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Government of India Finances

FY2025 fiscal deficit contained at 4.8% of GDP; higher GDP, RBI dividend pay-out provides space for Rs. 0.8 trillion extra capex in FY2026

JUNE 2025

Highlights

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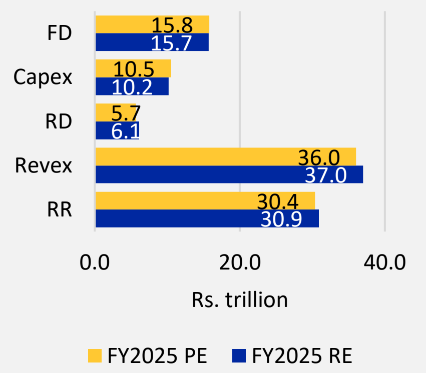
EXHIBIT: Trends in key fiscal metrics



RR: Revenue receipts, Revex/Capex: Revenue/ Capital expenditure; RD/FD: Revenue/Fiscal Deficit; Source: Union Budget, CGA, ICRA Research

- The provisional estimates (PE) for FY2025 placed the Government of India's (GoI's) fiscal deficit at Rs. 15.8 trillion in the fiscal, Rs. 0.1 trillion higher than the Rs. 15.7 trillion in FY2025 RE. This was mainly on account of higher-than-budgeted capex (+Rs. 0.3 trillion over RE) and lower non-debt capital receipts (-Rs. 0.2 trillion) offsetting the lower-than-expected revenue deficit (+0.4 trillion). Nevertheless, owing to the higher nominal GDP number (in PE vs. FAE), the fiscal deficit was contained at 4.8% of GDP, in line with the target for the year.
- The fiscal deficit for April 2025 was contained at Rs. 1.9 trillion (~12% of FY2026 BE) as compared to Rs. 2.1 trillion in April 2024 (13% of FY2025 PE), amid sizeable compression in revenue deficit to Rs. 0.5 trillion in April 2025 and a sharp rise in non-debt capital receipts that outweighed the 61.0% YoY surge in capex in the month.
- The upward revision in the FY2025 nominal GDP number also augurs well for meeting the deficit and debt to GDP targets for FY2026. Despite a relatively lower projected nominal GDP growth of ~9.0% in FY2026 (ICRA's forecast) vs. the budgeted levels of 10.1%, the fiscal deficit-to-GDP can be contained at 4.4% in FY2026, while also accommodating a marginal fiscal slippage (to the tune of ~Rs. 300-350 billion), given the larger base.
- There is some cushion on the receipts side to the tune of around Rs. 0.4 trillion on account of the higher-than-budgeted RBI dividend transfer (Rs. 2.7 trillion). Further, there is still some more headroom to hike excise duty on petrol and diesel further owing to the softening in oil prices, following those undertaken in April 2025 (of Rs. 2/litre each). This provides some comfort on the fiscal front amid heightened global uncertainties.
- Additionally, as per the CGA data for April 2025, miscellaneous capital receipts (which includes disinvestment and other receipts) amounted to as much as ~46% of the FY2026 BE of Rs. 470 billion, which gives us confidence that the target for this head for the fiscal is unlikely to be missed. This provides some relief, given that a miss in miscellaneous capital receipts has been a recurring phenomenon.
- Overall, given these buffers, the GoI could push up expenditure by at least Rs. 0.8 trillion in FY2026 relative to the BE. If this entire amount goes for additional capex, it would push up the headline figure to nearly Rs. 12.0 trillion (vs. FY2026 BE of Rs. 11.2 trillion) and take its growth in the same to a healthy 14.2% from 6.6% (FY2026 BE over FY2025 PE) currently.

FY2025 Provisional Fiscal Balances of the Government of India

GoI's fiscal deficit mildly exceeded the RE, but contained at targeted 4.8% of GDP

GTR posted a modest 3% growth in March 2025, while capex rose quite steeply

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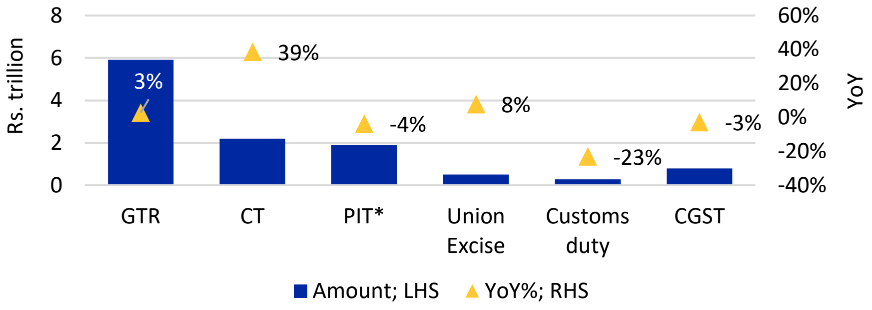
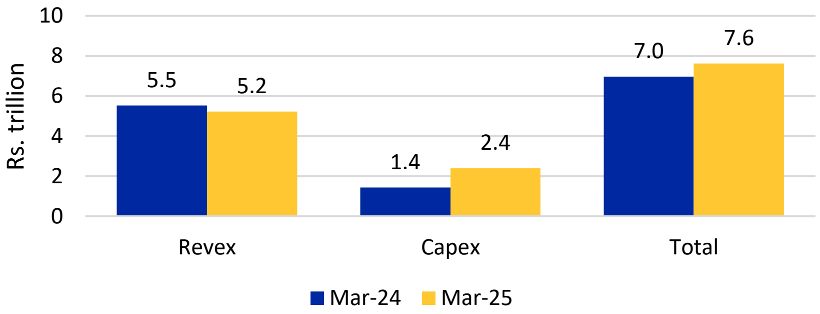
EXHIBIT: GTR and its components in March 2025



**Excluding security transaction tax (STT) amount; Source: CGA; ICRA Research*

EXHIBIT: Revex, capex and total expenditure in March 2024-2025

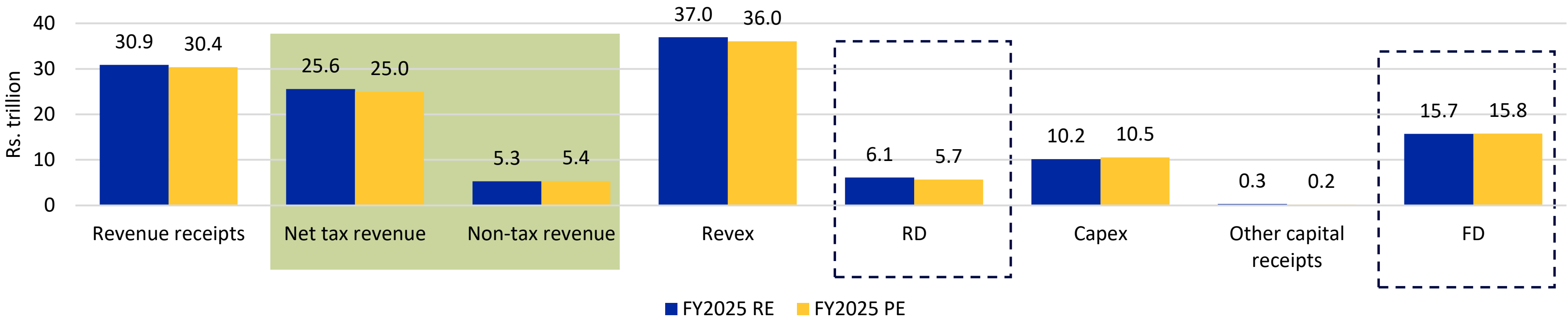


Source: CGA; ICRA Research

- The gross tax revenues (GTR) of the GoI increased by a modest 3% YoY in March 2025, with healthy growth in corporation tax (CT; +39%, partly on the back of a favourable base) and union excise duty (+8%) collections being partially offset by the moderation in personal income tax (PIT; -4%), customs duty (-23%) and CGST (-3%) inflows.
- On the expenditure front, the GoI's total spending witnessed a 10% YoY growth amounting to Rs. 7.6 trillion in March 2025, entirely attributed to the steep ~67% jump in capital expenditure to Rs. 2.4 trillion, even as revex contracted by 5% YoY to Rs. 5.2 trillion in that month.
- Overall, the GoI reported a surplus on the revenue account at Rs. 52.5 billion in March 2025 as against the deficit of Rs. 333.2 billion in March 2024, given the contrasting YoY trends between revenue receipts (+2%) and revex (-5%). However, owing to the surge in capex, the fiscal deficit rose to Rs. 2.3 trillion in March 2025 from Rs. 1.5 trillion in the year-ago month.

Fiscal deficit of Rs. 15.8 trillion in FY2025 PE slightly higher than RE

EXHIBIT: Fiscal trends in FY2025 RE and FY2025 PE

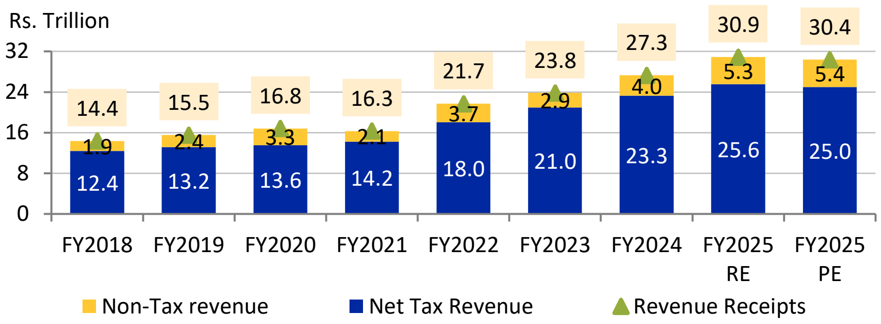


RD/FD: Revenue/Fiscal Deficit; Source: Union Budget, CGA, ICRA Research

- As per the provisional data released by the CGA, the revenue deficit was contained at Rs. 5.7 trillion in FY2025 PE, against the Rs. 6.1 trillion included in the RE for the fiscal. This stemmed from the considerable savings of Rs. 0.9 trillion in revex in the FY2025 PE over the RE, even as revenue receipts fell short of the RE by Rs. 0.5 trillion to Rs. 30.4 trillion in FY2025 PE. The latter was mainly attributed to Rs. 0.6 trillion miss in net tax revenues, whereas non-tax revenues expectedly surpassed the target.
- Under the capital head, the GoI's capex of Rs. 10.5 trillion in FY2025 PE exceeded the RE by Rs. 0.3 trillion, even as the other capital receipts ended up trailing the FY2025 RE. Overall, the GoI's fiscal deficit overshot the FY2025 RE by a modest Rs. 77 billion to Rs. 15.8 trillion in FY2025 PE.

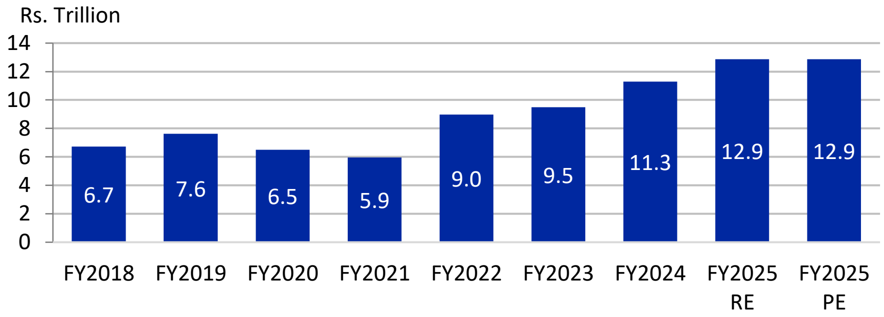
Revenue receipts trailed FY2025 RE by Rs. 0.5 trillion, led by net tax revenues

EXHIBIT: GoI's revenue receipts, net tax revenues and non-tax revenues



Source: CGA, Ministry of Finance, GoI, ICRA Research

EXHIBIT: Annual trends in Central tax devolution



Source: CGA, Ministry of Finance, GoI, ICRA Research

- Provisional data indicates that the revenue receipts stood at Rs. 30.4 trillion in FY2025, representing a 11.3% growth over Rs. 27.3 trillion in FY2024 Actuals.
  - The YoY expansion in non-tax revenues was stronger at 33.8% in FY2025 PE (to Rs. 5.4 trillion in FY2025 PE from Rs. 4.0 trillion in FY2024 A), compared to the net tax revenues (+7.4%; to Rs. 25.0 trillion from Rs. 23.3 trillion).
- Overall, the provisional revenue receipts in FY2025 trailed the RE of Rs. 30.9 trillion by Rs. 0.5 trillion, entirely driven by lower-than-budgeted net tax revenues of the Centre (by Rs. 0.6 trillion), even as non-tax revenues exceeded the RE (by Rs. 0.1 trillion).
- The miss in net tax revenues stemmed from gross tax revenues of the Centre (by Rs. 0.6 trillion), which saw a 9.5% YoY growth in FY2025 PE against the RE of 11.2%, even as the CTD amount released to the states was in line with the revised target of Rs. 12.9 trillion in FY2025 PE (+14% YoY).

Shortfall of Rs. 0.6 trillion in GTR in FY2025 PE over RE stemmed from PIT and IGST collections

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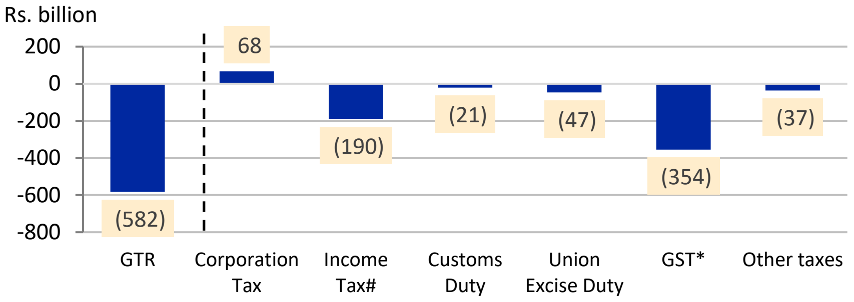
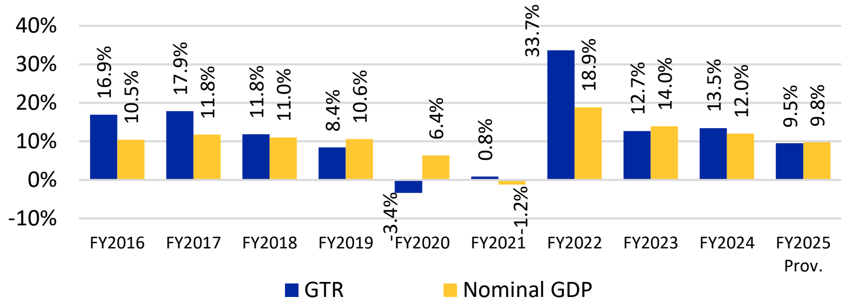
EXHIBIT: Variation in GTR and components in FY2025 PE over RE



*#excluding Security transaction tax since that head is included under other taxes in the CGA data; *includes CGST, IGST and GST compensation cess; Source: CGA, Ministry of Finance, GoI; ICRA Research*

EXHIBIT: Annual trends in GTR and nominal GDP

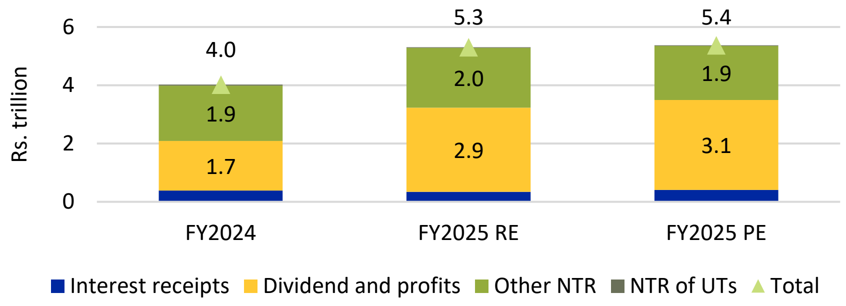


Source: CGA, NSO; Ministry of Finance, GoI; ICRA Research

- Against the revised target of 11.2%, net of refunds (gross of devolution to States), the GoI’s tax revenues increased by a shallower 9.5% YoY to Rs. 38.0 trillion in FY2025 PE from Rs. 34.7 trillion in FY2024 A. In YoY terms, inflows under personal income tax (+17.0%; excluding STT), CGST (+10.8%), and corporation tax (+8.3%) supported the aforesaid growth in GTR in FY2025.
- With the growth in GTR (+9.5%) slightly trailing that in nominal GDP (+9.8%), the tax buoyancy inched lower to 1.0 in FY2025 PE from 1.1 in FY2024, albeit printing similar to the historical average of 1.0 during FY2012-19.
- The GoI’s gross tax revenues in FY2025 PE missed the revised target by as much as Rs. 582 billion, mainly driven by IGST (-Rs. 330 billion) and net PIT (-Rs. 190 billion; excluding the STT amount) collections, even as net corporation tax inflows managed to surpass the FY2025 RE amount by Rs. 68 billion.

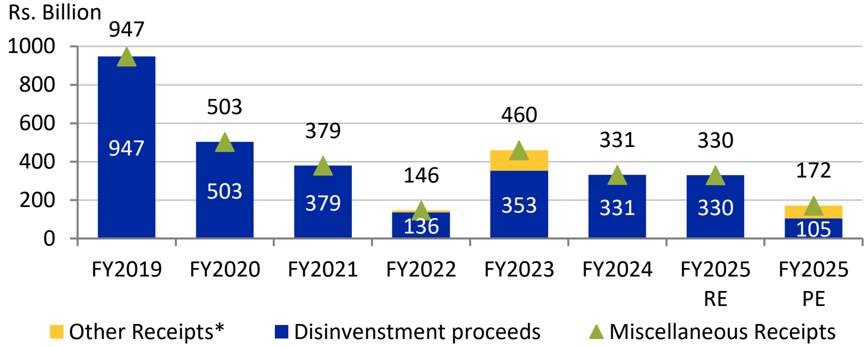
Non-tax revenues mildly exceeded the FY2025 RE, while disinvestment proceeds expectedly missed the target

EXHIBIT: Annual trends in Non-tax revenues and its constituents



Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: Annual trends in miscellaneous receipts

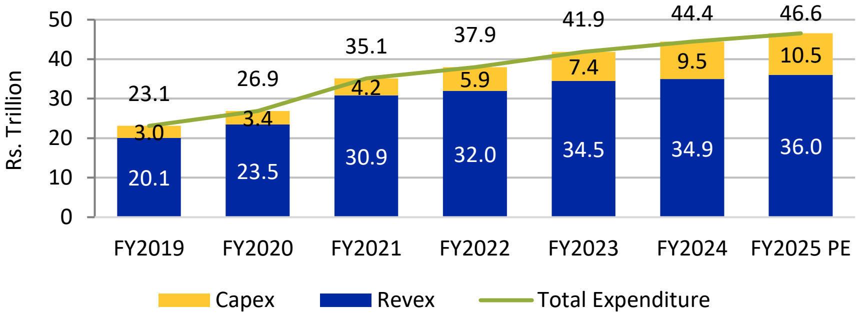


**Includes monetisation and other receipts; Source: CGA, Ministry of Finance, GoI; ICRA Research*

- Non-tax revenues (NTR) scaled up to an all-time high of Rs. 5.4 trillion in FY2025 PE from Rs. 4.0 trillion in FY2024 A, indicating a YoY growth of 33.8%. This was led by the considerable expansion in dividends and profits (+80.5% to Rs. 3.1 trillion), followed by relatively lower growth in interest receipts (+7.7% to Rs. 0.4 trillion), even as other non-tax revenues (other NTR) witnessed a moderation (-2.4% to Rs. 1.9 trillion) in the fiscal.
- Notably, non-tax revenues in FY2025 exceeded the amount included in the RE by Rs. 65 billion, reflecting the upside on account of dividends and profits (+Rs. 191 billion, led by higher dividend pay-outs from PSUs) and interest receipts (+Rs. 72 billion) against their respective revised targets, which outweighed the slippage in other NTR (- Rs. 195 billion) and NTR of UTs (-Rs. 3 billion).
- Miscellaneous capital receipts (disinvestment proceeds + other receipts) aggregated to Rs. 172.0 billion in FY2025 PE, lower than the inflows of Rs. 331.2 billion in FY2024 and even trailed the revised target of Rs. 330 billion.

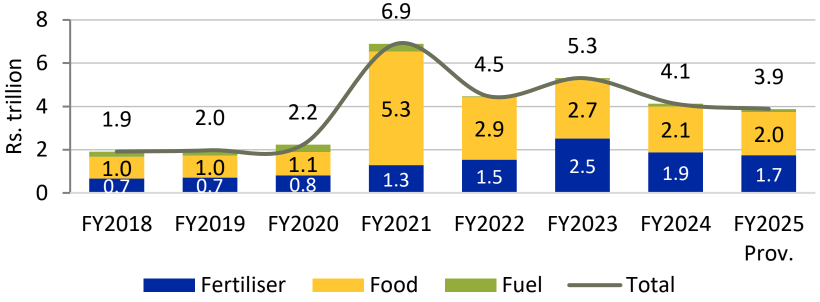
Total expenditure of Rs. 46.6 trillion in FY2025 PE trailed RE by Rs. 0.6 trillion, amid sizeable savings in revex

EXHIBIT: Annual Trends in Centre's total expenditure, revex and capex



Actuals till FY2023; Prov: Provisional; Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: Annual outgo under major subsidies

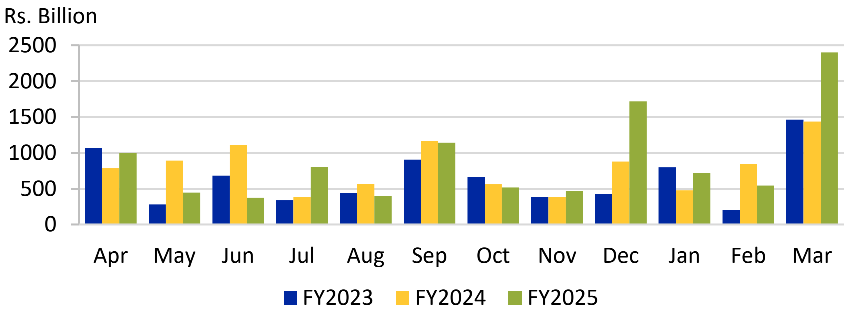


Source: CGA, Ministry of Finance, GoI; ICRA Research

- Compared to the 6.1% growth target, the GoI's total expenditure rose by a weaker 4.8% YoY to Rs. 46.6 trillion in FY2025 PE, reflecting the lower-than-budgeted growth in revenue spending (+3.1% in PE vs. +5.8% in RE), even as capital expenditure ended up with a stronger expansion (+10.8% vs. +7.3%) in the fiscal.
- The total spending trailed the FY2025 RE of Rs. 47.2 trillion by Rs. 0.6 trillion, entirely led by revex (-Rs. 0.9 trillion), even as capex overshot mildly (+Rs. 0.3 trillion).
- Within revex, the interest outgo increased by 4.9% YoY in FY2025 PE, while subsidy outgo witnessed a 6.2% moderation in the fiscal.
  - **Fertiliser Subsidy:** Against the revised target of Rs. 1.71 trillion, the fertiliser subsidy released in FY2025 amounted to Rs. 1.74 trillion as per the provisional data released by the CGA. The subsidy outgo is 8.3% lower than Rs. 1.9 trillion spent in FY2024 A.
  - **Food Subsidy:** The food subsidy outgo eased to Rs. 2.0 trillion in FY2025 PE from Rs. 2.1 trillion in FY2024 A, while printing a shade above the RE of Rs. 1.97 trillion.
  - **Fuel subsidy:** The outgo rose to Rs. 144.8 billion in FY2025 PE from Rs. 122.4 billion in FY2024 A, but marginally trailed the RE of Rs. 147 billion for the fiscal.
- The balance portion of revex increased by 4.1% YoY to Rs. 21.0 trillion in FY2025 PE, albeit lower than the RE of Rs. 21.8 trillion, resulting in lower revex vs. the RE.

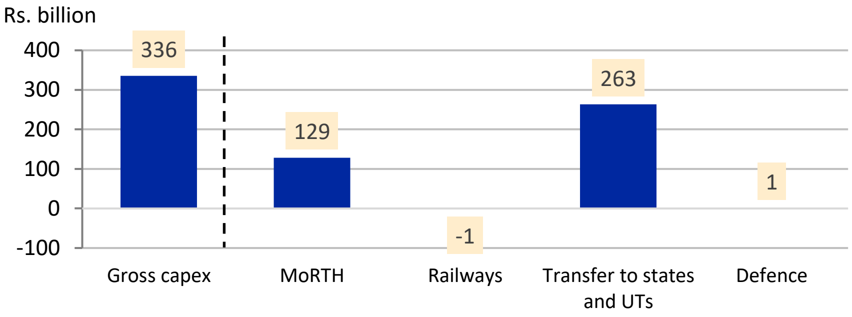
Capex amounted to Rs. 10.5 trillion in FY2025, Rs. 336 billion in excess of the RE

EXHIBIT: Monthly trends in capital expenditure



Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: Variation in GoI's capex in FY2025 PE over the FY2025 RE

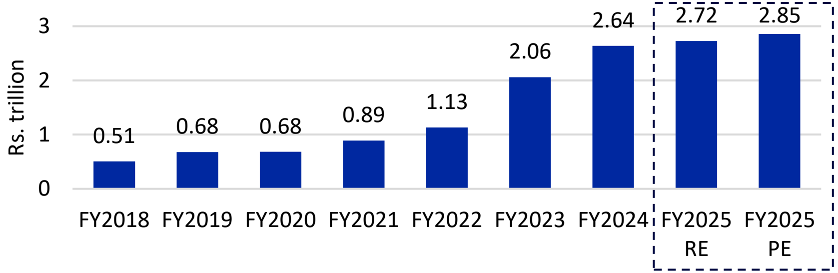


Source: CGA, Ministry of Finance, Union Budget, GoI, ICRA Research

- The GoI's capex rose by 10.8% to Rs. 10.5 trillion in FY2025 PE from Rs. 9.5 trillion in FY2024, while overshooting the RE of Rs. 10.2 trillion included for the fiscal. This implies that capital spending averaged around Rs. 877 billion/month in FY2025 as against Rs. 791 billion/month seen in FY2024.
- According to the CGA data, combined capital transfers to states (which includes transfers under the 50Y capex loan scheme) stood at Rs. 1.7 trillion in FY2025 PE, higher than the Rs. 1.4 trillion indicated in the RE. This largely led to the overshooting in the overall capex vis-à-vis the FY2025 RE. Besides, the capex by Ministry of Road Transport and Highways also exceeded the RE slightly in the fiscal.

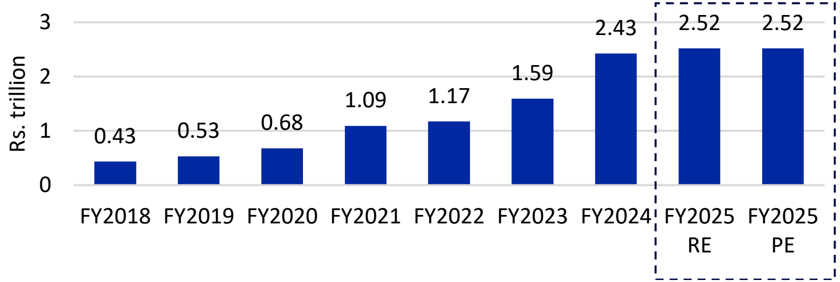
Overshooting in FY2025 capex largely led by capex loans to states and by MoRTH

EXHIBIT: MoRTH's capex exceeded the FY2025 RE by Rs. 129 billion, implying a growth of 8.1% in the fiscal, against the 3.2% growth in the RE



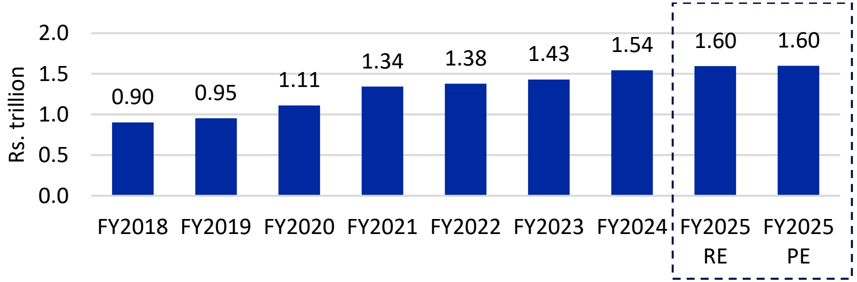
Source: CGA, Union Budget, ICRA Research

EXHIBIT: Ministry of Railways' capex printed in line with FY2025 RE of Rs. 2.52 trillion



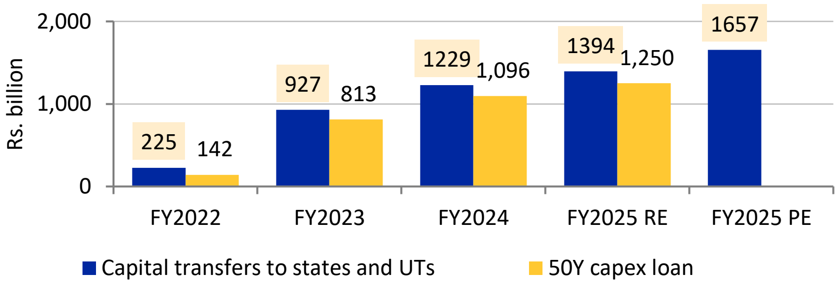
Source: CGA, Union Budget, ICRA Research

EXHIBIT: The capital outlay on Defence services also printed in line with FY2025 RE of Rs. 1.6 trillion



Source: CGA, Union Budget, ICRA Research

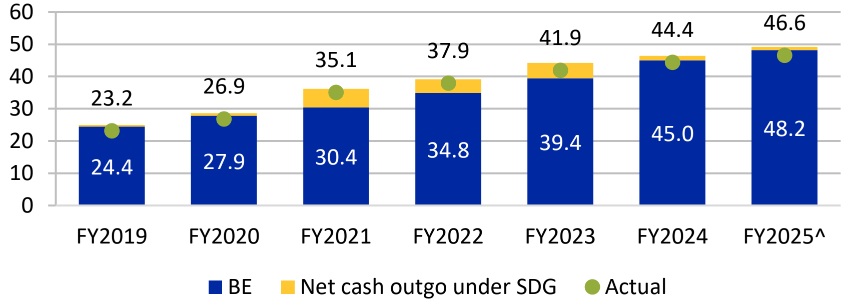
EXHIBIT: The capital transfers to states have exceeded the RE by Rs. 263 billion, likely led by 50Y interest free capex loans to states



Source: CGA, Union Budget, ICRA Research

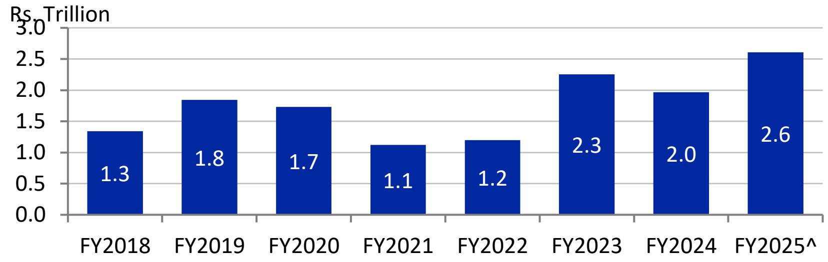
Total spending in FY2025 was curtailed well below the BE, after adjusting supplementary outgo, suggesting sizeable expenditure savings

EXHIBIT: Budgeted and Actual Total Expenditure with Net Cash Outgo announced under Supplementary Demand for Grants (Rs. trillion)



**Second batch of SDG for FY2019 is not available in the public domain and hence savings might be modestly lower than Rs. 1.8 trillion; ^Based on Provisional estimate for FY2023; Source: Union Budget; ICRA Research*

EXHIBIT: Estimated Expenditure Savings (BE + NSDG – Actual; Rs. trillion)



*Actuals for FY2018-24; Aggregate expenditure savings of the GoI are computed by adding net cash outgo under the SDG to the budgeted total expenditure and subtracting actual spending incurred in each fiscal; *Second batch of SDG for FY2019 is not available in the public domain and hence savings might be modestly lower than Rs. 1.8 trillion; ^Based on Provisional Estimate for FY2025; Source: Union Budget; ICRA Research*

- The total expenditure of the GoI stood at Rs. 46.6 trillion in FY2025 PE, Rs. 0.6 trillion lower than the revised target of Rs. 47.2 trillion for the fiscal. This was also Rs. 1.6 trillion lower than the BE of Rs. 48.2 trillion for the fiscal despite the combined net cash outgo of ~Rs. 956 billion on account of the two supplementary demand for grants announced during the year.
- This implies that Ministries/Departments generated expenditure savings to the tune of Rs. 2.6 trillion in FY2025, higher than the yearly average seen during FY2018-24 (Rs. 1.6 trillion/year).

FY2025 fiscal deficit contained at targeted 4.8% of GDP on the back of higher nominal GDP

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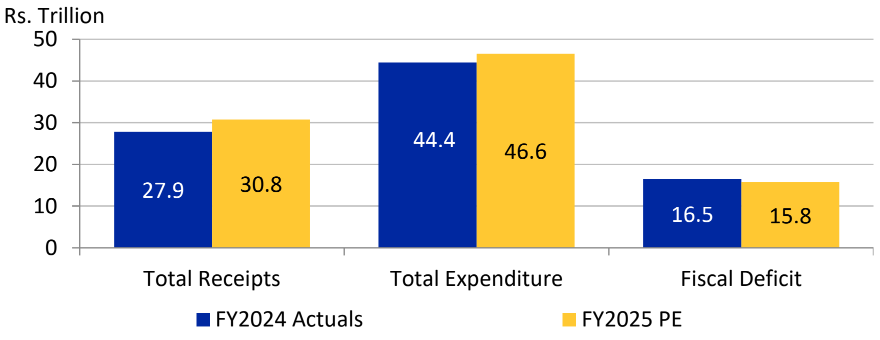
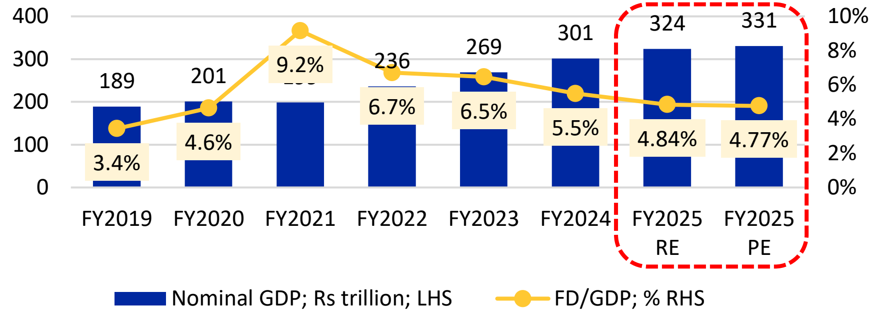
EXHIBIT: Trends in Revenues and Expenditure of the GoI



Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: Trends in fiscal Deficit/GDP ratio and nominal GDP



Source: CGA, Ministry of Finance, GoI; ICRA Research

- Owing to the relatively larger cut in revex (Rs. 0.9 trillion) vis-à-vis the miss on revenue receipts (Rs. 0.5 trillion), the GoI's revenue deficit was curtailed at Rs. 5.7 trillion in FY2025 PE, lower than Rs. 6.1 trillion in the FY2025 RE. Given this, and the provisional estimate of the nominal GDP for FY2025 printing ~2% higher than the FAE for the fiscal that was used at the time of the Budget, the revenue deficit amounted to 1.7% of GDP in FY2025 Prov. lower than the 1.9% in the FY2025 RE, while entailing a sharp compression vis-à-vis 2.5% in the FY2024 Actuals. This is the lowest level of the revenue deficit since FY2008.
- The lower-than-expected revenue deficit was more than offset by an overshooting in the capex target and a miss in non-debt capital receipts. This led to the fiscal deficit printing at Rs. 15.8 trillion in the FY2025 Prov., Rs. 0.1 trillion higher than the Rs. 15.7 trillion in FY2025 RE. Nevertheless, owing to the higher nominal GDP number (in PE vs. FAE), the fiscal deficit was contained at 4.8% of GDP, in line with the target for the year.
- Notably, the inflows from small savings scheme (savings deposits and certificates and public provident funds) amounted to Rs. 3.4 trillion in FY2025, slightly above the revised target of Rs. 3.2 trillion.

Fiscal Trends for April 2025 and ICRA's Outlook for FY2026

Compression in revenue deficit and healthy non-debt capital inflows contained fiscal deficit at Rs. 1.9 trillion in April 2025, despite the surge in capex

Revenue receipts rose by a healthy 21% in April 2025, amid surge in non-tax revenues even as net tax revenue growth was tepid at 2.5%

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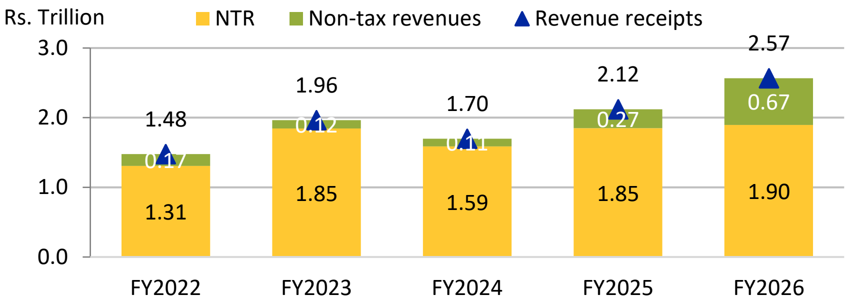
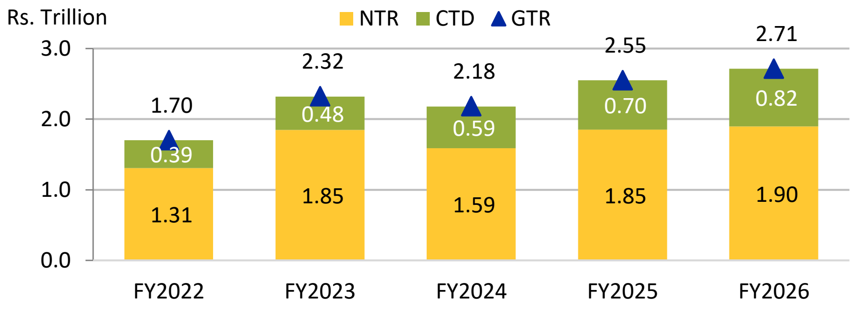
EXHIBIT: Trends in revenue receipts, net tax revenues and non-tax revenues in April FY2022-26



Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: Trends in Gross tax revenues, net tax revenues and tax devolution in April FY2022-26

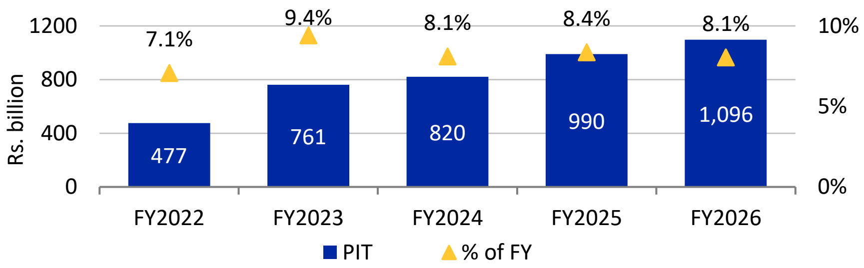


Source: CGA, Ministry of Finance, GoI; ICRA Research

- The GoI's revenue receipts surged by 21.0% to Rs. 2.6 trillion (7.5% of FY2026 BE) in April 2025 from Rs. 2.1 trillion in April 2024 (7.0% of FY2025 PE), entirely led by non-tax revenues (more than doubling to Rs. 671.6 billion from Rs. 273.0 billion; 11.5% of FY2026 BE) even as net tax revenues (+2.5%; to Rs. 1.9 trillion from Rs. 1.8 trillion; 6.7% of FY2026 BE) rose marginally in the month.
- The GoI's GTR rose modestly by 6.5% YoY to Rs. 2.7 trillion in April 2025 (6.4% of FY2026 BE) from Rs. 2.6 trillion in April 2024 (6.7% of FY2025 PE), led by a robust uptick in indirect taxes (+20.0%; to Rs. 1.2 trillion in April 2025 from Rs. 1.0 trillion in April 2024), while direct tax collections (-3.0%; to Rs. 1.3 trillion from Rs. 1.4 trillion) moderated in the month.
- **Given that gross tax revenues in FY2025 turned out to be ~Rs. 582 billion lower than the RE, the embedded growth target for FY2026 BE is pegged at a higher 12.5% vs. the budgeted 10.8%. Given this, and the CTD amount in the provisional being similar to the RE, the required NTR growth for the ongoing fiscal is also higher at 13.5% vs. the budgeted 11.0%.**

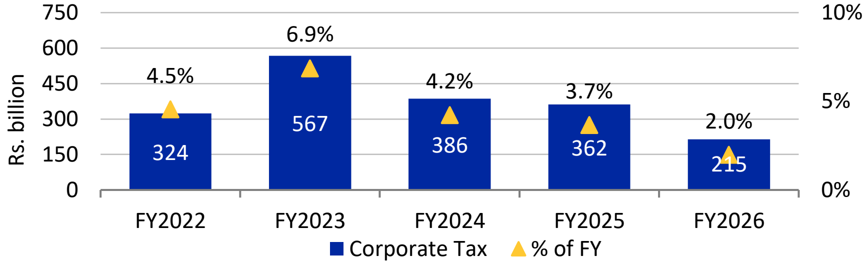
Indirect taxes rose by a healthy 20% YoY in April 2025, led by IGST inflows; gross GST collections expanded by 16.4% YoY in May 2025

EXHIBIT: Personal income tax collections rose by 10.8% YoY to Rs. 1.1 trillion in April 2025, amounting to ~8% of the FY2026 BE, largely in line with the average seen over the last four years



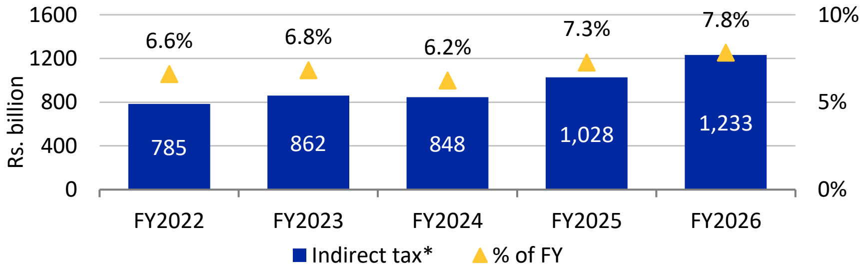
Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: However, corporate tax collections slumped by 41% to Rs. 0.2 trillion in April 2025, amounting to just 2% of the FY2026 BE



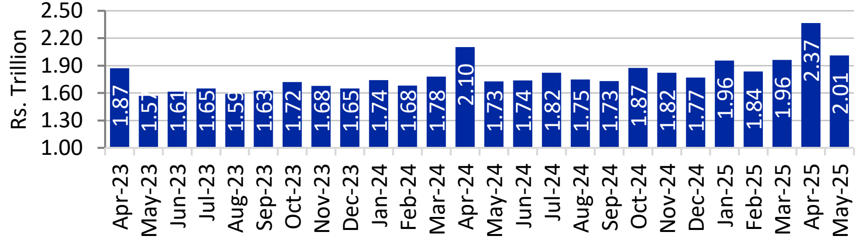
Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: Indirect tax collections surged by 20% YoY to Rs. 1.2 trillion in April 2025, entirely led by IGST inflows



**Computed as CGST+UTGST+IGST+ Customs duty + Excise duty + Services tax; Source: CGA, Ministry of Finance, GoI; ICRA Research*

EXHIBIT: In April-May FY2026, gross GST collections rose by a healthy 14.3% YoY, largely led by 23.0% YoY growth in collections on imports, which may reflect higher volume of crude

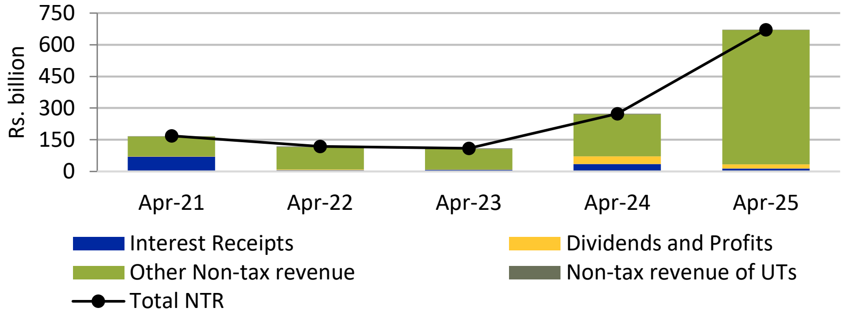


Source: Ministry of Finance, GoI; ICRA Research

Non-tax revenues and miscellaneous capital receipts surged in April 2025; RBI's higher-than-budgeted dividend pay-out to provide some cushion

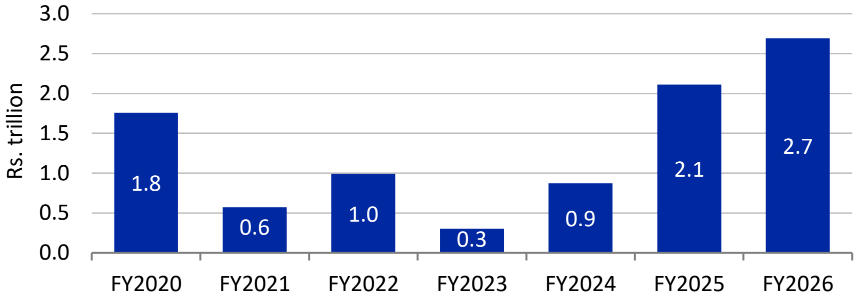
ICRA

EXHIBIT: April trends in Non- tax revenues and its constituents



Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: Trends in RBI's surplus transfer to the GoI

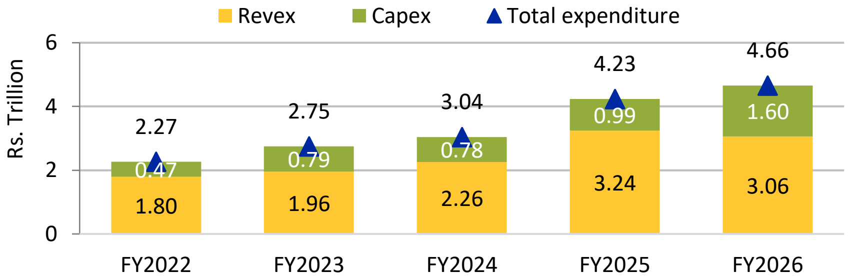


Source: RBI; ICRA Research

- The GoI's non-tax revenues rose sharply to Rs. 671.6 billion in April 2025 from Rs. 273.0 billion in the year ago month, entirely led by the unusual surge in other non-tax revenues (+219.9% YoY to Rs. 636.4 billion in April 2025), even as interest receipts (-59.4% to Rs. 14.3 billion) and dividends and profits (-47.3% to Rs. 19.2 billion) declined in the month.
- As on May 23, 2024, the RBI pegged the surplus transfer to the GoI in the ongoing fiscal at Rs. 2.7 trillion, higher than the year ago level of Rs. 2.1 trillion. **This is also ~Rs. 0.4-0.5 trillion (equivalent to 11-14 bps of GDP) higher than the amount that was likely assumed in the FY2026 Union Budget, implying an equivalent upside to non-tax revenues, which would provide some buffer to make up for a miss on the receipts side, or higher expenditure in the fiscal.**
- Interestingly, as per the CGA data, miscellaneous capital receipts amounted to Rs. 214.1 billion April 2025, of which disinvestment proceeds were pegged at just Rs. 36.7 billion and the remaining Rs. 177.4 billion under other receipts, as against nil for both these heads in April 2024. **This is as much as ~46% of the FY2026 BE of Rs. 470 billion, and gives us confidence that the target for the fiscal is unlikely to be missed. This provides some relief, given that a shortfall in miscellaneous capital receipts has been a recurring phenomenon.**

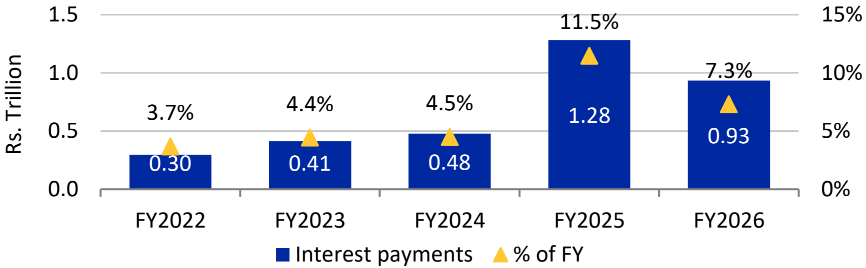
GoI's total spending rose by 10% in April 2025 led by 61% surge in capex, even as revex saw a 6% dip

EXHIBIT: The GoI's total expenditure rose by 10.0% YoY in April 2025, led by the 61.0% surge in capex, even as revex declined by 5.7% in the month



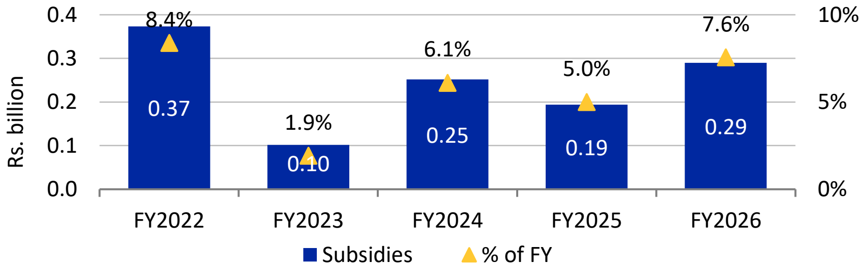
Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: Interest payments declined sharply by 27.1% YoY to Rs. 0.93 trillion (7.3% of BE) in April 2025, leading to the dip in revex in the month



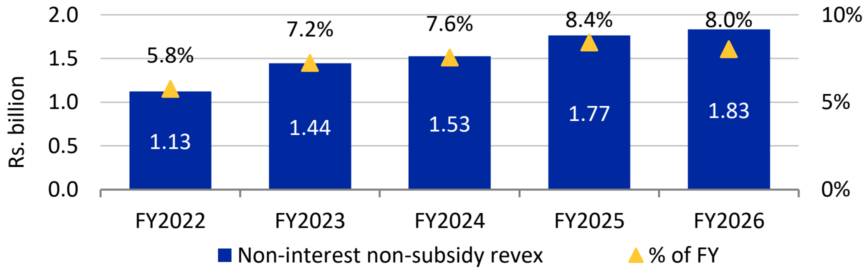
Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: The GoI's subsidy bill surged by 49% YoY to Rs. 0.3 trillion in April 2025, (7.6% of FY2026 BE), higher than the average of 5.3% seen in the last four years



Source: CGA, Ministry of Finance, GoI; ICRA Research

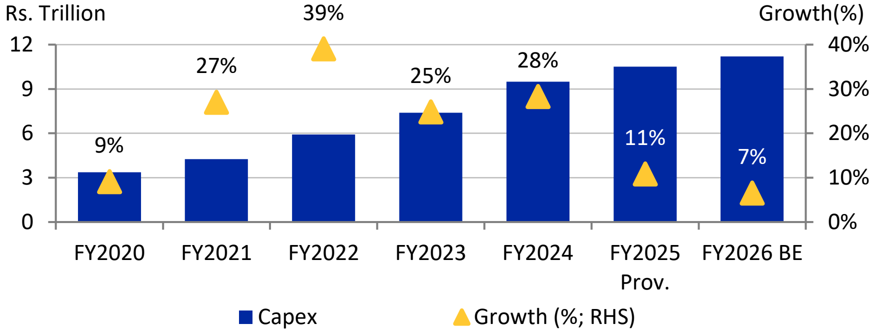
EXHIBIT: The non-interest non-subsidy revex rose by a modest 3.9% YoY to Rs. 1.83 trillion in April 2025, amounting to 8% of the FY2026 BE



**Includes food, fertilizer, and fuel subsidies; Source: CGA, Ministry of Finance, GoI; ICRA Research*

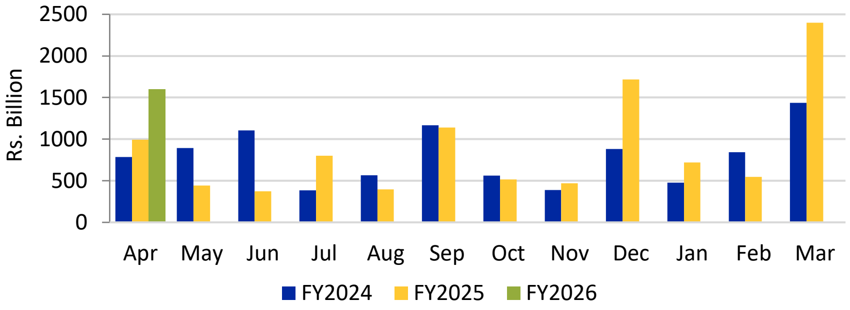
Capex at Rs. 1.6 trillion in April 2025 sharply exceeded the required average monthly run rate of Rs. 0.9 trillion for the fiscal

EXHIBIT: Annual Trends in Gross Capital Expenditure



BE: Budget Estimates; Source: Union Budget, ICRA Research

EXHIBIT: Monthly Trends in Gross Capital Expenditure (Rs. Billion)

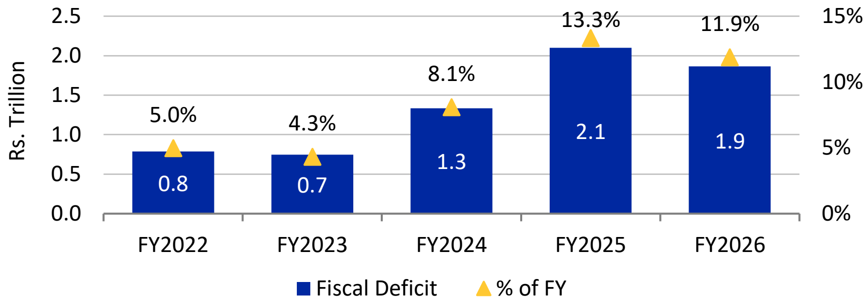


Source: CGA, ICRA Research

- The GoI capex surged by 61% YoY to Rs. 1.6 trillion in April 2025, well above the average monthly required rate of Rs. 0.9 trillion for the fiscal. This was 14.3% of the FY2026 BE as against 9.4% of FY2025 PE in the year ago month. **This implies that capex needs to grow by a mere 0.9% in the remaining 11 months of the fiscal to meet the FY2026 BE of Rs. 11.2 trillion.**
- Out of the YoY uptick of Rs. 606 billion in gross capex, ~95% was driven by the surge in capex by the Ministry of Consumer Affairs, Food and Public Distribution (+Rs. 419 billion) and Ministry of Communications (+Rs. 156 billion).
- **With the capex overshooting the FY2025 RE, the embedded growth in the same for FY2026 is now pegged at 6.6%, lower than the ~10% seen in the budget. However, the higher-than-budgeted RBI dividend pay-out could provide room to push the capex above the target of Rs. 11.2 trillion in FY2026.**

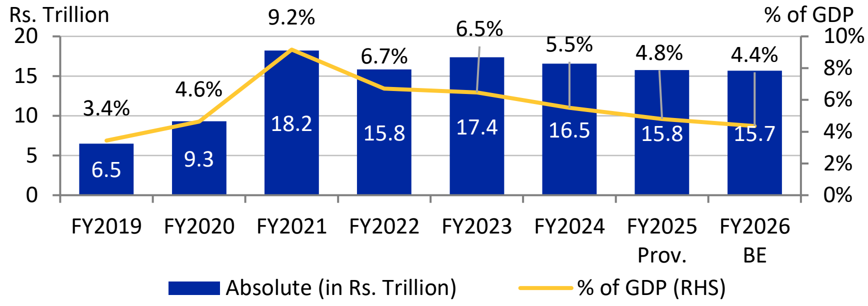
Higher nominal GDP print, RBI dividend to provide some fiscal buffer in FY2026

EXHIBIT: Trends in fiscal deficit in April of FY2018-25



Source: CGA, GoI; ICRA Research

EXHIBIT: GoI's fiscal deficit (Rs. trillion and as % of GDP)



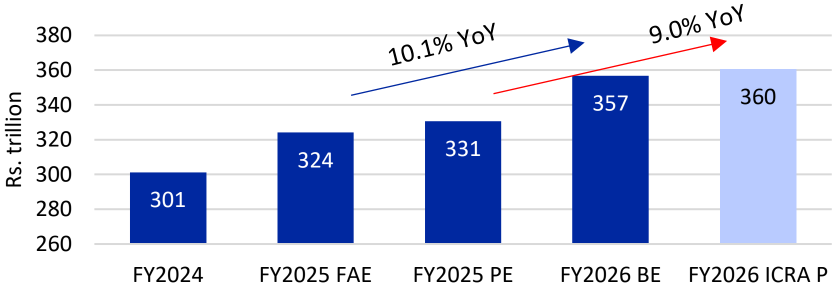
Actuals are available up to FY2025; BE: Budget Estimates; P: Projected, based on ICRA's proj. of nominal GDP growth; Prov: Provisional; Source: Union Budget Documents; GoI; NSO; ICRA Research

- Given the robust 21.0% expansion in revenue receipts and the 5.7% decline in revenue expenditure, the GoI's revenue deficit more-than-halved to Rs. 0.5 trillion in April 2025 (9.4% of FY2026 BE) from Rs. 1.1 trillion in April 2024 (19.7% of FY2025 PE) . This, along with a healthy rise in non-debt capital receipts helped contain the fiscal deficit at Rs. 1.9 trillion (11.9% of FY2026 BE) vs. Rs. 2.1 trillion seen in April 2024 (13.3% of FY2025 PE), despite the 61.0% surge in capex in the month.
- **The upward revision in the FY2025 nominal GDP number augurs well for meeting the deficit and debt to GDP targets for FY2026. Despite a relatively lower projected nominal GDP growth of ~9.0% in FY2026 (ICRA's expectations) vis-à-vis the budgeted levels of 10.1%, the fiscal deficit-to-GDP ratio can be contained at 4.4% in FY2026, while also accommodating a marginal fiscal slippage (to the tune of ~Rs. 300-350 billion), given the larger base. This, along with the additional cushion on the receipts side on account of the higher-than-budgeted RBI dividend transfer, provides comfort on the fiscal front amidst heightened global uncertainties.**
- **Moreover, there is still some more headroom to hike excise duty on petrol and diesel further owing to the softening in oil prices, following those undertaken in April 2025 (of Rs. 2/litre each) which are likely to be used compensate the OMCs for their LPG under-recoveries.**
- **Overall, given these buffers, the GoI could push up expenditure by at least Rs. 0.8 trillion in FY2026 relative to the BE. If this entire amount goes for additional capex, it would push up the headline figure to nearly Rs. 12.0 trillion and take its growth in the same to a healthy 14.2% from 6.6% currently.**

Higher nominal GDP for FY2026 to facilitate flattening of glide path vis-à-vis budgeted levels

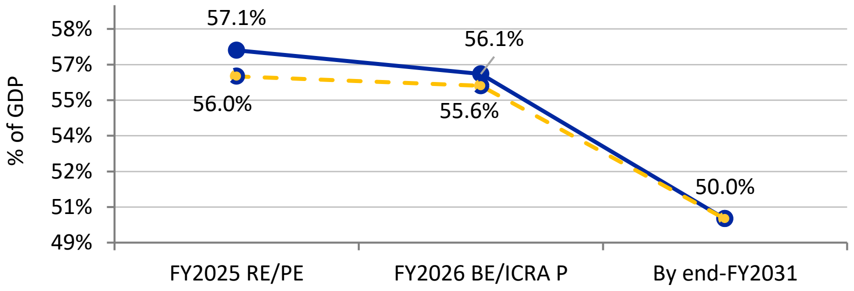
ICRA

EXHIBIT: Trends in Nominal GDP



FAE: First Advance estimates published for the Union Budget; Source: NSO, ICRA Research

EXHIBIT: Central Government debt-to-GDP ratio

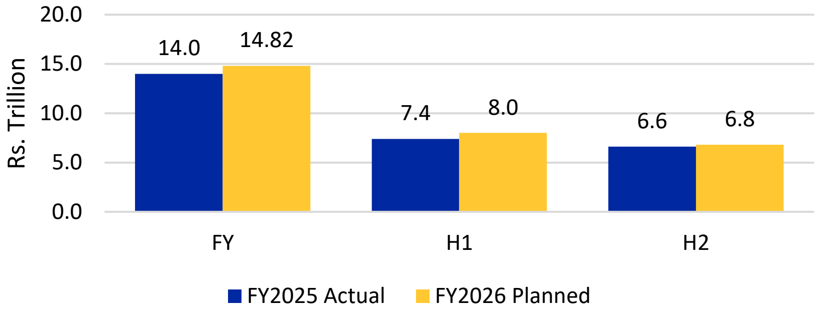


P: Projected, FY2025 PE includes the budgeted debt levels and provisional nominal GDP data released by the NSO; Source: Union Budget, NSO, ICRA Research

- At the time of presentation of the Union Budget, the GoI assumed a 10.1% YoY growth in nominal GDP at Rs. 357 trillion for FY2026 over the Rs. 324 trillion included in the first advance estimates for FY2025 released by the NSO. Subsequently, in May 2025, the NSO pegged the nominal GDP at a higher Rs. 331 trillion in the FY2025 PE.
- **Keeping the numerator. i.e. the Central Government debt amount unchanged, the GoI's debt-to-GDP ratio for FY2026 is now pegged at 55.6%, against the budgeted print of 56.1%. This would entail a marginal flattening in the glide path to reach the 50% +/-1% target by end-FY2031 vis-à-vis that envisaged in the Union Budget and would provide some additional fiscal headroom over the next few years, given that the annual deficits would be based on the debt targets.**

GoI net market issuances contracted by 11.5% YoY in April-May 2025

EXHIBIT: Planned GoI market borrowings for FY2026



Source: RBI; ICRA Research

EXHIBIT: Progress of GoI market borrowings in FY2025-26 so far

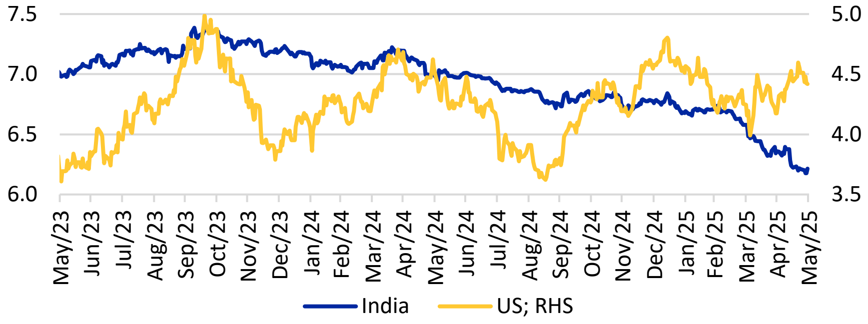
Rs. Trillion	FY2025	FY2026	Growth
Gross Borrowings - Planned	14.01	14.82	5.8%
Gross Borrowings Completed by May 30	2.6	2.8	10.2%
% of Gross Borrowings completed	18.2%	19.0%	
Devolvement by May 30	0.00	0.00	
Cancellations by May 30	0.06	0.00	
Redemptions	2.38	3.28	38.0%
Redemptions by May 30	-	0.6	
Net Borrowings	11.63	11.54	-0.8%
Net Borrowings Completed by May 30	2.6	2.3	-11.5%
% of Net Borrowings completed	21.9%	19.6%	

Source: RBI; ICRA Research

- For FY2026, the GoI has estimated its gross market borrowings to increase modestly by 5.8% YoY to Rs. 14.8 trillion and net market borrowing to decline marginally by 0.8% to Rs. 11.54 trillion, which would augur well for G-sec yields.
- As per its borrowing calendar for H1 FY2026, the GoI indicated to raise Rs. 8.0 trillion (54.0% of FY2026 BE) in the first half of the fiscal, 8.2% higher than the actual issuances in H1 FY2025 (Rs. 7.4 trillion). Accordingly, the borrowings are slightly more front-ended in FY2026, with 46.0% of the gross issuances scheduled for H2 FY2026 as against 47.2% in H2 FY2025.
- Up to May 30, 2025, the GoI has raised gross borrowing of Rs. 2.8 trillion, 10.2% higher than the corresponding year-ago level of Rs. 2.6 trillion. However, G-sec redemptions have amounted to Rs. 553.7 billion during this period, as against nil in the year-ago period. This has resulted in a YoY contraction of 11.5% in net market borrowings to Rs. 2.3 trillion till May 30, 2025 from Rs. 2.6 trillion seen in the same period of FY2025.

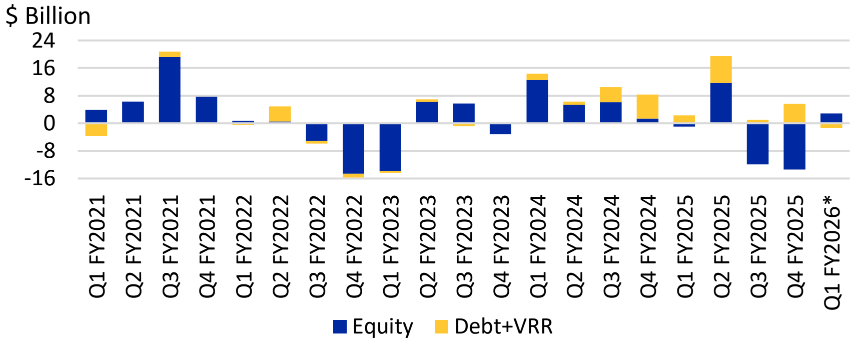
India’s 10-year yield to trade between 6.0-6.4% in CY2026

EXHIBIT: Trends in India’s and US’s 10-year yield



** Data as on May 30, 2025; Source: Bloomberg; ICRA Research*

EXHIBIT: Trends in FPI flows under equity and debt segments ($ Billion)



**Up to May 30, 2025; Source: NDSL; ICRA Research*

- India’s 10-year G-sec (6.33 GS 2035), softened by 14 bps to 6.22% as on May 30, 2025 over the levels seen at end-April 2025, aided by the recent domestic developments including a comfortable CPI inflation print and the larger-than-budgeted dividend pay-out by the RBI. This contrasts with the upward trend in 10Y UST yield (to 4.42% by end-May 2025 from 4.18% by end-Apr 2025) during this period, owing to fiscal concerns and policy uncertainty.
- **The India-US 10-year bond yield spread has declined quite sharply to 180 bps at end-May 2025 from 295 bps at end-September 2024. However, the INR has appreciated considerably from the all-time lows seen last month. As per ICRA, another 50 bps of easing have been factored into the current 10-year yield. If the final 25 bps of repo reduction materialises, the 10-year yield may still not decline appreciably below 6%. With this, the spread could ease further to 150 bps in the latter part of the calendar year.**

Annexure A.1

Table A.1: Trends in Tax Revenue Receipts in FY2024 Actuals, FY2025 RE and FY2025 PE

	FY2024 Actuals	FY2025 RE		FY2025 PE		
	Rs. Billion	Rs. Billion	Growth % ~	Rs. billion	% of RE	Growth % ~
Gross Tax Revenues^	**34,655.2**	**38,534.6**	**11.2%**	**37,952.3**	**98.5%**	**9.5%**
Direct Taxes	**19,220.3**	**21,820.0**	**13.5%**	**21,697.3**	**99.4%**	**12.9%**
Corporation Tax	9,110.6	9,800.0	7.6%	9,867.7	100.7%	8.3%
Income Tax*	10,109.8	12,020.0	18.9%	11,829.6	98.4%	17.0%
Indirect Taxes	**13,601.8**	**14,535.0**	**6.9%**	**14,142.1**	**97.3%**	**4.0%**
Central GST (CGST)	8,206.2	9,084.6	**10.7%**	9,089.8	100.1%	10.8%
Union Territory GST (UTGST)	55.0	49.4	-10.1%	50.9	103.1%	-7.3%
IGST	-48.5	0.0	-100.0%	-330.0	----	-----
Customs Duty	2,331.2	2,350.0	0.8%	2,329	99.1%	-0.1%
Excise Duty	3,053.6	3,050.0	-0.1%	3,002.5	98.4%	-1.7%
Service Tax	4.3	1.0	-76.5%	-0.2	-16.00%	-103.8%
GST Compensation Cess	1,414.4	1,534.4	8.5%	1,505.1	98.1%	6.4%

*^Net of Refunds, Gross of States' share in Central Taxes; *excluding security transaction tax; ~Relative to FY2024 Actuals; Source: CGA; Union Budget; ICRA Research*

Annexure A.2

Table A.2: Trends in Key fiscal metrics in FY2024 Actuals, FY2025 RE and FY2025 PE

	FY2024 Actuals	FY2025 RE		FY2025 PE		
	Rs. billion	Rs. billion	Growth~	Rs. billion	% of RE	Growth~
Revenue Receipts	27,290.4	30,879.6	13.2%	30,364.3	98.3%	11.3%
Tax Revenues$	23,272.5	25,569.6	9.9%	24,988.9	97.7%	7.4%
Non-Tax Revenues	4,017.9	5,310.0	32.2%	5,375.4	101.2%	33.8%
Revenue Expenditure	34,942.5	36,980.6	5.8%	36,035.1	97.4%	3.1%
Revenue Balance	**-7,652.2**	**-6,101.0**		**-5,670.8**	**92.9%**	
Capital Receipts	331.2	330.0	-0.4%	172.0	52.1%	-48.1%
Capital Expenditure, Net Lending	9,225.5	9,924.3	7.6%	10,273.9	103.5%	11.4%
Fiscal Balance	**-16,546.4**	**-15,695.3**		**-15,772.7**	**100.5%**	

$Net of Refunds, Net of States' share in Central Taxes; ~Relative to FY2024 Actuals; Source: CGA; Union Budget; ICRA Research

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