

GENERAL STUDIES III

Fiscal Health Index 2026: Complete UPSC Notes

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NITI Aayog's Fiscal Health Index 2026 assesses the financial performance of 28 Indian states using five pillars: Quality of Expenditure, Revenue Mobilisation, Fiscal Prudence, Debt Index and Debt Sustainability. Odisha ranked first among 18 major states with a score of 73.1, followed by Goa and Jharkhand, while Arunachal Pradesh led the separately assessed North-Eastern and Himalayan group. This comprehensive UPSC guide explains the index methodology, complete state rankings, fiscal terminology, constitutional provisions, policy implications, Mains analysis and practice questions for UPSC CSE 2026-27.

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INDIAN ECONOMY | GS PAPER III | 2026

Quick Summary for UPSC

NITI Aayog released the second edition of the Fiscal Health Index on 11 March 2026.

It evaluates 28 Indian states using FY 2023–24 data from the Comptroller and Auditor General.

Odisha ranked first among 18 major states, while Arunachal Pradesh led the 10 North-Eastern and Himalayan states.

The index assesses five dimensions: expenditure quality, revenue mobilisation, fiscal prudence, debt burden and debt sustainability.

28

States Covered

5

Fiscal Pillars

73.1

Odisha's Score

2023–24

Assessment Year

1. What Is the Fiscal Health Index?

The Fiscal Health Index (FHI) is a composite framework developed by NITI Aayog to evaluate the fiscal performance and financial sustainability of Indian state governments.

It goes beyond the conventional assessment of fiscal deficits by examining how states raise revenue, allocate public expenditure, manage borrowing and maintain long-term debt sustainability.

Its primary objective is to support evidence-based fiscal policy and encourage better public financial management.

2. Fiscal Health Index 2026: Key Facts

Parameter	Details
Issuing Institution	NITI Aayog
Edition	Second annual edition
Release Date	11 March 2026
Assessment Year	FY 2023-24
Data Source	Comptroller and Auditor General of India
Major States	18
NE and Himalayan States	10
Total States	28
Number of Pillars	5
Top Major State	Odisha
Top NE/Himalayan State	Arunachal Pradesh

3. Five Pillars of the Fiscal Health Index

1. Quality of Expenditure

Evaluates the composition of government spending, particularly developmental expenditure and capital investment.

2. Revenue Mobilisation

Measures the capacity of states to generate their own tax and non-tax revenues.

3. Fiscal Prudence

Examines fiscal deficit and revenue deficit relative to the size of the state economy.

4. Debt Index

Assesses outstanding liabilities and the burden of interest payments.

5. Debt Sustainability

Evaluates whether economic growth is sufficient to support long-term debt obligations.

4. Understanding the Five Pillars in Detail

A. Quality of Expenditure

High-quality public expenditure supports productive capacity, human development and long-term economic growth.

Important indicators for major states:

- Developmental expenditure / Total expenditure.
- Capital outlay / Gross State Domestic Product.

B. Revenue Mobilisation

States with stronger own-source revenue capacity may enjoy greater fiscal flexibility.

- State own revenue / GSDP.
- State own revenue / Total expenditure

C. Fiscal Prudence

Fiscal prudence concerns the responsible management of deficits and public resources.

- Gross fiscal deficit / GSDP.
- Revenue deficit / GSDP.

D. Debt Index

The debt index examines the scale of outstanding liabilities and the cost of servicing them.

- Interest payments / Revenue receipts.
- Outstanding liabilities / GSDP.

E. Debt Sustainability

Debt sustainability assesses the relationship between economic growth and the growth of debt-servicing costs.

A key indicator is the difference between GSDP growth and interest-payment growth.

UPSC Prelims Memory Trick

Remember the five pillars as: **Q-R-F-D-S**

Quality of Expenditure ? Revenue Mobilisation ? Fiscal Prudence ? Debt Index ? Debt Sustainability.

5. Fiscal Health Index 2026: Complete Major State Rankings

Rank	State	FHI Score
1	Odisha	73.1
2	Goa	54.7
3	Jharkhand	50.5
4	Gujarat	49.9
5	Maharashtra	45.6
6	Chhattisgarh	44.5
7	Telangana	44.3
8	Uttar Pradesh	41.9
9	Karnataka	41.7
10	Madhya Pradesh	37.8
11	Haryana	34.5
12	Bihar	30.9
13	Tamil Nadu	29.8
14	Rajasthan	27.6
15	Kerala	24.8
16	West Bengal	23.8
17	Andhra Pradesh	23.1
18	Punjab	12.4

Odisha recorded a substantial lead over other major states. Punjab ranked last, indicating significant fiscal sustainability concerns.

6. North-Eastern and Himalayan State Rankings

Rank	State
1	Arunachal Pradesh
2	Uttarakhand
3	Tripura
4	Meghalaya
5	Assam
6	Mizoram
7	Sikkim
8	Nagaland
9	Himachal Pradesh

Rank	State
10	Manipur

Important Examination Caution

The two groups are ranked separately because of their different economic, geographical and fiscal characteristics.

Do not interpret Arunachal Pradesh's first position as an overall national rank ahead of Odisha.

7. Why Does Odisha Rank First?

Odisha's strong overall performance reflects favourable outcomes across several fiscal indicators.

- Relatively strong revenue mobilisation.
- Prudent deficit management.
- Favourable debt indicators.
- Development-oriented expenditure.
- Greater fiscal flexibility.

The state recorded an overall FHI score of 73.1, substantially ahead of second-ranked Goa.

8. Why Do Some States Perform Poorly?

States with weaker fiscal outcomes may face combinations of high outstanding debt, substantial interest payments, limited own-source revenue and revenue expenditure pressures.

A persistent revenue deficit may indicate that borrowing is partly supporting current expenditure rather than productive asset creation.

These challenges can reduce the resources available for health, education and infrastructure.

9. Fiscal Health and Indian Federalism

India has a federal fiscal system in which both the Union and state governments undertake important expenditure responsibilities.

States provide major public services including health, education, agriculture support, roads and local infrastructure.

Weak state finances can therefore affect development outcomes and macroeconomic stability.

Relevant Constitutional Provisions

Article	Relevance
Article 266	Consolidated Funds and Public Accounts.
Article 280	Finance Commission.
Article 293	Borrowing by states.
Article 148	Comptroller and Auditor General of India.
Article 279A	GST Council.

10. Important Fiscal Terms for UPSC

Fiscal Deficit

Fiscal Deficit = Total Expenditure – (Total Receipts Excluding Borrowings).

Revenue Deficit

Revenue Deficit = Revenue Expenditure – Revenue Receipts.

Primary Deficit

Primary Deficit = Fiscal Deficit – Interest Payments.

GSDP

Gross State Domestic Product measures the value of goods and services produced within a state economy over a period.

Capital Expenditure

Capital expenditure generally involves asset creation, investment or reduction of liabilities.

11. Challenges in India's State Finances

- Increasing committed expenditure on liabilities, pensions and interest.
- High dependence on Union transfers in some states.
- Limited own-tax revenue capacity.
- Growing borrowing requirements.
- Pressure from subsidies and welfare commitments.
- Uneven public investment quality.
- Off-budget liabilities and fiscal transparency concerns.

12. Policy Recommendations and Way Forward

Strengthen Own Revenue

Improve tax administration, property taxation and non-tax revenue mobilisation.

Improve Expenditure Quality

Prioritise productive capital investment and outcome-based expenditure.

Debt Management

Develop credible medium-term fiscal and borrowing strategies.

Transparency

Improve disclosure of liabilities, guarantees and off-budget commitments.

13. UPSC Prelims Practice Questions

Q1. Which institution publishes the Fiscal Health Index?

Answer: NITI Aayog. The index benchmarks the fiscal performance of Indian states.

Q2. Which state ranked first among major states in FHI 2026?

Answer: Odisha. It recorded an overall score of 73.1.

Q3. Which state ranked first among NE and Himalayan states?

Answer: Arunachal Pradesh. This group is assessed separately from major states.

Q4. Which is NOT one of the five pillars: Revenue Mobilisation, Debt Sustainability, Human Development Index, Fiscal Prudence?

Answer: Human Development Index. HDI is not a pillar of the Fiscal Health Index.

Q5. The FHI 2026 assessment is based primarily on which financial year?

Answer: FY 2023–24. The edition was published in March 2026.

Q6. Which constitutional article deals with state borrowing?

Answer: Article 293. It provides the constitutional framework for borrowing by states.

Q7. What is the formula for primary deficit?

Answer: Fiscal deficit minus interest payments.

14. UPSC Mains Practice Question

GS Paper III | 15 Marks | 250 Words

"The fiscal health of Indian states is essential for sustainable economic development." Discuss with reference to NITI Aayog's Fiscal Health Index 2026.

Model Answer

Introduction: The Fiscal Health Index 2026, released by NITI Aayog, provides a multidimensional assessment of the fiscal performance of 28 states using FY 2023–24 data.

Significance:

- Fiscal sustainability helps maintain macroeconomic stability.
- Revenue mobilisation improves the capacity to finance public services.
- Capital expenditure supports infrastructure and economic growth.
- Prudent debt management reduces interest burdens and future risks.
- Comparative benchmarking encourages fiscal reforms and accountability.

Challenges: High committed expenditure, limited own revenues, persistent deficit, uneven development and off-budget liabilities constrain state finances.

Way Forward: States should strengthen tax administration, prioritise productive expenditure, adopt medium-term fiscal frameworks, improve debt transparency and promote outcome-based budgeting.

Conclusion: Sustainable state finances are essential for cooperative federalism and inclusive growth. The Fiscal Health Index provides an evidence-based framework for identifying weaknesses and designing targeted fiscal reforms.

15. Quick Revision for UPSC Prelims 2027

- **Publisher:** NITI Aayog.
- **Edition:** Second, released March 2026.
- **Data Year:** FY 2023–24.
- **States:** 28 in two separate groups.
- **Major States Leader:** Odisha.
- **NE/Himalayan Leader:** Arunachal Pradesh.
- **Lowest Major State:** Punjab.
- **Five Pillars:** Quality, Revenue, Prudence, Debt Index, Sustainability.
- **Data Source:** CAG.
- **Constitutional Link:** Article 293.

16. Conclusion

The Fiscal Health Index 2026 demonstrates the importance of sound public financial management at the state level.

Odisha's leading performance and the wide variation across states highlight the need for targeted reforms.

For UPSC aspirants, the topic connects fiscal federalism, public debt, government budgeting, constitutional provisions and inclusive development.

Conceptual clarity, current affairs analysis, Prelims practice and Mains answer writing for UPSC Civil Services and State PCS examinations.

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Editorial Note

This educational article uses the Fiscal Health Index 2026 published by NITI Aayog. The rankings relate to FY 2023–24, not the current financial year.

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