

Chapter 2: Deviation in performance from the Act and Rules

In the FRBM Act, 2003 and FRBM Rules 2004, (as amended from time to time) targets for various fiscal and deficit indicators are prescribed. In this chapter, we have discussed the issues involving deviations noticed during 2015-16 from provisions of the Act and the Rules and shifting of target dates in subsequent years.

2.1 Non-adherence to annual reduction targets

Rule 3 of amended FRBM Rules (notified in May 2013) required that in order to achieve the deficit targets as set out in Section 4 of the Act, the Central Government shall reduce the effective revenue deficit, revenue deficit and fiscal deficit by an amount equivalent to 0.8 *per cent*, 0.6 *per cent* and 0.5 *per cent* or more of GDP respectively at the end of each financial year beginning with financial year 2013-14. These stipulations were further relaxed in June 2015 through amendment in the Rules.

Taking into account the annual reduction target of three deficit indicators as set out in FRBM Rules amended in May 2013 and also in June 2015, **Table-2.1** below analyses their compliance as set by the Government in MTFP Statement for 2015-16 *vis-à-vis* Revised Estimates for financial year 2014-15.

Table-2.1: Annual Reduction Targets: 2015-16

(As percentage of GDP)

Fiscal Indicators	Annual reduction target to be achieved as per FRBM Rules amended in		BE 2014-15	Estimates/targets as per MTFP Statement placed alongwith Budget 2015-16		Annual reduction in 2015-16 over 2014-15 (RE)
	May 2013	June 2015		RE 2014-15	BE 2015-16#	
	1	2	3	4	5	6 = 4 - 5
Effective Revenue Deficit	0.8	0.5	1.6	1.8	2.0	(+) 0.2
Revenue Deficit	0.6	0.4	2.9	2.9	2.8	0.1
Fiscal Deficit	0.5	0.4	4.1	4.1	3.9	0.2

Source: MTFP Statements for 2014-15 and 2015-16

Note: BE-Budget Estimates, RE-Revised Estimates

In RE 2015-16, ERD, RD and FD were estimated at 1.5, 2.5 and 3.9 per cent of GDP respectively.

As may be seen from **Table-2.1**, the annual reduction target set in financial year 2015-16 with reference to the revised estimates for financial year 2014-15 in respect of revenue deficit and fiscal deficit were only 0.1 and 0.2 *per cent* of GDP respectively, as against 0.4 *per cent* for each.

Further, in respect of effective revenue deficit, instead of annual reduction, there was an increase of 0.2 *per cent* of GDP as estimated by the Government in MTFP Statement. Thus, the targeted annual reduction in respect of all the three deficit

indicators were not consistent with the provisions of the Rules applicable for financial year 2015-16.

The Ministry stated (June 2017) that as per FRBM (Amendment) Rules, 2015, notified in June 2015, Government shall annually reduce FD, RD and ERD at least by 0.4 per cent, 0.4 per cent and 0.5 per cent of GDP respectively at the end of each financial year beginning with the financial year 2015-16. Ministry added that comparison of targets set in Budget Estimates 2015-16 and 2016-17 reflects that annual reduction targets as contained in the amended Act have been achieved in 2016-17.

While appreciating the reply of the Ministry it is added that review of compliance by the CAG pertains to the financial year 2015-16 and accordingly annual reduction targets for the year was appropriately compared with financial year 2014-15. Even taking into account the Revised Estimates 2015-16 placed in Parliament in February 2016, the reduction target of deficits was not comparable to the provisions in the Act. In 2015-16 Revised Estimates, the effective revenue deficit was projected as 1.5 per cent of GDP; revenue deficit was 2.5 per cent of GDP; and fiscal deficit was 3.9 per cent of GDP. Thus the reduction in Revised Estimates 2015-16 vis-à-vis Revised Estimates 2014-15 was only 0.3 per cent, 0.4 per cent and 0.2 per cent of GDP. Hence, Ministry's reply does not address the audit concern relating to achievement of annual reduction targets in financial year 2015-16.

2.2 Deferment of target without corresponding amendment in the Act

Section 4 of FRBM Act and Rule 3 of FRBM Rules specify the targets for the three fiscal indicators alongwith target date for their achievement. Further, first proviso to Section 4(2) of FRBM Act stipulates that the revenue and fiscal deficits may exceed the prescribed targets on grounds of national security or national calamity or such other exceptional grounds as the Central Government may specify. The second proviso states that the ground or grounds specified in the first proviso shall be placed before both Houses of Parliament, as soon as may be, after such deficit amount exceeds the aforesaid targets.

Since the enactment of FRBM Act in 2003, fiscal targets prescribed under the Act have been deferred a number of times by the Government citing varying reasons⁶, followed by amendment in the respective provisions of the Act/Rules. Taking into account the latest amendments in the Act (May 2015) and the Rules (June 2015),

⁶ In 2009 global meltdown necessitating adjustment of fiscal policy was the reason given for putting on hold the fiscal consolidation process. In Budget 2014-15 presented in July 2014, through MTFP Statement revenue deficit target of March 2015 was shifted to March 2017 citing below five per cent growth in GDP in the last two years. Emerging government priorities and compositional shift in the fiscal relations between the Centre and States was the reason given in February 2015 for deferring the target dates to March 2018.

the targets set for elimination of effective revenue deficit was 31 March 2018. For revenue and fiscal deficits, the target was not more than two *per cent* and not more than three *per cent* of GDP respectively by 31 March 2018.

However, in Budget 2016-17 the target date for elimination of effective revenue deficit was deferred from March 2018 to March 2019. In the MTFP Statement placed alongwith Budget 2016-17, no exceptional ground for deferment as required under the Act was furnished by the Government. The MTFP Statement rather mentioned the imbalance within the revenue component of expenditure as reason for deferment. The Statement further envisaged that with some renewed measures and concerted efforts of all Ministries/Departments as well as State Governments to enhance the expenditure on the capital component from the revenue grants flowing from Centre, the deeper correction in the imbalance was expected. Thus the MTFP statement emphasised– “on the current basis the elimination of effective revenue deficit is likely to be deferred by one year to 2018-19”.

Further, in MTFP statement of 2017-18, the effective revenue deficit target date was pushed beyond the financial year 2019-20 with the assertion– “the slippage is justified as the Government has consciously decided in view of the large reform undertaken for presenting budget in the form of Revenue/Capital to ensure that important developmental and maintenance expenditure of revenue nature do not get compromised”.

Even the achievement of fiscal deficit target date was also shifted in Budget of 2017-18 by the Government to financial year 2018-19 quoting– “reassessment of macroeconomic requires higher public expenditure when private investment is not picking up”.

The continuous shift in the target dates in respect of effective revenue deficit and fiscal deficit were carried out without any corresponding amendment in the FRBM Act, as made earlier through Finance Act of 2004, 2012 and 2015.

The Ministry stated (June 2017) that deferment of ERD elimination target to 2018-19 in MTFP Statement was in respect of rolling target/ projections for next two years (medium-term) set on the basis of certain underlying assumptions viz., GDP growth, receipts, expenditure etc. It also stated that continuous efforts are being made for improved assessment in order to make more realistic projections.

Ministry further added that the Finance Minister in his budget speech 2017-18 had mentioned that the FRBM Review Committee had submitted its Report to the Government and the same was being examined for appropriate decision. Further, the issue has also been clarified in the fiscal policy statement laid before Parliament along with the Budget 2017-18.

The reply of the Ministry does not address the Audit concern as shifting of target dates through MTFP Statement of 2016-17 was not effected through corresponding amendment in the FRBM Act. Even in 2017-18 the same practice to shift the target dates through MTFP Statement was followed.

Recommendation : *Deferment of fiscal targets needs to be carried out through appropriate amendment in the Act.*

2.3 Inconsistent format for disclosing liability on annuity projects

In terms of Section 6 of the Act, the Central Government is required to take suitable measures to ensure greater transparency in its fiscal operations in the public interest and minimise as far as practicable, secrecy in the preparation of annual financial statement and demands for grants. At the time of presentation of annual financial statement and demands for grants, the Central Government is required to make such disclosures and in such form as may be prescribed. Under clause (d) of Rule 6(1) the Central Government is required to make disclosure of explicit contingent liabilities⁷, which are in the form of stipulated annuity payments over a multi-year time frame in prescribed **Form D-5**. The disclosure relating to Liability on Annuity Projects is to be made available in the following format:

Ministry/ Department	Name of the project	Value of the project (₹ in crore)	Total Annuity committed (₹ in crore)	Term (years)	Annuity payment (per year) (₹ in crore)
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A comparison of data on annuity projects contained in the Annexure of Receipt Budget 2015-16 and 2016-17 revealed that in both the years the nature of information was similar. Further, the information contained in the Annexure does not reflect the amount of unpaid annuity liability of the Government on a given project at the end of particular financial year. Thus, the balance unpaid liability on account of annuity projects are not reflected through this Annexure, although the information furnished in the Annexure of Receipt Budget is in conformity with the prescribed **Form D-5**.

Ministry stated (June 2017) that audit observation was noted as the same was suggestive in nature.

Recommendation : *The disclosure relating to liability on annuity projects may be modified suitably to reflect the amount of unpaid annuity liability at the end of a particular financial year.*

⁷ While the FRBM Rules do not define the term 'explicit contingent liability', however, literature on public finance refer to those claims which are recognized by law as explicit contingent liability viz. credit guarantees, insurance claims, exchange rate guarantees, etc.

Conclusion

During 2015-16, in respect of all the three deficit indicators, *viz.* effective revenue deficit, revenue deficit and fiscal deficit, the annual reduction targets were not in accordance with the provisions of the FRBM Act/Rules. Further, the target dates for elimination of effective revenue deficit and to achieve the fiscal deficit to the level of three *per cent* of GDP were deferred in February 2016 and February 2017 without making any amendment in the Act.