Fiscal Accounts

Centre and states remain comfortable, but for different reasons

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Economic Update ▸ Fiscal Accounts ▸ September 01, 2026

Centre's 4MFY27 fiscal position is comfortable, with improved revenue (driven by income tax) and controlled revex, while states are also well-placed, as they continue to conserve expenditure despite a pick-up in revenue. The Centre has continued to prioritize capex (30% yoy), driven by core sectors of Defence, Roads and Railways, while pushing states through capex loans. However, states have controlled both revex and capex. For FY27E, we expect the Centre to meet its 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 pose an upside risk of 0.2% of GDP, while potentially lower-than-budgeted nominal GDP growth also adds mild slippage risk. States, on the other hand, are expected to see fiscal slippage of 0.2% of GDP vs the FY27BE target of 3.1%, due to revenue pressure and a continued focus on capex.

Centre's fiscal position improves as revenue picks up, while capex focus continues

Fiscal accounts till July show the Centre's fiscal position improving vs June, with revenue growth picking up substantially and expenditure staying relatively controlled. The Centre's fiscal deficit (FD) at 27% of BE for 4MFY27 is much lower than last year's 31% and in line with the 3Y average, reflecting a comfortable fiscal position. Gross tax revenue growth has risen to 11% yoy (vs 4% until June; 9% BE), driven by a recovery in income tax growth, while indirect tax collections have also picked up. Revex remains under control (8% yoy; in line with BE), while capex growth has been extremely strong (30% yoy vs 14% BE; 37% of BE achieved).

States running a tight ship through controlled expenditure; FD comfortable for now

States are also in a stable position, with 4MFY27 FD achievement at 22%, lower than last year's 28% and in line with the 3Y average (23%). This is largely due to improved revenue, while expenditure remains controlled. States' revenue growth improved to 10% yoy in 4MFY27 (vs 3% until June; 24% BE), as devolution from the Centre rose 4% yoy (vs -12% until June), while own tax revenue (OTR) growth also improved to 16% yoy (21% BE). Devolution is poised to improve further in August, with the Centre having released an extra instalment, providing a further boost to states' coffers. We note that robust SGST growth (16%) is largely on account of higher IGST settlements from the Centre; pre-settlement SGST growth was just 5% yoy for 4MFY27. States have kept expenditure under control (5% yoy), with both revex (4% yoy) and capex (11% yoy) remaining muted, while achievement rates are in line with 3Y averages. Capex has been muted despite the Centre's capex loan transfers rising 70% yoy in 4MFY27. As a result, states' FD is 15% lower than in the same period last year.

Centre likely to meet FY27BE FD/GDP of 4.3%, but nominal GDP could be a risk

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 Brent sustains above $90/bbl, the fiscal cushion would narrow materially, raising the possibility of fiscal slippage to the tune of 0.2% of GDP. An additional risk emanates from lower-than-budgeted nominal GDP following revisions to past GDP data. The FY27BE nominal GDP level (which assumes 10% growth over FY26) now requires 13.5%, which may be difficult to achieve and hence adds mild slippage risk.

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

States' revenue growth is expected to improve in 2H, which is seasonally stronger. 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 is expected to remain strong through the year. However, GST growth is likely to taper off, while grants are also likely to be lower than budgeted. States are thus 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 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%).

Highlights:

- **Centre's 4MFY27 fiscal position is comfortable (27% of BE achieved), led by improved tax revenue, lower devolution, and steady revex**
- **Capex focus continues (30% yoy), with core sectors (Defence, Roads, and Railways) driving growth**
- **States are also stable as expenditure remains constrained despite improvement in revenue**
- **Centre likely to meet FY27BE FD/GDP of 4.3%; however, higher oil prices and potentially lower nominal GDP add slippage risk**
- **States likely to slip vs FY27BE FD/GDP due to revenue pressure and a continued capex focus**

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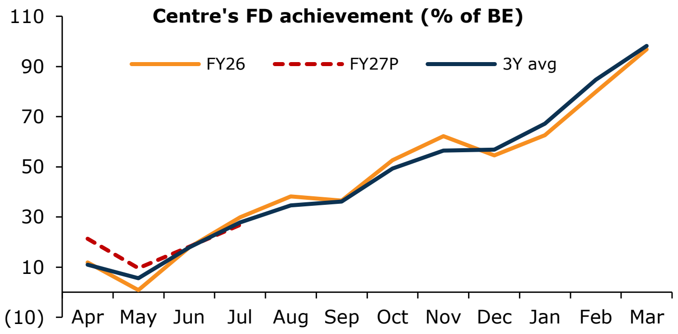
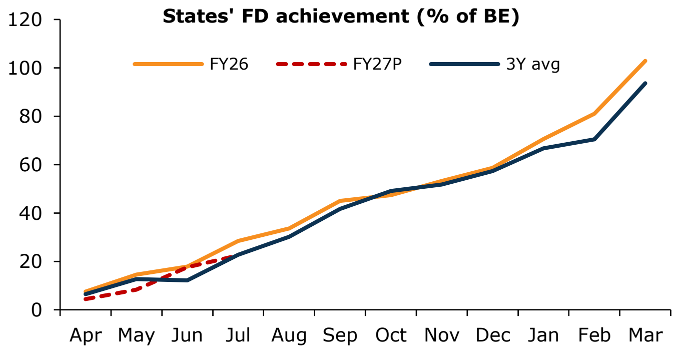
Exhibit 1: Centre's FY27 fiscal deficit trajectory is in line with past 3Y average but lower than last year…



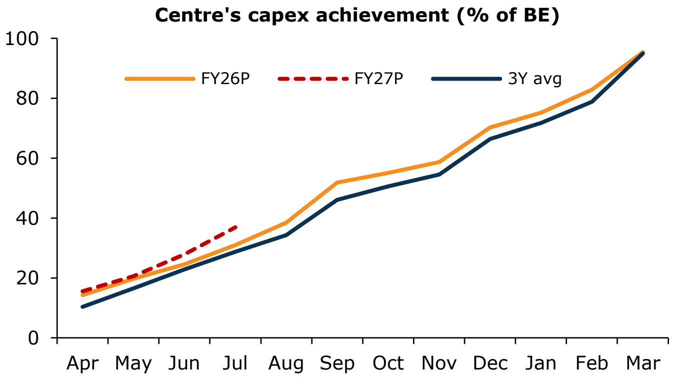
Source: CEIC, Emkay Research

Exhibit 2: …with states in a similar position



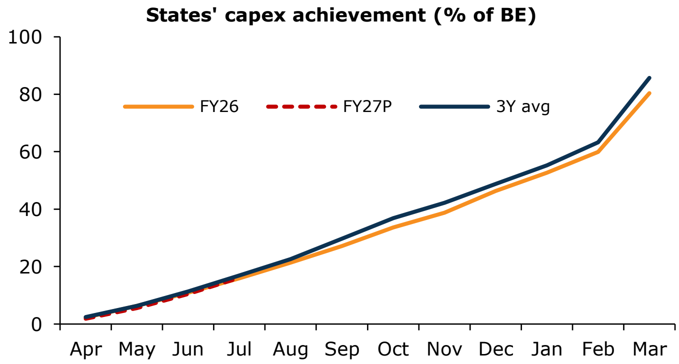
Source: CEIC, Emkay Research

Exhibit 3: Centre continues to expand capex at a faster pace…



Source: CEIC, Emkay Research

Exhibit 4: …while states maintain their usual momentum



Source: CEIC, Emkay Research

Exhibit 5: Centre's gross tax revenue growth improves, led by income tax, while indirect taxes also see a pick-up

Centre's revenue breakdown (Rs bn)	FYTD (Apr-Jul)		FY27TD	FY27BE	RoY reqd	FY27	FY26		
	2027	2026	growth (%)	growth (%)	growth (%)	% of BE	% of P	FY27BE	FY26P
Gross tax revenues	**12,180**	**10,929**	**11**	**9**	**9**	**28**	**27**	**44,041**	**40,243**
Direct taxes	6,816	5,539	23	18	17	25	24	26,970	22,825
Corporate tax	2,400	1,986	21	12	10	19	18	12,310	10,991
Income tax	4,417	3,553	24	24	24	30	30	14,660	11,834
Indirect taxes	5,034	5,183	(3)	0	2	30	31	16,791	16,716
Customs duty	836	605	38	3	(8)	31	23	2,712	2,644
Excise duty	645	840	(23)	14	26	17	25	3,889	3,419
GST	3,553	3,738	(5)	(4)	(4)	35	35	10,190	10,653
Other taxes	51	18	179	141	129	29	25	177	73
Transfers to states, UTs etc	3,735	4,311	(13)	10	20	24	31	15,372	14,011
Net tax revenues	8,446	6,618	28	9	3	29	25	28,669	26,233
Non-tax revenues	4,230	4,036	5	(2)	(12)	63	59	6,662	6,790
Non-debt capital receipts	391	298	31	41	47	33	36	1,184	838

Source: CEIC, Emkay Research

Gross tax revenue growth improvement led by income tax; lower devolution keeps net tax revenue strong (for now)

- The improvement in gross tax revenue growth was driven by direct taxes (23% yoy), specifically income tax (24% yoy vs 7% until June). Corporate taxes (21% yoy) have also continued to grow well, albeit on a favorable base (corporate tax growth was 7.5% in 4MFY26).
- Indirect taxes remain sluggish (-3% yoy) but have improved sequentially. This was driven by customs (36% yoy), reflecting **higher import duties on gold and silver.** The impact of last year's GST rationalization and the excise cuts on fuel earlier this year continues to play out.
- The Centre's net tax revenue growth (28% yoy) continues to be helped by **lower devolution so far (-13% yoy). However, this is a timing issue—**the Centre had paid an extra devolution instalment to states in June last year, inflating the base. This extra instalment was paid in August this year, so the **mismatch (and optically high growth in net tax revenue) will correct from Aug-26 onward**.

Exhibit 6: Revex growth remains controlled, helped by lower interest payments, while capex growth remains strong

Rs bn	FYTD (Apr-Jul) 2026	FYTD (Apr-Jul) 2025	FY27TD growth (%)	FY27BE growth (%)	RoY reqd growth (%)	FY27 % of BE	FY26 % of P	FY27BE	FY26P
Total receipts	**13,067**	**10,952**	**19**	**1**	**(8)**	**38**	**32**	**34,063**	**33,860**
Total expenditure	**17,619**	**15,636**	**13**	**9**	**7**	**33**	**32**	**53,473**	**49,052**
Revenue expenditure	**13,112**	**12,167**	**8**	**8**	**7**	**32**	**32**	**41,255**	**38,360**
Revenue expenditure (ex-interest)	**8,847**	**7,700**	**15**	**5**	**1**	**33**	**30**	**27,215**	**25,935**
Interest payments	4,266	4,467	(5)	13	23	30	36	14,040	12,426
Major subsidies	1,535	1,136	35	(10)	(24)	37	25	4,105	4,539
Food	666	540	23	(0)	(7)	29	24	2,276	2,281
Fertilizer	865	592	46	(19)	(45)	51	28	1,708	2,114
Oil	4	4	(4)	(16)	(16)	3	3	121	144
Agriculture and farmers' welfare	394	369	7	6	5	28	28	1,404	1,329
Education	253	52	383	19	2	18	4	1,393	1,170
Health and family welfare	379	353	7	14	19	37	39	1,036	907
Rural development	424	629	(33)	7	27	22	34	1,970	1,848
Capital expenditure	**4,506**	**3,469**	**30**	**14**	**7**	**37**	**32**	**12,218**	**10,691**
Defence	595	426	40	11	3	27	22	2,193	1,973
Railways	1,191	928	28	10	(0)	43	37	2,778	2,520
Roads and highways	1,106	787	41	1	(13)	38	27	2,942	2,905
Housing and urban affairs	55	79	(30)	6	17	16	24	348	330
Transfers to states	707	403	75	34	21	31	24	2,264	1,693
Others	851	846	1	33	99	50	67	1,693	1,269
Fiscal deficit	**4,551**	**4,684**	**(3)**	**12**	**18**	**27**	**31**	**16,958**	**15,192**
Revenue deficit	436	1,513	(71)	11	43	7	28	5,923	5,338
Primary deficit	286	217	32	5	3	10	8	2,918	2,766

Source: CEIC, Emkay Research

Exhibit 7: Capex growth has been driven by 'core' sectors, led by Defence, Roads, and Railways, while capex loans to states are also running high

Centre's capex breakdown (Rs bn)	FYTD (Apr-Jul) 2027	FYTD (Apr-Jul) 2026	FY27TD growth (%)	FY27BE growth (%)	RoY reqd growth (%)	FY27 % of BE	FY26 % of P	3M run-rate	Reqd run-rate	FY27BE	FY26P
Capital expenditure	**4,506**	**3,469**	**30**	**14**	**7**	**37**	**32**	**1,127**	**964**	**12,218**	**10,691**
Defence	595	426	40	11	3	27	22	149	200	2,193	1,973
Railways	1,191	928	28	1	(0)	43	37	298	198	2,778	2,520
Roads and highways	1,106	787	41	6	(13)	38	27	277	229	2,942	2,905
Housing and urban affairs	55	79	(30)	6	17	16	24	14	37	348	330
Transfers to states	707	403	75	34	21	31	24	177	195	2,264	1,693
Others	851	846	1	33	99	50	67	213	105	1,693	1,269
Of which, outliers:											
Food & Public Distribution	500	500	(0)	(30)	0	43,092	30,013	125	(62)	1	2
Telecom	171	178	(4)	(36)	(46)	36	24	43	38	473	738
Core Capex (ex outliers and state transfers)	**3,128**	**2,387**	**31**	**15**	**8**	**33**	**29**	**782**	**794**	**9,480**	**8,258**

Source: CEIC, Emkay Research

Strong capex growth driven by core sectors and capex loans to states

- The Centre's capex growth has been strong at 30% yoy, with the achievement rate also running ahead of last year's (and the 3Y average). Encouragingly, this **strong growth is driven by core sectors such as Defence (40% yoy), Roads (41% yoy), and Railways (31% yoy).** Road capex rose ~214% yoy in July alone.
- Transfers to states are also growing strongly (75% yoy), reflecting the Centre's efforts to support states' capex.
- Notably, the **Centre's 'core' capex continues to post healthy growth**, reflecting genuinely strong capex momentum **rather than optical growth from one-off allocations or financial assistance to specific bodies** (FCI, BSNL, etc).

Exhibit 8: States continue to rationalize expenditure (including capex) despite improvement in revenue, leading to extremely comfortable fiscal position

States' fiscal position (20 states, Rs bn)	FYTD (Apr-Jul) 2027	FYTD (Apr-Jul) 2026	FYTD growth (%)	FY27BE growth (%)	RoY reqd growth (%)	FY27 % of BE	FY26 % of BE	FY27BE	FY26P
Total Receipts	**12,768**	**11,602**	**10**	**24**	**30**	**24**	**24**	**52,358**	**42,110**
Revenue Receipts	**12,749**	**11,553**	**10**	**24**	**29**	**25**	**24**	**51,866**	**41,953**
Tax Revenue	11,162	10,009	12	18	21	27	27	40,904	34,552
Own Tax Revenue	8,185	7,064	16	21	23	31	29	26,343	21,791
SGST	3,447	2,972	16	20	22	31	28	11,300	9,416
Stamps and Registration Fees	1,008	865	16	26	30	29	29	3,422	2,721
Land Revenue	64	58	10	21	24	23	22	278	230
Sales Tax	1,483	1,321	12	19	21	29	27	5,045	4,257
State Excise	1,067	940	13	20	23	30	29	3,600	3,004
State's Share of Union Taxes	3,384	3,265	4	14	18	23	24	14,561	12,751
Other Taxes	710	580	22	25	26	26	25	2,698	2,162
Non-Tax Revenue	1,110	889	25	19	18	26	22	4,306	3,609
Grants-in-aid	419	655	(36)	75	98	6	11	6,627	3,792
Total expenditure	**15,485**	**14,794**	**5**	**20**	**26**	**24**	**25**	**64,489**	**53,651**
Revenue expenditure	**13,525**	**13,003**	**4**	**18**	**24**	**26**	**27**	**52,986**	**44,780**
Revex ex-interest	**11,873**	**11,493**	**3**	**18**	**24**	**26**	**27**	**46,346**	**39,284**
Int Payments	1,653	1,510	9	21	25	25	25	6,640	5,495
Salaries and Wages	3,064	3,088	(1)	54	87	24	29	12,794	8,300
Pension	2,016	1,796	12	26	33	31	31	6,449	5,129
Subsidies	1,058	1,191	(11)	78	121	16	31	6,459	3,638
Capital expenditure	**1,791**	**1,618**	**11**	**31**	**36**	**17**	**17**	**10,570**	**8,057**
Revenue Surplus/Deficit	(777)	(1,450)	(46)	(56)	(66)	62	120	(1,248)	(2,826)
Fiscal Surplus/Deficit	**(2,717)**	**(3,192)**	**(15)**	**6**	**13**	**22**	**28**	**(12,190)**	**(11,542)**

Source: CEIC, Emkay Research

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