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FRBM Part – II

Click here to read about FRBM Panel Recommends New Set Of Targets

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What is the issue?

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A committee to review the FRBM has suggested steep targets for achieving fiscal rectitude by the Central and state governments.

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What are its key recommendations?

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- A key recommendation is to move towards using **public debt-to-GDP as the main variable** to map fiscal performance.
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- At present, India's debt-to-GDP ratio is around 68%, which makes India one of the most indebted economies among the emerging ones.
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- The committee has settled at a 60% debt-to-GDP ratio as the anchor, to be achieved by 2022-23.
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- In the existing FRBM approach, the focus has been solely on the fiscal and revenue deficits.
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- The shift to the debt-to-GDP target as the medium-term goal looks logical.
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What are the issues with the targets?

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- The committee has also recommended using the fiscal and revenue deficits as operational targets to achieve the debt anchor.
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- By 2022-23, the fiscal deficit should be 2.5% of GDP and the revenue deficit should be 0.8% of GDP.
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- **India needs massive spending on health care and education,** which represent vital investment in human resources, without which no economy can compete effectively in the emerging, knowledge-intensive world.
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- So, if public spending in education and health care is to grow, a **revenue deficit becomes unavoidable.**
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- Also, the target of reducing government debt to 60% **implies a virtual ban on fresh debt** that is over and above what is needed to service existing debt. Thus, the recommendation in this regard looks totally impractical.
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- Arvind Subramanian (CEA) is also a member of the committee, has also **spoken against affixing arbitrary targets for debt and the fiscal and revenue deficits.**
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- He said that the government should aim to **wipe out the primary deficit** (fiscal deficit minus interest payments).
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- While there is merit in wanting to eliminate the primary deficit, this approach is more suited for developed economies, where tax revenues are higher and demands on government for capital expenditure are far more modest.
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What could be done?

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- CEA’s suggestion is to **reduce the primary deficit** while India’s growth rate is far in excess of the interest rate.
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- Unlike interest payments, which are largely pre-determined, the primary balance is in the ambit of government control.
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- The CEA’s position **may give the government more room** because the primary deficit for the Centre is already close to zero.

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- A zero primary deficit would make it impossible to borrow for capital/infrastructure projects unless there is a substantial revenue surplus.
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- For a country like India, fiscal prudence must take into account the quality of expenditure and not just the quantity.
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Source: Business Standard

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