

The robust public capex growth in 5MFY26 implies that the Centre has spent ~39% of its budgeted capital outlay with >43% growth, while States' capex is tracking a healthy 14% growth (albeit undershooting its overambitious 30% BE growth). While base effect, sectoral anomalies, etc have inflated the Centre's capex, the noise-adjusted 'core capex' has also depicted a handsome rise over the last 3 quarters. States, meanwhile, have shown an impressive achievement rate of ~89% of BE capex in the last 2 years (vs 10Y average of ~80%), despite slower revenue mobilization and freebie-led sticky revex. On net, if the trend sustains, FY26 general government capex/GDP is likely to hit ~5%, although it may still fall short of that in FY25P (5.1%) and log much lower than the FY24 peak of 5.4%.

### Frontloaded public capex strategy in 5MFY26 so far...

5MFY26 has seen a material shift in capex spending by both the Centre and States vs the same period last year. While public capex (Centre + States) was heavily backloaded in FY25, partly due to the general election, FY26 has seen continued focus on capex, with the Centre and crucially, the States, both frontloading capex – leading to three quarters of sustained capex momentum. The Centre's capex is currently tracking a staggering growth – 43.4% in 5MFY26, implying that to achieve a modest budgeted growth of 6.6%, the ROY can afford to de-grow by ~8%! Meanwhile, States are following the Centre's suit in capex frontloading, albeit with relatively modest numbers. 18 key States have already spent 21% of their budgeted capex (24% in FY25P), depicting growth of ~14% in 5MFY26 – a number less staggering than the Centre's headline capex but closely mirroring its 'core capex' growth, which excludes capex loans, sectoral anomalies, and other miscellaneous capex.

### ...but the devil is in the details

While 5MFY26 does reflect some frontloading, there are some key factors due to which the Centre's capex growth looks artificially inflated:

Firstly, there is a favorable base effect, with capex being curtailed till late-3QFY25 due to the general elections. Hence, expect negative growth late-3QFY26 onward.

Secondly, a key capex driver—telecom sector—is not 'true capex' but mostly equity infusion – Rs179bn of capex in 5MFY26 for the BSNL recapitalization (along with spending on the BharatNet program). This is up ~722% YoY (FY26BE: Rs493bn).

Third, Food and Public Distribution capex alone has contributed 37% to the Centre's capex growth so far, with nearly Rs500bn being spent vs a mere Rs3.3bn in the same period last year. This should largely be seen as an advance to the FCI, likely to be technically adjusted against food subsidies by the Centre (or repaid by FCI when it receives funds from open market sales of grains).

Fourthly, loans to States (majorly capex loans) now comprise a fair share of the Centre's capex (~20% now vs sub-10% in FY22). Transfers to States have grown 78% so far (FY26BE:3%), with the Centre releasing ~30% of the budgeted amount.

However, all is lost. Excluding such outliers (including the Centre's capex loans to States), core capex has risen a healthy 16% so far in FY26 (vs 5% BE). This has been led by key sectors such as Defense (54% YoY vs 13% FY26BE growth), Railways (9% YoY vs 0% FY26BE), and Roads and Highways (11% YoY vs -5% FY26BE). Sectors like Housing and Urban Infra are lagging (-4% YoY growth).

Reassuringly, the Centre has not dipped into 'placeholder capex' parked with the Department of Economic Affairs (FY26BE: Rs 417bn) to meet unforeseen outlay.

### General Govt capex/GDP on track to print ~4.9-5% in FY26 vs 5.1% in FY25P

Healthy disbursement of the Centre's capex loan to States has helped maintain their capex momentum as well. With States having achieved 88-89% of budgeted capex in the last two years (vs 10Y average of ~80%), continued capex focus is welcome and likely to help them outdo the FY25P capex/GDP by 0.1ppt to 2.4%—the second-highest ratio since FY17. Nevertheless, this would still be an undershoot vs States' ambitious FY26BE of 2.7%. *States' overall fiscal position also remains stretched* due to weak revenue mobilization and pressure from sticky revex (freebies/populist spending), implying their FD/GDP would cross +3% for the third year in a row, with significant risk of slippage vs BE (FY26 BE:3.2%). Meanwhile for the Centre, FY26 fiscal slippage concerns—amid slower tax revenue and the recent GST rationalization—could be allayed by trimming miscellaneous capex, among other items. Overall, if momentum sustains, general government capex is likely hit close to 5% in FY26, albeit may still be short of FY25P (5.1%) and log much lower than the peak of 5.4% in FY24.

### Key highlights:

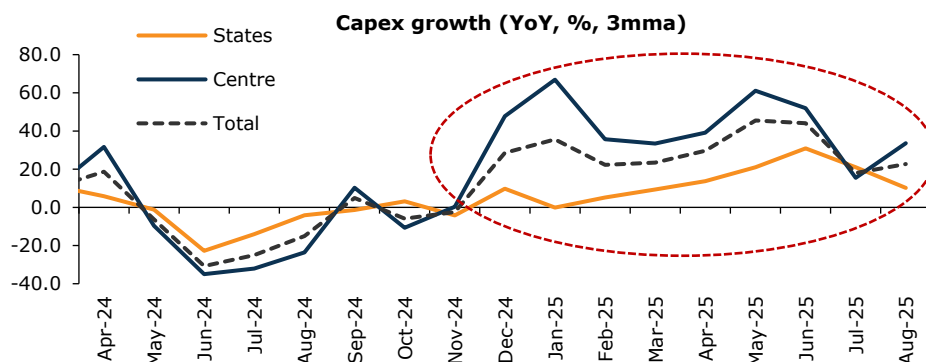
- 5MFYTD Centre +States' capex growth robust at ~33%, with Centre at 43%
- Excluding the outliers and capex loan to States, the Centre's core capex growth is still at a healthy ~16% FYTD
- States' capex growth at ~14%, despite revenue pressure and freebie-led sticky revex
- FY26E general government capex/ GDP may hit ~5%, albeit log lower than that in FY25P (5.1%) and the FY24 peak of 5.4%.

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**Exhibit 1: Centre + states' capex has seen significant momentum since Dec-24**

Source: CEIC, Emkay Research

**Exhibit 2: Centre's headline capex looks optically high, though 'core' capex growth remains solid**

Centre's capex breakdown (Rs bn)	FYTD (Apr-Aug)		FY26TD		ROY reqd growth rate (%)	FY26 % of			
	2026	2025	growth (%)	growth (%)		FY26BE	FY25P	BE	P
<b>Capital expenditure</b>	<b>4,316</b>	<b>3,010</b>	<b>43</b>	<b>7</b>	<b>(8)</b>	<b>11,211</b>	<b>10,520</b>	<b>38</b>	<b>29</b>
Defence	531	346	54	13	2	1,924	1,706	28	20
Railways	1,116	1,028	9	0	(6)	2,520	2,519	44	41
Roads and highways	1,171	1,057	11	(5)	(14)	2,722	2,853	43	37
Housing and urban affairs	98	102	(4)	19	30	376	316	26	32
Transfers to states	515	289	78	3	(13)	1,706	1,657	30	17
Others	884	188	370	34	(16)	1,962	1,468	45	13
<i>Of which, outliers:</i>									
Food & Public Distribution	500	3	14,365	(37)		1	2	47,784	207
Telecom	179	22	722	(33)		493	738	36	3
Department of Eco Affairs	8	12	(28)	313		417	101	2	12
Department of Science and Tech	0	0	251	31,192		201	1	0	11
<b>Core Capex (ex outliers and state transfers)</b>	<b>3,113</b>	<b>2,684</b>	<b>16</b>	<b>5</b>	<b>(1)</b>	<b>8,393</b>	<b>8,021</b>	<b>37</b>	<b>33</b>

Source: CEIC, Emkay Research

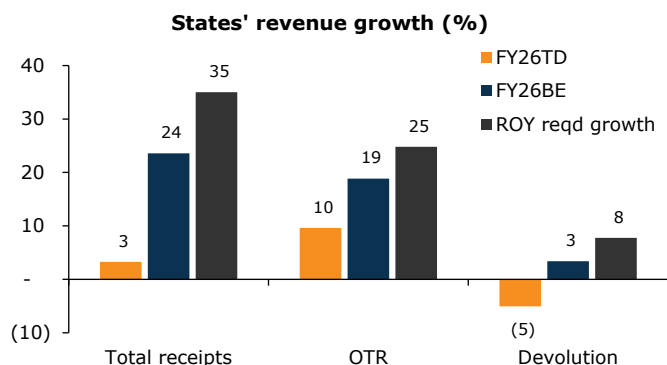
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Exhibit 3: States frontloading capex as well, despite the stretched revenue position

States' fiscal position (18 states, Rs bn)	FYTD (Apr-Aug)		FYTD growth (%)	FY26BE growth (%)	ROY reqd growth (%)	FY26 % of BE	FY25 % of P
	2026	2025					
<b>Total Receipts</b>	<b>14,175</b>	<b>13,727</b>	<b>3</b>	<b>24</b>	<b>35</b>	<b>30</b>	<b>36</b>
<b>Revenue Receipts</b>	<b>14,120</b>	<b>13,703</b>	<b>3</b>	<b>23</b>	<b>34</b>	<b>30</b>	<b>36</b>
Tax Revenue	12,339	11,772	5	13	18	35	37
Own Tax Revenue	8,682	7,920	10	19	25	36	39
State's Share of Union Taxes	3,653	3,848	(5)	3	8	31	34
Non-Tax Revenue	1,060	1,012	5	30	42	26	33
Grants-in-aid	729	919	(21)	69	103	13	27
<b>Total expenditure</b>	<b>18,031</b>	<b>16,420</b>	<b>10</b>	<b>22</b>	<b>29</b>	<b>31</b>	<b>35</b>
Revenue expenditure	15,775	14,646	8	19	25	33	36
Revex ex-interest	13,907	12,888	8	18	24	33	36
Subsidies	1,201	1,266	(5)	5	9	26	29
<b>Capital expenditure</b>	<b>2,021</b>	<b>1,774</b>	<b>14</b>	<b>30</b>	<b>35</b>	<b>21</b>	<b>24</b>
<b>Revenue Surplus/Deficit</b>	<b>(1,656)</b>	<b>(943)</b>	<b>76</b>	<b>(47)</b>	<b>(133)</b>	<b>137</b>	<b>41</b>
<b>Fiscal Surplus/Deficit</b>	<b>(3,856)</b>	<b>(2,946)</b>	<b>31</b>	<b>31</b>	<b>32</b>	<b>35</b>	<b>35</b>

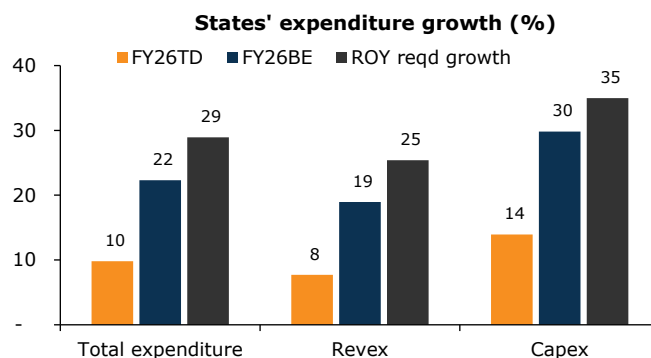
Source: CEIC, States' budget documents, Emkay Research

Exhibit 4: States' poor revenue growth has been led by delayed devolution



Source: CAG, States' budget documents, Emkay Research

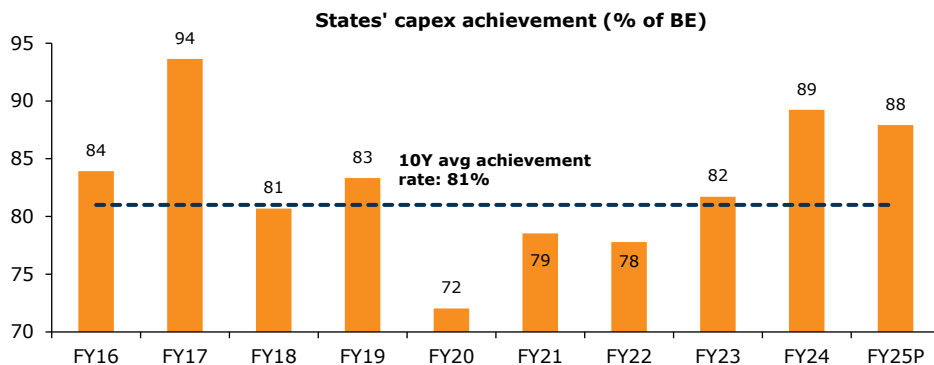
Exhibit 5: States' capex growth has been higher than revex in FY26TD, but the ROY required rate is still too high



Source: CAG, States' budget documents, Emkay Research

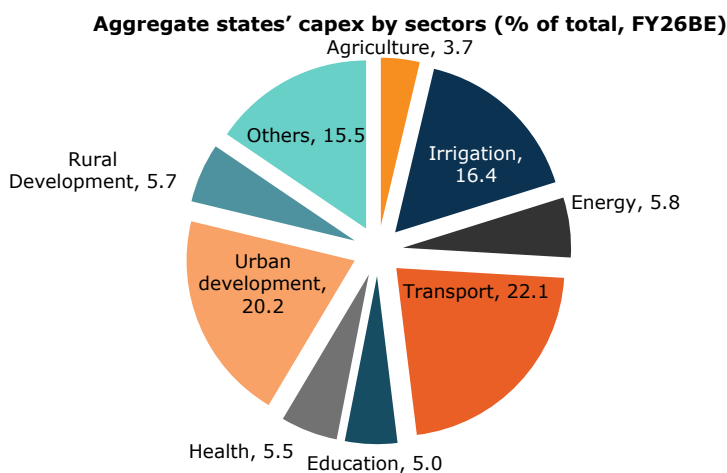
(Refer to [State Finances: Papering Over the Cracks](#) for details)

**Exhibit 6: States have achieved 88-89% of capex BE in the last two years vs 10Y average of 81%, despite freebie-led revex pressure**



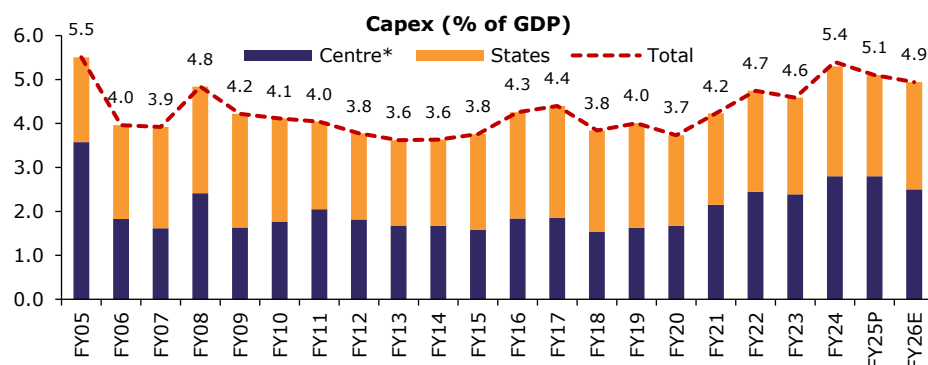
Source: CAG, CEIC, States' budget documents, Emkay Research

**Exhibit 7: Transport and Urban Development are the two largest sectors for state capex**



Source: Bloomberg, Emkay Research

**Exhibit 8: C+S capex may touch 5% in FY26E, albeit lower than FY25 and FY24 peak**



Source: RBI, CEIC, Emkay Research estimates; Note: \*Centre's capex is ex-state capex loans

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