

ON PRIORITY

No. 3/6/2016-FRBM
Government of India
Ministry of Finance
Department of Economic Affairs
(Budget Division)

Room No. 164, North Block, New Delhi.
June 10, 2016

Medium Term Expenditure Framework Circular 2016-17

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 level in a prescribed time following a laid out fiscal consolidation roadmap. It requires Government to place a medium term 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 projected fiscal plan.

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 would also act as an effective reference point for preparation of next budget. Since it is a rolling target, 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-forward 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 (MTEF) before both the Houses of Parliament in the Session immediately following the Session of Parliament in which the budget has been presented. Accordingly, the Government amended the FRBM Rules, 2004.

1.5 Amended FRBM Rules provided format in which Government will lay before both the Houses of Parliament the Medium Term Expenditure Framework Statement along with assumption underlying the projections over medium term. 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. The FRBM Act envisaged that the Medium Term Expenditure Framework 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.

1.7 The FRBM Act mandates elimination of the effective revenue deficit by 31st March, 2018 and keep it at that level in the future. It is, therefore, essential to significantly scale up Grants-in-Aid for creation of capital assets in next two financial years. **In this regard, instructions issued vide OM No. 3/15/2015-FRBM dated 20th February, 2016 (*copy enclosed*) should be strictly adhered to while making projections for Grants-in-Aid for Creation of Capital assets for next two years (FY 2017-18 & 2018-19).**

1.8 For the preparation of the MTEF Statement Ministries / Departments are required to review their requirements over projection period (next two financial years) in respect of expenditure commitments on salaries (including grants-in-aid for salaries) and pensions, grants-in-aid for creation of capital assets, interest payment, defense expenditure and major subsidies etc. and other commitments.

2. MTEF Preparation

2.1 The Expenditure Management Commission (EMC) has recommended that the format of the MTEF statement should be changed to make it consistent with the Demand for Grants format / break-up in which Volume II of the Expenditure Budget is presented. It has been decided to lay Demand for Grants wise statement containing revenue-capital expenditure break-up for the next two years in addition to existing MTEF statement as mandated by the FRBM Act before Parliament.

2.2 As an important breakthrough in preparation of MTEF statement, beginning with current year (2016-17), it has been decided to digitize the preparation process. Therefore, Ministries/Departments are required to submit requisite input information online in the MTEF portal developed by NIC for this purpose. In this regard, broad methodology will be as below:

Methodology:

Stage-I:

1. In the first stage input will be taken from the Ministries asking for demand-wise projection of total revenue and total capital expenditure for the two projection years (FY 2017-18 & 2018-19). NIC has developed an input form to take this data. While making expenditure projections, a normative growth in the range of 5-10 % every year over previous year may be given depending upon requirements of Ministry / Department. In this regard, para 2(b) of D.O. letter No. 66(01)/PF.II/2015 dated 18th May, 2016 of Secretary (Expenditure) addressed to CEO, NITI Aayog may kindly be referred (copy enclosed).
2. The input form includes a remarks field which would allow the Ministry to give reasons for the increase sought along with reasons for any extra-normal increase in any of its schemes/items of new expenditure. In case of extra-normal increase, Ministry / Department is required to indicate extra revenue generation / matching savings to meet the additionality sought. **The cut-off date to submit this information is 20th June, 2016 after which the software will not accept any further inputs from the Ministry / Department.**

3. Using the inputs of the Ministry and the projections already made in the Medium-term Fiscal Policy Statement (MTEF) presented along with budget, the **budget division will work out the demand-wise projection of revenue and capital expenditure and it will have tight integration with the respective years budget of the Ministry / Department.**

Stage-II

4. In this stage, the software will communicate the demand-wise revenue/capital expenditure projections approved by the Finance Ministry to the respective Ministries and the Ministries will be asked to enter the following details-
- a. **Object Head Data:**
- (i) Salary
 - (ii) GiA Salary
 - (iii) GiA for creation of capital Assets
 - (iv) GiA general
 - (v) Subsidy
 - (vi) Pension
 - (vii) Postal deficit

Regarding above object head data, only relevant fields will be activated for each demand.

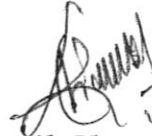
5. **The cut-off date to submit Stage-II information is 5th July, 2016 after which the software will not accept any further inputs from the Ministry / Department.**
6. The inputs of the Ministries will be scrutinized and after they are frozen by the budget division, the software would generate the MTEF tables.

Stage-III

7. After the MTEF statement has been laid in the Parliament, the Ministries would be asked to fill the scheme-wise details for the projection years. The input format would be broadly on the lines of the SBE format. It will also use the categories of expenditure as decided by the plan- non plan merger committee. The tentative categories are given below:
- a. **Category of expenditure**
- (i) Establishment and obligatory expenditures of the Centre;
 - (ii) Central Sector Schemes/Projects;
 - (iii) Transfers to States-
 - 1. Centrally Sponsored Schemes; and
 - 2. Other Grants/Loans/Transfers

8. The format in point 7 above will be finalized later. This data would also be used for the RE meeting, to decide the allocations for the next year. The software would provide for a mapping facility so that the SBE lines of the previous year can be mapped into the categories mentioned above. This will allow the software to pick data of previous years directly from the existing software.
9. The web address of the software along with the user id and password will be communicated separately on the email/mobile number of the FAs.

This issues with the approval of Competent Authority.



(Sunil Chaudhari)

Dy. Director (Budget)

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To

1. FAs of all Ministries/Departments , by name
2. Chief Controller (Pensions), by name
3. PD (staff), O/o CAG of India, by name

Copy for information to:

1. CGA, CGDA
2. DDG (NIC)
3. PS to JS (Budget)

No.3/15/2015-FRBM

Ministry of Finance
Department of Economic Affairs
(Budget Division)

168-B, North Block, New Delhi

Dated: 20 February, 2016

OFFICE MEMORANDUM

Subject: Enhancing Grants-in-Aid (GIA) for creation of capital assets and reducing ERD to achieve the FRBM targets

The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 requires elimination of Effective Revenue Deficit (ERD) {Revenue Deficit (RD) less Grants for creation of capital assets} by 31st March, 2018. The BE 2015-16 provides RD of ₹ 3,94,472 crore (2.8 % of GDP) and ₹ 1,10,551 crore have been estimated as Grants for creation of capital assets, which would leave behind an ERD of ₹ 2,83,921 crore (2.0% of GDP). As per the roadmap for fiscal consolidation, ERD target for financial year 2016-17 is 1.5 per cent to GDP.

2. Considering the wide gap between Revenue deficit and Grants for creation of capital assets, it is essential that, the level of capital expenditure be significantly scaled up in next two financial years to eliminate ERD by stipulated date i.e. 31st march, 2018, by making Grants-in-aid (GIA) for creation of capital assets equal to revenue deficit.

3. In view of above, it is requested to ensure strict compliance with the following instructions in respect of Demand (s) / Grant (s) pertaining to your Ministry / Department.

- (i) The capital portion of the CSS/ State plan schemes will be funded, limited to extent of Center's share, by Centre fully and only residual Centre's share left, if any, will be used for other GIA object heads;
- (ii) For the Central Autonomous Bodies (ABs) getting grants under Central Plan Schemes, in the GIA given to the ABs as gap support, entire capital expenditure of the ABs may be factored, to the extent of gap support provided and provisioned as GIA - for creation of capital assets. Provision for other revenue expenditure may be made only for the remaining gap support; and
- (iii) Re-appropriation from the object head Grant-in-aid (GIA) for creation of capital assets to other object heads must be avoided. Re-appropriation would be allowed within the same object head only.

In case the Ministry/ Department feels that there would be any implementation difficulties they may bring the same to our immediate notice so that necessary modifications in the aforesaid guidelines could be made.

4. The above change in financing pattern within GIA object heads will not adversely impact the revenue deficit/ surplus position of the States since the overall composition of expenditure within the Revenue/ Capital heads for States will remain the same, as also the receipts from Centre which flow as Revenue receipts in State accounts. However, only notionally States' revenue expenditure from their own sources will be enhanced to the extent of enhanced receipts from Centre in form of GIA for creation of capital assets.

5. This issues with the approval of Finance Minister.


(Prashant Goyal)
Joint Secretary (Budget)

To

All Financial Advisers to the Government of India

अशोक लवासा

सचिव (व्यय)

Ashok Lavasa

Secretary (Expenditure)



सत्यमेव जयते

भारत सरकार

वित्त मंत्रालय

व्यय विभाग

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF EXPENDITURE

D.O.No. 66(01)/PF.II/2015

18th May 2016

Dear Shri Kant,

Following rationalization of schemes in the 2016-17 BE, instructions were issued for preparation of outcome budgets with the approval of CEO, NITI Aayog. However, due to paucity of time outcome budget for 2016-17 was submitted in the old format with the understanding that follow up action will be taken soon thereafter.

2. It is again reiterated that outcomes need to be defined for both Central Sector Schemes and Centrally Sponsored Schemes. The following action needs to be taken in this regard:

- a) Measurable Outcomes need to be defined for each scheme over the medium term, that is going forward up to the year 2019-20 (the end of Fourteenth Finance Commission period).
- b) On the financial side, the budgetary allocation for 2016-17 may also be normatively projected going forward up to 2019-20 (assuming a normative increase of 5-10% every year).
- c) Year to year physical outputs, consistent with the financial resources projected above, need to be worked out in a manner that is not out of line with the measurable outcomes as defined in para (a) above.
- d) The *output-outcome framework* may be got approved from CEO, NITI Aayog by the end of the first quarter i.e. 30 June 2016.
- e) An evaluation framework will also be designed for each scheme based on this exercise. Continuation of any scheme beyond the Fourteenth Finance Commission period will be contingent on the result of such evaluation conducted by NITI Aayog.

3. I would request you to carefully identify the outcome parameters that would be true indicators of the desired outcome. This may be given top priority as the forthcoming RE/BE and outcome budgets will be based on this exercise.

With regards,

Yours sincerely,

-Sd-

(Ashok Lavasa)

Secretary to the Govt. of India (List attached)

Copy to:

Sh.Amitabh Kant
CEO, NITI Aayog
Yojana Bhawan
New Delhi

Ashok Lavasa
(Ashok Lavasa)



सूचना का
अधिकार
RIGHT TO
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