

# India's Fiscal Health Index: A Comprehensive Overview

January 25, 2025 • vajiramandravi.com



## India's Fiscal Health Index

### What's in Today's article?

- India's Fiscal Health Index Latest News
- Understanding the Fiscal Health Index
- Key Highlights from the FHI Report 2025 (2022-23 FY)
- Challenges and Recommendations
- Conclusion
- Fiscal Health Index FAQs

### India's Fiscal Health Index Latest News

- The Chairman of the 16th Finance Commission, **Dr. Arvind Panagariya**, launched the inaugural issue of NITI Aayog's report titled "**Fiscal Health Index (FHI) 2025**".

### Understanding the Fiscal Health Index

- The Fiscal Health Index (FHI), introduced by **NITI Aayog**, provides a systematic framework to evaluate the fiscal performance of **18 major Indian states**.
- This initiative highlights critical aspects of state finances, emphasizing the importance of transparency, revenue mobilization, and sustainable public financial management.
- The FHI assesses states using five sub-indices:
  - Quality of Expenditure,
  - Revenue Mobilization,
  - Fiscal Prudence,
  - Debt Index, and
  - Debt Sustainability
- These metrics offer a comprehensive view of fiscal health, aiding policymakers in identifying areas for improvement and fostering best practices across states.

## Key Highlights from the FHI Report 2025 (2022-23 FY)

### • Top Performers:

- **Odisha**: Ranked first with an FHI score of 67.8, Odisha excelled in Debt Index and Debt Sustainability due to its low fiscal deficit, strong debt management, and effective capital expenditure strategies.
- **Chhattisgarh**: Achieved the second rank with strengths in Debt Index and revenue growth from mining activities.
- **Goa**: Positioned third, excelling in Revenue Mobilization due to high tax efficiency and non-tax revenue generation.

### • Aspirational States:

- States like **Punjab**, **Kerala**, and **West Bengal** faced challenges in debt sustainability and revenue mobilization, highlighting the need for fiscal reforms.

### • Sub-Index Insights:

- **Quality of Expenditure:**
  - States like Madhya Pradesh and Chhattisgarh prioritized social and economic services, allocating substantial portions of their expenditure to health and education.
  - However, states such as Punjab and Rajasthan lagged in capital expenditure, impacting long-term developmental goals.
- **Revenue Mobilization:**
  - Odisha, Goa, and Chhattisgarh led in revenue mobilization, leveraging non-tax revenues from mining and industrial activities.
  - States like Bihar and West Bengal struggled with low own-tax revenues, relying heavily on central transfers.
- **Fiscal Prudence:**
  - Odisha and Jharkhand maintained fiscal prudence with lower fiscal deficits, enabling better allocation of resources toward development.
  - States with persistent revenue deficits, such as Kerala and Andhra Pradesh, faced constraints in managing fiscal stability.
- **Debt Index:**

- Maharashtra and Gujarat demonstrated robust debt management practices, maintaining low debt-to-GSDP ratios.
- Conversely, Punjab and Haryana grappled with rising debt burdens and high interest payments.
- **Debt Sustainability:**
  - Odisha and Chhattisgarh showcased sustainable debt management by ensuring economic growth outpaced interest payment growth.
  - In contrast, states like West Bengal and Punjab exhibited growing fiscal stress due to persistent deficits.

## Challenges and Recommendations

- **Revenue Diversification:** States need to enhance their revenue base by tapping into non-tax sources and improving tax compliance.
- **Capital Expenditure Focus:** Prioritizing investments in infrastructure, health, and education is crucial for long-term growth.
- **Debt Management:** Adopting a comprehensive debt sustainability framework is essential for reducing fiscal stress.
- **Transparency:** Enhanced reporting mechanisms and adherence to fiscal responsibility norms will bolster accountability and public trust.

## Conclusion

- The Fiscal Health Index serves as a vital tool for benchmarking state performance and identifying areas for fiscal improvement.
- While states like Odisha and Chhattisgarh exemplify strong fiscal discipline, others must adopt targeted strategies to overcome challenges.
- By fostering fiscal prudence, enhancing revenue mobilization, and ensuring debt sustainability, states can contribute to India's economic resilience and inclusive growth.
- Under NITI Aayog's guidance, the FHI sets the stage for transformative fiscal reforms, ensuring a balanced and sustainable future for the nation.

## Fiscal Health Index FAQs

**Q1.** What is the Fiscal Health Index (FHI)?

**Ans.** The FHI, introduced by NITI Aayog, evaluates the fiscal performance of 18 major Indian states through five key sub-indices.

**Q2.** Which states performed best in the Fiscal Health Index (FY 2023)?

**Ans.** Odisha, Chhattisgarh, and Goa ranked as the top performers due to strong debt management and revenue mobilization.

**Q3.** What are the five sub-indices of the Fiscal Health Index?

**Ans.** The sub-indices are Quality of Expenditure, Revenue Mobilization, Fiscal Prudence, Debt Index, and Debt Sustainability.

**Q4.** What challenges do states like Punjab and Kerala face in fiscal health?

**Ans.** Punjab and Kerala struggle with debt sustainability and low revenue mobilization, necessitating fiscal reforms.

**Q5.** How can states improve their fiscal health according to the FHI?

**Ans.** States can enhance fiscal health by diversifying revenue sources, prioritizing capital expenditure, and ensuring robust debt management.

**Source :** TH | NITI Aayog

---

Source: <https://vajiramandravi.com/current-affairs/indias-fiscal-health-index/>

© Vajiram & Ravi. For personal use only.