

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2249
ANSWERED ON:12.08.2011
POOR FINANCIAL CONDITION OF STATES
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Will the Minister of FINANCE be pleased to state:

- (a) whether the financial condition of States is very poor;
- (b) if so, the details thereof for the last three years and analysis made, if any, State-wise and particularly in West Bengal;
- (c) whether the Government has plans for helping and State Governments to revive their poor financial conditions; and
- (d) if so, the details thereof and steps taken or proposed in this regard;

Answer

MINISTER OF FINANCE FOR STATE (SHRI NAMO NARAIN MEENA)

(a) & (b): It has been noted by the Thirteenth Finance Commission (FC- XIII) that improvement in state finances started around 2004-05, aided by a higher rate of growth of the economy and the resultant increase in buoyancy of the State's own revenues as well as central transfers. This improvement received a boost with the Twelfth Finance Commission (TFC) recommending an increase in the State's share in the central taxes from 29.5 per cent to 30.5 percent. TFC also recommended a debt consolidation and relief facility (DCRF) linked to enactment of fiscal responsibility legislation by States, which resulted in considerable improvement in the finances of the States.

2. The positive growth outlook of the Indian economy in 2010-11 augurs well for states to achieve their budgeted tax collections. FC-XIII has recommended that the share of States in the net proceeds of sharable central taxes be raised from 30.5 per cent to 32 per cent.

3. In its report on 'State Finances - A study of Budgets of 2010-11', RBI has, inter-alia, noted that from 2004-05 to 2007-08 the consolidated position of State finances showed significant improvement and most States are likely to improve their revenue accounts in 2010-11.

4. West Bengal is one of the three general category States identified by FC-XIII as being revenue deficit in 2007-08, the others being Punjab and Kerala. An easier fiscal consolidation path has been recommended for these States.

(c) & (d): Following TFC recommendations, States' debt from the Ministry of Finance, amounting to Rs. 122348 crore has been consolidated. Debt relief of Rs.20566 crore and interest relief of Rs.18688 crore have been extended to States till date.

2. FC-XIII has recommended two debt relief measures, subject to prescribed enactment/amendments to the States' fiscal responsibility legislation, for States : (a) resetting of interest rates on loans from National Small Savings Fund (NSSF) to States contracted till the end of 2006-07 and outstanding as at the end of 2009-10 to 9%; (b) write-off of Central loans to States that are administered by central ministries other than Ministry of Finance outstanding as at the end of 2009-10. FC-XIII has also recommended extension of the debt consolidation facility to two States i.e. West Bengal and Sikkim.

3. The higher devolutions to States recommended by FC-XIII, estimated at Rs.1766676 crore during its award period 2010-15, which indicates an increase of 134% over the estimated TFC devolutions for the period 2005-10, will also benefit state finances.