

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

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AUDIT REPORT ON FRBM TABLED

Report No. 18 of 2022 of the Comptroller and Auditor General of India- on Compliance of the Fiscal Responsibility and Budget Management Act, 2003 for the year 2019-20 was tabled in Parliament here today.

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 2019-20 critically examines the achievements vis-à-vis FRBM targets and compares actuals with projections made in Medium Term Policy Statements and Medium-Term Expenditure Framework and analyses reasons for variation. Besides, transparency and disclosure related issues have also been highlighted for action by the Government.

Chapter 1: Introduction

In order to introduce the fundamentals of fiscal discipline at various levels of the Government, the Fiscal Responsibility and Budgetary Management (FRBM) Bill was introduced in the Parliament in December 2000, in line with the recommendations of a committee set up for that purpose. The FRBM Act enacted by the Parliament, received President's assent in August 2003, and FRBM rules framed under section 8 of the Act, came into force in July 2004.

The Act aims to make the Central Government responsible for ensuring intergenerational equity in fiscal management and long-term macroeconomic stability by removing fiscal impediments in the effective conduct of monetary policy and prudential debt management consistent with fiscal sustainability. The FRBM Act has since been amended four times in 2004, 2012, 2015 and latest in 2018. **(Para 1.1)**

The FRBM framework required the Government to lay three fiscal policy statements, before both houses of Parliament; of which the Medium-Term Fiscal Policy cum Fiscal Policy Strategy (MTFPS cum FPS) Statement, and the Macro-Economic Framework (MF) Statement are laid along with the Annual Financial Statement and the demand for grants in each financial year, while a Medium-Term Expenditure Framework (MTEF) Statement is to be presented in the Parliament session immediately following the session in which the previous two statements were laid.

The Union Budget for Financial Years 2017-18 and 2018-19 contained the projections for the year 2019-20 in the mandatory statements, F1 and F2. Similarly, in Union Budget for Financial Year 2019-20, the budget estimates (BE) for 2019-20 were made which were later revised as revised estimates (RE) in Union Budget for Financial Year 2020-21, followed by actuals in Budget for 2021-22. Thus, analysis for the budget projections vis-à-vis actuals were spread across a period of five union budgets. **(Para 1.2)**

Chapter 2: Mandate FRBM Act and Rules.

Section 4 (1) of the FRBM Act provides that the Central Government shall **i)** take appropriate measures to limit the fiscal deficit up to *three per cent of GDP* by the 31 March 2021. **ii)** endeavor to ensure that by the end of Financial Year 2024-25 the General Government debt does not exceed *60 per cent of GDP*. the Central Government debt does not exceed *40 per cent of GDP*. **iii)** not give additional guarantees with respect to any loan on security of the Consolidated Fund of India *in excess of one-half per cent of GDP*, in any Financial Year. **iv)** endeavor to ensure that the fiscal targets specified in clauses **i** and **ii** are not exceeded after stipulated target dates.

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 also place five disclosure forms (D-1 to D-5) mandated under FRBM Rule 6. **(Para 2.1)**

Chapter 3: FRBM Targets and Achievements.

The GDP at current prices for Financial Year 2019-20 was estimated at ₹2,00,74,856 crore. Primary Deficit was on a decreasing path from Financial year 2011-12 at ₹2,30,898 crore

to Financial Year 2018-19 at ₹1,88,510 crore. However, it nearly doubled in the Financial Year 2019-20 from ₹1,88,510 crore to ₹3,75,755 crore. Fiscal Deficit remained stable during years 2016-17 to 2018-19 (ranging from 3.49 per cent of GDP in year 2016-17 to 4.15 per cent of GDP in year 2018-19) after dipping from Financial Year 2015-16 (4.25 per cent of GDP), while it went up in Financial Year 2019-20 (4.65 per cent of GDP as per BAG and 5.14 per cent of GDP as per UGFA). **(Para 3.2)**

Analysis of Government's expenditure showed that while there was decrease in expenditure on education as a proportion of total expenditure since Financial Year 2017-18, the health expenditure showed an increase during that period. Further, capital expenditure during Financial Year 2019-20 decreased to 12.72 per cent of total expenditure from 14.71 per cent in Financial Year 2018-19. **(Para 3.3.2)**

The Mid-Year Benchmarks for Financial Year 2019-20 prescribed that both Revenue deficit (RD) and Fiscal Deficit (FD) as of 30 September 2019 be contained to not more than 70 as per cent of BE for the whole year. It was seen that the actual deficits, however, reached to 99.80 per cent (in case of Revenue Deficit) and 92.60 per cent (in case of Fiscal Deficit) of the BE respectively by the mid-year. Against an annual reduction target of 0.10 per cent of GDP for Fiscal Deficit, which translated to a year-end FD of 3.30 per cent of GDP, the Fiscal Deficit as per UGFA (₹10,31,126 crore) increased to 5.14 per cent of the GDP in Financial Year 2019-20 and as per BAG (₹9,33,651 crore) increased to 4.65 per cent of the GDP in that year. **(Para 3.3.1, 3.4.2 and 3.4.3)**

The projections for Tax revenues in Financial Year 2019-20 were at 7.70 per cent (₹16,27,275 crore) and 8.00 per cent (₹16,74,523 crore) of GDP, which were later decreased to 7.85 per cent (₹16,49,582 crore) and 7.36 per cent (₹15,04,587 crore) of GDP in the BE and RE stage, respectively. The actual collections were lower at 6.77 per cent (₹13,59,382 crore) of the GDP, due to a reduction in revenues of Corporation Tax, Minimum Alternate Tax, etc. Conversely, the actuals for Non-tax revenue (₹3,27,157 crore) at 1.62 per cent of GDP, were significantly higher than the Medium term fiscal policy projections and the BE at 1.49 per cent (₹3,13,179 crore), but slightly lower than RE at 1.69 per cent (₹3,45,514 crore due to Dividend & Profit). **(Para 3.5.1)**

Actuals of ‘Other non-debt Capital Receipts’ at ₹50,349 crore, were about 52.05 per cent lower than BE, as the planned disinvestment of CPSEs did not materialize in Financial Year 2019-20. **(Para 3.5.2)**

The Central Government Debt for Financial Year 2019-20 from figures drawn out of the UGFA, was ₹1,04,99,914 crore, i.e., 52.30 per cent of the GDP. However, given the FRBM target of reduction of Central Government Debt to 40 per cent of GDP by end of 2025, from the current level of 52.30 per cent the target could be hoped to be achieved only with faster growth in GDP. **(Para 3.6.1)**

Regarding the target of restricting General Government Debt to 60 per cent of the GDP by the year 2024-25, the Government need to have in place a requisite plan laying down annual reduction targets. Further, the calculation of General Government Debt as per definition of FRBM Act was not available. While the General Government Debt at the end of Financial Year 2018-19 was mentioned in the Status Paper on Government Debt as 68.60 per cent of the GDP, the corresponding figures for Financial Year 2019-20 were still in progress and hence unavailable. **(Para 3.6.2)**

Chapter 4: Debt Sustainability

Analysis of trends of various Debt sustainability indicators for the five-year period from 2015-16 to 2019-20, revealed that the same turned negative during the year 2019-20 on account of near doubling of the Primary Deficit over the year 2018-19 and low GDP growth rate (6.22 per cent in the year 2019-20 compared to 10.59 per cent for the year 2018-19). Analysis showed that the net interest cost to total revenue received was around 30 per cent of the total revenue and showed an increasing trend since 2015-16. **(Para 4.2.1)**

Chapter 5: Extra Budgetary Resources

Ministry of Civil Aviation, Government of India did not disclose ₹14,985 crore (arranged on Government guarantee) raised by Air India Asset Holding Limited (AIAHL) under their jurisdiction, in the notes below Statement 27. Similarly, borrowings of ₹36,440 crore by IRFC for funding the projects of the Indian Railways were not disclosed in Statement 27. Further, there were instances of EBRs not included from Statement 27, including the carry forward liability of ₹43,483 crore by the end of 2019-20 on account of outstanding fertilizer subsidy and funds of ₹74,988 crore raised by NHAI. **(Para 5.2.2 and 5.2.3)**

Chapter 6: Guarantees.

At the end of 2019-20, guarantees given by the Union Government to various CPSEs and other bodies stood at ₹4,66,881 crore which constitutes 2.32 per cent of GDP. In 2019-20, the additional guarantees extended by the Government were shown as ₹60,907 crore or 0.30 per cent of GDP. However, GoI guarantees amounting to ₹14,985 crore for borrowings of Air India Asset Holding Limited (AIAHL) and ₹5,262.30 crore raised by FCI were not considered for including in Statement 4 of the UGFA. Thus, by including these omitted guarantees, the actual additional guarantees would be 0.4 per cent of GDP for the year 2019-20, but still within the guarantees target of the FRBM (0.5 per cent of GDP in any FY). **(Para 6.2 and 6.3)**

Chapter 7: Disclosure and Transparency.

Issues relating to Disclosures and Transparency Inconsistency within the budget documents of current as well as previous years and with UGFA were noticed regarding disclosure of arrears of interest (₹1,926 + ₹18,117 = ₹20,043 crore), variation between the closing balance of the previous year carried forward as opening balance in the Asset register (₹8,908.06 crore), and inconsistency in figures of loans to Foreign Governments (₹523.36 crore i.e., a difference of ₹14,751.13 crore and ₹14,227.77 crore). **(Para 7.2.1, 7.2.2 and 7.2.3)**

The liabilities of the Central Government as disclosed in the budget varied from that as per the UGFA for Financial Year 2019-20. The liabilities of the Central Government for 2019-20 as contained in the Receipt Budget (₹1,02,46,952 crore) varied from that stated in the UGFA

(₹1,01,98,473 crore). The requisite reconciliation was, however, yet to be furnished by the Ministry. **(Para 7.3)**

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