FRBM Act

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Manifest Pedagogy

FRBM has been a hot topic since 2003 due to Government's inability to fulfill the prescriptions in the act. This has given rise to need for such an act and the basis for having 3% as Fiscal Deficit target. So, the questions either may be directly related to the act or related to analytical issues of such an act. To get a strong grip over the topic, aspirants need to know theoretical concepts like Fiscal deficit, Revenue Deficit etc.

In news

Government may find it difficult to stick to fiscal deficit target of 3.3%

Placing it in syllabus

Government Budgeting, LPG reforms and financial sector reforms.

Static Dimensions:

1. What is FRBM act?
2. What are different kinds of deficits?
3. Impact of Fiscal deficit on credit ratings?
4. Debt to GDP ratio
5. Laffer curve

Current dimensions:

1. K Singh committee on FRBM.
2. Fall in GST collections.
3. Election year and populism.

4. Growth in direct tax and indirect tax compliance.
5. Windfall due to oil price / taxes at centre and state level.

Content

What is FRBM act?

The FRBM law, 2003 was enacted to 'limit the government's borrowing authority' under Article 268 of the Constitution.

Four statements mandated under it:

1. **Macro-Economic Framework Statement**– It contains an assessment of the growth prospects of the economy along with the statement of specific underlying assumptions. It also contains an assessment regarding the GDP growth rate, the domestic economy and the stability of the external sector of the economy.
2. **Fiscal Policy Strategy Statement-** It outlines for the existing financial year, the strategic priorities of the Government relating to taxation, expenditure, lending and investments, administered pricing, borrowings and guarantees. It also explains how the current fiscal policies are in conformity with sound fiscal management principles and gives the rationale for any major deviation in key fiscal measures.
3. **Medium-Term Fiscal Policy Statement-** . It sets out the three-year rolling targets for five specific fiscal indicators in relation to GDP at market prices, namely (i) Revenue Deficit, (ii) Fiscal Deficit, (iii) Effective Revenue Deficit (iv) Tax to GDP ratio and (v) Total outstanding Central Government Liabilities at the end of the year.
4. **Medium-Term Expenditure Framework Statement-** It indicates three-year rolling target for expenditure along with delineation of the underlying assumptions and risks.

What are different kinds of deficits?

1. Revenue Deficit
2. Capital deficit
3. Budget deficit
4. Fiscal Deficit
5. Primary deficit

Impact of fiscal deficit on Credit Ratings

If Fiscal deficit is risky Credit Ratings will not upgrade because of the following **three risks of Fiscal Deficit (which came to be true this year), they are;**

1. Oil subsidies.
2. Volatility of Rupee.
3. Farm loan wavers and Failure of monsoon.

N.K Singh committee on FRBM

1. The panel to review India’s fiscal discipline rules has recommended a debt-to-GDP ratio of 60% for the general government (Centre + State) by 2022-23 – 40% (38.74%) for the central government and 20% for state governments.
2. The present debt/GDP ratio is 68%.
3. A fiscal deficit of 2.5% of GDP by financial year 2022-23.
4. The panel has introduced an escape clause that allows the government to skip the fiscal deficit target for a particular year, in situations that include national security concerns, acts of war, national calamities, a collapse of the agriculture sector and far reaching structural reforms with unanticipated fiscal implications.
5. The panel has recommended that the existing FRBM Act and rules be scrapped and a new Debt and Fiscal Responsibility Act be adopted and proposed the creation of a Fiscal Council.

6. FRBM panel suggests higher capital infusion for PSBs.

Fall in GST collections

Present GST collections are lower (upto 90,000Cr.) than projected (1 Lakh Cr. in one month). But government is getting higher collections in other areas and customs collections will benefit from a lower rupee; direct tax collections have improved from better compliance. Even in disinvestment government has raised much more through recent ETFs (Exchange Traded Funds).

Hence, there is a risk towards achievement of fiscal targets this year.

Test yourself: Mould your thoughts

Has FRBM been successful in making government responsive to fiscal prudence? Is it also true with respect to state governments?