

STATE GOVERNMENT FINANCES

**State capex to expand by 4-8% in
FY2025, below the ambitious 25%
growth indicated in BE**

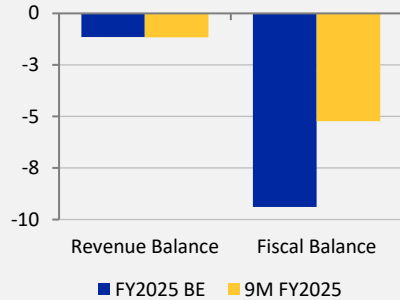
FEBRUARY 2025





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EXHIBIT: Trends in revenue and fiscal balances of 18 states (Rs. Trillion)

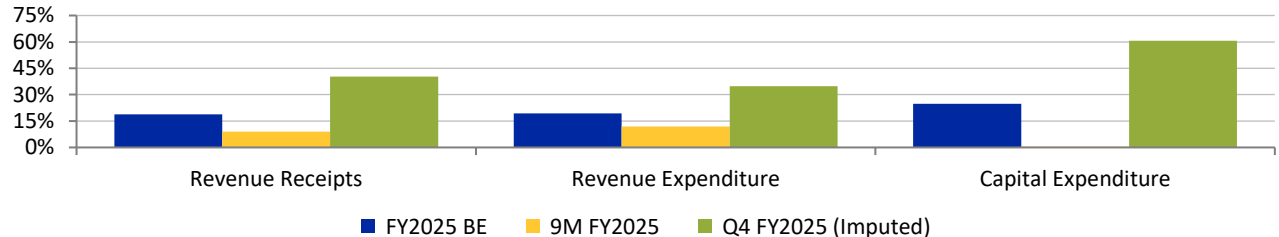


Note: *18 states excludes north-eastern states, Bihar and Goa; Source: Comptroller and Auditor General of India (CAG); State Budgets; ICRA Research

The combined revenue deficit of 18 states* stood at Rs. 1.2 trillion during April-December FY2025, exceeding the target of Rs. 1.1 trillion indicated in the FY2025 Budget Estimates (BE). The combined revenue receipts of these states rose by 8.9% in 9M FY2025, trailing the 19% expansion indicated in the BE by a wide margin. This was led by lower-than-budgeted growth in the State’s Own Tax Revenues (SOTR) reflecting continued tepidness in consumer demand reflecting several factors, including concerns over pick-up in economic growth. Apart from the SOTR, a ~15% contraction in grants in 9M FY2025, in contrast with the high 35% growth included by the states in their BE, also contributed to growth in revenues lagging the BE. However, the healthy 20.6% growth reported by tax devolution in 9M FY2025, supported the expansion in revenue receipts. Tracking these trends, the combined revenue expenditure rose by ~12% in 9M FY2025, weaker than the 19% expansion included in the BE. Based on the FY2025 BE and the trends in 9M, the combined revenue receipts and revenue expenditure of the 18 states are required to expand by ~40% and 35%, respectively, in Q4 FY2025 to meet the budgeted target for the fiscal. We expect the actual revenue receipts of the states in FY2025 to undershoot the BE, led mainly by the lower-than-budgeted SOTR and grants.

Partly on the back of a high base, the combined capital spending and net lending rose by a muted 0.4% in 9M FY2025, whereas the states had penciled in a healthy 25% YoY expansion. This implies that capital expenditure of the 18 states needs to expand by a high 61% to meet the BE. Amid the compression in capex, the fiscal deficit of the 18 states stood at Rs. 5.2 trillion in 9M FY2025, equivalent to 56% of the BE. Assuming a 10-20% YoY growth in capital spending in Q4 FY2025 and factoring in the actual spending during 9M FY2025, we project combined capex of 18 states at Rs. 7.1- 7.4 trillion in FY2025 (4-8% YoY growth). This would be 84-87% of the FY2025 BE, in line with the trends in the recent fiscals.

EXHIBIT: YoY trends of key fiscal indicators of 18 states





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