



Government of India

MEDIUM TERM EXPENDITURE FRAMEWORK CIRCULAR 2013-14

**MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS
NEW DELHI**

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Government of India
Ministry of Finance
Department of Economic Affairs
(Budget Division)

North Block, New Delhi.
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Medium Term Expenditure Framework Circular 2013-14

1. Background and Introduction :-

- 1.1 The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 was enacted with a view to provide a legislative framework for reduction of deficit, and thereby debt, of the Government to sustainable levels over a medium term so as to ensure inter-generational equity in fiscal management and long term macro-economic stability. The FRBM framework provided a medium term perspective to fiscal management. The FRBM framework requires the Government to reduce the deficits to a prescribed target in a prescribed time following a laid out fiscal consolidation roadmap. It requires Government to place a medium terms fiscal framework laying down the projected fiscal aggregates to meet the fiscal targets as prescribed in Act/Rules. It also mandates the Government to spell out the strategy that it decides to adopt to meet the projects fiscal plan. These statements are laid in the Parliament along with the Annual Financial Statement and Demands for Grants.
- 1.2 The Medium Term Fiscal Framework plays a crucial role in laying down the medium term and long term fiscal policy of the Government. It provides a credible roadmap for the intention of the Government to contain the deficit to predefined levels. It has also acted as an effective standing point for preparation of next budget. Since it is a rolling plan, it adapts to the changes in overall macroeconomic conditions. An effective medium term fiscal plan is one that is tightly integrated with the budget and one which forms a credible foundation for the upcoming budgets.
- 1.3 This aspect was observed by the Thirteenth Finance Commission, which recommended that *“the Central Government revises the existing medium term fiscal policy statement with a more detailed medium term fiscal plan which contains three-year-formed estimates of revenues and expenditures, with detailed breakup of major items that form a part of the revenues and expenditure, together with a narrative explanation of how these estimates have been generated. In other words, the estimates of revenues and expenditures should be arrived at as the sum of their parts and should be in conformity with the broad roadmap for fiscal parameters set out in the Act. Therefore, the Government could increase the time horizon of the MTFP by one year in each subsequent year and provide fresh estimates for the other years. The estimates of the first year would be converted into budget estimates, along-with a narrative explanation of such revisions. In effect, this would mean that the Central Government would provide a fiscal roadmap for three years into future. This would ensure tighter integration of the MTFP into the budget and make the MTFP more a statement of commitment rather than merely one of intent”*.

- 1.4 Through Finance Act 2012-13, amendments were made to the Fiscal Responsibility and Budget Management Act, 2003 and it was inter-alia decided that Central Government shall lay the Medium Term Expenditure Framework Statement before both the Houses of Parliament in the Session immediately following the Session of Parliament in which Medium-Term Fiscal Policy Statement, Fiscal Policy Strategy Statement and Macroeconomic Framework Statement are laid. The Central Government in exercise of power conferred by Section 8 read with Sub-section (7) of Section 3 of FRBM Act, 2003 made rules to amend Fiscal Responsibility and Budget Management Rules, 2004 and Form F-4 of the amended rules specifies the format in which the statement shall be laid (Annexure-A).
- 1.5 Amended FRBM Rules provided format in which Government will lay before both the Houses of Parliament Medium Term Expenditure projections and assumption underlying these projections. The format provides an estimate of expenditure commitments for various Sections viz. Education, Health, Rural Development, Energy, Subsidies and Pension etc. Expenditure commitments are shown separately for Revenue and Capital expenditure. “Grants-in-aid for creation of capital assets” and its projection are also depicted as a part of Revenue expenditure.
- 1.6 The MTEF is essentially a vertical expansion of the aggregates of the expenditure projections in the fiscal framework presented along with the Annual Financial Statement and the Demands for Grants. Amendment to FRBM Act, 2003 envisaged that the Medium Term Expenditure Framework (MTEF) Statement shall set forth a three-year rolling target for prescribed expenditure indicators with specification of underlying assumption and risk involved. MTEF shall inter alia contain:
- (i) The expenditure commitment of major policy changes involving new service. New instrument of service, new schemes and programmes;
 - (ii) The explicit contingent liabilities, which are in the form of stipulated annuity payments over a multi-year time-frame;
 - (iii) The detailed break-up of grants for creation of capital assets.

2. Components of Framework:-

- 2.1 Salaries and Pensions:** - Salaries and Pensions are one of the important elements of Government expenditure that have substantial fiscal impact. Salary expenditure of Government is spread across all demands for grants within the Government whereas pension provisions are centralized. The salary rules are also almost uniform all across Government, thereby ensuring that the trends in salary expenditure across all administrative units are the same to a large extent. For any exercise related to medium term projection of the expenditure of the Government, it would be helpful to segregate salary expenditure from non-salary expenditure and be projected as one aggregate item. However, it has to be noted that the risks related to this item of expenditure may differ within various administrative units, especially if they are related to significant changes in the workforce. If there any such exceptional risk related to a particular Department/ministry, it has to be mentioned separately. For this purpose, it would be helpful to club grants-in-aid for salaries along with the salary expenditure to make the projections more realistic.

2.2 Grants for Creation of Capital assets:- Grants for creation of capital assets, as a concept, was introduced in the FRBM Act through the amendment in 2012. The Act defines grants for creation of capital assets as grants in aid given by the Central Government to state governments, autonomous bodies, local bodies and other scheme implementing agencies for creation of capital assets which are owned by these entities. These grants are relevant for the projection of the effective revenue deficit, which has been defined under the Act as the difference between revenue deficit as defined under the Act and grants for creation of capital assets. Effective Revenue Deficit signifies that amount of capital receipts that are being used for actual consumption expenditure of the Government. The Government is mandated to eliminate the effective revenue deficit and keep it at that level in the future. It is therefore essential that the expenditure of the Government in form of the grants for creation of capital assets is projected separately.

2.3 Major programmes:- Outlays for major programmes are another key determinant in the medium term expenditure projections of the Government. Normally, major programmes are designed and implemented to achieve a major public policy objective of the Government and any change in the scope or implementation modalities of the programme can have major impact on public finances. It is, therefore, essential that any medium term view of expenditure commitment of the Government factors in the expected changes in the programme implementation or new expenditure commitments arising out of fresh programmes.

2.4 While formulating the MTEF statement information on expenditure commitments on salaries (including grants-in-aid for salaries) and pensions, grants-in-aid for creation of capital assets, major programme, interest payment, defence expenditure and major subsidies etc and other commitments of Government, will be considered.

2.5 The MTEF is to be laid in the session next to one in which the budget has been presented, which would normally be the Monsoon Session. In pursuance of FRBM Act, 2003, Medium Term Expenditure Framework was laid in the Monsoon Session of 2012.

3. Information for Projections of Expenditure:-

3.1 For FY 2013-14, MTEF shall be laid in both the Houses of Parliament in the Monsoon Session. The MTEF statement to be laid will be consistent with the medium term fiscal policy framework laid in the Budget session. While the MTFP lays down the fiscal constraints of the Government in medium term, Medium term expenditure framework will lay down the expenditure commitments for various sectors over a 3 year rolling framework.

3.2 Para 2 above may be referred. One of the components of the expenditure framework is expenditure commitment and projection on salaries and pensions. Departments may internally review their requirement for “Salaries” and “Grants-in-aid for salaries”. The information regarding “Salaries” and “GIA for salaries” after review may be sent in Annexure ‘B’ to Budget Division.

3.3 Commitments on “Pension and retirement benefits” may be reviewed by Central Pension Accounting Office, M/o Defence, D/o Posts and Telecom over a medium term framework. The same may be provided in the format at Annexure ‘C’ to Budget Division by Central Pension Accounting Office, M/o Defence and D/o Telecom and D/o Posts for their respective Pension provisions.

- 3.4 To decide about the sectoral projections it has been decided that major programme of Government will be reviewed. List of the programmes to be reviewed for making medium term projections is at Annexure 'D'. Concerned Departments may provide the necessary information in the format prescribed at Annexure 'E' to Budget Division after necessary discussions in the Department.
- 3.5 Meetings under the Chairmanship of Finance Secretary will be held in July, 2013, schedule for which will be communicated separately. Departments are requested have internal discussions and furnish information in the format prescribed in Annexures to undersigned by 1st July, 2013.

This issues with the approval of JS(Budget).



(A.K.Bhatnagar)

Under Secretary(Budget)

Room No 237, North Block, New Delhi

23092916

To:

1. All Ministries/Departments;
2. All FA's (by name) and all Pr CCA/CCA/CAs (by name) in Ministries/Departments;
3. CGA, CGDA;
4. Chief Controller (Pensions).

Form F-4
Medium Term Expenditure Framework

	Previous Years RE (Y-1)	Current year BE (Y)	Projection for next 2 years	
			Y+1	Y+2
Total Revenue Expenditure				
01. Salary				
02. Interest				
03. Pension				
04. Subsidy-Fertiliser				
04. Subsidy-Food				
04. Subsidy-Petroleum				
05. Transfer to State/UT Governments				
06. Defence				
07. Postal Deficit				
08. External Affairs				
09. Home Affairs				
10. Tax Administration				
11. Finance				
12. Education				
13. Health				
14. Social Welfare				
15. Agriculture and Allied				
16. Commerce and Industry				
17. Urban Development				
18. Rural Development				
19. Development of NE region				
20. Planning and Statistics				
21. Scientific Departments				
22. Energy				
23. Transport				
24. Information Technology and Telecom				
25. Union Territories				
26. Others of which				
Grants for Capital assets				
Total Capital Expenditure				
01. Defence				
02. Home Affairs				
03. Finance				
04. Education				
05. Health				
06. Commerce and Industry				
07. Urban Development				
08. Planning and Statistics				
09. Scientific Departments				
10. Energy				
11. Transport				
12. Telecom				
13. Loans to States				
14. Union Territories				
15. Others				
Grand Total				

Expenditure estimates on salaries*(Rs in Crore)*

Item	<i>Actuals 11-12</i>	<i>BE 12-13</i>	<i>RE 12-13</i>	<i>BE 13-14</i>	<i>BE 14-15 (projection)</i>	<i>BE 15-16 (projection)</i>
Salaries						
Grants-in-aid for salaries						

Note: Provision for Plan and Non-Plan to be shown separately

Expenditure estimates on Pensions*(Rs in Crore)*

Item	<i>Actuals 11-12</i>	<i>BE 12-13</i>	<i>RE 12-13</i>	<i>BE 13-14</i>	<i>BE 14-15 (projection)</i>	<i>BE 15-16 (projection)</i>
Pensions and other retirement benefits						

List of schemes to be reviewed

Name of the Ministry	Name of the Schemes to be reviewed
D/o Agriculture and Cooperation	National Agricultural insurance Scheme Modified NAIS WBCIS National Horticulture Missions National Mission on Micro Irrigation National Food Security Mission Rashtriya Krishi Vikas Yojana
D/o Animal Husbandary Dairying and Fisheries	Dairy Entrepreneurship Development Programme
M/o Civil Aviation	Equity Infusion in Air India Limited Haj Subsidy
D/o Commerce	Export Subsidy Interest Subsidy to Banks for Export Promotion Scheme for Central Assistance to States for Developing Export Infrastructure
D/o Posts	Mechanization and Modernisation
D/o Telecom	for OFC based Network for Defence Services Universal Service Obligation Fund
D/o Information Technolgy	National Knowledge Network e-Governance Projects
D/o Drinking Water & Sanitation	National Rural Drinking Water Programme Nirmal Bharat Abhiyan & NGP
M/o Environment and Forest	National River Conservation Plan
D/o Financial Services	Recapitalisation of PSBs
Transfer to State and UT Governments	AIBP JNNURM NCA SPA ACA for EAP SCA(untied) NSAP BRGF
D/o Health & FW	National Health Mission Redevelopment of Hospitals/Institutions Pradhan Mantri Swasthya Suraksha Yojana Infrastructure for Central Armed Police Forces
M/o Home Affairs	Modernisation of State Police Forces
D/o School Education and Litearcy	Sarava Shiksha Abhiyan Mid Day Meal Scheme Navodhya Vidyalayas Samiti Rashtriya Madhyamik Shiksha Abhiyan Setting up of 6000 Model Schools at Block level

D/o Higher Education	Assistance to Central Universities Other UGC Schemes including National Initiative for Excellence in Basic Sciences Interest Subsidy & Contribution for Guarantee Fund Support to IITs Support to NITs
M/o Labour & Employment	Social Security for Unorganised Workers
M/o Micro Small and Medium Enterprises	Prime Minister's Employment Generation Programme
M/o Minority Affairs	Multi Sectoral Development Programme for Minorities For Pre Matric Scholarship for Minorities For Post Matric Scholarship for Minorities
M/o Panchayati Raj	Rajiv Gandhi Panchayat Sashaktikaran Abhiyaan
M/o Planning	Unique Identification Authority of India
M/o Power	RGVY Debt Restructuring of DISCOMs R-APDRP
M/o Road Transport and Highways	Investment in NHAI
D/o Rural Development	MGNREGS Aajeevika Rural Housing PMGSY
D/o Land Resources	IWMP
D/o Science and Technology	Science and Engineering Research Board
M/o Social Justice & Empowerment	Post Matric Scholarship Scheme to SC Students Post Matric Scholarship Scheme to OBC Students
M/o Textiles	Technology Upgradation Fund Scheme
M/o Tribal Affairs	Post Matric Scholarship for ST students
M/o Urban Development	Metro Projects (including debt, equity and PTA)
M/o Women and Child Development	ICDS ICPS IGMSY

Physical outcomes against budgetary outlays for major schemes
Ministry/Department:

Part A: Physical outcome against financial outlays

Scheme:

2010-11		2011-12		2012-13		2013-14	
Name of the scheme:							
Financial	Physical outcomes	Financial	Physical outcomes	Financial	Physical outcomes	Financial	Physical outcomes
BE	Target	BE	Target	BE	Target	BE	Target
RE	Achieved	RE	Achieved	RE	Achieved	RE	Achieved
Actuals	Actuals	Actuals	Actuals				

Part B: Future projections for the scheme

For 2014-15 and 2015-16

Name of the scheme:

Expansion if any likely in the scope of scheme	2014-15	2015-16
Likely Financial Impact(Rs in Crore)		