

# Govt may not tweak FRBM Act, again

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The Centre is unlikely to bring any amendments to the Fiscal Responsibility and Budget Management (FRBM) Act for the third year in a row.

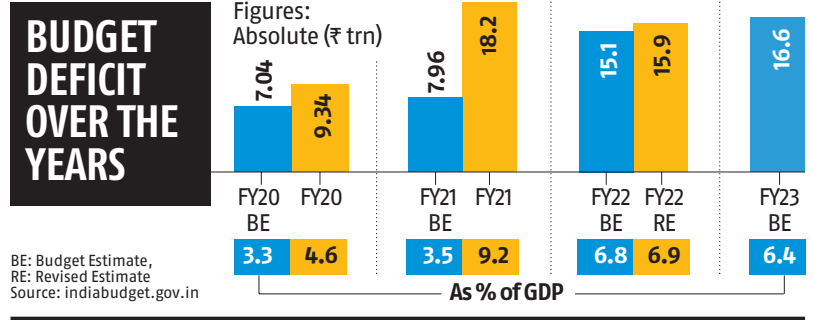
This is because it feels that the impact of the global slowdown on the Indian economy in 2023 may take a toll on expenditure commitments this fiscal year (FY24). *Business Standard* has learnt. However, the finance ministry may stick to its internal fiscal consolidation road map and the 2023 Union Budget may target a fiscal deficit of between 5.5 and 6 per cent of nominal gross domestic product (nominal GDP).

The road map aims for a fiscal deficit target of 4.5 per cent of GDP by 2025-26.

The FRBM Act was enacted in 2003. It was brought in to enable the central and state governments to make financially-sustainable budgets and prevent the governments from accumulating unsustainable debt.

It was enacted with a view to provide a legislative framework for reduction of deficit and debt to a sustainable level so as to ensure inter-generational equity in fiscal management and long-term macro-economic stability.

“While the government has its internal consolidation roadmap, there could still be deviations. Most developed economies



are heading for a recession, there is geopolitical uncertainty due to the war in Europe, and inflationary pressures still persist. All of this could impact revenue collections and expenditure commitments in FY24,” said a senior government official.

Fiscal deficit is the difference between a government’s expenditure and revenues when the former is higher. The last amendment to the FRBM Act set a deficit target of 3 per cent of GDP by 2020-21.

However, in the 2020 Union Budget, the target was relaxed to 3.5 per cent as permitted under the Act.

The Centre made use of the escape clause to deviate from the fiscal consolidation road map. The option allows the government to widen the deficit by 0.5 percentage points in times of exigencies such as a war or calamities of national propor-

tion. That was the last Budget before the pandemic, and all previous Budget assumptions were rendered moot.

The deficit ballooned to 9.2 per cent in 2020-21, and the target for FY23 is 6.4 per cent of GDP.

“While India’s economic foundations remain strong, it is vital for the government to retain requisite fiscal flexibility. This is to effectively respond to emerging contingencies till the pandemic-induced uncertainties ease. Hence, amendment to the FRBM law is not being proposed and fiscal projections for FY2023-24 and FY2024-25 are not being placed,” the finance ministry had said in the last medium-term fiscal policy statement. The statement was tabled in Parliament along with the 2022 Union Budget.

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