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## **Fitch: U.S. State Budgets Tested by Slower Revenue Growth and Federal Policy Shifts**

Fitch Ratings-New York-19 November 2025: U.S. state budgets are well-positioned to address slower revenue growth and increasing economic and policy uncertainty in fiscal 2026, according to Fitch Ratings in its latest annual report.

State budgets remain fiscally sound following several years of strong post-pandemic economic and revenue performance, according to Senior Director Karen Krop. "However, states now face the highest level of uncertainty since the early pandemic months, driven in part by economic unease and federal policy changes. Despite these pressures," said Krop, "Fitch expects states credit quality to remain robust, supported by prudent operating performance and substantial fiscal buffers."

Most states anticipate slow revenue growth in fiscal 2026, reflecting expectations of subdued U.S. GDP growth, ongoing inflation and the fading effect of federal stimulus. Fiscal 2026 is seeing more tax policy action, with several states lowering income tax rates or flattening brackets, while others are raising revenues to close gaps or meet program goals. Fitch notes states pursuing aggressive tax reductions may see heightened credit pressure if revenue growth fails to accelerate.

Medicaid and education remain the primary drivers of state spending, with federal policy changes, notably H.R. 1, introducing new budgetary uncertainties. However, states continue to fund initiatives in housing and homelessness prevention and climate resilience, among other high priorities.

"U.S. States: Budgets Stable Amid Uncertainty" is available at [www.fitchratings.com](http://www.fitchratings.com)