

## Chapter 3: Progress in achievement of FRBM targets

This chapter analyses the extent of achievement of various fiscal indicators during financial year 2015-16 in relation to the targets set in the FRBM Act/Rules, as amended from time to time. Besides, the trend analysis from financial year 2011-12 in respect of various fiscal indicators/parameters have also been made in this chapter. For analysis, GDP (new series with 2011-12 as base year) released by Central Statistics Office, Ministry of Statistics and Programme Implementation on 8 February 2016 and 31 May 2016<sup>8</sup> have been adopted. The same GDP data series was adopted in CAG's Report No. 34 of 2016 on the Union Government Accounts for the financial year 2015-16, and also adopted in this Report for consistency purpose.

### 3.1 Revenue Deficit

Section 2(e) of FRBM Act, defines revenue deficit as the difference between revenue expenditure and revenue receipts, which indicates increase in the liabilities of the Central Government without corresponding increase in the assets of the Government.

#### 3.1.1 Revenue Deficit target

The FRBM Act as notified in August 2003 had stipulated elimination of revenue deficit by 31 March 2008. Taking into account the latest amendment in the FRBM Act made through Finance Act 2015 (May 2015), the target was revised to restrict the revenue deficit to not more than two *per cent* of GDP by 31 March 2018, with annual reduction by an amount equivalent to 0.4 *per cent* or more of GDP at the end of each financial year beginning with financial year 2015-16.

#### 3.1.2 Revenue Deficit in financial year 2015-16

For financial year 2015-16, revenue deficit target of 2.8 *per cent* of GDP was set in the MTFP Statement. The computation of the revenue deficit is as under:

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<sup>8</sup> GDP figures from 2011-12 to 2015-16 have further been revised as per Press Note dated 31 May 2017 released by the Central Statistics Office, Ministry of Statistics and Programme Implementation using new series of Index of Industrial Production (IIP) and Wholesale Price Index (WPI) with base year 2011-12. The new series of IIP and WPI with base 2011-12 was released on 12 May 2017 by CSO and office of Economic Advisor, Department of Industrial Policy and Promotion, Ministry of Commerce and Industry. These GDP figures have been reflected in Table 4.1.

**Table-3.1: Revenue Deficit - Estimates and Actuals in 2015-16**

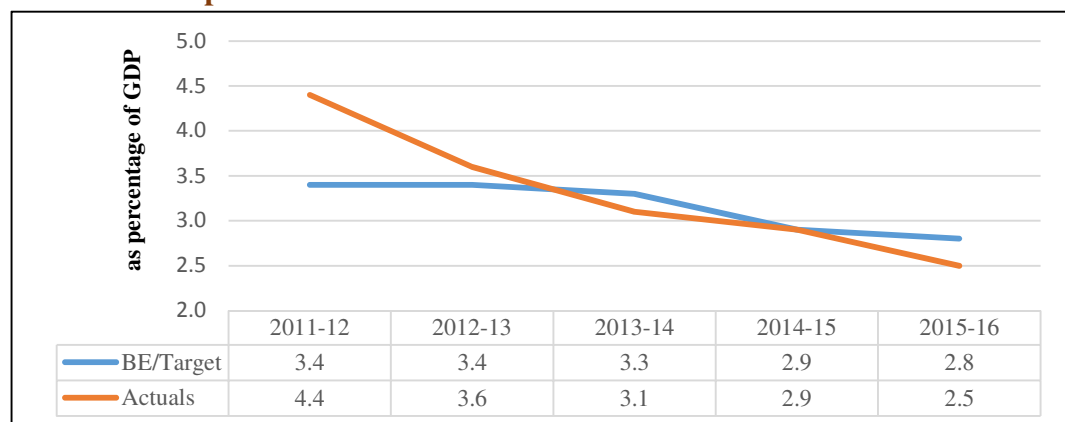
Component	Revenue Expenditure	Revenue Receipts	Revenue Deficit (RD)	RD as % of GDP
	(1)	(2)	(3=1-2)	
	( <i>₹ in crore</i> )			
Budget Estimates	15,36,047	11,41,575	3,94,472	2.8
Actuals	15,37,761	11,95,025	3,42,736	2.5
Variation with reference to Budget Estimates	1,714 (0.11%)	53,450 (4.68%)	-51,736 (-13.12%)	0.3

Source: Budget at a Glance

During financial year 2015-16, the variation between Budget Estimates and actuals in respect of revenue expenditure was marginal. However, due to increased realisation of revenue receipts than estimated, the actual revenue deficit was contained below the budgeted level. During financial year 2015-16, the revenue deficit was 2.5 per cent of GDP which was below the budgeted target of 2.8 per cent of GDP.

### 3.1.3 Trend of Revenue Deficit

**Graph-3.1** below shows the trend of revenue deficit as a percentage of GDP over the period from 2011-12 to 2015-16:

**Graph-3.1: Trend of Revenue Deficit: 2011-12 to 2015-16**

Source: For BE/Target - MTFP Statement; For Actuals – Budget at a Glance.

Note: Data in absolute terms for deficits is at Annexure-3.1.

**Graph 3.1** indicates downward trend in revenue deficit though it remained above the budgeted levels up to 2012-13, subsequently revenue deficit was below its budgeted level during 2013-14, except 2014-15. During financial year 2015-16, revenue deficit was within the budgeted level. The annual reduction in revenue deficit in 2015-16 was 0.4 per cent, as mandated under the FRBM Act.

### 3.2 Fiscal Deficit

Section 2(a) of FRBM Act, defines fiscal deficit as the excess of total disbursements from the Consolidated Fund of India (CFI) over total receipts into the Fund during a financial year (excluding debt receipts and repayment of debt).

#### 3.2.1 Fiscal Deficit target

The FRBM Act as notified in August 2003 envisaged achieving fiscal deficit of not more than three *per cent* of GDP by 31 March 2008. Taking into account the latest amendment in the FRBM Act made through Finance Act 2015 (May 2015), the target for achieving the fiscal deficit of not more than three *per cent* of GDP was deferred to 31 March 2018, with annual reduction by an amount equivalent to 0.4 *per cent* or more of GDP at the end of each financial year beginning with financial year 2015-16. However in Budget 2017-18, the target date for achieving the fiscal deficit was further deferred to 2018-19 through MTFP Statement.

#### 3.2.2 Fiscal Deficit in financial year 2015-16

For financial year 2015-16, fiscal deficit target of 3.9 *per cent* of GDP was set in the MTFP Statement. The computation of fiscal deficit is as under:

**Table-3.2: Fiscal Deficit - Budget Estimate and Actuals in 2015-16**

Component	Total Expenditure	Non-debt Receipts	Fiscal Deficit (FD)	FD as % of GDP
	(1)	(2)	(3=1-2)	
(₹ in crore)				
Budget Estimates	17,77,477	12,21,828	5,55,649	3.9
Actuals	17,90,783	12,57,992	5,32,791	3.9
Variation with reference to Budget Estimates	13,306 (0.75%)	36,164 (2.96%)	-22,858 (-4.11%)	--

Source: Budget at a Glance

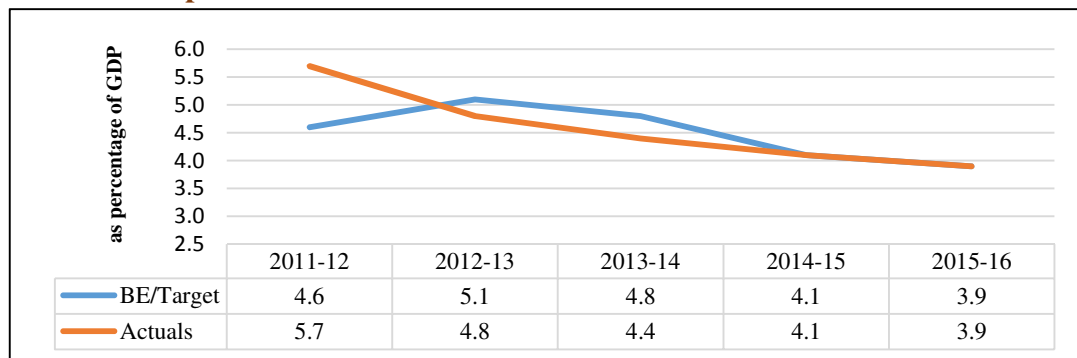
Note: Non-debt receipts (revenue receipt + recovery of loans and advances + miscellaneous capital receipt).

In 2015-16, variation between Budget Estimates and actuals in respect of total expenditure was only 0.75 *per cent*. However, due to increased realisation of non-debt receipts than the estimation, the actual fiscal deficit was contained below the budgeted level. In terms of *per cent* of GDP, the fiscal deficit was contained at the level of 3.9 *per cent*.

### 3.2.3 Trend of Fiscal Deficit

**Graph-3.2** below presents the trend of fiscal deficit as a percentage of GDP over the period from 2011-12 to 2015-16:

**Graph-3.2: Trend of Fiscal Deficit: 2011-12 to 2015-16**



Source: For BE/Target - MTFP Statement; For Actuals – Budget at a Glance (BAG).

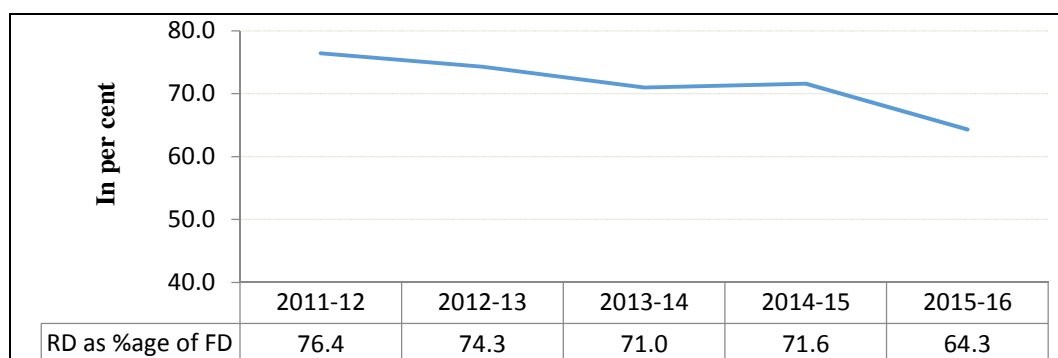
Note: Data in absolute terms for deficits is at **Annexure-3.1**.

The fiscal deficit had shown a declining trend which converges to its budgeted level during the last two financial years 2014-16. However, the annual reduction in fiscal deficit in 2015-16 was only 0.2 per cent, as against 0.4 per cent mandated under the FRBM Act.

### 3.3 Revenue Deficit as a component of Fiscal Deficit

The amended FRBM Act/Rules envisage fiscal deficit of not more than 3 per cent of GDP and revenue deficit of not more than 2 per cent of GDP, implying that the revenue deficit accounts for two-thirds of fiscal deficit. **Graph-3.3** below presents the trend of revenue deficit as a component of fiscal deficit over the period from 2011-12 to 2015-16:

**Graph-3.3: Trend of RD as component of FD: 2011-12 to 2015-16**



Source: Budget at a Glance

**Graph-3.3** depicts that during 2011-12 to 2014-15, major portion of fiscal deficit was on account of revenue expenditure, resulting in revenue deficit averaging more than 73.0 *per cent* of fiscal deficit. However, during financial year 2015-16 the position had improved as revenue deficit was 64.3 *per cent* of fiscal deficit which was within the limit of 66.6 *per cent*.

### **3.4 Effective Revenue Deficit**

The concept of effective revenue deficit was introduced in Union Budget of 2011-12 to segregate the grants-in-aid which were used to finance current expenditure and those used to create capital assets. Section 2(aa) of amended FRBM Act (May 2012) defines 'effective revenue deficit' as the difference between the revenue deficit and grants for creation of capital assets.

#### **3.4.1 Effective Revenue Deficit target**

The FRBM (Amendment) Rules notified in May 2013, stipulated elimination of effective revenue deficit by 31 March 2015. Taking into account the latest amendment in the FRBM Act made through Finance Act 2015 (May 2015), the target was deferred to 31 March 2018. In February 2016, the target for elimination of effective revenue deficit was deferred to 31 March 2019 through MTFP Statement placed alongwith Budget 2016-17. Further, in MTFP Statement placed alongwith Budget 2017-18, in February 2017, the target of elimination of effective revenue deficit was pushed beyond financial year 2019-20 with a target of 0.2 *per cent* of GDP to be achieved by 31 March 2020.

#### **3.4.2 Effective Revenue Deficit in financial year 2015-16**

For the year 2015-16 (BE), the effective revenue deficit target was set at 2.0 *per cent* of GDP, an increase of 0.2 *per cent* (as against annual reduction of 0.5 *per cent*) over the Revised Estimate target of 1.8 *per cent* for financial year 2014-15. As already discussed in Para 2.1, the target fixed for financial year 2015-16 in MTFP Statement was at variance with the annual reduction mandated under the Act. At the Revised Estimates stage for 2015-16 (in February 2016), the target was reduced to 1.5 *per cent* of GDP. The computation of effective revenue deficit is as under:

**Table-3.3: Effective Revenue Deficit - Budget Estimate and Actuals: 2015-16**

Component	Revenue Deficit	Grant for creation of capital assets	Effective Revenue Deficit (ERD)	ERD as % of GDP
	(1)	(2)	(3=1-2)	
	<i>(₹ in crore)</i>			
Budget Estimates	3,94,472	1,10,551	2,83,921	2.0
Actuals	3,42,736	1,31,754	2,10,982	1.6
Variation with reference to BE	-51,736 (-13.12%)	21,203 (19.18%)	-72,939 (-25.69%)	0.4

Source: Budget at a Glance

**Table-3.3** above reflects that there was increase of more than 19 per cent in expenditure on grants for creation of capital assets, leading to around 26 per cent reduction in effective revenue deficit over the Budget Estimates. As a result of improvement in effective revenue deficit in absolute terms during financial year 2015-16, the Government was able to sustain the budgeted level of 2.0 per cent of GDP or below.

#### 3.4.2.1 Alteration in previous year's Budget provision

In the Budget at a Glance for the financial year 2015-16, the provision relating to grants for creation of capital assets was estimated at ₹ 1,10,551 crore. In subsequent year, during the budget exercise of financial year 2016-17, the BE figure of grants for creation of capital assets for financial year 2015-16 was modified to ₹ 1,32,472 crore, thereby increasing the provision for financial year 2015-16 by ₹ 21,921 crore. Similarly, during the budget exercise of financial year 2016-17, the budgeted figure of effective revenue deficit for financial year 2015-16 was also modified from ₹ 2,83,921 crore to ₹ 2,68,000 crore. The modification made in subsequent year had the effect of increasing the provision on grants for creation of capital assets by ₹ 21,921 crore, while the estimates of effective revenue deficit went down only by ₹ 15,921 crore, instead of going down by like amount.

Provision under any head of expenditure in any financial year is approved by the Parliament and modifying the approved figures in subsequent years indicates that transparent and correct estimates of expenditure for previous year were not prepared. As the estimates of expenditure on grants for creation of capital assets has bearing on the deficit indicators, changing them frequently defeats the very concept of having any fiscal target in respect of deficit indicators.

*In respect of estimates of expenditure on grants in aid for creation of capital assets appearing in Paras 3.4.2 and 3.4.2.1, Ministry stated (June 2017) that*

information provided in the budget statement was based on the inputs/information provided by various Ministries/Departments. Budget Division has no means to verify the authenticity of the information provided by the Ministries/Departments independently. Ministry added that based on information provided by Ministries/Departments, in RE 2015-16 expenditure provision on grants for creation of capital assets were modified at ₹1,32,004 crore which was closer to actuals at the end of the year, resulting in modification in the ERD figure also.

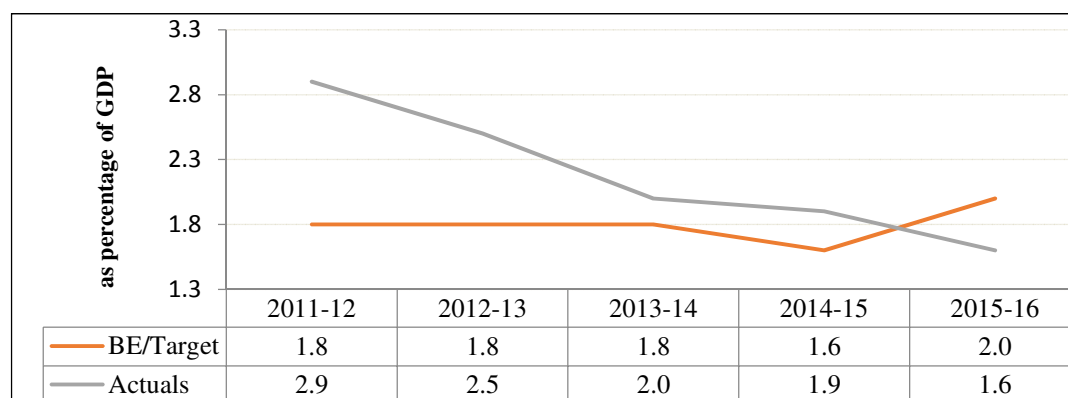
Ministry further added that in pursuance of audit observation efforts were being made to rectify errors/inconsistency in reporting of information by various Ministries/Departments.

Being the nodal Ministry for the administration of the FRBM Act and preparation of Central Budget, Ministry of Finance should ensure that information obtained from the line Ministries and included in the Budget documents laid before the Parliament is complete, accurate and consistent.

### **3.4.3 Trend of Effective Revenue Deficit**

The trend of effective revenue deficit as a percentage of GDP over the period from 2011-12 to 2015-16 is given in **Graph-3.4** below:

**Graph-3.4: Trend of Effective Revenue Deficit: 2011-12 to 2015-16**



Source: For BE/Target – MTFP Statement; For Actuals – Budget at a Glance

Note: Data in absolute terms for deficits is at **Annexure 3.1**

As seen from the **Graph-3.4**, despite the downward trend in effective revenue deficit, the Government was not able to achieve its budgeted targets during 2011-12 to 2014-15. However, the ratio of effective revenue deficit to GDP, showed improvement in the financial year 2015-16 and was 1.6 per cent as against the Budgeted level of 2.0 per cent.

### **3.4.4 Inconsistency in estimation of effective revenue deficit**

In order to correctly estimate the effective revenue deficit, every Ministry prepares information containing revised provision for current year and budget

provision for ensuing year under the object head 'grants for creation of capital assets' under various schemes/programmes as contained in the Detailed Demands for Grants (DDG) of the respective Ministries, alongwith the actuals of previous year, and furnish the same to the Ministry of Finance. On the basis of these information, Ministry-wise statement is appended in the Expenditure Budget Volume-I showing the provision of expenditure on grants for creation of capital assets. A consolidated provision for expenditure on grants for creation of capital assets is given in Budget at a Glance (BAG).

Analysis of data contained in Expenditure Budget Volume-I, DDG of the respective Ministries and their cross verification with the records of the respective Ministries revealed discrepancies/inconsistency in furnishing and collating the data relating to provision/expenditure on grants for creation of capital assets, which impacts on the computation of effective revenue deficit. The cases where discrepancies were noticed are discussed below:

#### **3.4.4.1 Computation error in expenditure provision of grants for creation of capital assets**

In the BAG for financial year 2015-16, effective revenue deficit of ₹ 2,83,921 crore was estimated after reducing the provision of ₹ 1,10,551 crore on grants for creation of capital assets from the revenue deficit of ₹ 3,94,472 crore. Computation of information contained in Expenditure Budget 2015-16, Volume-I, Annex-6 revealed that the total of figures in respect of 65 Ministries/Departments on grants for creation of capital assets works out at ₹ 1,10,964 crore. Due to computation error, in the Budget 2015-16, the provision on grants for creation of capital assets was understated by ₹ 413 crore, resulting in overestimation of effective revenue deficit by an equivalent amount.

*The Ministry accepted (June 2017) the audit observation and stated that concerned Section in Budget Division has been advised to take due care to avoid such errors.*

#### **3.4.4.2 Deficiency in estimation of grants for creation of capital assets**

Scrutiny of information contained in Annex-6 of Expenditure Budget Volume-1 showing Ministry-wise details of provision on grants for creation of capital assets in financial year 2015-16 and their cross-verification with respective DDG revealed variation in two sets of documents in some test-checked Ministries/Departments. Analysis revealed that in some cases Ministries/Departments furnished the information to the Ministry of Finance but these were not included by the Ministry of Finance in the Annex-6. The cases scrutinised in audit are detailed in **Annexure-3.2**.



As a result of deficiency in estimating the expenditure on grants for creation of capital assets, the provision included in the Budget at a Glance for grants for creation of capital assets was underestimated by ₹ 18,827 crore, which has also impacted the correct estimation of effective revenue deficit.

#### **3.4.4.3 Incorrect expenditure on grants for creation of capital assets**

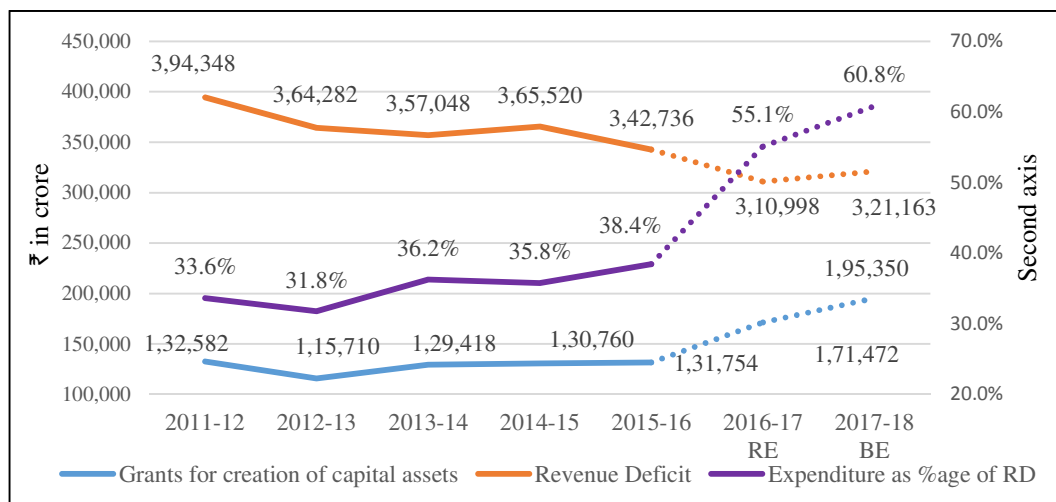
Annex-6 for financial year 2017-18 contains information on actual expenditure incurred on grants for creation of capital assets for the financial year 2015-16. Scrutiny of Annex-6 revealed that in respect of Ministry of Development of North Eastern Region (DoNER), an amount of ₹ 1,223.96 crore was shown as actual expenditure in 2015-16. However, examination of records in Ministry of DoNER revealed that the actual expenditure on grants for creation of capital assets in financial year 2015-16 was ₹ 1,384.53 crore. Ministry of DoNER in March 2017 replied that due to non-maintenance of proper records, incorrect figure of ₹ 1,223.96 crore was reported to the Ministry of Finance which was included in Annex-6. As a result of this discrepancy actual expenditure on grants for creation of capital assets in financial year 2015-16 was understated by ₹ 160.57 crore in Annex-6 as well as in BAG. Understatement of expenditure on grants for creation of capital assets had the impact of overstatement of effective revenue deficit to that extent.

*In respect of data of estimates/expenditure on grants in aid for creation of capital assets appearing in Paras 3.4.4.2 and 3.4.4.3, Ministry stated (June 2017) that information provided in the Budget Statement was based on the inputs/information provided by various Ministries/Departments. Budget Division has no means to verify the authenticity of the information provided by the Ministries/Departments independently. Ministry further added that in pursuance of audit observation, efforts were being made to rectify errors/inconsistency in reporting of information by various Ministries/Departments.*

**Recommendation** : *An appropriate mechanism needs to be put in place by the Government to avoid instances of inconsistencies in estimation and correct reporting of components of expenditure having bearing on deficit indicators.*

#### **3.4.5 Expenditure on grants for creation of capital assets**

Elimination of effective revenue deficit implies that expenditure on grants for creation of capital assets must equal the revenue deficit. In other words, the Government's revenue expenditure in excess of revenue receipts must be used for creation of capital assets. The trend of expenditure on grants for creation of capital assets as a percentage of revenue deficit over the period from 2011-12 to 2015-16 and projections for next two years are given in **Graph-3.5** below:

**Graph-3.5: Trend of expenditure on grants for creation of capital assets**

Source: Budget at a Glance

Note: Second axis represents expenditure on grants for creation of capital assets as percentage of revenue deficit.

From **Graph-3.5** it would be seen that during the period 2011-16, expenditure on grants for creation of capital assets as compared to revenue deficit had remained between the ranges of 32 per cent to 38 per cent. To achieve the target of elimination of effective revenue deficit, a concerted efforts needs to be made to step up the provisioning on expenditure on grants for creation of capital assets by more than 60 per cent. The projection of expenditure on grants for creation of capital assets for next two financial years i.e. 2016-18, though very ambitious, endeavours to push this ratio to the level of 61 per cent. However, to bring the expenditure on grants for creation of capital assets to the level of revenue deficit, there still exists a gap of ₹1.25 lakh crore in financial year 2017-18.

In MTFP Statement of 2017-18, Government had stated that the target of elimination of effective revenue deficit is being missed on account of structural issues in the revenue expenditure component of the Centre. In its effort to further increase the expenditure on grants for creation of capital assets, some expenditure which may not qualify to be classified in this category may also be brought within its ambit. This may be due to absence of defined criteria for classification of expenditure as ‘grants for creation of capital assets’ and in view of varying practices in treatment of such expenditure across the Ministries/Departments. Some instances of expenditure which are not qualified to be classified in the category of grants for creation of capital assets have been noticed and discussed in Chapter 4 of this Report.

### 3.5 Liability of the Government

The Government resorts to borrowing from internal and external sources, collectively known as Public Debt, to finance its deficit. The internal borrowings

mainly comprise of market loans and special securities issued to financial institutions. In addition to this, the resources available in the Public Account, in respect of which the Government functions as a trustee, are also liabilities which in turn are used to finance the deficit. According to Section 2(f) of FRBM Act, total liabilities mean the liabilities under the CFI and the Public Account of India.

### 3.5.1 Liability target

Rule 3(4) of the FRBM Rules requires that the Government shall not assume additional liabilities (including external debt at current exchange rate) in excess of 9 per cent of GDP for financial year 2004-05 and in each subsequent financial years, the limit of 9 per cent shall be progressively reduced by at least one percentage point of GDP.

In the first report of CAG on compliance of FRBM Act, 2003 for financial year 2014-15 (Report No. 27 of 2016), inconsistency in Rule 3(4) was pointed out. In this Report, it was mentioned that according to the existing Rules, no additional borrowings, would have to be resorted to by the Government after financial year 2013-14 whereas Rule 3(2) stipulates bringing down the fiscal deficit at the level of not more than 3 per cent of GDP.

In response to audit observation, Ministry in its Action Taken Note (December 2016) assured that Rule 3(4) of the FRBM Rules will be examined after taking into account the recommendations of the FRBM Review Committee constituted by the Government (May 2016) for appropriate changes/alignments between the Act and the Rules.

Following **Table 3.4** shows the liability position of the Government since 2011-12:

**Table-3.4: Liability of the Government: 2011-12 to 2015-16**

*(₹ in crore)*

Financial year	Liability at the beginning of the year (1)	Liability at the end of the year (2)	Additional liability during the year (3=2-1)	GDP	Liability as %age of GDP (2/4)	Additional liability as %age of GDP (3/4)
2011-12	35,32,450	41,51,284	6,18,834	87,36,039	47.5	7.1
2012-13	41,51,284	47,06,586	5,55,302	99,51,344	47.3	5.6
2013-14	47,06,586	52,59,310	5,52,724	1,12,72,764	46.7	4.9
2014-15	52,59,310	57,75,685	5,16,375	1,24,88,205	46.2	4.1
2015-16	57,75,685	64,23,032	6,47,347	1,35,76,086	47.3	4.8

Source: Union Government Finance Accounts

Note: liability includes external debt at current rates of exchange

It may be seen from **Table 3.4** that total liability of the Government for 2015-16 was 47.3 *per cent* of GDP, which was 46.2 *per cent* in 2014-15. However, additional liabilities declined from 7.1 *per cent* in 2011-12 to 4.1 *per cent* in 2014-15 and again increased to 4.8 *per cent* in 2015-16.

As per the recommendation of FRBM Review Committee, the debt-GDP ratio of 40 *per cent* is to be achieved by 2023 in respect of Union Government. However, action taken note by the Government on the recommendation of the Committee was awaited (June 2017).

*The Ministry intimated (June 2017) that the Report of the FRBM Review Committee was being examined by the Government and the action taken note on the recommendation of the Committee will be provided in due course.*

### **3.5.2 Understatement of liability**

In Para 1.5 of CAG's Report No. 34 of 2016 on the accounts for financial year 2015-16 of the Union Government, a comment relating to understatement of Public Account liability was included. The understatement of liability by ₹ 7,18,404 crore was on account of non-inclusion of investments out of NSSF collections in Special State Government Securities (₹ 5,71,048 crore); investment of Post Office Insurance Fund through Private Fund Managers (₹ 43,139 crore); and accumulated deficit (loss) in the operation of NSSF (₹ 1,04,217 crore).

Taking into account the actual liability in the Public Account, total liability of the Union Government at the end of the financial year 2015-16 would be ₹ 71,41,436 crore<sup>9</sup> which is 52.6 *per cent* of GDP as against 47.3 *per cent* as shown in **Table 3.4**.

*The Ministry stated (June 2017) that in the Union Government Finance Accounts, liability of the Government was shown net of investments made out of NSSF, accumulated deficit in NSSF, investment of post Office Insurance Fund through Private Fund Managers and explained through a footnote. Ministry further added that depiction of liability in the present form is approved on the advice of CAG and audit had picked up conveniently both the figures i.e. net and gross from the Finance Accounts itself for its observations.*

The reply of the Ministry is not in order as the actual liability of the Government of India was ₹ 71,41,436 crore at the end of financial year 2015-16. Investments made out of this amount needs to be shown separately in the accounts. Office of the CAG was consulted only on the accounting procedure relating to creation of NSSF when it was being finalised in April 2000. Netting of NSSF liabilities from

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<sup>9</sup> ₹ 71,41,436 crore = ₹ 64,23,032 crore + ₹ 7,18,404 crore.

the Public Account liabilities is the decision of the Ministry which was introduced in Union Government Finance Accounts from the financial year 2004-05.

Section 2(f) of FRBM Act defines total liabilities as liabilities under the CFI and the Public Account of India. However, the MTFP Statement does not include part of NSSF and total Market Stabilisation Scheme liabilities. Thus, the level of liabilities reflected even in MTFP Statement is not in accordance with the definition provided in the Act.

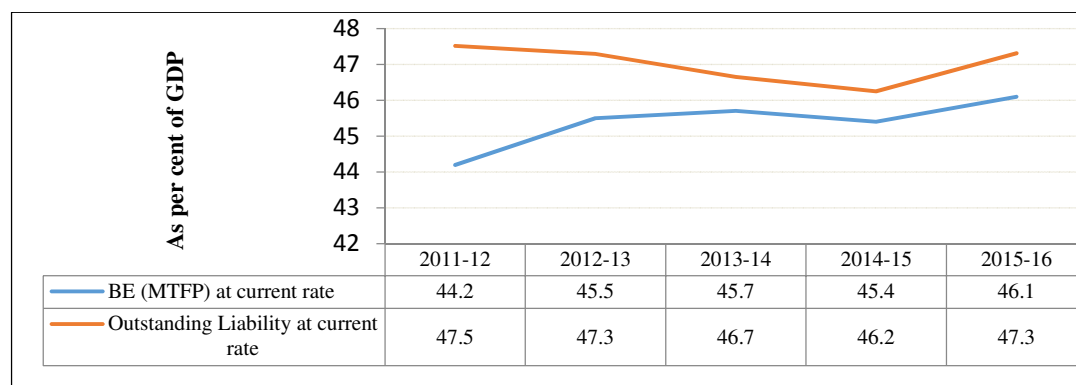
### 3.5.3 Debt Sustainability

Prudential debt management consistent with fiscal sustainability through limits on the Central Government borrowings is one of the objectives of FRBM Act. Debt sustainability refer to the ability of Government to service its debt in future. Debt sustainability is generally measured in terms of level of debt, primary deficit and interest cost in relation to nominal GDP growth rate. A falling Debt/GDP ratio can be considered as an indication leading towards stability. The ratio of interest payments to revenue receipts is also used to measure debt sustainability. In succeeding paragraphs, assessment of the debt sustainability of the Union Government has been made using trends observed in critical variables.

#### (a) Outstanding liability to GDP

Following **Graph-3.6** shows the trend of outstanding liability of the Government as a percentage of GDP as compared to estimates included in MTFP Statement over the period from 2011-12 to 2015-16:

**Graph-3.6: Trend of Outstanding Liability: 2011-12 to 2015-16**



Source: MTFP Statements and Union Government Finance Accounts.

As seen from **Graph-3.6**, the outstanding liability in terms of GDP had outstripped the budgeted level shown in the MTFP Statement. This analysis has not taken into account the understatement of liabilities in the Public Account as mentioned in Para 3.5.2, but for which during financial year 2015-16, the ratio of outstanding liability to GDP would have been 52.6 per cent.

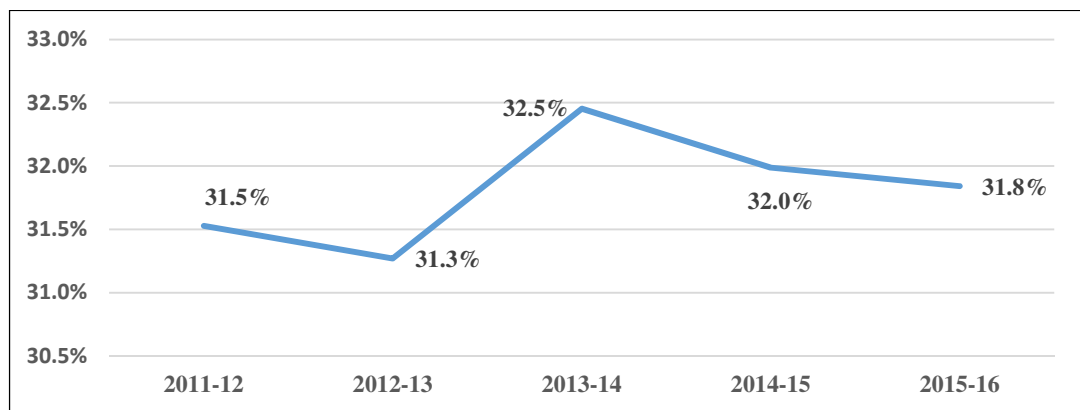
Ministry intimated (June 2017) that variation in outstanding liabilities as a percentage of GDP was mainly due to variation in GDP estimates as assumed at the time of BE of respective years and the actual numbers for the year.

Reply of the Ministry indicates that the basis for assumption of GDP for the relevant year depicted in the Budget are not sound, as variation between the projections and actuals is wide.

**(b) Ratio of interest payments to Revenue Receipts**

Interest cost of debt is another indicator of measuring sustainability of debt. The ratio of interest payment to revenue receipts (IP/RR) showed a declining trend during previous two years 2014-15 and 2015-16, from a peak of 32.5 per cent in 2013-14 as shown in **Graph 3.7**.

**Graph-3.7: Ratio of Interest Payment to Revenue Receipt**



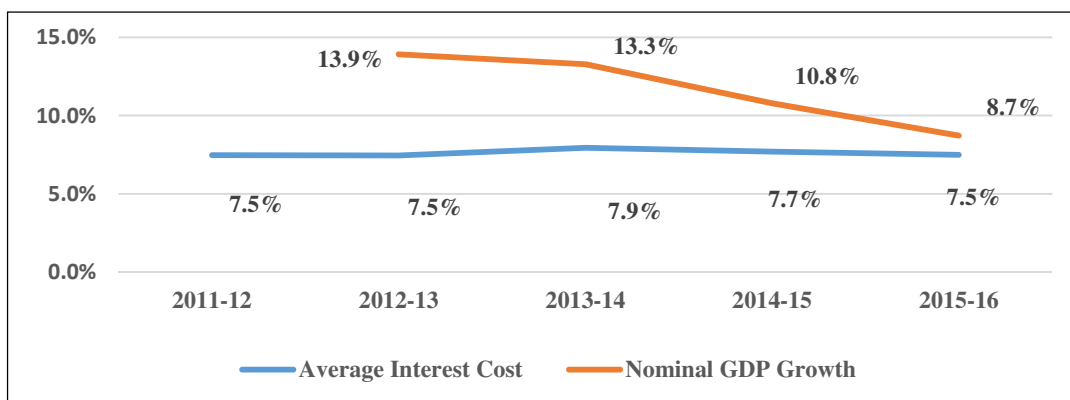
Source: Union Government Finance Accounts

**(c) Average Interest Cost**

Average Interest Cost (AIC) is arrived at by dividing interest payments during the year with average outstanding liability<sup>10</sup>. A declining average interest cost augurs well for the sustainability of the debt. However, as depicted in **Graph 3.8**, over the period 2011-16 the average interest cost plateaued and ranged between 7.5 to 7.9 per cent.

<sup>10</sup> Average outstanding liability is a simple average of outstanding debt at the beginning and at the end of the year.

**Graph-3.8: Average Interest Cost and Nominal GDP growth**

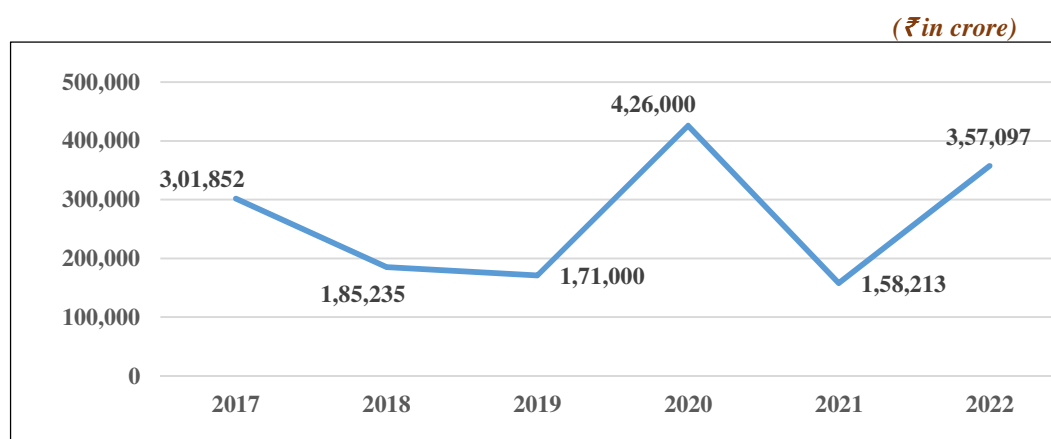


Source: Union Government Finance Accounts and GDP data published by CSO

**(d) Maturity Profile of Market Loans**

Out of total outstanding liabilities of ₹ 64,23,032 crore in 2015-16, the internal debt accounted for ₹ 53,04,835 crore. Major component of internal debt is market loans, which are dated securities with fixed maturity tenure, amounting to ₹ 43,00,102 crore (constituting 81.06 per cent of internal debt). Analysis in **Graph 3.9** reveals that market loans due for redemption in a medium time frame of next six financial years beginning from 2016-17 is ₹ 15,99,397 crore (around 37 per cent of outstanding market loan).

**Graph 3.9: Maturity profile of Market Loans: 2017-2022**



Source: Accounts at a Glance 2015-16 published by office of the CGA.

Ministry intimated (June 2017) that maturity profile of dated securities as depicted in the Graph was not comparable with maturity profile of G-securities as reported in Annual Status paper and Union Budget. Ministry further added that there were limits in place for total debt maturing in a financial year which were being adhered to by the Government.

The source of information in respect of profile of market loans due for redemption is Accounts at a Glance, prepared by the office of the CGA which is under the

Ministry of Finance. If there is any inconsistency in data contained in separate publications brought out by the Ministry, it would be appropriate for the Ministry to reconcile the same.

### 3.6 Guarantees

Central Government extends guarantees primarily for the purpose of improving viability of projects or activities undertaken by the Government entities with significant social and economic benefits, to lower the cost of borrowings as well as to fulfil the requirement in cases where sovereign guarantee is a precondition for bilateral/multilateral assistance. While guarantees do not form part of debt as conventionally measured, in the eventuality of default, they have the potential of aggravating the debt position of the Government.

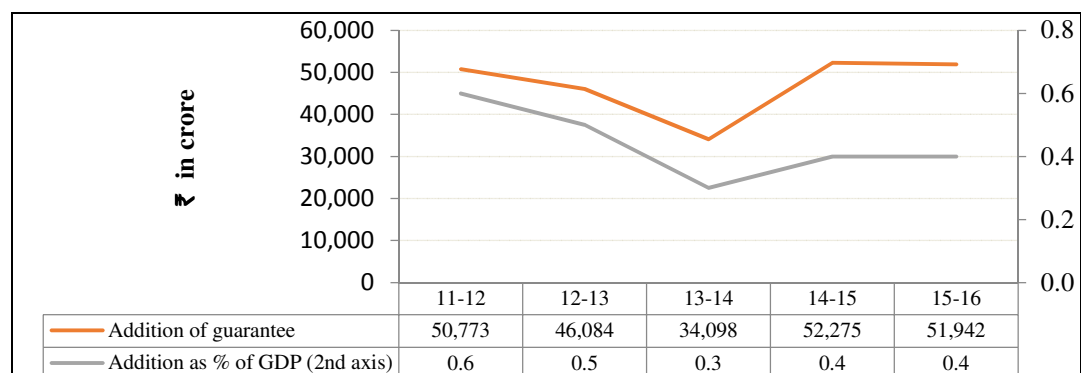
#### 3.6.1 Guarantees target

FRBM Act and the Rules made thereunder stipulate that the Central Government shall not give guarantees aggregating to an amount exceeding 0.5 per cent of GDP in any financial year beginning with 2004-05.

#### 3.6.2 Trend of additions in Guarantees

Following **Graph-3.10** shows the trend of additions in guarantees given by the Government in a financial year as a percentage of GDP over the period from 2011-12 to 2015-16:

**Graph 3.10: Trends of addition in guarantees: 2011-12 to 2015-16**



Source: Union Government Finance Accounts.

Note: Second axis represents addition in guarantees as percentage of GDP.

Above graph shows that except for financial year 2011-12, the addition of guarantee in a financial year remained within the prescribed target of 0.5 per cent of GDP.

Ministry stated (June 2017) that Government had ensured that guarantees given during the year 2011-12 (in BE/RE) were well within the limit of 0.5 per cent of GDP. Ministry added that subsequent revision of GDP for this year was not anticipated at the time of finalization of said guarantees.



The reply of the Ministry is not in order. During 2011-12, addition in guarantees was ₹ 50,773 crore and even after adopting the old series of GDP i.e. ₹ 90,09,722 crore for the year, the addition in guarantees would have been 0.6 *per cent* of GDP.

### **Conclusion**

During the year 2015-16, the Government was able to achieve its budgeted revenue and fiscal deficit targets of 2.8 and 3.9 *per cent* of GDP respectively.

The budgeted figure of grants for creation of capital assets for the year 2015-16 was modified in subsequent year's budget. This defeated the very concept of having any fiscal targets in respect of deficit indicators. Inconsistency in estimation of effective revenue deficit *viz.* computation error in provisioning of effective revenue deficit, deficiency in estimation of grants for creation of capital assets and incorrect reporting of expenditure had impacted the figures of effective revenue deficit for the year.

During 2015-16, liability of the Government was 47.3 *per cent* of GDP. However, this liability was understated on account of non-inclusion of investment out of NSSF collections in Special State Government Securities, investment of Post Office Insurance Fund through Private Fund Managers and accumulated deficit in the operation of NSSF. Taking into account the understatement, actual liability of the Government was 52.6 *per cent* of GDP.