# 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.*

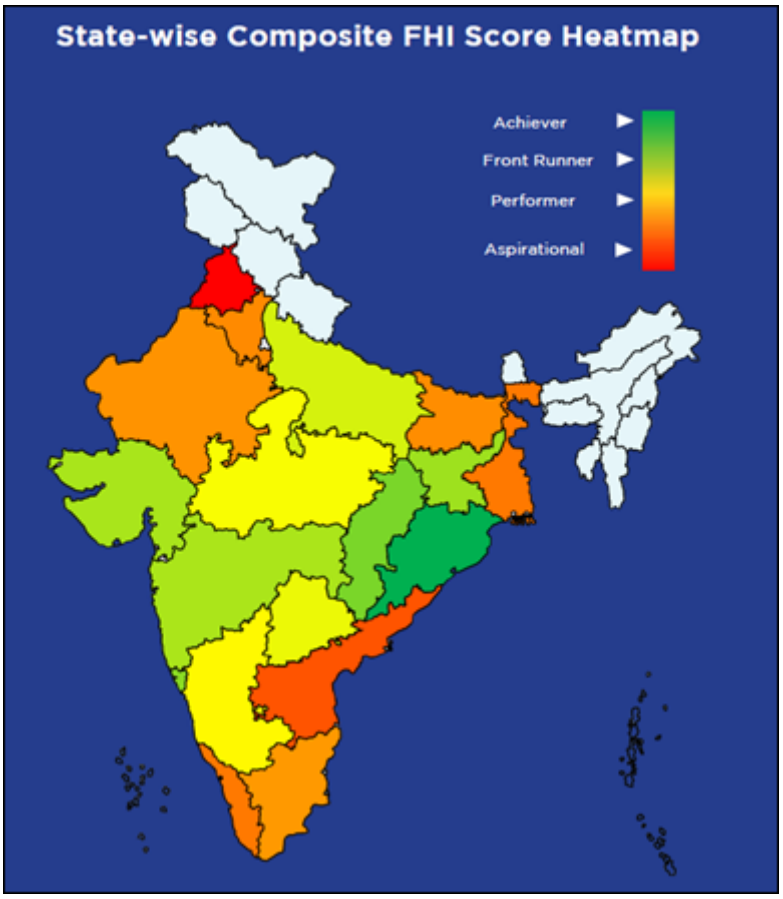
- **Initiative by -** NITI Aayog.
- **Aim -** To evolve an understanding of the ***fiscal health of states*** in India.
- The FHI analysis covers ***18 major states*** that drive the Indian economy in terms of their contribution to India's GDP, demography, total public expenditure, revenues, and overall 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

