

## UPSC Preparation

# Fiscal Responsibility & Budget Management (FRBM) Act - UPSC Economics Notes

**Latest Update** – In 2021-22, the government has not provided a target for the next three years and will amend the FRBM Act to accommodate the higher fiscal deficit. The fiscal deficit is targeted at 6.8% of GDP in 2021-22, down from the revised estimate of 9.5% in 2020-21 (4.6% in 2019-20). In the [Union Budget 2021](#) speech, the Finance Minister has announced the government's aim to steadily reduce fiscal deficit to 4.5% of GDP by 2025-26.

The Fiscal Responsibility and Budget Management (FRBM) Bill was introduced in the parliament of India in the year 2000 by Atal Bihari Vajpayee Government for providing legal backing to the fiscal discipline to be institutionalized in the country. Subsequently, the FRBM Act was passed in the year 2003. It is an act of the parliament that set targets for the Government of India to establish financial discipline, improve the management of public funds, strengthen fiscal prudence, and reduce its fiscal deficits.

The topic is important for [IAS Exam](#), hence this article will be talking about the FRBM act in detail which will be useful for the civil services exam.

## Latest Changes in FRBM Act with Union Budget 2021

1. The target of Fiscal deficit at 6.8% of GDP in 2021-22. (Understand what [Fiscal Deficit](#) is in the linked article.)
2. In 2021-22, the total expenditure proposed by the government is Rs 34,83,236 crore.
3. 123 percent change is seen in the expenditure allocated for [Jal Jeevan Mission](#).
4. The budget allocation for the welfare of women has seen a drop of 26 percent in comparison to revised estimates 2020-21.
5. 52.7 percent increase in allocation for welfare of SCs and 50 percent for STs.
6. The allocation for the North Eastern region has been increased by 32.7 percent.

The latest information related to the FRBM Act for the 2021-22 Financial year is given below:

**Table 8: Deficits (as % of GDP)**

	Actuals 2019-20	Revised 2020-21	Budgeted 2021-22
<b>Fiscal Deficit</b>	4.6%	9.5%	6.8%
<b>Revenue Deficit</b>	3.3%	7.5%	5.1%

Sources: Union Budget 2021-22; PRS.

Articles similar to FRBM Act are linked in the table below:

## Changes in FRBM Act with Interim Budget 2019-20

The Interim budget for the Financial Year 2019-20 was presented on Feb 1, 2019, in the parliament.

As per the latest data, the following changes have been incorporated :

1. Fiscal deficit pegged at 3.4% of GDP for 2019-20.
2. In 2019-20, total expenditure rises by 13.30% over 2018-19 RE.
3. 35.6% increase in allocation for welfare of SCs, 28% for STs.
4. Disinvestment target of Rs. 90,000 Crore set for 2019-20 (Learn about [Disinvestment Policy in India and DIPAM](#) in the linked article.)

Read the summary of [Union Budget 2020](#) for an upcoming exam in the linked article.

Aspirants can complement their reading with the following related articles:

The information related to the FRBM Act for the 2019-20 Financial year is given below:

### Fiscal Indicators – Rolling Targets as a Percentage of GDP

		Revised Estimates	Budget Estimates	(Projections)	
		2018-19	2019-20	2020-21	2021-22
1.	Fiscal Deficit	3.4	3.4	3.0	3.0
2.	Revenue Deficit	2.2	2.2	1.7	1.5
3.	Primary Deficit	0.2	0.2	0.0	0.0
4.	Gross Tax Revenue	11.9	12.1	12.1	12.2
5.	Non-tax Revenue	1.3	1.3	1.3	1.3
6.	Central Government debt	48.9	47.3	45.4	43.4

This is an important topic in the UPSC exam and other [government exams](#) like banking, SSC, RRB, etc.

## Why was the FRBM Act passed?

The primary objective was the elimination of revenue deficit and bringing down the fiscal deficit.

The other objectives included:

- Introduction of a transparent system of fiscal management within the country
- Ensuring equitable distribution of debt over the years
- Ensuring fiscal stability in the long run

The act also intended to give the required flexibility to the Central Bank for managing [inflation](#) in India.

## Features of the FRBM Act

- It was mandated by the act that the following must be placed along with the Budget documents annually in the Parliament:

1. Macroeconomic Framework Statement
  2. Medium Term Fiscal Policy Statement and
  3. Fiscal Policy Strategy Statement
- It was proposed that the four fiscal indicators i.e, revenue deficit as a percentage of [GDP](#), fiscal deficit as a percentage of GDP, tax revenue as a percentage of GDP, and total outstanding liabilities as a percentage of GDP be projected in the medium-term fiscal policy statement.

## Targets and Fiscal Indicators as per the FRBM Act

As per the latest target of the FRBM Act:

1. Government is required to limit the fiscal deficit to 3% of the GDP by March 31, 2021.
2. Government is required to limit debt of the central government to 40% of the GDP by the year 2024-25.

## Committees on the Fiscal Responsibility and Budget Management Act

In the year 2016, the NK Singh committee was set up by the government to review the FRBM Act. The task was to review the performance of the FRBM Act and suggest the necessary changes to the provisions of the act. The recommendations of the committee read that the government must target a fiscal deficit of 3 percent of the GDP in years up to March 31, 2020, subsequently cut it to 2.8 percent in 2020-21 and 2.5 percent by 2023.

Read about [NK Singh's Fiscal Deficit Committee](#) in the linked article.

### Conclusion

This article spoke about the FRBM Act, its provisions, and targets. It is a relevant topic for the UPSC 2021 and falls under the topic "Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment" in General Studies Paper 3. It is important to keep reading newspaper articles and editorials on this subject as it can be asked directly or indirectly in the IAS exam. Since there is a plethora of information on this subject, candidates should keep a note of all the points and material they have on this subject neatly classified.