

Draft Press Brief on Report No. 32 of 2022 of the Comptroller and Auditor General of India on Compliance of the Fiscal Responsibility and Budget Management Act, 2003 for the year 2020-21.

Tabled in Parliament on: 20 December 2022

This Report of the Comptroller and Auditor General of India (CAG) on Compliance of the Fiscal Responsibility and Budget Management Act, 2003 for the year ended March 2021 examines the achievements vis-à-vis FRBM targets and compares actuals with projections made in fiscal policy statements and adequacy of information in disclosure statements

Chapter 1: Introduction

The Comptroller and Auditor General of India has been entrusted vide section 7A of the Act to conduct a periodical review of the compliance of the provisions of this Act by the Central Government, requiring that the report of such review is laid on the table of both Houses of Parliament. Rule 8 framed under the Act, further prescribes that such annual review shall begin with the financial year 2014-15.

The financial year 2020-21 under review was a non-standard year with respect to the performance of the economy and Government finances. The Covid-19 pandemic engendered a global crisis in 2020 and a global economic downturn and brought the global economy to a standstill.

The FRBM framework applicable at present, mandates that the Central Government limits the fiscal deficit up to three per cent of Gross Domestic Product (GDP) by 31st March 2021 and endeavours to limit the General Government Debt to 60 per cent of GDP and the Central Government Debt to 40 per cent of GDP by the end of financial year 2024-2025.

Further, Section 4(1)(a) read with Rule 3 of the Act mandates an annual reduction of Fiscal Deficit (FD) equal to 0.1 per cent or more of the GDP from 2018-19 onwards, with a target of three per cent of GDP to be achieved by the end of 2020-21.

In respect of guarantees, the FRBM framework provides that Central Government shall not give additional guarantees with respect to any loan on security of the CFI in excess of one-half per cent of GDP, in any financial year beginning with 2004-05.

[Para 1.1 and Para 1.2]

Chapter 2: FRBM Targets and Achievements

Section 7 read with Rule 7 prescribes mid-year (end of September) review of the trends in receipts and expenditure of Central Government. If the outcome of review shows that (i) total non-debt receipts are less than 40 *per cent* of BEs, and (ii) Revenue Deficit (RD) and Fiscal Deficit (FD) are higher than 70 *per cent* of the BEs for the year, the Minister-in-charge shall make a statement in Parliament during the session immediately following the end of first half, detailing the corrective measures taken.

[Para 2.1]

During mid-year review of the trends in receipts and expenditure, it emerged that the non-debt receipt was short realised by 14.83 *per cent* from the targeted level. However, the revenue deficit deviated on higher side by 55.20 *per cent* and the fiscal deficit by 44.80 *per cent* of the targeted level of 70 *per cent* of BE as on 30 September 2020.

[Para 2.3]

The Fiscal Deficit as per Union Government Finance Accounts and Annual Financial Statement was ₹19,75,314 crore, which was 9.98 *per cent* of GDP at current prices. However, the Fiscal Deficit shown in Budget at a Glance (BAG) was ₹18,18,291 crore, which was 9.18 *per cent* of GDP.

[Para 2.7]

Chapter 3: Analysis of Government Debt, Guarantees and Debt Sustainability

The FRBM framework applicable at present, endeavours to limit the Central Government Debt to 40 *per cent* of GDP by the end of financial year 2024-2025. Central Government debt at the end of 2020-21 as defined in Act, stood at ₹1,21,91,608 crore, which was 61.57 *per cent* of GDP.

[Para 3.1.1]

Additional guarantees in financial year 2020-21 has remained within the prescribed target of one-half per cent of the GDP.

[Para 3.2.2]

Extra Budgetary Resources (EBR) are resources raised from the market by entities other than Governments, viz. Companies, Corporations and Autonomous Bodies, and they are utilized for funding various schemes/programmes of the Government. The expenditure made using EBR does not get factored in the computation of fiscal indicators for the relevant year. The existing accounting framework and disclosure requirements do not provide for full depiction of such funding in the accounts of the Government. During 2020-21, an amount of ₹26,665.10 crore was mobilized through issue of Government fully serviced bonds. The cumulative fund mobilized through EBR from financial years 2016-17 to 2020-21 was ₹1,38,535.50 crore.

[Para 3.3]

Debt sustainability is defined as the ability of the Government to maintain a constant Debt to GDP ratio over a period and the ability to service its debt. Debt sustainability analysis revealed that while the Debt-GDP ratio was around 49 *per cent* during 2016-17 to 2018-19, an increasing trend was seen during 2019-20 and 2020-21. The debt growth rate outgrew the GDP growth resulting in an increased Debt-GDP ratio of 52.33 *per cent*, and 61.57 *per cent* in financial year 2019-20 and 2020-21 respectively.

The average interest cost on Debt showed a declining trend, from 6.81 *per cent* in 2016-17 to 6.35 *per cent* in 2020-21, but the actual interest paid on debt consistently increased across the five-year period. In 2016-17 the interest paid was at ₹5,04,512 crore which increased to ₹7,20,984 crore in 2020-21, due to expanding overall debt. Thus, although the overall debt burden was increasing, the Government was able to procure lower cost funds.

[Para 3.4]

Chapter 4: Projections in Fiscal Policy Statements and Actuals

As per Section 3 of the FRBM Act, the Central Government is required to lay fiscal policy statements, namely, Medium Term Fiscal Policy cum Fiscal Policy Strategy (MTFP cum FPS) Statement and Macro-economic Framework (MEF) Statement, in both the houses of Parliament along with the Annual Financial Statement (AFS) and Demand for Grants. The Medium-Term Expenditure Framework (MTEF) Statement has to be laid immediately following the session in which the other policy statements aforesaid were laid. MTEF Statement for financial years 2019-20 and 2020-21 were not presented in Parliament.

[Para 4.1]

Chapter 5: Disclosure and Transparency

Rule 6 of the FRBM Rules, 2004 mandates that to ensure greater transparency in its fiscal operation in the public interest, the Central Government shall at the time of presenting the Annual Financial Statement and Demands for Grants, make disclosures (D-1 to D-5) in the format prescribed, together with any significant change in accounting standards, policies and practices affecting or likely to affect the computation of prescribed fiscal indicators. Information included in various disclosure statements was not in conformity with the figures contained in Union Government Finance Accounts (UGFA), which is prepared based on information furnished by Ministries and Departments of the Union Government.

[Para 5.2]