

## FOREWORD

The Reserve Bank's annual publication "State Finances: A Study of Budgets" provides a comprehensive analysis of the fiscal position of State governments in India for the period 2023-24 (actuals) to 2025-26 (budget estimates). The theme of this year's Report is 'Demographic Transition in India – Implications for State Finances'.

Key Takeaways of the analysis are:

- States' consolidated gross fiscal deficit increased to 3.3 per cent of gross domestic product (GDP) in 2024-25, after remaining below 3.0 per cent during the previous three consecutive years. The deficit exceeding 3 per cent mainly reflects 50-year interest free loans from the Centre under Special Assistance to States for Capital Investment, which is over and above the normal net borrowing ceiling of the States.
- For 2025-26, States have budgeted gross fiscal deficit at 3.3 per cent of GDP while improving composition of spending by restraining revenue expenditure.
- The consolidated outstanding liabilities of States declined to 28.1 per cent of GDP at end-March 2024, from a peak of 31 per cent at end-March 2021. The improvement reflects both fiscal consolidation efforts, and favourable debt dynamics. The outstanding liabilities are budgeted to increase to 29.2 per cent of GDP by end-March 2026. Notwithstanding elevated debt levels, indicators of debt sustainability remain favourable.
- Indian States are at different stages of demographic transition and their demographic profiles are increasingly influencing their finances. The youthful States have a wider window of opportunity benefiting from expanding working age population and stronger revenue mobilisation. In contrast, the window is getting narrower for the ageing States, facing fiscal pressure arising out of shrinking tax bases and rising obligations from committed expenditure.
- Going forward, youthful States may harness their demographic dividend by strengthening human capital investment, intermediate States may balance growth priorities with early preparation for ageing, and ageing States may enhance revenue capacity alongside healthcare, pension and workforce policy reforms.

This Report has been prepared in the Division of State Finances (DSF) in the Department of Economic and Policy Research (DEPR) under the overall guidance of Shri Sanjay Kumar Hansda, Executive Director, and supervision of Smt. Sangeeta Das, Adviser. The DSF team

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This Report is available on the Reserve Bank's website ([www.rbi.org.in](http://www.rbi.org.in)). Feedback/comments to help improve the analytical and informational content of the Report may be sent to the Director, Division of State Finances, Department of Economic and Policy Research, Amar Building (6th Floor), Reserve Bank of India, Sir Pherozshah Mehta Road, Mumbai - 400 001 or through e-mail: [deprfad@rbi.org.in](mailto:deprfad@rbi.org.in).

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