Fiscal Accounts

Taking stock of general government finances

Economics ▸ Fiscal Policy ▸ November 13, 2025

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The Centre's 1HFY26 fiscal position is not overly concerning vs BE, while States' fiscal fragility seems backloaded in 2H. However, C and S expenditure trends have been divergent. Centre's frontloaded capex has not been mirrored by States even as both Centre and States have strived for revex curtailment. 1H revenue has been stretched for both, thanks to optimistic budgetary assumptions, with 2H looking better for the Centre. Centre's capex is likely to degrow ~20% in 2H after the huge ~40% growth in 1H, while States' capex growth may stay sub-10% (implying States' FY26E capex/GDP at 2.2% vs FY25P: 2.3%), due to strain from populism-led spending and limited revenue mobilization levers. While Centre's FD/GDP BE of 4.4% looks to be in sight, a ~20bps slippage in States' BE 3.2% FD/GDP seems likely. This risks a revisit of a bond supply overhang in 4Q, necessitating ~Rs1-1.5trn OMOs ahead, amid DD-SS mismatch and impending liquidity tightness.

Key highlights

- Centre's 1HFY26 FD achievement at 37%; States' at 38%
- States' capex growth at 10% vs Centre's at 40%
- Centre's capex to see degrowth in 2H, though 'core' capex will not slip vs BE; FY26E capex/GDP: 3%
- States' 2H capex growth to remain similar to that in 1H, but will slip heavily vs BE; FY26E capex/GDP: 2.2%
- Centre's FY26BE FD/GDP of 4.4% likely to be met by cutting revex and miscellaneous capex despite revenue challenges
- States face ~10-20bps of slippage risk vs FY26BE FD/GDP of 3.2%

Prudent 1H fiscal for Centre and States amid lower revex; capex trends diverge

1HFY26 fiscal accounts depict a prudent fiscal position for the Centre, with 1H fiscal deficit (FD) at 37% of BE (vs 1HFY25/3Y average of 29%/36%) – FY25 had seen much lower expenditure in 1H due to elections, though the current fiscal position is broadly in line with that in the last 3 years. While Centre's tax collection growth has been sluggish, slower revex has kept the deficit contained, even with capex frontloading. Despite noise around States' fiscal fragilities, data for 17 key states depicts that even with strained revenue, the 1H FD has been bearable (38% of BE vs 1HFY25/3Y average of 37%/35%). However, the manner of consolidation for both Centre and States has continued to vary, led by divergent expenditure trends. Centre's frontloaded capex (with 'core' capex also being healthy) has not been mirrored by States (Centre: 52% of BE achieved vs 27% for States), even as both Centre and States have tried to control revex (Centre: 44% of BE achieved; States: 41%). In fact, Centre's revex (ex-interest) has exhibited negative growth in 1H (-3% vs BE: 7%), with States also seeing a much lower growth vs BE (8% vs BE: 19%), albeit higher than the Centre's. The revenue front has been strained for both, led by gross tax/own tax revenue.

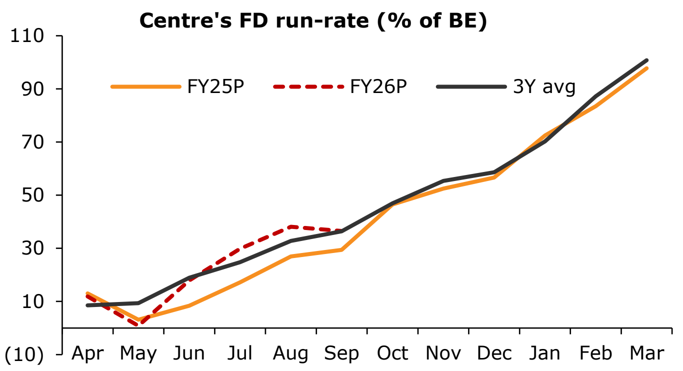
Centre's FD/GDP of 4.4% still in sight; States risk slippage of 10-20bps from 3.2%

While the Centre's lower tax receipts in FY26E vs budgeted will be partly offset by higher non-tax revenue (RBI + PSU dividends), States will face more revenue pressure amid lower devolution and significant slippage vs unrealistic BE for grants (~135% growth rate for 2HFY26!). Centre's 2H revex growth may track at 10-12%, while capex growth will turn negative (due to base effects); for States, expenditure growth may stay similar to that in 1H. We maintain the Centre's FY26E FD/GDP at 4.4% and believe that concerns around fiscal slippage (amid lower direct tax revenue and GST rationalization) could be allayed by trimming miscellaneous capex and revex, among other items. However, the general government fiscal position may still be at risk of slippage, led by States, due to their weak revenue position and pressure from sticky revex (populist/freebie spending). States' FD/GDP is poised to cross 3% for a 3rd straight year, with a risk of 10-20bps slippages from the estimated FY26BE of 3.2% (FY25P: 3.3%).

Bond supply overhang to haunt again in 4Q; watch for Rs1-1.5trn OMOs ahead

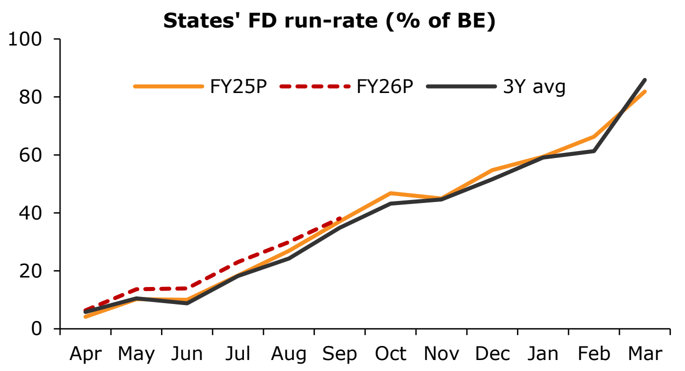
The frontloading of issuances in 1H by C+S (led by 20Y+ papers) along with a demand drought from captive investors such as banks and shift in investment behavior of long players strained the bond market in recent months. The lack of clarity on policy rate direction has also put pressure. Bond yields have held steady in recent sessions, helped by auction cancellation and likely secondary-market bond purchases by the RBI (~Rs300bn since the last week). Amid impending liquidity tightness and the need to widen market depth beyond the most liquid papers, additional OMO purchases to the tune of Rs1-1.5trn may be in the offing, providing a more supportive backdrop for bonds. States' borrowing in 3QFY26 so far (~Rs1.3trn) has been ~36% lower than the already-low indicative amount of ~Rs2.8trn, due to an extra devolution instalment received from the Centre at end-Sep which cushioned its revenue to an extent. Additionally, media reports suggest States have been asked to defer bond auctions amid rising yields to ease supply pressures and avoid crowding out during supply-heavy periods. This may lead to SDL supply turning heavily back-ended in 4QFY26 (~Rs 5trn), when Centre's borrowing is lower. Key to watch ahead is the tenor of States' issuances, so as to accommodate structural and regulatory changes impacting demand by domestic investors.

Exhibit 1: Centre's FY26 fiscal trajectory is largely in line with that in the last 3 years…



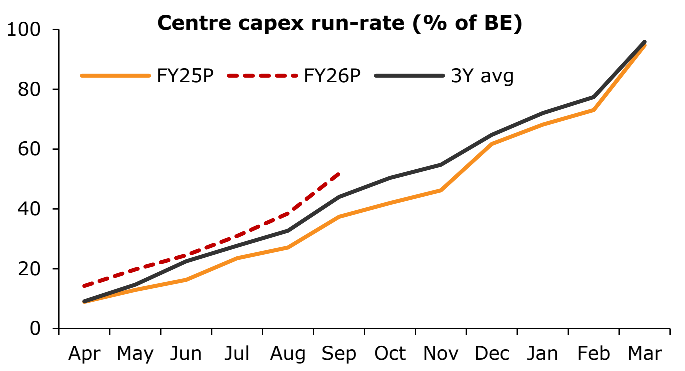
Source: CEIC, Emkay Research

Exhibit 2: …while that for States is also similar, albeit at a slightly higher run-rate



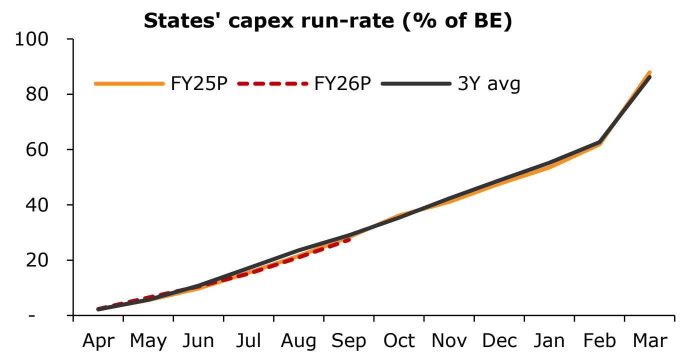
Source: CEIC, Emkay Research; Note: Data is for 17 major states

Exhibit 3: The Centre has heavily frontloaded capex in FY26TD…



Source: CEIC, Emkay Research

Exhibit 4: …while States are lagging albeit maintaining their usual pace



Source: CEIC, Emkay Research; Note: Data is for 17 major states

Exhibit 5: The Centre's tax revenue growth has been anemic in 1H, with both direct and indirect taxes faring poorly

Centre's revenue breakdown (Rs bn)	FYTD (Apr-Sep)		FY26TD	FY26BE	RoY reqd	FY26	FY25	1H run-	2H reqd		
	2026	2025	growth (%)	growth (%)	growth (%)	% of BE	% of P	rate	run-rate	FY26BE	FY25P
Gross tax revenues	18,654	18,138	3	13	21	44	48	3,109	4,008	42,702	37,952
Direct taxes	10,576	10,260	3	17	29	42	47	1,763	2,462	25,351	21,697
Corporate tax	4,666	4,615	1	10	17	43	47	778	1,026	10,820	9,868
Income tax	5,910	5,645	5	22	37	41	48	985	1,412	14,380	11,830
Indirect taxes	7,771	7,561	3	11	19	45	48	1,295	1,597	17,351	15,596
Customs duty	1,071	1,130	(5)	3	11	45	49	179	222	2,400	2,329
Excise duty	1,389	1,285	8	6	4	44	43	232	297	3,170	3,003
GST	5,311	5,147	3	15	26	45	50	885	1,078	11,780	10,265
Transfers to states, UTs etc	6,360	5,487	16	11	7	44	42	1,060	1,328	14,328	12,963
Net tax revenues	12,294	12,652	(3)	14	30	43	51	2,049	2,680	28,374	24,989
Non-tax revenues	4,661	3,572	30	8	(35)	80	66	777	195	5,830	5,375
Non-debt capital receipts	348	146	138	82	51	46	35	58	69	760	418

Source: CEIC, Emkay Research

Both direct and indirect tax growth to pick up in 2H, though likely slippage vs BE imply FY26E net tax buoyancy at ~0.9x

- While the Centre's gross tax revenue growth will pick up in 2H vs 1H, a **realistic growth rate for 2H is 8-9%** (vs ~21% needed to meet FY26BE)
- Direct tax growth is likely to be ~10-12% in 2H, with both corporate and income tax growth picking up, to double-digits (although **FY26E is likely to slip vs BE, by 0.5% of GDP**)
- Similarly, indirect tax growth is likely to improve in 2H, though with **likely slippage of 0.2% of GDP vs FY26BE**
- Thus, the **Centre's FY26E net tax buoyancy is likely to be ~0.8-0.9x (vs 1.1x budgeted)**

Exhibit 6: The Centre's expenditure growth has been contained due to lower revex growth, even with sharp surge in capex

Rs bn	FYTD (Apr-Sep) 2026	2025	FY26TD growth (%)	FY26BE growth (%)	RoY reqd growth (%)	FY26 % of BE	FY25 % of P	1H run-rate	2H reqd run-rate	FY26BE	FY25P
Total receipts	17,302	16,370	6	14	23	49	53	2,884	2,944	34,964	30,782
Total expenditure	23,033	21,115	9	9	9	45	45	3,839	4,603	50,653	46,555
Revenue expenditure	17,226	16,965	2	9	17	44	47	2,871	3,703	39,443	36,035
Revenue expenditure (ex-interest)	11,444	11,815	(3)	7	17	43	48	1,907	2,539	26,679	24,872
Interest payments	5,782	5,150	12	14	16	45	46	964	1,164	12,763	11,163
Major subsidies	2,024	2,147	(6)	(1)	4	53	55	337	302	3,834	3,880
Food	884	1,214	(27)	2	47	43	61	147	192	2,034	1,999
Fertilizer	1,073	895	20	(3)	(28)	64	52	179	101	1,679	1,737
Oil	67	38	79	(16)	(50)	56	26	11	9	121	145
Agriculture and farmers' welfare	593	484	23	(1)	(14)	43	35	99	131	1,377	1,397
Education	423	416	2	16	25	33	38	70	144	1,286	1,107
Health and family welfare	445	446	(0)	8	17	46	50	74	86	962	890
Rural development	802	863	(7)	6	18	42	48	134	184	1,904	1,793
Capital expenditure	5,807	4,150	40	7	(15)	52	39	968	901	11,211	10,520
Defence	965	579	67	13	(15)	50	34	161	160	1,924	1,706
Railways	1,433	1,357	6	0	(7)	57	54	239	181	2,520	2,519
Roads and highways	1,711	1,406	22	(5)	(30)	63	49	285	169	2,722	2,853
Housing and urban affairs	138	127	9	19	26	37	40	23	40	376	316
Transfers to states	571	379	51	3	(11)	33	23	95	189	1,706	1,657
Others	989	302	227	34	(17)	50	21	165	162	1,962	1,468
Fiscal deficit	5,731	4,745	21	(1)	(10)	37	30	955	1,660	15,689	15,773
Revenue deficit	271	742	(63)	(8)	1	5	13	45	828	5,238	5,671
Primary deficit	(51)	(405)	(88)	(37)	(41)	(2)	(9)	(8)	496	2,926	4,609

Source: CEIC, Emkay Research

Centre's revex growth to improve in 2H; capex growth to turn negative even with a cut in capex

- Revex growth will pick up in 2H (to around 12-13%, albeit stay lower than the 17% needed to meet BE)
- Even assuming a modest capex cut vs BE, **capex growth will be negative in 2H** (around -20%), primarily due to an unfavorable base (and heavy capex frontloading in 1H)

Exhibit 7: Despite outliers inflating headline capex, the Centre's 'core' capex growth has remained healthy in 1H

Centre's capex breakdown (Rs bn)	FYTD (Apr-Sep) 2026	2025	FY26TD growth (%)	FY26BE growth (%)	RoY reqd growth (%)	FY26 % of BE	FY25 % of P	1H run-rate	2H reqd run-rate	FY26BE	FY25P
Capital expenditure	5,807	4,150	40	7	(15)	52	39	968	901	11,211	10,520
Defence	965	579	67	13	(15)	50	34	161	160	1,924	1,706
Railways	1,433	1,357	6	0	(7)	57	54	239	181	2,520	2,519
Roads and highways	1,711	1,406	22	(5)	(30)	63	49	285	169	2,722	2,853
Housing and urban affairs	138	127	9	19	26	37	40	23	40	376	316
Transfers to states	571	379	51	3	(11)	33	23	95	189	1,706	1,657
Others	989	302	227	34	(17)	50	21	165	162	1,962	1,468
Of which, outliers:											
Food & Public Distribution	500	40	1,153	(37)	1,205	47,810	2,396	83	(83)	1	2
Telecom	179	52	245	(33)	(54)	36	7	30	52	493	738
Department of Eco Affairs	27	39	(30)	313	527	6	38	5	65	417	101
Department of Science and Tech	1	0	262	31,192	55,669	1	44	0	33	201	1
Core Capex (ex outliers and state transfers)	4,529	3,640	24	5	(12)	54	45	755	644	8,393	8,021

Source: CEIC, Emkay Research calculations

Centre's 'core' capex unlikely to slip vs BE; capex rationalization to be led by 'others'; FY26E capex/GDP at 3%

- 'Core' capex has had a healthy growth in 1H and will thus see negative growth in 2H – but **slippage vs BE is unlikely**
- On the contrary, '**outliers' are at risk of moderation/rationalization** *(See 'Public Capex: Robust momentum – but optics don't tell the full story')*
- Centre's total capex may slip vs BE, to the tune of Rs400-500bn (mainly due to rationalization of 'others'), implying capex growth of ~3-4% and **capex/GDP of 3%** (vs FY25P: 3.2%)

Exhibit 8: States' revenue position remains stretched, with expenditure (including capex) being controlled as a result

States' fiscal position (17 states, Rs bn)	FYTD (Apr-Sep) 2026	FYTD (Apr-Sep) 2025	FYTD growth (%)	FY26BE growth (%)	ROY reqd growth (%)	FY26 % of BE	FY25 % of BE	1H run-rate	2H reqd. run-rate
Total Receipts	**16,842**	**15,777**	**7**	**23**	**37**	**38**	**40**	**2,807**	**4,522**
Revenue Receipts	**16,782**	**15,751**	**7**	**23**	**36**	**39**	**40**	**2,797**	**4,455**
Tax Revenue	14,613	13,395	9	17	24	42	44	2,436	3,328
Own Tax Revenue	10,262	9,156	12	19	26	44	44	1,710	2,148
SGST	4,391	4,173	5	19	32	44	47	732	937
Stamps and Registration Fees	1,254	1,133	11	25	40	44	44	209	271
Land Revenue	81	76	6	31	48	34	38	14	27
Sales Tax	1,931	1,857	4	18	32	42	42	322	448
State Excise	1,352	1,229	10	21	30	42	41	225	309
State's Share of Union Taxes	4,351	4,239	3	14	22	38	43	725	1,180
Other Taxes	894	784	14	12	10	41	43	149	217
Non-Tax Revenue	1,267	1,159	9	30	44	33	34	211	437
Grants-in-aid	822	1,196	(31)	68	135	16	24	137	702
Total expenditure	**20,846**	**18,907**	**10**	**23**	**32**	**38**	**38**	**3,474**	**5,608**
Revenue expenditure	**18,156**	**16,723**	**9**	**19**	**28**	**41**	**41**	**3,026**	**4,432**
Revex ex-interest	**15,690**	**14,516**	**8**	**19**	**27**	**40**	**41**	**2,615**	**3,911**
Int Payments	2,466	2,207	12	22	32	44	44	411	521
Salaries and Wages	3,693	3,866	(4)	31	69	38	44	615	994
Pension	2,362	2,200	7	23	39	45	47	394	475
Subsidies	1,416	1,413	0	(0)	(0)	38	36	236	384
Capital expenditure	**2,396**	**2,184**	**10**	**32**	**42**	**27**	**28**	**399**	**1,093**
Revenue Surplus/Deficit	(1,374)	(972)	41	(40)	(112)	111	78	(229)	23
Fiscal Surplus/Deficit	**(4,004)**	**(3,488)**	**15**	**37**	**56**	**38**	**37**	**(667)**	**(1,085)**

Source: CEIC, Emkay Research; Note: Data is for 17 major states

States' FY26E capex/GDP at ~2.2% (lowest since FY23); 10-20bps slippage risk to States' FD/GDP BE of 3.2%

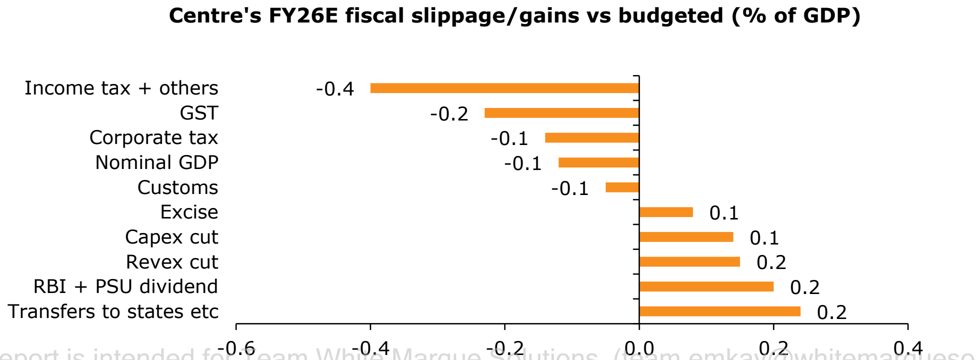
- While States were initially frontloading capex in FY26 (in line with the Centre), capex momentum has now slowed as revenue pressure continues to bite
- States' capex growth has slowed, from ~30% in 1QFY26 to **~0% for 2Q;** as a result, 1H capex growth is only ~10%
- While seasonal trends will remain in place in FY26 (4Q/March accounting for ~55%/~25% of States' full-year capex), a **meaningful capex pick-up beyond these trends is not expected**
- As a result, **States' capex achievement vs BE is likely to revert to the 10Y average of ~80%,** with downside bias in FY26 vs 88-89% achievement rates for FY24-25
- **States' FY26E capex/GDP at 2.2%** (vs FY25P: 2.3%) – well below the recent peak of 2.5%, in FY24
- **Even with lower capex than budgeted, States' revenue mobilization challenges (and sticky revex) imply slippage risk of ~10-20bps vs FY26 FD/GDP BE of 3.2%** *(See 'State Finances: Papering over the cracks')*

Exhibit 9: Centre's FY26BE FD/GDP of 4.4% to be met, despite lower revenue than budgeted

	% of GDP				
	FY23	FY24	FY25P	FY26BE	FY26E
Receipts breakdown					
Revenue receipts	**8.8**	**9.2**	**9.2**	**9.6**	**9.3**
Gross tax revenues	11.3	11.7	11.5	12.0	11.3
Direct taxes	6.3	6.7	6.8	7.1	6.6
Corporation tax	3.1	3.1	3.0	3.0	3.0
Income tax	3.1	3.5	3.6	4.0	3.6
Indirect taxes	5.1	5.1	4.7	4.9	4.7
Goods and Services Tax	3.2	3.2	3.1	3.3	3.1
Customs duty	0.8	0.8	0.7	0.7	0.6
Excise duty	1.2	1.0	0.9	0.9	1.0
Transfers to states, UTs and national funds	3.5	3.9	3.9	4.0	3.8
Net tax revenues	7.8	7.9	7.6	7.9	7.5
Non-tax revenues	1.1	1.4	1.6	1.6	1.8
RBI transfer of surplus	0.1	0.3	0.6	0.6	0.8
Non-debt capital receipts	0.3	0.2	0.1	0.2	0.2
Disinvestments + others	0.2	0.1	0.1	0.1	0.1
Total Revenue receipts	**9.1**	**9.4**	**9.3**	**9.8**	**9.5**
Expenditure breakdown					
Revenue expenditure	**12.8**	**11.8**	**10.9**	**11.0**	**10.9**
Interest payments	3.4	3.6	3.4	3.58	3.6
Major Subsidies	2.0	1.4	1.7	1.1	1.1
Pay, allowances and pension	2.4	2.3	2.3	2.2	2.2
Agriculture and farmers' welfare	0.4	0.4	0.4	0.4	0.4
Education	0.4	0.4	0.3	0.4	0.4
Health and family welfare	0.3	0.3	0.3	0.3	0.3
Rural development	0.7	0.6	0.5	0.5	0.5
Capital expenditure	**2.7**	**3.2**	**3.2**	**3.1**	**3.0**
Defence	0.6	0.6	0.5	0.5	0.5
Railways	0.6	0.8	0.8	0.7	0.7
Roads and Highways	0.8	0.9	0.9	0.8	0.8
Housing and urban affairs	0.1	0.1	0.1	0.1	0.1
Transfers to states	0.3	0.4	0.5	0.5	0.5
Others	0.4	0.4	0.4	0.5	0.4
Total expenditure	**15.6**	**15.0**	**14.1**	**14.2**	**13.9**
Deficit summary					
Primary deficit	3.0	2.0	1.7	0.8	0.9
Revenue deficit	4.0	2.6	2.2	1.5	1.6
Gross fiscal deficit	**6.4**	**5.6**	**4.8**	**4.4**	**4.4**

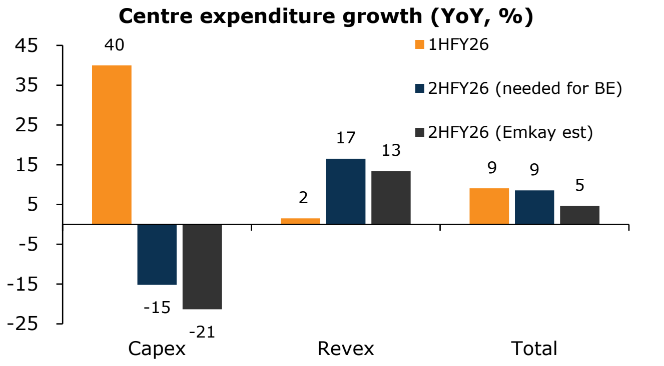
Source: CEIC, Emkay Research estimates

Exhibit 10: Centre's tax revenue losses to be offset by RBI dividend, miscellaneous capex, and revex cuts



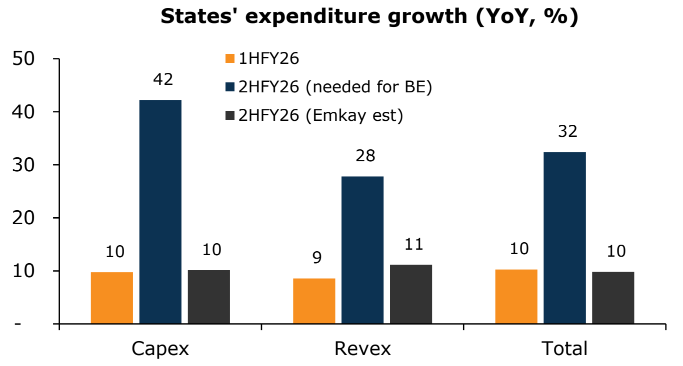
Source: Emkay Research estimates

Exhibit 11: Centre's capex bound to see negative growth in 2H, even as revex growth to pick up vs 1H



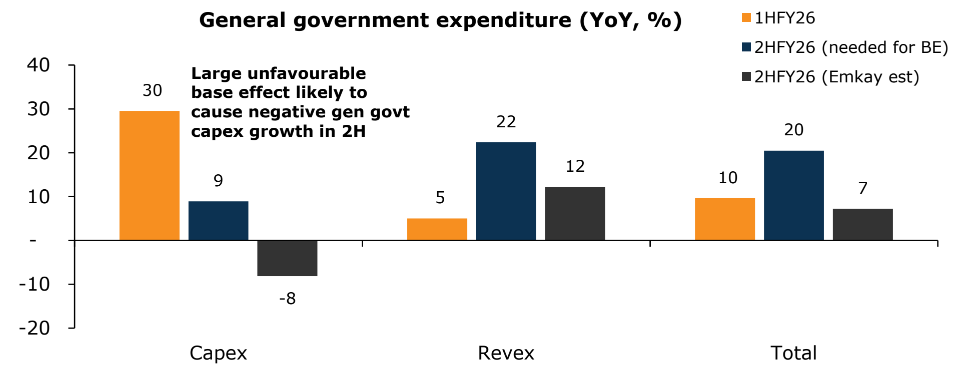
Source: CEIC, Emkay Research estimates

Exhibit 12: States' 2H expenditure growth (both capex and revex) likely to be similar to that in 1H, and well below budgeted



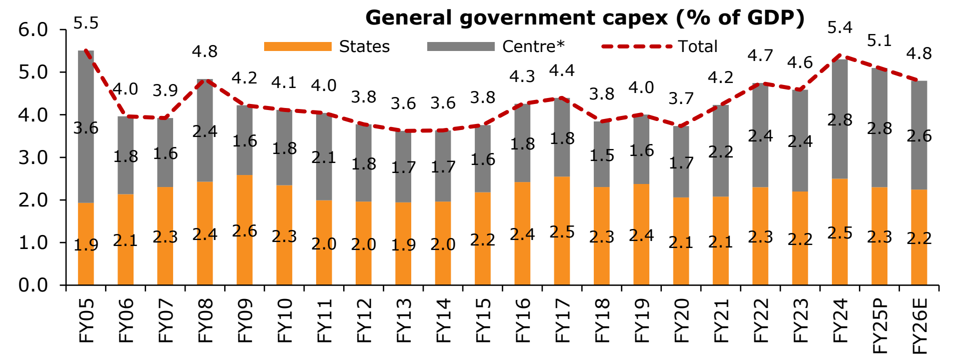
Source: CEIC, Emkay Research estimates

Exhibit 13: General government expenditure growth is likely to be marginally lower in 2H vs 1H, led by capex decline, while revex will pick up



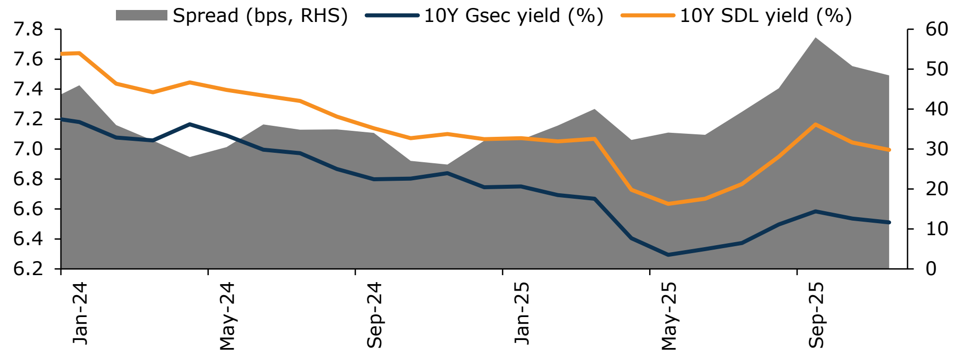
Source: CEIC, Emkay Research estimates

Exhibit 14: FY26E general government capex at 4.8%, much lower than the recent FY24 peak of 5.4%



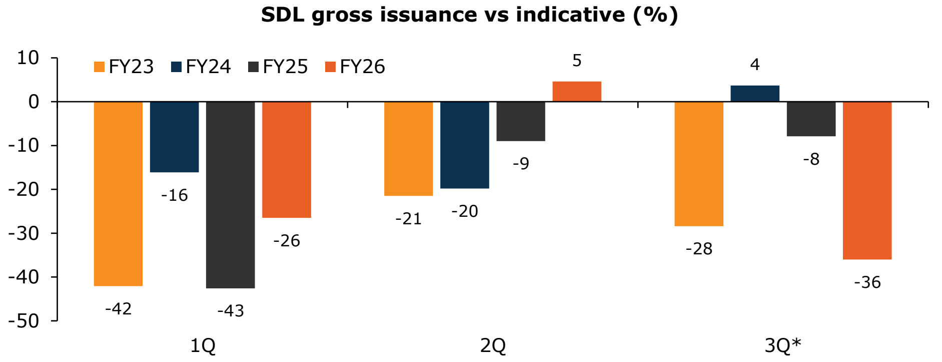
*Source: CEIC, Emkay Research estimates; *The Centre's capex is excluding the capex loan to States*

Exhibit 15: While bond yields and SDL spreads have moderated recently, they remain elevated



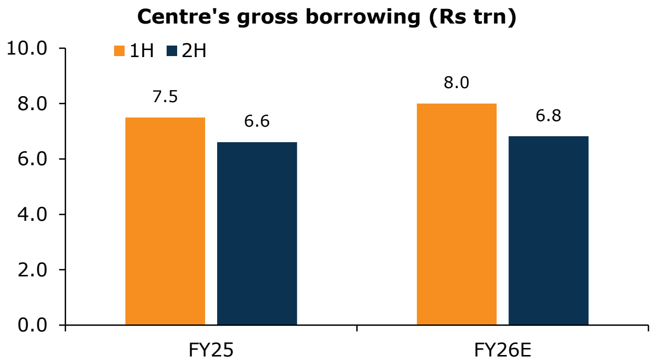
Source: Bloomberg, CEIC Emkay Research

Exhibit 16: After higher-than-usual issuance in 2Q, SDL issuance has plummeted in 3QFY26, even in comparison to past years



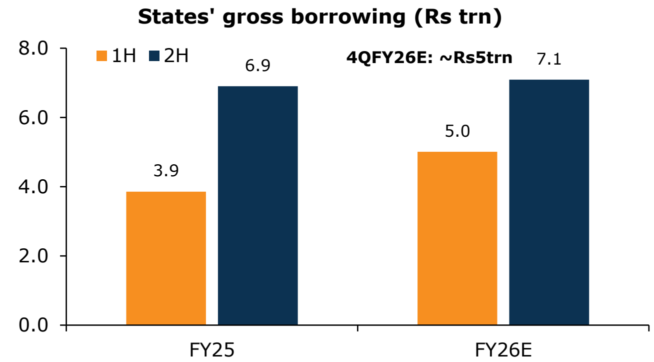
*Source: RBI, Emkay Research; *Data for 3QFY26 is till 11-Nov-2025*

Exhibit 17: Centre's 2H gross borrowing will moderate vs 1H, with modest YoY growth…



Source: RBI, Emkay Research estimates

Exhibit 18: …while States' issuance will surge, especially as they are nudged to backload their borrowing toward 4Q



Source: RBI, Emkay Research estimates

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REDUCE	5% upside to 15% downside
SELL	>15% downside

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