



KAMARAJ IAS ACADEMY
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Fiscal Responsibility and Budget Management (FRBM) Act

Published On: 16-11-2022

Why is in news? Undermining federalism, eroding States' autonomy

It was enacted in August 2003.

It is an act of the parliament that set targets for the Government of India to **establish financial discipline**, improve the management of public funds, strengthen fiscal prudence, and reduce its fiscal deficits.

It aims to make the Central government responsible for **ensuring inter-generational equity in fiscal management and long-term macro-economic stability**.

The Act envisages the **setting of limits on the Central government's debt and deficits**. It limited the **fiscal deficit to 3% of the GDP**.

It also mandates greater transparency in fiscal operations of the Central government and the conduct of fiscal policy in a medium-term framework.

The Budget of the Union government includes a **Medium Term Fiscal Policy Statement** that specifies the annual revenue and fiscal deficit goals over a three-year horizon.

The **NK Singh committee (set up in 2016)** recommended that the government should target a fiscal deficit of 3% of the GDP in years up to March 31, 2020 cut it to 2.8% in 2020-21 and to 2.5% by 2023.

Escape Clause: Under Section 4(2) of the Act, the **Centre can exceed the annual fiscal deficit target citing certain grounds** - National security, war, National calamity, Collapse of agriculture, Structural reforms, Decline in real output growth of a quarter by at least three percentage points below the average of the previous four quarters.

The primary objective was the **elimination of revenue deficit and bringing down the fiscal deficit**.

The **other objectives** included: Introduction of a transparent system of fiscal management within the country, Ensuring equitable distribution of debt over the years, Ensuring fiscal stability in the long run

The act also intended to **give the required flexibility to the Central Bank** for managing inflation in India.

Target:

As per the latest target of the FRBM Act:

Government is required to limit the fiscal deficit to 3% of the GDP by March 31, 2021.

Government is required to limit debt of the central government to 40% of the GDP by the year 2024-25.

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