

## **Impact of Fiscal Transfers on Regional Growth Convergence in India**

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### **Abstract**

This study is an attempt to empirically analyze the effect of fiscal transfers on growth and regional growth convergence in India during 2005-2019, using the standard growth convergence model for panel data. Results indicate the growth convergence across Indian States. The regional income gaps reduced at a rate of 12.8-19.8% per annum. Fiscal transfers contribute significantly to both growth and growth convergence. Moreover, there is strong evidence for convergence across General Category States and across Special Category States, indicating club convergence. The speed of convergence among Special Category States is faster than that in General Category States. The average income growth is higher in Special Category States and higher in post global crisis period. It is our hope that these results will be useful to policymakers and other stakeholders to take appropriate strategies to design fiscal transfer policy such that it will speed up the convergence process in India.

**Keywords:** Growth Convergence, Fiscal Transfers, Indian States, Panel Data Methods