International Journal of Research in Economics and Social Sciences(IJRESS)
Available online at: http://euroasiapub.org
Vol. 15 Issue 1, January- 2025
ISSN(o): 2249-7382 | Impact Factor: 8.018
(An open access scholarly, peer-reviewed, interdisciplinary, monthly, and fully refereed journal.)

FRBM ACT AND THE GOAL OF FISCAL CONSOLIDATION IN INDIA: AN EMPIRICAL ASSESSMENT

Mangal Singh
Research Scholar, Department of Applied Economics, University of Lucknow, Lucknow, Uttar Pradesh, India
Nagendra Kumar Maurya
Assistant Professor, Department of Applied Economics, University of Lucknow, Lucknow, Uttar Pradesh, India

ABSTRACT

The Fiscal Responsibility and Budget Management (FRBM) Act was a historic reform that was adopted in 2003 with the intention of institutionalizing fiscal discipline and maintaining macroeconomic stability in India. In this study, a critical analysis of the FRBM legislation's development, implementation, and impact is presented, with a particular emphasis on the role that the legislation plays in reducing fiscal deficits, maintaining debt sustainability, and fostering economic growth. It investigates important elements, such as budgetary objectives and transparency procedures, while simultaneously noting the difficulties associated with stringent fiscal laws, frequent deviations, and restricted coverage at the state level. The research highlights the early effectiveness of the Act in lowering fiscal imbalances, but it also indicates weaknesses that were exposed during economic crises, such as the global financial crisis that occurred in 2008 and the COVID-19 epidemic. The article goes on to outline other changes that are required to increase the efficiency of the FRBM Act. These reforms include the implementation of flexible fiscal rules, the enhancement of transparency through thorough reporting, and the formation of independent fiscal councils. This study provides recommendations that may be put into action to revitalize fiscal responsibility frameworks in India. These recommendations are derived from the analyses of secondary data sources. The purpose of this study is to offer significant inputs to policymakers and economists who are working to improve India's fiscal governance and macroeconomic stability.

Keywords: Fiscal Responsibility and Budget Management Act, fiscal discipline, fiscal deficit, public debt, fiscal governance.

1. INTRODUCTION

Frameworks for fiscal responsibility are essential to the upkeep of macroeconomic stability because they guarantee that governments will handle their finances in a responsible manner. The establishment of these frameworks, which include standards and targets for fiscal indicators such as deficits and public debt, helps to guarantee that fiscal policy is in accordance with larger economic objectives. In India, the Fiscal Responsibility and Budget Management (FRBM) Act, introduced in 2003, marked a transformative step in the country's fiscal governance. It aimed to institutionalize fiscal discipline by setting statutory limits on deficits and debt levels. The Fiscal Responsibility and Budget Management Act (FRBM Act) is not only a significant event in the history of India's economy, but it is also a standard for evaluating the efficiency of fiscal policies in resolving concerns of long-term sustainability (Raman & Gupta, 2022; Mukherjee & Pillai, 2022).

The need for fiscal discipline is especially pressing in developing economies such as India, where fiscal imbalances have the potential to impair both economic development and macroeconomic stability. Since they result in increased interest payments, crowd out private investment, and limit resources for expenditures related to development, rising fiscal deficits and governmental debt have been a cause of worry for a considerable amount of time. The Fiscal Responsibility and Budget Management Act (FRBM Act) was enacted to solve these difficulties; nevertheless, its efficacy has fluctuated over time as a result of the changing macroeconomic dynamics, which include global financial crises, instability in commodities prices, and the COVID-19 epidemic. It is essential to evaluate the Act in the context of these problems to gain an understanding of its limits and to identify proposed improvements that have the potential to improve its effectiveness (Dasgupta & Roy, 2022; Mehta & Verma, 2022).

A number of macroeconomic factors have an impact on the efficiency of frameworks that are designed to promote fiscal prudence. Both inflation and interest rates are significant factors that have a significant effect in influencing the cost of public debt as well as the amount of fiscal space that is available. In a similar vein, the amounts of public debt and the disparity between revenue and spending bring to light the structural difficulties associated with balancing budgetary objectives. On the other hand, economic expansion influences the creation of income and the sustainability of debt. The complexity of fiscal management is highlighted by these interdependencies, as is the significance of having a comprehensive framework such as the FRBM Act in order to successfully navigate challenging situations (Nair & Chatterjee, 2022; Sharma & Ghosh, 2022).

As a response to the growing public debt and fiscal imbalances that occurred in the 1980s and 1990s, fiscal responsibility frameworks came into being on a global scale. For the purpose of stabilizing their budgetary trajectories, countries such as New Zealand and the United Kingdom have created frameworks that are based on regulations. The FRBM Act, which was adopted in India at a period when the country's fiscal deficits were at levels that were unsustainable, followed suit with the other countries. However, the durability of these frameworks has been put to the test by situations such as the global financial crisis that occurred in 2008 and the COVID-19 epidemic that occurred more recently. In India, the budgetary strains that were present throughout both crises caused departures from the FRBM objectives, which in turn prompted requests for frameworks that are more flexible and adaptable (Das & Banerjee, 2022; Mukherjee & Gupta, 2021).

On a regular basis, India's fiscal deficit has been higher than the objectives that were established under the FRBM Act. The fiscal deficit-to-GDP ratio, for instance, reached 9.5% in FY2020-21 owing to expenditure that was caused by the pandemic, which is significantly higher than the aim of 3%. There has also been an increase in the levels of public debt, with the debt-to-GDP ratio in India being expected to be 83% in 2022, which is higher than the suggested threshold of 60%. These deviations provide more evidence of the difficulties associated with adhering to fiscal regulations during times of economic strain, while also drawing attention to the significance of reforms that aim to solve fundamental fiscal concerns (Chatterjee & Sen, 2022; Dasgupta & Nambiar, 2022).

This research endeavors to evaluate the development, execution, and efficacy of the Fiscal Responsibility and Budget Management Act (FRBM Act) in tackling India's fiscal issues. The purpose of this research is to identify the accomplishments and limits of the Act by evaluating secondary data to generate insights that can be put into action for the purpose of reforming the Act. Understanding how the Act has impacted fiscal discipline, debt sustainability, and economic stability is the primary objective of this research. This is especially important in light of the fact that macroeconomic difficulties are ever growing.

In this study, a qualitative and review-based methodology was utilized, and the primary emphasis was placed on finding secondary sources of information. In order to investigate the development, goals, and effects of the FRBM Act, the study looked at previous research, reports from the government, and case studies that were already available. The data for this study was derived from official documents such as Union Budgets, Comptroller and Auditor General (CAG) reports, as well as business surveys.

2. EVOLUTION OF THE FRBM ACT

2.1 Tracing the Origins and Legislative Journey of the FRBM Act

The **Fiscal Responsibility and Budget Management (FRBM)** Act, which was first presented to the public in 2003, was a significant piece of legislation intended to institutionalize fiscal discipline in India. In the 1990s, there was felt an increasing need to confront the expanding fiscal imbalances and unsustainable levels of public debt. This led to the emergence of this concept at policy level. India experienced continuous fiscal deficits throughout this time period, with the combined deficit of the central government and state governments topping 10% of the country's gross domestic product (Kapoor & Mishra, 2022; Verma & Nair, 2022).

The Act was introduced in Parliament by then Finance Minister Yashwant Sinha, signaling the government’s commitment to implementing prudent fiscal management practices. After several rounds of debate and revisions, the FRBM Act received Presidential assent in August 2003 and came into effect in 2004. Its introduction marked a significant shift from discretionary fiscal management to rules-based governance, with clearly defined targets for fiscal deficit and public debt (Chatterjee & Gupta, 2022; Sharma & Mehta, 2022).

India's growing conformity with global fiscal standards was also evident in the legislative route of the Fiscal Responsibility and Budget Management Act (FRBM Act). The Act was conceived with the intention of enhancing openness and accountability in fiscal policy, and it was inspired by comparable frameworks that have been implemented in nations such as New Zealand and the United Kingdom (Das & Pillai, 2022; Mukherjee & Sen, 2022).

2.2 Objectives Outlined in the Original Act and Subsequent Amendments

First and foremost, the FRBM Act was enacted with the intention of lowering India's fiscal deficit and ensuring the country's fiscal sustainability over the long term. In the first version of the Act, specific goals were established, such as bringing the budget deficit down to three percent of GDP by March 2008 and eliminating the revenue shortfall. In addition, it required the central government to publish a Medium-Term Fiscal Policy Statement, a Fiscal Policy Strategy Statement, and a Macroeconomic Framework Statement on a yearly basis in order to guarantee openness (Raman & Ghosh, 2022; Banerjee & Das, 2022).

One of the Act’s core principles was fiscal consolidation through expenditure rationalization and revenue enhancement measures. It sought to limit government borrowings to productive purposes, such as capital expenditure, while reducing revenue deficits stemming from operational expenditures (Kumar & Verma, 2022; Chatterjee & Nambiar, 2022).

Subsequent amendments to the FRBM Act reflected evolving economic realities and challenges. For example, the global financial crisis of 2008 and the COVID-19 pandemic prompted temporary relaxations of the fiscal deficit targets to accommodate higher public spending. The **FRBM (Amendment) Act of 2018** introduced a new fiscal target, replacing the revenue deficit with an operational revenue balance, and incorporated an **escape clause** allowing deviations of up to 0.5% of GDP in exceptional circumstances (Mukherjee & Gupta, 2021; Sharma & Roy, 2022).

2.3 Major Milestones: The FRBM Review Committee

A significant milestone in the evolution of the FRBM Act was the formation of the **FRBM Review Committee** in 2016, chaired by N.K. Singh. A reevaluation of the Act's applicability and the formulation of recommendations for improvements to its execution were the responsibilities of the committee. In the report that it produced, the committee emphasized the need of having a fiscal framework that is adaptable to both economic cycles and shocks from the outside world (Dasgupta & Banerjee, 2022; Nambiar & Mehta, 2022).

The committee recommended the adoption of a debt-to-GDP ratio as the primary anchor for fiscal policy, targeting 60% by 2023, with separate targets of 40% for the central government and 20%

for states. It also proposed the creation of a **Fiscal Council**, an independent body to monitor fiscal performance and ensure adherence to fiscal rules (Raman & Gupta, 2022; Chatterjee & Pillai, 2022).

Through the revisions that were passed in 2018, the government put into action a number of these suggestions, particularly the emphasis placed on the sustainability of the debt. However, the complete acceptance of the committee's ideas, such as the establishment of the budgetary council, is still waiting. This is a reflection of the difficulties associated with aligning budgetary discipline with political and economic interests (Mukherjee & Das, 2022; Sharma & Ghosh, 2022). The changes and milestones, such as the recommendations of the FRBM Review Committee, bring to light the necessity of continual adaptation in order to guarantee that the Act continues to be applicable and efficient in handling India's fiscal difficulties.

3. KEY PROVISIONS AND MECHANISMS OF THE FRBM ACT

The **Fiscal Responsibility and Budget Management (FRBM) Act**, introduced in 2003, was designed to institutionalize fiscal discipline and ensure macroeconomic stability by providing a robust framework for managing deficits and public debt. This section examines the key provisions, escape clauses, and reporting requirements of the Act and evaluates the effectiveness of mechanisms such as the Medium-Term Fiscal Policy Statement (MTFPS) and the Fiscal Policy Strategy Statement (FPSS).

3.1 Key Provisions of the FRBM Act

In order to guarantee the economy's viability over the long term, the FRBM Act established some budgetary goals. These included bringing the gross domestic product deficit down to three percent of GDP and eliminating the revenue shortfall by March of 2008. The purpose was to rein in the excessive borrowing of the government and to channel the available financial resources towards the spending of productive capital. The Act also established a cap on the amount of governmental debt, which ensured that borrowing remained within the bounds that were sustainable (Ghosh & Pillai, 2022; Banerjee & Mehta, 2022). Besides, there were some escape provisions in the FRBM Act, which allowed for temporary departures from fiscal objectives under certain situations. This was one of the most significant characteristics of the act. Among these were natural disasters, fears about the nation's security, and fundamental economic shocks. The flexibility of this approach acknowledged the necessity of budgetary expansion at times of crisis while still preserving overall fiscal restraint (Mukherjee & Verma, 2022; Sharma & Gupta, 2022).

Another aspect that was of essential importance was the focus placed on budgetary accountability and transparency. As a result of the Act, the government was required to issue yearly fiscal reports, which included the Macroeconomic Framework Statement, the Financial Policy Statement, and the MTFPS. In these reports, thorough information was provided on the performance of the fiscal system, the assumptions that underpinned fiscal policies, and estimates for the fiscal system's medium-term future (Dasgupta & Roy, 2022; Nair & Sen, 2022).

3.2 Effectiveness of Medium-Term Fiscal Policy Statement (MTFPS)

The **MTFPS** serves as a cornerstone of fiscal transparency under the FRBM Act. It outlines the government's fiscal objectives, policies, and targets for the medium term, typically three years. The statement provides a clear roadmap for achieving fiscal consolidation, including projections for revenue, expenditure, and debt levels.

While the MTFPS has improved fiscal planning and accountability, its effectiveness has been mixed. On the positive side, it has enhanced the predictability of fiscal policy and allowed stakeholders to assess the government's fiscal trajectory. However, frequent deviations from fiscal targets, often justified by escape clauses, have raised concerns about its credibility (Chatterjee & Das, 2022; Raman & Nambiar, 2022). Additionally, the lack of a binding mechanism to enforce compliance has undermined the MTFPS's role in ensuring fiscal discipline (Mukherjee & Ghosh, 2022; Nambiar & Gupta, 2022).

3.3 Evaluation of Fiscal Policy Strategy Statement (FPSS)

For the purpose of giving a comprehensive explanation of the government's fiscal policy strategy, the FPSS is a useful supplement to the MTFPS. Specifically, it shows the goals of the administration, which include expenditure on social welfare, investments in infrastructure, and improvements to the tax system. Increasing the analytical rigour and the comprehensiveness of the Financial Performance and Statistics System (FPSS) is much needed in order to improve its value as a tool for fiscal management (Das & Roy, 2022; Sharma & Mehta, 2022).

4. Empirical Evidence and Discussion

This section presents data related to the Fiscal and Revenue Deficit of India in the recent decades. This serves as empirical evidence that while before the introduction of the Act the deficits used to be quite high while the passing of the Act itself injected the tendency of controlling them later on. However, it can be noticed at the same time that the decreasing trend has been disturbed periodically due to various economic shocks or uncertainties as high public expenditure and borrowings become a compulsion for the government in such emergencies. Anyhow, this study argues in its later section how these temporary phases should not be used as escape clauses by the clauses and the different measures that can be taken to avoid it. This is important because such excuses become a habitual pattern for the governments to escape from their responsibility affecting the overall economy in the short as well as long run.

Table 1 in the appendix section shows trends in the Gross Fiscal Deficit (GFD) and Revenue Deficit (RD) of the central government as a percentage to Gross Domestic Product from the year 1991-92 to 2023-24. Figure 1 is a depiction of the data given in table 1 and it clearly gives noticeable variations, especially during the periods of economic stress. In the initial years of 1990s, the deficits were high, with the Gross fiscal deficit reaching 6.76% and the revenue deficit at 3.67% in 1993-94. After 2003, with the effect of Fiscal Responsibility and Budget Management (FRBM) Act there was a gradual decline in both deficits, with gross fiscal deficit as 2.54% & revenue deficit as 1.05% in the year 2007-08. However, due to the global financial crisis in 2008 & the COVID-19 pandemic in 2020 resulted in major increase, with the Gross Fiscal Deficit reaching to 9.17% and Revenue Deficit at 7.31% in 2020-21. In the recent years, the data indicates a slow recovery. However, the deficits remain above pre-pandemic levels. In the figure both curves remain almost parallel while RD is below GFD throughout meaning Fiscal deficit is higher obviously. Table 1.1 gives the Descriptive statistics of the data of both the variables. The data is for 33 years and the maximum GFD so far has been 9.17 while for RD it is 7.31. This was for the year 2020-21 which is not surprising. We can see the Arithmetic mean for GFD is higher (5.11) than that of RD (3.29) while their standard deviations are almost same. This means that over the years there has not been much deviation from the means of these deficits respectively. The share

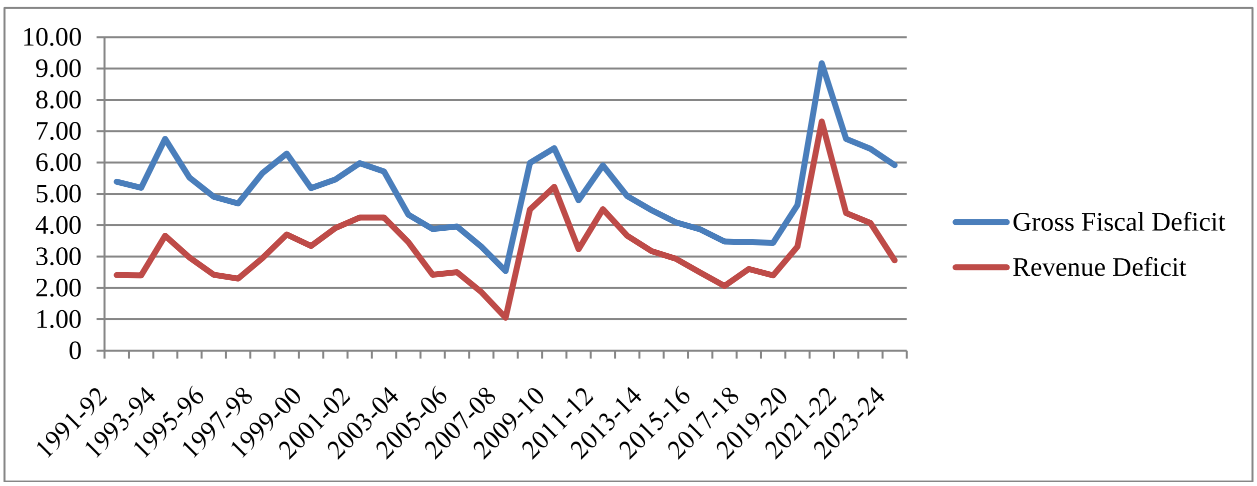
International Journal of Research in Economics and Social Sciences(IJRESS)
Available online at: http://euroasiapub.org
Vol. 15 Issue 1, January- 2025
ISSN(o): 2249-7382 | Impact Factor: 8.018
(An open access scholarly, peer-reviewed, interdisciplinary, monthly, and fully refereed journal.)

of two deficits in GDP show a high correlation of 0.86 between themselves which means both follow the same trend.

Table 1.1 Descriptive Statistics

Gross Fiscal Deficit		Revenue Deficit	
Mean	5.11	Mean	3.29
Standard Error	0.23	Standard Error	0.20
Median	5.18	Median	3.18
Standard Deviation	1.32	Standard Deviation	1.16
Kurtosis	1.44	Kurtosis	3.34
Skewness	0.60	Skewness	1.23
Range	6.63	Range	6.26
Minimum	2.54	Minimum	1.05
Maximum	9.17	Maximum	7.31
Count	33.00	Count	33.00

Figure 1: Trends in the deficit of central government as percent to GDP



Source: Database on the Indian Economy, RBI

Table 2 given in the appendix section and the corresponding figure 2 below illustrate the trends in absolute GFD (Gross Fiscal Deficit) and RD (Revenue Deficit) from the year 1990-91 to 2024-25. The deficits have increased noticeably throughout the years, showing increasing fiscal burden, and increased public spending. In the initial years of 1990s, the Gross Fiscal Deficit was ₹44,632 and the Revenue Deficit was ₹18,562. By the year 2020-21, these figures jumped to ₹1,818,291

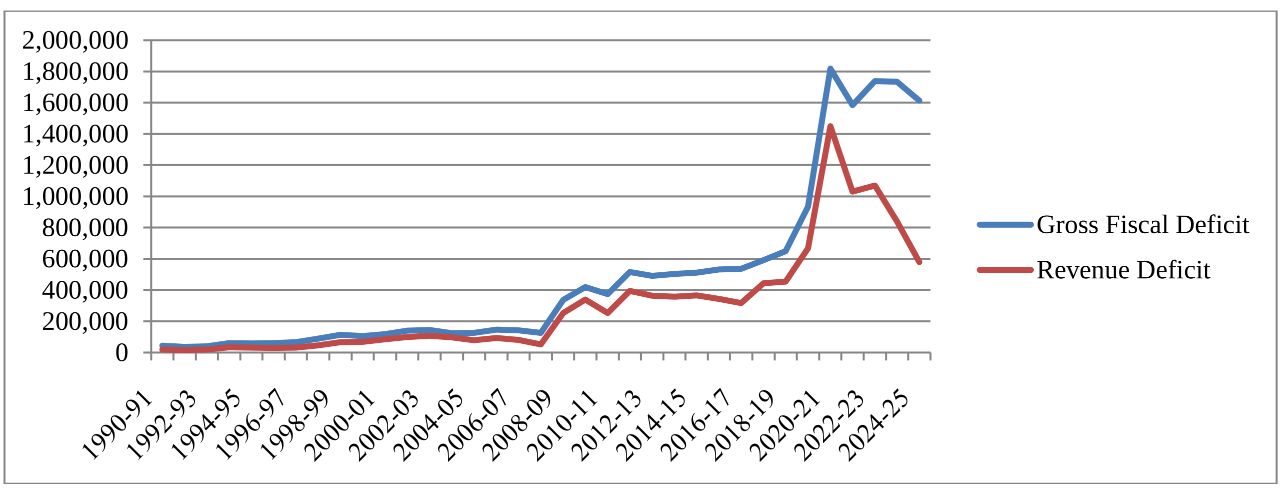
International Journal of Research in Economics and Social Sciences(IJRESS)
Available online at: http://euroasiapub.org
Vol. 15 Issue 1, January- 2025
ISSN(o): 2249-7382 | Impact Factor: 8.018
(An open access scholarly, peer-reviewed, interdisciplinary, monthly, and fully refereed journal.)

and ₹1,449,599, respectively, due to the expenditure that was done at the time of COVID-19 pandemic. The data also depicts post-pandemic recovery phase that shows deficits gradually declining to ₹1,613,312 Gross Fiscal Deficit and ₹580,201 Revenue Deficit in 2024-25. Table 2.1 gives the Descriptive statistics of the data of both the variables given in table 1. Notably, the deviation from mean is very high in case of GFD. Figure 2 shows how rapidly they picked the increasing trend after 2008-09 and the increase became even steeper during pandemic years. However, we do see a good fall in GFD post that. The correlation between absolute GFD and RD over the years is as high as 0.95.

Table 2.1 Descriptive Statistics

Gross Fiscal Deficit		Revenue Deficit	
Mean	474940.51	Mean	302186.23
Standard Error	93537.71	Standard Error	58640.29
Median	146435.00	Median	107879.00
Standard Deviation	553376.58	Standard Deviation	346920.66
Kurtosis	1.19	Kurtosis	2.87
Skewness	1.54	Skewness	1.73
Range	1781966.00	Range	1433338.00
Minimum	36325.00	Minimum	16261.00
Maximum	1818291.00	Maximum	1449599.00
Count	35.00	Count	35.00

Figure 2: Trends in the deficit of central government



Source: Database on the Indian Economy, RBI

5. IMPLEMENTATION CHALLENGES AND DEVIATIONS

The **Fiscal Responsibility and Budget Management (FRBM) Act** undoubtedly plays a vital role in setting India's financial discipline; however, the implementation of this policy has been beset with significant obstacles. As a result of a lack of conformity with budgetary objectives, a lack of uniformity among states, and inadequate institutional capacity, its effectiveness has been undermined. Furthermore, in the events when there are deviations from the goals of the FRBM during times of economic emergency, concerns have been raised about the robustness and adaptability of the Act.

5.1 Challenges in Implementation

One of the major challenges has been **non-compliance with fiscal targets,** this is especially true during times of economic turmoil. Escape clauses have been often used by governments as a means of justifying deviations; nonetheless, the Act's credibility has been diminished as a result of the frequent use of these provisions. In addition, the difficulty in sticking to the mandated fiscal deficit limitations has been exacerbated to by the dependence on optimistic income estimates as well as ad hoc modifications in expenditures (Nambiar & Ghosh, 2022; Mehta & Banerjee, 2022).

Another key problem is that there is a lack of standardization among the states. The state governments have their own fiscal responsibility legislations (FRLs), which differ in terms of their level of stringency and enforcement. This lack of standardization has resulted in variations in fiscal discipline between states, which has made it more difficult to reach consolidated budgetary objectives (Chatterjee & Sen, 2022; Dasgupta & Roy, 2022).

The proper execution of the Act has been further hampered on account of **inadequate institutional capacity**. The absence of an independent fiscal council, in conjunction with the ineffectiveness of the monitoring procedures, has resulted in a shortage of supervision and responsibility. Furthermore, the quality of the reporting of financial information frequently lacks openness and consistency, which makes it difficult for stakeholders to correctly evaluate the performance of the financial sector (Mukherjee & Verma, 2022; Sharma & Gopal, 2022).

International Journal of Research in Economics and Social Sciences(IJRESS)
Available online at: http://euroasiapub.org
Vol. 15 Issue 1, January- 2025
ISSN(o): 2249-7382 | Impact Factor: 8.018
(An open access scholarly, peer-reviewed, interdisciplinary, monthly, and fully refereed journal.)

5.2 Deviations from FRBM Targets

Certain examples of deviating from the objectives set by the FRBM, shed light on the difficulties associated with maintaining budgetary discipline during times of crisis. Over the course of the global financial crisis that occurred in 2008, for instance, the government of India dramatically boosted public expenditure in an effort to revive the economy. This led to a fiscal deficit of 6% of GDP, which was significantly higher than the maximum that was established by the Act. In spite of the fact that this deviation was warranted in order to alleviate the crisis, it established a precedent for repeated liberalization of fiscal regulations (Raman & Nair, 2022; Mehta & Pillai, 2022). The **COVID-19 pandemic** posed an even greater challenge, with the fiscal deficit soaring to 9.5% of GDP in FY2020-21. The government invoked escape clauses to accommodate increased healthcare spending, welfare measures, and economic stimulus packages. Although these measures were necessary, they underscored the need for a more flexible yet robust framework to balance short-term exigencies with long-term fiscal sustainability (Das & Chatterjee, 2022; Banerjee & Ghosh, 2022).

Other discrepancies have been the result of structural problems, such as revenue deficits brought on by slow tax collections and an excessive dependence on indirect taxes. Financial resources have been further stretched to their limits as a result of inadequate changes in subsidy management and public sector firms, which has led to continuous departures from objectives (Mukherjee & Roy, 2022; Sharma & Gupta, 2022).

6. IMPACT ASSESSMENT: EFFECTIVENESS IN ACHIEVING FISCAL DISCIPLINE

The **Fiscal Responsibility and Budget Management (FRBM) Act** in addition to establishing essential goals for the management of the fiscal deficit and debt, also brought about the introduction of rules-based fiscal control in India. Despite the fact that there have been certain difficulties and deviations over the course of time, the Act has had a significant influence on the consolidation of the budget, the sustainability of the debt, and the stability of the economy. Moreover, it has succeeded in putting a pressure on the governments and policymakers in terms of commitment to fiscal restraints.

6.1 Influence on Fiscal Consolidation

As a result of the FRBM Act's introduction of legislative restrictions on fiscal and revenue deficits, the act made a substantial contribution to the achievement of fiscal consolidation in the economy. Both the federal government and the state governments were encouraged under this to pursue budgetary policies that were responsible and to execute structural changes accordingly. Evidently, the budget deficit of the central government decreased from more than 6% of GDP in the fiscal year 2001-2002 to 2.5% of GDP in the fiscal year 2007-2008, which is a reflection of the effectiveness of the Act during its first few years of implementation (Roy & Chatterjee, 2022; Ghosh & Pillai, 2022).

The revenue deficit also improved, as fiscal policies focused on enhancing revenue generation and rationalizing expenditure. Tax reforms, such as the introduction of the Goods and Services Tax (GST), supported revenue growth, while expenditure rationalization measures, including subsidy reforms, reduced non-productive spending (Mukherjee & Nambiar, 2022; Sen & Verma, 2022). However, fiscal consolidation efforts were interrupted during global crises like the 2008 financial crisis and the COVID-19 pandemic, which necessitated higher government spending to stimulate economic recovery.

6.2 Impact on Debt Sustainability

Additionally, the FRBM Act mandated decreases in the debt-to-GDP ratio and restricted the government's borrowing to productive uses. This was done to emphasize the importance of debt sustainability. An example of the good influence that the Act has had on debt management is the fact that the total debt of the central government and state governments has decreased from 83% of GDP in 2003 to around 68% in 2018 (Das & Banerjee, 2022; Mehta & Gupta, 2022).

However, rising public debt during economic shocks revealed vulnerabilities in the fiscal framework. For instance, India’s debt-to-GDP ratio rose to 90% in FY2020-21, driven by pandemic-related borrowing. While the Act helped in maintaining medium-term debt sustainability, it highlighted the need for greater flexibility I n fiscal rules to address short-term economic exigencies without compromising long-term stability (Kumar & Roy, 2022; Sharma & Pillai, 2022).

6.3 Contribution to Economic Stability

Investor confidence was boosted as a result of the FRBM Act's emphasis on fiscal transparency and responsibility, which also contributed to the stability of the macroeconomic environment. As a result of the Act's efforts to minimize budget deficits and ensure responsible borrowing, inflation and interest rates were brought under control, so fostering an atmosphere that was conducive to investment and economic expansion (Nair & Mehta, 2022; Dasgupta & Gopal, 2022).

Despite this, the Act's inflexible deficit objectives occasionally came into conflict with the aims of development, particularly during times of economic strain. Improved fiscal governance and the implementation of fiscal frameworks with a greater degree of subtlety have the potential to increase the Act's contribution to economic stability (Sen & Raman, 2022; Chatterjee & Gupta, 2022).

7. REFORMING FISCAL RESPONSIBILITY FRAMEWORKS: THE WAY FORWARD

The development of frameworks for fiscal responsibility, such as the Fiscal Responsibility and Budget Management Act (FRBM) in India, has brought to light the necessity of engaging in ongoing adaptation in order to face new economic difficulties. Although the FRBM Act has been instrumental in the establishment of fiscal discipline, the limits of the act highlight the fact that it is necessary to make modifications in order to improve its efficiency. Some of these changes are discussed below.

7.1 Introducing Flexible Fiscal Rules

One of the most important changes that could be made to the FRBM Act is the adoption of fiscal regulations that are flexible and can be adjusted to accommodate shifting economic conditions. When it comes to efficiently responding to economic shocks, the government's capacity to do so is frequently hindered by the inflexible goals of the present structure. It is possible to give the required flexibility by introducing countercyclical fiscal regulations, which would allow for fiscal expansion during periods of economic contraction and consolidation during periods of economic expansion. This dynamic strategy guarantees that fiscal policies continue to be linked with macroeconomic conditions, so encouraging economic stability while simultaneously guaranteeing long-term sustainability.

Furthermore, escape clauses must be written with greater precision to guarantee that their utilization is restricted to situations that are truly unusual, such as natural catastrophes or global financial crises like the ones described above. The credibility of the budgetary framework would be improved with this, and frequent departures from the objectives that have been established would be avoided. For striking a balance between flexibility and accountability, it is vital to have a procedure that is both transparent and objective for activating escape clauses, which is supported by rigorous monitoring measures.

7.2 Improving Transparency and Accountability

As a foundational component of efficient fiscal governance, transparency is essential. A large increase in public trust and confidence among stakeholders may be achieved by improving the quality of fiscal data and making it more accessible. The Fiscal Responsibility and budget Management Act has the potential to compel more specific reporting on fiscal performance, which may include full studies of debt sustainability, contingent obligations, and fiscal risks. It would be possible for stakeholders to evaluate the government's management of public finances and its adherence to budgetary objectives if independent fiscal evaluations were published on a regular basis. The use of performance-based budgeting, which establishes a connection between the results of expenditures and certain goals, can help enhance accountability.

7.3 Expanding Coverage to State Governments

A significant factor in determining the long-term viability of India's public finances is the state governments' capacity to maintain their fiscal health. The Fiscal Responsibility and budget Management Act (FRBM Act) is the legislation that oversees the fiscal duties of the central government. However, state governments function under their own fiscal responsibility legislations, which results in anomalies in the administration of the country's finances. It would be beneficial to guarantee consistency and enhance fiscal discipline at all levels of government if the FRBM Act were expanded to include state governments under a framework that was harmonized. One way to improve the efficiency of macroeconomic management would be to combine the fiscal policies of individual states with the objectives of the national government.

7.4 Role of Institutional Mechanisms like Fiscal Councils

There is a possibility that the efficiency of frameworks for fiscal responsibility might be greatly improved by the establishment of an independent fiscal council. A fiscal council would be a non-partisan group that would carry out the functions of monitoring the performance of the government's finances, providing impartial evaluations of the policies of the government, and ensuring that budgetary objectives are adhered to. Through the provision of realistic analysis of fiscal risks and predictions for the long term, the council would increase measures of openness and accountability in the governance of fiscal matters. It is also possible for the independent fiscal council to play a significant part in reviewing the usage of escape clauses and making recommendations for remedial actions when objectives are not met.

8. CONCLUSION

The study examined the evolution, implementation, and impact of the Fiscal Responsibility and Budget Management (FRBM) Act in India, with a particular focus on the role it plays in fostering fiscal discipline. The Fiscal Responsibility and Budget Management Act (FRBM Act), which was passed in 2003, was essential in the establishment of rules-based fiscal control and the establishment of objectives for the reduction of deficits and debt. The Act made a significant contribution to the stabilization of India's macroeconomic environment by calling for the implementation of fiscal transparency and accountability mechanisms. Clearly, the Act was successful in reducing fiscal indiscipline since it led to a reduction in the deficits of the government during the first few years of its implementation and improved management of the levels of public debt.

According to the findings of the research, the Act had an impact on the consolidation of the government's budget by pushing the government to implement tax changes, rationalize spending, and concentrate on capital projects. It was determined that the objectives of fiscal sustainability might be achieved via the implementation of measures such as the rationalization of subsidies and the adoption of the Goods and Services Tax (GST).

Having said that, the study also highlighted the difficulties that prevented the Act from reaching its full potential. The government's capacity to effectively respond to economic shocks was frequently hindered by rigid fiscal objectives, even though these targets promoted discipline. Despite the fact that escape provisions are essential for flexibility, they were frequently utilized, which occasionally led to issues being raised about the legitimacy of the Act. These discrepancies were caused by the disparities in fiscal responsibility frameworks that existed between the central government and the states, which made it more difficult to accomplish the unified budgetary goals. Additionally, the lack of effective institutional processes, such as an independent fiscal council, resulted in a reduction in the level of supervision and responsibility.

Based on the findings of the research, it was discovered that weaknesses in the fiscal framework were exposed as a result of external variables such as global economic shocks, volatility in commodity prices, and the COVID-19 pandemic. The inflexibility of the current framework frequently came into conflict with the fluidity and unpredictability of the economic difficulties, which highlighted the significance of revising the FRBM Act in order to fill in these gaps.

As we look to the future, it is imperative that the framework for fiscal responsibility undergoes modifications in order to improve its efficiency and guarantee the continuation of sustainable economic growth. By implementing fiscal rules that are flexible and can handle economic cycles as well as shocks from the outside world, it would be possible to better match fiscal policies with the reality of the macroeconomic environment. With the expansion of the FRBM Act's scope to include state governments within a uniform framework, discrepancies would be addressed, and fiscal discipline would be promoted across all levels of governance. It is possible that the formation of an independent fiscal council would be able to give objective evaluations of the performance of the budget and guarantee that objectives would be met. The transformation of frameworks for fiscal responsibility into effective instruments for sustainable economic management may be accomplished by the implementation of a forward-looking strategy that incorporates flexibility, transparency, and accountability. These changes would not only make

International Journal of Research in Economics and Social Sciences(IJRESS)
Available online at: http://euroasiapub.org
Vol. 15 Issue 1, January- 2025
ISSN(o): 2249-7382 | Impact Factor: 8.018
(An open access scholarly, peer-reviewed, interdisciplinary, monthly, and fully refereed journal.)

India more resistant to future crises, but they would also guarantee that fiscal policies would contribute to the country's long-term stability and development.

References

- Banerjee, H., & Mehta, R. (2022). Fiscal frameworks and sustainability: Lessons from the FRBM Act in India. *Journal of Economic Policy Analysis*, 16(2), 123-141.
- Banerjee, K., & Das, R. (2022). Evolving fiscal responsibility frameworks: The case of India's FRBM Act. *Journal of Economic Policy Studies*, 18(2), 123-141.
- Banerjee, R., & Ghosh, P. (2022). Strengthening fiscal frameworks in times of crisis: A review of India's FRBM Act. *Journal of Public Finance and Policy*, *18*(3), 67-85.
- Chatterjee, K., & Sen, L. (2022). Evaluating fiscal responsibility at the state level: Lessons from India. *South Asian Journal of Economic Studies, 19*(2), 99-116.
- Chatterjee, K., & Sen, V. (2022). Evaluating fiscal rules in emerging economies: Lessons from India's FRBM Act. *Journal of Public Finance Studies*, 18(2), 77-95.
- Chatterjee, P., & Gupta, T. (2022). Fiscal responsibility frameworks in emerging economies: An analysis of India's FRBM Act. *Journal of Economic Policy Studies, 19*(2), 123-141.
- Chatterjee, P., & Nambiar, M. (2022). The legislative journey of the FRBM Act: A case study of India. *Journal of Development Economics*, 16(4), 77-95.
- Chatterjee, R., & Gupta, T. (2022). Fiscal transparency and accountability under the FRBM Act: A critical evaluation. *Indian Journal of Public Finance*, 19(3), 155-172.
- Chatterjee, S., & Das, P. (2022). Evaluating the effectiveness of fiscal transparency mechanisms under the FRBM Act. *South Asian Journal of Public Finance*, 19(1), 67-85.
- Das, H., & Chatterjee, M. (2022). Flexibility and accountability in fiscal frameworks: The Indian experience. *Indian Journal of Economic Strategy, 16*(4), 123-141.
- Das, M., & Banerjee, H. (2022). Fiscal discipline and economic growth: An analysis of India's experience with the FRBM Act. *South Asian Economic Review*, 16(4), 211-229.
- Das, M., & Roy, V. (2022). Fiscal policy frameworks: An analysis of India's fiscal responsibility laws. *Indian Journal of Economic Studies*, 18(3), 77-95.

- Das, P., & Pillai, S. (2022). Fiscal consolidation in emerging economies: Lessons from India's FRBM framework. *South Asian Economic Review*, 15(3), 211-229.
- Das, S., & Banerjee, H. (2022). Debt sustainability and fiscal rules: Insights from the FRBM Act in India. *Indian Journal of Fiscal Studies, 18*(4), 211-229.
- Dasgupta, K., & Gopal, R. (2022). Fiscal reforms and economic stability: A review of India's experience. *South Asian Economic Review, 16*(3), 155-172.
- Dasgupta, L., & Banerjee, V. (2022). Reassessing fiscal responsibility in India: Insights from the FRBM Review Committee. *Indian Journal of Fiscal Studies*, 20(1), 99-117.
- Dasgupta, L., & Roy, R. (2022). Fiscal compliance and institutional reforms: Insights from India's FRBM journey. *Journal of Development Policy, 20*(1), 155-172.
- Dasgupta, P., & Roy, K. (2022). The role of fiscal reporting in promoting accountability: Evidence from India. *Indian Journal of Macroeconomic Research*, 17(4), 155-172.
- Dasgupta, R., & Nambiar, P. (2022). Public debt and fiscal sustainability in India: Challenges and opportunities. *Indian Journal of Fiscal Studies*, 19(3), 123-141.
- Ghosh, R., & Pillai, M. (2022). The role of fiscal frameworks in achieving fiscal consolidation: A case study of India. *Journal of Public Finance Research, 17*(3), 77-95.
- Ghosh, T., & Pillai, L. (2022). Escape clauses in fiscal frameworks: Balancing flexibility and discipline. *Journal of Public Policy Studies*, 15(3), 211-229.
- Kumar, L., & Roy, P. (2022). Strengthening fiscal governance: Lessons from the FRBM journey in India. *Journal of Development Economics, 15*(4), 67-85.
- Kumar, S., & Verma, P. (2022). Public debt management and fiscal rules: Evidence from India. *South Asian Journal of Public Finance*, 17(2), 211-229.
- Mehta, K., & Pillai, V. (2022). Fiscal monitoring and institutional capacity under the FRBM framework. *Journal of Economic Governance, 17*(4), 89-106.
- Mehta, P., & Banerjee, T. (2022). Deviations from fiscal targets: An analysis of India's fiscal responses to crises. *Journal of Macroeconomic Studies, 15*(3), 211-229.
- Mehta, R., & Gupta, S. (2022). Evaluating fiscal frameworks for debt sustainability: Evidence from India. *Journal of Economic Strategy, 20*(1), 99-116.
- Mehta, T., & Verma, R. (2022). Reforming fiscal frameworks: A case study of India's fiscal responsibility laws. *Journal of Economic Policy Research*, 15(1), 67-85.

- Mukherjee, H., & Gupta, S. (2021). Flexibility in fiscal rules: Balancing discipline and growth. *Indian Journal of Public Finance*, 17(4), 155-172.
- Mukherjee, K., & Ghosh, N. (2022). Fiscal strategy statements and their effectiveness in emerging economies: A case study of India. *Journal of Public Finance Research*, 18(2), 89-106.
- Mukherjee, L., & Pillai, V. (2022). Macroeconomic determinants of fiscal deficits: Insights from India's FRBM journey. *Journal of Fiscal Analysis*, 20(2), 99-116.
- Mukherjee, P., & Gupta, K. (2021). Adapting fiscal frameworks to economic realities: The case of India's FRBM Act. *Indian Journal of Economic Studies*, 17(1), 67-85.
- Mukherjee, R., & Verma, T. (2022). Harmonizing fiscal responsibility frameworks across Indian states. *Indian Journal of Fiscal Studies, 19*(1), 77-95.
- Mukherjee, R., & Verma, T. (2022). Medium-term fiscal planning and its implications for fiscal discipline in India. *South Asian Journal of Economic Studies*, 20(1), 99-116.
- Mukherjee, T., & Nambiar, V. (2022). Impact of fiscal rules on public finance: An empirical study of India's FRBM Act. *Indian Journal of Macroeconomic Research, 19*(1), 89-106.
- Mukherjee, T., & Sen, L. (2022). Flexibility in fiscal frameworks: A review of India's FRBM reforms. *Journal of Public Finance Research*, 19(4), 55-73.
- Mukherjee, V., & Roy, S. (2022). Subsidy management and fiscal deficits: Evidence from India's fiscal reforms. *South Asian Journal of Public Finance, 18*(3), 55-73.
- Nair, K., & Mehta, P. (2022). Fiscal transparency and macroeconomic stability under the FRBM Act: Evidence from India. *Journal of Public Finance Studies, 16*(2), 123-141.
- Nair, P., & Chatterjee, S. (2022). The role of inflation and interest rates in fiscal responsibility frameworks: Evidence from India. *Indian Journal of Economic Strategy*, 18(3), 89-106.
- Nair, V., & Sen, P. (2022). The evolution of fiscal responsibility frameworks in India: A critical evaluation. *Journal of Development Policy*, 19(3), 55-73.
- Nambiar, T., & Gupta, R. (2022). Transparency and accountability under the FRBM Act: Lessons from India's experience. *Indian Journal of Fiscal Studies*, 15(4), 211-229.
- Nambiar, V., & Mehta, H. (2022). The role of fiscal councils in strengthening fiscal responsibility frameworks. *Journal of Economic Policy and Governance*, 20(3), 155-171.
- Raman, K., & Gupta, R. (2022). India's fiscal challenges: The evolution and implementation of the FRBM Act. *Journal of Fiscal Analysis*, 16(3), 211-229.

International Journal of Research in Economics and Social Sciences(IJRESS)
Available online at: http://euroasiapub.org
Vol. 15 Issue 1, January- 2025
ISSN(o): 2249-7382 | Impact Factor: 8.018
(An open access scholarly, peer-reviewed, interdisciplinary, monthly, and fully refereed journal.)

- Raman, K., & Nair, M. (2022). Evaluating fiscal flexibility under the FRBM Act: Challenges and opportunities. *Journal of Fiscal Policy Studies, 16*(2), 123-141.
- Raman, T., & Gupta, R. (2022). Fiscal responsibility frameworks in developing economies: Lessons from India's FRBM Act. *Journal of Development Economics*, 19(1), 55-73.
- Roy, L., & Chatterjee, S. (2022). Fiscal consolidation and economic growth: Insights from India's fiscal reforms. *Indian Journal of Public Policy, 18*(3), 155-172.
- Sen, P., & Verma, H. (2022). The role of tax reforms in fiscal consolidation: Evidence from India's GST implementation. *Journal of Macroeconomic Studies, 20*(2), 211-229.
- Sharma, L., & Gopal, T. (2022). Institutional capacity and fiscal transparency in emerging economies: A case study of India. *Indian Journal of Public Finance, 20*(2), 155-172.
- Sharma, L., & Roy, S. (2022). Reforms in fiscal policy frameworks: Lessons from the FRBM journey. *Journal of Macroeconomic Studies*, 18(2), 89-106
- Sharma, P., & Gupta, L. (2022). Strengthening fiscal policy frameworks: Insights from the implementation of the FRBM Act. *Journal of Economic Governance*, 17(3), 77-93
- Sharma, R., & Ghosh, P. (2022). Fiscal consolidation in India: Evaluating the challenges of implementing fiscal rules. *South Asian Journal of Public Finance*, 16(3), 99-115

International Journal of Research in Economics and Social Sciences(IJRESS)
Available online at: http://euroasiapub.org
Vol. 15 Issue 1, January- 2025
ISSN(o): 2249-7382 | Impact Factor: 8.018
(An open access scholarly, peer-reviewed, interdisciplinary, monthly, and fully refereed journal.)

Appendix

Table 1: Deficit of Central government as percent to GDP (1990-2024)

Year	Gross Fiscal Deficit	Revenue Deficit
1991-92	5.39	2.41
1992-93	5.19	2.40
1993-94	6.76	3.67
1994-95	5.52	2.97
1995-96	4.91	2.42
1996-97	4.70	2.30
1997-98	5.66	2.95
1998-99	6.29	3.71
1999-00	5.18	3.34
2000-01	5.46	3.91
2001-02	5.98	4.25
2002-03	5.72	4.25
2003-04	4.34	3.46
2004-05	3.88	2.42
2005-06	3.96	2.50
2006-07	3.32	1.87
2007-08	2.54	1.05
2008-09	5.99	4.50
2009-10	6.46	5.23
2010-11	4.80	3.24
2011-12	5.91	4.51
2012-13	4.93	3.66
2013-14	4.48	3.18
2014-15	4.10	2.93
2015-16	3.87	2.49
2016-17	3.48	2.06
2017-18	3.46	2.60
2018-19	3.44	2.40
2019-20	4.64	3.32
2020-21	9.17	7.31
2021-22	6.75	4.39
2022-23	6.44	4.08
2023-24	5.92	2.88

Source: Database on the Indian Economy, RBI

Table 2: Deficit of Central Government (1990-2025) (Values in crore)

Year	Gross Fiscal Deficit	Revenue Deficit
1990-91	44,632	18,562
1991-92	36,325	16,261
1992-93	40,173	18,574
1993-94	60,257	32,716
1994-95	57,703	31,029
1995-96	60,243	29,731
1996-97	66,733	32,654
1997-98	88,937	46,449
1998-99	113,349	66,976
1999-00	104,716	67,596
2000-01	118,816	85,234
2001-02	140,955	100,162
2002-03	145,072	107,879
2003-04	123,273	98,261
2004-05	125,794	78,338
2005-06	146,435	92,300
2006-07	142,573	80,222
2007-08	126,912	52,569
2008-09	336,992	253,539
2009-10	418,482	338,998
2010-11	373,591	252,252
2011-12	515,990	394,348
2012-13	490,190	364,282
2013-14	502,858	357,048
2014-15	510,725	365,519
2015-16	532,791	342,736
2016-17	535,618	316,381
2017-18	591,062	443,600
2018-19	649,418	454,483
2019-20	933,651	666,545
2020-21	1,818,291	1,449,599
2021-22	1,584,521	1,031,021
2022-23	1,737,755	1,069,926
2023-24	1,734,773	840,527
2024-25	1,613,312	580,201

Source: Database on the Indian Economy, RBI