FRBM panel recommends new set of targets

Why in news?

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- A Fiscal Responsibility and Budget Management (FRBM) panel has recommended a **debt-to-GDP ratio** of 38.7% for the central government, 20% for the state governments together, a **fiscal deficit target of 2.5% of the GDP,** and a revenue deficit of 0.8%.
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- The committee is headed by **N.K Singh,** and the report was submitted to the government in January 2017, but was made public on April 12, 2017. But, there’s no indication as to whether the government will accept these recommendations.
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What is FRBM Act?

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- It is an Act of the Parliament of India to institutionalize financial discipline, reduce India's fiscal deficit, improve macroeconomic management and the overall management of the public funds by moving towards a balanced budget and strengthen fiscal prudence.
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- The main purpose was to **eliminate revenue deficit** (building revenue surplus thereafter) and **bring down the fiscal deficit** to a manageable 3% of the GDP by March 2008.
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- However, due to the 2007 international financial crisis, the deadlines for the implementation of the targets in the act was initially postponed and subsequently suspended in 2009.
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- The main objectives of the act were:\n
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    - to introduce transparent fiscal management systems in the country.
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    - to introduce a more equitable and manageable distribution of the country's debts over the years.
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    - to aim for fiscal stability for India in the long run.
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- N. K. Singh is currently the Chairman of the review committee for FRBM Act, 2003, under the Ministry of Finance.
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What the panel has recommended?

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- This and other recommendations form part of the **draft debt management and fiscal responsibility Bill,** which, if accepted by the present government, will replace the existing FRBM Act.
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- In the four-volume report it was in favour of reducing revenue deficit to GDP ratio steadily by 0.25% points each year.
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- With an aim to provide flexibility to policymakers within the fiscal framework, the panel, has suggested a **steady target of 3% from FY18 to FY20.**
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- It has also recommended certain strict **'escape clauses'** which will allow the govt deviate from the fiscal road map by 0.5% for any given year.
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- It suggested the setting up of a **‘fiscal council’,** an independent body which will be tasked with monitoring the government’s fiscal announcements for any given year.
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- It will provide its own **forecasts and analysis** for the same as well as **advise** the finance ministry on triggering the escape clauses.
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- To ensure these escape clauses are not misused by the government, the panel said they have been defined very narrowly and specifically.
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- The escape clauses are proposed for overriding consideration of national

security like acts of war, calamities of national proportion and collapse of agriculture, etc.,
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- They can be invoked by the Centre after formal consultations and advice of the fiscal council.
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- It also provided that it should be accompanied by a clear commitment to return to the original fiscal target in the ensuing fiscal year.
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- The panel’s report also says that the **focus of policymakers should be on reducing primary deficit** rather than fiscal deficit.
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Source: Business Standard & Live Mint

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