

Fiscal Responsibility and Budget Management (FRBM) Act, 2003 - An Over View

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1. Introduction

Fiscal Responsibility and Budget Management (FRBM) bill was introduced in Parliament in December 2000 in order to restore fiscal discipline and recommend proper public financing imputes. The bill was referred to the Parliamentary Standing Committee on Finance, which suggested some changes in the original draft. On the recommendation of the Standing Committee, necessary amendments were made in the FRBM Bill in April 2003 and after being passed by both the Houses of Parliament, it received the assent of the President on August 26, 2003.

The Fiscal Responsibility and Budget Management (FRBM) Act, 2003, was brought into force on July 5, 2004. FRBM Act gave a medium term target for balancing current revenues and expenditures and set overall limits to the fiscal deficit at 3% of GDP to be achieved according to a phased deficit reduction roadmap. The FRBM Act enhanced budgetary transparency by requiring the government to place before the Parliament on an annual basis reports related to its economic assessments, taxation and expenditure strategy and three-year rolling targets for the revenue and fiscal balance. It also required quarterly progress reviews to be placed in Parliament. The Act aims at reducing the gross fiscal deficit by 0.5% of GDP in each financial year beginning on April 1, 2000. As a result of the efforts taken, fiscal deficit as a proportion of GDP started declining.

However, an effective management of Public Finances, Deficits & Debts can be enacted only with conscious reforms in the following areas

- a) Stability and long-term sustainability of results-oriented budgeting System
- b) Effectiveness of delegation of Financial Powers
- c) Issues in the transitioning process from cash system to cash-less system[demonetization]
- d) Accountability, Governance, fiscal transparency and Reliability
- e) Effectiveness of financial control, reporting and monitoring

In the recent years, studies and recommendations made by Government appointed committees and expert bodies have identified areas that need attention to strengthen the System of Management of Debts & Public Finances. India's growth rate average has declined over the years, the attributable reasons being the global financial slowdown, and the fiscal stresses being build up slowly on debts & deficits. The major aforesaid areas are discussed in detail below.

2. Budgeting System

To ensure a sustainable management of public finance, deficit and debt, the forecasting of main budgetary parameters for the medium term (up to 3 years) and the long term (more than 3 years) within the framework of integrated macroeconomic and monetary policies is a vital assignment. Besides, the realism and caution of economic forecasts and the assumptions providing the basis for budget planning, along with the existence of criteria for the realism and sustainability of budgets, and for the acceptability of the tax and debt burdens, and their observance in developing medium and long term budgetary policy needs to be ensured. The systematic analysis and management of fiscal debts & risks of the Indian government, including the medium and long term consequences of accepting new expenditure commitments from both Asian Development Bank and the allied Finance Providers or of trends leading to additional expenditures, taking account of the stability and predictability of budget revenues is also a key feature to be considered.

3. Delegation of Financial Powers and Institutional Reforms

Through efficient delegation of financial powers from the governmental Ministry to agencies, the departments enjoy considerable liberty to spend their own budget allocations and maintain their own accounts. While this greatly assists the departments to achieve their goals and ensuring value for money, indeed it also serves as balancing the role of advancing the departments in terms of sustainable management of public finance & debt.

There have also been attempts to improve institutional frameworks in intergovernmental areas. A Debt Management Office is established under the Ministry of Finance which is an attempt to separate debt and cash management from monetary management undertaken by the Reserve Bank of India and to change the existing debt management system. The independent Debt Management Office is expected to:

- a) formulate a long term debt & deficit management strategy consistent with sustainability requirements,
- b) create an annual borrowing calendar,
- c) forecast cash and borrowing requirements,
- d) formulate a risk management strategy, and
- e) develop and disseminate debt related information and data.

4. Banking Reforms

After the fulminate implementation of the famous "demonetization" in November, 2016, the whole story of management of Public Finances has changed. The government should trend very carefully between the need for

simulating demand in a weak economic environment after demonetization and counting the patch of fiscal consolidation. The fiscal deficit figures of the Centre stood @ 3.51% for the quarter ending immediately after to demonetization. Although this seems almost close to the budgeted estimates at the start of the annum, substantial credit should not be denied to the whole process of demonetization. It hence becomes an undeniable fact that only as the direct result of demonetization is the fiscal deficit of the country for the next three years recommended by the committee set up under former Revenue Secretary Mr. N.K. Singh @ 3% instead of the earlier 3.20%.

5. Accountability, Governance, Fiscal Transparency and Reliability

This emphasizes being open to the public about the structure and functions of government, responsibilities within the government, and relations between the government and the rest of the economy, fiscal policy objectives, public sector accounts, and fiscal projections. In ensuring good management of public finances and debt, it should be ensured to be fully accountable and transparent on:

- a) Public access to information on the situation and trends in public finances;
- b) Openness of government bodies' activities on the preparation, consideration, approval and implementation of budgets;
- c) The existence of and compliance with formalized requirements on budget
- d) Accounting and the preparation and presentation of budget reporting;
- e) Consideration and approval by the legislature of the main indicators of budget reporting;

- f) Preparation and presentation of budget reporting in accordance with the general principles which are necessary and adequate for the purposes of international comparisons.

Transparency in fiscal management has also been emphasized by countries in the growth phase like New Zealand, Australia, and the U.K. Transparency is best served when there is an explicit legal provision for it requiring elaboration of the guiding principles of fiscal policy, clear statement of objectives of changes in fiscal policies (both debt & deficit), the need for a long term focus on fiscal policy, and requirements for providing fiscal information to the public. The U.K., U.S., and New Zealand have enacted legislations for transparency, which require statements indicating the objectives for deficits and debt. International experience also suggests that expenditure rules have often proved to be effective. These rules typically emphasize ceilings on specific areas of expenditure like discretionary expenditure as opposed to non-discretionary expenditure and in some cases with respect to particular programmes.

6. Conclusion

It would thus be appropriate to conclude that management of public finance, debt and deficits forms integral part of management of a country's national economy, and also abasic part of the development of a country as a whole. It can also be appreciated that a lot of efforts have to be made to acquire a competitive edge over varied economies.

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