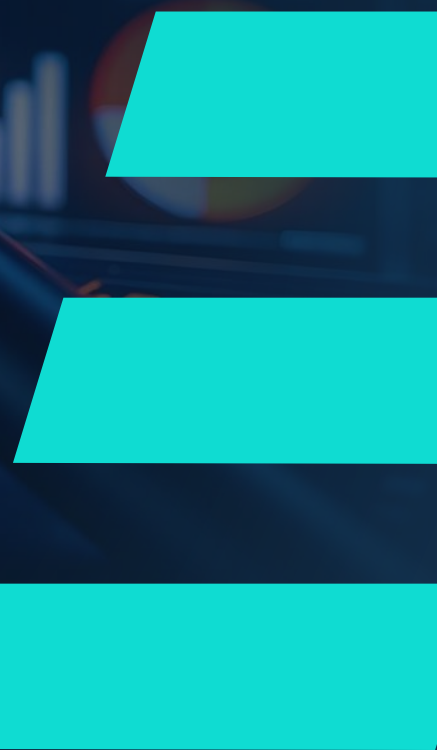


CareEdge

Analysis of State Finances

February 2026



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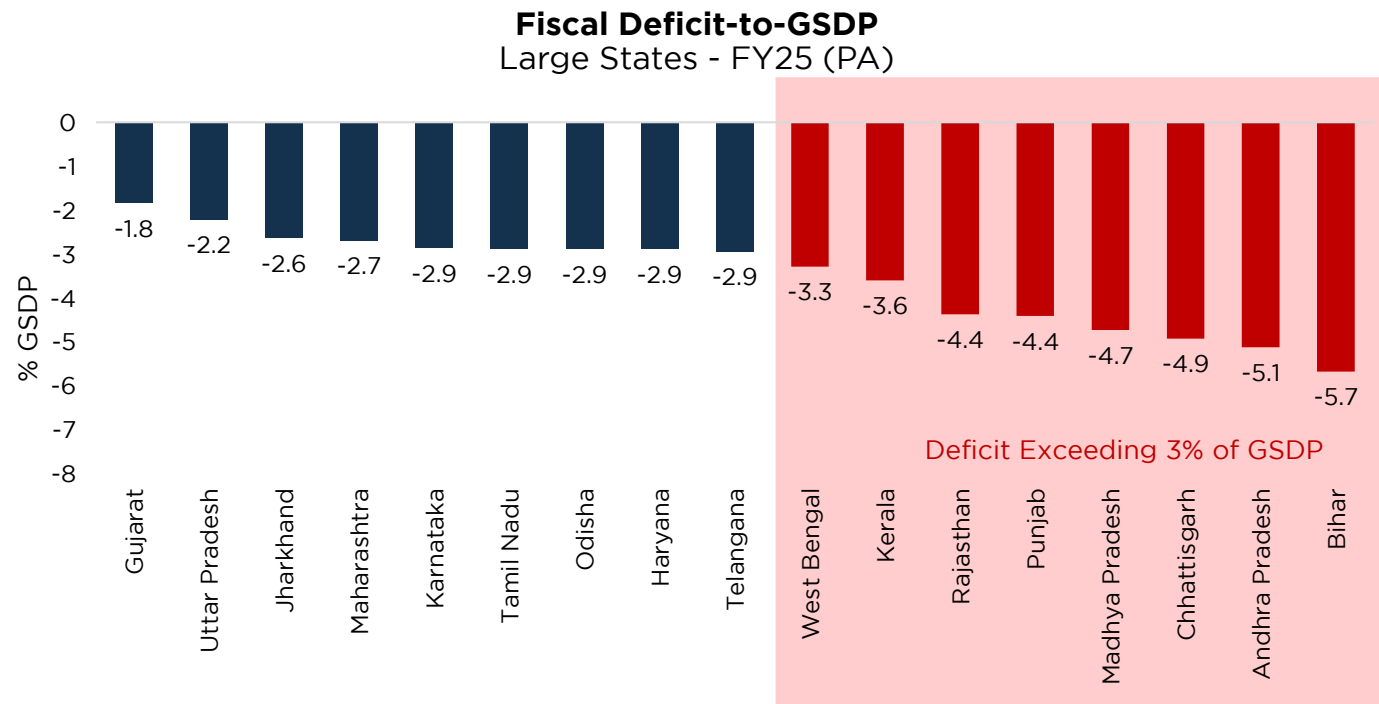
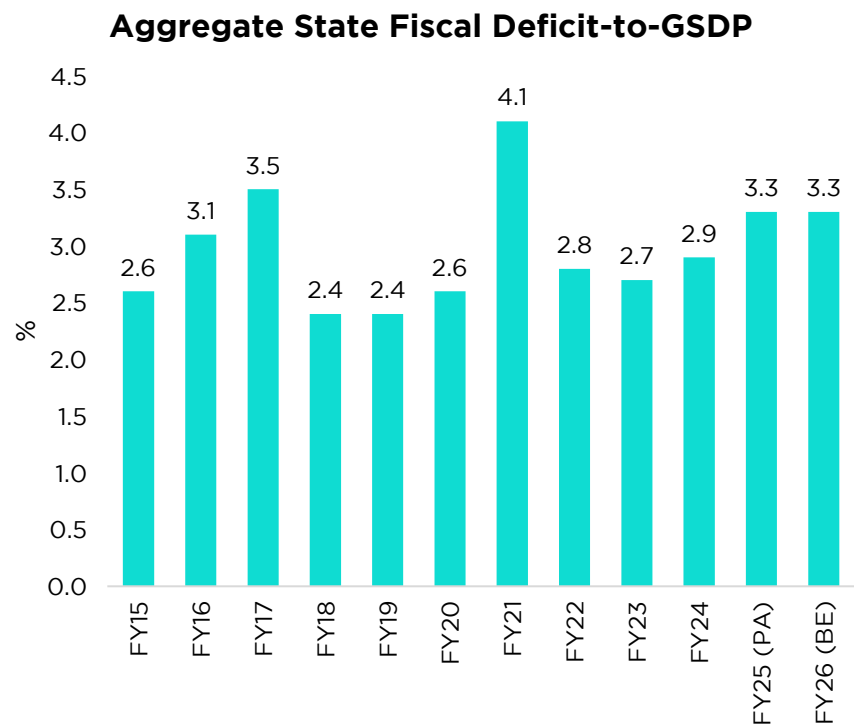


State Finances: Debt & Deficit Overview



State Finances: Debt & Deficit Overview

Fiscal Deficit-to-GSDP Remains Elevated Above the Pre-Pandemic Levels

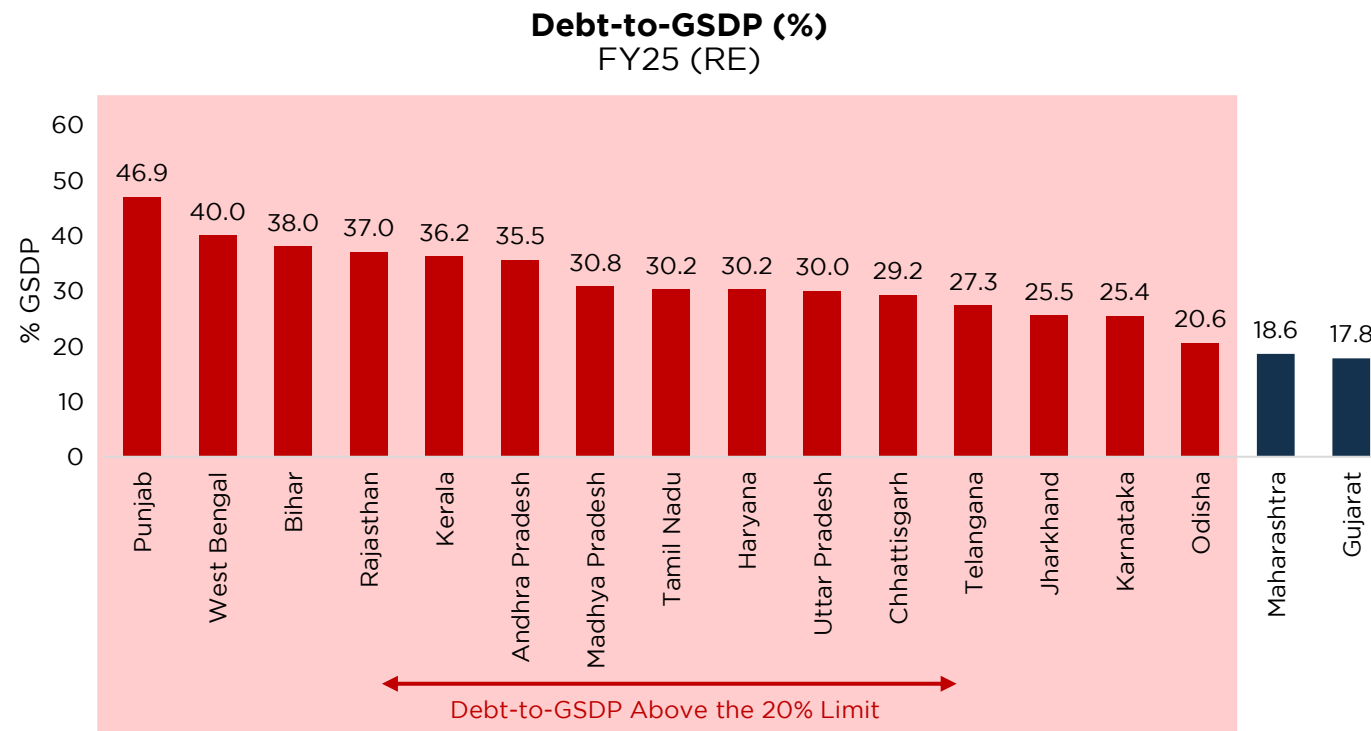
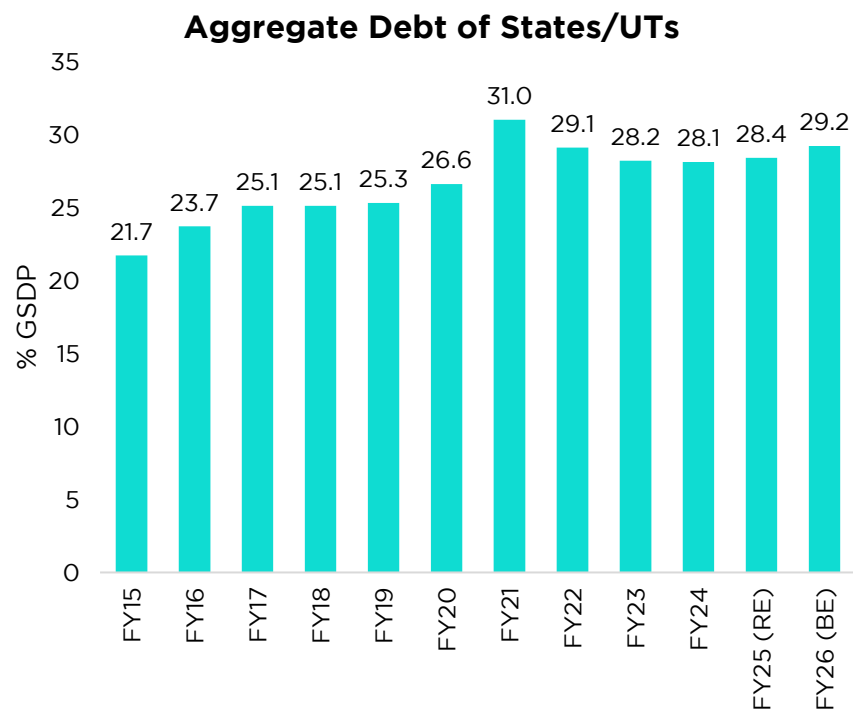


Source: RBI, CEIC, CAG, CareEdge; Note: (PA): Provisional Accounts; (BE): Budget Estimate

- Aggregate state fiscal deficit rose to 3.3% in FY25 (PA) after staying within the 3% mark in the previous three years.
- The 15th Finance Commission had recommended a fiscal deficit limit of 3%, with additional annual borrowing of 0.5% of GSDP for states undertaking power sector reforms.
- Among the large states analysed, seven out of seventeen states were seen to have a fiscal deficit-to-GSDP over the 3.5% limit in FY25.
- These states include, Bihar, Andhra Pradesh, Chhattisgarh, Madhya Pradesh, Punjab, Rajasthan and Kerala.

State Finances: Debt & Deficit Overview

Debt-to-GSDP Levels Remain Sticky

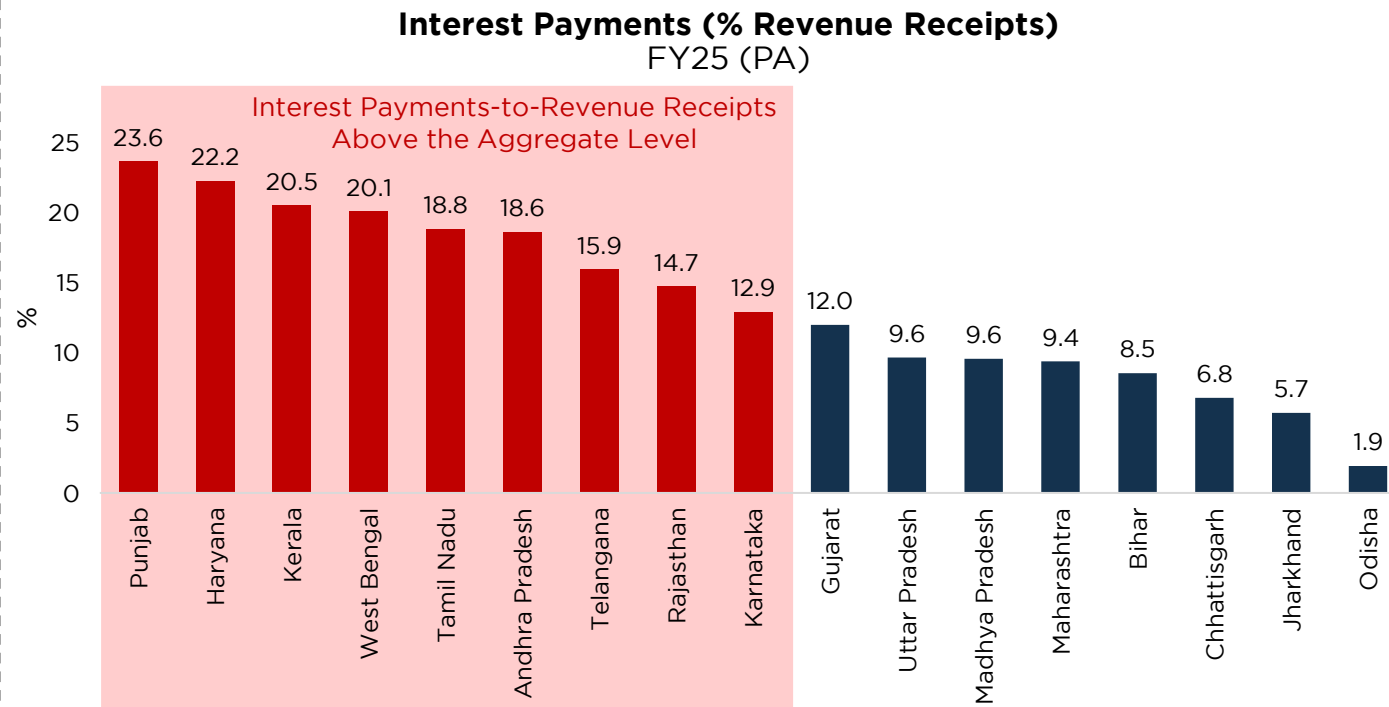
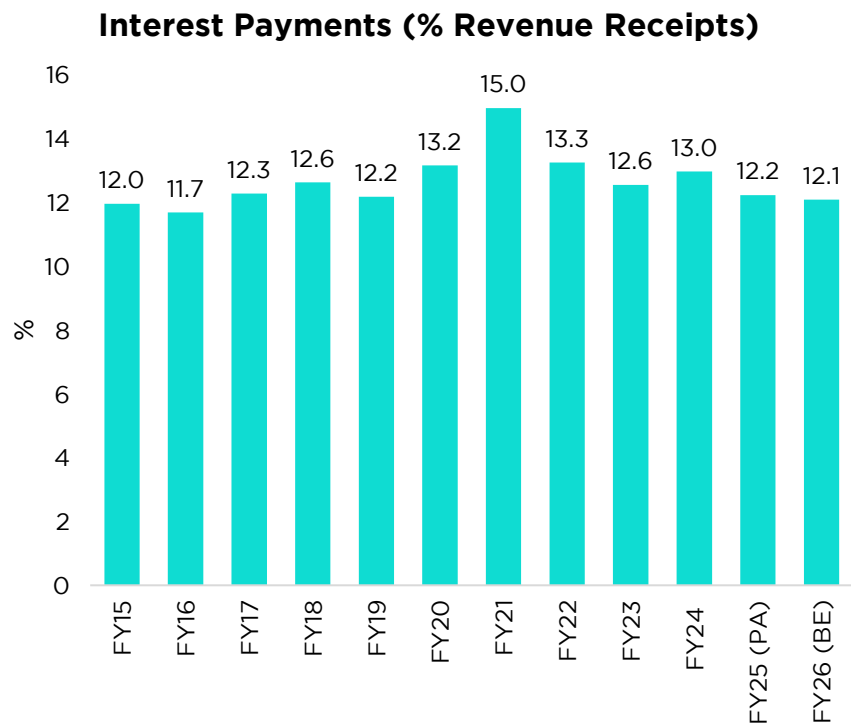


Source: RBI, CareEdge; Note: (RE): Revised Estimate; (BE) Budget Estimate

- Post-pandemic fiscal consolidation along with healthy nominal GDP growth supported the debt consolidation to 28.4% in FY25 (RE) from 31% in FY21.
- However, several states have a debt-to-GSDP ratio above the FRBM Review Committee's (2018) recommended level of 20%.
- States with elevated debt levels, as well as high fiscal deficit, include Punjab, Bihar, Rajasthan, Kerala, Andhra Pradesh, Madhya Pradesh, and Chhattisgarh.

State Finances: Debt & Deficit Overview

Aggregate Interest Payments (% Revenue Receipts) Moderate Despite Elevated Debt Levels



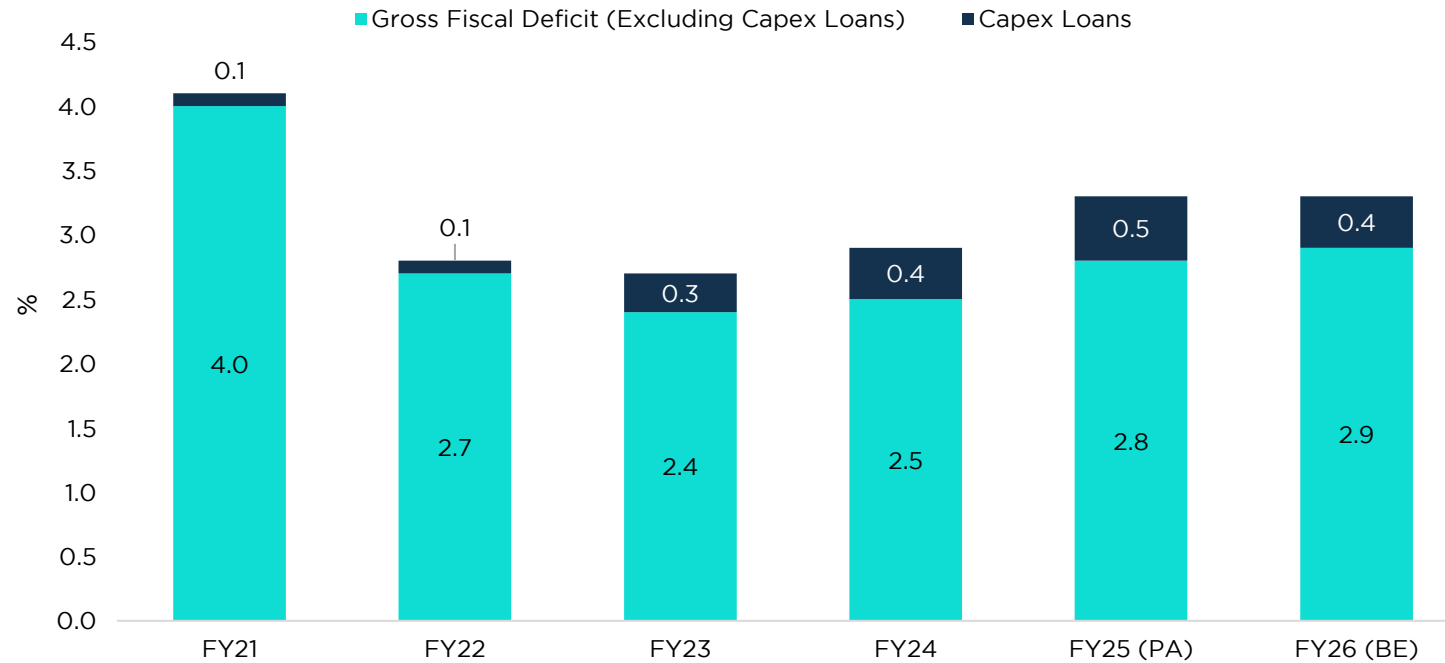
Source: CMIE, CAG, CEIC, CareEdge; Note: FY25 data for Goa, Sikkim and Mizoram represent revised estimate; Note: (RE): Revised Estimate, (BE): Budget Estimate, (PA): Provisional Account

- Despite the elevated debt levels, the interest payments (% revenue receipts) have successively moderated in the post-covid period.
- Centre’s interest-free loans to states for capital investment have played a pivotal role in lowering the debt repayment burden of the states.
- Among states, the interest burden was specifically high in Punjab, Haryana, Kerala, and West Bengal, exceeding 20% of the revenue receipts.
- States with elevated interest payments also exhibit high debt levels, compounding fiscal stress. These include Punjab (debt-to-GSDP of 46.9% in FY25-RE), Rajasthan (37%), West Bengal (40%), Kerala (36.2%), and Andhra Pradesh (35.5%).
- Though Bihar’s debt and deficit levels are elevated, it has low interest payments-to-revenue receipts. The state’s relatively high share in the Centre’s tax devolution has aided the revenue receipts of the state, translating into lower interest payment-to-revenue receipts.

State Finances: Debt & Deficit Overview

State Finances Have Gained Support from Centre's Interest Free Loans

Aggregate Gross Fiscal Deficit of States and 50-Year Interest-Free Loans



Source: RBI; Note: (PA): Provisional Account, (BE): Budget Estimate

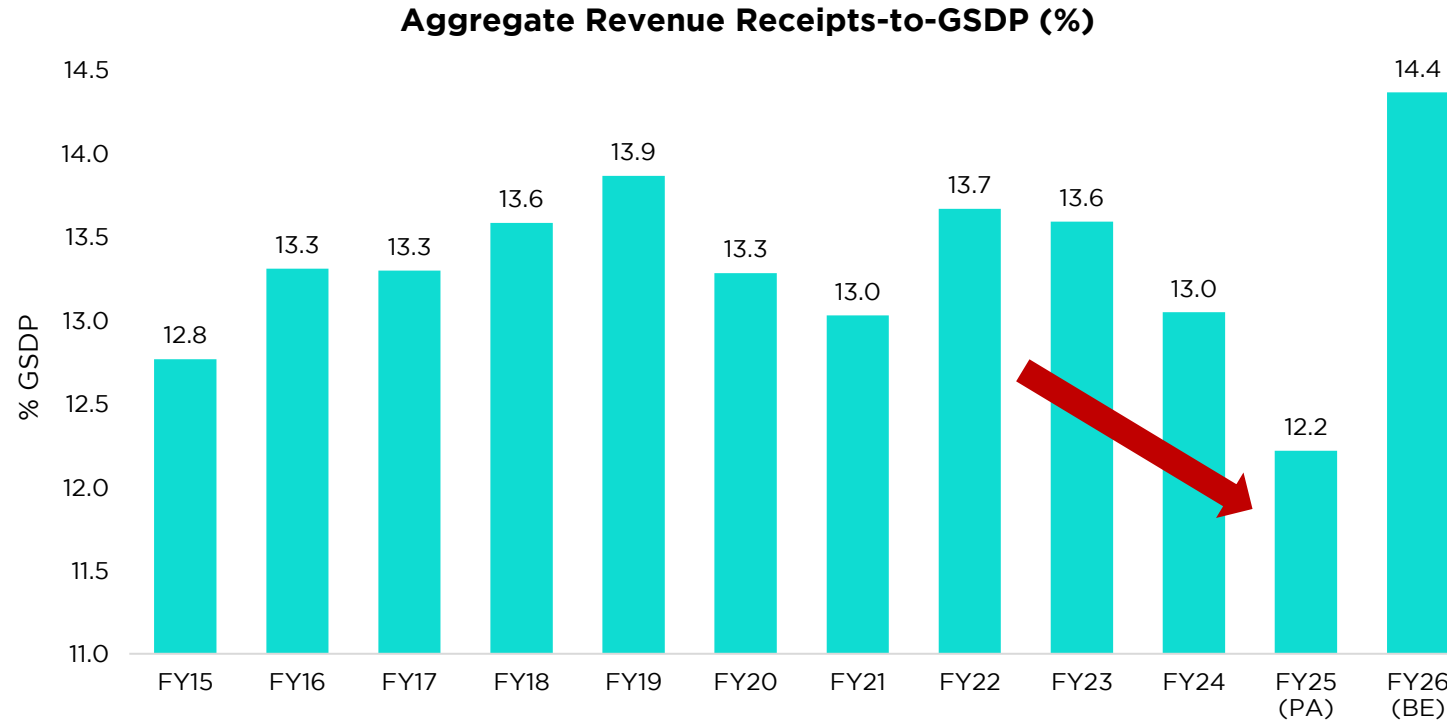
- Despite rising fiscal deficit and the elevated debt levels, the Centre's interest-free loans have played a critical role in boosting the states' quality of spending and containing their debt repayment burden in recent years.
- Between FY24-FY26, fiscal deficit of close to 0.4-0.5% of GSDP was financed by the Centre's interest-free loans.

State Finances: Revenue Overview



State Finances: Revenue Overview

Revenue Receipts-to-GSDP Moderates Amid Decline in Centre's Grants



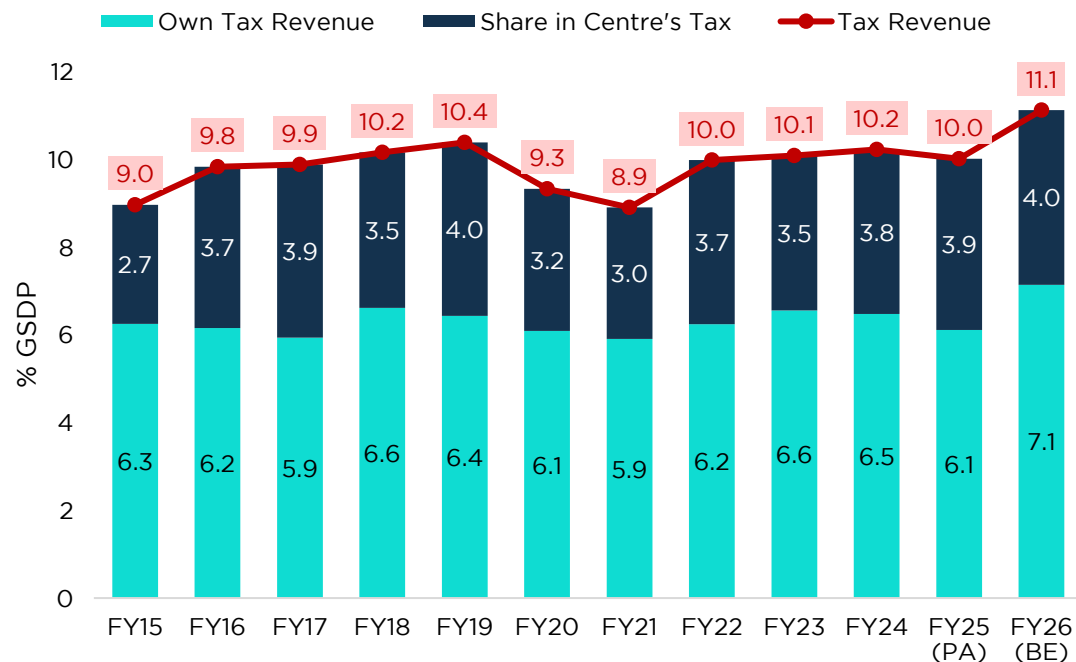
Source: RBI, Economic Survey FY26, CEIC, CareEdge; Note: (PA): Provisional Accounts; (BE): Budget Estimate

- Aggregate revenue receipts of the states were seen at 12.2% of GSDP in FY25 (PA), having moderated successively from 13.7% in FY22.
- While tax revenues remained largely steady, a notable moderation in the Centre's grants resulted in lower revenue collections. Centre's grants comprise items like Centrally Sponsored Schemes, Finance Commission Grants, and Other Grants, etc.

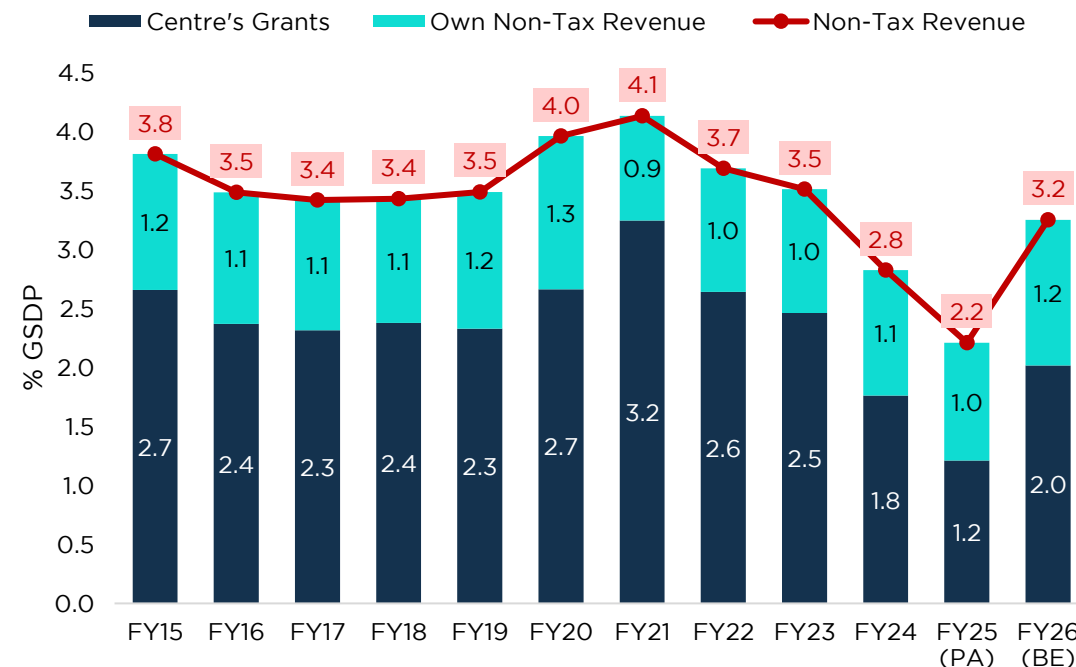
State Finances: Revenue Overview

Tax Revenues Largely Stable; Non-Tax Revenues Moderate

Trends in Aggregate Tax Revenue-to-GSDP (%)



Trends in Aggregate Non Tax Revenue-to-GSDP (%)



Source: RBI, Economic Survey FY26, CEIC, CareEdge; Note: (PA): Provisional Accounts; (BE): Budget Estimate

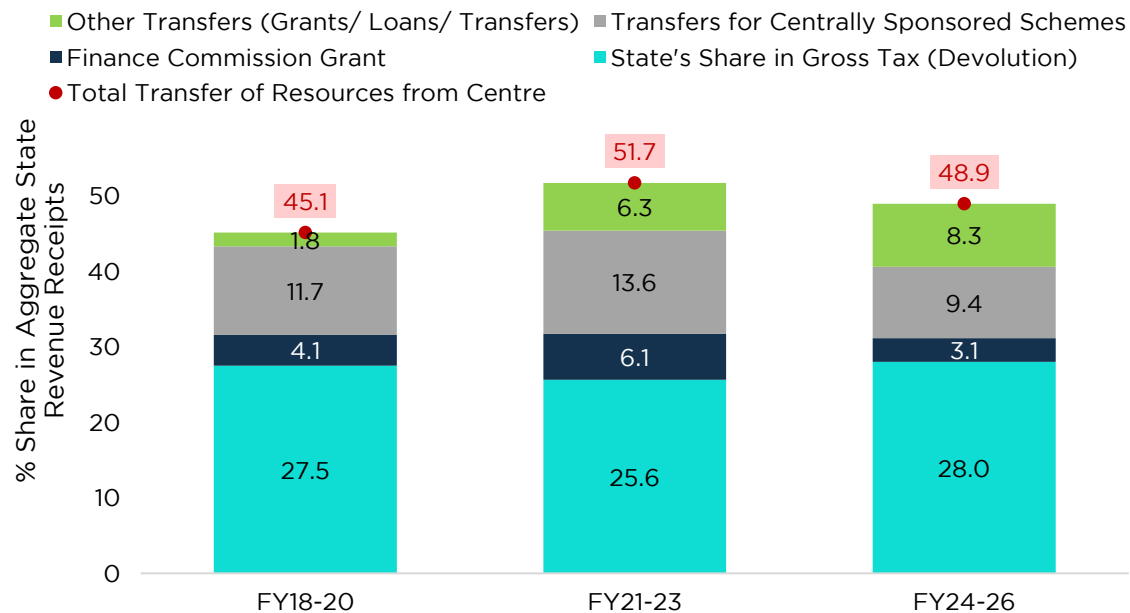
Source: RBI, Economic Survey FY26, CEIC, CareEdge; Note: (PA): Provisional Accounts; (BE): Budget Estimate; Centre's grants comprise of items like Centrally Sponsored Schemes, Finance Commission Grants and Other Grants etc.

- Aggregate state tax revenue has remained largely stable at around 10% of GSDP in recent years.
- On the contrary, the aggregate non-tax revenues have moderated notably to 2.2% of GSDP in FY25 (PA), mainly due to lower grants from the Centre, which dipped to 1.2% of GSDP from the pre-pandemic average of 2.4% (FY15-19).
- Disbursements from the Centre under GST compensation dropped to Rs 0.1 trillion in FY25, compared to Rs 1.4 trillion in FY21.

State Finances: Revenue Overview

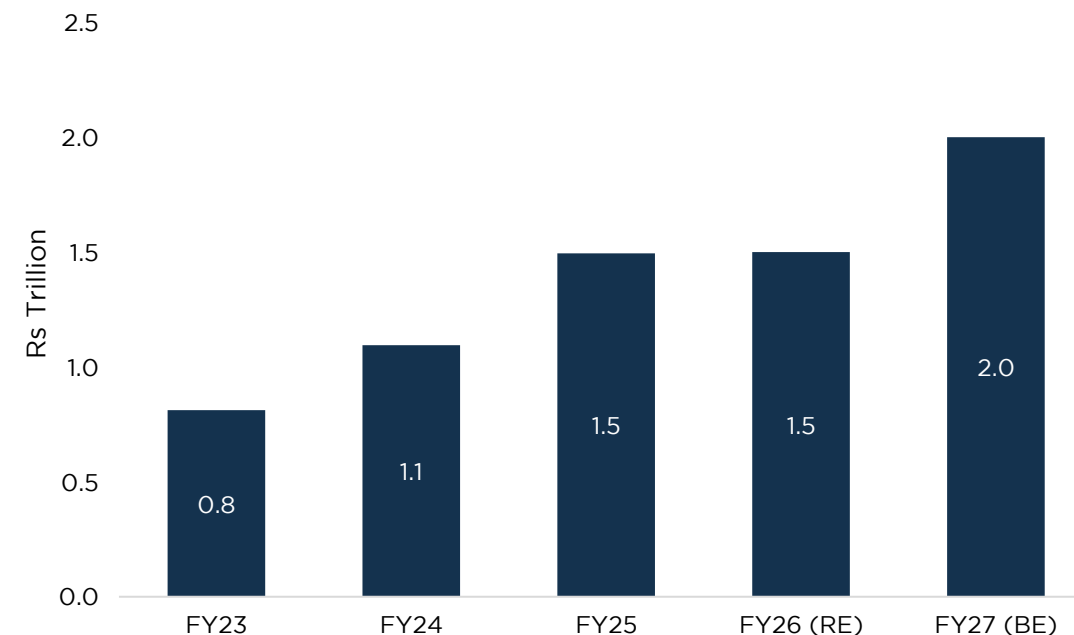
Detailed Look at Centre's Transfer of Resources to the States

Composition of Transfer of Resources from Centre % Share in Aggregate State Revenue Receipts



Source: RBI, Union Budget Documents; Note: Aggregate state revenue receipts for FY25 is revised estimate & FY26 is budget estimate, Total transfer of resources for FY26 is revised estimate & FY27 is budget estimate

Spending towards Special Assistance as Loans for Capital Expenditure

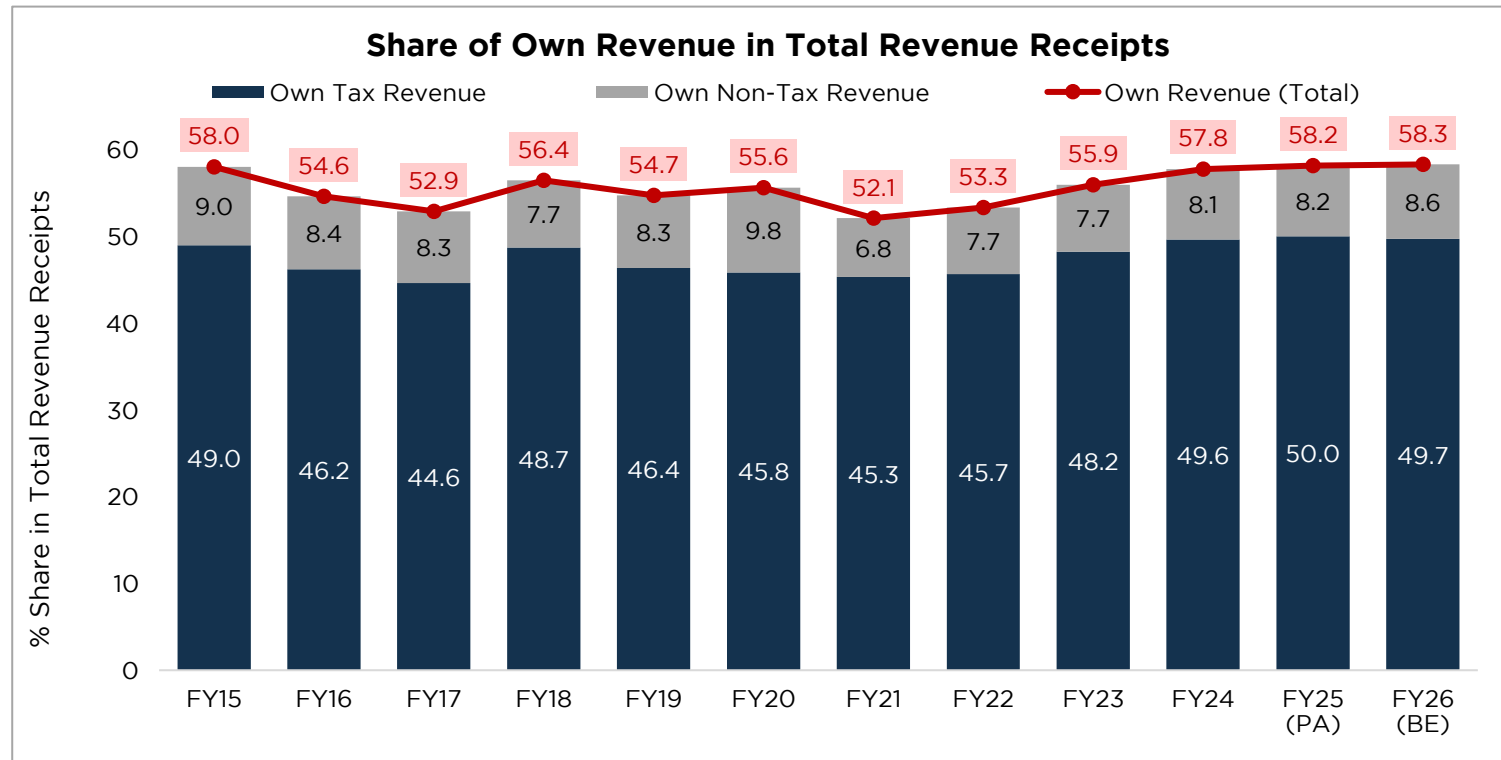


Source: Compiled from Union Budget Documents; Note: (RE): Revised Estimate, (BE): Budget Estimate

- The average share of gross tax devolution in states' aggregate revenue receipts has remained largely steady during FY24-26, compared to the pre-pandemic average.
- In FY24-26, there was a moderation in the share of transfers for Centrally Sponsored Schemes and Finance Commission Grants.
- The share of other transfers (grants/loans/transfers) has risen notably to 8.3% during FY24-26 from 1.8% during the pre-pandemic levels (FY18-20). This can primarily be attributed to the increase in allocations to the Scheme for Special Assistance to States for Capital Expenditure (SASCI), launched in October 2020 to provide 50-year interest-free loans. Allocation under the scheme has been enhanced to Rs 2 trillion for FY27, up from Rs 1.5 trillion in the previous fiscal year.
- Overall, transfer of resources from Centre during FY24-26 has been higher compared to the pre-pandemic level.

State Finances: Revenue Overview

States Focus on Boosting their Own Revenues



Source: RBI, Economic Survey FY26, CEIC, CareEdge; Note: (PA): Provisional Accounts; (BE): Budget Estimate

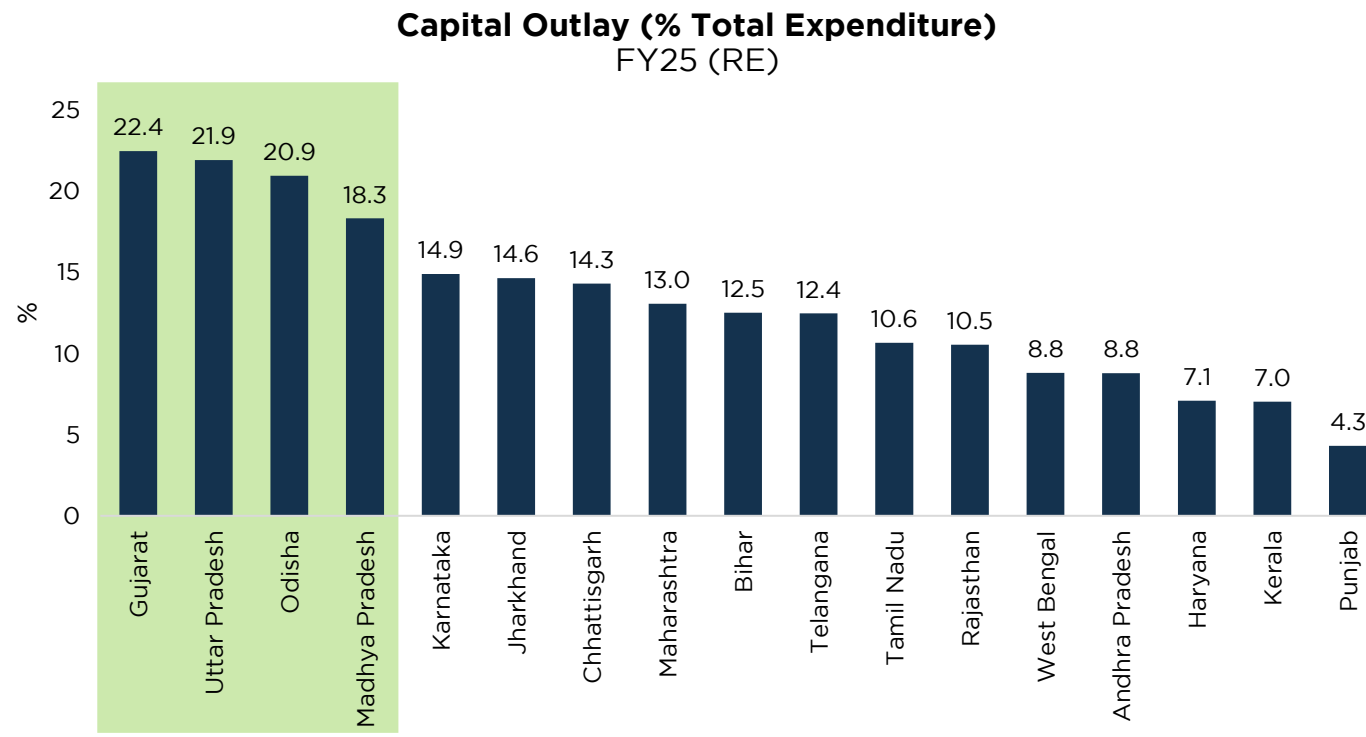
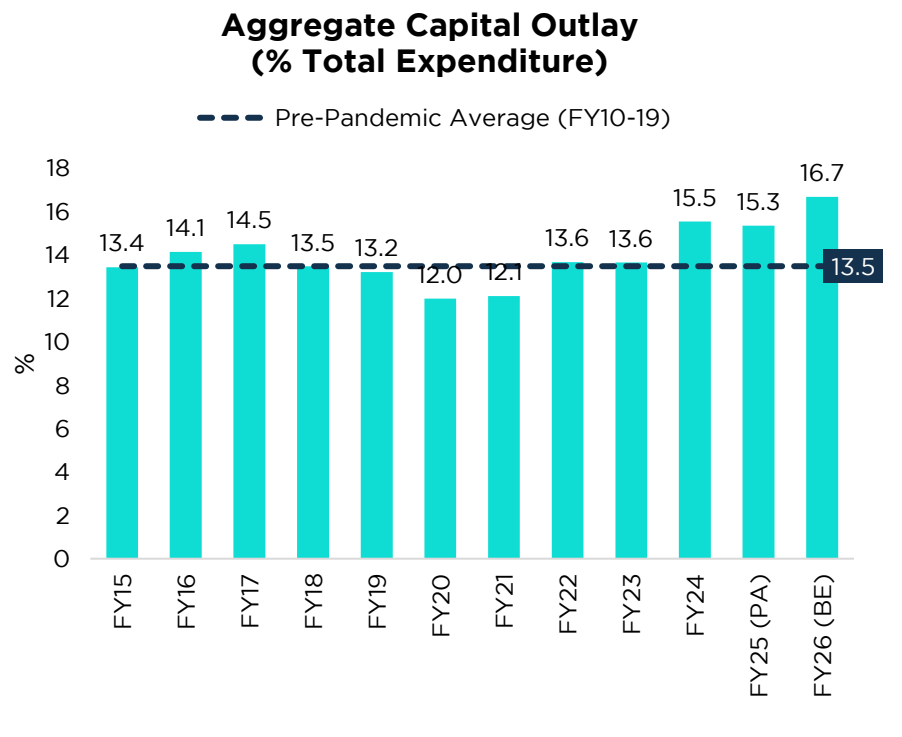
- With the GST Compensation Cess officially ending in 2022, states have focused on boosting their own-source revenues, as the flow of funds under the GST compensation mechanism has declined sharply.
- As a result, the share of aggregate own revenue (tax & non-tax) in the total revenue receipts has risen to 58.2% in FY25 (PA) from a pre-pandemic average share of 55.3% (FY15-19).

State Finances: Expenditure Overview



State Finances: Expenditure Overview

Centre's Support Boosts States' Capital Outlay

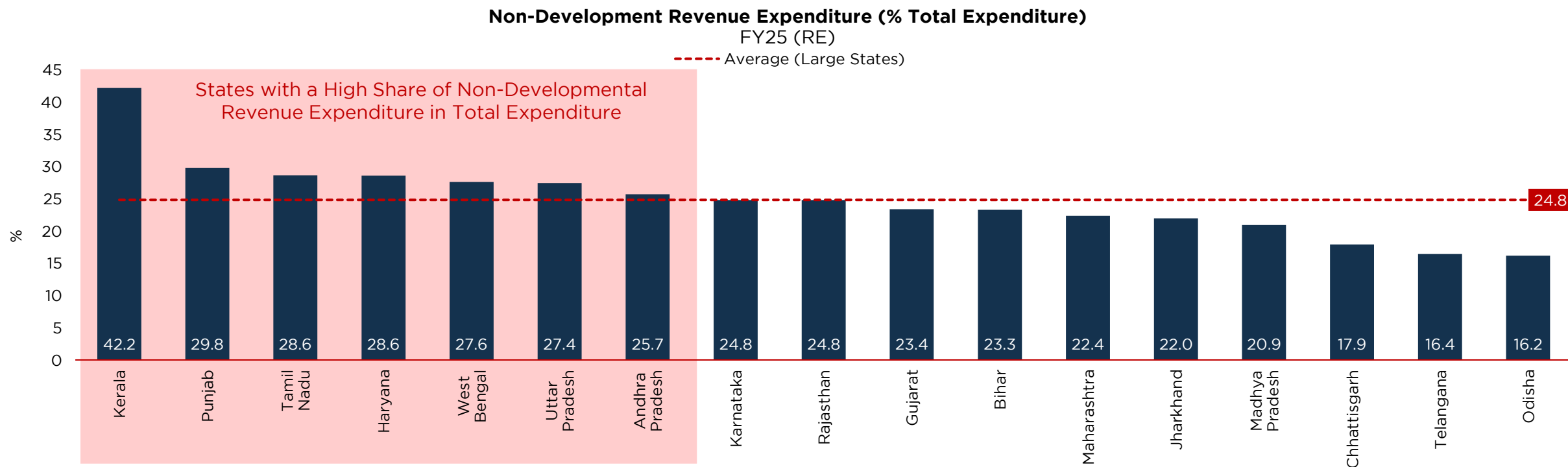


Source: RBI, CAG, CareEdge; Note: (PA): Provisional Account, (RE): Revised Estimate; (BE) Budget Estimate

- States' aggregate capital outlay (% total expenditure) is estimated to have risen to 15.3% in FY25 compared to the pre-pandemic average of 13.5% (FY10-19).
- Capital outlay (% total expenditure) for states like Gujarat, UP, Odisha and MP is estimated to be in the range of 18-22%, notably higher than the other states.
- Furthermore, it is critical to note that states such as Gujarat, Odisha and Uttar Pradesh also fare relatively well on the deficit, debt and interest burden parameters.
- To enhance capex by states, Centre has continued allocation for the 50-year interest-free loans under the Scheme for Special Assistance to States for Capital Investment.
- 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.

State Finances: Expenditure Overview

High Non-Developmental Spending in Select States

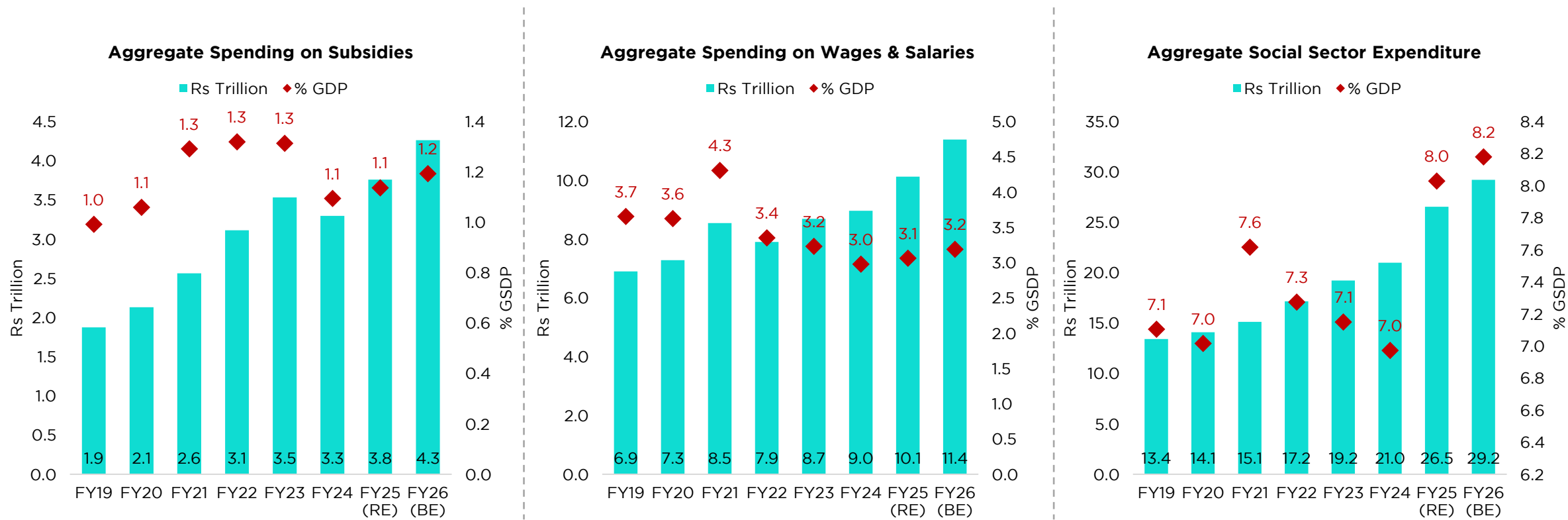


Source: CMIE, CareEdge; Note: (RE): Revised Estimate; Note: Average figure is based on the data for 17 large states shown in the graph; Non-developmental revenue expenditure comprises of items such as interest payments and debt servicing, pensions etc

- Kerala's non-developmental spending accounted for 42.2% of its total expenditure in FY25 (RE), notably higher than the other large states.
- Among other states, the share of non-developmental spending in total expenditure for states such as Punjab, Tamil Nadu, Haryana, West Bengal, Uttar Pradesh and Andhra Pradesh was estimated to be above the average for large states (seen at 24.8%).

State Finances: Expenditure Overview

Outlay Towards Subsidies & Salaries Largely Stable; Social Sector Spending Climbs



Source: RBI; Note: (RE): Revised Estimate, (BE): Budget Estimate

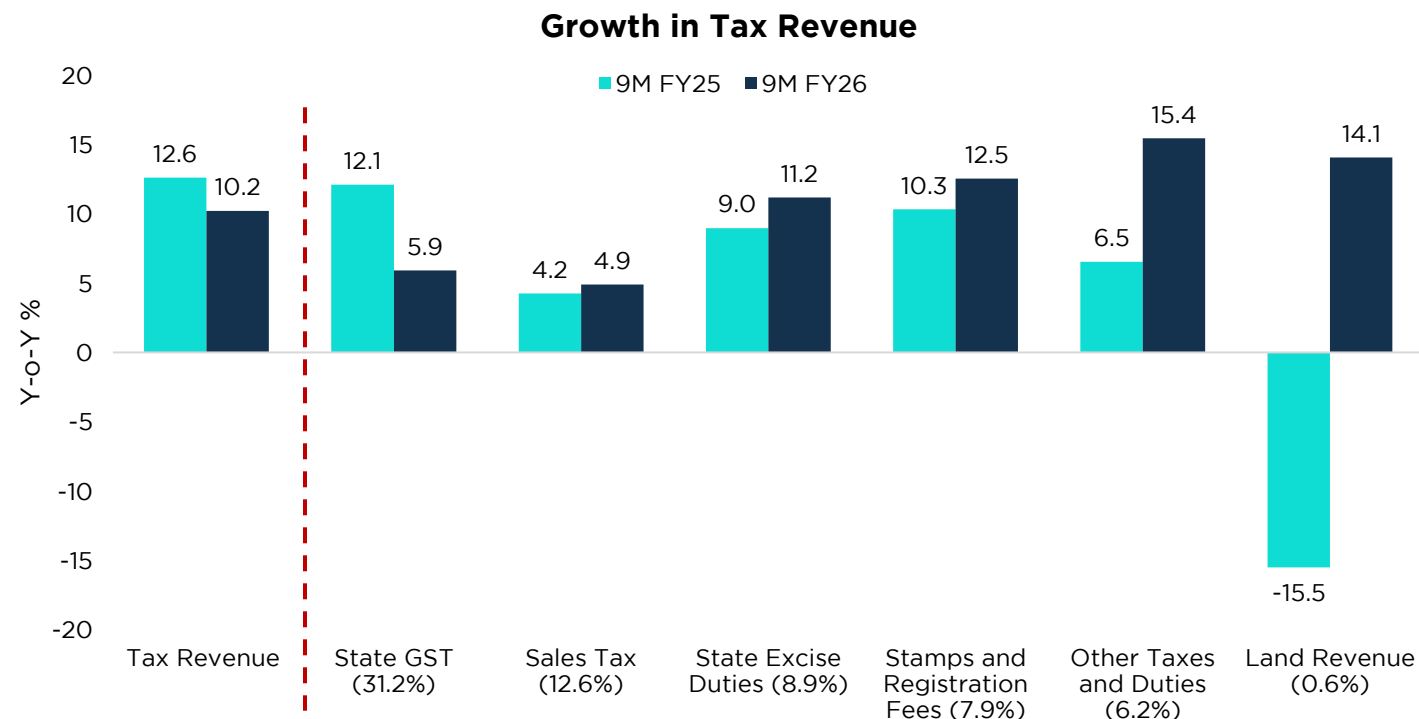
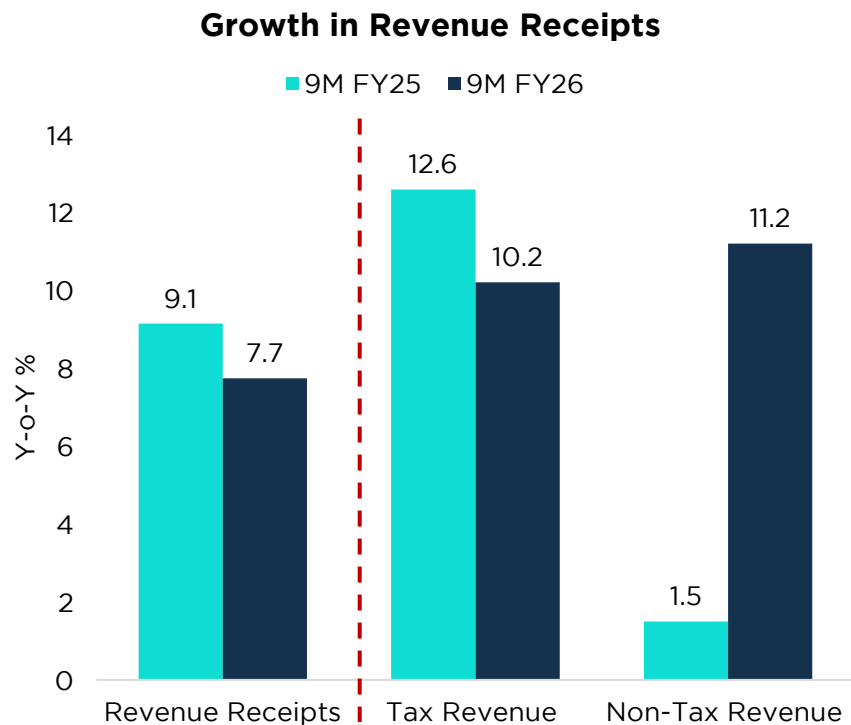
- Spending towards subsidies (% GSDP) have moderated in the post-pandemic period staying around 1.1%.
- Allocation towards salaries and wages has also been largely range-bound between 3.0-3.2% of GSDP.
- However, social sector spending is estimated to have risen sharply to 8% of GSDP in FY25, partly on account of high cash transfers.

State Finances: Performance in 9M FY26



State Finances: 9M FY26

Tax Revenues Moderate Amid Lower GST Collections

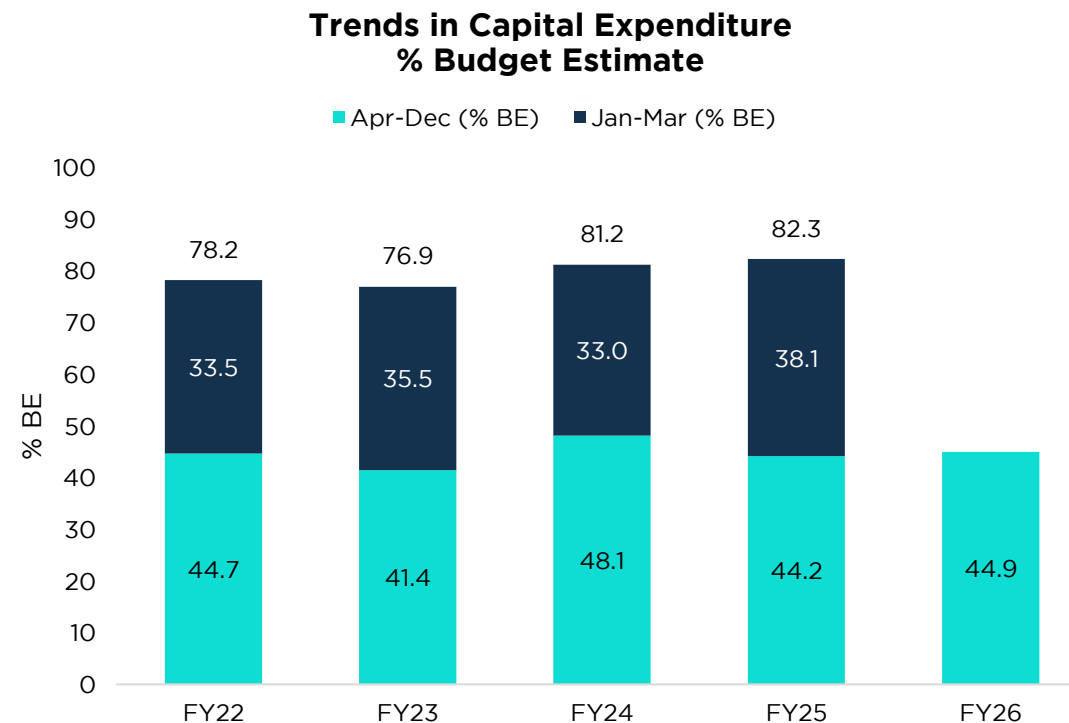
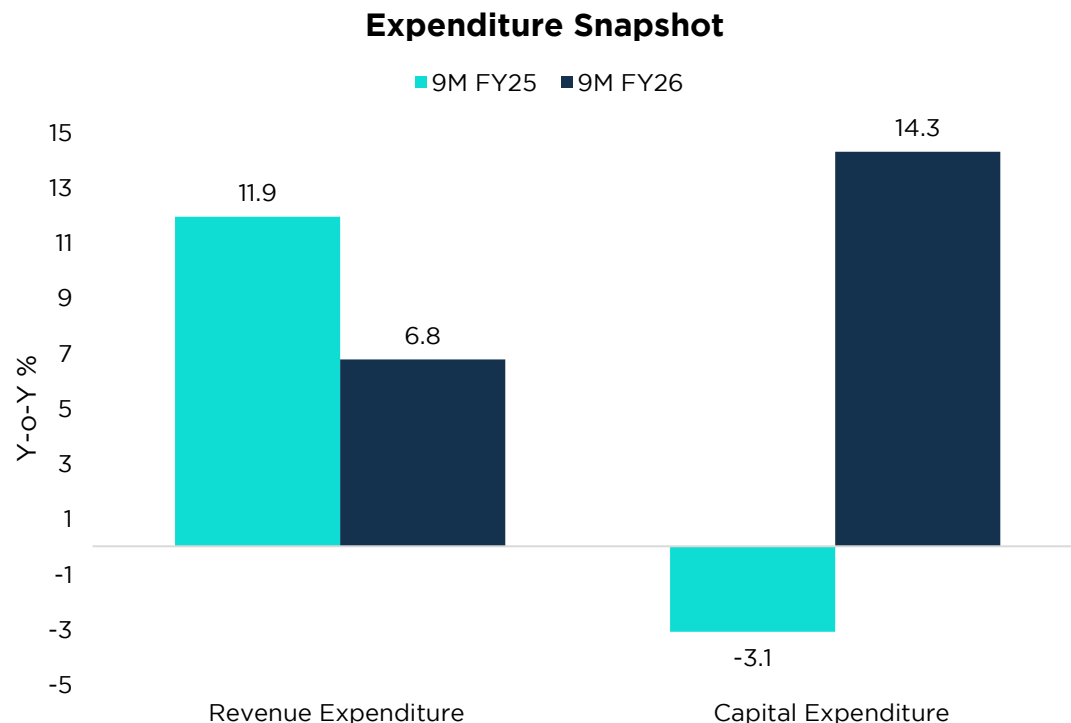


Source: CEIC, CAG, CareEdge; Note: Analysis based on data for 22 states for which data is available for 9M FY26. These 22 states together account for around 94% of India's GDP; Figures in brackets represent percentage share in total tax revenue in 9M FY26

- Growth in tax revenue, though encouraging, has moderated to 10.2% in 9M FY26 (from 12.6% last year) while non-tax revenue rose by an upbeat 11.2% (Vs 1.5%).
- Growth in GST collections in 9M FY26 has been sharply lower at 5.9% Vs 12.1% in the same period last year.
- According to an RBI report (Bulletin December 2025), a one-time negative settlement in April 2025 is expected to have weighed on the collection of states' GST.
- Among other taxes, healthy growth was seen in land revenues (14.1% Vs -15.5%), stamps and registration fees (12.5% Vs 10.3%), excise duties (11.2% Vs 9%), other taxes and duties (15.4% Vs 6.5%).

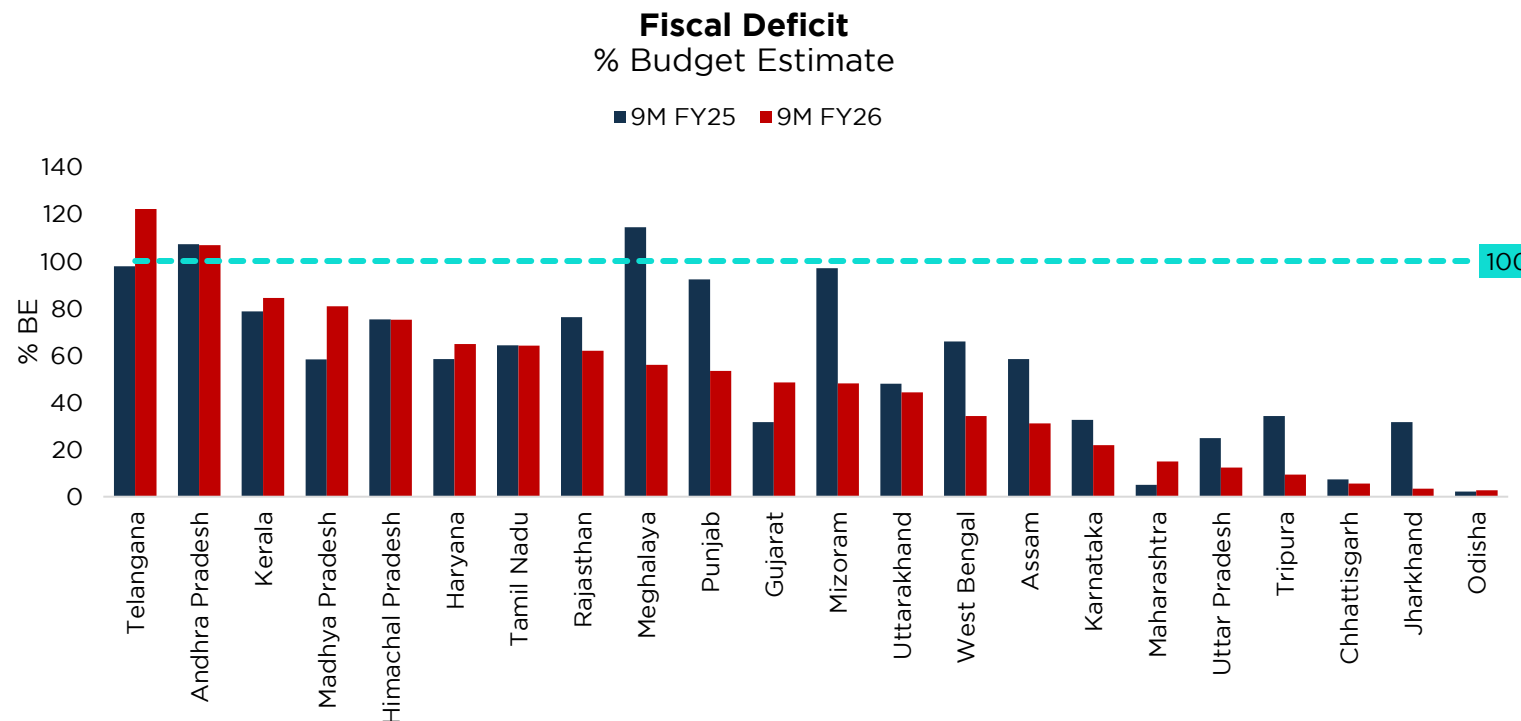
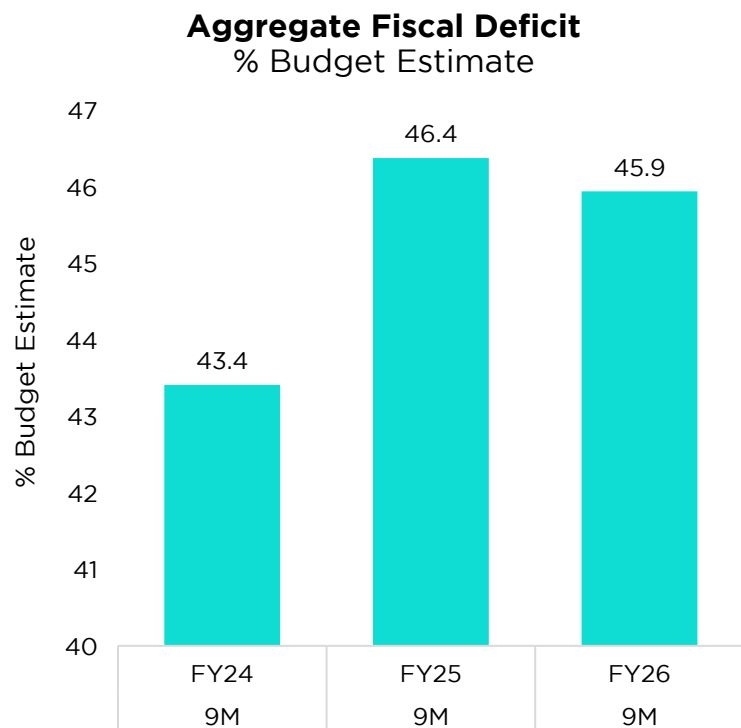
State Finances: 9M FY26

Revenue Expenditure Moderates, Capex Picks Up



Source: CEIC, CAG, CareEdge; Note: Analysis based on data for 22 states for which data is available for 9M FY26. These 22 states together account for around 94% of India's GDP

- Growth in aggregate revenue spending moderated to 6.8% in 9M FY26 (Vs 11.9% in 9M FY25). Capex rose by a strong 14.3%, largely reflecting a favourable base effect.
- In 9M FY26, states' capex is at 45% of the full-year budgeted amount. This compares with around 44% utilisation in the same period last year.
- State capex typically accelerates in the closing months of the fiscal year. Capex trends warrant monitoring, given states' historical underutilisation of budgeted capex.

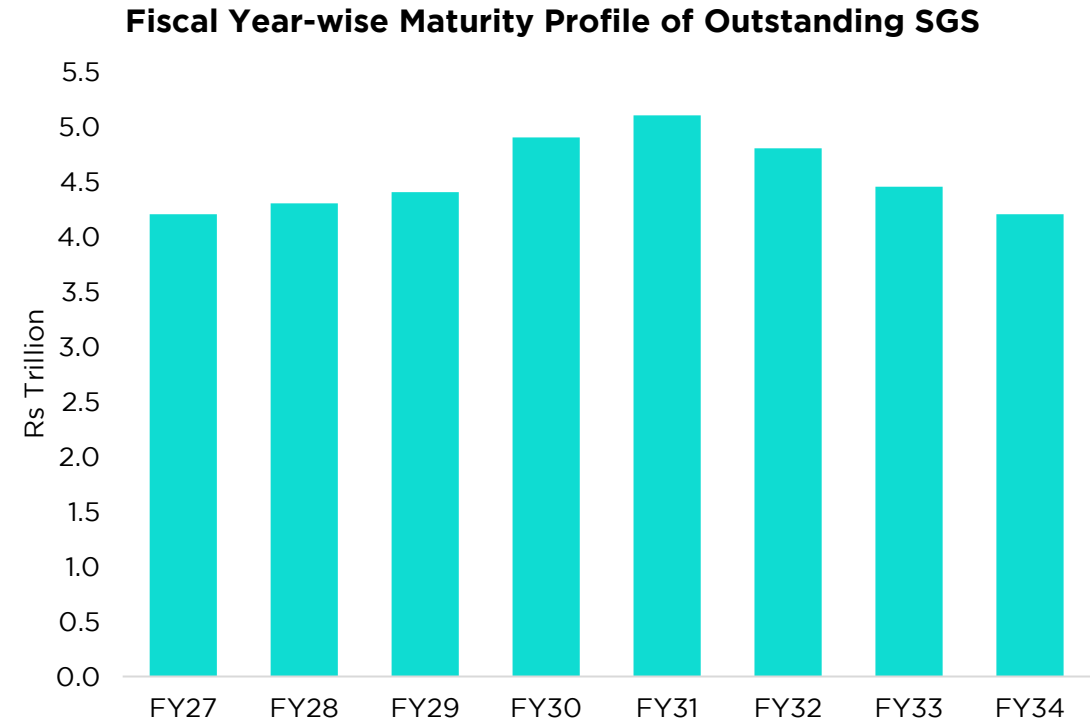
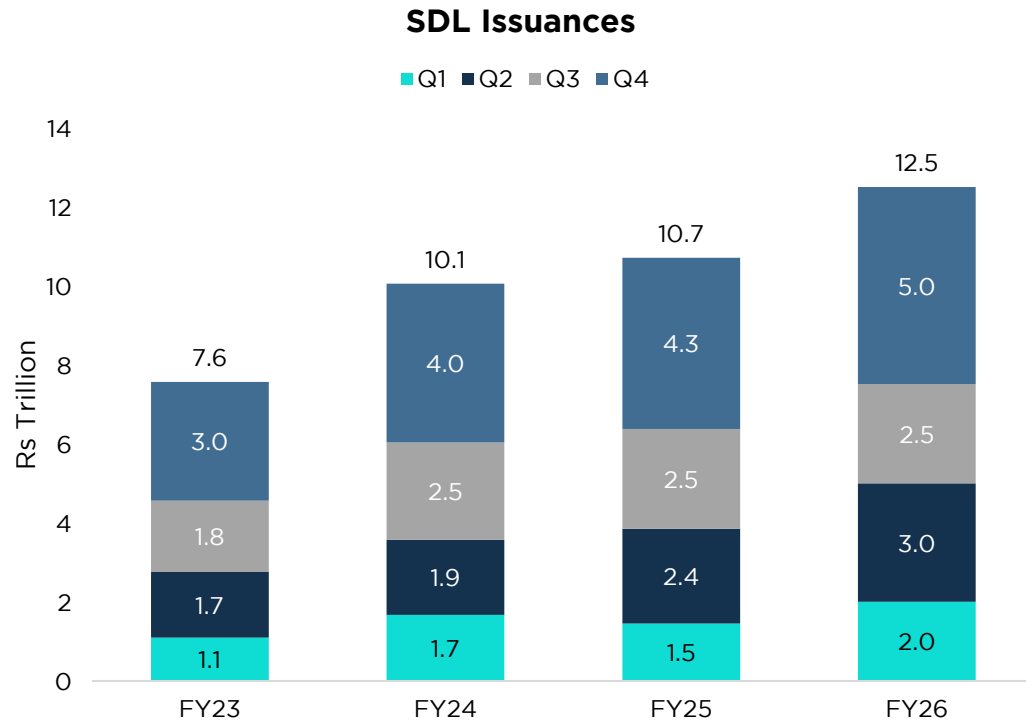


Source: CEIC, CAG, CareEdge; Note: Analysis based on data for 22 states for which data is available for 9M FY26. These 22 states together account for around 94% of India's GDP

- During 9M FY26, states have exhausted 45.9% of the aggregate fiscal deficit target, as against 46.4% in the same period of the previous year.
- Telangana and Andhra Pradesh have already exhausted their budgeted fiscal deficit amounts in 9M FY26.
- At the aggregate level, the states' fiscal deficit is budgeted to be at 3.3% of GSDP for FY26.
- Given that revenue collections have slowed amid slowing tax receipts, the anticipated pickup in capex could pose a challenge for states' fiscal position in FY26.

State Finances: 9M FY26

State Borrowing to Remain Elevated



Source: RBI, CareEdge. Q4FY26 is planned borrowing

Source: CCIL, CareEdge

- State government borrowing remains elevated this year at Rs 12.5 trillion, 16.6% higher than Rs 10.7 trillion in FY25.
- Higher redemptions till FY31 to keep state borrowings elevated.
- SDL spreads(10y SDL over 10y G-sec) have risen to ~70 bps up from ~35 bps in April.
- Fiscal concerns of States, higher borrowing and broadening of NPS fund's investment basket (gold, silver and AIFs) have resulted in widening of SDL spreads over G-secs.

Government Finances: 16th Finance Commission



Government Finances: 16th Finance Commission Recommendations for FY27-FY31

Key Updates

Changes in the Devolution Criteria	15th FC (2021-26)	16th FC (2026-31)
Income Distance	45%	42.50%
Population (2011)	15%	17.50%
Demographic Performance	12.5%	10%
Area	15%	10%
Forest	10%	10%
Tax and Fiscal Efforts	2.50%	-
Contribution to GDP	-	10%
Total	100%	100%

Source: Finance Commission (FC) Documents, CareEdge

- New criteria of GSDP contribution introduced, and criteria of fiscal efforts scrapped.
- Area, Income distance and demographic performance receives a lower weightage. Population as per 2011 Census sees an increase in weightage.
- Recommended share of states in divisible pool of central taxes retained at 41%.

Government Finances: 16th Finance Commission Recommendations for FY27-FY31

Key Updates

Change in Share of States in Tax Devolution 16th FC



Source: Finance Commission (FC) Documents, CareEdge; Notes: Figures in bracket represent state's share in Centre's tax devolution as per the 16th Finance Commission

- States such as Karnataka, Kerala, Gujarat and Haryana gain in share of horizontal devolution while states such as UP, MP, WB and Odisha losses when compared to 15th FC.

❖ Fiscal Path

- Centre should lower its fiscal deficit to 3.5% of GDP by FY31.
- Fiscal deficit limit for states is prescribed at 3% of GSDP.
- States recommended to discontinue off-budget borrowings. Furthermore, fiscal deficit and debt definition to include off-budget borrowings.
- General government (Centre + State) debt projected to moderate to 73.1% in FY31 from 77.3% in FY27.

❖ Other Recommendations

- Privatisation of electricity distribution companies (DISCOMs).
- Review and rationalization of subsidies.
- Review and closure of inactive State Public Sector Enterprises (SPSEs).

State Finances: Summary of Key Trends - Aggregate Analysis



Supportive Factors



- **Centre's interest-free loans** have played a pivotal role in boosting state capex while containing the debt repayment burden.
- **Aggregate states' interest-to-revenue receipts moderate** despite elevated debt and rising deficits.
- States' aggregate **capital outlay (% total expenditure)** is estimated to have risen to 15.3% in FY25 compared to the pre-pandemic average of 13.5% (FY10-19).
- With the GST Compensation Cess officially ending in 2022, states have focused on boosting their own-source revenues. **Own revenues sources** of the states have been on an upward trajectory in the recent years.
- Aggregate state spending towards (a) **Subsidies** and (b) **Salaries & Wages** has remained largely stable in the recent years.

Stress Factors



- **Aggregate fiscal deficit-to-GSDP** has been on an upward trend since FY24 having risen to 3.3% in FY25 (PA).
- **Debt-to-GSDP** levels have remained sticky at ~28%, well above the FRBM limit of 20%.
- Aggregate state **revenue receipts** have moderated in the post-pandemic period amid lower grants from the Centre. However, this has been partially offset by Centre's interest-free loans for capex. GST rationalisation is expected to put further pressure on the aggregate state revenues.
- States' **social sector spending** is estimated to have risen sharply to 8% of GSDP in FY25 from 7.1% in FY19, partly on account of high cash transfers.

CareEdge State Ranking - 2025 Edition Summary of Key Trends



Indicators

- Budget Deficits**
- Fiscal Deficit (% GSDP)
 - Revenue Deficit (% GSDP)

- Debt, Repayment & Guarantees**
- Total Outstanding Liabilities (% GSDP)
 - Interest Expenses (% Revenue Receipts)
 - Outstanding Guarantees (% GSDP)

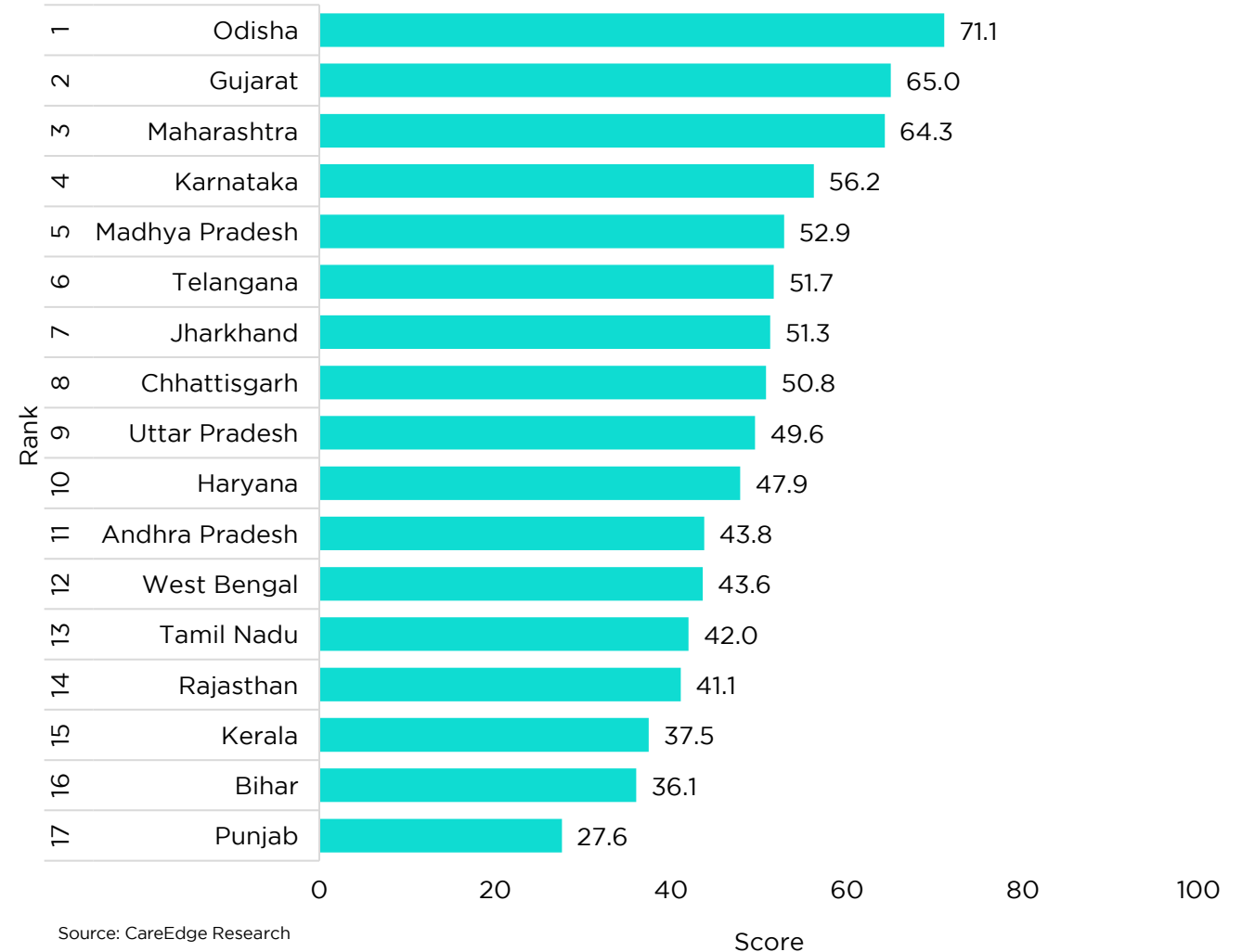
- Debt Management**
- Maintenance of GRF
 - CSF - (% Outstanding Liabilities)

- Quality of Spending**
- Education Expenditure (% Total Expenditure)
 - Health & Family Welfare Expenditure (% Total Expenditure)
 - Capital Outlay (% Total Expenditure)

- Revenue Generation Capacity**
- Own Tax Revenue (% Total Tax Revenue)

This pillar assesses the states' fiscal health in terms of debt and deficit sustainability, revenue generation capacity, quality of expenditure and debt management.

Large States (Group A)



- **Odisha** and **Gujarat's** fiscal landscape fares well with manageable levels of debt and deficits, along with low interest payments-to-revenue. Furthermore, both states have a high share of capital outlay in the total expenditure.
- **Punjab's** fiscal performance is constrained by elevated levels of debt, deficits and interest payments-to-revenue. The state has a high share of non-developmental revenue expenditure in the total expenditure which has likely constrained its outlay towards capital expenditure.
- Debt and deficit levels elevated in **Bihar**. However, it has low interest payments-to-revenue receipts. The state's relatively high share in the Centre's tax devolution has aided the revenue receipts of the state translating into lower interest payment-to-revenue receipts despite elevated debt and deficits.
- States such as **Telangana, Andhra Pradesh** and **Kerala** have shown some fiscal slippage in the fiscal year so far. **Telangana** and **Andhra Pradesh** have already exhausted its full year budgeted fiscal deficit amount in 9M FY26. **Kerala** has also exhausted close to 84% of the full year budgeted fiscal deficit target so far.
- In FY25, freebies were announced in states like **Maharashtra, Odisha** and **Jharkhand** – this is expected to exert some pressure despite their relatively encouraging fiscal position.

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