

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:780

ANSWERED ON:05.12.2003

AGRAHAYANA SAKA FINANCIAL CRISIS IN STATES

IQBAL AHMED SARADGI

**Will the Minister of FINANCE be pleased to state:**

- (a) whether the Government's internal debt dynamics have deteriorated with State government finances in a crisis;
- (b) if so, the main reasons for financial crisis in the States;
- (c) whether there is a wide gap between the State Government pursuing reforms with aggressive pace and those who are not pursuing reforms;
- (d) if so, to what extent States have been urged to step up growth;
- (e) whether any directive has been issued in this regard to the States; and
- (f) if so, the other steps the Government propose to take to help States to overcome the financial crisis?

**Answer**

MINISTER OF STATE IN THE MINISTRY OF FINANCE SHRI ANAND RAO V. ADSUL:

- (a) With increasing fiscal deficit aggregate debt of States has increased. The debt-GDP ratio of States is estimated to increase to 26.7% by end of March 2003 from a level of 23.7% at the end of March 2001.
- (b) Inadequacy of revenue receipts, growing expenditure, especially on salaries, pensions, interest and power sector are the main reasons for financial crisis faced by States.
- (c) The revenue deficit/surplus as percentage of Revenue Receipts during 2002-03 shows wide variation among the States pursuing reforms and those not pursuing reforms.
- (d) The Government of India has created the States Fiscal Reforms Facility (2000-01 to 2004-05), to incentivise States towards fiscal consolidation and debt sustainability, for enabling growth. The medium Term Fiscal Reforms Programme (MTFRP) of States thereunder, outlines various measures for revenue augmentation and expenditure compression. It aims at limiting the annual borrowings by States within prudential limits. So far 23 States have drawn up their MTFRP.
- (e) The guidelines for Fiscal Reforms facility were issued in February 2001.
- (f) The Government of India has entered into dialogue with State Governments to streamline the borrowing programme of States in tune with the fiscal reforms scenario. The Government of India has also streamlined and strengthened the procedure for providing guarantees to borrowings, through Special Purpose vehicles (SPVs) under Article 293(3) of the Constitution. The States would also be given assistance under State Fiscal Reforms Facility (2000-01 to 2004-05), for other reforms initiatives which include Voluntary Retirement Scheme (VRS) for Public Sector Units (PSUs), downsizing of PSUs and debt restructuring, to enable the States to overcome the financial crisis.