

States' fiscal arithmetic tightens in FY27; deficit seen at 3% of GDP

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India Ratings & Research (Ind-Ra) has projected the aggregate fiscal deficit of states to rise to 3 per cent of gross domestic product (GDP) in 2026-27 (FY27), from an estimated 2.8 per cent in 2025-26 (FY26), citing higher revenue expenditure amid election-related pressures and scheme cost-sharing requirements.

However, if funds under the Scheme for Special Assistance to States for Capital Investment (SASCI) worth ₹1.85 trillion are included, the fiscal deficit is expected to increase to 3.5 per cent of GDP in FY27 from an estimated 3 per cent in FY26. The 16th Finance Commission has excluded SASCI transfers while estimating states' fiscal deficits and has recommended capping the deficit at 3 per cent of gross state domestic product for individual states.



Ind-Ra expects the revenue deficit to widen to 0.7 per cent of GDP in FY27 from 0.4 per cent in FY26, reflecting higher pre-poll transfers in several large states. To finance the larger gap, states' gross market borrowings are estimated at ₹13.8 trillion and net borrowings at

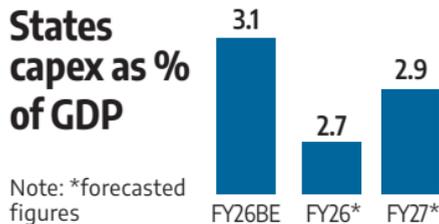
₹9.6 trillion in FY27. These would cover about 71 per cent of the deficit — lower than historical averages — as SASCI loans account for a larger share of capital expenditure (capex) funding, the agency said.

Revenue expenditure is forecast to

Forecast as % of GDP

	FY26	FY27
Revenue balance	-0.4	-0.7
Fiscal balance	-2.8	-3.0
Primary balance	-1.5	-1.9

States capex as % of GDP



Note: *forecasted figures

Source: India Ratings & Research

grow 11.2 per cent year-on-year (Y-o-Y) in FY27, driven by welfare schemes and cost-sharing obligations under the Viksit Bharat — Guarantee for Rozgar and Ajeevika Mission (Gramin) Act, 2025 (V-B G R A M G).

State capex is projected to grow 16.4 per cent Y-o-Y in FY27, raising the capex-to-GDP ratio to 2.9 per cent from 2.7 per cent in FY26. Aggregate state debt is expected to edge up to 29.8 per cent of GDP in FY27 from an estimated 29 per cent in FY26, staying ahead of earlier Finance Commission glide paths.

On the receipts side, Ind-Ra's analysis of provisional Comptroller and Auditor General of India data for April-December 2025 across 24 states shows revenue receipts constrained by a sharp decline in grants from the Centre, even as tax rev-

enue rose 9.5 per cent Y-o-Y to ₹25.2 trillion. States' share in central taxes increased 14.8 per cent to ₹8.5 trillion, while states' own tax revenue (SOTR) rose 7 per cent to ₹16.7 trillion, pointing to growing reliance on own and devolved taxes as grants taper.

"One of the key reasons for the decline in grants is lower uptake or utilisation of funds under centrally sponsored schemes by states," said Anuradha Basumatari, director at Ind-Ra.

Revenue receipts are projected to grow 9 per cent in FY27, up from 6.8 per cent

in FY26, supported by stronger SOTR and higher tax devolution. Goods and services tax rationalisation and a pickup in consumption are expected to lift SOTR growth to 10 per cent in FY27 from 8.7 per cent in FY26.

REVENUE EXPENDITURE IS FORECAST TO GROW 11.2% Y-O-Y IN FY27, DRIVEN BY WELFARE SCHEMES AND COST-SHARING OBLIGATIONS