.

During 2017-22, the primary deficit of the State ranged between ₹4,622.77 crore and ₹22,742.96 crore. The Domar gap (g-r) was positive during the period from 2017-18 to 2021-22, except in 2020-21. Therefore, in view of the debt sustainability conditions under Domar model as detailed in Table 2.41, the fiscal liabilities of the State Government satisfied the condition of debt sustainability ($g-r > 0$), except during 2020-21.

The Domar gap should further be viewed with the fact that 45.43 per cent of internal debt²⁸ was borrowed at interest rates of more than eight per cent against average real interest rate of three per cent during 2021-22. Moreover, other factors such as public account liabilities, force majeure events and/or any other un-inventoried losses of revenue also have to be reckoned in assessing the debt sustainability/stability of the State²⁹.

2.14 Maturity and Repayment of Public Debt

Debt maturity and repayment profile indicates commitment on the part of the Government for debt repayment or debt servicing. As per Finance Accounts for the year 2021-22, the maturity profile of the public debt is as shown in **Table 2.43**.

²⁸ Internal debt constitutes 58.98 per cent of fiscal liabilities.

²⁹ As these cannot be determined statistically, they have not been factored in the analysis.

Table 2.43: Debt Maturity profile

Sl. No.	Year of Maturity	Maturity Profile	Amount (₹ in crore)			Per cent of total Public Debt
			Internal Debt	Loans & Advances from GoI	Total	
1	By 2022-23	0-1 year	17,499.90	364.74	17,864.64	7.62
2	Between 2023-24 & 2024-25	1-3 years	36,055.94	1,385.34	37,441.28	15.97
3	Between 2025-26 & 2026-27	3-5 years	39,698.78	1,236.31	40,935.09	17.46
4	Between 2027-28 & 2028-29	5-7 years	33,456.17	953.99	34,410.16	14.68
5	2029-2030 onwards	Above 7 years	73,719.72	4,054.13	77,773.85	33.16
6	Amount for which Maturity profile details not yet reconciled.		10,361.08	15,693.76	26,054.84	11.11
Total			2,10,791.59	23,688.27	2,34,479.86	100.00

Source: Finance Accounts

The debt maturity profile showed that ₹1,30,651.17 crore (56 per cent) of the debt is repayable within the next seven years and ₹77,773.85 crore (33 per cent) repayable beyond seven years.

2.14.1 Trend of repayment of principal and interest of outstanding debt stock in the next 10 years

The total debt outstanding as on 31 March 2022 was ₹2,34,479.86 crore. Repayment of principal and interest of Debt stock in the next ten years from 2022-23 is shown in the **Table 2.44** and **Chart 2.15**.

Table: 2.44: Trend of repayment of principal and interest of outstanding debt stock from 2022-23 to 2031-32

(₹ in crore)

Period	Repayment of Public Debt						Grand Total (Principal + Interest)
	Principal			Interest			
Year	Internal Debt*	Loans from GOI	Total	Internal Debt*	Loans from GoI**	Total	
2022-23	18,405.59	750.36	19,155.95	13,922.65	100.61	14,023.26	33,179.21
2023-24	18,863.31	692.67	19,555.98	12,695.79	73.06	12,768.85	32,324.83
2024-25	18,714.31	692.67	19,406.98	1,12,74.02	45.49	11,319.51	30,726.49
2025-26	20,124.95	735.18	20,860.13	9,980.45	19.02	9,999.47	30,859.60

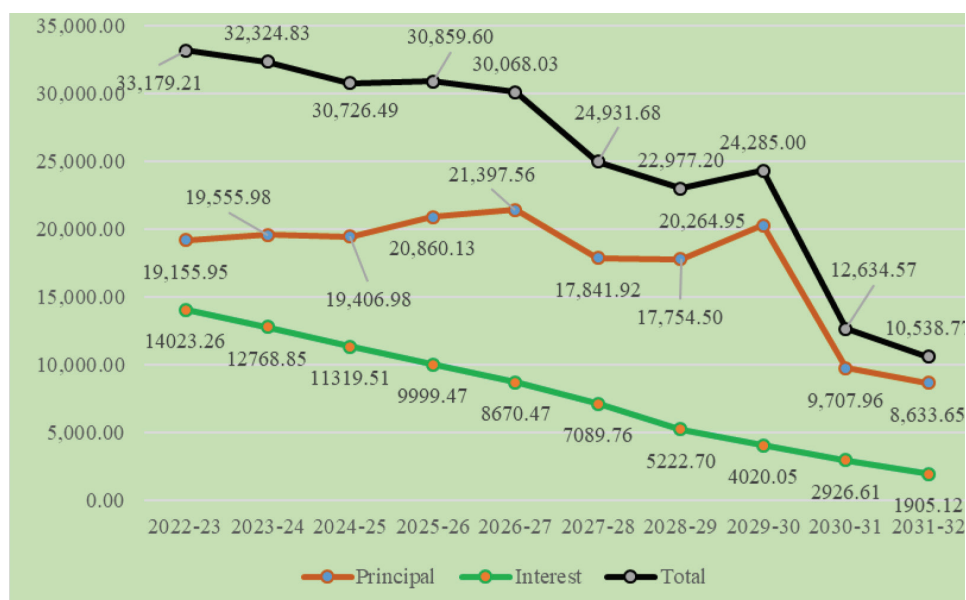
Period	Repayment of Public Debt						
Year	Principal			Interest			Grand Total (Principal + Interest)
	Internal Debt*	Loans from GOI	Total	Internal Debt*	Loans from GOI**	Total	
2026-27	20,896.43	501.13	21,397.56	8,657.54	12.93	8,670.47	30,068.03
2027-28	17,354.48	487.44	17,841.92	7,081.43	8.33	7,089.76	24,931.68
2028-29	17,287.95	466.55	17,754.50	5,217.97	4.73	5,222.70	22,977.20
2029-30	19,820.81	444.14	20,264.95	4,017.45	2.6	4,020.05	24,285.00
2030-31	9,271.25	436.71	9,707.96	2,925.49	1.12	2,926.61	12,634.57
2031-32	8,208.32	425.33	8,633.65	1,904.90	0.22	1,905.12	10,538.77
Total	1,68,947.40	5,632.18	1,74,579.58	77,677.69	268.11	77,945.80	2,52,525.38

* Does not include interest on LIC, GIC, NCDC, NABARD, NSSF, Other Financial institutions etc.

** Does not include interest on Back-to-back loans

Chart 2.15: Trend of repayment of principal and interest

(₹ in crore)



Out of the total outstanding debt of ₹2,34,479.86 crore, 74.45 per cent of the debt are repayable within next ten years.

2.15 Conclusions

1. Revenue resources

Revenue receipts of the State increased from ₹83,020.14 crore in 2017-18 to ₹1,16,640.24 crore in 2021-22, recording a growth of 40.49 *per cent* during the last five years. The State's own tax revenue, being the main source of revenue in revenue receipts increased by 25.57 *per cent* during the period 2017-22 and as compared to previous year, it grew by 22.41 *per cent*. Its share in revenue receipts decreased from 55.96 *per cent* in 2017-18 to 50.02 *per cent* in 2021-22, the reason of which is attributable to pandemic in 2019-20 and 2020-21.

2. Revenue expenditure

Revenue Expenditure of the State increased from ₹99,948.35 crore in 2017-18 to ₹1,46,179.51 crore in 2021-22 recording a growth of 46.26 *per cent* during the five-year period. Revenue expenditure as a percentage of total expenditure ranged between 88.88 and 91.88 *per cent* during the period showing predominance of revenue expenditure in total expenditure. Share of committed expenditure in revenue expenditure was 65.66 *per cent* during 2021-22 and it consumed 82.29 *per cent* of the revenue receipts during the year. Interest payments consumed 19.98 *per cent* of revenue receipts during 2021-22.

3. Quality of expenditure

Capital expenditure during the current year has increased by 10.10 *per cent* over the previous year but was less than the budget estimate by 38 *per cent*, which is indicative of the fact that the Government's resources were not sufficient enough to sponsor the budgeted capital projects especially. It is pertinent to mention here that the Committed Revenue Expenditure of the Government accounts for 82.29 *per cent* of the State's Revenue Receipts, which leaves little space for the Government to finance the capital projects. Thus, the priority assigned for capital expenditure had not shown significant improvement during the current year, especially when compared with the previous year when the Capital expenditure grew by 52 *per cent*.

The State Government invested ₹9,767.48 crore in Statutory Corporations, Government Companies, other Joint Stock Companies and Co-operatives. The average return on these investments was 1.57 *per cent* in the last five years while the Government paid an average interest rate of 7.34 *per cent* on its borrowings during 2017-18 to 2021-22. The interest receipt on loans and advances given by State Government was 0.26 *per cent* of outstanding loans and advances during 2021-22 against the average cost of borrowing of 7.00 *per cent*.

4. Reserve Funds and liabilities

The State Disaster Response Fund (SDRF) had an accumulated balance of ₹333.27 crore by the end of March 2022. As per the guidelines issued by GoI, accretions to SDRF have to be invested in GoI Securities/Treasury Bills by the State Executive Committee constituted for the management of the fund, which was not done.

5. Borrowed Funds

The Borrowed funds were not utilised prudently resulting in higher cost of debt than the return from the funds. Significant share of the borrowed funds were utilised for meeting the revenue expenditure. Public Debt was above the threshold of current fiscal balances and was not in proportion to the GSDP. The Government have no policy envisaging the rate of return, creation of assets and potential of increase in revenue resources.

2.16 Recommendations

- 1. The Government may take measures to improve its own tax revenue.*
- 2. Rules with regard to administration and investment pattern of various reserve funds are required to be framed. In addition, action to initiate/maintain proper accounting of the Fund balances should be put in place in the State's IFMS application so that the State's dues as well as Central dues are properly accounted for.*
- 3. The Government may take measures to improve its capital expenditure to augment its growth and development. The State Government should rationalise its investments so as to maximise the return on investment.*