

PRESS RELEASE  
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## State government capex to rise by ~13% in FY2025, while trailing budget estimate: ICRA

- **Leverage (debt + guarantees) level to rise to 30.0% of GSDP in FY2025 from 29.2% of GSDP in FY2024**

ICRA has projected the combined capital spending of a sample of 13 major state governments<sup>1</sup> to expand by 13% to Rs. 6.5 trillion in FY2025. However, this entails a miss, relative to the FY2025 Budget Estimate (BE) of Rs. 7.2 trillion, following a dull start to the capex in the initial months of this fiscal as well as the anticipated undershooting in states' revenues. The rating agency foresees a modest slippage in the combined revenue and fiscal deficits of the 13 states in FY2025 to Rs. 2.2 trillion and Rs. 8.8 trillion, respectively, from Rs. 1.9 trillion and Rs. 8.5 trillion, respectively, in the BE. Moreover, ICRA expects the combined leverage (debt+ guarantees) level of the sample set to inch up to 30.0% of GSDP in FY2025 from 29.2% of GSDP in FY2024, with continuing variation across the states.

**Aditi Nayar, Chief Economist, Head-Research & Outreach, ICRA** said: *"With a 13.5% contraction in capital spending during the first four months of FY2025 and heavy rainfall in some of the states in Q2 FY2025, capex by the states appears set for a back-ended surge in H2 FY2025. ICRA forecasts a double-digit 12.6% expansion in the combined capex of sample states in FY2025; nevertheless, this will be significantly lower than the growth of ~24% embedded in the FY2025 BE and the actual 19.6% increase seen in the FY2024 Provisional Actuals (PA). ICRA assesses Gujarat, Karnataka, Maharashtra and Tamil Nadu to have adequate fiscal space for meeting their budgeted capex in FY2025 and anticipates some undershooting by the remaining sample states."*

Although the Government of India (GoI) had enhanced the allocation for the Scheme for Special Assistance to States for Capital Investments to Rs. 1.5 trillion in July 2024 from Rs. 1.1 trillion in Feb 2024, its utilisation to the full extent in FY2025 appears somewhat unlikely, following its sluggish offtake in the early months.

*"ICRA forecasts the states' own tax revenues, the key driver of their revenues, to grow by a healthy 11.5% in FY2025; nevertheless, this would trail the optimistic 19.4% expansion anticipated in the BE. After some tepidness in discretionary spending in Q1 FY2025, we are hopeful of a revival of rural demand in H2 FY2025 aided by a healthy kharif harvest. However, we are circumspect of the sharp turnaround in the grants from the Centre, budgeted by several states in the sample in FY2025 following a double-digit contraction in this revenues stream in the provisional actuals for FY2024,"* **Nayar** added.

ICRA estimates the state GST, excise duty and S&R collections to expand by 11-13% in FY2025. However, sales tax collections are projected to grow by a modest 5.5% in FY2025, after a modest performance in FY2024. Additionally, ICRA expects the tax devolution in FY2025 to be in line with the amount indicated by the Government of India (GoI) in its Union Budget published in July 2024. After the double tranche of tax devolution extended recently, the amount of funds remaining to be released relative to the FY2025 BE for tax devolution entails a 13% YoY contraction in the balance part of this fiscal, which the states should take into consideration while planning their borrowings for the rest of the year.

Notably, in absolute terms, the decline in the Finance Commission recommended grants and other grants in FY2025 would offset the increase expected in grants related to various schemes of the Central Government. Overall, ICRA projects a mild dip in combined grants of 13 states in FY2025 from the year ago level, which contrasts with the sharp turnaround in grants expected by several states in BE.

ICRA assesses the total revenues of the sample set to rise by 10% in FY2025 from the year-ago level. Since this would be below the optimistic 18% growth in revenues indicated in FY2025 BE, it may warrant some recalibration of revenue expenditure. *"We expect states' revenue spending to rise by 12% on a YoY basis in FY2025 BE, lower*

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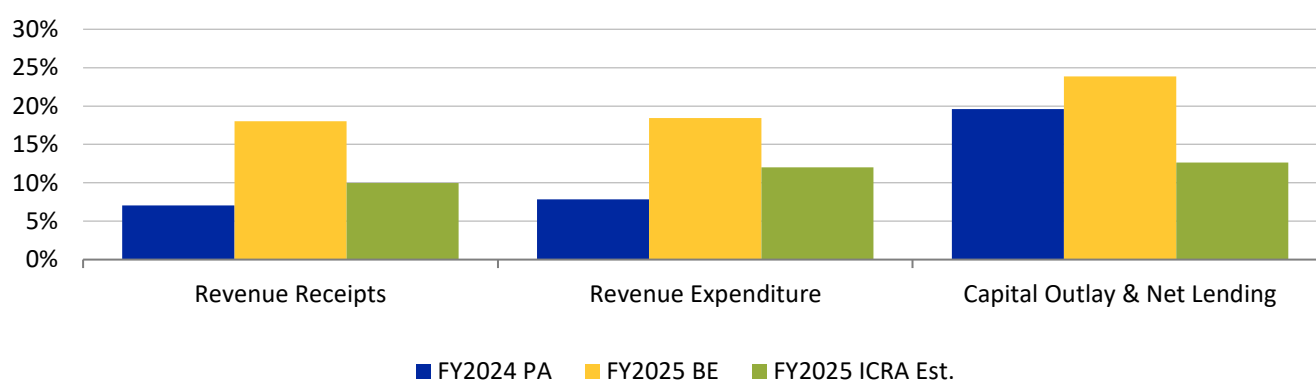
<sup>1</sup> ICRA's sample includes Andhra Pradesh, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh, and West Bengal. These states accounted for 82% of India's GDP in FY2023.

than the 18.4% expansion in the BE. Accordingly, ICRA estimates the combined revenue deficit of the 13 states at Rs. 2.2 trillion in FY2025, higher than Rs. 1.9 trillion in BE and Rs. 1.5 trillion in FY2024 PA,” **Nayar** highlighted.

ICRA also foresees a modest slippage in the combined fiscal deficit of the 13 states to Rs. 8.8 trillion in FY2025 from Rs. 8.5 trillion in BE. The fiscal deficit would be funded by a mix of market borrowings and funds under the Scheme for Special Assistance to States for Capital Investments.

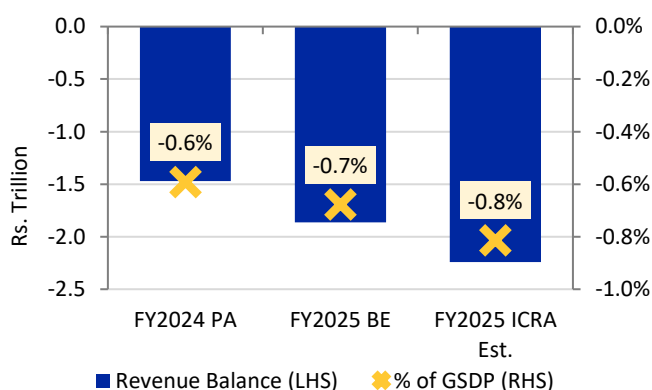
ICRA estimates the debt outstanding of the sample states at Rs. 70.4 trillion at the end of March-2025, equivalent to 25.6% of ICRA’s estimate of their gross state domestic product (GSDP) for FY2025, higher than 24.8% as per the provisional estimates for FY2024. The sharp increase in guarantees extended by a few sample states in recent years poses a concern. The combined leverage (debt+ guarantees) level of the sample set is expected to inch up to 30.0% of GSDP in FY2025 from 29.2% of GSDP in FY2024, with continuing variation across the states.

**Exhibit: YoY trends in revenue receipts, revenue expenditure and capital expenditure in FY2024 provisional actuals, FY2025 BE and FY2025 ICRA Estimate**

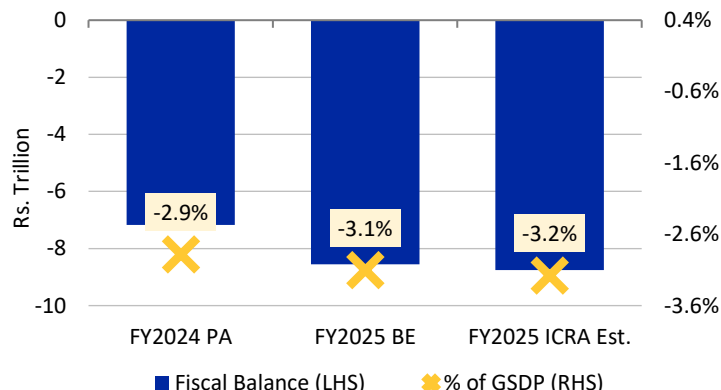


Source: Comptroller and Auditor General of India (CAG); State Budgets; ICRA Research

**Exhibit: Combined revenue balance of 13 state governments during FY2024-2025 BE and ICRA’s expectation for FY2025**



**Exhibit: Combined fiscal balance of 13 state governments during FY2024-2025 BE and ICRA’s expectation for FY2025**



Source: CAG; National Statistics Office (NSO); State Budgets; ICRA Research

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