

Distorted finance accounts of Kerala and cut in borrowing limit by centre

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The State government says that a major reason for the worsening fiscal crisis and its inability to finance rebuild programme and providing assistance to flood victims is the cut in its borrowing limit by the Central government. The Central government had cut down the borrowing limit, citing the reason that Kerala had ₹ 6000 crore surplus treasury savings during 2016-17, which can be treated as loans. Similarly, the State was not able to borrow ₹ 5550 crore in this year due to the same reason. Here the crux of the problem is incorrect accounting practices followed by the State with regard to Special Treasury Savings Bank (STSB) accounts. This article examines this issue.

Distorted STSB Accounts

As per fiscal norms, the annual borrowing limit of the State is 3 percent of the Gross State Domestic Product (GSDP). The State can borrow money coming under the heads viz. consolidated fund of the State and public accounts such as treasury savings bank deposits and provident fund. Two categories of Treasury Savings Bank accounts are there. First, treasury savings bank in which government accepts deposits from public. Second, Special Treasury Savings Bank (STSB) account of departments, State owned PSUs, autonomous institutions etc. where unspent budgetary amount are kept for short period. The STSBs are non-interest bearing and will be closed immediately after implementation of the scheme.

Available evidences suggest that large amount of unspent budgetary provision of Departments, PSUs, autonomous institutions etc. are transferred to their STSB accounts without backing of resources. This resulted in substantial increase in the deposits of STSB accounts. The Central government began to treat this amount as a surplus fund parked in the accounts and can be used as loans. This has resulted in resumption of funds parked in STSB accounts.

Understatement of fiscal and revenue deficit

According to CAG, the understatement in revenue deficit was ₹ 8892.42 crore and fiscal deficit was 9378.12 crore in 2017-18 (Table 1). The amount resumed from STSB fund is also shown in the table.

Table 1
Incorrect accounting on Revenue/Fiscal deficit (Under statement) (₹ in crore)

Item	Impact on Revenue Deficit	Impact on Fiscal Deficit
	Understatement	Understatement
Non provision of interest on interest bearing Reserve Funds and Deposits	9.71	9.71
Non contribution to Consolidated Sinking Fund	948.84	948.84
Non contribution to Guarantee Redemption Fund	121.22	121.22
Resumption of funds from the STSBs	7,812.58	8,298.22
Non-transfer of the proceeds of Labour Cess to the concerned Welfare Boards	0.13	0.13
Total understatement	8,892.48	9,378.12

Source: CAG (2018) Finance Account 2017-18, Volume 1

The State government has resumed an amount of ₹ 8298.22 crore in 2017-18 from STSB accounts to the consolidated fund following the central government's action to curtail the borrowing limit. According to CAG, the amount resumed could not be shown against the original heads of accounts against which the expenditure stand booked and put in the category of incorrect accounting. The CAG found that the amount resumed to the consolidated fund has resulted in understatement of revenue deficit (₹ 7812.58 crore) capital and loan (₹ 485.64 crore) and fiscal deficit (₹ 8292.22 crore). The liabilities of the government have also reduced by the amount of ₹ 8292.22 crore in public account.

Revenue and Fiscal deficit (corrected figure)

The observations of CAG indicate that the State government has deliberately manipulated the STSB accounts to distort the actual receipts and expenditure. If we correct the understatement of revenue deficit based on the observation of CAG, the revenue deficit will increase to ₹ 25,820 crore (Table 2) and fiscal deficit to ₹ 36,215 crore (Table 3) in 2017-18. This means that the revenue deficit will increase to 3.75 percent of GSDP and fiscal deficit to 5.27 percent of GSDP. And the fiscal situation prevailed was similar to worst fiscal crisis of 2000-01.

Table 2
Revenue Deficit 1999-2000 and 2017-18 (Comparison)

Year	Revenue Deficit (₹ crore)	Revenue Expenditure (₹ crore)	Revenue Deficit Revenue Expenditure ratio (%)	Revenue Deficit GSDP Ratio (%)
1999-2000	3624	11566	31.3	5.2
2000-01	3147	11878	26.5	4.3
2017-18	16928	99948	16.9	2.46
2017-18 (Revised)	25820*	105540	23.7	3.75

*Note : Revised revenue deficit (16928 crore + 8892 crore)

Source: (1) GoK (2001) White Paper on State Finances, (2) DES (2010) GSDP of Kerala from 1970-71 to 2008-09, (3) GoK (2019) Budget in brief 2019-20, (4) CAG (2018) Finance Accounts 2017-18, Vol I

Table 3
Fiscal Deficit 1999-2000 and 2017-18 (Comparison)

Year	Fiscal Deficit (₹ crore)	Total Expenditure (₹ crore)	Fiscal Deficit Total Expenditure ratio (%)	Fiscal Deficit GSDP Ratio (%)
1999-2000	4533	12214	37.1	6.6
2000-01	3878	12726	30.5	5.3
2017-18	26837	110238	24.3	3.9
2017-18 (Revised)	36215*	119616	30.3	5.27

*Note : Revised fiscal deficit (26837 crore+ 9378 crore)

Source: Same as Table 2

Loss of borrowing

Due to the incorrect accounting of the STSB accounts, the State government had lost the opportunity to borrow ₹ 6000 crore in 2016-17 and ₹ 5550 crore 2019-20. Regarding the issue of borrowing, the State government has taken a contradictory position. On the one hand, the State government made the allegation that the Central government is cutting down the borrowing limit. But on the other hand, the government follows incorrect accounting practices and inflate the figures in STSB accounts and disqualify to receive the entire eligible amount of borrowing. The pervasive practice of transferring of unspent amount in the budget to the STSB accounts and artificially inflating the amount has distorted entire finance accounts. Urgent steps are needed to stop the distorted accounting practice and bring the State finance accounts in the right track.

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