

Executive Summary

Introduction

The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 was enacted with the objectives of ensuring inter-generational equity in fiscal management and long-term macro-economic stability. These objectives were to be achieved by containing deficits, removing fiscal impediments in the effective conduct of monetary policy and through prudential debt management by setting limits on borrowings, debt and deficits. The Act stipulates enhanced transparency in the fiscal operations of the Central Government and the conduct of fiscal policy in a Medium Term Framework. FRBM Rules 2004 framed under Section 8 of the Act, came into force in July 2004. The Act and Rules have thereafter, been amended from time to time with the latest amendment having been made in April 2018. To meet the above objectives, the Act and the Rules specified targets with regard to eliminating/containing fiscal indicators such as Revenue Deficit (RD), Effective Revenue Deficit (ERD) and Fiscal Deficit (FD) and stipulated capping of guarantees, additional liabilities and Government Debt.

Chapter 1 of this report gives a gist of the key provisions of the FRBM Act. **Chapters 2 and 3** contain observations on compliance by the Union Government with targets set out in the FRBM Act, 2003 and the Rules made thereunder, for the financial years 2017-18 and 2018-19. Chapter 2 in addition, has an analysis of variations between estimates and actuals for fiscal indicators for both the years, and of year-on-year changes. It also highlights observations on the Union Government Finance Accounts that impact computation of the indicators, and the implications of use of extra budgetary resources for funding revenue and capital expenditure on fiscal indicators and the objectives of the Act. Likewise, Chapter 3 also examines implications of changes in definitions and targets for Central Government liabilities and debt. **Chapter 4** contains a detailed analysis of variations in projections for various parameters for the two years made in various Medium Term policy statements and the actuals. **Chapter 5** contains observations relating to adequacy and accuracy of disclosures mandated under the Act and Rules, and on issues of transparency in fiscal operations.

FRBM targets and achievement for 2017-18 and 2018-19

Fiscal Indicator	Revenue Deficit	Effective Revenue Deficit	Fiscal Deficit
2017-18			
Target	2.0 per cent	Nil (Complete elimination of ERD)	3.0 per cent
Achievement	2.6 per cent	1.5 per cent	3.5 per cent
2018-19			
Target	RD and ERD targets were no longer effective		3.4 per cent
Achievement	-	-	3.4 per cent

Major observations

Chapter 2: Status and extent of compliance with FRBM Act and Rules: *Fiscal Indicators.*

➤ For the year 2017-18, FRBM targets for Revenue Deficit (RD), Effective Revenue Deficit (ERD) and Fiscal Deficit (FD) were 2 *per cent*, nil and 3 *per cent* respectively, against which actual achievement was 2.6 *per cent*, 1.5 *per cent* and 3.5 *per cent* of GDP. Besides, targets for annual reductions and mid-year benchmarks for RD, ERD and FD were also not met during the year.

➤ Analysis of variations between BEs and actuals for fiscal indicators for 2017-18, showed that actuals for RD was higher than Budget Estimates (BEs) - which was aligned with the FRBM target - because of actual expenditure being higher compared to BE estimates, combined with a shortfall in actual revenue receipts compared to both BEs and REs. The increase in actual revenue expenditure was despite substitution of expenditure on account of food subsidy with loans from NSSF. Likewise, actuals for ERD for the year deviated from BEs on account of both an increase in actual RD as compared to BEs, and a shortfall in actual expenditure on grants for creation of capital assets as compared to BEs. Actual FD for the year was higher than the BEs for FD, but the variation was much less compared to RD both due to compression in capital expenditure, and non-debt capital receipts being higher than estimated.

➤ For the year 2018-19, by virtue of the amendment to FRBM Act and Rules w.e.f April 2018, targets for RD and ERD were no longer part of the FRBM framework. However, benchmarked against projections for RD of 2.2 *per cent* of GDP in the BEs for the year, actuals were higher at 2.4 *per cent*. Analysis show that the variations were primarily due to a significant shortfall in actual revenue receipts as compared to estimates. In the case of FD, the target of achieving a reduction of 0.1 *per cent* of GDP i.e. from 3.5 *per cent* in 2017-18 to 3.4 *per cent* was achieved. This was however 0.1 *per cent* higher than the BEs for FD for the year.

➤ Audit¹ of Union Accounts for 2017-18 and 2018-19, disclosed misclassification of revenue expenditure, adoption of an erroneous process of devolution/apportionment of IGST to states, short transfer of cesses to Reserve Funds and non-adjustment of transactions in suspense relating to Defence pensions, which have an impact on deficit calculations. If the above get factored in calculations, deficit figures would be higher than reported in the Budget documents.

Government undertook funding of revenue and capital expenditure using extra budgetary resources in both the years. Expenditure met from extra budgetary resources are not part of calculations of the fiscal indicators but have fiscal implications. A clearly

¹ Observations from the Audits are reported in CAG's Audit Report No. 2 of 2019 and No. 4 of 2020 on Union Government Accounts for 2017-18 and 2018-19 respectively.

laid out conceptual framework for what constitutes extra- budgetary borrowings and of which entities, was lacking. This hampered a comprehensive measurement and disclosure of such borrowings and their impact on fiscal indicators.

Chapter 3: Status and extent of compliance with FRBM Act and Rules: *Total Liabilities; Debt and Guarantees.*

- The amendments to the FRBM Act and Rules from April 2018, led to significant reformulation of the concept of debt and related targets. The amendment changed the reference from total liability of the Government to Central Government Debt with an expanded definition and introduced the concept of General Government Debt. Targets were reformulated in terms of total liabilities/debt as a percentage of GDP. There was no material change in the target for Guarantees.
- The target set in the FRBM frame work with respect to total liabilities prior to the April 2018 amendment, implied that the Government would not take on any additional liability after 2014-15. However, the Government took on additional liability each year from 2014-15 to 2018-19 ranging from 3.1 *per cent* of GDP to 4.7 *per cent* of GDP.
- For the year 2017-18, the total liabilities at current rate of exchange computed on the basis of the Union Government Finance Accounts (UGFA) 2017-18 was 44.76 *per cent* of GDP. However, after taking into account the understatement of public liability in accounts, and the liability on account of EBRs listed in Statement 27 of Expenditure Budget 2019-20, total actual liabilities would be 49.82 *per cent* of GDP.
- In the case of FY 2018-19, Central Government debt at current rate as derived from UGFA 2018-19 was 44.92 *per cent* of GDP. However, after taking into account the understatement of public liability in accounts, total actual liabilities would be 49.82 *per cent* of GDP.
- In the revised FRBM framework, Central Government debt and General Government debt was to be contained at 40 *per cent* and 60 *per cent* of GDP respectively by the end of 2024-25. However, no exercise has been undertaken to compute and disclose both Central Government and General Government debt as per the changed definitions. In addition, no annual reduction targets for intervening years have been prescribed in the Act or advised by the Government. In the context of General Government debt, no strategy for containing debt at mandated levels in association with States, have been outlined in FRBM mandated statements.

Chapter 4: Analysis of projections made in Fiscal Policy Statements.

- The FRBM Act envisages that Government will lay fiscal policy statements viz. the Medium Term Fiscal Policy Statement, Fiscal Policy Strategy Statement and Macro

– Economic Framework Statement, along with the Budget. A Medium Term Expenditure Framework Statement was also envisaged.

➤ A comparative analysis was done of projections for receipts and expenditure under various heads and for the three fiscal indicators for the years 2017-18 and 2018-19, made in the Medium-term policy statements and budget documents, and the actuals for the two years. The analysis showed revisions in the projections made each year with respect to all elements and components. However, despite revisions, actuals have tended to vary from estimates.

Chapter 5: Disclosure and Transparency in Fiscal Operations.

➤ Audit noticed variation in deficit figures depicted in Budget at a Glance (BAG) and Annual Financial Statements/Union Government Finance Accounts for both the years, due to netting of certain receipts and expenditure in the receipt and expenditure budgets. These netted figures are then used to compute figures for deficits disclosed in BAG which are then used for FRBM purposes. On account of netting, the computation of RD and FD in the BAG is not consistent with the definition of deficits in the FRBM Act 2003. Variations were also seen between the liability position disclosed in the Receipt Budget and in the Union Government Finance Accounts.

The balances under National Small Savings Fund (NSSF) do not explicitly disclose the substantial accumulated deficit in the fund, which would have to be made good by the Government in the future. There is also inadequate disclosure that significant amounts were being provided from NSSF for funding revenue expenditure of the Government which would have to be serviced through budgetary support.

➤ Refunds (including interest on refunds of taxes) of ₹1,68,702 crore and ₹1,81,603 crore were made from gross direct tax collection in the FY 2017-18 and FY 2018-19, but no corresponding disclosure was made in the Union Government Finance accounts.

➤ Examination of disclosure forms mandated under the FRBM Act/ Rules revealed inadequacies in disclosures in Form D-2 - Arrears of Non-Tax Revenue and D-4 - Asset Register.