

India's FRBM Law, Budget framework & implementation Challenges

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Presentation Scheme

- **Institutional Arrangements**
- **Budget Process**
- **FRBM/Budget Management**
- **Road Ahead**

Institutional Framework

- **Budget Scope:**
 - **National (Union)**
 - **Provincial (State)**
- **Legal Framework**
 - **Constitutional Provisions & Related Statutes**
 - **Parliamentary Control**
 - **Role of National Auditor**
 - **Finance Commission**
- *(Planning Commission Chaired by the PM & NDC)*

Budget: Formulation & Understanding

Budget documents w.r.t ...

- **Mandate:** Constitutional / Legal / Policy
- **Flow of Funds:** Pass through between CFI-Citizens
- **Contents:** What and why w.r.t mandate and Public Finance Framework
- **Roles:** Who does what, how & why for the documents? (viz., DoR, DEA, DE, PC, CAG, CGA, NIC, line Ministries, RBI etc.,)
- **Documentation:** Time-frame*, Tasks[@] & Challenges^{\$}

*About 150days from issue of Budget Circular: @ raising content integrity by ensuring (a) consistency with the past and present data, legal, procedural / institutional aspects, (b) Correctness & (c) Completeness:

^{\$}Extensive Co-ordination in absolute secrecy until 28th Feb and organizing translation, printing, bundling & despatching

Annual Budget Calendar

(April-March)

- **Budget for ensuing year**
 - **presentation on last business day in February**
 - **examination by Parliamentary Standing Committee**
 - **approval by Parliament within 3 months**

...Contd.
5

Annual Budget Calendar

(April-March)

- **Preparations start with extensive consultations**
 - **September onwards**
 - **line ministries**
 - **other stake holders – farmers, labour unions, business, economists and other civil society groups**
- **Internal Assessment**
 - **spending priorities**
 - **revenue mobilization**
 - **aligning with policy goals**

Core Budget Documents are 13+

Presented by MoF, line Ministries & Others

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1. Key to Budget Documents
2. *Annual Financial Statement*
3. Budget at a Glance
4. Budget Speech
5. Budget Highlights
6. Action Taken on Budget Announcements
7. Receipts Budget
8. *Finance Bill*
 - *Customs & Excise Notifications*

9. Explanatory Memorandum
10. *Appropriation Bill*
11. *Demand for Grants*
 - *Exp. Budget Vol-1*
 - *Exp. Budget Vol-2*
12. **FRBM Statements**
 - o **Macro-Economic framework for Year T+1**
 - o **Medium term fiscal policy for Years upto T+3**
 - o **Fiscal policy strategy for the Year T+1**
 - o **Deviations statement for Year T**
13. Detailed Demand for Grants

Legend: **Pink Bold italics:** Constitutionally mandated documents

Blue Bold : Legally mandated documents

Other colors : Supporting/convenience documents

Few more Documents

Related*

- Economic Survey of Year T
- Supplementary Demand for Grants
- Finance Accounts
- FRBM Statements
 - Q4 of Year T-1
 - Q3 of Year T
- Outcome Budgets
- Annual Reports

Relevant*

- Finance Commission Report (Accepted Recommendations)
- Five Year Plan Documents (Annual Plans & Evaluation Reports)
- RBI Documents relating to
 - Credit /Policy
 - Macroeconomic & Monetary Developments
 - State Budgets and
 - Annual Report
- PSUs' Annual Reports

Budget Format

- **Receipts**

- **Revenue**

- **Tax**
- **Non-tax**

- **Non-Debt Capital**

- **Loan repayments**
- **Disinvestment (till 2006)**

- **Expenditure**

- **Charged** (*discussion only*)/**Voted** (*discussion & voting*)

- **Revenue/Capital**

- **Plan*/Non-Plan**

- * **Developmental expenditure within framework of 5-Year Plans**

Pass thru of Funds between Citizen & CFI

Railway budget is separate, but Constitutionally Railway receipts are part of CFI

Not on Constitutional strength but by practice



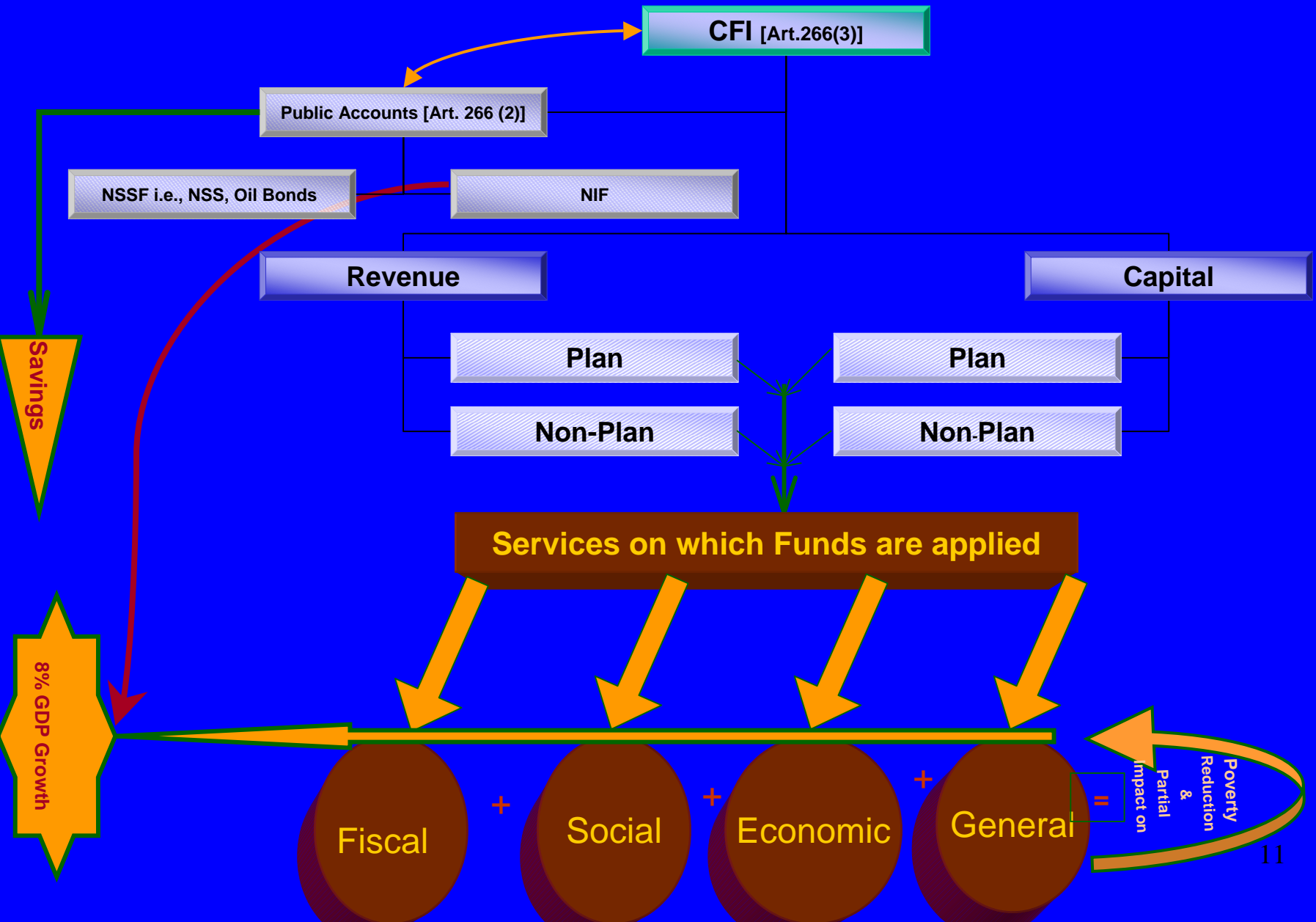
Application of Funds

Taxes, Fee & Savings,

*Economic Services (5) Fiscal Services (6) Social Services (7) & Other General Services (8)

CHARGED & VOTED EXPENDITURE ? ?

Framework of Fund Applications



Budget Management

- **Expenditure**
- **Revenue**
 - **Non-Tax**
 - **Tax (by Department of Revenue)**
- **Deficit (*Control** & *Financing***)**
 - **Fiscal, Revenue & Primary Deficits**

* FRBM Legislation

** Central Bank Coordination

MoF -Treasury Functions

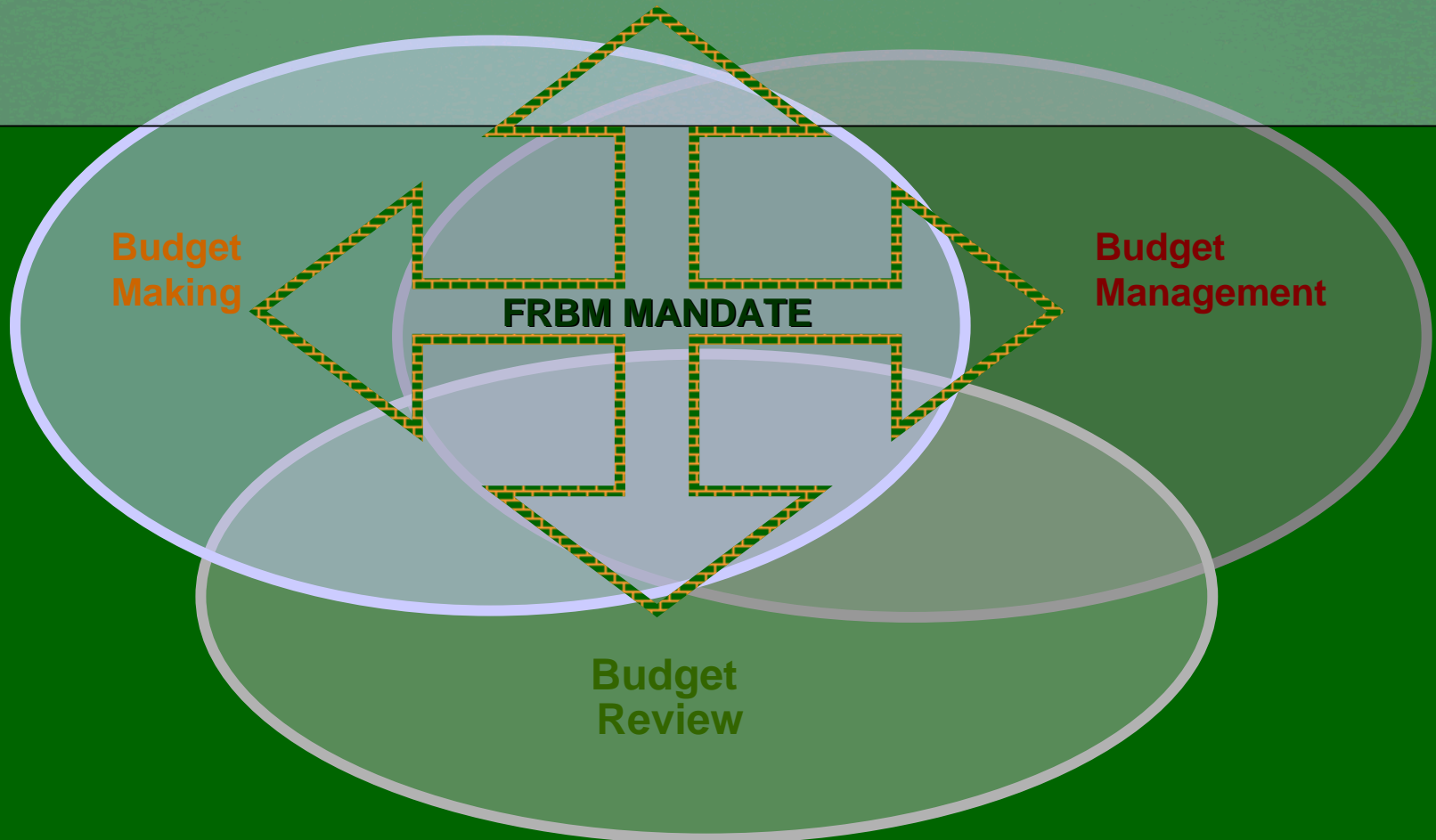
Controller General of Accounts

- **Accounts Management**
- **Expenditure tracking**
- **Internal audit**
- **Payment control**
- **Appropriation & Finance Accounts to Parliament thru MoF**

Budget Review

- Constitution mandated auditing of budgetary outcome by Supreme Audit Institution
- Reporting to Parliament
- Examination by Parliamentary Committee (PAC) w.r.t audit findings

Integrating FRBM Mandate in Budget Process



Budget process* & FRBM Law

- **Budget Making - Fiscal Affairs - Legal Framework**
- **FRBM - Objectives**
- **Medium Term FRBM Goals & Expected Budget Outcome**
- **Operational aspects of integrating FRBM Mandate into Annual Budget Process**
- **Disclosure & Transparency Obligations & Reporting**
- **Compliance Challenges & Institutional Issues**

Committee on FR Legislation (Jan – July 2000)

Chaired by Dr. EAS Sarma, Secretary DEA

- Budget Speech 2000-01 points to possibility for FR legislation
- RBI & National law School provided inputs for draft bill
- Standing Committee has examined issues in 2003

Legal Frame work

Constitution, FRBM Act, Public Debt Act, etc.,

Borrowing by the Government of India - Art. 292

The executive power of the Union extends to borrowing upon the security of the Consolidated Fund of India within such limits, if any, as may from time to time be fixed by Parliament by law and to the giving of guarantees within such limits, if any, as may be so fixed.

Understanding Budget documents link to the

CFI - Constitutional Mandate: Art. 266

- **All taxes, revenues, grants, loans, repayments, proceeds from treasury bills, way & means advances go into CFI** (A)
- **Other public money goes into Public Account of India** (B)
- **No money to be appropriated from CFI except through law passed by Parliament** (C)

Legal Frame work

Borrowing by the Government of India - Art. 292

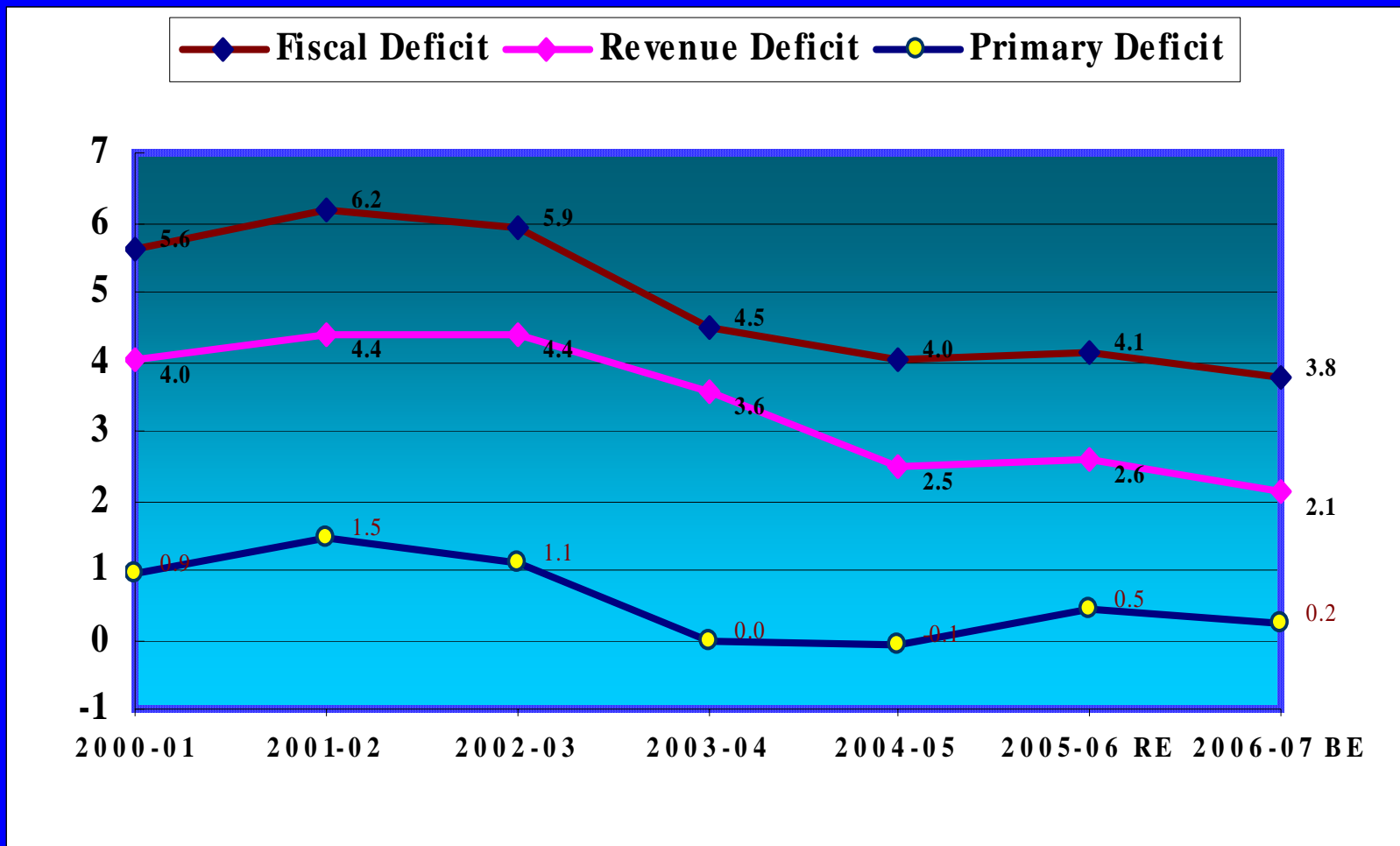
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FRBM Goals

	Annual	Medium Term
Revenue Deficit	<ul style="list-style-type: none">• Reduce by $>0.5\%$ of GDP	<ul style="list-style-type: none">• Reduce to “zero” by 2008-09 & build surplus later
Fiscal Deficit	<ul style="list-style-type: none">• Reduce by $>0.3\%$ of GDP	<ul style="list-style-type: none">• Reduce to 3% of GDP by 2008-09
Contingent liabilities	<ul style="list-style-type: none">• Assume $< 0.5\%$ GDP	

Deficit Trends

As a percentage of GDP(2001-07)



Expenditure Management Initiatives

- **Emphasis shifted from Outlays to Outcomes**
- **Exchequer Control based Cash Management System in large spending ministries**
- **Enhanced delegation of powers**
- **Emphasis on actual use of funds rather than mere transfer of funds**
- **Statutorily mandated transparency & accountability through disclosures in public domain**

Tax Policy

- **Regime change to encourage voluntary compliance & raise Tax/GDP ratio**
 - **Stable & moderate rates**
 - **Expanded tax payer base**
 - **Continued improvement in tax administration**
 - **Increased use of IT in tax administration**

Debt Management for deficit financing

- **Preference to domestic debt (that finances 90% of deficit)**
- **'No debt' from external commercial sources**
- **Increasing reliance on marketable debt instruments**
- **Elongation of maturity of government securities**
- **Average tenor in 2005-06 is 15 years, longest tenor 30 years**
- **Institutional and administrative reforms to make debt market modern and more vibrant**

MoF - Trustee Functions

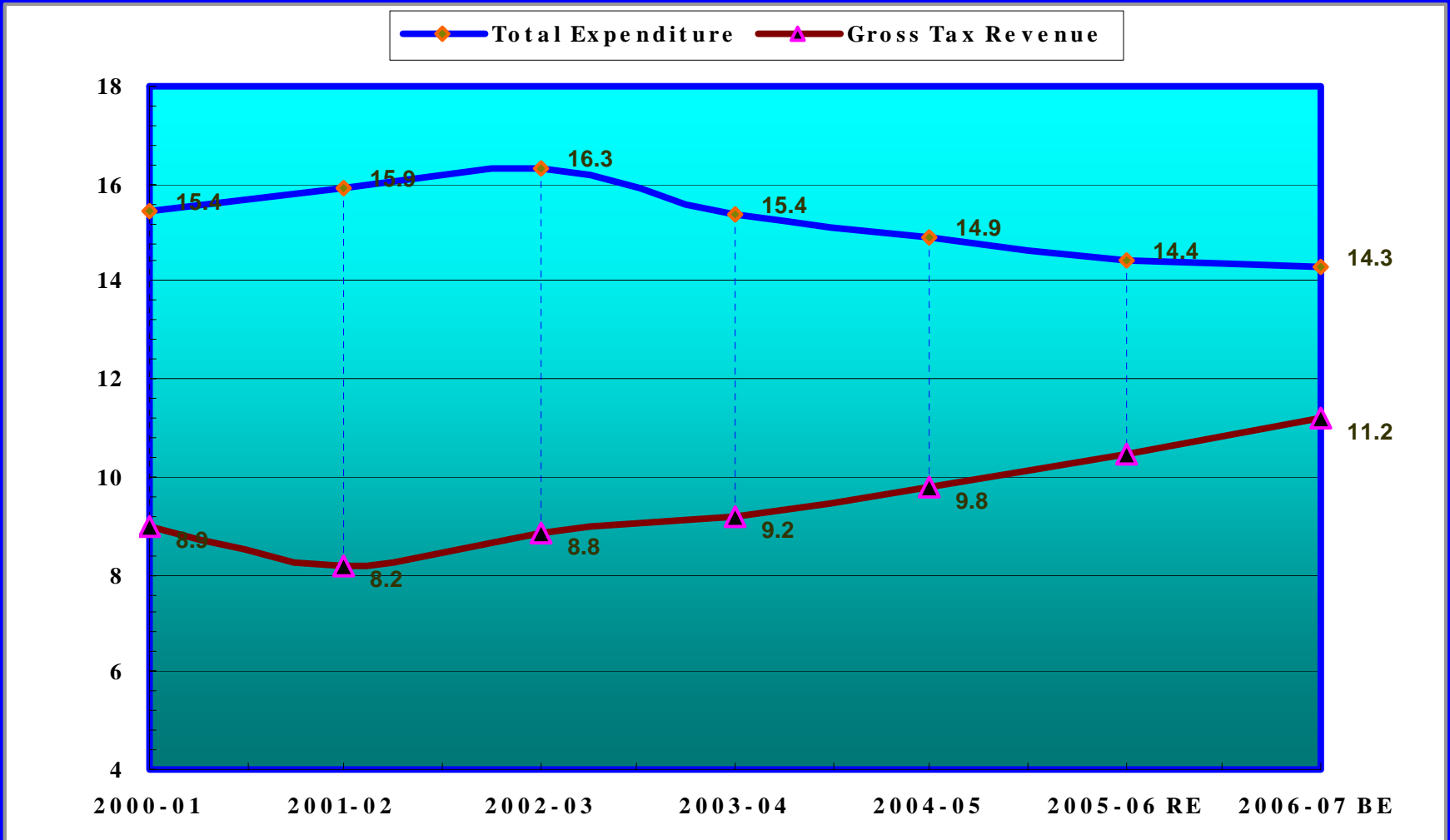
Constitution mandated Public Account of India to Capture

- ✓ Small savings (NSSF)
- ✓ Reserve Funds & Deposits
- ✓ Provident Funds
- ✓ National Investment Fund

Cash Management

- Modified Scheme launched in 2006-07 to
 - Reduce expenditure asymmetry
 - Plan market borrowings more realistically
- It involves
 - disclosure of monthly expenditure plans of major Deptt., with budget documents
 - quarterly exchequer control
- To be expanded in phases

Trends in Expenditure & Tax Rev. as percentage of GDP (Apr. 2001- Mar. 07)



Thanks

Debt Management for deficit financing

- **Objectives**

- **Minimize costs and risks in long & medium term**
- **Develop/ maintain efficient market for government securities**
- **Enlarge savings options**

- **Process**

- **Preference to domestic debt (that finances 90% of deficit)**
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