# Recent Trends in Fiscal Health Index, 2025

### Why in news?

State governments in India faced worsening debt and fiscal issues during the COVID-19 pandemic. Their debt-to-GDP ratio increased from 25.3% in 2019 to 31% in 2021.

### What is Fiscal health index?

- ***NITI Aayog*** has introduced a Fiscal Health Index, which evaluates the fiscal positions of 18 major states using ***five sub-indices:***
    - Fiscal Prudence
    - Debt Index and Sustainability
    - Revenue Mobilization
    - Quality of Spending
    - Stabilization of State Finances
- This framework not only ***identifies high-performing states*** but also pinpoints areas for improvement.

### What are the Findings from the Index?

- **Top Performers - *Odisha, Chhattisgarh, Goa, Jharkhand, and Gujarat***.
- States like ***Odisha and Gujarat*** have low debt-to-GSDP ratios of 16.3% and 17.9%, respectively.
- **Bottom Performers -** Punjab, Andhra Pradesh, West Bengal, Kerala, and Haryana.
- Punjab has a high debt-to-GSDP ratio of 46.6%.

### What are the Reasons for worsening debt-to-GDP Ratio:

- **Rising Debt-to-GDP Ratios** - States like Punjab and West Bengal have alarmingly high debt levels, raising concerns about debt sustainability and fiscal health.
- **Dependence on Borrowings** - Many states rely heavily on borrowings to meet fiscal deficits, which leads to higher interest liabilities, reducing funds for developmental expenditure.
- **Unproductive Expenditures -** Spending on "freebies" or populist schemes, without clear economic returns, burdens state finances. Guarantees for loans to poorly performing sectors further worsen fiscal stress.
- **Revenue Mobilisation Issues -** States struggle to generate adequate revenue due to inefficiencies in tax collection, limited resource mobilisation, and weak administration in sectors like GST compliance.
- **Loss-Making Power Distribution** - Power subsidies and inefficiencies in state-owned DISCOMs continue to drain resources, despite reforms like ***UDAY (Ujwal DISCOM Assurance Yojana).***
- **High Dependence on Central Transfers -** States heavily depend on central devolution and grants for their revenue needs. Any reduction in central assistance, like during economic crises, adversely impacts fiscal stability.

### What are the Growing Disparities between States?

- The increasing economic and developmental disparity among Indian states is a critical issue.
- States like Gujarat, Maharashtra, and Tamil Nadu perform exceptionally well.
- States like Bihar, Uttar Pradesh, and Jharkhand lag in economic growth, fiscal health, and social development.

## What are the Causes of Disparities between States?

- **Geographical Differences -** Coastal states benefit from trade and industrialization, while landlocked and disaster-prone states face challenges.
- **Historical Factors** - Colonial policies favored some regions, leaving others underdeveloped.
- **Unequal Resource Allocation -** Central funds and investments are often skewed towards developed states.
- **Governance Issues -** Poor administration and corruption in some states hinder development.
- **Economic Dependence -** Backward states rely heavily on agriculture, which is vulnerable to climate risks.
- **Lack of Industrialization -** Industrial growth is concentrated in a few states, creating regional gaps.
- **Low Human Capital -** Poor education and health systems result in unskilled labor in lagging states.

## What Lies ahead?

- Strengthen revenue generation by improving GST compliance and reforming property taxes. Encourage fiscal responsibility by adhering to ***FRBM targets and avoiding off-budget borrowings***.
- Reform subsidy management to target deserving beneficiaries with Direct Benefit Transfers.
- Focus on capital expenditure in infrastructure, healthcare, and education, using Public-Private Partnerships.
- Address DISCOM issues with tariff management and loss reduction reforms**.**

**Reference**

[The Indian Express | Fiscal Health Index]

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