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# State budget numbers don't add up

THE BUDGETS for most Indian states have been presented. An analysis of 19 of these budgets shows that states have pegged their revenue receipts, expenditure and capital spending to expand by 13 per cent, 8.4 per cent and 14.3 per cent respectively in 2026-27. We fear that these estimates are quite optimistic and unlikely to be achieved, especially in an environment where the domestic growth-inflation dynamics are taking a turn for the worse.

At present, we have the budget estimates for 2026-27, the revised estimates for 2025-26 and the data from CAG for 11 months of 2025-26. These reveal that their combined revenue receipts grew by just 5

per cent during April 2025 to February 2026. This is sharply lower than the 17 per cent indicated in the revised estimates.

Take GST collections. In 11 months, state GST collections contracted by 1.2 per cent, while the revised estimates painted a hopeful picture by indicating 12.5 per cent growth. To reach the budgeted state GST collections in 2026-27, the required growth would have to exceed the 15 per cent growth indicated by the states in their budgets. This appears unreasonable, especially with the conflict in West Asia and a feared El Niño dulling the outlook for consumption.

Another big chunk of state revenues comes from central grants. The data so far reveals an 11.5 per cent contraction, in contrast to the rather rosy 56 per cent expansion included in the revised estimates. Grants from the Centre are not released

evenly throughout the year, with a large chunk transferred in March. Even if the Centre did transfer a sizeable portion then, it is unlikely that their revised estimates would have been met. This suggests that the actual expansion required in FY2027 to meet the budget estimates is much higher than the 14.2 per cent implied by the revised estimates.

On the spending side, the gap is equally wide. The revenue expenditure of these states increased by 9.5 per cent in the 11 months of 2025-26, lower than the 18 per cent in the revised estimates.

Typically, states clear pending bills in March and also book non-cash transactions such as transfers to reserve funds. The continuation of this trend may have boosted the spending recorded in March. This could have reduced the extent of undershooting.

In recent years, the actual capital spending by states has been in the range of 85-90 per cent of the budget estimates. For 2025-26, we expect actual capex at Rs 8.6-8.9 trillion in FY2026. This would imply that state capex would need to rise by nearly 25 per cent to reach the Rs. 10.9 trillion capex as per the budgets. This appears challenging.

So what do all these trends imply? If states' revenues fall short of expectations, as we fear, they will have to cut back on spending to avoid breaching their borrowing limits, unless they have carried forward substantial cash balances. This will be a challenging year for state finances, especially if a prolonged conflict in West Asia and a strong El Niño worsen India's growth-inflation dynamics.

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