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State budgets FY27: Deficit 3.1% (2.6% ex-SASCI); 20% capex growth

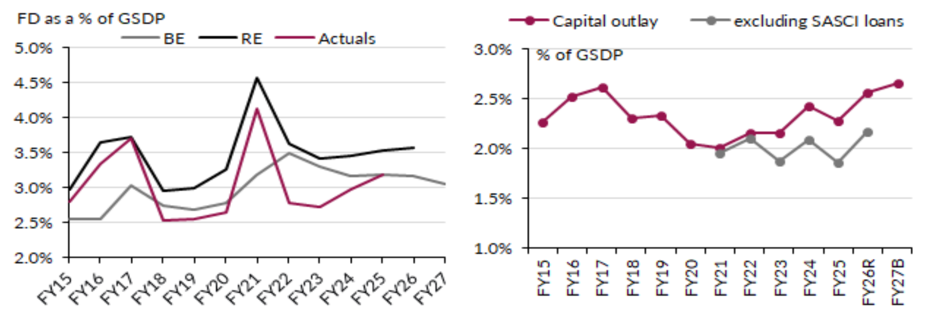
The FY27 fiscal deficit for 19 largest states (95% of GDP) is budgeted at 3.1% of GDP. Adjusted for interest-free loans for capex from the Centre, the ratio is 2.6%, taking general government budgeted deficit ratio below 7%. As usual, states' receipts and spending targets seem aggressive. The 2Y CAGR of 15% on receipts seems aggressive (FY27 GDP growth estimated at 12%, vs. 10% by the centre), esp. given the 7% growth in 11MFY26, and the drop in Finance Commission grants. 2Y CAGR of spending at 14% also appears aggressive, especially the 20% estimated for capex (actual capex has been 13% lower than RE since FY22). Both should net off, and while actual deficits tend to be well below RE and often below BE too, we expect FY27 state deficits to be around 2.6% of GDP. Gross borrowings are expected to grow 5%, after 19% growth in FY26.

02 Jun 2026

Fiscal

State budgets

Exhibit 1 –States' deficit to be ~3.1%; capex strong supported by centre's loans



Source: State budgets, RBI, Axis Bank Research

FY27 deficit budgeted at 3.1%, actual deficit might not be lower in FY27

Total of 19 state budgets (95% of GDP) shows FY27 budgeted gross fiscal ratio (GFD) at 3.1% of GSDP, well below FY26RE 3.6%, and FY25A 3.2% (Fig 1, 2). Excluding SASCI loans (offered by the centre for capex, interest-free) GFD ratio would be 2.6%. Actual deficits tend to be well below RE, and usually BE too (Fig 3, 4), but are rarely below 2.6%, implying FY27 could be closer to BE. This would bring general government deficit below 7% of GDP. States have assumed 12% GDP growth (vs. 10% in the central budget, Fig 5), and high revenue growth (SGST: 15% vs 6% in the central budget, Fig 7): these may be aggressive.

Strong growth in own tax revenues assumed; stress might persist in FY27

Given significant divergence in Actuals vs. RE, YoY assumptions for receipts and spending in FY27BE are usually misleading. We therefore focus on 2Y CAGR (FY25A to FY27BE): the 15% assumed for receipts (+13% in FY27 over +17% in FY26RE) seems aggressive even on 12% nominal GDP growth: revenue receipts grew only 7% in 11MFY26 (Fig 6, link). Nominal GDP numbers have been revised lower in the new series, and FY26 Actuals for the centre saw gross taxes 1.3% below RE (link). Further, Finance Commission grants are down 16% YoY (revenue deficit grants discontinued): most states would not have known that.

Spending targets high too: 2Y capex CAGR 20% YoY helped by SASCI

2Y CAGR (FY25-27) on expenditure is 14%: 9% YoY in FY27 appears reasonable, but on a high base of 19% in FY26RE. 2Y CAGR on capex is 20%, pushing its share of spending to 16% (the highest since FY09). However, actual capex has been 13% below RE since FY22. Incremental spending growth for both capex and revex is concentrated in the top 5 states (60%: Fig 12, 13). Some newly elected governments may spend on welfare schemes to fulfil electoral promises. States' gross borrowings rose 19% in FY26, widening the yield spread over G-secs (Fig 19). However, these are budgeted to grow 5% in FY27.

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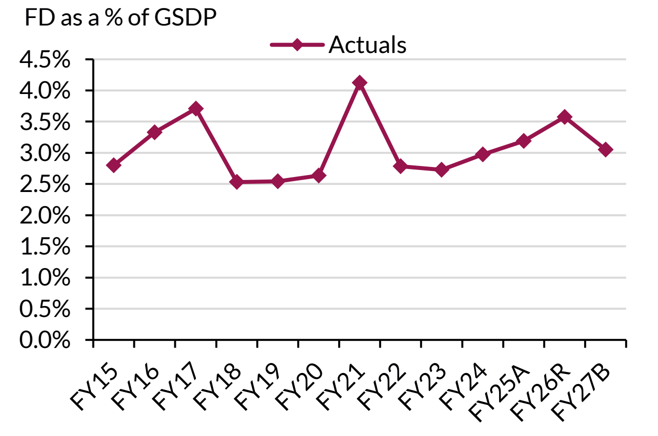
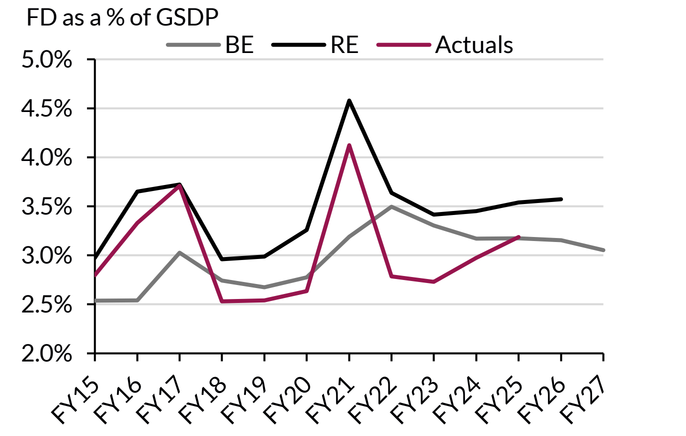
Exhibit 2 – States' fiscal deficit ratio remains rangebound; expected to fall to 3.1% in FY27



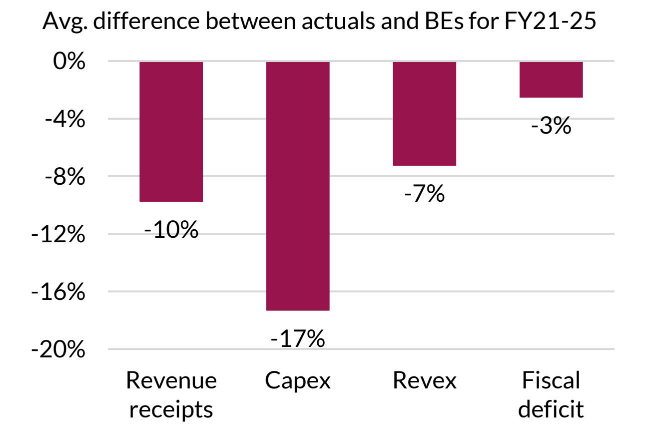
Source: State budgets, RBI, MoSPI, Axis Bank Research

Exhibit 3 – Actual deficits are usually lower than BE & RE (0.6% of GDP lower than RE since FY21)



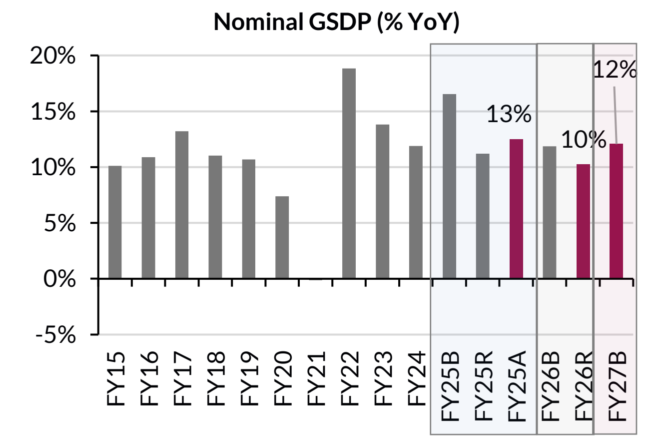
Source: State budgets, RBI, MoSPI, Axis Bank Research

Exhibit 4 – Poor fiscal marksmanship: states miss deficit target: below BE on both spending and receipts



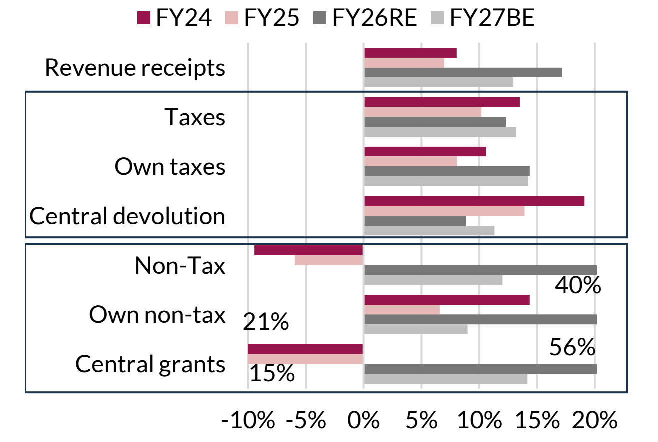
Source: State budgets, RBI, Axis Bank Research

Exhibit 5- Nominal GSDP growth budgeted at 12%YoY, higher than the 10% growth estimated by centre



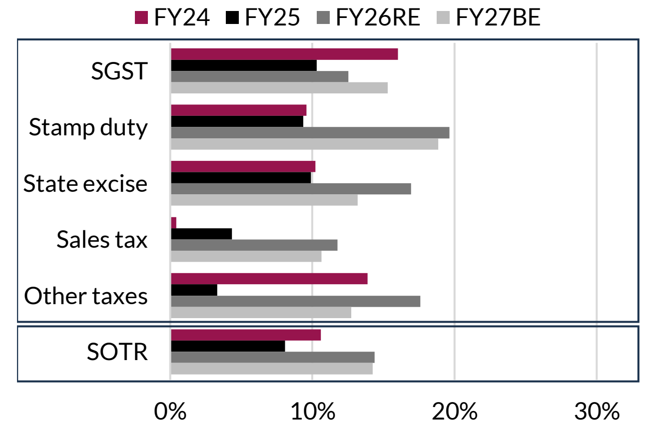
Source: State budgets, MoSPI, Axis Bank Research

Exhibit 6 – FY27 own tax growth budgeted at 14%, above nominal GSDP; central devolution could miss



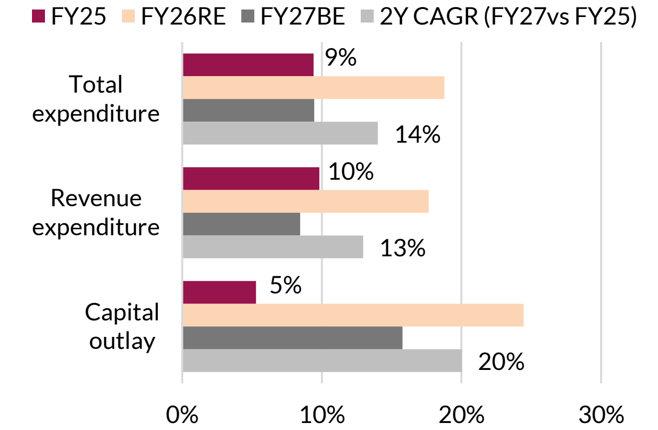
Source: State budgets, RBI, Axis Bank Research

Exhibit 7 – SGST (43% of OTR) budgeted to grow 15% (vs 6% growth in GST at centre); fuel tax cuts a risk



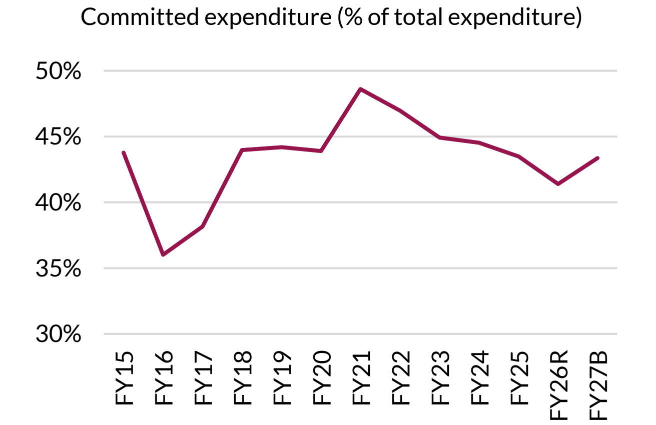
Source: State budgets, RBI, Axis Bank Research

Exhibit 8 – Spending growth expected to be strong: 2Y CAGR at 14% (faster than nominal GDP), capex +20%



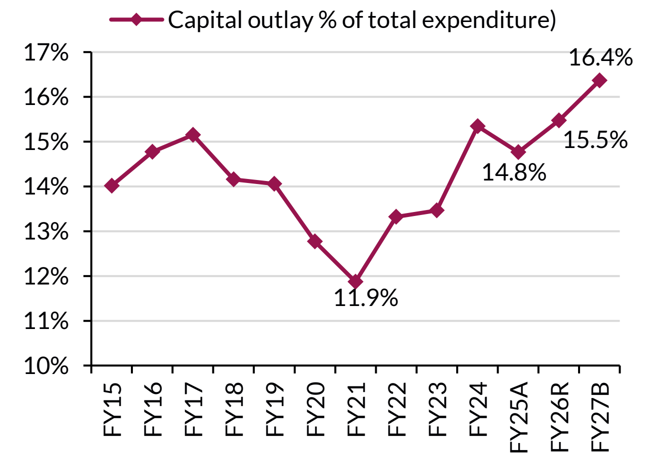
Source: State budgets, RBI, Axis Bank Research

Exhibit 9 – Committed expenditure of 15 states on a downward trend, but a 2pp rise budgeted in FY27



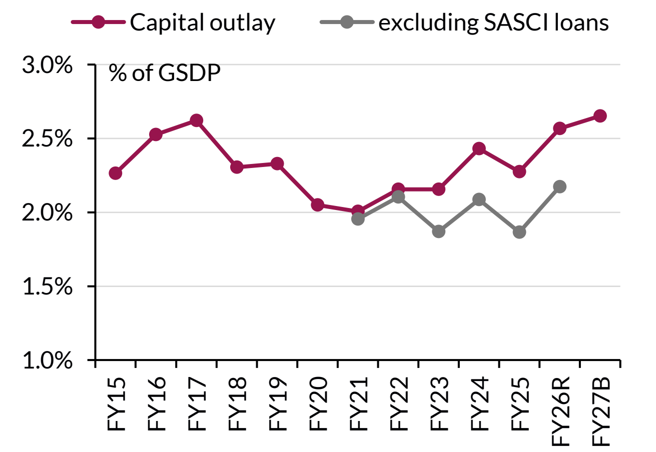
Source: State budgets, RBI, Axis Bank Research. AP, MP, OD, TG excluded

Exhibit 10 – Capex share (% of total expenditure) budgeted at a high of 16.4% (highest since FY09)



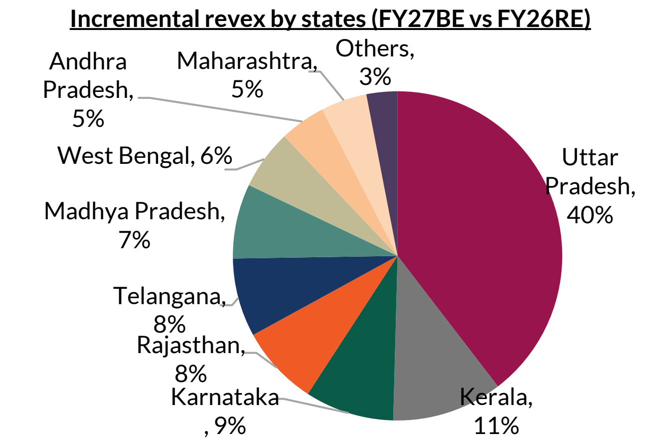
Source: State budgets, RBI, Axis Bank Research

Exhibit 11 – State capex flat as % of GDP if not for centre's supported via interest-free loans



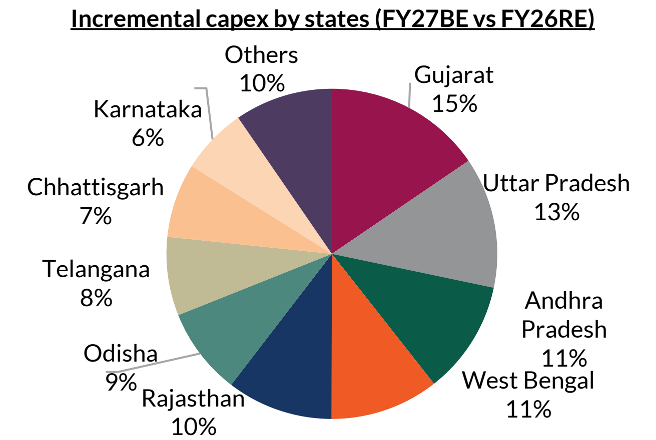
Source: State budgets, RBI, MoSPI, Axis Bank Research

Exhibit 12 – 2/3rd of incremental revex to be driven by the top 4 states



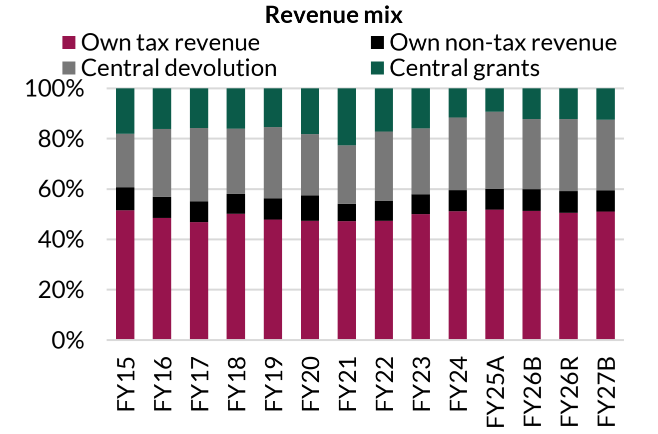
Source: State budgets, RBI, Axis Bank Research

Exhibit 13 – 60% of incremental capex to be done by the top 5 states



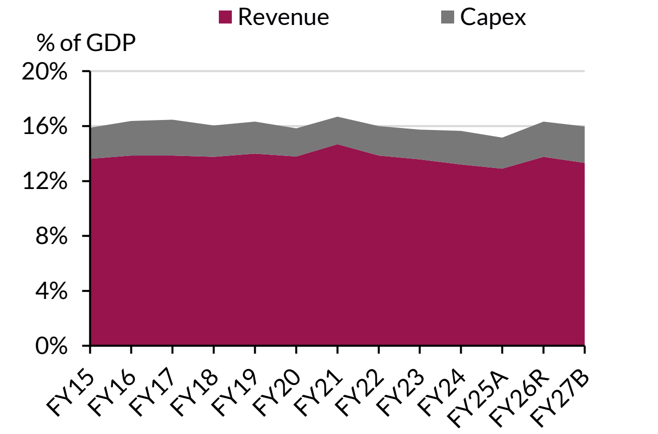
Source: State budgets, RBI, Axis Bank Research

Exhibit 14 – Higher central grants and own non-tax revenue offset states' weaker GST collections in FY26



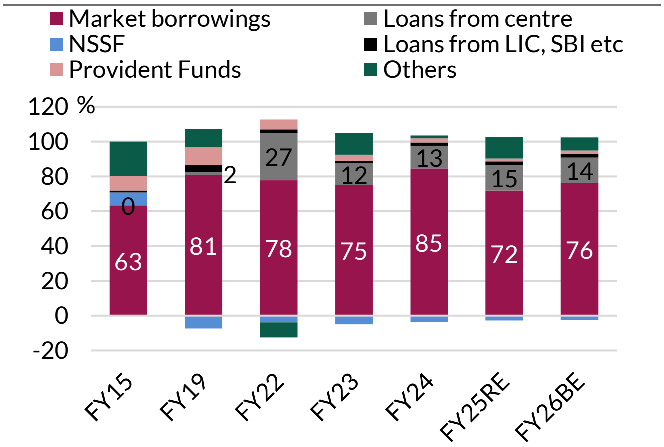
Source: State budgets, RBI, Axis Bank Research

Exhibit 15 - Expenditure (% of GSDP) budgeted to be flattish in FY27



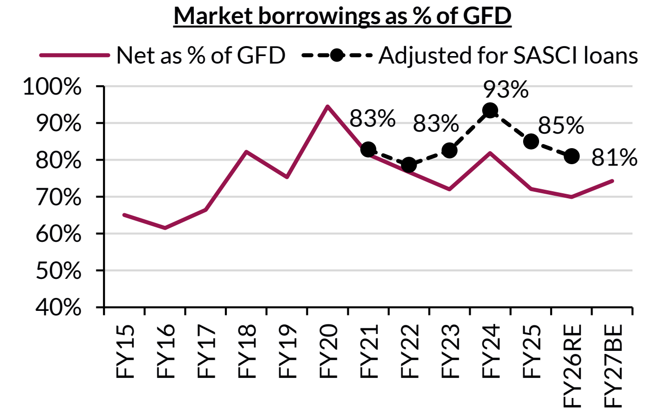
Source: State budgets, RBI, MoSPI, Axis Bank Research

Exhibit 16 – Loans from centre (since SASCI loans) now make a higher proportion in financing GFD



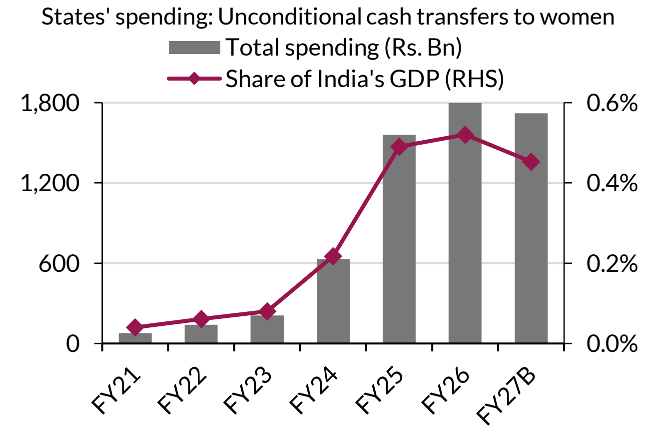
Source: RBI, Axis Bank Research

Exhibit 17 –RE shows 70% share of market loans in financing deficit in FY26 (likely to be higher)



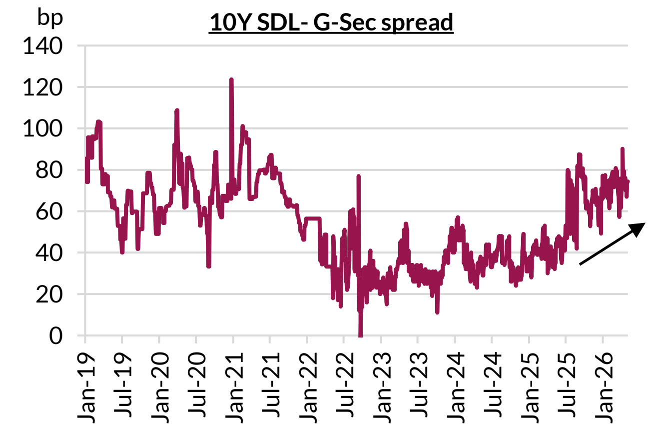
Source: State budgets, RBI, Axis Bank Research

Exhibit 18 – Cash transfers to women at 0.5% of GDP (FY21:0.04%); FY26 could be higher than RE (elections)



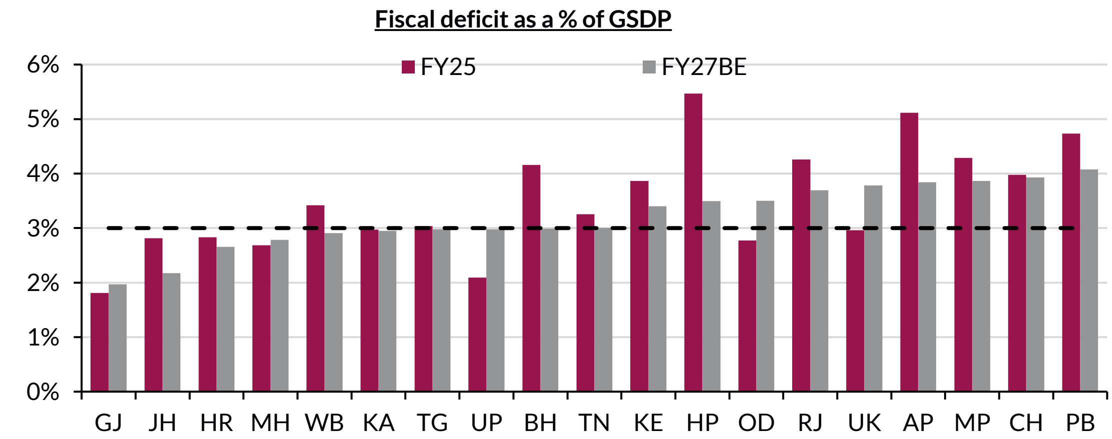
Source: State budgets, Axis Bank Research

Exhibit 19 – Higher SDL supply has led to a wider SDL-GSec spread since Aug-25



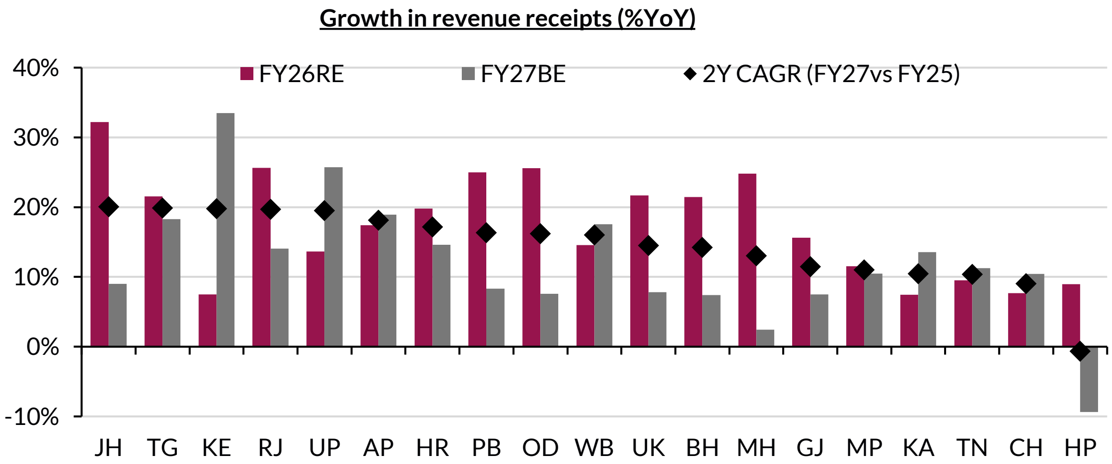
Source: RBI, Axis Bank Research

Exhibit 20 – Significant variation in states' deficit; 9 states have budgeted >3% deficit in FY27



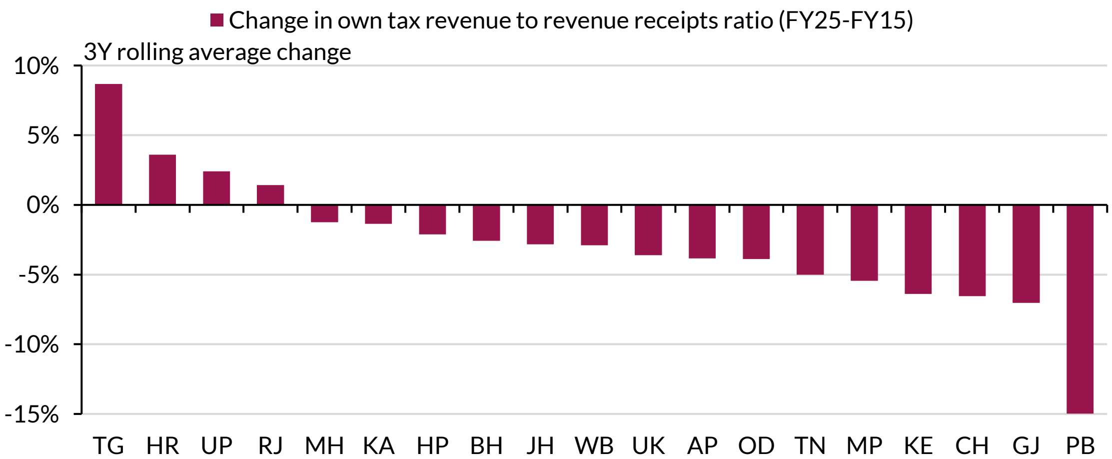
Source: State budgets, RBI, MoSPI, Axis Bank Research

Exhibit 21 – 2Y CAGR of revenue receipts highest in JH, TG, KE; 7 states budgeting higher growth in FY27



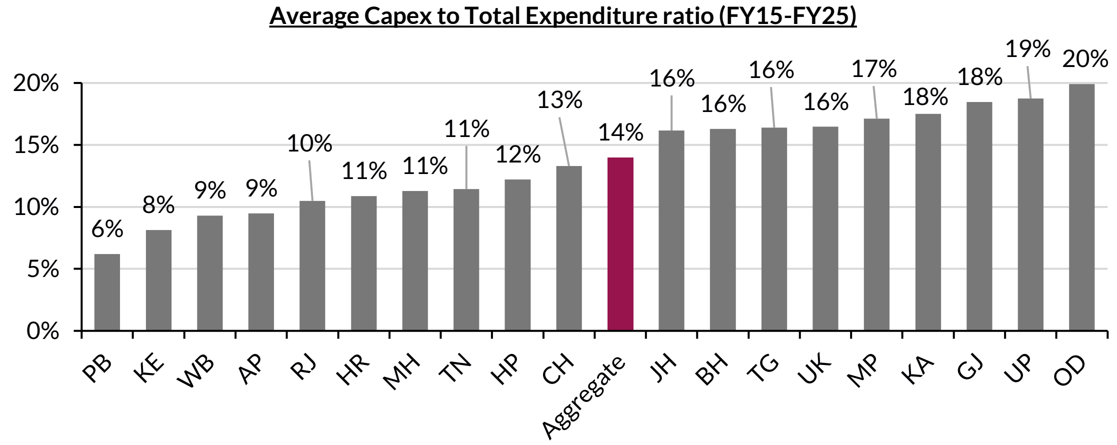
Source: State budgets, RBI, Axis Bank Research

Exhibit 22 – Share of taxes in revenue receipts lower since 14th FC; significant variation among states



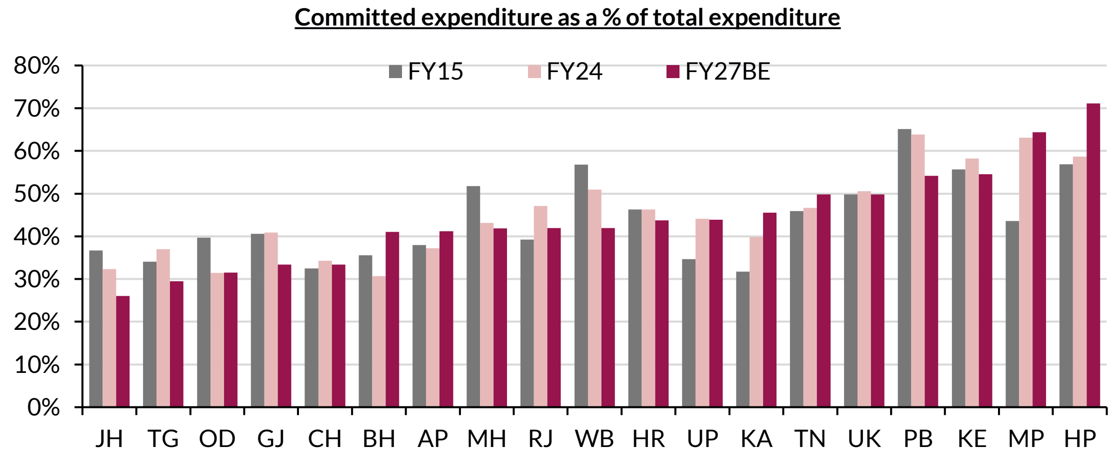
Source: State budgets, RBI, Axis Bank Research

Exhibit 23 – Capex to total expenditure over the last decade; <10% for PB, KE, WB, AP; highest for OD, UP, GJ



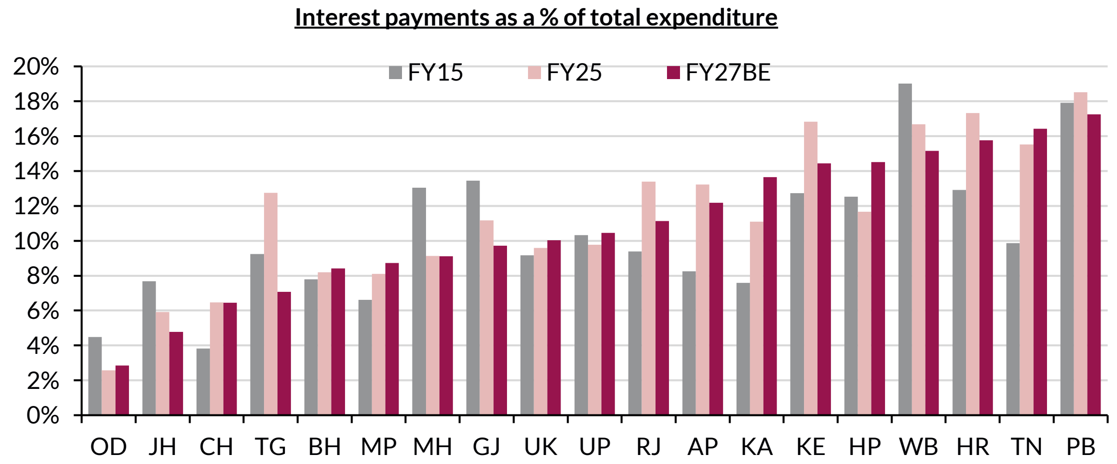
Source: State budgets, RBI, Axis Bank Research

Exhibit 24 – PB, KE, MP have high share of committed expenditure; MH, WB improving



Source: State budgets, RBI, Axis Bank Research. Note: Committed expenditure includes interest payments & debt servicing, pensions, and salaries. Salaries for four states (AP, MP, OD, TG) for FY27BE is estimated using FY22-24 average of share of salaries in revenue expenditure.

Exhibit 25 - Interest burden across states: PB, KE, HR consistently weak, while TN, KA, AP worsened



Source: State budgets, RBI, Axis Bank Research

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