1Q Fiscal Accounts

Centre and states not ringing alarm bells yet

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Economic Update ▸ Fiscal Accounts ▸ August 03, 2026

The Centre's 1QFY27 fiscal position is relatively comfortable despite revex pressure and poor gross tax revenue, while states have maintained fiscal discipline so far by regulating expenditure. Despite revenue pressure, the Centre has maintained strong capex momentum, driven by core sectors of Defence and Railways, while also pushing states via capex loans. However, states have controlled both revex and capex in the face of weak revenue growth. For FY27E, we expect the Centre to meet FY27BE FD/GDP of 4.3%, with several buffers available to offset Middle East crisis-linked strains. However, Brent sustaining above $90/bbl for an extended period would provide upside risk of 0.2% of GDP. States, on the other hand, are expected to see fiscal slippage of 0.2% of GDP vs FY27BE of 3.1%, due to revenue pressure as well as continued focus on capex.

Centre's FD remains controlled in 1Q, but capex growth has been strong

1QFY27 fiscal accounts show the Centre in a comfortable position, despite poor revenue growth and revex-led expenditure pressure. The Centre's fiscal deficit (FD) at 18% of BE for 1Q is identical to last year's and the 3Y average, reflecting the stable fiscal position. While gross tax revenue growth has been sluggish (4% yoy vs 9% BE), lower devolution to states, and relatively controlled expenditure have kept FD contained. Slower tax growth has been on account of indirect taxes (with cuts in fuel excise and GST rationalization), while direct tax revenue growth has been solid. The Centre's revex has been under control after an initial surge (led by subsidies) due to the Middle East conflict, while capex momentum has been strong (24% yoy vs 14% BE; 28% of BE achieved).

States also running a tight ship, but by rationalizing expenditure

States are also in a stable position, despite 1Q FD achievement at 18% running higher than the 3Y/5Y averages of 12%/13% respectively, albeit similar to that in FY26. This is largely on account of poor revenue (3% yoy vs 24% BE), led by lower transfers from the Centre. Both devolution (-12% yoy) and grants (-38% yoy) are running far lower than last year's levels – the major factor behind states' slow revenue growth. However, lower devolution is largely an issue of timing; with the Centre having now released an extra installment in Aug-26 (vs in July last year), this mismatch will be corrected imminently. States' own tax revenue (OTR) is relatively healthy (12% yoy vs 21% BE). However, we note that robust SGST growth (12% yoy) is on account of higher IGST settlement from the Centre. Pre-settlement SGST growth was just 3% yoy for 1Q. States have kept expenditure under control (4% yoy), with both revex (4% yoy) and capex (7% yoy) being muted and achievement rates in line with 3Y averages. Capex has been muted despite the Centre's capex loan disbursements running much higher than in 1QFY26. As a result, FD is in line with BE (6% yoy).

Centre likely to meet FY27BE FD/GDP of 4.3%, with several buffers available

While the Middle East conflict had raised fears of significant fiscal slippage for the Centre in FY27, we believe the Centre should be able to maintain the budgeted FD/GDP target of 4.3% (assuming Brent remains around current levels). The fiscal impact of potential excise duty cuts and higher fertilizer subsidies is likely to be offset by a combination of a drawdown from the Economic Stabilization Fund (ESF), modest rationalization of non-core capex and revex, a slightly higher-than-budgeted RBI dividend, and stronger import duty collections from precious metals. However, if global oil market imbalances intensify and Brent sustains above $90/bbl, the fiscal cushion would narrow materially, raising the possibility of a fiscal slippage to the tune of 0.2% of GDP.

States' revenue troubles and capex focus to lead to fiscal slippage in FY27E

While states have also had poor revenue so far, this is expected to improve in 2H, which is a seasonally stronger period for states' revenue. Additionally, devolution from the Centre will improve as the extra installments are paid out. We also note that several major states (MH, AP, KA, TS, HR, UP) have raised alcohol excise rates and/or revamped their alcohol excise policies over the past 18 months; as a result, states' excise revenue (13% yoy) is one of the few OTR heads to show double-digit growth so far. Nevertheless, states are expected to undershoot optimistic FY27BE revenue targets across both OTR and central transfers. While states will control expenditure to meet deficit targets, revex will be stickier, while capex will also remain robust, aided by the Centre's capex loan program. As a result, we expect states to slip and deliver FY27E FD/GDP of 3.3% (vs FY27BE FD/GDP: 3.1%).

Key highlights

- Centre's 1Q FD stays comfortable (18% of BE achieved) due to lower devolution and constrained revex, despite poor tax revenue growth
- States' FD also comfortable amid poor revenue as expenditure is controlled, while the Centre's capex momentum is strong
- Several fiscal buffers available to the Centre to offset Middle East crisis-linked fiscal strains
- States to slip vs FY27 FD/GDP BE due to revenue pressure and continued capex focus

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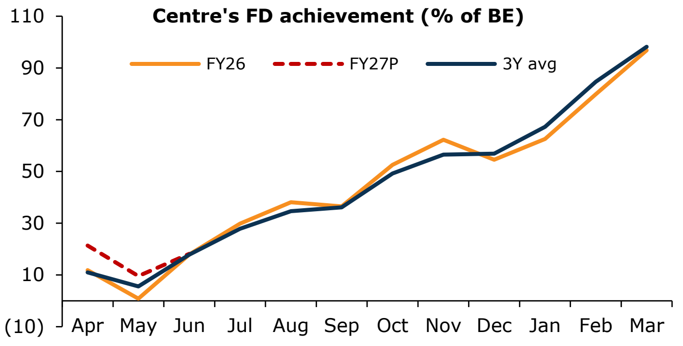
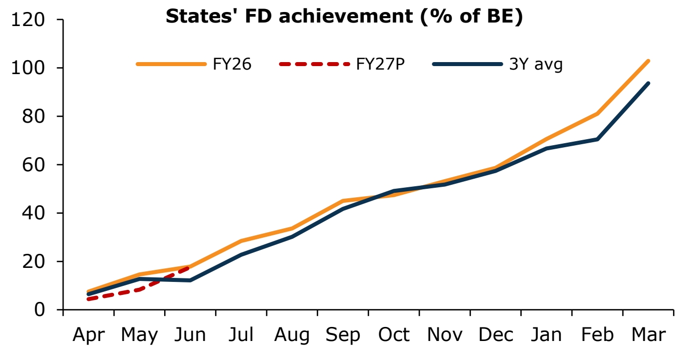
Exhibit 1: Centre's FY27 fiscal deficit trajectory is in line with past 3Y average…



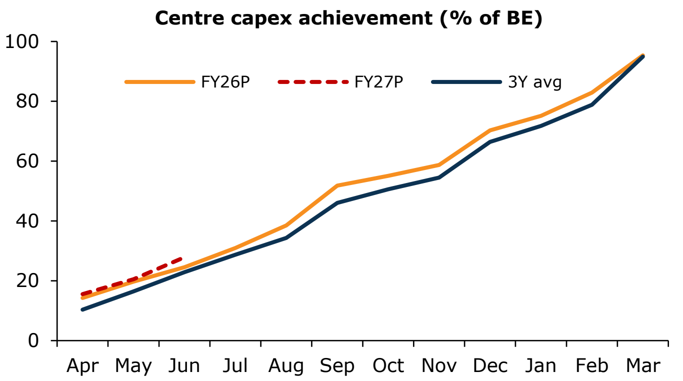
Source: CEIC, Emkay Research

Exhibit 2: …while states are running a tad higher, albeit similar to FY26 levels



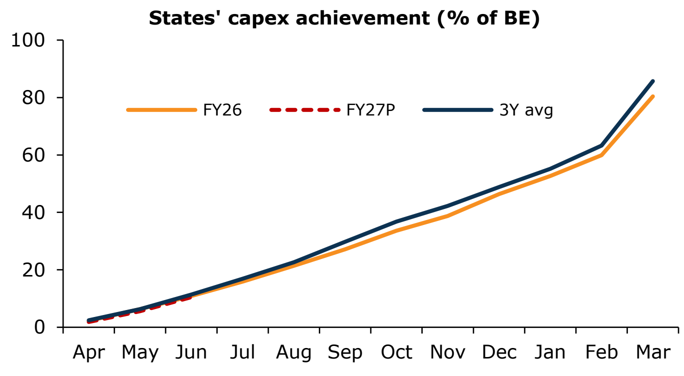
Source: CEIC, Emkay Research. Data is for 20 major states

Exhibit 3: Centre has expanded capex at a faster pace…



Source: CEIC, Emkay Research

Exhibit 4: …while states are maintaining their usual momentum



Source: CEIC, Emkay Research. Data is for 20 major states

Exhibit 5: Centre's poor gross tax revenue growth is largely down to indirect taxes

Centre's revenue breakdown (Rs bn)	FYTD (Apr-Jun)		FY27TD	FY27BE	RoY reqd	FY27	FY26		
	2027	2026	growth (%)	growth (%)	growth (%)	% of BE	% of P	FY27BE	FY26P
Gross tax revenues	**9,009**	**8,690**	**4**	**9**	**11**	**20**	**22**	**44,041**	**40,243**
Direct taxes	5,122	4,586	12	18	20	19	20	26,970	22,825
Corporate tax	2,068	1,727	20	12	11	17	16	12,310	10,991
Income tax	3,054	2,858	7	24	29	21	24	14,660	11,834
Indirect taxes	3,652	3,954	(8)	0	3	22	24	16,791	16,716
Customs duty	577	424	36	3	(4)	21	16	2,712	2,644
Excise duty	431	556	(22)	14	21	11	16	3,889	3,419
GST	2,643	2,974	(11)	(4)	(2)	26	28	10,190	10,653
Transfers to states, UTs etc	2,643	3,287	(20)	10	19	17	23	15,372	14,011
Net tax revenues	6,366	5,403	18	9	7	22	21	28,669	26,233
Non-tax revenues	3,777	3,731	1	(2)	(6)	57	55	6,662	6,790
Non-debt capital receipts	350	280	25	41	50	30	33	1,184	838

Source: CEIC, Emkay Research

Gross tax revenue growth pulled down by indirect taxes; lower devolution keeps net tax revenue (optically) healthy

- Sluggish gross tax revenue growth was driven by indirect taxes (-8% yoy), due to the **impact of excise duty cuts on fuel and last year's GST rationalization**. On the other hand, customs duties have seen healthy growth (36% yoy), reflecting **higher imports** (1Q imports growth: 20% yoy) as well as **import duty hikes on gold and silver.**
- Direct tax growth has been solid at 12% yoy, **driven by corporate taxes** (20% yoy), albeit on a favorable base (corporate tax growth was -1% yoy in 1QFY26). Income taxes have had more modest growth (7% yoy).
- The Centre's net tax revenue growth (18% yoy) has been helped by **lower devolution so far (-20% yoy). However, this is an issue of timing** – the Centre had paid an extra devolution instalment to states in June last year, which inflated the base for 1Q. This extra instalment has been paid in August this year, so the **mismatch (and optically high growth in net tax revenue) will be corrected from Aug-26 onward**.

Exhibit 6: Revex growth has moderated, helped by lower interest payments, while capex growth has stayed strong

Rs bn	FYTD (Apr-Jun) 2026	2025	FY27TD growth (%)	FY27BE growth (%)	RoY reqd growth (%)	FY27 % of BE	FY26 % of P	FY27BE	FY26P
Total receipts	**10,492**	**9,414**	**11**	**1**	**(4)**	**31**	**28**	**34,063**	**33,860**
Total expenditure	**13,571**	**12,221**	**11**	**9**	**8**	**25**	**25**	**53,473**	**49,052**
Revenue expenditure	**10,168**	**9,470**	**7**	**8**	**8**	**25**	**25**	**41,255**	**38,360**
Revenue expenditure (ex-interest)	**6,704**	**5,610**	**20**	**5**	**1**	**25**	**22**	**27,215**	**25,935**
Interest payments	3,464	3,860	(10)	13	23	25	31	14,040	12,426
Major subsidies	1,148	836	37	(10)	(20)	28	18	4,105	4,539
Food	499	423	18	(0)	(4)	22	19	2,276	2,281
Fertilizer	647	410	58	(19)	(38)	38	19	1,708	2,114
Oil	3	3	10	(16)	(16)	2	2	121	144
Agriculture and farmers' welfare	296	123	141	6	(8)	21	9	1,404	1,329
Education	161	52	207	19	10	12	4	1,393	1,170
Health and family welfare	277	251	10	14	16	27	28	1,036	907
Rural development	314	498	(37)	7	23	16	27	1,970	1,848
Capital expenditure	**3,403**	**2,751**	**24**	**14**	**11**	**28**	**26**	**12,218**	**10,691**
Defence	482	339	42	11	5	22	17	2,193	1,973
Railways	977	748	31	10	2	35	30	2,778	2,520
Roads and highways	640	639	0	1	2	22	22	2,942	2,905
Housing and urban affairs	46	77	(41)	6	20	13	23	348	330
Transfers to states	456	141	223	34	16	20	8	2,264	1,693
Others	802	808	(1)	33	93	47	64	1,693	1,269
Fiscal deficit	**3,078**	**2,807**	**10**	**12**	**12**	**18**	**18**	**16,958**	**15,192**
Revenue deficit	26	336	(92)	11	18	0	6	5,923	5,338
Primary deficit	(386)	(1,053)	(63)	5	(13)	(13)	(38)	2,918	2,766

Source: CEIC, Emkay Research

Exhibit 7: Centre's 'core' capex growth is also healthy, led by Defence and Railways, while capex loans to states are also running high

Centre's capex breakdown (Rs bn)	FYTD (Apr-Jun) 2027	2026	FY27TD growth (%)	FY27BE growth (%)	RoY reqd growth (%)	FY27 % of BE	FY26 % of P	FY27BE	FY26P
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Others	802	808	(1)	33	93	47	64	1,693	1,269
Of which, outliers:									
Food & Public Distribution	500	500	0	(30)	0	43,097	30,006	1	2
Telecom	172	178	(4)	(36)	(46)	36	24	473	738
Core Capex (ex outliers and state transfers)	**2,275**	**1,932**	**18**	**15**	**14**	**24**	**23**	**9,480**	**8,258**

Source: CEIC, Emkay Research calculations

Strong capex driven by core sectors and capex loans to states

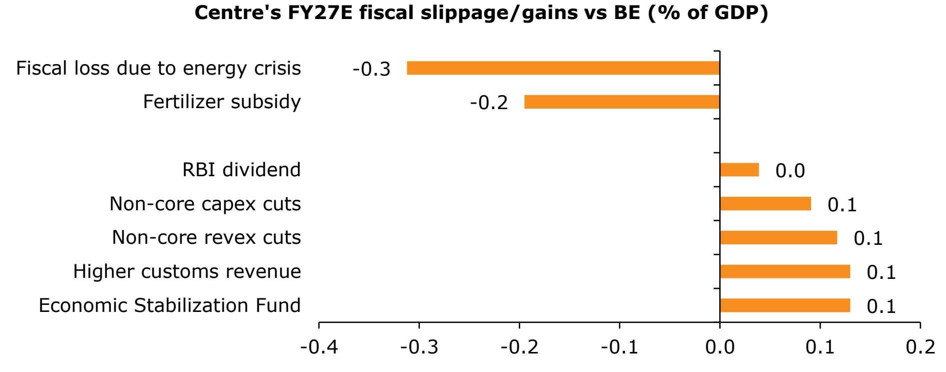
- The Centre's capex growth has been strong at 24% yoy, with the achievement rate also running higher than last year's (and 3Y average). In an encouraging sign, this **strong growth has been driven by core sectors of Defence (42% yoy) and Railways (31% yoy).**
- Transfers to states are also running extremely strong (223% yoy), reflecting the Centre's aim to push states' capex as well.
- Notably, the **Centre's 'core' capex has shown healthy growth**, reflecting genuinely strong capex momentum **rather than optical growth driven by one-off allocations or financial assistance to specific bodies** (FCI, BSNL, etc).

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

States' fiscal position (20 states, Rs bn)	FYTD (Apr-Jun) 2027	FYTD (Apr-Jun) 2026	FYTD growth (%)	FY27BE growth (%)	RoY reqd growth (%)	FY27 % of BE	FY26 % of BE	FY27BE	FY26P
Total Receipts	**8,921**	**8,638**	**3**	**24**	**30**	**17**	**18**	**52,358**	**42,110**
Revenue Receipts	**8,906**	**8,607**	**3**	**24**	**29**	**17**	**18**	**51,866**	**41,953**
Tax Revenue	7,838	7,518	4	18	22	19	20	40,904	34,552
Own Tax Revenue	5,870	5,233	12	21	24	22	22	26,343	21,791
SGST	2,508	2,220	13	20	22	22	21	11,300	9,416
Stamps and Registration Fees	721	625	15	26	29	21	21	3,422	2,721
Land Revenue	45	44	2	21	25	16	17	278	230
Sales Tax	1,052	974	8	19	22	21	20	5,045	4,257
State Excise	789	696	13	20	22	22	21	3,600	3,004
State's Share of Union Taxes	2,221	2,529	(12)	14	21	15	19	14,561	12,751
Other Taxes	502	428	17	25	27	19	19	2,698	2,162
Non-Tax Revenue	797	654	22	19	19	19	16	4,306	3,609
Grants-in-aid	271	434	(38)	75	89	4	7	6,627	3,792
Total expenditure	**11,050**	**10,638**	**4**	**20**	**24**	**17**	**18**	**64,489**	**53,651**
Revenue expenditure	**9,761**	**9,400**	**4**	**18**	**22**	**18**	**19**	**52,986**	**44,780**
Revex ex-interest	**8,555**	**8,351**	**2**	**18**	**22**	**18**	**19**	**46,346**	**39,284**
Int Payments	1,205	1,049	15	21	22	18	17	6,640	5,495
Salaries and Wages	2,304	2,266	2	54	74	18	21	12,794	8,300
Pension	1,526	1,330	15	26	30	24	23	6,449	5,129
Subsidies	684	849	(19)	78	107	11	22	6,459	3,638
Capital expenditure	**1,176**	**1,101**	**7**	**31**	**35**	**11**	**11**	**10,570**	**8,057**
Revenue Surplus/Deficit	(854)	(794)	8	(56)	(81)	68	65	(1,248)	(2,826)
Fiscal Surplus/Deficit	**(2,129)**	**(2,000)**	**6**	**6**	**5**	**17**	**18**	**(12,190)**	**(11,542)**

Source: CEIC, Emkay Research

Exhibit 9: There are enough buffers available to the Centre to offset estimated fiscal slippages in FY27E



Source: Emkay Research estimates; Note: Assumes other revenue streams as budgeted; assumes Brent prices ease materially in 2HFY27

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