Report Summary
FRBM Review Committee

- The FRBM Review Committee (Chairperson: Mr. N.K. Singh) submitted its report in January 2017. The Report was made public in April 2017. The Committee proposed a draft Debt Management and Fiscal Responsibility Bill, 2017 to replace the Fiscal Responsibility and Budget Management Act, 2003 (FRBM Act). Key recommendations of the Committee and features of the draft Bill are summarised below.
- **Debt to GDP ratio:** The Committee suggested using debt as the primary target for fiscal policy. A debt to GDP ratio of 60% should be targeted with a 40% limit for the centre and 20% limit for the states. It noted that majority of the countries that have adopted fiscal rules have targeted a debt to GDP ratio of 60%. The targeted debt to GDP ratio should be achieved by 2023. This ratio is expected to be around 70% in 2017.
- To achieve the targeted debt to GDP ratio, it proposed yearly targets to progressively reduce the fiscal and revenue deficits till 2023 (Table 1). Note that debt indicates the total outstanding liabilities of the government, while the fiscal deficit indicates new borrowings made in the year, and the revenue deficit indicates what part of these new borrowings have been used to cover revenue expenses.

Table 1: Deficit and debt targets (% of GDP)

Year	Fiscal Deficit	Revenue Deficit	Debt
2017-18	3.0%	2.1%	47.3%
2018-19	3.0%	1.8%	45.5%
2019-20	3.0%	1.6%	43.7%
2020-21	2.8%	1.3%	42.0%
2021-22	2.6%	1.1%	40.3%
2022-23	2.5%	0.8%	38.7%

Note: The draft Bill specifies limits for fiscal and revenue deficits. Debt-GDP ratio limits have been specified in the Committee Report.

- **Fiscal Council:** The Committee proposed to create an autonomous Fiscal Council with a Chairperson and two members appointed by the centre. To maintain its independence, it proposed a non-renewable four-year term for the Chairperson and members. Further, these people should not be employees in the central or state governments at the time of appointment.
- **Role of the Council:** The role of the Council would include: (i) preparing multi-year fiscal forecasts, (ii) recommending changes to the fiscal strategy, (iii) improving quality of fiscal data, (iv) advising the government if conditions exist to deviate from the fiscal target, and (v) advising the government to take corrective action for non-compliance with the Bill.
- **Deviations:** The Committee noted that under the FRBM Act, the government can deviate from the targets in case of a national calamity, national security or other exceptional circumstances notified by it. Allowing the government to notify these grounds diluted the 2003 Act. The Committee suggested that grounds in which the government can deviate from the targets should be clearly specified, and the government should not be allowed to notify other circumstances.
- Further, the government may be allowed to deviate from the specified targets upon the advice of the Fiscal Council in the following circumstances: (i) considerations of national security, war, national calamities and collapse of agriculture affecting output and incomes, (ii) structural reforms in the economy resulting in fiscal implications, or (iii) decline in real output growth of at least 3% below the average of the previous four quarters. These deviations cannot be more than 0.5% of GDP in a year.
- **Debt trajectory for individual states:** The Committee recommended that the 15th Finance Commission should be asked to recommend the debt trajectory for individual states. This should be based on their track record of fiscal prudence and health.
- **Borrowings from the RBI:** The draft Bill restricts the government from borrowing from the Reserve Bank of India (RBI) except when: (i) the centre has to meet a temporary shortfall in receipts, (ii) RBI subscribes to government securities to finance any deviations from the specified targets, or (iii) RBI purchases government securities from the secondary market.
- **Review Committee:** The draft Bill requires the centre to establish a committee to review the functioning of the Bill in 2023-24.
- **Dissent Note:** Mr. Arvind Subramanian submitted a dissent note. He stated that: (i) allowing for deviations if the output is 3% lower than the four quarter average, may not leave flexibility to tackle economic downturns and growth booms, and (ii) having multiple targets (debt, fiscal deficit and revenue deficit) with precise limits may make it difficult to achieve them all. He suggested having a single objective, i.e. placing debt on a declining trajectory, and proposed alternate limits to reduce debt and deficits till 2023. Further, he argued against specifying a revenue deficit target.

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