



## Fiscal Performance Index

**Confederation of Indian Industry (CII)** has come out with a **Fiscal Performance Index** to assess the quality of budgets presented by the **Centre and state governments**.

- The composite **Fiscal Performance Index (FPI)** developed by CII is an innovative tool using multiple indicators to examine the quality of Budgets at the Central and State levels.
- The index has been constructed using the **United Nations Development Programme (UNDP)** Human Development Index methodology, it comprises **six components** for holistic assessment of the quality of government budgets.
  - **Quality of revenue expenditure:** measured by the share of revenue expenditure other than interest payments, subsidies, pensions and defence in GDP.
  - **Quality of capital expenditure:** measured by the share of capital expenditure (other than defence) in GDP.
  - **Quality of revenue:** the ratio of net tax revenue to GDP (own tax revenue in case of States).
  - **Degree of fiscal prudence I:** fiscal deficit to GDP.
  - **Degree of fiscal prudence II:** revenue deficit to GDP.
  - **Debt index:** Change in debt and guarantees to GDP.

### Findings of Index

- The high-income States have performed poorly mainly on the expenditure quality and own tax receipts index as compared to their low-income counterparts. Though their performance on the deficit prudence index has been above average.
- The low-income States such as Bihar and Uttar Pradesh which have **high fiscal deficit ratio** have fared well on the FPI front.
  - This clearly demonstrates the inadequacy of fiscal deficit to GDP ratio in analysing the fiscal performance of States.
- Expenditure on infrastructure, education, healthcare and other social sectors can be considered beneficial for economic growth.  
Tax revenues are sustainable sources of revenue for the government as compared to one-time income sources.

### Recommendations of CII

- **Fiscal Responsibility and Budget Management (FRBM)** Act which sets targets for the governments to reduce fiscal deficits should not solely focus on one component.
  - Instead, a holistic performance of all entities viewed from all angles of expenditure quality, revenue receipts quality, and fiscal prudence should be taken into consideration.

### Confederation of Indian Industry (CII)

- CII is a non-government, **not-for-profit, industry-led and industry-managed organization**, playing a proactive role in India's development process.
- **Founded in 1895**, India's premier business association has around 9000 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 300,000 enterprises from around 276 national and regional sectoral industry bodies.

- It works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

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

