

EXPECTATIONS

UNION BUDGET 2026-27



1 Fiscal Performance Of Government Of India In FY2026



2 FY2027 Union Budget Expectations



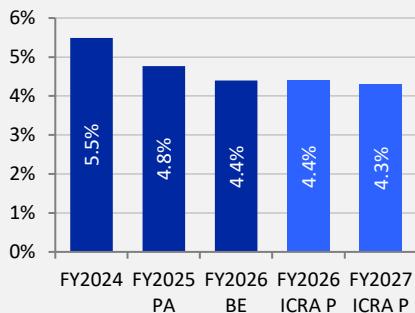
3 FY2027 Market Borrowing Expectations





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Exhibit: Fiscal deficit/GDP ratio



PA: Provisional Actuals; BE: Budget Estimate; P: Projected; ICRA's nominal GDP assumption for FY2027 has been used; Source: Budget documents; CGA; ICRA Research

The FY2027 Union Budget is set to be an interesting one, with the Government of India's (GoI's) focus shifting to debt consolidation over the medium term from annual fiscal deficit targets, as well as implementation of the 16th Finance Commission (FC) recommendations for the next five years. ICRA believes that the GoI's fiscal deficit is likely to be capped at 4.3% of the GDP in FY2027 (nominal GDP growth est: +9.8%), marginally lower than the Budget Estimate (BE) of 4.4% for FY2026. We believe that the GoI will push up capital expenditure by ~14% (to Rs. 13.1 trillion), before fiscal rigidities in the form of higher committed expenditure set in from FY2028 on account of the 8th Central Pay Commission (CPC) recommendations on salary/pension revisions for Central Government employees/pensioners. Despite a mild dip in the fiscal deficit-to-GDP ratio, ICRA expects gross dated market issuances to rise sharply by 15-16% to Rs. 16.9 trillion, led by a surge in redemptions, although this may be tempered by switching of G-secs.

ICRA's assessment for FY2026:

- GoI's revenue receipts to trail the FY2026 BE by Rs. 0.5 trillion:** This is mainly stemming from the expected shortfall of Rs. 1.3 trillion in net tax revenues over the BE, even as non-tax receipts are set to surpass the target by Rs. 0.8 trillion. On the other hand, revenue expenditure is projected to print Rs. 0.8 trillion lower than the BE of Rs. 39.4 trillion, owing to savings in non-interest non-subsidy head, unless a second batch of Supplementary Demand for Grants (SDG) is announced with sizeable outgo, although the likelihood of the same is quite low. Consequently, we estimate the revenue deficit at Rs. 4.9 trillion in FY2026, mildly lower than the budgeted Rs. 5.2 trillion.
- Fiscal slippage unlikely in FY2026, if shortfall in receipts are matched by expenditure savings:** ICRA has pencilled in some headroom to incur a higher-than-budgeted capital expenditure of Rs. 11.5 trillion (BE: Rs. 11.2 trillion). Accordingly, total expenditure may trail the target by Rs. 550 billion. Assuming a marginal miss in miscellaneous capital receipts, the fiscal deficit is likely to print at Rs. 15.7 trillion in FY2026 (4.4% of GDP), at par with the amount budgeted for the fiscal (4.4% of GDP).

Exhibit: Gol's capex

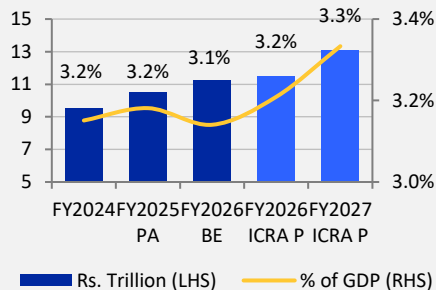
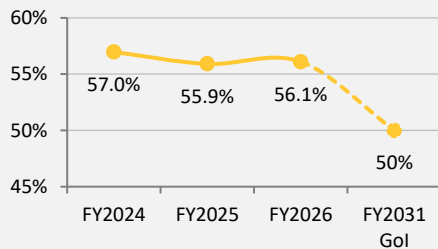


Exhibit: Gol's Debt/GDP ratio

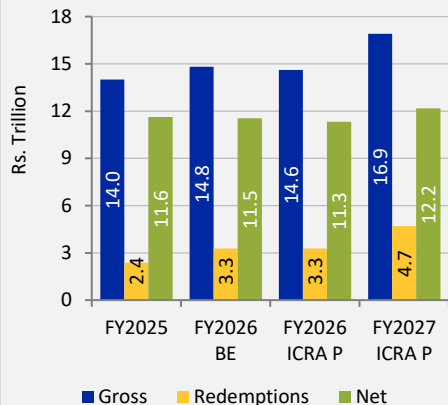


Data is based on latest GDP numbers; Gol's debt for FY2025 and FY2026 is RE and BE, respectively; Source: Budget documents; CGA; ICRA Research

ICRA's expectations for FY2027:

- Gol's fiscal deficit to be capped at 4.3% of GDP in FY2027:** The Gol shifted its fiscal anchor to debt-to-GDP ratio as the medium-term consolidation path, from annual fiscal deficit targets. Based on ICRA's analysis, a gradual debt consolidation trajectory between FY2027 and FY2031 to arrive at the upper bound of the target (50% +/-1%) would imply a 1.0 percentage point (pp) cut in the ratio/year from the FY2026 level of 56.1% (as per NSO's FAE on nominal GDP). As per a debt target of 55.1% of GDP for FY2027 (ICRA P: +9.8% growth in nominal GDP vs. +8.0% in FY2026 FAE), we believe that the fiscal deficit is likely to be capped at ~4.3%. Notably, these ratios could change materially after the new GDP series (base: 2022-23) is released at end-February 2026. Moreover, the trajectory is unlikely to be smooth, given the one-off bump up in committed spending burden, owing to the 8th CPC in FY2028.
- Gross tax revenues (GTR) to grow by ~7% in FY2027:** This entails a strong ~11% expansion in direct taxes, even as the growth in indirect taxes is likely to be contained at ~2%. The Gol may face some revenue growth implications, on account of the GST rate cuts having been introduced from September 2025 (Rs 0.5 trillion for both Centre and states). Nevertheless, excluding GST Compensation Cess (GSTCC; that ended in FY2026), the indirect tax growth can be pegged at a stronger 9.7% in FY2027 (+8.4% in FY2026P), which would stem from Union excise duty (FY2027 ICRA P: 13-14%, owing to migration of pan, tobacco products) and CGST (+9.5%) collections. The GTR growth is estimated at a stronger 10.6% in FY2027 (entailing a tax buoyancy of 1.1), against the expected 9.1% in FY2026.
- Revenue receipts to rise by 5%, while miscellaneous capital receipts may be pegged at Rs. 600 billion:** Based on ICRA's estimated GTR and assuming an effective rate of devolution similar to that seen during FY2022-26, the states' central tax devolution (CTD) is estimated at Rs. 15.4 trillion in FY2027 (+10.6% YoY). After the CTD adjustment, the Gol's net tax revenues are likely to grow 5.2% YoY to Rs. 28.5 trillion for FY2027. The 16th FC recommendations may alter our assumptions for the devolution ratio to the state governments for FY2027-31, and accordingly net tax revenue growth for the Centre. ICRA has assumed a 5% growth in non-tax revenues in FY2027 on an elevated base of FY2026, even as the RBI dividend may slightly moderate from the record Rs. 2.7 trillion seen in FY2026.

Exhibit: Trends in Gol's market borrowings



P: Projected; Source: Budget documents; CGA; ICRA Research

- FY2027 Budget to build in a 14% expansion in Gol's capex and a 4% growth in revex:** The Gol is likely to boost capex, before fiscal rigidities in the form of higher committed expenditure burden set in from FY2028 on account of the 8th CPC. Accordingly, the capex target may be set at ~Rs. 13.1 trillion for FY2027 (3.3% of GDP), entailing 14% growth over the higher-than-budgeted turnout expected in FY2026 (Rs. 11.5 trillion; 3.2% of GDP; +9% YoY). We forecast revenue expenditure to rise by 4% in FY2027, factoring in a slower growth in interest outlay (to +7.5% from expected +14.3%), as well as aggregate subsidy outlay (to +2% from +10%), compared to FY2026. The balance revenue expenditure may grow modestly, before the 8th CPC bloats the salary and pension pay-outs in FY2028.
- Absolute fiscal deficit could rise, to factor in strong capex:** With a slightly stronger growth forecast for revenue receipts (+5.2%) vis-à-vis revex (+4.0%), ICRA expects the Gol's revenue deficit to narrow in FY2027 to Rs. 4.7 trillion (1.2% of GDP) from Rs. 4.9 trillion (1.4% of GDP) projected for FY2026. Besides, the fiscal deficit would narrow marginally to 4.3% in FY2027 from 4.4% in FY2026, the lowest level since FY2019. However, in absolute terms, it is equivalent to Rs. 16.9 trillion, higher than the Rs. 15.7 trillion in FY2026 BE, amid the foreseen rise in capex.
- Gol's net dated issuances may grow by 7.5% in FY2027:** Assuming 72% of ICRA's expected fiscal deficit of Rs. 16.9 trillion for FY2027 (vs. ~72% in FY2026) is financed through net market issuances, the Gol is likely to set a target for the same at Rs. 12.2 trillion, 7.5% higher on a YoY basis. Given sizeable redemptions of Rs. 4.7 trillion are due in FY2027 (Rs. 3.3 trillion in FY2026), Centre's gross market issuances are pegged to rise sharply to Rs. 16.9 trillion in FY2027 (Rs. 14.6 trillion in FY2026), unless conversions/switches of G-secs are conducted. Notably, gross switching of G-secs was budgeted at Rs. 2.5 trillion in FY2026, of which ~Rs. 1.6 trillion has been done in the fiscal so far (till January 14, 2026), implying that Rs. 0.9 trillion is left to be conducted in the remainder of Q4 FY2026. While a higher-than-expected supply for FY2027 may push up G-sec yields, potential inflows on account of inclusion in Bloomberg bond index and any further liquidity support/monetary easing would guide yields in FY2027.



ICRA

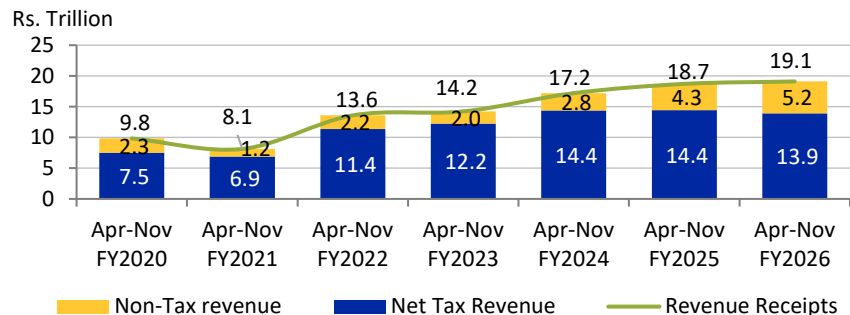
Fiscal Performance Of Government Of India In FY2026



#Budget26WithICRA

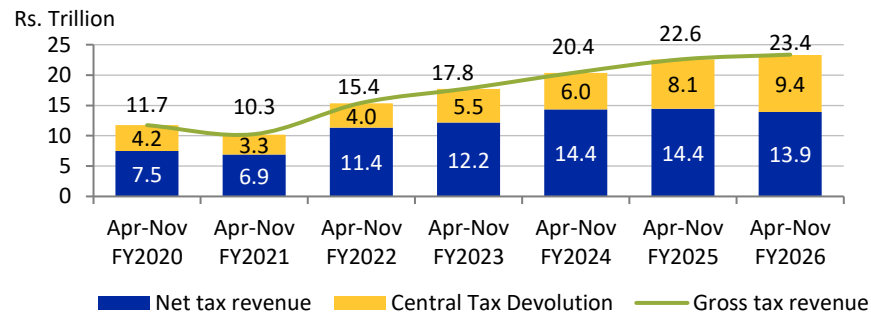
YoY expansion in Gol's revenue receipts restricted at just 2% in 8M FY2026, amid dip in net tax revenues

Exhibit 1: Gol's revenue receipts, net tax revenues and non-tax revenues



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

Exhibit 2: Gol's net tax revenues, central tax devolution and gross tax revenues

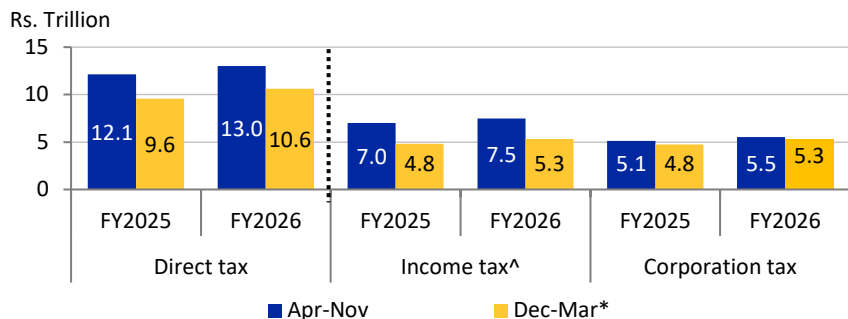


Source: CGA, Ministry of Finance, Gol; ICRA Research

- The Gol's revenue receipts rose by a weak 2.1% YoY to Rs. 19.1 trillion during April-November FY2026 or 8M FY2026 (55.9% of FY2026 BE) from Rs. 18.7 trillion during April-November FY2025 (61.6% of FY2025 PA). While non-tax revenues saw a sharp 20.9% expansion (to Rs. 5.2 trillion from Rs. 4.3 trillion; amid higher-than-budgeted RBI dividend), net tax revenues fell by 3.4% (to Rs. 13.9 trillion from Rs. 14.4 trillion), thereby restricting the growth in revenue receipts.
- Net of refunds (gross of devolution to states), the Gol's tax revenues rose by 3.3% YoY to Rs. 23.4 trillion during April-November FY2026 (54.7% of FY2026 BE) from Rs. 22.6 trillion during April-November FY2025 (59.6% of FY2025 PA). This was led by a healthy uptick in direct taxes (YoY: +7.2%; 53.2% of FY2026 BE), followed by a relatively muted growth in indirect taxes (+0.6%; 58.0% of FY2026 BE).
- The Centre's tax devolution rose sharply by 15.3% to Rs. 9.4 trillion during April-November FY2026 from Rs. 8.1 trillion in the year-ago period, compressing the growth in net tax revenues vis-à-vis gross tax revenues.

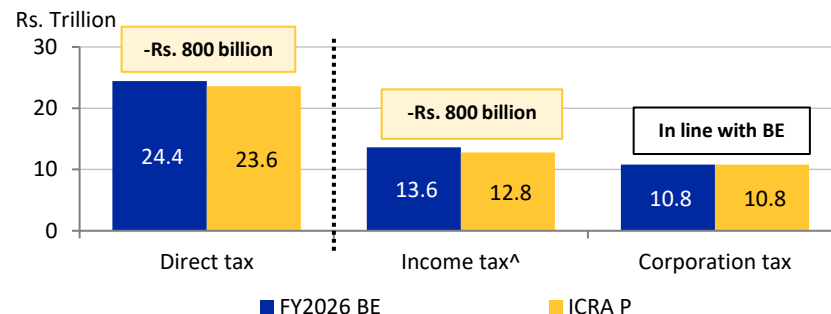
Direct taxes up by ~7% YoY in 8M FY2026; likely to undershoot target by ~Rs. 800 billion amid lower PIT collections

Exhibit 3: Trends in direct taxes



*Dec-Mar FY2026 is based on ICRA's projections for FY2026 and data for Apr-Nov FY2026; [^]Income tax excluding Securities Transaction Tax; Source: CGA, Ministry of Finance, GoI; ICRA Research

Exhibit 4: Trends in direct taxes in FY2026 BE vs. ICRA's projections

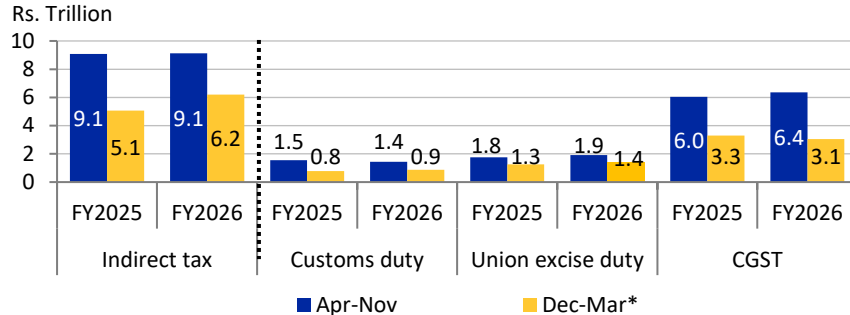


[^]Income tax excluding Securities Transaction Tax; P: Projected; BE: Budget Estimates; Source: CGA, Ministry of Finance, GoI; ICRA Research

- Direct taxes rose to Rs. 13.0 trillion in 8M FY2026 (53% of FY2026 BE) from Rs. 12.1 trillion in 8M FY2025 (56% of FY2025 PA), led by an uptick in both personal income tax (PIT; YoY: +6.8%; 55% of target) and corporation tax (+7.8%; 51%) collections. Thereafter, as per the [data](#) released by the Income Tax department, direct tax collections (net of refunds) were up by 8.8% YoY up to January 11, 2026, amidst a sharp decline in refunds (-16.9%). While net income tax collections were 6.4% higher than last year, net corporation taxes saw a steeper 12.4% expansion, given the drop in refunds to taxpayers (-10.1% YoY).
- Income tax collections need to grow by a steep ~27% YoY during December-March FY2026 (+8.7% in December-March FY2025) to meet the FY2026 BE (Rs. 13.6 trillion); as a result, ICRA expects such collections to undershoot the FY2026 target by ~Rs. 800 billion. In contrast, corporation taxes need to expand by a lower 11.7% during the rest of FY2026 (+19.8% during December-March FY2025) to meet the BE (Rs. 10.8 trillion), which appears likely to be achieved.
- Overall, ICRA expects direct taxes to undershoot the FY2026 BE (Rs. 24.4 trillion) by ~Rs. 800 billion, translating to a YoY growth of 8.9% over the FY2025 PA, lower than the budgeted expansion of 12.5%.

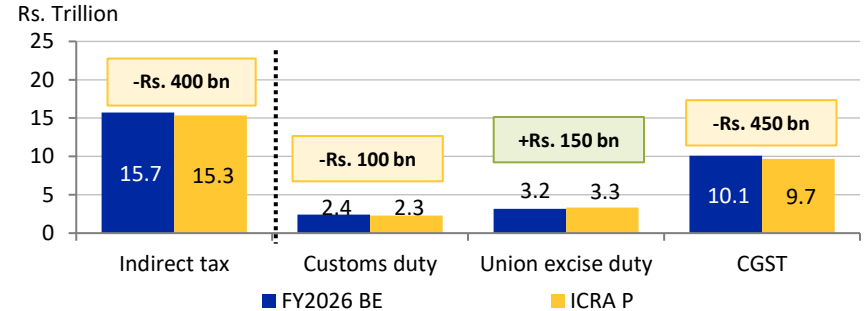
Indirect tax collections to undershoot the FY2026 BE by ~Rs. 400 billion

Exhibit 5: Trends in indirect taxes (excluding GST compensation cess)



*Dec-Mar FY2026 is based on ICRA's projections for FY2026 and data for Apr-Nov FY2026; Source: CGA, Ministry of Finance, Gol; ICRA Research

Exhibit 6: Trends in indirect taxes (excluding GST compensation cess) in FY2026 BE vs. ICRA's projections for FY2026



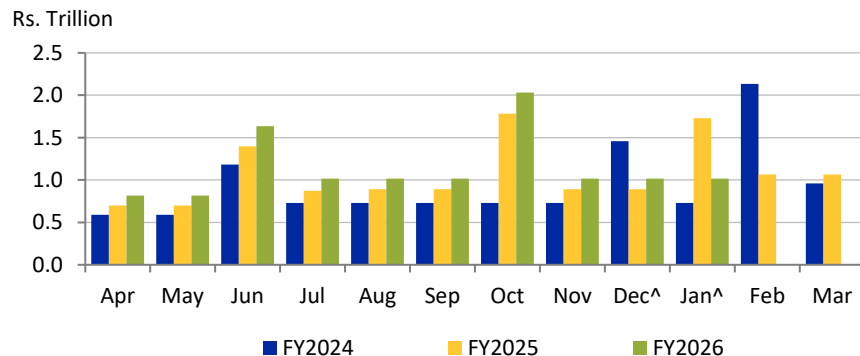
P: Projected; BE: Budget Estimates; Source: CGA, Ministry of Finance, Gol; ICRA Research

- The Gol's indirect taxes (excluding GST compensation cess) rose by a muted 0.6% YoY to Rs. 9.13 trillion in 8M FY2026 (58.0% of FY2026 BE) from Rs. 9.08 trillion in 8M FY2025 (64.2% of FY2025 PA), amid sluggish growth in GST collections (YoY: +0.3%; 57.1% of FY2026 BE; owing to larger IGST outflows vis-à-vis year ago levels) and the YoY contraction in customs duty revenues (-7.3%; 59.5% of FY2026 BE), even as excise duty collections registered a healthy 9.3% expansion during this period (60.3% of FY2026 BE).
- While customs duty collections are implicitly projected to grow by a sharp 23.3% YoY in December-March FY2026 (-13.8% in December-March FY2025) to meet the FY2026 BE, excise duty inflows are required to rise by a muted 0.4% (-3.1% in December-March FY2025) to meet the target. Based on these trends, **ICRA expects customs duty collections to undershoot the FY2026 BE by ~Rs. 100 billion, although this shortfall will be more than offset by an overshooting in excise duty by ~Rs. 150 billion.**
- The CGST collections need to expand by a steep 22.7% YoY in December-March FY2026 to meet the FY2026 BE (Rs. 10.1 trillion), which is unlikely to be achieved; a shortfall of **Rs. 450 billion is likely on this account. Based on these trends, ICRA expects the total indirect taxes to undershoot the FY2026 BE (Rs. 15.7 trillion) by ~Rs. 400 billion**.**
- The GST compensation cess collections have contracted by 15.3% to Rs. 844 billion in 8M FY2026 (50.5% of FY2026 BE) from Rs. 996 billion in 8M FY2025 (66.2% of FY2025 PA). **Based on the steep required growth rate of ~63% YoY during December-March FY2026 to meet the BE, ICRA expects such collections to miss the target by Rs. 350 billion.**

**assuming that IGST prints in line with the BE of nil

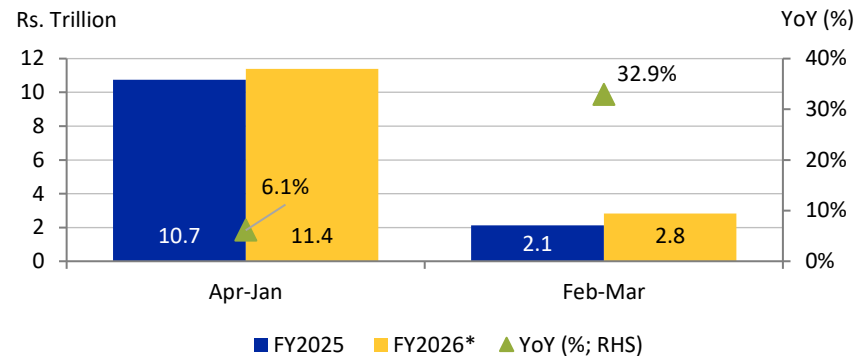
CTD to trail the FY2026 target by ~Rs. 0.3-0.5 trillion, translating to a shortfall of ~Rs. 1.3 trillion in net tax revenues

Exhibit 7: Monthly trends in tax devolution



^Data for December 2025 and January 2026 are based on press releases; Source: CGA, Ministry of Finance, Gol; ICRA Research

Exhibit 8: Trends in central tax devolution



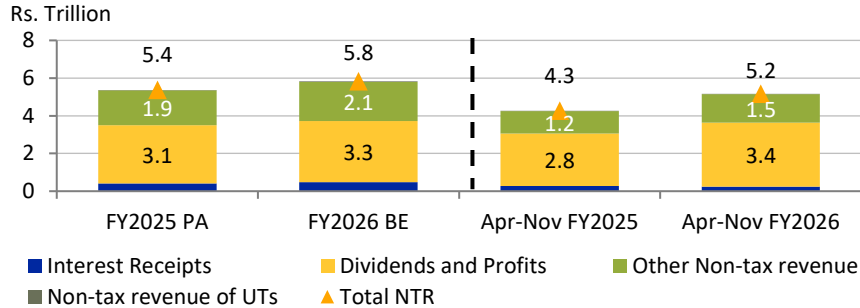
*Feb-Mar FY2026 is based on the data for FY2026 BE and Apr-Jan FY2026; Source: CGA, Ministry of Finance, Gol, ICRA Research

- The CTD to states rose by 15.3% to Rs. 9.4 trillion in 8M FY2026 (66% of FY2026 BE) from Rs. 8.1 trillion in 8M FY2025 (63% of FY2025 PA), thereby leading to a dip in net tax revenues (-3.4%), despite the growth in GTR (+3.3%). Subsequently, the Gol has transferred Rs. 1.0 trillion/month to states in December 2025 and January 2026, taking the cumulative amount to Rs. 11.4 trillion during April-January FY2026, 6.1% higher on a YoY basis. To meet the FY2026 BE (Rs. 14.2 trillion), CTD of Rs. 2.8 trillion is left to be disbursed in February-March 2026, ~33% higher than the year-ago level (Rs. 2.1 trillion).
- **With the bulk of the shortfall in GTR stemming from direct taxes (-Rs. 800 billion), which also includes surcharges and cesses (10.2% of direct taxes in FY2026 BE), that are not shareable with the states, the shortfall in CTD is estimated to be limited to Rs. 0.3-0.5 trillion over the FY2026 BE*, after assuming a higher devolvement in March 2026. Consequently, net tax revenues of the Gol are estimated to trail the BE of Rs. 28.4 trillion by ~Rs. 1.3 trillion (vs. shortfall of Rs. 1.6 trillion in GTR).**

*Refer to ICRA's [publication](#), SGS cut-off jumped by 11 bps to 7.44% amid higher-than-indicated issuance and large-sized auction released on December 23, 2025, published in January 2026.

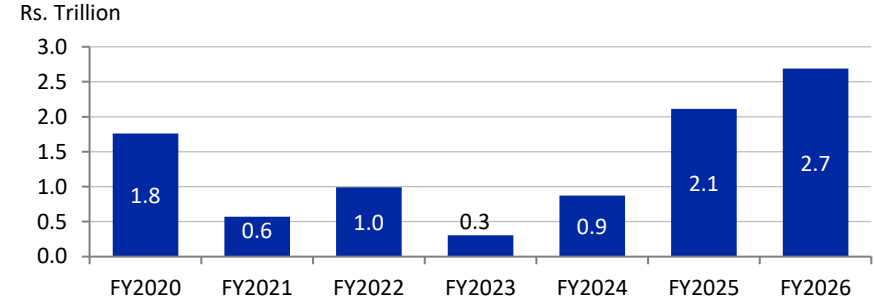
Non-tax revenues likely to exceed the FY2026 BE by ~Rs. 800 billion, boosted by higher-than-budgeted RBI dividend

Exhibit 9: Trends in non-tax revenues and its constituents



Other non-tax revenue: non-tax revenue excluding interest receipts, dividends and profits, and non-tax revenue of UTs; Source: CGA, Ministry of Finance, Gol; ICRA Research

Exhibit 10: Trends in RBI's surplus dividend transfer to the Gol

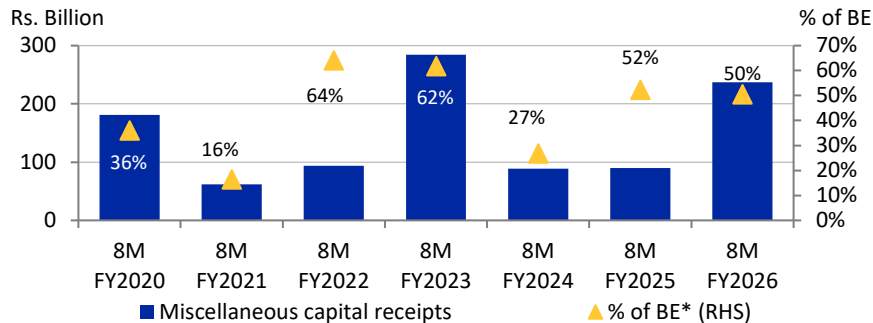


Source: RBI Annual Reports; Union Budget, Gol; ICRA Research

- The Gol's non-tax revenues surged by 20.9% to Rs. 5.2 trillion in April-November FY2026 (88.6% of FY2026 BE) from Rs. 4.3 trillion in April-November FY2025 (79.4% of FY2025 PA), amid record RBI dividend transfer to the Gol (Rs. 2.7 trillion vs. Rs. 2.1 trillion released in FY2025).
- Dividends and profits rose by 21.7% to Rs. 3.4 trillion during April-November FY2026, exceeding the FY2026 BE of Rs. 3.3 trillion (Rs. 2.8 trillion in April-November FY2025; 90.5% of FY2025 PA). Notably, as per DIPAM, the dividend receipts from the CPSEs stood at Rs. 496 billion up to January 15, 2026 (71.9% of FY2026 BE). **Given these trends and a seasonal uptick in pay-outs in Q4, ICRA expects the dividends and profits to overshoot the FY2026 BE by ~Rs. 700 billion.**
- Other non-tax revenues rose by a steep 26.7% to Rs. 1.5 trillion in 8M FY2026 (73.0% of FY2026 BE) from Rs. 1.2 trillion in 8M FY2025 (64.4% of FY2025 PA); **such receipts (including telecom receipts) are expected to overshoot the FY2026 BE (Rs. 2.1 trillion) by ~Rs. 100 billion.** Additionally, interest receipts fell by 8.6% to Rs. 245.3 billion in 8M FY2026 (51.4% of FY2026 BE). **These receipts are required to grow by ~61% YoY during December-March FY2026 to meet the FY2026 BE (Rs. 477.4 billion), albeit on a low base (-2.5% in December-March FY2025); ICRA currently expects interest receipts to print in line with the FY2026 target.**
- **Overall, ICRA expects the Gol's non-tax revenues to overshoot the FY2026 BE (Rs. 5.8 trillion) by ~Rs. 800 billion, translating to a YoY growth of 23.3%, higher than the budgeted 8.5% (over FY2025 PA: Rs. 5.4 trillion).**

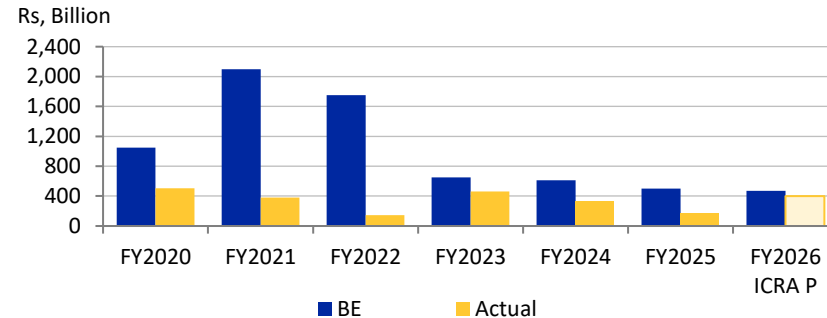
Miscellaneous capital receipts remained healthy in 8M FY2026, aided by asset monetisation; likely to mildly trail the budgeted target

Exhibit 11: Trends in miscellaneous capital receipts in 8M FY2020-26



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

Exhibit 12: Annual trends in miscellaneous capital receipts

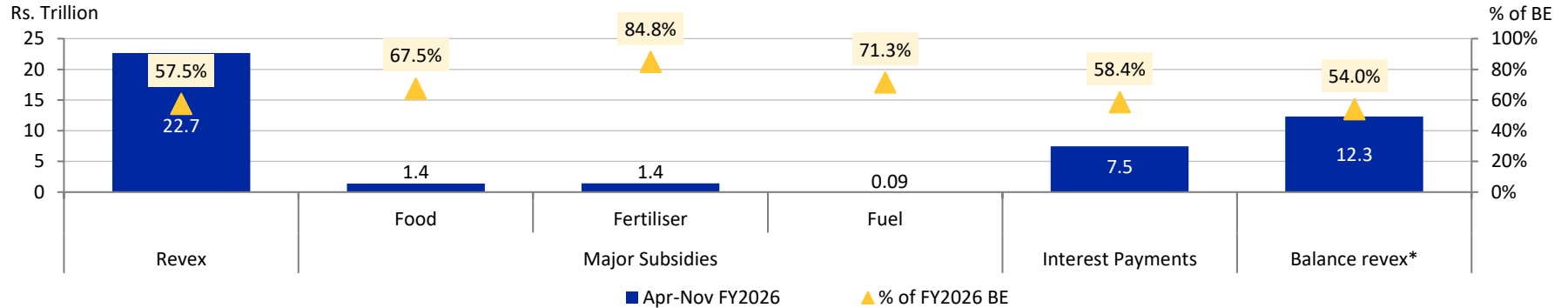


Provisional Estimates for FY2025 have been used; P: Projected; Source: CGA, Budget Documents, Gol; ICRA Research

- The Gol's miscellaneous capital receipts stood at Rs. 237 billion during April-November FY2026, significantly higher than the year-ago level, aided by monetisation-related inflows. This amounted to 50% of FY2026 target, similar to 52% in FY2025 PA. **ICRA believes that the target for miscellaneous receipts (at Rs. 470 billion) is unlikely to witness a material miss in FY2026, in contrast to the trend seen across years.**
- Disinvestment receipts have amounted to Rs. 87.7 billion as on January 15, 2026, slightly higher than the year-ago level (Rs. 86.3 billion until January 15, 2025). These include sales of the Gol's stake in the Mazagon Dock Shipbuilders Ltd. (3.61% stake for Rs. 36.7 billion), Bank of Maharashtra (6.0% stake for Rs. 26.2 billion), and Indian Overseas Bank (2.17% stake for Rs. 14.2 billion) through the offer for sale (OFS) route, as well as remittances from the Specified Undertaking of the Unit Trust of India (SUUTI; Rs. 10.5 billion). **The disinvestment process for major CPSEs such as IDBI Bank (whose sale is expected to fetch Rs. 500 billion to the Gol and the LIC) and Shipping Corporation (Rs. 30 billion), which was earlier expected to be finalised in FY2026, has witnessed some setback. While the EOs for the strategic disinvestment of both was closed last year, the Government's stake sale in Shipping Corporation has been put on hold and there is only limited progress in IDBI with financial bids expected around mid-January 2025. It would not be surprising if the IDBI sale gets pushed into the next fiscal.**

Revex up by just 1.8% YoY in 8M FY2026

Exhibit 13: Centre’s revenue expenditure during April-November FY2026



*excluding subsidy and interest payment outgo; Source: CGA, Ministry of Finance, GoI; ICRA Research

- The GoI’s revenue expenditure rose by a tepid 1.8% YoY to Rs. 22.7 trillion (57.5% of FY2026 BE) during April-November FY2026, partly supported by a high base of last year (+7.8% YoY in 8M FY2025; 61.8% of FY2025 PA) as well as moderation in non-interest non-subsidy part of the revex (-4.4% YoY to Rs. 12.3 trillion in 8M FY2026).
- The interest outgo rose by a steep 13.3% YoY to Rs. 7.5 trillion in 8M FY2026 (58.4% of FY2026 BE) from Rs. 6.6 trillion in 8M FY2025 (59.0% of FY2025 PA). Notably, interest expenses as a share of revex increased to 33% in 8M FY2026 vs. an average of ~28% during 8M FY2022-25.
- Additionally, the subsidy outgo is up by 3.3% YoY to Rs. 2.9 trillion in 8M FY2026 (75% of FY2026 BE), led by fuel (+42% YoY) and fertiliser subsidy (+17%), with the latter expected to exceed the FY2026 BE by Rs. 250 billion. Food subsidy is likely to surpass the BE by Rs. 100 billion, given the expectations of higher subsidy to the FCI.
- **ICRA estimates that expenditure savings have typically amounted to over Rs. 1.0 trillion every year during the last 7-8 years. A similar scenario is likely to play out in FY2026, given that the GoI’s non-interest non-subsidy revex needs to grow by an elevated ~30% in the last four months of the fiscal to meet the FY2026 BE, which seems unlikely.**

Expect sizeable savings to the tune of ~Rs. 800 billion on revex front in FY2026

- In the current year, migration of additional schemes to just-in-time releases under the SNA Sparsh may be leading to the low growth in revex seen so far.
- The first batch of supplementary demand for grants for FY2026 entailed a modest net cash outgo of Rs. 414.6 billion, mainly accounting for additional allocations for fertiliser subsidy, compensation to the OMCs for under-recoveries in domestic LPG and transfer to J&K. This could be comfortably offset by the expenditure savings amid a likely paring in the non-interest revex, given the high required growth (+25% YoY growth needed during December-March FY2026).
- The growth required in the remaining four months for revenue spending of several ministries is much higher than the actual growth in 8M FY2026. For instance, against the budgeted 6.2% growth in FY2026, the Ministry of Rural Development's expenditure under the revenue head contracted by ~12% in 8M FY2026, which suggests that the headroom left may be partly unspent.
- Additionally, the Ministry of Housing and Urban Affairs had budgetary revex allocation of Rs. 592 billion for FY2026, of which only 12% or Rs. 73 billion has been used in 8M FY2026. This entails allocation towards PMAY, Smart Cities Mission and Swatchh Bharat Missions. Notably, as per news reports, there are challenges pertaining to execution for the existing sanctioned projects under the PMAY (Urban), apart from the normalisation of housing demand in the past few quarters. This has led to tapering of fund utilisation across some states, which is likely to lead to sizeable savings under this head in FY2026.
- **Overall, ICRA expects the GoI to pare its revex by ~Rs. 800 billion compared to the FY2026 BE of Rs. 39.4 billion.**

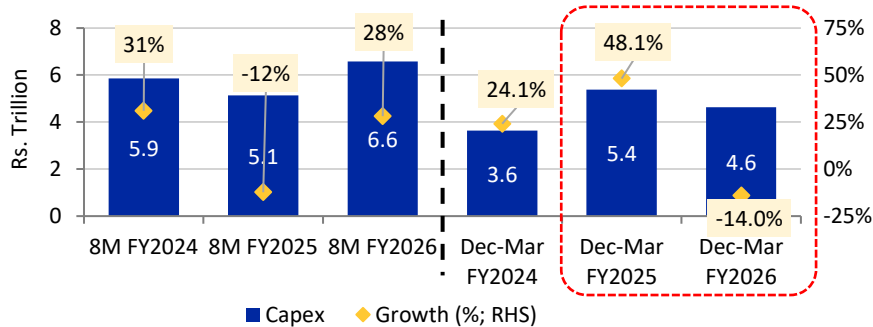
Exhibit 14: Ministry-wise revex during April-November FY2026 and required amount during December-March FY2026

	Rs. Billion			% YoY		
	FY2026 BE	Apr-Nov FY2026	Dec-Mar FY2026*	FY2026 BE	Apr-Nov FY2026	Dec-Mar FY2026*
Revex excl. interest payments	26,679	15,219	11,460	7.3%	-3.0%	25.0%
Finance excl. interest payments	4,411	1,677	2,734	-7.5%	-30.7%	16.5%
Defence	4,888	3,378	1,501	5.1%	5.0%	5.2%
Consumer affairs	2,157	1,434	722	0.4%	-12.0%	39.4%
Rural development	1,904	914	990	6.2%	-11.8%	30.8%
Chemicals & fertilisers	1,619	1,351	269	-13.0%	11.8%	-58.9%
Home affairs	1,487	1,094	394	5.4%	9.4%	-4.4%
Agriculture	1,377	825	551	-1.4%	5.3%	-10.1%
Human resource development	1,286	614	673	16.2%	6.0%	27.3%
Health & family welfare	962	587	375	8.2%	0.2%	23.7%
Housing & urban affairs	592	73	519	173.4%	-47.0%	555.7%
Communications	554	463	91	-23.9%	-0.3%	-65.6%
Others	5,442	2,809	2,633	39.5%	6.9%	107.2%

*Required growth rate based on FY2026 BE and April-November FY2026 data; Source: CGA, Ministry of Finance, GoI; ICRA Research

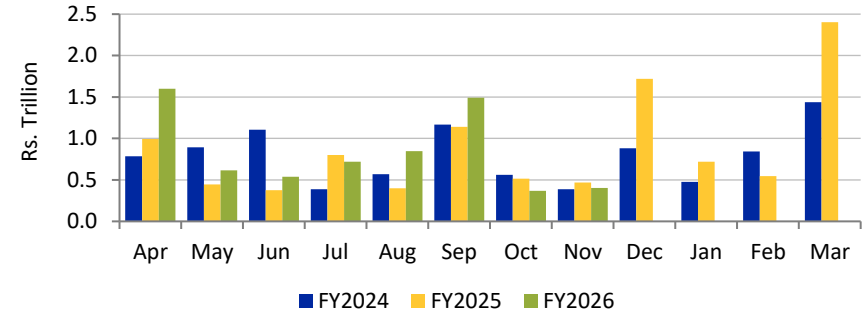
Capex growth strong at ~28% in 8M FY2026, despite lull in October-November; revex savings may enable Gol to enhance capex over FY2026 BE

Exhibit 15: Trends in Centre's capital expenditure



*Headroom available in Dec-Mar FY2025 and Dec-Mar FY2026 is based on FY2025 PE and FY2026 BE, resp.; Source: Union Budget; CGA; Ministry of Finance, Gol; ICRA Research

Exhibit 16: Monthly trends in Centre's capital expenditure

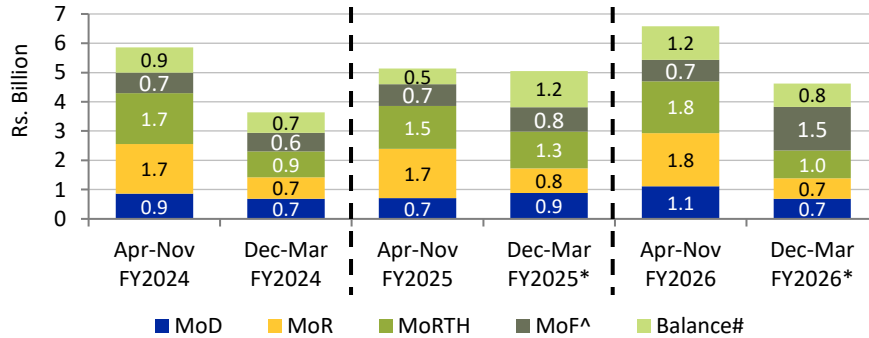


Source: CGA, Ministry of Finance, Gol; ICRA Research

- The Gol's capex rose by a strong 28.2% YoY to Rs. 6.6 trillion in April-November FY2026 (58.7% of FY2026 BE) from Rs. 5.1 trillion in April-November FY2025 (48.8% of FY2025 PA), partly supported by election curtailed base of last year as well as upfronted spending in H1 FY2026. Interestingly, excluding last year, which saw imposition of the Model Code of Conduct, capex in 8M FY2026 at ~59% of the FY2026 BE stands lower than the average of 61.1% of the full-year capex spent during April-November FY2023-24.
- On a quarterly basis, the gross capex rose from a monthly average rate of Rs. 917 billion in Q1 FY2026 (YoY: +52.0%) to Rs. 1.0 trillion in Q2 FY2026 (+30.7%), before moderating sharply to Rs. 387 billion in October-November FY2026 (-21.4%; even on a low base).
- **Given these trends, the Gol's capex needs to contract by ~14% YoY during Dec-Mar FY2026 to print in line with FY2026 BE of Rs. 11.2 trillion. ICRA anticipates the Gol to enhance the allocation for capex by ~Rs. 250 billion, taking it to Rs. 11.5 trillion in FY2026 vs. the BE of Rs. 11.2 trillion, thereby limiting the contraction in the last four months of the fiscal to 9.4%.**

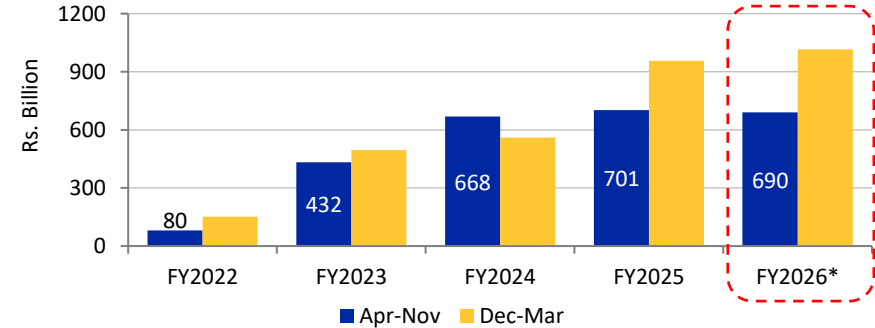
Higher outgo for Defence, roads, and DFPD supported YoY uptick in capex in 8M FY2026

Exhibit 17: Capex by Ministry of Road Transport and Highways (MoRTH), Ministry of Railways (MoR) and capital outlay on Defence services (MoD), and Ministry of Finance (MoF)



#Balance includes capex by ministries other than MoD, MoR, MoRTH, and MoF; ~Remaining capex required to meet FY2025 PA and FY2026 BE; ^Includes transfer to states; Source: CGA, Gol; ICRA Research

Exhibit 18: Capital transfer to states by the Ministry of Finance

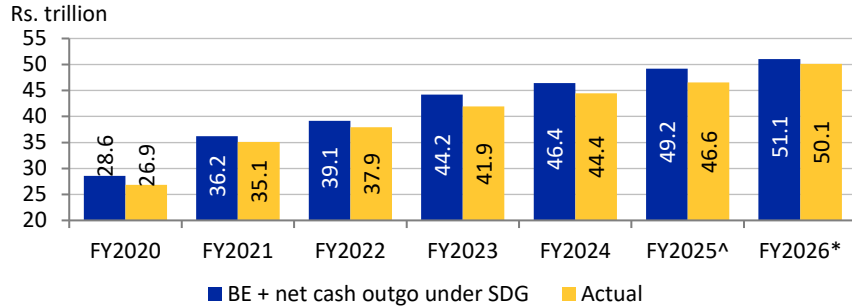


*Imputed value for Dec-Mar FY2026 required to meet the FY2026 target; Source: CGA, Ministry of Finance, Gol; ICRA Research

- The YoY surge of 28% or Rs. 1.4 trillion in the Gol's capex in April-November FY2026 stemmed from Defence (+Rs. 406 bn), MoRTH (+Rs. 302 bn), and Department of Food and Public Distribution (DFPD; +Rs. 421 bn). The latter reflects the ways means and advance (WMA) loans provided to the Food Corporation of India (FCI) by the Gol; this was not included in the Budget and is likely to be reversed by March 2026, which would provide headroom for other capex to be incurred in that period without exceeding the FY2026 BE.
- Within the Ministry of Finance, the capital transfer to states (including 50Y capex loan) stood at Rs. 690 billion in 8M FY2026 as against the full-year target of Rs. 1.71 trillion, slightly lower than outgo in 8M FY2025 (Rs. 701 billion), amid a slow progress of disbursements under the interest-free capex loans to the state governments that stood at Rs. 568 billion as on November 27, 2025 (vs. FY2026 BE: Rs. 1.5 trillion).
- **The balance portion of the capex, i.e. the gross capex minus the capex incurred by the aforesaid ministries, rose by a steep ~118% during April-November FY2026, albeit on a low base. This can contract by ~35% YoY in December-March FY2026 and still meet the FY2026 target.**

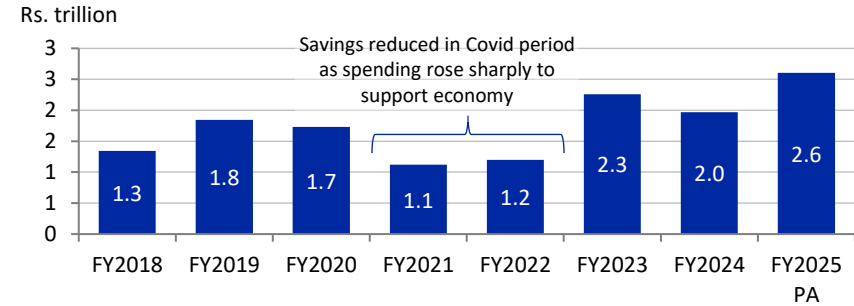
Govt's total expenditure to trail budgeted amount by ~Rs. 550 billion in FY2026

Exhibit 19: Budgeted total expenditure + net cash outgo announced under supplementary demand for grants and actual expenditure



[^]Provisional estimates for FY2025 since Actuals will be available on Feb 1, 2026; ^{*}FY2026 includes only one SDG announced so far, ICRA's projections have been taken for FY2026 for the RE; Source: Union Budget; ICRA Research

Exhibit 20: Estimated expenditure savings (BE + NSDG – Actual)

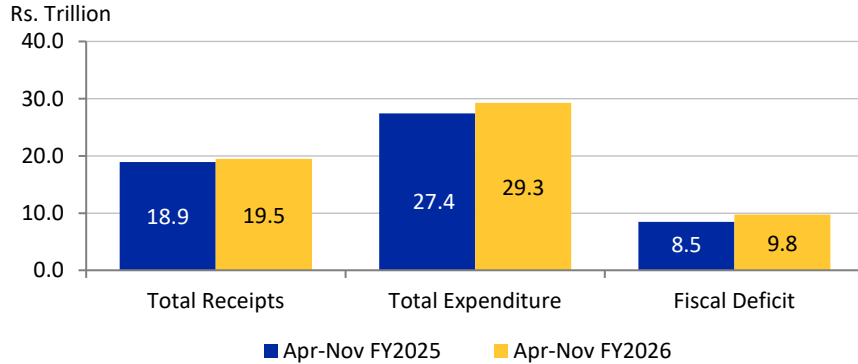


NSDG: Net cash outgo under Supplementary Demand for Grants; Aggregate expenditure savings of the Govt are computed by adding net cash outgo under the SDG to the budgeted total expenditure and subtracting actual spending incurred in each fiscal; Data for FY2025 is based on provisional actuals; Source: Union Budget; CGA; ICRA Research

- The Govt's total expenditure was up 6.7% YoY to Rs. 29.2 trillion (58% of FY2026 BE) in April-November FY2026 from Rs. 27.4 trillion in the year-ago period (59% of FY2025 PA), mainly boosted by the 28.2% expansion in capex (vs. budgeted +6.6%), amid a tepid 1.8% growth in revex (vs. budgeted +9.5%).
- The Govt's actual expenditure typically trails the budgeted amount and the net cash outgo announced in supplementary demand for grants, owing to savings by departments and ministries. ICRA estimates that expenditure savings have typically amounted to over Rs. 1.0 trillion every year during the last 7-8 years.
- A similar scenario is likely to play out in FY2026, given that the Govt's non-interest non-subsidy revex needs to grow by an elevated ~30% in the last four months of the fiscal to meet the BE. **Aided by savings on the revenue front (of Rs. 800 billion), we expect the total expenditure of the Govt to trail the FY2026 BE of Rs. 50.7 trillion by ~Rs. 550 billion, even as its capex allocation may be enhanced slightly (by Rs. 250 billion).**

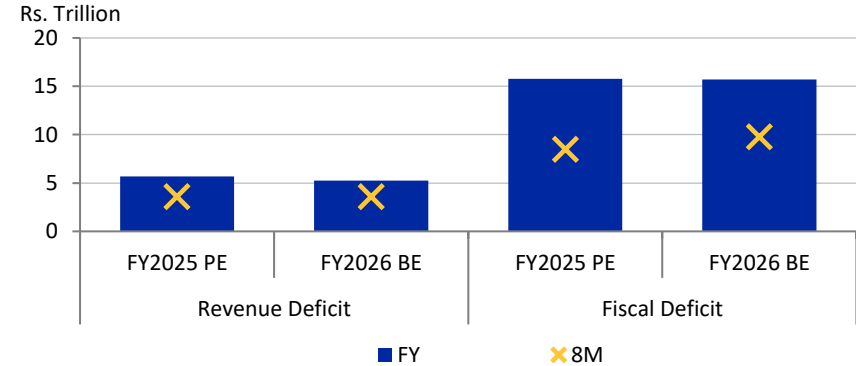
FY2026 fiscal deficit target of 4.4% GDP unlikely to be breached

Exhibit 21: Trends in revenues and expenditure of the GoI



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

Exhibit 22: Revenue and fiscal deficits

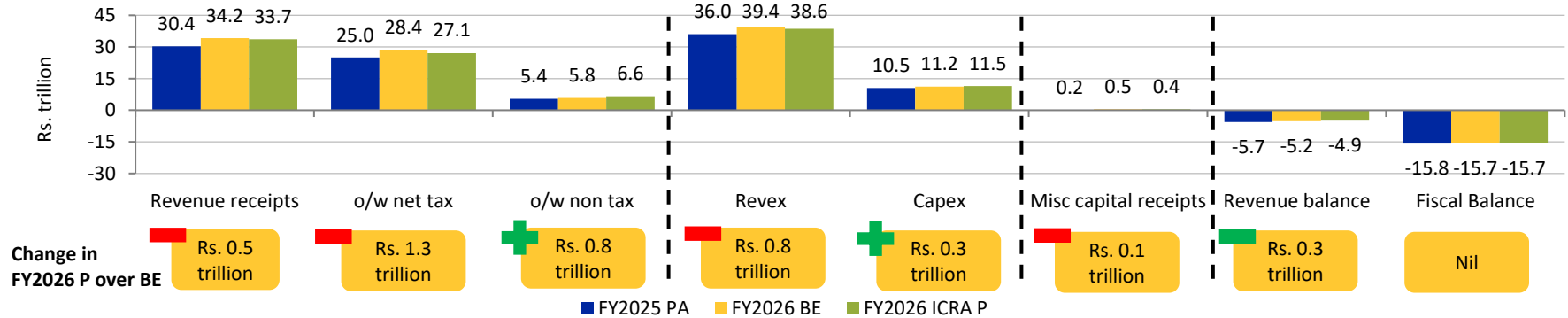


Source: CGA, Ministry of Finance, GoI; ICRA Research

- The GoI's fiscal deficit widened to Rs. 9.8 trillion during April-November or 8M FY2026 from Rs. 8.5 trillion in 8M FY2025, reaching 62.3% of the FY2026 budget estimate. This stemmed from a strong ~28% expansion in the capital expenditure, even as the revenue deficit was stable at Rs. 3.6 trillion, compared to the year-ago levels.
- Interestingly, both the GoI's fiscal and revenue deficits stood at 62.3% and 68.2% of the FY2026 BE in April-November FY2026, higher than 53.7% and 63.0% of FY2025 PA in April-November FY2025.
- **The miss on the taxes side is expected to be offset by the higher-than-budgeted non-tax revenues as well as sizeable expenditure savings on the revenue spending front. As a result, ICRA does not anticipate a fiscal slippage over the FY2026 BE of Rs. 15.7 trillion or 4.4% of GDP.**

Gol to target lower revenue deficit in FY2026 RE vs. BE and keep fiscal deficit unchanged amid higher-than-budgeted allocation for capex

Exhibit 23: Key fiscal metrics in FY2025 PA, FY2026 BE and ICRA's projection for FY2026



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

- To summarise, the Gol's revenue receipts are estimated to trail the FY2026 BE by Rs. 0.5 trillion, mainly stemming from the shortfall of Rs. 1.3 trillion expected in net tax revenues over the BE, even as non-tax receipts are set to surpass the target by Rs. 0.8 trillion. On the other hand, revenue expenditure is projected to trail the BE of Rs. 39.4 trillion by Rs. 0.8 trillion, owing to savings in non-interest non-subsidy head, unless second batch of SDG is announced with sizeable outgo, the likelihood of which appears low. Consequently, we estimate a lower revenue deficit at Rs. 4.9 trillion in FY2026, against the budgeted Rs. 5.2 trillion.
- ICRA has pencilled in some headroom to incur higher-than-budgeted capital expenditure of Rs. 11.5 trillion, while miscellaneous capital receipts may print a shade below the budgeted Rs. 470 billion. Therefore, the fiscal deficit is likely to print at Rs. 15.7 trillion in FY2026 (4.4% of GDP), at par with the amount budgeted for the fiscal (4.4% of GDP).



ICRA

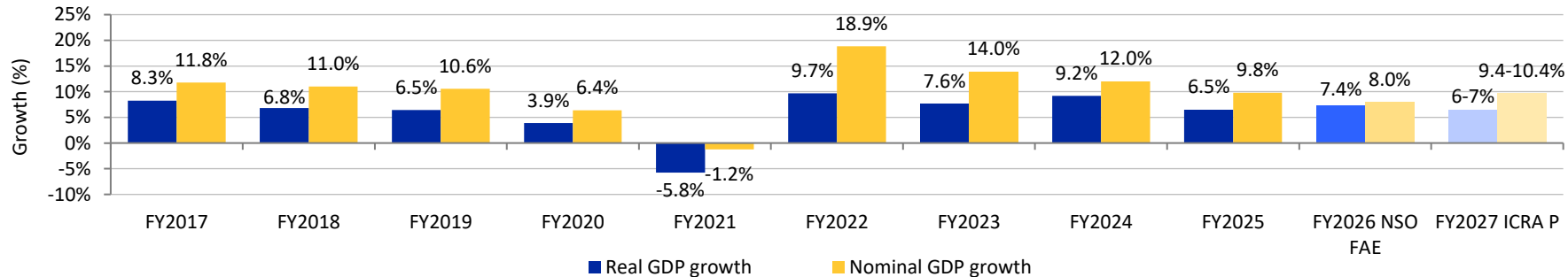


FY2027 Union Budget Expectations



ICRA projects nominal GDP growth to rise to 9.8% in FY2027 from 8.0% in FY2026 FAE, amid expectations of higher GDP deflator

Exhibit 24: Annual growth in GDP (at current and constant 2011-12 prices)

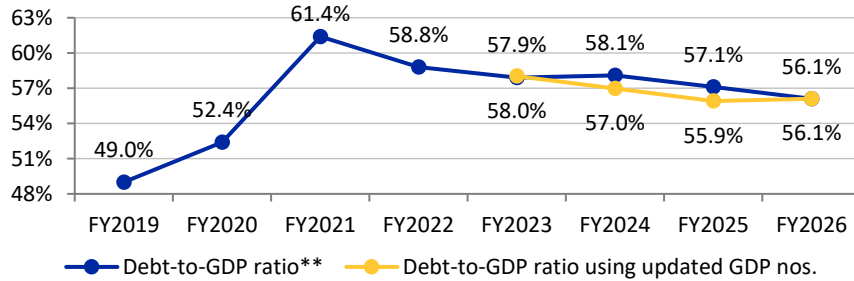


P: Projected; FAE: First Advance Estimates; Source: NSO; CEIC; ICRA Research

- For budgetary analysis, ICRA has used the NSO's First Advance Estimates (FAE) for nominal GDP of Rs. 357.1 trillion for FY2026 (growth: +8.0%) and our projection of Rs. 392.0 trillion (+9.75%) for FY2027. Notably, the new GDP series (base year 2022-23) will be released at end-February 2026, which may warrant a relook at the fiscal deficit-to-GDP and debt-to-GDP ratios for FY2024-FY2026.
- ICRA projects the real GDP growth to range between 6% and 7% in FY2027, with growth outcomes contingent on the timing of the trade deal with the US and its impact on India's exports, amid the risk of higher tariffs in the absence of any agreement on Russian oil purchases. Our projection builds in sustained robustness in domestic consumption in FY2027, with accrued benefits of interest rate cuts of 125 bps, even as food inflation may optically trend slightly higher than the FY2026 level. Besides, investment activity is also expected to improve somewhat in the coming fiscal, amid likely YoY double-digit expansion in Govt's capex.
- Assuming a higher GDP deflator of ~3.4% (ICRA's projection for CPI: +4.0% to +4.5% and WPI: +2.0% to +3.0%) for FY2027, compared to 0.6% in FY2026 FAE, the YoY expansion in nominal GDP is anticipated to rebound to 9.4-10.4% in the fiscal from 8.0% expected by the NSO for FY2026.

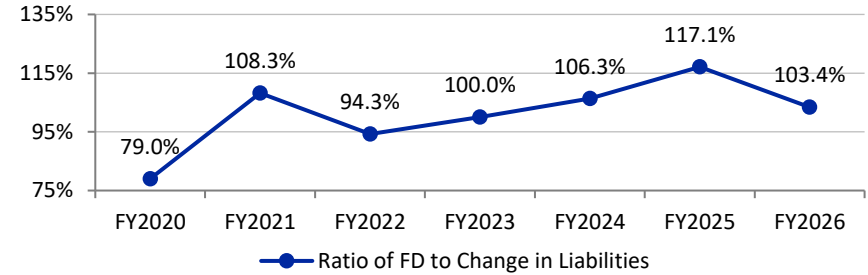
Govt to shift away from annual fiscal deficit targets to debt targeting; ICRA estimates fiscal deficit to be capped at 4.3% of GDP in FY2027

Exhibit 25: Debt-to GDP ratio* as per Union Budget for FY2026 and updated GDP numbers



*Debt is based on FRBM definition; ** as per FY2026 Union Budget; Data for FY2025 and FY2026 is RE and BE, respectively; Source: Budget documents; ICRA Research

Exhibit 26: Ratio of Fiscal Deficit to change in Liabilities (%)



Source: Budget documents; ICRA Research

- In the Union Budget for FY2026, the Govt had highlighted that from FY2027 onwards, it would keep fiscal deficit in each year (from FY2027 till FY2031) such that the Central Government debt (as per the FRBM definition) is on declining path to attain a debt-to-GDP level of about 50 ±1% by March 31, 2031 (the last year of the 16th Finance Commission cycle). Thus, from FY2027 the fiscal anchor has changed to the debt-to-GDP trajectory from annual fiscal deficit targets.
- Owing to the upward revision in the nominal GDP numbers for FY2024 and FY2025, the imputed debt-to-GDP ratio is now lower than previous estimates for these fiscal years. However, with the FAE for nominal GDP being similar to that assumed in the FY2026 BE, the debt-to-GDP ratio for FY2026 (at 56.1%) is the same as that projected in the Budget. **The growth in the nominal GDP for FY2026 as per the FAE is pegged at 8.0%, which is lower than our expectations of 8.5%; at an 8.5% growth, the debt-to-GDP would amount to a slightly lower 55.8%, implying that the trajectory to get to 50%+/-1 by end-FY2031 would be less steeper than previously anticipated.**
- Assuming a gradual debt consolidation trajectory between FY2027 and FY2031 to get to the upper limit of the target (i.e. 51%), would imply a 1.0 pp cut in the ratio every year from the FY2026 levels of 56.1%. As per ICRA's calculations, this translates into an average annual fiscal deficit of ~4.3% of GDP during FY2027-FY2031. However, this trajectory is unlikely to be smooth, given the one-off sizeable spending requirements owing to the 8th Pay Commission in FY2028.
- Based on a debt target of 55.1% of GDP for FY2027 (assuming 9.8% growth in nominal GDP over the FY2026 FAE), we believe that the fiscal deficit is likely to be capped at ~4.3% in the coming financial year. Notably, these ratios could change materially once the new GDP series (base year 2022-23) is released at end-February 2026.

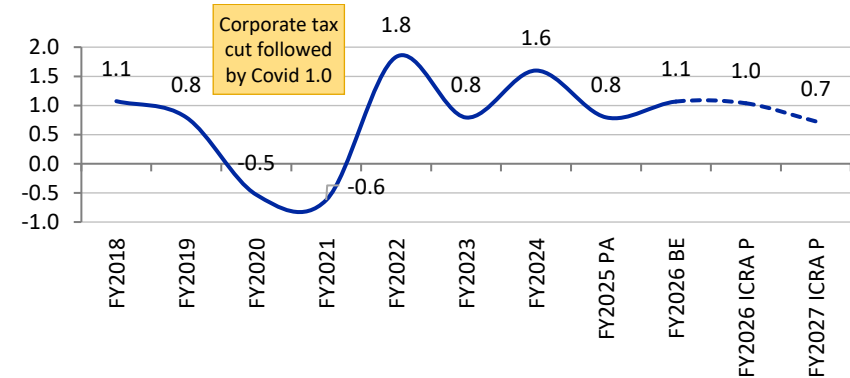
Gross tax revenues to show a budgeted growth of ~7% in FY2027

Exhibit 27: Gross tax revenues of the GoI

Rs. Trillion	FY2025 PA	FY2026 BE	FY2026 ICRA P	FY2027 ICRA P	Growth in FY2026 (%)
Gross tax revenues	38.0	42.7	41.1	44.0	7.1%
Direct taxes~	21.7	24.4	23.6	26.2	11.1%
Indirect taxes	16.3	18.3	17.5	17.8	1.7%
o/w GSTCC	1.5	1.7	1.3	0.0	--

~Excluding STT amount under the PIT head; Source: GoI Budget Documents; CGA; ICRA Research

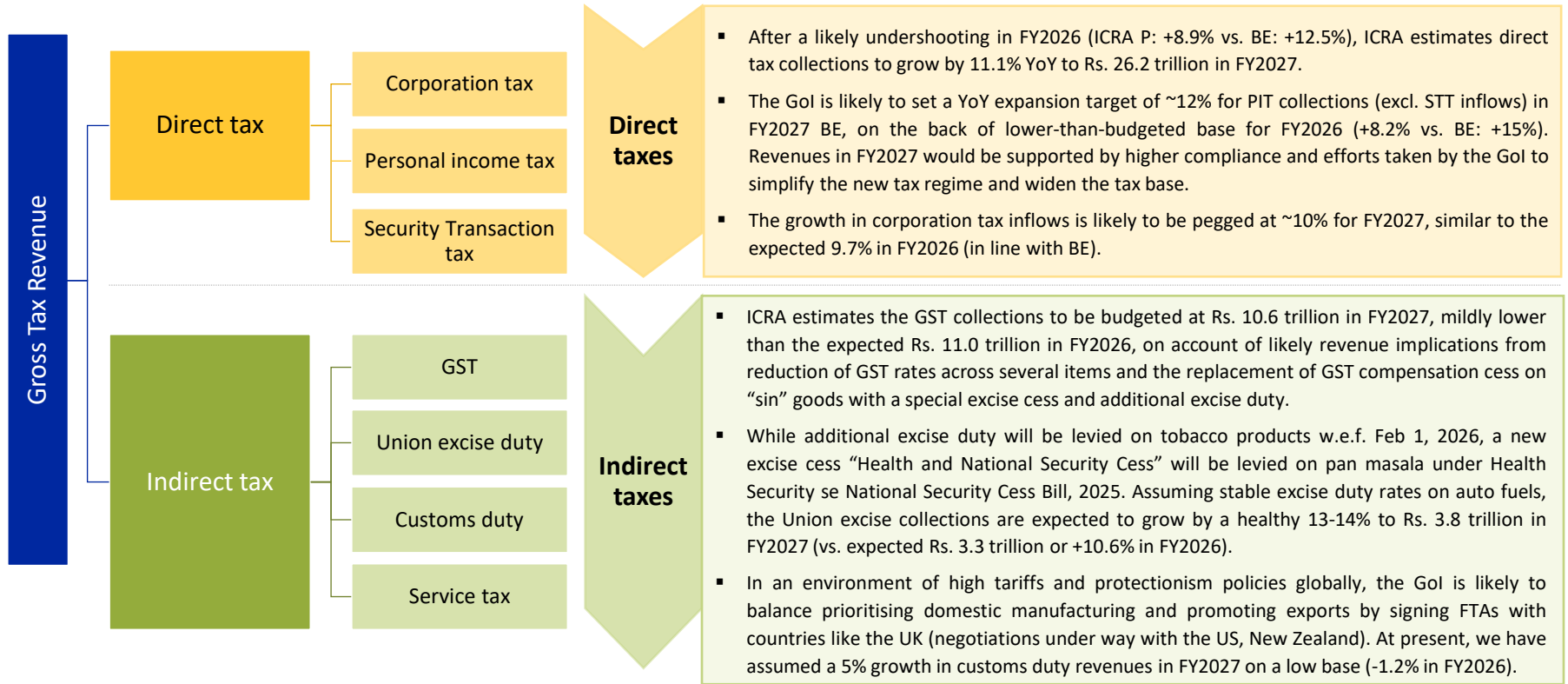
Exhibit 28: Tax buoyancy of the GoI



Tax buoyancy is a proportion of % change in Gross tax revenues and % change in Nominal GDP growth; Source: Union Budget; CGA; NSO; ICRA Research

- The tax buoyancy of the GoI is estimated at 1.0 in FY2026 amid expectations of lower-than-budgeted gross tax revenues (ICRA P: 41.1 trillion vs BE: 42.7 trillion), even as nominal GDP as per NSO's FAE (Rs. 357.1 trillion) is largely in line with what was assumed in the Union Budget (Rs. 357.0 trillion). While this is a shade below the buoyancy of 1.1 budgeted for the fiscal, it remains higher than 0.8 seen in FY2025 PA.
- **The GTR is expected to grow by 7.1% YoY to Rs. 44.0 trillion in FY2027 on our projected level of Rs. 41.1 trillion for FY2026 (+8.3%). Accordingly, tax buoyancy is estimated at 0.7-0.8 in FY2027, lower than 1.0 in FY2026, amid expectations of a rebound in nominal GDP growth to 9.8% from 8.0% in FY2026 (as per the FAE).**
- While the GTR entails direct tax growth at a strong 11.1% YoY for FY2027, the growth in indirect taxes is likely to be contained at ~2%. The GoI is likely to face some revenue growth implications, on account of GST rate cuts having been introduced from September 2025 (Rs. 0.5 trillion for both Centre and states). Nevertheless, excluding GST Compensation Cess (which ended in FY2026), the indirect tax growth is likely to be pegged at a stronger 9.7% in FY2027, up from 8.4% expected in FY2026. Consequently, GTR growth is estimated to be stronger at 10.6% in FY2027 (entailing a tax buoyancy of 1.1), compared to the expected 9.1% in FY2026.

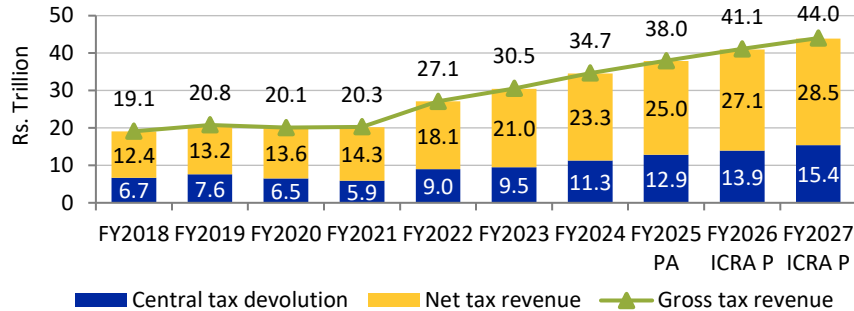
FY2027 Budget expected to set growth target of ~11% for direct taxes; GST rate rationalisation to constrain indirect tax growth to ~2%



Source: ICRA Research

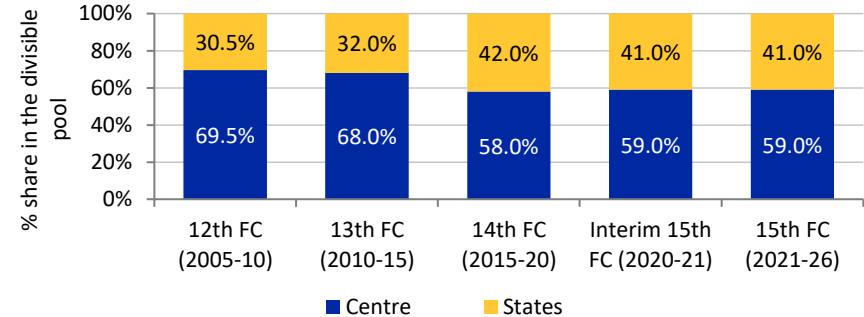
CTD to states projected to grow by ~11% YoY in FY2027; expansion in net tax revenues to be subdued at ~5%

Exhibit 29: Trends in Central tax devolution, Centre's gross and net tax revenues



Actuals for FY2020-24; PA: Provisional actuals; P: Projected; Source: Union Budget Documents, Gol; ICRA Research

Exhibit 30: Share of Divisible Pool between Centre and States since 12th FC's award period

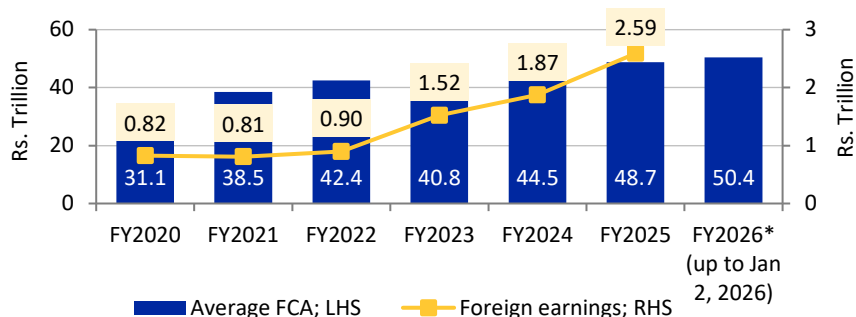


Source: Finance Commission of India, Gol; ICRA Research

- The 15th Finance Commission had recommended that the share of states in the divisible pool (or central tax devolution; CTD) be pegged at 41% for its award period of FY2022 to FY2026. Subsequently, the recommendations of the 16th Finance Commission are to be announced along with the Union Budget FY2027, which would provide the updated share of the states in the divisible pool of taxes for the period FY2027 to FY2031. Notably, the effective rate of devolution relative to the gross tax revenues (GTR) of the Gol tends to be closer to 30-33%, as cess and surcharges included in the GTR are not a part of the shareable pool.
- **Based on ICRA's estimates for gross tax revenues and assuming an effective rate of devolution similar to that seen during FY2022-26, the tax devolution to the states is estimated at Rs. 15.4 trillion in FY2027. This entails a YoY growth of 10.6%, higher than the growth forecast for GTR (+7.1%).** Notably, the Gol has decided to replace the existing GST compensation cess on pan, tobacco and related products with a "Health and National Security Cess" on pan masala and an additional excise duty on tobacco and related products, over and above the GST tax rate of 40%. This new cess will not be a part of the divisible pool, solely accruing to the Centre.
- **Overall, after the CTD adjustment, ICRA foresees the Gol's net tax revenues to be budgeted at Rs. 28.5 trillion for FY2027, entailing a YoY growth of ~5.2%.**

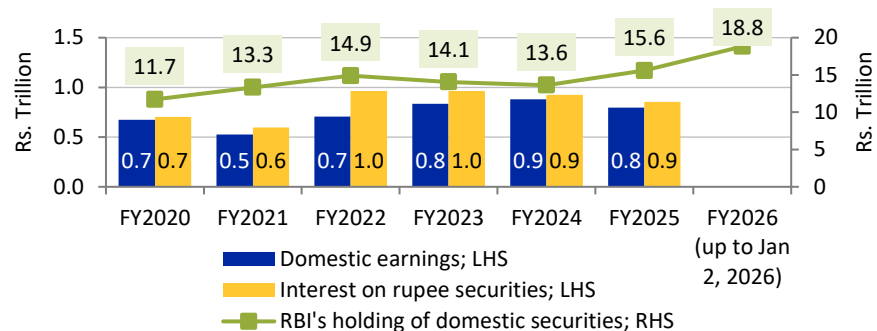
RBI's dividend surplus to GoI unlikely to rise in FY2027 from record Rs. 2.7 trillion in FY2026

Exhibit 31: Average foreign currency assets (FCA) and foreign earnings



Foreign earnings include interest income from foreign securities, interest on deposits, exchange rate gain/loss from forex transactions, miscellaneous income, etc.; Source: RBI; ICRA Research

Exhibit 32: Domestic earnings, interest on holding rupee securities, and outstanding domestic securities held by the RBI



Data on FY2020 is from July to March post the alignment of RBI and GoI accounting years; Source: RBI; ICRA Research

- The RBI's foreign earnings are likely to ease in FY2026 from the peak of Rs. 2.59 trillion seen in FY2025 owing to the easing of interest rates in several major economies (including the US & the UK), even as the average value of foreign currency assets has risen somewhat to Rs. 50.4 trillion in FY2026 (up to January 2, 2026) from Rs. 48.7 trillion in FY2025. Moreover, after surging in FY2025 (gross purchases: \$364 billion; sales: \$399 billion), the quantum of RBI's gross intervention in the spot market plunged in 7M FY2026 (purchases: to \$40.3 billion from \$143.7 billion in 7M FY2025; sales: to \$73.9 billion from \$144.5 billion). This may contain the RBI's foreign earnings in FY2026.
- However, the interest on holding rupee securities, a sizeable part of the RBI's earnings from domestic sources, is anticipated to rise in FY2026 from Rs. 0.9 trillion in FY2025, with an increase in RBI's holdings of domestic securities (including T-bills) to Rs. 18.8 trillion as on January 2, 2026 (amid OMO purchases of Rs. 4.7 trillion in FY2026 so far) from Rs. 15.6 trillion, along with an uptick in the G-sec yields.
- However, there is lack of clarity regarding RBI's total expenditure at end-FY2026, as 75-77% of such amount stems from risk provision i.e. the Contingency Fund, which is quite volatile. Moreover, the range for the Contingent Risk Buffer was widened to 4.5-7.5% of the balance sheet in the [Economic Capital Framework review](#) concluded in May 2025, and it is likely that this would be maintained at the upper limit of this range, similar to the year ago levels (7.5%), amid high volatility in the currency market in FY2026. **While it is difficult to ascertain the exact amount of RBI's dividend surplus, lower foreign earnings would weigh on this amount in FY2027 (Rs. 2.7 trillion in FY2026).**

Gol's non-tax revenues to grow by ~5% YoY in FY2027 on an elevated base; miscellaneous capital receipts likely to be pegged at ~Rs. 600 billion

Exhibit 33: Non-tax revenues and its components

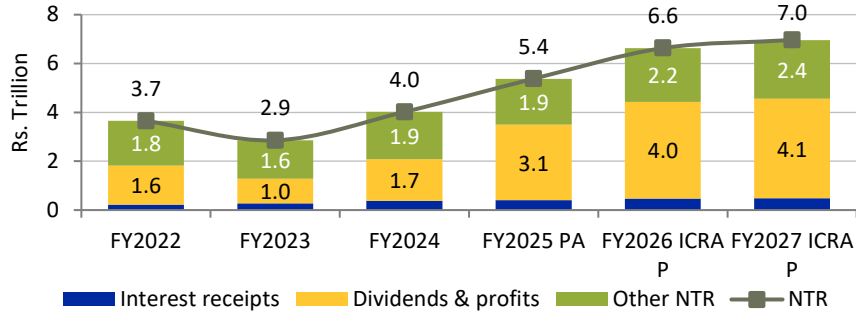
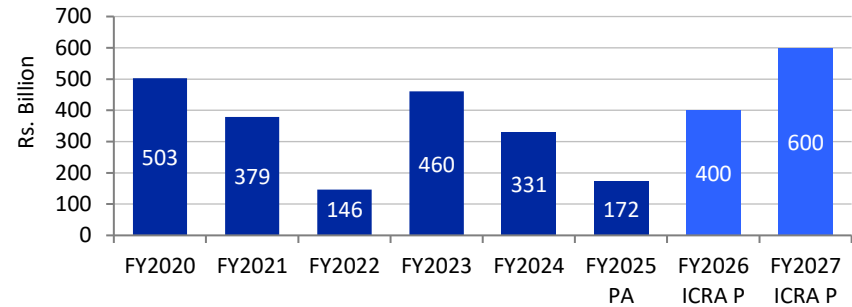


Exhibit 34: Trends in miscellaneous capital receipts



P: Projected; Other NTR includes receipts from telecom sector, non-tax revenues of Union territories, etc. Source: Union Budget; Gol; CEIC; ICRA Research

- ICRA estimates dividends and profits to rise by a muted ~3.0% to Rs. 4.1 trillion in FY2027 over a high base of Rs. 4.0 trillion expected for FY2026- this would be driven by a likely dip in dividend surplus from the RBI, even as the dividends from the public sector enterprises (PSEs) may remain healthy.
- Based on this as well as the assumption of a ~3% growth in interest receipts and a ~9% expansion in the other non-tax component, **ICRA pegs the Gol's non-tax revenues to rise by ~5% YoY to Rs. 7.0 trillion in FY2027 (+23% in FY2026 as per ICRA's estimate)**. However, any swings on this account could keenly influence the budget math. For instance, a 10% growth in the non-tax revenues over the expected level for FY2026 would enhance the fiscal space by as much as ~Rs. 330 billion vis-à-vis our current assumptions, which can provide room for additional capital spending.
- Overall, we estimate the revenue receipts of the Gol to rise by ~5.2% YoY to Rs. 35.5 trillion for FY2027 from Rs. 33.7 trillion expected for FY2026.**
- The disinvestment process for IDBI Bank is likely to be finalised in the upcoming fiscal. In our view, the FY2027 target for miscellaneous capital receipts is likely to be pegged around ~Rs. 600 billion, higher than Rs. 400 billion expected in FY2026. Nevertheless, the actual inflows would be contingent on the evolving market conditions.

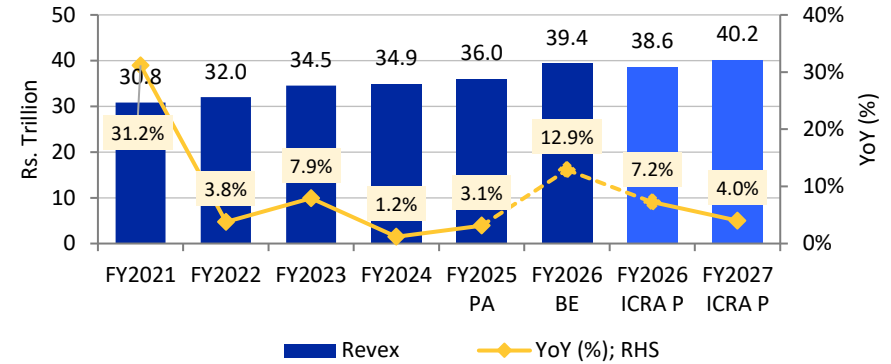
Govt's revenue expenditure to rise modestly by ~4.0% in FY2027

Exhibit 35: Revex and major heads

Rs. Trillion	FY2025 PA	FY2026 ICRA P	FY2027 ICRA P	Growth in FY2027
Revex	36.0	38.6	40.2	4.0%
Interest payments	11.2	12.8	13.7	7.5%
Aggregate Subsidy (towards food, fertiliser and fuel)	3.9	4.3	4.4	2.5%
Balance Revex*	21.0	21.6	22.1	2.2%

*Total revex minus interest payments and aggregate subsidy outgo; P: Projected; Source: Govt Budget Documents; CGA; Ministry of Finance, Govt; ICRA Research

Exhibit 36: Annual trends in revenue expenditure

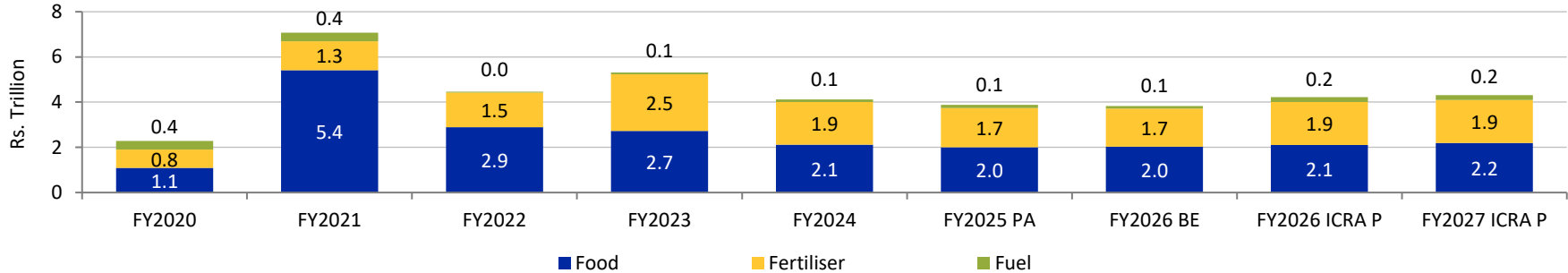


Source: CGA, Ministry of Finance, Govt; ICRA Research

- The revenue expenditure of the Govt is expected to remain contained in FY2027; ICRA estimates a budgetary growth of ~4.0% in revex in the fiscal, stemming from a 7.5% increase in interest payments and a 2.5% rise in the aggregate subsidy outlay.
- The pace of expansion in interest payments, that constitute a significant portion of revex, is expected to narrow from 14.3% in FY2026, with the borrowings of the Central government for the purpose of compensation under GST slated to be repaid fully by the end of FY2026.
- In case of balance revex, the replacement of Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) with the Viksit Bharat—Guarantee for Rozgar and Aajeevika Mission (Gramin) (VB-G RAM G) that revised the Centre-State cost sharing to 60:40% from the earlier 90:10% will likely reduce the proportion of central budgetary allocation for rural employment. However, the size of the spending accrued by the Govt on this account will likely increase given the higher number of guaranteed workdays (by 25 days to 125 days). Besides, the allocation for the PLI scheme is also set to increase in FY2027, given the capex progress and the rise in production across several sectors.

Aggregate subsidy burden in FY2027 to be budgeted at Rs. 4.4 trillion, ~2.5% higher than expected outgo in FY2026

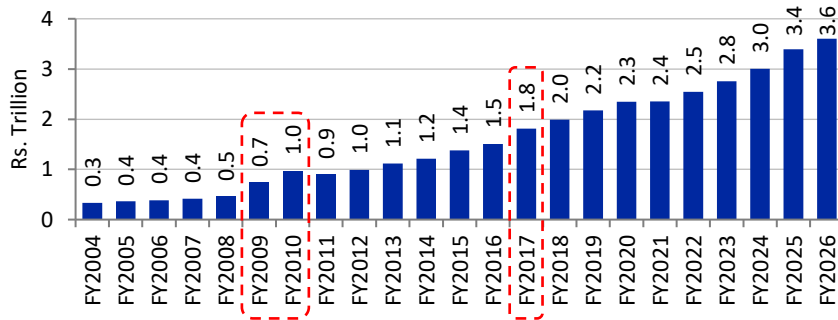
Exhibit 37: Annual trends in major subsidies



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

- ICRA estimates the outlay for major subsidies (food, fertiliser and fuel) at Rs. 4.4 trillion in FY2027, 2.5% higher than the expected Rs. 4.3 trillion for FY2026, which entails an overshooting vis-à-vis the BE of Rs. 3.8 trillion.
- Amid an anticipation of a healthy rabi production of crops like rice and wheat and a consequent increase in procurement targets and costs, the food subsidy outlay is estimated to increase slightly to Rs. 2.2 trillion in FY2027, compared to Rs. 2.1 trillion expected for FY2026 (vs BE: Rs. 2.0 trillion). Besides, ICRA foresees the fuel subsidy to remain elevated at Rs. 216 billion in FY2027, in line with the estimated FY2026 levels (much higher than FY2026 BE of Rs. 121 billion), likely on account of elevated under-recoveries highlighting continued pressure on OMCs and need for Government subsidy.
- ICRA expects the subsidy requirement for the urea segment to remain largely stable amid slight easing of the pooled gas prices even as currency depreciation will partly mitigate the benefit of lower gas prices. The overall fertiliser subsidy requirement is expected to remain around Rs. 1.9 trillion in FY2026 owing to elevated input and end-product prices for the P&K segment. Thereafter, ICRA expects the GoI's FY2027 subsidy allocations to remain largely in line with FY2026, while calibrating the subsidy allocation during the year depending on the evolving subsidy requirements. Additionally, ICRA also expects the GoI to lay out a roadmap or outline steps to promote a balanced use of fertiliser going forward.

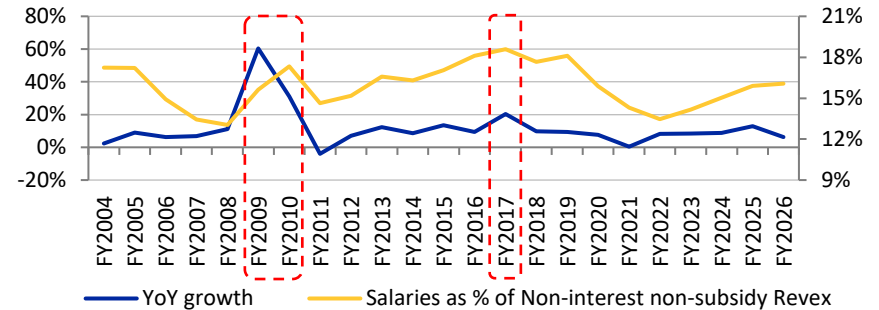
Exhibit 38: Salaries of Central Government Employees* (Rs. Trillion)



*Excluding defence; Data for FY2025 and FY2026 is for RE and BE, respectively; Source: Gol; CMIE; ICRA Research

- The Gol's expenditure on salaries* is expected to jump in FY2028 on account of the 8th CPC, which would be implemented retrospectively from January 1, 2026, thereby entailing a build-up of arrears for 15 months. This would undoubtedly increase the Gol's committed expenditure burden in that fiscal and in FY2029.
- The 7th CPC that was implemented in FY2017 (with arrears of just six months), pushed up the Gol's salary bill by 20.4% to Rs. 1.8 trillion in that fiscal from Rs. 1.5 trillion in FY2016. Salaries amounted to 18.6% of non-interest non-subsidy revenue expenditure in FY2017, the highest in 15 years.
- The 6th CPC, which was supposed to be effective from January 1, 2006, was implemented with a larger delay from mid-FY2009, leading to a build-up of arrears of more than 2.5 years (for basic pay; revised allowances were effective from September 1, 2008). These arrears were paid in two instalments - ~40% in FY2009 and ~60% in FY2010. This led to a 60.4% increase in the salary expenditure in FY2009 and further a 31.0% expansion in FY2010, with salaries as a proportion of non-interest non-subsidy expenditure rising from 13.0% in FY2008 to 15.6% in FY2009 and further to 17.3% in FY2010.
- Given that the delayed implementation of the 8th CPC would lead to sizeable arrears, the fiscal impact of the same on the FY2028 Budget would be quite large, with a 40-50% expansion in the expenditure on salaries. This would constrain the fiscal space for discretionary expenditure, including capex, in FY2028, and perhaps, in FY2029.

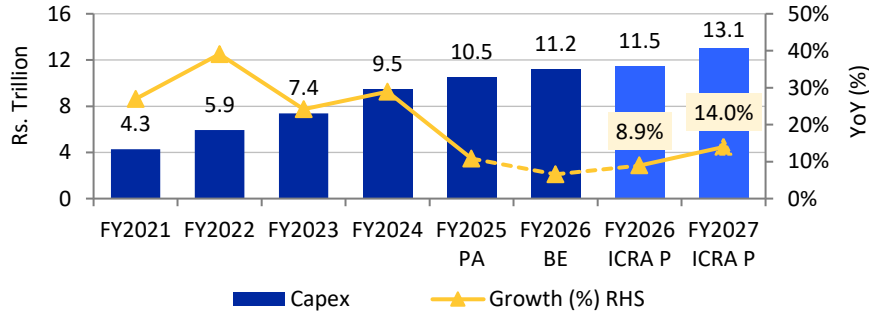
Exhibit 39: Salaries of Central Government Employees* (YoY growth and as % of non-interest non-subsidy revenue expenditure)



*Excluding defence; Data for FY2025 and FY2026 is for RE and BE, respectively; Source: Gol; CMIE; ICRA Research

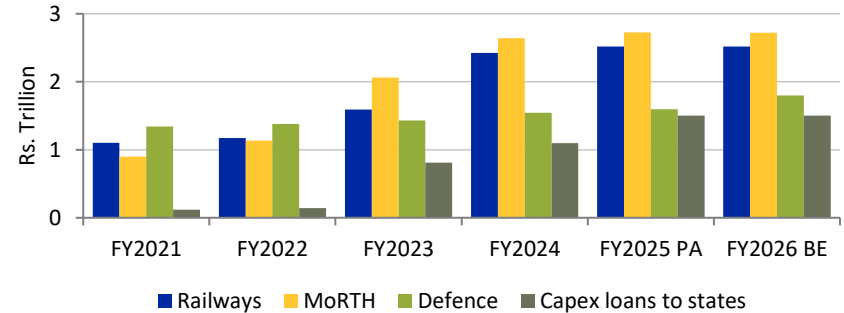
ICRA expects capex target to be set at Rs. 13.1 trillion in FY2027, ~14% higher than Rs. 11.5 trillion expected in FY2026

Exhibit 40: Trends in GoI's Gross Capital Expenditure



Source: Gol Budget Documents; CGA; Ministry of Finance, Gol; ICRA Research

Exhibit 41: Trends in GoI's capital expenditure towards major sectors

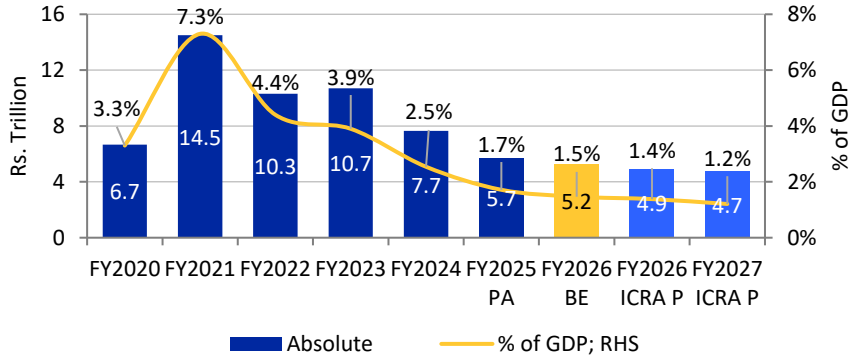


Source: Gol Budget Documents; CGA; Ministry of Finance, Gol; ICRA Research

- ICRA believes that the GoI is likely to boost capex in FY2027 before fiscal rigidities, in the form of increased committed expenditure, set in from FY2028 on account of the 8th Pay Commission. **Accordingly, we estimate the capital expenditure target to be set at Rs. 13.1 trillion for FY2027, entailing ~14% expansion over the expected turnout in FY2026 (Rs. 11.5 trillion; ~+9% YoY).**
- This would result in a further improvement in the quality of expenditure, with capex amounting to ~24.5% of total expenditure in FY2027 up from 22.9% in FY2026 ICRA P and 22.6% in the FY2025 PA. The capex-to-GDP ratio is expected to inch up further to 3.3% in FY2027 from 3.2% estimated in FY2026.**
- Within capex, we expect a sizeable increase in the outlay under the scheme for special assistance as loans to states for capital expenditure, or the 'capex loan scheme' from the budgeted amount of Rs. 1.5 trillion in FY2026, thereby supplementing the overall expenditure of the states. The scope of the expenditure under this scheme is wider as this can be used to cover issues under the purview of the state governments, while the GoI's capex is largely focused across roads and highways, railways and defence.

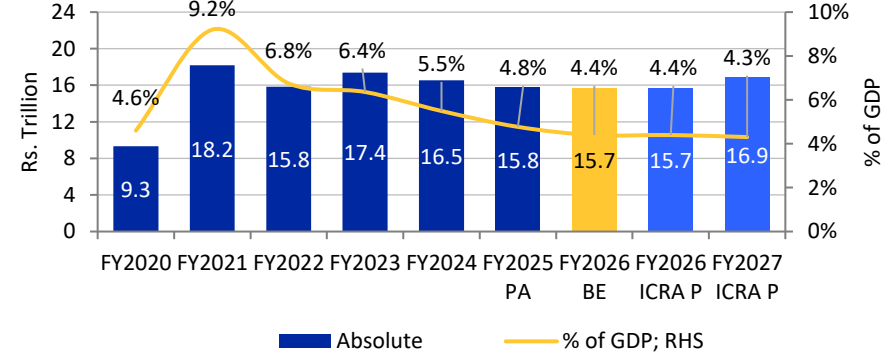
Gol's fiscal deficit target expected to be pegged at 4.3% of GDP in FY2027

Exhibit 42: Gol's Revenue Deficit (Absolute and % of GDP)



Source: Gol Budget Documents; CGA; Ministry of Finance, Gol; ICRA Research

Exhibit 43: Gol's Fiscal Deficit (Absolute and % of GDP)



Source: Gol Budget Documents; CGA; Ministry of Finance, Gol; ICRA Research

- Aided by a sharper expansion in revenue receipts (+5.2%) vis-à-vis revenue expenditure (+4.0%), ICRA expects the Gol's revenue deficit to narrow to Rs. 4.7 trillion (1.2% of ICRA's GDP estimate) in FY2027 from Rs. 4.9 trillion (1.4% of GDP as per NSO's FAE) projected for FY2026. This would be the lowest revenue deficit to GDP ratio since FY2008 (1.1% of GDP).
- However, with a capex target of ~Rs. 13.1 trillion (YoY: +14%) and an assumption for miscellaneous capital receipts at ~Rs. 600 billion, ICRA anticipates the Gol's fiscal deficit to widen to Rs. 16.9 trillion in FY2027 from Rs. 15.7 trillion projected for FY2026 (in line with target). Nevertheless, as a proportion of the GDP, it would narrow marginally to 4.3% in FY2027 from 4.4% in FY2026, the lowest level since FY2019.



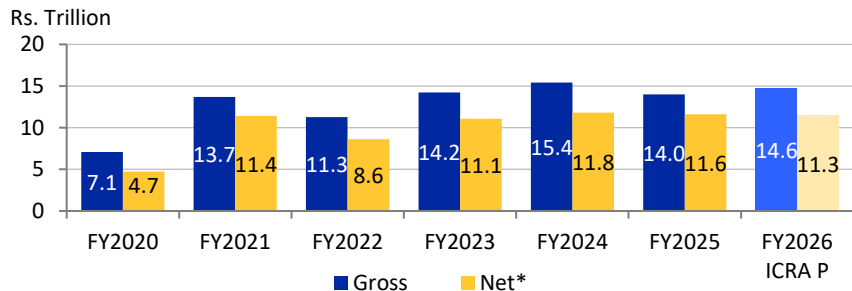
ICRA

FY2027 Market Borrowing Expectations



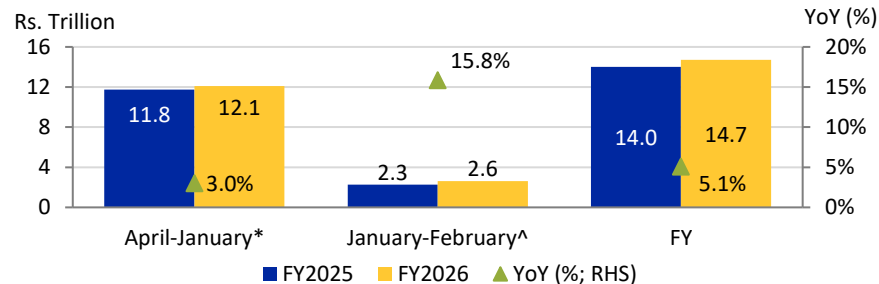
Gol's gross market borrowings to print at Rs. 14.6 trillion in FY2026, marginally lower than the BE of Rs. 14.8 trillion

Exhibit 44: Trends in Gol's gross and net market borrowings



*Adjusted for recovery of Rs. 0.78 trillion in FY2024, Rs. 1.2 trillion in FY2025, and Rs. 0.68 trillion in FY2026 from GST Compensation Fund; Actuals till FY2025; BE: Budget Estimate; P: Projected; Source: RBI; Union Budget; ICRA Research

Exhibit 45: Actuals gross market borrowings in FY2025-26 YTD

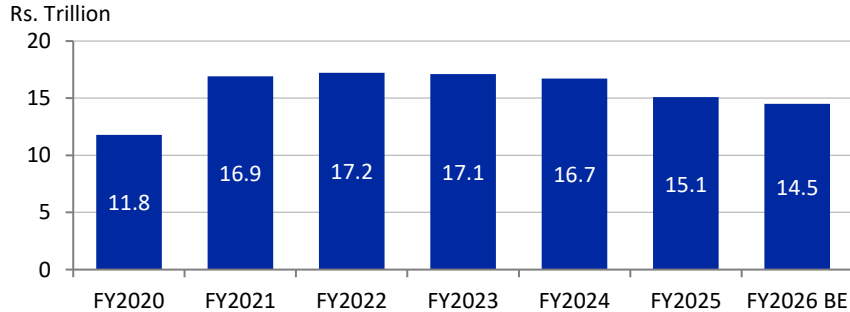


*By January 9, 2026; ^January 12 to March 6, 2026; corresponding periods of FY2025 has been used; Source: RBI; ICRA Research

- In FY2026 so far (till January 9, 2026), the Gol has raised Rs. 12.1 trillion (82.3% of total planned gross borrowings), which is 3.0% higher on a YoY basis (Rs. 11.8 trillion till January 9, 2025). With a 12.7% YoY decline in redemptions so far, net market issuances stood at Rs. 9.1 trillion during FY2026 so far, 9.7% higher than the year-ago level (Rs. 8.3 trillion).
- Notably, the RBI has cancelled two auctions in FY2026 so far - of the 30Y SGrB (Rs. 50 billion) on June 13 and GS 2032 (Rs. 110 billion) on October 31, 2025, amid a demand for higher yields. Consequently, G-Secs worth Rs. 160 billion have been rejected in FY2026 so far (till January 9, 2026), compared to Rs. 103 billion cancelled in the corresponding year-ago period.
- Based on this and slightly lower issuances announced in the H2 calendar (planned: Rs. 6.77 trillion vs. BE: Rs. 6.87 trillion), the Gol's total gross market borrowings are expected to print at Rs. 14.6 trillion, marginally lower than the budgeted Rs. 14.8 trillion. Given ICRA's expectation of the Gol meeting its fiscal deficit target for FY2026, as well as the likely overshooting on account of small savings inflows (discussed on slide #36), market borrowings are likely to remain within indicated levels.

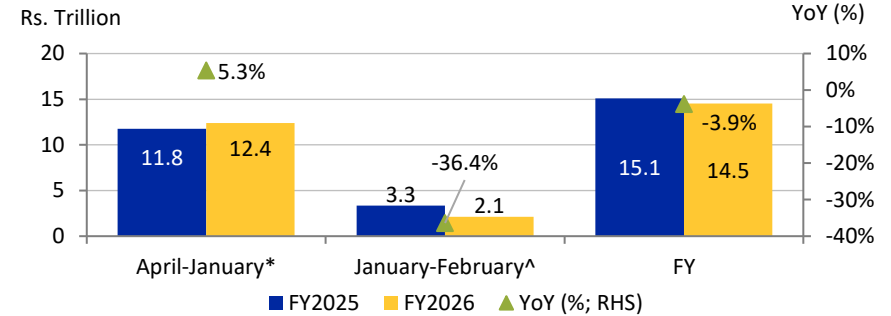
Gross T-bill issuances up by ~5% YoY in FY2026 so far; likely to surpass budgeted target

Exhibit 46: Trends in Gol's gross T-bill issuances



BE: Budget Estimate; Source: RBI; ICRA Research

Exhibit 47: Actuals gross T-bill issuances in FY2025-26 YTD

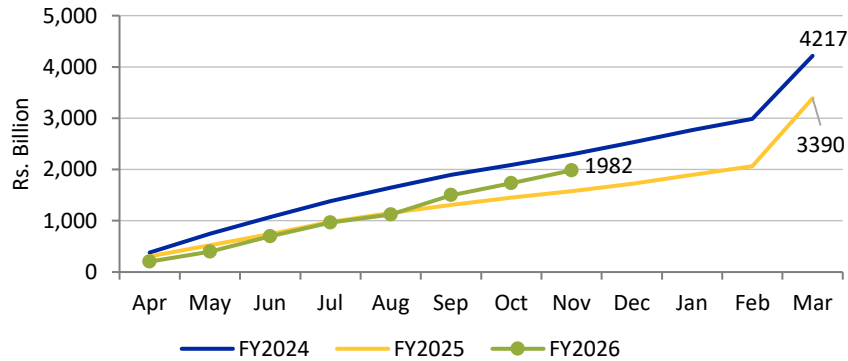


*By January 14, 2026; ^January 15 to March 27, 2026; corresponding periods of FY2025 has been used; Source: RBI; ICRA Research

- The Gol's gross T-bill issuances rose by 5.3% YoY to Rs. 12.4 trillion in FY2026 so far (January 14, 2026; 85% of FY2026 BE) from Rs. 11.8 trillion (78% of FY2025 A) in the year-ago period. This was mainly driven by sharper issuances in the 91-day segment (+9.9%), while the growth in 182-day (+3.2%) tenure remained tepid, and that for the 364-day segment (-2.4%) saw a contraction during this period.
- In Q4 FY2026, the Gol has indicated it would raise a gross amount of Rs. 3.8 trillion, ~12% lower than the actual Rs 4.4 trillion raised in Q4 FY2025. **If this entire amount is issued in Q4 FY2026, gross T-bill issuances are estimated to reach Rs. 15.6 trillion in FY2026, surpassing the FY2026 BE of Rs. 14.5 trillion by Rs. 1.1 trillion.**
- On a net basis, the Gol had indicated a nil amount for T-bill issuances for FY2026, implying that the outstanding stock of T-bills would remain flat between end-March 2025 and end-March 2026. As on January 2, 2026, the outstanding stock of T-bills stood at Rs. 7.4 trillion, 5.9% lower than Rs. 7.9 trillion as on March 28, 2025.

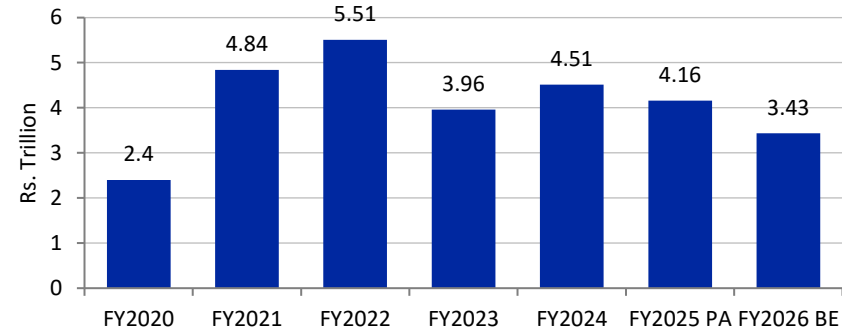
Small savings inflows surged by ~26% YoY during 8M FY2026; likely to overshoot FY2026 BE, boosting the GoI's cash balances

Exhibit 48: Cumulative inflows in saving deposits and certificates, and PPF



Source: CGA; ICRA Research

Exhibit 49: Trends in net amount from small savings schemes, PPF and deposit schemes

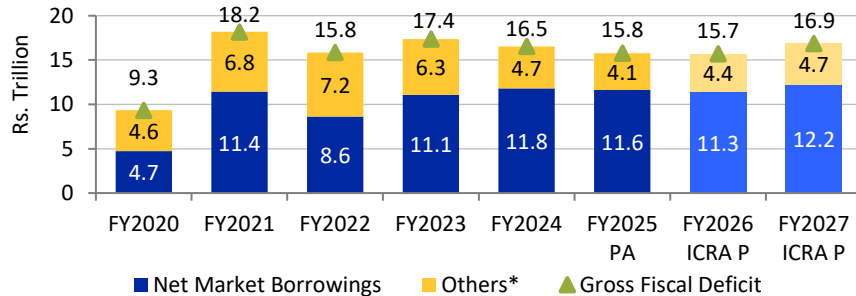


Source: DEA; ICRA Research

- As per the provisional data provided by the CGA, the cumulative inflows under savings deposit and certificates and PPF surged by 25.5% YoY to Rs. 2.0 trillion in 8M FY2026 (65% of FY2026 BE of Rs. 3.1 trillion) from Rs. 1.6 trillion in 8M FY2025 (47% of FY2025 PA of Rs. 3.4 trillion). This increase was partly been driven by unchanged interest rates for small savings schemes, even as interest rates on bank deposits declined during the fiscal following rate cuts by the RBI.
- Given these trends, inflows under savings deposits and certificates and PPF need to contract by a sharp 40.6% YoY during December-March FY2026 to remain within the target. This is highly unlikely, given that the GoI has kept the interest rates on small savings schemes unchanged for Q4 FY2026, and these remain elevated relative to G-secs with comparable maturity or spreads higher than the acceptable levels. Even if such inflows remain flat during December-March FY2026 compared to the year-ago levels, this will imply an overshooting to the tune of ~Rs. 0.7 trillion on this account. Amid expectations of unchanged market borrowings vis-à-vis the FY2026 BE, this would likely boost the GoI's cash balances, that would be carried into the next fiscal.**

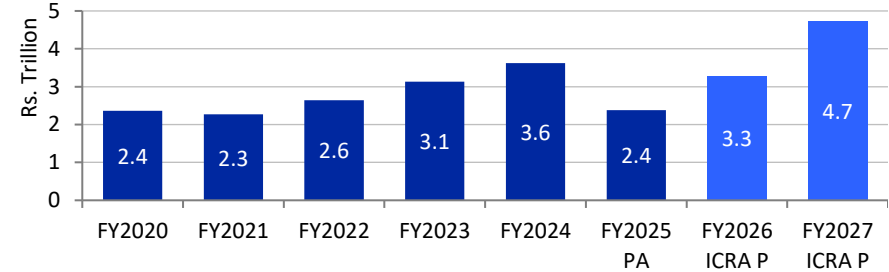
Gol's gross market issuances to surge to Rs. 16.9 trillion in FY2027 amid spike in redemptions, even as uptick in net market issuances may remain modest

Exhibit 50: Sources of financing of Gol's fiscal deficit



*Other sources includes T-bill issuances, securities against small savings, other receipts, state provident funds, external debt, and drawdown of cash balance; Source: CGA, Ministry of Finance; Union Budget, Gol; ICRA Research

Exhibit 51: Trends in redemptions of G-secs



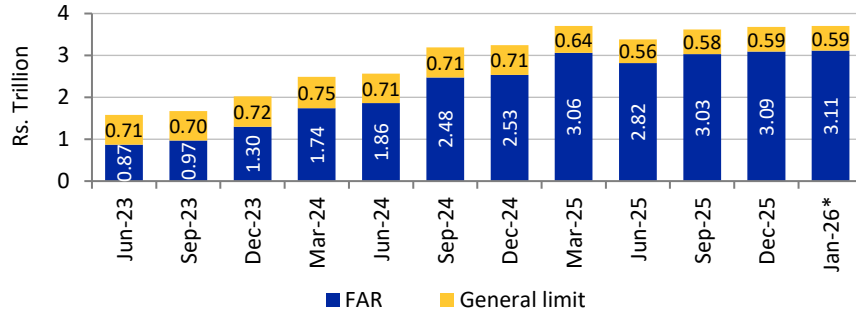
Source: RBI; Union Budget, Gol; ICRA Research

- Assuming that ~72% of ICRA's expected fiscal deficit of Rs. 16.9 trillion for FY2027 (vs. ~72% in FY2026) is financed through net dated market issuances, **the Gol is likely to set a target for net G-sec issuances at Rs. 12.2 trillion, 7.5% higher than the Rs. 11.3 trillion estimated for FY2026. This would entail an uptick in the amount of non-dated market sources of financing to Rs. 4.7 trillion from Rs. 4.4 trillion in FY2026.**
- G-secs worth Rs. 5.47 trillion are set to mature in FY2027, as per the RBI data. However, this includes the 5.63% GS 2026 (set to mature on April 12, 2026) with an outstanding amount of Rs. 0.87 trillion; this security was issued in FY2022 as a part of the back-to-back Covid loans to compensate states^ and should ideally be repaid in FY2026 from the GST compensation cess proceeds accumulated so far. Adjusting for this, **redemptions are expected to amount to Rs. 4.7 trillion in FY2027, significantly higher than FY2026 levels of Rs. 3.3 trillion.**
- Given sizeable increase in redemptions, **the gross market issuances of the Centre are pegged to rise sharply to Rs. 16.9 trillion in FY2027 from Rs. 14.6 trillion in FY2026, unless conversions/switches of G-secs are conducted in the near term. Notably, gross switching of G-secs was budgeted at Rs. 2.5 trillion in FY2026, of which ~Rs. 1.6 trillion has been done in the fiscal so far (till January 14, 2026), implying that Rs. 0.9 trillion is left to be conducted in the remainder of Q4 FY2026.**

^this security was also used for regular borrowings apart from the back-to-back loans

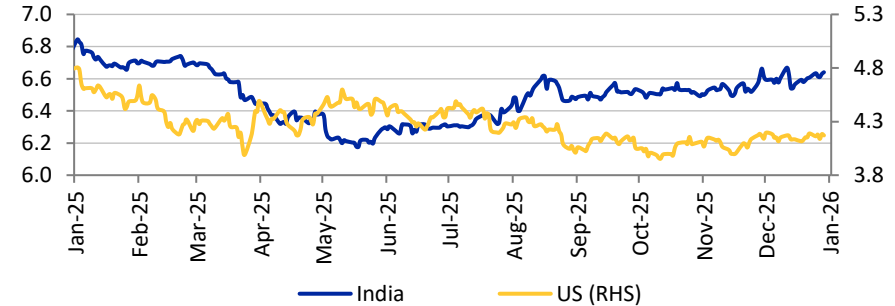
India's 10Y G-sec yield to trade in the range of 6.5-6.7% until FY2027 Budget presentation

Exhibit 52: Central Government securities held by FPIs under fully accessible route (FAR) and general investment route (GIR)



*till January 12, 2026; Source: NSDL; ICRA Research

Exhibit 53: Trends in India and US 10-year G-sec/Treasury yield



Source: Refinitiv; ICRA Research

- The FPI holdings in G-Secs through FAR increased to Rs. 3.09 trillion at end-December 2025 from Rs. 3.03 trillion at end-September 2025, supported by the widening in the 10Y UST-India spreads. Subsequently, such holdings rose further to Rs. 3.11 trillion as on January 12, 2026.
- India's 10-year benchmark G-sec yield remained range-bound in October-November 2025, averaging at ~6.52%, before displaying an upward trend in December 2025. It hardened to 6.66% on December 10, 2025, despite the 25-bps cut rate cut by the MPC, amid expectations of no further rate easing, lower-than-expected liquidity infusion by the RBI, and persistent tepid demand for G-secs. Subsequently, the 10Y yield moderated to 6.54% on December 24, a day after the RBI announced additional liquidity infusion of Rs. 2.9 trillion via OMO purchases (Rs. 2 trillion) and forex swaps, over and above Rs. 1.0 trillion OMOs conducted on Dec 12 and 19. Thereafter, the yield rose to 6.65% as on January 15, 2026, from 6.58% during December 26-31, 2025, amid FPI outflows.
- **ICRA expects the 10Y yield to be guided by liquidity trends in the banking system as well as Gol's fiscal math and borrowing numbers for FY2027, and any news around the Bloomberg bond index inclusion. We expect it to trade between 6.5-6.7% until the presentation of the Union Budget for FY2027.**

Exhibit: Centre's gross tax revenues in FY2025 PA, FY2026 BE, and ICRA's projections for FY2026 and FY2027

Rs. Trillion	FY2025 PA	FY2026 BE	FY2026 ICRA P (A)	FY2027 ICRA P (B)	Growth (B)/(A)
Gross tax revenues~	38.0	42.7	41.1	44.0	7.1%
Direct taxes	21.7	24.4	23.6	26.2	11.1%
Corporation tax	9.9	10.8	10.8	11.9	10.0%
Income tax	11.8	13.6	12.8	14.3	12.0%
Indirect taxes	14.1	15.7	15.3	16.8	9.7%
CGST + IGST	8.8	10.1	9.6	10.6	9.5%
Customs Duty	2.3	2.4	2.3	2.4	5.0%
Union Excise Duty	3.0	3.2	3.3	3.8	13-14%
Other tax*	0.6	0.9	0.8	1.0	15.6%
Compensation cess for GST	1.5	1.7	1.3	--	--

~Net of Refunds, Gross of States' share in Central Taxes; *including securities transaction tax, fringe benefit tax, etc.; PA: Provisional Actuals; BE: Budget Estimates; P: Projected; Source: Gol Budget Documents; CGA; ICRA Research

Exhibit: ICRA's projection for the Gol's fiscal deficit in FY2026-27

Rs. Trillion	FY2025 PA	FY2026 BE	FY2026 ICRA P (A)	FY2027 ICRA P (B)	Growth (B)/(A)
Revenue Receipts	30.4	34.2	33.7	35.5	5.2%
of which Net tax revenue	25.0	28.4	27.1	28.5	5.2%
of which Non-tax Revenue	5.4	5.8	6.6	7.0	5.0%
Revenue Expenditure	36.0	39.4	38.6	40.2	4.0%
of which interest payments	11.2	12.8	12.8	13.7	7.5%
of which major subsidies	3.9	3.8	4.3	4.4	2.5%
Revenue Balance	-5.7	-5.2	-4.9	-4.7	
Miscellaneous Capital Receipts	0.2	0.5	0.4	0.6	50.0%
Capital expenditure, net lending	10.3	10.9	11.2	12.7	14.1%
Fiscal Balance	-15.8	-15.7	-15.7	-16.9	

PA: Provisional Actuals; BE: Budget Estimates; P: Projected; Source: Gol Budget Documents; CGA; ICRA Research



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