GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1448
ANSWERED ON:27.11.2009
BORROWINGS BY STATES
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Will the Minister of FINANCE be pleased to state:

(a) whether the Centre has relaxed Fiscal consolidation targets of the States during the current fiscal to combat economic slow down;

(b) if so, the details thereof;

(c) whether Union Government`s move has gone in a long way in raising impact of slow down and accelerating growth in the medium term;

(d) if so, the circumstances under which the Government changed its move;

(e) whether under Debt Consolidation and Relief Facility (DCRF) Centre provides debt and interest relief to those States which meet their physical deficit targets;

(f) if so, whether assessment of the impact of the Government`s decision has been made; and

(g) if so, the details and findings thereof and action taken / proposed to be taken thereon?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S.PALANIMANICKAM)

(a) to (g): The Fiscal Deficit target for States for 2009-10 has been relaxed from 3% to 4% of States` respective Gross State Domestic Product (GSDP), to enable States to borrow upto 4% of their GSDP as projected under the Debt Consolidation and Relief Facility (DCRF) guidelines, to undertake capital expenditure. The fiscal deficit target was revised in response to the economic slowdown and in the backdrop of limited fiscal space, with the intention of accelerating growth revival in the medium term.

Twelfth Finance Commission (TFC) recommended the DCRF over the period 2005-10. The Scheme has two components -
(i) consolidation of central loans (from Ministry of Finance) contracted till 31-03-2004 and outstanding as on 31-03-2005, and
(ii) provision of interest relief and grant of debt waiver to States based on their fiscal performance. Consolidation of central loans has given interest relief to States. Debt waiver is granted to States based on their fiscal performance, for which an assessment is made annually. Benefits under DCRF helped States by easing debt and interest pressures, and also incentivised States to follow the path of fiscal correction. This has facilitated the states to focus investment on development.