

Indian States are at different stages of demographic transition. While some of them have already started ageing, others are at considerably earlier phases of transition, enjoying a wider window of opportunity for economic growth. The diverse demographic trajectories of States necessitate differential fiscal policy approaches suitable for their respective age structure and the relevant fiscal challenges.

1.1 India's demographic profile stands at a decisive inflection point. With over 1.4 billion people and a median age of 28 years, its working-age population is at a historical peak and is projected to remain high throughout the coming decade. This demographic window offers a unique opportunity to boost economic growth and strengthen public finances if the expanding labour force is productively employed and supported by coherent policies. Simultaneously, India's fertility rate has declined to near-replacement levels, and rising life expectancy signals an imminent shift towards population ageing. Population ageing could soften India's annual gross domestic product (GDP) growth in the medium term (IMF, 2025). As India moves past its demographic turning point in the second half of the century, this decline is expected to intensify. India must therefore leverage its current youth bulge while preparing for an ageing demographic structure.

1.2 The national-level indicators conceal large inter-State divergences in demographic parameters. The timing and pace of demographic transition vary significantly across the States. For instance, the median age varies from around 23 years in Bihar to around 37 years in Kerala. Similarly, the old age dependency ratio¹ varies

from 14.0 in Bihar to 30.1 in Kerala. Accordingly, the effective demographic windows of opportunity, *i.e.*, when the maximum demographic dividend can be reaped, also vary across the States. While some States have already started seeing an ageing population, others are at a considerably earlier phase of demographic transition, with young and fast-growing population and rising labour force participation rates, which present a significant opportunity for economic growth.

1.3 Past studies have shown that demographic factors have significant influence on government finances (IMF, 2025; OECD 2022; ECB, 2022). In the younger States, a larger workforce can lead to increased savings, investments, and consumption, fuelling economic progress if supported by a favourable policy environment of quality education, skill training, healthcare facilities, and decent employment opportunities (Jain and Goli, 2022). This will broaden the tax base and enhance revenue generation. In contrast, in the matured States, population ageing may pose a burden on fiscal policy, through upward pressure on pension and welfare spending, while adversely affecting the tax base and the structure of public revenues. To safeguard against the adverse economic and fiscal consequences of population ageing, there

¹ Old-Age Dependency Ratio measures the ratio of population aged 60 years and above relative to the working-age population (15-59 years).

is a need for fiscal buffers, improved quality of public finance and structural reforms (ECB, 2022). Given that Indian States are at different stages of demographic transition, uniform fiscal policies may not be suitable for them. Their diverse demographic trajectory necessitates a balanced policy approach that leverages the economic potential of a young workforce while addressing the health and social needs of an ageing population.

1.4 In this backdrop, this year's Report adopts 'Demographic Transition in India: Implications for State Finances' as its theme. It undertakes a comprehensive analysis of the demographic trends across major States in India and groups the States under three broad categories – Youthful, Intermediate and Ageing – based on their current age structure and projected demographic trajectory. Using this classification, the Report examines the preparedness of the States to handle their current and future demographic challenges. For instance, whether the youthful States are capitalising their demographic advantage through higher spending on education, skilling, and job creation; the intermediate States are augmenting their growth potential through investment in innovation and infrastructure creation, implementation of urban reforms and encouraging female workforce participation; and the ageing States are making adequate provisions for additional expenditure on healthcare, pensions, and social welfare. The analysis is complemented by forward looking policy suggestions for each category of States,

considering their population dynamics and the related fiscal challenges.

1.5 Chapter II of this Report undertakes an in-depth analysis of the fiscal position of States in terms of actual outcomes for 2023-24, revised estimates (RE) and provisional accounts (PA) for 2024-25, and budget estimates (BE) for 2025-26. It presents the policy initiatives announced in State budgets towards revenue augmentation, expenditure management and fiscal consolidation and evaluates their R&D expenditures. Debt dynamics in terms of market borrowings, outstanding liabilities and guarantees are also discussed in the Chapter.

1.6 The theme of this year's report, 'Demographic Transition in India: Implications for State Finances', is covered in Chapter III. The Chapter analyses demographic changes in India both at the national level and State level. It highlights the fiscal implications of demographic changes in terms of their impact on State government revenue, expenditure and debt sustainability. The Chapter also suggests policy options for States at different stages of demographic transition.

1.7 Chapter IV concludes by envisioning the way forward for State finances. Appendices and statements present detailed data, both aggregate and State-wise, on various budgetary components and fiscal indicators of all States and Union Territories with legislatures.