STCI
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State Finances: 2014-15

RBI's study on State Finances- an annual publication is a rich source of information about state governments' public finances position: a cross study on fiscal management of states, trends in financing of fiscal deficit and states' liquidity operations. Lack of standardized data, analyzing states' fiscal position posed a severe constrain in understanding trends in state finances. To a great degree, RBI's annual feature of State Finances' seeks to alleviate that obstacle.

In view of the Fourteenth Finance Commission (FFC), relation of Center-States and states' management of their Budgets invited widespread scrutiny. The FFC recommended change in sharing mechanism of Union taxes- devolving a larger part on states and retaining relatively lower share of shareable surplus with the Centre. A change of this nature is expected to give states wider autonomy, which will in turn enable them to cater to their specific requirements. In that perspective, the year 2015, therefore, could mark inflection point in managing of states' finances.

In continuation to our State Finances series released in past two years (refer State Finances 2013-14 dated 10-Feb-14 and Center-State Finances Primer dated 22-Feb-13 on our website), we present in this edition an overview on states' performance in FY15 and policy implications it holds.

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I. Background

Budget FY16 set the Center's Fiscal Deficit (FD) target at 3.9% of GDP, couple of notches higher than widely anticipated. The Government continued to highlight that focus of Government has been towards a progressive fiscal consolidation without impeding growth recovery. An analysis of overall Government's fiscal stance (rather than only Center's) would, therefore, hold keys towards ascertaining the broad based fiscal stance of India's polity.

Union Budget FY16 was accompanied by tabling of the FFC, which fundamentally redefined the way in which Center and states interact on fiscal and public finance management fronts. Headline take-away from the FFC's recommendations is the redistribution of shareable tax revenues from 32% to 42% – in effect increasing untied funds availability for states. The fine prints of FFC's recommendations bring out nuances of these Center-state fiscal relations. The FFC recognized the need to move sharing of tax revenues devolution as the primary source. The FFC has recommended reduction in Center's assistance for state plans, thereby, effecting a compositional shift from grant to tax devolution (Details in Annexure 1).

Assessment of state finances, therefore, broadens the horizons for understanding shift in fiscal stance of Government. Additionally, an analysis of states' performances in FY15 sets the stage for inferring implications of FFC's recommendations in upcoming years. The study of State Finances is categorized in terms of Special Category States (SCS) and Non-Special Category States (NSCS) the list of which can be found in Annexure 2.

II. States' Fiscal Position

Key deficit indicators of states at consolidated level marginally deteriorated in FY13 and FY14 though poised to improve in FY15 (Table 1). On aggregate level, states' combined Gross Fiscal Deficit (GFD) widened in FY14 reflecting shrinkage in revenue surplus.

Table 1: Deficit Indicators of States (% of GSDP)

	FY12	FY13	FY14 (RE)	FY15 (BE)
Revenue Deficit				
Non-Special Category States	-0.2	-0.1	0.1	-0.3
Special Category States	-2.0	-2.0	-1.7	-2.8
Consolidated	-0.3	-0.2	0.0	-0.4
Gross Fiscal Deficit				
Non-Special Category States	2.2	2.3	2.8	2.6
Special Category States	2.8	2.4	4.9	3.1
Consolidated	1.9	2.0	2.5	2.3
Primary Deficit				
Non-Special Category States	0.4	0.6	1.1	0.9
Special Category States	0.4	0.0	2.5	0.9
Consolidated	0.4	0.5	1.0	0.8

Source: RBI

Performance of most of the states is budgeted to improve in FY15 in a bid to recommit to fiscal consolidation (Table 2). Amongst the SCS, out of eleven states, six states had budgeted improvement in their fiscal position for FY15 – with Arunachal Pradesh expecting to clock a whopping 14.3 percent point decline in its GFD/GSDP ratio. On the flip side, despite being a sufficiently high revenue surplus state, Tripura continues to note weak fiscal health.

Table 2: Performance of Special Category States

	FY13		FY14 (RE)		FY15 (BE)		Budgeted Improvement- FD (% points)
	RD/ GSDP	GFD/ GSDP	RD/ GSDP	GFD/ GSDP	RD/ GSDP	GFD/ GSDP	
Consolidated- SCS	**-2.0**	**2.4**	**-1.7**	**4.9**	**-2.8**	**3.1**	**-1.8**
Arunachal Pradesh	**-8.2**	**2.0**	**-6.7**	**17.8**	**-10.3**	**3.5**	**-14.3**
Mizoram	-0.3	6.9	6.0	15.7	-1.0	4.9	-10.8
Assam	-1.1	1.1	-0.1	6.4	-2.2	2.2	-4.2
Nagaland	-3.8	4.2	-2.0	6.0	-8.1	2.9	-3.1
J&K	-1.4	5.4	-4.6	3.6	-6.8	2.3	-1.3
Meghalaya	-2.8	2.1	-5.7	2.4	-4.8	2.1	-0.3
Sikkim	-7.5	0.6	-8.8	2.5	-8.7	2.5	0.0
Uttarakhand	-1.7	1.5	-1.3	2.6	-0.5	2.9	0.3
Manipur	-11.8	0.0	-10.0	2.6	-7.2	3.3	0.7
Himachal Pradesh	0.8	4.0	2.2	4.8	3.5	5.7	0.9
Tripura	**-8.1**	**-1.5**	**-5.0**	**2.9**	**-8.7**	**3.9**	**1.0**

RD= Revenue Deficit; Source: RBI

A look at performance of NSCS (Table 3) suggests that more than half the states budgeted an improvement in their fiscal positions for FY15, though some states have still continued witnessing slippage in their fiscal health. After having its GFD inch up to 6.3% of GSDP in FY14, Bihar expects to bring down its GFD/GSDP ratio to 2.8%. Odisha, on the other hand, is experiencing degeneration in fiscal health. After being the sole state to not run a FD in FY13, the next two years have noted leap in its GFD/GSDP ratio.

On the revenue front, major states like Rajasthan and Maharashtra had slipped into revenue deficit zone in FY14- a fallout of eroding tax and non-tax revenues. For FY15, the states have budgeted a sharp turnaround on the revenue side.

Table 3: Performance of Non-Special Category States

	FY13		FY14 (RE)		FY15 (BE)		Budgeted Improvement-FD (% points)
	RD/ GSDP	GFD/ GSDP	RD/ GSDP	GFD/ GSDP	RD/ GSDP	GFD/ GSDP	
Consolidated-NSCS	**-0.1**	**2.3**	**0.1**	**2.8**	**-0.3**	**2.6**	**-0.2**
Bihar	**-1.7**	**2.2**	**0.2**	**6.3**	**-2.5**	**2.8**	**-3.5**
West Bengal	2.3	3.2	1.7	3.1	0.0	1.9	-1.2
Andhra Pradesh	-0.1	2.3	-0.1	2.9	1.2	2.3	-0.6
Goa	0.5	2.7	0.7	4.4	0.0	3.9	-0.5
Haryana	1.3	3.0	1.4	3.0	1.1	2.5	-0.5
Karnataka	-0.4	2.8	0.0	3.1	0.0	2.9	-0.2
Kerala	2.7	4.3	1.6	3.3	1.5	3.1	-0.2
Madhya Pradesh	-2.1	2.6	-1.6	2.7	-0.9	2.6	-0.1
Jharkhand	-0.9	2.2	-1.7	2.4	-1.9	2.3	-0.1
Chhattisgarh	-1.6	1.6	-0.4	2.7	-1.2	2.7	0.0
Rajasthan	-0.7	1.8	0.5	3.5	-0.1	3.5	0.0
Uttar Pradesh	-0.7	2.5	-0.7	2.9	-3.0	2.9	0.0
Maharashtra	-0.3	1.0	0.2	1.8	0.2	1.9	0.1
Tamil Nadu	-0.2	2.2	0.0	2.5	0.0	2.6	0.1
Punjab	2.6	3.3	1.7	2.6	1.2	2.8	0.2
Gujarat	-0.8	2.5	-1.2	2.1	-0.8	2.5	0.4
Odisha	**-2.3**	**0.0**	**-0.7**	**2.2**	**-1.4**	**3.1**	**0.9**
Telangana	-	-	-	-	-0.1	4.8	-

Source: RBI

A look at the trend in movement of fiscal deficits for each state suggests that West Bengal has heightened efforts to rein in fiscal profligacy- reducing its GFD/GSDP from 3.2% in FY13 to 1.9% FY15BE. Following close on the heels is Kerala which has managed bringing down the fiscal deficit from 4.3% to 3.1% in two years. Odisha tops the list on deteriorating fiscal health, as mentioned above. Rajasthan, too, has noted weakening of its fiscal health with GFD/GSDP widening from 1.8% in FY13 to 3.5% in FY15BE.

Reviewing fiscal health of states holds crucial implications in the market borrowings of state governments. In FY15, total market borrowings by states amounted to Rs 2.40 Lakh Cr compared to FY14's borrowing of Rs 1.96 Lakh Cr- a growth of ~23%.

Telangana has budgeted highest FD in the NSCS category at 4.8% followed by Goa at 3.9%. In terms of total market borrowing in the year, Telangana mopped up Rs 8,200 Cr and Goa's borrowing amount stood at Rs 800 Cr. Tamil Nadu, running GFD/GSDP ratio of 2.6%, borrowed the highest amount (Rs 25,300 Cr) followed by Maharashtra (Rs 25,083 Cr) whose GFD/GSDP stood at 1.9%.

In the SCS category, Himachal Pradesh's GFD/GSDP ratio stands at the 5.7% (highest for any state) while raising funds to the tune of Rs 2,345 Cr. On absolute basis, Assam approached the market to raise Rs 2,950 Cr while running a GFD/GSDP ratio of 2.2%.

The improvement in overall states' revenue balances is largely on account of higher growth in revenue receipts vis a vis the revenue expenditure. A note of caution, here, is warranted. At consolidated level, states have budgeted revenue receipts to increase by 23.9% in FY15 (prev: 19.7%) and revenue expenditure growth is pegged at 20.5% (prev: 21.4%). However, majority of this increased revenue collection is expected in form of Grants from Center (projected growth 69.7% v/s FY14 growth: 48.4% and last three year's avg: 21.2%). Improvement on revenue account, therefore, has little to do with states' own efforts.

III. Liquidity Management

RBI provides the states access to liquidity windows to tide over temporary mismatches. Lines of credit are extended in form of both Ways and Means Advances (WMA) and Overdraft (OD) facility. WMA limit is fixed and periodically reviewed in view of states' requirements, evolving financial and institutional developments as well as monetary and fiscal management. For FY15, limit for Normal WMA was held at Rs 15,360 Cr which was subsequently raised for H2FY15 at Rs 20,000 Cr. For H1FY16, the WMA limit stands at Rs 45,000 Cr.

1. WMA

States resort to WMA in order to address friction in temporary liquidity conditions. There are two types of WMA that the states can avail from RBI

- Special WMA
- Normal WMA

Special WMA is a collateralized form of lending while lending under Normal WMA is unsecured. Permitted collateral for availing Special WMA is GoI securities and T-Bills to the extent of 85-90 percent of market value of their holdings after providing for margins against price risk. The states can resort to Normal WMA only post exhausting their drawdown of Special WMA. The rate of interest on WMA is repo rate and is repayable within ninety days. With effect from 23-Jun-14, the nomenclature of Special WMA is changed to Special Drawing Facility.

2. Overdraft

An access to line of credit in excess of Normal and Special WMA is provided via OD facility. OD can be availed for maximum 100% of WMA and the state is permitted to be in OD mode for not more than 14 days. Interest on OD is charged at 200 bps above repo rate.

States' availement of WMA and OD- both in terms of frequency and magnitude rose in FY15 compared to the previous years. This underscored the fiscal and liquidity stress in some of the states. For most part of the year, utilization of both WMA and OD facility stayed higher than previous years. This intensified by the end of year- typically the liquidity crunch month of March.

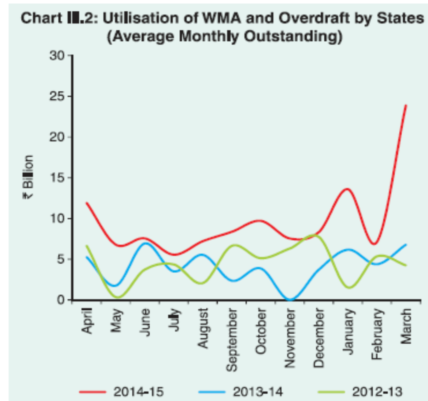

Table 4: States' Availment of WMA and Overdraft from RBI									
	Normal WMA			**Overdraft**					
	FY13	**FY14**	**FY15**	**FY13**		**FY14**		**FY15**	
	No of Days	**No of Days**	**No of Days**	**No of Occasions**	**No of Days**	**No of Occasions**	**No of Days**	**No of Occasions**	**No of Days**
1. NSCS									
Andhra Pradesh	-	-	21	-	-	-	-	2	6
Goa	-	11	121	-	-	-	-	3	10
Haryana	12	3	-	1	5	-	-	-	-
Jharkhand	14	8	-	-	-	-	-	-	-
Kerala	-	1	26	-	-	-	-	1	7
Punjab	232	243	315	14	139	11	94	21	138
Uttar Pradesh	-	-	-	-	-	-	-	1	-
West Bengal	48	31	29	5	13	4	10	-	-
2. SCS									
Arunachal Pradesh	-	5	54	-	-	1	4	2	36
Himachal Pradesh	-	14	225	-	-	-	-	20	78
Manipur	81	8	-	4	30	1	8	-	-
Meghalaya	-	1	-	1	-	-	-	-	-
Mizoram	3	35	67	1	-	3	6	2	4
Nagaland	139	81	129	7	34	4	40	8	50

Source: RBI

Consistently, Punjab has exhibited poor liquidity management- with its recourse to both lines of credit being consistently higher. Under the SCS category, Nagaland has faced persistent liquidity crunch- which only aggravated in FY15.

Surplus cash balances of states are directly invested in 14 Day Intermediate T-Bills (ITB). The ITBs have a discount rate payable at 5% with rediscounting at 50 bps lower than the discount rate. The states are also permitted to invest surplus of durable nature in the Auction T-Bills (91 Day, 182 Day and 364 Day) (ATBs) under the non-competitive route. As on end FY14, total holding of states in ITBs stood at Rs 85,130 Cr while in ATBs at Rs 46,160 Cr. We had highlighted the fact that states need to be proactive in liquidity management and increase deployment of surpluses via ATBs in place of ITBs, since the latter runs a negative carry on interest rates.

Table 5: States' Outstanding Investment in T-Bills (Rs Cr)

	FY11	FY12	FY13	FY14
Intermediate T-Bills	100,500	95,730	117,120	85,130
Auction T-Bills	10,190	22,010	28,580	46,160

Source: RBI

As on 27-Mar-15, states' outstanding investment in ITBs stood at 83,810 Cr. Delving deeper, however, it appears that very few states have been investing via the ATBs. In FY14 almost all states have had their surpluses parked via ITBs while only five states have invested under ATBs.

Table 6: Major States with Outstanding Investment in T-Bills (End FY14) (Rs Cr)

	ITBs		ATBs
Rajasthan	14,080	Maharashtra	27,500
Karnataka	10,990	Rajasthan	8,110
Gujarat	10,930	Tamil Nadu	7,140
Andhra Pradesh	7,060	Assam	3,000
West Bengal	5,130	Bihar	400

Source: RBI

Maharashtra has let its ITB portfolio liquidate from Rs 37,660 Cr end FY13 to merely Rs 4,780 Cr end FY14. A huge chunk of this liquidation got reinvested in ATBs. This shift in portfolio composition is expected to earn the state significant net interest income on account of rate differential. Going forward, states are expected to dynamically manage their liquidity needs prudently and in a profitable manner.

IV. States' Market Borrowing

An assessment of states' outstanding liabilities reveals an increased reliance on market borrowing. As highlighted in the previous edition, contribution of National Small Savings Fund (NSSF) has noted a secular decline- on account of decline in fresh investments as also increase in repayment obligations. The FFC recommended State governments be excluded from operations of NSSF beginning 1-Apr-15, and their involvement be solely limited to discharging past debt obligations.

Table 7: Composition of Outstanding Liabilities of State Governments (%)

	FY11	FY12	FY13	FY14	FY15
Total Liabilities	100	100	100	100	100
1. Internal Debt	65.4	66.3	65.9	67.1	68.5
i. Market Loans	33	37.2	39.6	43.1	46.8
ii. Special Securities Issued to NSSF	27.0	24.4	22.0	20.1	17.8
iii. Loans from Banks and FIs	4.5	4.2	3.9	3.6	3.7
2. Loans and Advances from Center	7.9	7.2	6.6	6.2	6.0
3. Public Account	26.5	26.3	27.4	26.5	25.3
i. State PF etc	12.5	12.7	12.6	12.5	12.1
ii. Reserve Funds	5.6	4.6	6.0	5.5	5.1
iii. Deposits and Advances	8.4	9.0	8.8	8.5	8.0
4. Contingency Fund	0.2	0.2	0.2	0.2	0.2

Source: RBI

Keeping in line with the growing economy, states' borrowing plans have also noted an uptrend in recent years. Cost of borrowing, on the other hand, significantly cooled off in FY15 with unwinding of RBI's extraordinary measures in latter half of FY14. Coupled with that, with RBI delivering two rates of 25 bps each, borrowing cost for states eased, too.

Table 8: SDL Issuance Trends

	Total Amount Raised (Rs Cr)	Wt Avg Cutoff (%)	% of GDP*
FY11	104,040	8.40	-
FY12	158,630	8.79	1.8
FY13	177,280	8.84	1.8
FY14	195,895	9.03	1.7
FY15	240,840	8.58	1.9

Source: RBI, STCI PD Research
**New GDP Series (Base 2011-12) has been considered*

Overall, gross fund raising activity of states as percentage of GDP recorded an uptick in FY15. While noting fiscal slippage from set targets in FY14, overall market borrowing via SDLs was capped at 1.7%. In FY15, the borrowing is poised to edge up to 1.9% of GDP. Initial set of revised estimates for FY15 of 17 states suggest that overall GFD for these states has surged from 2.6% to 3.1%. This could indicate that recovery of fiscal health of states may not yet be underway, and necessitate more time to manifest.

Slump in global crude oil prices, accommodative stance from RBI and overall enhanced resilience of economy enabled states to take advantage of lowered borrowing cost.

Table 9: SDLs' Primary Market Activity

	FY14			FY15		
	No of Auctions	Avg Size (Cr)	Wt Avg Cutoff (%)	No of Auctions	Avg Size (Cr)	Wt Avg Cutoff (%)
Andhra Pradesh	17	1,318	9.42	11	1,636	8.84
Arunachal Pradesh	3	77	9.50	4	77	8.71
Assam	-	-	-	3	983	8.21
Bihar	6	1,083	9.50	7	1,157	8.26
Chhattisgarh	4	750	8.76	7	600	8.56
Goa	7	141	8.80	6	133	8.93
Gujarat	20	775	9.18	14	1,066	8.43
Haryana	21	545	9.27	19	776	8.38
Himachal Pradesh	10	236	8.71	10	235	8.91
Jammu & Kashmir	7	295	8.72	6	233	8.94
Jharkhand	7	526	9.54	5	990	8.13
Karnataka	10	1,500	9.43	11	1,682	8.55
Kerala	17	700	9.01	15	880	8.78
Madhya Pradesh	6	833	9.40	11	936	8.61
Maharashtra	17	1,420	9.29	21	1,194	8.66
Manipur	3	117	9.55	4	116	8.54
Meghalaya	4	85	9.20	7	78	8.38
Mizoram	5	52	8.78	6	38	8.66
Nagaland	**7**	**149**	**9.29**	**5**	**120**	**8.63**
Odisha	-	-	-	3	1,000	8.04
Punjab	15	535	8.89	19	471	8.80
Rajasthan	18	489	8.98	23	535	8.65
Sikkim	4	168	9.63	3	110	8.41
Tamil Nadu	**19**	**1,092**	**8.98**	**22**	**1,150**	**8.65**
Telangana	-	-	-	8	1,025	8.46
Tripura	4	138	9.50	1	150	8.09
Uttar Pradesh	**9**	**889**	**8.62**	**13**	**1,346**	**8.48**
Uttarakhand	3	833	9.70	4	600	8.15
West Bengal	20	1,005	9.14	15	1,460	8.63
Puducherry	3	167	9.35	5	94	8.67

Source: RBI, STCI PD Research

From being state that does not access primary market, Odisha in FY15 resorted to market borrowings thrice in FY15- experimenting across tenors (4Y, 5Y, 10Y segments).

Tracking the downward bias in G-Sec curve and improvement in market sentiments, weighted average SDL spreads narrowed from 75 bps in FY14 to 38 bps in FY15. Following the runaway rupee depreciation and surge in global volatility RBI set an interest rate defence. This collateral impact was visible in domestic sovereign yield curve as well spreads for the sub-national curve. With normalization in market conditions, spreads majorly declined- ranging across 33-156 bps in FY14 which decreased to 20-57 bps in FY15.

Table 10: Average SDL Spread Movements

	FY13	FY14	FY15
Andhra Pradesh	69	83	42
Arunachal Pradesh	68	75	41
Jammu & Kashmir	**80**	**62**	**41**
Nagaland	74	69	40
Mizoram	63	61	39
Kerala	72	65	39
Uttar Pradesh	**74**	**60**	**38**
Manipur	67	72	38
Himachal Pradesh	64	70	38
Telangana	-	-	37
Goa	**69**	**60**	**37**
Tamil Nadu	71	64	37
West Bengal	76	79	36
Chattisgarh	70	65	35
Meghalaya	70	71	35
Rajasthan	68	68	35
Punjab	66	71	35
Maharashtra	72	73	35
Sikkim	67	79	34
Jharkhand	77	84	34
Tripura	67	74	34
Karnataka	59	85	34
Madhya Pradesh	75	81	33
Uttarakhand	**79**	**84**	**33**
Puducherry	73	62	33
Bihar	**74**	**80**	**33**
Gujarat	63	70	33
Assam	74	-	32
Haryana	**72**	**78**	**31**
Odisha	-	-	29

Source: RBI, STCI PD Research

Bihar, which budgeted for sharpest improvement on its fiscal front, saw its relative spread compression higher than states like Goa which still continue to run high GFD/GSDP ratio. Odisha has benefited by timing the market and approaching in short tenor when spreads were high and at longer tenor, at time of low spreads.

Comparing data from both tables 9 and 10, Andhra Pradesh has had to pay highest spreads with high cutoff yields. Despite budgeting to their lower their GFD/GSDP, separation of state into two may have impacted investors' perception of states' ability to finance their obligations. The spreads and borrowing cost for Jammu & Kashmir, too, do not reflect the budgeted improvement in its finances.

On the other hand, Gujarat has enjoyed maximum compression in spreads despite inching up of its GFD/GSDP ratio. Perception of Gujarat as financially strong and developed state may have enabled its outperformance in primary space. On the SCS front, Assam could take benefit of lower cost and spreads since it raised majority of funds in Q4FY15 (post RBI embarking on its repo rate cycle).

V. Summary

- Fiscal position of most states deteriorated in FY14 especially on the SCS' front. States like Aruanchal Pradesh and Mizoram having GFD/GSDP ratio at 17.8% and 15.7% which has been budgeted to improve at 3.5% and 4.9% respectively for FY15. These are still glaringly higher than peer states. Consequently, average borrowing cost and spreads have been on the higher side for these states.

- As a contrast, Gujarat outperformed its peers in FY14, but noted deterioration of performance in FY15. However, it continued enjoying one of the lowest spreads and low borrowing costs. Demand of SDLs and their yields are a function of states' perception which in turn is influenced by factors like liquidity in secondary market, frequency of issue and size of issue, willingness to concede demanded spreads etc.

- Kerala appears to have better hold on its finances than most states. In FY14, when most states registered weak fiscal performance, Kerala managed bringing down its GFD/GSDP ratio by a sharp 100 bps to 3.3%. For FY15, this ratio is expected to further improve to 3.1%. Notwithstanding the fiscal rectitude, Kerala continued paying one of the highest spreads in NSCS category.

- Liquidity management has been a persistent problem for Punjab and Nagaland. Frequent access to WMA and OD facilities only goes on to imply structural mismatch of liquidity and financing conditions rather than a mere stop-gap availment. This may also be reflective of state-specific constraint, impeding better forecasting of liquidity need. A revisiting on existing practice, however, may be warranted.

- While still not at alarming level, both West Bengal and Himachal Pradesh have noted strain on their liquidity management, too. Enhanced management may, in the longer run, boost states' ability to better deploy their finite resources.

Study of States' finances necessitates a look at states' health both in terms of their qualitative and quantitative indicators. It is, therefore, critical to juxtapose the above analysis with qualitative indicators to bring fore unique requirements to each state.

ANNEXURES

Annexure 1

Summary of Recommendations of Fourteenth Finance Commission

The report on FFC's recommendations was placed before the Parliament on 24-Feb-15 seeking to alter the way in which Center and States interact.

I. Center-State Transfers

Transfers from Center to States are 'vertical' transfers, while the inter-state distribution is categorized as 'horizontal' transfers. Following are some of the key recommendations in this regard:

1. Vertical Transfers

- States' share of tax devolution increased from 32% to 42%.
- Grants-in-aid to be given for local bodies, disaster management and post devolution revenue deficit.
- The distinction between Plan and Non-plan expenditure has been done away with for the purpose of calculation of post devolution revenue deficit grants.
- Sector-specific grants dispensed with.

2. Horizontal Transfers

- Criteria for arriving at inter-state distributions modified to

Horizontal Devolution- Weights (%)		
Criteria	**TFC**	**FFC**
Income Distance	47.5	50
Population	25	17.5
Area	10	15
Demographic Change	-	10
Forest Cover	-	7.5
Fiscal Discipline	17.5	-
Total	100	100

Source: Finance Commission Reports
TFC- Thirteenth Finance Commission

- No distinction between SCS and NSCS made in the FFC. Income distance calculation under the Thirteenth Finance Commission was recommended to be calculated using different averages for these two categories of states.
- Grants to be of two types: basic grants and performance grants which would depend on reliable data on local bodies' receipt and expenditures through audited accounts and improvement in own revenues.

II. Fiscal Management and FRBM

Fiscal deficit target of 3% was considered appropriate, suggesting that realistic implementation may be from FY17. Some flexibility has also been suggested for fiscal deficit targets and annual borrowing limits linked to:

i. Shortfall in utilization of borrowing limits in the preceding year
ii. Interest payments being less than or equal to 10% of revenue receipts in preceding year, linked to specified pre-condition
iii. Debt-GSDP ratio being less than or equal to 25% of the preceding year.

The FFC suggested replacing the existing FRBM Act with Debt Ceiling and Fiscal Responsibility legislation in order to accord greater sanctity and legitimacy to fiscal management legislation.

Annexure 2

List of States in NSCS and SCS category

Non Special Category States		Special Category States
Andhra Pradesh	Odisha	Arunachal Pradesh
Bihar	Punjab	Assam
Chattisgarh	Rajasthan	Himachal Pradesh
Goa	Tamil Nadu	Jammu and Kashmir
Gujarat	Telangana	Manipur
Haryana	Uttar Pradesh	Meghalaya
Jharkhand	West Bengal	Mizoram
Karnataka		Nagaland
Kerala		Sikkim
Madhya Pradesh		Tripura
Maharashtra		Uttarakhand

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