



CHAPTER I OVERVIEW

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1.1 Profile of Kerala

The State is located at the southern end of the country, sharing borders with Tamil Nadu and Karnataka. Geographical area-wise, Kerala is ranked 22nd in the country with an area of 38,863 sq.km. The State has a population of 3.58 crore (14th in the country) and is ranked as the seventh most densely populated State with a density of 921 persons per sq.km. The decadal growth rate of population was 5.61 *per cent*, which is the second lowest among Indian States. The literacy rate of Kerala (94 *per cent*) is the highest among the Indian States. The general data relating to the State is given in **Appendix 1.1**.

1.2 Gross State Domestic Product of Kerala

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

Growth of GSDP is an important indicator of the State's economy, as it denotes the extent of changes in the level of economic development of the State over a period. Though the GSDP increased from ₹9,34,542 crore in 2021-22 to ₹10,46,188 crore recording a growth rate of 11.95 *per cent* in 2022-23, it was lower as compared to the growth rate of GDP. Growth rate of GSDP and GDP for the period from 2018-19 to 2022-23 are shown in **Table 1.1**.

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

Sl No	Year	2018-19	2019-20	2020-21	2021-22	2022-23
India						
1	GDP (₹ in crore) (2011-12 Series)	1,88,99,668	2,01,03,593	1,98,29,927	2,34,71,012	2,72,40,712
2	GVA (₹ in crore)	1,71,75,128	1,83,81,117	1,81,88,780	2,14,38,883	2,47,42,871
3	Growth rate of GDP over previous year (in <i>per cent</i>)	10.59	6.37	(-)1.36	18.36	16.06
4	Growth rate of GVA over previous year (in <i>per cent</i>)	10.77	7.02	(-)1.05	17.87	15.41
5	Per capita GDP (in ₹)	1,42,424	1,49,915	1,46,301	1,71,498	1,96,983

Sl No	Year	2018-19	2019-20	2020-21	2021-22	2022-23
Kerala¹						
6	GSDP (₹ in crore) (2011-12 Series)	7,88,286	8,12,935	7,71,724	9,34,542	10,46,188
7	GSVA (₹ in crore)	6,96,182	7,30,193	6,85,793	8,30,233	9,25,184
8	Growth rate of GSDP over previous year (in per cent)	12.36	3.13	(-5.07)	21.10	11.95
9	Growth rate of GSVA over previous year (in per cent)	9.66	4.89	(-6.08)	21.06	11.44
10	Per capita GSDP (in ₹)	2,27,397	2,33,338	2,20,400	2,65,560	2,95,787

Source: Details furnished by Directorate of Economics and Statistics, Kerala and the Economic Advisor

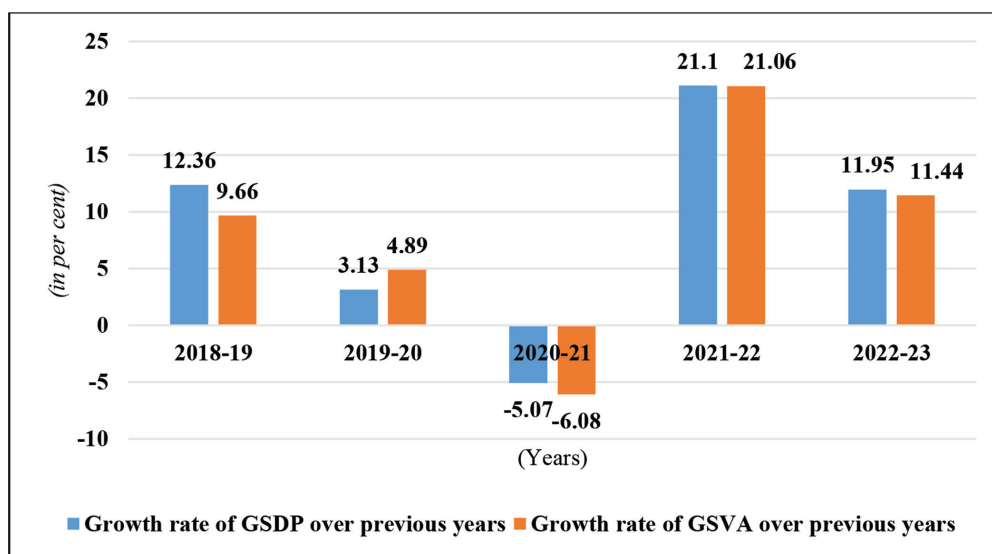
Kerala ranked 11th among all the States in the contribution to National GDP. During the five-year period from 2018-19 to 2022-23, the growth rate of GSDP shows a downward trend except in 2021-22. The significant growth in the year 2021-22 was mainly due to the fall in the GSDP in the previous year (negative growth) due to COVID 19 pandemic.

The per capita GSDP of the State for the year 2022-23 was ₹2,95,787 while that of the country was ₹1,96,983 which was 33.40 per cent lower than that of the State.

Gross Value Added (GVA) is being used for economic analysis by Government of India and international organisations like IMF and World Bank as GVA is considered better indicator of economic growth compared to GDP, as it ignores the impact of taxes and subsidies. While GDP can be and is also computed as the sum total of the various expenditures incurred in the economy including private consumption spending, government consumption spending and gross fixed capital formation or investment spending reflecting essentially on the demand conditions in the economy. Both measures have difference in treatment of net taxes as a result of which the inclusion of taxes in GDP may differ from the real output situation. From a policymaker's perspective it is therefore vital to have a comparison of the GVA and GSVA data for better analysis and making policy interventions.

The trends of GSDP and GSVA for the period from 2018-19 to 2022-23 are indicated in **Chart 1.1** below:

¹ Figures obtained from Directorate of Economics and Statistics, Government of Kerala

Chart 1.1: Growth rate of GSDP vs GSVA (2018-19 to 2022-23)

Source: Details furnished by Directorate of Economics and Statistics, Kerala and the Economic Advisor

1.2.1 Sectoral Contribution to GSDP

The economic activities are generally divided into Primary sector consisting of agriculture, mining, forestry, fishing etc., Secondary sector consisting of manufacturing, construction etc., and Tertiary sector consisting of services.

The comparison of sectoral contribution to GSDP over the years from 2018-19 to 2022-23 is given in **Table 1.2** below:

Table 1.2: Sectoral contribution to GSDP

<i>(in per cent)</i>						
Sl No.	Sector	2018-19	2019-20	2020-21	2021-22	2022-23
1	Primary	10.26	10.32	11.43	10.09	9.46
2	Secondary	21.58	20.93	21.89	21.84	22.27
3	Tertiary	56.48	58.57	55.55	56.91	56.70
4	Total*	88.32	89.82	88.87	88.84	88.43

* Taxes and subsidies excluded

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

The Tertiary sector continues to be the prime mover of the Kerala economy by contributing 56.70 per cent of GSDP during the current year. The contribution of Primary Sector to GSDP decreased from 10.26 per cent in 2018-19 to 9.46 per cent in 2022-23. However, the contribution of Secondary Sector to GSDP slightly increased from 21.58 per cent in 2018-19 to 22.27 per cent in the current year. Sector wise growth of GSDP in 2022-23 compared to 2021-22 and percentage contribution of some major economic activities to GSDP is given in the **Table 1.3** below:

Table 1.3: Some major economic activities and their contribution to GSDP*(₹ in crore)*

Sl No.	Sectors	Components	2021-22 (P)	2022-23 (Q)	Percentage increase/decrease (-)	Percentage contribution to GSDP
A	Primary	Agriculture, forestry and fishing	91,801.29	96,146.45	4.73	9.19
		Mining and quarrying	2,466.89	2,801.97	13.58	0.27
B	Secondary	Industries-Manufacturing	77,185.55	88,008.23	14.02	8.41
		Construction	1,12,857.28	1,27,889.57	13.32	12.22
		Electricity, gas, water supply & other utility services	14,028.47	17,121.53	22.05	1.64
C	Tertiary	Trade, repair, hotels and restaurants	1,50,193.53	1,68,977.51	12.51	16.15
		Real estate, ownership of dwelling & professional services	1,39,607.84	1,57,149.56	12.56	15.02
		Others + Taxes on Products - Subsidies	3,46,400.90	3,88,093.32	12.04	37.10
D		GSDP	9,34,541.75	10,46,188.14	11.95	100.00

*P - Provisional Estimate**Q - Quick Estimate**Source: Details furnished by Directorate of Economics and Statistics, Kerala.*

The major components in GSDP such as Agriculture and Industries Sectors which are crucial in determining the development, continue to lag far behind among the sectors. The Secondary sector recorded a positive growth in 2022-23 due to sharp increase in all the components in the sector *viz.* Manufacturing (14.02 per cent), Construction (13.32 per cent) and Electricity, gas, water supply & other utility services (22.05 per cent).

There was a decrease in the growth rate in all the three sectors during 2022-23 and as a result the overall growth rate of GSDP of the State during 2022-23 declined to 11.95 per cent when compared to the growth rate of 21.10 per cent in 2021-22.

1.3 Basis and Approach to State Finances Audit Report

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

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

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

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

An entry meeting was held (25 October 2023) with Finance Secretary, Finance Department, Government of Kerala, wherein the audit approach was explained, and the draft report was forwarded to the State Government for comments. Exit conference was conducted on 12 December 2023.

1.4 Overview of Government Accounts

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

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

This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans from Financial Institutions, Special Securities issued to National Small Savings Fund, *etc.*), Ways and Means advances extended by the Reserve Bank of India and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance

with law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditure (e.g., salaries of Constitutional authorities, loan repayments *etc.*), constitute a charge on the Consolidated Fund of the State (Charged expenditure) and are not subject to vote by the Legislature. All other expenditure (Voted expenditure) is voted by the Legislature.

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

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

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

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

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

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

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

The **Capital Receipts** consist of:

- **Debt receipts:** Market Loans, Bonds, Loans from financial institutions, Net transaction under Ways and Means Advances, Loans and Advances from Central Government, *etc.*;

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

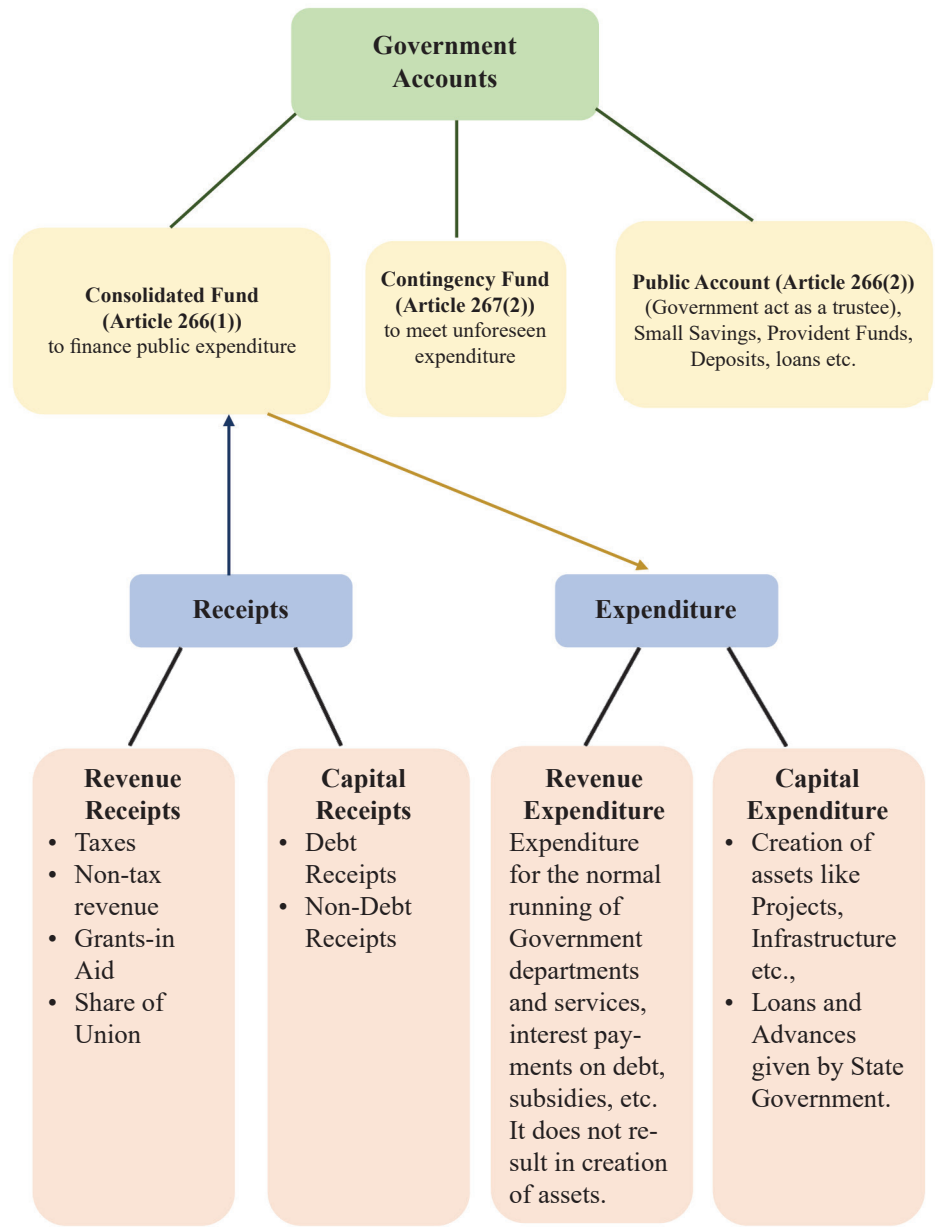
Capital Expenditure includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and loans and advances by the Government to PSUs and other parties.

Public Debt and Public Liability: In this Report ‘Public Debt’ has been taken to comprise market borrowings, institutional loans, special securities issued to National Small Savings Fund (NSSF), loan given by Central Government etc. For this purpose, the major heads 6003 and 6004 - Public Debt have been taken into consideration.

Further, the transactions relating to ‘Small Savings, Provident Fund, etc.’, ‘Reserve Funds’ and ‘Deposit and Advances’ under Public Account are such that the Government incurs a liability to repay the moneys received or has a claim to recover the amounts paid. The transactions relating to ‘Remittances’ and ‘Suspense’ under Public Account, includes merely adjusting heads such as transactions as remittances of cash between treasuries and currency chests and transfer between different accounting circles. In this Report, ‘Public Liability’ has been taken to include the transactions under major heads 8009 to 8554 relating to ‘Small Savings, Provident Fund, etc.’, ‘Reserve Funds’ and ‘Deposit and Advances’ along with the transactions under major heads 6003 and 6004.

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

Chart 1.2: Structure of Government Accounts



1.5 Snapshot of Finances of the State Government

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

1.5.1 Snapshot of the Finances

Table 1.4 provides the details of Actuals *vis-a-vis* Budget Estimates for the year 2022-23 *vis-a-vis* actuals of 2021-22. Details of five years is given in **Appendix 1.2**.

Table 1.4: Snapshot of the Finances

(*₹ in crore*)

Sl. No.	Components	2021-22 (Actuals)	2022-23 (Budget Estimate)	2022-23 (Actuals)	Percentage of Actuals to B.E	Percentage of Actuals (2022-23) to GSDP
1.	Tax Revenue	76,160.61	91,818.30	90,228.84	98.27	8.62
i	Own Tax Revenue	58,340.52	74,097.80	71,968.16	97.13	6.88
ii	Share of Union taxes/duties	17,820.09	17,720.50	18,260.68	103.05	1.75
2	Non-Tax Revenue	10,462.51	11,769.55	15,117.95	128.45	1.45
3.	Grants-in-aid and Contributions	30,017.12	30,509.95	27,377.86	89.73	2.62
4.	Revenue Receipts (1+2+3)	1,16,640.24	1,34,097.80	1,32,724.65	98.98	12.69
5.	Recovery of Loans and Advances	479.24	323.50	409.29	126.52	0.04
6.	Other Receipts	60.27	49.60	49.94	100.69	0
7.	Borrowings and other Liabilities	45,958.35	39,086.02	26,031.09	66.60	2.49
8.	Capital Receipts (5+6+7)	46,497.86	39,459.12	26,490.32	67.13	2.53
9	Total Receipts (4+8)	1,63,138.10	1,73,556.92	1,59,214.97	91.74	15.22
10.	Revenue Expenditure	1,46,179.51	1,57,065.89	1,41,950.93	90.38	13.57
11.	Interest payments (included in Sl. No.10)	23,302.82	25,965.86	25,176.36	96.96	2.41
12.	Capital Expenditure	14,191.73	14,890.76	13,996.56	93.99	1.34
13	Loans and advances	2,854.29	1,630.87	2,790.93	171.13	0.27
14	Total Expenditure (10+12+13)	1,63,225.53	1,73,587.52	1,58,738.42	91.45	15.17
15	Revenue Deficit (4-10)	29,539.27	22,968.09	9,226.28	40.17	0.88
16	Fiscal Deficit {14-(4+5+6)}	46,045.78	39,116.62	25,554.54	65.33	2.44
17	Primary Deficit (16-11)	22,742.96	13,150.76	378.18	2.88	0.04
	Buoyancy Ratio					
	Revenue Receipt	0.92	0.20	1.15		
	Revenue Expenditure	0.87	0.52	(-)0.24		

Source: Statement 2 of Finance Accounts for 2021-22 and 2022-23.

The State received compensation of ₹7,245.97 crore as grants under revenue receipts on account of loss of revenue arising out of the implementation of GST during 2022-23.

The revenue receipts of the State increased by ₹16,084.41 crore (13.79 per cent) during 2022-23 as compared to the previous year, and revenue expenditure decreased by ₹4,228.58 crore (2.89 per cent). This led to a decrease in revenue deficit by ₹20,312.99 crore during the year as compared to the previous year. Fiscal deficit also decreased by ₹20,491.24 crore during 2022-23 as compared to 2021-22.

1.5.2 Snapshot of Assets and Liabilities as on 31 March 2023

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Table 1.5** give an abstract of such assets and liabilities as on 31 March 2023. While the liabilities consist mainly of internal borrowings, loans and advances from GoI, and receipts from the Public Account, the assets mainly comprises the capital outlay and loans and advances given by the State Government and its cash balances.

Table 1.5: Summarised position of Assets and Liabilities

(₹ in crore)

Liabilities				Per cent increase(+)/ decrease(-)	Assets				
	2021-22	2022-23			2021-22	2022-23	Per cent increase(+)/ decrease(-)		
Consolidated Fund									
A	Internal Debt	2,10,791.59	2,27,137.07	7.75	a	Gross Capital Outlay	1,07,723.92	1,21,670.54	12.95
B	Loans and Advances from GOI	23,688.27	25,369.21	7.10	b	Loans and Advances	22,086.89	24,468.53	10.78
	Contingency Fund	100	100	0.00					
Public Account									
A	Small Savings, Provident Funds, etc.	1,15,666.60	1,24,190.92	7.37	a	Advances	60.29	59.64	(-1.08)
B	Deposits	6,419.34	7,603.72	18.45	b	Remittance	1,473.31	1,125.12	(-23.63)
C	Reserve Funds	3,374.97	3,452.19	2.29	c	Suspense and Miscellaneous			
D	Suspense and Miscellaneous	322.03	229.25	(-28.81)		Cash balance (including investment in Earmarked Fund)	7,477.96	9,991.68	33.62
E	Remittance								
						Total	1,38,822.37	1,57,315.51	13.32
						Deficit in Revenue Account	2,21,540.43	2,30,766.85	4.16
	Total	3,60,362.80	3,88,082.36	7.69		Total	3,60,362.80	3,88,082.36	7.69

Summarised position of Assets and Liabilities as on 31 March 2023 is given in the **Appendix 1.3**. As on 31 March 2023, the State Government had an accumulation of liabilities of ₹3,88,082.36 crore for its activities against which, only ₹1,21,670.54 crore (31.35 per cent) was used for capital creation. The State

had utilised ₹2,30,766.85 crore (59.46 per cent) for meeting the cumulative revenue deficit of the State. In other words, in each financial year more than 50 per cent of additional liabilities were being created to meet its revenue expenditure. The same pattern was repeated in 2022-23, wherein 59.46 per cent of the additional liabilities created was for meeting the revenue deficit of the State.

1.6 Fiscal Balance: Achievement of deficit and total debt target

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

The trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set under the Kerala Fiscal Responsibility Act (KFR) for the financial year 2022-23 are detailed below.

1.6.1 Revenue Deficit

Revenue Deficit is the difference between revenue expenditure and revenue receipts in the Consolidated fund. When the Government incurs a revenue deficit, it implies that the Government is dissaving and is using up the savings of the other sectors of the economy to finance a part of its consumption expenditure. As per KFR (Amendment) Act 2022, Government shall achieve Revenue Surplus of 0.80 per cent of GSDP during 2022-23. However, revenue deficit for the year 2022-23 was ₹9,226.28 crore. The revenue deficit of the State decreased by ₹20,312.99 crore (68.77 per cent) from ₹29,539.27 crore in 2021-22 to ₹9,226.28 crore in 2022-23.

1.6.2 Fiscal Deficit

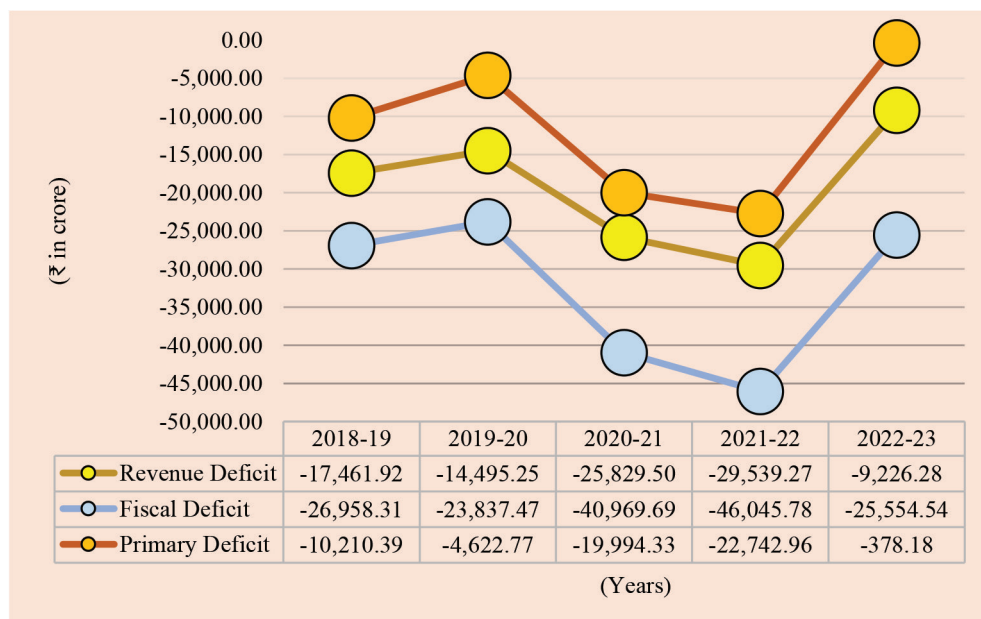
Fiscal deficit (FD) is the gap between total receipts (excluding borrowings) and total expenditure in the Consolidated fund. This gap, therefore, indicates the extent to which expenditure is financed by borrowings. The fiscal deficit for the year was ₹25,554.54 crore as compared to ₹46,045.78 crore in 2021-22. In the year 2022-23, fiscal deficit which represents the total borrowings of the Government decreased by ₹20,491.24 crore (44.50 per cent) in comparison to previous year. As per KFR (Amendment) Act 2022, the target for fiscal deficit as percentage to GSDP was 4 per cent. During the current year the FD/GSDP ratio stood at 2.44 per cent against 4.93 per cent in the previous year.

1.6.3 Primary Deficit

Primary deficit refers to the fiscal deficit minus the interest payments. The primary deficit for the year 2022-23 was ₹378.18 crore which highlights that out of the borrowed funds of ₹25,554.54 crore, ₹25,176.36 crore (98.52 per cent) was utilised for the payment of interest and only a meagre amount of ₹378.18 crore was available for growth and developmental activities.

The trends of deficits over the period 2018-19 to 2022-23 are presented in **Appendix 1.2. Chart 1.3** presents the trends in deficit indicators over the period 2018-19 to 2022-23.

Chart 1.3: Trends in Deficit Parameters



Source: Finance Accounts of respective years.

As per Government of India FRBM Act, the Central Government Debt at any date includes total outstanding liabilities on the security of the Consolidated Fund of India, including external debt valued at current exchange rates; total outstanding liabilities in the Public Account of India; and such financial liabilities of any body corporate or other entity owned or controlled by the Central Government which the Government is to repay or service from the annual financial Statement reduced by the cash balance at the end of that date. However, such a definition was not seen in the Kerala Fiscal Responsibility Act, 2003 or its subsequent amendments thereon.

1.6.4 Manner of Financing Deficits

Deficits are to be financed by borrowings, which lead to Government debt. The concepts of deficits and debt are closely related. Deficits can be thought of as a flow which add to the stock of debt. If the Government continues to borrow year after year, it leads to the debt accumulation and increases the burden of interest payment. These interest payments themselves contribute to the debt. Fiscal liabilities of the State comprises of Consolidated Fund liabilities and Public Account liabilities. Details of outstanding liabilities for the year 2022-23 compared to previous year are given in **Table 1.6** below:

Table 1.6 Fiscal liabilities of the State

(₹ in crore)

	Fiscal liabilities	2021-22	2022-23	Difference Increase(+) Decrease(-)
A	Total Consolidated Fund liabilities	2,34,479.86	2,52,506.28	18,026.42
i	Market loans	1,83,522.04	1,99,142.04	15,620.00
ii	Loans from the GoI*	23,688.27	25,369.21	1,680.94
iii	Other Loans	27,269.55	27,995.03	725.48
B	Off Budget Borrowings	24,272.67	29,475.97	5,203.30
C	Total Public Account liabilities	1,22,912.90	1,32,524.10	9,611.20
i	Small Savings, PF etc.	1,15,666.60	1,24,190.92	8,524.32
ii	Interest bearing obligations	472.25	395.01	(-)77.24
iii	Non-interest-bearing obligations like Deposits and other earmarked funds	6,774.05	7,938.17	1,164.12
	Total Liabilities (A+B+C)	3,81,665.43	4,14,506.35	32,840.92

**Effective Loans and Advances from GoI for the year 2022-23 would be ₹10,863.90 crore (for the year 2021-22 ₹9,182.96 crore) as the Department of Expenditure, GoI had decided that GST compensation of ₹14,505.31 crore given to the State as back to back loan under debt receipts would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.*

The Consolidated fund liabilities increased by 7.69 per cent and the Public Account Liabilities increased by 7.82 per cent during 2022-23 when compared to 2021-22.

1.6.5 Achievement of fiscal targets

The State Government enacted the Kerala Fiscal Responsibility Act, 2003, to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit and sustainable debt management consistent with fiscal stability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium-term framework and for matters connected therewith. The State Government amended its Fiscal Responsibility Act from time to time keeping in view the fiscal parameters prescribed by successive Finance Commissions.

As per KFR (Amendment) Act, 2022, Government shall eliminate the Revenue deficit completely during the period from 2021-22 to 2025-26 and shall make Revenue Surplus in the order of 0.50 per cent, 0.80 per cent, 1.20 per cent, 1.70 per cent and 2.50 per cent of the GSDP in the respective years. Government could reduce the RD/GSDP ratio from (-)3.16 per cent in 2021-22 to (-)0.88 per cent in 2022-23 which is an indication that efforts are underway to reduce the deficit. Major fiscal parameters as targeted in the KFR (Amendment) Act, 2022 along with actuals thereof are given in **Table 1.7**.

Table 1.7: Compliance with provisions of KFR Act

Sl No.	Fiscal Parameters	Fiscal targets	Actuals				
			2018-19	2019-20	2020-21	2021-22	2022-23
1	Revenue Deficit (₹ in crore)	zero	(-)17,461.92	(-)14,495.25	(-)25,829.50	(-)29,539.27	(-)9,226.28
2		3 per cent (up to 2019-20)	3.42	2.93	-	-	-
3	Fiscal Deficit (as percentage of GSDP)	5 per cent in 2020-21, 4 per cent in 2021-22 and 4 per cent in 2022-23	-	-	5.31	4.93	2.44
4	Ratio of total outstanding liability to GSDP (in per cent)	34.50 per cent in 2022-23 ²	30.65	32.64	39.21	36.69	35.42

Source: Statement 2 of Finance Accounts and KFR Act.

The ratio of total outstanding liability to GSDP (35.42 per cent) during 2022-23 has been arrived at after excluding GST compensation of ₹14,505.31 crore given to the State as back-to-back loan under debt receipts from the total outstanding liabilities as the Department of Expenditure, GoI had decided that it would not be treated as debt of the State for any norms which may be prescribed by the Finance Commission.

The State Government had not made any disclosure on the Off-budget borrowings through KIIFB (₹17,742.68 crore) and KSSPL (₹11,733.29 crore) in the State budget, which led to an understatement of Government liabilities by ₹29,475.97 crore. Taking into account the off-budget borrowing of the State, the liability/GSDP ratio stands at 38.23 per cent.

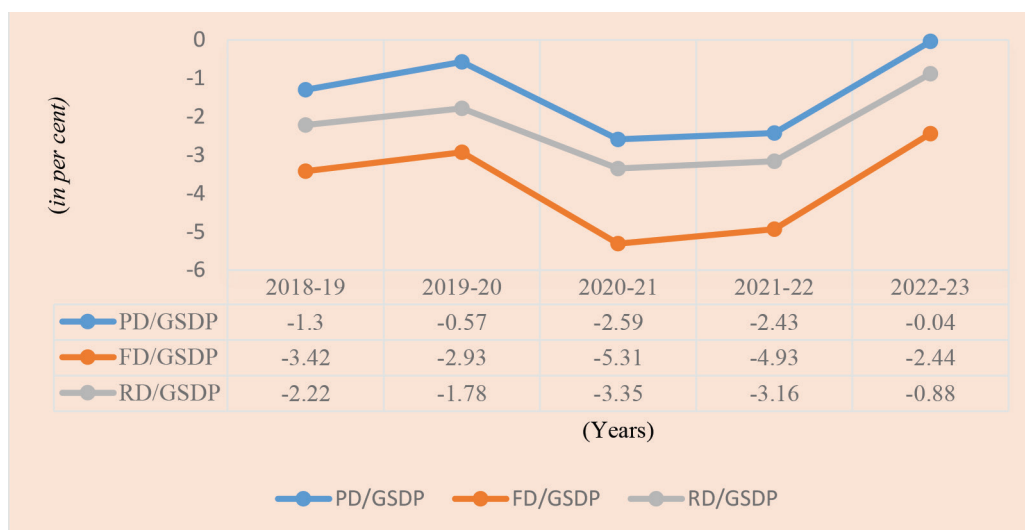
Though the target prescribed in KFR Act over the years was to eliminate Revenue deficit completely and to achieve revenue surplus during 2017-18 to 2022-23, the State continued to be revenue deficit during the period. The ratio of total outstanding liability to GSDP (i.e. 35.42 per cent) also remained beyond the target fixed in the Act for the year 2022-23 (i.e. 34.50 per cent). However, the State had been able to contain the fiscal deficit to GSDP ratio within 4 per cent.

Chart 1.4 provides the trends in deficit indicators relative to GSDP for the period

² 30.01 per cent in 2018-19, 29.67 per cent in 2019-20 and 2020-21 and 34.70 per cent in 2021-22

from 2018-19 to 2022-23.

Chart 1.4: Trends in deficit indicators relative to GSDP



Source: Compiled from Finance Accounts of respective years

From the above, it can be seen that the ratio of revenue deficit, fiscal deficit and primary deficit to GSDP decreased in 2022-23 as compared to the previous year. The post audit deficit figures are explained in paragraph 1.7.

The fiscal deficit as a percentage to GSDP was recorded at 2.44 *per cent* during 2022-23 which is below the fiscal deficit target of four per cent. This is mainly attributable to the fact that the revenue expenditure has exceeded the revenue receipts only by 6.95 *per cent* during the current year. Further, the total expenditure of the State decreased by ₹4,487.11 crore (2.75 *per cent*) during 2022-23 as compared to the previous year.

In accordance with the Kerala Fiscal Responsibility Act, 2003 the State Government presents the Medium-Term Fiscal Policy (MTFP) and Strategy Statement (included as **Appendix 1.4**) before the State Legislature every year.

A comparison of targets for fiscal parameters projected in MTFP presented to the State Legislature with actuals for the current year is given below in **Table 1.8**.

Table 1.8: Actuals vis-à-vis projection in MTFP for 2022-23

(₹ in crore)				
Sl. No.	Fiscal Variables	Projection as per MTFP	Actuals (2022-23)	Variation (in per cent) with reference to Projections as per MTFP
1	Own Tax Revenue	74,097.80	71,968.16	(-2.87
2	Non-Tax Revenue	11,769.55	15,117.95	28.45

Sl. No.	Fiscal Variables	Projection as per MTFP	Actuals (2022-23)	Variation (in per cent) with reference to Projections as per MTFP
3	Resources from Centre (Share of Central taxes and Grant-in-aid from GoI)	48,230.45	45,638.54	(-)5.37
4	Revenue Receipts (1+2+3)	1,34,097.80	1,32,724.65	(-)1.02
5	Revenue Expenditure	1,57,065.89	1,41,950.93	(-)9.62
6	Revenue Deficit (-) (4 - 5)	(-)22,968.09	(-)9,226.28	(-)59.83
7	Fiscal Deficit (-)/ Surplus (+)	(-)39,116.61	(-)25,554.54	(-)34.67
8	FD/GSDP	3.91	2.44	
9	Liability-GSDP ratio (per cent)	37.18	35.42*	
10	GSDP growth rate at current prices (per cent)	10.83	11.95	

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

* The back-to-back Loan (₹14,505.31 crore) received from GoI in lieu of GST compensation has not been considered as Debt for working out the indicator.

Taking into account the off-budget borrowing of the State, the liability/ GSDP ratio stands at 38.23 per cent.

Though revenue and fiscal deficits were less than the projections as per MTFP, the state could not achieve many of the targets fixed by the State Government in its MTFP during 2022-23. This indicates that the fiscal parameters achieved by the State during 2022-23 stands clearly outside the fiscal policies and indicators as laid out in the MTFP.

Post audit analysis revealed that Revenue deficit and Fiscal deficit of the State during 2022-23 were understated by ₹2,186.36 crore and ₹1,998.71 crore respectively. As a result, the Fiscal deficit as a percentage of GSDP was 2.63 per cent.

1.7 Deficits and total debt after examination in Audit

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

1.7.1 Post audit Analysis

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

Table 1.9: Revenue and Fiscal Deficit post examination by Audit*(₹ in crore)*

Sl No.	Particulars	Revenue Deficit	Fiscal Deficit	Paragraph reference
1	Pre Audit deficit	9,226.28	25,554.54	
2	Audit findings having an impact on deficit \$			
a	Non-contribution to Guarantee Redemption Fund	(+)268.45	(+)268.45	2.8.2
b	Expenditure booked under Revenue section instead of Capital	(-)12.35		3.5.2
c	Deferment of clear cut liabilities	(+)556.00	(+)556.00	4.1
d	Non discharge of Interest liabilities • Interest on State Compensatory Afforestation Fund - ₹1.83 crore	(+)1.83	(+)1.83	2.5.2.2
e	Resumption of Funds from State Treasury Savings Bank Account	(+)200		4.7.2
f	Resumption of non-Governmental funds of KSSPL	(+)1,116.87	(+)1,116.87	4.7.2
g	Non-transfer of Kerala Road Safety Fund	(+)55.56	(+)55.56	4.4
3	Total of all post audit findings	2,186.36	1,998.71	
4	Post Audit deficit (1+3)	11,412.64	27,553.25	

Source: Compiled from Finance Accounts and audit analysis.

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

The Revenue and Fiscal deficit of the State are understated by ₹2,186.36 crore and ₹1,998.71 crore respectively. On post audit analysis, the fiscal deficit as percentage of GSDP was 2.63 per cent.

Further, the post audit analysis also reveals that the State Government resorted to off-budget borrowing of ₹8,058.91 crore through Kerala Infrastructure Investment Fund Board (KIIFB) (₹5,109.24 crore), and Kerala Social Security Pension Limited (KSSPL) (₹2,949.67 crore) in 2022-23. It was in addition to the liabilities of ₹3,85,030.38 crore as mentioned in Finance Accounts 2022-23. As on 31 March 2023, KIIFB and KSSPL together have an outstanding liability of ₹29,475.97 crore (Chapter II). Thus, taking into account the off-budget borrowing, the overall liability of the State stands at ₹4,14,506.35 crore and the Liability/GSDP ratio stands at 38.23 per cent (excluding back-to-back loan of ₹14,505.31 crore) which is way above the fiscal target of 34.50 per cent.