

## Indian States Accelerate Capital Expenditure, Driving Economic Momentum



Indian states have significantly boosted their capital expenditure (capex) by an estimated 30% year-on-year in the first quarter of fiscal year 2026 (Q1 FY26), reaching ₹95,823 crore. This robust increase, reported on Sunday, July 27, 2025, reflects a concerted effort to stimulate economic activity amidst a backdrop of global uncertainties and a broader public capex push across the nation.

The surge in state-level investment, spanning April to June of the current financial year, comes as a crucial counter-cyclical measure to support overall economic growth. This is particularly significant given that states' capex had seen a 22% contraction in Q1 FY25, largely attributed to pauses related to national elections. The renewed impetus on infrastructure and development projects highlights the state's role in India's growth trajectory.

A review of the finances of 16 major states, which collectively account for a substantial portion of India's Gross Domestic Product (GDP), revealed this impressive growth. Their aggregate capex climbed from ₹73,476 crore in the year-ago quarter to the current ₹95,823 crore. These states, including Maharashtra, Telangana, Madhya Pradesh, Uttar Pradesh, and Gujarat, also increased their borrowings in Q1 FY26, as revenue growth remained somewhat subdued. Tax revenues for these states showed a 7% increase in the same period, reaching ₹6.7 lakh crore, compared to a 13% growth in the corresponding period last year.

The central government has been actively supporting state capex through significant financial assistance, including a budgeted ₹1.5 lakh crore in 50-year interest-free loans for capital projects in FY26. As of July 12, FY26, disbursements of these interest-free loans had more than doubled year-on-year to approximately ₹30,000 crore, with total sanctions standing around ₹40,000 crore. Sources indicate that the Centre aims to disburse about ₹75,000 crore under this scheme by September to further accelerate capital formation.

Public capex, encompassing investments by the Centre, states, and Central Public Sector Enterprises (CPSEs), has played a pivotal role in supporting India's gross fixed capital formation in recent years, offsetting muted private investment. The increased capital spending by states is critical, as it has a higher multiplier effect on economic growth compared to revenue expenditure. This sustained investment in infrastructure is expected to create jobs, boost demand for raw materials, and enhance the nation's productive capacity, laying a stronger foundation for future economic prosperity.