Chapter 2

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

The FRBM Act 2003 and FRBM Rules 2004, as amended from time to time, provide targets and bench marks for fiscal indicators as detailed in **Chapter 1** of this report. To recount briefly, the targets/benchmarks were as follows:

a. For 2017-18, the prescribed target for Revenue Deficit (RD) Effective Revenue Deficit (ERD) and Fiscal Deficit (FD) was equal to or less than two *per cent* of GDP, Nil and equal to or less than three *per cent* of GDP respectively, to be achieved by the end of FY 2017-18. The amendment in the FRBM Act and Rules of April 2018 shifted the date for achieving the FD target of three *per cent* of GDP to the end of 2020-21, and removed the targets for RD and ERD.

b. Prior to the 2018 amendment of the Act and Rules, FRBM Rules 2015 mandated an annual reduction in both FD and RD, by 0.4 *per cent* or more of GDP and in ERD of 0.5 *per cent*, beginning with FY 2015-16. The Act and Rules as amended in April 2018 which is applicable to FY 2018-19, mandate an annual reduction of FD equal to 0.1 *per cent* or more of the GDP from 2018-19 onwards.

c. FRBM Rule 7 as amended from time to time, prescribed mid-year (i.e. end September) benchmarks for collection of non-debt receipts of not less than 40 *per cent* of BEs, and for RD and FD of not more than 70 *per cent* of the BEs for the year. If these benchmarks get breached a statement is required to be placed in the Parliament detailing *inter-alia*, corrective measures being taken.

The status and extent of achievement with respect to the above-mentioned targets for fiscal indicators, and the mid-year benchmarks during FYs 2017-18 and 2018-19, are discussed in subsequent paragraphs of this Chapter.

For analysis, GDP estimates at current price with base year 2011-12, released by Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation (MoSPI) on 31 January 2019[8] and 29 May 2020[9] have been adopted.

2.1 Revenue Deficit

Section 2(e) of the FRBM Act defines Revenue Deficit (RD) as the difference between revenue expenditure and revenue receipts. The existence of RD implies that Government's own revenues are not sufficient to meet the expenditure on the general functioning of the Government and for provision of various services. The existence of RD means that to this extent revenue/current expenditure is financed either by borrowing or sale of assets (non-debt capital receipts). Financing of RD through debt adversely affects inter-generational equity in

[8] First Revised Estimates of National Income, Consumption Expenditure, Saving and Capital Formation, 2018-19

[9] Provisional Estimates of Annual National Income, 2019-20

fiscal operations as these debts would ultimately be paid by levying taxes or by generating non-tax revenues in the future, and is thus detrimental to long term financial stability.

In response to the above observation relating to the impact of financing RD through debt on inter-generational equity and financial stability, the Ministry stressed that revenue expenditure also includes expenditure on "Human Capital" and maintenance of assets which improve productivity.

Audit is of the view that this justification overlooks the generally accepted principles/criteria for classifying expenditure between revenue and capital in Government Accounts, and for calculating RD. In accordance with these principles, the examples cited constitute revenue expenditure and are thus included in the calculation of RD. Further, the Ministry has not devised any objective criteria for identifying this type of revenue expenditure, and not provided any analysis of long-term trends of such expenditure and their share in the RD vis-à-vis other components of RD.

2.1.1 Status of compliance with targets /benchmarks related to RD

The status of compliance with the mid-year benchmarks and other targets with respect to RD for the FY 2017-18, is given in **Table 2.1**.

Table 2.1: Status of compliance with Revenue Deficit target

	Revenue deficit		
	Target	Actual	Deviation
Mid-year Benchmark (30th Sep 2017) (as *per cent* of BE)	Not more than 70	118	48
Annual Reduction (During 2017-18) (as *per cent* of GDP)	0.4	(-) 0.5	(-) 0.9
At the end of 2017-18 (as *per cent* of GDP)	2.0	2.6	0.6
Mid-year Benchmark (30th Sep 2018) (as *per cent* of BE)	Not more than 70	108	38
Annual Reduction (During 2018-19) (as *per cent* of GDP)	No Target of RD for 2018-19	0.2	-
At the end of 2018-19 (as *per cent* of GDP)		2.4	-

(Source – Budget at a Glance 2019-20, 2020-21 and Mid-year Statement)

It is evident from **Table 2.1** that during 2017-18 there was a significant deviation from the mid-year benchmark set for RD. As against the target for containing RD at 70 *per cent* of the BE for the whole year, RD was 118 *per cent* of the BE at the mid-year point i.e. at the end of September 2017.

In the statement, required to be presented to Parliament if the benchmark target was not achieved, Ministry of Finance attributed the deviation to "higher pace of expenditure" on the one hand and "slow progress of realization of non-tax receipts" on the other hand. The statement listed "mobilizing higher amount of resources, meeting annual non-tax revenue targets, expenditure management including subsidy reforms" as corrective measures and mentioned that these measures along with improvement in macro-economic parameters and streamlining of GST, would enable achievement of the budgeted RD targets.

However, both the targets for annual reduction as well as for overall RD were not met during the year. Instead of the targeted reduction in RD by 0.4 *per cent*, RD actually registered an increase of 0.5 *per cent* during the year. Further, as against overall target of two *per cent* of GDP for RD at the end of FY 2017-18, actual RD was 2.6 *per cent of* GDP. These deviations constitute non-compliance with the provisions of the FRBM Act.

As regards 2018-19, as mentioned earlier, in terms of the revised FRBM Act and Rules, no targets and mid-year benchmarks for RD and ERD were prescribed for the year.

2.1.2 Revenue Deficit: FRBM Target, Estimate and Actual during 2017-18

Table 2.2 gives details of estimates and actuals of revenue expenditure and revenue receipts for 2017-18. It also gives estimates and actuals for RD for the year both in absolute terms and as percentage of GDP.

Table 2.2: Revenue Deficit - Estimates and Actuals in 2017-18

(in crore)

Components	Revenue Expenditure	Revenue Receipts	Revenue Deficit (RD)	GDP	RD as % of GDP
	1	2	(3=1-2)		
Budget Estimates	18,36,934	15,15,771	3,21,163	1,68,47,455	1.91%
Revised Estimates	19,44,305	15,05,428	4,38,877	1,67,84,679	2.61%
Actuals	18,78,833	14,35,233	4,43,600	1,70,98,304	2.59%
Variation from Budget Estimates	41,899	(-) 80,538	1,22,437		
Variation	2.28%	-5.31%	38.12%		

Source: Budget at a Glance (BAG) for2017-18 for BE 2017-18, BAG 2018-19 for RE 2017-18 and BAG 2019-20 for actuals of 2017-18. GDP for BE and RE from respective BAGs, and GDP for actuals from CSO's press note dated 29 May, 2020.

Table 2.2 shows that actuals for revenue expenditure and revenue receipts and hence revenue deficit, significantly deviated from both Budget Estimates (BE) and Revised Estimates (RE). An analysis of BEs, REs and actuals of revenue receipts, revenue expenditure and RD for the FY 2017-18 has been done as below, to identify reasons for the deviations. It may be noted that while the figures used in the Table were budget figures taken from the Budget at a Glance; for head-wise comparison of the Revenue/ Expenditure components, the Accounting figures of the Annual Financial Statement have been used.

Revenue Receipts

It was noted that revenue receipts were projected to be 0.7 *per cent* lower than BEs at the RE stage. At the RE stage, tax-revenue estimates were revised upwards from BEs by 3.5 *per cent* with significant increases projected in Corporation Tax (₹25,000 crore) and in "Taxes on Commodities and Services" (₹10,795 crore). On the other hand, estimates for non-tax revenue (NTR) were revised downwards by 18 *per cent* (₹35,963 crore). There were significant decreases in estimates for "Dividend and Profits" (₹35,997 crore), "Information and Publicity" (₹6,145 crore) and "Other Communications Services" (₹13,606 crore). These decreases were partially offset by significant increases under "Interest Receipts" (₹8,598 crore) and "Other General Economic Services" (₹13,304 crore). Actual revenue receipts were, however, lower than both BEs (₹86,786.62 crore) and REs (₹86,819.39 crore). The Actual tax-revenues were marginally higher than BEs (₹8,914 crore) but were below REs by two *per cent* (₹27,082 crore). Shortfalls were significant in the case of "Taxes on Income Other Than Corporation Tax", "CGST" "Customs" and "Union Excise Duties". Actual non-tax revenue receipts were 18 *per cent* lower than revised estimates, which were itself 18 *per cent* below the BEs. The shortfall with respect to REs, was significant under "Dividend and Profits" (₹15,073 crore) and under "Non-Tax revenue from Economic Services" (15 *per cent*) as against RE figures. The shortfall was especially significant under "Other General Economic Services" (₹18,598 crore) where estimates had been hiked significantly at RE stage.

Revenue Expenditure

Estimates for revenue expenditure were revised upwards significantly (₹1,17,871 crore i.e., by six *per cent*) from BEs at the RE stage. The increase was most significant in the case of "GIA to State Governments" (₹74,767 crore) to include provision for payment of compensation to States for revenue losses due to rollout of GST which had not been envisaged at the BE stage. Other significant increases related to "Pension and other Retirement Benefits" (₹16,186 crore) due to higher provision for "Defence Pensions" and for "Pensions payable to erstwhile employees of Department of Telecommunications absorbed in Bharat Sanchar Nigam Limited", "Rural Employment" (₹7,000 crore) and "Industry and Minerals" (₹15,127 crore). There were also significant decreases in the case of "Water Supply and Sanitation" (₹8,938 crore) and "Other Communications Services" (₹4,159 crore). Actual expenditure was significantly higher than BEs under GIA to States (₹83,698 crore) on account of payment of GST compensation to States not envisaged earlier; "Pension and other Retirement Benefits" (₹13,545 crore); "Defence Services" (₹10,577 crore) and "Industries" (₹15,403 crore). These were partially offset by shortfall in actual expenditure as compared to BEs in some areas- these were significant under "Water Supply and Sanitation" (₹8,979 crore); "Food Subsidy" (₹44,658 crore) and "Transport" (₹10,725 crore). Overall, actuals were higher than BEs (₹40,421 crore) by two *per cent*. As compared to REs however, actuals were two *per cent lower* (₹44,129 crore)[10]. This was primarily due to compression of Food Subsidy expenditure (₹39,958 crore), actuals being lower under Transport (₹8,426 crore). The reduction in expenditure on food subsidy was on account of replacement of expenditure on food subsidy by loans to FCI from NSSF of ₹42,919 crore.

Revenue Deficit

Based on the estimates for revenue expenditure and revenue receipts, RD at BE stage had been estimated at ₹3,21,163 crore i.e. 1.91 *per cent* of GDP. This was within the FRBM target of

[10] After removing savings under Special Areas Programme, where budget provisions were notional.

two *per cent* of GDP. However, at the RE stage, estimates for RD were significantly revised upwards to ₹4,38,877 crore: an increase of 0.7 *per cent* of GDP. The main reason for the increase was the sharp increase in projections for revenue expenditure at the RE stage combined with a drop in estimates for revenue receipts, for reasons explained in the paras above. Despite the increased projection for RD at the RE stage, actuals were marginally higher in absolute terms. This was because actual revenue receipts were significantly lower than REs which had factored only a small shortfall in comparison to BEs, while revenue expenditure was commensurately compressed. Actual RD at 2.59 *per cent* of GDP was however, marginally lower than RD of 2.61 *per cent* projected at RE stage because of upward revision in estimates for GDP. Compared to BEs and the FRBM target of two *per cent*, actual RD was significantly higher by nearly 0.7 *per cent.*

Ministry of Finance stated (June 2020 and December 2020) that the reasons for deviation from the targets have been clearly brought out in Medium Term Fiscal Policy (MTFP) Statement. This statement attributed the shortfalls to '*structural issues in the revenue expenditure component of the Centre*', but did not identify specific factors responsible for the shortfalls, nor did it spell out any strategy to address the same. The analysis of variations given above, shows that the failure to meet targets was primarily on account of less than projected mobilisation of non-tax receipts and inability to commensurately compress revenue expenditure. The analysis also discloses inadequacies in making projections and estimates in the short term, as variations were even noticed between the REs and actuals for the year.

Box-A

Revenue Deficit: Budget Estimates, Revised Estimates and Actuals during 2018-19

For the year 2018-19 there were no FRBM targets for RD. However, a comparison between estimates -both BEs and REs - and actuals for revenue expenditure, revenue receipts and revenue deficit, is given in the table below:

₹ in crore

Components	Revenue Expenditure (1)	Revenue Receipts (2)	Revenue Deficit (RD) (3=1-2)	GDP	RD as % of GDP
Budget Estimates	21,41,772	17,25,738	4,16,034	1,87,22,302	2.2%
Revised Estimates	21,40,612	17,29,682	4,10,930	1,88,40,731	2.2%
Actuals[11]	20,07,399	15,52,916	4,54,483	1,89,71,237	2.4%
Variation from Budget Estimates	(-) 1,34,373	(-) 1,72,822	38,449		
Variation	-6.27%	-10%	9.24%		

Source: Budget at a Glance (BAG) for 2018-19 for BE 2018-19, BAG 2019-20 for RE 2018-19 and BAG 2020-21 for actuals of 2018-19. GDP for BE and RE from respective BAGs, and GDP for actuals from CSO's press note dated 29 May, 2020.

Variations between estimates and actuals have been analysed below, based on data contained in Budget documents for 2019-20 and UGFA 2018-19. The figures used in the Table are

11 For analysing the Variation of Actuals from the BE and RE figures, the Head-wise breakup available in the AFS has been utilised, where due to netting of the state shares, the figures do not tally with those contained in BAG.

budget figures taken from the Budget at a Glance, whereas for head-wise comparison of the Revenue/ Expenditure components, the Accounting figures of the Annual Financial Statement have been used.

Revenue Receipts.

The table above shows that estimates for revenue receipts was increased marginally at the RE stage. At the RE stage, estimates for GST receipts was revised downwards by 17 *per cent,* while estimates of Corporation Tax receipts was raised by 8.05 *per cent* and Customs receipts by 15.6 per *cent.* In addition, while no Service Tax receipts had been factored at the BE stage, receipts of ₹9,283.00 crore was included at the RE stage. Overall, a marginal increase in Centre's Net Tax Revenue of 0.24 *per cent* was estimated at the RE stage. In the case of non-tax revenue (NTR): "Dividend and share of Profits"- an increase of over 11 *per cent* was estimated at the RE stage over BE stage primarily on account of higher expected share of profits from RBI; estimates for "Other Non-Tax Revenue" was scaled down by over eight *per cent* largely due to lower expected telecom receipts. On the whole, the estimates for NTR were marginally enhanced at the RE stage.

Actual revenue receipts were significantly lower compared to both budget estimates: ₹1,72,822 crore i.e., 10 *per cent*; and revised estimates: ₹1,76,766 crore i.e., 10.2 *per cent.* The shortfall between BEs and actuals was primarily due to collections being less than estimates in the case of "Taxes on income other than corporation tax" (₹56,512 crore); "Central Goods and Services Tax" (₹1,46,366 crore); "Central Excise" (₹28,607 crore),and "non-tax revenue" (₹22,749 crore).The variation between actuals and REs was primarily due to collections being less than REs against "Taxes on income other than Corporation Tax" (by ₹56,512 crore); "Corporation Tax" (₹7,428 crore); "Central Goods and Services Tax" (₹46,366 crore); "Customs" (₹12,225 crore); "Central Excise" (₹28,619 crore),and "nontax revenue" (₹18,672 crore). Thus, despite adjustments made in estimates for different taxes and in non-tax revenue, shortfalls remained across a whole range of revenue sources.

Revenue Expenditure

Estimates for revenue expenditure was marginally decreased (0.2 *per cent*) at the RE stage compared to BEs. In the case of "Grants-in-aid to State Governments", estimates were revised downwards by ₹33,059.52 crore at the RE stage. Similarly, REs for "transport" were lowered by ₹20,074 crore mainly due to lower revised estimates of expenditure on "Roads and Bridges" (₹16,479 crore) and "Appropriation from Railway Surplus" (₹6,976 crore). At the RE stage, expenditure was expected to increase in the case of "Interest payments" (₹10,697 crore), "Agriculture and Allied Services" (₹23,205 crore) primarily due to increase in provision for schemes such as REs for "Crop Husbandry" (₹20,202 crore), "Police" (₹5,873 crore), "Medical and Public Health" (₹2,425.14 crore), and "Rural Employment" (₹6,084 crore).

From the table above, it will be seen that actual revenue expenditure was significantly lower than BEs and there was a net compression in revenue expenditure as compared to BEs, of ₹1,48,324 crore. Significant items under which revenue expenditure was significantly less than BE stage, included "food subsidy" (₹70,000 crore) on account of replacement with loans from National Small Saving Fund; "pension and other retirement benefits" (₹9,255.11 crore); various transport heads (₹16,049 crore); short transfer to GST Compensation Fund (₹35,825 crore) and lower transfers to States as GIA (₹45,918 crore). Actual revenue expenditure was also lower than REs. It was noted that in 33 Major Heads, actual revenue expenditure exceeded REs by ₹28,038 crore; in 73 Major Heads, actual expenditure fell short of REs by ₹1,70,896 crore. Significant areas of shortfall against revised estimates were: "food subsidy payments" (₹72,500 crore), "crop husbandry" (₹13,835 crore); "transfers of Grants in Aid to State Governments" (₹12,859 crore); "pension and other retirement benefits" (₹7,406 crore); and "railways and roads and bridges" (₹4,177 crore).

Revenue Deficit

Despite compressing actual revenue expenditure, due to the shortfall in actual revenue receipts compared to receipts estimated at both the BE and RE stages, the imbalance in the revenue account was higher than anticipated. Actual RD was ₹4,54,483 crore as against the BE of ₹4,16,034 crore (9.24 *per cent* higher) and RE of ₹4,10,930 crore (10.6 *per cent* higher). While both at the BE and RE stage, RD was projected at 2.2 *per cent* of GDP (higher than the bench mark of two *per cent* as per FRBM Act prior to its amendment), actual RD was 2.4 *per cent* of GDP.

The above analysis shows that the estimated RD could not be achieved due to shortfall in mobilising tax and non-tax receipts as projected, and inability to achieve commensurate compression of revenue expenditure.

2.1.3 Trend with respect to Revenue Deficit.

The growth in RD in FY 2017-18 over FY 2016-17 in absolute terms, was 40 *per cent*. As a percentage of GDP, the year-on-year increase in RD was 24 *per cent*. The increase was a result of the high year-on-year growth in revenue expenditure of 11.1 *per cent* in 2017-18 while the growth in revenue receipts was lower at 4.4 *per cent*. Status of the year-on-year growth of revenue receipts vis-à-vis revenue expenditure is given in **Table 2.3**.

Table 2.3: Growth of Revenue Receipts vis-à-vis Revenue Expenditure

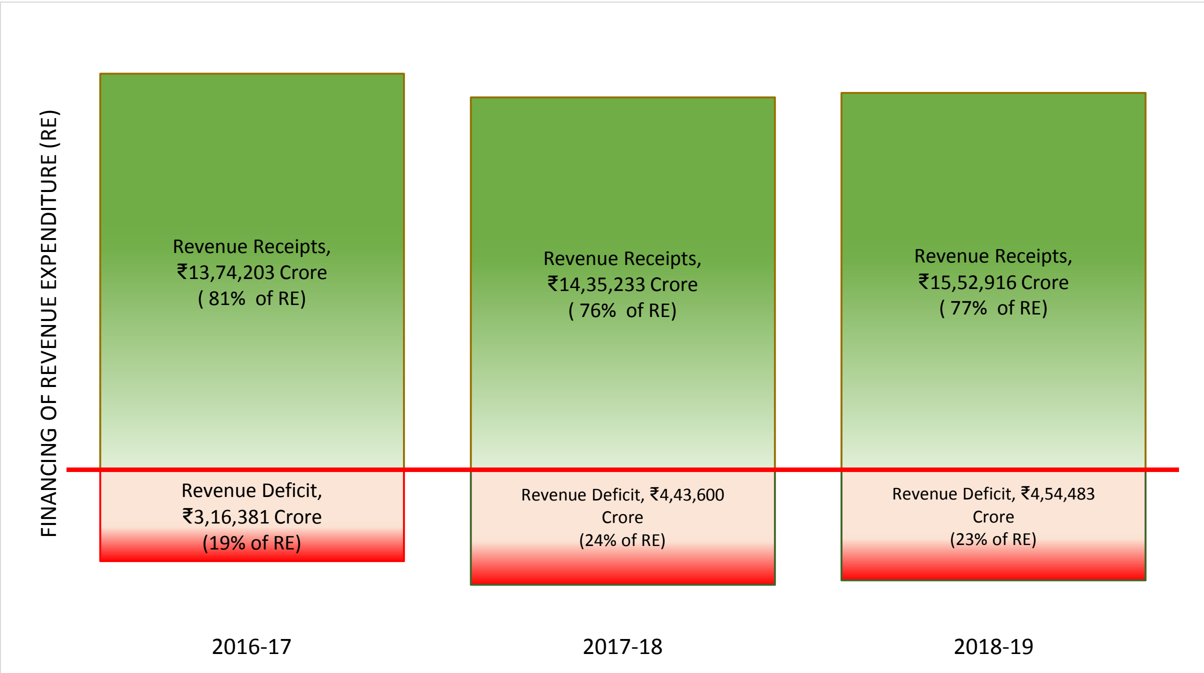
(₹in crore)

Components of Revenue Deficit	2016-17	2017-18	YoY Growth (2017-18 vis-à-vis 2016-17)	2018-19	YoY Growth (2018-19 vis-à-vis 2017-18)
Revenue Expenditure	16,90,584	18,78,833	11.1%	20,07,399	6.8%
Revenue Receipts	13,74,203	14,35,233	4.4%	15,52,916	8.2%
Revenue deficit	3,16,381	4,43,600	40.2%	4,54,483	2.5%
RD as *per cent* of GDP		2.59		2.40	

(Source: Budget at a glance, 2018-19, 2019-20 and 2020-21)

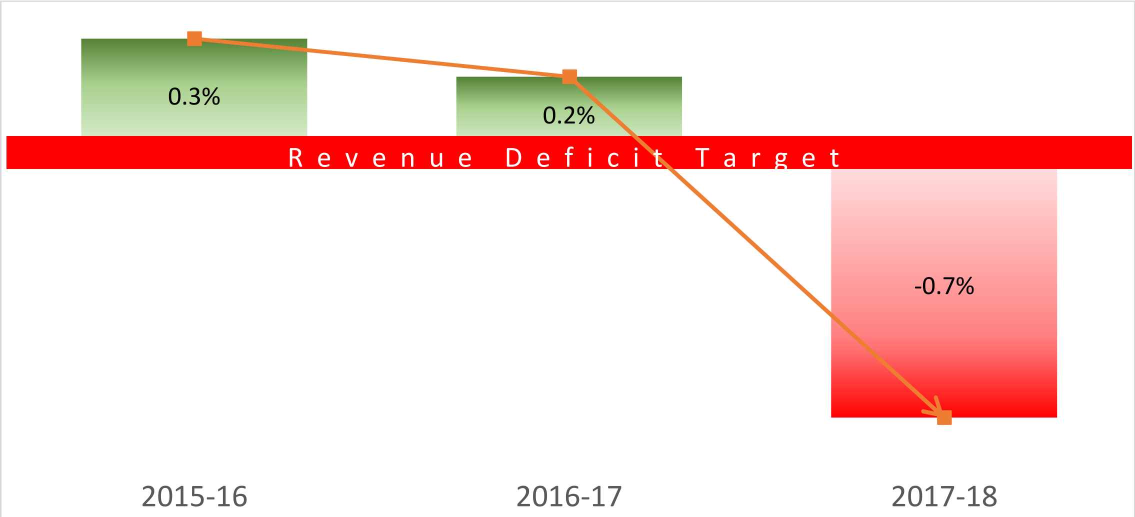
As shown in **Graph 2.1** there was considerable expansion of RD as a percentage of revenue expenditure in 2017-18 in comparison with 2016-17. In 2016-17, revenue receipts were able to finance 81 *per cent* of revenue expenditure compared to 76 *per cent* in 2017-18. In 2018-19, there was a marginal improvement over 2017-18 with revenue receipts being able to cover 77 *per cent* of the revenue expenditure. There was thus, a deterioration in the fiscal situation both in absolute terms and in terms of RD as a percentage of revenue expenditure, between 2016-17 and 2017-18. Between 2017-18 and 2018-19 while RD had grown in absolute terms, it declined as a percentage of revenue expenditure. Overall however, liability for current expenditure continued to be shifted to future years thereby affecting intergenerational equity.

Graph 2.1: Coverage of Revenue Expenditure by Revenue Receipts



Graph 2.2 gives the comparative position of achievement of FRBM target for RD for three years upto 2017-18. It shows that while RD targets had been achieved in the two previous years i.e., 2015-16 and 2016-17, there was a sharp shortfall during 2017-18. In 2018-19 FRBM targets for RD had been removed, but compared to BEs, RD had slipped by 0.4 *per cent*.

Graph 2.2: Trend in adherence to Revenue Deficit Target: 2015-16 to 2017-18



Source: Budget at a Glance for 2015-16 to 2019-20.
Note: Data in absolute terms for deficits is at Annexure-2.1.

2.2 Effective Revenue Deficit

Effective Revenue Deficit (ERD) was introduced as a fiscal indicator in the Union Budget of 2011-12, to distinguish grants-in-aid (GIA) for creation of capital assets from GIA used to finance current expenditure. ERD was calculated in accordance with Section 2(aa) of amended FRBM Act (May 2012), i.e., by reducing GIA for creation of capital assets from RD, as the latter was seen to be akin to capital expenditure. Targets with respect to ERD were fixed to ensure that progressively total revenue expenditure other than GIA for creation of capital assets, should be totally funded from revenue receipts.

2.2.1 Status of Compliance with Targets/benchmarks related to ERD during FY 2017-18

The status of compliance with the targets relating to ERD for the FY 2017-18, is given in **Table 2.4**.

Table 2.4: Status of achievement of Effective Revenue deficit for the year 2017-18

Effective Revenue deficit	Annual Reduction (During 2017-18) (as percentage of GDP)	At the end of 2017-18 (as *per cent* of GDP)
Target	0.5	0.0
Actual	(-) 0.5	1.5
Deviation	(-) 1.0	(-) 1.5

Source: Budget at a Glance for 2017-18 and 2019-20

From **Table 2.4**, it may be noted that against the target for annual reduction in ERD of 0.5 *per cent*, ERD increased by 0.5 *per cent* in FY 2017-18 compared to FY 2016-17. As a result, the overall target for FY 2017-18 of total elimination of ERD was not met and ERD stood at 1.5 *per cent* of GDP. This was a result of an over 38 *per cent* increase in RD, combined with a two per *cent* fall in GIA for creation of capital assets during 2017-18. This showed that revenue expenditure was being increasingly directed towards current consumption. The shortfall in meeting the annual reduction target and the overall target for ERD amounted to non-compliance with the FRBM Act.

Ministry repeated the reasons given to explain the shortfall in meeting the RD target, for the deviation from the ERD targets i.e., *"structural issues in the revenue expenditure component"*, but did not elaborate specific causes for the shortfall or any strategy to address the same.

2.2.2 Effective Revenue Deficit: FRBM Target, Estimate and Actual during 2017-18

Against the FRBM target of completely eliminating ERD by 2017-18, the BEs for ERD was 0.74 *per cent* for 2017-18. A comparison between BE, RE and actuals for ERD for FY 2017-18 is given in **Table 2.5**.

Table-2.5: Effective Revenue Deficit- BE, RE and Actuals: 2017-18

(₹in crore)

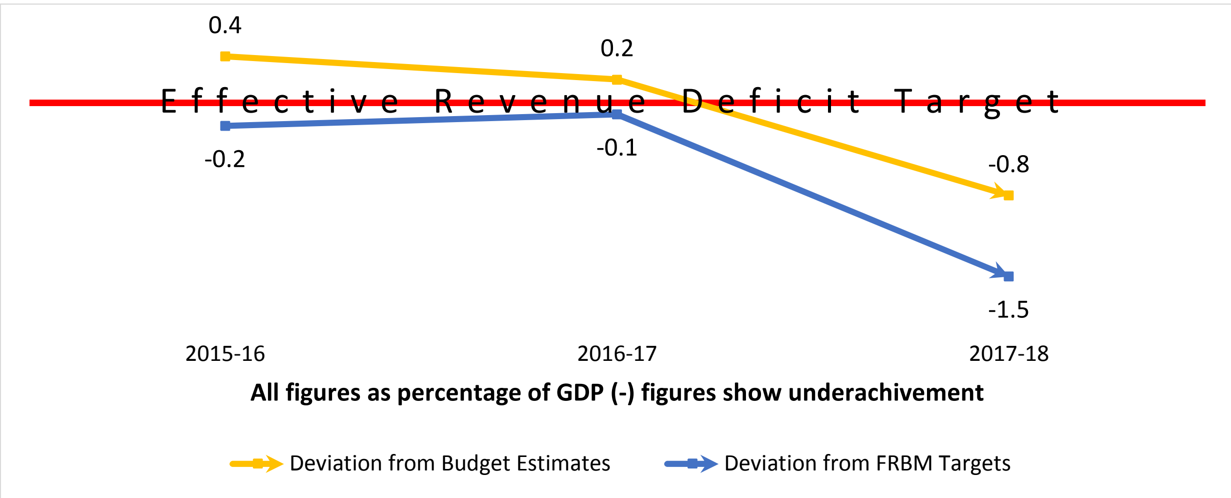
Components	Revenue Deficit	Grant for creation of capital assets	Effective Revenue Deficit (ERD)	GDP	ERD as % of GDP
	1	2	(3=1-2)	4	
Budget Estimates	3,21,163	1,95,350	1,25,813	1,68,47,455	0.74
Revised Estimate	4,38,877	1,89,245	2,49,632	1,67,84,679	1.49
Actuals	4,43,600	1,91,034	2,52,566	1,70,98,304	1.48
Variation with BE	1,22,437 38.12%	(-) 4,316 -2.21%	1,26,753 100.75%		

Source: Budget at a Glance for 2018-19 and 2019-20.

It would be seen that in the REs for FY 2017-18 ERD was further revised upwards to 1.5 *per cent*. The increase was largely a result of the 37 *per cent* increase in the estimates for RD and a three *per cent* decrease in estimates for "Grants for creation of capital assets" i.e. from ₹1,95,350 crore in BEs to ₹1,89,245 crore in REs for FY 2017-18. Actual ERD for the year was as estimated in REs viz. 1.5 *per cent* of GDP.

Graph-2.3 gives the trend of ERD as a percentage of GDP over the period 2015-16 to 2017-18.

Graph-2.3: Adherence to Effective Revenue Deficit Target: 2015-16 to 2017-18



Source: Budget at a Glance
Note: Data in absolute terms for deficits is at Annexure 2.1

Graph 2.3 illustrates shortfalls in achievement of FRBM targets in respect of ERD in each year during the period 2015-18. It also shows that while the Government was able to contain

ERD within budgeted levels in the first two years of the three-year period, ERD in 2017-18 surpassed both FRBM targets and budget estimates.

Way Forward:

Though the Government is no longer targeting RD and ERD, it may ensure that Revenue Expenditure and RD are measured accurately, as having the right fiscal data is the first step towards fiscal consolidation. In addition, Government may take steps to evolve and publish measures to assess efficiency of public expenditure over the medium term. In view of the significant growth in revenue expenditure each year, it may establish mechanisms to ensure prudence and oversight over such expenditure, and work on elements that are amenable to control and reduction.

2.3 Fiscal Deficit

Section 2(a) of FRBM Act, defines FD as the excess of total disbursements from the CFI over total receipts into the Fund during a FY excluding debt receipts and debt repayments. FD indicates the overall gap in the financing of annual expenditure from annual non-debt receipts. It thus, measures the extent to which the burden of such expenditure would need to be funded through net debt and public account receipts which are liabilities to be discharged in the future. Containing FD is thus, critical for containing debt and other liabilities of the Government and for ensuring intergenerational equity.

2.3.1 Status of achievement of benchmark and targets related to FD during 2017-18 and 2018-19

The status of achievement of the benchmark and targets relating to FD during 2017-18 and 2018-19, is given in **Table 2.6**. It is recounted that for 2017-18, the year-end target for FD was three *per cent* of GDP and the annual reduction target was 0.4 *per cent* of GDP. The mid-year benchmark target was to contain FD within 70 *per cent* of the BE for the whole year. In 2018-19 due to amendment of the FRBM Act in April 2018, the FD target of three *per cent* of GDP was reset to be achieved by the end of 2020-21, and an annual reduction target of 0.1 *per cent* of GDP was fixed for the year. This translated into a year-end FD target of 3.4 *per cent* of GDP for 2018-19.

Table 2.6: Status of achievement of Fiscal deficit target and mid-year benchmarks for the year 2017-18 and 2018-19

	Fiscal deficit		
	Target	Actual	Deviation
Mid-year Benchmark (30 September 2017) (as *per cent* of BE)	Not more than 70	91	21
Annual Reduction (During 2017-18) (as *per cent* of GDP)	0.4	0.0	(-) 0.4
At the end of 2017-18 (as *per cent* of GDP)	3	3.5	0.5
Mid-year Benchmark (30 September 2018) (as *per cent* of BE)	Not more than 70	95.3%	25.3%
Annual Reduction (During 2018-19) (as *per cent* of GDP)	0.1	0.1	-
At the end of 2018-19 (as *per cent* of GDP)	3.4	3.4	-

(Source – Budget at a Glance 2019-20, 2020-21 and Mid-Year Statements)

During FY 2017-18 there was a significant deviation from the mid-year benchmark for FD. FD was 91 *per cent* of the BE at the mid-year point i.e. at the end of September 2017 against the target for containing FD within 70 *per cent* of the BE. In the mandatory statement presented to Parliament on account of the deviation from the bench mark, the Ministry repeated the reasons given for the deviation in case of RD and also the envisaged corrective measures. In the next year i.e. FY 2018-19, the FD as on 30 September 2018 i.e. at the mid-year mark was 95.3 *per cent* of BEs which was a deterioration compared to 2017-18. Ministry stated that steps such as close monitoring of the expenditure; encouraging Ministries/Departments to meet their additional requirements for funds from savings; and efforts to meet targets for non-debt receipts, would be taken to achieve the annual target for FD.

As regards the target for annual reduction in FD, the target of 0.4 *per cent* of GDP was not met in 2017-18. There was no reduction in FD as a percentage of GDP which remained the same as in 2016-17 i.e. 3.5 *per cent* of GDP. As a result, not only was the FRBM target for FD of three *per cent* of GDP for the year not achieved, even the BE estimates of FD at 3.2 *per cent* of GDP, was missed.

In 2018-19, the envisaged reduction in FD of 0.1 *per cent* of GDP from the FD level of 2017-18, was met. However, it was noted that to reach the target of FD of three *per cent* of GDP by the end of 2020-21 from the level of 3.5 *per cent* at the end of 2017-18 in an equitable manner, the Government was required to reduce FD in each year by more than the minimum annual reduction target of 0.1 *per cent* envisaged in the FRBM Rules 2018. While this appears to have been taken into account at the BE stage wherein a reduction in FD of 0.2 *per cent* of GDP was envisaged, the final annual reduction achieved was only 0.1 *per cent* of GDP.

2.3.2 Fiscal Deficit: FRBM Target, Estimate and Actual for 2017-18 and 2018-19

Details of BEs, REs and actuals against the FRBM target for FD for 2017-18 and 2018-19 are given in **Table 2.7**.

Table-2.7: Fiscal Deficit-Budget Estimate; Revised Estimate and Actuals in 2017-18 and 2018-19

(₹in crore)

Components	Total Expenditure	Non-debt Receipts	Fiscal Deficit (FD)	GDP	FD as % of GDP
	(1)	(2)	(3=1-2)	(4)	
2017-18 (FRBM Target: 3% for 2017-18)					
Budget Estimates	21,46,735	16,00,204	5,46,531	1,68,47,455	3.2%
Revised Estimate	22,17,750	16,22,901	5,94,849	1,67,84,679	3.5%
Actuals	21,41,973	15,50,911	5,91,062	1,70,98,304	3.5%
Variation with Budget Estimates	(-) 4,762	(-) 49,293	44,529		
	-0.2%	-3.1%	8.2%		
2018-19 (FRBM Target: 3.4% for 2018-19, Sunset Target for 2020-21: 3%)					
Budget Estimates	24,42,213	18,17,937	6,24,276	1,87,22,302	3.3%
Revised Estimate	24,57,235	18,22,837	6,34,398	1,88,40,731	3.4%
Actuals	23,15,113	16,65,695	6,49,418	1,89,71,237[12]	3.4%
Variation with Budget Estimates	(-) 1,27,100	(-) 1,52,242	25,142		
	-5.2%	-8.4%	4.0%		

Source: Budget at a Glance for 2017-18, 2018-19, 2019-20 and 2020-21.

[12] First revised estimates of GDP for 2018-19 taken at ₹1,89,71,237 crore as per Press Note of CSO 29th May 2020.

FD for 2017-18

It may be seen from the table above, that though the FRBM target for FY 2017-18 was three *per cent* of GDP, the BEs for the year estimated the same at a higher level of 3.2 *per cent*. Subsequently, the revised estimates for FD for 2017-18 given in the MTFP Statement for 2018-19/REs for 2017-18, was further increased to 3.5 *per cent* of GDP. This upward revision in the estimates was attributed by the Government to the "*spill over impact of the new indirect tax regime (GST)*" and the "*lower realisation of Non-Tax Revenue from the Reserve Bank of India*" during FY 2017-18. The actual FD was at the level estimated at the RE stage i.e. 3.5 *per cent* of GDP.

Thus, FRBM targets were not complied with during the year for reasons that do not fall within the scope of circumstances specified in the Act viz. threat to national security or event of a national calamity where deviations are permitted. The Ministry repeated the explanation provided for deviating from RD targets, to explain the deviation from the FD target without identifying specific factors responsible and a strategy to meet the targets.

The Ministry also stated (June 2020 and December 2020) that MTFP of 2018-19 and FPSS of 2018-19 made a mention of the "revision" in the FD target for 2017-18 and gave reasons for the same. Audit observed that the Ministry's reasons for the breach were not consistent across statements: in MTFPS 2017-18 it mentioned the need for "higher public expenditure in scenario when private investment is not picking up" to justify relaxing the FD target to 3.2 *per cent*; and in MTFPS 2018-19 it cited "spill over impact of GST" as the reason for further increasing the target to 3.5 *per cent* of GDP. However, these reasons also do not fall within the scope of circumstances in which the Act permitted deviations on grounds of national security or national calamity or specified exceptional grounds which should be intimated to both Houses of Parliament as soon as possible after the FD exceeds the FRBM targets. Audit noted that the Government had not notified Parliament of any such exceptional grounds for exceeding the FD target.

The variations between estimates at the BE and RE stages and actuals for FD during 2017-18 as shown in **Table 2.7**, have been analysed below.

Variation between estimates at BE stage and RE stage

In absolute terms, the figures for FD at the RE stage were higher than at the BE stage. This was primarily on account of REs for RD being higher by 37 *per cent* as compared to the BEs. Reasons for the same have been analysed in Para 2.1.2. However, due to lowering of estimates for capital expenditure by 12 *per cent* at the RE stage, and projected increase in non-debt capital receipts of 39 *per cent* primarily on account of higher expected disinvestment proceeds, the increase in REs of FD could be limited to nine *per cent,* and as percentage of GDP to 0.3 *per cent*.

Variation between estimates at BE and RE stages and actuals.

Actual FD for 2017-18 in absolute terms, was higher than the BEs for FD. However, the extent of difference (8.2 *per cent*) was much lower compared to RD (38.12 *per cent*). The wide variation in actuals and BEs of RD has been explained in detail in Para 2.1.2. In comparison, the variation between BEs for FD and actuals was lower due to a 15 *per cent* compression in actual capital expenditure and a 37 *per cent* increase in non-debt capital receipts-primarily relating to Disinvestments. On the other hand, actual FD was marginally lower than the REs for FD, as the latter had already been significantly adjusted, from BEs as mentioned above.

Overall, actual FD in 2017-18 stood at 3.5 *per cent* of GDP i.e. at the same level estimated at the RE stage but was 0.3 *per cent* higher than BEs.

FD for 2018-19

It may be seen from **Table 2.7** that though the derived FRBM target for FY 2018-19 was 3.4 *per cent* of GDP, in the BEs for the year FD had been estimated at a lower level i.e. at 3.3 *per cent* of GDP. It was noted that the actual FD for the year in absolute terms was ₹6,49,418 crore, whereas the corresponding RD was ₹4,54,483 crore. The variations in BE, RE and actuals of RD for the year have been analysed in Box A above. The variations between estimates at the BE and RE stages and actuals for FD during 2018-19 as shown in **Table 2.7**, have been analysed below.

Variation between BEs and REs for FD

It was noted that unlike 2017-18, REs for RD were in fact marginally lower than BEs by 1.2 *per cent* with only marginal adjustments being made in estimates for revenue expenditure and receipts. REs for FD in absolute terms were higher than BEs though only marginally i.e. by 1.6 *per cent*. This was due to increase in estimates for capital expenditure by 5.39 *per cent* on account of higher projected capital expenditure under "Other Industries and Minerals"; "Civil Aviation"; and "Roads and Bridges". This was offset by a 1.04 *per cent* increase in estimates for non-debt capital receipts driven by 7.84 *per cent* increase in estimates for recovery of loans. Overall, REs for FD were higher than BEs by 0.1 *per cent* of GDP.

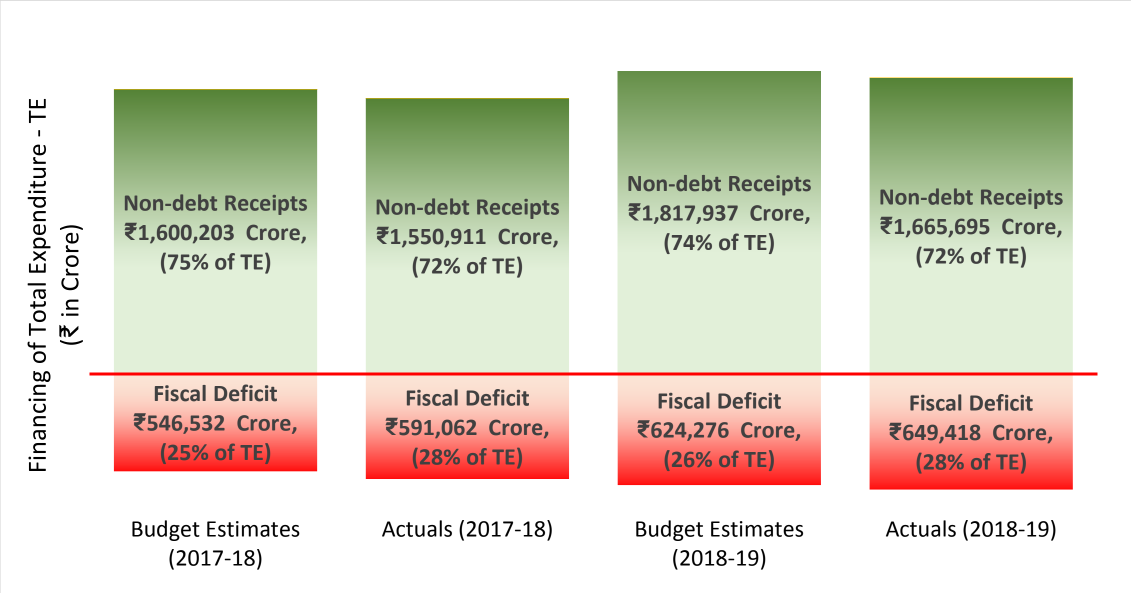
Variation between BEs, REs and actuals for FD.

Actuals of RD were nine *per cent* higher than BEs, and 10.6 *per cent* higher than REs. In comparison, variation in actuals for FD from BEs was four *per cent* and 2.4 *per cent* from REs. It was noted that actual capital expenditure which had been projected to increase at the RE stage, was compressed and by and large kept at the BE level. On the other hand, actual non-debt capital receipts had exceeded both BEs and REs. This was primarily due to capital receipts accruing from monetisation of National Highways (₹9,682crore) which had not been envisaged at both the BE and the RE stages, and higher net receipts from recovery of loans and advances (₹5,853 crore compared to BE). Though in absolute terms actual FD was higher than REs, as a percentage of GDP, actual FD at 3.4 *per cent* was the same as REs based on higher revised estimates of GDP used for calculation of actual FD. Actual FD as percentage of GDP was however, higher than BEs of 3.3 *per cent*.

Coverage of Total Expenditure through non-debt receipts/ deficit during 2017-18 and 2018-19

Graph 2.4 gives a pictorial depiction of the extent to which actual non-debt CFI receipts were able to cover total expenditure from CFI in the years 2017-18 and 2018-19, as compared to BEs. This also shows the extent to which the balance would need to be funded as deficit.

Graph 2.4: Envisaged (BE) versus Actual Coverage of Total Expenditure (TE) through non-debt receipts/deficit during 2017-18 and 2018-19



From the **Table 2.7** and **Graph 2.4**, it is evident that both during 2017-18 and 2018-19, actual non-debt receipts lagged estimates significantly. As commensurate compression in expenditure could not be achieved, FD continued to expand in absolute terms. Reasons for shortfall in non-debt receipts and for inability to control spending have been analysed in preceding sections of this Chapter.

Way Forward

The Government may ensure adherence to the medium-term fiscal path as specified under the FRBM Act/Rules, and align its annual achievements accordingly.

2.4 Frequent revision in Fiscal Indicator Targets during operation of the Act.

As per the initial FRBM framework notified in 2003, targets were fixed for containing FD at three *per cent* of GDP, and for completely eliminating RD by 31 March 2008. This was to be achieved through annual reduction of 0.3 *per cent* in FD and 0.5 *per cent* in RD. These targets have however, been frequently altered/ deferred/relaxed. **Table 2.8** details the deferments/ relaxation given for achievement of targets through amendments in the FRBM Act and Rules. It also provides a comparison between the originally intended target dates and actual status of achievement of targets on those dates.

Table 2.8: Details of deferment/ amendment of FRBM targets.

(As percentage of GDP)

Sl. No.	Fiscal Indicators	Principal Act/ Rules	1st Amendment (in 2004)	2nd Amendment (in 2012)	3rd Amendment (in 2015)	4th Amendment (in 2018)
1.	**Revenue Deficit (RD) Target**	**Zero**	**Zero**	**2**	**2**	Done away with target of Revenue deficit.
	Target date	31.03.2008	31.03.2009	31.03.2015	31.03.2018	
	Annual reduction (At least)	0.5	0.5	0.6	0.4	
	Starting from	2004-05	2004-05	2013-14	2015-16	
	Actuals	**1.1**	**4.5**	**2.9**	**2.6**	
2.	**Effective Revenue Deficit (ERD) Target**	Introduced in 2012		**Zero**	**Zero**	Done away with target of Effective Revenue deficit.
	Target date			31.03.2015	31.03.2018	
	Annual reduction (At least)			0.8	0.5	
	Starting from			2013-14	2015-16	
	Actuals			**1.9**	**1.5**	
3.	**Fiscal Deficit (FD) Target**	**3**	**3**	**3**	**3**	**3**
	Target date	31.03.2008	31.03.2009	31.03.2017	31.03.2018	31.03.2021
	Annual reduction (At least)	0.3	0.3	0.5	0.4	0.1
	Starting from	2004-05	2004-05	2013-14	2015-16	2018-19
	Actuals	**2.7**	**6.0**	**3.5**	**3.5**	**3.4**

From the above it can be seen that though the target for FD as percentage of GDP was maintained at three *per cent* throughout the period, the same has not been attained in any year except 2007-08. This indicates continued dependence on deficit financing and borrowings beyond the limits mandated under the FRBM framework. Further, the original FRBM framework had envisaged elimination of RD by 2008; but this target has also continued to be relaxed/deferred. ERD was introduced as a Fiscal Indicator in 2012 and was targeted to be eliminated by the end of 2014-15. However, target dates for eliminating ERD have seen frequent deferment. The table above shows that up to 2017-18 despite repeated deferments and relaxations, even the revised dates for achieving targets were not met. Following the amendment to the Act in April 2018, the Government has completely done away with targets for RD and ERD and deferred the target date for achieving FD of three *per cent* of GDP to 31 March 2021.

Ministry stated (June 2020) that the deferments were on account of economic compulsions and requirements of achieving 'optimal growth' and are for the long-term benefit of economy.

Way Forward

The frequent modifications and amendments in targets make it difficult to assess the progress over time with regard to fiscal management and consolidation. Government may ensure that there is a stable and predictable roadmap for fiscal consolidation over an extended period of time.

2.5 Aspects impacting computation of Fiscal Indicators

In the course of the audit of Union Accounts of 2017-18 and 2018-19, several aspects which affected the computation of fiscal indicators were noticed and flagged in the relevant audit reports[13] on Union Accounts for those two years. In addition, examination of budget documents pertaining to the two years have also disclosed issues that impact computation of fiscal indicators. These are detailed in the ensuing paragraphs.

2.5.1 Misclassification of expenditure

A test check of transactions as part of audit of Union Government Accounts for 2017-18, disclosed misclassification of capital expenditure as revenue expenditure of ₹308.49 crore and misclassification of revenue expenditure of ₹2301.84 crore as capital expenditure. As a result, there was a net understatement of revenue expenditure and RD by ₹1,993.35 crore as detailed in **Annexure-2.2**. These were the result of making budget provisions under incorrect heads of account and thereafter booking expenditure against these incorrect provisions.

Ministry (June 2020 and December 2020) stated that responsibility for correctly classifying transactions was that of the line Ministries. However, the Ministry may through the Internal Financial Advisers and Accounting Authorities, impress upon the line Ministries the need to comply with basic principles for classification of transactions.

2.5.2 Erroneous process of devolution/apportionment of IGST

As per the scheme of GST/IGST[14], revenues collected as IGST are to be apportioned between States and the Centre after making settlements for cross-utilisation of IGST for CGST/SGST, refund payments etc. There is no provision for assignment of share of net proceeds of IGST to States, and devolution to States is to be done only from the share of the Centre of IGST as per Finance Commission formula. However, this procedure was not followed both during 2017-18 and 2018-19 as reported in the CAG's Audit Report No.2 of 2019 on the Union Accounts of 2017-18 and later elaborated in CAG's Report No 11 of 2019 for 2017-18 and in Report No.4 of 2020 on the Union Accounts for 2018-19.

In 2017-18 after settlement of ITC (Input Tax Credit) cross utilisation from IGST, apportionment of IGST and advance apportionment, there was a balance of ₹1,76,688 crore of which ₹67,998 crore was devolved to States and ₹1,08,690 crore was retained un-apportioned in the CFI. Audit had held that the devolution was not consistent with the scheme of GST/IGST. Instead, IGST was to be apportioned as per the procedure prescribed in the IGST Act and devolution was to be made to the States/UTs only from the Centre's share of IGST. Audit of the Union Accounts of 2018-19, revealed that the erroneous process of devolution had continued and ₹15,001 crore had been devolved to the States/UTs. It was also noted that ₹13,944 crore was left un-apportioned and retained in the CFI, though a process of ad-hoc apportionment existed.

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[13] CAG's Audit Report No. 2 of 2019 on Union Accounts of 2017-18 and Audit Report No. 4 of 2020 on Union accounts for 2018-19.

[14] Article 269A (1) of the constitution and the IGST Act provide for levy of IGST and apportionment between the Union and States/ UTs. Article 270 of the Constitution excludes duties levied under Article 269A from the list of duties and taxes to be distributed between Union and States but provides for IGST apportioned to the Centre under Article 269A(1) to be distributed between the Centre and States/ UTs.

Ministry stated (June 2020) that a Group of Ministers has been constituted to examine the issue of IGST settlement and corrective action has been taken to redress the anomaly. In course of the audit of 2019-20 accounts it has been noted that the Ministry has computed the amount of IGST[15] due to States and UTs pertaining to 2017-18, to be ₹57,450 crore. The Ministry has initiated a process of adjustment/payment in the accounts for FY 2019-20 which is separately under review.

2.5.3 Short Transfer of Cesses to Reserve Funds during 2017-18 and 2018-19

The Government imposes certain levies and cesses, proceeds of which are to be spent for specified purposes. To ensure this, the receipts of cesses / levies during a year are transferred, subject to approval of Parliament, to designated funds created in the Public Accounts or with nominated agencies. Transfers to these funds are accounted as expenditure from the CFI. To the extent that these collections are not transferred or not spent for specified purposes, expenditure is understated and so are the fiscal indicators.

Audit of accounts for 2017-18 have showed short transfer of cess / levies inter-alia, in the case of *Swachh Bharat Cess* (₹890 crore), Primary Education Cess (₹1,977 crore); Road Cess and Levies (₹13,689 crore[16]), Clean Energy Fund (₹5,971 crore) and GST Compensation Cess (₹6,466 crore). Audit of accounts of 2018-19 has similarly disclosed short transfer of cesses / levies[17] inter-alia, in the case of Road and Infrastructure Cess (₹10,157 crore), GST Compensation Cess (₹40,806 crore), Universal Access levy (₹2,123 crore) and National Mineral Trust Levy (₹79 crore). These short transfers resulted in understatement of RD/Fiscal deficit during these two years.

Way Forward

Government may ensure that funds required to be kept in designated funds in Public Account (e.g. those for meeting future liability, collections of cesses, etc.) are not retained in the Consolidated Fund to avoid overstatement of revenue receipts and understatement of RD and FD.

2.5.4 Understatement of RD due to non-adjustment of transactions relating to Defence Pension held under Suspense Head during 2017-18 and 2018-19.

Scrutiny of accounts relating to Defence Pensions showed that adjustment of transactions under Public Sector Bank Suspense amounting to ₹14,674 crore was held up at the end of FY 2017-18, even though the relevant scrolls required for adjustment of the transactions held in suspense had been received. Similarly, adjustment of transactions amounting to ₹429.55 crore under RBI Suspense was also held up. These adjustments were withheld on account of insufficient budget provisions. Holding up of these adjustments resulted in

15 After adjusting amount already devolved.

16 After also taking into account direct transfer to Railway Funds instead of through CRF and expenditure on Border Roads being higher than amount earmarked for transfer to CRF for expenditure on Border Roads.

17 Short transfer only in cases and with reference to the amount of cess/levies required to be transferred based on relevant legislation/rules and after excluding amounts spent for approved purposes without routing through reserve funds.

understatement of revenue expenditure by ₹15,103 crore, and consequently understatement of RD. Further, as pointed out in Para 3.11 of Report No. 2 of 2019 (CAG's Report on Union Governments Accounts for the year 2017-18), Controller General of Defence Accounts (CGDA) initially booked an expenditure of ₹3,000 crore under Pension Heads for the three Services (Grant No.22 Defence Pension) and then transferred this amount to a suspense head. This also resulted in understatement of pension expenditure, and consequently of revenue expenditure and RD.

Audit of Union Accounts for 2018-19 disclosed that during 2018-19 as well, the Controller General of Defence Accounts (CGDA) did not adjust expenditure of approximately ₹14,000 crore relating to 'Defence Pension', even though the relevant scrolls required for adjustment had been received. In addition, as was the case in 2017-18, Controller General of Defence Accounts (CGDA) initially booked an expenditure of ₹5,000 crore under Pension Heads for the three Services (Grant No.22 Defence Pension) and then transferred the entire amount to a suspense head. The above led to understatement of revenue expenditure and RD by ₹19,000 crore.

With respect to the above observations, Ministry stated (June 2020 and December 2020) that these had been forwarded to CGDA for a response.

2.5.5 Treatment of expenditure on Bank Recapitalisation during 2017-18 and 2018-19

For recapitalisation of Public Sector Banks (PSBs) the Government made an investment of ₹80,000 crore in 2017-18 and of ₹1,06,000 crore in 2018-19. Funds for these investments were raised by the Government through issue of non-transferable special securities to the same PSBs. Audit noticed that in the expenditure budget the above mentioned expenditure on recapitalisation of the PSBs, had been netted against receipts from issue of special securities, while in the receipt budget, receipts from the securities have been netted against expenditure on recapitalisation. This treatment is reflected in the computation of FD given in the Budget at a Glance (BAG) and in the Medium Term Fiscal Policy Statement (MTFPS). However, in the UGFA the securities issued to PSBs have been correctly accounted as Internal Debt of the Government and receipts from the same as debt receipts. As a result, netting of these receipts against expenditure on recapitalisation/ investment in the PSBs in the BAG and MTFPS was not in line with the FRBM Act 2003.

Ministry stated (June 2020 and December 2020) that bank re-capitalization though cash neutral, is not fiscally neutral as issue of securities would get reflected in the total Government Debt. Besides, coupon payments for the special securities when made would be reflected in FD of the relevant year.

The fact remains that the expenditure should have been shown separately from the receipts and not netted.

Way Forward

It may be ensured that the expenditure and receipts are not netted in the BAG, and shown as correctly reflected in the AFS and the UGFA.

2.6 Fiscal Indicators and financing of Public Expenditure through extra budgetary resources (EBR)

Several GOI entities (companies, corporations and autonomous bodies) participate in the implementation of GOI schemes, programmes and projects. These entities are legally distinct from the Government but are controlled and/or substantially funded by it. These entities have been used to undertake various activities in connection with implementation of schemes, projects and programmes. These entities are also used to raise funds through borrowings based on explicit or implicit Government guarantees for funding implementation of schemes/ programmes and projects. For certain entities the Government also explicitly undertakes to service the borrowings. Such borrowings are only reflected in the accounts of the entities and are neither depicted in the Demand for Grants of the Government nor do they show up in the AFS or the UGFA even though these are used to fund Government operations/ activities. Such modes of funding thus, remain as an extra budgetary resource, outside the accounts of the Government. As such the expenditure made using borrowed funds do not get factored in the computation of fiscal indicators for the relevant year. Further, the existing accounting framework and disclosure requirements do not allow full and transparent depiction of such borrowings/funding in the accounts of the Government and in the computation of the Government's total liabilities even though Government is ultimately responsible for their servicing and redemption.

Some cases of use of extra budgetary resources for funding of both revenue and capital expenditure are discussed in the following sections. It is pertinent to mention that calculations of RD and FD for the two years, do not take into account expenditure made using such modes of funding. If these are factored, both RD and FD for the years under review could be significantly higher.

A) Extra budgetary funding of Revenue Expenditure:

Audit scrutiny of Union Accounts, and records of Ministries, Public Sector Enterprises (PSE) and Corporations have disclosed instances where payment of subsidies and central assistance under various schemes were funded through extra budgetary resources. In addition, there were cases where scheme payments made in the first instance by a PSE, were not reimbursed in full within the FY, which was tantamount to part funding of expenditure through extra budgetary resources. These cases are dealt with in the boxes below.

Case Study 1: Extra budgetary funding of Food Subsidy
In the Report of the CAG on Compliance with FRBM Act for FY 2016-17, mention was made of how the liability of the Government towards Food Corporation of India (FCI) for food subsidy[18] was being funded through extra budgetary resources**.** This was being done

[18] FCI prefers subsidy claims with the Government to cover difference between the procurement cost of food grains and the issue price.

due to inadequate budgetary resources and also as a measure for compressing revenue expenditure.

During 2017-18, along with a carryover liability of ₹81,303 crore of unpaid food subsidy, there was fresh subsidy claim of ₹1,16,282 crore relating to the year, resulting in a total pending liability for food subsidy of ₹1,97,585 crore. Against this, the Government released only ₹61,982 crore to FCI leaving a pending liability of ₹1,35,603 crore at the end of 2017-18. It was noted that the BE provision of ₹1,45,339[19]crore for 2017-18 for meeting food subsidy expenses, was not fully utilised and there were savings of ₹48,228 crore at the year-end. These savings were due to provision of a ₹42,919 crore loan from NSSF to FCI instead of payment of food subsidy using the budgeted funds.

In the next year i.e. 2018-19, along with a carry forward liability of ₹1,35,603 crore from previous years, there was additional liability towards food subsidy of ₹1,20,352 crore for 2018-19. However, despite a budgetary provision of ₹1,69,323[20] crore for food subsidy in the BE of 2018-19, only ₹70,098 crore was released from the budget to partly clear carryover liability of previous years. Payment amounting to ₹70,000 crore already released to FCI towards food subsidy was found to have been reversed and replaced by a loan from NSSF leaving the existing budget provision unutilised to this extent. This was done primarily as a measure of compressing revenue expenditure to contain RD. As a result, the total carried forward liability on account of subsidy arrears rose to ₹1,85,856.63 crore at the end of 2018-19.

Thus, by not discharging liabilities in full from budgetary sources towards food subsidy on account of PDS operations, revenue expenditure, RD and FD at the end of 2017-18 and 2018-19 were understated.

Further, due to the growing subsidy arrears FCI has resorted to various types of borrowings to meet its operating cash requirement. These include bonds; supplier's credit; cash credit CC limit and short-term loans and NSSF loans. The outstanding liabilities of FCI on account of these borrowings at the end of 2017-18 was ₹2,45,879.58 crore of which the liability towards NSSF alone was ₹1,21,000 crore. At the end of 2018-19, this increased to ₹2,81,180.28 crore and ₹1,91,000 crore respectively. In both the years it was noted that to cover repayments by FCI to NSSF, additional loans were being given from NSSF itself to FCI and accounted through book adjustments. This showed that FCI's NSSF liabilities were only being rolled over. In addition, the financial burden of servicing FCI's borrowings including interest, have to be ultimately borne by the Government as all liabilities and expenses of FCI not covered by its income, are to be met by the Government. As these borrowings are on account of PDS operations of the Government, these constitute de-facto liabilities/debt of the Central Government.

[19] Expenditure Budget 2017-18 (Total Food Subsidy)
[20] Expenditure Budget 2018-19 (Total Food Subsidy)

Ministry of Consumer Affairs, Food and Public Distribution stated that releases for subsidy payments were based on the "ceiling" fixed by the Ministry of Finance. Ministry of Finance (June 2020 and December 2020) attributed partial funding of food subsidy through NSSF loans, to limited availability of budgetary resources. It stated that these loans would be repaid through the budget and would then become part of FD. The reply substantiates the audit assertion that food subsidy expenditure was being substantially financed through extra budgetary resources leading to understatement of revenue expenditure, RD and FD. Further, the contention that repayments to NSSF would be from budgetary resources is not correct as additional loans to cover repayments due during a year, were being given from NSSF itself.

Case Study 2: Extra budgetary funding for *Pradhan Mantri Awaas Yojna– Gramin* (PMAY-G)

Under PMAY-G, financial assistance is given by Government for providing houses in rural areas. During 2017-18, while central assistance of ₹22,572 crore was provided from budgetary resources, a shortfall of ₹7,329 crore in budgetary resources was met from funds raised by NABARD through issue of bonds which were to be fully serviced by the GOI. In the year 2018-19, in addition to a central assistance of ₹19,308 crore through budgetary resources, funding for the scheme amounting to ₹10,679 crore was provided by NABARD through Government of India fully-serviced bonds.

Funds raised by NABARD for providing central assistance to the States were routed through National Rural Infrastructure Development Agency (NRIDA) an Autonomous Body (AB) under the Ministry of Rural Development. As such the payments were accounted in the books of the agency and remained outside the accounts of the Government. This led to understatement of revenue expenditure and of RD. Further, as the borrowings were also routed through NABARD and NRIDA which were legally distinct from the Government, these borrowings remained outside the budget and the computation of Government Debt in the Union Accounts.

Ministry justified the extra budgetary funding by stating that the amended FRBM Act[21] 2018 had redefined Central Government debt to include financial liabilities of any body-corporate or other entity owned or controlled by the Central Government, which the Government is to repay or service from the Annual Financial Statement.

However, substituting revenue expenditure from budgetary resources by expenditure funded from extra budgetary resources raised by way of borrowings led to understatement of revenue expenditure and RD. As these borrowings were to be serviced using future budgetary resources, it impacts on the inter-generational equity. Further, the borrowings were neither part of the budget and not reflected as debt in the accounts of the Government due to use of another agency for raising borrowed funds even through the liability for servicing remained that of the Government.

[21] Vide section 2(aa) (iii) of the FRBM Act.

Case Study 3: Extra budgetary funding for *Pradhan Mantri Awaas Yojna*– Urban (PMAY-U)

Under PMAY-U, Central Assistance is envisaged to the implementing agencies for providing houses to all eligible families/ beneficiaries in urban areas.

In addition to funding from budgetary resources, in February 2018 the Government approved creation of a National Urban Housing Fund (NUHF) in the Building Materials & Technology Promotion Council (BMTPC)[22] for raising funds through borrowings for funding PMAY-U. Government undertook to amortise loans and meet repayment obligations.

Audit noted that during 2017-18, ₹8,591 crore was paid as Central Assistance from budgetary resources. In addition, BMTPC raised ₹8,000 crore as a loan from NSSF, for disbursing assistance under the scheme. In 2018-19, ₹6,134.62 crore was provided from budgetary resources for this scheme. In addition, borrowings of ₹20,000 crore were raised through Housing and Urban Development Corporation (HUDCO) in the form of fully serviced bonds and routed through BMTPC for funding the scheme. Both budgetary resources and funds raised through borrowings were used to pay Central assistance under the scheme. Audit also noted that the liability of repayment of the loans and interest payments raised through BMTPC was that of the Government. The use of borrowed funds raised through other entities, instead of expenditure from budgetary sources duly accounted in the books of the Government for providing central assistance not only led to understatement of revenue expenditure and RD but also ensured that the borrowing itself remained outside the computation of debt in the accounts of the Government.

Case Study4: Extra budgetary funding for Long-Term Irrigation Fund

Under Accelerated Irrigation Benefit Programme (AIBP), financial assistance is provided to States by GOI for completion of eligible major/medium irrigation projects. In 2016-17 a Long-Term Irrigation Fund (LTIF) was created for providing assistance to States under AIBP, replacing assistance which was till then being provided from budgetary resources. This fund was primarily financed through bonds raised by NABARD but were to be fully serviced from budgetary resources.

During 2017-18, bonds worth ₹11,361 crore were issued for raising funds to provide financial assistance to States under AIBP. During 2018-19, NABARD raised ₹5,493 crore by way of Government of India-serviced bonds and ₹8,309 crore by way of NABARD-serviced bonds for LTIF. As on 31 March 2019, the total outstanding amount on account of borrowings under LTIF was ₹34,249 crore including Government of India-serviced LTIF bonds of ₹10,785 crore. This constituted extra budgetary funding of a GOI programme which had till 2015-16 been financed through budgetary resources. As the raising of these funds

[22] An autonomous body under Ministry of Housing and Urban Affairs.

and expenditure funded with it was not part of the Demand for Grants and the accounts of the Government, revenue expenditure, RD and Government Debt were understated to that extent.

The Ministry stated that extra budgetary funding had been adopted to address the limited availability of budgetary resources and stated that when these bonds subsequently get serviced (covering repayment and interest payments) through the budget, the expenditure on servicing would get factored in the FD of that year.

The reply substantiates the audit assertion that due to the extra budgetary resources used for funding AIBP the expenditure of the government was being understated in the accounts of the Government and a charge was being created on future resources.

Case Study 5: Extra budgetary funding for Swachh Bharat Mission (Grameen)

Swachh Bharat Mission (SBM) is a scheme being implemented for achieving universal sanitation coverage and making the country Open Defecation Free (ODF).

Till 2017-18 this scheme was primarily being funded from collections of the Swachh Bharat Cess and CSR Funds. However, after the introduction of GST the cess was abolished. As a result, during 2018-19 SBM (G) was funded both through budgetary support of ₹12,912.66 crore and funds raised through fully serviced bonds by NABARD amounting to ₹8,698.20 crore. The funds raised by NABARD was routed through National Centre for Drinking Water, Sanitation and Quality (NCDWS&Q) for payment of Central assistance under the scheme.

As the expenditure made from extra budgetary resources were not accounted in the books of the Government, it led to understatement of revenue expenditure, RD and FD. Besides, the borrowings having made on the books of NABARD and NCDWS&Q remained excluded from the accounts of the Government, thereby understating Government debt. As the debt will finally be serviced through budgetary support in subsequent years the burden of current expenditure would get shifted to future generations.

Case Study 6: Extra budgetary funding for DDUGJY and SAUBHAGYA Scheme

Under the "Deendayal Upadhyaya Gram Jyoti Yojna (DDUGJY)" scheme for rural electrification and the SAUBHAGYA Scheme for electrification of rural households, financial support is to be provided inter-alia, in the form of grants/central assistance to eligible Discoms for implementation of the schemes. REC Limited is the Nodal Agency for implementing the schemes.

During 2017-18, a total of ₹9,028 crore was disbursed as grants/subsidies to the States/ implementing agencies under the schemes. Of this amount while ₹5,049.97 crore was provided from budgetary resources, ₹4,000 crore was paid by REC Ltd from funds raised by it through Bonds. During the year 2018-19, the entire funding requirement of ₹13,827 crore for the schemes was met by REC Ltd from funds raised through Bonds.

Funding the schemes through funds borrowed by REC Ltd led to substitution of revenue expenditure financed through budgetary resources with expenditure incurred from borrowed funds, which was not accounted for in the accounts of the Government. This led to understatement of revenue expenditure and both RD and FD. As the borrowings were made through REC Ltd, these would not be a part of debt in Government Accounts. As funds were raised through fully serviced bonds, repayment of principal and interest payment would require budgetary support in subsequent years.

Ministry justified the extra budgetary borrowing on the grounds that FRBM Act[23] had since redefined Central Government debt to cover such borrowings by entities owned/ controlled by the Central Government.

However, as use of borrowed funds for such expenditure, kept them out of Government accounts, revenue expenditure, RD and FD were understated. Further, as these borrowings were to be serviced from future budgetary resources a liability was created for the future. In addition, as the required budgetary funds, were borrowed through another entity, these borrowings were extra-budgetary and were not reflected as debt in the Government accounts.

Case Study 7: Extra budgetary funding for Fertilizer Subsidy

For the years 2017-18 and 2018-19, the carry forward liability on account of fertiliser subsidy was ₹26,182.80 crore and ₹32,488.54 crore respectively. Non-clearance of subsidy claims in full, resulted in understatement of revenue expenditure and of RD.

In addition, in the two years Department of Expenditure approved Special Banking Arrangements (SBA) of up to ₹7,000 crore and ₹10,000 crore respectively, to enable Fertiliser Companies to meet their liquidity requirements and also partially bore the interest cost for the same. This was tantamount to extra budgetary funding of subsidy payments.

Ministry contended (June 2020 and December 2020) that SBAs were a tool for managing liquidity. However, the fact was that the Government had to facilitate funding from extra budgetary resources as it did not make adequate budgetary resources available for the purpose.

Case Study 8: De-facto extra budgetary funding of Pradhan Mantri Ujjwala Yojana (PMUY)

Under PMUY, free LPG connections were provided to BPL families. Oil Marketing Companies (OMCs) initially bear the cost of the subsidy under the scheme and seek reimbursement from GOI.

[23] Vide section 2(aa) (iii) of the FRBM Act.

During 2017-18, due to short provision of the subsidy, re-imbursement remained in arrears by ₹673 crore i.e. 13 *per cent* of the required funds and liability was carried over to the next year. In 2018-19, carryover subsidy arrears increased to ₹2,688 crore. By withholding reimbursement of the subsidy claims, revenue expenditure, RD and FD were understated during the two years.

POST AUDIT DEVELOPMENTS

In the Union Budget for 2021-22, Government has revised the original provision for food subsidy from ₹1.15 lakh crore to ₹4.22 lakh crore in the revised estimates. The increase reflects a decision to repay the Food Corporation of India's (FCI) burgeoning loans and return to budgetary transfers to fund the food subsidy bill. For FY 2021-22, the BEs for food subsidy has been set at almost ₹2.43 lakh crore which appears to be in line with the decision to fund food subsidy bills not through extra budgetary resources /loans from NSSF.

In addition, the provision for expenditure on fertilizer subsidy for FY 2020-21 which was initially estimated at ₹71,309 crore at the BE stage, has been revised to ₹1,33,947 crore for meeting higher requirement of Urea Subsidy and Nutrient based Fertilizer subsidy. This appears to be a measure to clear arrear claims for fertilizer subsidy during 2020-21. For FY 2021-22, the BE for fertilizer subsidy expenditure has been projected at ₹79,530 crore.

B) Extra budgetary funding of Capital Expenditure

Examination of accounts and budget documents show that the government has been using Extra budgetary resources through PSEs for financing capital expenditure for creation of government owned assets viz. railways and highways. Under normal circumstances such infrastructure would be funded as capital expenditure from budgetary resources including government owned debt discussed as Case Studies 9 and 10 given below:

Case Study 9: Arrangement of financial resources by Indian Railway Finance Corporation (IRFC)

Indian Railway Finance Corporation (IRFC) which was created in1986 as a dedicated entity for arranging finances for projects of Indian Railways (IR), raised ₹40,402 crore exclusively for the Indian Railways during 2017-18. In FY 2018-19, the borrowing by IRFC increased to ₹52,480 crore. At the end of FY 2018-19, the total funding provided to the Indian Railways by IRFC stood at ₹2,68,867 crore and IRFC's total liabilities on account of debt securities and other borrowings stood at ₹1,73,932.67 crore.

The funds as above were raised by IRFC for Ministry of Railways both from the domestic and the international market, and leveraged ratings given by ICRA taking into account GOI's ownership of IRFC, the high certainty of GOI supporting IRFC in case of any financial distress, and agreements between IRFC and GOI that provide safeguards against interest and exchange risks. In addition, Ministry of Railways provides letters of undertaking (LoU) to foreign lenders guaranteeing redemption of bonds and repayment of term loans in the event of IRFC falling short of funds. Further, the financing arrangement between Railways and IRFC provides for leasing of assets created with these funds to Railways which pays lease charges covering repayment of principal and interest to IRFC.

Thus, though the above funding arrangement is dedicated to meet capital expenditure of Railways with a long-term liability of servicing the borrowing, the expenditure is excluded both from the computation of capital expenditure and fiscal indicators of the Government. The borrowings undertaken through IRFC to fund capital expenditure of the Government are not reflected in the budget and the UGFA as part of Government debt. These borrowings, though essentially fully serviced by Government, also do not get disclosed in statement No.27 on Extra Budgetary and Other Resources.

Ministry in its replies (June 2020 and December 2020) stated that that Railways pays for the "revenue component" of IRFC's borrowings through its own receipts and the capital component is met through gross budgetary support and thus gets included on the fiscal deficit calculation.

The position taken by the Ministry is not tenable as Railway receipts are also part of receipts of the Union Government and their use is also regulated by the Budget. Further, as IRFC is totally dedicated to funding of Railway projects through borrowings, its entire borrowings constitute de-facto Government debt especially when these are being serviced through the Budget.

Case Study 10: Extra budgetary funding in Road Transport Sector

The National Highways Authority of India (NHAI) was established for development, maintenance and management of National Highways entrusted to it under NHDP and other schemes.

All toll receipts of NHAI and Government's share in revenue in projects being implemented in PPP mode, are deposited in Consolidated Fund of India (CFI) as Non-Tax Revenue[24]. These receipts are then ploughed back to NHAI as investments. During 2017-18 and 2018-19, NHAI deposited ₹8,840.75 crore and ₹9,275.82 crore in CFI, and ₹8,462.14 crore and ₹9,570.13 crore respectively were ploughed back into NHAI by Ministry of Road Transport through Permanent Bridge Fee Fund (PBFF). Besides, NHAI receives Capital

[24] In case of Public Funded projects, remittance as received from toll contractor are deposited in CFI whereas in case of OMT (Operate, Maintain and Transfer) Project and BOT (Built, Operate and Transfer) Revenue share project, funds are distributed between National Highways Authority of India (NHAI) and concessionaire as per provisions of Concession Agreement of respective project. Government share from such projects is also deposited in CFI.

Grants/Investments from Central Road and Infrastructure Fund (CRIF) and the Monetization of National Highways Fund.

Thus, NHAI projects are funded through investments made by Government and private concessionaires, and through borrowings undertaken by NHAI.

At the end of 2017-18, NHAI liability on account of borrowed funds was about ₹1,22,524.16 crore which were raised through various types of bonds (both tax free and taxable), loans from NSSF and from ADB. The borrowings of NHAI during 2017-18 alone was ₹47,139.51 crore. NHAI's liability on account of borrowed funds increased to about ₹1,79,437.87 crore at the end of 2018-19. Thus, NHAI's net borrowings increased by ₹56,913 crore in 2018-19.

Borrowings by NHAI are facilitated by high ratings based on its financial and operational linkages with Government of India. In addition, the NHAI Act itself[25] provides for Government providing a guarantee for the borrowings made by it. It is thus evident that the borrowings undertaken by NHAI are based on an implicit guarantee of the Government and are in the nature of extra budgetary resources/ borrowings for funding capital expenditure for creating public assets. Use of such borrowings outside the budget understates government capital expenditure and the FD, and the liabilities of the Government recorded in the Union Government Finance Accounts.

Ministry justified the extra budgetary funding by stating that the amended FRBM Act[26] had redefined Central Government debt to include financial liabilities which the Government is to repay or service from the annual financial statement. The above reply is not acceptable as loans raised by NHAI are not being treated as fully serviced borrowings, and hence are not being disclosed as EBR in Statement 27 of the Expenditure Profile.

Ministry's clarifications / replies[27] on the use of extra budgetary resources for funding both revenue and capital expenditure, centre around a few issues. It has relied on amendments made in the FRBM Act in 2018 specifically in relation to the definition "Central Government Debt"[28], and holds (June 2020 and December 2020) that the expanded definition of Central Government Debt provides an accounting and disclosure framework for Extra Budgetary Resources (EBR) which are intended to be fully serviced by the Government from budgetary resources in the future. These borrowings are being transparently disclosed in Statement 27 of the Expenditure Profile as part of the Budget documents. It has also highlighted that expenditure on servicing the borrowings would be met from budgetary resources in future and

25 Section 21(3) of the NHAI Act, 1988.

26 Vide section 2(aa) (iii) of the FRBM Act.

27 As given in ATN on the FRBM Report for 2016-17, reply of the Ministry of June 2020 and of December 2020.

28 Clause (i-iii) of Section 2(aa) of FRBM Act as revised in 2018 includes as part of Central Government Debt "such financial liabilities of anybody corporate or other entity owned or controlled by the Central Government, which the Government is to repay or service from the annual financial statement, reduced by the cash balance available at the end of that date"

will get factored in the calculation of FD of those years. It has pointed out that these do not constitute Central Government Debt in the FRBM Framework but are cases where Government is extending, guarantees to other entities which are separately disclosed in UGFA. Besides, relying on the definition of FD in Section 2(a) of the FRBM Act, 2003 which only includes receipts and disbursements from Consolidated Fund of India, it has taken a position that EBRs included in Statement 27 of the Expenditure Profile, cannot be included in calculation of FD. The Ministry has also stated that after the April 2018 amendment of the act extra budgetary borrowings were disclosed in the Budget but not made part of the FD as part of a conscious legal arrangement.

It is accepted that from 2018-19 onwards, changes in the FRBM Act have expanded the definition of Central Government Debt to include fully serviced EBR, and that beginning with the Budget of 2019-20 the Government has started disclosing such EBR by way of Statement 27 of the Expenditure Profile. From the budget of 2020-21 funding of activities of entities as part of delivery of government schemes and programmes viz. PDS operations by FCI, with loans from NSSF were also disclosed in the above mentioned statement.

The replies however, do not address the key contention of Audit in the context of the FRBM Act, that funding expenditure on Government schemes and projects through borrowings that were kept not part of the budget and not disclosed in Government accounts, had led to understatement of revenue and capital expenditure, and of financial indicators. Further, extra budgetary resources raised through borrowings, for meeting revenue expenditure, and future servicing of the borrowings (principal and interest payments) through budgetary resources shifts the liability for current expenditure to the future.

Though certain EBRs are being disclosed in a budget statement, these are not reflected in the accounts of the Government. In addition, neither the Union Budget nor the Union Government Accounts, document the impact of use of EBR (to be fully serviced by Government) on the computation of the fiscal indicators. The inclusion of fully serviced EBRs in Central Government debt, but exclusion of Government expenditure made from these resources from the calculation of FD, dilutes the effectiveness of FD as an indicator of fiscal performance and inter-generational equity and thus goes against the objectives of FRBM Act. A clearly laid out conceptual framework for what constitutes extra-budgetary borrowings and of which entities, was thus, lacking. This undermined the comprehensive measurement and disclosure of such borrowings and its impact on fiscal indicators.

Way Forward

Government may formulate a clear conceptual and policy framework for funding using extrabudgetary resources which may be disclosed transparently and adequately to Parliament. This framework should provide for the following:

i. *Disclosure of what constitutes* extra budgetary funding *and which entities are included.*

ii. *Quantum of such financing along with the budgetary support for each project/ scheme/ programme; source and terms of the extra budgetary funding*;

iii. *Disclosure of the extent of servicing of such borrowings (principal repayments and interest payments) by Government, as well as other mechanisms for servicing of such debt.*

iv. *Disclosure and incorporation of such funding and borrowings in the Budget and in Government accounts based on clear criteria/principles, along with the format for the disclosures with a clear statement on implications for fiscal indicators and Government liabilities.*

2.7 Audit Summation

For the year 2017-18, FRBM targets including for annual reduction and mid-year benchmarks for Revenue Deficit (RD), Effective Revenue Deficit (ERD) and Fiscal Deficit (FD) were not met. For the year 2018-19, targets for RD and ERD had been removed but the target of reduction in FD by 0.1 *per cent* of GDP was achieved. Analysis of variations between BEs and actuals for fiscal indicators for both the years showed that projections for receipt and expenditure for both the years could not be sustained. Both the years showed shortfall in actual revenue receipts as compared to projections made at both BE and RE stages. In 2017-18, revenue expenditure was higher than BEs whereas in 2018-19, it was lower due to compression in actual revenue expenditure. In 2017-18, actual FD was higher than BEs but the variation was due to compression in capital expenditure and higher than estimated non-debt capital receipts. In 2018-19, FD was higher than estimated in absolute terms but remained within target as a percentage of GDP, as GDP was higher than estimated. Audit of Union Accounts and examination of budget statements for 2017-18 and 2018-19, disclosed misclassification of revenue expenditure, 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 would make deficit figures higher than reported in the Budget documents. In addition, Government resorted to use of extra budgetary resources, especially borrowings fully serviced (principal & interest payments) by Government, in both the years for funding both revenue and capital expenditure in several cases which have implications for computation of the fiscal indicators and if taken into account, both RD and FD for the two years would be significantly higher.