

Chapter 5: Analysis of projections in fiscal policy statements

Section 3 of the FRBM Act envisages laying of three fiscal policy statements *viz.* Mid-term Fiscal Policy (MTFP); Fiscal Policy Strategy (FPS); and Macroeconomic Framework (MF) in both Houses of Parliament along with the Annual Financial Statement and the Demands for Grants. Amendment made in the FRBM Act in 2012 prescribed another statement (Medium Term Expenditure Framework (MTEF) Statement) containing a three year rolling target for prescribed expenditure indicators, with specification of underlying assumptions and risks involved. The MTEF is mandated to be laid before both Houses of Parliament immediately following the Session of Parliament in which the MTFP, FPS and MF Statements are laid.

This chapter analyses the receipts and expenditure of the Union Government for financial year 2015-16 *vis-à-vis* projections contained in the fiscal policy statements, Budget at a Glance and Annual Financial Statement.

5.1 Projections in Mid Term Fiscal Policy Statement

MTFP Statement contains three year rolling targets for fiscal indicators *viz.* revenue deficit, effective revenue deficit, fiscal deficit, tax revenue and total outstanding liabilities as a percentage of GDP with specification of underlying assumptions, including assessment of sustainability relating to balance between revenue receipt and revenue expenditure; use of capital receipts including market borrowings for generating productive assets. Analysis of projections of some of the components of fiscal indicators for financial year 2015-16 in MTFP Statement are made below:

5.1.1 Gross Tax Revenue projection

In the MTFP Statement placed along with Budget 2013-14, the Government had set gross tax revenue target of 11.5 *per cent* of GDP for financial year 2015-16. This target was revised downward to 10.9 and 10.3 *per cent* of GDP in subsequent MTFP Statements placed with Budget 2014-15 and 2015-16 respectively. The target was however revised upward to 10.8 *per cent* (revised estimates) of GDP in MTFP Statement placed with Budget 2016-17. Against these estimates, actual gross collection of tax revenue was 10.7 *per cent* of GDP for financial year 2015-16.

5.1.2 Total Outstanding Liability projection

Rule 5 of FRBM Rules 2004 requires that the Central Government shall set forth a three-year rolling target through MTFP Statement in respect of total outstanding liabilities as a percentage of GDP.

In Budget 2013-14, the Government had set the target as 42.3 *per cent* of GDP for financial year 2015-16. This projection was revised upward for to 43.6 *per cent* and 46.1 *per cent* of GDP in next two MTFP Statements placed along with Budgets for the financial years 2014-15 and 2015-16 respectively. The target was further reviewed and revised on higher side to 47.6 *per cent* (revised estimates) of GDP in MTFP Statement placed with Budget 2016-17. Against this, the actual ratio of total liability to GDP for 2015-16 stood at 47.3 *per cent*.

5.1.3 Disinvestment projection

In the MTFP Statement placed with Budget 2013-14, an amount of ₹ 15,000 crore was projected as disinvestment proceeds for financial year 2015-16. Further, in MTFP Statement placed along with the Budget of 2014-15, the estimates from disinvestment was revised upwardly to ₹ 55,000 crore for the years 2015-16 and 2016-17. In the Budget 2015-16, Government however estimated to raise ₹ 69,500 crore from miscellaneous capital receipts, but in RE 2015-16, this projection was scaled down to ₹ 25,313 crore. Against this reduced projection, the actual realization from disinvestment of Public Sector Undertakings in financial year 2015-16 was ₹ 42,132 crore.

The continued deviation in projections of components of receipts as discussed in paragraphs 5.1.1, 5.1.2 and 5.1.3 above indicates deficiencies in the process of making underlying assumptions while framing fiscal policy statements for a particular year. Frequent changes in the projections of components of receipts and expenditure has also bearing with the projections of fiscal indicators presented through MTFP Statement with rolling targets in a medium time frame.

In respect of Paras 5.1.1, 5.1.2 and 5.1.3, Ministry stated (June 2017) that target in the MTFP Statement are set in view of FRBM roadmap and on the basis of certain underlying assumptions viz., GDP growth, receipts, expenditure and other macro-economic factors etc. and in budget year, they are fixed with re-assessment of the macro-economic situation. In respect of disinvestment policy of the Government, Ministry stated that prevalent market conditions are an important factor in the Government's decision to adopt cautious approach on disinvestment. Ministry further added that continuous efforts were being made for improved assessment in order to make more realistic projections so as to keep the variation between projections and actual Budget Estimates to the minimum.

Reply of the Ministry reinforces the audit contention that the projections for various components of fiscal indicators contained in the fiscal policy statement should be on sound basis, which may form the basis for preparing the Budget for the relevant year. In respect of subdued receipts from disinvestment *vis-à-vis* projections, it may be mentioned that despite prioritising this important stream of resources, the Government was not able to achieve the budgeted receipts from disinvestment in last five years.

5.2 Projections in Medium Term Expenditure Framework Statement

Consequent to amendments made in FRBM Act in 2012, one of the key requirements relate to laying of a Medium Term Expenditure Framework (MTEF) Statement in the Parliament, in the Session immediately following the Budget Session. In terms of sub-section 6A of Section 3 of the Act, the MTEF Statement shall set forth a three year rolling target for prescribed expenditure indicators (in prescribed format notified on 5 September 2012) with specification of underlying assumptions and risks involved.

Comparison of projection of expenditure for financial year 2015-16 contained in MTEF Statement of 2014-15 (December 2014) with Budget estimates for financial year 2015-16 contained in MTEF Statement of 2015-16 (August 2015) and revised estimates for financial year 2015-16 as contained in MTEF Statement of 2016-17 (August 2016) is given in **Annexure-5.1**.

From the annexure, it would be seen that underlying assumptions based on which the expenditure projections made for financial year 2015-16 in MTEF Statement of 2014-15 were changed in subsequent years MTEF Statements. As a result of persistent changes in projections, following points were observed.

- In respect of revenue expenditure, the projection made in December 2014 was overestimated by 7.57 *per cent* as compared to Revised Estimates 2015-16 (August 2016).
- Projections of revenue expenditure on Tax Administration, Transport and IT & Telecom were augmented substantially in Revised Estimates 2015-16. While in respect of Education, Agriculture and Allied, Urban Development, Rural Development and Development of North East Region the downward revision in each case was more than 20 *per cent* at Revised Estimates stage.
- The projection made in respect of expenditure on grants for creation of capital assets was drastically reduced from ₹ 3,01,598 crore (December 2014) to ₹ 1,32,004 crore (August 2016). The ultimate contraction under

this head of expenditure was ₹ 1,69,594 crore, amounting to 56.23 *per cent* of the projected figure.

- With respect to overall Capital Expenditure the reduction at Revised Estimates stage of 2015-16 was 15.02 *per cent*. The segments of capital expenditure which witnessed reduction of more than 20 *per cent* in the Revised Estimates 2015-16 stage are Home Affairs, Health, Commerce and Industry, Planning and Statistics, IT & Telecom, Defence, Energy and Scientific Departments.
- Some of the heads of expenditure have also been compared *vis-à-vis* actuals as detailed in **Table 5.1** below:

Table 5.1: Expenditure projection and actuals for financial year (FY) 2015-16

(₹ in crore)

Heads of expenditure	Projections for FY 15-16 in MTEF Statement for FY 2014-15 (December 2014)	BE in MTEF Statement for 2015-16 (August 2015)	RE for 2015-16 in MTEF Statement of 2016-17 (August 2016)	Actuals (as per Budget at a Glance) (February 2017)	% age variation (Col.5 w.r.t. Col.2)
1	2	3	4	5	6
Revenue Expenditure	16,74,359	15,36,047	15,47,673	15,37,761	-8.2
Interest	4,68,431	4,56,145	4,42,620	4,41,659	-5.7
Pension	90,154	88,521	95,731	96,771	7.3
Fertiliser subsidy	76,000	72,969	72,438	72,415	-4.7
Food subsidy	1,20,000	1,24,419	1,39,419	1,39,419	16.2
Petroleum subsidy	50,000	30,000	30,000	29,999	-40.0
Grants for creation of capital assets	3,01,598	1,10,551	1,32,004	1,31,754	-56.3
Capital Expenditure	2,79,738	2,41,430	2,37,718	2,53,022	-9.6

Source: MTEF Statements and Budget at a Glance

As seen from **Table 5.1**, the actual expenditure under the heads Pension and Food Subsidy in financial year 2015-16 outstripped the projection for that year as contained in MTEF Statement of 2014-15 by 7.3 and 16.2 *per cent* respectively. At the same time, actual expenditure on Petroleum subsidy was less than the projection made in December 2014. In respect of expenditure on Grants for creation of capital assets, the actual expenditure fell short by 56.3 *per cent* due to its over projection in December 2014. Government in MTEF Statement of 2014-15 had cited that provision were made during the projection period to eliminate revenue deficit by 31 March 2016.

Ministry stated (June 2017) that expenditure estimates/projections in MTEF are set in view of FRBM roadmap on the basis of certain underlying assumptions viz., GDP growth, receipts, expenditure and other macro-economic factors etc. Ministry further added that Budget Estimates were fixed on the basis of re-assessment of situation which may again undergo some change at Revised Estimates stage depending upon pace of actual expenditure, absorptive capacity of economy and various other macro-economic factors.

Ministry however, assured that continuous efforts were being made for improved assessment in order to make more realistic projections so as to keep the variation between projections and actual Budget Estimates to the minimum.

Reply of the Ministry indicates deficiencies in the process of making assumptions while preparing the fiscal policy statements. This leads to frequent and substantial recalibration in later years and also having impact on structural imbalance in composition of expenditure.

Recommendation: *The Government may strengthen the process of making underlying assumptions for projections of receipt and expenditure in various fiscal policy statements to insulate them from frequent changes and to seamlessly integrate the projections in the Budget.*

Conclusion

The analysis of the projections of receipts and expenditure included in the fiscal policy statements for multi-year revealed that the projections were at variance *vis-a-vis* corresponding figures for that year as reflected in subsequent statements and Budget documents.