Fiscal Responsibility & Budget Management Act (DI, Paper II)

Fiscal responsibility and budget management Bill was introduced in the parliament of India in the year 2000 for providing fiscal discipline to the institutionalised in the country. Subsequently FRBM act was passed in the year 2003 to improve the management of public funds, strengthen fiscal prudence and reduce its fiscal deficit.

Why was the FRBM act enacted?

In India the borrowing levels were very high in the 1990s and 2000s. Indian economy was weak as it had high fiscal deficit, high revenue deficit, and high Debt to GDP ratio. By 2003 many economists warned GOI, that condition is not sustainable. They advised legal steps to prevent India to fall into a debt trap.

Objectives of the FRBM Act

i) To introduce transparent fiscal management system in the country

ii) To introduce more equitable and manageable distribution of the country's debts over the years.

(iii) To aim for fiscal stability for India's in the long run.

FRBM review committee headed by NK singh

Recommendations:-

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

Latest FRBM Targets

The latest provisions of the FRBM act requires the govt to limit the fiscal deficit to 3% of the GDP by March 31, 2021 and debt ~~of~~ central govt to 40% of the GDP by 2024-25 among others.

what if there is no fiscal Discipline?

In that case govt may spend as it wishes. A country is just like a house excess exp lead to debt trap which may finally result in its collapse.

conclusion - The FRBM act seeks to achieve long-term macroeconomic stability while generating budget surpluses, prudential debt management limiting borrowings to cut down deficit and debt, greater transparency, removal of fiscal Impediments and providing a medium term framework for budgetary Implementation.