

# States' Fiscal Deficit-to-GSDP at Risk of 0.2–0.4% Slippage

June 11, 2026 | Economics

The evolving fiscal landscape amid the West Asia crisis is likely to put pressure on the state government finances. Challenges stem from growth-related concerns amid the conflict in West Asia. Moreover, states have introduced freebies and welfare schemes during the last two to three years amid elections in several states. This has resulted in rising spending pressures across states, adversely impacting their overall fiscal position. On the positive side, at the aggregate level, states have played an important role in supporting the Centre's capex-led growth strategy while strengthening their own revenue sources. Against this backdrop, our report reviews the FY27 budgets of 25 states, with Part A focusing on receipts, Part B on expenditure patterns, and Part C on fiscal deficits. Together, these 25 states account for about 98.4% of India's GDP.

The aggregate state fiscal deficit is estimated to have widened sharply to 3.6% of GSDP in FY26 from 3.2% in FY25. Growth in both tax and non-tax revenues is estimated to have improved in FY26 relative to the previous year. However, the fiscal deficit increased mainly due to higher expenditure growth. There has been a strong growth in developmental spending due to the rollout of freebies and welfare schemes in several states.

Looking ahead, state finances are likely to face a challenging environment in FY27 amid the ongoing economic uncertainties. A moderation in India's growth momentum could weigh on the buoyancy of states' own tax collections, while weaker Central government tax revenues may reduce the divisible pool of tax proceeds to the states. Also, Centre's grants might come under pressure, given that the Central government finances are under strain due to ongoing economic uncertainty. Furthermore, high spending towards freebies and welfare schemes could further constrain the states' fiscal position. These factors increase the risk of deviating from the budgeted FY27 aggregate fiscal deficit target of 3.1% of GSDP. With the possibility of slippage in revenue receipts, we estimate its impact on the fiscal deficit to be in the range of 0.2-0.4% of GSDP in FY27, assuming states do not deviate from their budgeted expenditure target.

**Table 1: Aggregate Summary of State Budgets Analysed – 25 States**

	FY26 (RE)	FY27 (BE)	FY26 (RE)	FY27 (BE)
	Rs Trillion		Y-o-Y %	
Revenue Receipts	46.0	51.8	17.4	12.8
Tax Revenue	36.1	40.8	12.4	12.9
Own Tax Revenue	22.9	26.1	14.4	14.0
Share in Central Taxes	13.3	14.7	9.0	10.9
Non-Tax Revenue	9.8	11.1	40.5	12.4
Own Non-tax Revenue	3.9	4.3	22.3	9.8
Grants from the Centre	5.9	6.7	56.1	14.2
Total Expenditure	64.2	70.2	18.5	9.3
Revenue Expenditure	48.7	52.8	17.7	8.4
Developmental Revenue Expenditure	31.1	32.9	20.2	6.0
Non-Developmental Revenue Expenditure	16.2	18.3	13.4	12.9
Capital Disbursements	15.5	17.4	21.1	12.4
Capital Outlay	9.2	10.6	25.2	15.0
	Rs Trillion		% GSDP	
Fiscal Deficit	12.6	12.0	3.6	3.1
Revenue Deficit	2.8	1.0	0.8	0.2

Source: State Budgets, CMIE, CareEdge; Note: (RE): Revised Estimate, (BE): Budget Estimate; The analysis is based on budget data for 25 states which include Andhra Pradesh, Bihar, Chhattisgarh, Goa, Gujarat, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Tripura, Uttar Pradesh, Uttarakhand, West Bengal; Data for West Bengal, Tamil Nadu and Kerala is based on interim budgets; Capital disbursements include capital outlay, internal debt, repayment and loans & advances; Capital outlay represents the spending towards asset creation

## **A. Analysis of Receipts Profile – Analysis of 25 State Budgets**

### States' Tax Collections Likely to be Hit Amid the Ongoing Economic Challenges

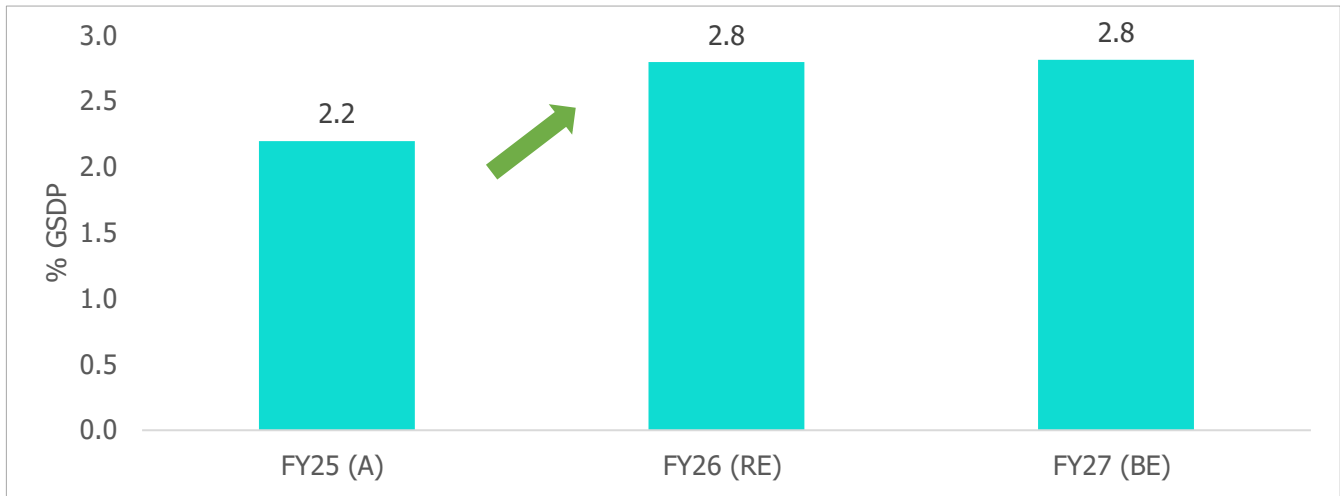
The aggregate state tax revenues are budgeted to rise by 12.9% in FY27, marginally higher than the estimated growth of 12.4% in FY26. More importantly, states' own tax revenues, which constitute 64% of total tax revenues, are budgeted to rise by an encouraging 14% in FY27, broadly in line with the estimated growth for FY26. On an aggregate basis, the states analysed have budgeted a nominal GSDP growth of 11.7% and tax buoyancy of 1.2 for FY27.

We expect the ongoing economic challenges arising from the West Asia conflict to weigh on India's real GDP growth in FY27. The magnitude of the slowdown will depend on how long the conflict persists and the timeline for restoring the energy supply chains. We project India's GDP growth in FY27 to be at 6.7%, premised on the assumption of crude oil prices averaging at USD 90/bbl. However, we believe growth could dip even lower to around 6.5% if the conflict lingers longer, with crude oil prices averaging at USD 100/bbl. At the same time, higher inflation is likely to push up the nominal GSDP growth to around 13–13.5%, exceeding the assumptions made by states. Overall, while stronger nominal GSDP growth is a positive for the tax revenues, slower economic activity and weaker consumption are expected to weigh on the tax buoyancy. We expect state tax buoyancy to be in the range of 0.7-0.9 in FY27, lower than the budgeted 1.2. Additionally, based on our assumption of lower tax collections at the Central government level, we expect the tax transfers to the states to be lower by Rs 0.5 trillion in FY27.

### Non-Tax Revenues to Remain Encouraging

Amid rising concerns about state tax collections, the positive aspect is that the aggregate state non-tax revenues are budgeted to rise by 12.4% in FY27, following an estimated 40.5% growth in FY26. The Supreme Court's judgment in July 2024, clarifying that royalties on mining leases are to be classified as non-tax revenue, has been a positive for the growth in states' non-tax revenues. Furthermore, several states have implemented a series of measures to boost their non-tax revenues - Rajasthan and West Bengal introduced reforms to implement faceless management of mines to improve transparency and enhance the revenue collections (RBI Study of State Budgets 2025-26). As a result of such measures implemented by states, non-tax revenue is estimated to have increased to 2.8% of GSDP in FY26 (RE), from 2.2% in FY25. This improvement is expected to be sustained in FY27, with non-tax revenue budgeted at 2.8% of GSDP (Refer to Exhibit 1).

**Exhibit 1: Aggregate State Non-Tax Revenues (% GSDP)**

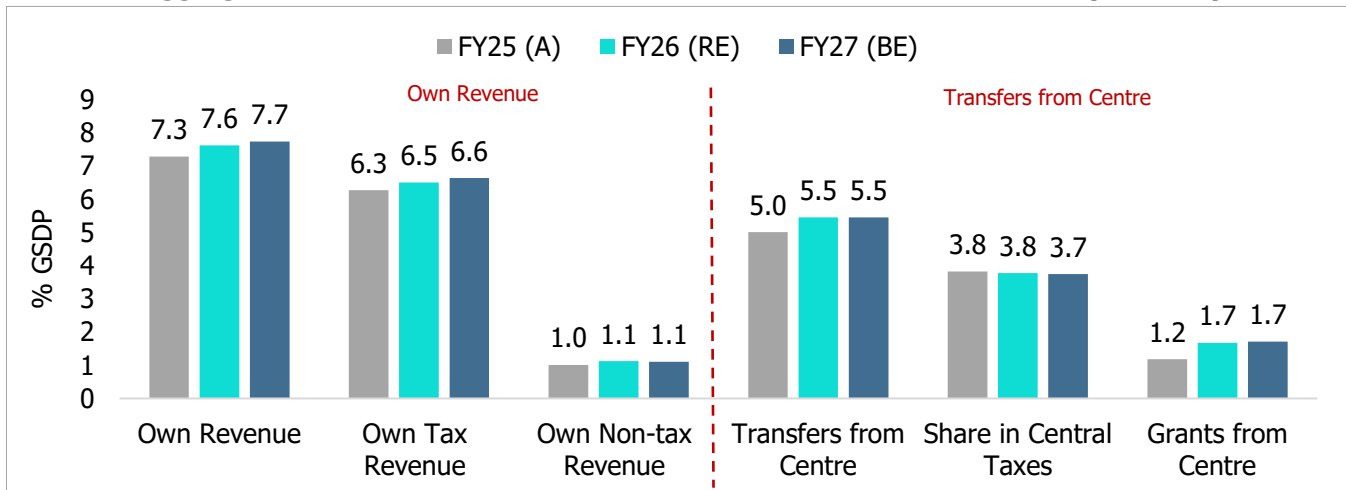


Source: State Budgets, CMIE, CareEdge; Note: (A): Actuals, (RE): Revised Estimate, (BE): Budget Estimate

**Fiscal Impact of Revenue Shortfall Seen at 0.2–0.4% of GSDP in FY27**

With the GST Compensation Cess officially ending in 2022, states have focused on boosting their own-source revenues. The own revenues of the states, which include both tax and non-tax sources, are estimated to have risen to 7.6-7.7% of GSDP in FY26 (RE) & FY27 (BE) compared to 7.3% in FY25. (Refer to Exhibit 2). However, given the expected lower state tax buoyancy, sustaining this momentum in the states' overall own revenues could prove challenging in FY27. Focus on boosting the states' own tax revenue becomes even more critical given the changes to the Central Grants. (Refer to Box 1 for Changes in Grants Recommended by the Finance Commission). The states have budgeted grants from the Centre to be at 1.7% of GSDP in FY27, the same level as in the previous year (Refer to Exhibit 2). However, these grants might come under pressure given that the Central government's finances are also facing pressure from the ongoing economic uncertainty.

**Exhibit 2: Aggregate State Revenues from Own Sources & Transfers from States (% GSDP)**



Source: State Budgets, CMIE, CareEdge; Note: (A): Actuals, (RE): Revised Estimate, (BE): Budget Estimate

### Box 1: Changes in Grants Recommended by the Finance Commission

The 16th Finance Commission has discontinued the revenue deficit grants, sector-specific grants and state-specific grants. These together accounted for around 45% share in the total grants over the five-year period, with revenue deficit grants alone comprising 28.5% share. On the other hand, the 16th FC has enhanced the allocation towards local government grants to Rs 7.9 trillion for 2026-31 from Rs 4.4 trillion for 2021-26 (Refer to Table 1.a).

**Table 1. a: Grants Recommended by the 16<sup>th</sup> Finance Commission Vs 15<sup>th</sup> Finance Commission**

Grants	15 <sup>th</sup> FC 2021-26		16 <sup>th</sup> FC 2026-31	
	Rs Trillion	% Share	Rs Trillion	% Share
Local governments	4.4	42.2	7.9	83.5
Disaster management	1.2	11.9	1.6	16.5
Revenue deficit grants	2.9	28.5	-	-
Sector-specific grants	1.3	12.6	-	-
State-specific grants	0.5	4.8	-	-
<b>Total</b>	<b>10.3</b>	<b>100.0</b>	<b>9.5</b>	<b>100.0</b>

Source: Finance Commission (FC) Documents, CareEdge

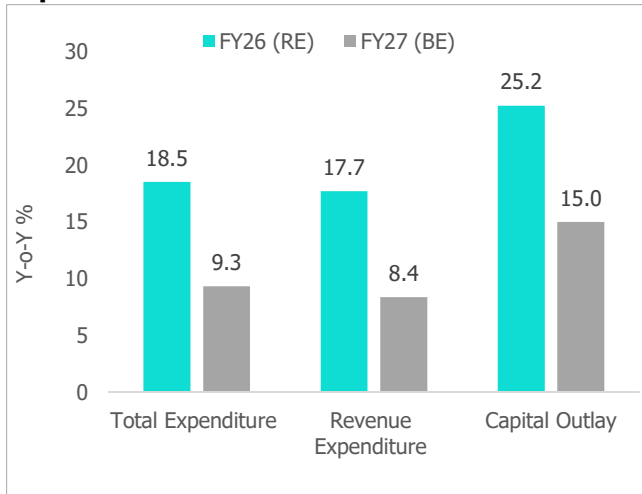
## B. Analysis of the Expenditure Profile - Analysis of 25 State Budgets

### Overall State Spending Budgeted to Moderate, but Capex Focus Continues

The growth in aggregate state expenditure (revenue & capital accounts) is budgeted to moderate to 9.3% in FY27 from the estimated 18.5% in FY26. This moderation is on account of moderating growth in both revenue expenditure as well as capital disbursements. Capital outlay, which represents spending on asset creation, is budgeted to rise by 15% in FY27, following an already high growth of 25.2% estimated in FY26. This reflects that states continue to maintain their investment focus.

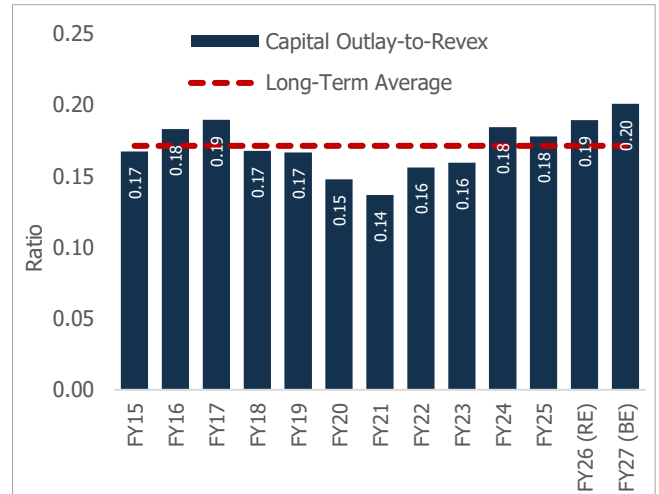
Stronger growth in capital outlay than in revenue expenditure reflects a better quality of spending by the states (Refer to Exhibit 3). This is captured in the capital outlay-to-revenue expenditure ratio, which is budgeted at a high of 0.20 in FY27. Capital outlay-to-revenue expenditure ratio has shown a rising trend since FY22 (Refer to Exhibit 4). To enhance states' capex, the Centre introduced the 50-year interest-free loans under the Scheme for Special Assistance to States for Capital Investment in FY21. The allocation under the scheme has been enhanced to Rs 2 trillion for FY27 from the budgeted Rs 1.5 trillion in the previous fiscal year. This bodes well for the overall investment scenario by the state governments.

**Exhibit 3: Snapshot of Aggregate States' Expenditure Growth**



Source: State Budgets, CMIE, CareEdge; Note: (RE): Revised Estimate, (BE): Budget Estimate

**Exhibit 4: Capital Outlay-to-Revenue Expenditure**

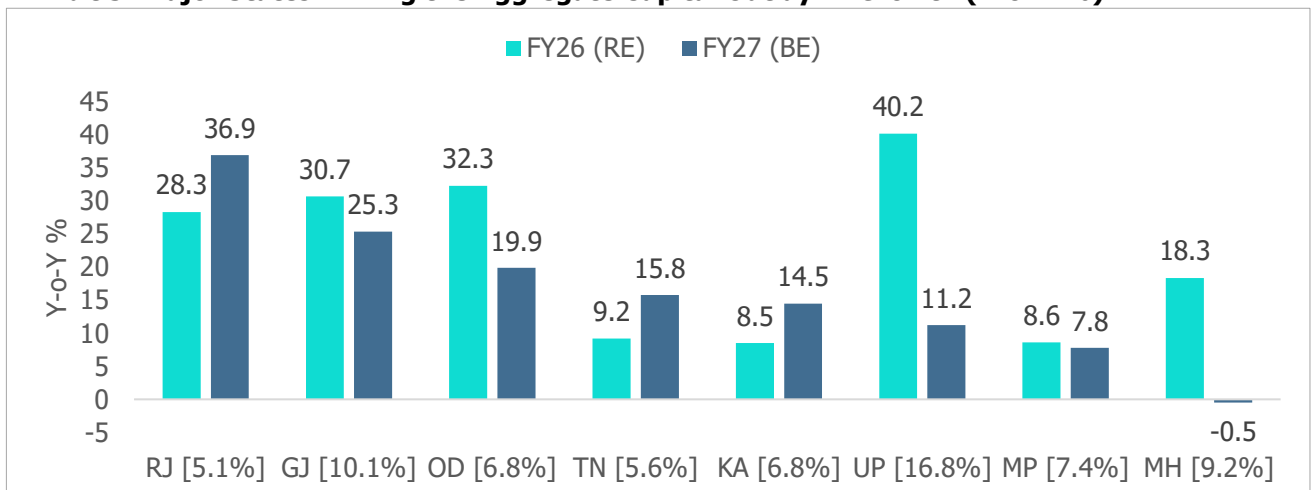


Source: State Budgets, CMIE, CareEdge; Note: Long-term average represents average for FY15-FY27, (A): Actuals, (RE): Revised Estimate, (BE): Budget Estimate

UP, Gujarat, Karnataka, Odisha, Tamil Nadu and Rajasthan to Drive the Growth in Capital Outlay

Among the states accounting for a significant share of aggregate state capital outlay, double-digit growth in capital outlay is budgeted by Uttar Pradesh (budgeted growth of 11.2% in FY27), Gujarat (25.3%), Karnataka (14.5%), Odisha (19.9%), Tamil Nadu (15.8%), and Rajasthan (36.9%). These states together account for 51% share in the aggregate capital outlay of the states. The high budgeted growth in Uttar Pradesh, Gujarat and Rajasthan comes on the back of encouraging growth estimated for FY26. Among the other major states, Maharashtra's capital outlay is budgeted to contract by 0.5% in FY27 following a high growth of 18.3% in FY26 (RE). (Refer to Exhibit 5 for growth in capital outlay of major states\* & Refer to the Annexure for growth in capital outlay of all states analysed)

**Exhibit 5: Major States Driving the Aggregate Capital Outlay\* - Growth (Y-o-Y %)**



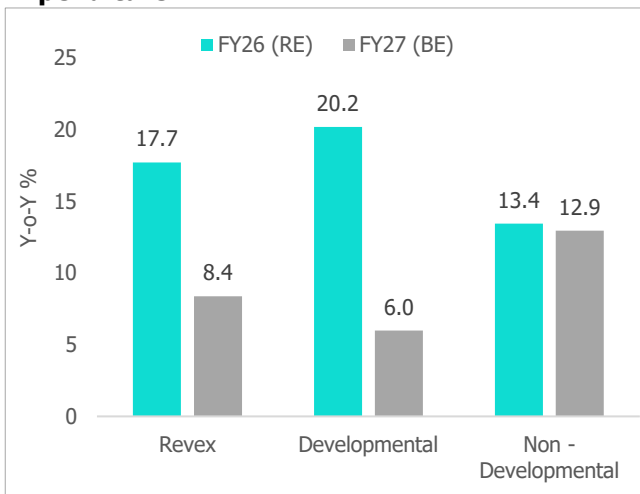
Source: State Budgets, CMIE, CareEdge; Note: Figures in brackets represent percentage share of the state's capital outlay in the FY27 (BE) aggregate capital outlay for the 25 states analysed, (RE): Revised Estimate, (BE): Budget Estimate; \*These states together account for around 68% share in the aggregate state capital outlay

**Growth in Developmental Spending Budgeted to Moderate; Non-Developmental Spending Remains Elevated**

Revenue expenditure growth is budgeted to moderate to 8.4% in FY27 from the estimated 17.7% growth in FY26. This moderation is primarily driven by slower growth in developmental spending, which is budgeted at 6% in FY27, following a 20.2% in the previous fiscal year (Refer to Exhibit 6). The high growth in developmental spending during FY26 can be attributed to the freebies and welfare programs introduced by the state governments. Non-developmental expenditure, which includes administrative services, tax collection costs, interest payments, and pensions, remains elevated with a budgeted growth of 12.9% in FY27 (Vs 13.4% in FY26 RE).

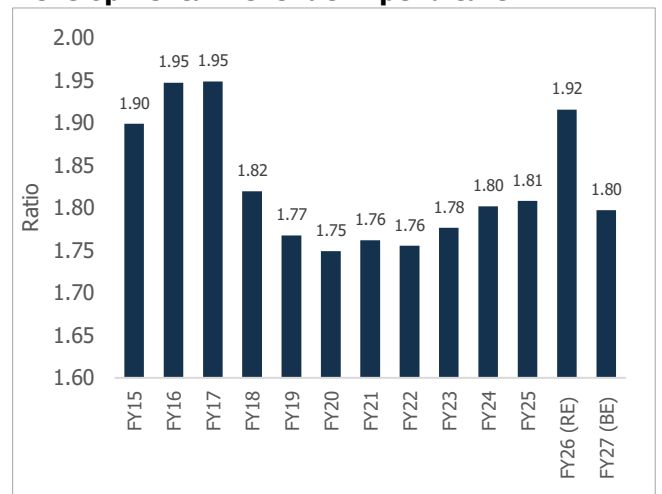
Strong developmental spending is positive; however, it is often accompanied by high fiscal costs. Additionally, its coexistence with persistently high non-developmental expenditure remains a fiscal concern. In FY26, the combination of accelerated developmental spending and elevated non-developmental expenditure pushed up the aggregate state fiscal deficit. Looking ahead, the expenditure mix is budgeted to normalise somewhat, with the developmental-to-non-developmental revenue expenditure ratio moderating to 1.8 in FY27 from an estimated 1.9 in FY26 (Refer to Exhibit 7). However, given the continuation of freebies and welfare schemes across states, whether developmental spending will moderate as budgeted remains to be seen. Amid these expenditure pressures, the state’s capital outlay could come under pressure in FY27.

**Exhibit 6: Snapshot of Growth in Revenue Expenditure**



Source: State Budgets, CMIE, CareEdge, Note: (RE): Revised Estimate, (BE): Budget Estimate

**Exhibit 7: Developmental- to- Non-Developmental Revenue Expenditure**



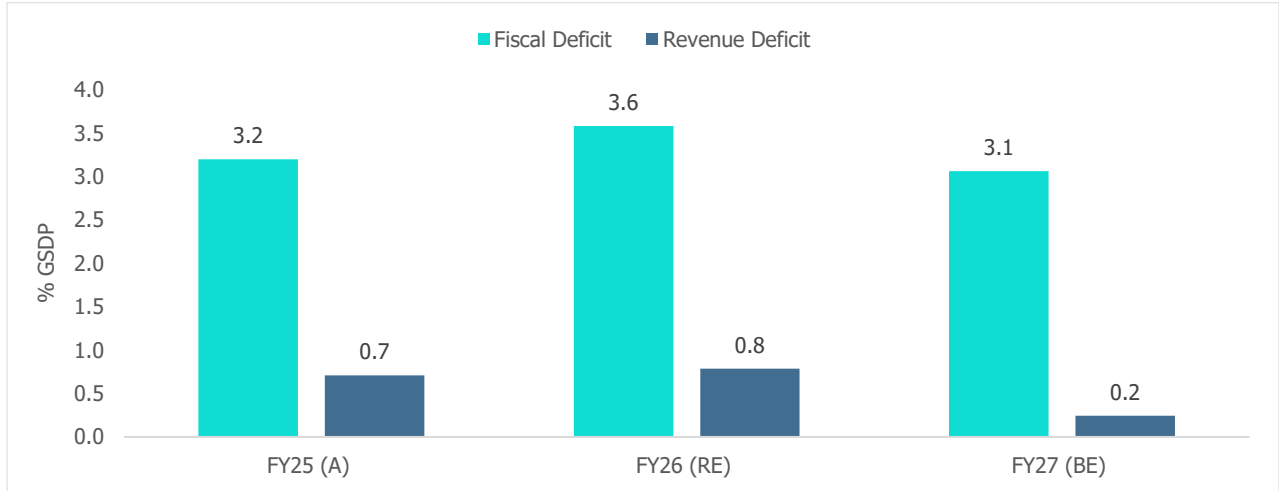
Source: State Budgets, CMIE, CareEdge, Note: (RE): Revised Estimate, (BE): Budget Estimate

**C. Analysis of Fiscal Deficit - Analysis of 25 State Budgets**

**Fiscal Deficit Estimated to Have Risen Sharply in FY26**

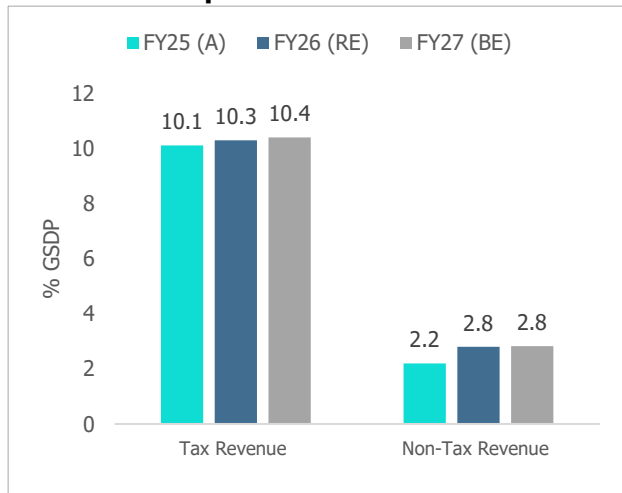
Aggregate state fiscal deficit is estimated to have risen sharply to 3.6% of GSDP in FY26 from 3.2% in FY25 (Refer to Exhibit 8). This is primarily driven by higher developmental revenue spending (Refer to Exhibit 9 & 10). Increased developmental spending can be attributed to the rollout of freebies and welfare schemes in several states.

**Exhibit 8: Trends in Aggregate State Fiscal & Revenue Deficit (% GSDP)**



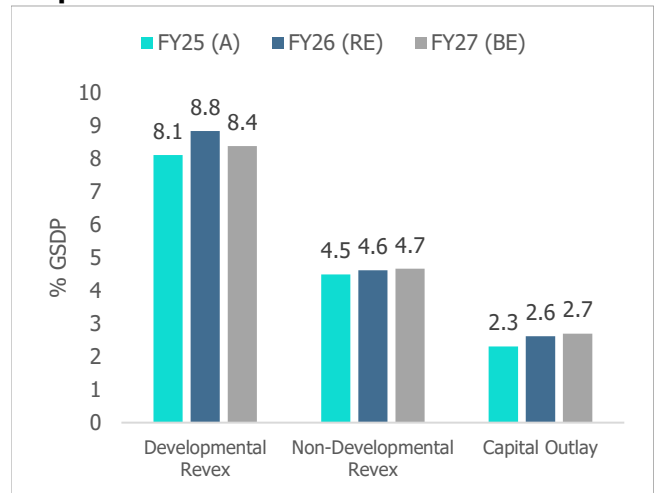
Source: State Budgets, CMIE, CareEdge, Note: (A): Actuals, (RE): Revised Estimate, (BE): Budget Estimate

**Exhibit 9: Overview of Aggregate State Revenue Receipts**



Source: State Budgets, CMIE, CareEdge, Note: (A): Actuals, (RE): Revised Estimate, (BE): Budget Estimate

**Exhibit 10: Overview of Aggregate State Expenditure**



Source: State Budgets, CMIE, CareEdge, Note: (A): Actuals, (RE): Revised Estimate, (BE): Budget Estimate

**Impact of West Asia Crisis & Fiscal Cost of Freebies Pose Fiscal Challenges for FY27**

For FY27, on an aggregate basis, the states have budgeted a fiscal deficit at 3.1% of GSDP, a notable moderation from the revised estimate of 3.6% in FY26. A state-wise analysis shows that the fiscal deficit-to-GSDP ratio for 12 out of states is expected to exceed the 3% level, while 5 states have budgeted for a fiscal deficit around 3% (Refer to Exhibit 11).

**Exhibit 11: State-wise Budgeted Fiscal Deficit (% GSDP) – FY27**



Source: State Budgets, CMIE, CareEdge

FY27 presents a challenging global macro-economic landscape amid the ongoing West Asia conflict, uncertainty over its resolution, and its implications for the Indian economy. The projected moderation in India’s economic growth momentum could potentially translate into lower buoyancy in own tax collections for the state governments. Also, lower tax collections by the Central government could diminish the shareable tax collections between the Centre and states. Additionally, grants might come under pressure given that the Central government’s finances are also facing pressure from the ongoing economic uncertainty.

An additional challenge for state government finances is the higher expenditure towards election-related doles and cash transfers. This trend of freebies is particularly concerning at a time when state finances remain under pressure post-pandemic, with fiscal deficits showing a rising trajectory. The aggregate state developmental revenue spending is estimated to have spiked to 8.8% of GDP in FY26 from 8.1% in FY25. Looking ahead, the developmental revenue spending is budgeted to moderate to 8.4% in FY27. However, whether developmental spending will moderate as budgeted remains to be seen. Overall, elevated developmental spending, along with persistently high non-developmental expenditure, poses a challenge for the fiscal position of states. The persistent spending pressures could force states to constrain their capital outlay in FY27.

Overall, given the challenges to revenue collections and pressures on the expenditure front, we expect state government finances to remain under pressure in FY27. Given these dynamics, some slippage from the budgeted fiscal deficit target of 3.1% of GSDP cannot be ruled out. With the possibility of slippage in revenue receipts, we estimate its impact on the fiscal deficit to be in the range of 0.2-0.4% of GSDP in FY27, assuming states do not deviate from their budgeted expenditure target. The states will have to walk a tightrope between containing fiscal slippages and sustaining the momentum in capital outlay.

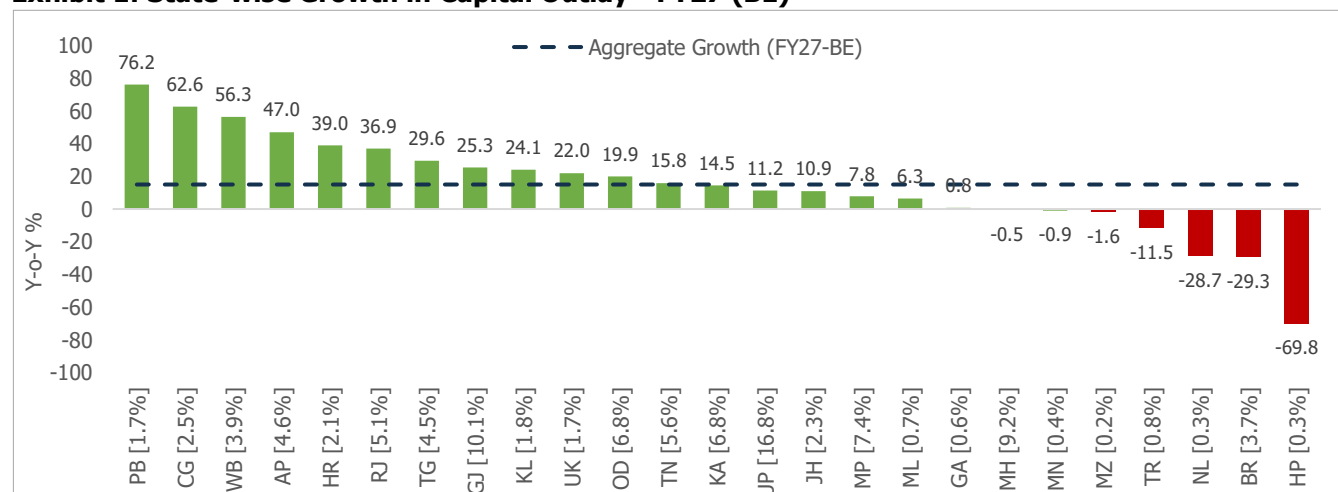
## Annexure

Table 1: Aggregate Summary of State Budgets Analysed – 25 States

	FY25 (A)	FY26 (RE)	FY27 (BE)	FY25 (A)	FY26 (RE)	FY27 (BE)	FY25 (A)	FY26 (RE)	FY27 (BE)
	Rs Trillion			Growth (Y-o-Y %)			% GSDP		
<b>Revenue Receipts</b>	<b>39.2</b>	<b>46.0</b>	<b>51.8</b>	<b>6.8</b>	<b>17.4</b>	<b>12.8</b>	<b>12.3</b>	<b>13.1</b>	<b>13.2</b>
Tax Revenue	32.2	36.1	40.8	10.2	12.4	12.9	10.1	10.3	10.4
Own Tax Revenue	20.0	22.9	26.1	8.1	14.4	14.0	6.3	6.5	6.6
Share in Central Taxes	12.2	13.3	14.7	13.9	9.0	10.9	3.8	3.8	3.7
Non-Tax Revenue	7.0	9.8	11.1	-6.6	40.5	12.4	2.2	2.8	2.8
Own Non-tax Revenue	3.2	3.9	4.3	6.1	22.3	9.8	1.0	1.1	1.1
Grants from the Centre	3.8	5.9	6.7	-15.2	56.1	14.2	1.2	1.7	1.7
<b>Total Expenditure</b>	<b>54.2</b>	<b>64.2</b>	<b>70.2</b>	<b>8.8</b>	<b>18.5</b>	<b>9.3</b>	<b>17.0</b>	<b>18.3</b>	<b>17.9</b>
Revenue Expenditure	41.4	48.7	52.8	9.7	17.7	8.4	13.0	13.9	13.4
Developmental Revex	25.8	31.1	32.9	9.8	20.2	6.0	8.1	8.8	8.4
Non-Developmental Revex	14.3	16.2	18.3	9.4	13.4	12.9	4.5	4.6	4.7
Capital Disbursements	12.8	15.5	17.4	5.8	21.1	12.4	4.0	4.4	4.4
Capital Outlay	7.4	9.2	10.6	5.8	25.2	15.0	2.3	2.6	2.7
	Rs Trillion						% GSDP		
<b>Fiscal Deficit</b>	10.2	12.6	12.0				3.2	3.6	3.1
<b>Revenue Deficit</b>	2.3	2.8	1.0				0.7	0.8	0.2

Source: State Budgets, CMIE, CareEdge; Note: (A): Actuals, (RE): Revised Estimate, (BE): Budget Estimate; The analysis is based on budget data for 25 states which include Andhra Pradesh, Bihar, Chhattisgarh, Goa, Gujarat, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Tripura, Uttar Pradesh, Uttarakhand, West Bengal; Data for West Bengal, Tamil Nadu and Kerala is based on interim budgets; Capital disbursements include capital outlay, internal debt, repayment and loans & advances; Capital outlay represents the spending towards asset creation

Exhibit 1: State-wise Growth in Capital Outlay - FY27 (BE)



Source: State Budgets, CMIE, CareEdge; Note: Figures in brackets represent percentage share of the state's capital outlay in the FY27 (BE) aggregate capital outlay for the 25 states analysed, (BE): Budget Estimate

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