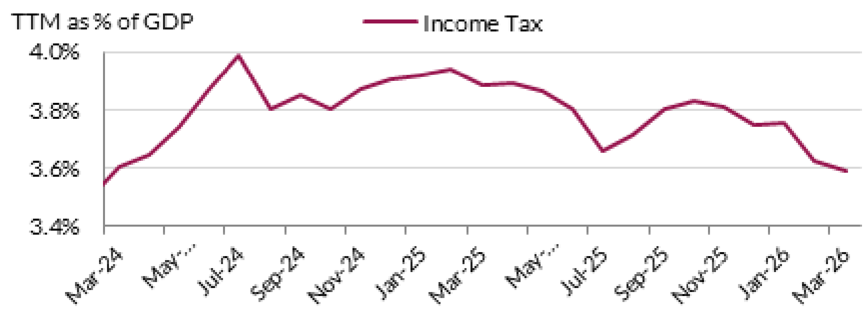
Economic Research | India

FY26 fiscal targets met; a weak start to FY27

The centre released FY26 actuals along with Apr-2026 fiscal data. The FY26 deficit ratio was on target, but with both receipts and expenditure below RE. The miss on direct taxes sets a low base and raises risks in FY27 (0.2% of GDP potential miss). April deficit was already 21% of FY27 BE, with a sharp rise in subsidies (fertilizers: +52% YoY; but food +50% is a timing issue), lower excise on fuel and weak GST. Buffers (ESF, gold import duties) are offsets near-term, but unless global energy prices normalize, headwinds from weaker revenues (despite higher nominal GDP) and higher spending are likely to persist.

01 Jun 2026
Fiscal Monitor
India

Exhibit 1 –FY26 income tax receipts grew 0.5% YoY, as % of GDP back to FY24 levels



Source: CGA, Axis Bank Research

FY26 fiscal deficit target met, both gross receipts and expenditure lower vs RE

The Centre released final FY26 fiscal data. It met the fiscal deficit ratio target of 4.4% of GDP: deficit was Rs393bn lower than in Revised Estimates (RE), but GDP was lower too. Net receipts were 1.3% above RE: the 1.3% miss on gross tax revenues (direct taxes 3.3% lower and indirect taxes 1.7% higher) was offset by non-tax revenues being 1.7% higher vs. RE. Expenditure was 1.2% lower: capex though up 1.6% YoY, was 2.4% lower vs. RE, while revenue expenditure was 0.9% lower vs. RE.

Low FY26 base ➔ downside risk to FY27 direct tax collection of 0.2% of GDP

The miss in FY26 on income tax (Rs12.4tn, 5.4% below RE) and corporate tax (0.9% lower vs. RE) accentuates concerns on FY27 collections. Assuming 12% growth rate for income tax (vs. the current implied rate of 18%) leads to a shortfall of Rs.762bn (0.2% of GDP).

23% higher expenditure in Apr-26 pushes monthly fiscal deficit to 21.4% of BE

In April, fiscal deficit was at 21.4% of FY27BE (Fig 3). Net tax revenue fell 6% YoY as indirect tax collections fell 12% YoY (excise cuts on 27 March 2026; GST down 17% - 7% when adj. for compensation cess), offset by higher income and corporate taxes (+7% and +17% YoY, Fig 4): Apr is a light month, though, for taxes. Non-tax receipts fell 64% YoY, at 3.6% of BE vs. 10.1% in FY26 (Fig 5). Total expenditure grew 23% YoY in Apr: capital expenditure +19% YoY while revenue expenditure rose 26%, driven by subsidies (fertilizers: +52% YoY; food: 50%; Fig 6); interest payments rose 17%.

India's pursuit of fiscal consolidation faces headwinds in FY27

Due to a lower GDP base, even if FY27 nominal GDP growth is 12% (vs. 10.1% BE), the deficit ratio could expand to 4.4% vs. target 4.3%, with the Excise duty cuts are another headwind if not reversed shortly. Higher expenditure due to subsidies is likely to be offset by existing buffers (Rs. 1tn ESF) and higher import duty on gold which may contribute Rs.0.5tn. The shortfall in direct tax collections can be met via more asset sales, though if geopolitical risks fade, the economy can pick up steam, providing a boost to receipts.

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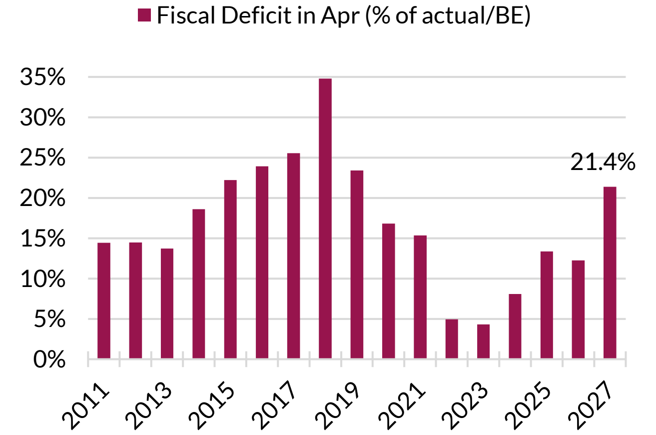
Exhibit 2 – Lower deficit due to lower expenditure and higher net revenue (vs. RE)

as % of GDP	FY25	FY26 RE (Feb)	FY26PE (May)	FY27 BE (Feb)
Gross Tax Receipts	11.9%	11.8%	11.6%	11.4%
Income tax	3.9%	3.8%	3.6%	3.8%
Corporate tax	3.1%	3.2%	3.2%	3.2%
GST	3.2%	3.0%	3.1%	2.6%
Others	1.7%	1.8%	1.8%	1.8%
Net Tax Receipts	7.9%	7.7%	7.6%	7.4%
Net Receipts	9.5%	9.7%	9.8%	9.1%
Capital Expenditure	3.3%	3.2%	3.1%	3.2%
Revenue Expenditure	11.3%	11.2%	11.1%	10.7%

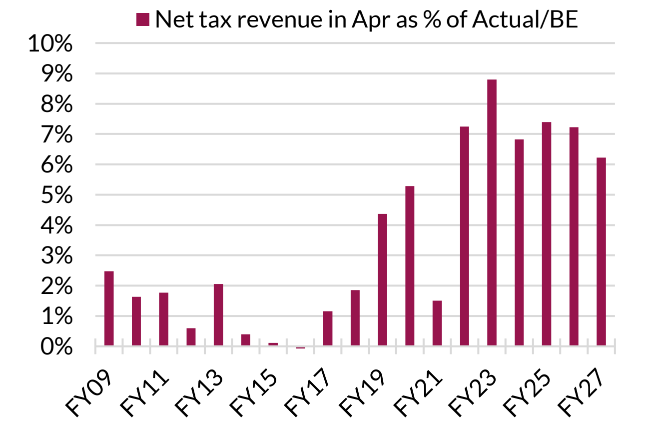
Source: CGA, Axis Bank Research

Exhibit 3 - 23% higher expenditure in Apr-26 pushes monthly fiscal deficit to 21.4% of FY27 BE



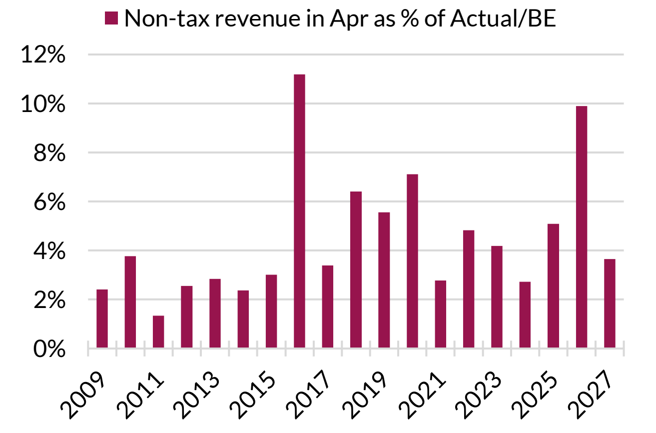
Source: CGA, Axis Bank Research

Exhibit 4 - Net tax receipts for Apr lower vs. 5Y median



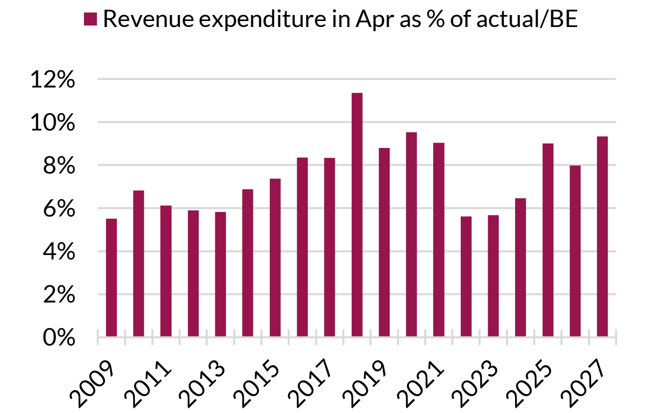
Source: CGA, Axis Bank Research

Exhibit 5 - Non-tax receipts weaker vs. 10-year median



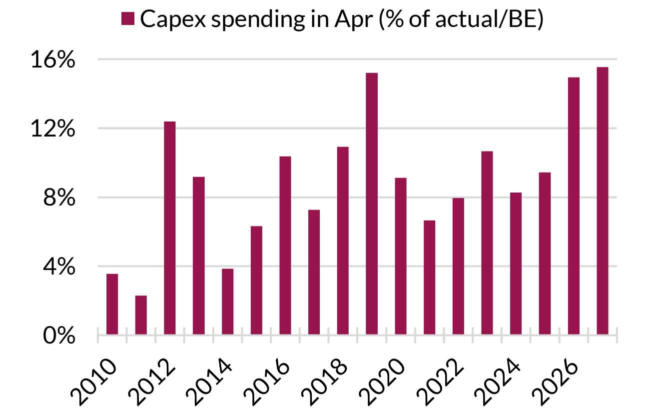
Source: CGA, Axis Bank Research

Exhibit 6 - Revenue expenditure rose 26% YoY in Apr-26



Source: CGA, Axis Bank Research

Exhibit 7 - Capex grew 19% YoY: led by railways (69% YoY)



Source: CGA, Axis Bank Research

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