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Medium–Term Expenditure Framework: A Review of Recent Development

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ABSTRACT

Budgets are generally on an annual basis, many countries now also employ multi–year frameworks (MTFs). They typically cover a three–year time horizon. Over sixty per cent of OECD countries are preparing a medium term framework with targets and ceilings for expenditure, deficits and revenues covering, in most cases, a three–year horizon. In this context the present paper concentrates the Introduction of Medium Term Frameworks (MTFs), Weaknesses in Government Budgeting, Budgeting the Medium Term, A Multi-Year perspective in expenditure planning and budgeting has been lacking in India. Theoretical and Empirical studies relating to International and National Experience of Medium Term Fiscal, Budget and Expenditure Frameworks gave an idea to pertaining further studies.

Introduction

Government budget systems generally reflect the historical reason for a Government Budget–Parliamentary Appropriation to provide legal authority to Cabinet and department chief executives for raising funds and making payments; common weaknesses in Government budgeting**.** Now, public sector management has become more complex as it has evolved to include formal strategy documents, sector strategies and corporate plans for individual departments and programs for particular types of expenditure (e.g. capital items). These have been in response to scarcity of resources and a desire to identify what should be done to improve economic and social development?

The budget systems have not always changed to match the demands of the new approaches to planning. With budgeting on an annual basis, new policy initiatives stand little chance of being sufficiently accommodated because there is a bias towards existing programs. Since the need for particular programs can shift over time, wasteful expenditures may be carried over year after year, leaving insufficient funds to address more pressing new needs and priorities. Also, many aspects of budgeting require more than an annual time horizon. For instance, when planning for large scale capital expenditure projects or substantial restructuring of service-delivery agencies, the planning period stretches over a number of years (The World Bank & Korea Development Institute, 2004).

In this context the present paper follows except introductory section. Second section, deals with the Introduction of Medium Term Frameworks (MTFs), Weaknesses in Government Budgeting, Budgeting the Medium Term, A Multi-Year perspective in expenditure planning and budgeting has been lacking in India. The third section, describes some of the existing Theoretical and Empirical studies relating to International and National Experience of Medium Term Fiscal, Budget and Expenditure Frameworks. Discussion and conclusion follows in the final section.

Some of the major weaknesses in Traditional Budgeting are:

- The budget preparation process did not link the achievement of objectives and meeting of targets with the funds required: there was greater emphasis on control of inputs and less on improving performance of the sector through meeting its objectives and targets.

- The recurrent budget was prepared on an incremental basis (adding a percentage to last year's estimates) without reviewing whether the activities being funded should be continued.
- Activities continued every year while resources were declining; therefore some activities which were critical were under funded.
- The classification of the budget did not show programs or activities (e.g. provision of extension services) but only types of expenditure (e.g. fuel).
- Even where the budget format had moved to programs and activities, the structure often reflected the existing organizational structure and was not closely linked to performance management or to the national or sector planning documents.

Budgeting for the Medium-Term; Many countries have introduced a Medium-Term Budget Framework (MTBF) to support strategic prioritization and sustainable fiscal planning beyond the horizon of annual budgets. The purpose of an MTBF is to indicate the size of the financial resources needed during the medium term, usually between three to five years, in order to carry out existing policy. All OECD countries have Medium-Term Frameworks, and many developing countries have implemented, or are in the process of implementing, similar tools. Medium term budgeting has been implemented in many countries, but with varying degrees of success. Highest level political commitment is crucial in ensuring that such a reform takes root. When medium term planning is widely considered to be a 'technical' exercise for bureaucrats, and politicians do not buy into the process, the framework is unlikely to acquire the status and authority that it needs in order to become entrenched and deliver improvements.

A History of Multi-Year frameworks; Medium-term frameworks are institutional tools aimed at extending the planning horizon of public policies beyond the annual budget schedule but without the characteristic deficiencies of medium-term development plans (Shack, 2008). The idea of multi-year framework was introduced in Australia in mid 1980s. However, this framework did not link with previous forward budget estimation and did not clearly connected with annual budgeting system. Multi-year frameworks were suggested during 1980s and 1990s by many OECD countries; Denmark, New Zealand, Norway, Netherlands, et., Predominantly, IMF is being the main supporter of MTEF in developing countries.

According to a World Bank report (2001), at the beginning of the century there were some 25 countries in Africa, Asia, Latin America, and Eastern Europe in different stages of implementing or adopting MTFs, while ten more countries were considering them. The introduction of the frameworks occurred in a short period of time; of the existing cases in 2001, 90 percent had been implemented. The cornerstone of the MTFs are the macroeconomic projections (basically the forecasts regarding economic growth and tax revenues), which increase the transparency of fiscal policy and the predictability of financial flows. This information helps to establish expenditure levels compatible with the level of indebtedness and the resources in the economy over the medium term. The level of depth with which the MTF is promoted and the types of projections included determine the type of framework that is used (Oxford Policy Management, 2000).

A framework with a smaller number of projections is called a medium-term fiscal framework (MTFF). It is usually limited to establishing fiscal policy objectives and presenting a set of projections and comprehensive goals in respect to macroeconomic and fiscal outcomes. Usually, the central variable of the analysis is the evolution of the public debt with respect to gross domestic product (GDP). In turn, other variables are considered in relation to the construction of this variable, such as the evolution of expenditures and government receipts, inflation, debt, and GDP. Second in terms of the number of projections is the medium-term budget framework (MTBF or basic MTEF). This framework includes the projections in the MTF and adds medium-term expenditure estimates for individual administrative units. The objective is to provide some predictability to expenditures across a unit that is consistent with overall fiscal discipline. The projections that typify this approach are those that classify expenditures by purpose-function, sector, or ministry. Finally, the Medium-Term Expenditure Framework (or expanded MTEF) is a broader instrument which adds elements of program and results-based budgeting. This instrument is supposed to increase the efficiency of public spending. The MTEF can adopt different degrees of detail in its expenditure projections, up to the point that all of the classifications of the annual budget are replicated. In this regard a Multi-Year perspective in expenditure planning and budgeting has been lacking in India.

Common weakness in India: The enactment of the FRBM Act and stipulation of presenting a Medium Term Fiscal Policy (MTFP) along with the budget brought back the issues once again into the budgeting system. However, the MTFP mandates are confined to presenting three year rolling targets relating to major fiscal indicators such as revenue deficit, fiscal deficit, tax revenue and outstanding liabilities as percent to GDP. These fiscal indicators are derived from a macroeconomic framework. A detailed medium term expenditure framework for various sectors is not worked out by projecting expenditure implications of programmes undertaken for outward years. The budgeting thus remains strictly annual without a multi-year perspective relating to expenditure commitments of various sectors. It is maintained that the five year plans in India provide the basis for a multi-year perspective for resource allocation. The Planning Commission of India, in consultation with the Ministry of Finance relating to likely resource availability, allocates annual limits for plan expenditure which is reflected in the final budget estimates of ministries/departments. However, the economic planning and the budgeting differ in their scope and time span. While the plans provide a conceptual framework by focusing on various sectors in the economy, the budget is more concerned with systems of control over the use of funds by government and pays more attention to financial aspects. There are divergences between plan and budget in resource mobilization and allocation and organizational structure. New investments may be funded even when there are insufficient recurrent costs to operate and maintain the new infrastructure. It is not uncommon to initiate major projects and schemes which are not provided for in the plan. This results in changes in allocation for other projects and schemes thereby diluting plan objectives. *Further, in the context of current budgetary practice, the link between the plan and the budget is weak*.

In the process of budget preparation the plan allocations are dispersed over various heads and sub-heads of expenditure. It needs to be noted that while the plans in India are prepared scheme-wise and sector wise, the budgets are formulated under different heads and sub-heads, which is followed in the accounting system as well. It takes considerable effort to link the plan objectives of the various schemes/projects to the expenditures under various heads and sub-heads. Integration of planning and budgeting, a key requirement for performance of government sectors, is possible under a multi-year expenditure planning. A multi-year perspective to budgeting is necessary as a single year is not sufficient to expenditure priorities. Also a realistic multi-year expenditure planning is an important requirement for performance oriented budgeting, linking resources to policy objectives. A multi-year approach to expenditure planning depends on getting unbiased revenue forecasts in the medium term that provides the available resource envelope for the government to formulate different developmental schemes/programmes within the envelope to achieve the sector objectives.

A long term and permanent target for the Central Government should be maintained, at the minimum, a zero revenue deficit. In essence, this target is based on the 'golden rule' which is simply that, in the absence of economic emergencies no economic agent should borrow to finance current consumption. Borrowing should be undertaken for investment purposes only. In the context of the public sector, this requires the government not to use national savings to finance consumption. Thus, all items of consumption expenditure need to be financed from current receipts, a practice which is widely implemented in most countries that have successfully addressed the issue of fiscal responsibility. While some allowances may be made for revenue deficits during recessionary phases, the medium-term fiscal framework must plan for all current expenditures to be financed entirely out of current revenues. This is an essential requirement for prudent long term fiscal policy. It is salutary to note the importance that has been attached to maintaining progress towards a zero revenue deficit in the speeches of all the Finance Ministers since the passing of the FRBM Act, even in a situation where a high growth rate and a comfortable balance of payments position afforded them room to maneuver and where, unlike in the 1990s, the deficit situation posed no immediate threat to fiscal solvency.

Fiscal arrangements such as national fiscal rules, independent public institutions involved in the budget process and medium-term budgetary frameworks for fiscal planning have been the main subject of a relatively recent research stream, which has been triggered by the increasing resort to these elements in the fiscal policy making. For instance, the report on the SGP reform endorsed by the European Council in March 2005 states that *"national budgetary rules should be complementary to the Member States' commitments under the Stability and Growth Pact"* and that *"national institutions could play a more prominent role in budgetary surveillance to strengthen national ownership, enhance enforcement through national public opinion and complement the economic and policy analysis at EU level". (13th Finance Commission Report)*

Studies dealing with the International experience of Multi–Year Frameworks (MTFs)

The issue of whether absorption of scaled up aid will lead a real appreciation of the exchange rate, and with what effect? Countries will have to be satisfied that aid can foster higher productivity and sustained competitiveness. Moreover, how governments can formulate a Medium Term Fiscal Framework (MTFF) that is ambitious in its goals for absorbing aid, prudent in terms of the sustainability of programmes and governments finances, and supportive of macro stability. However, fiscal policy should be formulated in the context of an ambitious MTFF that is based on an aid scenario that is both ambitious yet realistic (Peter S.Heller et.al, 2006). Strengthening Chile's Rules-based fiscal framework (simplifying the calculation of the structural balance; enhancing the rule's flexibility, transparency and accountability; and complementing it with a medium-term fiscal framework) and provided an over view of how the structural balance rule has helped Chile to address its main fiscal challenges and risks. By insulating public spending form short-term copper price fluctuations and the business cycle, the rule has helped preserve fiscal discipline. The implementation of structural balance rule has made several changes the government should adopted commission to improve the rule more effective and efficient (Teresa Daban, (2011).

Rules-based fiscal frameworks in France, Germany, Italy, and Spain the four largest economies in the euro area found that, to avoid pro cyclicality, these four countries would benefit from incorporating spending rules on deficit and debt targets (Daban et.al, 2003). Allen Schick (2009) highlights a number of conceptual issues in budgeting for fiscal space in OECD countries and reviewed the factors that contribute to the shrinkage of fiscal space including pressure on both the revenue and expenditure sides of the budget. Two of the most popular contemporary innovations have been applied; one of the methods is baseline projections and Medium Term Expenditure Framework (MTEF) build incrementalism into the routines of budgeting. However, expenditures for which fiscal space is created, likely to be concentrated in the immediate term? Or are the desired expenditures likely to require future expenditures, in which case some fiscal space will be needed in the future as well? And notes how the IMF can support appropriate efforts to create fiscal space (Heller.P, 2002a). Holmas M. and A. Evans (2003) mainly reviewed the implementation of Medium Term Expenditure Frameworks (MTEF); functioning, organizational and institutional integration and links being made to National Poverty Reduction Strategies (PRSP). The experience of Vietnam in its efforts at developing an education MTEF, by first examining what has happened in terms of developing an MTEF for the education and training sector in Vietnam, and where it has got to. Through a historical review, the budgetary reform processes takes considerable time and not a few false starts, Clarke Grayson (2006).

The relationship between MTEFs, PERs, and fiscal space assessments and provided a more detailed suggestive guidance for assessing fiscal space for health using the conceptual framework and lessons from seven case study countries: Cambodia, India, Indonesia, Rwanda, Tonga, Uganda and Ukraine (Ajay Tandon and Cheryl Cashin, 2010). Jose Sulemane (2006) describes fiscal performance and Budget system in Mozambique and major technical reforms, form changes to the legal framework through to particular interventions such as the development of a budget planning and control tool. Overall assessment of the reforms can be classified as a positive change, but they are still at an early stage. The trends are clearly positive. Erik J. Lundback (2008), a new fiscal management framework in Austrian government is about to implement a Medium Term Budget Framework (MTBF).

MTFF in Bulgaria as a case study for a transition economy aspiring to join the European Union (EU), a well designed Medium Term Fiscal Framework provides a coherent quantitative statement of the government's fiscal strategy and a degree of public commitment to it. Quantitative analysis predicts a reduction in the size of government allowing the private sector to become the engine of growth through a gradual cut in taxes and a commensurate adjustment in expenditures. A well designed framework can help to enhance the credibility of macroeconomic policies and facilitate preparations for EU membership and can effectively anchor annual budgets and help to reach policy objectives in Bulgaria and in other transition economies (Balazs Horvath and Istvan P.Szekely, 2001). Sami Ylaoutinen (2004) fiscal discipline; fiscal institutions refer to different rules and procedures under which the budget proposal is formed, approved and implemented. The statistical analysis suggests that countries with more centralized fiscal procedures have enjoyed better fiscal discipline. All stages of the budget process-planning-and decision-making, legislative and implementation and monitoring have been important in ensuring fiscal rigor.

Australia's medium-term fiscal policy framework is to achieve fiscal balance, on average, over the course of the economic cycle. Despite its medium-term focus, the framework allows for changes in the fiscal balance through the operation of automatic stabilizers and active discretionary policy. Pathways through which fiscal policy can affect the broader economy are briefly examined. Over the last 30 years, the net budget position has fluctuated between a surplus of 2.2 per cent of GDP in 1970-71 and a deficit of 4 per cent of GDP in 1992-93. While the fiscal position has varied dramatically over this period, since the floating of the Australian dollar there has been a steady recognition that monetary policy plays the leading role in counter-cyclical stabilization policy. Discretionary fiscal policy can still complement monetary policy and calls for direct fiscal support in downturns are unlikely to diminish in the future (Steven Kennedy et al., 2004). Assessing the role and impact of automatic stabilizers, and more broadly fiscal policy, in Australia, subsequently, various approaches can be used to examine the impact of fiscal policy on the broader economy. One approach is to use a large macro-econometric model to simulate the effects of fiscal shocks on the economy (Comely et al., 2002).

Current developments in the design and management of fiscal rules in the European Union may have negative implications for New Member States. An effective implementation of the SGP is crucial for NMs, perhaps even more than for “old” EU members. Indeed, NMs are still emerging markets, characterized by dependence on foreign finance, large current account deficit, weak financial markets, higher potential output growth, but also higher volatility of main macroeconomic variables. During the transition to the Euro, especially during the ERMI period NMs have to rely on tight fiscal policies in order to avoid sizable output costs and the risk of failing the transition to the Euro. The trends of fiscal policy in NMs highlighted the presence of two distinct patterns; one of low deficits in small countries and the other of high deficits in larger countries. The main drawbacks of current rules from the perspective of NMs countries reveal fundamental shortcomings of the EU fiscal framework, and especially its implementation (Fabrizio Coricelli, 2005).

The Fiscal Policy Response to Scaled up Aid: Macro–Fiscal and Expenditure policy challenges. This study attempted to test whether a Medium-Term Framework (MTF) is essential to effectively anchor fiscal policies in the context of scaled up-aid. This raises several questions. First, what is the appropriate fiscal framework for determining the overall spending path when the resource envelope is expanding? Second, what are appropriate short-term targets for monitoring fiscal developments? Third, how can fiscal targets in Fund-supported programs are made consistent with scaled-up aid? This study suggested that improving expenditure efficiency in Low-Income Countries (LICs), is critical for achieving the Millennium Development Goals (MDGs), and that, in most Low-Income Countries (LICs), effective utilization of scaled-up aid will require a further strengthening of fiscal institutions, including PFM systems. Low-Income Countries (LICs) will need additional technical assistance for strengthening their fiscal institutions (Teresa Ter-Minassian, 2007).

Analyses and experiences with MTEF in selected Southern and Eastern African namely: Botswana, Kenya, Namibia, Tanzania and Zambia. In analyzing the experiences, challenges and the future of Medium Term Expenditure Framework in the various countries, the study examined how countries have domesticated the Medium Term Expenditure Framework formulation, approval and implementation of the budget and to what extent they have managed to address the challenges in implementing the budget using the World Bank integrated comprehensive framework. A common achievement is the linking of policies, planning and budgeting and therefore shifting budgetary resources to priority areas, in particular, poverty reduction. Further, MTEF provides for a consultative process. This has improved transparency, particularly with regard to sectoral allocations. Preparation of medium term strategic documents has also helped investors to understand the government medium term strategy. Nonetheless, the findings also indicate that no country has been able to fully implement a complete MTEF (Lineth N.Oyugi, 2008).

Phub W. Dorji (2007) underlined some of the issues relevant to, specifically, the expenditure budgeting facts or, explicitly, the Medium Term Expenditure Framework process of the proposed framework. Such practices inevitably accrue to the poor in developing countries and explained why, in most developing countries, there is a need to restructure expenditure planning in this way as opposed to the traditional yearly budget cycles. The budget reforms and the Medium-Term Expenditure Framework in Kenya and many developing countries in Africa introduced planning systems after attaining independence but very little attention was given to budget systems as a tool for achieving plan targets. Recent recognition of the need to link budgets and plans has resulted in a wave of public expenditure management reforms. Although there has been increasing recognition of the need for budget systems to focus on outputs rather than merely to control inputs, major difficulties have been experienced in implementing and sustaining these systems, and also in budget management (Jane Kiringai and Geoffrey west, 2002).

The Afghanistan National Development Strategy document also work towards the attainment of the United Nations Millennium Development Goals. The government of Islamic Republic of Afghanistan has been to introduce a number of budget process reforms at strengthening public expenditure management and planning, and improving financial control. Public finance and expenditure management law and public finance expenditure management regulations to develop expenditure priorities and budget plans over the medium term and to base budget allocation decisions on the economic and social priorities of the country. This plan, agreed in august 2008 between Islamic Republic of Afghanistan and the international donors supporting Afghanistan's development, sets out the medium-term development framework covering the social, economic, governance and security agendas for Afghanistan cover the next five years (Principles of Budgeting in Afghanistan, 2011).

Studies relating with India experience of Multi–Year frameworks (MTFs)

Shankar Archarya (2002) reviews India's growth performance and assesses medium-term growth prospects in the light of relevant factors. These factors include the likely evolution of fiscal and savings-investment imbalances, financial sector performance, the role of the external sector, economic reforms and productivity, infrastructure constraints, problems in agriculture, the likely developments in labour supply and demand and governmental performance. In Medium Term growth perspective this study pointed out making sensible projections of medium-term economic growth is an intrinsically treacherous exercise. Easterly (2001), among others, has pointed out the variability of growth out comes across countries. Today's high performers can easily become tomorrow's laggards-Argentina is a classic example. Still, we have to attempt at crystal ball gazing and what can we say about the medium-term future?

Possible medium-term public debt targets for India, based on evidence from the economic literature on prudent levels of public debt and the feasibility for the country to meet a particular target over the next 5-6 years (Petia Topalova and Dan Nyberg, 2010). Herd and Leibfritz (2008) examine varies areas of India's fiscal policy frameworks, in particular fiscal discipline, the structure of government spending, the tax system and fiscal federalism. It describes pre- form over the past decades which, as part of the overall economic reform agenda, helped lifting the Indian economy to a higher growth path. It also discusses where further reforms are desirable to further reduce economic distortions and improve the provision of public services. High fiscal deficits have often been recorded during the past two decades, after the adoption of the fiscal responsibility and budget management act in 2003, fiscal discipline has significantly improved. As to government spending, it argues that, given the large share which is used to subsidize commercial undertakings, agriculture and food distribution, there is much room to improve the quality of spending and to target it better to improving infrastructure and reducing poverty. It describes the tax system which has undergone major reforms since the early 1990s. Nonetheless, there are still many exemptions and loopholes which suggest that a broadening of the tax bases would allow further reductions in tax rates and make the system simpler, fairer and more efficient.

India's experience pertaining to fiscal rules analyzed the fiscal performance at the central and sub national government levels. The implementation of FRBMA and the state FRLs provides a preliminary assessment of the impact of fiscal rules on fiscal discipline in India. They argued that fiscal rules need to be accompanied by complementary reforms to strengthen fiscal discipline. Proposed reform options, which encompass both design options for a successor FRBMA and complementary reforms to further, strengthen fiscal discipline in India. In particular, they suggest a simple fiscal rule which is anchored on a medium-term debt target with annual nominal expenditure growth rule. This approach tackles the deficit bias at its core and enables countercyclical fiscal policy through automatic stabilizers. Numerical targets should be supported by structural reform measures for both revenues and expenditures, while the coverage of the fiscal rules should be expanded (Alejandro Sergio Simone and Petia Topalova, 2009).

Ian Lienert (2010) Fiscal Responsibility Laws (FRLs) paper explored why so few advanced countries have adopted a FRL possible reasons include: advanced countries are more mature than emerging countries with respect to the aims of GRLs; they may be more resistant to, or see less need to, use law to attain the objectives of FRLs; advanced countries are not under pressure from the international community to adopt FRLs. Without commitment to fiscal discipline, adoption of a FRL may not contribute to attaining fiscal consolidation goals. Although a number of advanced countries have adopted FRL-type laws (which usually include fiscal stability provisions) only two advanced countries currently have in place a narrowly-defined FRL. The reasons for the apparent lack of necessity, desire or consensus to adopt a FRL are summarized.

Fiscal policy indicators in a rule–based framework: An Indian Experience. The effectiveness of the central government's fiscal policy stance in terms of its impact on the structural and cyclical components of fiscal deficit, the impact of macroeconomic developments on structural revenues and the efforts required for the government to move forward in attaining the FRBM targets. They adopted the broad framework developed by kremer et.al (2006) after making certain modifications so as to make it suitable to the nature of data disseminated for the Indian economy. Many international organizations said that the macro economic performance has enabled the government to achieve fiscal consideration. But they showed that the macro economic performance factors display an important role in augmenting the government's revenue, the strategy of rationalizing the tax rates, improved tax compliance and widening of tax base also contributed to the increase in the structural revenue of the government. Moreover, the combined impact of high economic growth and a greater role for discretionary fiscal policy should enable the government to meet the FRBM targets (Ranjit K. Pattnaik et.al, 2006).

Studies dealing with Medium–Term Fiscal Framework at State Level in India

The sub national fiscal sustainability Analysis: What we can learn from Tamil Nadu? "how to" of sub national fiscal sustainability analysis, and emphasis differences between fiscal sustainability analysis at the national and sub national levels. Using a case of Tamil Nadu analyzes those issues, which have generic implications for all Indian states and discussed key components of fiscal accounts. They show how it responds to reforms and shocks, and assesses sustainable fiscal scenarios. The fiscal adjustment in Tamil Nadu has left fiscal space for increases in infrastructure investment, which may be achieved without threatening fiscal sustainability. Assessing fiscal sustainability is a complex task as it requires one to form a view about how much fiscal adjustment is politically and socially feasible in the future, and how the outstanding stocks of liabilities are going to evolve over time. These in turn, depend on macro economics and financial market developments that are uncertain by nature (Elena Ianchovichina et.al, 2006).

However, fiscal discipline at the state level perverse incentives and paths to reform; the system of intergovernmental transfers and checks on sub national borrowing in India need radical reform if fiscal discipline is to be inculcated among states (Mukesh Anand et.al., 2001). The fiscal performance of a special category state i.e., Tripura by evaluating its performance over the time period 1990-91 to 2009-10 to see whether the fiscal performance of this state is improving or not after implementing the fiscal reform program. Tripura has been selected because the second largest state in the north eastern states in India in terms of population and area after Assam. The fiscal performance of Tripura state finances is better after implementing the FRBM act. The state has been maintaining revenue surplus and have reduced the deficits but in the context of own revenue effort the performance is not satisfactory since the best performance year is before the implementation of the act. Yet the performance in terms of expenditure and debt servicing is not satisfactory. Such performance revels that the state is heavily depending on central assistance in managing its revenue and expenditure. Therefore, the state would try to augment own revenue generation; implement effective expenditure management steps and debt servicing schemes to ensure fiscal sustainability in long run (Ajit Kumar Dash, 2011).

The base line projection (scenario) is an increase in the debt/GSDP ratio from 18 percent in 1998-99 to 28 percent in 5 years and to 37 percent in 10 years. Without some rationalization of the public distribution system, it may be difficult to reduce current account deficits in the medium term. Tentative projections of the likely fiscal trends in the medium term are made on the basis of number of assumptions about the variables that influence sustainability. The premium of fiscal reform for the state government so as to maintain the tempo of development and suggests briefly the most critical areas for immediate policy reform as well as process reforms to strengthen the planning and management of public expenditures in Tamil Nadu (S.ramakrishan, 1999). There is a higher reduction in the proportion of NPRE to TRR between that for 1999-2000 and the 2000-03 average of Orissa in comparison to all other states. However, the proportion of interest payment to TRR has increased considerably for Orissa from that of all states during the period under consideration. The importance of an evaluation of medium term fiscal framework in Orissa for the period 1999-2004 and targets fixed for 2002-2007. Accordingly, the approach of the Government of Orissa agreed to adopt the following assumptions for the period 2002-07 in the final MTFF for Programmatic Structure Adjustment Loan (PSAL) (S.S.Rath, 2005).

MTEF for Health in Andhra Pradesh; The MTEF was introduced in Andhra Pradesh in 2006 and it was first implemented in the budget in the financial year 2009-10. Its focus is on the development of a feasible planning framework that will guide investment and implementation to improve the health performance of Andhra Pradesh. The government adopts a National Health Account (NHA) framework for health expenditure analysis and forecasting as per

National health policy. The key challenge will be to turn good intentions into a credible budget formulation process. While it will be important to broaden and deepen the MTEF process at the sector level, it is crucial that there is a well phased central process which will provide the framework for the sector work as well as benefiting from the outputs of the sector level work. The MTEF made health expenditure projections by sources of funds, functions of care, providers and resource categories. This provided a clearer picture of: which category of providers are funds being allocated, what purpose it serves; and what resource costs are entailed. The MTEF exercises provided in-depth understanding of the budgeting processes; increasing role and flow of off-budget financing, financial management systems and areas of under-spending. Forecast at the State level which has been estimated based on pooling of requirements of various spending heads and does not provide district wise allocation of resources which is a much more effective planning tool (G.Surendra, George& Pattnaik, 2009).

MTEF for Health in Chhattisgarh; The state government has been making efforts to reduce poverty and improve human development and there has been significant progress in the provision of public health but considerable gaps exist both in terms of availability and quality of health services in state. The main purpose of developing MTEF in Chhattisgarh is not only provides the requirement of resources but also examines the feasibility of availability of resources by comparing the requirements with past allocations, overall government expenditure, economic growth of the state and the overall revenue generation. MTEF for health in Chhattisgarh and Financial Analysis cell be created within the Health Department either by contracting staff or by deputing interested staff in order that the personnel can be trained and the exercise carried out regularly.

MTEF for Water Resource Department in Rajasthan; Rajasthan Government adopted the MTEF for Water Resources Department, which lays down the methodology with detailed steps to be followed for preparing MTEF for the department. It has been kept simple taking into consideration the current budget processes and maturity of the planning and budgeting systems. As the capacity for preparation of MTEFs builds up, the exercise can gain more sophistication with inclusion of "value for money" concepts in budgeting and planning e.g. the likely impact of possible PPP/ PFI on the departmental expenditures and resource availability, bringing in more recent concepts of "cost-to-serve" in the departmental indicators (i.e. how to track and reduce the costs), and issues related to "targeted subsidies" that may lead to reduced overall expenditures through reduction of leakages.

Conclusion

At national level, deficit bias, time inconsistency, pro-cyclical fiscal stance, over borrowing and unsustainable public debt is the major fiscal problems, which the economies face. At the sub national level vertical imbalance, free rider common pool, unsustainable debts are the major fiscal problem. A Medium–Term Fiscal Policy Framework is implemented to solve these problems. An appropriate fiscal framework in the long-term can promote economic growth and in the medium–term can bring macroeconomic stability. The success of Medium Term fiscal frameworks, in particular, the growth response, depends on the quality and durability of the specific measures that underpin it. Transparency, and good governance, can also play an important role in achieving high quality, durable, adjustment. They should cover a broad definition of government. Those targeting a broader coverage of the public sector tent to be more successful than those using a narrow indicator are. In countries with a weak record of accomplishment of policy implementation, procedural rules may work better than numeric rules. Under these circumstances, fiscal discipline can be promoted through increased transparency and accountability.

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