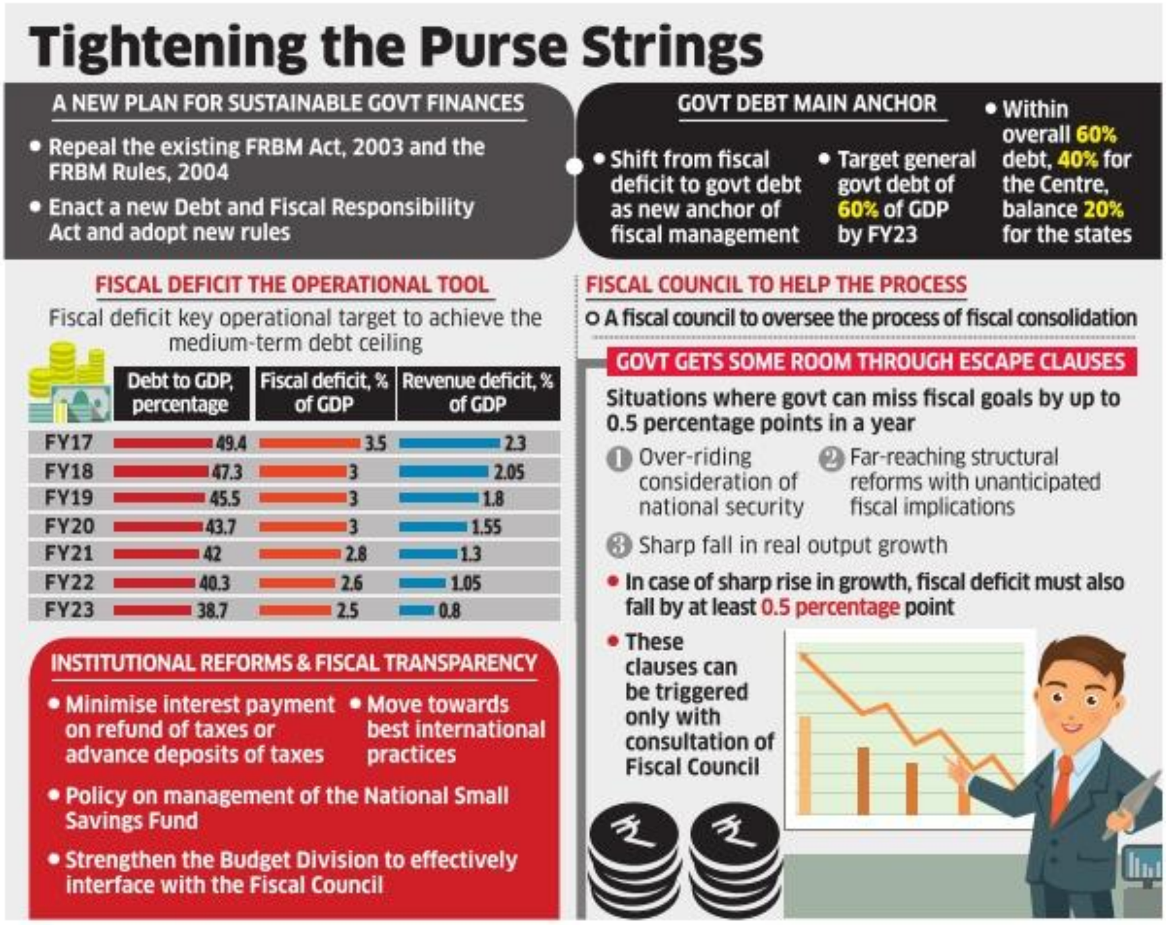
1. Fiscal Responsibility and Budget Management (FRBM) Act, 2003.

Recommendations at a glance



NK Singh led panel suggests achieving the target of reducing central debt to 40% of GDP and that of states to 20% via a gradual decline in fiscal deficit and revenue deficit of 2.5% and 0.8% of GDP, respectively. Major recommendations include:

2. Replace the existing Fiscal Responsibility and Budget Management (FRBM) Act, 2003.
3. Adopt fiscal deficit as the key operational target consistent with achieving the medium term debt ceiling. To be achieved via a gradual decline in fiscal deficit of 2.5% of GDP and revenue deficit 0.8% of GDP by 2023.

4. It has suggested a combined central and state government debt of 60% of GDP by FY 2023. The ratio of central debt to be 40% of GDP and 20% for the states taken together. The report provides some flexibility in achieving these targets through an escape clause to provide fiscal room in difficult economic circumstances.
5. The panel has also proposed a fiscal council that would guide the entire consolidation effort.
6. The panel has recommended a fiscal deficit of 3% for FY18, lower than 3.2% provided in the budget by the government.
7. It will make multi-year fiscal forecasts, prepare a debt and fiscal sustainability analysis that makes projections on key fiscal indicators, and provide an independent assessment of the government's performance on fiscal indicators.

The report has been put out for public comments.

Finance minister Arun Jaitley had announced the committee to review the fiscal framework in his budget for FY17. The committee members included Reserve bank of India (RBI) governor Urjit R Patel, former finance secretary Sumit Bose, chief economic advisor Arvind Subramanian, and National Institute of Public Finance and Policy (NIPFP) director Rathin Roy.

ESCAPE CLAUSE

Unlike the earlier law, this framework provides some flexibility to the government through an escape clause with specific conditions under which it can exceed the fiscal deficit target for a year by up to 0.5 percentage points.

The escape clause can be triggered in three scenarios that are:

1. Situation concerning national security, acts of war; calamities of national proportion; and collapse of agriculture, severely affecting farm output.

2. Far reaching structural reforms in the economy with unanticipated fiscal implications.
3. Sharp decline in real output growth of at least three percentage points below the average for the previous four quarters.

The escape clause can be invoked after formal consultations and advice of the fiscal council, and after providing a clear commitment to return to the original fiscal target in the ensuing fiscal year.

Chief economic advisor Arvind Subramanian has given a detailed dissent note in the report, largely questioning this clause. RBI governor Urijit Patel supported only a 0.3 percentage point deviation from the fiscal path.

The panel has provided for a buoyancy clause as well. If there is a sharp increase in real output growth of at least 3% above the average for the previous four quarters, fiscal deficit must fall by at least 0.5 percentage points below the target, the panel has said.

NEW LAW

The panel suggested repeal of the existing FRBM Act, 2003 and the FRBM Rules, 2004, and enactment of a new Debt and Fiscal Responsibility Act and Rules.

It also suggested numerous reforms in line with the recommendation and measures to improve fiscal transparency. The recommendation for a new law is in line with the Economic Survey's prescription that had said the over 13 yearold FRBM Act needs to be modified to provide fiscal policy direction for “the India of tomorrow“.

Announcing the committee, Jaitley had said, “While remaining committed to fiscal prudence and consolidation, a time has come to review the working of the FRBM Act, especially in the context of the uncertainty and volatility which have become the new norms of global economy.“

The panel said interstate allocation for state governments for the achievement of the overall debt and fiscal targets may be assigned to the 15th Finance Commission.

The committee also suggested expeditious review and finalisation of policy on management of National Small Savings Fund and exploring the feasibility of selling the portfolios of government loans or NSSF investments to raise resources for large financing requirements.

Source: news article entitled ‘Expert Panel Proposes Reducing Total Debt to 60% of GDP by FY23 Apr 13 2017 The Economic Times (Delhi)