

The fiscal responsibility legislation

2.40 The FRBM Act, 2003 (as amended), which became effective from July 5, 2004 mandates the Central Government to eliminate revenue deficit by March, 2009 and to reduce fiscal deficit to an amount equivalent to 3 per cent of GDP by March, 2008. The annual targets for fiscal correction were to be specified by rules to be framed under the Act. Accordingly, Government notified the rules under the FRBM Act on July 2, 2004, which came into force on July 5, 2004. The rules made under

FRBM Act specify the annual targets for reduction of fiscal and revenue deficits, annual targets for assuming contingent liabilities in the form of guarantees and the total liabilities as a percentage of GDP (Box 2.7). The rules also prescribe the formats for the medium term fiscal policy statement, the fiscal policy strategy statement and the macro-economic framework statement, which are required to be presented to Parliament along with the annual financial statement. Fiscal indicators to be presented in the medium term fiscal policy statement are also prescribed in the rules.

Box 2.7 : The Fiscal Responsibility and Budget Management Rules, 2004

- Reduction of revenue deficit by an amount equivalent of 0.5 per cent or more of the GDP at the end of each financial year, beginning with 2004-05.
- Reduction of fiscal deficit by an amount equivalent of 0.3 per cent or more of the GDP at the end of each financial year, beginning with 2004-05.
- No assumption of additional liabilities (including external debt at current exchange rate) in excess of 9 per cent of GDP for the financial year 2004-05 and progressive reduction of this limit by at least one percentage point of GDP in each subsequent year.
- No guarantees in excess of 0.5 per cent of GDP in any financial year, beginning with 2004-05.
- Specifies four fiscal indicators to be projected in the medium term fiscal policy statement. These are, revenue deficit as a percentage of GDP, fiscal deficit as a percentage of GDP, tax revenue as percentage of GDP and total outstanding liabilities as percentage of GDP.
- For greater transparency in the budgetary process, rules mandate the Central Government to disclose changes, if any, in accounting standards, policies and practices that have a bearing on the fiscal indicators. The Government is also mandated to submit statements of receivables and guarantees and a statement of assets, at the time of presenting the annual financial statement, latest by Budget 2006-07.
- The rules prescribe the form for the quarterly review of the trends of receipts and expenditures. The rules mandate the Central Government to take appropriate corrective action in case of revenue and fiscal deficits exceeding 45 per cent of the budget estimates, or total non-debt receipts falling short of 40 per cent of the budget estimates at the end of first half of the financial year.