

Economy

Public Finance

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India fiscal: In check

The RBI's surplus transfer of Rs2.7 tn capped the center's fiscal deficit at 1% of FY2026BE in 2MFY26. Expenditure growth in May was quite strong, balanced by robust growth in receipts. In 2MFY26, capital expenditure registered strong growth on the back of (1) a short-term loan (WMA) to FCI and (2) a sharp increase in defense spending in May. States in 2MFY26 have registered 12% growth in capex on a depressed base. We continue to expect the center to meet the GFD/GDP target of 4.4% in FY2026.

Non-tax receipts supporting capex increase and relatively muted direct taxes

Center's total receipts grew 28% yoy in 2MFY26 (21% of FY2026BE), led by (1) the RBI's surplus transfer of Rs2.7 tn, (2) GST collections (24% yoy) and (3) non-debt receipts (driven likely by asset monetization). Direct tax growth remained modest at 4.9% yoy (9.4% of FY2026BE). Corporate tax growth at (-)0.8% and personal income tax growth at 6.4% have likely worsened in 1QFY26, with data until June 19 indicating (-)4.5% growth in corporate tax and 1.7% growth in personal income tax. Center's total expenditure grew 20% in 2MFY26, with a large increase in capital expenditure (54% yoy), led by (1) defense spending of Rs208 bn in May, possibly due to the India-Pakistan conflict and (2) the short-term loan to FCI, which will be reversed this year. Strong receipts aided in keeping the fiscal deficit at 1% of FY2026BE (see Exhibit 1).

States' fiscal quite lackluster in 2MFY26

Based on 24 select states' data, own tax revenue growth has been quite tepid in 2MFY26 at 4.6% yoy (16.5% of FY2026BE). Total receipts growth was (-)0.3% (13% of FY2026BE) due to lower center's tax devolution and grants. Expenditure growth was better at 8.1%, but on a low base in both revenue and capital expenditures. Capital expenditure growth was 11.8% in 2MFY26 compared to (-)12.6% in 2MFY25 (see Exhibit 2). Actuals for FY2025 indicate that capital expenditure growth was 9.2% (84% of FY2025BE (see Exhibit 3). We note that states, on aggregate, miss their budgeted capex targets by a wide margin (see Exhibit 4). In FY2025, actual capex for certain states has been lower than even the revised targets (see Exhibit 5). We note that states' GFD/GDP has been budgeted at around 3.2% in FY2026BE.

Center's GFD/GDP will be around budgeted 4.4% in FY2026

The central government is likely to maintain GFD/GDP at the budgeted target of 4.4% in FY2026. The RBI's surplus transfer of Rs2.7 tn (Rs600 bn higher than budgeted) should offset potential slippages in net tax revenues (see Exhibit 6). We also see expenditure buffers (around Rs600 bn), if required, to reallocate spending toward (1) defense and internal security, (2) support to exports, MSMEs, etc. and/or (3) welfare schemes/rural infrastructure schemes, etc.; without deviating from the fiscal consolidation path.

Summary of key macro metrics for India

	2023	2024	2025	2026E
Real economy				
Real GDP growth (%)	7.6	9.2	6.5	6.2
Nominal GDP growth (%)	14.0	12.0	9.8	8.7
CPI Inflation (avg., %)	6.7	5.4	4.6	3.5
Public finance				
Center's GFD/GDP (%)	6.4	5.6	4.8	4.4
Monetary policy				
Repo Rate (% eop)	6.50	6.50	6.25	5.25
SDF Rate (% eop)	6.25	6.25	6.00	5.00
CRR (% eop)	4.5	4.5	4.0	3.0
External sector				
Current Account Balance (% of GDP)	(2.0)	(0.7)	(0.6)	(1.0)
Brent crude oil price (avg., USD/bbl)	95.4	82.9	80.0	70.0
USD/INR (avg.)	80.3	82.8	84.6	86.6

Source: CEIC, Bloomberg, RBI, Kotak Economics Research estimates

Quick Numbers

Center's total receipts grew 28%; expenditure increased 20%

Defense spending of Rs208 bn led capex growth at 54%; fiscal deficit at 1% of FY2026BE

States' own tax revenue growth at 4.6%; expenditure growth at 8.1%

We pencil in FY2026E GFD/GDP at 4.4%

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Fiscal deficit at 1% of FY2026BE in 2MFY26

Exhibit 1: Monthly fiscal details of the central government, March fiscal year-ends (Rs bn)

	Chg. (%)					FYTD (Apr-May)		Chg. (%)	FY2026BE		FY2026	
Date	May-25	May-24	Apr-25	yoy	mom	2026	2025	2026/ 2025	Rs bn	(% of BE)	Current run rate	Required run rate
Gross tax revenues	2,438	2,046	2,715	19	(10.2)	5,152	4,596	12.1	42,702	12	2,576	3,755
Direct taxes	1,061	910	1,317	17	(19)	2,377	2,267	4.9	25,351	9	1,189	2,297
Corporation tax	235	91	215	158	9.5	450	453	(0.8)	10,820	4	225	1,037
Income tax + other taxes	826	819	1,102	0.8	(25)	1,928	1,814	6.3	14,531	13	964	1,260
Indirect taxes	1,330	1,096	1,359	21	(2.1)	2,689	2,251	19	17,351	15	1,345	1,466
Customs duty	153	141	139	8.4	9.9	293	281	4.1	2,400	12	146	211
Excise duty	264	242	(0)	9.0	(67,890)	264	243	8.6	3,170	8	132	291
Service tax	(1)	0	(0)	(1,390)	231	(2)	(1)	93	1	(168)	(1)	0
GST	914	712	1,220	28	(25)	2,134	1,728	24	11,780	18	1,067	965
CGST	767	677	782	13.4	(1.9)	1,550	1,588	(2.4)	10,109	15	775	856
IGST	23	(82)	311	(128)	(92)	334	(109)	(407)	—	—	167	—
Compensation cess	123	118	127	4.4	(3.0)	250	248	0.7	1,671	15	125	142
Net tax revenues	1,612	1,340	1,897	20	(15)	3,509	3,190	10.0	28,374	12	1,754	2,487
Non-tax revenues	2,897	2,244	672	29	331	3,569	2,517	42	5,830	61	1,784	226
Non-debt capital receipts	28	10	225	164	(88)	252	21	1,109	760	33	126	51
Total receipts	4,537	3,595	2,793	26	62	7,330	5,728	28	34,964	21	3,665	2,763
Total expenditure	2,805	2,000	4,656	40	(40)	7,461	6,235	20	50,653	15	3,731	4,319
Revenue expenditure	2,189	1,556	3,058	41	(28)	5,248	4,798	9.4	39,443	13	2,624	3,419
- Interest payments	543	(45)	935	(1,320)	(42)	1,478	1,238	19	12,763	12	739	1,129
- Subsidies	223	353	290	(37)	(23)	513	547	(6.3)	3,834	13	256	332
- Transfer to states (Min. of Fin.)	28	35	55	(19)	(49)	83	112	(26)	1,574	5	42	149
- Rural development	87	167	118	(48)	(26)	205	300	(32)	1,878	11	102	167
- Others	1,308	1,046	1,661	25	(21)	2,969	2,601	14.1	19,393	15	1,485	1,642
Capital expenditure	616	444	1,598	39	(61)	2,214	1,436	54	11,211	20	1,107	900
- Defence	208	55	46	279	354	254	78	227	1,924	13	127	167
- Railways	211	196	310	7.6	(32)	521	495	5.3	2,520	21	260	200
- Roads and highways	43	20	553	119	(92)	596	579	3.0	2,722	22	298	213
- Loan to states for capex	55	73	9	(25)	480	65	81	(21)	1,500	4	32	144
- Others	98	100	680	(1.7)	(86)	778	203	282	2,545	31	389	177
Fiscal deficit	(1,732)	(1,595)	1,863	8.6	(193)	132	506	(74)	15,689	1	66	1,556
Revenue deficit	(2,320)	(2,029)	490	14.3	(573)	(1,830)	(909)	101	5,238	(35)	(915)	707
Primary deficit	(2,275)	(1,551)	929	47	(345)	(1,346)	(732)	84	2,926	(46)	(673)	427

Source: CEIC, Kotak Economics Research estimates

Lackluster start for state fiscal in FY2026

Exhibit 2: Consolidated monthly fiscal aggregates of state governments, March fiscal year-ends (Rs bn)

	Change (%)					FY2026BE		FY2025	
	2MFY26	2MFY25	2MFY24	2MFY26	2MFY25	Rs bn	% of BE	Current run rate	Required run rate
Total receipts	4,962	4,976	4,633	(0.3)	7.4	38,114	13.0	2,481	3,315
Revenue receipts	4,939	4,952	4,604	(0.3)	7.6	37,610	13.1	2,470	3,267
Tax revenue	4,292	4,203	3,810	2.1	10.3	28,804	15	2,146	2,451
Own tax revenue	3,358	3,209	2,968	4.6	8.1	20,395	16	1,679	1,704
State Goods and Services Tax	1,577	1,562	1,445	0.9	8.1	8,369	19	788	679
Stamps and registration fees	407	363	324	12.1	12.1	2,629	15	203	222
Land revenue	29	30	44	(4.9)	(32)	510	5.6	14	48
Sales tax	604	568	541	6.4	5.0	3,946	15	302	334
State excise duties	460	422	372	9.2	13.4	2,453	19	230	199
Other taxes and duties	281	265	242	6.2	9.6	2,487	11.3	141	221
State's share of Union taxes	934	994	842	(6.0)	18	8,409	11.1	467	747
Non-tax revenue	437	401	351	9.1	14	3,616	12.1	219	318
Grants-in-aids	210	348	444	(40)	(22)	5,190	4.0	105	498
Capital receipts	22	24	28	(7.2)	(15)	504	4.4	11	48
Total expenditure	6,464	5,979	6,058	8.1	(1.3)	48,413	13.4	3,232	4,195
Revenue expenditure	5,827	5,410	5,406	7.7	0.1	39,610	15	2,914	3,378
Capital expenditure	637	570	652	11.8	(12.6)	8,803	7.2	318	817
Fiscal deficit	1,503	1,003	1,426	50	(30)	10,299	15	751	880

Notes:

(a) The fiscal aggregates are for select 24 states.

Source: State budgets, CEIC, Kotak Economics Research estimates

States' expenditure and receipts well below budgeted targets in FY2025

Exhibit 3: Consolidated monthly fiscal aggregates of the state governments, March fiscal year-ends (Rs bn)

	2025	2024	2023	Change (%)		FY2025BE	
				2025	2024	Rs bn	% of BE
Total receipts	37,472	35,150	32,558	6.6	8.0	41,148	91
Revenue receipts	37,230	34,908	32,430	6.7	7.6	40,739	91
Tax revenue	30,280	27,408	24,221	10.5	13	31,409	96
Own tax revenue	20,693	19,044	17,123	8.7	11.2	22,170	93
State Goods and Services Tax	9,515	8,621	7,374	10.4	17	9,779	97
Stamps and registration fees	2,322	2,134	1,940	8.8	10.0	2,718	85
Land revenue	185	230	168	(20)	37	457	40
Sales tax	3,956	3,795	3,772	4.2	0.6	4,117	96
State excise duties	2,711	2,471	2,237	9.7	10.5	2,788	97
Other taxes and duties	2,005	1,793	1,633	11.8	9.8	2,311	87
State's share of Union taxes	9,587	8,364	7,098	15	18	9,239	104
Non-tax revenue	3,135	2,965	2,587	5.7	15	3,491	90
Grants-in-aids	3,815	4,536	5,623	(16)	(19)	5,839	65
Capital receipts	243	242	128	0.2	89	409	59
Expenditure	47,352	43,129	38,942	9.8	10.8	51,557	92
Revenue expenditure	39,414	35,856	32,911	9.9	8.9	42,108	94
Capital expenditure	7,939	7,272	6,031	9.2	21	9,450	84
Fiscal deficit	9,880	7,979	6,384	24	25	10,409	95

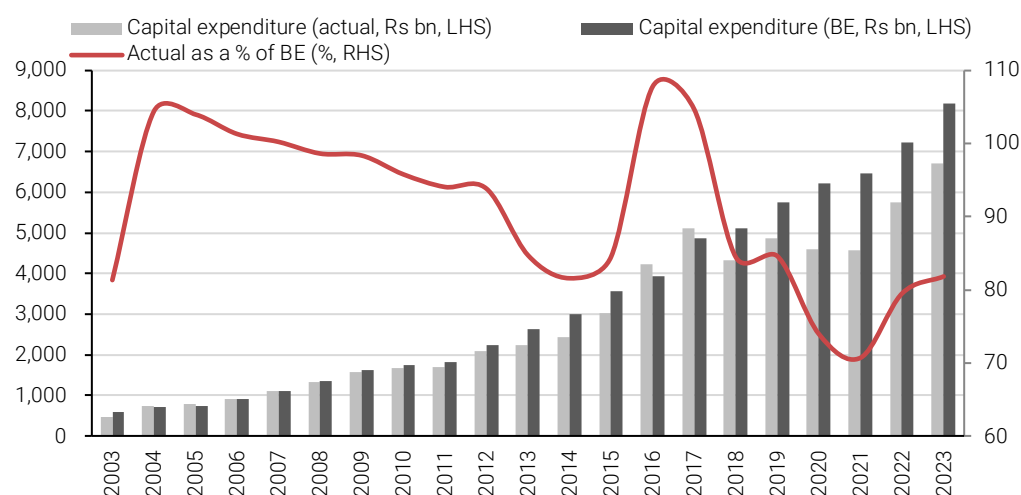
Notes:

(a) The fiscal aggregates are for select 24 states.

Source: State Budgets, CEIC, Kotak Economics Research estimates

Actual capital expenditure for states over the years has been significantly lower than budgeted

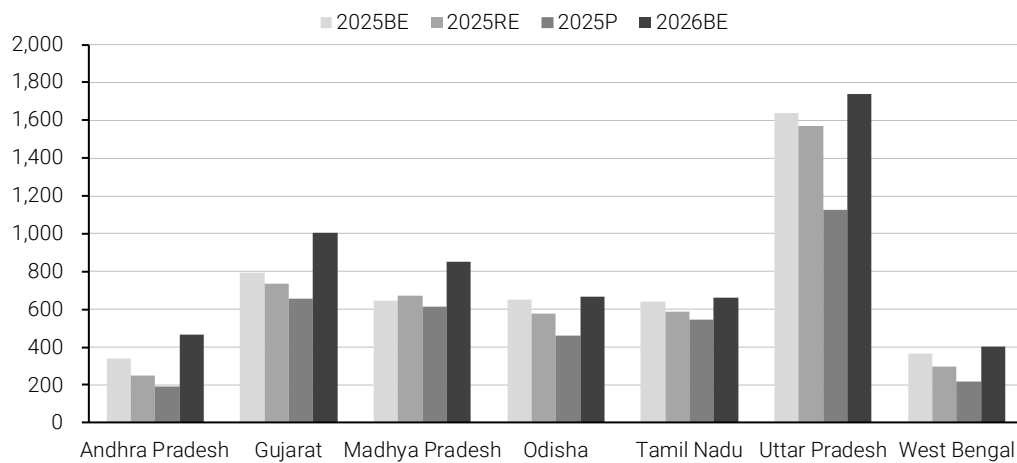
Exhibit 4: Budgeted and actual capital expenditure for states, March fiscal year ends, 2003-2023 (Rs bn)



Source: State Budgets, Kotak Economics Research

Actual capital expenditure has been lower than revised targets for key states

Exhibit 5: Actual, budgeted and revised estimates for capital expenditure of select states, March fiscal year ends (Rs bn)



Source: State Budgets, CEIC, Kotak Economics Research

Government should be able to keep GFD/GDP at budgeted target of 4.4% in FY2026

Exhibit 6: Major central government budgetary items, March fiscal year-ends, 2022-26E (Rs bn)

	2022	2023	2024	2025RE	2025P	2026BE	2026E	Change (%)				
								2023/ 2022	2024/ 2023	2025P/ 2024	2026BE/ 2025P	2026E/ 2025P
Receipts												
1. Revenue receipts (2d + 3)	21,699	23,832	27,290	30,880	30,364	34,204	34,220	10	15	11	13	13
2. Gross tax revenues (a + b)	27,093	30,542	34,655	38,535	37,952	42,702	41,687	13	13	10	13	10
2.a. Direct taxes	14,158	16,723	19,694	22,515	22,305	25,351	24,309	18	18	13	14	9
2.a.1. Corporation tax	7,120	8,258	9,111	9,800	9,868	10,820	10,608	16	10	8	10	8
2.a.2. Income tax (incl. other taxes)	7,038	8,464	10,584	12,715	12,437	14,531	13,701	20	25	18	17	10
2.b. Indirect taxes	12,935	13,819	14,961	16,020	15,596	17,351	17,378	7	8	4	11	11
2.b.1. Goods and Services Tax	6,981	8,491	9,572	10,619	10,265	11,780	11,624	22	13	7	15	11
2.b.1.1. CGST	5,912	7,185	8,206	9,085	9,090	10,109	9,953	22	14	11	11	10
2.b.1.2. IGST	21	47	(49)	—	(330)	—	—	124				
2.b.1.3. Compensation cess	1,048	1,259	1,414	1,534	1,505	1,671	1,671	20	12	6	11	11
2.b.2. Customs duty	1,997	2,134	2,331	2,350	2,329	2,400	2,254	7	9	(0)	3	(3)
2.b.2.1. Basic duties	1,460	1,676	1,775	1,506	1,493	1,585	1,463	15	6	(16)	6	(2)
2.b.2.2. Others	537	457	557	844	836	815	791	(15)	22	50	(3)	(5)
2.b.3. Excise duty	3,946	3,190	3,054	3,050	3,003	3,170	3,500	(19)	(4)	(2)	6	17
2.b.4. Service tax	10	4	4	1	(0)	1	1	(57)	(1)	(104)	(725)	(725)
2.c Transfers to states, UTs, etc.	9,045	9,564	11,383	12,965	12,963	14,328	13,879	6	19	14	11	7
2.d Net tax revenues (2 - 2.c)	18,048	20,978	23,273	25,570	24,989	28,374	27,808	16	11	7	14	11
3. Non-tax revenues	3,651	2,854	4,018	5,310	5,375	5,830	6,412	(22)	41	34	8	19
3.a. RBI's transfer of surplus	991	303	874	2,104	2,686	2,104	2,686	(69)	188	207	(22)	-
3.b. Telecommunications	858	648	907	1,234	1,234	824	824	(24)	40	36	(33)	(33)
3.c. Others	1,802	1,903	2,237	1,972	1,456	2,902	2,902	6	18	(35)	99	99
4. Non-debt capital receipts (a + b)	394	722	598	590	418	760	760	83	(17)	(30)	82	82
4.a Recovery of loans	247	262	266	260	246	290	290	6	2	(8)	18	18
4.b Other receipts (incl. disinvestments)	146	460	331	330	172	470	470	214	(28)	(48)	173	173
5. Total receipts (1 + 4)	22,093	24,554	27,888	31,470	30,782	34,964	34,980	11	14	10	14	14
Expenditure												
6. Revenue expenditure	32,009	34,531	34,943	36,981	36,035	39,443	39,443	8	1	3	9	9
6.a. Interest payments	8,055	9,285	10,639	11,379	11,163	12,763	12,763	15	15	5	14	14
6.b. Subsidies	4,461	5,310	4,123	3,834	3,880	3,834	3,834	19	(22)	(6)	(1)	(1)
6.b.1. Food	2,890	2,728	2,118	1,974	1,999	2,034	2,034	(6)	(22)	(6)	2	2
6.b.2. Fertilizer	1,538	2,513	1,883	1,713	1,737	1,679	1,679	63	(25)	(8)	(3)	(3)
6.b.3. Oil	34	68	122	147	145	121	121	99	80	18	(16)	(16)
6.c. Pay, allowances and pensions	5,899	6,564	6,857	7,598	7,598	7,825	7,825	11	4	11	3	3
6.c.1.a. Pay and allowances	3,910	4,148	4,474	4,847	4,847	5,059	5,059	6	8	8	4	4
6.c.1.b. Pensions	1,989	2,416	2,383	2,751	2,751	2,766	2,766	21	(1)	15	1	1
6.d. Agriculture and farmers' welfare	1,145	999	1,083	1,311	1,299	1,272	1,272	(13)	8	20	(2)	(2)
6.e. Education	803	972	1,232	1,140	1,107	1,286	1,286	21	27	(10)	16	16
6.f. Health and family welfare	787	703	783	840	856	923	923	(11)	11	9	8	8
6.g. Rural development	1,604	1,768	1,619	1,739	1,767	1,878	1,878	10	(8)	9	6	6
6.h. Others	9,255	8,931	8,606	9,138	8,364	9,661	9,661	(3)	(4)	(3)	16	16
7. Capital expenditure	5,929	7,400	9,492	10,184	10,520	11,211	11,211	25	28	11	7	7
7. a. Defence	1,448	1,509	1,646	1,705	1,706	1,924	1,924	4	9	4	13	13
7. b. Railways	1,173	1,593	2,426	2,520	2,519	2,520	2,520	36	52	4	0	0
7. c. Roads and highways	1,133	2,060	2,639	2,725	2,853	2,722	2,722	82	28	8	(5)	(5)
7. d. Loans for capex to states	142	812	1,096	1,250	1,513	1,500	1,500	472	35	38	(1)	(1)
7. e. Housing and urban affairs	259	269	264	317	316	376	376	4	(2)	20	19	19
7. f. Others	1,774	1,158	1,422	1,668	1,612	2,168	2,168	(35)	23	13	35	35
8. Total expenditure (6 + 7)	37,938	41,932	44,434	47,165	46,555	50,653	50,653	11	6	5	9	9
Deficit												
Primary deficit (PD)	7,790	8,092	5,908	4,316	4,609	2,926	2,911	4	(27)	(22)	(37)	(37)
Revenue deficit (RD)	10,310	10,699	7,652	6,101	5,671	5,238	5,223	4	(28)	(26)	(8)	(8)
Gross fiscal deficit (GFD)	15,845	17,378	16,546	15,695	15,773	15,689	15,674	10	(5)	(5)	(1)	(1)
Gross market borrowing (dated securities)	9,684	14,210	15,014	14,005	14,005	14,820	14,820	47	6	(7)	6	6
Net market borrowing (dated securities)	7,041	11,083	11,778	11,627	11,627	11,538	11,538	57	6	(1)	(1)	(1)
Short-term borrowing (T-bills/WMA)	774	1,148	532	(1,200)	(1,119)	0	0					
Nominal GDP	235,974	268,905	301,230	324,114	330,682	356,979	359,963	14.0	12.0	9.8	8.0	8.9
PD/GDP (%)	3.3	3.0	2.0	1.3	1.4	0.8	0.8					
RD/GDP (%)	4.4	4.0	2.5	1.9	1.7	1.5	1.5					
GFD/GDP (%)	6.7	6.5	5.5	4.8	4.8	4.4	4.4					

Source: Union Budget, Kotak Economics Research estimates

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BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5+5% returns over the next 12 months.

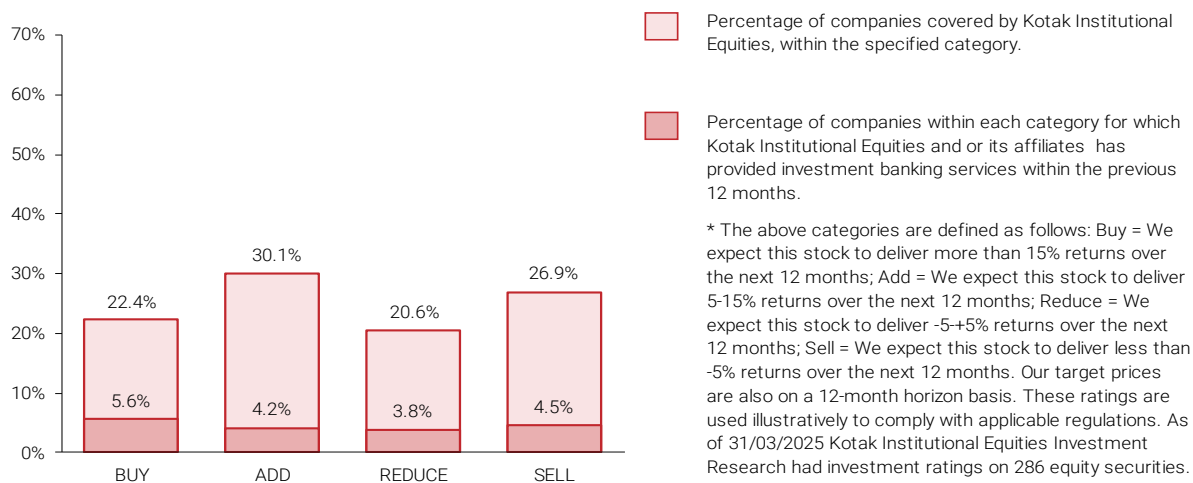
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Our Fair Value estimates are also on a 12-month horizon basis.

Our Ratings System does not take into account short-term volatility in stock prices related to movements in the market. Hence, a particular Rating may not strictly be in accordance with the Rating System at all times.

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Source: Kotak Institutional Equities

As of March 31, 2025

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