

# STATE GOVERNMENT FINANCES - VOL II

**State fiscal deficits widened over  
15th Finance Commission period,  
aided by utilisation of additional  
borrowing flexibility**

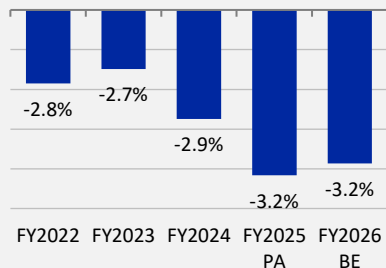
**AUGUST 2025**





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## EXHIBIT: Fiscal deficit trend as a share of GSDP for 26 states

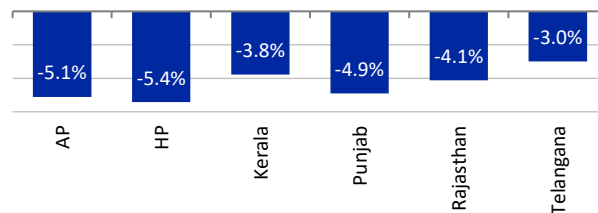


Note: \* Data pertains to 26 states (excluding Goa and Bihar); ^Data available till January 2025;  
Source: Finance Commission (FC) reports; Comptroller and Auditor General of India (CAG); National Statistics Office (NSO); State Budgets; ICRA Research

In Volume II of this two-part series, ICRA has analysed the capital spending, fiscal deficits and leverage of 26 Indian states\* during the Fifteenth Finance Commission's (15th FC's) award period. Encouragingly, the states' capex increased to 2.5% of Gross State Domestic Product (GSDP) in the FY2025 provisional actuals (PA) from 2.3% of GSDP in FY2022, while their revenue deficit rose by a similar extent during this period (to 0.7% from 0.5% of GSDP). As a result, their fiscal deficit widened to 3.2% of GSDP in FY2025 PA from 2.8% of GSDP in FY2022, even though the 15th FC had recommended a step-down in the Net Borrowing Ceiling (NBC) to 3% of GSDP in FY2025 (and FY2026) from 4% of GSDP in FY2022. This was facilitated by sharp increase in the 50-year interest-free capex loans provided by the GoI to the 26 states during FY2023–FY2025^ (total Rs. 2.7 trillion) from a modest Rs. 128 billion in FY2022. Such loans were over and above the NBC recommended by the 15th FC and availed by most of the states. Moreover, the 15th FC had recommended that states could avail additional borrowing (outside the NBC) of up to 0.5% of GSDP during FY2022–FY2025 provided they completed the prescribed power sector reforms. A select number of states borrowed Rs. 1.3 trillion during FY2022–FY2025 by completing the said reforms. The leverage (debt + guarantees) of these 26 states rose modestly to 29.4% of GSDP in FY2025 PA from 28.9% of GSDP in FY2022 amid continued, wide inter-state variation.

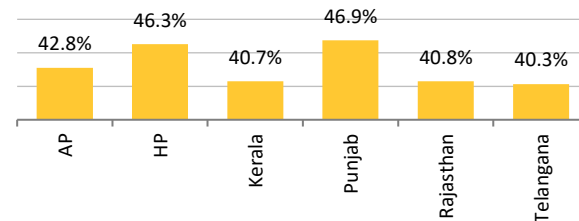
The leverage levels of Andhra Pradesh (AP), Himachal Pradesh (HP), Kerala, Punjab, Rajasthan and Telangana were adverse, exceeding 40% of GSDP in FY2025 PA. While Telangana's fiscal deficit was moderate at 3% of GSDP in FY2025 PA, its high leverage reflected the large stock of guarantees outstanding. The fiscal deficit of the remaining five states was high at 3.8–5.4% of GSDP in FY2025 PA, with a similar trend over the years leading to unfavourable leverage levels.

## EXHIBIT: Fiscal deficit as a share of GSDP in FY2025 PA



Source: CAG; State Budgets; NSO; ICRA Research

## EXHIBIT: Leverage as a share of GSDP in FY2025 PA





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