

AS INTRODUCED IN THE RAJYA SABHA
ON THE 7TH FEBRUARY, 2025

Bill No. LXIII of 2024

THE FISCAL RESPONSIBILITY AND BUDGET
MANAGEMENT (AMENDMENT)
BILL, 2024

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BILL

*further to amend the Fiscal Responsibility and Budget Management
Act, 2003.*

BE it enacted by Parliament in the Seventy- fifth Year of the Republic of
India as follows:—

1. (1) This Act may be called the Fiscal Responsibility and Budget
Management (Amendment) Act, 2024.
- (2) It shall come into force on such date as the Central Government
may, by notification in the Official Gazette, appoint.

Short title and
commencement.

Amendment of
section 2.

2. In section 2 of the Fiscal Responsibility and Budget Management Act, 2003 (hereinafter referred to as the principal Act), clause (*bb*) shall be omitted.

39 of 2003.

Omission of
section 4.

3. Section 4 of the principal Act shall be omitted.

STATEMENT OF OBJECTS AND REASONS

Section 4 of the Fiscal Responsibility and Budget Management Act, 2003 (39 of 2003) inserted through Part XV of the Finance Act, 2018 (13 of 2018), apparently, interferes with the finances of the States by—

- (i) imposing a Net Borrowing Ceiling (NBC) on the States in the manner deemed fit by the Central Government, which limits borrowings from all sources including open market borrowings;
- (ii) further reducing the Net Borrowing Ceiling by including aspects into the “borrowing” of the States which, otherwise, are not “borrowings” as contemplated under article 293 of the Constitution by—
 - (a) by deducting liabilities arising from the Public Account of the States to arrive at the NBC; and
 - (b) by deducting the borrowings by State owned enterprises where the principal and/or interest is serviced out of the budget or where such borrowings are made to finance schemes announced by the States, to arrive at NBC.
- (iii) imposing conditions in the exercise of powers under article 293(3) read with article 293(4) which has the effect of curtailing the exclusive constitutional powers of the States.

The above provision stands in the way of fiscal federalism as it restrains the budgetary decisions of the State Governments. The proposed amendment seeks to ensure that control of State finances are not done by the Central Government.

The task of controlling the Public Debt of the States falls within the exclusive domain of the States under List II of the Seventh Schedule to the Constitution. The wide definition of ‘general Government Debt’ as provided in Section 2 (bb) of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003, introducing the concept of combined debt of the Central Government and State Governments and the endeavour to ensure that it does not exceed sixty per cent under fiscal management principles, is apparently *ultra vires* the Constitution. It is therefore proposed to omit clause (bb) of section 2 and also section 4 from the FRBM Act, 2003, in order to uphold the values of fiscal federalism.

Hence, this Bill seeks to achieve the above objectives.

A.A. RAHIM

ANNEXURE
EXTRACTS FROM
THE FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT ACT,
2003
39 OF 2003

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Definitions	2 (bb) “general Government debt” means the sum total of the debt of the Central Government and the State Governments, excluding inter-Governmental liabilities;				
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Fiscal management principles.	<p>4[(1) The Central Government shall, —</p> <p>(a) take appropriate measures to limit the fiscal deficit upto three per cent. of gross domestic product by the 31st March, 2021;</p> <p>(b) endeavour to ensure that—</p> <p style="padding-left: 40px;">(i) the general Government debt does not exceed sixty per cent.;</p> <p style="padding-left: 40px;">(ii) the Central Government debt does not exceed forty per cent., of gross domestic product by the end of financial year 2024-2025;</p> <p>(c) not give additional guarantees with respect to any loan on security of the Consolidated Fund of India in excess of one-half per cent. of gross domestic product, in any financial year;</p> <p>(d) endeavour to ensure that the fiscal targets specified in clauses (a) and (b) are not exceeded after stipulated target dates.</p> <p>(2) The Central Government shall prescribe the annual targets for reduction of fiscal deficit for the period beginning from the date of commencement of Part XV of Chapter VIII of the Finance Act, 2018 (13 of 2018), and ending on the 31st March, 2021:</p> <p style="padding-left: 40px;">Provided that exceeding annual fiscal deficit target due to ground or grounds of national security, act of war, national calamity, collapse of agriculture severely affecting farm output and incomes, structural reforms in the economy with unanticipated fiscal implications, decline in real output growth of a quarter by at least three per cent. points below its average of the previous four quarters, may be allowed for the purposes of this section.</p> <p>(3) Any deviation from fiscal deficit target under sub-section (2) shall not exceed one-half per cent. of the gross domestic product in a year.</p> <p>(4) The Central Government shall, in case of increase in real output growth of a quarter by at least three per cent. points above its average of the previous four quarters, reduce the fiscal deficit by at least one-quarter per cent. of the gross domestic product in a year.</p>				

(5) Where the fiscal deficit is allowed to vary from the target prescribed under the proviso to sub-section (2) or deviation is initiated under sub-section (4), a statement explaining the reasons thereof and the path of return to annual prescribed targets under this section shall be laid, as soon as may be, before both the Houses of Parliament.]

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*further to amend the Fiscal Responsibility and Budget Management
Act, 2003.*

(Shri A.A. Rahim, M.P.)