4. FRBM Act- Economy

Economic Survey calls for fiscal flexibility for the Centre, cautions States against worsening finances

The Economic Survey 2025-26 presents a strategic shift in India's fiscal philosophy, moving from rigid annual deficit targets toward a flexible "Debt-to-GDP" anchor. This transition is designed to provide the government with the "policy freedom" needed to navigate a volatile global environment while maintaining high public investment.

Evolution of India's Fiscal Targets

The Survey highlights a clear departure from the traditional 3% fiscal deficit target mandated by the FRBM Act.

Pandemic Peak to Stabilization- After the fiscal deficit spiked to 9.2% of GDP in FY21, the Centre has stayed on course to hit 4.4% in FY26.

A "New Fiscal Anchor"- The finance minister introduced a framework where the Centre targets bringing its debt-to-GDP ratio down to 50% (±1% leeway) by March 31, 2031.

The FRBM Paradox- Since its enactment in 2003, the 3% fiscal deficit target has been achieved only once. The Survey argues that reinstating this target now—amid global uncertainty—is less appropriate than focusing on debt sustainability.

State of States- While the Centre is praised for fiscal prudence, the Survey cautions State governments against deteriorating finances, citing rising collective revenue deficits (0.7% in FY25) due to high spending on unconditional cash transfers.

Fiscal Deficit- Concept and Context

Understanding fiscal deficit is key to evaluating the "quality" of government spending.

Definition- It is the excess of total budget expenditure (revenue + capital) over total receipts (revenue + non-debt capital) in a year.

Formula- $$\text {Fiscal Deficit} = \text {Total Expenditure} - (\text {Revenue Receipts} + \text {Non-Debt Creating Capital Receipts}) $$

The "Quality" Shift- The Survey notes a positive trend where Capital Expenditure (asset creation) has risen while Revenue Expenditure (salaries/subsidies) has fallen as a percentage of total spending.

The Impact of Fiscal Management

The level of fiscal deficit acts as a double-edged sword for the macroeconomy.

Feature	Implications of High Deficit	Benefits of Lower Deficit
Inflation	High spending can lead to excess money supply and inflation.	Stabilizes prices and strengthens purchasing power.
Investment	Crowding Out- Government borrowing leaves less credit for private businesses.	Crowding In- Lower interest rates attract private and foreign investment.
Credit Rating	Risk of downgrades, which increases the cost of external borrowing.	Enhances global credit ratings, lowering overall borrowing costs.
Debt Servicing	High interest payments eat up funds for health and education.	Frees up "Fiscal Space" for development and emergency shocks.

The FRBM Act, 2003- Legal Framework

The Act was designed to institutionalize financial discipline and ensure long-term stability.

Core Mandate- Reduction of the Central Government's deficit to sustainable levels over the medium term.

Deficit Limit- It originally mandated a 3% fiscal deficit by March 2021.

Debt Limit- Aimed to limit General Government Debt to 60% and Central Debt to 40% by March 2025.

Current Status- These legislative targets were suspended or deferred during the pandemic, and the Survey now argues for a rule-based regime only *after* debt ratios approach the new 50% target.

N.K. Singh Committee Recommendations (2016)

The committee proposed a comprehensive review of the FRBM Act to make it more realistic.

Debt as the Primary Anchor- Suggested using Debt-to-GDP ratio (60% total; 40% Centre, 20% States) as the lead target instead of just fiscal deficit.

Specific Targets- Recommended a 2.5% fiscal deficit and 0.8% revenue deficit by FY23.

Fiscal Council- Proposed an autonomous body to prepare multi-year forecasts and advise the government on when to deviate from targets.

Escape Clauses- Recommended that deviations (up to 0.5% of GDP) should only be allowed on specific grounds like national security, war, or agricultural collapse, rather than vague "exceptional circumstances."

Summary Comparison- FRBM vs. New Anchor

The shift represents a move from "annual fixed numbers" to "long-term sustainability."

Feature	**FRBM Framework (Original)**	**New Fiscal Anchor (Post-2025)**
Operational Target	Fiscal Deficit (Fixed 3%)	Debt-to-GDP Ratio (50% ± 1%)
Timeline	Immediate/Annual	Medium-term (Target- March 2031)
Flexibility	Limited (Escape clauses used as exceptions)	High (Designed to respond to global geoeconomic shocks)
Focus	Borrowing control	Sustainable debt servicing & Public Investment

Source- https-//www.thehindu.com/business/budget/economic-survey-calls-for-fiscal-flexibility-for-the-centre-cautions-states-against-worsening-finances/article70565806.ece/amp/