

FORM - I
FISCAL POLICY STRATEGY STATEMENT

{See Rule 4 (1)}

FISCAL POLICY OVERVIEW -

State Government have undertaken a number of Fiscal correction measures including expenditure rationalization and revenue generation measures so as to improve the fiscal situation of the State in recent years. As a result, the Financial year 2005-06 ended with Revenue surplus of Rs.481.19 crore. The improved scenario has been sustained in the next Financial year 2006-07 with Revenue Surplus of Rs.2260.60 crore and Fiscal Surplus of Rs.823.18crore. The State's Own Tax and Non Tax Revenue have increased substantially. This has helped the State to increase Plan expenditure especially on Capital Account. The improved Fiscal scenario can be judged from the following indicators:

- (i) State's Own Tax Revenue as percentage of GSDP has increased from 3.97% in 1999-2000 to 6.37% in 2005-06 and 6.65% in 2006-07.
- (ii) The Revenue Deficit which was Rs.2574.19 crore in 1999-2000 has been eliminated in 2005-06. The Revenue Surplus in 2005-06 and 2006-07 have been (+) Rs.481.19 crore and (+) Rs.2260.60crore respectively. As percentage of GSDP, the deficit of 6.05% in 1999-2000 was eliminated in 2005-06 and Revenue Surplus of (+) 0.61% and (+) 2.48% of GSDP were generated in 2005-06 and 2006-07 respectively.
- (iii) The Fiscal Deficit, which was Rs.3836.44 crore in 1999-2000 has been eliminated, and Fiscal Surplus of (+) Rs.823.18crore was generated in 2006-07. As percentage of GSDP, the Fiscal Deficit which was 8.94% in 1999-2000 has been converted to a Surplus of (+)0.90% in 2006-07.
- (iv) The Debt stock, which was 329% of total revenue in 2002-03, has been reduced to 258.9% in 2005-06 and 206.6% in 2006-07. The Debt Stock as percentage of GSDP has been reduced from 55.36% in 2002-03 to 40.87% in 2006-07.
- (v) Similarly, Interest payment as percentage of revenue receipt has already been reduced from 40.2% in 2001-02 to 26.2% in 2005-06 and 17.7% in 2006-07.

2. The GSDP growth for the State in 2006-07 was 16.06%. Comparative figures of sectoral growths during the year 2006-07(Q) and 2007-08(A) is given in the Table below.

MAJOR SECTORAL CONTRIBUTION & GROWTH OF GSDP IN CURRENT PRICES

(Rs. in crore and growth In Percentage)

Year	SECTORS	Agriculture & allied sectors	Mining & quarrying	Transport & Communication	Finance & Insurance etc	Total GSDP
2003-04	Contribution	18050.39	4301.05	4750.44	6336.75	61423
	Growth	31.02%	42.73%	21.52%	9.61%	22.30%
2004-05	Contribution	18115.68	5818.69	5746.94	6669.57	71428
	Growth	0.36%	35.29%	20.98%	5.25%	16.29%
2005-06	Contribution	19340.73	6127.08	6695.56	7194.03	78536
	Growth	6.76%	5.30%	16.51%	7.86%	9.95%
2006-07(Q)	Contribution	21931.60	7455.01	7555.65	8084.25	91151
	Growth	13.40%	21.67%	12.85%	12.37%	16.06%
2007-08(A)	Contribution	23727.80	7859.81	9074.02	9156.06	103304
	Growth	8.19%	5.43%	20.10%	13.26%	13.33%

Q – Quick Estimates : A – Advance Estimates

(Rs. in Crore)

Description	2003-04	2004-05	2005-06	2006-07(Q.E.)	2007-08(A.E.)
GSDP at Current Prices	61423	71428	78536	91151	103304
<i>Rate of Growth</i>	22.30%	16.29%	9.95%	16.06%	13.33%
GSDP at Constant Prices	51675	58192	61887	67676	73542
<i>Rate of Growth</i>	14.71%	12.61%	6.35%	9.35%	8.67%

It can be seen from the Tables above that the variation in the real growth rate of GSDP from 2003-04 to 2007-08 (Advance Estimates) is in the range of 6.35% to 14.71%. Similarly, the nominal growth rate of GSDP varies from 9.95% to 22.30%. The average growth rate of GSDP in constant prices from 2003-04 to 2007-08 (AE) is 10.34% and the annual average growth rate of GSDP at Current Prices is 15.59% during the same period. The attempt has been to maintain the high growth rate through increased and efficient investment in public sector as well as creating a climate for larger flow of private investments to the State.

PROSPECTS OF THE STATE'S ECONOMY AND RELATED FISCAL STRATEGY

During the past 5 years (i.e. from 2003-04 to 2007-08(A)), it is observed that, there has been substantial growth of the State's economy. In the era of globalisation, where the national economy is showing robust growth, the state of Orissa has not lagged behind. However, Orissa is still treated as an underdeveloped State because a variety of Socio-Economic indicators of the State are below National Average and there is need and scope for maintaining the high growth trajectory in future to catch up with the National trend. In higher economic growth scenario, it is obvious that there will be increase in contribution of sectors other than Agriculture & Allied sector to State's economy. The contribution of Agriculture & Allied sector to the GSDP has come down from 29.39% in 2003-04 to 22.97% in 2007-08 (A). There has been a steady increase in sectoral contribution of Mining & Quarrying sector to GSDP, which has increased from 7.00% in 2003-04 to 7.61% in 2007-08 (A). Contribution of Transport & Communication sector to GSDP has increased from 7.73% in 2003-04 to 8.78% in 2007-08 (A). The Finance and Insurance sector's contribution to GSDP, which was 10.32% in 2003-04 has been 8.86% in 2007-08 (A). For maintaining high growth rate of economy, it is necessary that secondary and tertiary sector should be given more emphasis and these sectors should contribute more to economy. This trend is perceptible in the increased share of these sectors over the years in the composition of State's GSDP. In view of rapid industrialisation, utilisation of mineral resources in the state and the fast growing service sector, the state's economy is expected to grow @8% per annum in real terms during the Eleventh Plan period. Moreover, the growth is to be inclusive yielding broad based benefits and equality of opportunity for all. To achieve moderate to high growth of economy, the State proposes to follow Fiscal Strategy mentioned below:

- Ø Increase in Capital Investment for development of infrastructure.
- Ø Increase in Plan Expenditure.
- Ø Increase in Social & Education Sector Expenditure.
- Ø Rationalisation of Salary Expenditure.
- Ø Rationalisation of other Revenue Expenditure.
- Ø An enabling environment for attracting investment in Manufacturing & Services Sector.
- Ø Public- Private partnership in infrastructure Development.

FISCAL POLICY FOR THE YEAR, 2008-09 -

3. Tax Policy –
- Simplification and rationalization.
 - Modernisation of Tax Administration with IT intervention.
 - Strengthening the enforcement.
 - Stress on Arrear Collection and timely compliance to the observations of Audit in the Report of C&AG (RR) for taking preventive action etc.

(i) VAT: -

VAT was introduced from 1st April 2005. Since this is a destination and multi-point tax there is potential for growth of revenue if well administered. It would also result in a single market through out India and put an end to tax war among the states to attract investment. Consistently high growth rate has raised performance bar. During the current year, the high growth rate has been stalled mainly due to high base and claim of Input Tax Credit. To maintain a reasonable high growth rate following measures have been taken:

- Ø Input Tax Credit has been limited to the extent of Output Tax payable. This will curb the tax schemers who report less sale price than the purchase price.
- Ø The prescribed limit for voluntary registration under VAT Act would be done away with to facilitate registration without any business turnover.
- Ø Stringent penal measures to curb fake and forged tax invoices.
- Ø Provisions for furnishing closing stock at the year end to examine the correctness of purchase and sale turnover furnished in the return.

(ii) Entertainment Tax Act

It is proposed to bring the DTH- Broadcasting Service providers under the purview of Entertainment Tax Act. A formal amendment proposal has been submitted and draft bill has been prepared to be laid before the Assembly.

(iii) Central Sales Tax (O) Rules, 1957

The Central Sales Tax (O) Rules, 1957 has been amended w.e.f. 6th July, 2006 to make it VAT compatible. As announced in the budget speech of Union Finance Minister on 28.02.2007, the rate of Central Sale Tax will be reduced from 4% to 3% w.e.f. 01.04.2007. The rate is likely to further come down to 2% w.e.f. 01.04.2008. The revenue yield from this Tax will go down and have impact on the tax revenues of the State Government.

(iv) Luxury Tax

The Luxury Tax Act, 1995 is inoperative after the judgement dt.20.01.2005 of Hon'ble Supreme Court in the matter of Godfray Phillips India Ltd. & another –Vrs State of U.P. & others.

(v) Entry Tax

The pending litigation relating to the vires of the Entry Tax Legislation limits the scope for anticipating higher receipt towards Entry Tax. This is a serious risk factor for this important and buoyant source of Tax revenue.

(vi) New Excise Policy

- Ø License fee for Breweries, Distilleries & Bottling units in new Excise Policy, 2007-08 have been enhanced as compared to license fee fixed in Excise Policy, 2006-07.
- Ø A new concept of collection of fee of Rs.10,000/- on Gudakhu and similar small scale purchases has been introduced.
- Ø Excise duty on IMFL/ Beer, Bhang has been increased.
- Ø Lebel Registration fee has been enhanced.
- Ø License fee for Wholesale Distribution, IMLF 'ON' shops, IMLF 'ON' clubs, Beer parlour, Military Canteen is increased in new Excise Policy, 2007-08.

4. Growth of Tax

There has been impressive growth rate in state's own revenue from 1999-2000 as result, state's own tax/GSDP ratio has increased from 3.97% in 1999-2000 to 6.65% in 2006-07. This is evident from the following table.

(Rs in Crore)

Year	GSDP at Current Prices	State's Own Tax		State's Own Non-Tax		State's Own Revenue		State's Own Tax as percentage of GSDP	State's Own Revenue as % of GSDP
		Amount	Growth Rate	Amount	Growth Rate	Amount	Growth Rate		
1999-2000	42910	1704.08	14.59%	716.48	28.52%	2420.56	18.39%	3.97%	5.64%
2000-01	43493	2184.03	28.16%	685.47	-4.33%	2869.5	18.55%	5.02%	6.60%
2001-02	46946	2466.88	12.95%	691.75	0.92%	3158.63	10.08%	5.25%	6.82%
2002-03	50223	2871.84	16.42%	961.17	38.95%	3833.01	21.35%	5.72%	7.63%
2003-04	61422	3301.74	14.97%	1094.54	13.88%	4396.28	14.70%	5.38%	7.16%
2004-05	71428	4176.60	26.50%	1345.52	22.93%	5522.12	25.61%	5.85%	7.73%
2005-06	78536	5002.28	19.77%	1531.90	13.85%	6534.18	18.33%	6.37%	8.32%
2006-07	91151	6065.06	21.25%	1824.32#	19.09%	7889.38#	20.74%	6.65%	8.70%
2007-08(RE)	103304	6792.87	12.00%	1915.54	5.00%	8708.41	10.38%	6.58%	8.43%
2008-09(BE)	116734	7271.94	7.05%	2135.32	11.47%	9407.26	8.03%	6.23%	8.06%

Amount doesn't include debt write off of Rs.381.90crore X 2 = Rs.763.80crore

5. Expenditure Policy –

- Rationalisation of expenditure to contain the rise in salary expenditure, interest payment, pension payment
- Restructuring of the PSU/ Corporations / Coperatives
- Increase in Plan Expenditure.
- Enhancing the Capital content of all sectors of Expenditure.
- Reduction of Debt servicing liabilities through swapping and Buying back the high cost loan, reducing the net borrowing accessing to the low cost and concessional borrowing from internal funding agencies through Government of India.

The Expenditure on salary, pension and interest payment alone constituted 74.30% of Non Plan Revenue Expenditure and 68.72% of total Revenue Expenditure in 1999-2000. Further, salary expenditure as percentage of Revenue expenditure net of Interest and pension payment was as high as 58.28% in 1999-2000 as compared to the desired level of 35% as recommended by Twelfth Finance Commission. It has been reduced to 40.33% in 2006-07, which is still much higher than the desired level. Hence, reform measures in expenditure include various steps to contain the rise in these items.

- Ø Freeze on fresh recruitments excepting in Primary Health, Primary Education and Striking Police Force w.e.f.14.3.2001.
- Ø Self-financing courses have been introduced in educational and technical institutions.
- Ø Introduction of Voluntary Retirement Scheme (VRS) for State Government employees' w.e.f.27.1.2003.
- Ø Surrender Leave encashment have been withdrawn w.e.f.1.4.2002.
- Ø Non-practicing allowance for doctors has been abolished w.e.f.1.11.2003.
- Ø Government have so far abolished 44,704 numbers of base level vacant posts in all categories i.e. Group-A, B, C and D which includes abolition of 3,878 numbers of base level vacant posts in aided educational institutions, Universities, and other grant-in-aid institutions by the end of December, 2007. However, in some cases to discharge Statutory law & order and security related functions, regular appointment is being permitted.
- Ø To carry on essential functions of Government, wherever there is necessity, engagements are being made on short-term contract and consolidated remuneration basis in order to reduce salary expenditure.
- Ø Defined Contributory Pension Scheme w.e.f. 1.1.2005 for the new recruits.

6. Government Borrowings, Lendings and Investments -

- (i) The single most problem affecting the state's finances is Debt burden. We had the highest Debt- GSDP ratio of 55.36% as on 31.3.2003 (62.65% of Old GSDP of Rs.44372 crore) compared to all states average of 34.21% worked out by the Finance Commission. As on 31.3.2007, this Debt-GSDP ratio for Orissa is 40.87%. The Twelfth Finance Commission in para-4.45 of its report has recommended that this Debt-GSDP ratio should be brought down to 28% of GSDP.
- (ii) The ratio of interest payment to Revenue receipt should be brought down to 15% as per recommendation of the Twelfth Finance Commission. In case of Orissa, this ratio is 17.7% in 2006-07.

We have been consistently trying to bring down the Debt – GSDP ratio and by the end of 2005-06 it stands at 40.87%. The net addition to the Debt Stock has been reduced from Rs.3350 crores in 1999-2000 to Rs.793.06 crore in 2006-07. As a result of Debt swap and other fiscal restructuring measures, there has been improvement in debt management, which would be evident from the following table.

(Rs in Crore)

Year	GSDP at current price	Revenue Receipt	Net Debt incurred during the year	Total Debt stock at the year end	Payment of Interest	Debt stock as % of GSDP	Debt stock as % of Revenue Receipt	Interest payment as % of Revenue Receipt	Revenue Deficit as % of Net loan incurred
1	2	3	4	5	6	7	8	9	10
1999-2000	42910	5884.63	3349.66	18100.80	1237.70	42.56	308	21.00	36.85
2000-01	43493	6902.02	2901.10	21001.90	2286.81	47.75	304	33.10	66.50
2001-02	46946	7047.98	3031.72	24033.60	2834.96	50.84	341	40.20	93.47
2002-03	50223	8438.77	3767.59	27801.19	2885.58	55.44	329	34.20	41.83
2003-04	61422	9440.24	3832.77	31633.96	2860.28	51.80	335	30.30	37.07
2004-05	71428	11850.19	2417.22	34051.18	3332.02	49.32	287.3	28.10	21.61
2005-06	78536	14084.72	2405.27	36456.45	3697.10	48.16	258.86	26.25	Rev. Surplus
2006-07	91151	18032.62	793.06	37249.51	3188.43	40.87	206.6	17.68	Rev. Surplus
2007-08(RE)	103304	21381.32	1116.54	38368.03	4049.11	37.14	179.45	18.94	Rev. Surplus
2008-09(BE)	116734	23270.42	2707.27	41075.30	4312.30	35.19	176.51	18.53	Rev. Surplus

The policy of the State Government has been to reduce the net borrowing on year-to-year basis and reduce the burden of interest payment through prepayment of high cost Market borrowing and also through swapping the high cost borrowing. Accordingly, during the years from 2002-03 to 2004-05, swapping of debt amounting to Rs.2543.62 crore have been done which resulted in interest relief of Rs.144.47 crore as detailed in the following table. During the year 2006-07, high cost market borrowing amounting to Rs.394.61 crore has been prepaid. During the year 2007-08, the State Government have made prepayment of high cost NSSF loan amounting to Rs.199.72 crore on 12th February, 2008 and is in the process of Buy-Back of High cost market borrowing for which a provision of Rs.700.00 crore is made.

Year wise Debt Swapping

(Rs. in crore)

Year	Amount of Debt Swap	Interest Relief
2002-03	474.56	33.11
2003-04	863.79	61.87
2004-05	1205.27	49.49
2006-07	394.61	-
2007-08	Rs.199.72 crore of NSSF loan + in the process of Buy-back of high cost market borrowing of Rs.700.00 crore	-

Further State Government is also trying to augment resources, contain the revenue expenditure, so that it will be easier to get the benefit of debt write off recommended by the Twelfth Finance Commission. By this, the State Government does not take recourse to borrowing for discharging the repayment liability. Besides, the debt write-off is also accounted for as a revenue receipt which helps in improving the deficit indicators. State Government have already got the benefit of debt write off of Rs.381.90 crore each in 2005-06 and 2006-07 based on the fiscal performance of 2004-05 & 2005-06 respectively and now is eligible to get Rs.381.90crore during 2007-08 on the basis of performance in 2006-07.

7. Other Liabilities -

Policy of the State Government is to reduce the guarantee liabilities. Accordingly Government has taken steps to reduce contingent liabilities arising out of State Government guarantees. The results of these measures reveal that Government has maintained the ratios well within the sustainable limit. The guarantee outstanding as a percentage of Revenue Receipt less of grant-in-aid in the second preceding year has been reduced from 127.33% in 2001-02 to 45.26% in 2005-06 to 27.87% in 2006-07 and to 19.00% in 2007-08(as on 31.12.2007). The following table indicates the position.

(Rs. in Crore)

Year	Guarantee outstanding at the end of the year	Revenue Receipt less Grant-in-Aid for the 2 nd preceding year	Guarantee outstanding as percentage of Revenue Receipt	GSDP at Current Prices	Guarantee as % of GSDP
2001-02	5310.00	4169.01 (for the year 1999-2000)	127.3%	46946	11.31%
2002-03	5498.53	5473.47 (for the year 2000-01)	100.46%	50223	10.95%
2003-04	5177.91	5807.35 (for the year 2001-02)	89.16%	61422	8.43%
2004-05	3823.25	6638.60 (for the year 2002-03)	57.59%	71428	5.35%
2005-06	3496.19	7723.95 (for the year 2003-04)	45.26%	78536	4.45%
2006-07	2647.55	9499.78 (for the year 2004-05)	27.87%	91151	2.90%
2007-08 (as on 31.12.2007)	2168.43	11410.93(for the year 2005-06)	19.00%	103304	2.10%

In the past, because of the default in paying the principal and interest by the organizations availing loan under State Government Guarantee, Financial institutions were not willing to invest in the State Government Development Bond (Market borrowing). State Government have taken a number of steps to enhance the credibility of the State finances in the financial market. One such measure is discharging the State Government Guarantees through one time settlement (OTS). So far State Government and various PSUs, Co-operatives have paid Rs.597.80 Cr. under one time settlement (OTS) schemes to discharge guarantee liabilities arising out of the default of the loanee organisations. Sector-wise OTS by Government for last eight years is indicated in the following table.

Sector-wise OTS Position

(Rs. in crore)

Year	PSU Sector	Co-operative Sector	ULB Sector	Total
Up to 1999-2000	19.49	65.01	1.00	85.50
2000-01	0.00	0.00	0.00	0.00
2001-02	4.92	0.00	0.00	0.00
2002-03	27.24	17.85	0.00	45.09*
2003-04	21.03	17.09	0.00	38.12**
2004-05	91.14	4.04	0.00	95.18***
2005-06	21.10	3.35	0.00	24.45****
2006-07	140.85	0.00	17.65	158.50*****
2007-08 (Upto 31.12.07)	47.46	0.00	98.58	146.04*****
Total	373.23	107.34	117.23	597.80

* Out of 4509.01 lakhs FARD Department has paid 10.00 Lakhs to Maa Dhamarai MFCS from their Budget provision

** Out of Rs.3811.68 lakhs, Rs.8.00 lakhs has been paid by FARD Deptt. out of their own budget and Rs.1494.00 lakhs paid by IDC out of their own sources.

*** Out of Rs10992.70 lakhs, the OSFC has paid Rs.1475.00 lakhs to United Bank of India, Union Bank of India & Indian Overseas Bank through OTS from their own funds.

**** Out of Rs.4784.48 lakhs, the OSFC has paid Rs.2339.00 Lakhs through OTS from their own funds.

***** Out of Rs15850.19lakhs, the OSFC have paid Rs.2865.00 lakhs through OTS from their funds and the GA Deptt. and H&UD Deptt have paid Rs.1515.00lakh to HUDCO under OTS by availing advance from the OCF.

*****Out of Rs.146.04crore, FD have paid Rs.109.68crore out of OTS provision (Rs.20.00crore towards cost of Toshali Plaza + Rs.28.44crore paid to HUDCO towards default dues of ORHDC+Rs.18.74crore paid to Central Bank of India+Rs.0.28crore paid to UBI+ Rs.42.22crore paid to HUDCO under OTS) and the balance of Rs.36.36crore is paid to HUDCO under OTS by H&UD Deptt & GA Deptt from out of their Budget Provision.

8. STRATEGIC PRIORITIES FOR THE YEAR, 2008-09 –

- (i) The policy of the Government is to broaden the tax base and enhance revenue. Steps will be taken to further increase collection from VAT, Excise, M. V. Tax and other tax and non-tax sources through rationalization, better tax compliance and strengthening the enforcement.
- (ii) Expenditure management policy to link expenditure to monitorable, quantifiable physical output & outcomes with greater emphasis on Capital Outlay.
- (iii) Priority will be to complete incomplete projects by adequate funding and close monitoring.

9. POLICY EVALUATION -

As per Section-5(1)(b) of the FRBM Act, 2005, "The State has to reduce fiscal deficit to not more than three percent of the estimated gross state domestic product within a period of five financial years beginning from the initial financial year on the 1st day of April, 2004 and ending of the 31st day of March, 2009". The State has been able to contain Fiscal deficit to less than 3% of GSDP since 2004-05, well ahead of the timeline fixed in the FRBM Act and it is estimated to be contained well within the stipulated limit. For the period of MTFP projection also the Fiscal Deficit is projected to be contained within 3% of GSDP as can be seen in Form-II.

10. DEBT RESTRUCTURING -

State Government have taken the following steps to reduce the burden of interest payment:

- (i) To reduce the net borrowing on year to year basis to finance higher State Plan outlay as given below:

(Rs. in crore)

Year	Gross Borrowing	Net Borrowing	Actual State Plan
2002-03	5127.64	3767.59	2486.36
2003-04	5247.86	3832.77	2463.93
2004-05	3464.62	2417.22	2728.73
2005-06	3442.86	2405.27	2818.88
2006-07	2643.80	793.06	3630.51
2007-08(RE)	3289.22	1116.54	5520.00
2008-09(BE)	4601.55	2707.27	7100.00

* (Gross borrowing excludes receipt of Rs.474.56 crore for 2002-03, Rs.863.79 crore for 2003-04 and Rs.1205.27 crore for 2004-05 towards Debt Swap)

(ii) Swapping of high-cost loan
Swapping of high cost loan of Rs.2543.62 crore during 2002-03 and 2004-05 has yielded interest saving of around Rs.145.00 crore.

(iii) Prepayment/ Buyback of high cost market borrowing
The total market borrowing as on 31.3.2007 is of the order of Rs.5300.00 crore out of which the high cost market borrowing carrying rate of interest 10% and above is Rs. 3115.00 crore.

The state has been able to retire Rs.394.61 crore of such borrowing 2006-07 through auction. In 2007-08, the State Government is in the process of Buy-Back of High cost market borrowing for which a provision of Rs.700.00crore is made.

(iv) Restructuring of high cost NSSF loan
On the basis of the recommendation of the NDC Sub-Committee constituted for examination of issues relating to restructuring of securities issued by State Governments to the National Small Savings Fund (NSSF):

- Ø The state government have opted for 80% share of net Small Savings collection.
- Ø The interest rate on the outstanding NSSF loan contracted up to the year 2002-03 is reset at 10.5% w.e.f. 1.4.2007.
- Ø During 2007-08, Prepayment of High cost NSSF loan amounting to Rs.199.72crore has been made by Government of Orissa on 12th February, 2008.

(v) Creation of Consolidated Sinking Fund

In pursuance of the recommendation of the 11th Finance Commission and guidelines framed by RBI, Govt. of Orissa have constituted a Consolidated Sinking Fund in 2003-04 to be utilized as an Amortisation Fund for redemption of liability arising out of Open Market Borrowing.

The scope of this Fund is being expanded to cover the future all repayment liabilities including market borrowing as per the recommendation of the Twelfth Finance Commission.

(vi) Creation of Guarantee Redemption Fund

Government have constituted a guarantee redemption fund during the year 2002-03 with the objective of meeting the payment obligations arising out of the default in discharging the debt servicing for the loans guaranteed by Government. Up to 31.12.2007, Rs. 480.00 crore has been credited to the Guarantee redemption Fund and Rs.70.00 crore is proposed for the year 2008-09.

In the mean time State Government have also discharged guaranteed liabilities for Rs.597.80 crore through One Time Settlement. This has enhanced the credibility of the State Government in the financial institutions.

(vii) Restriction on Government Guarantee

The State Government are often required to provide guarantees for borrowings from institutional finances by public sector undertakings/ Co-operative Institutions/Urban Local Bodies and State-owned Companies etc to carry out approved developmental works and to meet the working capital requirement etc. It may be noted that the guarantees do not form a part of the debt burden as conventionally measured, but in the event of default by borrowing organizations, the State Government have to repay the debt as guarantor.

In pursuance of the recommendations of the Technical Committee of Finance Secretaries, the State Government have fixed administrative ceiling on guarantees during 2002-03 to regulate the guarantee vide F.D Resolution No. 52214/F dated 12.11.2002 which stipulates as under: -

“The total outstanding government guarantees as on 1st day of April every year shall not exceed 100 per cent of the state Revenue receipts of the second preceding year as reflected in the books of accounts maintained by the Accountant General. Attempt should be made to bring this gradually to the level of 80 percent over next five years.”

The outstanding guarantee as percentage of revenue receipt net of grant-in-aid has been reduced from 127.3% in 2001-02 to 19.00% as on 31.12.2007.

In the meantime the guidelines for issue of guarantee have been amended vide Finance Department Resolution No.46546 dated 14.11.06 where it has been stipulated that in future government guarantee, if issued would cover the principal only and accordingly the guarantee format has been revised.

(vii) Introduction of Escrow Account for new guarantee

In order to ensure fiscal discipline in public sector undertakings/Urban Local bodies / Co-operative Institutions and State-owned Companies etc, and to ensure minimizing the default on payment of government guaranteed loans the Government in Finance Department vide their Resolution No. 11311/F dated 19.3.2004 have issued instructions that all Public Sector Undertakings / Urban Local bodies / Co-operative Institutions and State-owned Companies etc, who have borrowed or intend to borrow against government guarantee will open an escrow account in a nationalized bank for timely repayment of guaranteed loans. The proceeds of this account shall first be utilized for payment of dues of the financial Institutions and it is only after meeting such payments that the surplus amount shall be diverted for other payments including salaries.
