



**EXECUTIVE
SUMMARY**

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This Report on the finances of the State Government of Kerala provides an independent assessment of the fiscal position of the state for financial year (FY) 2024-25. It analyses the State's overall financial health and reviews its revenue and expenditure trends, assesses the State's debt position and borrowing patterns, evaluates its compliance with fiscal responsibility laws and compares its performance against fiscal health indicators. The report also discusses issues related to budgetary management and financial reporting practices which have implications for the overall transparency and quality of expenditure reflected in the appropriation and finance accounts of the State Government.

During the FY 2024-25, Kerala's economy (GSDP in nominal terms) registered a growth of 9.97 *per cent* as against the growth of 9.30 *per cent* in previous FY. The State contributed 3.78 *per cent* to GDP of India. This contribution, which was declining over last two years, slightly improved during the financial year 2024-25.

However, the growth in economy did not result in concomitant growth in the collection of taxes. The State's Own Tax Revenue (SOTR) buoyancy (0.31) remained significantly less than one, fluctuating significantly from 1.89 in 2022-23 to 0.35 and 0.31 in 2023-24 and 2024-25 respectively.

The State Goods and Services Tax (42.16 *per cent*) and taxes on sales, trade, etc. (36.13 *per cent*) contributed significantly to the State Own Tax Revenue (SOTR), the growth in taxes on sales, trade, etc. remained low at 0.01 *per cent*. The State Goods and Services Tax experienced a growth at 5.73 *per cent*. Stamp duty and Registration fees and taxes on vehicles with a share of about 8 *per cent* each in SOTR grew moderately at 7.60 *per cent* and 4.65 *per cent* during the year.

Though the State Lotteries constituted 77 *per cent* of the non-tax revenue and 14 *per cent* of the own revenue, the net receipts from State Lotteries decreased by ₹140.51 crore during the year. This was mainly due to increase in expenditure under 'Distribution of prizes and Commission for agents amounting to ₹204.58 crore.

The Central tax devolution grew significantly by about 14 *per cent*. However, Grants-in-aid received from GoI declined by 42 *per cent*. This was mainly due to the discontinuation of Post devolution revenue deficit grant under the Finance Commission grants during the year based on recommendation of Fifteenth Finance Commission.

The total expenditure grew by 8.97 *per cent* during 2024-25, mainly driven by a 9.32 *per cent* (₹13,294.44 crore) increase in revenue expenditure during 2024-25. General Services (50 *per cent*) constituted the major share in revenue expenditure followed by Social Services (34 *per cent*) during the year. Major increase in revenue expenditure was under pensions for social security schemes amounting to ₹6,736 crore of which ₹6,641 crore was routed through a

Government Company ‘Kerala Social Security Pension Limited.’ The State has been regular in constituting the State Finance Commissions and release of funds to Local Self Government Institutions (LSGIs) The devolution of funds to LSGIs increased by ₹5,227.70 crore to ₹15,348.04 crore during 2024-25 which constituted about 10 *per cent* of the revenue expenditure.

Committed expenditure in the form of salaries and wages (₹41,550.15 crore), interest payment (₹29,138.23 crore) and pension (₹27,875.21 crore) together with subsidies (₹1,856.60 crore) accounted for 64.40 *per cent* of revenue expenditure and consumed about 80 *per cent* of the revenue receipts. Committed Expenditure together with subsidies accounted for 64.40 *per cent* of the Revenue Expenditure during 2024-25, which was higher than that of the other States (excluding UTs) at 58.49 *per cent*. In addition, the State is also committed to its share in Centrally sponsored schemes amounting to ₹2,720.74 crore.

In the meanwhile, Capital expenditure (including loans and advances) by the State Government registered a decadal high of ₹17,886.78 crore during the financial year. Interest free 50 years loan of ₹2,715.67 crore during 2024-25 from GoI as special assistance for Capital expenditure contributed to 15.18 *per cent* of the total Capital expenditure (including loans and advances disbursed) during the year. However, the ratio of Capital Expenditure to Total Expenditure of all States (excluding UTs) was 16.59 *per cent*, which was higher than that of Kerala’s at 10.29 *per cent* during 2024-25.

The Capital expenditure included projects (developmental) expenditure of ₹14,539.45 crore, loans and advances of ₹2,804.37 crore and investments of ₹542.96 crore. Economic Services (65 *per cent*) constituted the major share of Capital Expenditure of which major expenditure was incurred towards ‘Share of KIIFB from Cess on Petrol and Diesel’ and ‘Share of KIIFB from Motor Vehicle Tax’ (₹3,695.18 crore), ‘Capital Outlay on Road and Bridges’ (₹1,859.35 crore) and ‘Rebuild Kerala Initiative-Post Flood Projects’ (₹996.47 crore).

Revenue deficit as a percentage of GSDP increased from 1.60 *per cent* in 2023-24 to 2.49 *per cent* in 2024-25 and fiscal deficit increased from 3.02 *per cent* to 3.86 *per cent* as *per centage* of GSDP during the same period. This exceeded the aggregate of all States (excluding UTs) of Revenue Deficit (0.67 *per cent*) and Fiscal Deficit (3.23 *per cent*) during 2024-25. The State Government also carried forward ₹3,511.62 crore of undischarged liabilities in 2024-25, including liabilities towards Guarantee Redemption Fund (GRF), interest payments, pending refund cases, National Pension System (NPS), Kerala Road Safety Fund *etc.* We also noticed irregular withdrawal of unspent balances of public contribution amounting to ₹262.06 crore relating to Chief Ministers Disaster Relief Fund (CMDRF) into the Consolidated Fund of the State. This understated the Revenue deficit and Fiscal deficit of the State by ₹262.06 crore.

The outstanding liabilities of ₹4,45,901.49 crore (35.71 *per cent* of GSDP) was high compared to 28.02 *per cent* of all States (excluding UTs) average. This did not include the outstanding off-budget borrowings (₹39,230.33 crore) which if included would constitute 38.86 *per cent* of GSDP. Besides the State also has

contingent liabilities in the form of outstanding guarantees (₹74,297.58 crore) to which the State Government is committed to discharge the liabilities in case of default.

During the last 10 years (except for fiscal deficit during 2022-23), State fiscal indicators relative to GSDP have exceeded the aggregate of all States (excluding UTs) indicating weak fiscal position of the State compared to other States. The growth rate of overall debt exceeded the GSDP growth during 2024-25. The debt-stabilization metric which was positive during 2021-22 to 2023-24 turned negative during 2024-25 due to increase in the primary deficit impairing State's ability to take benefit of economic growth towards debt stabilisation.

Under budgetary management, we noticed that the excess expenditure amounting to ₹2,684.44 crore was incurred during the year mainly under appropriation 'Public Debt Repayment' which occurred due to unpredictability in the short-term borrowings that the State government had resorted due to liquidity mismatch. Excess expenditure to the tune of ₹2,629.79 crore incurred from 2016-17 to 2023-24 pertaining to 45 grants are also pending regularisation from the State Legislature. Savings in excess of ₹50 crore and 20 *per cent* of the budget provision were witnessed in 13 grants.

The State continues to resort to significant off-budget borrowings through two SPSEs (namely KIIFB and KSSPL) which are serviced from the Consolidated Fund of the State. These off-budget borrowings are not disclosed at the presentation of budget as mandated by the KFR, Act 2003. We also noticed variation in disclosure of off-budget borrowings to the Union Government amounting to ₹12,669.92 crore.

On review of the Guarantees given by the State based on test check of records of 20 institutions, we found significant gaps in guarantee management by the State Government, which included non-calculation of the default risks, non-remittance of guarantee fees by 14 institutions amounting to ₹422.68 crore and non-monitoring of guarantee fee and lack of transparency on actual invocation of guarantees.

State Government in order to become eligible for an additional borrowing space of 0.50 *per cent* of GSDP during 2024-25, transferred ₹494.29 crore to Kerala State Electricity Board Limited (KSEBL) being the 90 *per cent* of losses incurred by DISCOMs. This amount was credited to the Special Treasury Savings Bank (STSB) account of KSEBL on 26 December 2024. After getting consent from GoI on 24 March 2025 to raise additional borrowings of ₹6,149 crore during 2024-25, State Government resumed ₹494.29 crore from the STSB account on 26 March 2025 into the Consolidated fund of the State. This action belies the taking over of losses of DISCOMs by the State and was a breach of financial propriety and guidelines issued by Government of India for availing additional borrowing space.

We commend the efforts taken by the State Government to bring down arrears in submission of accounts, in respect of Autonomous Bodies (ABs) from 61 (25 ABs) as of 31 March 2024 to 45 (16 ABs) as of 31 March 2025. We also

commend the efforts taken by the State Government in reducing substantial number of arrears in assessment in respect of SGST department. We also acknowledge the efforts taken by the State Government in onboarding 31 notified Centrally Sponsored Schemes and corresponding 95 State Linked Schemes to SNA SPARSH as on January 2026.

In conclusion, audit is of the opinion that to embark upon a fiscally sustainable path, state government needs to take immediate measures to augment the State's Own Revenue to mitigate the decline in grants-in-aid and to keep the State's Own Tax Revenue buoyancy above one *per cent*. The State needs to continue its effort in clearing arrears in assessment and collection of taxes.

Further, we also recommend to the State Government to make proactive disclosures on its off-budget borrowings in the state budget and documents submitted to Government of India. State government may take immediate measures to regularise the excess expenditure made that are pending from 2016-17 and contain the recurring trends in registering the excess expenditure in various grants. An emphasis of matter highlighting the excess disbursement of ₹2,684.44 crore over the authorisation made by the State Legislature under three grants/ appropriation during the financial year 2024-25 and excess disbursement of ₹2,629.79 crore pertaining to the years 2016-17 to 2023-24 pending regularisation by the State Legislature was given in Appropriation Accounts 2024-25. Misclassification of accounting in reduction of expenditure amounting to ₹6,112 crore to an omnibus single account head '2075-911' in violation of accounting directions of the 'List of Major and Minor Heads of Account' was also included in the emphasis of matter on Appropriation Accounts 2024-25. We recommend that concerted efforts may be taken by the State Government to resolve the issues pointed out in the emphasis of matter on Appropriation Accounts 2024-25.