

## **1. Fiscal Responsibility and Budget Management Act (FRBM)**

**Prelims: Economics- Budget**

**Mains: GS-III- Government Budgeting.**

### **Why in News?**

- ▶▶ States' gross fiscal deficit (GFD) has remained within the Fiscal Responsibility and Budget Management Act (FRBM) threshold of 3% of gross domestic product (GDP) during 2017-18 and 2018-19, a Reserve Bank of India report on State Finances said.

### **FRBM Act:**

- ▶▶ Fiscal Responsibility and Budget Management (FRBM) Act enacted in 2003 by the Indian parliament aims at bringing financial discipline on government expenditure.
- ▶▶ Aimed primarily to bring a check on revenue deficit, the act strives to improve the overall management of public finance by controlling unchecked borrowings and imparting financial discipline.
- ▶▶ When it was introduced for the first time, its target was to bring down the fiscal deficit to 3 percent of the GDP by 2008.
- ▶▶ However, the act suffered several challenges, such as the global financial crisis of 2007, when it came to implementation due to several reasons.
- ▶▶ On more than one occasion, the target planned to be achieved was relaxed or time frame was extended.

### **NK Singh Committee:**

- ▶▶ A committee was set up under NK Singh in 2016 to review the act.
- ▶▶ The committee on its part recommended that the government should target a fiscal deficit that is 3 percent of the GDP by 2020 and bring it down to 2.5 percent by 2023.

### **Report Highlights:**

- ▶▶ "States' gross fiscal deficit (GFD) has remained within the FRBM threshold of 3 per cent of gross domestic product (GDP) during 2017-18 and 2018-19. This has, however, been achieved by sharp retrenchment in expenditures, in particular, capital expenditure.
- ▶▶ For 2019-20, states have budgeted for a consolidated GFD of 2.6 per cent of GDP with a marginal revenue surplus (as against revenue deficits in the previous three years).
- ▶▶ The report said sharp reduction in capital expenditure by states has potentially adverse implications for the pace and quality of economic development, given the large welfare effects of a much wider interface with the lives of people at the federal level.

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- ▶▶ “Currently, states employ about five times more people and spend around one and a half times more than the Centre. Moreover, public expenditure by states influences the quality of physical and social capital infrastructure of the economy
  - ▶▶ “States’ revenue prospects are confronted with low tax buoyancies, shrinking revenue autonomy under the GST framework and unpredictability associated with transfers of IGST and grants.

