AXIS BANK

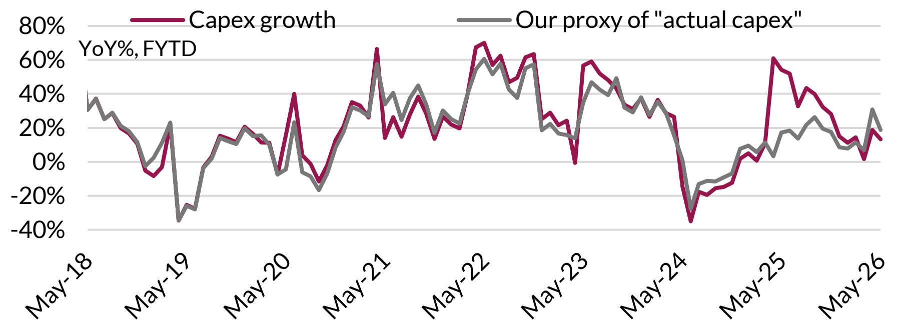
Economic Research | India

India's fiscal risks are now lower as the Strait reopens

01 Jul 2026
Fiscal Monitor
India

FY27 fiscal risks appear manageable with the reopening of the Strait of Hormuz and oil markets normalising. Personal income tax miss in FY26 and current softness as well as weak GST collections implies a potential ~Rs1tn downside risk to FY27 tax collections, despite stronger corporate taxes. Capex growth remains strong led by railway projects. Spending has risen sharply, led by subsidies, but fiscal buffers remain meaningful: the Rs. 1tn ESF, higher gold import duties, normalising fertiliser prices, potential asset sales and capex flexibility should help limit slippage from the 4.3% deficit target.

Exhibit 1 –Official capex growth likely lower than "actual" growth



Source: CGA, Axis Bank Research

FY27 Tax outlook: ~Rs 1tn downside risk, corporate collections strong

Central net revenue receipts fell 1.2% YoY FYTD, despite a record RBI dividend. Gross tax collections grew 1.8% YoY while net tax receipts fell 0.8% YoY, reflecting higher devolution to states (+7.4%) as the Centre ran surplus cash balances. GST collections were 12% lower (Fig 4), driven by a collapse in IGST and compensation cess. Direct tax collections rose 11.5% YoY, led by strong corporate tax growth (+26%; weak base), while personal income tax collections remained weak (+8.3% YoY FYTD; Fig 2). The income tax miss in FY26 (monthly numbers add to Rs12.4tn, 5.4% below RE) and corporate taxes (0.9% lower vs. RE) accentuates concerns on FY27 collections. Assuming 12% growth rate for income tax (vs. the implied rate of 18%) leads to a shortfall of Rs.762bn.

18% higher expenditure in Apr-May pushes FYTD fiscal deficit to 9.6% of BE

May fiscal balances have consistently turned surplus over the past three FY, reflecting record RBI dividend transfers. This lowers FYTD fiscal deficit (FD). Capex growth remains stronger vs. headline (Fig 1). Capex in Railway projects is up 43% YoY FYTD while capex allocation from Ministry of Finance is up 183% (primarily SASCI loans). Revenue expenditure excluding interest payments grew 19% YoY on an FYTD basis (Fig 7; interest payment +23%). Subsidy spending rose 47% YoY FYTD, driven by a 48% rise in fertiliser subsidies (+50% in Urea), while food subsidies also grew by 46%.

Risk of fiscal deterioration in FY27 now meaningfully lower

Due to a lower GDP base, even if FY27 nominal GDP growth is 12% (vs. 10.1% BE), the deficit ratio expands to 4.4% vs. the target of 4.3%. The 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. Fertilizer prices have now normalised to pre-war levels (link) thus alleviating pressure. The shortfall in direct tax collections can be met via more asset sales and lower capex spend. Excise duty cuts are another headwind which requires elevated fuel prices to recover the losses. While the trailing 12M FD is 4.7% of GDP, we expect fiscal slippage to be minimal.

Neelkanth Mishra
Neelkanth.Mishra@axisbank.com

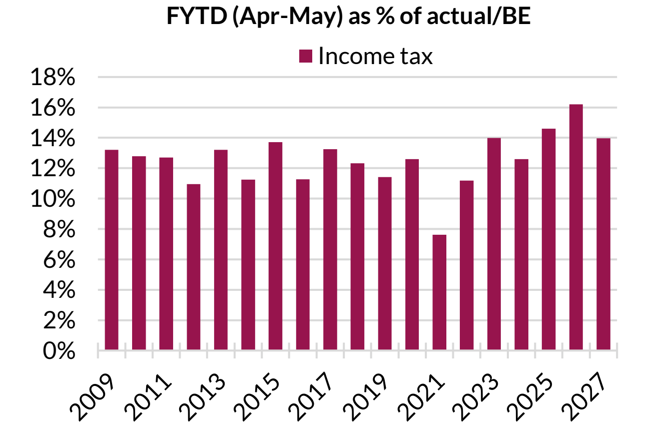
Prateek Ancha
Prateek.Ancha@axisbank.com

Vipul Jindal
Vipul.Jindal@axisbank.com

Tanay Dalal
Tanay.Dalal@axisbank.com

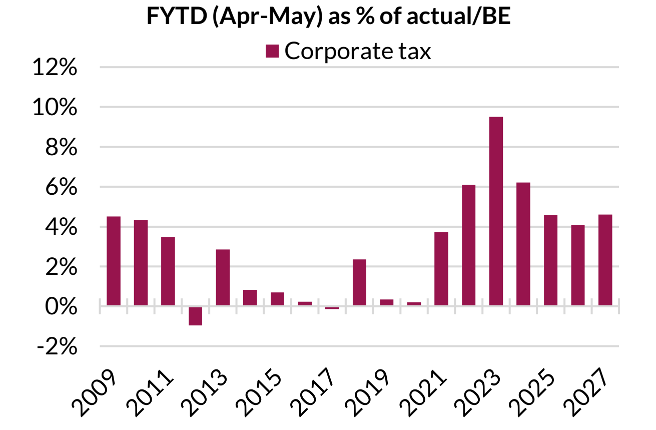
Pulkit Kapoor
Pulkit1.Kapoor@axisbank.com

Exhibit 2 – During Apr-May, income tax grew by 8.3% YoY; slippage of Rs. 0.7-0.9tn assuming 12% YoY in FY27



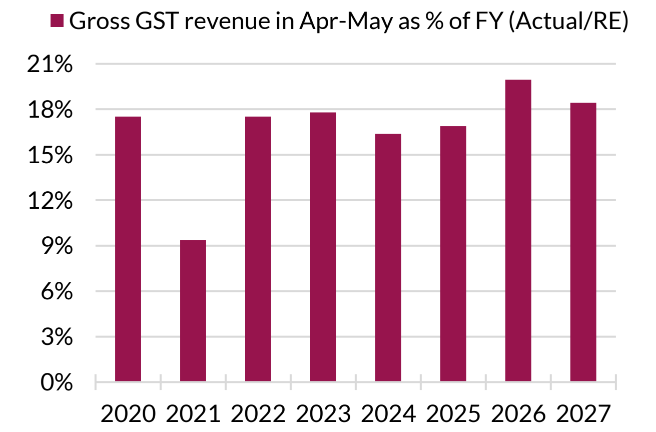
Source: CGA, Axis Bank Research

Exhibit 3 - During Apr-May, corporate tax receipts rose 26% YoY



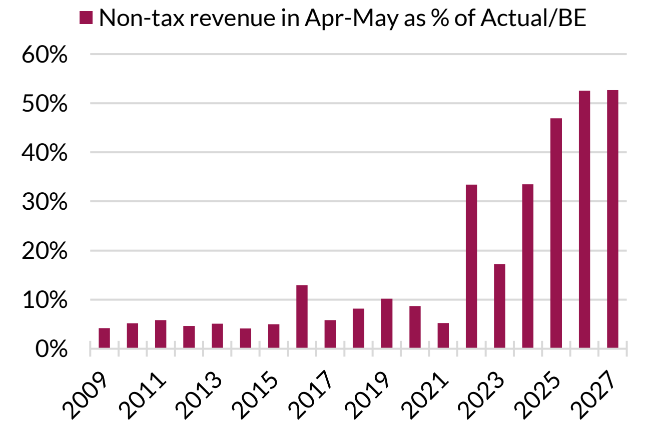
Source: CGA, Axis Bank Research

Exhibit 4 - GST collections declined 12% YoY FYTD; dragged down lower IGST and cess collections



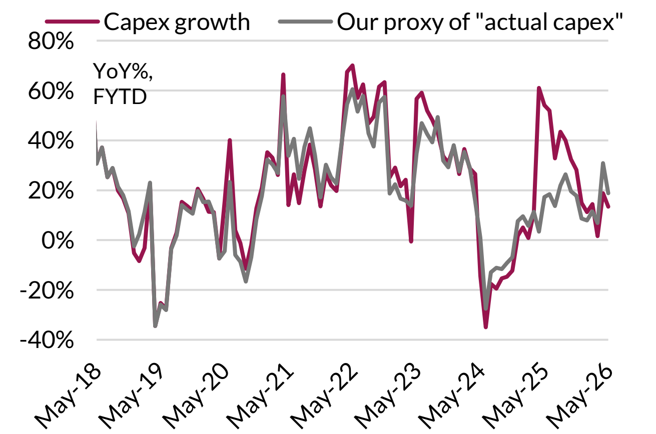
Source: CGA, Axis Bank Research

Exhibit 5 - Non-tax receipts in Apr-May declined 2% YoY



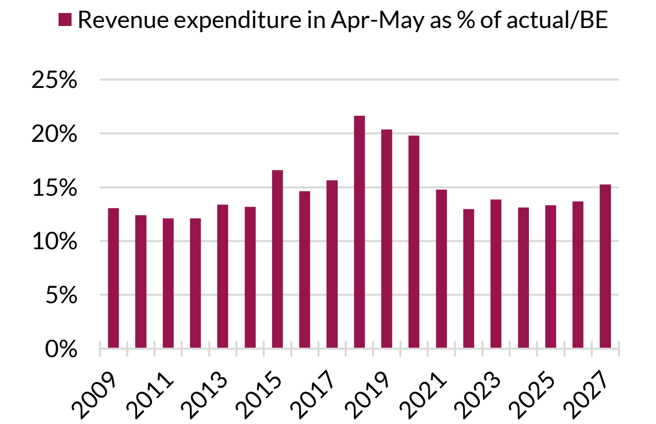
Source: CGA, Axis Bank Research

Exhibit 6 - Headline capex spending growth (+13% YoY FYTD); "actual growth" is likely higher at 19%



Source: CGA, Axis Bank Research

Exhibit 7 - Revenue expenditure +20% YoY FYTD led by higher subsidies (47% YoY: Food: 46%, Fertilizers: 48%)



Source: CGA, Axis Bank Research

Appendix

Ways and Means Advances (WMA) for the Food Corporation of India (FCI) are temporary loans provided by the Government of India (GoI) to help bridge mismatches between the FCI's receipts and expenditures. These advances (short-term loans) are repaid by the end of the same financial year, typically March 31. The interest rate is typically at par with the weighted average rate of 364-day Treasury Bills.

Purpose: WMAs help FCI manage its finances when there are delays in receiving subsidy payments from the government, which are crucial for its operations like grain procurement, storage, and distribution

Allocation: In the fiscal year 2024-25, the government provided FCI with a WMA of Rs. 50,000 crore.

Utilization: FCI utilizes the WMA to cover expenses related to foodgrain procurement, transportation, and distribution when there are delays in receiving subsidy payments.

Equity Infusion: In some cases, the government may convert WMAs into equity, as seen with the recent approval of Rs 10,700 crore equity infusion in FCI. (Nov 2024: https://www.pib.gov.in/PressReleaseIframePage.aspx?PRID=2071133)

Disclaimer: The report and information contained herein is of confidential nature and meant only for the selected recipient and should not be altered in any way, transmitted to, copied, or distributed, in any manner and form, to any other person or to the media or reproduced in any form, without prior written approval of Axis Bank. The material in this document/report is based on facts, figures and information that are obtained from publicly available media or other sources believed to be reliable and hence considered true, correct, reliable and accurate but Axis Bank does not guarantee or represent (expressly or impliedly) that the same are true, correct, reliable and accurate, not misleading or as to its genuineness, fitness for the purpose intended and it should not be relied upon as such. Artificial Intelligence tools may have been used (i) during the information gathering stage for compiling or collating data from (a) publicly available sources, (b) databases to which Axis Bank subscribes, and (c) internally generated research data; and/or (ii) for compiling summaries of this report. The opinion expressed (including estimates, facts, figures and forecasts) is given as of the date of this document is subject to change without providing any prior notice of intimation. Axis Bank shall have the rights to make any kind of changes and alterations to this report/ information as may be required from time to time. However, Axis Bank is under no compulsion to maintain or keep the data/information updated. This report/document does not mean an offer or solicitation for dealing (purchase or sale) of any financial instrument or as an official confirmation of any transaction. Axis Bank or any of its affiliates/ group companies shall not be answerable or responsible in any way for any kind of loss or damage that may arise to any person due to any kind of error in the information contained in this document or otherwise. This document is provided for assistance only and should not be construed as the sole document to be relied upon for taking any kind of investment decision. The recipient is himself/herself fully responsible for the risks of any use made of this information. Each recipient of this document should make his/her own research, analysis and investigation as he/she deems fit and reliable to come at an independent evaluation of an investment in the securities of companies mentioned in this document (including the merits, demerits and risks involved), and should further take opinion of own consultants, advisors to determine the advantages and risks of such investment. The investment discussed or views expressed herein may not suit the requirements for all investors. Axis Bank and its group companies, affiliates, directors, and employees may: (a) from time to time, have long or short positions in, and deal (buy and/or sell the securities) thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn commission/brokerage or other compensation or act as advisor or lender/borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The applicable Statutory Rules and Regulations may not allow the distribution of this document in certain jurisdictions, and persons who are in possession of this document, should inform themselves about and follow, any such restrictions. This report is not meant, directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would not be in conformation to the law, regulation or which would require Axis Bank and affiliates/ group companies to obtain any registration or licensing requirements within such jurisdiction. Neither Axis Bank nor any of its affiliates, group companies, directors, employees, agents or representatives shall be held responsible, liable for any kind of consequential damages whether direct, indirect, special or consequential including but not limited to lost revenue, lost profits, notional losses that may arise from or in connection with the use of the information. Prospective investors and others are cautioned and should be alert that any forward-looking statements are not predictions and may be subject to change without providing any notice. Past performance should not be considered as a reference to future performance. The disclosures of interest statements if any included in this document are provided only to enhance the transparency and should not be construed as confirmation of the views expressed in the report. The views expressed in this report reflect the personal views of the author of the report and do not reflect the views of Axis Bank or any of its associate and group companies about the subject company or companies and its or their securities.

Disclaimer for Singapore clients: This document is published by Axis Bank Limited, India ("Axis Bank") and is distributed in Singapore by Axis Bank. This document is not a research analysis or report concerning any investment product. This document does not provide or purports to provide individually tailored investment advice, commentary or opinion. The contents in this document have been prepared and are intended for general distribution strictly to accredited investor, expert investor or institutional investor. A recipient of this document shall not provide or circulate this document to any other person. The contents in this document do not take into account the specific investment objectives, financial situation, or particular needs of any particular person. The instruments and product types mentioned in this document may not be suitable for all investors. You should independently evaluate particular investments or product types and seek independent advice from a financial adviser regarding the suitability of such instruments or product types, taking into account your specific investment objectives, financial situation and particular needs, before making a commitment on any instruments or product types. This is because the appropriateness of a particular instrument or product type will depend on your individual circumstances and investment objectives, financial situation and particular needs. The instruments and product types mentioned in this document may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Disclaimer for DIFC clients: Axis Bank Limited (DIFC branch) is duly licensed and regulated in the Dubai International Financial Centre by the Dubai Financial Services Authority ("DFSA"). This document is intended for use only by Professional Clients (as defined in the Rule 2.3 of the Conduct of Business Module of the DFSA Rulebook) who satisfy the regulatory criteria set out in the DFSA Rules, and should not be relied upon, acted upon or distributed to any other person(s) other than the intended recipients.