2. Kerala Sought Relaxation of FRBM Rules

Prelims Syllabus: Budget

Mains Syllabus: GS-II Government policies and Interventions for Development in Various Sectors and issues arising out of Their Design and Implementation.

Why in News?

- To help fund the emergency relief package, Kerala proposes to borrow ₹12,500 crore from the market and has urged the Centre to provide Kerala with flexibility under the Fiscal Responsibility and Budget Management (FRBM) Act.

What is the FRBM Act?

- The Fiscal Responsibility and Budget Management Act (FRBM Act), 2003, establish financial discipline to Reduce Fiscal Deficit.

What are the objectives of the FRBM Act?

- The FRBM Act aims to introduce transparency in India's fiscal management systems.
- The Act's long-term objective is for India to achieve fiscal stability and to give the Reserve Bank of India (RBI) flexibility to deal with inflation in India.
- The Act was enacted to introduce more equitable distribution of India's debt over the years.

How does a relaxation of the FRBM Work?

- The law does contain what is commonly referred to as an **'escape clause'**.
- Under Section 4(2) of the Act, the Centre can exceed the annual fiscal deficit target citing grounds that include national security, war, national calamity, collapse of agriculture, structural reforms and decline in real output growth of a quarter by at least three percentage points below the average of the previous four quarters.

Key Features of the FRBM Act:

- The FRBM Act made it mandatory for the government to place the following along with the Union Budget documents in Parliament Annually:
  - ✓ Medium Term Fiscal Policy Statement.
  - ✓ Macroeconomic Framework Statement.
  - ✓ Fiscal Policy Strategy Statement.
- The FRBM Act proposed that revenue deficit, fiscal deficit, tax revenue and the total outstanding liabilities be projected as a percentage of gross domestic product (GDP) in the medium-term fiscal policy statement.

What are the Amendments Made?

- The Act has been amended several times.
- In 2013, the government introduced a change and introduced the concept of **effective revenue deficit**. This implies that effective revenue deficit would be equal to revenue deficit minus grants to states for the creation of capital assets.
- In 2016, a committee under **N K Singh** was set up to suggest changes to the Act. According to the government, the targets set under FRBM Act previously were too rigid.

What are the various recommendations made by N.K. Singh Committee?

- **Targets:** The committee suggested using debt as the primary target for fiscal policy and that the target must be achieved by 2023.
- **Fiscal Council:** The committee proposed to create an autonomous Fiscal Council with a chairperson and two members appointed by the Centre (not employees of the government at the time of appointment).
- **Deviations:** The committee suggested that the grounds for the government to deviate from the FRBM Act targets should be clearly specified
- **Borrowings:** According to the suggestions of the committee, the government must not borrow from the RBI, except when:
  - ✓ The Centre has to meet a temporary shortfall in Receipts.
  - ✓ RBI subscribes to government securities to Finance Any Deviations.
  - ✓ RBI purchases government securities from the Secondary Market.