

STATE GOVERNMENT FINANCES

**Lower-than-estimated capex to keep
states' fiscal deficit below 3.0% of
GSDP in FY2025 and FY2026**

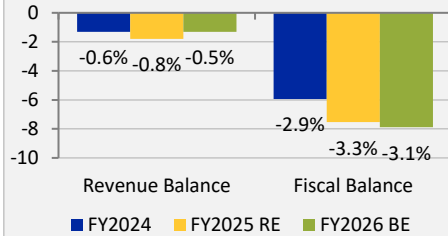
MARCH 2025





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EXHIBIT: Trends in revenue and fiscal balances of 10 states (Rs. Trillion)



Note: Data labels correspond to estimates as a proportion of GSDP; *10 states include Andhra Pradesh (AP), Chhattisgarh, Gujarat, Karnataka, Kerala, Maharashtra, Rajasthan, Tamil Nadu (TN), Uttar Pradesh (UP) and West Bengal (WB); **these states accounted for two-thirds of India's GDP (constant) in FY2024**; Source: Comptroller and Auditor General of India (CAG); State Budgets; ICRA Research

Based on ICRA's analysis of the revenue receipts and revenue expenditure of the 10 states* during 10M FY2025 relative to the levels included in the revised estimates (RE) for FY2025, their revenue deficit in FY2025 is expected to exceed the RE (Rs. 2.2 trillion vs. Rs. 1.8 trillion). Reflecting some lull in capital spending in the earlier part of FY2025, the combined capex of 10 states stood at 3.0 trillion, a discouraging 53% of the Rs. 5.8 trillion in the RE. Based on these trends the actual capex of the 10 states could be limited to below Rs. 5.0 trillion in FY2025, notwithstanding a potential back-ended surge in Feb-March FY2025. The expected compression in capex in FY2025 implies a fiscal deficit of ~Rs. 7 trillion (3.0% of Gross State Domestic Product or GSDP), lower than Rs. 7.5 trillion in the RE (3.3% of GSDP). Assuming a 14% CAGR during FY2024-FY2026, we assess the combined capital expenditure of the 10 states at around Rs. 6.0 trillion in FY2026, lower than their Budget Estimates (BE) of Rs. 6.8 trillion, which would help contain their fiscal deficit below 3.0% of GSDP in the coming fiscal as well.

- Revenue receipts estimated to increase by 13.8% in FY2026 BE relative to FY2025 RE:** In FY2026 BE, the revenue receipts of the 10 states are placed at Rs. 31.7 trillion, 13.8% higher than the RE. However, the data for 10M FY2025 reveals the combined revenue receipts of the 10 states at Rs. 20.6 trillion, 74% of the 27.9 trillion in RE. Based on the trends in the components of the revenue receipts in 10M FY2025, ICRA expects the states' own tax revenues and non-tax revenues to mildly undershoot the RE, but tax devolution to be in line with the RE. However, actual grants in FY2025 may not be more than two-thirds of the RE, as only 44% of the grants had been disbursed by the Government of India (GoI) in 10M FY2025. ICRA expects revenue receipts of the 10 states in FY2025 to trail the RE by 8-9%. Accordingly, achieving the revenue receipts targeted in FY2026 BE would necessitate a considerable expansion of ~21% over the revenues forecast by ICRA FY2025, which seems optimistic.
- Revenue expenditure to rise by 11% in FY2026 BE from FY2025 RE:** The revenue expenditure of the 10 states is projected to increase by 11% to Rs. 33.0 trillion in FY2026 BE from FY2025 RE. However, during 10M FY2025, the revenue spending of these states stood at Rs. 21.5 trillion, 72% of Rs. 29.7 trillion in FY2025 RE. Lower-than-expected revenues and the trend of revenue expenditure in 10M FY2025 suggest that actual revenue spending in FY2025 may lag the RE by 5-6%. This implies a ~16% growth is needed in the combined revenue expenditure of 10 states in FY2026 to meet the BE.
- Capital spending projected to grow by ~18% in FY2026 BE from FY2025 RE:** In FY2026 BE, the 10 states expect their capital expenditure to grow by 18% to Rs. 6.8 trillion from Rs. 5.8 trillion in FY2025 RE. The capital spending of the 10 states in 10M FY2025 stood at Rs. 3.0 trillion, only 53% of the Rs. 5.8 trillion indicated in FY2025 RE, partly reflecting the slow start to the capex amidst the Parliamentary Elections in FY2025. Even with a back-ended surge in capex, led possibly by clearing of bills towards the end of the year, the capex of the sample states is unlikely to cross Rs. 5.0 trillion in FY2025. Assuming a 14% CAGR during FY2024-FY2026, we assess the combined capital expenditure of 10 states around Rs. 6.0 trillion in FY2026.



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