



UPSC & STATE PCS CURRENT AFFAIRS · UJIYARI.COM

DAILY CURRENT AFFAIRS

Fiscal Health Index 2026: Assessing State Finances

14 March 2026

SUBJECTS COVERED**ECONOMY****REPORTS & SCHEMES****CURATED & WRITTEN BY****Bharat Choudhary**

UPSC Educator & Content Creator •

[linkedin.com/in/epicbharat](https://www.linkedin.com/in/epicbharat)

Free UPSC & State PCS Resources

ujiyari.com

Fiscal Health Index 2026: Assessing State Finances

14 March 2026 · 9 min read

▼ On this Page

- 01** Why State Finances Are a National...
- 02** What the Fiscal Health Index Measures
- 03** Findings for the 18 Major States
 - The Top Performers: Odisha, Goa, Jharkhand
 - The Middle Tiers
 - The Aspirational States: Structural Fiscal Stress
- 04** Findings for North-Eastern and Himalayan States
- 05** The Structural Problem: Off-Budget Borrowings and...
- 06** The FRBM Framework and Finance Commission...
- 07** Critical Assessment: What the Index Does...

WHY IN NEWS

On **11 March 2026**, NITI Aayog released the **second edition of the Fiscal Health Index (FHI) 2026**, assessing state finances for **FY 2023-24** across 28 states and expanding coverage to include **10 North-Eastern and Himalayan states** for the first time — with Odisha retaining the top rank among major states and Punjab, Kerala, West Bengal, and Andhra Pradesh flagged as fiscally stressed.

WHY STATE FINANCES ARE A NATIONAL ISSUE

India's fiscal debate gravitates almost entirely toward the Union Budget. Yet the actual delivery of development — schools, hospitals, irrigation, roads, welfare transfers, and local infrastructure — depends overwhelmingly on the states. States are responsible for approximately **two-thirds of India's consolidated**

public expenditure and raise roughly **one-third of public revenue**. They also account for about **one-third of India's general government debt**, a proportion that has grown steadily since the early 2000s.

When a state's finances deteriorate, the consequences are not local. Capital expenditure — the most productive form of government spending — is always the first casualty of fiscal stress. A state that begins to spend 55–60% of its revenue receipts on salaries, pensions, and interest payments has almost no room left for roads, water systems, or health infrastructure. Multiplied across several large states simultaneously, this represents a structural drag on India's growth and development trajectory.

The **Fiscal Health Index (FHI)** was designed by NITI Aayog precisely to make this problem visible and comparable. It is a benchmarking exercise — not a statutory ranking — that allows policymakers, civil society, and the public to assess how different states are managing their public finances relative to each other and over time.

WHAT THE FISCAL HEALTH INDEX MEASURES

NITI Aayog released the **first edition of the FHI** in 2024, covering 18 major states for the period FY 2014-15 to FY 2022-23. The **second edition (FHI 2026)**, released on 11 March 2026, uses **CAG-verified data** (data verified by the Comptroller and Auditor General of India) and covers the decade-long period from **FY 2014-15 to FY 2023-24**. This longitudinal scope makes it a tool for assessing structural trends, not just a snapshot of a single year.

The Index evaluates states across **five pillars**: Quality of Expenditure, Revenue Mobilisation, Fiscal Prudence, Debt Index, and Debt Sustainability. Together these pillars capture not just whether a state is running a deficit, but whether it is spending wisely, collecting taxes effectively, controlling its debt trajectory, and preserving space for future investment.

A critical methodological feature of the 2026 edition is that the **10 North-Eastern and Himalayan states** — Arunachal Pradesh, Assam, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, and Uttarakhand — are **ranked separately** from the 18 major states. This separation is analytically sound because these states face structural constraints absent in larger, more economically diverse states: difficult terrain, sparse populations, very limited own-tax revenue capacity, high service-delivery costs per capita, and dependence on Union transfers that can approach 80–90% of total receipts.

FINDINGS FOR THE 18 MAJOR STATES

The Top Performers: Odisha, Goa, Jharkhand

Odisha retained the top position among major states, a result that reflects consistent fiscal discipline over more than a decade. Odisha's fiscal management has been notable for maintaining capital expenditure at around **4–5% of GSDP** — among the highest for any Indian state — while reducing its debt-to-GSDP ratio from over 23% in 2019-20 to around the **mid-teens** by 2023-24. Its own-tax revenues have grown steadily,

and the state has avoided the pattern of large committed expenditure commitments through populist spending that has destabilised other state budgets. **Goa** and **Jharkhand** ranked second and third, reflecting smaller and more manageable fiscal positions with relatively better revenue mobilisation ratios.

The Middle Tiers

The index places Gujarat, Maharashtra, Chhattisgarh, Telangana, Uttar Pradesh, and Karnataka in the **Front-Runners** category, while Madhya Pradesh, Haryana, Bihar, Tamil Nadu, and Rajasthan are classified as **Performers**. A notable finding is that **Bihar** improved from the aspirational group in the first edition to the performer category in FHI 2026, reflecting better deficit management and improved revenue performance — a significant shift for a state historically burdened by weak own-revenue capacity and high transfer dependence.

The Aspirational States: Structural Fiscal Stress

The four major states ranked weakest — **West Bengal, Kerala, Andhra Pradesh, and Punjab** — share a pattern of recurring fiscal stress that has compounded over multiple years. Their combined characteristics include debt-to-GSDP ratios in the range of **35–45%**, significantly above the broadly accepted prudential norm of around 25%. Committed expenditure — defined as salaries, pensions, and interest payments — consumes approximately **50–60% of revenue receipts**, leaving very limited headroom for capital or developmental spending. Interest payments alone often exceed **15–20% of revenue receipts**, meaning that a large share of every rupee collected in taxes goes toward servicing past debt rather than current services.

Punjab is particularly concerning: its debt-to-GSDP ratio is among the highest in the country, its pension commitments are substantial, and years of revenue-deficit financing have left very little fiscal flexibility. **Kerala** has used off-budget borrowing vehicles — including borrowings by the Kerala Infrastructure Investment Fund Board (KIIFB) — to finance spending in ways that may not be fully captured in standard deficit numbers, raising questions about the true scale of state fiscal obligations.

FINDINGS FOR NORTH-EASTERN AND HIMALAYAN STATES

Among the newly covered states, **Arunachal Pradesh** and **Uttarakhand** ranked at the top. Both states have benefited from capital-intensive central projects that have supported GSDP growth and from relatively contained salary-pension burdens. The middle tier includes Assam, Meghalaya, Mizoram, Sikkim, and Tripura.

At the weaker end, **Himachal Pradesh, Manipur, and Nagaland** face the most acute fiscal pressure in this group. Himachal Pradesh in particular has drawn national attention for a debt-to-GSDP ratio that some estimates place near or above **40%**, combined with a very high share of salary and pension commitments in total expenditure and a narrow economic base relative to its public-sector size.

THE STRUCTURAL PROBLEM: OFF-BUDGET BORROWINGS AND COMMITTED EXPENDITURE

The FHI 2026 highlights two systemic issues that headline fiscal deficit numbers often conceal. First, **off-budget borrowings** — loans taken by state-owned corporations and special-purpose vehicles that are financed or guaranteed by the state government but do not appear in the official fiscal deficit calculation. The Reserve Bank of India (RBI) and the **15th Finance Commission (2021-26)** both flagged this issue, with the RBI's State Finances Report estimating that off-budget liabilities could add 2–3 percentage points to the effective debt levels of several states.

Second, the rising share of **committed expenditure** is structurally destabilising. States that have expanded government employment, implemented Pay Commission revisions, and made pension commitments — particularly in states that have not moved to the National Pension System (NPS) from defined-benefit state pension schemes — find that the committed expenditure share of their revenue budget grows automatically each year, irrespective of economic conditions.

THE FRBM FRAMEWORK AND FINANCE COMMISSION TARGETS

The **Fiscal Responsibility and Budget Management (FRBM) Act, 2003** and its state-level equivalents established the norm that states should keep their fiscal deficits at or below **3% of GSDP**. The **15th Finance Commission (2021-26)** reinforced this framework while acknowledging that the pandemic years (2020-22) required relaxation. For post-pandemic fiscal consolidation, the Commission recommended a phased return to the 3% norm, with an additional 0.5% available under specific reform-linked conditions.

The **16th Finance Commission (2026-27 to 2030-31)**, under Chairman **Dr. Arvind Panagariya**, submitted its report to President Droupadi Murmu on 17 November 2025 and was tabled in Parliament on 1 February 2026. Its deliberations are expected to focus significantly on incentivising states to improve revenue mobilisation, rationalise subsidies, and reduce off-budget liabilities — issues directly addressed by the FHI framework.

CRITICAL ASSESSMENT: WHAT THE INDEX DOES NOT CAPTURE

The FHI is a valuable tool, but it has important limitations. First, it focuses on fiscal prudence but does not systematically assess **social outcomes** — a state could rank high on fiscal discipline while performing poorly on health or education delivery. Odisha's top fiscal ranking, for instance, coexists with significant indicators of poverty and malnutrition in parts of the state. Second, the index is backward-looking: it uses CAG-verified data that typically lags by 18–24 months, meaning it cannot capture the most recent fiscal deterioration or improvement. Third, it does not penalise states for the quality of capital expenditure — spending on productive infrastructure is treated the same as spending on economically unproductive assets.

A stronger version of the index would integrate fiscal health with human development outcomes, creating a composite accountability framework for state governments.

UPSC RELEVANCE

Fiscal Health Index, NITI Aayog, CAG, GSDP, FRBM Act 2003, debt sustainability, 15th Finance Commission, 16th Finance Commission, off-budget borrowings, NPS, KIIFB.

MAINS GS-2:

Fiscal federalism, Centre-State financial relations, Finance Commission.

MAINS GS-3:

Public finance, state debt management, quality of expenditure, macroeconomic stability, fiscal consolidation.

★ FACTS CORNER — KNOWLEDGEPEDIA
FISCAL HEALTH INDEX 2026 — CORE DATA:

Released by: NITI Aayog

Release date: 11 March 2026

Data coverage: Fiscal performance for **FY 2023-24**

Data verification: **CAG-verified** (Comptroller and Auditor General of India)

Longitudinal period: **FY 2014-15 to FY 2023-24** (10-year span)

Five pillars: Quality of Expenditure, Revenue Mobilisation, Fiscal Prudence, Debt Index, Debt Sustainability

First edition: Released 2024; covered 18 major states

Second edition coverage expansion: Added **10 North-Eastern and Himalayan states**; ranked separately

MAJOR STATE RANKINGS:

Top Achievers: **Odisha (1st, score 73.1), Goa, Jharkhand**

Front-Runners: Gujarat, Maharashtra, Chhattisgarh, Telangana, Uttar Pradesh, Karnataka

Performers: Madhya Pradesh, Haryana, Bihar, Tamil Nadu, Rajasthan

Aspirational (weakest): **West Bengal, Kerala, Andhra Pradesh, Punjab**

Bihar: Improved from aspirational to performer category between editions

NE/HIMALAYAN STATE RANKINGS:

Top performers: **Arunachal Pradesh, Uttarakhand**

Middle tier: Assam, Meghalaya, Mizoram, Sikkim, Tripura

Weakest: **Himachal Pradesh, Manipur, Nagaland**

KEY FISCAL METRICS:

State share of general government debt: Approximately **one-third**

State share of public expenditure: Approximately **two-thirds**

FRBM norm for state fiscal deficit: **3% of GSDP** (with conditional 0.5% relaxation)

Debt-to-GSDP of stressed states: Approximately **35–45%** (Odisha: reduced from ~23% to mid-teens by 2023-24)

Committed expenditure in stressed states: Often **50–60% of revenue receipts**

Interest payments in stressed states: Often **15–20% of revenue receipts**

Odisha's capital outlay: Approximately **4–5% of GSDP**

State debt-to-GSDP (India average): Rose from approximately **16.7% in 2013-14** to nearly **23% in 2022-23**

Off-budget liabilities: RBI estimates they could add **2–3 percentage points** to effective debt levels

INSTITUTIONAL AND LEGAL FRAMEWORK:

FRBM Act: 2003 — establishes fiscal deficit and debt norms for Centre and states

15th Finance Commission: Term 2021-26; flagged off-budget borrowings; Chair: N. K. Singh

16th Finance Commission: Term 2026-27 to 2030-31; Chair: Dr. Arvind Panagariya; report submitted 17 November 2025; tabled in Parliament 1 February 2026

CAG: Comptroller and Auditor General of India — verifies state accounts used by FHI

KIIFB: Kerala Infrastructure Investment Fund Board — a state off-budget borrowing vehicle

NPS: National Pension System — states that adopted NPS have lower future pension liabilities than those on defined-benefit schemes

OTHER RELEVANT FACTS:

Fiscal weakness typically shows first as a squeeze on **capital expenditure** — the most productive government spending

The FHI is a **benchmarking tool**, not a statutory ranking under the Constitution or Finance Commission

High fiscal discipline does not automatically guarantee high social outcomes — Odisha scores high on FHI but has significant poverty indicators

States responsible for **health, education, water, agriculture, and local infrastructure** — fiscal weakness directly undermines these services

Sources: [NITI Aayog](#), [PIB](#), [Finance Commission of India](#), [Reserve Bank of India — State Finances Report](#), [The Economic Times](#)

RELATED EDITORIALS

MINT

FDI and the Land-Border Rule — India's Calibrated Re-engagement with China-Linked Capital

20 Mar

THE HINDU

Fire and Fury — The Ill-Conceived War on Iran and Its Global Fallout

20 Mar

INDIAN EXPRESS

Energy Security Under Threat — The Ras Laffan Attack and India's Vulnerabilities

20 Mar

THE HINDU

AI-Powered Taxation — Project Insight's Gains and Governance Risks

20 Mar

CURATED & WRITTEN BY

Bharat Choudhary

UPSC Educator & Content Creator

 [linkedin.com/in/epicbharat](https://www.linkedin.com/in/epicbharat)

 [Read Full Article on Ujyari](#) →

<https://ujyari.com/daily/2026/03/14/fiscal-health-index/>

Free UPSC & State PCS Current Affairs · ujyari.com