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Website : www.rbi.org.in

ई-मेल/email : helpdoc@rbi.org.in



संचार विभाग, केंद्रीय कार्यालय, शहीद भगत सिंह मार्ग, फोर्ट, मुंबई - 400 001

Department of Communication, Central Office, Shahid Bhagat Singh Marg, Fort, Mumbai - 400 001 फोन/Phone: 022 - 2266 0502

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State Finances: A Study of Budgets of 2025-26

Today, the Reserve Bank of India (RBI) released the Report '[State Finances: A Study of Budgets of 2025-26](#)'. The theme of this year's Report is 'Demographic Transition in India - Implications for State Finances'. It provides a comprehensive assessment of the finances of State governments for 2025-26 against the backdrop of actual and revised/provisional accounts for 2023-24 and 2024-25, respectively.

Highlights:

- 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 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. In 2025-26, States have budgeted a gross fiscal deficit of 3.3 per cent of GDP.
- The thrust on capital expenditure was sustained as capital expenditure remained steady at 2.7 per cent of GDP in 2023-24 and 2024-25 and is budgeted at 3.2 per cent of GDP in 2025-26.
- The consolidated outstanding liabilities of States remained elevated in the post-pandemic period with a budget estimate of 29.2 per cent of GDP at end-March 2026.
- Indian States are at different stages of demographic transition, which increasingly shape their finances. Youthful States have a wider window of opportunity due to an expanding working-age population and stronger revenue mobilisation, which can be harnessed through higher investment in human capital. In contrast, ageing States face a narrowing window, with fiscal pressures arising from shrinking tax bases and rising committed expenditure, calling for higher revenue capacity and reforms in healthcare, pensions and workforce policies. Intermediate States need to balance growth priorities with early preparation for ageing.

This publication has been prepared in the Division of State Finances in the Department of Economic and Policy Research. The current issue, along with past issues of the Report, are available on the Reserve Bank's website (www.rbi.org.in). Comments on this publication can 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. Comments can also be forwarded via [e-mail](#).