

Fiscal Responsibility and Budget Management Act, 2003

2.38 Concerned over the deterioration in the fiscal situation, in 2000, the Government of India had set up a Committee to recommend draft legislation for fiscal responsibility. Based on the recommendations of the Committee, the Government introduced the Fiscal Responsibility and Budget Management (FRBM) Bill in December 2000. In this Bill, numerical targets for various fiscal indicators were specified. The Bill was referred to the Parliamentary Standing Committee on Finance. The Standing Committee recommended that the numerical targets proposed in the Bill should be incorporated in the rules to be framed under the Act, rather than the Act itself. Taking into account the recommendations of the Standing Committee, a revised Bill was introduced in April, 2003. The Bill was passed in Lok Sabha in May, 2003 and in Rajya Sabha in August, 2003. After receiving the assent of the President, it became an Act in August, 2003. The enactment of FRBM Act marks a watershed in fiscal reforms. The Act provides an institutional framework binding the Government to pursue a prudent fiscal policy. The Act casts responsibility on the Central Government to ensure inter-generational equity in fiscal management and long-term macroeconomic stability by achieving sufficient revenue surplus, removing fiscal impediments in the effective conduct of monetary policy and prudential debt management through limits on borrowings and deficits. The rules under the Act would be notified shortly. The main features of the legislation are listed in Box 2.3.

Box 2.3 : The Fiscal Responsibility and Budget Management Act, 2003

- Central Government to take appropriate measures to reduce the fiscal deficit and revenue deficit so as to eliminate revenue deficit by March 31, 2008 and thereafter build up adequate revenue surplus.
- Rules to be made under the Act to specify the annual targets for reduction of fiscal deficit and revenue deficit, contingent liabilities and total liabilities.
- The revenue deficit and fiscal deficit may exceed the targets specified in the rules only on grounds of national security or national calamity or such other exceptional grounds as the Central Government may specify.
- The Central Government shall not borrow from the Reserve Bank of India except by way of advances to meet temporary excess of cash disbursements over cash receipts.
- Reserve Bank of India not to subscribe to the primary issues of the Central Government securities from the year 2006-07.
- Central Government to take suitable measures to ensure greater transparency in its fiscal operations.
- Central government to lay in each financial year before both Houses of Parliament three statements viz., Medium Term Fiscal Policy Statement, Fiscal Policy Strategy Statement and Macroeconomic Framework Statement along with the Annual Financial Statement and Demands for Grants.
- Finance Minister to make a quarterly review of trends in receipts and expenditure in relation to the Budget and place the review before both Houses of Parliament.