GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF EXPENDITURE
FINANCE COMMISSION DIVISION

LOK SABHA
UNSTARRED QUESTION NO. 1049
Answered on April 29, 2016/Vaisakha 9, 1938 (Saka)

Financial Position of States

1049. SHRI MULLAPPALLY RAMACHANDRAN

Will the Minister of FINANCE be pleased to state:
(a) whether the Union Government reviewed the financial position of the States and if so, the details thereof; and
(b) the State-wise details of fiscal deficit and measures proposed by the Union Government to improve the financial position of the States?

ANSWER
THE MINISTER OF STATE FOR FINANCE
(SHRI JAYANT SINHA)

(a) to (b): The Fourteenth Finance Commission (FFC), inter-alia, reviewed the state of finances, deficit and debt levels of the States and observed that the pre-dominant feature of State finances between 2004-05 and 2014-15 was the overall improvement in fiscal indicators. The aggregate fiscal deficit (FD) of States as per 2015-16 (Budget Estimates) was at 2.90% of Gross State Domestic Product (GSDP), much within FFC projection of FD/GSDP ratio of 3.25%. State-wise fiscal deficit as a ratio of their GSDP as per 2015-16 (BE) is at Annexure.

As recommended by FFC for its award period (2015-20), the Union Government has approved the fiscal deficit threshold limit of 3 per cent of GSDP for the States. Further the Union Government has also approved year-to-year flexibility for additional fiscal deficit to States for the period 2016-17 to 2019-20. FFC, taking into account the development needs and the current macro-economic requirement, provided additional headroom to a maximum of 0.5% over and above the normal limit of 3% in any given year to the States subject to the States maintaining the debt-GSDP ratio within 25% and interest payments-revenue receipts ratio within 10% in the previous year. However, the flexibility in availing the additional fiscal deficit will be available to State if there is no revenue deficit in the year in which borrowing limits are to be fixed and immediately preceding year.

The FFC has made far-reaching changes in tax devolution that will move the country toward greater fiscal federalism, conferring more fiscal autonomy on the States. As per the recommendation of FFC, the Union Government has decided to devolve biggest ever increase in vertical tax devolution/ share of the States in the Central Divisible Pool from 32% to 42% to fill the resource gap of each State to the extent possible. The higher tax devolution will allow States greater autonomy in financing and designing of schemes as per their needs. Besides, Post devolution revenue deficit grant has been provided to eleven States where devolution alone could not cover the assessed gap. In addition, FFC has recommended local body grants (both to rural and urban local bodies) and grants for augmenting the State’s Disaster Response Fund (SDRF).

Annexure referred to in reply to part (a) to (b) of Lok Sabha Unstarred Question No. 1049 for answer on 29/04/2016

Fiscal Deficit (FD) of States as a ratio of GSDP as per 2015-16 (BE)

(In percent)

Sl. No.	**State**	**FD/GSDP**
1	Andhra Pradesh	3.0
2	Arunachal Pradesh	2.9
3	Assam	2.2
4	Bihar	2.8
5	Chhattisgarh	2.7
6	Goa	2.4
7	Gujarat	2.2
8	Haryana	3.2
9	Himachal Pradesh	4.9
10	Jammu & Kashmir	6.3
11	Jharkhand	2.4
12	Karnataka	2.7
13	Kerala	3.4
14	Madhya Pradesh	2.8
15	Maharashtra	3.0
16	Manipur	3.2
17	Meghalaya	2.8
18	Mizoram	0.8
19	Nagaland	5.0
20	Orissa	3.1
21	Punjab	3.0
22	Rajasthan	3.0
23	Sikkim	3.0
24	Tamilnadu	2.9
25	Telangana	3.3
26	Tripura	5.5
27	Uttar Pradesh	2.9
28	Uttarakhand	4.4
29	West Bengal	1.7
	All States/GSDP	**2.9**

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