(June 2026). Study of Fiscal Health in Selected States in India
International Journal of Economic Perspectives,*20*(06) 70 -84
ISSN: 1307-1637 ABDC
Retrieved from https://ijeponline.com/index.php/journal

Study of Fiscal Health in Selected States in India

Author: Prab Jot Kaur

Abstract

This policy report conducts a comparative analysis of the fiscal health of four Indian states—Punjab, Kerala, Odisha, and Gujarat—between 2014-15 and 2024-25. The study evaluates fiscal performance using key policy-relevant indicators such as capital outlay as a % of GSDP, own tax revenue as a % of GSDP, state own revenue as a % of total expenditure, fiscal deficit as a % of GSDP, revenue deficit as a % of GSDP, interest payment to the revenue receipt, and outstanding liabilities as a % of GSDP. The objective is to analyze trends in key indicators and study their fiscal stability across selected Indian states. Findings reveal that while Punjab and Kerala exhibit high fiscal stress due to high outstanding liabilities and debt servicing burdens violating FRBM targets, Odisha and Gujarat have managed their public finances more prudently, maintaining FRBM compliance, focusing on capital expenditure, and maintaining lower interest liabilities. The report draws upon official data from RBI, PRS, NITI Aayog, the Fiscal Health Index Report (2024-25), and state fiscal strategy documents. Based on the trends, the study recommends a policy approach for high-debt states, focused on improved fiscal transparency, debt quality enhancement, and greater emphasis on development-oriented expenditure.

Introduction

The fiscal health of Indian states has become a major point in public finance discourse, particularly in the wake of growing fiscal deficits, increasing debt servicing costs, and rising demands for public expenditure, as interest payments exceeding 15% of revenue receipts and outstanding liabilities crossing 30% of GSDP violate FRBM targets. As the backbone of India's federal fiscal framework, state governments are responsible for significant developmental functions, yet face growing constraints due to limited revenue capacity and rising interest liabilities.

This research focuses on four Indian states—Kerala, Odisha, Punjab, and Gujarat. Punjab and Kerala have demonstrated persistent fiscal stress, marked by high levels of expenditure and weak revenue mobilization, breaching the FRBM targets set up under the FRBM framework, while Gujarat and Odisha present more stable and prudent fiscal management practices, maintaining FRBM targets. The Fiscal Health Index Report (NITI Aayog, 2024-25) evaluates states not solely by outstanding liabilities but by broader fiscal indicators like own revenue effort, expenditure quality, and debt indicators. The purpose of this report is to examine and evaluate the fiscal health of these states using a set of policy-relevant indicators and to provide policy recommendations for strengthening fiscal health in selected Indian states.

Objectives

The key objectives of this study are:

- **Data Collection**: To systematically collect and classify state-level fiscal data across key indicators in selected Indian states.
- **To analyze trends in key indicators in selected states**: Analyze revenue, expenditure, and debt indicators of four selected states (Punjab, Kerala, Odisha, Gujarat) to assess state-level differences in revenue, expenditure, and debt profiles across states.
- **Policy Suggestion for improving fiscal health**: To recommend policy interventions aimed at improving revenue mobilization and ensuring long-term fiscal prudence.

Submitted: 27 April 2026, Revised: 09 May 2026, Accepted: 25 May 2026,

Literature Review

Many recent reports and studies have highlighted growing fiscal challenges in Indian states. According to the Reserve Bank of India's State Finances reports (2014-15–2024-25), states like Punjab and Kerala are struggling with high debt and interest payments. This is mainly because a large part of their budget goes to fixed expenses like salaries and pensions, leaving less room for development spending. In contrast, Gujarat and Odisha have been praised for managing their finances better by keeping their deficits low and spending more on capital projects.

The 15th Finance Commission has suggested that each state should follow a different fiscal strategy based on its situation. It recommended better transparency, sticking to deficit targets, and improving revenue by making tax collection more efficient—especially through GST and property taxes. The NITI Aayog's Fiscal Health Index (2022-23) also ranks states based on indicators like how much revenue they raise on their own, how much they spend on interest payments, and how much they invest in infrastructure. Odisha and Gujarat performed well, while Punjab and Kerala were marked as financially stressed.

Some researchers, such as Rao & Chakraborty (2017-18) and Kaur & Singh (2020-21), have found that the main reason for poor fiscal health in some states is too much spending on non-productive items like subsidies and pensions. They suggest reforms such as better planning over the medium term, linking spending to results, and giving more powers to local governments to raise their own revenue.

Reports from PRS Legislative Research and CAG also warn about hidden debts and off-budget borrowings. They recommend better reporting, fewer subsidies, and stronger systems to manage debt and spending. In short, experts agree that states need clear, data-based strategies to raise more revenue, spend wisely, and improve their financial health in the long run.

Methodology

This study adopts a comparative and descriptive analytical framework to evaluate the fiscal health of four selected Indian states—Punjab, Kerala, Odisha, and Gujarat—over the ten-year period from 2014-15 to 2024-25.

Analytical Approach

The analysis is structured around a comparative inter-state evaluation, wherein fiscal performance is assessed across seven core indicators grouped into four dimensions.

Quality of Expenditure

- **Total development expenditure as a % of total expenditure**: It refers to the share of spending on social and economic services out of the total expenditure of the state.
- **Capital outlay as a % of GSDP**: It shows how much of the state's economic output is being reinvested into long-term infrastructure and asset creation.

Revenue Mobilization

- **Own Tax Revenue to GSDP Ratio**: This ratio measures a state's capacity to generate revenue from its own tax sources (like GST, excise, VAT). A higher ratio reflects strong revenue mobilization and reduced dependence on central transfers.
- **State's Own Revenue as a Percentage of Total Expenditure**: It reflects how much of a state's total expenditure is financed by its own revenue (tax and non-tax), excluding central grants and borrowings.

Submitted: 27 April 2026, Revised: 09 May 2026, Accepted: 25 May 2026,

(June 2026). **Study of Fiscal Health in Selected States in India**
International Journal of Economic Perspectives,*20*(06) 70 -84
ISSN: 1307-1637 ABDC
Retrieved from https://ijeponline.com/index.php/journal

Fiscal Prudence

- **Fiscal Deficit (% of GSDP)**: It indicates the extent of a state's borrowing needs.
- **Revenue deficit as a % of GSDP**: The difference between revenue expenditure and revenue receipts, measured as a share of GSDP. A negative value means a surplus.

Debt Indicators

- **Interest Payments to Revenue Receipts (IP/RR)**: It is the proportion of a state's total revenue that goes toward servicing existing debt.
- **Outstanding Liabilities (% of GSDP)**: Outstanding liabilities refer to the sum of internal debt, loans from the central government, and public account liabilities, expressed as a percentage of GSDP.

For each indicator, the study employs a descriptive statistical approach, focusing on percentage ratios (e.g., fiscal deficit as a % of GSDP) to allow for cross-state comparisons. The descriptive insights are further contextualized through trend analysis to understand the direction and consistency of fiscal efforts, particularly during periods of stress or transition.

Data Sources

The study relies exclusively on secondary data sourced from credible and official publications. The main data repositories used include the Reserve Bank of India (RBI) State Finances: A Study of Budgets; PRS Legislative Research State Budget Documents; NITI Aayog Fiscal Health Index and Strategy for New India @75; the National Council of Applied Economic Research (NCAER) State Debt Matrix; and Comptroller and Auditor General (CAG) Reports on State Finances Audits. Where applicable, data from state finance strategy documents, budget speeches, and finance commission reports have also been integrated to provide deeper contextual understanding.

Indicator-Wise Thematic Analysis

Assessing the fiscal health of states requires more than looking at budget balances; it demands a multidimensional evaluation across revenue generation, expenditure priorities, fiscal discipline, and debt sustainability. This section categorizes key fiscal indicators into four dimensions, each representing a pillar of fiscal performance. By analysing states across these dimensions—Revenue Performance, Expenditure Quality, Fiscal Prudence, and Debt Management—we can diagnose structural strengths, vulnerabilities, and long-term trends in fiscal health.

The selected states—Punjab, Kerala, Odisha, and Gujarat—demonstrate varied fiscal approaches and outcomes. Their performance is assessed over the period 2014-15–2024-25, covering the pre-COVID, pandemic, and recovery phases. The analysis uses normalized ratios (as a % of GSDP or revenue receipts) to enable effective inter-state comparisons.

Revenue Mobilization

Revenue performance underpins a state's fiscal autonomy. To analyse it, we focus on two indicators:

- **Own Tax Revenue as a % of GSDP**: A key indicator used to assess a state's fiscal capacity, tax effort, and revenue autonomy. It reflects the extent to which a state is able to generate tax revenue relative to the size of its economy.
- **State Own Revenue as a % of Total Expenditure**: A critical measure of a state’s fiscal self-reliance, reflecting the extent to which a state is able to finance its expenditures through its own resources—both tax and non-tax—rather than relying on central transfers or borrowings.

Submitted: 27 April 2026, Revised: 09 May 2026, Accepted: 25 May 2026,

(June 2026). Study of Fiscal Health in Selected States in India
International Journal of Economic Perspectives,*20*(06) 70 -84
ISSN: 1307-1637 ABDC
Retrieved from https://ijeponline.com/index.php/journal

Own Tax Revenue as a % of GSDP

States	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Punjab	7.2	6.8	6.5	6.7	6.2	5.6	5.6	5.9	6.5	6.34	7.1
Odisha	6.3	6.9	5.8	7.1	6.2	6	6.3	5.8	6.2	6.31	6.21
Kerala	6.9	6.9	6.6	6.9	6.5	6.2	6.2	6.3	6.9	6.49	6.41
Gujarat	6.7	6.1	5.5	5.5	5.4	4.9	4.3	5.1	6.1	5.53	5.31

Source: NITI NCAER State Economic Forum, PRS website. 2023-25 data are taken from the PRS website.

State wise insights: Punjab

Punjab has recently demonstrated signs of recovery in its own tax revenue performance, reflecting a growing focus on strengthening its internal fiscal base. However, the trend over the past decade has been marked by volatility, indicating the need for sustained structural reforms in tax administration and policy. A stable and rising own tax revenue ratio is critical for improving fiscal autonomy, reducing dependence on central transfers, and creating the fiscal space necessary for development-focused expenditure.

- Punjab's own tax revenue declined from 7.2% of GSDP in 2014-15 to 5.6% in 2019-21, mainly due to the economic slowdown caused by COVID-19 as well as its over-reliance on agriculture, which is largely non-taxed.
- Over the decade, Punjab saw its lowest ratio at 5.6% during COVID; however, as per 2024-25 estimates, growth is projected to recover to 7.1%, nearing its 2014-15 level.

To maintain and expand this positive trajectory, Punjab must focus on broadening the tax base, reducing compliance gaps, and minimizing exemptions and leakages within its tax system.

State wise insights: Odisha

Odisha has maintained a consistently strong own tax revenue performance, reflecting effective fiscal management and robust tax administration. The state's ability to sustain its revenue levels even during the COVID-19 shock highlights its resilience and structural efficiency. With significant contributions from GST collections and non-tax sources such as mining royalties, Odisha has demonstrated fiscal autonomy and reduced reliance on central transfers.

- Its own tax revenue remained above 6% of GSDP for most years and peaked at 7.1% in 2017-18, representing efficient tax administration and strong fiscal health.
- The tax-to-GSDP ratio remained stable even during the pandemic, avoiding sharp fiscal shocks. Recent estimates also support a strong recovery post-COVID of around 6.7%, reaffirming the state's revenue resilience.

Going forward, Odisha should focus on sustaining this momentum by further strengthening tax compliance, diversifying the revenue base, and ensuring that natural resource revenues are reinvested into infrastructure and human capital development.

State wise insights: Kerala

Kerala's own tax revenue performance has remained moderate and relatively stagnant, despite consistent administrative efforts. While the state has maintained a stable tax-to-GSDP ratio historically, the lack of significant growth in own revenue—especially in the post-COVID recovery period—raises concerns about its fiscal sustainability. High committed liabilities such as pensions and salaries continue to outpace revenue growth, limiting Kerala's capacity to finance expenditure without resorting to borrowings.

Submitted: 27 April 2026, Revised: 09 May 2026, Accepted: 25 May 2026,

- Its own tax revenue remained between 6% and 7% of GSDP during 2018-19–2024-25. The ratio declined during the post-COVID recovery phase, indicating a weak revenue rebound.
- Post-2020-21, the indicator stagnated, reflecting limited tax policy reform or expansion.
- From 2022-23 to 2024-25, the ratio stayed flat despite an increase in GSDP, implying lagging revenue efficiency.

Given the trend, it becomes crucial for Kerala to undertake systemic reforms in tax policy, improve compliance mechanisms, and diversify non-tax revenues to ensure fiscal resilience and sustain its development commitments.

State wise insights: Gujarat

Gujarat has maintained a stable and moderately strong own tax revenue performance, supported by a diversified economic base encompassing manufacturing, trade, and services. The state's efficient tax administration has contributed to consistent revenue mobilization and fiscal resilience. Although Gujarat experienced a temporary setback during the COVID period, its tax-to-GSDP ratio rebounded steadily in the following years, demonstrating institutional robustness and adaptive fiscal capacity.

- Gujarat's own tax revenue ratio remained between 5.3% and 6.1% during 2022-23–2024-25, yet it saw its sharpest decline in 2020-21, with the ratio falling to 4.3% due to the COVID shock.
- Despite this, the ratio stayed above 5% in all other years, reflecting consistency. Post-COVID, the ratio recovered gradually, reaching 5.3% in 2024-25, indicating partial fiscal normalization.

Gujarat is well-positioned to scale up revenue generation through reforms in tax policy and administration, while leveraging its industrial strength to widen the fiscal base sustainably.

State Own Revenue as a Percentage of Total Expenditure

This indicator reflects the extent to which a state is able to finance its expenditures through its own resources—both tax and non-tax—rather than relying on central transfers or borrowings. A higher ratio indicates stronger fiscal autonomy and sustainability, while a lower ratio may suggest structural imbalances, revenue inefficiencies, or growing dependence on external funding.

States	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Punjab	56.9	49.65	33.27	54.61	49.75	38.79	37.31	39.64	39.4	49.55	54.68
Odisha	44.59	40.98	36.81	41.62	41.17	38.92	46.82	70.9	50.27	55.93	48.87
Kerala	55.4	54.49	50.67	53.85	52.3	54.72	39.59	42.15	51.31	58.05	56.49
Gujarat	63.77	60.39	61.38	61.18	57.81	57.85	45.19	58.89	64.61	61.25	56.25

Source: NITI NCAER State Economic Forum, PRS website. 2023-25 data are taken from the PRS website.

State wise insights: Punjab

Punjab's own revenue performance has exhibited signs of gradual recovery in recent years, following a period of significant fiscal stress during the pandemic. The trajectory reflects both the challenges of revenue-expenditure imbalance and the state's attempts to strengthen its internal fiscal capacity.

- The ratio declined sharply from 56.90% in 2014-15 to 33.27% in 2016-17, highlighting a growing mismatch between revenue generation and expenditure. However, post-COVID, the state has shown signs of fiscal correction, with the ratio recovering to 54.68% by 2024-25.

Submitted: 27 April 2026, Revised: 09 May 2026, Accepted: 25 May 2026,

- The upward trend after 2020-21 suggests renewed efforts to improve own-tax collections and reduce reliance on central transfers and borrowings. Yet, the volatility observed over the decade underscores persistent issues in revenue stability and fiscal resilience.

Moving forward, Punjab must focus on institutional reforms in tax administration, widening the revenue base, and addressing structural rigidities to ensure a more sustainable and stable fiscal path.

State wise insights: Odisha

Odisha has demonstrated a consistently strong own revenue performance, particularly in recent years, supported by a combination of robust mining royalties and effective tax policy implementation. This has translated into a high degree of fiscal independence, enabling the state to finance a significant share of its expenditures through internal resources.

- Its own revenue increased from 44.59% in 2014-15 to a peak of 70.90% in 2021-22, indicating strong revenue mobilization.
- Even after the post-COVID fiscal stress, the ratio remained above 48% in 2024-25, showcasing sustained fiscal capacity.

According to the Fiscal Health Index (NITI Aayog) and PRS Legislative Research, Odisha's strong fiscal position is attributed to substantial mineral revenue, reducing its dependence on central transfers, reinforcing its long-term fiscal sustainability.

State wise insights: Gujarat

Gujarat has consistently maintained a high share of own revenue in total expenditure, reflecting the state’s ability to fund a significant portion of its spending through internal resources, thereby reducing reliance on central transfers and borrowings.

- The ratio remained above 60% in the pre-COVID phase, reflecting strong internal revenue mobilization.
- A marginal decline was observed during the pandemic years due to temporary revenue compression. However, post-COVID recovery was robust, with the ratio improving to 56.25% in 2024-25, approaching pre-pandemic levels.

According to the RBI’s State Finances report, this sustained performance is attributed to efficient tax collection and a broad-based industrial revenue stream, highlighting strong revenue governance and prudent financial management.

Quality of Expenditure

Quality of expenditure is a critical indicator in evaluating a state’s fiscal performance because it distinguishes between productive and non-productive spending, focusing on how effectively public funds are allocated. To analyse this, we use Capital Outlay as a % of GSDP as an indicator.

- Capital outlay as a percentage of GSDP is a key indicator to assess the quality of public expenditure, as it reflects the extent to which a state is investing in productive, asset-creating activities like infrastructure, education, and health. Unlike revenue spending, capital outlay contributes to long-term economic growth and service delivery.
- A higher ratio indicates a development-oriented fiscal policy, while a lower one may suggest excessive spending on administrative or committed liabilities. By normalizing capital investment to the size of the economy, this indicator also enables meaningful inter-state comparisons.

Submitted: 27 April 2026, Revised: 09 May 2026, Accepted: 25 May 2026,

ISSN: 1307-1637 ABDC
Retrieved from https://ijeponline.com/index.php/journal

Capital Outlay as a Percentage of GSDP

States	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Punjab	0.9	0.8	1	0.5	0.5	3.3	0.8	1.3	1.2	0.64	1.03
Odisha	3.5	5.2	4.7	4.8	4.7	3.8	3.3	3.3	5	5.02	5.84
Kerala	0.8	1.3	1.6	1.2	0.9	1	1.7	1.5	1.5	1.19	1.1
Gujarat	2.6	2.3	1.9	2	1.9	1.6	1.7	1.5	1.8	2.3	2.63

Source: NITI NCAER State Economic Forum, PRS website. 2023-25 data are taken from the PRS website.

State wise analysis: Punjab

Punjab's capital outlay as a percentage of GSDP has remained persistently low over the past decade, reflecting the state's constrained fiscal space and high dependence on revenue expenditure, particularly on interest payments, salaries, and pensions.

- Capital outlay remained below or equal to 1.15% of GSDP between 2014-15 and 2024-25, reaching an all-time low of 0.5% in both 2017-18 and 2018-19, reflecting acute fiscal constraints.
- A modest recovery is visible in 2023-24 and 2024-25, though the level remains low relative to other states, and Punjab's capital outlay remains the lowest among the four selected states.

Punjab's consistently low investment in capital assets highlights the urgency for fiscal restructuring, including curbing unproductive expenditure, rationalizing subsidies, and increasing fiscal space for development spending.

State wise analysis: Odisha

Odisha has yet again demonstrated a strong and sustained commitment to capital expenditure, consistently maintaining a higher capital outlay-to-GSDP ratio compared to other selected states, reflecting the state's strategic emphasis on infrastructure development and asset creation.

- Capital outlay remained above 3% of GSDP throughout the 2014-15–2024-25 period, peaking at 5.84% in 2024-25, highlighting a significant post-COVID push toward investment-led growth.
- It maintained the highest capital outlay ratio among the four states under review, with an increasing trend observed post-2021-22, indicating a deliberate policy shift toward higher capital spending.

Odisha's continued focus on high-quality expenditure, particularly in infrastructure, positions it strongly for long-term economic growth, improved service delivery, and enhanced public investment efficiency.

State wise analysis: Kerala

Kerala has consistently maintained a low capital outlay-to-GSDP ratio, reflecting the state's limited fiscal space due to a high burden of committed revenue expenditure, including salaries, pensions, and interest payments.

- Capital outlay remained within the range of 0.8% to 1.7% of GSDP during 2014-15–2024-25, peaking at 1.7% in 2020-21, during the height of the COVID-19 response.
- A slowdown is evident in 2023-24 and 2024-25, with outlays dropping to 1.19% and 1.10% respectively, with no significant upward trend observed across the decade.

To improve development outcomes, Kerala will need to undertake targeted fiscal reforms, enhance revenue mobilization, and explore public-private partnerships to supplement public capital formation.

Submitted: 27 April 2026, Revised: 09 May 2026, Accepted: 25 May 2026,

(June 2026). Study of Fiscal Health in Selected States in India
International Journal of Economic Perspectives,*20*(06) 70 -84
ISSN: 1307-1637 ABDC
Retrieved from https://ijeponline.com/index.php/journal

State wise analysis: Gujarat

Gujarat has demonstrated a strong and consistent commitment to capital expenditure, maintaining a relatively high capital outlay-to-GSDP ratio over the last decade, reflecting the state's strategic focus on infrastructure, industrial development, and asset creation.

- Capital outlay stood at 2.6% of GSDP in 2014-15, gradually declining to 1.5% by 2021-22. Post-COVID, the state reprioritized capital investment, reaching a peak of 3.20% in 2024-25.
- Unlike states such as Punjab, Gujarat never dropped below 1.5%, even during the pandemic years, reflecting fiscal commitment to development.

Gujarat's ability to combine fiscal discipline with capital investment priorities has strengthened its position as a high-growth, investment-friendly state.

Fiscal Prudence

Fiscal prudence is a key indicator of a government's ability to manage its finances responsibly, ensuring that expenditure does not consistently outpace revenue. It reflects the extent to which a state follows disciplined borrowing, maintains sustainable deficits, and adheres to fiscal responsibility norms like the FRBM Act. To analyse this, we use Gross Fiscal Deficit as a % of GSDP and Revenue Deficit as a % of GSDP as key indicators.

- **Gross Fiscal Deficit as a % of GSDP**: Reflects the overall borrowing requirement of a state, capturing the gap between total expenditure and total revenue.
- **Revenue Deficit as a % of GSDP**: Indicates the shortfall in meeting revenue expenditure from revenue receipts alone. A high fiscal or revenue deficit signals potential overdependence on borrowings and poor fiscal health, while a low or declining deficit reflects better budget management, spending discipline, and adherence to FRBM targets.

Gross Fiscal Deficit as a % of GSDP

States	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Punjab	3.1	4.5	12.4	2.7	3.1	3.1	4.2	4.4	4.9	4.4	4.5
Odisha	1.7	2.1	2.4	2.1	2	3.5	1.8	-3	2.9	1.7	3.1
Kerala	3.6	3.2	4.2	3.8	3.4	2.9	5.3	5	3.6	3	3.5
Gujarat	2	2.2	1.4	1.6	1.8	1.5	2.5	1.2	1.5	1	1.9

Source: NITI NCAER State Economic Forum, PRS website. 2023-25 data are taken from the PRS website.

State wise insights: Punjab

Punjab has experienced persistent fiscal stress over the past decade, with its gross fiscal deficit consistently breaching the FRBM threshold of 3%. The state has relied heavily on borrowings to finance expenditures, reflecting limited fiscal space and structural imbalances in its revenue-expenditure framework.

- The fiscal deficit peaked at 12.7% of GSDP in 2016-17, far exceeding the FRBM ceiling and underscoring unsustainable fiscal practices. Post-2016-17, Punjab undertook some fiscal correction, reducing the deficit to around 4–5% in subsequent years.
- Despite these efforts, the fiscal deficit is projected at 4.5% of GSDP in FY 2024-25, still above the FRBM-recommended ceiling.

Punjab's continued breach of fiscal deficit targets reflects underlying structural issues, including a narrow revenue base and high committed expenditures. Moving forward, the state must undertake comprehensive reforms in tax policy, subsidy rationalization, and expenditure management.

Submitted: 27 April 2026, Revised: 09 May 2026, Accepted: 25 May 2026,

ISSN: 1307-1637 ABDC
Retrieved from https://ijeponline.com/index.php/journal

State wise insights: Odisha

Odisha has maintained a reputation for fiscal prudence, with its gross fiscal deficit consistently staying within the FRBM-mandated threshold throughout the last decade, characterized by strong non-tax revenue mobilization, conservative borrowing, and effective expenditure control.

- Odisha maintained its fiscal deficit below 3.5% of GSDP, in line with FRBM targets. In 2021-22, the state reported a fiscal surplus of 3.0%, enabled by high mining royalties, zero external debt, and efficient cash management.
- As per 2024-25 estimates, the deficit stands at 3.1% of GSDP, affirming continued fiscal discipline.

Odisha's fiscal trajectory reflects a balanced approach to resource management, combining prudent expenditure planning with strategic use of non-tax revenues, positioning the state strongly for sustainable economic growth.

State wise insights: Kerala

Kerala's fiscal position has remained under sustained pressure, with the state consistently reporting fiscal deficit levels above the FRBM-recommended ceiling. The situation was exacerbated during the pandemic years due to revenue shortfalls and increased social sector spending.

- Kerala's fiscal deficit peaked at 5.3% of GSDP in 2020-21, reflecting the pandemic's fiscal impact, and consistently exceeded the FRBM threshold of 3%, averaging 3.5% to 4% across most years.
- As per 2024-25 estimates, the fiscal deficit stands at 3.5% of GSDP, marking a narrowing of the gap with FRBM targets.

Despite ongoing fiscal challenges, Kerala's recent trajectory points to improving budget management, which will depend on enhancing own revenue capacity and managing committed expenditures.

State wise insights: Gujarat

Gujarat has exhibited consistent fiscal discipline over the past decade, with its gross fiscal deficit remaining well within the FRBM-mandated ceiling, even during the fiscal stress of the COVID-19 pandemic.

- The fiscal deficit remained below 2.5% of GSDP throughout the 2014-15–2024-25 period, peaking in 2020-21 but quickly corrected to 1.2% in 2021-22.
- As per 2024-25 estimates from NCAER and PRS, Gujarat's fiscal deficit is projected at 1.9% of GSDP, well below the FRBM target.

Gujarat's ability to contain deficits without sacrificing development spending highlights its robust fiscal architecture and disciplined borrowing.

Revenue Deficit as a % of GSDP

States	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Punjab	2.1	2.2	1.7	2	2.6	2.7	3.2	2.9	3.5	3.8	3.5
Odisha	1.9	3.1	2.4	3	2.8	0.5	1.7	6.2	2.3	-3.6	-2.9
Kerala	2.7	1.7	2.4	2.4	2.2	1.8	3.3	3.2	1.9	1.6	2.3
Gujarat	0.6	0.2	0.5	0.4	0.2	0.1	1.4	0.3	0.3	-1.4	-0.8

Source: NITI NCAER State Economic Forum, PRS website. 2023-25 data are taken from the PRS website.

Submitted: 27 April 2026, Revised: 09 May 2026, Accepted: 25 May 2026,

(June 2026). **Study of Fiscal Health in Selected States in India**
International Journal of Economic Perspectives,*20*(06) 70 -84
ISSN: 1307-1637 ABDC
Retrieved from https://ijeponline.com/index.php/journal

State wise insights: Punjab

Punjab has shown a revenue deficit over the decade highlighting the revenue-expenditure imbalance of the state. Rising committed expenditures—especially on salaries, pensions, and interest payments—combined with stagnant revenue growth have pushed the state into a persistent revenue deficit.

- From 2014-15 to 2017-18, Punjab's revenue deficit ranged between 1.7% and 2.1% of GSDP. Between 2018-19 and 2020-21, the deficit worsened from 2.6% to 3.2%, reflecting rising interest payments and the fiscal impact of COVID-19.
- The trend continued into 2024-25, with an estimated revenue deficit of 3.5%, reflecting imbalance in the state's revenue-expenditure structure.

Punjab's deficit highlights the unsustainability of its fiscal model without structural reforms, requiring strengthened own revenue capacity and reformed pension and power sector liabilities.

State wise insights: Odisha

Odisha's transition from a prolonged revenue deficit to a surplus marks a significant improvement in the state's fiscal health and expenditure management.

- Odisha recorded a revenue deficit between 2014-15 and 2022-23, peaking at 6.2% of GSDP during the COVID years, indicating severe fiscal strain.
- In 2023-24, the state reversed this trend, achieving a revenue surplus of 3.6%, followed by 2.9% in 2024-25, driven by strong mining revenues and enhanced tax compliance.

Odisha's shift from deficit to surplus illustrates a structurally sound correction path, emphasizing resource mobilization and spending efficiency.

State wise insights: Kerala

Kerala's revenue account has been under persistent strain, marked by a decade-long pattern of deficits driven by high committed expenditures and limited revenue growth.

- From 2014-15 to 2017-18, the revenue deficit declined from 2.7% to 2.2% of GSDP. A sharp rise was seen in 2020-21 and 2021-22, with the deficit reaching 3.3% and 3.2%.
- In 2023-24, the state reported a revenue deficit of 1.6%, worsening to 2.3% in 2024-25, reflecting rising committed expenditures and stagnant own revenue growth.

Going forward, the state will need to strengthen revenue mobilization and adopt medium-term fiscal planning to ensure sustainable public finances.

State wise insights: Gujarat

Gujarat has demonstrated strong revenue-expenditure management over the past decade, maintaining its revenue deficit well within FRBM limits.

- Gujarat's revenue deficit remained below 1% of GSDP throughout the 2014-15–2024-25 period, achieving a near-zero deficit of 0.1% in 2019-20.
- Revenue surpluses were recorded in 2020-21 and 2022-23, demonstrating the state's fiscal prudence.

Gujarat's ability to maintain fiscal discipline in its revenue account, even during external shocks, reflects sound public financial management.

Debt Indicator

Debt indicators are crucial in assessing a state's debt sustainability, fiscal vulnerability, and long-term solvency. We use the following indicators to assess the debt levels of states.

- **Interest Payment to Revenue Receipt**: A critical measure of fiscal stress and debt sustainability, showing how much of a state's revenue is consumed just to pay interest on outstanding loans before any developmental or welfare spending begins.

Submitted: 27 April 2026, Revised: 09 May 2026, Accepted: 25 May 2026,

- **Outstanding Liabilities as a % of GSDP**: Represents the total accumulated debt of a state, including internal debt, loans from the central government, provident fund liabilities, and other obligations, measured relative to the state's economic size.

Interest Payment to the Revenue Receipt

States	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Punjab	22.96	23.56	24.26	28.93	26.19	28.53	26.29	24.39	21.48	25.28	22.37
Odisha	4.93	4.85	5.43	5.85	5.83	5.97	6.36	4.14	4.28	2.88	2.8
Kerala	16.86	16.09	16.02	18.21	18.04	21.3	21.49	19.99	19.31	21.68	20.89
Gujarat	16.25	16.72	16.2	15.37	14.84	15.72	18.89	15.1	13.09	12.2	12.4

Source: NITI NCAER State Economic Forum, PRS website. 2023-25 data are taken from the PRS website.

State wise insights: Punjab

Punjab has consistently exhibited the highest interest payment burden among the four studied states, underscoring the state's structural fiscal stress in public finance management.

- Punjab's IP/RR ratio remained above 22% throughout the 2014-15–2024-25 period, peaking in 2017-18 at 28.93%, a level significantly above the recommended 15% threshold.
- Although the ratio saw a slight decline post-2020-21, it is still projected to be above 20% in 2024-25, confirming Punjab's high dependency on borrowed funds.

This persistent and elevated interest burden signals an urgent need for debt restructuring, fiscal consolidation, and rationalization of committed expenditures.

State wise insights: Odisha

Odisha has demonstrated strong debt discipline, maintaining the lowest IP/RR ratio among the four studied states, reflecting effective debt management and lower dependency on borrowings.

- Odisha's IP/RR ratio ranged between 2.57% and 6.36% from 2014-15 to 2024-25, peaking at 6.36% in 2020-21 due to temporary COVID-related fiscal pressure.
- It declined steadily to 2.80% in 2024-25, indicating significant improvement in fiscal prudence and ample fiscal space for developmental spending.

Odisha's minimal interest burden allows the state to channel resources into capital outlay and infrastructure, supporting long-term economic growth.

State wise insights: Kerala

Kerala has exhibited a consistently elevated IP/RR ratio, reflecting structural fiscal stress rooted in high levels of debt and committed expenditures.

- Kerala's IP/RR ratio ranged between 16.02% and 22.37% during the 2014-15–2024-25 period, crossing 20% in 2019-20, 2020-21, 2023-24, and 2024-25, breaching the 15% ceiling recommended under FRBM norms.
- Even before the pandemic, Kerala's interest burden was significant, reflecting underlying fiscal rigidity.

This persistently high interest-to-revenue ratio signals limited fiscal flexibility and a growing need for revenue augmentation and expenditure rationalization.

State wise insights: Gujarat

Gujarat has consistently maintained a moderate and stable IP/RR ratio, reflecting strong fiscal discipline and adherence to FRBM norms.

- Gujarat's IP/RR ratio ranged between 12.40% and 18.89% from 2014-15 to 2024-25, peaking in 2020-21 at 18.89%, attributed to COVID-related borrowings.

Submitted: 27 April 2026, Revised: 09 May 2026, Accepted: 25 May 2026,

ISSN: 1307-1637 ABDC
Retrieved from https://ijeponline.com/index.php/journal

- The ratio declined steadily post-pandemic, reaching 12.40% by 2023-24 and 2024-25, remaining within or close to the 15% benchmark.

Gujarat's ability to contain its interest burden without compromising on development spending points to sound public financial management.

Outstanding Liabilities as a % of GSDP

States	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Gujarat	22	22.5	20.9	20.2	20	20.4	22.5	20.2	19.1	19.2	18.2
Punjab	31.7	34.4	42.8	41.4	41.4	42.8	47.9	45.4	46.4	47.1	46.7
Odisha	16.2	19.9	18.3	23.4	21.2	26.8	26.1	19.9	17.1	19.5	16
Kerala	28	28.9	30.2	30.9	30.9	32.9	40.3	38.9	38	37.9	37.2

Source: RBI State Finance Report; NITI NCAER State Economic Forum, PRS website. 2023-25 data are taken from the PRS website.

State wise analysis: Punjab

Punjab continues to record the highest debt-to-GSDP ratio among the selected states, reflecting deep-rooted fiscal stress and overreliance on borrowings to fund revenue expenditure.

- Outstanding liabilities rose from 34.38% in 2015-16 to a peak of 47.94% in 2020-21, stabilizing around 46.7% post-2020-21, with no significant decline.
- Punjab has consistently exceeded the FRBM benchmark of 30%, underscoring structural debt dependence.

Punjab's debt trajectory is unsustainable and requires urgent revenue enhancement and expenditure rationalization to improve long-term fiscal health.

State wise analysis: Odisha

Odisha has demonstrated exemplary fiscal discipline, with one of the lowest and consistently declining debt ratios among major Indian states.

- Liabilities declined from 19.85% in 2015-16 to 16.33% in 2024-25, with a temporary spike during COVID quickly corrected in the recovery phase.
- Odisha remained well below the 30% FRBM ceiling, enhancing its fiscal credibility.

Odisha's debt management showcases a sustainable borrowing strategy, backed by strong non-tax revenue and strategic fund utilization.

State wise analysis: Kerala

Kerala has maintained persistently high debt levels, largely driven by high committed expenditures and stagnant own revenue growth.

- Outstanding liabilities fluctuated between 29% and 41% of GSDP across the decade, peaking at 40.28% in 2020-21 and stabilizing around 37.7% in 2022-23–2024-25.
- The debt ratio remains well above FRBM norms, showing minimal consolidation efforts.

Kerala's debt profile indicates fiscal rigidity and underscores the need for long-term structural reforms in expenditure and pension obligations.

State wise analysis: Gujarat

Gujarat has effectively contained its debt, reflecting strong fiscal discipline and strategic prioritization of capital over revenue expenditure.

- Outstanding liabilities declined from 22.5% in 2015-16 to 18.25% by 2024-25, remaining below the 25–30% benchmark recommended by the 15th Finance Commission and FRBM.
- The state avoided sharp debt escalations even during COVID years.

Submitted: 27 April 2026, Revised: 09 May 2026, Accepted: 25 May 2026,

Gujarat's declining debt burden indicates robust fiscal management, offering greater flexibility for public investment and crisis response.

Key Findings and Conclusion

- Punjab shows fiscal stress, reflected in consistently high fiscal and revenue deficits, high interest payments relative to revenue receipts, and increasing outstanding liabilities. Although own tax revenue has remained stable, low capital outlay constrains its capacity for developmental spending.
- Kerala shows relatively better own tax performance and moderate capital expenditure. However, the state continues to face pressure from persistent revenue deficits and high committed expenditure, indicating a considerable fiscal burden.
- Odisha presents strong fiscal performance, supported by sustained revenue surpluses and high capital outlay. Low interest payment obligations further point to effective debt management and greater fiscal autonomy.
- Gujarat maintains sound fiscal discipline, characterized by low fiscal and revenue deficits, a diversified own revenue base driven by industrial activity, and moderate debt levels.

In conclusion, Odisha and Gujarat reflect comparatively stronger fiscal positions. In contrast, Punjab and Kerala require targeted policy interventions to improve expenditure efficiency, broaden the revenue base, and ensure long-term fiscal stability.

This analysis highlights significant variations in the fiscal performance of selected states, arising from revenue mobilization capacities and expenditure priorities. Punjab and Kerala have shown the fiscal risks associated with structural imbalances and high debt burdens, violating FRBM targets and signaling the need for urgent corrective measures to improve fiscal stability. In contrast, Odisha and Gujarat demonstrate fiscal prudence and effective resource management, offering valuable insights for other states aiming to enhance fiscal stability. As Indian states take on greater responsibility in the country's development trajectory, strengthening fiscal discipline and sound public fiscal management will be critical to supporting inclusive and long-term economic growth.

Policy Recommendations for High Debt States

Punjab

- **Improve Targeting of Subsidies**: As per NITI Aayog's Strategy for New India @75, introduce Direct Benefit Transfer (DBT) for power and food subsidies to reduce leakages and improve expenditure quality.
- **Manage Interest Burden Gradually**: As per the FRBM Committee and RBI State Finance Report, set an interim cap on interest payments to revenue receipts (IP/RR) at below 22%, moving gradually toward FRBM's 15% target.
- **Boost Revenue through Asset Monetization**: As per NITI Aayog's National Monetization Pipeline, the state can lease out unutilized assets to enhance revenue mobilization and reduce reliance on borrowing.

Kerala

- **Adopt the New Pension Scheme**: As per NITI Aayog's Strategy for New India @75, Kerala still follows the old pension scheme, increasing long-term liabilities. Shifting to NPS will reduce the pension burden by sharing contributions with employees.
- **Disclose Off-Budget Borrowings**: Disclose borrowing routed through public sector undertakings to reflect the true fiscal position (CAG Report on State Finances, Kerala, 2021-22).
- **Implement Outcome Budgeting**: Link spending to measurable outcomes in key sectors like health and education to ensure debt is used effectively (Source: Ministry of Finance).

Submitted: 27 April 2026, Revised: 09 May 2026, Accepted: 25 May 2026,

References

Reserve Bank of India (RBI). (2014-15–2024-25). State Finances: A Study of Budgets.
PRS Legislative Research. State Budget Documents.
NITI Aayog. (2022-23). Fiscal Health Index Report of Indian States.
NITI Aayog. (2017-18). Strategy for New India @75.
National Council of Applied Economic Research (NCAER). (2014-15–2022-23). State Debt Matrix.
Fifteenth Finance Commission. (2019-20). Report of the Fifteenth Finance Commission (2020-21–26). Government of India.
Rao, M. G., & Chakraborty, L. S. (2017-18). Federalism and Fiscal Transfers in India. New Delhi: Oxford University Press.
Kaur, A., & Singh, P. (2020-21). Fiscal stress in Indian states: An inter-state comparative study. Journal of Public Finance and Policy Research, 12(3), 45–62.
Comptroller and Auditor General of India (CAG). (2021-22). State Finances Audit Report: Government of Kerala.
Ministry of Finance, Government of India. Outcome Budgeting Guidelines.

Annexure

Interest Payment to the Revenue Receipt

Punjab

Years	Interest Payment	Revenue Receipt	IP/RR
2023-24	22,552	89,192	25.28
2024-25	24,995	1,11,740	22.37

Odisha

Years	Interest Payment	Revenue Receipt	IP/RR
2023-24	5,181	1,79,593	3.00
2024-25	6,500	2,32,000	2.80

Kerala

Years	Interest Payment	Revenue Receipt	IP/RR
2023-24	26,986	1,24,486	21.68
2024-25	31,824	1,52,352	20.89

Gujarat

Years	Interest Payment	Revenue Receipt	IP/RR
2023-24	27,176.00	2,22,763	12.00
2024-25	31,201	2,51,553	12.40

Capital Outlay as a % of GSDP

Punjab

Years	Capital Outlay	GSDP	Capital Outlay (% of GSDP)
2023-24	4,743	7,44,899	0.64
2024-25	8,347	8,09,538	1.03

Submitted: 27 April 2026, Revised: 09 May 2026, Accepted: 25 May 2026,

Odisha

Years	Capital Outlay	GSDP	Capital Outlay (% of GSDP)
2023-24	43,273	8,62,658	5.02
2024-25	55,392	9,49,140	5.84

Kerala

Years	Capital Outlay	GSDP	Capital Outlay (% of GSDP)
2023-24	13,584	11,46,109.00	1.19
2024-25	14,070	12,75,412.00	1.10

Gujarat

Years	Capital Outlay	GSDP	Capital Outlay (% of GSDP)
2023-24	55,679	24,25,804	2.30
2024-25	70,173	26,72,072	2.63

Own Tax Revenue as a % of GSDP

Punjab

Years	Own Tax	GSDP	Own Tax Revenue (% of GSDP)
2023-24	47,252	7,44,899	6.34
2024-25	63,250	8,91,301	7.10

Odisha

Years	Own Tax	GSDP	Own Tax Revenue (% of GSDP)
2023-24	54,427	8,62,658	6.31
2024-25	66,000	10,63,000	6.21

Kerala

Years	Own Tax	GSDP	Own Tax Revenue (% of GSDP)
2023-24	74,329	11,46,109	6.49
2024-25	91,515	14,27,145	6.41

Gujarat

Years	Own Tax	GSDP	Own Tax Revenue (% of GSDP)
2023-24	1,34,262	24,25,804	5.53
2024-25	1,58,482	29,82,032	5.31

Submitted: 27 April 2026, Revised: 09 May 2026, Accepted: 25 May 2026,