FRBM - A REVIEW

CBGA

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The most perfidious way of harming a cause consists of defending it deliberately with faulty arguments.

Friedrich Nietzsche

Executive Summary

The Indian Parliament, in August 2003, passed the Fiscal Responsibility and Budget Management Act (FRBMA), which imposes stringent fiscal discipline on the central government in its overall fiscal and macroeconomic management operations. The primary objectives behind having an FRBM, as highlighted by the Union Government, were (a) to maintain transparency in fiscal management systems in the country, (b) to bring inter generational equity in debt management and (c) to bring long term fiscal stability in the economy. It provided for three statements to be presented by the central government namely; (a) the Medium Term Fiscal Policy statement, (b) Fiscal Policy Strategy Statement and (c) Macro Economic Framework statement. Some salient features of this Act, in its present form, are as follows.

Major Targets Set in the FRBM Act

- Elimination of Revenue Deficit by March 2009
- Reduction of Fiscal Deficit to an amount equivalent to 3 % of GDP by March 2008
- Reduction of Revenue Deficit by an amount equivalent of 0.5 per cent or more of the GDP at the end of each financial year, beginning with 2004-05.
- Reduction of Fiscal Deficit by an amount equivalent of 0.3 per cent or more of the GDP at the end of each financial year, beginning with 2004-05.

In practice, the Act was a deficit management tool for the government. Deficits are considered to be the major factors affecting the growth process in the economy by contributing to inflation and increasing the debt burden leading to a greater resource drain on the exchequer in terms of interest payments. Deficits in general can be contained through different mechanisms. It can be a front loaded mechanism reducing deficits through greater resource mobilization or a back loaded method by reducing expenditure. In India, both the methods were followed in different intensities. In order to increase resources, policies like disinvestment were also followed along with major reforms in tax policies. It is now necessary to assess the impact of the Act on various facets of Indian Public Policy paradigm. Some of the major findings are presented below.

Impact of FRBM on its Stated Policy Objectives

- As tools for bringing transparency, the fiscal policy and fiscal strategy statements brought out by the government are appreciable as these provide substantial information to the wider public and media for assessing the fiscal situation of the country on a regular basis. Much information on tax exemptions, details of internal and external debt, different short term forecasts on macro economic indicators are now available in public domain.
- Government has achieved all deficit targets of FRBM to the desired extent. In 2007-08 BE, the fiscal and revenue deficits of the centre as proportion of GDP at market prices were 3.39 and 1.6 only. The Union Government is now much close to its targets as far as contain these deficits are concerned.
- A major logic behind reducing deficits was that deficits lead to inflation. The Union Government has been able to reduce deficits. However, rate of inflation for almost all sections of population increased during FRBM era. The average annual growth in consumer price index for industrial workers which was 3.74 % during 2000-2001 (with a high fiscal deficit of 5.7 % of GDP) further increased by around 7 % during 2006-07 (with a lower fiscal deficit of around 3.6% of GDP).
- While deficits declined substantially in the post FRBM era, the interest payments did not show a substantial decline. The interest payments as percent of GDP of the Union government declined from around 4.5 % in 2003-04 to 3.57 in 2007-08 BE. However, the interest payments incurred by States registered a substantial increase from 1.93 % to 2.11 % of GDP during the same period.

Impact of FRBM on Development Expenditure of the Government

- The Union Government's development expenditure as proportion of GDP declined in the post FRBM era from 7.49% in 2002-03 to 6.42 % in 2005-06. However, in case of states, it has registered a marginal increase indicating that in a high interest rate regime, states have been more sincere than the Union Government towards their development needs. An Act like FRBM has led them to a fiscal crisis situation through increased interest burden.
- An analysis of revenue account of the development expenditure by states show that in almost all sectors of development, there

has been a decline in the FRBM era. In case of education, it declined from around 2.5 % of GDP in 2002-03 to less than 2.2 % of GDP in 2005-06. In Health sector, the decline has been from 0.6% to 0.49 % and in agriculture, from 0.67 % to 0.58 %. In overall Social sectors, it declined from 4.5 %of GDP to 4.1 % of GDP during the period.

- The recent growth in GDP is primarily because of a service sector boom and the contribution of material producing sectors that provide tax revenue to the government in a substantial way is registering a decline
- In recent times, the growth in government receipts has been more than the growth of GDP. By contrast, the growth in total disbursements of the government is far less than the growth in receipts
- There has been an increase in the labour force over time accompanied by a decline in the organized sector employment in recent times
- Though we have seen a growth in the tax-GDP ratio, the collections from Customs and excise duties have declined significantly as a proportion of GDP
- The total tax revenues foregone on account of exemptions during 2005-06 and 2006-07 are of the order of 5.3 lakh crore rupees. As a proportion of GDP, it is around 14 percent of a year's GDP. This amount itself is sufficient to wipe out the combined fiscal deficit of the centre and the states
- We have been spending huge amount of money as interest payments due to a very high interest rate maintained by our monetary authorities in order to keep the investers' confidence intact. Such a high interest rate is the primary reason for high fiscal deficits incurred by the state governments. Common thinking would be that the government borrows for making investments in the economy. However, while interest payments are mounting, the expenditure on capital investments is declining in India. The situation has worsened in the FRBM regime
- Central Government's total expenditure as a proportion of GDP has declined from around 17 % in 2003 to around 14 % in 2006-07
- The expenditure on rural employment generation schemes including NREGS as a proportion of GDP has declined in the post FRBM era
- There has been a substantial decline in the total non plan grants to states as a proportion of GDP during recent years.

In general, the FRBM in India has largely been an instrument for state retreat from welfare activities of the government. There are enough reasons which strongly imply to scrap such an Act. It is imperative that the government revisits the issue.

Fiscal Responsibility and Budget Management: A Review

The Fiscal Responsibility and Budget Management Act-2003 is in place for around five years now. The Act is based on the presumption that the fiscal deficit is the key parameter adversely affecting all other macroeconomic variables. It is argued that lower fiscal deficits lead to higher as well as sustainable growth and higher fiscal deficits apparently lead to inflation. It is also argued that large fiscal deficits may lead to huge accumulation of public debt.

However, many development economists argue that if the fiscal deficit is dominantly in the form of capital expenditure, it contributes to future growth through demand and supply linkages, and in fact can create so much demand in the economy that private investment may crowd-in to supplement autonomous investment. As far as inflation is concerned, it results from an excess of aggregate demand over aggregate supply and there can be higher inflation with low, zero or even positive fiscal accounts. This may happen because of excessive spending by the private sector over and above its earnings, as was the case with many South Asian countries before the currency crisis. There is nothing wrong in maintaining large fiscal deficits if resorting to public debt is made only to meet investment requirements as long as their social rate of return is higher than the rate of interest. Deficit per se is not bad as the Indian economy is a demand-constrained economy. Due to existence of underemployment of resources and production at much less than its optimal level, the economy can actually sustain a high level of fiscal deficit up to around 7-8 percent of GDP. Even in case of revenue deficit, if it is properly managed will help pumping in purchasing power to the economy and boost demand keeping in mind the persistently low level of inflation during recent years. In India, it is not the problem of growing deficits, which deserves concern but the composition for these deficits and the way these are being financed. There are many other countries like USA, Canada in the developed world and Argentina, Peru, Brazil among the emerging market economies have such fiscal responsibility legislations. However, they often try to reduce their deficit through front loaded mechanisms. Sill, many countries sustain their huge fiscal deficit without compromising on the development expenditure front.

However, our policy makers guided by IMF and IBRD adopted FRBM as a principle of fiscal governance. Since 1991, international forums like IMF and World Bank had been imposing conditionality on reducing fiscal deficits in their loan agreements. IMF country report in 2003 held that 'high fiscal deficit' was the number one problem facing Indian economy. It has also been argued by the proponents of FRBM Act that high deficits lead to inflation, it reduces consumption, result in a crowding out of the private sector, rising unemployment and falling living standards of the people. Owing to these concerns over the deficit syndrome in India, a Fiscal Responsibility and Budget Management Act was legislated at the central level in 2003 by the NDA government and later on endorsed by the UPA government as one of the basic principles of fiscal governance. Along the line of IMF and IBRD, the Government of India also started imposing conditionalities related to endorsement of FRBM Act for State Governments as a precondition to avail resources from the Centre. Now, many states like Karnataka, Kerala, Tamil Nadu, Punjab, Uttar Pradesh and Maharashtra have a deficit control mechanism in place along the lines of Union FRBM Act.

Major Targets Set in the Union FRBM Act

- Elimination of Revenue Deficit by March 2009
- Reduction of Fiscal Deficit to an amount equivalent to 3 % of GDP by March 2008
- Reduction of Revenue Deficit by an amount equivalent of 0.5 per cent or more of the GDP at the end of each financial year, beginning with 2004-05.
- Reduction of Fiscal Deficit by an amount equivalent of 0.3 per cent or more of the GDP at the end of each financial year, beginning with 2004-05.

The Union Government aims to eliminate revenue deficit by 31st March 2009 - in turn leading to revenue account surplus, and possible progressive reduction of capital account liabilities. Elimination of revenue deficit requires a balance in revenue accounts, which can be done by reducing revenue expenditure drastically (Back Loaded Method), or by enhancing receipts to fill the gap (Front Loaded Method), or by trying both (Uniform Method). The Government can substantially reduce revenue expenditure if a reduction is at all possible in those items, which constitute a major part of total revenue account. For example, interest payment alone takes away around 30 percent of the total expenditure. But unfortunately it is charged on the Consolidated Fund of India. The government, in no way, can actually reduce this expenditure. In fact, the high interest rate regime has led to an increase in interest expenditures during recent times. So if the government of the day is keen on reducing expenditure it may do so in crucial sectors like social services and some of the economic services only. This will affect the all-round development of the country and further aggravate the fiscal situation.

Achievements through FRBM: Key Deficit Indicators

	Gross Fiscal Deficit of Centre	Revenue Deficit of the Centre	Combined Fiscal Deficit	Combined Revenue Deficit
1986-87	8.37	2.5	9.8	2.42
1998-99	6.47	3.8	9.0	6.32
2002-03	5.90	4.4	9.6	6.63
2003-04	4.46	3.6	8.5	5.76
2004-05	4.02	2.5	7.5	3.67
2005-06	4.11	2.6	6.7	2.66
2006-07 RE	3.69	2.0	6.4	2.05
2007-08 BE	3.39	1.6	5.8	1.22

While we notice a drastic fall in deficits, it has largely been on account of reductions in critical sectors of the economy. In this review, we present the impact of FRBM Act on different economic indicators.

FRBM: Reducing Deficits is not an Answer to Price Fluctuations

A major logic behind reducing deficits was that deficits lead to inflation. The Union Government has been able to reduce deficits. However, rate of inflation for almost all sections of population increased during FRBM era. The average annual growth in consumer price index for industrial workers which was 3.74 % during 2000-2001 (with a high fiscal deficit of 5.7 % of GDP) further increased by around 7 % during 2006-07 (with a lower fiscal deficit of around 3.6% of GDP).

Inflation in India
(Annual Growth in Consumer Price Index)

Year	Index (Average of months)			
	Industrial Workers	*of which* Food	Urban Non-manual Employees	Agricultural Labourers
Pre FRBM Period				
1999-00	3.38	0.22	4.45	4.44
2000-01	3.74	1.57	5.40	-0.33
2001-02	4.28	2.87	5.12	1.31
2002-03	4.10	2.36	3.85	3.24
Post FRBM Period				
2003-04	3.73	3.77	3.70	3.76
2004-05	4.00	2.22	3.81	2.72
2005-06	4.23	4.15	4.59	3.82
2006-07	6.83	9.11	6.58	7.65

Deficit Control is not an answer to High Interest Rates

In India, since interest rates are administered, deficits have no impact on it. Rather, high interest rates lead to more interest payments and under constraints of FRBM would force the government to reduce expenditure. While deficits declined substantially in the post FRBM era, the interest payments did not show a substantial decline. The interest payments as percent of GDP of the Union government declined from around 4.5 % in 2003-04 to 3.57 in 2007-08 BE. However, the interest payments incurred by States registered a substantial increase from 1.93 % to 2.11 % of GDP during the same period.

Interest Payments in India as Proportion of GDP

	By the Centre	By the States	Combined Interest Payments of the Centre
		Pre FRBM Era	
1980-81	1.79	0.25	2.0
1991-92	4.06	0.67	4.7
2001-02	4.71	1.53	6.2
2002-03	4.79	1.68	6.5
		Post FRBM Era	
2003-04	4.49	1.93	6.4
2004-05	4.06	2.09	6.2
2005-06	3.72	2.05	5.8
2006-07 RE	3.54	2.08	5.6
2007-08 BE	3.57	2.11	5.7

Interest rates paid by States and Centre (Rs Crore)

FY	States: Interest Paid	States: Loans Outstandin g	States: Average rate	Centre: Average. Rate	Gap	Rev Earned to Centre by Charging More
1991-92	6565	82,979	8.9	8.5	0.4	331.9
2000-01	26970	238,655	11.7	9.7	2	4773.1
2001-02	28253	249,551	11.8	9.2	2.6	6488.3
2002-03	29600	249,179	11.9	8.6	3.3	8222.9
2003-04	28641	192,981	11.5	8.0	3.5	6754.3
2004-05	22988	160,045	11.9	7.3	4.6	7362.1
2005-06	22032	157,004	13.8	6.7	7.1	11147.3
2006-07 RE	12237	159,014	7.8	6.5	1.3	2067.2
2007-08 BE	11616	165,502	7.3	6.3	1	1655.0

Long Term Interest Yields in Different Countries

Long term Interest Rates >>>>	1999	2002	2003	2004	2005	2006
Australia	6	5.8	5.4	5.6	5.3	5.6
Canada	5.5	5.3	4.8	4.6	4.1	4.2
Japan	1.7	1.3	1	1.5	1.4	1.7
Korea	8.7	6.5	4.9	4.5	4.7	5.1
Norway	5.5	6.4	5	4.4	3.7	4.1
Switzerland	3	3.2	2.7	2.7	2.1	2.5
United Kingdom	5.1	4.9	4.5	4.9	4.4	4.5
United States	5.6	4.6	4	4.3	4.3	4.8
Euro area	4.7	4.9	4.1	4.1	3.4	3.8
India	13.11	8.76	7.72	7.83	7.85	10

Impact of FRBM on Development Expenditure of the Government

The Union Government's development expenditure as proportion of GDP declined in the post FRBM era from 7.49% in 2002-03 to 6.42 % in 2005-06. However, in case of states, it has registered a marginal increase indicating that in a high interest rate regime, states have been more sincere than the Union Government towards their development needs. An Act like FRBM has led them to a fiscal crisis situation through increased interest burden.

Development Expenditure of Centre and State as % of GDP

	Centre			States			Combined		
	Devp Exp	Non Devp Exp	Total Exp	Devp Exp	Non Devp Exp	Total Exp	Devp Exp	Non Devp Exp	Total Exp
Pre FRBM Period									
1989-90	11.1	8.4	19.5	10.9	3.9	15.7	18.3	11.1	29.8
2002-03	7.5	9.9	17.4	9.3	6.2	17.1	14.6	13.8	28.7
Post FRBM Period									
2003-04	7.1	8.8	15.9	9.9	6.0	18.7	15.1	13.4	28.8
2004-05	6.9	8.4	15.3	9.4	6.0	18.3	14.2	13.3	27.8
2005-06	6.4	8.1	14.6	9.5	5.4	16.1	14.5	12.4	27.2
2006-07 RE	6.3	8.1	14.4	10.4	5.5	17.2	15.2	12.6	28.2
2007-08 BE	7.8	7.8	15.6	10.8	5.6	17.7	17.0	12.4	29.8

An analysis of revenue account of the development expenditure by states show that in almost all sectors of development, there has been a decline in the FRBM era. In case of education, it declined from around 2.5 % of GDP in 2002-03 to less than 2.2 % of GDP in 2005-06. In Health sector, the decline has been from 0.6% to 0.49 % and in agriculture, from 0.67 % to 0.58 %. In overall Social sectors, it declined from 4.5 %of GDP to 4.16 % of GDP during the period.

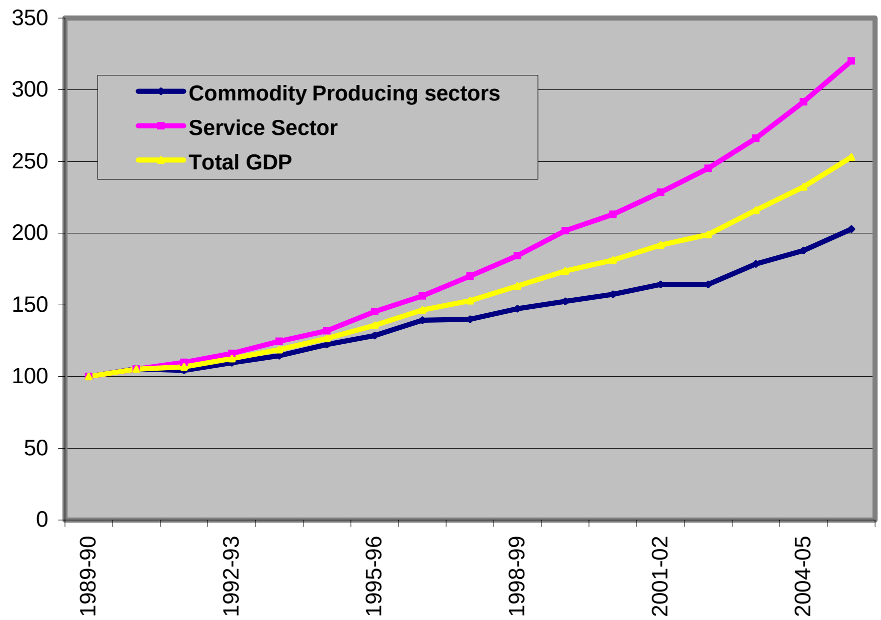
Total Revenue Expenditure by All States as % of GDP

	2002-03	2004-05	2005-06	2006-07 RE)	2007-08 (BE)
TOTAL EXPENDITURE	**13.647**	**13.065**	**12.280**	**13.016**	**13.366**
Developmental Expenditure (A + B)	**7.346**	**6.924**	**6.762**	**7.367**	**7.602**
A. Social Services	**4.537**	**4.224**	**4.164**	**4.556**	**4.723**
Education, Sports, Art and Culture	2.539	2.269	2.191	2.298	2.334
Medical and Public Health	0.568	0.508	0.492	0.520	0.535
Family Welfare	0.097	0.082	0.077	0.085	0.087
Water Supply and Sanitation	0.226	0.222	0.237	0.214	0.213
B. Economic Services	**2.809**	**2.700**	**2.597**	**2.811**	**2.879**
Agriculture and Allied Activities	0.667	0.638	0.588	0.617	0.643
Rural Development	0.478	0.492	0.493	0.537	0.554
Special Area Programmes	0.024	0.020	0.023	0.031	0.029
Irrigation and Flood Control	0.476	0.318	0.319	0.370	0.387
Energy	0.574	0.702	0.595	0.601	0.539
Industry and Minerals	0.106	0.093	0.107	0.113	0.129

Impact of FRBM on Material Producing Sectors

The recent growth in GDP is primarily because of a service sector boom and the contribution of material producing (Primary and Secondary) sectors that provide tax revenue to the government in a substantial way is registering a relative decline. It should be also mentioned here that there is limited tax from agricultural sector. Service sector that contributes more than 50 % of GDP contributed to even less than 9% of total tax revenues. There are huge tax exemptions on the profits from the secondary sector. Therefore, tax burden in India is mostly borne by the common people in the form of direct and indirect taxes.

Growth of GDP and its Components



Growth of Economy and Growth of Material Producing Sectors

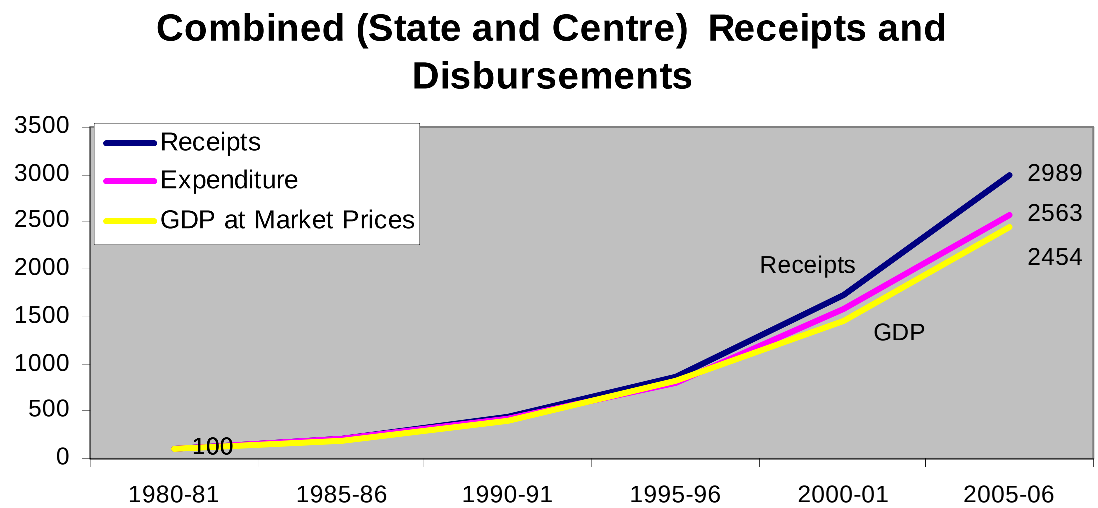
Year	Material Producing Sectors	Services	Total GDP
1990-91 to 1993-94	8.74	18.57	12.94
1993-94 to 1996-97	21.50	25.41	23.25
1996-97 to 1999-00	9.58	29.00	18.44
1999-00 to 2002-03	7.73	21.60	14.62
2002-03 to 2005-06	23.44	30.56	27.19

Growth of GDP and Major Sectors
(% per year)

Year	**1951/52-1980/81**	**1981/82-1990/91**	**1992/93-1996/97**	**1997/98-2001/02**	**2002/03-2005/06**	**1992/93-2005/06**	**1981/82-2005/06**
Agriculture and Allied	2.5	3.5	**4.7**	**2.0**	**1.9**	3.0	3.0
Industry	5.3	7.1	**7.6**	**4.4**	**8.0**	6.6	6.5
Services	4.5	6.7	**7.6**	**8.2**	**8.9**	8.2	7.4
GDP	**3.6**	**5.6**	**6.7**	**5.5**	**7.0**	**6.4**	**5.9**
GDP per capita	***1.4***	***3.4***	***4.6***	***3.6***	***5.3***	***4.4***	***3.8***

Government Expenditure is not matching with the growth in Receipts

In recent times, the growth in government receipts has been more than the growth of GDP. By contrast, the growth in total disbursements of the government is far less than the growth in receipts.



Combined Government Receipts and Expenditures (in Rs Cr)

	Receipts	Expenditure	GDP
1980-81	34505	37879	145370
1985-86	75000	78627	281330
1990-91	152245	163520	569624
1995-96	296629	303582	1191813
2000-01	599141	595595	2102375
2005-06	1031525	970780	3567177

There has been an increase in the labour force over time accompanied by a decline in the organized sector employment in recent times.

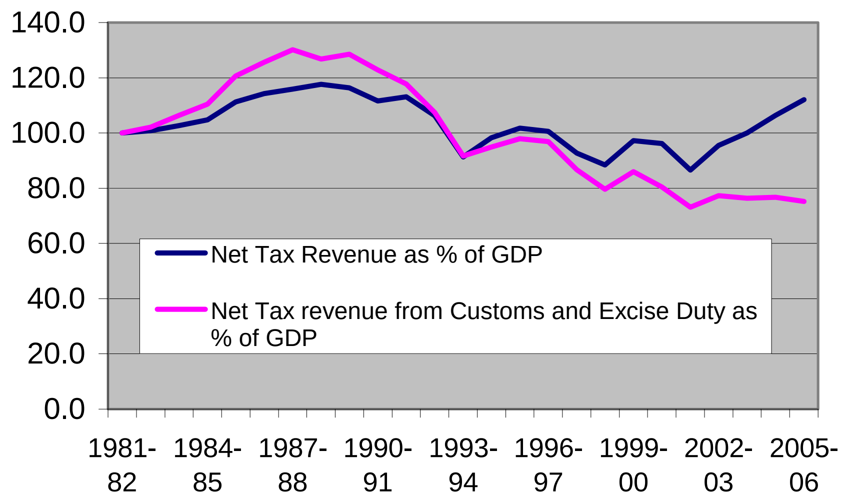
Growth of GDP, Labour Force and Organised Sector Employment in India

	Organised Sector Employment (in Lakh)			Growth Rate of GDP	Labour Force in Millions
	Public	Private	Total		
1990	187.72	75.82	263.53	5.3	333 (1988)
1995	194.66	80.59	275.25	7.3	392
2000	193.14	86.46	279.6	4.4	406
2005	180.07	84.52	264.58	9.0	457

FRBM is not Front Loaded. Rather, it is Back Loaded

Though we have seen a growth in the tax-GDP ratio, the collections from Customs and excise duties have declined significantly as a proportion of GDP.

Net Central Taxes as % of GDP



Trends in Net Tax Revenue of Centre (as % GDP) in India

Year	Net Total Tax Revenue as % of GDP	Net Tax revenue from Customs and Excise Duty as % of GDP
1981-82	6.8	5.0
1989-90	7.9	6.4
1995-96	6.9	4.9
2000-01	6.5	4.0
2005-06	7.6	3.7

The total tax revenues foregone on account of exemptions during 2005-06 and 2006-07 are of the order of 5.3 lakh crore rupees. As a proportion of GDP, it is around 14 percent of a year's GDP. This amount itself is sufficient to wipe out the combined fiscal deficit of the centre and the states.

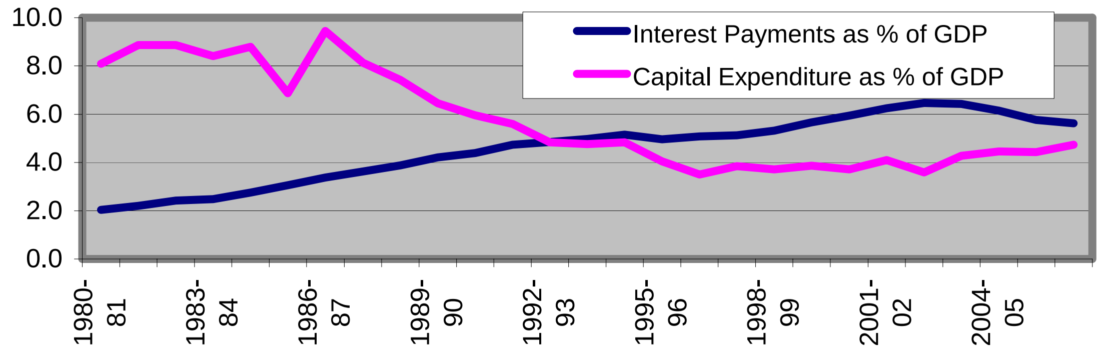
Tax Revenue Foregone in Central Tax System

	2006-07	2005-06
Rev. Lost (in Crore Rs.)	***288959***	***244290***
Rev. Lost % of GDP	**7.0**	**6.8**
Combined Fiscal Deficit (Crore Rs.)	**264506**	**239323**
Surplus left over after financing Deficit (Crore Rs.)	**24453**	**4967**
Combined Deficit as % of Tax Rev. Lost	**91.5**	**98.0**
Subsidies	**18.5**	**19.5**
Combined Interest Payments as % of Rev Lost	**80.3**	**84.2**
Combined Interest Payments + Subsidies as % of loss	**99**	**104**
Rev Lost As % of Cent. Budget Exp.	**49.7**	**48.3**
Rev Lost as % of Gross Tax Collections	***61.76***	***66.7***

FRBM is against Investments for Capacity Creation

We have been spending huge amount of money as interest payments due to a very high interest rate maintained by our monetary authorities in order to keep the investers' confidence intact. Such a high interest rate is the primary reason for high fiscal deficits incurred by the state governments. Common thinking would be that the government borrows for making investments in the economy. However, while interest payments are mounting, the expenditure on capital investments is declining in India. The situation has worsened in the FRBM regime

Trend in Interest Payment and Capital Expenditure as % of GDP



Central Government's total expenditure as a proportion of GDP has declined from around 17 % in 2003 to around 14 % in 2006-07.

Major Expenditure Indicators in India

	Interest Payments (Centre+State) as % of GDP	Capital Expenditure (Centre+State) as % of GDP	Gross Fiscal Deficit of Centre as % of GDP	Gross Fiscal Deficit of Centre+ State as % of GDP	Total Expenditure of Centre as % of GDP	Aggregate Expenditure (Centre+State) as % of GDP
Pre FRBM Era						
2000-01	5.9	3.7	5.7	9.5	15.5	28.3
2001-02	6.2	4.1	6.2	9.9	15.9	28.6
2002-03	6.5	3.6	5.9	9.6	16.8	28.7
FRBM Era						
2003-04	6.4	4.3	4.5	8.5	17.0	28.8
2004-05	6.2	4.5	4.0	7.5	15.9	27.8
2005-06	5.8	4.4	4.1	6.7	14.2	27.2
2006-07	5.6	4.7	3.7	6.4	14.1	28.2

The expenditure on rural employment generation schemes including NREGS as a proportion of GDP has declined in the post FRBM era.

There has been a substantial decline in the total non plan grants to states as a proportion of GDP during recent years.

States: Capital Expenditure and Central Transfers

	State Capital Expenditure as % of GDP	States Budget Expenditure as % of GDP	Grants to States & Uts Plans as % of GDP	Grants on Capital Account to States & Uts Plans as % of GDP
2003-04	5.36	19.02	1.80	0.86
2004-05	5.05	18.11	1.66	0.73
2005-06	3.60	16.06	1.01	0.15
2006-07 RE	3.98	17.19	1.12	0.14

Interest Rate Differential: The Big the Better

Employment Generation Programmes

Year	Total Expenditure on Rural Employment: SGRY, JGSY, NFFWP, EAS, NREGS	As % of Total Expenditure	As % of GDP
1999-00	3729	1.3	0.19
2000-01	2798	0.9	0.13
2001-02	4225	1.2	0.19
2002-03	9502	2.3	0.39
2003-04	9639	2.0	0.35
2004-05	6408	1.3	0.21
2005-06 RE	11700	2.3	0.33
2006-07 BE	12870	2.3	0.33

Transfer of Resources from Centre to States as % of GDP

	Total Grants from the Centre	Non Plan Grants	Share in Taxes	Net Transfers
2005-06	2.15	0.90	2.6	4.4
2006-06	2.50	0.87	2.8	5.0
2007-08	2.49	0.72	2.9	5.3

Gross Devolution and Transfers

Year	GDT	GDT/GDP
1986-87	23,072	7.4
1990-91	40,859	7.2
1997-98	94,009	6.2
2007-08 (BE)	2,68,422	5.8

Source: Budget Documents of the State Governments.

Making a Case for Abolishing FRBM and Encouraging Qualified Deficits

Our Targets:

- Millennium Development Goals
- National Common Minimum Programme
- Poverty Alleviation
- National Policy for Farmers-2007
- National Urban Housing and Habitat's Policy
- Welfare of SC/STs through Sub Plans
- Universalisation of Quality Education

Our policy makers are accountable for the above as legally as they are for the FRBM targets.

No budget making is possible with FRBM if we also have development targets as above.

Deficits are inevitable for meeting these targets unless we make reforms.

Deficits are not responsible for inflation.

Deficits are not responsible for increase in interest rates.

FRBM has Disastrous Consequences for the Public Provisioning of Education and Health Services

Any question of legislations for reducing budgetary deficits arise only after we bridge all our development deficits

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