

1.1 Background

The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 was enacted with the objective of ensuring inter-generational equity in fiscal management and long-term macro-economic stability. This objective was to be achieved by containing deficits, removing fiscal impediments in the effective conduct of monetary policy and through prudential debt management. 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.

Key aspects of the FRBM Act and the Rules are as follows:

- a. The Act/Rules specify targets for deficits and for annual reduction in deficits. The targets applicable for the Financial Year (FY) 2017-18, were elimination of Effective Revenue Deficit (ERD)²; containing Revenue Deficit (RD)³ and Fiscal Deficit (FD)⁴ at two and three *per cent* of Gross Domestic Product (GDP) by 31 March 2018; annual reduction targets beginning with FY 2015-16, of 0.5 *per cent* for ERD and 0.4 *per cent* each for RD and FD. The April 2018 amendment in the Act removed the targets for ERD and RD and revised the date for achieving target for FD of three *per cent* of GDP to 31 March 2021 with an annual reduction target of 0.1 *per cent* beginning with FY 2018-19.
- b. The Act specifies a cap on aggregate guarantees; with the amendment of April 2018 this was changed to a cap on additional guarantees for loans raised on the security of the Consolidated Fund of India (CFI).
- c. The Act originally prescribed a target for annual reduction in additional liabilities that can be assumed each year; the amended Act replaces this with achievement of a target for General Government Debt and Central Government Debt as a percentage of GDP.

² Effective Revenue Deficit means the difference between the revenue deficit and grants for creation of Capital Assets. (FRBM Act Section 2 (aa)–FRBM Act amendment 2012)

³ Revenue Deficit means the difference between Revenue Expenditure and Revenue Receipts which indicates increase in liabilities of the Central Government without corresponding increase in assets of that Government (FRBM Act Section 2 (e))

⁴ Fiscal deficit means the excess of total disbursements from the Consolidated Fund of India, excluding repayment of debt over total receipts into the Fund (excluding the debt receipts), during a Financial Year. (FRBM Act Section 2 (a))

- d. The Act generally bars the Central Government from borrowing from the Reserve Bank of India (RBI) except in special situations⁵.
- e. Till the April 2018 amendment, the FRBM framework required the Government to lay three fiscal policy statements, viz. Medium-Term Fiscal Policy (MTFP) Statement, Fiscal Policy Strategy (FPS) Statement and Macro-Economic Framework (MF) Statement in Parliament (Refer **Annexure 1.1**). With the amendment of 2018, the first two statements have been merged into a single statement viz. Medium-Term Fiscal Policy cum Fiscal Policy Strategy (FPS) Statement. In addition, in the Parliament session immediately following the session in which these statements are laid, a Medium-Term Expenditure Framework (MTEF) Statement is to be presented in Parliament.
- f. The Act/Rules require the Government to present review reports on the trends of receipts and expenditure in relation to the budget to the Parliament. The amendment of April 2018 changed the frequency of these reports from quarterly to half-yearly basis.
- g. For greater transparency in fiscal operations, the Act and Rules requires the Government to present Disclosures Forms⁶ to the Parliament along with the Budget. Following the removal of ERD as a target, disclosure of grants for creation of capital assets has been dispensed with.
- h. The Act permits the Central Government to breach limits with respect to deficit only on specified grounds such as national security and national calamity, which shall be communicated to both houses of Parliament. The amended Act limits this in the case of the FD target to 0.5 per cent of GDP.

1.2 Amendments to the FRBM Act and Rules

The first amendment made in 2004, deferred the date for achieving deficit targets from 31 March 2008 to 31 March 2009. The second Amendment of 2012 introduced the concept of ERD and deferred the dates for achieving targets for all indicators to 31 March 2015. The third Amendment of 2015, applicable for the FY 2017-18, further deferred dates for achieving deficit targets to 31 March 2018. The latest amendment to the Act of April 2018, further moved the date for achieving the FD target to 31 March 2021. In addition, targets for General Government

⁵ To meet temporary excess of cash disbursement over cash receipt, subscription of primary issues and thereafter on grounds of national security, national calamity, etc., and open market operations in the secondary market.

⁶ Disclosure Forms (D1) – Tax Revenue raised but not realised, (D2) – Arrears of non-tax revenue, (D3) – Guarantees given by the Government, (D4) – Asset Register, (D5) – Liability on Annuity Projects and (D6) – Grants for creation of capital assets.

and Central Government debt as percentage of GDP, to be achieved by FY 2024-25, were also laid down (**Annexure 1.2**). A summary of amendments made to the Act is given in **Table 1.1**.

Table 1.1: Details of FRBM amendments made
(As percentage of GDP)

Fiscal Indicators		Target detail	Principal Act/ Rules	1 st Amendment (in 2004)	2 nd Amendment (in 2012)	3 rd Amendment (in 2015)	4th Amendment (in 2018)
1.	Revenue Deficit	Target	Zero	Zero	2	2	Target for RD has been removed.
		Annual reduction	0.5	0.5	0.6	0.4	
		Beginning with FY	2004-05	2004-05	2013-14	2015-16	
		Sunset Target date	31.03.08	31.03.09	31.03.15	31.03.18	
2.	Fiscal Deficit	Target	3	3	3	3	3
		Annual reduction	0.3	0.3	0.5	0.4	0.1
		Beginning with FY	2004-05	2004-05	2013-14	2015-16	2018-19
		Sunset Target date	31.03.08	31.03.09	31.03.17	31.03.18	31.03.21
3.	Effective Revenue Deficit	Target	Introduced in 2012		Zero	Zero	Target for ERD has been removed.
		Annual reduction			0.8	0.5	
		Beginning with FY			2013-14	2015-16	
		Sunset Target date			31.03.15	31.03.18	
4.	Guarantee	Aggregate guarantees in any FY not to exceed 0.5 <i>per cent</i> of GDP, beginning with FY 2004-05					No additional guarantee for any loan on security of CFI, in excess of 0.5 <i>per cent</i> of GDP, in any financial year
5.	Liability/ Debt	Not to assume additional liabilities (including external debt at current exchange rate) in excess of 9 <i>per cent</i> of GDP for the financial year 2004-05 and progressively reduce the limit of 9 <i>per cent</i> of GDP by at least one <i>percentage</i> point of GDP in each subsequent financial year.					General Govt debt and Central Govt debt not to exceed 60 and 40 <i>per cent</i> of GDP respectively by the end of the FY 2024-25.

1.3 Audit of compliance to FRBM Act

The FRBM Rules 2015 applicable from the FY 2014-15, provided for the CAG to carry out an annual review of compliance by the Central Government with the FRBM Act and the Rules. Such review should include:

1. **Analysis of achievement and compliance of targets and priorities set out in the Act and the Rules, Medium Term Fiscal Policy Statement, Fiscal Policy Strategy Statement, Macro-economic Framework Statement and Medium-Term Expenditure Framework Statement;**
2. **Analysis of trends in receipts, expenditure and macro-economic parameters in relation to the Act and the Rules;**
3. **Comments related to classification of revenue, expenditure, assets or liabilities having a bearing on the achievement of targets set out in the Act and the Rules;**

4. **Analysis of disclosures made by the Central Government to ensure greater transparency in its fiscal operations.**

Accordingly, CAG has prepared Reports on compliance with the FRBM Act and Rules for the FYs 2014-15 (Report No. 27 of 2016), 2015-16 (Report No. 32 of 2017) and 2016-17 (Report No. 20 of 2018) which have been placed in both the houses of Parliament.

1.4 Audit Scope, Criteria and Evidence

Audit Scope

This report covers compliance with the FRBM Act and Rules by the Central Government during FYs 2017-18 and 2018-19.

Audit Criteria

- a. FRBM Targets: The targets given in Table 1.1 as per the third amendment were applicable to FY 2017-18 and targets as per fourth amendment to 2018-19.
- b. FRBM Act and Rules.
- c. Policy statements such as Medium-Term Fiscal Policy Statements, status paper on debt, budget speech etc., as applicable.
- d. Best practices, recommendations of expert committees⁷ and of relevant international agencies.

Audit Evidence

The report is based on data derived from Union Government Finance Accounts (UGFA) 2017-18 and 2018-19, figures of Actual Receipts and Expenditure for the year depicted in Annual Financial Statements (AFS) 2019-20 and 2020-21. In addition, data appearing in Statements 25 and 27 of the AFS 2019-20 and 2020-21 relating to Resources of Public Enterprises and Extra Budgetary Resources, certified Annual Accounts of the PSEs where relevant and GDP data released by CSO from time to time have been used for analysis.

1.5 Audit Methodology

The audit on compliance with FRBM Act for the FY 2017-18 and FY 2018-19 was undertaken primarily in the Department of Economic Affairs which is the nodal Department for administration of the FRBM Act. Observations based on the audit were issued to the Department for replies/comments from time to time. Draft audit report for FY 2017-18 prepared based on observations and replies thereon, was issued to the Department on 07 January 2020. An exit conference to discuss the report was held on 27 February 2020 and replies were received on 24 June 2020. Thereafter, draft audit report for the FY 2018-19, was also issued to the Ministry on 15 July 2020 and exit conference held on 13 August 2020. Replies/comments of Department were received on 29 December 2020. Thereafter, a combined

⁷ Expert Committee to Review the Extant Economic Capital Framework of the Reserve Bank of India, Parliamentary Committees for Fertilizer, FRBM Review Committee etc.

draft report covering both the years 2017-18 and 2018-19 was issued to the Department on 01 January 2021, taking into account their replies/comments. Replies/response to the combined report was yet to be received (March 2021)

1.6 Structure of the Report

The Report has five Chapters as under:

Chapter 1: Introduction: Contains a brief description of main provisions of the FRBM Act and Rules and of the FRBM targets applicable for FYs 2017-18 and 2018-19.

Chapter 2: Status and extent of compliance with FRBM Act and Rules-Fiscal Indicators: Contains analysis with respect to achievement against targets for various fiscal indicators for FYs 2017-18 and 2018-19, and examination of impact of audit observations on Union Government Finance Accounts and of use of extra budgetary resources for financing revenue and capital expenditure, on computation and disclosure of fiscal indicators.

Chapter-3: Status and extent of compliance with FRBM Act and Rules - Government Debt and Guarantees: Contains analysis with respect to achievement of FRBM targets with respect to Government debt and liabilities, and guarantees for FYs 2017-18 and 2018-19.

Chapter 4: Analysis of projections made in Fiscal Policy Statements: Contains analysis of variations between projections/estimates and actuals for FY 2017-18 and 2018-19 across MTFP and other policy statements and budget documents over a period of five years from the first projections made for the two years.

Chapter 5: Disclosure and Transparency in fiscal operations: Contains observations relating to adequacy and accuracy of disclosures mandated under the Act and Rules; and on issues of transparency in fiscal operations.