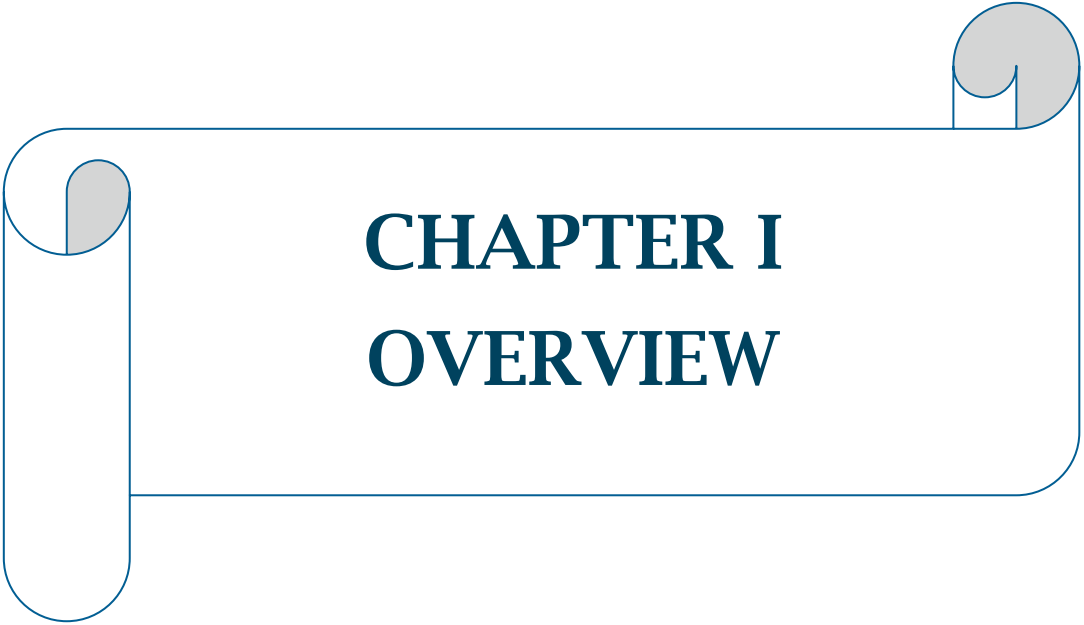


A decorative graphic of a scroll with a blue outline and grey shading on the rolled-up ends, framing the chapter title.

CHAPTER I

OVERVIEW

CHAPTER I

OVERVIEW

1.1 Profile of Kerala

The State is located at the southern end of the country, sharing borders with Tamil Nadu and Karnataka. Geographical area-wise, Kerala is ranked 22nd in the country with an area of 38,863 sq.km. The State has a population of 3.59 crore with a density of 924.53 persons per sq.km. The decadal growth rate of population was 5.31 *per cent*, which is the third 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**.

1.1.1 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. The GSDP increased from ₹10,23,602 crore in 2022-23 to ₹ 11,46,109 crore in 2023-24 recording a growth rate of 11.97 *per cent* and it was higher than the growth rate of GDP for the year. Growth rate of GSDP and GDP for the period from 2019-20 to 2023-24 are shown in **Table 1.1**.

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

Sl No	Year	2019-20	2020-21	2021-22	2022-23	2023-24
India						
1	GDP (₹ in crore) (2011-12 Series)	2,01,03,593	1,98,54,096	2,35,97,399	2,69,49,646	2,95,35,667
2	GVA (₹ in crore)	1,83,81,117	1,82,10,997	2,16,35,584	2,46,59,041	2,67,62,147
3	Growth rate of GDP over previous year (<i>in per cent</i>)	6.37	(-) 1.24	18.85	14.21	9.60
4	Growth rate of GVA over previous year (<i>in per cent</i>)	7.02	(-) 0.93	18.81	13.97	8.53
5	Per capita GDP (in ₹)	1,49,915	1,46,480	1,72,422	1,94,879	2,11,725

Sl No	Year	2019-20	2020-21	2021-22	2022-23	2023-24
Kerala¹						
6	GSDP (₹ in crore) (2011-12 Series)	8,12,935	7,71,724	9,24,465	10,23,602	11,46,109
7	GSVA (₹ in crore)	7,30,193	6,85,793	8,23,032	9,16,148	10,26,044
8	Growth rate of GSDP over previous year (<i>in per cent</i>)	3.13	(-)5.07	19.79	10.72	11.97
9	Growth rate of GSVA over previous year (<i>in per cent</i>)	4.89	(-)6.08	20.01	11.31	12.00
10	Per capita GSDP (in ₹)	2,33,338	2,20,400	2,59,878	2,86,595	3,17,723

Source: Directorate of Economics and Statistics, Government of Kerala

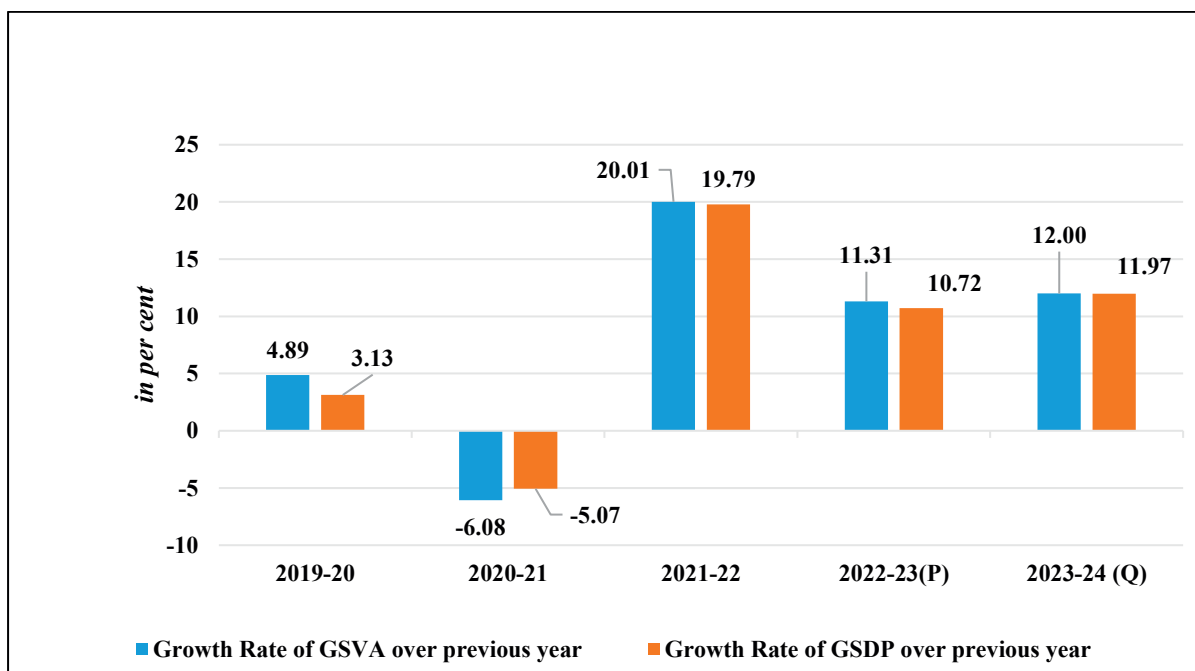
Kerala ranked 11th among all the States in the contribution to National GDP. During the five-year period from 2019-20 to 2023-24, the growth rate of GSDP shows a fluctuating trend. The significant growth in the year 2021-22 was mainly due to the fall in the GSDP in the previous year (negative growth) due to COVID 19 pandemic.

The per capita GSDP of the State for the year 2023-24 was ₹ 3,17,723 while that of the country was ₹2,11,725 which was 33.36 *per cent* lower than that of the State.

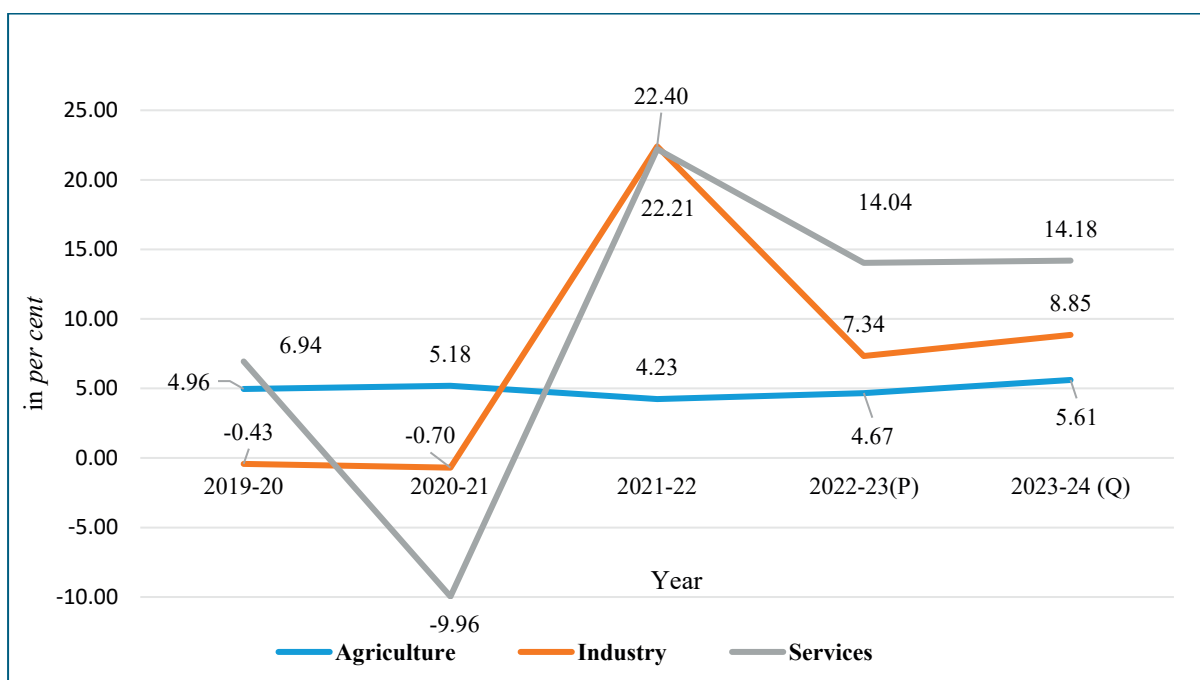
Gross Value Added (GVA) is being used for economic analysis by Government of India and international organisations like IMF and World Bank as GVA is considered better indicator of economic growth compared to GDP, as it ignores the impact of taxes and subsidies. While GDP can be and is also computed as 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 and sectoral growth in GSDP at current prices for the period from 2019-20 to 2023-24 are indicated in **Chart 1.1** and **1.2** respectively.

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

Chart 1.1: Growth rate of GSDP vs GSVA (2019-20 to 2023-24)

Source: Directorate of Economics and Statistics, Government of Kerala

Chart 1.2: Sectoral growth in GSDP

Source: Directorate of Economics and Statistics, Government of Kerala

Chart 1.2 shows that, during 2023-24, there was growth of 8.85 *per cent* in the Industry Sector, which was attributed to increased growth in mining and quarrying, manufacturing, construction and other utility services sub-sectors. During 2023-24, Service Sector grew by 14.18 *per cent* due to increased growth in all the sub sectors under Services Sectors. Growth rate in Agriculture Sector was 5.61 *per cent* during 2023-24 due to increased growth in crops, livestock and forestry sub sectors.

The growth in all the three sectors led to an overall increase in GSDP by 11.97 per cent during 2023-24 when compared to 2022-23.

1.2 Basis and Approach to State Finances Audit Report

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

The 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 Accountant General (Audit) and certified by the CAG.

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

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

An entry meeting was held on 07 October 2024 with Additional Secretary (Finance), Finance Department, Government of Kerala, wherein the audit approach was explained, and the draft report was forwarded to the State Government on 08 November 2024 for comments. Exit conference was conducted on 16 December 2024.

1.3 Overview of Government Accounts-Structure & Budgetary Process

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

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

This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central

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

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

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

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

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

Budget Document

There is a constitutional requirement in India (Article 202) to present before the House or Houses of the Legislature of the State, a statement of estimated receipts and expenditures of the Government in respect of every financial year. This 'Annual Financial Statement' constitutes the main budget document. Further, 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:

- **Public 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.

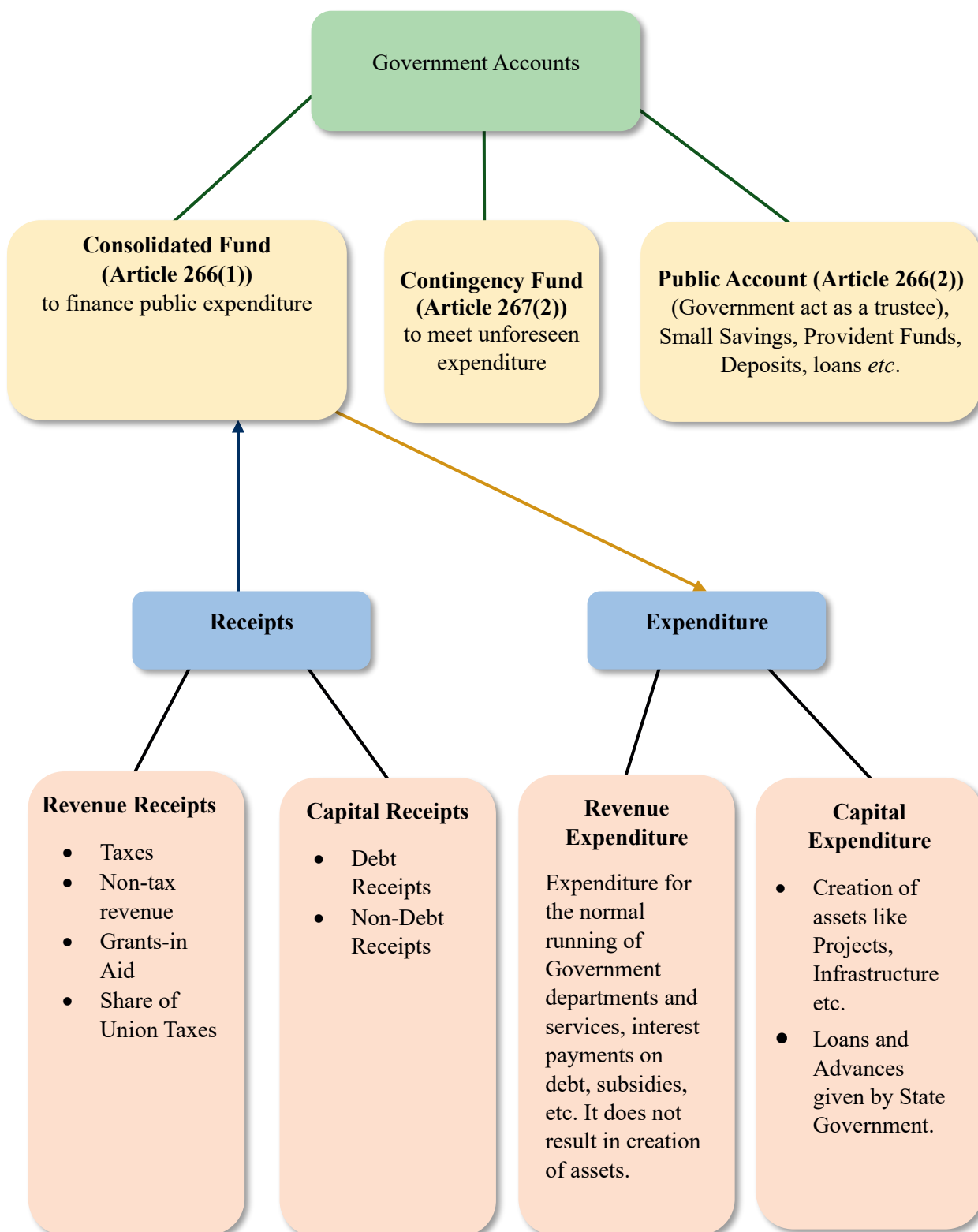
Further, the transactions relating to 'Small Savings, Provident Fund, *etc.*', 'Reserve Funds' and 'Deposit and Advances' under Public Account are such that the Government incurs a liability to repay the moneys received or has a claim to recover the amounts paid.

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 1.3** below

Chart 1.3: Structure of Government Accounts



Budgetary Processes

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

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

1.3.1 Snapshot of Finances

Table 1.2 provides the details of Actuals *vis-a-vis* Budget Estimates for the year 2023-24 vis-a-vis actuals of 2022-23. Details of five years are given in **Appendix 1.2**.

Table 1.2: Snapshot of Finances

(₹ in crore)

Sl. No.	Components	2022-23 (Actuals)	2023-24 (Budget Estimate)	2023-24 (Actuals)	Percentage of Actuals to B.E.	Percentage of Actuals (2023-24) to GSDP
1.	Tax Revenue	90,228.84	1,02,464.02	96,071.93	93.76	8.38
i	Own Tax Revenue	71,968.16	81,038.77	74,329.01	91.72	6.49
ii	Share of Union taxes/duties	18,260.68	21,425.25	21,742.92	101.48	1.90
2	Non-Tax Revenue	15,117.95	17,088.62	16,345.96	95.65	1.43
3.	Grants-in-aid and Contributions	27,377.86	15,866.03	12,068.26	76.06	1.05
4.	Revenue Receipts (1+2+3)	1,32,724.65	1,35,418.67	1,24,486.15	91.93	10.86
5.	Recovery of Loans and Advances	409.29	941.75	714.80	75.90	0.06
6.	Other Receipts	49.94	66.30	47.51	71.66	
7.	Borrowings (Net Public debt)	18,026.41	28,552.79	29,989.02	105.03	2.62
8.	Capital Receipts (5+6+7)	18,485.64	29,560.84	30,751.33	104.03	2.68
9	Total Receipts (4+8)	1,51,210.29	1,64,979.51	1,55,237.48	94.10	13.54
10.	Revenue Expenditure	1,41,950.93	1,59,360.91	1,42,626.34	89.50	12.44
11.	Interest payments (included in Sl. No.10)	25,176.36	26,246.99	26,986.22	102.82	2.35
12.	Capital Expenditure	13,996.56	14,605.53	13,584.45	93.01	1.19
13	Loans and advances	2,790.93	2,122.51	3,295.72	155.27	0.29
14	Total Expenditure (10+12+13)	1,58,738.42	1,76,088.95	1,59,506.51	90.58	13.92
15	Revenue Deficit (4-10)	9,226.28	23,942.24	18,140.19	75.77	1.58
16	Fiscal Deficit {14-(4+5+6)}	25,554.54	39,662.23	34,258.05	86.37	2.99

Sl. No.	Components	2022-23 (Actuals)	2023-24 (Budget Estimate)	2023-24 (Actuals)	Percentage of Actuals to B.E.	Percentage of Actuals (2023-24) to GSDP
17	Primary Deficit (16-11)	378.18	13,415.24	7,271.83	54.21	0.63
Buoyancy Ratio						
	Revenue Receipt	1.29	0.07	#		
	Revenue Expenditure	#	0.11	0.04		

Source: Statement 2 of Finance Accounts.

Buoyancy ratio not calculated as rate of growth was negative

The State received compensation of ₹737.88 crore as grants under revenue receipts on account of loss of revenue arising out of the implementation of GST during 2023-24.

The revenue receipts of the State decreased by ₹8,238.50 crore (6.21 per cent) during 2023-24 as compared to the previous year, and revenue expenditure increased by ₹675.41 crore (0.48 per cent). This led to an increase in revenue deficit by ₹8,913.91 crore during the year as compared to the previous year. Fiscal deficit increased by ₹8,703.51 crore during 2023-24 as compared to 2022-23.

1.3.2 Snapshot of Assets and Liabilities as on 31 March 2024

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 1.3** gives a summarised position of such assets and liabilities as on 31 March 2024. 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 1.3: Summarised position of Assets and Liabilities

(₹ in crore)

Liabilities					Assets				
		2022-23	2023-24	Per cent increase (+) decrease (-)			2022-23	2023-24	Per cent increase (+) decrease (-)
Consolidated Fund									
A	Internal Debt	2,27,137.07	2,57,157.92	13.22	a	Gross Capital Outlay	1,21,784.75	1,35,321.69	11.12
B	Loans and Advances from GOI	25,369.21	25,337.38	(-) 0.13	b	Loans and Advances	24,357.02	26,937.94	10.60
	Contingency Fund	100.00	100.00	-					

Liabilities					Assets				
		2022-23	2023-24	Per cent increase (+) decrease (-)			2022-23	2023-24	Per cent increase (+) decrease (-)
Public Account									
A	Small Savings, Provident Funds, etc.	1,24,190.92	1,23,944.24	(-) 0.20	a	Advances	59.64	59.43	(-) 0.35
B	Deposits	7,603.72	7672.17	0.90	b	Remittance	1,125.12	-	
C	Reserve Funds	3,452.19	4,156.65	20.41	c	Suspense and Miscellaneous		-	
D	Suspense and Miscellaneous	229.25	143.98	(-) 37.20		Cash balance (including investment in Earmarked Fund)	9,991.68	7367.38	(-) 26.26
E	Remittance		81.91			Total	1,57,318.21	1,69,686.44	7.86
						Deficit in Revenue Account	2,30,764.15	2,48,907.81	7.86
	Total	3,88,082.36	4,18,594.25	7.86		Total	3,88,082.36	4,18,594.25	7.86

Source: Finance Accounts

Abstract of Assets and Liabilities as on 31 March 2024 is given in the **Appendix 1.3**. As on 31 March 2024, the State Government had an accumulation of liabilities of ₹4,18,594.25 crore for its activities against which, only ₹1,35,321.69 crore (32.33 *per cent*) was used for capital creation. The State had utilised ₹ 2,48,907.81 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 2023-24, wherein 59.46 *per cent* of the additional liabilities created was for meeting the revenue deficit of the State.

1.4 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.

Deficits are financed by borrowing giving rise to Government debt. The concepts of deficits and debt are closely related. Deficits can be thought of as a flow which adds to the stock of debt. If the Government continues to borrow year after year, it leads to accumulation of debt and the Government has to pay more and more by way of interest. These interest payments themselves contribute to the debt.

By borrowing, the Government entails the burden of reduced consumption on future generations. This is because it borrows by issuing bonds to the people living at present but may decide to pay off the bonds some twenty years later by raising taxes or reducing expenditure. Also, Government borrowing from the people reduces the savings available to the private sector. To the extent that this

reduces capital formation and growth, debt acts as a 'burden' on future generations.

However, if Government deficits succeed in their goal of raising production, there will be more income and, therefore, more saving. In this case, both Government and industry can borrow more. Also, if the Government invests in infrastructure, future generations may be better off, provided the return on such investments is greater than the rate of interest. The actual debt could be paid off by the growth in output. The debt should not then be considered burdensome. The growth in debt will have to be judged by the growth of the economy (State GDP) as a whole.

Government deficit can be reduced by an increase in taxes or reduction in expenditure. However, the major thrust has been towards reduction in Government expenditure. This could be achieved through making Government activities more efficient through better planning of programmes and better administration.

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 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.

Compliance with the targets fixed in Kerala Fiscal Responsibility act during the period 2019-20 to 2023-24 is shown in **Table 1.4**.

Table 1.4: Compliance with provisions of KFR Act

Sl No.	Fiscal Parameters	Fiscal targets	Actuals				
			2019-20	2020-21	2021-22	2022-23	2023-24
1	Revenue Deficit (₹ in crore)	zero ²	14,495.25	25,829.50	29,539.27	9,226.28	18,140.19
2	Fiscal Deficit (as percentage of GSDP) [@]	3 per cent (up to 2019-20)	2.93	-	-	-	
3		5 per cent in 2020-21, 4 per cent in 2021-22 and 4 per cent in 2022-23 and 3.5 for 2023-24	-	5.31	4.98	2.50	2.99
4	Ratio of total outstanding liability to GSDP (in per cent)*	33.70 per cent in 2023-24 ³	32.64	39.21	37.09	36.20	34.96
			34.38 [#]	41.35 [#]	39.72 [#]	39.08 [#]	37.84 [#]

Source: Statement 2 of Finance Accounts and KFR Act.

[@] Includes additional borrowing of 0.50 per cent of GSDP allowed for reforms undertaken in Power Sector of which consent for additional borrowing of 0.45 per cent of GSDP alone was received from GoI during 2023-24.

*During 2020-21, it excludes ₹ 5,766 crore received as back-to-back loan from GoI in lieu of GST compensation. During 2021-22 to 2023-24, it excludes back to back loan of ₹ 14,505.31 crore received from GoI in lieu of GST compensation which were not to be treated as debt of the State for any norms which may be prescribed by the Finance Commission.

[#] including off-budget borrowings (2019-20: ₹14,142.20 crore; 2020-21: ₹16,469.05 crore; 2021-22: ₹24,272.67; 2022-23: ₹29,475.97 crore; 2023-24: ₹32,942.14 crore)

The State Government had not made any disclosure on the Off-budget borrowings through KIIFB (₹ 20,041.52 crore) and KSSPL (₹ 12,900.62 crore) in the State budget, which led to an understatement of Government liabilities by ₹ 32,942.14 crore. Though the target prescribed in KFR Act over the years was to eliminate revenue deficit completely and to achieve revenue surplus during 2018-19 to 2023-24, the State continued to be in revenue deficit during the period. The ratio of total outstanding liability to GSDP (i.e., 37.84 per cent) also remained beyond the target fixed in the Act for the year 2023-24 (i.e. 33.70 per cent). However, the State was able to contain the fiscal deficit to GSDP ratio within 3.5 per cent.

State Government replied (December 2024) that as the repayment obligation of back-to-back loan received from GoI in lieu of GST compensation is not met from the resources of the State Government, the loan amount be considered as grant-in-aid for the calculation of all fiscal indicators. The reply is not acceptable as the back-to-back loan received from GoI in lieu of GST compensation is received and accounted as loan and not as grant-in-aid.

² Revenue Surplus/GSDP - 0.50 per cent in 2021-22, 0.80 per cent in 2022-23 and 1.20 per cent in 2023-24.

³ 29.67 per cent in 2019-20 and 2020-21, 34.70 per cent in 2021-22 and 34.50 per cent in 2022-23.

The targets set by XV Finance commission and those projected in the State budget vis-à-vis achievements in respect of major fiscal aggregates with reference to GSDP during 2023-24 are given in **Table 1.5**.

Table 1.5: Targets vis-a-vis achievements in respect of major fiscal aggregates for the year 2023-24

Fiscal Variables	Targets as prescribed by XV FC	Target in the budget	Actual	Percentage variation of actuals over	
				Targets of XV FC	Target in Budget
Revenue Deficit/GSDP (<i>per cent</i>)	0	2.11	1.58	(-)1.58	0.53
Fiscal Deficit/GSDP (<i>per cent</i>)	3.5*	3.50	2.99	0.51	0.51
Total outstanding liability/GSDP(<i>per cent</i>)	33.7	36.05	37.84**	(-) 4.14	(-)1.79

Source: Recommendation of XV FC, Annual Financial Statements and Finance Accounts

* Includes additional borrowing of 0.50 per cent of GSDP allowed for reforms undertaken in Power Sector of which consent for additional borrowing of 0.45 per cent of GSDP alone was received from GoI during 2023-24

**excluding back-to-back loans of ₹ 14,505.31 crore received from GoI in lieu of GST compensation shortfall during 2020-22 and including off-budget borrowings of ₹32,942.14 crore

During 2023-24, the State Government was unable to contain the revenue deficit and outstanding liability/GSDP ratio within the limits fixed by the XV FC but fiscal deficit was within the target fixed by the Finance Commission. Even though revenue and fiscal deficits were within the limits projected in budget, outstanding liability/ GSDP ratio was outside the projections made in State Budget.

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 1.6**.

Table 1.6: Actuals vis-a-vis projection in MTFP for 2023-24

(₹ in crore)

Sl. No.	Fiscal Variables	Projection as per MTFP	Actuals (2023-24)	Variation(in <i>per cent</i>) with reference to Projections as per MTFP
1	Own Tax Revenue	81,038.77	74,329.01	(-) 8.28
2	Non-Tax Revenue	17,088.62	16,345.96	(-) 4.35
3	Resources from Centre (Share of Central taxes and Grant-in-aid from GoI)	37,291.28	33,811.18	(-) 9.33
4	Revenue Receipts (1+2+3)	1,35,418.67	1,24,486.15	(-) 8.07
5	Revenue Expenditure	1,59,360.91	1,42,626.34	(-) 10.50
6	Revenue Deficit (-) (4 - 5)	(-)23942.24	(-)18,140.19	(-) 24.23
7	Fiscal Deficit (-)/ Surplus (+)	(-)39,662.22	(-)34,258.05	(-) 13.63
8	FD/GSDP	3.50	2.99	0.51
9	Liability-GSDP ratio (<i>per cent</i>)	36.05	37.84*	1.79
10	GSDP growth rate at current prices (<i>per cent</i>)	11.23	11.97	0.74

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

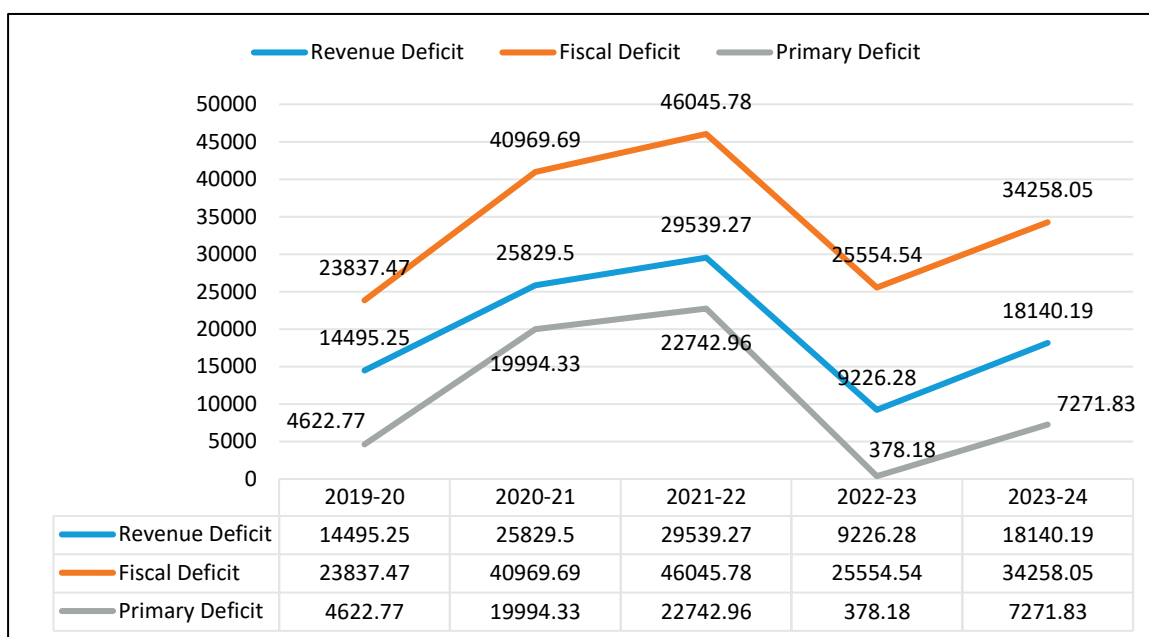
* The back-to-back Loan (₹14,505.31 crore) received from GoI in lieu of GST compensation has not been considered as Debt for working out the indicator. Off-budget borrowings of ₹32,942.14 crore has been considered for working out the indicator.

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 2023-24. Own Tax Revenue collected during 2023-24 fell short of the projections made in MTFP by 8.28 *per cent* and Non-Tax Revenue fell short by 4.35 *per cent*. Liability -GSDP ratio exceeded the projections in MTFP by 1.79 *per cent*.

The trends of deficits over the period 2019-20 to 2023-24 are presented in **Appendix 1.2**.

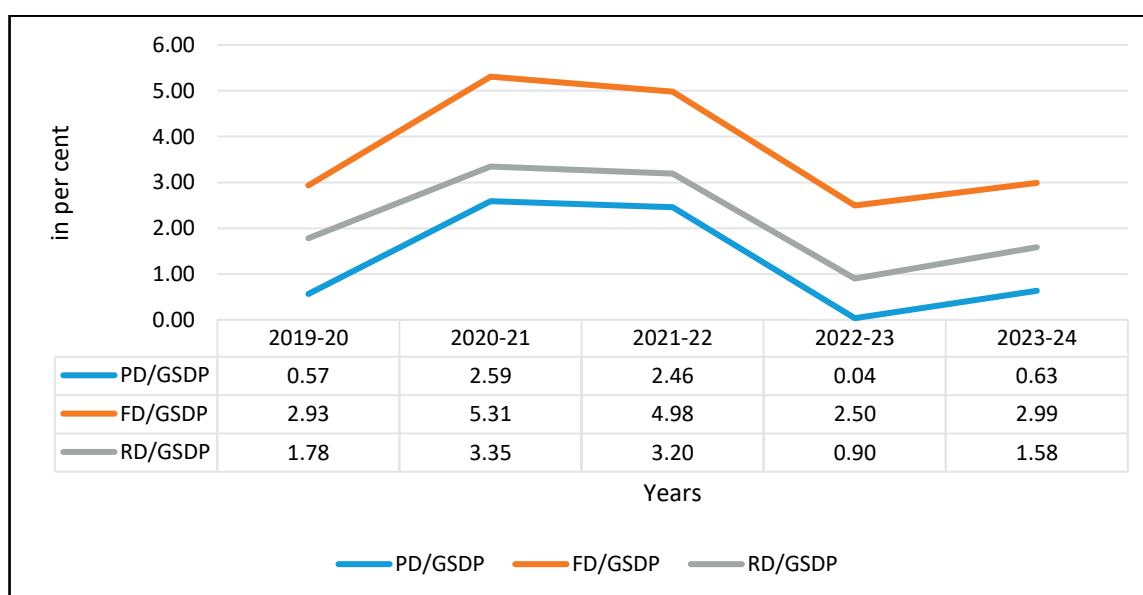
Chart 1.4 and **Chart 1.5** presents the trends in deficit indicators and trends relative to GSDP respectively over the period 2019-20 to 2023-24.

Chart 1.4: Trends in Deficit Parameters



Source: Finance Accounts of respective years

Chart 1.5: Trends in deficit indicators relative to GSDP



Source: Finance Accounts of respective years

Revenue Deficit (RD) 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 unable to match the revenue expenditure with the revenue receipts and is using capital receipts, loans to meet its consumption expenditure. As per KFR (Amendment) Act 2022, Government shall achieve Revenue Surplus during 2019-20 to 2023-24. However, the State was on revenue deficit throughout the period 2019-20 to 2023-24. Revenue deficit increased from ₹ 9,226.28 crore in 2022-23 to ₹ 18,140.19 crore in 2023-24. Revenue deficit as a percentage of GSDP also increased from 0.90 *per cent* in 2022-23 to 1.58 *per cent* in 2023-24.

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 during 2023-24 increased to ₹34,258.05 crore (2.99 *per cent* of GSDP) from ₹25,554.54 crore in 2022-23 (2.50 *per cent* of GSDP).

Primary Deficit (PD) refers to the fiscal deficit minus the interest payments and indicates the excess of primary expenditure (total expenditure net of interest payment) over non-debt receipts. The primary deficit for the year 2023-24 was ₹ 7,271.83 crore (0.63 *per cent* of GSDP) when compared to ₹ 378.18 crore in 2022-23 (0.04 *per cent* of GSDP).

1.5 Deficits post examination by Audit

The State Government must ensure compliance to the targets fixed for fiscal indicators such as deficits, ceiling on debt *etc.* in Fiscal Responsibility Act. The revenue deficit and fiscal deficit as worked out for the State gets impacted due to various circumstances such as misclassification of revenue expenditures as capital expenditure and off-budget fiscal operations. 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 effect of misclassification of revenue expenditure/capital outlay and/or any such misclassification needs to be included and the impact of such irregularities needs to be reversed. Analysis of deficits after examination in audit are given in **Table 1.7**.

Table 1.7: Revenue and Fiscal Deficit post examination by Audit

(₹ in crore)				
Sl No.	Particulars	Revenue Deficit	Fiscal Deficit	Paragraph reference
1	Pre Audit deficit	18,140.19	34,258.05	
2	Audit findings having an impact on deficit ^s			
a	Non-contribution to Guarantee Redemption Fund	311.93	311.93	2.5.2.4
b	Non discharge of Interest liabilities Interest on State Compensatory Afforestation Fund	1.59	1.59	2.5.2.2
c	Resumption of Funds from State Treasury Savings Bank Account	35.02		4.6.4
d	Resumption of non-Governmental funds of Roads & Bridges Development Corporation of Kerala	40.02	40.02	4.6.3

Sl No.	Particulars	Revenue Deficit	Fiscal Deficit	Paragraph reference
e	Non-transfer of Kerala Road Safety Fund	58.25	58.25	4.3
3	Total of all post audit findings	446.81	411.79	
4	Post Audit deficit (1+3)	18,587.00	34,669.84	

Source: Compiled from Finance Accounts and audit analysis.

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

The fiscal deficit as a percentage of GSDP during 2023-24 post examination by Audit works out to 3.03 per cent.

1.6 Total outstanding Debt after examination by Audit

Total liabilities mean liabilities under the Consolidated fund and the Public Account of the State. The outstanding debt/liabilities can be split into various components as given in **Table 1.8**.

Table 1.8: Components of outstanding debt/liabilities as on 31 March 2024

(₹ in crore)

Borrowings and other liabilities as per Finance Accounts	Amount
Internal Debt (A)	2,57,157.92
Market Loans	2,25,780.04
Bonds	0.10
Loans from Financial Institutions	2,987.61
Special Securities issued to NSSF	27,418.00
Other loans	972.17
Loans and Advances from Central Government (B)	25,337.38
Non plan Loans	5.32
Loans for State Plan Schemes	4,341.31
Other Loans*	20,990.75
Liabilities upon Public Accounts (C)	1,32,725.85
Small savings, Provident funds etc.	1,23,944.24
Reserve Funds	1,109.44
Deposits	7,672.17
Total (A+B+C)	4,15,221.15

Source: Finance Accounts

*Including back to back loans of ₹ 14,505.31 crore received from GoI in lieu of GST compensation shortfall

Further, the post audit analysis also reveals that the State Government resorted to off-budget borrowing of ₹10,632.46 crore through Kerala Infrastructure Investment Fund Board (KIIFB) (₹ 5,803.86 crore), and Kerala Social Security Pension Limited (KSSPL) (₹ 4,828.60 crore) in 2023-24. It was in addition to the liabilities of ₹ 4,15,221.15 crore as mentioned in **Table 1.8**.

As on 31 March 2024, KIIFB and KSSPL together have an outstanding liability of ₹ 32,942.14 crore (Chapter II). Thus, taking into account the off-budget borrowing, the overall liability of the State as on 31 March 2024 stands at ₹4,48,163.29 crore and the Liability/GSDP ratio stands at 37.84 *per cent* (excluding back-to-back loan of ₹ 14,505.31 crore received from GOI in lieu of GST compensation shortfall which were not to be treated as debt of the State for any norms) which is way above the fiscal target of 33.70 *per cent* envisaged in the Kerala Fiscal Reasonability Act for 2023-24.

State Government replied (December 2024) that the matter of inclusion of own borrowings of KIIFB and KSSPL in State's Borrowings has been challenged and is under the consideration of Hon'ble Supreme Court of India.