

(b) Fiscal Council it is an important institution needed to complement the rule based fiscal policy. Discuss.

Introduction:

Fiscal Council is an important institution needed to complement the rule based fiscal policy. It will help in improving comprehensiveness, transparency and accountability. The fiscal situation in India has been under severe stress even before COVID-19 and the novel coronavirus pandemic has worsened it.

Fiscal Situation of Union:

- The fiscal deficit of the Centre in 2019-2020 as estimated by CAG was 4.6%, 0.8% higher than revised estimate.
- For, 2020-2021, even without any additional fiscal stimulus, the deficit is estimated at about 7% of GDP as against 3.5% estimated in the Budget due to sharp decline in revenues.
- Consolidated deficit of union states could be 12% of GDP & overall debt be upto 85%.

Criticisms / Weaknesses of Fiscal Consolidation:

- (I) Unaccounted liabilities
- (II) Transparency
- (III) Obscure actions/undertaken to keep liabilities hidden.

(eg): Special banking arrangements for covering arrears of fertilizer subsidy, Issuing short term bonds, LTF created by NABARD, IRFC, REC etc.,
→ To address the above challenges, 14th Finance Commission recommended the establishment of an independent Fiscal Council. [Appointed by and reporting to Parliament by inserting a new section in FRBN act].

Mandate of Fiscal Council:

- To promote stable and sustainable public finances.
- Independent analysis, review and monitoring and evaluating of govt's fiscal policy & programmes.
- developing or reviewing macroeconomic projections etc.

Merits of fiscal Council: → International trend

↓ Watchdog of public finance
↓ reduce Populism
↓ Public Awareness
→ Upholds spirit of Constitution

World wide examples:

→ Acc. to IMF, about 50 countries have established fiscal councils.

Belgium

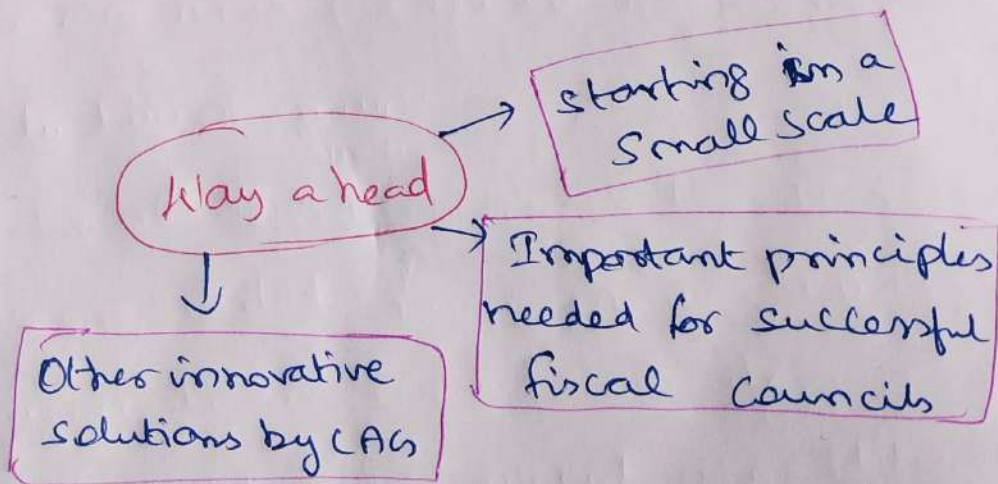
→ macroeconomic forecasts of federal planning bureau [reduced bias]

Chile

→ 2 independent bodies on trend GDP & reference Copper price → helped to improve budget forecasts

UK

→ Office of Budget responsibilities
↓
important in restoring fiscal sustainability



Conclusion: A fiscal Council is an important institution needed to complement the rule-based fiscal policy. Of course, it is not a 'silver bullet'; if there is no political will, the institution would be less effective.