

Economy

Date
11/09/2020

CLASS - Topic → fiscal System

fiscal Deficit = Total Exp (RE + CE) - Total Receipts (RR + CR) excluding borrowings

Revenue Deficit = Revenue Exp - Revenue Receipts

$$\begin{aligned} FD &= RE + CE - RR - CR \text{ end borrowing} \\ &= \underbrace{(RE - RR)}_{RD} + (CE - CR \text{ end borrowing}) \end{aligned}$$

FRD = Revenue Deficit - Grants Given for Creation of Capital Assets.

Primary Deficit = fiscal Deficit - Interest Payments

2019-20

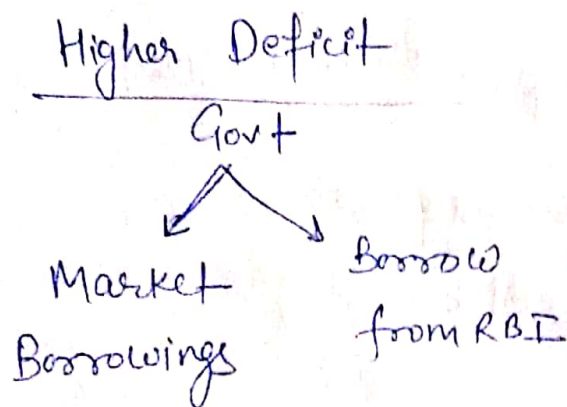
$FD = 5000$ $- 1000$ $PD = 4000$	$\left \begin{array}{c} \text{1 April, 2019} \\ \text{TE} \\ \swarrow \quad \searrow \\ \text{RE} \quad \text{CE} \end{array} \right $	$\left \begin{array}{c} \text{31 March, 2020} \\ \text{TR} \\ \text{without Borrowing} \end{array} \right $
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Non-Tax Revenue comprises mainly of

- Interest Rate on loans to states, UTs and other Parties
- Dividends and Profit from Public Sector Enterprises
- Surplus of RBI
- External Grants etc.

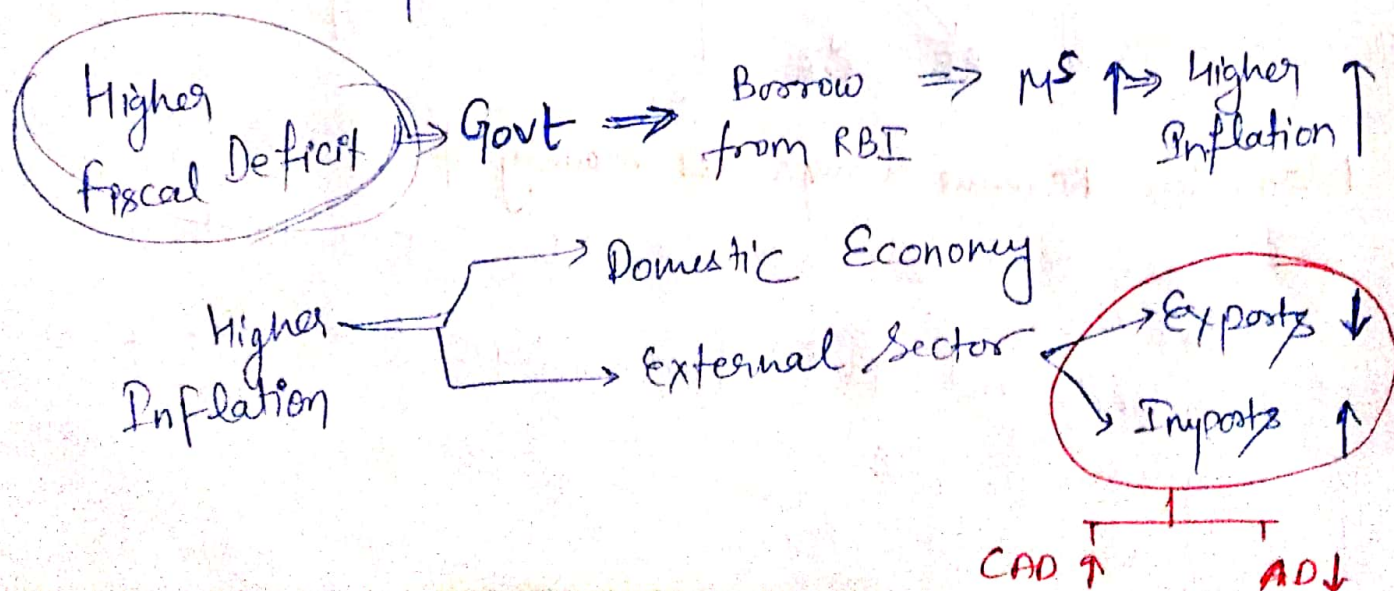
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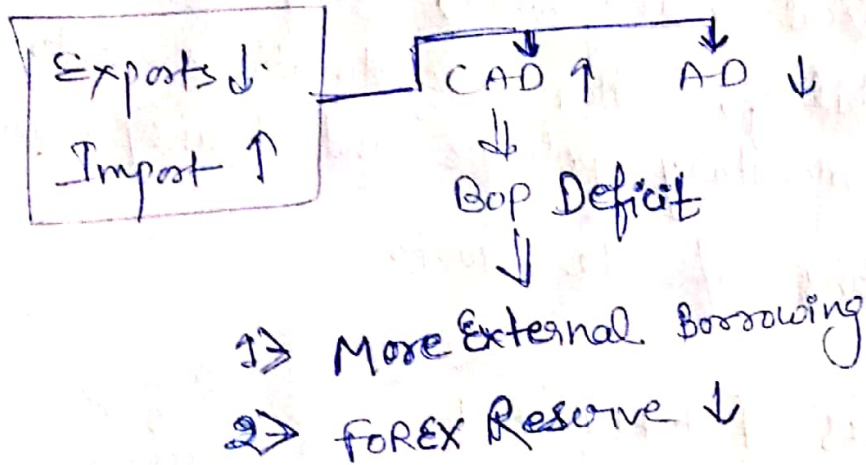
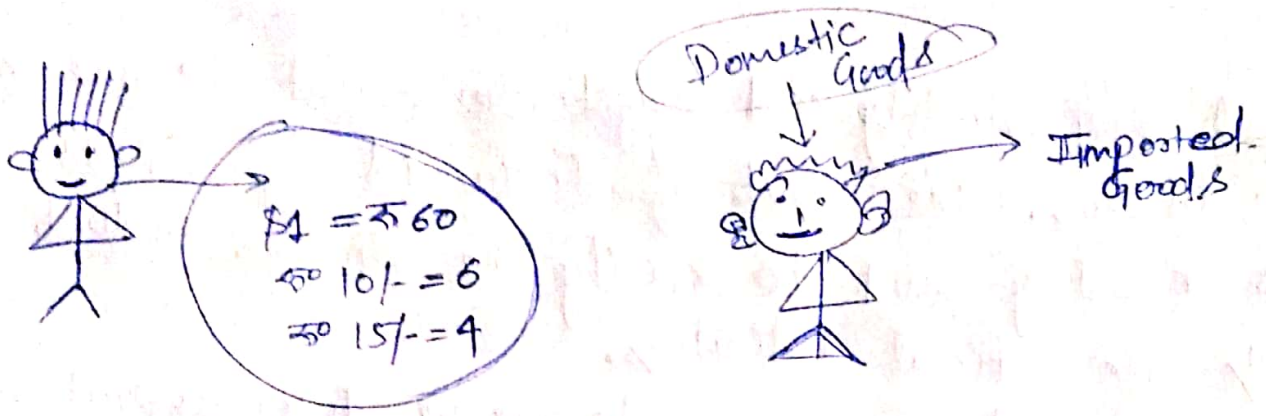
Non-debt Capital Receipts mainly consist of recovery of loans and advance and disinvestment receipts / Proceeds



Borrowing from RBI

<u>Assets</u>	<u>Liabilities</u>
> Gold	
> Foreign Currency	
> G-Sec	





Fiscal Responsibility and Budget Management Act 2003 (FRBM ACT 2003)

1990-91
BOP assists

1997

2002
FRBM Ordinance

2003
FRBM Act
2003

Implemented in
India - 2004

④

Fiscal Responsibility and Budget Management became an Act in 2003. The Govt. of India Notify FRBM rules in July 2004 to specify the Annual reduction targets for fiscal indicators.

The objective of the Act is to ensure Inter-generational equity. in fiscal management, long run macro-economic stability, better coordinations between fiscal and monetary policies and transparency in fiscal operation of the Govt.

Salient features of FRBM Act

1. Reduction of Fiscal Deficit is 2% of the GDP by 2008-09. with annual reduction targets of 0.3% of GDP per year. by the central government which is effective from 2004-05.
2. Revenue Deficit has to be reduced by 0.5% of the GDP, per year with complete eliminations by 2008-09.
3. There must be a ^{upper} cap/limit / Ceiling on the level of total liabilities of the Government.
4. This act prohibited central Government to borrow from RBI. which is effective from 1st April 2006.

(5)

RBI can not print money for lending to the Government. But borrowings from the RBI is permitted in exceptional situation like natural calamities, National Securities etc.

→ On a quarterly basis government has to present the Trends of expenditure and Receipts. to both the houses of the Parliament.

→ Annually present the - followings

- (i) Macro Economic Framework Statement.
- (ii) Medium - Term fiscal Policy Statement.
- (iii) Fiscal Policy Strategy Statement.

would provide the macro economic background & assessment relating to the achievements of FRBM target.

→ Under exceptional conditions govt. can or may not achieve the FRBM targets but the finance minister has to give reasons and measures taken to correct it.