

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:5769

ANSWERED ON:30.04.2010

IMPLEMENTATION OF FRBM

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Will the Minister of FINANCE be pleased to state:

- (a) the main features of Fiscal Responsibility and Budget Management (FRBM) along with the date since when the Act came into force;
- (b) whether the Government of India is monitoring the implementation of the Act;
- (c) if so, the details thereof also the achievement under the Act till date; and
- (d) the steps taken by the Government of India to ensure that all the State Governments fall in line?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 was notified on 26th August, 2003 and it came into force with effect from 5th July, 2004. The main features of the FRBM Act is (i) to reduce revenue deficit by an amount equivalent to 0.5 per cent or more of the GDP at the end of each financial year, beginning with financial year 2004-05 so as to eliminate revenue deficit by 31st March, 2009 (ii) Reduce fiscal deficit by an amount equivalent to 0.3 per cent or more of the GDP at the end of each financial year, beginning with financial year 2004-05 so that fiscal deficit is brought down to not more than 3 per cent of GDP by 31st March, 2009 (iii) the Government shall not give guarantees aggregating to an amount exceeding 0.5 per cent of the GDP in any financial year beginning with financial year 2004-05 (iv) the Government shall not assume additional liabilities (including external debt at current exchange rate) in excess of 9 per cent of GDP for the financial year 2004-05 and in each subsequent financial year, the limit of 9 per cent of GDP shall be progressively reduced by at least one percentage point of GDP (v) the Government shall not borrow from the Reserve Bank of India with effect from 1st April, 2006. However, the Government may borrow from the Reserve Bank by way of advances to meet temporary excess of cash disbursement over cash receipts during any financial year in accordance with the agreements which may be entered into by that Government with the Reserve Bank.

(b) As per sub-section (1) of Section 7 of the Act, the Finance Minister shall review every quarter the trends in receipts and expenditure in relation to the budget and place before both Houses of Parliament the outcome of such review. Further, according to Rule 7 of the FRBM Rules, if the outcome of such review at the end of second quarter of any financial year shows that -

(i) the total non-debt receipts are less than 40 per cent of BE for that year; or

(ii) the fiscal deficit is higher than 45 per cent of BE of that year; or

(iii) the revenue deficit is higher than 45 per cent of BE of that year, then,

(a) as required under sub-section (2) of section 7 of the Act, the Central Government shall take appropriate corrective measures; and

(b) as required under sub-section (3) of that section, the Minister-in-Charge of the Ministry of Finance shall make a statement in both Houses of Parliament explaining any deviation in meeting the obligations cast on the Government and also the remedial measures the Government proposes to take.

(c) The year-wise performance and achievements made during FRBM regime is as follows:

(as percentage of GDP)

Year	Revenue Deficit	Fiscal Deficit	Guarantees during the year	Additional Liabilities
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2003-04 3.6 4.5 -0.10 6.9

2004-05 2.5(3.1) 4.0 (4.2) 0.57 (0.5) 5.9(9)

2005-06 2.6 (2.6) 4.1 (3.9) 0.07 (0.5) 7.6 (8)

2006-07 1.9(2.1) 3.5(3.6) -0.02 (0.5) 5.9 (7)

2007-08 1.1(1.6) 2.7(3.3) -0.24 (0.5) 4.1 (6)

2008-09 4.5 (0.0) 6.0 (3.0) -0.16(0.5) 5.3 (5)

2009-10 (RE) 5.3 (0.0) 6.7 (3.0) 0.09 (0.5) 4.0 (4)

2010-11 (BE) 4.0 (0.0) 5.5 (3.0) (0-5) (3)

Figures in parenthesis are the targets for respective parameters. Note: Figures from 2008-09 are on revised GDP base.

(d) On the basis of recommendation of Twelfth Finance Commission (TFC), the Central loans from Ministry of Finance to States disbursed up to 31.3.2004 and outstanding as on 31.3.2005, were consolidated under Debt Consolidation and Relief Facility (DCRF) for a fresh term of 20 years, with repayment in 20 equal instalments carrying interest rate of 7.5 % per annum. The core recommendations which need to be incorporated in the FRBM legislation of the States before debt-reschedulement could be considered by Ministry of Finance are - (i) Eliminating revenue deficit by 2008-09 (ii) Reducing fiscal deficit to 3% of GSDP, or its equivalent defined as ratio of interest payment to revenue receipts (iii) Bringing out annual reduction targets of revenue and fiscal deficits (iv) Bringing out annual statement giving prospects for the State's economy and related fiscal strategy and (v) Bringing out special reports along with the budget giving details of number of employees in government, public sector and aided institutions and related salaries. With a view to provide fiscal stimulus in the prevailing economic situation, the target for reduction in fiscal deficit for the States was relaxed to 3.5 % of GDP in 2008-09 and 4% in 2009-10. Further, the target for elimination of revenue deficit was also relaxed in 2008-09 and 2009-10.

Out of 28 States, 26 States have enacted FRBM Acts. Two States, namely, Sikkim and West Bengal are yet to enact FRBM Act. These two States have, therefore, not been given the benefit of consolidation of Central loans (Ministry of Finance) and interest relief as recommended by TFC.

Benefits under DCRF scheme in the form of debt waiver were provided to performing States based on their achievements against the mandated targets.