

Grant in Aid.— 73rd, 74th Amendment Act changed the structure of the Govt.

2 New Finance Commission got additional responsibility.

73rd, 74th Constitutional Amendment, finance commissions were assigned with additional responsibility of recommending measures to augment the Consolidated Fund of a state to supplement the fund of resources of local bodies.

The 10th finance commission recommended was the first FC who recommended Grants for Rural & Urban Local bodies.

15th FINANCE COMMISSION

constituted on

27th Nov, 2017.

The Govt. of India, with the approval of President of India has constituted 15th FC.

Under Article 280 of Indian Constitution, which is effective from 27th Nov, 2017. The commission will make the recommendations for the five year, starting from 1st Ap, 2020.

15th FC constituted under the chairmanship of
Shri NK Singh.

Members - Ajay Narayan Jha .
- Ashok Lalwani
- Ramesh Chand .
- Anoop Singh .

Secretary . - Arvind Mehta .

Terms of Reference (15th FC) (TOR)

The TOR, and matters, that will be taken into consideration, by the 15th FC in making the recommendation are as follows :

1. Distribution between the Union Govt. & the States, of the net proceeds of the taxes which are to be divided between them, and distribution among states .

(Vertical Devolution) + (Horizontal Devolution)

2. The principles which should govern the grants of the states out of the Consolidated Fund of India, and sums to be paid to the States under Article 275.

3. The measures needed to augment the Consolidated Fund of the States to supplement, the resources to Local Govt, (Municipalities & Panchayats)

while making its recommendations, the Commission has to regard among other considerations:

- The Resources of Central Govt, and the State Govts, for the 5 years, on the basis of levels of Tax and Non Tax Revenue. In the context of both, Tax and Non Tax Revenue, the Commission will take into considerations their potential and fiscal capacities.
- The demand on the resources of Central Govt. Particularly on the account of Defence, Internal Security, Infrastructure, Railways, Climate Change, commitment towards UTs without Adm. Legislatures, and other committed expenditures & liabilities.
- The Demand on the resources of the State Govt. particularly on the account of ^{Socio-economic} Financing, Development and Infrastructure Development, Assets Maintenance, Expenditures, Balanced Regional Development, and impact of debt and liabilities of their Public Utilities.
- The Impact on the fiscal situation of the Union Govt. following the recommendation of the 14th FC.
- The Impact of the GST, including payment of compensation for possible loss of revenue for 5 years

and abolition of number of cess, compensation and other reforms programme affected the finances of centre and states.

→ The condition that the Govt. of India may impose while providing consent under Article 293(3) of the Constitution.

The commission may consider, measurable performance based incentive for states.

- a.) Efforts made by the states in Expansion and deepening of tax net under GST.
- b.) Efforts and progress made in moving towards replacement rate of population growth.
- c.) Achievements in implementation of Schemes of Cent. Gov. like Disaster Infrastructure Development, SDGs, and quality of Expenditure.
- d.) Progress made in increasing Capital Expenditure and eliminating losses of Power Sectors.
- e.) Promoting Savings by adoption of DBTs and Public Finance Management System, Promoting Digital Economy and removing slayers between the Govt. and the beneficiaries.

- f.) Progress made in promoting Ease of Doing Business, and also promoting labour intensive growth.
- g.) The Commission shall use the population data of 2011 while making its recommendations.
- h.) The Commission shall indicate the basis on which it has arrived at its findings and make available the State wise estimates of Receipts and Expenditure.

In July 2019, the Cabinet amended the TOR of the FFC. Under the TOR of the Commission, it is proposed to ensure allocation of resources towards defence & Internal security. The Amendment provides the FFC, shall also examine whether a separate mechanism for funding of Defence and Internal Security to be set up and how such mechanism could be operationalised.

Recommendation in the First Report (2020-21) Period:

→ 41% for 2020-21 (42% - ₹ 14th FC).

→ The 1% is to provide to J&K, Ladakh from the resources of the Cen. Govt.

Population (2011)	—	15%
Income Distance	—	45%
Area	—	15%
Forest & Ecology	—	10%
Demographic Performance	—	12.5%
Tax Effects	—	2.5%

EXTERNAL SECTOR

Exchange Rate.

— is the price of foreign currency
Foreign Exchange Rate in terms of domestic currency.

Systems of Determination of Foreign Exchange Rate.

1. Fixed Exchange Rate System.
2. Market Exchange Rate System / Flexible Exchange Rate System / Floating Exchange Rate System.
3. Managed Exchange Rate System.

BOP (Balance of Payment) —

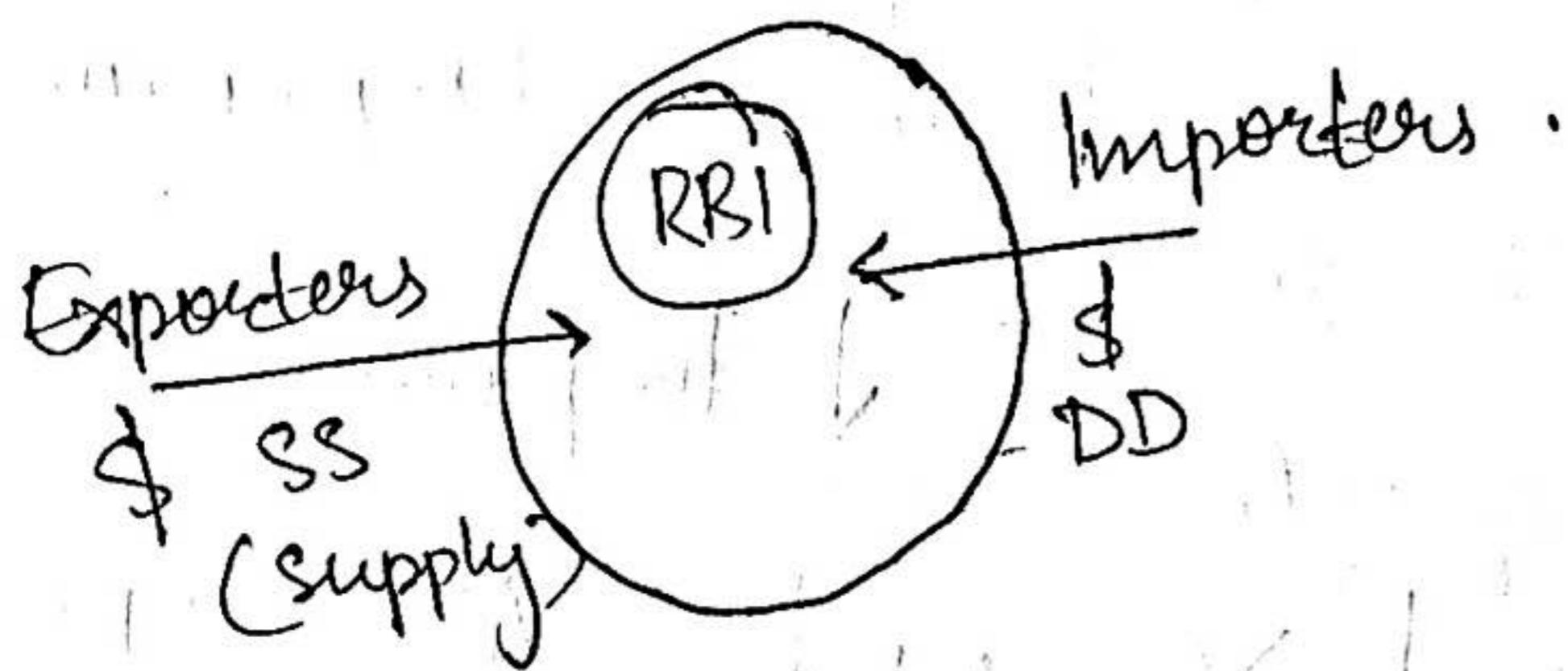
Current A/c.

Capital A/c.

1. Balance of Trade (BOT).
2. Invisibles, A/c.

(BOP only records Export & Imports of Goods)

Fixed Exchange Rate System



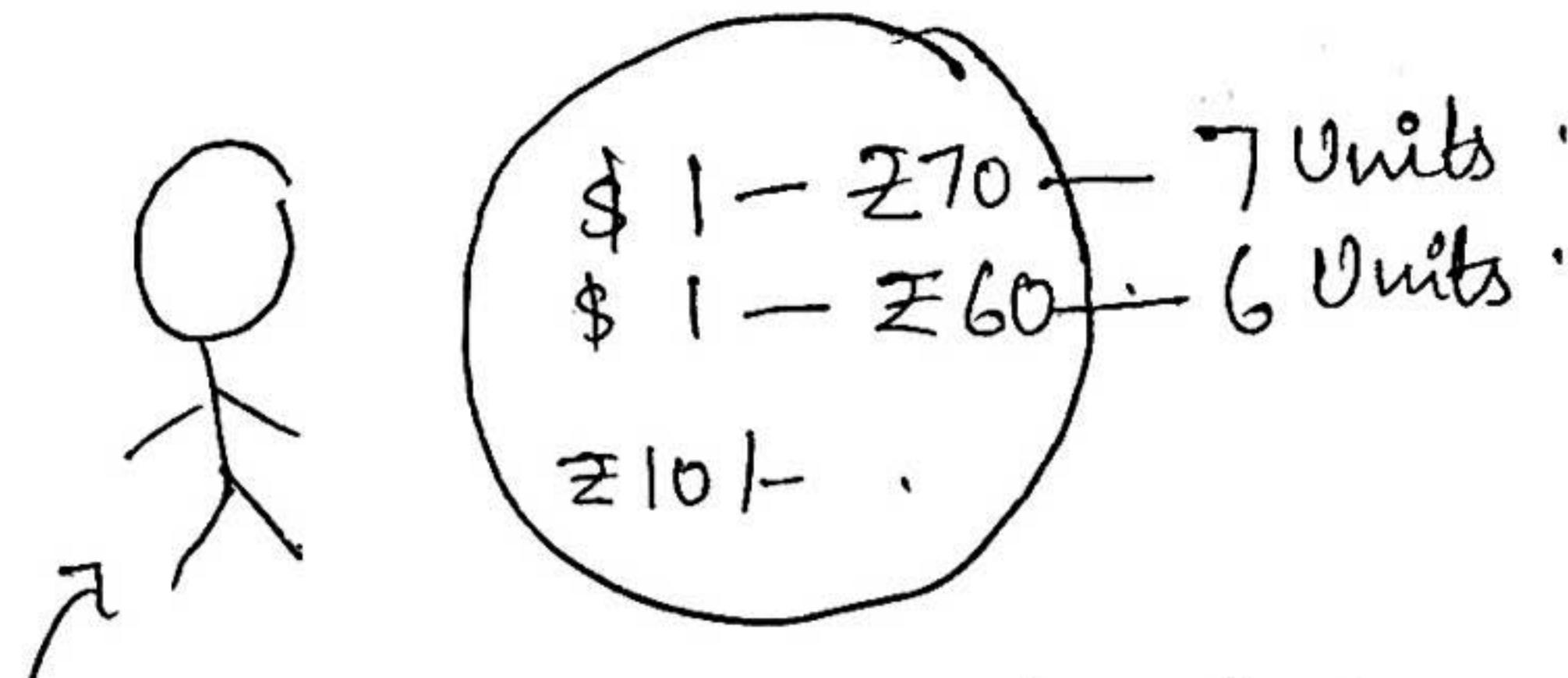
Devaluation of Domestic Currency

$$\begin{array}{l} \$1 = 270 \\ \$1 = 260 \end{array} \uparrow \text{Devaluation of Domestic Currency.}$$

$\$1 = 260$	$ $	$\$1 = 270$
$260 = \$1$	$ $	$270 = \$1$
$21 = \frac{1}{60}$	$ $	$21 = \frac{1}{70} \$$

If the RBI increases the price of foreign currency from $60 \text{ } \text{₹} / \$$ to $70 \text{ } \text{₹} / \$$, it is known as devaluation of currency. Devaluation of domestic currency means the value of ₹ in terms of foreign currency has declined.

IMPACTS of Devaluation of Domestic currency on Exports and Imports.



For Foreigner, Our Goods & Services becomes Inexpensive.

Exports ↑

For Domestic Consumers
 Imported Goods becomes Expensive.

↓ Imports

$$\boxed{X - M}$$

$$AD = C + I + G + X - M$$