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ASSESING THE ENFORCEABILITY AND REFORM OF THE FRBM ACT IN THE CONTEXT OF FISCAL DISCIPLINE IN INDIAN STATES

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I. ABSTRACT

Can a legislation truly enforce fiscal discipline if it carries no mechanism to punish its violation? Can a statutory framework designed to bind government to financial prudence remain credible when its targets are routinely revised, suspended, and abandoned without the consequence? Can a federal nation like India afford to impose fiscal responsibility obligations asymmetrically, holding it's stated to standards that the union itself is not genuinely compelled to observe?

This paper delves into these fundamental questions. The Fiscal Responsibility and Budget Management Act, 2003 was enacted with the ambitious objective of institutionalizing fiscal discipline across all levels of government in India. Two decades since its enactment, however, the Act stands exposed as a largely symbolic instrument, one that articulates fiscal ideals without providing the institutional machinery to enforce them. The Act's broadly worded escape clauses, the absence of an independent oversight body, and the pattern of repeated target revision have collectively reduced it to a statement of intent rather than a binding legal commitment.

This paper critically examines the structural Infirmities of the FRBM Act by analysing the gap between its stated objectives and actual fiscal outcomes at both the Union and the State levels. It interrogates that asymmetric burden placed on states vis-s-vis the Centre, and evaluates the NK Singh Committee recommendations of 2017 for their adequacy and the reasons for their non-implementation. Drawing upon comparative models from Australia's Charter of Budget Honesty, the United Kingdom's Office for Budget Responsibility, and Canada's Parliamentary Budget Officer, the paper argues that meaningful fiscal reform in India demands not merely statutory revision but the creation of a genuinely independent fiscal council with constitutional backing. Without such reforms, fiscal discipline in India will remain aspirational rather tha enforceable and the promise of the FRBM Act will continue to fall short of its foundational purpose.

Keywords: Fiscal Responsibility, Budget Management, FRBM Act, Fiscal Discipline, Fiscal Deficit, Fiscal Federalism, Enforceability, Escape Clauses, Fiscal Council, NK Singh Committee, State Finances

II. LEGISLATIVE HISTORY AND FRAMEWORK OF FRBM ACT, 2003

The enactment of the Fiscal Responsibility and Budget Management Act, 2003 was not a legislative choice made in isolation. It was a direct and urgent response to a prolonged fiscal crisis that had been building steadily across both the Union and State levels throughout the 1980s and 1990s. During this period, India witnessed a persistent and unsustainable expansion of fiscal

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deficits, driven by mounting revenue expenditure, unchecked subsidies, burgeoning interest payments, and a near-complete absence of any statutory obligation to contain public borrowing. The fiscal deficit of the Central Government had reached approximately 8.4% of GDP by 1990-91, contributing directly to the balance of payments crisis of 1991 that forced India to pledge its gold reserves and seek emergency assistance from the International Monetary Fund. While the economic liberalisation initiated in 1991 addressed several structural inefficiencies in the real economy, the fiscal front remained deeply vulnerable throughout the decade that followed.

By the late 1990s, the combined fiscal deficit of the Centre and States had crossed 10% of GDP, and the revenue deficit of the Central Government alone stood at alarmingly high levels. Interest payments had begun to crowd out productive expenditure on infrastructure, health and education, creating a vicious cycle of borrowing and debt servicing that left little room for developmental spending. It was against this backdrop of chronic fiscal stress, rising public debt, and growing macroeconomic vulnerability that the political and economic consensus for a statutory fiscal framework began to crystallise[1055]. The Eleventh Finance Commission and several expert committees during this period strongly advocated for legislative intervention to impose binding fiscal targets and reverse the deteriorating trend.

The Fiscal Responsibility and Budget Management Act was enacted by Parliament in August 2003 and came into force on July 5, 2004, along with the FRBM Rules, 2004 framed thereunder. The Act represented a landmark legislative initiative aimed at ensuring inter-generational equity in fiscal management, long-run macroeconomic stability, better coordination between fiscal and monetary policy, and greater transparency in Central Government finances. The Statement of Objects and Reasons of the Act explicitly acknowledged that prudent fiscal management was a prerequisite for sustained economic growth, and that statutory targets were necessary to ensure that fiscal consolidation did not remain merely a policy preference susceptible to electoral pressures and short-term political considerations.

The Act mandated the Central Government to take appropriate measures to reduce fiscal deficit, revenue deficit and the outstanding liabilities to sustainable levels over the medium term. It required the Government to lay before Parliament a Medium-Term Fiscal Policy Statement[1056], a Fiscal Policy Strategy Statement and a Macroeconomic Framework Statement as part of the annual budget documents, thereby institutionalising medium-term fiscal planning and making the Government's fiscal intentions subject to parliamentary scrutiny.

The original framework of the FRBM Act set out specific and time-bound fiscal targets for the Central Government. The Act required the elimination of revenue deficit by 2008-09 and a reduction of fiscal deficit to 3% of GDP by the same year. It also imposed a cap on guarantees and prohibited the Reserve Bank of India from subscribing to the primary issuance of Central Government securities from April 2006 onwards, thereby eliminating the practice of deficit monetisation which had historically allowed governments to finance their deficits by printing money[1057].

The FRBM Rules, 2004 further operationalised these targets by specifying annual reduction milestones, requiring the revenue deficit to be reduced by 0.5% of GDP each year and the fiscal deficit by 0.3% of GDP each year. These rules also required the Government to undertake quarterly reviews of fiscal trends and place them before Parliament, creating a mechanism for periodic accountability and transparency. The Act also

[1055] Wallace E. Oates, An Essay on Fiscal Federalism, 37 J. ECON. LITERATURE 1120, 1125 (1999).

[1056] G. Thimmaiah, Federal Fiscal Transfers in India, 12 ECON. & POL. WKLY. 345, 348 (1977).

[1057] M. Asad Malik, Changing Dimensions of Federalism in India: An Appraisal, ILILR 1, 5 (2019).

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empowered the Comptroller and Auditor General of India to audit the compliance of the Government with the fiscal targets, thereby introducing an element of independent scrutiny into the framework.

A significant dimension of the FRBM framework was its extension to the State level. The Twelfth Finance Commission, in its report covering the period 2005-10, made the enactment of State level fiscal responsibility legislations a precondition for debt relief and consolidation of central loans to states. In response, all major states progressively enacted their own Fiscal Responsibility legislations, broadly modelled on the Central Act, setting targets for the elimination of revenue deficits and capping fiscal deficits at 3% of the Gross State Domestic Product. This represented a significant attempt to create a comprehensive and multilevel statutory framework for fiscal discipline across the Indian federation.

However, the State level fiscal responsibility laws suffered from the same fundamental infirmity as the Central Act, the absence of any enforcement mechanism. Since fiscal management is a constitutional prerogative of the executive and the legislature, no external authority could legally compel a State Government to comply with its own fiscal responsibility law, and no penal consequence attached to non-compliance[1058]. The laws thus functioned more as political commitments than legal obligations, and their observance depended entirely on the fiscal prudence and political will of the respective State Governments.

The FRBM Act has been amended on several occasions since its original enactment[1059], reflecting the tensions between the ideal of fiscal consolidation and the practical pressures of governance. The targets were suspended during the global financial crisis of 2008-09 to allow for counter-cyclical fiscal stimulus, and the revenue deficit elimination target was replaced with the concept of the Effective Revenue Deficit[1060]. In 2018, following the recommendations of the NK Singh Committee, the Act was amended to introduce a fiscal deficit target of 3% of GDP as a permanent rule, with defined escape clauses allowing deviation of up to 0.5% of GDP in specified circumstances. These amendments, while representing a refinement of the framework, did not address its most fundamental weakness, the absence of an independent institutional mechanism to monitor compliance and ensure accountability. The story of the FRBM Act is therefore one of progressive legislative refinement accompanied by persistent institutional inadequacy, a gap that lies at the heart of India's continuing struggle with fiscal discipline[1061].

III. ENFORCEABILITY OF THE FRBM ACT, 2003

The most consequential weakness of the Fiscal Responsibility and Budget Management Act, 2003 is not found in its targets, its timelines, or even its institutional design — it is found in the complete absence of any mechanism to enforce compliance. Unlike taxation statutes which carry penal consequences for evasion, or environmental laws which empower regulatory authorities to impose sanctions, the FRBM Act contains no provision that compels the Government to adhere to its fiscal targets or imposes any legal consequence for deviation. A Government that misses its fiscal deficit target by a significant margin faces no legal liability, no institutional censure, and no constitutional consequence. The Act, in this sense, is structurally non-enforceable by design, and this infirmity lies at the root of its failure to deliver meaningful fiscal discipline over the two decades since its enactment.

1058 Sacchidanda Mukherjee, Present State of GST Reform in India, TAX & TRANSFER POL'Y INST. (2015)
1059 Fiscal Responsibility and Budget Management Act, 2003, No. 39, Acts of Parliament, 2003 (India).
1060 See M. GOVINDA RAO & NIRVIKAR SINGH, FISCAL FEDERALISM IN INDIA 234 (Oxford University Press 2005) (discussing structural weaknesses in India's fiscal consolidation framework)
1061 Fiscal Responsibility and Budget Management Act, 2003, § 3, No. 39, Acts of Parliament, 2003 (India) (mandating presentation of Medium-Term Fiscal Policy Statement, Fiscal Policy Strategy Statement and Macroeconomic Framework Statement before Parliament).

The Act operates entirely on the assumption that the obligation to place fiscal policy documents before Parliament, combined with the reputational costs of publicly acknowledged deviation, would create sufficient political incentive for fiscal consolidation. This assumption has proven to be fundamentally flawed. In a parliamentary democracy where the executive commands a legislative majority, parliamentary scrutiny of fiscal documents rarely translates into meaningful accountability[1062]. The Medium-Term Fiscal Policy Statement, the Fiscal Policy Strategy Statement, and the Macroeconomic Framework Statement are tabled as budget documents and noted by Parliament, but there exists no statutory mechanism by which Parliament can compel the Government to adhere to the targets set out in these documents or hold the executive accountable for departures therefrom.

A further dimension of the enforceability problem lies in the broadly worded escape clauses embedded within the FRBM framework[1063]. The Act and its subsequent amendments permit the Government to deviate from prescribed fiscal targets on grounds of national security, natural calamities, and other exceptional circumstances that the Government may specify. While the existence of escape clauses in fiscal responsibility legislation is internationally recognised as a necessary feature to allow counter-cyclical policy responses during economic downturns, the Indian framework suffers from the critical deficiency that these clauses are so broadly worded and so loosely defined as to be virtually open-ended[1064].

The consequences of this design flaw are visible in the pattern of fiscal outcomes since the Act's enactment. The global financial crisis of 2008-09 led to the suspension of FRBM targets to finance stimulus spending. The COVID-19 pandemic in 2020-21 pushed the Central Government's fiscal deficit to 9.2% of GDP, more than three times the statutory target, with no legal consequence and no independent institutional review of whether the deviation was proportionate or necessary[1065]. What is particularly concerning is not that fiscal targets were relaxed during genuine crises, which may well have been economically justified, but that the absence of any institutional oversight mechanism meant that the relaxation was entirely self-certified by the executive without independent scrutiny or parliamentary sanction beyond the budget approval process.

Perhaps the most constitutionally troubling dimension of the FRBM framework is the asymmetric manner in which fiscal discipline obligations operate across the two levels of government in the Indian federation. While both the Central Government and State Governments are nominally subject to fiscal responsibility obligations, the practical reality is that states face significantly more binding constraints on their fiscal behaviour than the Centre. States are required to obtain Central Government approval for market borrowings beyond prescribed limits, their access to Ways and Means Advances from the Reserve Bank of India is tightly regulated, and their ability to run persistent deficits is constrained by the conditionalities attached to central transfers and Finance Commission awards.

The Central Government, by contrast, faces no comparable external constraint on its borrowing. It can access capital markets freely, issue securities without limit subject only to the statutory debt ceiling, and revise its own fiscal targets through executive action without requiring the consent of any independent body. This asymmetry creates a fundamentally inequitable federal fiscal arrangement in which states are held to standards of fiscal rectitude that the Union itself is not genuinely compelled

1062 See COMMITTEE ON FRBM REVIEW, REPORT OF THE COMMITTEE ON FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT 23 (2017),

1063 Fiscal Responsibility and Budget Management Act, 2003, § 4(2), No. 39, Acts of Parliament, 2003 (India) (as amended by the Fiscal Responsibility and Budget Management (Amendment) Act, 2018).

1064 Wallace E. Oates, An Essay on Fiscal Federalism, 37 J. ECON. LITERATURE 1120, 1138 (1999) (recognising the need for counter-cyclical fiscal flexibility in federal systems).

1065 NK SINGH COMMITTEE REPORT, supra note 4, at 31 (recommending a tighter and more precisely defined set of escape clauses to prevent routine invocation).

to observe[1066]. In a federal constitution that envisages coordinate sovereignty between the Centre and the States within their respective domains, this structural imbalance represents a significant distortion of the federal fiscal compact.

The most frequently cited structural reform necessary to address the enforceability deficit of the FRBM framework is the creation of an independent statutory Fiscal Council[1067]. The NK Singh Committee Report of 2017 explicitly recommended the establishment of such a body, tasked with providing independent assessment of fiscal parameters, evaluating the Government's compliance with fiscal targets, and certifying the invocation of escape clauses. However, this recommendation has not been implemented, and India remains one of the few major federal economies without an independent fiscal oversight institution. In the absence of such a body, the FRBM Act will continue to function as a self-regulating framework, one in which the regulated entity is also the regulator, a structural contradiction that no amount of legislative refinement can resolve without fundamental institutional reform[1068].

IV. EVALUATION OF NK SINGH COMMITTEE REPORT[1069]

The growing recognition of the structural inadequacies of the Fiscal Responsibility and Budget Management Act, 2003 and the persistent gap between its stated objectives and actual fiscal outcomes led the Central Government to constitute a high-level committee in May 2016 to undertake a comprehensive review of the FRBM framework. The committee was chaired by N.K. Singh, a former Revenue and Expenditure Secretary and member of the Planning Commission, and included among its members Urjit Patel, the then Governor of the Reserve Bank of India, Arvind Subramanian, the then Chief Economic Adviser to the Government of India, Rathin Roy, Director of the National Institute of Public Finance and Policy, and Sumit Bose, a former Finance Secretary. The composition of the committee reflected a deliberate attempt to bring together perspectives from monetary policy, fiscal economics, and public administration, and its report submitted in January 2017 remains the most comprehensive official review of India's fiscal responsibility framework undertaken to date.

The committee was constituted against the backdrop of several years of fiscal slippage, the increasing complexity of Centre-State fiscal relations following the abolition of the Planning Commission and the introduction of the GST, and the growing international consensus around the importance of independent fiscal institutions in ensuring the credibility of fiscal rules. The terms of reference of the committee required it to examine the existing provisions of the FRBM Act and recommend amendments that would strengthen the fiscal consolidation framework, improve its enforceability, and bring it in line with international best practices in fiscal responsibility legislation[1070].

The NK Singh Committee Report made several far-reaching recommendations that, if implemented in their entirety, would have fundamentally transformed the character of India's fiscal responsibility framework from a largely aspirational document to a genuinely enforceable fiscal constitution.

The most significant recommendation of the committee was the shift from a fiscal deficit target to a debt-based fiscal rule. The committee recommended that the Central Government should target a specific public debt ceiling of 60% of GDP, comprising 40% for the Centre and 20% for the States, to be achieved by 2023. This recommendation represented a conceptually important shift in the design of the fiscal rule, from targeting the annual flow of

[1066] MINISTRY OF FINANCE, GOVERNMENT OF INDIA, UNION BUDGET 2021-22: BUDGET AT A GLANCE 3 (2021),
[1067] See Raghbendra Jha, Decentralization, Indirect Tax Reform and Fiscal Federalism in India, WORKING PAPER, AUSTRALIAN NATIONAL UNIVERSITY 14 (2008
[1068] INDIA CONST. art. 246A (as inserted by the Constitution (One Hundred and First Amendment) Act, 2016); see also INDIA CONST. art. 280
[1069] NK SINGH COMMITTEE REPORT, supra note 4, at 28
[1070] FIFTEENTH FINANCE COMMISSION, REPORT FOR 2021-26, at 67 (2020),

deficit to targeting the stock of accumulated debt, which is widely regarded in fiscal economics as a more meaningful indicator of long-run fiscal sustainability. The committee argued that a debt ceiling provides a more robust anchor for fiscal policy because it focuses attention on the cumulative consequence of fiscal decisions rather than merely their annual manifestation.

On the question of the fiscal deficit target, the committee recommended the maintenance of a 3% of GDP target as the medium-term norm, with a clearly defined corridor of 2.5% to 3.5% within which the Government could operate depending on prevailing economic conditions. This corridor-based approach was intended to provide greater flexibility than a rigid point target while still maintaining a credible anchor for fiscal consolidation. The committee also recommended that the revenue deficit should be progressively eliminated and that the Government should move towards a balanced revenue account over the medium term, recognising that a persistent revenue deficit implies that current consumption is being financed through borrowing at the cost of future generations[1071].

Perhaps the most practically consequential recommendation of the committee concerned the redesign of the escape clauses. The committee recommended that deviations from the prescribed fiscal deficit target should be permitted only in three clearly defined circumstances, a national security or war situation, a collapse of agricultural output due to calamity, and a structural decline in real output growth of at least three percentage points below the average of the preceding four years. Critically, the committee recommended that any invocation of the escape clause should be accompanied by a mandatory parliamentary statement explaining the reasons for deviation and the timeline for return to the fiscal consolidation path. This recommendation was aimed at transforming the escape clause from an open-ended executive discretion into a constitutionally accountable exception.

The single most transformative recommendation of the NK Singh Committee was the proposal to establish an independent Fiscal Council as a permanent statutory body with a clearly defined mandate, guaranteed institutional independence, and the authority to provide binding assessments of the Government's compliance with fiscal targets. The committee envisaged the Fiscal Council as a body of three to five members appointed by the President of India on the recommendation of a high-powered selection committee, with fixed non-renewable terms to insulate them from executive influence. The Council was proposed to be tasked with preparing independent macroeconomic forecasts, evaluating the Government's fiscal plans against the prescribed targets, certifying whether the conditions for invoking escape clauses had been genuinely satisfied, and presenting its assessments directly to Parliament.

This recommendation drew explicitly upon the experience of the United Kingdom's Office for Budget Responsibility, established in 2010[1072], and Sweden's Fiscal Policy Council, both of which have demonstrated that independent fiscal oversight institutions can significantly enhance the credibility of fiscal rules by removing the inherent conflict of interest that arises when the Government is both the maker and the assessor of its own fiscal performance. The committee argued persuasively that without such an independent body, the FRBM framework would continue to suffer from the fundamental contradiction of self-regulation, where the entity bound by the fiscal rule is also the entity that determines whether the rule has been complied with[1073].

[1071] See ROBIN BOADWAY & ANWAR SHAH, FISCAL FEDERALISM: PRINCIPLES AND PRACTICES OF MULTIORDER GOVERNANCE 189

[1072] Budget Responsibility and National Audit Act, 2011, c. 4 (U.K.) (establishing the Office for Budget Responsibility as an independent statutory body)

[1073] SWEDISH FISCAL POLICY COUNCIL, REPORT OF THE SWEDISH FISCAL POLICY COUNCIL 2023, at 12 (2023)

While the NK Singh Committee Report represents the most rigorous and comprehensive official engagement with the structural weaknesses of the FRBM framework, it is not without its own limitations and critics[1074]. The recommendation to shift to a debt-based fiscal rule, while theoretically sound, raises significant practical challenges in the Indian context. India's public debt includes a substantial component of small savings collections and provident fund liabilities that are not always captured in standard debt accounting, making the measurement of the debt ceiling complex and potentially contentious. Moreover, the recommended debt ceiling of 60% of GDP, drawn from the Maastricht criteria applicable to European Union member states, may not be directly applicable to India's developmental context where higher levels of public investment may be necessary to sustain growth and address infrastructure deficits[1075].

The committee's recommendations on escape clauses, while significantly tighter than the existing framework, have also been criticised for not going far enough in preventing executive discretion[1076]. The condition of a three percentage point decline in real output growth, while more precise than the existing broadly worded escape clauses, still leaves room for interpretation and manipulation of growth data in ways that could be used to justify fiscal slippage without genuine economic necessity[1077].

Despite the quality and comprehensiveness of its recommendations, the NK Singh Committee Report has been only partially implemented. The 2018 amendment to the FRBM Act incorporated some of the committee's recommendations, including the formalisation of the 3% fiscal deficit target and a partial tightening of the escape clause provisions. However, the most transformative recommendation, the establishment of an independent Fiscal Council, has not been implemented, and there is no indication of any imminent legislative action to create such a body[1078].

The reasons for this non-implementation are rooted in the political economy of fiscal reform rather than in any technical or legal impediment. An independent Fiscal Council with the authority to publicly certify whether escape clauses have been legitimately invoked and to present its assessments directly to Parliament would represent a significant constraint on executive fiscal discretion[1079]. For any Government, regardless of political affiliation, the creation of such an institution entails a voluntary surrender of the flexibility to manage fiscal targets in ways that serve short-term political objectives. The resistance to the Fiscal Council recommendation therefore reflects not a disagreement with its technical merits but a rational political calculation that the costs of reduced fiscal flexibility outweigh the reputational benefits of enhanced fiscal credibility, a calculation that is ultimately at the expense of long-run fiscal sustainability and federal fiscal equity[1080].

V. THE CASE FOR REFORM AND CONCLUSION

The foregoing analysis unambiguously establishes that the Fiscal Responsibility and Budget Management Act, 2003 has failed to deliver enforceable fiscal discipline across the Indian federation. Its structural non-enforceability, broadly worded escape clauses, asymmetric application between the Centre and States, and the persistent absence of an independent oversight mechanism have collectively reduced it to a symbolic legislative instrument incapable of addressing the fiscal vulnerabilities it was designed to prevent. The

[1074] COMMITTEE ON FRBM REVIEW, REPORT OF THE COMMITTEE ON FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT 52 (2017)
[1075] Rathin Roy, The FRBM Review Committee Report: A Critical Assessment, NATIONAL INSTITUTE OF PUBLIC FINANCE AND POLICY WORKING PAPER NO. 214, at 6 (2017),
[1076] RESERVE BANK OF INDIA, HANDBOOK OF STATISTICS ON INDIAN ECONOMY 2022-23, at 189 (2023)
[1077] Treaty on the Stability, Coordination and Governance in the Economic and Monetary Union art. 3, Mar. 2, 2012, 2012 O.J. (C 236) 1
[1078] See M. GOVINDA RAO & NIRVIKAR SINGH, FISCAL FEDERALISM IN INDIA 267 (Oxford University Press 2005)
[1079] NK SINGH COMMITTEE REPORT, supra note 3, at 44; see also Raghbendra Jha, Decentralization, Indirect Tax Reform and Fiscal Federalism in India, WORKING PAPER, AUSTRALIAN NATIONAL UNIVERSITY 18 (2008)
[1080] MINISTRY OF FINANCE, GOVERNMENT OF INDIA, ECONOMIC SURVEY 2020-21, at 45 (2021)

question therefore is no longer whether reform is necessary but what form that reform must take to produce genuine and lasting change.

The most critical reform imperative is the immediate establishment of an independent statutory Fiscal Council along the lines recommended by the NK Singh Committee. Such a body must possess guaranteed institutional independence, the authority to assess Government compliance with fiscal targets, certify escape clause invocations, and present its findings directly to Parliament without executive interference. The experience of the United Kingdom's Office for Budget Responsibility, Sweden's Fiscal Policy Council, and Australia's Parliamentary Budget Office collectively demonstrates that independent fiscal oversight is an indispensable institutional requirement for the credibility of any fiscal responsibility framework.

Beyond the Fiscal Council, meaningful reform requires a constitutional underpinning rather than mere statutory revision, since no ordinary legislation can effectively bind the executive without a parallel constitutional authority to enforce compliance. Reform must equally extend to State level fiscal responsibility laws, addressing the inequitable asymmetry between Centre and State fiscal discipline obligations and embedding fiscal accountability within the broader architecture of cooperative federalism.

Ultimately, the FRBM Act's story is one of legislative ambition undermined by institutional inadequacy. Transforming it into a genuinely enforceable fiscal constitution requires placing institutional independence, federal equity, and constitutional accountability at the centre of India's fiscal reform agenda, for the sustainability of public finances is inseparable from the constitutional promise of equitable governance.

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