ICRA

STATE GOVERNMENT FINANCES

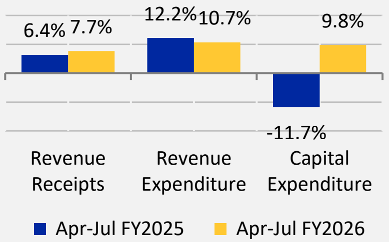
Timing of proposed GST rate changes to guide revenue growth, size of states’ fiscal deficit in FY2026

SEPTEMBER 2025

Highlights

Click to see full report

EXHIBIT: YoY growth of key fiscal indicators in Apr-Jul during FY2025-FY2026



Note: Data pertains to 19 states (excluding Goa, Bihar and seven north-east states; Source: Comptroller and Auditor General of India (CAG); State Budgets; ICRA Research*

The provisional actuals (PA) released by the Comptroller and Auditor General of India (CAG) for the 19 states revealed that their combined revenue receipts increased by 7.7% during Apr-Jul FY2026. This was well below the 22.0% growth indicated in the FY2026 Budget Estimates (BE). The States Own Tax Revenues (SOTR), the key driver of state revenues, rose by a modest 4.8% during Apr-Jul FY2026 on a YoY basis (20.6% YoY growth in BE) led by sub-4% growth in State GST collections (~23% growth in BE) and sales tax collections (~18% growth in BE).

Meanwhile, revenue expenditure expanded by ~11% during Apr-Jul FY2026 (18.5% YoY growth in BE), outpacing the growth of revenue receipts in the same period. Reflecting these trends, the combined revenue deficit of the 19 states nearly doubled to Rs. 727 billion (55% of FY2026 BE) from Rs. 371 billion (17% of FY2025 PA) in the same period last year. The combined capital outlay and net lending of the 19 states expanded by 9.8% during Apr-Jul FY2026 on a low base (11.7% contraction in Apr-Jul FY2025; 30.5% YoY growth in BE). Widening revenue deficit and increase in capex led to the fiscal deficit increasing to Rs. 2.3 trillion (21% of BE) during Apr-Jul FY2026 from Rs. 1.8 trillion (19% of PA) last year. To meet the targets indicated in their BE for FY2026, revenue receipts and expenditure need to grow by 22-28% and capex by a higher ~35% during Aug-Mar FY2026, which appears implausible.

Looking ahead, the actual SGST collections in FY2026 will be impacted by proposed changes in the GST slab rates. If consumers opt to defer the purchase of discretionary items to avail the benefit of the expected lower tax rates after the GST rate rationalisation, consumption may get compressed to an extent in the immediate term. The timing of these changes, the extent of alteration in consumer behaviour in purchasing goods, and the final rate structure will determine the potential revenue loss, if any, for the states in FY2026 and beyond. At present, It is unclear if the surplus (after repayment of GST compensation loans) in the GST compensation fund, estimated by ICRA at Rs. 480 billion, will be shared with the states in FY2026 and whether the cess will continue to be levied after the rate rationalisation, up to March 2026, for compensating states for potential revenue losses. Such factors, along with the growth in other revenues as well as expenditures will guide the size of the fiscal deficit in FY2026, vs. the BE of Rs. 10.7 trillion.

ICRA Analytical Contact Details

Name	Designation	Email	Contact Number
Aditi Nayar	Chief Economist, Head – Research & Outreach	aditin@icraindia.com	0124- 4545 385
Neetika Shridhar	Vice President	neetika.shridhar@icraindia.com	0124 – 4545 305
Jaspreet Kaur	Senior Analyst	jaspreet.kaur@icraindia.com	0124 – 4545 853

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Sai Krishna	Head - Research Sales and Investor Connect	sai.krishna1@icraindia.com	9840774883
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – East	vinita.baid@icraindia.com	033-65216801
Shivam Bhatia	Head Business Development – Corporate Sector – North & South	shivam.bhatia@icraindia.com	0124-4545803
Sanket Kulkarni	Head Business Development – Corporate Sector – West	sanket.kulkarni@icraindia.com	022-6169 3365
Naznin Prodhani	Head - Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

ICRA

ICRA

Thank You!