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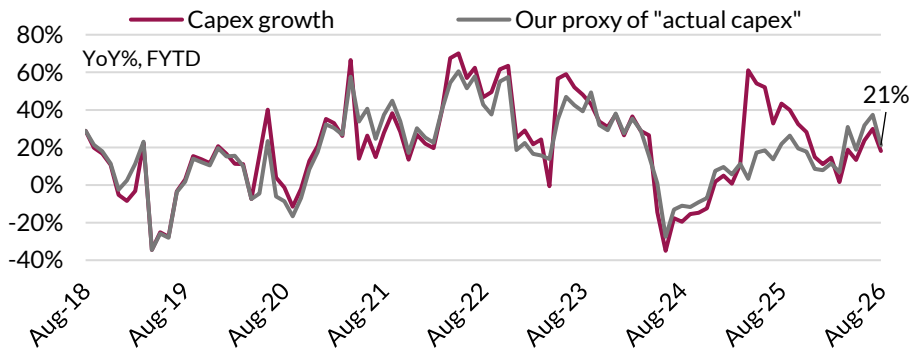
Economic Research | India

Despite rising fiscal deficit (9pp above trend), issuance slippage unlikely

The centre's fiscal deficit rose to 42% of BE targets in Apr-Aug FY27. While this is well above the 5y avg of 33%, the difference will likely worsen in Sep with a truer picture of tax slowdown emerging as the deadline effect fades (FYTD direct taxes slowed 9pp in Aug) – though disinvestments might serve as an offset. Spending growth remains strong: revex (ex-interest, subsidies) rose 12% YoY, and capex *slowed* to 18%. We continue to see risks of a 20-30 bps fiscal shortfall even with slowing in subsidies' growth and improved excise collections. Higher spending and personal tax shortfall are the key risks. Even with fiscal slippage, availability of buffers suggests issuance slippage is unlikely.

Exhibit 1 – Actual capex growth likely to be even stronger than official prints



Source: CGA, Axis Bank Research

Weak direct taxes & base correction in devolution → lower net receipts' growth

Central net revenue receipts growth decelerated to 3% YoY during Apr-Aug (vs. 19% till Jul). Direct tax collections' growth was lower at 15% YoY (vs 24% till Jun) as both income and corporate tax fell YoY in Aug (Figs. 2, 3). Double devolution in Aug now matches that in Jun'25 and led net receipts' growth down to a truer level (Fig 5). GST collections fell 3% YoY FYTD (from -5% 'till Jul, Fig 4), though this was on Aug revenues up just 3% (high refunds, IGST payments). Miss on direct tax targets in FY26 (IT: 5.4% below RE) results in even higher growth required to meet FY27 targets: Income tax could fall short by Rs. 760 bn even at a 12% growth. The true extent of the shortfall is likely to become apparent next month as the impact of shift in payment deadline (from Sep'25 to Jul'26) fades.

Spending growth remains strong pushing fiscal deficit to 42% of BE

Even after a slowing in MoRTH spends in Aug, Centre's FYTD capex growth was at 18% YoY (vs. 30% 'till Jul). Our 'actual capex' proxy shows stronger growth vs. headline (Fig 1) as spending on railways, defence and capex loans to states remain strong. Excluding interest and subsidies, revenue expenditure grew 12% YoY with defence and others (Fig 7; interest payment: -3%, subsidy payout growth slowed to 24% YoY). Strong spending growth compounds weaker net receipts, raising the fiscal deficit to 42% of BE (vs 5Y avg. of 33%).

Risks of a 20-30 bps fiscal slippage, but issuance slippage unlikely

2H G-Sec calendar indicates gross borrowings of Rs.16tn for FY27, implying no slippage on issuances (link). Nominal GDP growth of 12% after latest revisions (vs. 10% BE) would mean worsening of deficit ratio by 7bps. Income tax shortfall and higher spending to cushion the blow from W. Asia conflict are key risks. Though there are buffers with trade levies and the ESF (Rs.1tn), we see a risk of slippage of 0.2-0.3% of GDP (Fig 7). However, strong disinvestment receipts (Rs.558bn collected so far, link), higher cash balances, future spending compression and other financing will likely prevent an issuance spillover.

30 Sep 2026
Fiscal Monitor
India

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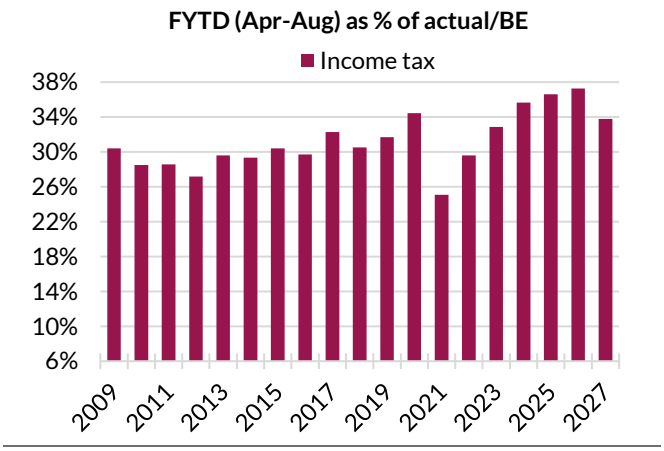
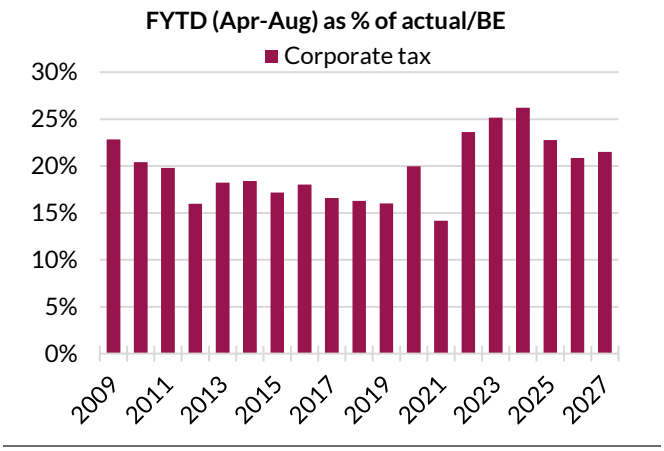
Exhibit 2 – Income tax collections' growth at 14% YoY FYTD (vs. 25% till Jul) as the base effect of date change fading



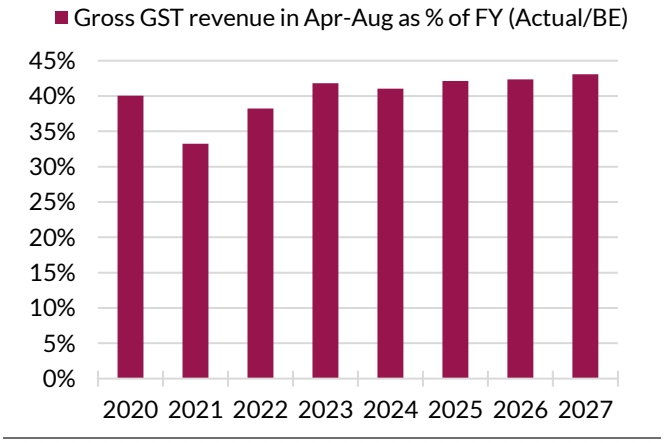
Source: CGA, Axis Bank Research

Exhibit 3 – Corporate tax fell at 20% YoY in Aug taking the FYTD growth to 15.4% YoY (vs. 21% till Jul)



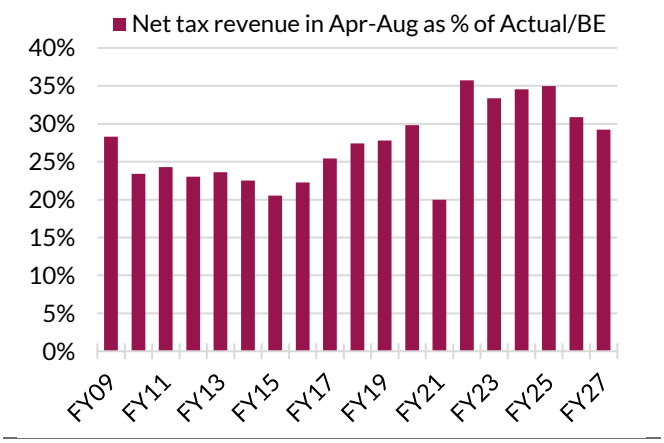
Source: CGA, Axis Bank Research

Exhibit 4 - GST collections grew 3% YoY in Aug, trimming the FYTD decline to 3% vs. 5% till Jul (11% till Jun)



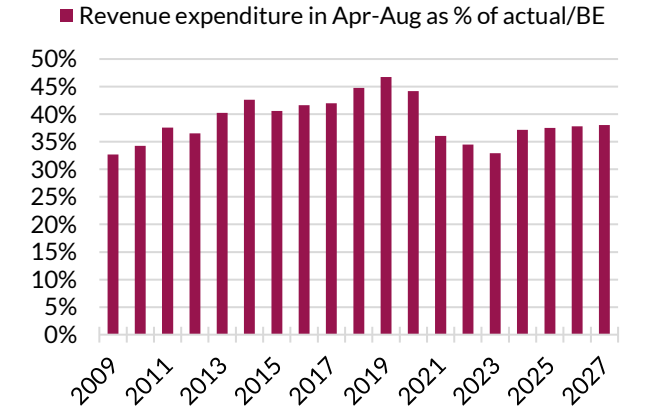
Source: CGA, Axis Bank Research

Exhibit 5 –Net tax receipts' FYTD growth fell to 3% (vs 28% till Jul): double devolution & direct tax receipts fell in Aug



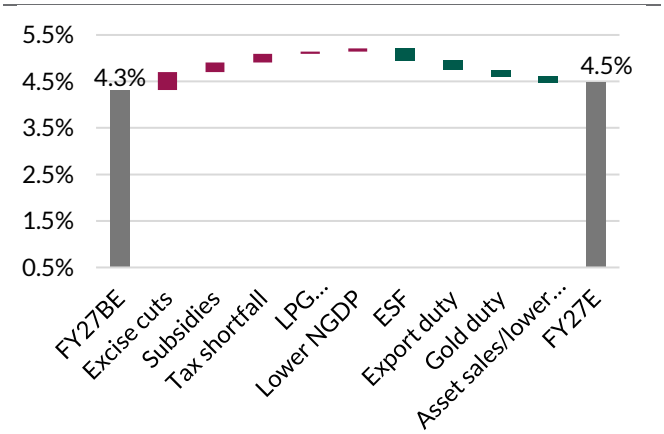
Source: CGA, Axis Bank Research

Exhibit 6 - Revenue expenditure exc. interest & subsidies grew +12% YoY FYTD; (interest: -3%, subsidies: +24%)



Source: CGA, Axis Bank Research

Exhibit 7 – Risks of a 20-30 bps fiscal slippage, asset sales and spending compression to hold the key



Source: CGA, Axis Bank Research

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