

Fiscal Health Index (FHI)

Prelims - *Economic and Social Development.*

Mains (GS II & III) - GS I (Government Policies & Interventions NITI Aayog) |GS III (Inclusive Growth Growth & Development)

Why in News?

Niti Aayog's Fiscal Health Index (FHI) 2025 has ranked Odisha as the top-performing state in terms of fiscal stability.

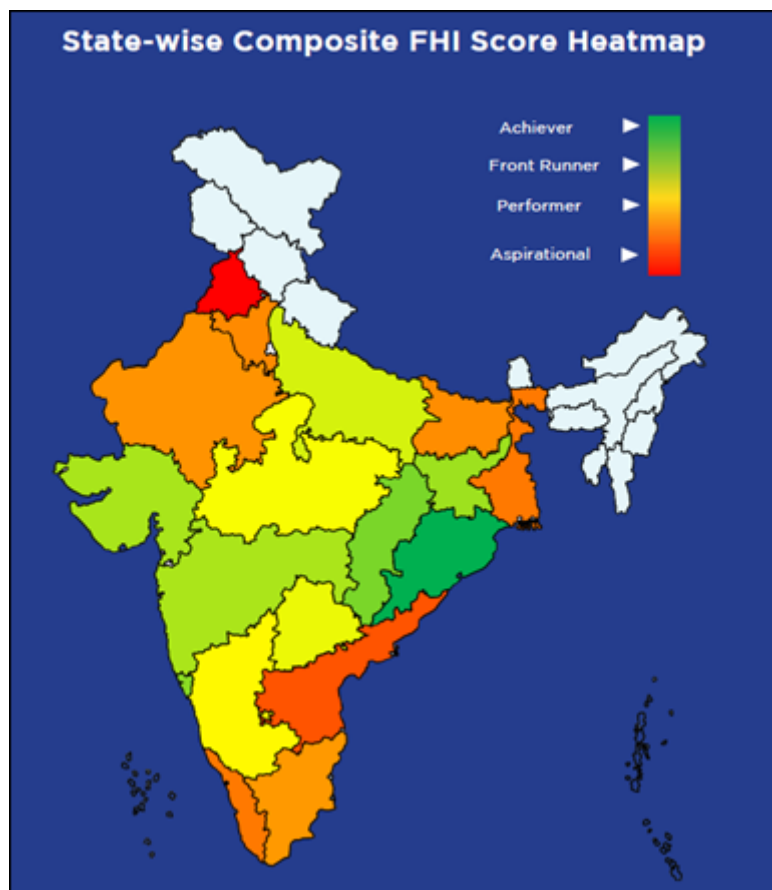
- **Initiative by** - NITI Aayog.
- **Aim** - To evolve an understanding of the ***fiscal health of states*** in India.
- The FHI analysis covers ***18 major states*** that drive the Indian economy in terms of their contribution to India's GDP, demography, total public expenditure, revenues, and overall fiscal stability.
- **Objectives** - To provide a comparative analysis of fiscal health across Indian states through *standardized metrics*.
- To identify areas of strength and concern in states' fiscal management practices.
- To promote transparency, accountability, and prudent fiscal management through empirical assessment.
- To assist policymakers in making informed decisions aimed at enhancing fiscal sustainability and resilience.
- **Indicators - Revenue Generation and Mobilization** - Assessment of states' own revenue receipts, tax buoyancy, and non-tax revenue generation.
- **Expenditure Management and Prioritization** - Evaluation of efficiency in expenditure allocation, prioritization of capital expenditure, and adherence to fiscal discipline.
- **Debt Management** - Analysis of states' debt-to-GSDP ratios, interest payment burdens, and overall sustainability of debt portfolios.
- **Fiscal Deficit Management** - Measurement of states' fiscal deficit as a percentage of Gross State Domestic Product (GSDP) and adherence to statutory limits.
- **Overall Fiscal Sustainability** - Composite analysis of revenue, expenditure, deficit, and debt indicators to gauge long-term fiscal health

Key Findings

- **Top Performers** - Odisha, Chhattisgarh, and Goa excel in Debt Index, Debt Sustainability, and Revenue Mobilization.
- **Revenue Mobilization** - Odisha, Jharkhand, Goa, and Chhattisgarh effectively mobilize non-tax revenue (average 21% of Total Revenue).
- **Aspirational States** - Punjab, Andhra Pradesh, West Bengal, and Kerala face fiscal

challenges like poor debt sustainability and high deficits.

- **Capital Expenditure** - High allocation (27%) by Odisha, Goa, Madhya Pradesh, Karnataka, Uttar Pradesh; Low allocation (10%) by West Bengal, Andhra Pradesh, Punjab, Rajasthan.
- **Debt Concerns** - West Bengal and Punjab face growing debt burdens and increasing debt-to-GSDP ratios.



Achiever	Front Runner	Performer	Aspirational
Odisha (1)	Maharashtra (6)	Tamil Nadu (11)	Kerala (15)
Chhattisgarh (2)	Uttar Pradesh (7)	Rajasthan (12)	West Bengal (16)
Goa (3)	Telangana (8)	Bihar (13)	Andhra Pradesh (17)
Jharkhand (4)	Madhya Pradesh (9)	Haryana (14)	Punjab (18)
Gujarat (5)	Karnataka (10)		

Quick Facts

- **Tax Buoyancy** - It is a ratio of change in tax revenue in relation to change in gross state domestic product or GSDP of a state. It measures how responsive a taxation policy is to growth in economic activities.
- **Debt-to-GSDP** - It is a metric that compares a state's total public debt to its gross state domestic product (GSDP), indicating its ability to repay its debts, and is often expressed as a percentage.
- **Sustainability of Debt Portfolios** - It refers to state's ability to meet its current and future debt obligations without defaulting or requiring exceptional financial assistance, focusing on both solvency and liquidity.
- **Debt Index** - The ratio of Interest Payments to Revenue Receipts (IP/RR) indicating the percentage of Revenue Receipts used for interest payment on account of outstanding debt.

Reference

[PIB | Fiscal Health Index 2025](#)

