

# INDIA

## Budget Reporting

### Timing and Coverage

*Background:* The annual budget of the central government is presented on the last working day of February (i.e one month before the start of the new financial year beginning April1). The IMF in its Global Financial Statistics Yearbooks (GFS) reports data primarily on a central government basis. While some state data is available, this is with a lag of ~2 years.

### *Encourage the Ministry of Finance (MoF) to*

- *Institutionalize the timely publication of all documents.*
- *Reduce the lags in state data*
- *Present consolidated general government data.*

### Revenue & Expenditure Classification

*Background:* Revenues and expenditures are broadly classified in line with the IMF's Global Fiscal Statistics Manual. The difference is that India treat states' divestment proceeds, including land sales, above-the-line as miscellaneous capital receipts.

- *Encourage MoF to treat divestment proceeds, including land sales, as below-the-line financing items in accordance with the IMF's Global Fiscal Statistics Manual.*

### Accounting

*Background:* Stock details (only at the central government level), are available in GFS in terms of operating balance, net balance and it's financing. This is good and makes comparisons effective.

- *Encourage MoF to report flow of funds on an accrual basis rather than on a cash basis.*

## Fiscal Rule

*Background:* India adopted a rules-based fiscal framework in 2003 i.e. the Fiscal Responsibility and Budget Management Act (FRBMA), at the central government level. However, to offset the effect of the global financial crisis on the economy, the FRBMA was placed in abeyance in 2008 to allow for countercyclical fiscal support. In 2013, the authorities modified the FRBMA aiming to achieve the original medium-term target of 3 percent of GDP (authorities' definition, which treats proceeds from sales of assets as revenues) by 2016/17. (Budget 2015/16 has further extended this timeline to 2017/18).

- *Encourage MoF to strengthen credibility of fiscal rule by achieving fiscal targets rather than postponing them.*
- *Encourage MoF to publish publicly a Medium-Term Fiscal Policy Statement, a Fiscal Policy Strategy Statement, and a Macroeconomic Framework Statement— as required by the FRBMA.*

## Budget Process

### *Encourage MoF to improve budget transparency and accountability by:*

- *Publishing a pre-budget statement*
- *Holding legislative hearings and establishing effective mechanisms for capturing public perspectives on budget matters.*

## Budgetary Features

*Background:* Budget documentation provides some information on the macro-economic forecasts but should provide all core information (nominal GDP level, inflation rate, real GDP growth, and interest rates) and other aforementioned items.

### *Encourage MoF to include in the budget:*

- *All assumptions, multi-year projections, and scenario analyses.*
- *Projections or details on future liabilities and the sustainability of its finances over the longer term.*
- *A debt sustainability analysis, particularly given relatively high domestic debt levels (65% of GDP).*

## Open Budget Survey – OBI Index = 46/100

The International Budget Partnership (IBP) prepares the Open Budget Survey (OBS) which is an independent comparable measure of budget transparency, participation, and oversight.

India's OBI score declined to **46/100 in 2015 from 68/100 in the prior survey in 2012**. This is barely in line with the global average of 45/100. However the survey indicates that the decline was temporary rather than a systemic decline and could be attributed to due to delays in publication of some reports (Mid-Year Review, Year-End Report) possibly due to bureaucratic shuffles.

India fares poorly in terms of **public participation** with a score of 19/100 v/s the global average of 25/100. Efforts need to be taken to provide the public opportunities to engage in the budget process.

In terms of **budget oversight**, India is viewed poorly in terms of legislature with a score of 39/100. Its audit procedures are adequate with a score of 75/100 as the supreme audit institutions conduct all

three types of audits (compliance, financial, or performance) and have made them available to the public.

## Fiscal Structure

**Fiscal Federalism:** India is a federal union of states comprising twenty-nine states and seven union territories. Like in other countries, the **fiscal federalism** in India is a reflection of the political federal structure in India with a constitutional demarcation of functions and sources of finance between Union, State and local governments. Given the changing political dynamics (pre-dominance of regional parties at the state and coalition governments at the center; in contrast to single same party rule prevalent for decades), India is moving away from an era of cooperative federalism to competitive federalism.

**How are taxes shared?** The Constitution requires the President to appoint a **Finance Commission** every five years or earlier to review the finances of the Union and States and recommend devolution of taxes and grants-in aid of revenues to them for the ensuing five years. In addition to these transfers, the erstwhile **Planning Commission** (now likely to be implemented by the Ministry of Finance) also gives formula based/schemed based assistance to the States with the states meeting their balance financing need through market borrowing.

## Budget - Political Process

The annual union budget or central government is presented each year on the last working day of February by the Finance Minister of India in Parliament. The budget, which is presented by means of the financial bill and the Appropriation bill has to be passed by both Houses of Parliament before it can come into effect on April 1, the start of India's financial year. (Key to note is that the Budget is a "Money Bill" and thus in case the Upper House does not pass the Bill, it comes back to the Lower House and is then passed by a simple majority vote of the Lower House).

## Fiscal Transparency: A Snapshot

Country Snapshot	
Sovereign Rating/Outlook	Moody's (Baa3/Positive) ; S&P (BBB-/Stable)
Budget Coverage (General/Central government)	Data for states comes out with a lag
Open Budget Index Score	46 (2015) ; 68 (2012)
Availability of Year End Execution Report	Occasional Delays
Fiscal Rule/Fiscal Responsibility Laws	In place since 2003...but been deferred
Accounting Methodology	Cash
Key Areas for Improvement	(1) Treatment of divestment proceeds (2) Further transparency in budget assumptions

### Key websites and Data Sources:

Budget: [www.indiabudget.nic.in](http://www.indiabudget.nic.in) ; Central Bank: [www.rbi.org.in](http://www.rbi.org.in); Open Budget Survey: <http://survey.internationalbudget.org/#profile/IN>