

FRBM Act & Some Facts

- **The FRBM Act:** The Act was passed on August 26, 2003; therefore it is also called **Fiscal Responsibility and the Budget Management Act (FRBMA)**, 2003. FRBMA was brought into effect from July 5, 2004. It is a law enacted by the Government of India to ensure fiscal discipline – by setting targets including reduction of fiscal deficits and elimination of revenue deficit.
- ✚ **The main objectives of the act were:**
 1. To introduce transparent fiscal management systems in the country.
 2. To introduce a more equitable and manageable distribution of the country's debts over the years.
 3. To aim for fiscal stability for India in the long run
- ✚ **The FRBM Act, 2003 made it mandatory for the government to place the following along with the Union Budget documents in Parliament annually:**
 - i. Macro-Economic Framework Statement
 - ii. Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement
- ✚ **Initial FRBM Targets (to be met by 2008-09):**
 1. Central Govt. should adopt appropriate measures to reduce **fiscal deficit and revenue deficit**.
 2. **Revenue Deficit Target** – revenue deficit should be **completely eliminated** by **March 31, 2009**. The minimum annual reduction target was 0.5% of GDP.
 3. **Fiscal Deficit Target** – fiscal deficit should be **reduced to 3% of GDP** by March 31, 2009. The minimum annual reduction target was 0.3% of GDP.
- ✚ **FRBM Act Review Committee:**

Committee was constituted on the 17th of May, 2016

The FRBM Review Committee (**Chairperson: Mr. N.K. Singh**) submitted its report in January 2017. The Report was made public in April 2017. The Committee proposed a draft Debt Management and Fiscal Responsibility Bill, 2017 to replace the Fiscal Responsibility and Budget Management Act, 2003 (FRBM Act).
- ✓ **Key recommendations of the Committee and features of the draft Bill are summarized below:**
 1. **Debt to GDP ratio:** The Committee suggested using debt as the primary target for fiscal policy. A **debt to GDP ratio of 60% should be targeted** with a **40% limit (actually 38.7%)** for the **centre** and **20% limit** for the **states**. It noted that majority of the countries that have adopted fiscal rules have

targeted a debt to GDP ratio of 60%. The targeted **debt to GDP ratio should be achieved by 2023.**

2. **The committee recommended that the government should target a fiscal deficit of 3 per cent of the GDP in years up to March 31, 2020 cut it to 2.8 per cent in 2020-21 and to 2.5 per cent by 2023.**

Deficit and debt targets (% of GDP)

Year	Fiscal Deficit	Revenue deficit	Debt
2017-18	3.0%	2.1%	47.3%
2018-19	3.0%	1.8%	45.5%
2019-20	3.0%	1.6%	43.7%
2020-21	2.8%	1.3%	42.0%
2021-22	2.6%	1.1%	40.3%
2022-23	2.5%	0.8%	38.7%

- ✓ **Escape clause** refers to the situation under which the central government can flexibly follow fiscal deficit target during special circumstances. **This terminology was innovated by the NK Singh Committee on FRBM.**
- **Gender Budgeting:** The gender-budgeting is defined as “gender-based assessment of Budgets, incorporating a gender perspective at all levels of the budgetary process and restructuring revenues and expenditures in order to promote gender equality”. It is actually budgeting for gender equity. Through Gender Budget, the Government declares an amount to be **spent over the development, Welfare, Empowerment schemes and programmes for Females.**
 - ✓ Gender Budget Statement was first introduced in Budget 2005-06.
- **Fiscal consolidation:**
 - ✓ **Fiscal consolidation means strengthening government finances.** Fiscal consolidation is critical as it provides macroeconomic stability; **cuts wasteful expenditure;** it can enable government to **spend more on infrastructure and social sectors.** Tax reforms, **disinvestment, better targeting of subsidies** and so on are the **hallmarks of fiscal consolidation.**
- **Some Facts:**
 - ✓ **In India, the Budget is presented to Parliament on such date as is fixed by the President.** General Budget was earlier being presented at 5 P.M. on the last working day of February, **but since 1999 the General Budget is being presented at 11 A.M. on the last working day of February** and the first time by Yashwant

Sinha when he started presentation at 11.00 AM during 2001-02 Budget. Since 2017, the date of presentation of Budget was made to be February 1.

- ✓ **The Budget was presented at 5 PM.** It was 20 years before independence i.e. 1927 then, the British officials 'House of Lords' and 'House of Commons' from London also used to take part in the budget presentation. While it was 5 pm in India, it was 11:30 am here in London, that's why the budget was presented at 5 pm in the evening in India.
- ✓ The General Budget is presented in Lok Sabha by the Minister of Finance. The 'Annual Financial Statement' is laid on the Table of Rajya Sabha at the conclusion of the speech of the Finance Minister in Lok Sabha.
- ✓ **Budget was first introduced on 7th April, 1860**, two years after the transfer of Indian administration from East-India Company to British Crown. The first Finance Member, who presented the Budget, was **James Wilson**.
- ✓ **Independent India's first budget was presented by India's first Finance Minister R.K. Shanmukham Chetty, 5 pm on 26th November, 1947.**
- ✓ **Morarji Desai** is credited with presenting **maximum number of budgets in India: 10; and he is the only Finance Minister who presented budget on his birthday: February 29th in 1964 and 1968.**
- ✓ Usually the **Finance Minister presents the Budget** but there have been **instances of the Prime Minister taking up the role earlier.** In 1958, then Prime Minister **Jawaharlal Lal Nehru** became the first Indian PM to present the Budget after the resignation of then Finance Minister TT Krishnamachari. In 1970, then Prime Minister **Indira Gandhi** presented the budget when Finance Minister Morarji Desai resigned. In 1987-88, then **Prime Minister Rajiv Gandhi** presented the budget after then Finance Minister VP Singh resigned.
- ✓ **Railway Budget of India:** Following the recommendation of the 10 member-Acworth Committee in 1920-21, headed by British railway economist William Acworth. The "**Acworth Report**" led to reorganization of railways, **the railway finances of India were separated from the general government finances in 1924.**

- ✓ The decision to **merge the railway and general budgets** was mooted by Railway Minister Suresh Prabhu and endorsed by NITI Aayog's member **Bibek Debroy**. **In 2017 Railways Budget became as a part of General Budget**. Since 2017 **Railways Budget becomes a part of Union Budget**.
- ✓ The greatest contribution of **Liaquat as Finance Minister, however, was the budget he presented on February 28, 1947**. This was the first time when an **Indian presented the budget of his country and that also proved to be the last budget of British India**.
- ✓ **The budget 1992-93 presented by Manmohan Singh under P.V. Narasimha Rao, is often hailed as the most important budget of India ever created** because he opened the economy, encouraged foreign investments and **reduced peak import duty from 300 plus percent to 50 percent**.
- ✓ **Bahi Khata instead of briefcase**: As the first full-time finance minister, Sitharaman had made a significant shift in 2019 by starting the custom of carrying budget documents in a "Bahi Khata" (traditional red cloth) instead of briefcase. This was termed as an apparent shift from the "British hangover."
- ✓ **Paperless/Digital Budget**: In a first in India's history, the Budget 2021-22 presented by Nirmala Sitharaman entirely paperless unveiled a 'Made in India' tablet replacing the traditional briefcase.