# Understanding

**Dr.Amitendra Singh**
Economics Department
Pt.DDUGovt. Girls PG College ,RJPM Lucknow

## *Adopted from French Word 'BOUGETTE' – which means a Leather Bag*

**The founder of Budget system in India is James Wilson who presented a Budget on 18th Feb. 1860 as a member of council of the Viceroy Lord Canning.**

**The First Budget of Independent India was presented by R. K. Shanmukham Chetty on 26th Nov. 1947.**

**The President of India causes the budget to be laid befor the Lok Sabha**

**The Department of Economics Affairs of the Ministry of Finance is responsible for the preparation & presentation of the budget**

**Article 112 of the Constitution of India calls it 'Annual Financial Statement'**

i. Statement of Revenue
ii. Statement of Expenditure
iii. Overall Statement

**Budget Consists of –**

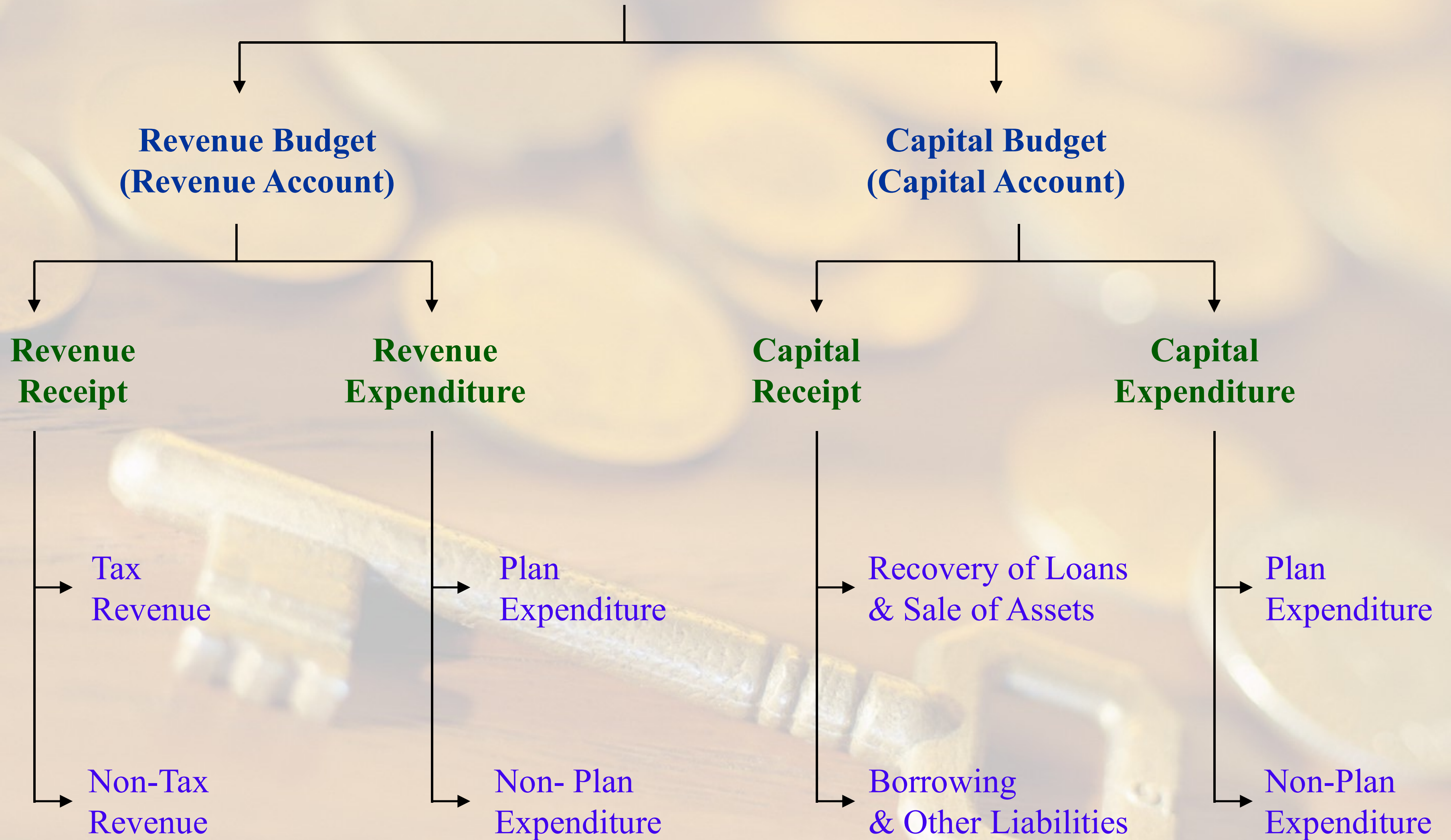
i. Actual of the previous year (Actual)
ii. Budget estimate of current year (B.E.)
iii. Revised estimate of current year (R.E.)
iv. Proposed Budget estimate of next year (B.E.)

**Budget Consists of two parts –**

i. Part A – Speech
ii. Part B – Finance Bill

# NEED AND IMPORTANCE OF BUDGET

- **Planned approach to Government's activities.**
- **Integrated approach to fiscal operations**
- **Influences on the functioning of the economy**
- **Instrument of economic policy**
- **Index of Government's functioning**
- **Public accountability**


BUDGET
Revenue Budget
(Revenue Account)
Capital Budget
(Capital Account)
Revenue
Receipt
Revenue
Expenditure
Capital
Receipt
Capital
Expenditure
Tax
Revenue
Non-Tax
Revenue
Plan
Expenditure
Non- Plan
Expenditure
Recovery of Loans
& Sale of Assets
Borrowing
& Other Liabilities
Plan
Expenditure
Non-Plan
Expenditure

Revenue Account covers the current receipts and running expenditure.

It includes the variations in money balances created or owned by the Government.

Revenue Receipts include proceeds of taxes and other duties levied by the Government, interest & dividends on investment made by the Govt., & Fees and other receipts for services rendered by the Govt. Revenue receipts increase treasury's usable funds without increasing debt obligations.

Revenue Expenditure is meant for normal running of Govt. departments and various services, interest charges on debt incurred by the Govt. and subsidies, grants given by the Govt. etc. Broadly speaking, the expenditure that does not result in creation of assets is treated as revenue expenditure. Revenue expenditure decrease treasury's usable funds without decreasing debt obligations.

# Capital Account

**The Capital account covers the creation and disposal of assets and liabilities. It includes the items of receipts & disbursements of those items –**

i. **Which do not belong to the Govt. (e.g. loans, deposits etc.)**
ii. **Which lead to variations in physical assets of the Govt. (e.g. their acquisition, creation, disposal etc.)**
iii. **Which lead to variations in financial claims & liabilities of the Govt.**

**The main items of capital receipts of loans raised by the Govt. from the public, borrowings from the RBI, loans from abroad, recovery of loans & also proceeds from the disinvestment of Govt. equity in public enterprises.**

**Capital Expenditure includes the payments for acquisition of assets like land, building, machinery, equipment etc., and also investment in shares & loans given by the Govt.**

## 1. Revenue Receipt

**(A) Tax-Revenue Receipt**

- Corporate Tax
- Income Tax
- Union Excise Duty
- Custom Duty
- Service Tax
- Other Taxes

**(B) Non Tax-Revenue Receipt**

- Interest Receipts
- Profits & Dividends
- Other investment Incomes
- External grants

## 2. Revenue Expenditure

**(A) Revenue Plan Expenditure**

- Revenue Expenditure on Central Plans
- Center's Contribution of Plan grants to States

**(B) Revenue Non-Plan Expenditure**

- Interest Payments
- Revenue Expend. on Defence
- All Subsidies
- Waiver of loans
- Grants to States
- Grants to Foreign Government
- Revenue Expenditure on various Government Functions

## 3. Capital Receipt

**(A) Net Recovery of Loans**

**(B) Other Capital Receipts**

**(C) Market borrowings**

**(D) Other Liabilities**

## 4. Capital Expenditure

**(A) Capital Plan Expend**

- Capital Expenditure on various Govt. Functions

**(B) Capital Non-Plan Expend**

- Capital Expend. on Defence
- Loans to States & Union Territories
- Loans to Foreign Governments

# Plan & Non-Plan Expenditure

**A new classification of govt. expenditure started in 1987-88.**

## Plan Expenditure

**It covers all such expenditure that is provided for in the central plan outlay. Central assistance to States & Union Territories is an important item of plan expenditure. It can be revenue expenditure as well as capital expenditure.**

**Basically, the Planning Commission is responsible for the size of the Plan expenditure.**

**Plan expenditure covers the expenditure which is directed to finance the schemes especially initiated under the given plan or which are the spillover of the previous plan/plans.**

## Non-Plan Expenditure

**It covers the expenditure which is not included in the plan. Part of this expenditure is obligatory such as interest payments, pension, statutory transfer to state, while part of it is a necessary commitment such as defence, internal security etc.**

**Those schemes which are completed under the plan would also require maintenance and other running expenditure in future. Such expenditure is counted as non-plan expenditure. With the result that over time, the non-plan expenditure keeps on increasing automatically.**

**Basically, the Finance Commission and Ministry of Finance are responsible for the size of the Non-Plan expenditure.**

# Plan Vs. Non-Plan Expenditure

- 11th Finance Commission (2000-2005) headed by Dr. A. M. Khusro had recommended to examine the issue for eliminating the distinction between plan and non-plan expenditure.
- High level Expert Committee on Efficient Management of Public Expenditure headed by Dr. C. Rangarajan had recommended a fundamental shift in the approach of public expenditure by removing the Plan & Non-plan distinction and budgeting linked to output & outcomes.
- Union Budget 2016-17 announced that the Plan & Non-Plan classification to be eliminated from 2017-18.
- Now after abolition of Planning Commission & Setting up of NITI Aayog – the term Plan expenditure has lost its relevance. Therefore after the end of the 12th Five Year Plan in 2016-17. The Plan and Non-plan distinction will be removed from 2017-18.

# DEFICITS

**Revenue Deficit** = [Revenue Expenditure] – [Revenue Receipts]

= [Revenue Plan Expenditure + Revenue Non Plan Expenditure] – [Net Tax Revenue + Non Tax Revenue]

**Fiscal Deficit** = [Total Expenditure] – [Total Revenue Receipts + Capital Receipts (excluding borrowing & other liabilities)]

= [Total Expenditure] – [Total Revenue Receipts + Capital Receipts (including recovery of loans & sale of assets)]

**Primary Deficit** = Fiscal Deficit – Interest Payment

**Effective Revenue Deficit** = Revenue Deficit – Grants for creation of Capital assets

# DEFICITS

**Monetized Deficit** = That part of fiscal deficit which is met by RBI's monetary credit to the government.

**Structural Deficit** = The structural reasons behind low revenue of the government and high expenditure by the government.

**Twin Deficits** = A situation of two simultaneous deficits in the economy

(i) A deficit in the Government budget, arising out of a gap between domestic savings & expenditure.

(ii) A deficit in the current account of foreign trade, arising out of a gap between exports & imports.

# Budget Structure

| | |
|---|---|
| **Revenue Receipts** | **95** |
| a- Tax revenue | 79 |
| b- Non-Tax revenue | 16 |
| **Capital Receipts** | **55** |
| a- Recovery of loans | 4 |
| b- Borrowing & other liabilities | 51 |
| **Total Receipts** | **150** |

| | |
|---|---|
| **Revenue Expenditure** | **128** |
| Of which – | |
| a- Plan expenditure | 42 |
| b- Non- Plan expenditure | 86 |
| Items – | |
| i-Interest payment | 32 |
| ii-Grants for creation of capital assets | 16 |
| **Capital Expenditure** | **22** |
| a- Plan expenditure | 10 |
| b- Non- Plan expenditure | 12 |
| **Total Expenditure** | **150** |

# CALCULATION OF DEFICITS

| | | | | |
|---|---|---|---|---|
| Fiscal Deficit | = | [150 – (95+4)] | = | 51 |
| Primary Deficit | = | [51 – 32] | = | 19 |
| Revenue Deficit | = | [128 – 95] | = | 33 |
| Effective Revenue Deficit | = | [33 – 16] | = | 17 |

# Tolerable Limit of Deficit

**Tolerable Limit of Deficit is indicative of that stage beyond which its ill-effects overshadow its benefits.**

**There are four ways of financing the deficit –**

- **i- Domestic borrowings – higher interests rate & crowding out**
- **ii- Foreign borrowing – external debt crisis**
- **iii- Running down foreign exchange reserves – exchange crisis**
- **iv- By printing money – inflation**

- ***Sukhmoy Chakravorty Committee of RBI on the working of monetary system – under 4% of GDP***
- ***IMF – arround 4% of GDP***
- ***Raja J. Chelliah – 4% to5% of GDP***
- ***S.S. Tarapore Committee of RBI on the capital account convertibility – 3.5% of GDP.***
- ***Fiscal Responsibility & Budget Management Act 2003 – under 3% of GDP.***
- ***Thirteenth Finance Commission –***
  - ***Fiscal Deficit For States - The States that attained Zero Revenue Deficit or Revenue Surplus in 2007-08, should achieve fiscal deficit of 3% of Gross State Domestic Product by 2011-12***

- *Manipur, Nagaland, Sikkim, Uttarakhand by 2013-14*
- *Jammu and Kasmir, Mizoram by 2014-15*
- *Revenue Deficit For States – The States that attained Zero Revenue Deficit or Revenue Surplus in 2007-08, should eliminate Revenue Deficit by 2011-12 & Maintain surplus thereafter.*
- *For other states by 2014-15*
- *Revenue Deficit of the centre needs to be progressively reduced and eliminated, followed by emergence of a revenue surplus by 2014-15.*
- *A target of 68% of GDP for combined debt of the centre & states should be achieved by 2014-15. The fiscal consolidation path embodies steady reduction in the augmented debt stock of the centre to 45% of GDP by 2014-15, and by the states to less than 25% of GDP by 2014-15*

# CAUSES OF DEFICIT

- Fiscal Activism
- The effect of pay revision
- The increasing interest payment
- Increasing defence expenditure
- Increasing Subsidies

  (Three Fs – Food, Fertilizer, Fuel)
- Increasing transfer payment to states
- Shortfall in disinvestment receipts
- Huge pending tax arrears

  Foregone Tax Revenue (Tax exemption incentives)
- One Rank, One Pension Scheme
- Expenditure on loan waiver
- Lack of effective governance
- The twin global shocks – the global commodity price shock particularly in crude petroleum & the global financial crisis – and the resultant slowdown in the economy led to a policy response of fiscal expansion in the latter half of 2008-09 which continued through the 2009-10. US in 2008 & EU in 2011.
- Three Stimulus packages (7 Dec. 2008, 2 Jan. 2009 & 24 Feb. 2009) for conscious fiscal expansion composed of both tax cuts & expenditure hikes

  (3% of GDP – Rs. 1,86,000 Cr.)

# Methods to Control Deficit

## (A) Steps to control expenditure

- K. P. Geethakrishanan Commission on expenditure reforms (2000)
  - Rationalization of Subsidies (Specially Food Subsidy & Fertilizer Subsidy)
  - Optimising Govt. Staff Strength
  - Optimising the size of Ministries & Departments
- New Pension Scheme (from 1st Jan. 2004)
- No Loans to State Govt. (recommended by the 12th Finance Commission)
- Zero based Budget from 1986-87.
- Direct benefit transfer.
- Reduction in number of centrally sponsored scheme (B. K. Chaturvedi Committee on Rationalisation of CSS, September 2011.), from 147 to 66
- Shivraj Singh Chauhan Committee of NITI Aayog reduced it from 66 to 30

## (B) Steps to Increase Revenue

- Introduction of New Taxes
- Service Tax
- Securities Transaction Tax
- Commodities Transaction Tax
- Fringe Benefit Tax
- Minimum Alternate Tax
- Banking Cash Transaction Tax
- Tonnage Tax
- Google Tax
- Surcharge on Super Rich
- Improvement in Tax Administration
- PAN
- E-filing
- Sampark Scheme
- AIR (Annual Information Report)
- Disinvestment Process
- Goods & Services Tax (Proposed)
- Direct Tax Code (Proposed)
- Proposed GAAR (General Anti Avoidance Rules)
- Decontrol of Petrol Prices
- Partial Decontrol of Diesel Prices

## *Some Important Types of Budget*

- **Performance Budget – introduced in 1975-76.**
- **Zero Base Budget introduced in 1999-2000. It is a system of total re-justification of every activity from base zero.**
- **Outcome Budget – Presented for the 1st time for 2005-06. It is a pre-expenditure instrument (presented in May).**
- **Gender Budget – introduced in 2005-06. It is a system of presentation of budget data which clearly present the Gender sensitivities.**

# BUDGET 2016-17

**Some Items of Expenditure**

| | | |
|---|---|---|
| **Interest payments** | **:** | **Rs. 4,92,670 Cr.** |
| **Defence expenditure** | **:** | **Rs. 2,58,000 Cr.** |
| **Food Subsidy** | **:** | **Rs. 1,34,835 Cr.** |
| **Fertilizer Subsidy** | **:** | **Rs. 70,000 Cr.** |
| **Petroleum Products Subsidy** | **:** | **Rs. 26,947 Cr.** |

**Total Expenditure – Rs. 19,78,000 Cr.**

| Plan Expenditure | Non-Plan Expenditure |
|---|---|
| **Rs. 5,50,000 Cr. (28.0%)** | **Rs. 14,28,000 Cr. (72.0%)** |

| Tax Revenue | 2014-15 | 2015-16 (B.E.) | 2016-17 (B.E.) |
|---|---|---|---|
| **Corporation Tax** | Rs. 4,26,079 Cr. | Rs. 4,70,628 Cr. | Rs. 4,93,923 Cr. |
| **Income Tax** | Rs. 2,78,599 Cr. | Rs. 3,27,367 Cr. | Rs. 3,53,174 Cr. |
| **Union Excise Duty** | Rs. 1,85,480 Cr. | Rs. 2,29,808 Cr. | Rs. 3,18,670 Cr. |
| **Service Tax** | Rs. 1,68,132 Cr. | Rs. 2,09,774 Cr. | Rs. 2,35,121 Cr. |
| **Custom Duty** | Rs. 1,88,713 Cr. | Rs. 2,08,336 Cr. | Rs. 2,30,000 Cr. |

- **Share of Direct Taxes : 52.0 %**
- **Share of Indirect Taxes : 48.0 %**
- **Tax – GDP Ratio : 10.8 %**

# Budget 2016-17

| Deficit | 2014-15 Actual | 2015-16 Budget Estimate | 2015-16 Revised Estimate | 2016-17 Budget Estimate |
|---|---|---|---|---|
| Revenue Deficit | 2.9 % | 2.8 % | 2.5 % | 2.3 % |
| Fiscal Deficit | 4.1 % | 3.9 % | 3.9 % | 3.5 % |
| Primary Deficit | 0.9 % | 0.7 % | 0.7 % | 0.3 % |
| Effective Revenue Deficit | 1.9 % | 2.0 % | 1.5 % | 1.2 % |

***Fiscal consolidation road map***

To bring down fiscal deficit to-

3.9 % of GDP in 2015-16

3.5 % of GDP in 2016-17

3.0% of GDP in 2017-18

# Deficits in the Budgets as Percentage of GDP

| Year | Revenue Deficit | Fiscal Deficit | Primary Deficit | Effective Recenue Deficit |
|---|---|---|---|---|
| 1990-91 | 3.3 | 6.6 | 2.8 | – |
| 2000-01 | 4.1 | 5.7 | 0.9 | – |
| 2001-02 | 4.4 | 6.2 | 1.5 | – |
| 2002-03 | 4.4 | 5.9 | 1.1 | – |
| 2003-04 | 3.5 | 4.3 | 0.0 | – |
| 2004-05 | 2.4 | 3.9 | 0.0 | – |
| 2005-06 | 2.5 | 4.0 | 0.4 | – |
| 2006-07 | 1.9 | 3.3 | – 0.2 | – |
| 2007-08 | 1.1 | 2.5 | – 0.9 | – |
| 2008-09 | 4.5 | 6.0 | 2.6 | – |
| 2009-10 | 5.2 | 6.5 | 3.2 | – |
| 2010-11 | 3.2 | 4.8 | 1.8 | 2.1 |
| 2011-12 | 4.4 | 5.7 | 2.7 | 2.9 |
| 2012-13 | 3.6 | 4.9 | 1.8 | 2.5 |
| 2013-14 | 3.1 | 4.4 | 1.1 | 1.8 |
| 2014-15 | 2.9 | 4.1 | 0.9 | 1.9 |
| 2015-16 (B.E.) | 2.8 | 3.9 | 0.7 | 2.0 |
| 2015-16 (R.E.) | 2.5 | 3.9 | 0.7 | 1.5 |
| 2016-17 (B.E.) | 2.3 | 3.5 | 0.3 | 1.2 |

# Domestic Balance & Foreign Balance

| **Revenue** | **Expenditure** |
|---|---|
| 1. Domestic Revenue | 3. Domestic Expenditure |
| 2. Foreign Grants | 4. Foreign Expenditure |

| | | | | |
|---|---|---|---|---|
| **Budget Balance** | **=** | **(Expenditure)** | **–** | **(Revenue)** |
| | = | (3 + 4) | – | (1 + 2) |
| | = | 5 (Net borrowing) | | |
| Since, Total Receipts | = | Total Expenditure | | |
| Therefore 1 + 2 + 5 | = | 3 + 4 | | |
| Or, 5 | = | 3 + 4 – 1 – 2 | | |
| Or, 5 | = | (3 – 1) + (4 – 2) | | |
| (3 – 1) | = | Domestic Balance | | |
| (4 – 2) | = | Foreign Balance | | |
| 5 | = | Domestic Balance + Foreign Balance | | |

Therefore,

Domestic balance = 5 – Foreign Balance

Foreign balance = 5 – Domestic Balance

# BUDGETARY PROCEDURE

**The budgetary procedure involves four different operations –**

- **Preparation of the budget**
- **Enactment of the budget**
- **Execution of the budget**
- **Parliamentary control over finance**

# Parliamentary Procedure of the Budget

**Finance Bill (Article 117)**

Finance Bill is introduced in Parliament by the order of the President of India. This contains the Government's proposals for levy of new taxes, modification of the existing tax structure or continuance of the existing tax structure beyond the period approved by parliament. It is submitted to parliament along with the Budget for its approval.

**Demands for Grants**

It is statement of estimates of expenditure from the consolidated Fund and is required to be voted by the Lok Sabha. Generally one 'demand for grant' is presented in respect of each ministry or department .

**Appropriation Bill**

After the Grants have been made, the Appropriation Bill is presented to the Lok Sabha for its approval so that the Govt. can withdraw from the consolidated Fund of India, the amounts required for meeting the expenditure charged on the fund. No amount can be withdrawn from the Consolidated Fund till the Appropriation Bill is enacted.

**Money Bill**

After getting clearance from the Lok Sabha, it is certified by the Speaker as Money Bill & sent to Rajya Sabha. Rajya Sabha has neither power of amending is nor rejecting it.

**Finance Act**

After the assent of the President of India, it is called the Finance Act.

## Vote-on-account (Article 116)

- This is the sanction of Parliament for withdrawl of money from the Consolidated Fund of India for a part of the year.
- In the normal course the budget is presented on February 28, after which there is a discussion and Parliamentary Procedure.
- Usually the actual budget gets passed in the middle of May.
- The full budgeting is done from April 1 to March 31. So, the sanction that the government gets from Parliament for spending expires on March 31. But the new Budget gets passed in only mid May. So, after the budget is presented on February 28, the Government moves a vote-on-account which gets its parliament sanction to spend money for another 2 months or so (this period does not exceed 6 months).
- The vote account deals only with the expenditure side of the Government budget.

## Interim Budget

- When there is an caretaker government, or the country is in the middle of the election, or may even be after a new government is sworn in, an interim budget is presented.
- The interim budget is a complete set of accounts, including both – Expenditure & Receipts.

## Supplementary Budget (Article 115)

- The budget estimates of the coming year are based on future possibilities with regard to revenue and expenditure.
- It is not always possible to foresee and provide for all the emergencies or uncertainties.
- In these circumstances the Government may find necessary to present in the Parliament a supplementary budget to deal with such eventualities.

# Government Accounts

The financial management of any organization must have a prudent financial system backed by sound and effective accounting procedure and internal controls. A well-designed and well managed accounting system helps ensure proper control over funds.

Accounting policies and procedures and designed to compile accounts fulfilling legal/procedural requirements that govern financial control. Accounts are an integral part of financial management of activities. On the basis of accounts, the Government determines the shape of its monetary and fiscal policies.

**Structure of Accounts and Flow of Funds**

The accounts of Government are kept in three parts :-

*1. Consolidated Funds of India*

*2. Contingency Funds of India*

*3. Public Account*

# CONSOLIDATED FUND OF INDIA

All revenues received by the Government by way of taxes like Income Tax, Central Excise, Customs and other receipts flowing to the Government in connection with the conduct of Government business i.e. Non Tax Revenues are credited into the Consolidated Fund constituted under Article 266(1) of the Constitution of India. Similarly, all loans raised by the Government by issue of Public notifications, treasury bills (internal debt) and loans obtained from foreign governments and international institutions (external debt) are credited into this fund.

All expenditure of the government is incurred from this funds and no amount can be withdrawn from the Fund without authorization from the Parliament.

Consolidated Fund of India is divided into two main divisions –

1. A Revenue Section – It is divided into two sub-divisions
   (a) revenue receipts
   (b) revenue expenditure.
2. A Capital Section – It is divided into two sub-divisions
   (a) capital receipts (including internal & external debt)
   (b) capital expenditure

# CONTINGENCY FUND OF INDIA

The Contingency Fund of India records the transaction connected with Contingency Fund set by the Government of Indian under Article 267(1) of the Constitution of India. The corpus of this fund is Rs. 500 crores. Advances from the funds are made for the purpose of meeting unforeseen expenditure which are resumed to the Funds to the full extent as soon as Parliament authorizes additional expenditure. Thus, this fund acts more or less like an imprest account of Government of India and is held on behalf of President by the Secretary to the Government of India, Ministry of Finance, Department of Economics Affairs.

# PUBLIC ACCOUNT

In the Public Account constituted under Article 266 (2) of the Constitution, the transactions relate to debt other than those included in the Consolidated Fund of India. The transactions under Debt, Deposits and Advances in this part are those in respect of which Government insure a liability to repay the money received or has a claim to recover the amounts paid. The transaction relating to 'Remittance' and 'Suspense' shall embrace all adjusting heads. The initial debits or credits to these heads will be cleared eventually by corresponding receipts of Government. Parliamentary authorization for payments form the Public Account is therefore not required.

Public Account is divide into 6 sub-divisions

1. Small Savings, Provident Funds etc.
2. Reserve Funds
3. Deposits and Advances
4. Suspense and Miscellaneous
5. Remittances
6. Cash Balance

# Public Debt

***There are three sets of Public Debt :–***

**(i) Internal Debt**

(a) Market Loans
(b) Short Terms Borrowing
(c) Other medium & long terms borrowings

The Internal Debts includes  market loans, bonds, special securities, Treasury Bills issued to commercial banks, Financial Institutions, State Governments, etc.

**(ii) External Debt**

Its includes loans received from foreign governments and bodies.

**(iii) Other Liabilities**

It includes other interest bearing obligations of government such as post office saving deposits under small saving scheme, Provident funds, interest bearing reserve funds of departments like railways & communication & certain other deposit.

"Other liabilities" of the government arise in government's account more in capacity as a banker rather than as a borrower. Hence, such borrowings, not secured under the Consolidated Fund of India are shown as part of Public Account.

The Internal Debt & The External Debt are the parts of the Consolidated Fund of India.

## BACKGROUND

**United States of America**

Gramm-Rudman-Hollings Act, 1985

Budget Enforcement Act, 1990

Balanced Budget Act, 1997

**New Zealand**

The State Sector Act, 1988

The Public Finance Act, 1989

The Reserve Bank (Amendment) Act, 1989

The Fiscal Responsibility Act, 1994

**India**

Proposed by Raja J. Chelliah in 1997

- **FRBM Act, 2003 came into force with effect from 5 July, 2004.**
- **Dr. Vijay Kelkar, Task Force drew up the medium term framework for fiscal policies to achieve the FRBM targets.**
- **The enactment of FRBM Act marks a watershed is fiscal reforms. The Act provides an institutional framework binding the Government to pursue a prudent Fiscal Policy.**

# MAIN FEATURES OF FRBM ACT, 2003

- **Revenue Deficit = Nil by 2008-09 and thereafter create revenue surplus.**

  Reduction of Revenue Deficit by an amount equivalent of 0.5% or more of GDP at the end of each financial year, beginning with 2004-05
- **Fiscal Deficit of not more than 3% of GDP by 2008-09**

  Reduction of Fiscal Deficit by an amount equivalent of 0.3% or more of GDP at the end of each financial year, beginning with 2004-05
- The Central Government shall not borrow from the Reserve Bank of India except by way of advances to meet temporary excess of cash disbursements over cash receipts.
- The Reserve Bank of India not to subscribe to the primary issues of the Central Government securities form the year 2006-07.
- No Assumption of additional liabilities (including external debt) at current exchange rate in excess of 9% of GDP for the financial year 2004-05 & progressive reduction of this limit by at least 1% point of GDP in each subsequent year.
- The Finance Minister to lay in each financial year before both Houses of Parliament three statements viz., Medium Term Fiscal Policy Statement, Fiscal Policy Strategy statement and Macroeconomics Framework Statement along with the Annual Financial Statement.
- The Revenue Deficit and Fiscal Deficit may exceed the targets specified in the rules only on grounds of national security or national calamity or such other exceptional grounds as the Central Government may specified.
- The Finance Minister to make a quarterly review trends in receipts and expenditure in relation to the Budget and place the review before both Houses of Parliament.
- In the course of the year the Central Govt. would introduce and amendment to the FRBM Act, 2003, laying down the fiscal roadmap for the next five years.

Thanks