

Chapter 5: Analysis of projections in fiscal policy statements

Section 3 of the FRBM Act envisages laying of three fiscal policy statements namely, Medium Term Fiscal Policy (MTFP) Statement, Fiscal Policy Strategy (FPS) Statement, and Macro-economic Framework (MF) Statement in both the Houses of Parliament along with the Annual Financial Statement and 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 statement is mandated to be laid before both the 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 2016-17 *vis-à-vis* projections contained in the fiscal policy statements, Budget at a Glance and Annual Financial Statement.

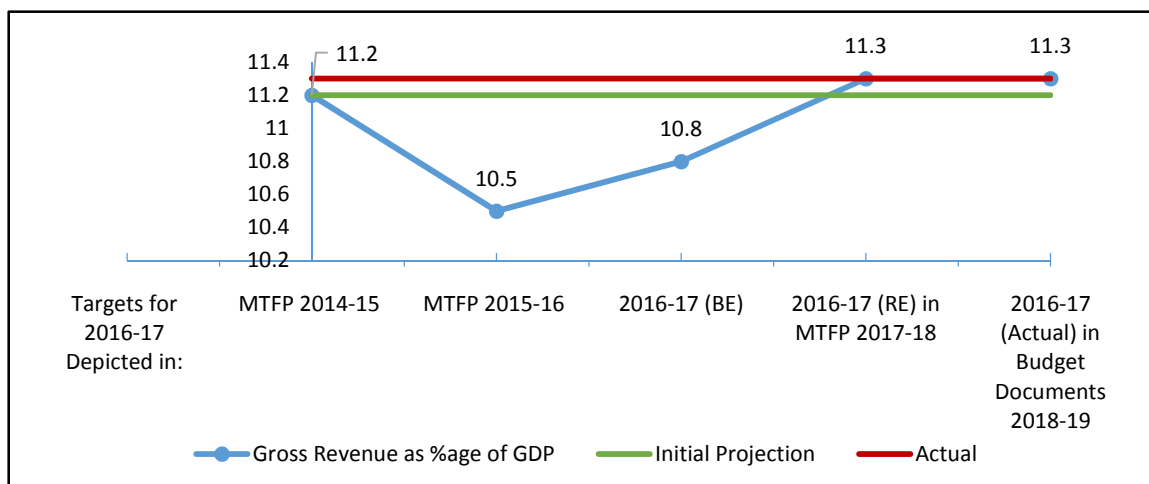
5.1 Projections in Medium Term Fiscal Policy Statement

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 2016-17 in MTFP Statement are made below:

5.1.1 Gross Tax Revenue projection

In the MTFP Statement placed along with Budget 2014-15, the Government had set gross tax revenue target of 11.2 *per cent* of GDP for the financial year 2016-17. This target was revised to 10.5 *per cent* and 10.8 *per cent* of GDP in subsequent MTFP Statements placed with Budget 2015-16 and 2016-17 respectively. The target however was revised upward again to 11.3 *per cent* (revised estimates) of GDP in MTFP Statement placed with Budget 2017-18. The actual gross collection of tax revenue was 11.3 *per cent* of GDP for financial year 2016-17. As such, compared with MTFP Statement 2014-15, the actual varied by 0.1 *per cent*.

Graph 5.1: Gross Tax Revenue Projections

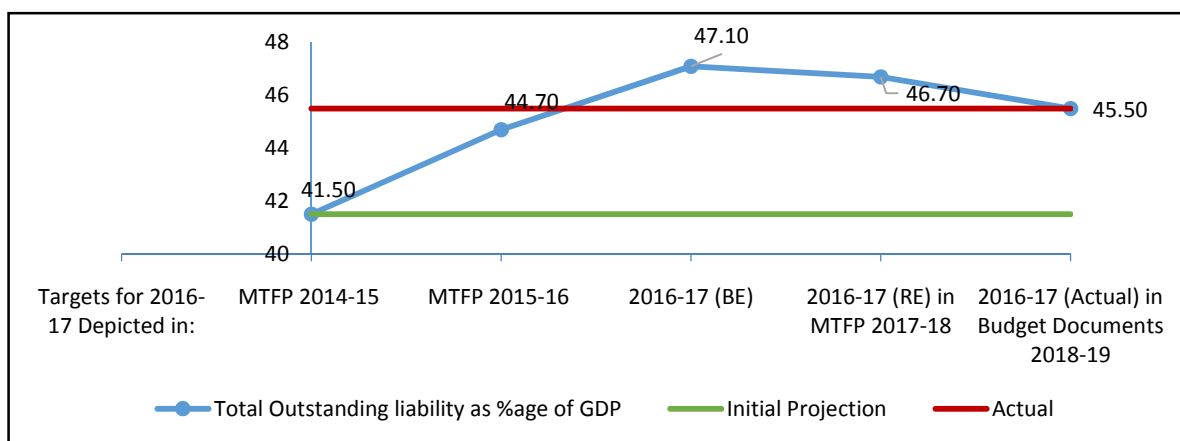


Ministry stated (July 2018) that the projections of Gross Tax Revenue are based on certain underlying assumptions regarding tax collection buoyancy, GDP growth and other macroeconomic factors and many such factors are exogenous in nature. The Government continuously tries to assess the macroeconomic environment and base the projections for various fiscal indicators on the basis of such assessment. This continuous assessment leads to recasting of projections.

5.1.2 Total Outstanding Liability projection

In Budget 2014-15, the Government had set the target for liability as 41.5 per cent of GDP for financial year 2016-17. This projection was revised upward to 44.7 per cent and 47.1 per cent of GDP in next two MTFP Statements placed along with Budgets for the financial years 2015-16 and 2016-17 respectively. The target was further reviewed and revised on higher side to 46.7 per cent (revised estimates) of GDP in MTFP Statement placed with Budget 2017-18. The actual ratio of total liability to GDP for 2016-17 stood at 45.5 per cent.

Graph 5.2: Total Outstanding Liability Projections

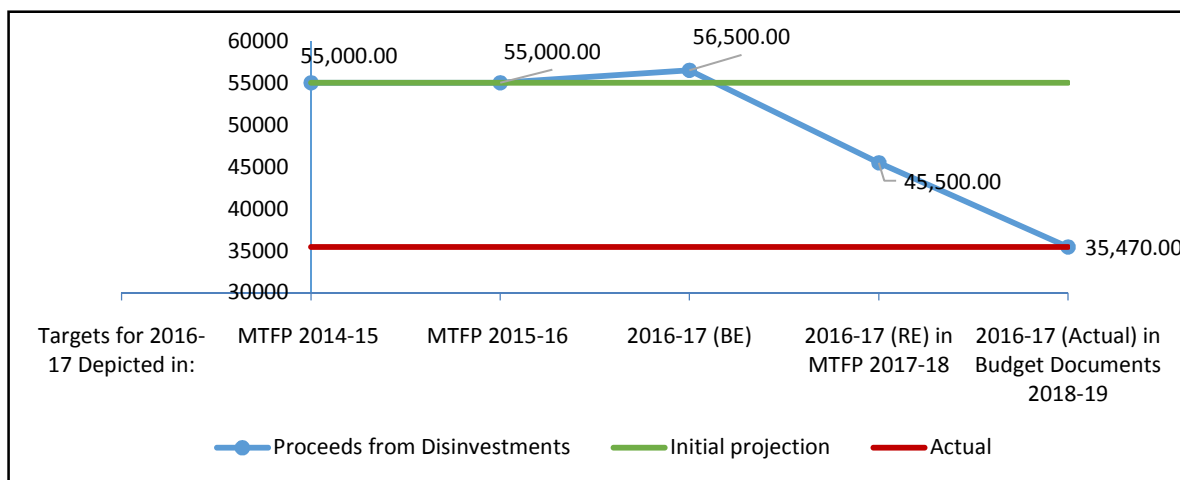


Ministry stated (July 2018) that Government makes constant endeavour to make projections realistic but these are based on certain exogenous assumptions which are remain beyond control. The Government continuously tries to assess the macroeconomic environment and base the projections for various fiscal indicators on the basis of such assessment.

5.1.3 Disinvestment projection

In the MTFP Statement placed with Budget 2014-15, an amount of ₹ 55,000 crore was projected as disinvestment proceeds for financial year 2016-17. Further, in MTFP Statement placed along with the Budget of 2015-16, these estimates remained the same in MTFP Statements for the years 2016-17. However, in the Budget 2016-17, Government revised these estimates of projected disinvestment proceeds to ₹56,500 crore, but in RE 2016-17, this projection was scaled down to ₹ 45,500 crore. The actual realization from disinvestment of Public Sector Undertakings in financial year 2016-17 was ₹ 35,470 crore. As such, actual disinvestment proceeds varied by 35 per cent compared the MTFP projection in 2014-15.

Graph 5.3: Disinvestment Projections



Frequent changes in projections of tax revenues, liability and disinvestment as discussed in paragraphs 5.1.1, 5.1.2 and 5.1.3 above indicate that despite target fixed under the FRBM Act/Rules for fiscal discipline, Government kept changing the estimates flexibly during 2014-15 to 2016-17.

Ministry stated (July 2018) that the estimate of receipts from disinvestments including through the sale of strategic assets was budgeted at ₹ 56,500 core in BE 2016-17. Disinvestment receipts are dependent on various macro-economic factors, especially market volatility. The RE was pared down in view of market volatility, and strategic decisions.

The replies of the Ministry in respect of paragraphs 5.1.1, 5.1.2 and 5.1.3 reinforces the audit assertion that the projections for various components of fiscal indicators contained in the fiscal policy statement deviate from planned course and may require fag end intervention for achievement of fiscal targets set up in FRBM Act.

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 with specification of underlying assumptions and risks involved.

Comparison of projection of expenditure for financial year 2016-17 contained in MTEF Statement of 2015-16 (August 2015) with Budget estimates for financial year 2016-17 contained in MTEF Statement of 2016-17 (August 2016) and revised estimates for financial year 2016-17 as contained in MTEF Statement of 2017-18 (August 2017) is given in **Annexure-5.1**.

Analysis of figures of projections and actual expenditure indicates that the expenditure projections, made for the financial year 2016-17 in MTEF Statements, were off the mark. The variations ranged from 31 *per cent* decrease in actual expenditure for Planning and Statistics to 577 *per cent* increase in expenditure for Transport. There were continuous changes in projections of expenditure for 2016-17 in MTEF Statements.

Further, a comparison of the actual expenditure on significant items against projections/BE/RE is given in **Table 5.1** below:

Table 5.1: Expenditure projection and actuals for financial year (FY) 2016-17

(₹ in crore)

Heads of expenditure	Projections for FY 2016-17 as per MTEF Statement for FY 2015-16	BE i2016-17 as per MTEF Statement for 2016-17	RE for 2016-17 as per MTEF Statement of 2017-18	Actuals (As per Budget at a Glance 2018-19)	% age variation
	(August 2015)	(August 2016)	(August 2017)	(February 2018)	(Col.5 w.r.t. Col.2)
1	2	3	4	5	6
Revenue Expenditure	16,60,475	17,31,036	17,34,561	16,90,584	1.8
Interest	4,96,000	4,92,670	4,83,069	4,80,714	-3.1
Pension	1,02,639	1,23,368	1,28,166	1,31,401	28.0
Fertilizer subsidy	75,000	70,000	70,000	66,313	-11.6
Food subsidy	1,32,000	1,34,835	1,35,173	1,10,173	-16.5
Petroleum subsidy	32,000	26,947	27,532	27,539	-13.9

Grants for creation of capital assets	1,49,634	1,66,840	1,71,472	1,65,733	10.8
Capital Expenditure	2,60,967	2,47,025	2,79,849	2,84,610	9.1

Source: MTEF Statements and Budget at a Glance

As seen from **Table 5.1**, the actual expenditure of Pension and Capital expenditure outstripped the projection for the year as contained in MTEF Statement 2015-16 by 28 and nine *per cent* respectively. However, there was decline in actual expenditure on all the three components of subsidy *viz* fertilizer, food and petroleum subsidy on an average 14 *per cent vis-à-vis* projection made in MTEF 2015-16 in August 2015. Further, actual expenditure on revenue and capital expenditure was more or less as projection made in MTEF 2015-16 as variation was less than 10 *per cent*.

Ministry stated (July 2018) that MTEF has now started tracking the BE very closely. Ministry attributed reassessment of expenditure priorities by Ministries / Departments, pace of expenditure and ability to spend to change in expenditure allocations at RE and actual stage.

Audit has no further comments on the response of the Ministry, as the Ministry has already taken cognisance of the matter.