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RBI Releases Two Studies - "Introducing Expenditure Quality in Intergovernmental Transfers: A triple-E Framework" and "An Outline of Post 2009 FRBM Fiscal Architecture of the Union Government in the Medium Term"

The Reserve Bank of India released today two studies - "[Introducing Expenditure Quality in Intergovernmental Transfers: A triple-E Framework](#)" and "[An Outline of Post 2009 FRBM Fiscal Architecture of the Union Government in the Medium Term](#)" relating to the terms of reference of the Thirteenth Finance Commission.

The first study entitled "Introducing Expenditure Quality in Intergovernmental Transfers: A triple-E Framework" is co-authored by Prof. Mala Lalvani, Department of Economics, University of Mumbai, along with research staff members from the Reserve Bank (Smt. Kumudini S. Hajra, Director, DEAP and Shri Brijesh Pazhayathodi, Research Officer, DEAP).

The Thirteenth Finance Commission has for the first time been mandated to consider the need to improve the quality of public expenditure to obtain better outputs and outcomes in its devolution scheme. The Study has sought to introduce, conceptualise and operationalise a scheme for integrating the 'quality' dimension of public spending into the devolution scheme of intergovernmental transfers by the Finance Commission. The Study illustrates a scheme of inter-se distribution from an incentive fund, which is labeled as a "Quality Control Fund" (QCF). This fund could be kept aside to reward States for their performance on three aspects of expenditure quality, viz., Expenditure Adequacy; Effectiveness; and Efficiency. The Study has provided devolution formulas of the QCF based on a quantitative framework covering the three expenditure parameters. Devolution from the QCF would be in the nature of a reward or a bonus to the States for their performance on the various aspects of expenditure quality. The Study urges to tie the funds that the States receive from this incentive fund to spending on education and health. Further, a beginning towards result approach may be made by mandating output targets for the funds received from the QCF.

The second study entitled "An Outline of Post 2009 FRBM Fiscal Architecture of the Union Government in the Medium Term" is co-authored by Ravindra H. Dholakia, IIM, Ahmedabad, along with research staff members from the Reserve Bank (Shri Jeevan K. Khundrakpam, Director, DEAP and Shri Dharendra Gajbihiye, Research Officer, DEAP).

The study emphasises the need for reconciling the discrepancies between the fiscal deficit and movement in debt in designing a meaningful framework on fiscal consolidation in India. The paper finds that discrepancy between the two arose mainly due to: (i) exclusion of off-budget liabilities and Market Stabilization Scheme (MSS) in fiscal deficit while being part of outstanding liabilities; (ii) part of National Small Savings Fund (NSSF) being utilised by the States to finance their deficits being shown as liabilities of the Central Government; and (iii) financing of fiscal deficit by draw-down or build-up in cash balances. Accordingly, the paper attempts to reconcile the discrepancy and also reclassifies the expenditure components into current and investment component as against revenue and capital components in the Budget.

For the fiscal consolidation framework, interest payments (IP) to revenue receipts (RR) ratio is considered the target variable, and based on budgetary identity, the Study derives the tolerable level of deficit and debt under alternative assumptions of growth and interest rate. From the derived tolerable level of deficit, the components of expenditure are calibrated by making adjustments in the discretionary component. Under alternative assumptions of growth, interest rate, revenue buoyancy and chosen ratio of targeted interest payments to revenue receipts (IP-RR), the paper generates a menu of choices on the path of fiscal consolidation during the medium term. The Study provides simulated results of 54 alternative fiscal scenarios based on interest rate, revenue buoyancy and target ratio of IP-RR which may help in building a framework for post 2009 FRBM fiscal architecture.

Both the studies were undertaken under the aegis of the Development Research Group of the Reserve Bank. The Studies are available on the Reserve Bank's website (www.rbi.org.in) under Publications.

(Note: Development Research Group (DRG) is constituted in the Reserve Bank's Department of Economic Analysis and Policy for undertaking effective policy-oriented research backed by strong analytical and empirical basis on subjects of current interests. The views expressed in these studies are those of the authors and do not reflect the views of the Reserve Bank.)

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