GOVERNMENT OF INDIA
PLANNING
LOK SABHA

STARRED QUESTION NO:472
ANSWERED ON:17.05.2006
DEBT BURDEN OF STATES
Munshiram Shri ;Singh Shri Rajiv Ranjan (Lalan)

Will the Minister of PLANNING be pleased to state:

(a) whether the debt burden of certain States like Bihar, Uttar Pradesh, Rajasthan, and Madhya Pradesh is more than their annual income/revenue generated from different sources;

(b) if so, the details thereof and the reasons therefor;

(c) whether the developmental schemes of the above States have been adversely affected as a result thereof;

(d) if so, the details thereof; and

(e) the steps taken by the Union Government in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF PLANNING (SHRI M.V. RAJASEKHARAN)

(a) to (e): A statement is laid on the Table of the House.

STATEMENT REFERRED TO IN ANSWER PARTS (a) TO (e) TO LOK SABHA STARRED QUESTION NO.472 REGARDING DEBT BURDEN OF STATES BY SHRI MUNSHI RAM AND SHRI RAJIV RANJAN SINGH `LALAN` FOR ANSWER ON 17TH MAY, 2006

(a)& (b): Outstanding debt as percentage of total revenue receipts in Bihar, Uttar Pradesh, Rajasthan and Madhya Pradesh for the year 2004-05 (RE) is given below:

State	Outstanding debt as percentage of total revenue receipts in 2004-05 (RE)
Bihar	288.99
Uttar Pradesh	347.73
Rajasthan	353.07
Madhya Pradesh	216.81

The increasing debt build-up of the States is mainly attributed to deteriorating Balance of Current Revenue due to the burden of salaries, pensions and interest payments together with non-recovery of appropriate user charges, inadequate own revenue generation of the States and poor return on investments.

(c)&(d): Due to diversion of large part of the borrowings for debt servicing and meeting other ommitted non-plan revenue expenditure, availability of resources for developmental projects of the States were not sufficient. This is reflected in capital outlay as percentage of Gross Fiscal Deficit (GFD) of the above four States in 2003- 04 (Actual).

State	Capital outlay as % of GFD
Bihar	45.3
Uttar Pradesh	56.0
Rajasthan	43.2
Madhya Pradesh	36.6

(e): During the period 2000-01 to 2004-05, GoI operated a Fiscal Reform Facility for incentivising the States to undertake fiscal reforms for restoring their fiscal health. Recognizing the need to lower the debt servicing costs of the States, GoI also operated a debt swap scheme until recently. Consequent to the Twelfth Finance Commission`s (TFC) recommendation for debt consolidation and relief, as part of restructuring of the States` finances, GoI is now operating a Debt Consolidation and Relief Facility that would enable the States to avail themselves of the benefit of reduced repayment of principal amounts and interest payments. These benefits would be available to the States, provided they enact a Fiscal Responsibility and Budget Management legislation aimed at eliminating the revenue deficit and reducing the fiscal deficit to 3% of GSDP by 2008-09. Also in operation is a debt waiver scheme under which States would be eligible for waiver of the principal repayments after consolidation due from fiscal year 2005-06 to 2009-10, to the extent of reduction in revenue deficit.

In order to avail the Debt Consolidation and Relief Facility and achieve debt sustainability in the medium term, 19 States including Bihar, Uttar Pradesh, Madhya Pradesh and Rajasthan have enacted Fiscal Responsibility Legislation and drawn up Fiscal Correction Path to eliminate revenue deficit and reduce fiscal deficit to 3% of GSDP by 2008-09. With the elimination of revenue deficit, the States are expected to create more fiscal space to undertake developmental expenditure.

To bring down the States debt to a sustainable level, Government of India is applying the provisions of Article 293(3) of the Constitution, very judiciously, while giving the approval to the States` borrowing proposals. In this connection GoI has also been imposing annual borrowing ceiling of the States.

Higher devolution by way of share in central taxes and duties, revenue deficit grants and grants to weaker States to meet the requirements of expenditure in social sector should supplement the resources of States.

GoI has also increased its financial support under central sector and centrally sponsored schemes to the States for filling critical gaps in social sectors and infrastructure including health, education, nutrition, power, irrigation and roads.

These measures are aimed at increasing the expenditure and quality of investment in priority sectors besides generally improving the financial health of the States.