

# FRMB Act

## [UPSC Notes]

### What is the FRBM Act?

FRBMA Full Form is Fiscal Responsibility and Budget Management Act. The Financial Responsibility and Budgeting Management Act (FRBM Act) was enacted by the Indian Parliament to institutionalize fiscal stability, reduce India's fiscal deficit, enhance macroeconomic stability, and overall maintenance of public funds by progressing toward a balanced budget and reinforcing fiscal frugality

- The main goal of the FRBM Act was to erase the country's revenue deficit (and then construct a revenue surplus) and reduce the fiscal deficit to a tolerable 3% of GDP by March 2008.
- However, due to the global financial crisis of 2007, the deadlines for implementing the act's aims were initially postponed and then suspended in 2009.
- In 2011, the Economic Advisory Council formally encouraged the Government of India to explore reinstating the provisions of the FRBMA, citing the ongoing recovery process.
- N. K. Singh is the current Chairman of the Review Committee for the Fiscal Responsibility and Budget Management Act, 2003, which is overseen by the Ministry of Finance (India).

The article below consists of a brief description of the FRBM Act, citing its importance in the context of UPSC.

### Enactment of FRBM Act 2003

India's then-Finance Minister, Mr. Yashwant Sinha launched the Fiscal Responsibility and Budget Management Bill (FRBM Bill) in December 2000. The FRBM Act was proposed due to high government borrowing, high fiscal & revenue deficit, and high debt to GDP ratio.

- Under the declaration of purposes and reasons, the bill first underlined the dire state of government finances in India, both at the national and state levels.
- It also aimed to teach the foundations of budgetary restraint to government officials at all levels.
- The FRBM bill was submitted with the broad goals of eliminating the revenue deficit by March 31, 2006, preventing government borrowing from the Reserve

Bank of India for three years following its enactment, and lowering the fiscal deficit to 2% of GDP by March 31, 2006.

- Furthermore, the plan called for the government's liabilities to be reduced to 50% of the expected GDP by 2011.

## Objectives of FRMB Act

The Fiscal Responsibility and Budget Management Act's principal goals were to:

- Establish transparent fiscal management mechanisms in the country.
- Provide a more equitable and controllable distribution of the country's debts over time.
- Achieve long-term fiscal stability for India.
- Furthermore, the act was supposed to provide the Reserve Bank of India with the required flexibility in managing inflation in India.

## Features of FRBM Act

The Central Government was required to specify the following via rules enacted by it:

- A strategy to reduce the revenue shortfall by March 31, 2008, by setting annual reduction targets beginning on the day the act was signed into law.
- Annual targets for acquiring contingent liabilities in the form of guarantees and total liabilities as a percentage of GDP reduction of the country's annual fiscal deficit.

As per the FRMB Act, the following documents must be released along with the Budget annually.

- Macroeconomic Framework Statement
- Medium Term Fiscal Policy Statement
- Fiscal Policy Strategy Statement

In the Medium Term Fiscal Policy Statement, four factors for fiscal health will be discussed as projections

- Revenue deficit as a percentage of GDP
- Fiscal deficit as a percentage of GDP
- Tax revenue as a percentage of GDP, and
- Total outstanding liabilities as a percentage of GDP

## FRMB Act - N K Singh Committee

In 2003, the Fiscal Responsibility and Budget Management (FRBM) Act was passed, which established goals for the government to meet in order to eliminate fiscal deficits. The targets were moved around a few times.

- The government formed a committee to evaluate the FRBM Act in May 2016, led by NK Singh. The targets were seen to be overly rigorous by the government.
- According to the committee, the government should aim for a fiscal deficit of 3% of GDP in the years leading up to March 31, 2020, then reduce it to 2.8 percent in 2020-21 and 2.5 percent in 2023

## Latest Changes in FRBM Act 2003

The Union Budget 2021 saw some amendments to FRBM Act which are as follows:

- The rolling targets for budget deficits were not included in recent amendments to the FRBM Act Medium Term Fiscal Policy Statement in both 2021-22 and 2022-23.
- The government's goal in Budget 2022 is to reduce the fiscal deficit to less than 4.5% of GDP by 2025-26.
- The budget deficit target for 2022-23 is anticipated to be 6.4% of GDP. It's a measure of how much money the government borrows to cover its expenses.
- The revenue shortfall for 2022-23 is expected to be 3.8% of GDP. It describes the government's need to borrow money to cover expenses that may not provide a profit in the future.
- According to the revised calculations, the fiscal deficit will be somewhat higher than the budget forecast of 6.9%, while the revenue shortfall will be lower at 4.7%.
- In 2022-23, the primary deficit objective is expected to be 2.8% of GDP.
- Interest payments have increased from 36% in 2011-2012 to 42% in 2020-21. Budget predictions show that by 2022-23, this share will have risen to 43%.