

Centre’s fiscal deficit at 37% of FY26BE in H1-FY26 vs 29% H1-FY25 due to slower pace of tax revenues, increased capex

November 4, 2025

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Data Highlights

Deficit

- The Central government's fiscal deficit totaled Rs.5.7bn in H1-FY26, up from Rs.4.7bn in H1-FY25. This amounted to 37% of FY26 budget estimate (BE), higher than 29% of BE in H1-FY25. Revenue deficit was lower at 5% of FY26BE versus 13% of FY25BE in H1-FY25. The primary account posted surplus at 2% of FY26BE, less than 9% surplus of BE in H1-FY25.

Receipts

- Total receipts at the Centre amounted to Rs.17.3tn in H1-FY26, up 6%YY. The growth rate was lower than 16% in H1-FY25. In terms of share in BE, total receipts were almost half of BE at 49% in H1-FY26, compared with 51% of FY25BE in H1-FY25.
- The trend in total receipts was in line revenue receipts, which account for ~98% of receipts. Both direct and indirect tax revenues grew at lower rates than in H1-FY25. The slower pace in direct taxes reflected the impact of income tax relief announced in the Union Budget for FY26. Though corporate tax revenue growth was tepid, it was in line with last year's levels in terms of share in BE at 43%-45%. The GST rate cuts that became effective from 22-Sep led to moderation in year-on-year growth compared to H1-FY25 and level in terms of share in BE. Both direct and indirect tax revenues need to grow at faster rates in H2 to meet BE.
- Though gross tax revenue was up year-on-year, net tax revenue stayed in contraction and amounted to 43% of FY26BE versus 49% of BE in H1-FY25. The year-on-year growth in tax devolution to States was lower than in H1-FY25, but remained in double digits and in line with last year's trend in terms of share in BE at 44%. In case of non-debt capital receipts, the pace of disinvestment needs to improve in H2 compared to H1 to meet BE.

Expenditure

- The Centre's spending was at Rs.23.0tn in H1-FY26, up 9%YY versus sub-1% decline in H1-FY25. In terms of share in BE, this amounted to levels similar in H1-FY25 at 44%-45%.
- Capital expenditure grew at a healthy pace of 40%YY in H1-FY26 versus 15% contraction in H1-FY25 due to election-induced pause in spending. In terms of share in BE, capex amounted to 52% of FY26BE in H1-FY26, up from 37% of FY25BE in H1-FY25.
- Revenue spending rose 2%YY, half the pace of 4% growth in H1-FY25. This was slightly less at 44% of FY26BE than in H1-FY25 at 46% of FY25BE. Interest payments increased at the double the rate of 12%YY in H1-FY26 versus 6% growth in H1-FY25, but amounted to levels similar in H1-FY25 at 44%-45% of BE. Subsidies stayed in contraction at (-)6%YY, compared to 4% growth in H1-FY25 and amounted to 47% of FY26BE versus 50% of BE in H1-FY25.

Outlook

- **Quality of expenditure:** Compared to H1-FY25, there was improvement in the quality of expenditure in H1-FY26, as measured by ratios such as revenue expenditure to capital outlay, and revenue deficit to gross fiscal deficit. But with capex already at 52% of FY26BE, the pace needs to slow down in H2 to meet BE. There is scope for revenue spending to grow at a faster rate in H2 than in H1 and still meet BE.

- **Consumption boost from policy stimuli:** The consumption boost from income tax relief and GST rate cuts is expected to help offset some of the revenue loss from these measures. Additionally, monetary and regulatory credit policy easing measures are also expected to support various economic activities, thereby providing scope to further lift tax revenues.

- **Support from RBI dividend:** Under non-tax revenues, the RBI dividend to the government for FY25 of Rs.2.7tn, accounted for in May-2025 data, was higher than BE for dividends from RBI and other financial institutions. This is expected to provide some fiscal room for slippages on account of any plausible shortfall in tax revenues. Recent trends of non-tax revenues exceeding targets and overall spending falling short of BE could further enable the government to meet its deficit target for FY26.

- **Risks to outlook:** There is scope for fiscal deficit to increase at quicker pace in H2-FY26 than in H1 and still meet FY26BE. But there are concerns that lower nominal GDP growth in FY26 could pose risks to the government's full year fiscal deficit target of 4.4% of GDP. Nominal GDP growth eased to 8.8%YY in Q2-FY26 from 10.8% in Q1 and needs to average a tad above 11% in H2 to meet the budget assumption of 10.5% growth in FY26.

  Though the domestic growth outlook remains clouded by external headwinds from US tariff-related uncertainties, there are silver linings. High frequency data indicates improved economic activity in Q2, compared to Q1. Also, anecdotal evidence suggests a pick-up in consumer demand in Q3 with confluence of the festive season and GST rate cuts. These factors are expected to maintain growth momentum till Q3-FY26 and counter some of the impact from high 50% tariffs on India's exports to the US. The two economies recently signed a ten-year defence pact, even as talks continue for a broader trade deal. But prolonged negotiations and further delay to ink a trade deal with the US could partly offset some of the tailwind from policy support to domestic growth (particularly in nominal terms) and weigh on fiscal accounts for FY26.

In H1-FY26, fiscal deficit widened to 36.5% of FY26 BE vis-à-vis 29.4% of FY25BE in H1-FY25

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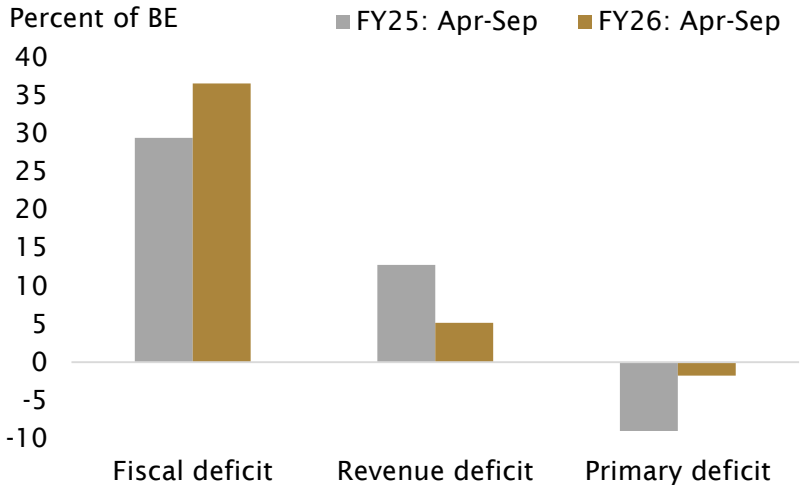
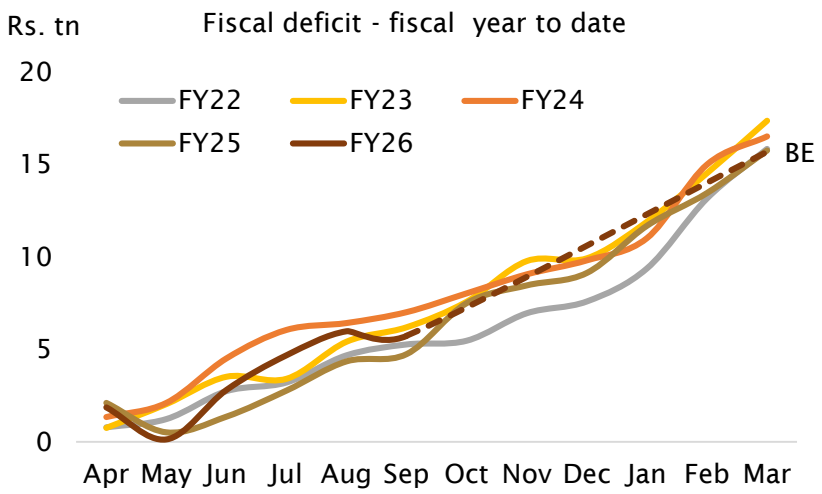
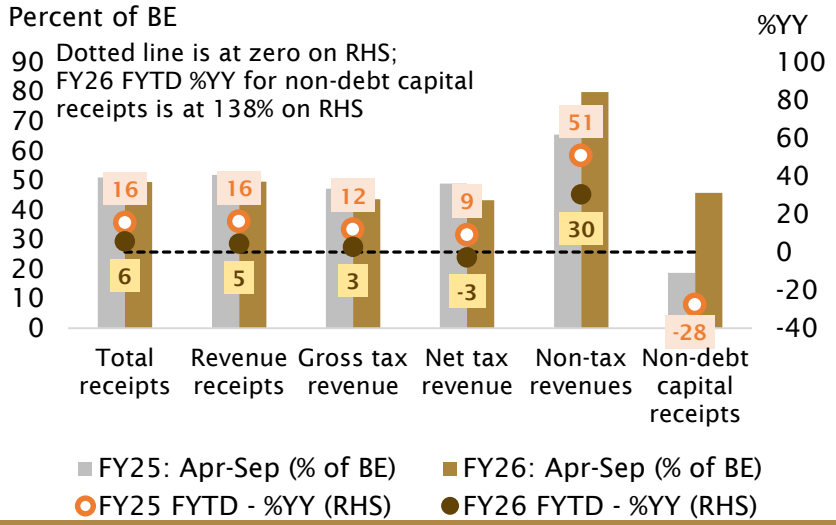
Fiscal deficit higher vis-à-vis FYTD-FY25, as capex accelerated in H1-FY26, net tax revenues remained in contraction

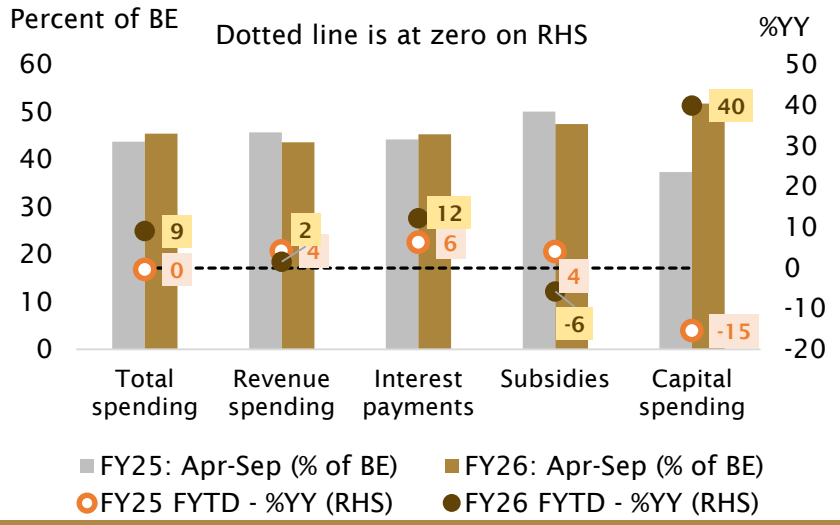




Central government receipts (FYTD Apr-Sep)



Central government expenditure (FYTD Apr-Sep)



Both direct and indirect tax revenues need to grow at faster rates in H2-FY26 than in H1 to meet BE

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The income tax relief announced in Union Budget for FY26 and the recently announced GST rate cuts could continue to weigh on tax revenues in H2. Non-tax revenues on track to meet FY26BE, mainly due to higher dividend receipts.

	Rs. bn	FYTD (Rs. bn)		FYTD - %YY		FY26BE		FY25BE		FY26BE	
	Sep-25	Sep-25	Sep-24	Sep-25	Sep-24	Rs. bn	(% of BE)	Rs. bn	(% of BE)	Current run rate	Required run rate
Revenue receipts	**4,447**	**16,954**	**16,224**	**5**	**16**	**34,204**	**50**	**31,292**	**52**	**2,826**	**2,875**
Net tax revenue	**4,190**	**12,294**	**12,652**	**(3)**	**9**	**28,374**	**43**	**25,835**	**49**	**2,049**	**2,680**
Direct taxes	**3,916**	**10,865**	**10,560**	**3**	**15**	**25,250**	**43**	**22,120**	**48**	**1,811**	**2,397**
Corporation tax	2,373	4,666	4,615	1	2	10,820	43	10,200	45	778	1,026
Income tax	1,500	5,910	5,645	5	25	14,380	41	11,870	48	985	1,412
Other taxes	43	289	300	(4)	73	50		50	600	48	(40)
Indirect taxes	**1,292**	**7,768**	**7,562**	**3**	**8**	**17,401**	**45**	**16,237**	**47**	**1,295**	**1,605**
Customs duty	240	1,071	1,130	(5)	6	2,400	45	2,377	48	179	222
Excise duty	270	1,389	1,285	8	3	3,220	43	3,240	40	232	305
Service tax	(0)	(3)	1	(386)	(80)	1	(269)	1	94	(0.4)	0.6
GST	**782**	**5,311**	**5,147**	**3**	**10**	**11,780**	**45**	**10,619**	**48**	**885**	**1,078**
CGST	762	4,667	4,412	5.8	11	10,109	46	9,109	48	778	907
IGST	(92)	(88)	(8)	945						(15)	15
Compensation cess	112	732	743	(2)	8	1,671	44	1,510	49	122	157
Taxes on UT	5	20	16	24	(3)	101	20	94	17	3	14
Gross tax revenue	**5,214**	**18,654**	**18,138**	**3**	**12**	**42,702**	**44**	**38,402**	**47**	**3,109**	**4,008**
Transfer to NDRF	8	42	39	9	11	104	41	95	41	7	10
Assignment to states	1,016	6,318	5,448	16	20	14,224	44	12,472	44	1,053	1,318
Non-tax revenues	**257**	**4,661**	**3,572**	**30**	**51**	**5,830**	**80**	**5,457**	**65**	**777**	**195**
Interest receipts	32	180	204	(11)	18	477	38	382	53	30	50
Dividends and Profits	427	3,515	2,506	40	108	3,250	108	2,891	87	586	(44)
Non-Tax Revenue of U.T.s	1	9	14	(32)	(23)	34	27	29	47	2	4
External grant	(0.2)	1	0.5	119	(61)	12	9	10	5	0.2	2
Other Non-Tax Revenue	96	1,255	848	48	(12)	2,057	61	2,144	40	209	134

Pace of capex needs to moderate in H2 to meet FY26BE; revenue expenditure slightly below last year's trends

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Revenue deficit lower than in H1-FY25. Receipts at half of FY26BE, amid slower pace spending in terms of share in BE. Capital spending at more than half of FY26BE, buoyed by key segments of defence, roads, railways, and loans to States.

	(Rs. bn)	FYTD (Rs. bn)		FYTD - %YY		FY26BE		FY25BE		FY26BE	
	Sep-25	Sep-25	Sep-24	Sep-25	Sep-24	Rs. bn	(% of BE)	Rs. bn	(% of BE)	Current run rate	Required run rate
Revenue receipts	**4,447**	**16,954**	**16,224**	**5**	**16**	**34,204**	**50**	**31,292**	**52**	**2,826**	**2,875**
Non-debt capital receipts	**28**	**348**	**146**	**138**	**(28)**	**760**	**46**	**780**	**19**	**58**	**69**
Recovery of loans	28	114	114	(1)	(13)	290	39	280	41	19	29
Misc. capital receipts	0	234	32			470	50	500	6	39	39
Total receipts	**4,475**	**17,302**	**16,370**	**6**	**16**	**34,964**	**49**	**32,072**	**51**	**2,884**	**2,944**
Total expenditure	**4,225**	**23,033**	**21,115**	**9**	**(0)**	**50,653**	**45**	**48,205**	**44**	**3,839**	**4,603**
Revenue expenditure	**2,733**	**17,226**	**16,965**	**2**	**4**	**39,443**	**44**	**37,094**	**46**	**2,871**	**3,703**
Interest payments	495	5,782	5,150	12	6	12,763	45	11,629	44	964	1,164
Subsidies	520	2,024	2,147	(6)	4	4,262	47	4,284	50	337	373
Transfer to states	114	425	537	(21)	(26)	1,328	32	1,324	41	71	151
Rural development	115	798	857	(7)	13	1,878	43	1,776	48	133	180
Others	1,489	8,198	8,275	(1)	5	19,212	43	18,081	46	1,366	1,836
Capital expenditure	**1,492**	**5,807**	**4,150**	**40**	**(15)**	**11,211**	**52**	**11,111**	**37**	**968**	**901**
Defence	433	965	579	67	(14)	1,924	50	1,822	32	161	160
Railways	317	1,433	1,357	6	(5)	2,520	57	2,520	54	239	181
Roads and highways	540	1,711	1,406	22	(10)	2,722	63	2,722	52	285	169
Loan to states for capex	56	571	379	51	(37)	1,500	38	1,500	25	95	155
Others	145	1,127	429	163		2,545	44	2,546	17	188	236
Fiscal deficit	**(250)**	**5,731**	**4,745**	**21**	**(32)**	**15,689**	**37**	**16,133**	**29**	**955**	**1,660**
Primary deficit	**(745)**	**(51)**	**(405)**	**(88)**	**(119)**	**2,926**	**(2)**	**4,504**	**(9)**	**(8)**	**496**
Revenue deficit	**(1,714)**	**271**	**742**	**(63)**	**(68)**	**5,238**	**5**	**5,802**	**13**	**45**	**828**
FD/GDP (%)						**4.4**		**4.9**			
PD/GDP (%)						0.8		1.4			
RD/GDP (%)						1.5		1.8			

Despite tepid income and corporate tax revenue growth, direct tax revenues remained above indirect tax collections

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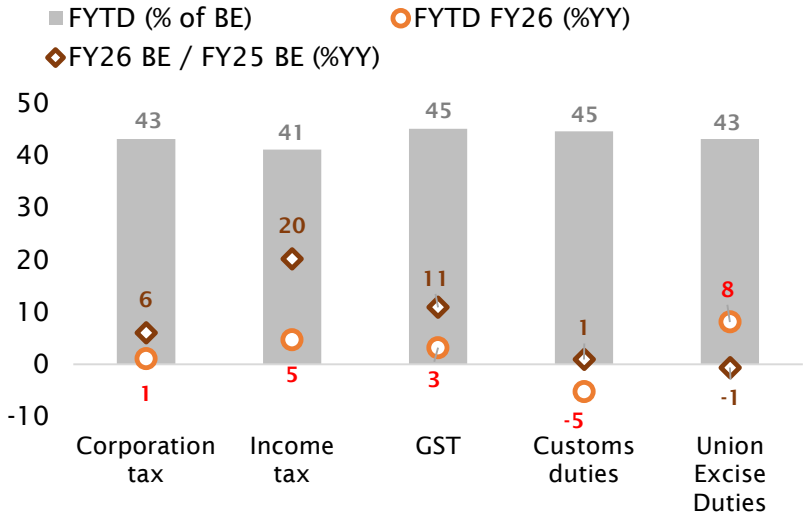
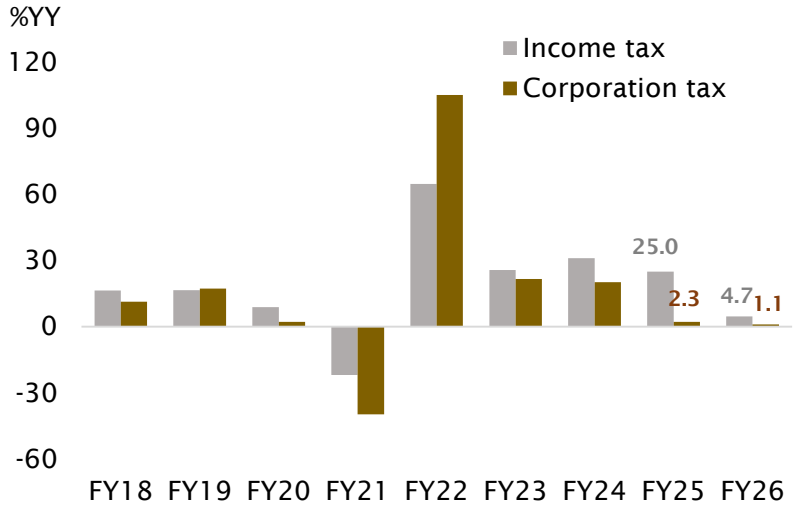
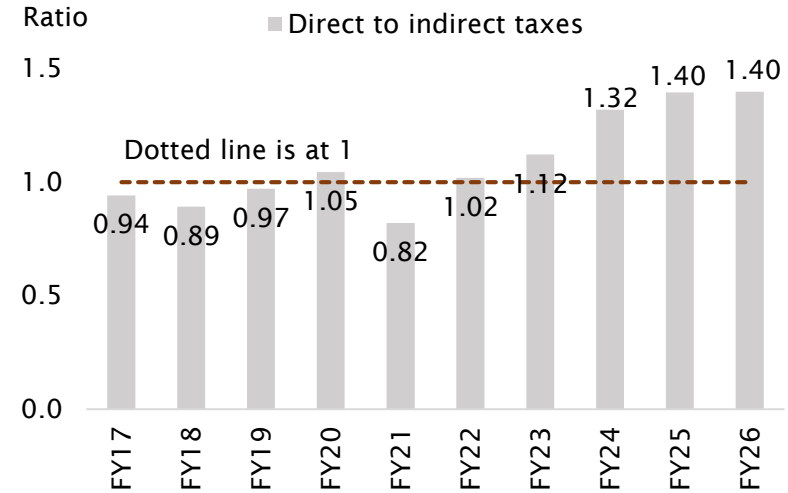
Tax collections (FYTD is fiscal year-to-date Apr-Sep)



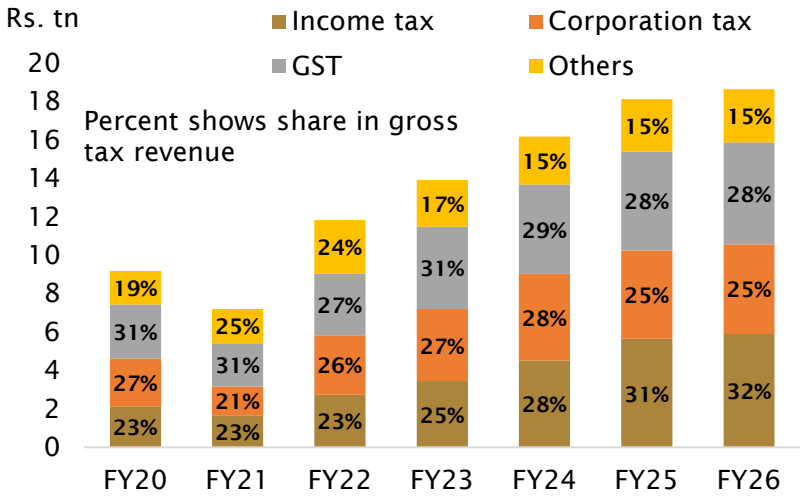
Tax collections (Apr-Sep), cumulative FTYD



Tax revenues (Apr-Sep), cumulative FTYD

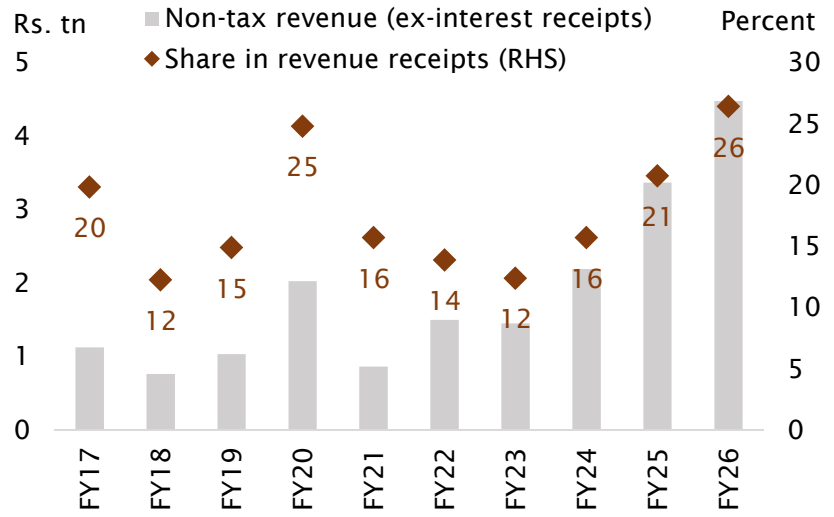


Tax revenues by type (Apr-Sep), cumulative FTYD

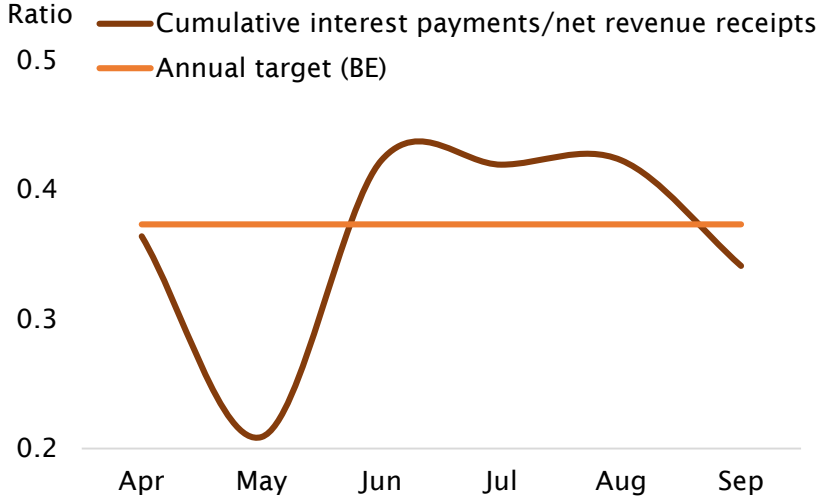


Debt servicing on track despite slower growth in revenue receipts; disinvestments need to accelerate to meet BE

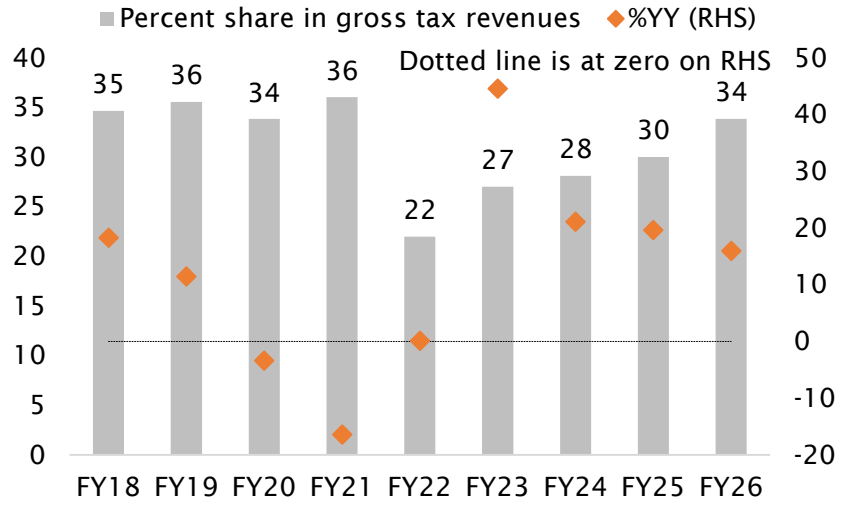
Non-tax revenues (Apr-Sep), cumulative FTYD



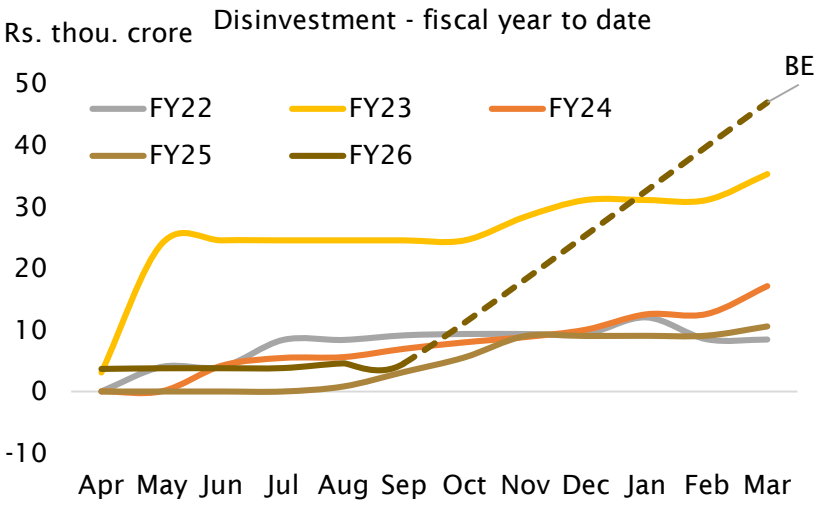
Average debt service ratio in H1 in line with FY26BE



Tax devolution to States (Apr-Sep), cumulative FTYD

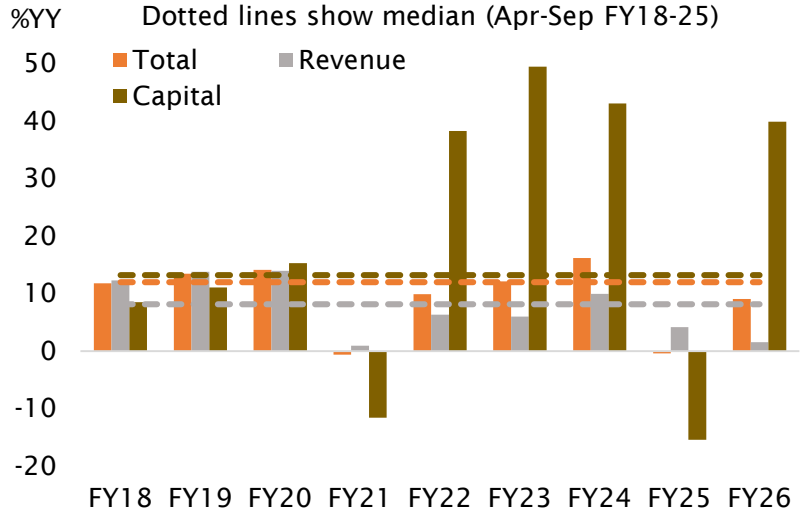


Disinvestment at 10% of FY26BE in Apr-Sep

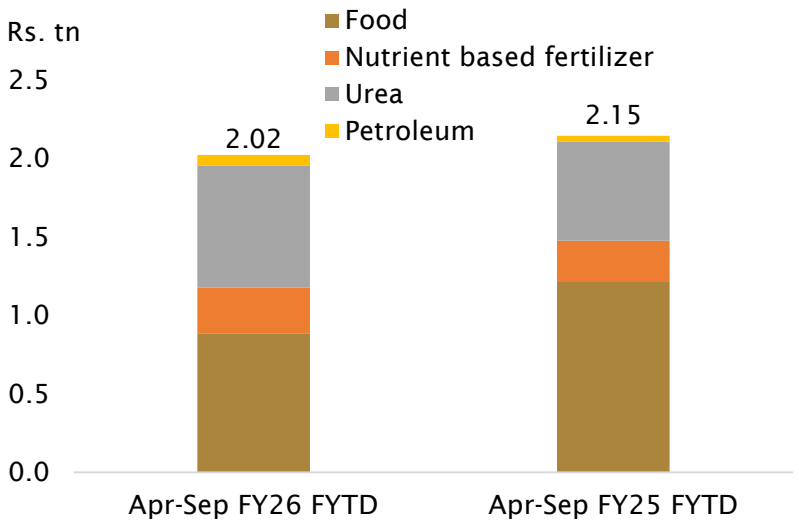


Expenditure quality improved in H1-FY26 vis-à-vis H1-FY25 amid increased capital expenditure

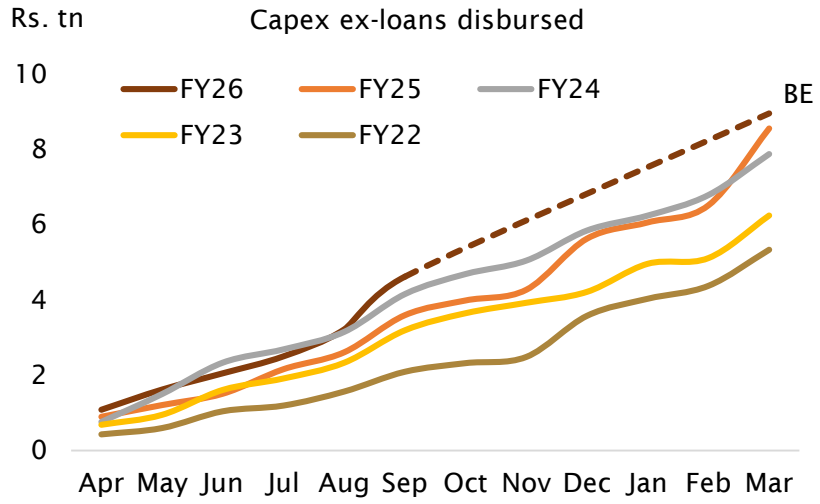
Healthy pace of capex growth vis-à-vis decline last year



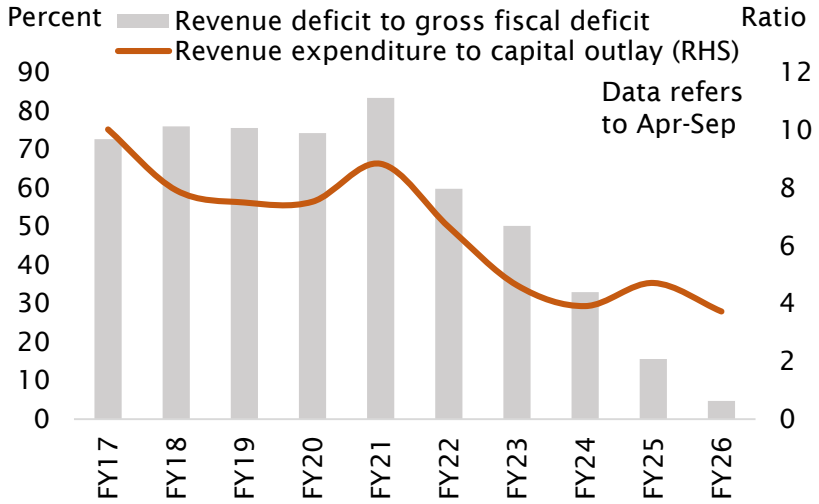
Total subsidies down 5%YY in H1-FY26



Capital outlay at 52% of FY26BE vs 39% in FYTD-FY25

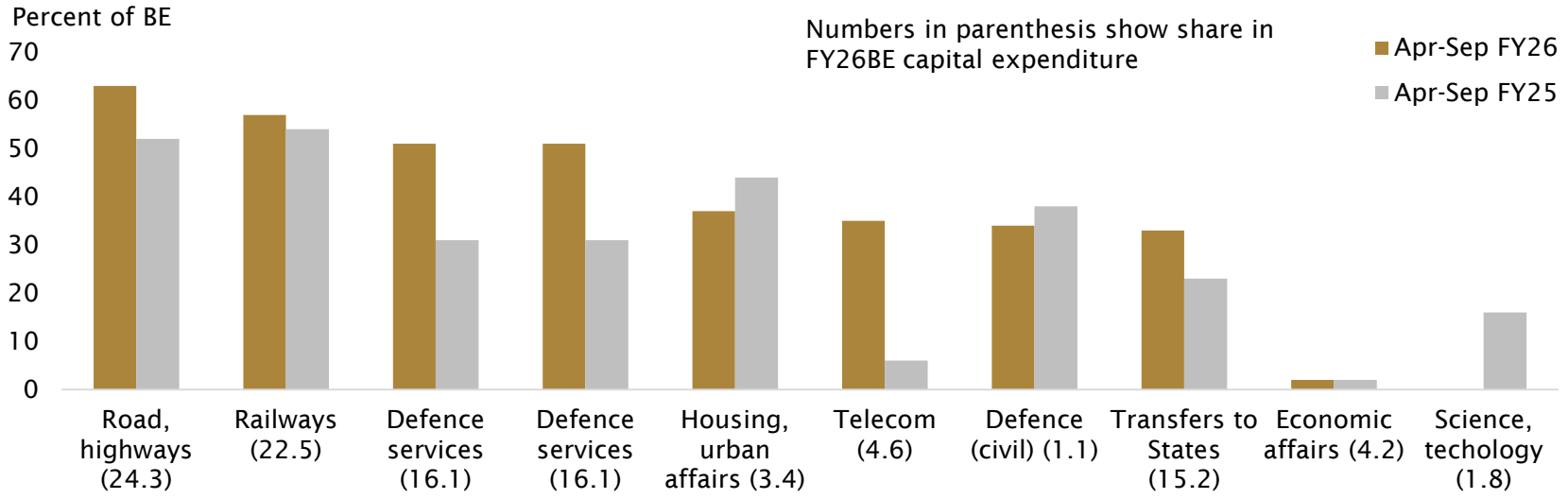


Expenditure quality up in H1-FY26 vis-à-vis H1-FY25

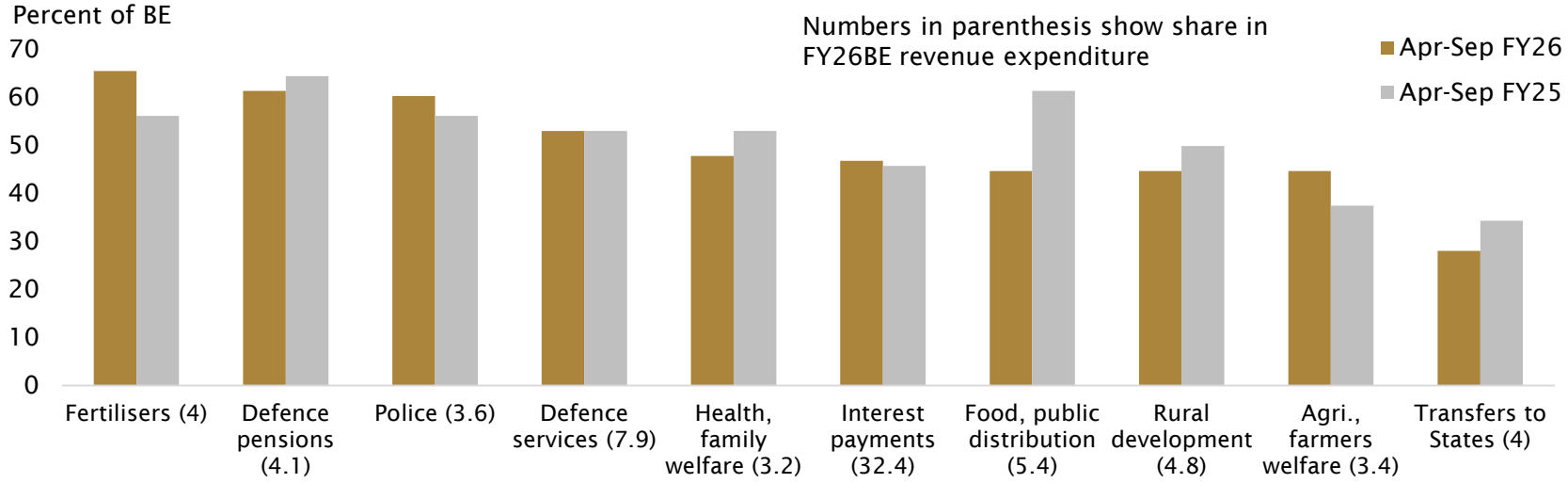


Roads, railways topped the pace of capex in FYTD-FY26; defence pensions and fertilizers in case of revenue spending

Capex on telecom has rebounded relative to FYTD-FY25, while pace of capital spending on housing has moderated



Higher fertilizer, lower food subsidy in FYTD-FY26 reflected in revenue spending of respective departments



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