15th Finance Commission Recommendations: Fiscal Consolidation

Why in News

Recently, the 15th Finance Commission's Report was tabled in the Parliament. It provided range for the **fiscal deficit** and debt path of both the Union and States.

Key Points

- **Fiscal Deficit:**
  - **Target for Centre:** It recommended that the Centre brings down its fiscal deficit to 4% of Gross Domestic Product GDP by 2025-26 against 6.8% in FY22.
  - **Target for States:** For states, it recommended **fiscal deficit at 4% of Gross State Domestic Product (GSDP) in 2021-22,** 3.5% in the following year and 3% for the next three years.
- **Borrowing Ceilings for States:**
  - Because of **Article 293 of the Constitution,** State Governments operate under borrowing limits and, hence, budget constraints, approved by the Union Government.
  - The normal limit for **net borrowing may be fixed at 4% of Gross State Domestic Product (GSDP) in 2021-22, 3.5% in 2022-23** and be maintained at **3% of GSDP from 2023-24 to 2025-26.**
  - **An additional borrowing of 0.5% of GSDP** to be allowed to the States in case they meet the criteria for **power sector reforms.**
- **Better Monitoring of Centrally Sponsored Scheme (CSS):**
  - A **threshold amount of annual appropriation should be fixed** below which the funding for a **CSS** may be stopped.
    - Below the stipulated threshold, the **administration department should justify the need for the continuation of the scheme.**
  - As the life cycle of ongoing schemes has been made co-terminus with the cycle of Finance Commissions, **third-party evaluation of all CSSs should be completed within a stipulated time frame.**

- **New FRBM Framework:**
  - The Fiscal Responsibility and Budget Management Act (**FRBM Act, 2003**) **needs a major restructuring** and recommended that the time-table for defining and achieving debt sustainability may be examined by a **High-powered Inter-governmental Group.**
    - This High-powered Group can craft the **new FRBM framework** and oversee its implementation.
  - **State Governments may explore formation of independent public debt management cells** which will chart their borrowing programme efficiently.

Source: PIB