



Fiscal Health Index 2025

[Source: PIB](#)

Why in News?

In a bid to enhance fiscal governance, [National Institution for Transforming India \(NITI Aayog\)](#) launched its **inaugural Fiscal Health Index (FHI) 2025**.

- The Index provides a comprehensive evaluation of the **fiscal health of 18 major Indian states for 2022-23**, offering data-driven insights that will guide policy interventions at the state level.

What is the Fiscal Health Index (FHI)?

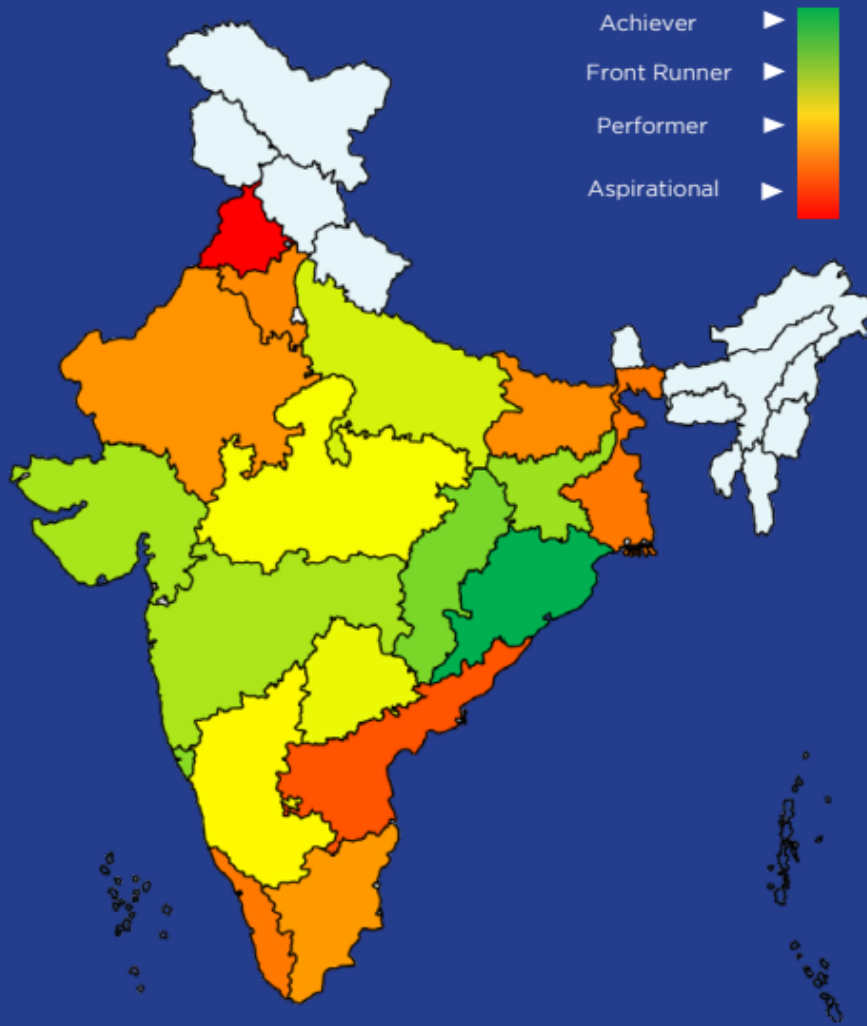
- **About:** The **Fiscal Health Index (FHI)** is an **assessment tool** to evaluate the fiscal health of Indian states **and highlights specific areas for improvement**.
- **Parameter:** FHI ranks states based on five key sub-indices.
 - **Quality of Expenditure:** Measures the proportion of spending on long-term growth (developmental) vs. routine operations (non-developmental).
 - Assesses capital investments as a share of economic output.
 - **Revenue Mobilization:** Reflects a state's ability to **generate its own revenue** and cover its expenditures independently.
 - **Fiscal Prudence:** Tracks [deficits \(fiscal and revenue\)](#) and borrowing relative to economic output, signaling fiscal health.
 - **Debt Index:** Assesses the [state's debt burden](#), focusing on interest payments and liabilities relative to economic size.
 - **Debt Sustainability:** Compares [Gross State Domestic Product \(GSDP\)](#) growth to **interest payments**, with a positive difference indicating **fiscal sustainability**.

MAJOR SUB-INDICES	MINOR SUB-INDICES
1. Quality of Expenditure	1.1 Total Developmental Expenditure/Total Expenditure
	1.2 Total Capital Outlay/ GSDP*
2. Revenue Mobilization	2.1 State Own Revenue/ GSDP*
	2.2 State Own Revenue/ Total Expenditure
3. Fiscal Prudence	3.1 Gross Fiscal Deficit/ GSDP*
	3.2 Revenue Deficit/ GSDP*
4. Debt Index	4.1 Interest Payments/Revenue Receipts
	4.2 Outstanding Liabilities/ GSDP*
5. Debt Sustainability	5.1 Growth Rate of GSDP* - Growth Rate of Interest Payments

GSDP at current prices for the year 2022-23

- **Aim:** Guide policymakers in formulating **targeted reforms for sustainable economic growth**, fiscal consolidation, and better **resource management** at the state level.
 - Encourage healthy competition among states, aligning their fiscal strategies with national economic objectives.
- **Key Findings of FHI 2025:**
 - **Top Performers: Odisha** leads with the highest overall FHI score of **67.8**, followed by Chhattisgarh (55.2), Goa (53.6), Jharkhand (51.6), and Gujarat (50.5), with strengths in **Debt Index, Revenue Mobilization, and Fiscal Prudence**.
 - **Revenue Mobilization: Goa, Telangana, and Odisha** lead in Revenue Mobilization and Fiscal Prudence.
 - Odisha, Jharkhand, Goa, and Chhattisgarh excel in non-tax revenue, with Odisha heavily relying on **mining-linked premiums** and Chhattisgarh benefiting from **coal block auctions**.
 - Punjab and West Bengal lag in Revenue Mobilization, highlighting disparities in fiscal management and economic resilience.
 - Aspirational States like **Punjab, West Bengal, Andhra Pradesh, and Kerala** face significant fiscal challenges.
 - Punjab and Kerala struggle with **Debt Sustainability** and **Quality of Expenditure**, while Andhra Pradesh faces high **Fiscal Deficits**.
 - **Capital Expenditure:** Madhya Pradesh, Odisha, Goa, Karnataka, and Uttar Pradesh allocate 27% to **Capital Expenditure**, enhancing long-term investments.
 - States like West Bengal, Andhra Pradesh, Punjab, and Rajasthan allocate only 10%, impacting long-term growth.
 - **Debt Management:** Top states like Odisha and Goa manage debt effectively, with low risk of default, while bottom states like West Bengal and Punjab show growing debt burdens, raising concerns about **debt sustainability**.

State-wise Composite FHI Score Heatmap



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)		

NITI Aayog

(National Institution for Transforming India)

HISTORY- PLANNING COMMISSION

Set up in **1950**
to direct investment
activity

Replaced by **NITI Aayog** on January 1, 2015

Composition of #NITIAayog

Chairperson

Prime Minister

Governing Council

CMs (States) and Lt Governors (UTs)

Regional Councils

Formed on need-basis, comprising CMs and Lt Govs of the region

Members

Full-time basis

Part-time Members

Max 2, rotational, from relevant institutions

Ex-officio Members

Max 4 from Council of Ministers, nominated by PM

Special Invited

Experts, specialists, practitioners with domain knowledge

Chief Executive Officer

Appointed by PM for fixed tenure (Secy rank)

Secretariat

As deemed necessary

OBJECTIVES

- ↳ Foster **cooperative federalism**
- ↳ Develop mechanisms to **formulate credible plans (village level)**
- ↳ Interests of **national security** in economic strategy and policy
- ↳ Special **attention to weaker sections**
- ↳ Provide advice and encouragement to partnerships between **key stakeholders, national-international Think Tanks, research institutions**
- ↳ Create **knowledge, innovation and entrepreneurial support system**
- ↳ **Platform for** inter-sectoral and inter-departmental **issues resolution**
- ↳ Maintain **state-of-the-art Resource Centre**

NITI Aayog vs Planning Commission

NITI Aayog	Planning Commission
Advisory Think Tank	Extra-constitutional body
Wider expertise	Limited expertise
Secretaries (CEO) appointed by PM	Secretaries appointed by usual process
Bottom-up approach	Top-Down approach
No Mandate to impose policies	Imposed policies on states
No power to allocate funds	Allocated funds to ministries/state govts

Major Initiatives

- ↳ SDG India Index
- ↳ Atal Innovation Mission
- ↳ e-AMRIT Portal (electric vehicles)
- ↳ Good Governance Index
- ↳ India Innovation Index
- ↳ Aspirational District Programme
- ↳ 'Methanol Economy' programme

Issues

- ↳ **No powers** in granting **discretionary funds** to states
- ↳ Only an **advisory body**
- ↳ **No role in influencing private or public investment**
- ↳ **Politicisation of the organisation**
- ↳ **Lacks the requisite power** to bring positive change



Read more: [RBI Report on State Finances 2024-25](#)

UPSC Civil Services Examination, Previous Year Question (PYQ)

Prelims:

Q. Atal Innovation Mission is set up under the (2019)

- (a) Department of Science and Technology
- (b) Ministry of Labour and Employment
- (c) NITI Aayog
- (d) Ministry of Skill Development and Entrepreneurship

Ans: (c)

Q. The Government of India has established NITI Aayog to replace the (2015)

- (a)** Human Rights Commission
- (b)** Finance Commission
- (c)** Law Commission
- (d)** Planning Commission

Ans: (d)

PDF Refernece URL: <https://www.drishtias.com/printpdf/fiscal-health-index-2025>

