



15. Consider the following statements regarding Fiscal Responsibility and Budget Management (FRBM) Act, 2003.

1. The Act made Central government responsible for ensuring inter-generational equity in fiscal management and long-term macro-economic stability.
2. The Act envisages the setting of limits on the Central government's debt and deficits.
3. The law contain an 'escape clause' under which Centre can exceed the annual fiscal deficit target.

Which of the above statements is/are correct?

- (a) 1 and 2
- (b) 1 and 3
- (c) 2 and 3
- (d) 1, 2 and 3

Ans: (d)

Explanation: **What is the FRBM Act?**

- Enacted in August 2003, the legislation is aimed at **making the Central government responsible for ensuring "inter-generational equity in fiscal management and long-term macro-economic stability"**.
- To achieve this, the Act envisages the setting of **limits on the Central government's debt and deficits** as well as mandating greater transparency in fiscal operations of the Central government and the conduct of fiscal policy in a medium-term framework.
- The rules for implementing the Act were notified in July 2004 and since then every Budget of the Union government has included a Medium Term Fiscal Policy Statement that specifies the annual revenue and fiscal deficit goals over a three-year horizon.
- The States have also enacted their own respective Financial Responsibility Legislation.
- **What are the objectives of the FRBM Act?**
  - The FRBM Act aims to introduce transparency in India's fiscal management systems.
  - The Act's long-term objective is for India to achieve fiscal stability and to give the Reserve Bank of India (RBI) flexibility to deal with inflation in India.
  - The Act was enacted to introduce more equitable distribution of India's debt over the years.
- **Key features of the FRBM Act:**
  - The FRBM Act made it mandatory for the government to place the following along with the Union Budget documents in Parliament annually:
    - Medium Term Fiscal Policy Statement.
    - Macroeconomic Framework Statement.
    - Fiscal Policy Strategy Statement.

Refer: <https://www.insightsonindia.com/2021/02/02/govt-hopes-to-cut-fiscal-deficit-to-4-5-by-fy26/>

16. Which of the following developments may not likely reduce the fiscal deficit?

1. Increasing Foreign Direct Investment (FDI)
2. Providing budgetary support to public sector enterprises
3. Waiving off farm loans.
4. Austerity measures should be adopted.