



Medium-Term Expenditure Framework

For Prelims: [Medium-Term Expenditure Framework](#), [Fiscal Responsibility and Budget Management \(FRBM\) Act of 2003](#), [Union Budget](#), [Fiscal Deficit](#).

For Mains: Medium-Term Expenditure Framework.

Source: TH

Why in News?

Recently, the Ministry of Finance has conveyed its inability to release the [Medium Term Expenditure Framework \(MTEF\) statement](#), mandated by the **Fiscal Responsibility and Budget Management (FRBM) Act of 2003**.

- The ministry had cited “unprecedented global uncertainties that may adversely affect medium-term projections” to justify not placing fiscal projections for 2024-25 and 2025-26 in Parliament at the time of presenting the [Union Budget](#).

Why is the Ministry of Finance Unable to Release MTEF?

- Since the presentation of the Union Budget for FY 2023-24 in February, there has not **been any significant and favourable change** in global headwinds and associated risks.
 - Therefore, amidst aforesaid facts, the medium term **projections are not feasible**.
- The Finance Ministry emphasized the need for the government to **maintain flexibility in fiscal management** to effectively manage exogenous shocks and global uncertainties.
 - This flexibility is seen as indispensable for the government to retain the necessary fiscal firepower to address unforeseen contingencies that may arise **during periods of economic ambiguity**.

What is Medium-Term Expenditure Framework (MTEF)?

- **About:**
 - The MTEF statement **sets a three-year rolling target** for expenditure indicators, along with **specifications of underpinning assumptions and risks**.
 - This statement is presented in Parliament under **Section 3 of the [Fiscal Responsibility and Budget Management \(FRBM\) Act, 2003](#)**.
 - The statement provides an **estimate of expenditure for various sectors**, including education, health, rural development, energy, subsidies and pension, and so on.
 - This statement is presented in the **session after the one in which the Budget is presented** — usually, that is the monsoon session.
- **Expenditure Commitments:**
 - Data such as expenditure commitments spread across the various central ministries on salaries and pensions, major programmes, grants-in-aid for creation of capital assets, defence expenditure, interest payment and major subsidies, etc, besides other

commitments of the government are **considered while formulating this statement.**

▪ **Objective:**

- The objective of MTEF is to **facilitate a closer integration between FRBM statements and the Union Budget.**

What is the Fiscal Reduction and Management Act (FRBM)?

▪ **About:**

- The FRBM Act is an act of the Parliament which **was enacted in 2003 with the aim of ensuring fiscal discipline**, transparency and accountability in government spending.
- The act requires the **government to ensure that the [Fiscal Deficit](#) is reduced over a period of time** and to eliminate revenue deficit, which is the excess of government's total expenditure over its total revenue.
 - It limited the fiscal deficit to 3% of the GDP.

▪ **Provisions:**

- **Fiscal Deficit Targets:** The act requires the government to reduce its fiscal deficit to a specified target over a period of time. The fiscal deficit would be brought down to below 4.5 per cent by 2025-26.
- **Elimination of Revenue Deficit:** The act requires the government to eliminate its revenue deficit, which is the excess of government's total expenditure over its total revenue.
- **Medium-term Fiscal Strategy:** The act requires the government to formulate and implement a medium-term fiscal strategy, which outlines the government's plans for reducing its fiscal deficit over a period of three years.
- **Annual Fiscal Reports:** The act requires the government to present an annual fiscal responsibility statement to Parliament, which outlines the government's progress in achieving its fiscal consolidation targets.

▪ **Statements:**

- **Macro-Economic Framework Statement:** The Macro-Economic Framework Statement provides **a detailed outline of the macroeconomic assumptions** that form the basis of the budget estimates.
 - It includes **key economic indicators and projections** that influence revenue and expenditure decisions. These assumptions help in understanding the economic context within which the budget is framed.
- **Medium-Term Fiscal Policy Statement:** This section outlines the government's medium-term fiscal policy objectives and the strategies to achieve them over a specific period (usually the next three years).
 - It highlights the **intended direction of fiscal policy**, the rationale behind fiscal targets, and how these targets align with broader economic goals.

Conclusion

- As India continues to tread through a complex global landscape, the government's ability to manage its fiscal resources effectively stands as a crucial safeguard against potential economic disruptions.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims:

Q. Consider the following statements: (2018)

1. The Fiscal Responsibility and Budget Management (FRBM) Review Committee Report has recommended a debt to GDP ratio of 60% for the general (combined) government by 2023, comprising 40% for the Central Government and 20% for the State Governments.
2. The Central Government has domestic liabilities of 21% of GDP as compared to that of 49% of GDP

of the State Governments.

3. As per the Constitution of India, it is mandatory for a State to take the Central Government's consent for raising any loan if the former owes any outstanding liabilities to the latter.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 and 3 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Ans: (c)

Q. Which one of the following was not stipulated in the Fiscal Responsibility and Budget Management Act, 2003? (2010)

- (a) Elimination of revenue deficit by the end of the fiscal year 2007-08
- (b) Non-borrowing by the central government from Reserve Bank of India except under certain circumstances
- (c) Elimination of primary deficit by the end of the fiscal year 2008-09
- (d) Fixing government guarantees in any financial year as a percentage of GDP

Ans: (c)

Q. Along with the Budget, the Finance Minister also places other documents before the Parliament which include 'The Macro Economic Framework Statement'. The aforesaid document is presented because this is mandated by (2020)

- (a) Long standing parliamentary convention
- (b) Article 112 and Article 110(1) of the Constitution of India
- (c) Article 113 of the Constitution of India
- (d) Provisions of the Fiscal Responsibility and Budget Management Act, 2003

Ans: (d)

Mains:

Q. What are the reasons for the introduction of Fiscal responsibility and Budget Management (FRBM) Act, 2003? Discuss critically its salient features and their effectiveness. (2013)