GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF EXPENDITURE
PLAN FINANCE-I DIVISION

LOK SABHA
UNSTARRED QUESTION NO. †1816
TO BE ANSWERED ON FRIDAY, THE 25th November, 2016/ 4 Agrahayana, 1938 (SAKA)

Open Market Borrowings

†1816. COL. SONARAM CHOUDHARY: SHRI SUMAN BALKA:
SHRI RAYAPATI SAMBASIVA RAO

Will the Minister of FINANCE be pleased to state:

(a) whether the Government proposes to give more powers to the States to improve their financial status;

(b) if so, the details thereof and the action taken thereon, State/UT-wise particularly Rajasthan;

(c) whether the Government keeping with the spirit of cooperative federalism proposes to bring in the transparency and predictability in the Open Market Borrowings (OMBs) by the States by simplifying consent mechanism for OMBs under Article 293(3) of the Constitution; and

(d) if so, the details thereof and the action taken thereon?

ANSWER

MINISTER OF STATE IN MINISTRY OF FINANCE
(**SHRI ARJUN RAM MEGHWAL**)

(a) & (b): The subject matters on which the laws can be made by the Parliament and the Legislatures of the states are enshrined in Article 246 read with Seventh Schedule of the Constitution of India. Further under Article 280 of the Constitution the Finance Commissions are constituted which recommend to the Union Government regarding distribution of net proceeds of taxes between Centre and the States and allocation of shares of such proceeds between the respective states. The Finance Commissions also recommend principles which should govern the grants-in-aid of the revenues of the states out of the Consolidated Fund of India. The 14th Finance Commission (14th FC) was mandated to review the state of finances, deficits and debt levels of Union Government and the States and suggest measures for maintaining a stable and sustainable fiscal environment consistent with equitable growth. The Commission was also to consider and recommend incentives and disincentives for States for observing the obligations laid down in the Fiscal Responsibility and Budget Management Acts. Accordingly, the 14th FC while taking into account the developmental needs and the current macro- economic requirement, provided additional headroom of maximum 0.5 per cent over and above the normal limit of 3 per cent Fiscal Deficit in any given year to the States that have a favourable debt-GSDP ratio of less than or equal to 25% and interest payments-revenue receipts ratio of less than or equal to 10%. The 14th FC considered the need of States for equitable growth and improvements in the quality of fiscal adjustment, with scope for headroom, where appropriate, for States to take recourse to fresh borrowings to finance developmental expenditures. For making the fiscal rules operational for the States, FFC has not proposed any conditionality in regard to adherence to the fiscal roadmap. The additional borrowings space over and above the FD/GSDP limit of 3% have been allowed to the following eligible States for 2016-17:

S. No.	State	Eligibility for Additional Fiscal Deficit/GSDP over and above 3%	
		% of GSDP	Amount (Rs. in Crore)
1	Madhya Pradesh	0.50	2769
2	Meghalaya	0.25	69
3	Odisha	0.50	1795
4	Sikkim	0.25	44
5	Telangana	0.50	3122
6	Uttar Pradesh	0.25	3119
Total			**10918**

Further, the 14th FC has substantially enhanced the share of the States including Rajasthan in the Central divisible pool from the current 32 % to 42 %, which is the biggest ever increase in vertical tax devolution. Besides share of central taxes, the 14th FC has recommended grants– in –aid to cover Revenue Deficit of States, local body grants (both to rural and urban local bodies) and grants for augmenting the State's Disaster Response Fund (SDRF). As seen over the Finance Commission's award period, there is an increase of about Rs. 25 lakh crore (i.e.178%) in tax devolution and Rs.2.9 lakh crore (i.e.124%) in grant-in-aid recommended by the 14th FC as compared to the actual transfer made under 13th Finance Commission award period. Substantial increase in tax devolution and grants-in-aid recommended by 14th FC is expected to add substantially to spending capacity of States and give fiscal autonomy to the States. This will result in improvement in States' financial status.

(c) & (d): The Central Government has already communicated its decision to simplify the consent mechanism for OMBs under Article 293 (3) of the Constitution to all the States on 16.08.2016. The simplified mechanism would allow the States to prepare their borrowing calendar for the first nine months and seek one-time consent for raising OMBs during the first nine months of the Financial Year within the Net Borrowing Ceiling (NBC) fixed for each of the States. Prior to this arrangement, the States were required to obtain quarterly consent from the Central Government for raising OMBs within their Net Borrowing Ceiling (NBC). Accordingly, one-time consent for raising OMBs till December 2016 has already been issued to those States including Rajasthan who have made a request for the same. Thus, the simplified procedure will ensure that consent under Article 293(3) is issued only on three occasions during the year, one in the month of April for first nine months after fixation of borrowing ceilings, second in the month of December for the first two months of the fourth quarter and last in the month of March after the assessment of actual borrowings by the States.

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