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Report of the
Comptroller and Auditor General of India
on
Compliance of the Fiscal Responsibility and Budget Management Act, 2003
for the years 2017-18 and 2018-19

लोकहितार्थ सत्यनिष्ठा

Dedicated to Truth in Public Interest

Union Government
Department of Economic Affairs
(Ministry of Finance)
Report No. 6 of 2021

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Preface

The Comptroller and Auditor General of India (CAG) was, vide Rule 8 framed under Section 7A of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003, entrusted with the responsibility of periodically reviewing the compliance of the provisions of the Fiscal Responsibility and Budget Management Act, 2003 and present such reviews before both Houses of Parliament beginning with the Financial Year 2014-15.

This is the fourth report of the CAG on compliance with the provisions of the Act and the Rules made thereunder, by the Central Government for the years ending March 2018 and March 2019. This is the first report since the Act and Rules were significantly amended with effect from 1 April 2018. The report critically examines the achievements vis-à-vis FRBM targets and compares actuals with projections made in Medium Term Policy Statements and Medium Term Expenditure Framework and analyses reasons for variation. Besides, transparency and disclosure related issues have also been highlighted for action by the Government.

The observations being presented in the Report are primarily based on examination of Budget documents relating to the Financial Years 2017-18 and 2018-19 and the Union Government Finance Accounts for these years. In addition, reliance was also placed on publications of various Ministries including the Ministry of Finance, and reports and publications of PSUs and other Government bodies.

The report contains significant results arising from the review of compliance of the provisions of the Act and the rules. The instances mentioned in this report are those which came to notice in the course of test audit for the period 2017-18 and 2018-19. Matters pertaining to the period earlier than 2017-18, which have a bearing on fiscal indicators have also been included, wherever relevant.

The audit has been conducted in conformity with the auditing standards issued by the CAG.

Executive Summary

Introduction

The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 was enacted with the objectives of ensuring inter-generational equity in fiscal management and long-term macro-economic stability. These objectives were to be achieved by containing deficits, removing fiscal impediments in the effective conduct of monetary policy and through prudential debt management by setting limits on borrowings, debt and deficits. 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. To meet the above objectives, the Act and the Rules specified targets with regard to eliminating/containing fiscal indicators such as Revenue Deficit (RD), Effective Revenue Deficit (ERD) and Fiscal Deficit (FD) and stipulated capping of guarantees, additional liabilities and Government Debt.

Chapter 1 of this report gives a gist of the key provisions of the FRBM Act. **Chapters 2 and 3** contain observations on compliance by the Union Government with targets set out in the FRBM Act, 2003 and the Rules made thereunder, for the financial years 2017-18 and 2018-19. Chapter 2 in addition, has an analysis of variations between estimates and actuals for fiscal indicators for both the years, and of year-on-year changes. It also highlights observations on the Union Government Finance Accounts that impact computation of the indicators, and the implications of use of extra budgetary resources for funding revenue and capital expenditure on fiscal indicators and the objectives of the Act. Likewise, Chapter 3 also examines implications of changes in definitions and targets for Central Government liabilities and debt. **Chapter 4** contains a detailed analysis of variations in projections for various parameters for the two years made in various Medium Term policy statements and the actuals. **Chapter 5** contains observations relating to adequacy and accuracy of disclosures mandated under the Act and Rules, and on issues of transparency in fiscal operations.

FRBM targets and achievement for 2017-18 and 2018-19

Fiscal Indicator	Revenue Deficit	Effective Revenue Deficit	Fiscal Deficit
2017-18			
Target	2.0 *per cent*	Nil (Complete elimination of ERD)	3.0 *per cent*
Achievement	2.6 *per cent*	1.5 *per cent*	3.5 *per cent*
2018-19			
Target	*RD and ERD targets were no longer effective*		3.4 *per cent*
Achievement	-	-	3.4 *per cent*

Major observations

Chapter 2: Status and extent of compliance with FRBM Act and Rules: *Fiscal Indicators*.

- For the year 2017-18, FRBM targets for Revenue Deficit (RD), Effective Revenue Deficit (ERD) and Fiscal Deficit (FD) were 2 *per cent*, nil and 3 *per cent* respectively, against which actual achievement was 2.6 *per cent*, 1.5 *per cent* and 3.5 *per cent* of GDP. Besides, targets for annual reductions and mid-year benchmarks for RD, ERD and FD were also not met during the year.

- Analysis of variations between BEs and actuals for fiscal indicators for 2017-18, showed that actuals for RD was higher than Budget Estimates (BEs) - which was aligned with the FRBM target - because of actual expenditure being higher compared to BE estimates, combined with a shortfall in actual revenue receipts compared to both BEs and REs. The increase in actual revenue expenditure was despite substitution of expenditure on account of food subsidy with loans from NSSF. Likewise, actuals for ERD for the year deviated from BEs on account of both an increase in actual RD as compared to BEs, and a shortfall in actual expenditure on grants for creation of capital assets as compared to BEs. Actual FD for the year was higher than the BEs for FD, but the variation was much less compared to RD both due to compression in capital expenditure, and non-debt capital receipts being higher than estimated.

- For the year 2018-19, by virtue of the amendment to FRBM Act and Rules w.e.f April 2018, targets for RD and ERD were no longer part of the FRBM framework. However, benchmarked against projections for RD of 2.2 *per cent* of GDP in the BEs for the year, actuals were higher at 2.4 *per cent*. Analysis show that the variations were primarily due to a significant shortfall in actual revenue receipts as compared to estimates. In the case of FD, the target of achieving a reduction of 0.1 *per cent* of GDP i.e. from 3.5 *per cent in* 2017-18 to 3.4 *per cent* was achieved. This was however 0.1 *per cent* higher than the BEs for FD for the year.

- Audit[1] of Union Accounts for 2017-18 and 2018-19, disclosed misclassification of revenue expenditure, adoption of an 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 have an impact on deficit calculations. If the above get factored in calculations, deficit figures would be higher than reported in the Budget documents.

Government undertook funding of revenue and capital expenditure using extra budgetary resources in both the years. Expenditure met from extra budgetary resources are not part of calculations of the fiscal indicators but have fiscal implications. A clearly

[1] Observations from the Audits are reported in CAG's Audit Report No. 2 of 2019 and No. 4 of 2020 on Union Government Accounts for 2017-18 and 2018-19 respectively.

laid out conceptual framework for what constitutes extra- budgetary borrowings and of which entities, was lacking. This hampered a comprehensive measurement and disclosure of such borrowings and their impact on fiscal indicators.

Chapter 3: Status and extent of compliance with FRBM Act and Rules: *Total Liabilities; Debt and Guarantees.*

➢ The amendments to the FRBM Act and Rules from April 2018, led to significant reformulation of the concept of debt and related targets. The amendment changed the reference from total liability of the Government to Central Government Debt with an expanded definition and introduced the concept of General Government Debt. Targets were reformulated in terms of total liabilities/debt as a percentage of GDP. There was no material change in the target for Guarantees.

➢ The target set in the FRBM frame work with respect to total liabilities prior to the April 2018 amendment, implied that the Government would not take on any additional liability after 2014-15. However, the Government took on additional liability each year from 2014-15 to 2018-19 ranging from 3.1 *per cent* of GDP to 4.7 *per cent* of GDP.

➢ For the year 2017-18, the total liabilities at current rate of exchange computed on the basis of the Union Government Finance Accounts (UGFA) 2017-18 was 44.76 *per cent* of GDP. However, after taking into account the understatement of public liability in accounts, and the liability on account of EBRs listed in Statement 27 of Expenditure Budget 2019-20, total actual liabilities would be 49.82 *per cent* of GDP.

➢ In the case of FY 2018-19, Central Government debt at current rate as derived from UGFA 2018-19 was 44.92 *per cent* of GDP. However, after taking into account the understatement of public liability in accounts, total actual liabilities would be 49.82 *per cent* of GDP.

➢ In the revised FRBM framework, Central Government debt and General Government debt was to be contained at 40 *per cent* and 60 *per cent* of GDP respectively by the end of 2024-25. However, no exercise has been undertaken to compute and disclose both Central Government and General Government debt as per the changed definitions. In addition, no annual reduction targets for intervening years have been prescribed in the Act or advised by the Government. In the context of General Government debt, no strategy for containing debt at mandated levels in association with States, have been outlined in FRBM mandated statements.

Chapter 4: Analysis of projections made in Fiscal Policy Statements.

➢ The FRBM Act envisages that Government will lay fiscal policy statements viz. the Medium Term Fiscal Policy Statement, Fiscal Policy Strategy Statement and Macro

– Economic Framework Statement, along with the Budget. A Medium Term Expenditure Framework Statement was also envisaged.

➢ A comparative analysis was done of projections for receipts and expenditure under various heads and for the three fiscal indicators for the years 2017-18 and 2018-19, made in the Medium-term policy statements and budget documents, and the actuals for the two years. The analysis showed revisions in the projections made each year with respect to all elements and components. However, despite revisions, actuals have tended to vary from estimates.

Chapter 5: Disclosure and Transparency in Fiscal Operations.

➢ Audit noticed variation in deficit figures depicted in Budget at a Glance (BAG) and Annual Financial Statements/Union Government Finance Accounts for both the years, due to netting of certain receipts and expenditure in the receipt and expenditure budgets. These netted figures are then used to compute figures for deficits disclosed in BAG which are then used for FRBM purposes. On account of netting, the computation of RD and FD in the BAG is not consistent with the definition of deficits in the FRBM Act 2003. Variations were also seen between the liability position disclosed in the Receipt Budget and in the Union Government Finance Accounts.

The balances under National Small Savings Fund (NSSF) do not explicitly disclose the substantial accumulated deficit in the fund, which would have to be made good by the Government in the future. There is also inadequate disclosure that significant amounts were being provided from NSSF for funding revenue expenditure of the Government which would have to be serviced through budgetary support.

➢ Refunds (including interest on refunds of taxes) of ₹1,68,702 crore and ₹1,81,603 crore were made from gross direct tax collection in the FY 2017-18 and FY 2018-19, but no corresponding disclosure was made in the Union Government Finance accounts.

➢ Examination of disclosure forms mandated under the FRBM Act/ Rules revealed inadequacies in disclosures in Form D-2 - Arrears of Non-Tax Revenue and D-4 - Asset Register.

Chapter 1 Introduction

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.

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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 situations[5].

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 Forms[6] 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

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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	1st Amendment (in 2004)	2nd Amendment (in 2012)	3rd 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 *per cent* of GDP, beginning with FY 2004-05					No additional guarantee for any loan on security of CFI, in excess of 0.5 *per cent* 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 *per cent* of GDP for the financial year 2004-05 and progressively reduce the limit of 9 *per cent* of GDP by at least one *percentage* point of GDP in each subsequent financial year.					General Govt debt and Central Govt debt not to exceed 60 and 40 *per cent* 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 committees[7] 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.

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

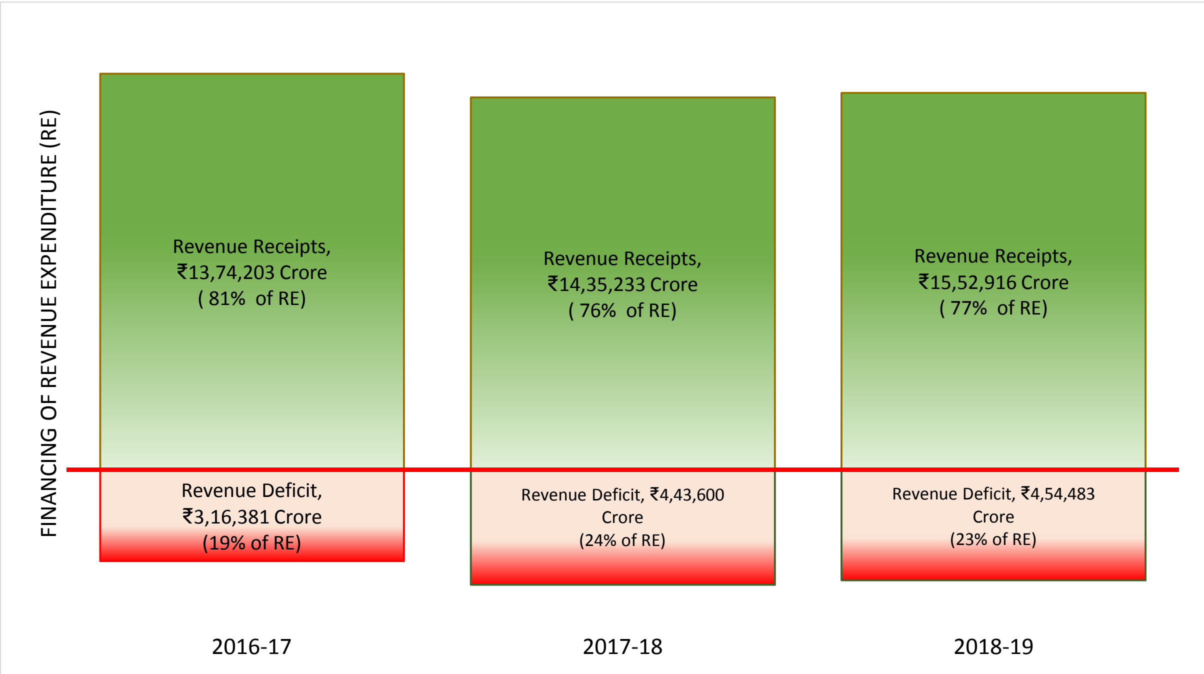
(₹in crore)

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)

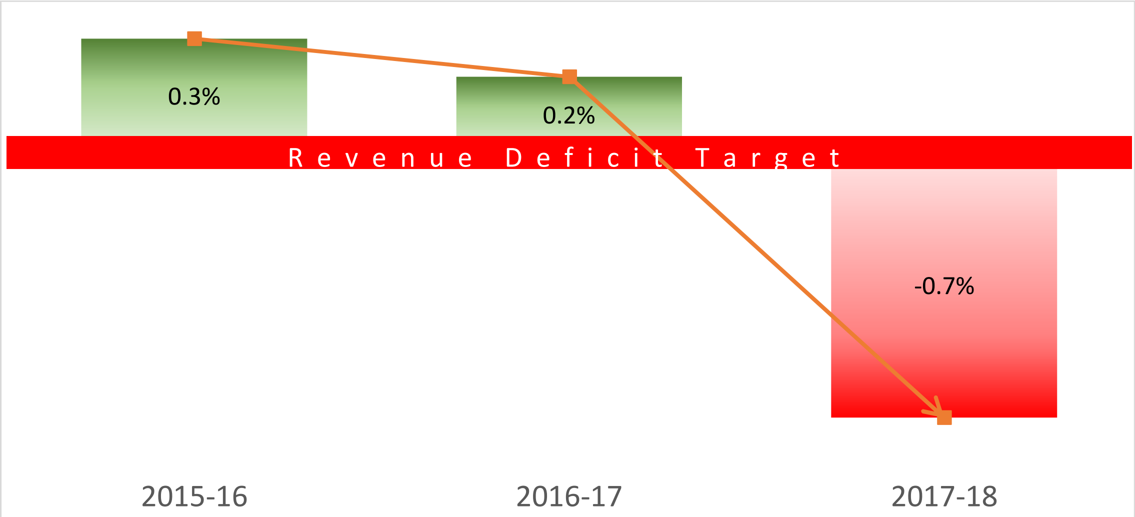
As shown in **Graph 2.1** there was considerable expansion of RD as a percentage of revenue expenditure in 2017-18 in comparison with 2016-17. In 2016-17, revenue receipts were able to finance 81 *per cent* of revenue expenditure compared to 76 *per cent* in 2017-18. In 2018-19, there was a marginal 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)

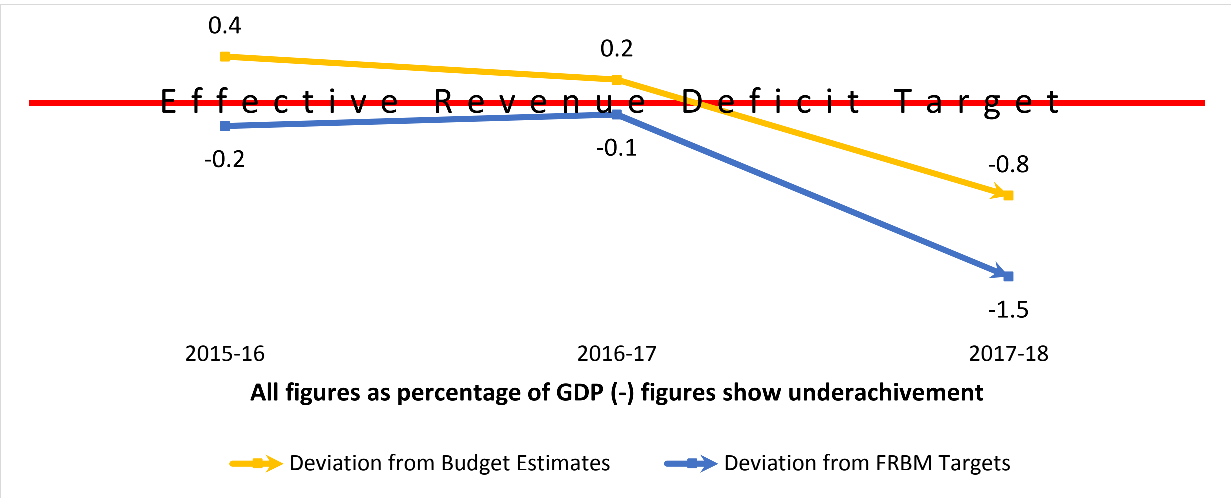
Components	Revenue Deficit	Grant for creation of capital assets	Effective Revenue Deficit (ERD)	GDP	ERD as % of GDP
	1	2	(3=1-2)	4	
Budget Estimates	3,21,163	1,95,350	1,25,813	1,68,47,455	0.74
Revised Estimate	4,38,877	1,89,245	2,49,632	1,67,84,679	1.49
Actuals	4,43,600	1,91,034	2,52,566	1,70,98,304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

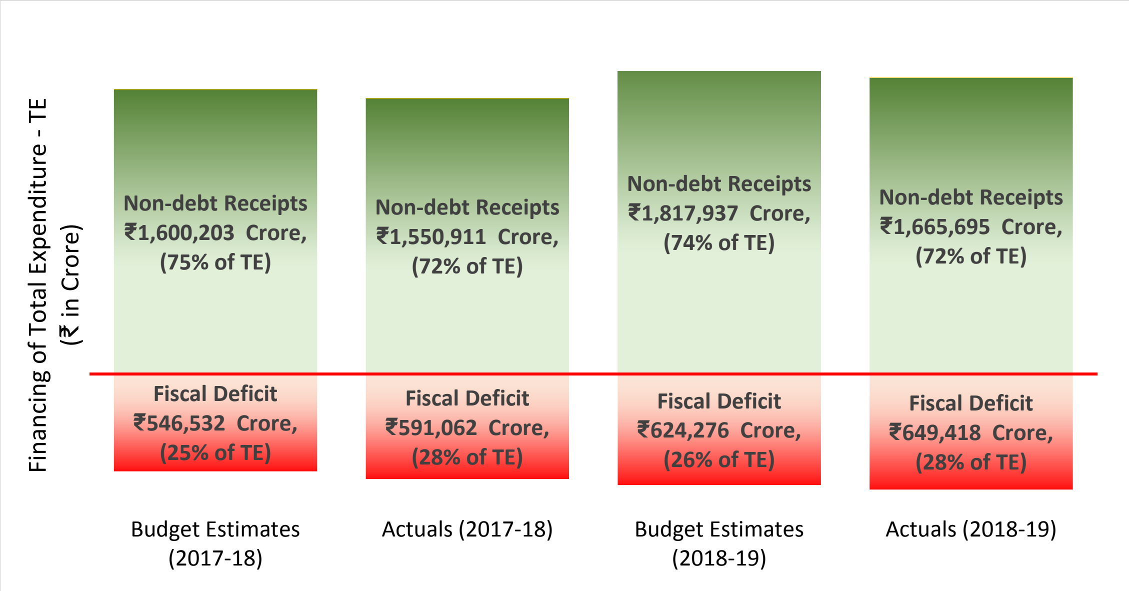
Variation between BEs, REs and actuals for FD.

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.

Chapter 3

Status and extent of compliance with FRBM Act and Rules: *Government Debt and Guarantees*

The FRBM Act prior to the 2018 amendment, defined "total liabilities" of the Government as liabilities under CFI and the Public Accounts. The FRBM Act as amended in April 2018 introduced a broader concept of Central Government Debt in place of "total liabilities". Central Government Debt[29] at any date, was defined to include:

a) total outstanding liabilities on the security of the CFI, including external debt valued at current exchange rates;

b) the total outstanding liabilities in the Public Account of India; and

c) such 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.

In addition, the amended Act also incorporated the concept of "General Government Debt" which the Act defined as the sum total of debts of the Central Government and the State Governments, excluding inter-governmental liabilities.

The targets applicable for Central Government Liabilities/Debt and General Government Debt, were as follows:

a. FRBM Act and Rules in vogue during FY 2017-18, envisaged that the Government would not assume additional liabilities in excess of nine *per cent* of GDP from FY 2004-05 onwards and would in each subsequent FY progressively reduce this limit by at least one percentage point of GDP. Post April 2018 amendment, the targets relating to outstanding liabilities were reformulated in terms of total liabilities/debt as a percentage of GDP. A target of containing Central Government Debt to 40 *per cent* and General Government debt to 60 *per cent* of GDP by 2024-25 was set. However, the rules do not provide for any annual targets to be achieved.

b. In the case of guarantees, the target was to ensure that guarantees given by the Government would not exceed 0.5 *per cent* of GDP in any FY beginning with FY 2004-05. In the amended Act of 2018, the target has been restated as "Central Government shall not give additional guarantees with respect to any loan on security of CFI in excess of *one-half per cent* of GDP, in any financial year".

Even after the amendment of the Act in April 2018, provisions and limits applicable to guarantees remained unchanged.

[29] These liabilities are to be reduced by the cash balance at the end of the date.

3.1 Union Government Liabilities: 2017-18

3.1.1 Annual additional liabilities up to 2017-18

The annual target relating to additional total liabilities of the Government prior to the 2018 Amendment of the Act, implied that Central Government would not assume any additional liability from FY 2014-15. However, **Table 3.1** shows that Government continued to assume additional liabilities beyond that year.

Table 3.1.: Liability of the Government: 2014-15to 2018-19

(₹in crore)

Financial year	Liability at the beginning of the year	Liability at the end of the year	Additional liability during the year	GDP	Liability as %age of GDP	Additional liability as %age of GDP
	1	2	3= (2-1)	4	(2/4)	(3/4)
2014-15	52,59,310	57,75,685	5,16,375	124,67,959	46.3	4.1
2015-16	57,75,685	64,23,032	6,47,347	137,71,874	46.6	4.7
2016-17	64,23,032	69,06,265	4,83,233	153,91,669	44.9	3.1
2017-18	69,06,265	76,53,486	7,47,221	170,98,304	44.8	4.4
2018-19	76,53,486	84,31,499	7,78,013	189,71,237	44.4	4.1

Source: Union Government Finance Accounts

Note: Liability includes external debt at current rates of exchange

The additional liability was 4.1 *per cent* of GDP in 2014-15, grew to 4.7 *per cent* of GDP in 2015-16, then fell to 3.1 *per cent in 2016-17* but thereafter, increased to 4.4 *per cent* of GDP in 2017-18. Audit however, noted that taking on additional liabilities was inevitable for funding the fiscal deficit each year. The factors identified to explain the size of the FD in these years also explain the year-to-year variation in the annual additional liabilities assumed during the period.

Further, as pointed out in Para 2.3 of the Report on FRBM for the FY 2016-17, there was a contradiction between the annual targets fixed for additional liabilities and the annual targets for FD as while the former envisaged no additional liability after 2014-15, by fixing a target for FD of three *per cent* of GDP, the Act in effect allowed additional liability to this extent in perpetuity. This contradiction has since been addressed with the target with respect to debt and total liabilities being reformulated by the 2018 amendment in the FRBM Act.

3.1.2 Total fiscal liability of the Union Government: 2017-18

Total fiscal liability of the Union Government at the historical rate of exchange (the rate at which the debt was originally contracted) and at the current rate of exchange, based on the Union Government Finance Accounts (UGFA) for FY 2017-18, is detailed in **Table 3.2**.

Table 3.2: Total Outstanding liability for the FY 2017-18

	(₹ in crore)	*Per cent* of GDP
Internal Debt of Union Government	64,01,275	37.44
External Debt (at historical rate)	2,50,090	1.46
Public Account Liabilities	8,06,929	4.72
Total liabilities (at historical rate)	74,58,294	43.62
External Debt (at current rate)	4,45,282	2.60
Total liabilities (at current rate)	76,53,486	44.76

The FRBM Act defined "total liabilities" of the Government as liabilities under CFI and the Public Account of India at the current rate of exchange. **Table 3.2** shows that total liability at the current rate of exchange was 44.76 *per cent* of GDP. During 2017-18, internal debt including Public Account liabilities, constituted 96.65 *per cent* of the total liabilities at historical rate and external debt constituted the balance. If external debt is accounted at the current rate of exchange, the ratio of internal debt to total liabilities was 94.18 *per cent.*

Audit noted that the UGFA excludes accumulated deficit with respect to National Small Savings Fund (NSSF) operations, small savings invested in Special State Government securities and small savings invested in other instruments, from the computation of Public Account liabilities. During 2017-18, total investment out of Small Savings Fund collections amounting to ₹7,32,613.26[30] crore and accumulated deficit in the operation of NSSF of ₹1,07,637.84 crore were excluded from Public Account liabilities. If these are taken into account, actual outstanding Public Account liabilities works out to ₹16,47,180[31] crore at the end of 2017-18 as against ₹8,06,929 crore reflected in the Accounts.

The position of total fiscal liabilities of the Union Government taking into consideration both the netted and actual figures of Public Account Liabilities is given in **Table 3.3**.

Table 3.3: Netted and gross figure of Public Account liability & total liability

		(₹in crore)	*Per cent of GDP*
1	Public Account Liabilities (as per netted figure)	8,06,929	4.7
2	Public Account Liabilities (Actual)	16,47,180	9.6
3	Understated amount (3-2)	8,40,251	4.9
4	Total netted Liabilities (at current rate)	76,53,486	44.8
5	Total actual Liabilities (at current rate) (3+4)	84,93,737	49.7

Taking into account the outstanding to the tune of ₹24,262 crore for the EBRs (fully serviced) listed in Statement No. 27 of the Expenditure Budget 2019-20, the total liability of the Central Government stood at ₹85,17,999 crore at the end of 2017-18, which is 49.82 *per cent* of GDP.

3.1.3 Central Government Debt

As stated in the opening Para of this Chapter on account of the 2018 amendment of the FRBM Act, the definition of Central Government debt was expanded 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. This expanded definition is applicable from FY 2018-19. In Para 2.6, mention was made that the Government has from the Union Budget of 2019-20, appended a statement under the "Expenditure Profile" to disclose liabilities as per the expanded definition of Central Government debt. However, no conceptual framework with clear criteria, had been devised for recognising what extra budgetary resources and which entities would be included under the expanded definition of

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30 (₹5,07,245.25 crores in Special State Government Securities, ₹1,62,000 crores in Government Undertakings, and ₹63,368.01 crores in Post Office Insurance Fund)

31 (₹13,94,422 crores as Small Savings and Provident Fund and ₹2,52,758 crore as other obligations)

Central Government debt. This would hamper objective computation of Central Government debt for applying FRBM targets. In addition, there was no accounting framework for assumption and servicing of such liabilities and related transactions. Besides, no mechanism was prescribed for disclosure of such liabilities along with their implications for financial indicators and for intergenerational equity, in the Union Budget and the UGFA. Ministry stated (June 2020 and December 2020) that a Steering Committee for Extra Budgetary Resources (EBRs) has been constituted for providing the overall policy framework for managing EBRs and dealing with proposals of Ministries/Departments for raising EBRs. It clarified that from the Union Budget 2019-20 onwards fully serviced EBRs are being disclosed in budget statements. However, it did not elaborate on the accounting of such debt and its depiction in the Union Accounts.

3.1.3.1 Central Government Debt Target: 2018-19.

The FRBM Act has fixed a target of containing Central Government Debt to 40 *per cent* of GDP by 2024-25. However, no annual reduction targets have been prescribed in the Act for the intervening years. Given that FD is projected in each year, annual increases in the stock of Central Government debt would be inevitable.

In the above context, with Central Government debt being 48.7 *per cent* of GDP in 2018-19 (provisional), and with the expansion of the definition of Central Government debt from 2018-19, the target set out in the FRBM Act would be difficult to achieve.

Audit noted that the MTFP cum FPS of 2020-21 recognised the importance of accurate computation of Central Government debt for effective debt management and control. However, the policy statement did not provide a measure of the exact quantum of Central Government debt as per the new definition. The Ministry has however, assured (June 2020 and December 2020) of efforts for providing this data in the MTFP cum FPS of 2021-22.

Audit noted that the budget documents include a "Statement of Liabilities of the Central Government" as part of the Receipt Budget. This statement however, does not explicitly depict total liabilities in terms of the expanded definition of Central Government Debt and only discloses these liabilities by way of a footnote. For the year 2018-19 these liabilities were assessed as being ₹89,864.10 crore, which was about 0.47 *per cent* of GDP.

However, as brought out in Chapter 2, borrowings of some PSEs and Government agencies have not been included in the statement referred to above, or been explicitly recognised as Central Government debt.

3.1.3.2 Total stock of Central Government debt - 2018-19

The position of Central Government debt at the end of FY 2018-19 both at the historical and current rates of exchange based on data sourced from UGFA 2018-19 and budget documents for 2019-20, is given in the **Table 3.4**.

Table 3.4: Details of Central Government Debt at the end of FY 2018-19

	(₹ in crore)	*Per cent* of GDP
Internal Debt of Union Government	70,74,941	37.29%
External Debt (at historical rate)	2,69,961	1.42%
External Debt (at current rate)	4,74,439	2.50%
Public Account Liabilities	8,82,119	4.65%
EBRs Recognised by Government	89,864	0.47%
Total Central Government Debt (at historical rate)	83,16,885	43.84%
Total Central Government Debt (at current rate)	85,21,363	44.92%

Further, as in the case of FY 2017-18 the Public Accounts liabilities shown in UGFA exclude accumulated losses in National Small Savings Fund operations (₹1,13,651.81 crore), small savings invested in Special State Government Securities and small savings invested in other instruments (₹4,71,206.21 crore). Further, External Debt was depicted at historical rate and totalled ₹2,69,961 crore, while at the current rate of exchange the figure was ₹4,74,439 crore. After factoring all the above, the stock of Central Government Debt works out to ₹85,21,363 crore at the end of FY 2018-19 as shown in **Table 3.5**.

Table 3.5: Working of Central Government Debt during 2018-19

		(₹in crore)	*Per cent of GDP*
1	Public Account Liabilities (as per netted figure)	8,82,119	4.65
2	Public Account Liabilities (Actual)	18,12,016	9.55
3	Understated amount (2-1)	9,29,897	4.9
4	Total Central Government Debt with netted Public Account Liabilities (at current rate)	85,21,363	44.92
5	Total Central Government Debt with actual Public Account Liabilities Actual Liabilities (at current rate) (3+4)	94,51,260	49.82

Source: Union Government Finance Accounts 2018-19

Further, liabilities assumed on account of extra budgetary resources raised through borrowings which remained out of the debt calculation also merit clear disclosure in the UGFA.

The FRBM Report of CAG for 2016-17 (Report No.20 of 2018) had highlighted that the FRBM Act provides for a framework for debt management which primarily consisted of containing RD and FD, and managing the raising and use of debt so as to keep costs low and the potential for income generation high. It noted that there was an absence of policy on deployment of debt funds to support these objectives. It pointed to increased use of extra budgetary resources raised through borrowings, for funding both revenue and capital expenditure in preference to use of budgetary resources. As such extra budgetary resources impose a cost and a liability for the future, it is essential that aspects such as rate of returns and creation of capacity to service the borrowings are taken into account while using such funds.

Ministry asserted that the FRBM Act has reduction of FD as a key target and that MTFP and FPSS which are presented to Parliament, make projections with respect to debt and outline the strategy for managing debt. The reply however, does not specifically address the issues of comprehensive disclosure of borrowings for raising extra budgetary resources and lack of a policy framework that links the cost of borrowing with returns from borrowed funds deployed for capital expenditure of the Government.

3.1.4 General Government debt target

The 2018 amendment to the FRBM Act incorporated the concept of "General Government debt" consisting of both Central and State Government debt, and fixed a target of containing General Government debt at a level of 60 *per cent* of the GDP by the end of financial year 2024-25. As in the case of Central Government debt, the FRBM Act only provides for an end period target and no annual reduction targets have been prescribed in the rules framed under the FRBM Act.

As mentioned in the context of Central Government debt, accurate computation of General Government debt is essential for debt management and control. In response to Audit's observation that the Ministry had not undertaken any exercise to compute and disclose the stock of General Government debt in terms of the FRBM framework either in the Policy Statements or the Budget documents, Ministry pointed out that it had brought out Status Papers on Government debt which contain details of General Government debt[32].

The position with respect to General Government debt for the last five years sourced from the Status Paper for 2018-19 is given in **Table 3.6**.

Table 3.6: Position of General Government Debt as depicted in Status paper of Debt

	(₹in crore)	*Per cent of GDP*
Year	Amount	Actual
2014-15	83,34,829	68.8
2015-16	94,75,280	68.8
2016-17	1,05,24,777	68.4
2017-18	1,17,40,614	68.7
2018-19	1,30,23,102	68.6

Source: Table 1.5 of the Status Paper on Debt 2018-19.

Audit noted that the figures for General Government debt for the year 2018-19, are based on revised estimates and not on actuals. Further, though the status paper includes EBRs recognised by Central Government in Statement 27 of the expenditure profile as part of debt, it did not provide any information on whether fully serviced EBRs of the States had been included in State Government debt at par with Central Government debt. As such, it would be pre-mature to treat this as adequate disclosure on General Government debt under the FRBM framework.

On the issue of computing State Government debt at par with the Central Government debt, Audit noted that no orders/instructions/directions had been issued to State Governments in this respect. In addition, no ceilings on debt for States consistent with the FRBM target of containing the share of the debt of States within 20 *per cent* of GDP by 2024-25, have been determined. Besides no strategy for containing General Government debt at the level mandated by the FRBM Act, has been presented in any of the FRBM mandated statements.

Ministry stated (June 2020 and December 2020) that the FRBM Act has been enacted to provide for the responsibilities of the Central Government with respect to inter-generational equity and long-term macro-economic stability. The targets with respect to General

[32] Chapter IV of the Status Paper brought out by DEA.

Government debt targets serve as an indicative guidance for State Governments for managing their debt and deficit.

Audit is however, of the view that MoF as the Ministry administering the FRBM Act, is responsible for laying down systems and policy for computing General Government debt in consultation with the State Governments. It should also frame a time bound strategy and action plan for achieving the target set out in the FRBM Act, given the fact that it is already involved in setting limits on borrowings by States.

3.2 Guarantees

Central Government extends guarantees primarily for improving the viability of projects or activities undertaken by the Government entities with significant social and economic benefits, to lower the cost of borrowings as well as to fulfil the requirement in cases where sovereign guarantee is a precondition for bilateral/multilateral assistance. While guarantees, being contingent liabilities, do not form part of debt, in the eventuality of default, they have the potential of aggravating the liability position of the Government.

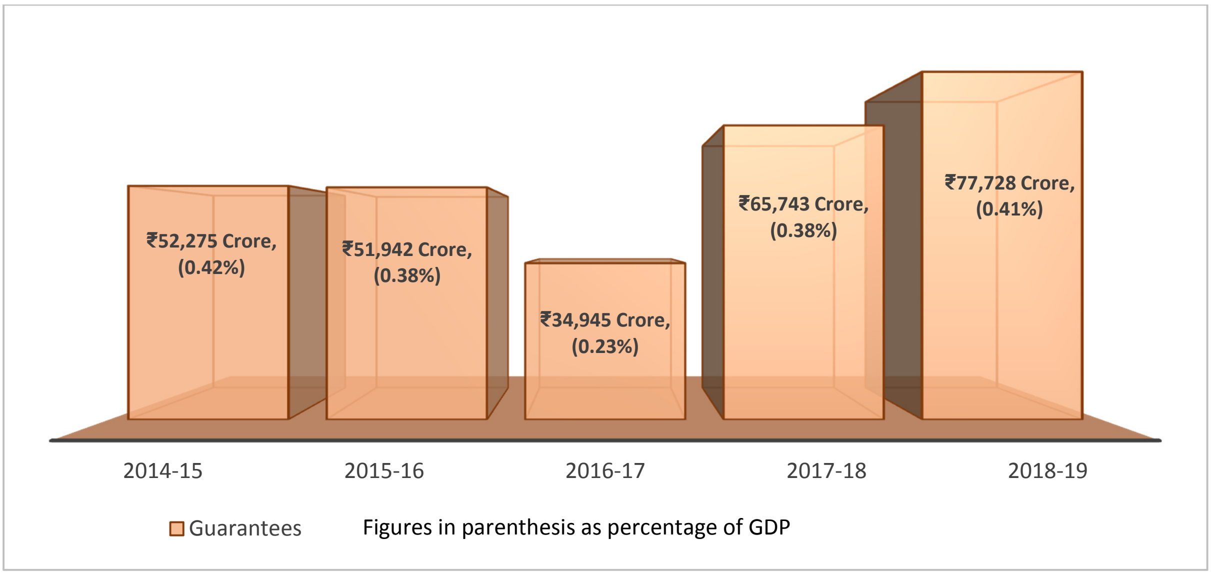
3.2.1 Guarantee target

The FRBM Act and the Rules made thereunder, stipulate that the Central Government shall not give additional guarantees with respect to any loan on security of the CFI in excess of one-half *per cent* of GDP, in any financial year.

3.2.2 Trend of addition in Guarantee

Graph 3.1 shows the trend of additions in guarantees given by the Government in a financial year as a percentage of GDP, over the period from 2014-15 to 2018-19:

Graph 3.1: Trends of addition in guarantees: 2014-15 to 2018-19



Source: Guarantee figures from Statement of Guarantees in Receipts Budget, GDP as per Press Note of CSO dated 29 May 2020.
Note: Second axis represents addition in guarantees as percentage of GDP.

Graph 3.1 shows that in the last three years, addition of guarantees in a FY has remained within the prescribed target of 0.5 *per cent* of GDP.

In the context of the above, it is pertinent that the figures for additional guarantees only take into account guarantees that are given explicitly and included in the Union Government Finance Accounts/Disclosure Form. In addition, public sector entities such as PFC, REC, NHAI and IRFC also raise funds for funding projects through bonds and other instruments that have implicit guarantees, as their Public Sector character is key to the ratings of these bonds. In the case of IRFC the bonds are an explicit charge on the rolling stock assets of the Indian Railways. If these implicit guarantees are taken into account, the additional guarantees each year would exceed the thresholds set in the FRBM Act.

Further, mention must also be made of guarantees given through legislation as in the case of LIC and NHAI which, though not reflected in the Union Government Finance Accounts, also constitute a contingent liability.

Way Forward

Government may consider:

a) computing and disclosing the stock of total liabilities/Central government Debt and General Government Debt based on their new definition in the amended FRBM Act. It should also devise a strategy for meeting FRBM targets for both Central and General Government Debt which should include setting annual debt reduction targets.

b) laying down a conceptual framework with objective criteria for comprehensively recognising what extra budgetary resources would be part of government debt and which entities raising such debt should be included in these calculations so that Central and General Government debt is comprehensively and objectively computed.

c) devising a framework for accounting and depicting all borrowings that are part of the new definition, as also such borrowings recognised after refining criteria for recognition, in the UGFA along with their implication for fiscal indicators and inter-generational equity.

d) a policy framework that links the cost of borrowing with returns from borrowed funds deployed for capital expenditure.

e) defining General Government debt in accordance with internationally accepted Public Sector Management frameworks to comprehensively include liabilities of the Central Government, State Governments, the third tier and entities under their control, so as to have an effective Financial Responsibility legislation.

f) devising a framework for disclosing borrowings by entities owned/controlled by the Government raised on the basis of implicit guarantees/assurance.

3.3 Audit Summation

The amendments to the FRBM Act and Rules from April 2018 led to a significant reformulation of the concept of debt and related targets. The amendment changed the reference from total liability of the Government to Central Government Debt with an expanded definition and introduced the concept of General Government Debt. The target set in the FRBM frame work with respect to total liabilities prior to the April 2018 amendment, implied that the Government would not take on any additional liability after 2014-15. However, the Government took on additional liability each year from 2014-15 to 2017-18 ranging from 3.3 *per cent* of GDP to 4.7 *per cent* of GDP. In 2017-18, the total liabilities at the current rate of exchange computed on the basis of the Union Government Finance Accounts (UGFA) 2017-18, was 44.76 *per cent* of GDP. However, after taking into account the understatement of public liability in the accounts and the liability on account of EBRs listed in Statement 27 of the Expenditure Budget 2019-20, total actual liabilities would be 49.82 *per cent* of GDP. In 2018-19, Central government debt at current rate as derived from UGFA 2018-19 was 44.92 *per cent* of GDP. However, after taking into account the understatement of public liability in the accounts, total actual liabilities would be 49.82 *per cent* of GDP. In the revised FRBM framework, Central Government debt and General Government debt is to be contained at 40 per cent and 60 per cent of GDP respectively by the end of 2024-25. However, no exercise has been undertaken to compute and disclose both Central Government and General Government debt as per the changed definitions and no annual reduction targets for intervening years have been advised by the Government. Addition of guarantees in a FY has remained within the prescribed target of 0.5 *per cent* of GDP.

Chapter 4

Analysis of projections made in Fiscal Policy Statements

One of the stated objectives of the FRBM Act is that Central Government would conduct its fiscal policy operations in a medium-term framework. To achieve this, Section 3 of the Act requires the Government to lay fiscal policy statements namely Medium Term Fiscal Policy (MTFP) Statement, Fiscal Policy Strategy (FPS) Statement and Macro-economic Framework (MF) Statement, in both the houses of Parliament along with the Annual Financial Statement (AFS) and Demand for Grants. In addition, by an amendment to the FRBM Act in 2012, a Medium Term Expenditure Framework (MTEF) Statement is also required to be placed in Parliament.

Following the amendment of the FRBM Act in April 2018, a single Medium Term Fiscal Policy cum Fiscal Policy Strategy (MTFP cum FPS) statement was introduced instead of separate statements. Macro-Economic Framework (MEF) and Medium Term Expenditure Framework (MTEF) Statements were to be placed in Parliament as before. Rules also provided that MTFP cum FPS would include three-year rolling targets for FD, RD, Primary Deficit, Tax Revenue, Non-Tax Revenue and Central Government Debt, as *per cent* of GDP. The MTFP cum FPS statement was also required to detail assumptions underlying the fiscal outlook, GDP growth projections, and projections for receipts and expenditure. The MTEF Statement provides a three year rolling target for all prescribed expenditure indicators along with details of underlying assumptions and risks involved.

This Chapter contains an analysis of variations between actual receipts and expenditure of the Union Government for FYs 2017-18 and 2018-19 against projections/estimates contained in the Fiscal Policy Statements and Budget documents.

Table 4.1 gives a comparison of projections for the FYs 2017-18 and 2018-19 in the MTFP cum FPS; MTEF; the Budget and Revised Estimates and the actuals for the two years.

Table 4.1: Projections for 2017-18 and 2018-19 in MTFP/MTEF statements and Budget documents

Projections/ Estimates/ Actuals for 2017-18 *(as per cent of GDP)*

	Depicted in MTFP 2015-16	Depicted in MTFP 2016-17	Budget Estimates for 2017-18	Revised Estimates for 2017-18	Actuals for 2017-18
Fiscal Indicators	February-2015	February-2016	February-2017	February-2018	February-2019
Fiscal Deficit	3	3	3.2	3.5	3.5
Revenue Deficit	2	1.8	1.9	2.6	2.6
Effective Revenue Deficit	0	0.6	0.7	1.5	1.5
Total Outstanding Liabilities	42.8	46.8	44.7	50.1	44.8
Gross Tax Revenue	10.7	10.9	11.3	11.6	11.2

Projections/ Estimates/ Actuals for 2017-18 *(₹in crore)*

	Depicted in MTFP 2015-16	Depicted in MTFP 2016-17	Budget Estimates for 2017-18	Revised Estimates for 2017-18	Actuals for 2017-18
Receipts	**February-2015**	**February-2016**	**February-2017**	**February-2018**	**February-2019**
Tax Revenue	12,09,937	11,97,970	12,27,014	12,69,454	12,42,488
Non-Tax Revenue	2,49,104	3,37,456	2,88,757	2,35,974	1,92,745
Revenue Receipts (A)	**14,59,041**	**15,35,426**	**15,15,771**	**15,05,428**	**14,35,233**
Capital Receipts of which:					
(i) Recovery of Loans and Advances	10,500	10,500	11,932	17,473	15,633
(ii) Other non-debt capital receipts	50,000	40,000	72,500	1,00,000	1,00,045
Non-Debt Receipts *{(A)+ (i)+(ii)}* (B)	**15,19,541**	**15,85,926**	**16,00,203**	**16,22,901**	**15,50,911**
(iii) Borrowings-Public Debt and other liabilities	5,44,614	5,12,257	5,46,532	5,94,849	5,91,062
	MTEF 2015-16	**MTEF 2016-17**	**Budget Estimates for 2017-18**	**Revised Estimates for 2017-18**	**Actuals for 2017-18**
Expenditure/Deficit	**August-2015**	**August-2016**	**February-2017**	**February-2018**	**February-2019**
Revenue Expenditure (C)	**17,79,614**	**18,29,317**	**18,36,934**	**19,44,305**	**18,78,833**
Capital Expenditure	2,84,541	2,68,866	3,09,801	2,73,445	2,63,140
Total Expenditure (D)	**20,64,155**	**20,98,183**	**21,46,735**	**22,17,750**	**21,41,973**
Fiscal Deficit (B-D)	**(-) 5,44,614**	**(-) 5,12,257**	**(-) 5,46,532**	**(-) 5,94,849**	**(-) 5,91,062**
Revenue Deficit (A-C)	**(-) 3,20,573**	**(-) 2,93,891**	**(-) 3,21,163**	**(-) 4,38,877**	**(-) 4,43,600**
Grants for creation of Capital Assets	**3,16,754**	**2,00,000**	**1,95,350**	**1,89,245**	**1,91,034**
Effective Revenue Deficit (ERD)	**(-) 3,819**	**(-) 93,891**	**(-) 1,25,813**	**(-) 2,49,632**	**(-) 2,52,566**
GDP	**1,77,93,186**	**1,68,72,811**	**1,68,47,455**	**1,67,84,679**	**1,70,98,304**

Projections/ Estimates/ Actuals for 2018-19 *(as per cent of GDP)*

	Depicted in MTFP 2016-17	Depicted in MTFP 2017-18	Budget Estimates for 2018-19	Revised Estimates for 2018-19	Actuals for 2018-19
Fiscal Indicators	**February-2016**	**February-2017**	**February-2018**	**February-2019**	**February-2020**
Fiscal Deficit	**3**	**3**	**3.3**	**3.4**	**3.4**
Revenue Deficit	**1.3**	**1.6**	**2.2**	**2.2**	**2.4**
Effective Revenue Deficit	**0**	**0.4**	**1.2**	**1.1**	**1.4**
Total Outstanding Liabilities	**44.4**	**42.8**	**48.8**	**-**	**-**
Central Government Debt				**48.4**	**48.7**
Gross Tax Revenue	**11.1**	**11.6**	**12.1**	**11.9**	**11**

Projections/ Estimates/ Actuals for 2018-19 *(₹in crore)*

	Depicted in MTFP 2016-17	Depicted in MTFP 2017-18	Budget Estimates for 2018-19	Revised Estimates for 2018-19	Actuals for 2018-19
Receipts	**February-2016**	**February-2017**	**February-2018**	**February-2019**	**February-2020**
Tax Revenue	13,72,772	14,15,186	14,80,649	14,84,406	13,17,211
Non-Tax Revenue	3,43,193	2,64,168	2,45,089	2,45,276	2,35,705
Revenue Receipts (A)	**17,15,965**	**16,79,354**	**17,25,738**	**17,29,682**	**15,52,916**
Capital Receipts of which	6,18,258	6,60,651	7,16,475	7,27,553	7,62,197
Recovery of Loans and Advances	10,500	10,000	12,199	13,155	18,052
Other non-debt capital receipts	40,000	47,000	80,000	80,000	94,727
Non-Debt Receipts {(A)+ (i)+(ii)} (B)	**17,66,465**	**17,36,354**	**18,17,937**	**18,22,837**	**16,65,695**
(iii) Borrowings-Public Debt and other liabilities	5,67,758	6,03,651	6,24,276	6,34,398	6,49,418
	Depicted in MTEF 2016-17	**Depicted in MTEF 2017-18**	**Budget Estimates for 2018-19**	**Revised Estimates for 2018-19**	**Actuals for 2018-19**
Expenditure	**Aug-16**	**Aug-17**	**February-2018**	**February-2019**	**February-2020**
Revenue Expenditure (C)	**19,70,224**	**19,99,005**	**21,41,772**	**21,40,612**	**20,07,399**
Capital Expenditure	3,63,999	3,41,000	3,00,441	3,16,623	3,07,714
Total Expenditure (D)	**23,34,223**	**23,40,005**	**24,42,213**	**24,57,235**	**23,15,113**
Fiscal Deficit (B-D)	**(-) 5,67,758**	**(-) 6,03,651**	**(-) 6,24,276**	**(-) 6,34,398**	**(-) 6,49,418**
Revenue Deficit (A-C)	**(-) 2,54,259**	**(-) 3,19,651**	**(-) 4,16,034**	**(-) 4,10,930**	**(-) 4,54,483**
Grants for creation of Capital Assets	**2,56,500**	**2,25,000**	**1,95,345**	**2,00,300**	**1,91,781**
Effective Revenue Deficit (ERD)	**2,241**	**(-) 94,651**	**(-) 2,20,689**	**(-) 2,10,630**	**(-) 2,62,702**
GDP	1,90,66,277	1,88,69,150	1,87,22,302	1,88,40,731	1,89,71,237

4.1 Projections of Gross Domestic Product (GDP)

MTFP statement of 2015-16 estimated the GDP of 2015-16 at ₹1,41,08,945 crore and projected nominal GDP to grow at a rate of 12.2 *per cent* in FY 2016-17 and 12.4 *per cent* in FY 2017-18. Based on the same, GDP for FY 2017-18 was projected as being approx. ₹1,77,93,186 crore. MTFP of 2016-17 was based on estimated GDP of 2016-17 at ₹1,50,65,010 crore and projected nominal GDP to grow at rate of 12.0 *per cent* in 2017-18. Projected GDP for 2017-18 based on this calculation works out to approximately ₹1,68,72,811 crore. Budget at a Glance for 2017-18 estimated the GDP of 2017-18 at ₹1,68,47,455 crore, and the Budget at a Glance for 2018-19 revised the estimates of GDP for 2017-18 to ₹1,67,84,679 crore. Figures of GDP of 2017-18 as released by CSO in May 2020[33] were ₹1,70,98,304 crore.

33 Provisional Estimates of Annual National Income, 2019-20

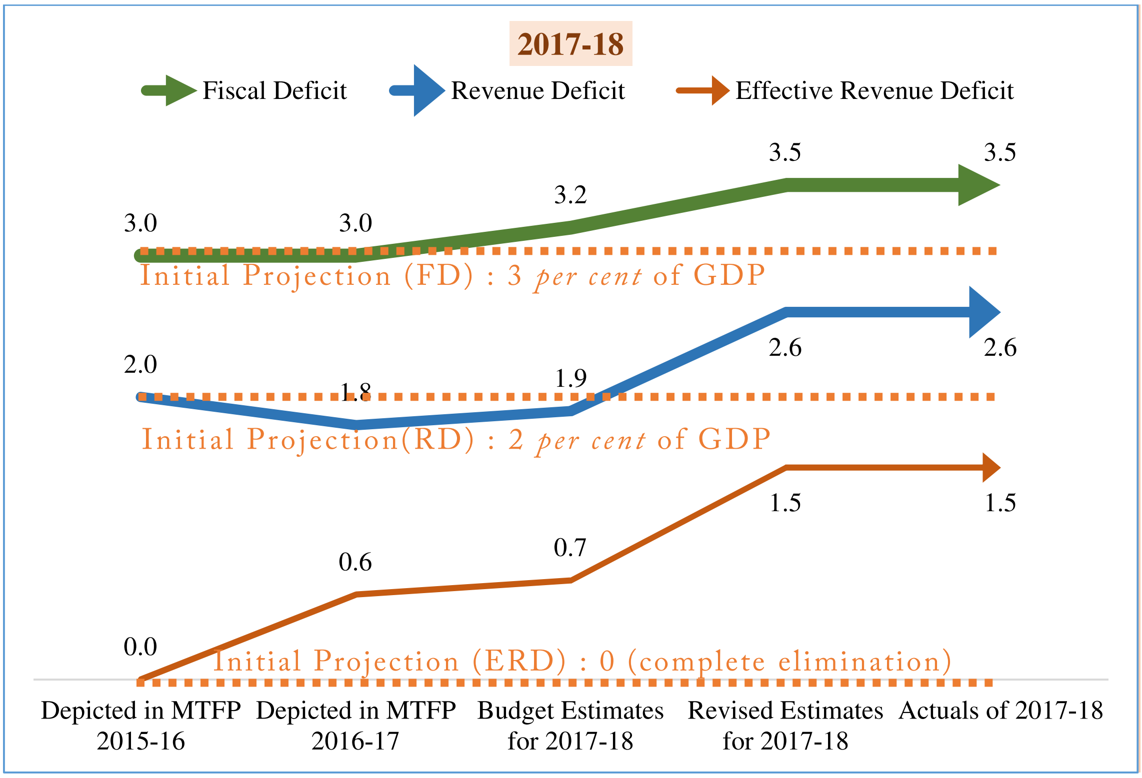
In the case of estimates of GDP for 2018-19, the MTFP of 2016-17 estimated GDP for the year to be ₹1,90,66,277 crore. In the Budget at a Glance for 2017-18, GDP of 2017-18 was estimated at ₹1,68,47,455 crore with growth estimated at 12 *per cent* during 2018-19. Hence projections of GDP for 2018-19 were kept at ₹1,88,69,150 crore in MTFP 2017-18. The BEs for 2018-19, estimated GDP for 2018-19 to be ₹1,87,22,302 crore and the REs for 2018-19 presented estimated a slightly higher GDP for the year at ₹1,88,40,731crore. Actual GDP for 2018-19 was further higher at ₹1,89,71,237crore.

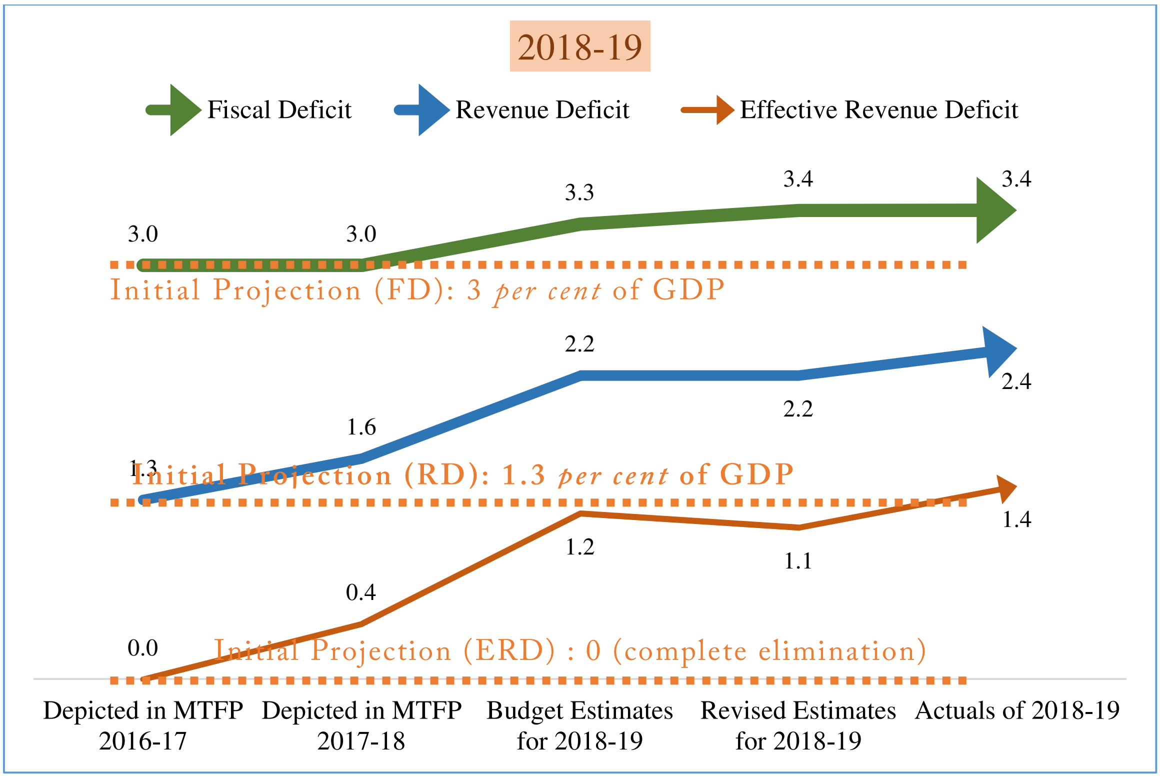
As fiscal indicators are depicted as a *per cent* of GDP, change in the estimates for total GDP has implications for fiscal indicators. If the estimate for GDP increases, fiscal indicators as a *per cent* of GDP would be lower even if deficits increase in absolute terms, and vice versa.

4.2 Analysis of projections and actuals of FD, RD and ERD.

A graphic comparison between MTFP projections and actuals with respect to the three key FRBM indicators for both 2017-18 and 2018-19, is presented in **Graph 4.1**.

Graph 4.1: Variation from Projections of FD, RD and ERD in Medium term for 2017-18 and 2018-19





Note: Figures show indicator value as per cent of GDP

Year wise analysis of the projections and actuals is as below.

2017-18

Fiscal Deficit

Projections for FD for the FY 2017-18 in MTFP 2015-16 and 2016-17 were kept at three *per cent* even though estimates for FD for the preceding three years were much higher and in the range of 4.1 *per cent* to 3.5 *per cent*. The MTFP statements attributed these higher levels of FD to higher devolution to states (based on 14th Finance Commission recommendations) and the need for higher public spending on social and welfare programmes, infrastructure and for implementing 7th CPC recommendations. The statements however, projected continued fiscal consolidation, progressive lowering of FD and attaining the three *per cent* target in 2017-18. These projections were based on expectations of lower expenditure on subsidies and higher excise revenues due to easing of oil prices, growth revival, redesigning of development schemes and tax reforms such as GST. The MTFP 2017-18/BE for 2017-18, projected an increase in FD to 3.2 *per cent* due to the need for higher public expenditure as private investment was sluggish. MTFP 2018-19/ RE for 2017-18 increased the projections of FD to 3.5 *per cent* which was attributed to the “spill over impact” of the GST regime and lower NTR realisation from RBI. The actuals for FD in 2017-18 was 3.5 *per cent* of GDP which was significantly higher than the initial estimates given in MTFP 2015-16. Detailed analysis of the variations with respect to BE, RE and actuals for FD is given in Para 2.3 of **Chapter 2** of this report.

Revenue Deficit and Effective Revenue Deficit.

The MTFP 2015-16 cited the same constraints in containing RD in previous years as applicable to FD, and realigned targets for RD with the FD targets. It accordingly projected RD at two *per cent* for 2017-18. The target for eliminating ERD was deferred to 2017-18 as this required redesigning of Central schemes. The MTFP 2016-17 estimated RD at 1.8 *per cent* for 2017-18 i.e. 0.2 *per cent* below the estimates in the previous MTFP, and ERD at 0.6 *per cent* against the target of elimination of ERD. The lowering of the RD target was due to measures planned for increasing the capital component of expenditure. The target for eliminating ERD was deferred on the grounds that correction of the imbalance within revenue expenditure (i.e. between expenditure on grants for creation of capital assets and other expenditure) would take more time. MTFP 2017-18/BE for 2017-18, projected that RD would be two *per cent* i.e. the FRBM target, but the ERD target would be missed due to "structural issues in the revenue expenditure component". This implied that the imbalance between expenditure on grants for creation of capital assets and other expenditure was still to be addressed. MTFP 2018-19/RE for 2017-18 however, estimated a sharp increase in both RD and ERD to 2.6 *per cent* and 1.5 *per cent* respectively. This was attributed to "rationalisation of expenditure", and the need to ensure that the "growth dynamics do not fall below the curve to a great extent" in the context of "introduction of the new taxation regime in the form of GST". Actuals for RD and ERD for the year remained at the higher levels projected in the REs. Detailed analysis of variations between BE, RE and actuals for RD and ERD have been given in Para 2.1 and 2.2 of **Chapter 2** of this report.

2018-19

Fiscal Deficit

Projection for FD for the FY 2018-19 in MTFP 2016-17 was kept at three *per cent* based on the same expectations of growth revival, and on expenditure and tax reforms as in the case of FY 2017-18. MTFP 2017-18 maintained this target but did not provide clear reasons for doing so[34]. MTFP 2018-19/ BE for 2018-19 projected an increase in FD to 3.3 *per cent* which was seen as a return "to the path of fiscal rectitude" following the deviation in 2017-18 when actual FD was 3.5 *per cent*. This was based on expectations of higher receipts and rationalisation of expenditure. In the MTFP 2019-20/ RE for 2018-19, projection of FD was increased to 3.4 *per cent*, but besides stating that this denoted a gradual reduction of FD towards the deferred target of three *per cent* of GDP by 31 March 2021 and that this was consistent with Rule 3 of FRBM Rules, 2004 which envisages annual reduction in FD of 0.1 *per cent* or more of GDP, no specific explanation was given for the increased target. The actuals for FD in 2018-19 was as targeted in the RE, i.e. 3.4 *per cent* of GDP which was significantly higher than the initial estimates given in MTFP 2016-17. Detailed analysis of the variations between BE, RE and actuals for FD is given in Para 2.3 of **Chapter 2** of this report.

[34] Para 21 of MTFP 2017-18.

Revenue Deficit and Effective Revenue Deficit.

The MTFP 2016-17 taking note of improvements with respect to RD in the previous years compared to both MTFP and budgeted targets for 2016-17 and various steps to enhance capital component of expenditure, projected within the FRBM target of two *per cent* i.e. at 1.3 *per cent* for 2018-19. The target for eliminating ERD was further deferred to 2018-19 as correction of imbalance within revenue expenditure was still underway. MTFP 2017-18 noted that while containing RD is an important benchmark, "excessive focus on reducing RD will be counterproductive" in view of use of revenue expenditure for grants to states for capital expenditure and for maintenance works. It thus projected RD at 1.6 *per cent* for 2018-19. It also projected ERD at 0.4 *per cent* pending sorting out of structural issues. MTFP 2018-19/ BE for 2018-19 stated that estimates for RD and ERD mentioned were only for information and it was being proposed to do away with deficit targets on revenue account. The estimate for RD at the BE stage was 2.2 *per cent* which was retained at the RE stage in MTFP 2019-20. No estimate for ERD was given in MTFP 2019-20 but this was estimated at 1.1 *per cent*. Actuals for RD and ERD for the year as derived from BAG and accounts was 2.4 *per cent* and 1.4 *per cent*. Detailed analysis of variations between BE, RE and actuals for RD has been given in Box A in **Chapter 2** of this report.

From the above, it would be seen that in both the years, projections for all three indicators were progressively revised upwards in successive policy and budget documents. In addition, in both the years there were variations between BEs and actuals. As a result, compared with the initial projections made, actuals were markedly higher.

4.3 Projections for Tax and Non-Tax Revenue

MTFP statements of each year give projections of tax revenue and non-tax revenue as a *per cent* of GDP. These projections have been compared with actuals and variations analysed in this section.

4.3.1 Tax Revenue projection

2017-18

MTFPS 2015-16 projected that the Tax Revenue[35] would be 6.8 *per cent* of GDP in 2017-18 which works out to ₹12,09,937 crore. MTFPS 2016-17 revised the projection for Tax Revenue upwards to 7.1 *per cent* of GDP in 2017-18 which works out to ₹11,97,970 crore. The upward revision was based on the assumption that the economy would return to a high growth path due to policy measures taken for promoting growth, and on account of implementation of GST. In MTFPS 2017-18, Tax Revenue projections were further revised upwards in the BEs for 2017-18, to 7.3 *per cent* of GDP. In MTFPS 2018-19, in the revised estimates for 2017-18, Tax Revenue collections for 2017-18 were further revised upwards to 7.6 *per cent* on account of GST compensation cess of ₹61,331 crore which had not been factored in the BEs for 2017-18. Actual tax revenue for 2017-18 was however, lower at 7.3 *per cent* of GDP (**Graph 4.2**).

[35] Centre's share after devolution to States

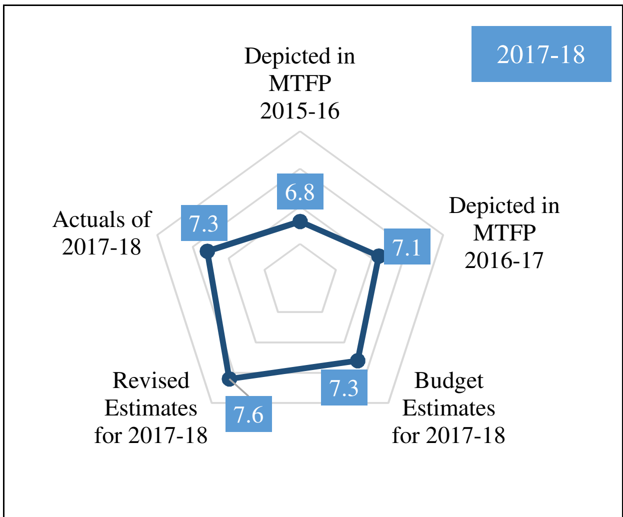
Shortfalls of actual with respect to BEs and REs were significant in the case of "Taxes on Income Other Than Corporation Tax", "CGST" "Customs" and "Union Excise Duties" as mentioned in Para 2.1 of **Chapter 2** of this report.

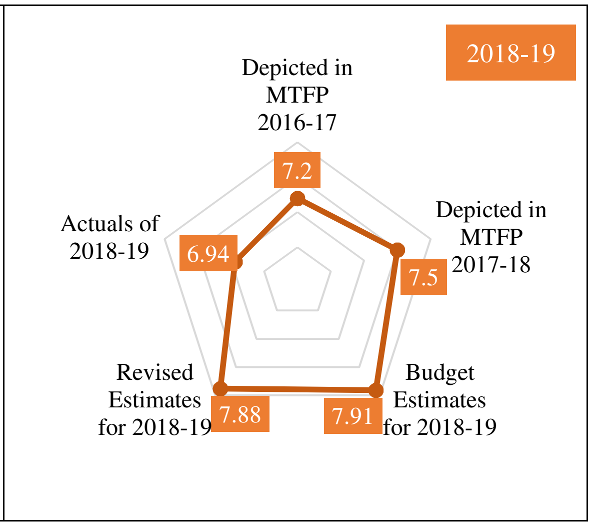
2018-19

MTFPS 2016-17 mentioned that for FY 2018-19, Government anticipated that policy measures taken for promoting growth particularly in the manufacturing and agricultural sectors would start showing results in the short term. It was also expected that implementation of GST along with other policy measures for tax enhancement, would boost tax mobilization. Based on these assumptions of Gross Tax Revenue and calculation of States' share, it was projected that Tax Revenue would be 7.2 *per cent* of GDP in 2018-19 which works out to ₹13,72,772 crore. MTFPS 2017-18 revised the projections for Tax Revenue for 2018-19, upwards to 7.5 *per cent* which works out to ₹14,15,186 crore. In MTFPS 2018-19, the BEs for 2018-19 for Tax Revenue was 7.91 *per cent* of GDP at ₹14,80,649 crore. In MTFPS 2019-20, the REs for 2018-19 estimated Tax Revenue at ₹14,84,406 crore i.e. 7.88 *per cent* of GDP. Actual Tax Revenue for the year was however only ₹13,17,211 crore which was 6.9 *per cent* of GDP. There was thus, a significant shortfall in actual tax receipts compared to projections and estimates. This was due to lower than anticipated collections in the case of CGST, Income Tax, Corporation Tax, Customs and Central Excise.

As with the projections for the indicators, projections for Tax Revenue also witnessed frequent revisions and finally shortfalls, which would have an adverse impact on fiscal planning, planning of public expenditure and planning for debt and borrowings.

Graph 4.2: Tax Revenue Projections





Figures show indicator value as per cent of GDP

4.3.2 Non-Tax Revenue[36] projection

2017-18

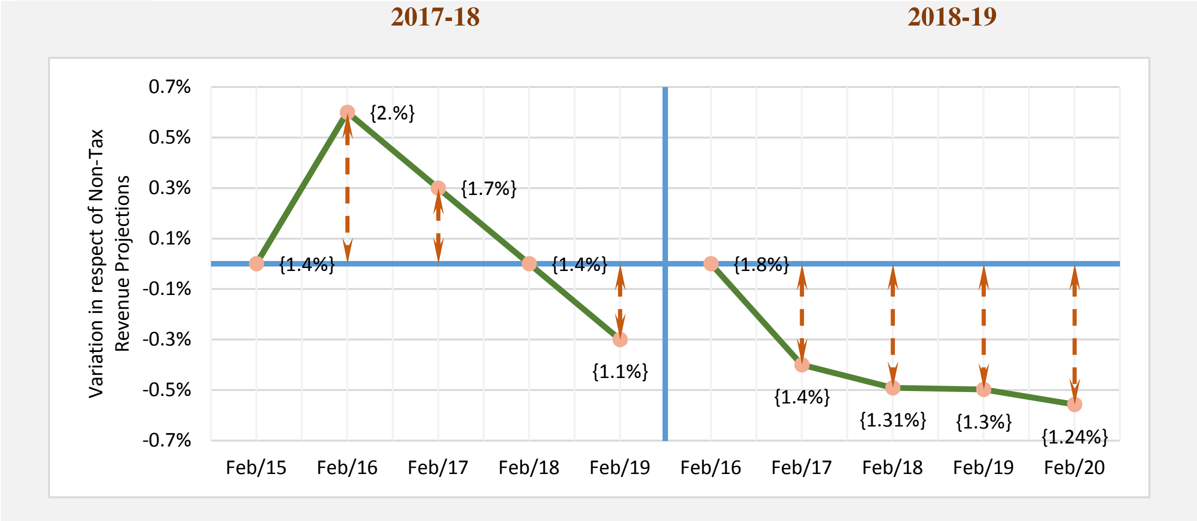
In the MTFPS 2015-16, the Government had set a Non Tax Revenue (NTR) target of 1.4 *per cent* of GDP for the FY 2017-18. NTR projection for 2017-18 was however, sharply increased to 2.0 *per cent* in the MTFP Statement 2016-17, citing reasons such as enhancement of rate of dividend from Public Sector enterprises and likely increase in telecom receipts on account of licence fee, levies and spectrum auction. However, in the MTFPS 2017-18 i.e. BEs for 2017-18 NTR collection projections were scaled down to 1.7 *per cent* of GDP as it was recognised that additional collection through spectrum auctions during 2016-17, may not be repeated in 2017-18. In the MTFPS 2018-19, in the REs, estimates for NTR collections were further scaled down to 1.4 *per cent* but no specific reasons were cited for the same. Actuals for 2017-18 were however, even lower at 1.1 *per cent* of GDP **(Graph 4.3**). As mentioned in Para 2.1 of **Chapter 2** of this report, the shortfall of actuals with respect to REs was significant under “Dividend & Profits” (₹15,073 crore) primarily on account of share of profits from RBI being lower than expected, and under “Non-Tax revenue from Economic Services” (-31 *per cent*).

2018-19

In the MTFPS 2016-17, NTR for 2018-19 was projected at 1.8 *per cent* of GDP which works out to ₹3,43,193 crore. This was based on increases noted in the REs for NTR for FY 2015-16. In the MTFPS 2017-18, projections for NTR in 2018-19 were revised downwards to 1.4 *per cent* of GDP i.e. ₹2,64,168 crore based on the trends for estimates for 2017-18 and low prospects for growth on account of the nature of these receipts which are inflexible and not amenable to widening of scope. In the MTFPS 2018-19, the BEs for 2018-19 estimated NTR at 1.31 *per cent* or ₹2,45,089 crore. In the MTFPS 2019-20, the REs for 2018-19 (February 2019) kept estimates for NTR at 1.3 *per cent* of GDP i.e. ₹2,45,276 crore. Analysis of variations between BE and RE is given in Box A in **Chapter 2** of the report. Actual figures of NTR were however, ₹2,35,705 crore which was 1.24 *per cent* of GDP. The shortfall in actuals as compared to REs was significant under “Dividend and Profits”; “Energy” and “Other General Services”. Ministry in the reply (December 2020) stated that the government decided not to accept dividends from Railways since 2017-18, while providing additional fiscal space to railways for its developmental work.

[36] NTR receipts includes various sources such as return on assets in the form of dividend and profits, interest, fees, fines and miscellaneous receipts collected in the exercise of sovereign functions, regulatory charges, license fees and user charges for public goods and services.

Graph 4.3: Non-Tax Revenue Projections



Figures in Braces '{}'show indicator value as per cent of GDP

Initial projections of NTR in both the years, were very optimistic and thereafter significantly scaled downed at subsequent stages. This shows that either receipts from various sources were not easy to project or these were not a buoyant source of revenue being dependent on other factors vis-a-vis general performance of PSUs, response to spectrum sales, performance of sectors such as Petroleum and Telecom etc.

4.4 Projections for non-debt Capital receipts

Non-Debt Capital Receipts include "Recovery of loans and advances" and "Other Non-Debt Capital Receipts" which are primarily receipts from disinvestment proceeds. Analysis of medium term projections, estimates and actuals for non-debt capital receipts for 2017-18 and 2018-19[37] has been given in the following paragraphs:

2017-18

Initial projections of "Recovery of loans and advances" for 2017-18 in the MTFP 2015-16 was ₹10,500 crore which was retained in the MTFP 2016-17. The BEs for 2017-18 however, estimated "Recovery of loans and advances" to be higher at ₹11,932 crore. In the REs a significant (46 *per cent)* increase in estimates to ₹17,473 crore was projected. Actual figures for "Recovery of loans and advances", however remained 10.5 *per cent* lower than RE at ₹15,633 crore.

"Other Non-Debt Capital Receipts", which are primarily receipts from disinvestment, were projected in the MTFP 2015-16 for 2017-18, at ₹50,000 crore. This was revised downwards to ₹40,000 crore in the MTFP 2016-17. In the BEs for 2017-18, estimates on this account was projected at a higher level of ₹72,500 crore. The increase was attributed to "proactive measures" for closure/sale of sick PSEs and increased momentum for disinvestments. The estimates under this head was further scaled up to ₹1,00,000 crore at the RE stage but no

[37] Data on disinvestment proceeds from individual transactions have been sourced from DIPAM website.

reasons for the same were provided in the MTFPS 2018-19. Actuals for "Other Non-Debt Capital Receipts" at ₹1,00,045 crore, remained aligned with REs. It was seen that during 2017-18, significant collections had accrued from the HPCL-ONGC deal (₹36,915 crore), IPO of GIC and New India Assurance (₹17,357 crore), Offer for Sales (OFS) of NTPC (₹9,117 crore) and from ETFs (₹14,500 crore).

2018-19

Initial projections of "Recovery of loans and advances" for 2018-19 in the MTFP 2016-17 was ₹10,500 crore which was reduced to ₹10,000 crore in MTFP 2017-18. In the BEs, estimates under this head was ₹12,199 crore, whereas in REs this was expected to be higher by eight *per cent* at ₹13,155 crore. Actual figures for "Recovery of loans and advances" for 2018-19 was ₹18,052 crore which was 37 *per cent* more than RE.

"Other Non-Debt Capital Receipts" were projected at ₹40,000 crore for 2018-19 in the MTFP 2016-17. Though revised upwards to ₹47,000 crore in the MTFP 2017-18, these estimates were very conservative when compared to BEs for 2017-18. In the BEs for 2018-19, estimates for collection under "Other Non-Debt Capital Receipts" was raised to ₹80,000 crore but was much lower than the REs for 2017-18, on the expectation that accruals would be lower as the number of eligible companies for disinvestment becomes fewer. These estimates remained unchanged at the RE stage. Actual figures of "Other Non-Debt Capital Receipts" were ₹94,727 crore, which was about 18 *per cent* more than BE/ RE. The variation from BE/RE was due to receipts from "Monetisation of National Highways" (₹9,682crore) which had not been envisaged earlier. Significant receipts were from ETFs (₹45,079 crore[38]); strategic disinvestment of REC (₹14,500 crore) and sale of SUUTI holdings in Axis Bank (₹5,378 crore).

It would thus be seen that in both the years, the government had to ramp up resource mobilisation through disinvestment to much higher levels than initially estimated in order to contain FD in these years.

4.5 Projections in Medium Term Expenditure Framework Statement

2017-18

Projections for items of expenditure for FY 2017-18 were first featured in the MTEF Statement of 2015-16 (August 2015). Based on macro-economic parameters prevailing in 2015-16, these projections were revised and presented in the MTEF Statement of 2016-17 (August 2016). Subsequently, expenditure estimates based on BEs for FY 2017-18 and REs of 2017-18 were presented in the MTEF Statement of 2017-18 (August 2017) and the MTEF Statement of 2018-19 (August 2018) respectively. Actuals for the year 2017-18 for these items of expenditure were presented in "Budget at a Glance for 2019-20" (February 2019).

[38] Also includes proceeds from SUUTI holdings sold as part of ETFs of ₹7,047 crore.

2018-19

For FY 2018-19, projections for expenditure first appeared in the MTEF Statement of 2016-17 (August 2016). These were as in the case of 2017-18, revised/updated based on prevailing macro-economic parameters during the relevant year vide MTEF Statement of 2017-18 (August 2017); MTEF Statement of 2018-19 (August 2018) which gave the BEs for 2018-19 and BAG Statement of 2019-20 (February 2019) containing figures of REs for 2018-19. Actuals in respect of items of expenditure for 2018-19 were presented in the Budget at a Glance for 2020-21 (February 2020). No MTEF Statement for 2019-20 which was due in August 2019, has been prepared and presented to Parliament.

4.5.1 Projections of Capital and Revenue Expenditure

Details of expenditure projections for revenue and capital expenditure in various MTEF statements and actuals for 2017-18 and 2018-19 are given in **Table 4.2**. Head wise details of expenditure projections for 2017-18 and 2018-19 and actuals for the two years are given in **Annexure 4.1**.

Table 4.2: Projections of Capital and Revenue Expenditure

Projections for 2017-18

Heads of expenditure	Projections for FY 17-18 (in MTEF Statement for FY2015-16)	Projections for FY 17-18 (in MTEF Statement for FY2016-17)	BE in MTEF 2017-18	RE for 2017-18 in MTEF Statement for FY 2018-19	Provisional Actuals MTEF Statement for FY 2018-19	%age change in Actuals with respect to initial projections
	Aug-15	Aug-16	Aug-17	Aug-18	Aug-18	
Total – Revenue Expenditure	17,79,614	18,28,916	18,36,933	19,44,305	18,78,964	6%
Total – Capital Expenditure	2,84,541	2,68,865	3,09,802	2,73,444	2,63,702	-7%
Total Expenditure	**20,64,155**	**20,97,781**	**21,46,735**	**22,17,749**	**21,42,666**	**4%**
Projections for 2018-19						
	Aug-16	Aug-17	Aug-18	Feb-19[39]	Feb-20	
Total – Revenue Expenditure	19,70,224	19,99,005	21,41,772	21,40,612	20,07,399	1.85%
Total – Capital Expenditure	3,63,999	3,41,000	3,00,441	3,16,623	3,07,714	-15%
Total Expenditure	**23,34,223**	**23,40,005**	**24,42,213**	**24,57,235**	**23,15,113**	**-0.83%**

2017-18

Examination of projections, estimates and provisional actual figures of expenditure of FY 2017-18 from MTEF statements, shows that revenue expenditure increased by six *per cent* from the initial projections, whereas capital expenditure decreased by about seven *per cent*. Overall, there was increase of four *per cent* in total expenditure from initial projections. Examination of head wise details, shows that in the case of revenue expenditure, heads where expenditure had significantly increased in comparison to projections were "Salary"

39 Figures from BAG 2019-20 as MTEF for 2019-20 containing actual figures of 2018-19 was not prepared.

(17 *per cent*); "Pensions" (29 *per cent)*; "Postal" (81 *per cent)*; "Tax Administration" (1,343 *per cent)*; "Health" (38 *per cent)*; "Social Welfare" (26 *per cent*); "Agriculture etc." (85 *per cent*); "Rural Development" (50 *per cent)*; "Energy" (148 *per cent)* and "IT/Telecom" (55 *per cent*). On the other hand, significant decrease in projections were noticed in "Fertiliser Subsidy" (17 *per cent)*; "Food Subsidy" (29 *per cent)*; "Petroleum Subsidy" (28 *per cent)*; "Finance" (84 *per cent*) and "Transport" (11 *per cent*). In the case of Capital Expenditure, increase in actuals in comparison with projections were significant in "Health" (153 *per cent)*; "Energy" (19 *per cent)* and "IT/Telecom" (27 *per cent)*. Significant reduction in actuals as compared to initial projections was noted in "Defence" (19 *per cent)*; "Finance" (24 *per cent*); "Commerce & Industry" (47 *per cent*) and "Loans to States" (65 *per cent*).

2018-19

Similar examination for 2018-19 disclosed that in the case of revenue expenditure there was an increase of about 1.85 *per cent* as compared to initial projections and in the case of capital expenditure there was a decrease of 15 *per cent* in actuals as compared to initial projections. Overall, there was a decrease of 0.83 *per cent* in total expenditure from initial projections. However, in the absence of MTEF Statement of 2019-20, analysis of variations could not be carried out.

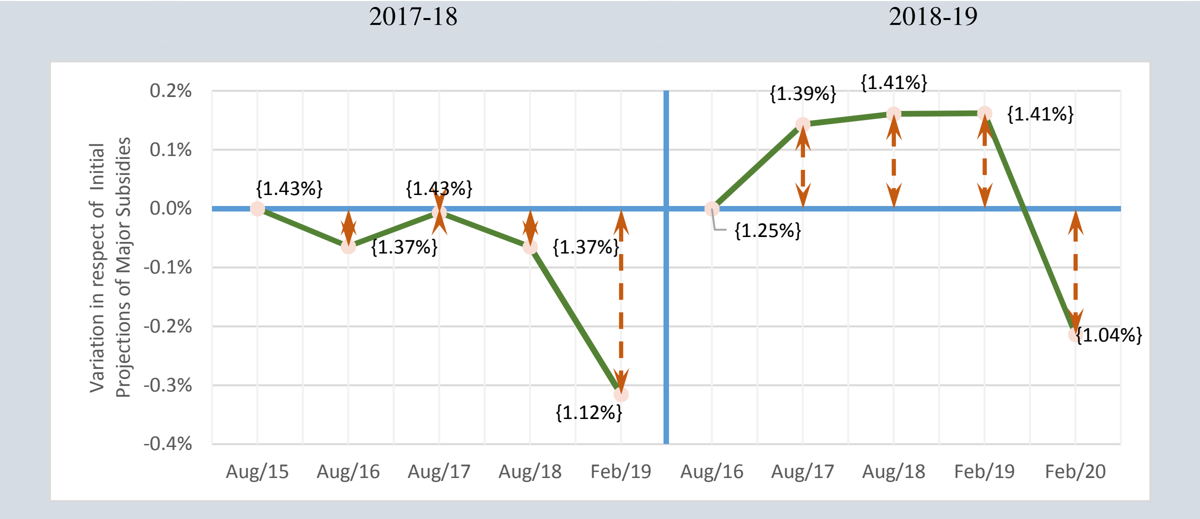
4.5.2 Projections of Major Subsidies

The projections in MTEF statements and actuals with regard to expenditure on major subsidies for the FY 2017-18 and 2018-19 is given in **Table 4.3** and illustrated in **Graph 4.4**.

Table 4.3: Projections/estimates and actual major subsidies

	Projections for FY 17-18 (in MTEF Statement for FY2015-16)	Projections for FY 17-18 (in MTEF Statement for FY2016-17)	BE in MTEF 2017-18	RE for 2017-18 in MTEF Statement for FY 2018-19	Actuals (MTEF Statement for FY 2018-19)
Projections/ Estimates and actual of 2017-18					
	Aug-2015	Aug-2016	Aug-2017	Aug-2018	Aug-2019
Fertilizer Subsidy	80,000	70,000	70,000	65,000	66,441
Food Subsidy	1,41,000	1,40,000	1,45,339	1,40,282	1,00,316
Petroleum Subsidy	34,000	21,000	25,000	24,460	24,352
Total Major Subsidies	2,55,000	2,31,000	2,40,339	2,29,742	1,91,109
(as % of Total Revenue Expenditure)	14.3%	12.6%	13.1%	11.8%	10.2%
Projections/ Estimates and actual of 2018-19					
	Aug-2016	Aug-2017	Aug-2018	Feb-2019	Feb-2020
Fertilizer Subsidy	72,000	70,000	70,090	70,086	70,605
Food Subsidy	1,45,000	1,75,000	1,69,323	1,71,298	1,01,327
Petroleum Subsidy	21,500	18,000	24,933	24,833	24,837
Total Major Subsidies	2,38,500	2,63,000	2,64,346	2,66,217	1,96,769
(as % of Total Revenue Expenditure)	12.1%	13.2%	12.3%	12.4%	9.8%

Graph 4.4: Variation in respect of Initial Projections of Major Subsidies



Figures in Braces '{}' show indicator value as percentage of GDP

The position with regard to the two years is analysed below.

2017-18

From **Table 4.3** above, it can be seen that the projected expenditure on Fertilizer subsidy for 2017-18 was ₹80,000 crore in MTEF 2015-16. This was reduced to ₹70,000 crore (a reduction of 12.5 *per cent*) in the MTEF 2016-17 and retained at this level in BEs for 2017-18. However, at the RE stage/ MTEF 2018-19, estimates for fertilizer subsidy were cut to ₹65, 000 crore (a reduction of seven *per cent*). The actual expenditure on fertilizer subsidy during 2017-18 was marginally higher at ₹66,441 crore. Projections for petroleum subsidy for 2017-18 were made at ₹34,000 crore in MTEF 2015-16 which was scaled down to ₹21,000 crore (a reduction of about 38 *per cent*) in MTEF 2016-17, hiked in BEs for 2017-18 to ₹25,000 crore (a 19 *per cent* increase) and reduced marginally in REs to ₹24,460 crore (a two *per cent* decrease) in MTEF 2018-19 with actuals at ₹24,352 crore being in line with REs. In the case of food subsidy, whereas projection and estimates were range bound between ₹1,40,000 crore (MTEF 2016-17) and ₹1,45,339 crore (BE 2017-18), actual figures at ₹1,00,316 crore were 28 *per cent* lower than the REs. Overall, actual expenditure on major subsidies during 2017-18 was 17 *per cent* lower than initial projections made in August 2016 and 26 *per cent* less than REs, for these subsidies.

2018-19

The position with regard to projections and actuals for the year 2018-19 for major subsidies is also given in Table 4.3 above. In the case of fertiliser subsidy, actual expenditure at ₹70,605 crore was within the range of ₹70,000 crore to ₹72,000 crore projected at various stages. The projection for petroleum subsidy made in August 2016 for 2018-19 was ₹21,500 crore. This was scaled down by 16 *per cent* to ₹18,000 crore in August 2017. However, in the BEs of 2018-19 estimates for petroleum subsidy were increased to ₹24,933 crore (a 39 *per cent* increase). Both REs and actuals largely remained aligned with the

BEs. In the case of food subsidy, there were sharp fluctuations between initial projections, budget and revised estimates and actuals. Projections for food subsidy which was ₹1,45,000 crore in August 2016, was increased to ₹1,75,000 crore in August 2017 (an increase of 30 *per cent*). The projections were lowered at the BE (₹1,69,323 crore) and RE stage (₹1,71,298 crore). However, actuals in comparison were much less at ₹1,01,327 crore. Actual figures for food subsidy were thus about 41 *per cent* less than BE and RE. Overall, actual expenditure of 2018-19 on major subsidies listed in **Table 4.3** was 17 *per cent* lower than initial projections made in August 2016 and 26 *per cent* less than REs.

Thus, in the case of major subsidies, reduction in actuals as compared to projections was seen both in absolute terms and as *per cent* of Revenue Expenditure. However, these reductions need to be seen in the context of extra budgetary resources used for funding food subsidy and growing arrears in reimbursing fertiliser and petroleum subsidies to Fertiliser Companies and OMCs respectively. These aspects have been detailed at length in **Chapter 2** of the report. The use of extra budgetary resources by way of NSSF loans to contain revenue expenditure on food subsidy is the most significant and has been dealt with in detail in **Chapter 2** of the report.

4.6 Borrowings for financing deficit.

While the MTFP statements provide projections of tax and non-tax revenue, MTEF statements present projections about revenue and capital expenditure. The gap between receipts and expenditure i.e. fiscal deficit is financed through borrowings. Projected borrowings for any year are to be computed based on projections of tax, non-tax revenue and non-debt capital receipts for the year as given in the MTFP statements, and projections of revenue and capital expenditure as given in the MTEF statements. These closely correspond to projections for FD.

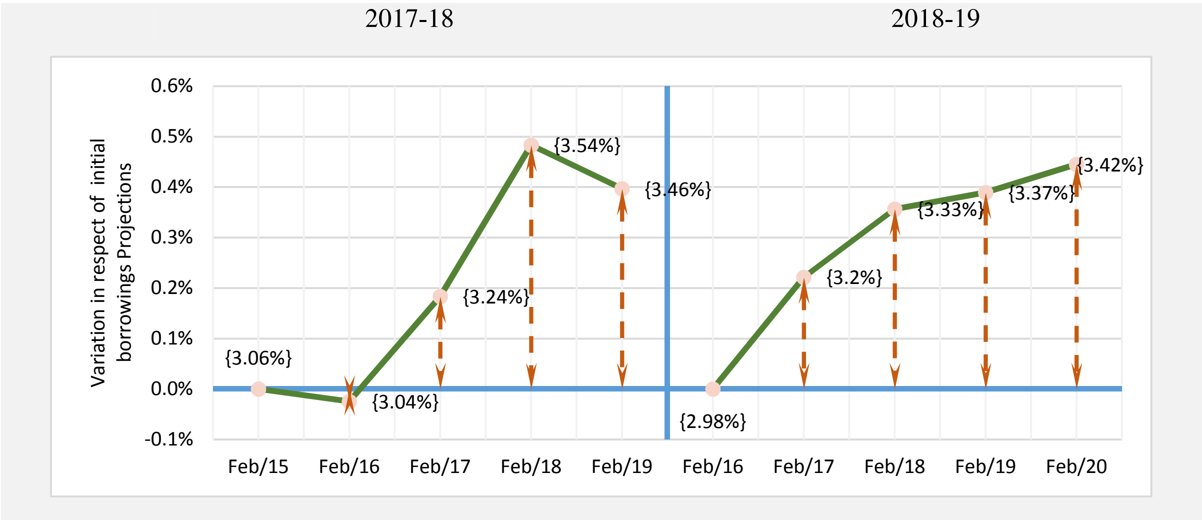
2017-18

In MTFPS 2015-16, Government had projected borrowings for FY 2017-18 to be 3.06 *per cent* of GDP. This projection was revised to 3.04 *per cent* of GDP in the MTFPS- 2016-17. Subsequently, MTFPS- 2017-18 based on BEs for the year revised the borrowings projections to 3.24 *per cent* of GDP for 2017-18 which was further stepped up in MTFPS 2018-19 in the RE for 2017-18, to 3.54 *per cent*. However, actual borrowings for 2017-18 were contained at 3.46 *per cent* of GDP **(Graph 4.5)**.

2018-19

The MTFPS 2016-17 projected borrowings for FY 2018-19 to be 2.98 *per cent* of GDP. This projection for 2018-19 was revised to 3.2 *per cent* of GDP in the MTFPS 2017-18. Subsequently, MTFPS 2018-19 based on BEs for 2018-19 revised the borrowings projections upwards to 3.33 *per cent* of GDP for 2018-19. This was further stepped up in MTFP Statement 2019-20 in the RE for 2018-19, to 3.37 *per cent*. Actual borrowings for FY 2018-19 stood further higher at 3.42 *per cent* of the GDP. **(Graph 4.5)**.

Graph 4.5: Borrowings Projections



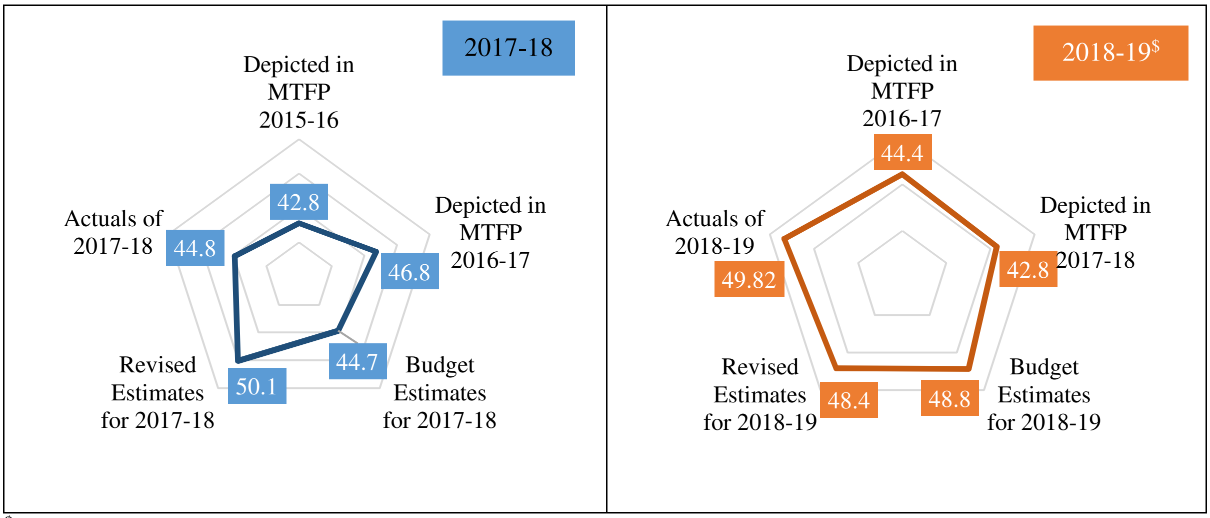
Figures in Braces '{}' show indicator value as percentage of GDP

The borrowings referred to in the above analysis only consist of borrowings that are accounted for in the accounts of the Government. These do not include borrowings to raise extra budgetary resources made on behalf of the Government to fund revenue and capital expenditure, dealt with in **Chapter 2** of the report.

4.7 Total Outstanding Liability/Central Government Debt projection

The position with regard to total outstanding liability of the Government and Central government debt covering both the old and new definition of total outstanding liability/ Central government debt has been dealt with in detail in **Chapter 2** of this report. In this section, projections and actuals of total outstanding liability/ Central government debt made in policy statements is being analysed for the FY 2017-18 and 2018-19.

Graph 4.6: Total Outstanding Liability/ Central Government Debt Projections



[$] Figures of MTFP 2019-20 and MTFP 2020-21 include the term Central Government Debt as per new Definition.

Figures show indicator value as percentage of GDP

2017-18

In MTFPS 2015-16, total liabilities for FY 2017-18 were projected to be 42.8 *per cent* of GDP based on the expectation that gains from fiscal consolidation would set in and FD will be contained leading to lower government borrowing. MTFPS 2016-17 however increased the projection for liabilities GDP ratio to 46.8 *per cent*. This was however, lower than the ratio of 47.1 *per cent* of GDP estimated in the budget for FY 2016-17, based on an expectation that RBI's policy measures for targeting inflation would start to show results. In the MTFPS 2017-18, projections for total liabilities to GDP ratio for FY 2017-18 were further revised downwards to 44.7 *per cent* based on expected impact of changes with regard to investment from NSSF. In MTFPS 2018-19, REs for total outstanding liability for 2017-18, was revised upwards to 50.1 *per cent* of GDP. This, despite fiscal consolidation, was due to lower nominal GDP growth numbers. Actual total liabilities to GDP were 44.8 *per cent* which was much lower than projections on account of higher nominal GDP and lower actual borrowings.

2018-19

In MTFPS 2016-17, total liabilities for FY 2018-19 were projected to be 44.4 *per cent* of GDP. This was lower than the ratio of 47.1 *per cent* of GDP estimated in the budget for FY 2016-17. The projection for 2018-19 was made on the assumption that gains of fiscal consolidation were setting in, and deficit was being contained. In the MTFPS 2017-18, projections for total liabilities for FY 2018-19 were further revised downwards to 42.8 *per cent* in line with the assumption that the pace of consolidation was on track. However, in MTFPS 2018-19 at the stage of BEs for the year, the estimate for outstanding liability for 2018-19, was revised upwards to 48.8 *per cent* of GDP citing the expansion on the definition of Central Government debt to include EBR raised by Government agencies which would be fully serviced by GoI. In the MTFPS 2019-20, in the REs for 2018-19, the estimate for total liabilities was revised to 48.4 *per cent* of the GDP on the grounds that the stable inflation regime will help in reducing the interest cost of borrowing and thus, reduce the accretions to debt stock. The actual[40] Central Government Debt for 2018-19 as per the MTFPS 2020-21, was *48.7 per cent* of GDP.

In this context, it is pointed out that audit has computed the ratio of total liability to GDP for both 2017-18 and 2018-19 in **Chapter 3** after taking into account extra budgetary resources and certain excluded liabilities. Based on the same, the ratio of total liability/Central Government Debt to GDP would be higher than what is given in the Budget documents.

4.8 Audit Summation

Comparative analysis done on the projections made in policy and budget documents for receipts and expenditure under various heads and for the three fiscal indicators and the actuals for the years 2017-18 and 2018-19, showed frequent revisions in projections each year with respect to all elements and components. However, despite the frequent revisions in projections,

[40] Treated as "provisional actual", as accounts for 2018-19 were yet to be certified by CAG at the time of presentation of Budget documents for 2020-21.

actuals varied from estimates which diluted the objective envisaged in the FRBM Act, of managing fiscal operations consistently in a medium term framework.

Chapter 5

Disclosure and Transparency in fiscal operations

The FRBM Act requires the Central Government to take appropriate steps to ensure greater transparency in its fiscal operations and make mandated disclosures in the prescribed formats. This Chapter examines transparency in Government accounts and the information provided as part of the mandated disclosure statements.

5.1 Transparency in Government Accounts

Section 6 of the FRBM Act inter-alia, requires the Central Government to engender transparency in the preparation of the Annual Financial Statement and the Demands for Grants. Further, the principles of recognition of expenditure and receipts are required to be consistent in the Budget documents, Union Government Finance Accounts (UGFA) and the Appropriation Accounts. Observations relating to issues of transparency are discussed in succeeding paragraphs.

5.1.1 Variation in deficit figures

Reports of the CAG have repeatedly highlighted the issue of variation in figures of RD and FD derived from the Annual Financial statements (AFS) and the audited UGFA, and those appearing in the "Budget at a Glance" (BAG). However, the mismatch in figures has continued during 2017-18 and 2018-19 as shown in **Table 5.1**.

Table 5.1: Variation in figures for deficits for the year(s) 2017-18 and 2018-19

(₹in crore)

Actuals as per	Revenue Receipt	Revenue Expenditure	Revenue Deficit (RD)	RD as percentage of GDP	Total non-debt Receipt	Total Expenditure	Fiscal Deficit (FD)	FD as percentage of GDP
	1	2	3=2-1		4	5	6=5-4	
		2017-18						
Budget at a Glance 2017-18	14,35,233	18,78,833	4,43,600	2.59	15,50,911	21,41,973	5,91,062	3.46
Annual Financial Statement/ Finance Account 2017-18	16,91,143	21,40,085	4,48,942	2.63	18,61,831	25,47,337	6,85,506	4.00
Variation in Revenue Deficit 2017-18		5,342		0.04	Variation in Fiscal Deficit 2017-18		94,444	0.54
		2018-19						
Budget at a Glance 2018-19	15,52,916	20,07,399	4,54,483	2.39	16,65,695	23,15,113	6,49,418	3.42
Annual Financial Statement/Finance Account 2018-19	18,06,463	22,61,571	4,55,108	2.39	19,31,699	27,15,761	7,84,062	4.12
Variation in Revenue Deficit 2018-19		625		0	Variation in Fiscal Deficit 2018-19		1,34,644	0.7

Source: Budget 2019-20 and 2020-21(GDP for 2017-18 and 2018-19 as ₹1,70,98,304 crore and ₹1,89,71,237 crore respectively)

Annual Financial Statement (AFS) is a statement of receipts and expenditure of the Government presented to both the Houses of Parliament in accordance with Article 112(1) of the Constitution. As mentioned in CAG's Audit Report No.20 of 2018 on Compliance of FRBM Act, 2003 for the year 2016-17, in BAG, deficits were arrived at after netting of certain receipts against expenditure based on the premise that these are non-cash transactions. Details of transaction classes netted from the AFS are given in the reconciliation statements appended to the Receipt and Expenditure Budget. These transactions primarily consist of Departmental receipts of Railways, Defence, Posts, Departmental Commercial Undertakings, certain interest receipts, transfers/ contributions to NCCD/NDRF, contribution to NDRF, write off loans/waiver of interest, Public Debt & Ways and Means Advance repayments, external assistance for State Government Projects, and certain types of securities.

Analysis of the reconciliation statements of Receipt and Expenditure for 2017-18, shows that in the statement related to reconciliation of expenditure, an amount of ₹20,532.50 crore was netted from revenue expenditure on account of write off of loan/waiver of interest outstanding against fertilizer companies. However, in the statement related to reconciliation of receipts, only an amount of ₹15,855.12 crore was shown as netted against revenue receipts on this account, whereas the balance of ₹4,677.38 crore was shown as netted against capital receipts. In addition, securities issued to African/Asian Development Fund/International Development Association, and redemption of securities issued to Stressed Assets Stabilization Fund amounting to a total of ₹663.18 crore, was netted against revenue expenditure in the reconciliation statement relating to expenditure, but in the reconciliation statement relating to receipts these were netted against capital receipts. On account of the above, RD was understated in BAG by a total of ₹5,342 crore.

Examination of the above statements for 2018-19 shows that securities issued to African/Asian Development Fund/International Development Association (₹408.33 crore), Redemption of securities issued to Stressed Assets Stabilization Fund (₹110 crore) and Securities issued to African/Asian Development Fund (₹105.99 crore) were netted against revenue expenditure in the reconciliation statement relating to expenditure, but in the reconciliation statement relating to receipts these were netted against capital receipts. This resulted in RD being understated by ₹625 crore in BAG.

Audit also noted variations in figures of FD derived from AFS and UGFA and figures given in BAG for both the years, due to netting of capital receipts and expenditure with respect to "Ways and Means Advances" to FCI, "Receipt of External Assistance for State Government Projects", "Securities issued to ADB/IMF", issue of "Special Securities to PSBs" for recapitalisation. There was thus a variation in figures of FD between BAG and AFS of ₹94,444 crore and ₹1,34,644 crore for 2017-18 and 2018-19 respectively.

5.1.2 Variation in the amount of liabilities

In the Receipt Budget, a statement showing liabilities of the Central Government is appended as an Annexure. In addition, details of liabilities are also given in the Union Government Finance Accounts (UGFA).

Table 5.2 presents the variation in the position of liabilities of the Government at the end of FY 2017-18 and 2018-19, between the Receipt Budget and UGFA.

Table 5.2: Variation in the amount of liabilities for 2017-18 and 2018-19

(₹in crores)

	Liabilities as shown in		Variation
	Receipt Budget	UGFA	
	2017-18		
Public Debt	66,51,365	66,51,365	0
National Small Savings, Provident Funds, Other Accounts	13,31,054	13,94,422	63,368
Reserve Funds and Deposits	2,52,758	2,52,758	0
Total liability	82,35,177	82,98,545	63,368
	2018-19		
Public Debt	73,44,902	73,44,902	0
National Small Savings, Provident Funds, Other Accounts	14,36,103	15,09,506	73,403
Reserve Funds and Deposits	3,02,510	3,02,510	0
Total liability	90,83,515	91,56,918	73,403

Source: Receipt Budget 2019-20 & 2020-21and Statement No. 2 of Union Government Finance Accounts for 2017-18 & 2018-19

The gross liabilities on account of National Small Savings, Provident Funds, Other Accounts in Public Account as per UGFA 2017-18, was ₹13,94,422 crore. However, in the Receipt Budget, liabilities on account of National Small Savings, Provident Funds, Other Accounts liabilities, has been shown as ₹13,31,054 crore. Thus, there is a difference of ₹63,368 crore on account of non-inclusion of amount of investment of Post Office Insurance Fund through Private Fund Managers during that year, in the figure for liabilities in the receipt budget annexure. Similarly, in UGFA 2018-19, the total liabilities on account of National Small Savings, Provident Funds, Other Accounts liabilities is ₹15,09,506 crore. However, in the Receipt Budget, the National Small Savings, Provident Funds, Other Accounts liabilities has been shown as ₹14,36,103 crore. Thus, there is again a variation of ₹73,403 crore on account of non-inclusion of amount of investment of Post Office Insurance Fund through Private Fund Managers in the liabilities given in the Receipt Budget. Thus, the treatment of investment of Post Office Insurance Fund through Private Fund Managers is not consistent between the accounts and the budget documents.

Ministry stated (June 2020 and December 2020) that the variation in liabilities between UGFA and Receipt Budget is because the liability statement as brought out in the Receipt Budget for any reporting year depicts the 'net liability' of the Government after reconciliation with Union Government Finance Accounts. 'Net liability' is the net of credit balances and debit balances. This reply is not acceptable as it leads to understatement of liabilities as funds managed by private managers are also liabilities of the Government and should be suitably disclosed.

5.1.3 Deficit in operation of National Small Saving Fund (NSSF)

The National Small Saving Fund (NSSF) comprises all collections of small saving schemes and forms part of the Public Accounts. NSSF is administered by Ministry of Finance (Department of Economic Affairs) under National Small Savings Fund (Custody and Investment) Rules, 2001. The Fund is invested in the securities of the Central and State Governments and in such other instruments of Government Undertakings as specified in these rules. The NSSF accounts are kept in three parts with one-part recording receipts into and payments/investments from the fund; the second part recording investments of NSSF and the third part being the account for Income and Expenditure of NSSF.

The Income and Expenditure Account of the NSSF records the accumulated opening balance of deficit/surplus in this account, interest and other receipts and expenditure on interest payments and management costs during the year. The annual surplus/deficit in this account along with accumulated deficit/surplus is worked out. The final balance in the NSSF is worked out after adjusting the balance in the Income and Expenditure Account. **Table 5.3** shows the position of this account in each year from 2014-15 to 2018-19. From the table it is evident that barring 2016-17 when the fund showed an operational surplus, NSSF has been continually registering a deficit with the overall accumulated deficit of NSSF being ₹1,13,651.82 crore by the end of 2018-19.

Table 5.3: Income and expenditure Account of NSSF

(₹in crore)

Year	Opening Balance (1st April)	Interest and other Income	Expenditure			Surplus/ deficit	Closing Balance (31st March)
			Interest payment	Management cost	Total Expenditure		
2014-15	(-) 79,376.06	72,019.12	74,862.93	8,487.69	83,350.62	(-) 11,331.50	(-) 90,707.56
2015-16	(-) 90,707.56	76,994.96	80,482.27	10,022.02	90,504.29	(-) 13,509.33	(-) 1,04,216.89
2016-17	(-) 1,04,216.90	90,902.60	78,220.77	9,458.86	87,679.63	3,222.97	(-) 1,00,993.93
2017-18	(-) 1,00,993.92	95,399.97	91,221.82	10,822.10	1,02,043.89	(-) 6,643.92	(-) 1,07,637.84
2018-19	(-) 1,07,637.84	1,08,783.81	1,03,784.85	11,012.94	1,14,797.79	(-) 6,013.98	(-) 1,13,651.82

Source: Union Government Finance Accounts

This accumulated deficit is a liability of the Government and would have to be made good by the Government in the future with budgetary support. This aspect is not transparently/ adequately disclosed/elaborated in UGFA except by way of a footnote, and in the budget documents related to Liabilities of the Government. As NSSF accounts are part of the Public Accounts this deficit/liability is also not taken into account while working out fiscal indicators.

Ministry of Finance (June 2020 and December 2020) replied that that Small Savings Schemes, apart being an instrument of channelizing small savings for a productive purpose, also promote social welfare and security. As such, interest rates in such schemes are often higher than the market rates. It also provided reasons of losses and measures being adopted to reduce the same. The reply is silent on the issue of disclosure of the implications of deficits and for transparently flagging that these would need to be made good through budgetary support in the future thus impacting inter-generational equity.

There was also no disclosure that significant funds were being used to provide extra budgetary funding of expenditure of revenue nature e.g. loans to support FCI operations and other Government schemes such as PMAY-Urban, which would need to be serviced by Government through budgetary support, and being used for revenue nature, these were not likely to generate returns to match the cost of funds.

5.1.4 Lack of transparency in Direct tax receipt figure

In the AFS and UGFA, the estimates and actual collection from Tax Revenue are reflected after taking into account the amount of refunds (including interest on refunds).

Analysis of direct tax receipts of the Union Government revealed that a substantial portion of tax collected is refunded every year, as detailed in **Table 5.4.**

Table 5.4: Direct Tax collection and Refunds

(₹in crore)

Financial Year	Total Direct Tax collection	Refunds #	Direct Tax Collection*	Percentage of refunds to direct tax collection
2013-14	7,34,254	95,658	6,38,596	13.03
2014-15	8,13,287	1,17,495	6,95,792	14.45
2015-16	8,71,494	1,29,482	7,42,012	14.86
2016-17	10,22,695	1,72,894	8,49,801	16.91
2017-18	11,71,440	1,68,702	10,02,738	14.40
2018-19	13,19,321	1,81,603	11,37,718	13.76

** Source: Union Government Finance Accounts and CAG's Report No. 9 of 2019 and 11 of 2020 (Direct Taxes).*

 # Refunds also include interest on refunds of taxes.

During the six-year period 2013-19, refunds of direct taxes ranged between 13.03 *per cent* and 13.76 *per cent* of the total direct tax collection. In FY 2017-18, the amount of refunds was ₹1,68,702 crore which included ₹17,063 crore paid as interest on refunds. Similarly, in FY 2018-19, amount of refunds was ₹1,81,603 crore including the interest on refunds amounting to ₹20,566 crore. Though the amount of refunds was substantial, no information on the same was disclosed either in the Annual Financial Statement or in the Union Government Finance

Accounts. As such, the accounts of the Government were not transparent in respect of information on Tax Revenue collections.

Further, as per Article 114(3) of the Constitution, no money shall be withdrawn from the CFI except under appropriation made by the Parliament. In this connection, it is stated that Central Board of Direct Taxes (CBDT) has not been accounting for interest on refunds of excess tax as expenditure but as reduction in revenue. Hence, it was not making any budget provision for the expenditure on interest for obtaining legislative approval as required by the Constitution.

This practice of incurring expenditure on interest receipts has continued despite the matter having been flagged repeatedly in Audit Reports of the CAG, the latest instance being the observations in Para 3.14 of Report No 4 of 2020 on the Union Accounts of 2018-19. However, no corrective action has been taken.

This issue was examined by the Public Accounts Committee (PAC). In its 66th Report (15th Lok Sabha 2012-13), the PAC had disapproved of withdrawal of moneys out of CFI for interest payments on income tax refunds without Parliamentary approval. Subsequently, in their follow-up Report (96th Report of 15th Lok Sabha 2013-14 dated 31 January 2014) after considering the revised opinion of the Ld. Attorney General of 06 May 2013 and later testimony to it , the Committee concluded that the Constitution leaves no doubt about the manner of authorization of expenditure or withdrawal of moneys from and out of the CFI and hence the Department of Revenue has no option other than seeking ex ante approval under Articles 114 and 115(1)(a) or seeking ex post facto approval of Parliament under Article 115(1)(b) of the Constitution.

Despite the position taken by PAC on the matter and the issue being repeatedly pointed out in the audit reports of the CAG, the practice of not making budget provision for interest on refunds in the Budget Estimates and not seeking Parliament's approval for the payments continued in the financial years 2017-18 and 2018-19. During these years expenditure on interest on refunds amounting to ₹17,063 crore and ₹20,566 crore was incurred but shown as reduction in revenue.

The Department in its replies (January 2017 and January 2019) to observations on Accounts based on the opinion of Ld. AG of 06 May 2013, contended that the refund of excess tax and interest thereon, is not an expenditure within the meaning of Article 112. The Department also stated that based on the opinion of the Ld. AG, the recommendations contained in the 96th Report of the PAC (15th Lok Sabha) had not been accepted.

Audit however, observed that PAC had already considered the opinion of the Ld. AG while making its recommendations and noted that the Ld. AG had deposed that "an opinion ultimately is an opinion and it is for the Committee to decide what the correct procedure is."

5.2 Transparency in disclosure forms mandated under FRBM Act

In compliance with Section 6 of FRBM Act, disclosure forms (six for 2017-18 and five for 2018-19), as detailed in **Annexure 1.1** are placed before the Parliament along with Budget.

Examination of these forms revealed inadequacy in disclosures, as discussed in succeeding paras.

5.2.1 Inconsistency in disclosure of arrears of Non-Tax Revenue

One of the disclosure forms viz. **Form D-2**, provides details of arrears of NTR. Receipt Budget 2019-20 and 2020-21 (Annex-6) provided details of arrears of non-tax revenue at the end of FYs 2017-18 and 2018-19.

CAG reports have repeatedly pointed out differences between amounts disclosed as interest receipts from State/Union Territory Government, Departmental Commercial Undertakings and Public Sector Undertakings in the Receipt Budget **(Form D-2)**, vis-à-vis figures disclosed through UGFA for that year. Inconsistency and differences pertaining FYs 2017-18 and 2018-19 in **Form D-2** are detailed in **Table 5.5**.

Table 5.5: Inconsistency in disclosure of arrears of interest: 2017-18 and 2018-19

(₹ in crore)

Loaned entity	Interest arrears as per		Variation
	Form D-2	UGFA	
	2017-18		
State/Union Territory Government	6,553	2,816	3,737
Public Sector and other Undertakings	19,438	32,854	13,416
	2018-19		
State/Union Territory Government	6,464	3,215	3,249
Public Sector and other Undertakings	19,332	35,129	15,797

Source: Receipt Budget for 2019-20 and 2020-21 and Union Government Finance Account for 2017-18 and 2018-19

During audit, errors in compilation of arrears of NTR by various Ministries were also noticed and arrears were found to be understated by ₹10,483.87 crore. Ministry in reply to this observation (June 2020 and December 2020), confirmed the figures for understatement detected by audit.

5.2.2 Variation in disclosure of details in asset register

Disclosure **Form D-4** relates to physical and financial assets of the Government. Receipt Budget 2020-21 provides details of assets of the Union Government as at the end of reporting year 2018-19. As per the disclosure made by the Government, the cumulative total of assets at the end of the year 2017-18 and 2018-19 was ₹15,10,277.64 crore and ₹16,99,853.14 crore respectively. During audit, errors in compilation of assets by various Ministries were also noticed. Assets were found to be overstated by ₹5,90,875 crore. In addition, the following inconsistencies were noticed in the disclosure pertaining to asset registers.

5.2.2.1 Inconsistency in figures of loans to Foreign Governments

Examination of **Form D-4** revealed that a sum of ₹14,077.04 crore was shown as loans outstanding from Foreign Governments at the end of 2017-18. Similar information contained in the UGFA 2017-18, revealed that a sum of ₹13,433.02 crore was outstanding as loans from foreign Governments. Thus, there was a variation of ₹644.02 crore of loans outstanding from foreign Governments.

Similar examination of **Form D-4** for 2018-19 revealed that a sum of ₹14,093.67 crore was shown as loans outstanding from Foreign Governments whereas information contained in the UGFA 2018-19 revealed that a sum of ₹13,558.87 crore was outstanding as loans from foreign Governments. Thus, there was a variation of ₹534.80 crore of loans outstanding from foreign Governments.

5.2.2.2 Variation in figures of closing and opening balances of assets

On examination of **Form D-4** appended with Receipts Budget 2019-20 and 2020-21, variations were noticed in the closing and opening balances of assets, as depicted in **Table 5.6**.

Table5.6: Variation in value of assets

(₹in crore)

Total assets at the end of Reporting year 2017-18 (closing figure)	15,10,277.64
Total assets at beginning of next Reporting year 2018-19 (opening figure)	15,07,161.28
Variation in closing and opening figures	3,116.36
Assets acquired during the year 2018-19	1,92,691.86
Total assets at the end of Reporting year 2018-19 (closing figure)	16,99,853.14

Source: Receipt Budgets for financial years 2019-20 and 2020-21.

From **Table 5.6**, it may be noticed that opening balance of assets for 2018-19 was less by ₹3,116.36 crore as compared to the carry-over balance of assets at the end of 2017-18. The Ministry explained (June 2020 and December 2020) that the same was due to revision in the opening balance on account of factors such as a) inclusion of “Railway Safety Fund” by Ministry of Railway, b) omission of investment in HEFA and c) reporting of assets by additional Missions in MEA.

The reasons for the variation disclosed by Government lack adequate transparency as instead of an item wise quantitative reconciliation of the variation of ₹3,116 crore, only instances were mentioned without quantification.

The Ministry further replied that footnotes are also provided below the statements to insure clarity and transparency. However, effort shall be made to insure greater comprehensiveness in the footnote of statement of asset register.

5.3 Audit Summation

Audit noticed variations in RD and FD figures between those depicted in the Budget at a Glance (BAG) and those depicted in the Union Government Finance Accounts (AFS) for both years, due to netting of certain receipts and expenditure in the BAG. The balances under National Small Savings Fund (NSSF) do not explicitly disclose the substantial accumulated deficit in the fund and significant amounts loaned for funding revenue expenditure of the Government which would have to be serviced through budgetary support. Further, there were inadequacies in disclosures in Form D-2 - Arrears of Non-Tax Revenue and D-4 - Asset Register.

Place: New Delhi
Dated: 30 June 2021

(MANISH KUMAR)
Director General of Audit
Finance & Communication

Countersigned

Place: New Delhi
Dated: 05 July 2021

(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India

ANNEXURES

Annexure-1.1

(*Refer Para No. 1.1 and Chapter 5*)

Fiscal Policy Statements and disclosure Forms prescribed under the FRBM Act

Fiscal policy statements		
Medium Term Fiscal Policy Statement	MTFP Statement contain three year rolling targets for three fiscal indicators, Tax Revenue and Total Outstanding Liabilities as a percentage to GDP with specifications of underlying assumptions, including assessment of sustainability relating to balance between revenue receipt and revenue expenditure; use of capital receipts including market borrowings for generating productive assets.	
Fiscal Policy Strategy Statement	FPS Statement contain policies of the Central Government for the ensuing financial year, relating to taxation, expenditure, market borrowings and other liabilities, lending and investment, pricing of administered goods and services, securities and description of other activities etc.	
Macro-economic Framework Statement	MF Statement contain an assessment of overview of the Economy, growth in GDP, fiscal balance of the Union Government and external sector balance of economy as reflected in current account of balance of payment.	
Medium Term Expenditure Framework Statement	MTEF Statement contain three year rolling target for prescribed expenditure indicators, with specification of underlying assumptions and risks involved.	
Disclosure Forms		
Form No.	**Details of disclosures**	
D-1	Tax Revenue raised but not realized	
D-2	Arrears of Non-Tax Revenue	
D-3	Guarantees given by the Government	
D-4	Asset Register	
D-5	Liability on Annuity Projects	
D-6	Grants for creation of capital assets	***(Not applicable in 2018-19)***

Annexure 1.2

(*Refer Para No. 1.2*)

Main provisions of the FRBM Act as amended in 2018 (Applicable from year 2018-19)

1.	**Fiscal deficit target**	Fiscal deficit as the key operational target with focus on achieving fiscal deficit of three *per cent* of GDP by the end of the FY 2020-21 with annual reduction of 0.1 *per cent* or more of the GDP at the end of each FY beginning with the FY 2018-19.
2.	**Revenue and Effective Revenue deficit target**	Done away with the requirement of having Revenue Deficit target and consequently Effective Revenue Deficit target and inclusion of Primary deficit (Fiscal deficit – Interest Payment) as a fiscal indicator.
3.	**General and Central Government debt target**	Achieving the General Government debt target of 60 *per cent* and Central Government debt target of 40 *per cent of GDP* by the end of the FY 2024-25.
4.	**Scope of Central Government debt**	The scope of 'Central Government Debt' has been expanded to include the total outstanding liabilities on the security of the Consolidated Fund of India (CFI) and Public Account plus *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.*
5.	**Guarantee target**	Not to give additional guarantees with respect to any loan on security of the Consolidated Fund of India in excess of one-half *per cent* of GDP in any financial year.
6.	**Escape Clauses**	Widening of grounds (escape clauses) on which Central Government is allowed to breach the deficit targets which include national security, act of war, national calamity, collapse of agriculture, structural reforms in the economy, decline in real output growth, etc. However, any deviation from Fiscal Deficit target shall not exceed one-half *per cent* of the GDP.
7.	**Additional clause for Fiscal deficit target**	In case of increase in real output growth of a quarter by at least three *per cent* points above its average of the previous four quarters, reduce the fiscal deficit by at least one-quarter *per cent* of the GDP in a year.
8.	**Periodicity of Review of accounts**	Half-yearly review in place of quarterly review and preparation of monthly statement of accounts.

Note –Though MTFP cum FPS Statement placed along with Budget 2020-21, the Fiscal deficit target of 3 *per cent* of GDP has been deferred beyond 2022-23.

Annexure -2.1

Refer Graph 2.2 and 2.3

Deficits, GDP and Grants for creation of capital assets

(₹in crore)

Financial Year	GDP*	Derived from Annual Financial Statement/Union Government Finance Accounts					As per Budget at a Glance					Variation in fiscal deficit
		Revenue Deficit	Effective Revenue Deficit	Fiscal Deficit	Expenditure on Grants for creation of capital assets	Grants for creation of capital assets as %age of Revenue Deficit	Revenue Deficit	Effective Revenue Deficit	Fiscal Deficit	Expenditure on Grants for creation of capital assets	Grants for creation of capital assets as %age of Revenue Deficit	
	1	2	3=2-5	4	5	6=5/2	7	8=7-10	9	10	11	12=4-9
2013-14	112,33,522	3,57,303	2,27,465	5,03,230	1,29,838	36.3	3,57,048	2,27,630	5,02,858	1,29,418	36.2	372
2014-15	124,67,959	3,66,228	2,35,468	5,15,948	1,30,760	35.7	3,65,520	2,34,760	5,10,725	1,30,760	35.8	5,223
2015-16	137,71,874	3,43,369	2,12,414	5,85,497	1,30,955	38.1	3,42,736	2,10,982	5,32,791	1,31,754	38.4	52,706
2016-17	153,91,669	3,17,030	1,50,470	5,37,799	1,66,560	52.54	3,16,381	1,50,648	5,35,618	1,65,733	52.4	2, 181
2017-18	170,98,304	4, 48,942	2,56,422	6,85,506	1.92.520	42.88	4,43,600	2,52,566	5,91,062	1,91,034	43.1	94,444
2018-19	189,71,237	4,55,108	NA	7,84,062	NA	NA	4,54,483	2,62,702	6,49,418	1,91,781	42.2	1,34,644

** GDP estimate for 2013-14 and 2015-16 are taken from press note dated 31 January 2020 and the 2017-18 to 2018-19 from press note dated 29 May 2020.*

Annexure-2.2

Refer Para No. 2.5.1

Understatement/ Overstatement of Revenue Deficit due to misclassification of expenditure

Sl. No.	Description of Grant	Major head	Object head in which expenditure was incorrectly booked	Amount (₹ *in Crore*)
(A) Misclassification of expenditure of capital nature as revenue expenditure				
1.	14-Department of Telecommunications	3275	51	0.02
2.	64-Ministry of Micro, Small and Medium Enterprises	2851	52	1.33
3.	19-Ministry of Defence (Misc.)		01	5.89
4.	91-Department of Space	3402	21	297.84
		3402	50	3.41
			Understatement of capital expenditure Total (A)	**308.49**
(B) Misclassification of expenditure of revenue nature under capital head of expenditure				
1.	4-Department of Atomic Energy	4861	27	60.46
		5401	27	0.68
2.	14-Department of Telecommunications	5275	13	0.16
3.	87- Ministry of Shipping	5051	50	0.50
4.	100-Ministry of Youth Affairs and Sports	4202	27	0.75
5.	19-Ministry of Defence (Misc.)	5054	53	2,144.92
6.	11- Department of Commerce	5453	53	80.00
7.	17- Ministry of Corporate Affairs	5475	53	2.17
8.	48-Police	4055	52	12.20
			Overstatement of capital expenditure Total (B)	**2,301.84**
			Net overstatement of capital expenditure (B-A)	**1,993.35**

Annexure 4.1

Refer Para No. 4.5

Revenue Expenditure projection in MTEF and actual for financial year (FY) 2017-18

(₹ in crore)

Heads of expenditure	Projections for FY 17-18 (in MTEF Statement for FY2015-16)	Projections for FY 17-18 (in MTEF Statement for FY2016-17)	BE in MTEF 2017-18	RE for 2017-18 in MTEF Statement for FY 2018-19	Provisional Actuals (MTEF Statement for FY 2018-19)	%age change in Actuals with respect to initial projections
	August 2015	August 2016	August 2017	August 2018	August 2018	
Salary	1,28,161	1,22,284	1,23,558	1,51,129	1,50,511	17%
Interest	5,39,000	5,44,000	5,23,078	5,30,843	5,29,243	-2%
Pension	1,12,933	1,36,026	1,31,201	1,47,438	1,45,789	29%
Fertilizer Subsidy	80,000	70,000	70,000	65,000	66,441	-17%
Food Subsidy	1,41,000	1,40,000	1,45,339	1,40,282	1,00,316	-29%
Petroleum Subsidy	34,000	21,000	25,000	24,460	24,352	-28%
Centralized Provision for Grants to States	1,06,101	1,15,451	1,18,601	1,15,497	1,03,902	-2%
Defence	1,97,860	1,83,355	1,82,534	1,84,217	1,87,408	-5%
Postal Deficit	6,665	8,200	8,490	11,112	12,039	81%
External affairs	11,937	9,861	10,816	10,389	10,499	-12%
Home Affairs	18,432	17,681	19,602	19,998	19,723	7%
Tax Administration	4,345	14,631	4,394	68,364	62,685	1343%
Finance	35,544	15,687	6,909	6,610	5,724	-84%
Education	64,616	60,554	63,467	63,710	62,100	-4%
Health	30,865	33,615	38,167	41,967	42,678	38%
Social welfare	28,913	33,201	38,368	37,589	36,516	26%
Agriculture and Allied Services	26,293	48,682	52,901	52,607	48,660	85%
Commerce and Industry	16,489	14,430	20,067	22,458	20,336	23%
Urban Development	16,228	17,985	19,386	19,440	22,215	37%
Rural Development	89,798	1,08,826	1,28,320	1,35,461	1,34,851	50%
Development of North East Region	2,647	2,031	2,069	2,260	2,256	-15%
Planning and Statistics	6,967	4,400	4,365	4,380	3,914	-44%
Scientific Departments	12,261	12,410	12,911	13,140	12,941	6%
Energy	11,421	20,157	19,542	27,457	28,271	148%
Transport	16,263	30,211	12,404	13,741	13,901	-15%
IT and Telecom	7,153	8,646	15,653	11,137	11,052	55%
UT	7,647	7,255	7,335	7,491	7,435	-3%
Others	26,075	28,737	32,456	16,128	13,206	-49%
Total – Revenue Expenditure	**17,79,614**	**18,29,317**	**18,36,934**	**19,44,305**	**18,78,964**	6%

Source: MTEF Statements (August 2016, August 2017 and August 2018)

Capital Expenditure projection in MTEF and actual for financial year (FY) 2017-18

(₹ in crore)

Heads of expenditure	Projections for FY 17-18 (in MTEF Statement for FY2015-16)	Projections for FY 17-18 (in MTEF Statement for FY2016-17)	BE in MTEF 2017-18	RE for 2017-18 in MTEF Statement for FY 2018-19	Provisional Actuals MTEF Statement for FY 2018-19	%age change in Actuals with respect to initial projections
	August 2015	August 2016	August 2017	August 2018	August 2018	
Defence	1,17,720	98,068	91,580	91,461	95,453	-19%
Home Affairs	10,288	9,771	11,479	10,901	10,818	5%
Finance	14,821	17,955	22,126	22,372	11,210	-24%
Health	1,221	1,761	3,512	3,282	3,095	153%
Commerce and Industry	2,195	1,206	1,981	1,154	1,157	-47%
Urban Development	14,708	12,502	19,332	19,422	15,346	4%
Planning and Statistics	390	29	29	29	9	-98%
Scientific Department	4,520	3,949	4,293	3,864	3,863	-15%
Energy	7,273	9,498	12,670	8,867	8,676	19%
Transport	84,369	88,549	1,11,482	92,900	96,185	14%
IT and Telecom	3,472	5,193	3,735	5,236	4,417	27%
Loans to States	13,781	12,500	18,500	4,768	4,768	-65%
UT	2,348	1,867	1,763	2,373	2,413	3%
Others	7,435	6,017	7,320	6,815	6,292	-15%
Total – Capital Expenditure	**2,84,541**	**2,68,866**	**3,09,801**	**2,73,445**	**2,63,704**	**-7%**

Glossary

Annual Financial Statements (Budget)	In terms of Article 112 of the Constitution the President shall in respect of every financial year cause to be laid before both the Houses of Parliament a statement of the estimated receipts and expenditure of the Government of India for that year, referred to as the "annual financial statement''. Receipt and disbursements are shown under three parts in which government accounts are kept, viz. (i) Consolidated Fund, (ii) Contingency Fund, and (iii) Public Account.
Budget at a Glance	This document shows in brief, receipts and disbursements along with broad details of tax revenues, other receipts and details of resources transferred by the Central Government to State and Union Territory Governments. This document also shows deficits of the Government.
Capital Expenditure	Expenditure of a capital nature is broadly defined as expenditure incurred with the object of either increasing concrete assets of a material and permanent character or of reducing recurring liabilities.
Capital Receipt	Capital receipt comprises of loans raised by the Government, borrowing from the Reserve Bank of India and loans taken from foreign Governments/institutions. It also embraces recoveries of loans advanced by the Government and sale proceeds of government assets, including those realized from divestment of Government equity in PSUs.
Consolidated Fund of India	All revenues received by the Government of India, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund titled the "Consolidated Fund of India" established under Article 266 (1) of the Constitution.
Effective Revenue Deficit	Effective Revenue Deficit is the difference between revenue deficit and grants for creation of capital assets. It can be interpreted as the difference between the government's current expenditure (on revenue account) and revenue receipts less grants for creation of capital assets which is recorded as revenue expenditure.
External Debt	Bilateral and multilateral debt contracted by the Government from foreign Governments and financial institutions abroad, mostly in foreign currency.
Finance Accounts	The Finance Accounts presents the accounts of receipts and disbursements together with the financial results disclosed by the revenue and capital accounts, the accounts of the public debt and the liabilities and assets as worked out from the balances recorded in the accounts.
Finance Bill	The Finance Bill is a money bill presented in fulfilment of the requirement under Article 110(1)(a) of the Constitution, detailing the imposition, abolition, remission, alteration or regulation of taxes proposed in the Budget for the next financial year. Once the Finance Bill is passed by both the houses of the Parliament and assented to by the President, becomes the Finance Act.
Fiscal Deficit	Excess of total disbursements from the Consolidated Fund of India, excluding repayment of debt over total receipts in the Fund, excluding the debt receipts, during a financial year.
Fiscal Policy	The fiscal policy of a Government is concerned with the raising of government revenue and the incurring of government expenditure, to ensure how well the financial and resource management responsibilities have been discharged.

Gross Domestic Product	Gross Domestic Product (GDP) is the monetary value of all finished goods and services produced within a country's borders in specific time period, generally calculated on an annual basis. It includes all private and public consumption, government's outlays, investments and exports less imports that occur within a defined territory. GDP is worked out at constant prices with reference to specified base year and also at current prices (which includes changes in prices due to inflation or a rise in the overall price level).
Guarantees	Article 292 of the Constitution extends the executive power of the Union to giving of guarantees on the security of the Consolidated Fund of India within such limits, if any, as may be fixed by the Parliament.
Internal Debt	Internal Debt comprises loans raised in India. It is confined to loans raised and credited into the Consolidated Fund of India.
Loans and Advances	This includes loans and advances given by the Union Government to the State and UT Governments, Foreign Governments, Public Sector Undertakings, Government Servants, etc.
Public Account	All other public moneys than those credited in the Consolidated Fund, received by or on behalf of the Government of India, are credited to the Public Account of India in terms of Article 266 (2) of the Constitution. These are the moneys in respect of which the Government acts more as a banker.
Public Debt	Government debt from internal and external sources contracted in the Consolidated Fund of India is defined as Public Debt.
Revenue Deficit	Excess of revenue expenditure over revenue receipts.
Revenue Expenditure	Charges on maintenance, repair, upkeep and working expenses, which are required to maintain the assets in a running order and also all other expenses incurred for the day to day running of the organisation, including establishment and administrative expenses are classified as revenue expenditure. Grants given to State/UT Government and other entities are also treated as revenue expenditure, even if some of the grants may be meant for creating capital assets.
Revenue Receipts	These include proceeds of taxes and duties levied by the Government, interest and dividend on investments made by the Government, fees and other receipts for services rendered by the Government.
Quasi-fiscal operations	These are government operations carried out by institutional units other than general government units. These operations have the same fiscal policy impact on the economy as those of government units.[41]

[41] Government Finance Manual – IMF (2014) Para 2.4