

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:142
ANSWERED ON:02.12.2005
FINANCIAL HEALTH OF STATES
Patle Shri Shishupal Natthu

Will the Minister of FINANCE be pleased to state:

- (a) whether the Union Government has recently conducted a review of the financial liability of each State ;
- (b) if so, the outcome thereof;
- (c) whether the Union Government has asked the State Governments to pay their earlier loans to seek fresh loans;
- (d) if so, the details thereof; and
- (e) the steps taken/proposed to be taken to strengthen the financial health of the States ?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE SHRI P. CHIDAMBARAM

(a)to(e) : A Statement is laid on the Table of the House,

STATEMENT REFERRED TO IN PARTS fa) to (e) OF THE LOK SABHA STARRED QUESTION NO. 142 FOR DECEMBER 2, 2005. BY SHRI SHISHUPAL PATLE, REGARDING FINANCIAL HEALTH OF STATES.

(a&b) Government of India recently reviewed the financial liabilities of each State for the limited purpose of consolidating central loans from Ministry of Finance contracted by each State up to March 31, 2004 and outstanding as on March 31, 2005. State-wise details of these loans vis-avis the total outstanding debt are annexed.

(c) No, Sir.

(d) Does not arise.

(e) During the period 2000-01 to 2004-05, Gol 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, Gol 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, Gol 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 GDP by 2008-09. Also in operation is a debt waiver scheme under which States would be eligible for waiver of the principal repayments, due from current fiscal to 2009-10, to the extent of reduction in revenue deficit. 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.

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. Gol 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.