

STATE GOVERNMENT FINANCES

States' capex growth projected at healthy 16-18% in FY2026, albeit sharply trailing the BE

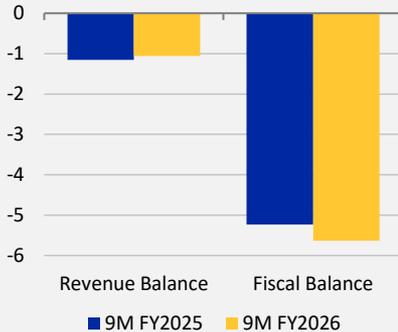
FEBRUARY 2026





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EXHIBIT: Revenue and fiscal balances of the 18 states in 9M FY2025 and 9M FY2026 (Rs. trillion)



Note: *Includes all major Indian states, excluding northeastern states, Bihar and Goa

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

The combined revenue deficit of 18 states* stood at Rs. 1.1 trillion during April-December FY2026, nearly 80% of the Rs. 1.3 trillion indicated in the FY2026 Budget Estimates (BE). However, the fiscal deficit of the 18 states stood at Rs. 5.6 trillion in 9M FY2026, equivalent to 53% of the BE. Based on FY2026 BE and the trends in 9M, the combined revenue receipts, revex and capex of the 18 states need to expand by around 54%, 43% and 53%, respectively, in Q4 FY2026, to meet the budgeted target for the fiscal, which seems unlikely. Factoring in a back-ended disbursement of capex loans and the sustained momentum in such spending in Q4 from Q3, ICRA projects a 20–25% YoY rise in state capital spending in Q4FY2026. ICRA estimates the combined capex of 18 states at Rs. 8.5–8.7 trillion for FY2026 (88–90% of the Rs. 9.6 trillion in BE), translating into a full-year growth of 16–18%.

The 18 states' combined revenue receipts rose by a modest 7.7% in 9M FY2026, trailing the 22% expansion indicated in the BE by a wide margin. This was led by an 18.4% contraction in grants in 9M FY2026, in contrast with the high 60% growth included by the states in their BE. In addition, growth in the State's Own Tax Revenues (SOTR), the key component of the revenues of the states, was lower than budgeted on account of a tepid sub-5% growth in State GST and sales tax collections during 9M FY2026. However, the growth of combined excise duty and stamps and registration charges of the 18 states was moderately healthy at 11-13% during 9M FY2026. Additionally, the 15.2% growth in tax devolution during 9M FY2026, supported the expansion in revenue receipts. Simultaneously, the combined revenue expenditure (revex) rose by 7.0% in 9M FY2026, weaker than the 18.5% expansion included in BE.

Growth in capital spending by the 18 states reported an impressive pick-up to 26% in Q3 FY2026 from a dull 4% in H1 FY2026, bringing the growth in 9M FY2026 to 12.4%. However, this sharply trails the 30.4% YoY expansion penciled in by the states in their BE on the back of a moderate 8.6% growth displayed in FY2025 Provisional Actuals (PA).

Under the 50-year interest-free capex loan scheme, the Government of India (GoI) has disbursed Rs. 1.0 trillion to states till January 27, 2026, against Rs. 1.5 trillion allocated in FY2026 Revised Estimates (RE), leaving Rs. 466 billion to be released in February–March FY2026. Factoring in a back-ended disbursement of capex loans and the sustained momentum in such spending in Q4 from Q3, ICRA projects a 20–25% YoY rise in state capital spending in Q4 FY2026.



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