GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:5232
ANSWERED ON:27.08.2010
RESTRUCTURING OF LOANS
Badal Harsimrat Kaur

Will the Minister of FINANCE be pleased to state:

(a) whether Union Government allows 'Restructuring of Loans' to various State Governments owing to their financial situation;

(b) whether Government has permitted 'Restructuring of Loans' to any State Governments in the past;

(c) if so, the details thereof;

(d) whether Government has received any request from the State of Punjab for Restructuring of Loans; and

(e) if so, the details thereof alongwith the action taken thereon?

Answer

Minister of State in the Ministry of Finance (SHRI NAMO NARAIN MEENA)

(a) to (c): On the basis of the recommendations of the Twelfth Finance Commission (TFC) during its award period, 2005-2010, a Debt Consolidation and Relief Facility was extended to States. This facility involved
(i) Consolidation of loans from Ministry of Finance, contracted till 31-03-2004 and outstanding as on 31-03-2005, for a fresh tenure of twenty years at an interest rate of 7.5% per annum and
(ii) Debt waiver to States based on their fiscal performance. In pursuance of this, loans from Ministry of Finance to 26 States, that had enacted their Fiscal Responsibility and Budget Management Acts, have been consolidated. Debt waiver amounting to Rs.19963.66 crore has been provided to eligible States.

On the recommendations of TFC, the moratorium on repayments and interest payments on outstanding special term loans raised by Punjab was extended, and eventually debt relief of Rs.6500 crore was provided in 2006-07 and 2007-08.

The Thirteenth Finance Commission (FC-XIII) has, inter alia, recommended for its award period (2010-15), that loans given to States and administered by ministries other than Ministry of Finance, outstanding as at the end of 2009-10, be written off, subject to conditions prescribed. FC-XIII has also recommended that loans contracted by States from National Small Savings Fund (NSSF) till 2006-07 and outstanding at the end of 2009-10 be reset at 9% interest rate, subject to conditions prescribed. Government of India has accepted these recommendations in principle.

Besides, Government of India permits State Governments to borrow from external agencies for structural readjustments including retiring of high cost debt.

(d) and (e): Government of Punjab has indicated that it will have a gross debt of Rs.71086 crore at the end of 2010-11, and has requested a package to ameliorate the debt burden of the State.

FC-XIII has identified Kerala, Punjab and West Bengal as the three general category States with revenue deficit. These States also carry high outstanding liabilities. FC-XIII has recommended annual Revenue and Fiscal Deficit targets for these States to eliminate Revenue Deficit by 2014-15 and achieve Fiscal Deficit/GSDP ratio of 3% by 2013-14. Government of India has accepted these recommendations in principle. A Committee has been set up to explore ways to assist these States in getting out of their current fiscal stress along with measures to be taken by the States to prevent the recurrence of such a situation in the future.