



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

PDF Reference URL: <https://www.drishtias.com/printpdf/15th-finance-commission-recommendations-fiscal-consolidation>

