सत्यमेव जयते

NITI Aayog

FISCAL HEALTH INDEX

2025

For the Financial Year 2023

EXECUTIVE SUMMARY

The Fiscal Health Index (FHI) initiative by NITI Aayog aimed to evolve an understanding of the fiscal health of states in India. The FHI analysis covers eighteen 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. As states are responsible for approximately two-thirds of public spending and one-third of total revenue, their fiscal performance is important for the country's overall economic stability. The FHI offers a systematic approach to assess the state's fiscal health, identify areas for improvement, and promote best practices across states. The report objectively evaluates each state's fiscal health through a composite index, facilitating comparisons and benchmarking against best practices.

The composite FHI has been developed using data from the Comptroller and Auditor General (CAG), focusing on five sub-indices: Quality of Expenditure, Revenue Mobilization, Fiscal Prudence, Debt Index, and Debt Sustainability. Furthermore, based on the five key sub-indices, a comprehensive state-wise analysis is reported to bring out state-specific fiscal health issues. This analysis is supported by graphs that illustrate the trends of major fiscal indicators from the financial year 2014-15 to 2022-23. This detailed examination highlights individual state performances and provides valuable insights into broader fiscal trends, allowing for a better understanding of fiscal health across the country.

The analysis clearly highlights that strong revenue mobilization, effective expenditure management, and prudent fiscal practices are critical determinants of success. The top five high-performing states are Odisha, Chhattisgarh, Goa, Jharkhand, and Gujarat, while the aspirational five are Haryana, Kerala, West Bengal, Andhra Pradesh, and Punjab. However, the states' performance varies across the five sub-categories. For instance, Uttar Pradesh and Bihar have a good score under Quality of Expenditure, but they rank lower with regard to Revenue Mobilization. Karnataka performs well across most indices but it ranks amongst the three aspirational states in Debt Sustainability. Odisha and Chhattisgarh have performed well under Revenue Mobilization, with their Own Non-Tax Revenue growing significantly due to high revenue collection from mining. However, regarding Debt Sustainability, Chhattisgarh ranks lower compared to some other states.

The fiscal landscape across states reveals a picture where progress and challenges coexist. As states navigate their unique fiscal challenges, the path forward hinges on a commitment to transparency, enhanced tax compliance, and targeted investments in social and economic infrastructure. By fostering a culture of fiscal prudence and accountability, states can stabilize their economies and elevate the quality of life for their citizens, ensuring a resilient and prosperous future. High persistent deficits and varying fiscal performances among states underscore the urgency for reform and targeted interventions. The journey toward fiscal sustainability is complex, but with concerted efforts, it can lead to transformative outcomes that benefit all.

SECTION A

INTRODUCTION

A. Introduction

Balanced regional development is vital for India's economic stability and growth, with each state playing a crucial role in managing public spending and revenue. The Fiscal Health Index (FHI) evaluates states on expenditure quality, revenue mobilization, fiscal prudence, debt index and debt sustainability. This index aims to help policymakers identify areas for reform and promote best practices across states.

The health of state finances has gained significant prominence, as fiscal well-being is essential for achieving long-term fiscal sustainability and over-all economic growth. States account for two-thirds of public spending and one-third of total revenue. The Indian Constitution assigns states, significant responsibilities in development and infrastructure, making their fiscal performance critical to the nation's development and stability. Variations in fiscal performance between states and the centre affect national fiscal stability, highlighting the importance of maintaining sound fiscal operations at the state level. The fiscal landscape across states reveals a picture where progress and challenges coexist. Monitoring the fiscal health of states is essential for ensuring financial stability, sustainable growth, and effective governance. It helps assess debt sustainability, fiscal deficits, and the efficient allocation of resources toward key sectors like healthcare, education, and infrastructure.

To assess state financial performance, a Fiscal Health Index (FHI) has been formulated in the report. This index evaluates states on five indicators: Quality of Expenditure, Revenue Mobilization, Fiscal Prudence, Debt Index and Debt Sustainability. The FHI provides a systematic approach for measuring state-level fiscal performance. By incorporating these dimensions, the FHI offers a comprehensive overview of state finances. This detailed examination highlights individual state performances and also provides valuable insights into broader fiscal trends over time, allowing for a better understanding of fiscal health across the country.

The Fiscal Health Index (FHI) is designed to assist policymakers by offering insights into state fiscal health, helping identify areas requiring intervention and supporting the formulation of fiscal policies and reforms. By evaluating and showcasing the performance of different states, the FHI aims to promote the adoption of effective fiscal management strategies and lead to improved fiscal discipline across states. This, in turn, will support the broader economic goals of the country and ensure long-term economic resilience and equitable development.

Karnataka

The state may focus on reallocating expenditure toward education and health. It may need to focus on increasing the revenues of the state.

Quality of Expenditure

- Spending on economic services rose from 36.5% in 2018-19 to 36.8% in 2022-23, while spending on social services dropped from 39.4% to 34.5%. General services spending increased from 21.4% to 26.6% for the same period.
- Increase in Capital Expenditure has been mainly towards roads and bridges and power projects whereas investment in education and health has declined.
    - o Karnataka's spending on education (11.6%) and health (4.5%) as a ratio of total expenditure was lower than other major states' average.
- High Committed Expenditure (79% of total Revenue Expenditure) limits fiscal flexibility. Within the Non-Committed Expenditure, there is an increasing trend of subsidies which grew from 9.4% of the total Revenue Expenditure in 2018-19 to 10.6% in 2022-23.

Revenue Mobilization

- The state's Own Tax Revenue primarily through GST remains the largest source of total Revenue Receipts (~63% of Revenue Receipts) which indicates that its fiscal position is largely influenced by its own resources.
- From 2018-19 to 2022-23, Revenue Receipts grew from ₹1,64,979 crore to ₹2,29,080 crore, with an average annual growth rate of 7%. The revenue buoyancy of the State with respect to GSDP was positive in all the years except 2020-21.

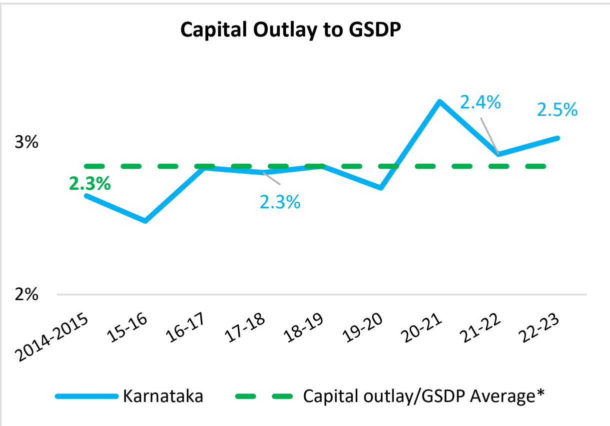
Fiscal Prudence

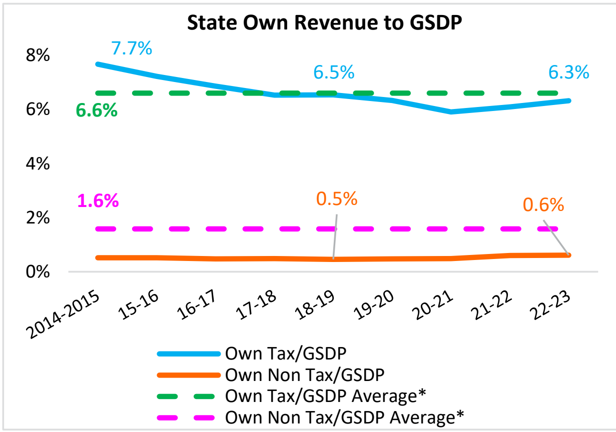
- In 2022-23, Revenue Surplus was 0.6% indicating the State has achieved the target; Fiscal Deficit was 2.1% as against the limit of 3.5% stated under the FRBM Act.

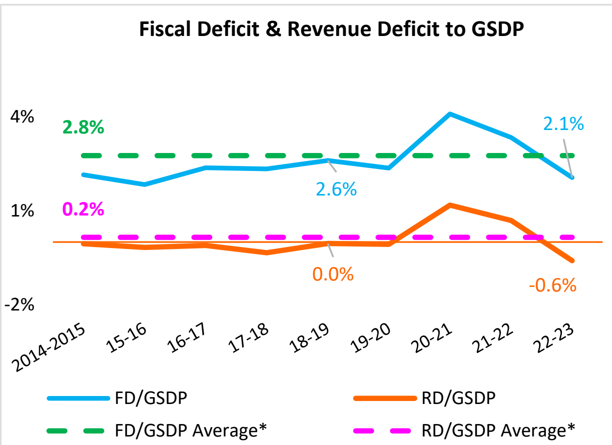
- The Fiscal Deficit to GSDP also declined from 4.1% to 2.1% as compared to previous year on account of Revenue Surplus.

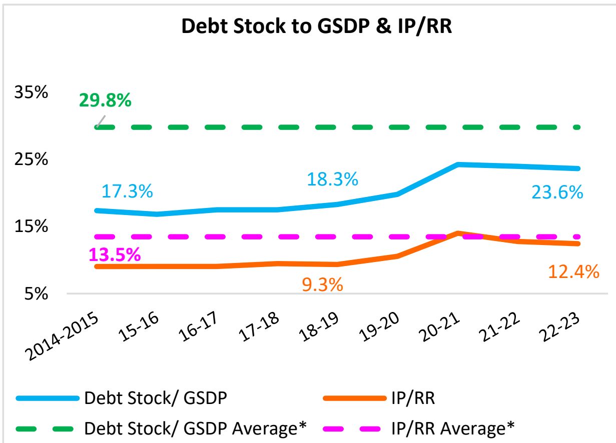
Debt Index & Debt Sustainability

- Public debt grew at 19.1% annually from 2018-19 to 2022-23, but the Debt-to-GSDP ratio has been declining since 2020-21, suggesting future debt sustainability.
- Large portion of debt receipts is used for repayments, with 40.5% of debt maturing in 1-6 years.
- Average interest rate on public debt has declined from 7.4% in 2018-19 to 6.5% in 2022-23.
- Positive debt sustainability was observed in all years except in 2020-21 on account of Covid-19 reflecting that the debt profile of the state could move towards a stable value depending on the stock of debt and budget surplus in the forthcoming years.









*Average of 18 major states for FY 2022-23