The Fiscal Responsibility and Budget Management Bill

2.40 The Committee on Fiscal Responsibility Legislation was constituted on 17th January, 2000 to go into various aspects of the fiscal system and recommend a draft legislation on fiscal responsibility. This was followed by an announcement in the Budget 2000-2001 for a strong institutional mechanism embodied in a "Fiscal Responsibility Act" and to bring the necessary legislative proposals to the House during the course of the year. Accordingly the Fiscal Responsibility and Budget Management Bill, 2000 was introduced in Lok Sabha in December, 2000.

2.41 The proposed law casts an obligation on the Government itself to strengthen the institutional framework for conduct of prudent and accountable fiscal policy and pave the way for promoting greater macro-economic stability. The proposed Fiscal Responsibility and Budget Management legislation will provide a legal and institutional framework to bring down the fiscal deficit, contain the growth of public debt and stabilise debt as a proportion of GDP over the medium term. It binds future governments to a pre-specified path of fiscal consolidation. This covers only the finances of the Central Government. The matter regarding similar legislation at State level will be for State Governments to pursue. The Bill proposes elimination of revenue deficit and progressive reduction of the fiscal deficit to not more than 2 per cent of gross domestic product within a period of five financial years following the promulgation of the law. Besides, the proposed Bill contains provisions which will ensure flexibility in fiscal management under extraordinary circumstances like natural calamities and war. Under borrowing related principles, it is proposed to prohibit certain types of borrowing from the Reserve Bank of India. The Bill envisages that within a period of ten financial years, the total liabilities (including external debt at current exchange rate) do not exceed fifty per cent of the estimated gross domestic product. The salient features of the proposed legislation are given in the Box 2.5.

BOX 2.5

The Fiscal Responsibility and Budget Management Bill, 2000

The Important features of the Bill, inter alia, provide as under:

- Laying before both Houses of Parliament, along with the annual Budget in each financial year the following statements of fiscal policy: (a) Medium-term Fiscal Policy Statement; (b) Fiscal Policy Strategy statement and; (c) Macro-economic Framework Statement.
- The Medium-term Fiscal Policy Statement shall set-forth a three-year rolling target for prescribed fiscal indictors with specification of underlying assumptions. Besides, the Medium-term Fiscal Policy Statement shall include an assessment of sustainability relating to: (i) the balance between revenue receipts and revenue expenditures and; (ii) the use of capital receipts including market borrowings for generating productive assets.
- The Fiscal Policy Strategy Statement shall, inter alia, contain:
  - (a) the policies of the Central Government for the ensuing financial year relating to taxation, expenditure, market borrowings and other liabilities, lending and investments, pricing of administered goods and services, securities and description of other activities, such as, underwriting and guarantees which have potential budgetary implications;
  - (b) the strategic priorities of the Central Government for the ensuing financial year in the fiscal area;
  - (c) the key fiscal measures and rationale for any major deviation in fiscal measures pertaining to taxation, subsidy, expenditure, administered pricing and borrowings;
  - (d) an evaluation as to how the current policies of the Central Government are in conformity with the fiscal management principles set out in Fiscal Policy Strategy Statement and the objectives set out in the Medium-term Fiscal Policy Statement.
- The Central Government shall take appropriate measures to eliminate the revenue deficit, bring down the fiscal deficit and build up adequate revenue surplus and in particular shall:
  - (a) reduce revenue deficit by an amount equivalent to one-half per cent, or more of the estimated gross domestic product at the end of each financial year beginning on the 1st day of April, 2001;
  - (b) reduce revenue deficit to nil within a period of five financial years beginning from the initial financial year on the 1st day of April,2001 and ending on the 31st day of March 2006;
  - (c) build up surplus amount of revenue and utilise such amount for discharging liabilities in excess assets;
  - (d) reduce fiscal deficit by an amount equivalent to one-half per cent or more of the estimated gross domestic product at the end of each financial year beginning on the 1st day of April, 2001;
  - (e) reduce fiscal deficit for a financial year to not more than two per cent of the estimated gross domestic product for that year, within a period of five financial years beginning from the initial financial year on the 1st day of April, 2001 and ending on the 31st day of March 2006;
  - (f) not give guarantee for any amount exceeding one-half per cent of the estimated gross domestic product in any financial year and;
  - (g) ensure within a period of ten financial years, beginning from the initial financial year on the 1st day of April,2001, and ending on the 31st day of March, 2011, that the total liabilities (including external debt at current exchange rate) at the end of a financial year, do not exceed fifty per cent of the estimated gross domestic product for that year.
- Prohibition of direct borrowings by the Central Government from the Reserve Bank of India after three years except by way of advances to meet temporary cash needs in certain circumstances.
- Central Government to take suitable measures to ensure greater transparency in fiscal operations and to minimization of, as far as practicable, secrecy in the preparation of the annual budget.
- Quarterly review of the trends in receipts and expenditures in relation to the budget by the Finance Minister and placing the outcome of such reviews before both Houses of Parliament.
- The Central Government to cut expenditure authorizations in a proportionate manner, while protecting the “charged” expenditure, whenever there is a shortfall of revenue or excess of expenditure over specified targets.
- Finance Minister to make a statement in both Houses of Parliament explaining any deviation in meeting the obligations cast on the Central Government under this Act and the remedial measures the Central Government proposes to take.
- Relaxation from deficit reduction targets to deal with unforeseen demands on the finances of the Central Government on account of national security or natural calamities of national dimension.