

Government of India Finances

**Fiscal deficit at 55% of target in 9M
FY2026; fiscal slippage unlikely in
FY2026, amid sizeable revex savings**

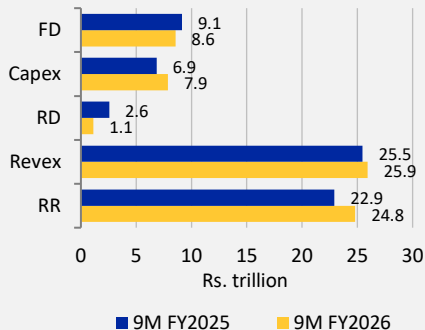
JANUARY 2026





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EXHIBIT: Trends in key fiscal metrics in 9M FY2025-2026



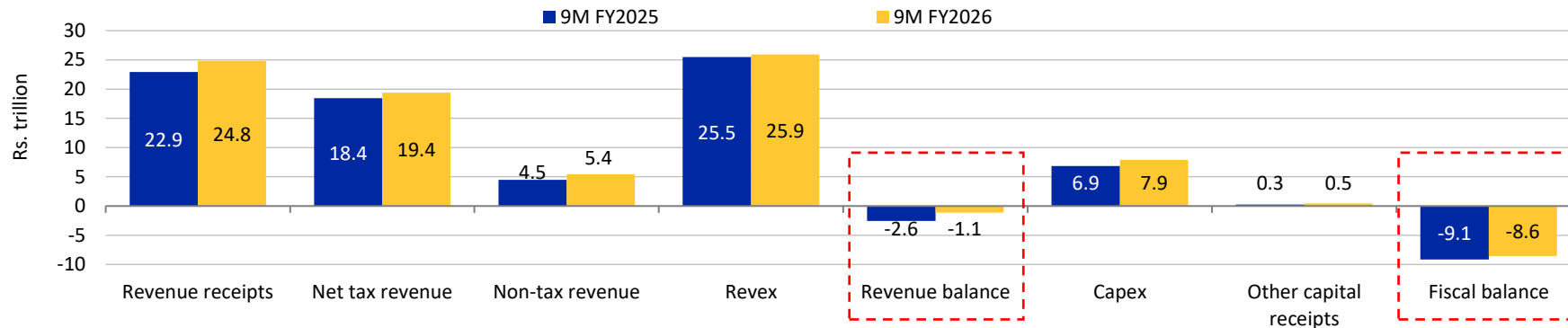
RR: Revenue receipts, Revex/Capex: Revenue/Capital expenditure; RD/FD: Revenue/Fiscal Deficit; Source: Union Budget, CGA, ICRA Research

The Government of India's (GoI's) fiscal deficit narrowed to Rs. 8.6 trillion during April-December or 9M FY2026 from Rs. 9.1 trillion in 9M FY2025, reaching 54.5% of the FY2026 budget estimate (BE). This stemmed from a lower revenue deficit compared to the year-ago levels, even as capital expenditure rose by a healthy ~15% year-on-year (YoY). On the taxes front, the GoI's gross tax revenues (GTR) expanded by a robust ~32% YoY in December 2025, which pulled up the growth in 9M FY2026 to a healthy 8.5%. Nevertheless, we anticipate a sizeable shortfall in GTR in FY2026 relative to the BE, given the sharp ~23% YoY growth required in Q4 FY2026 to meet the budgeted target. Overall, ICRA expects the potential miss on the taxes side to be offset by higher-than-budgeted non-tax revenues and sizeable expenditure savings on the revenue spending front. As a result, we do not expect a fiscal slippage in the FY2026 revised estimate (RE) relative to the BE of 4.4% of GDP. Thereafter, the GoI's fiscal deficit is expected to be pegged at 4.3% of GDP in FY2027.

- GoI's GTR to trail FY2026 BE:** GTR rose by 8.5% YoY in 9M FY2026, amid a healthy growth in indirect (+12.9%) and direct (+8.0%) tax collections. The former was aided by the uptick in GST inflows (+13.4%; IGST inflows surged in Dec 2025 vs. outflows in year-ago period), customs (+15.0%; sharp uptick in Dec 2025) and excise (+9.9%) duties. However, meeting the FY2026 BE requires a steep YoY growth of 23.1% in GTR in Q4 FY2026. Given this, ICRA is apprehensive that GTR will undershoot the budgeted target of Rs. 42.7 trillion, led by sizeable misses in income tax and CGST collections.
- Capex expanded by ~15% YoY in 9M FY2026:** The GoI's capex contracted for the third consecutive month in December 2025 (-24.5% YoY), marking a decline of 23% in Q3 FY2026, which is likely to weigh on the GDP growth in the quarter. Nevertheless, capex rose by 15% to Rs. 7.9 trillion in 9M FY2026, implying that a ~9% YoY contraction is required during Q4 FY2026 to ensure that capex prints in line with FY2026 BE. However, following the 4.7% dip in 9M FY2026, the GoI's non-interest non-subsidy revex needs to expand by a sharp ~38% in Q4 FY2026 to meet the BE, which appears unlikely and may lead to expenditure savings that can be partly reallocated towards capex. A Rs. 1.5 trillion cut in non-interest non-subsidy revex would still imply a required growth of ~15% in Q4 FY2026.
- Fiscal deficit unlikely to exceed BE of 4.4% of GDP in FY2026:** The potential miss on the taxes side is likely to be offset by higher-than-budgeted non-tax revenues and sizeable expenditure savings on the revex front. As a result, ICRA does not anticipate the FY2026 RE to indicate a higher fiscal deficit than the BE of 4.4% of GDP. Thereafter, we expect the GoI to peg its [fiscal deficit at 4.3% of GDP in the FY2027 Union Budget](#). Notably, excess small savings collections in FY2026 are expected to boost the GoI's cash balances, that would be carried into FY2027 to reduce the size of gross G-sec issuances.

Gol's fiscal deficit narrowed YoY to Rs. 8.6 trillion in 9M FY2026, driven by lower revenue deficit, even as capex expanded

EXHIBIT: Fiscal trends in April-December or 9M FY2025 and 9M FY2026

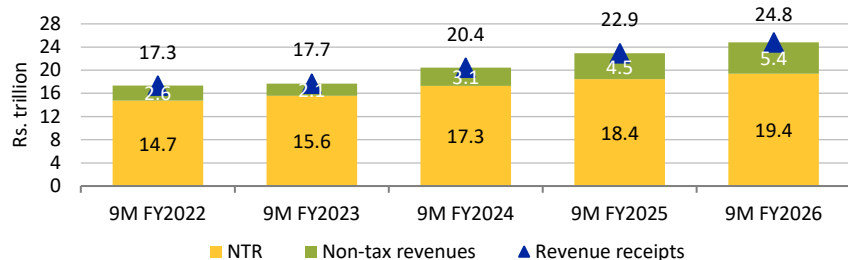


Source: CGA, Ministry of Finance, Gol; ICRA Research

- As per the provisional data released by the CGA, the Gol's revenue deficit narrowed sharply to Rs. 1.1 trillion during April-December or 9M FY2026 (21.8% of FY2026 BE) from Rs. 2.6 trillion in the corresponding period of FY2025 (45.2% of FY2025 PA), with the healthy growth in revenue receipts (+8.2% YoY) offsetting the tepid 1.8% rise in revenue expenditure.
- The Gol's capex rose by ~15% YoY to Rs. 7.9 trillion in 9M FY2026 (70.3% of FY2026 BE) from Rs. 6.9 trillion in 9M FY2025 (65.1% of FY2025 PA). However, the Gol's fiscal deficit eased to Rs. 8.6 trillion in 9M FY2026 (54.5% of FY2026 BE) from Rs. 9.1 trillion in 9M FY2025 (58.0% of FY2025 PA), with the healthy YoY increase in non-debt capital receipts (to Rs. 460.5 billion from Rs. 273.0 billion) as well as the narrowing in the revenue deficit more-than-offsetting the higher capex.
- Notably, a healthy expansion in gross tax revenues (+32.4%), especially corporation tax (+22.7%), customs duty (+229.7%) and IGST (to +Rs. 761.6 billion from -Rs. 37.4 billion), along with a YoY contraction in capex (-24.5%) led to a fiscal surplus of Rs. 1.2 trillion in the month of December 2025.

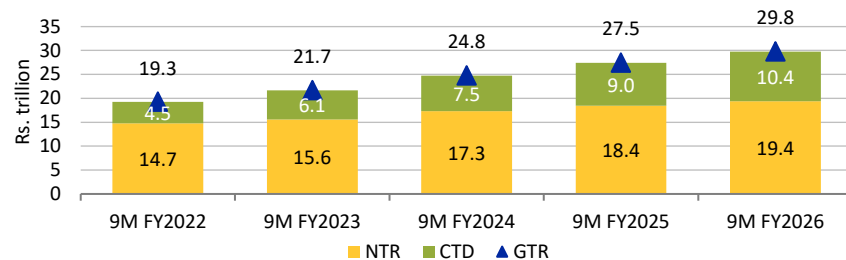
Gol's gross tax revenues up by ~9% YoY in 9M FY2026, aided by 32% surge in December 2025

EXHIBIT: The Gol's revenue receipts rose by 8.2% YoY in 9M FY2026, led by the sharp expansion in non-tax revenues (+20.6%), followed by a relatively lower uptick in net tax revenues (+5.2%)



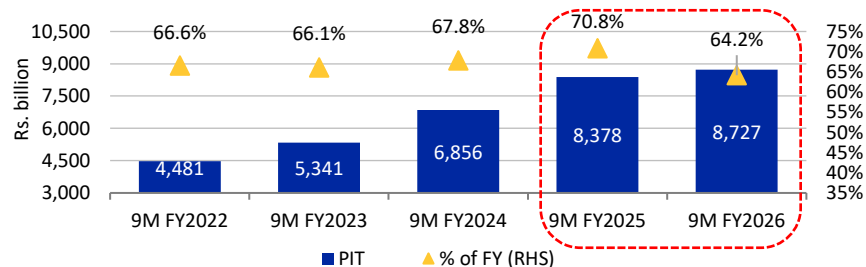
NTR: Net tax revenues; Source: CGA, Ministry of Finance, Gol, ICRA Research

EXHIBIT: Tax devolution to states, which is typically linked to the BE and not actual collections in the first three quarters, surged by 15.2% in 9M FY2026; this dampened the growth in net tax revenues, even as GTR rose by 8.5%



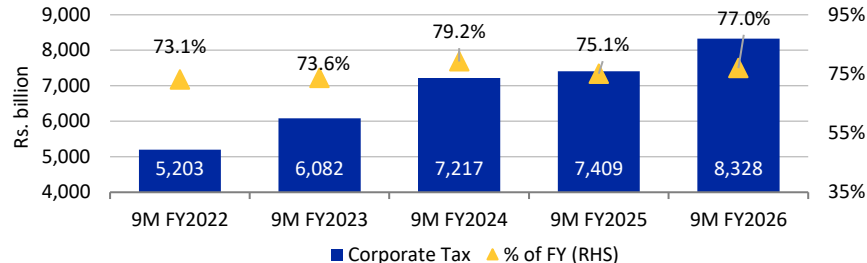
CTD: Central tax devolution; Source: CGA, Ministry of Finance, Gol, ICRA Research

EXHIBIT: Among direct taxes, PIT collections rose by 4.2% YoY to Rs. 8.7 trillion in 9M FY2026, with the growth trailing the budgeted target of 15.0%; collections amounted to 64.2% of FY2026 BE vs. 70.8% of 9M FY2025 PA



PIT: Personal income tax; Source: CGA, Ministry of Finance, Gol, ICRA Research

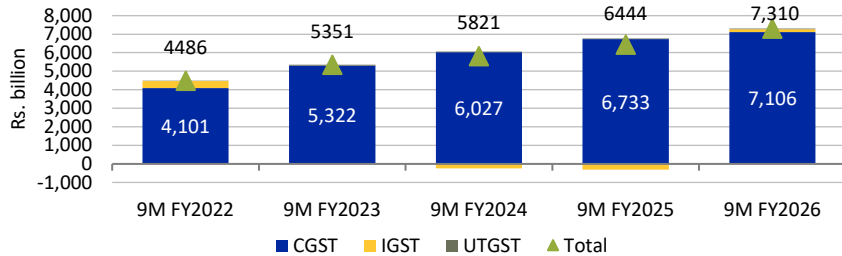
EXHIBIT: Amid the 23% YoY surge in December 2025, corporate tax collections rose by a healthy 12.4% (target: +9.7%) to Rs. 8.3 trillion in 9M FY2026 (77.0% of FY2026 BE vs. 75.1% of FY2025 PA)



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

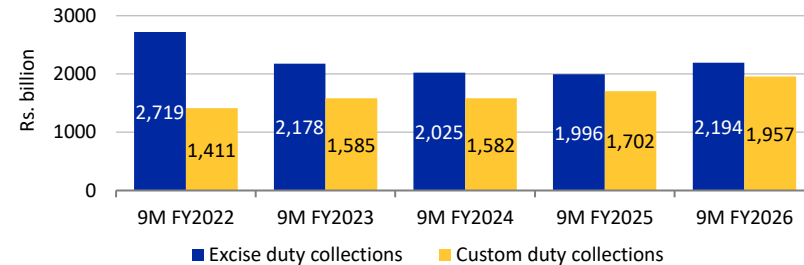
GTR may trail the FY2026 BE target, amid sizeable misses on PIT and CGST fronts

EXHIBIT: GST collections expanded by a robust 13.4% YoY in 9M FY2026, supported by modest growth in CGST (+5.5% vs. target +11.2%), and IGST inflows as against outflows seen in the year-ago period



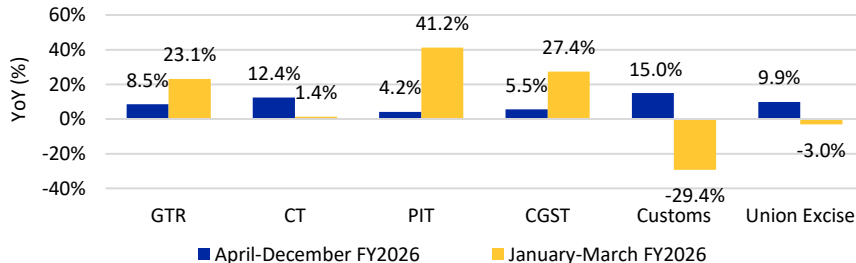
Source: CGA, Ministry of Finance, Gol; ICRA Research

EXHIBIT: The YoY growth in collections under custom duty and excise duty was healthy at 15.0% and 9.9%, respectively in 9M FY2026, trending well above their respective budgeted growth targets



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

EXHIBIT: Gross tax revenues rose by 8.5% in 9M FY2026; collections need to rise by a sharp ~23% in Q4 FY2026 to meet the budgeted growth of 12.5%

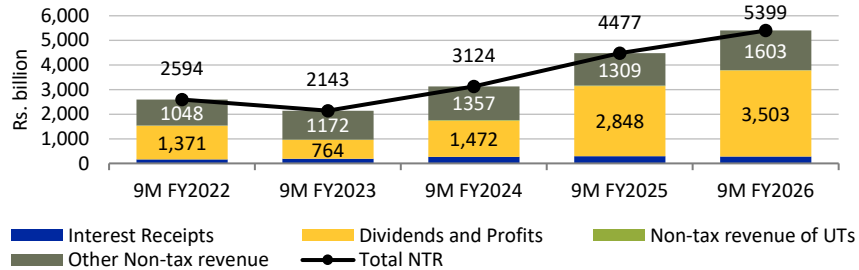


Source: Union Budget, CGA, Ministry of Finance, Gol; ICRA Research

- The Gol's gross tax revenues expanded by a resounding 32% in December 2025, pulling up the YTD growth to 8.5% during April-December FY2026. However, this still trails the 12.5% growth budgeted for the year.
- Notably, corporation tax (+22.7%), customs duty (+229.7%), excise duty (+14.6%), and IGST (sizeable inflows in Dec 2025, after several months of outflows) boosted the GTR in December 2025.
- The GTR needs to expand by an elevated 23.1% YoY in Q4 FY2026; **this requires a 41% growth in PIT and a 27% growth in CGST during the quarter, suggesting that a large miss on these fronts is likely.**
- **Given these trends, ICRA anticipates a sizeable shortfall in the Gol's gross tax revenues in the current fiscal relative to the FY2026 BE.**

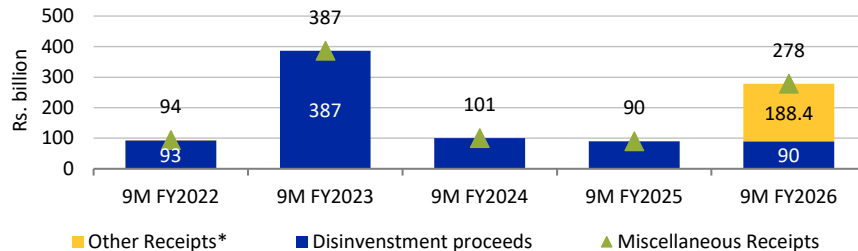
Non-tax revenues up by 21% in 9M FY2026; expected to overshoot the FY2026 BE, partly cushioning the miss on taxes

EXHIBIT: Non-tax revenues stood at an elevated Rs. 5.4 trillion in 9M FY2026 (~93% of FY2026 BE vs. 83% of FY2025 PA), up 21% YoY mainly led by dividends and profits (+23%), which have already exceeded their BE of Rs. 3.25 trillion



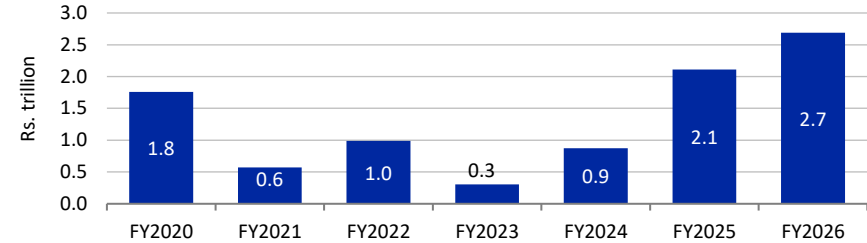
Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: Miscellaneous capital receipts stood at Rs. 278 billion in 9M FY2026, significantly higher than the year ago levels, entirely on account of monetisation-related inflows



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

EXHIBIT: The RBI surplus transfer to the GoI was higher by ~Rs. 0.4-0.5 trillion than the amount assumed in the FY2026 Union Budget, supporting the non-tax revenues

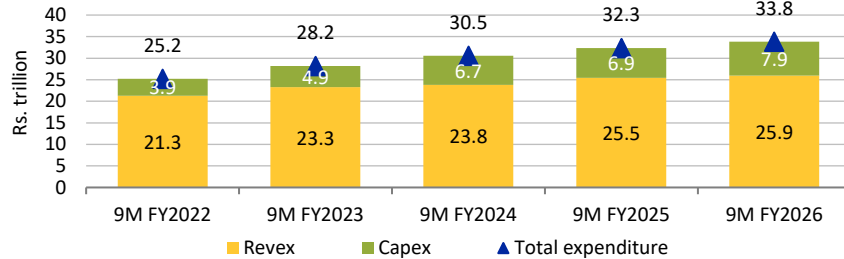


Source: RBI; ICRA Research

- The RBI surplus transfer to the GoI was ~Rs. 0.4-0.5 trillion higher vs. the amount assumed in the BE, supporting non-tax revenue. Notably, in 9M FY2026, dividends and profits (Rs. 3.5 trillion) have already exceeded the FY2026 BE (Rs. 3.3 trillion).
- Additionally, the target for miscellaneous receipts is unlikely to see a material miss in FY2026, in contrast to the trend seen across years. Notably, much of the inflows under the miscellaneous receipts category this year so far is led by monetisation, which amounted to Rs. 188 billion of the overall Rs. 278 billion in 9M FY2026.
- **We expect the potential miss on the taxes side to be atleast partly offset by higher-than-budgeted non-tax revenues.**

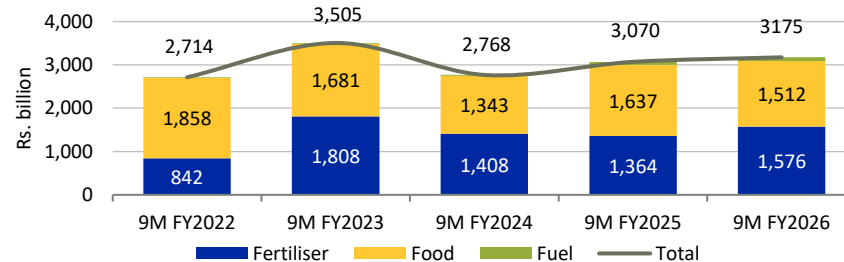
Growth in Gol's total expenditure limited to ~5% in 9M FY2026, amid tepid uptick in revex

EXHIBIT: The Gol's total expenditure rose by 4.6% YoY during 9M FY2026, led by robust expansion in capex (+15%), even as growth in revex was tepid (+1.8%)



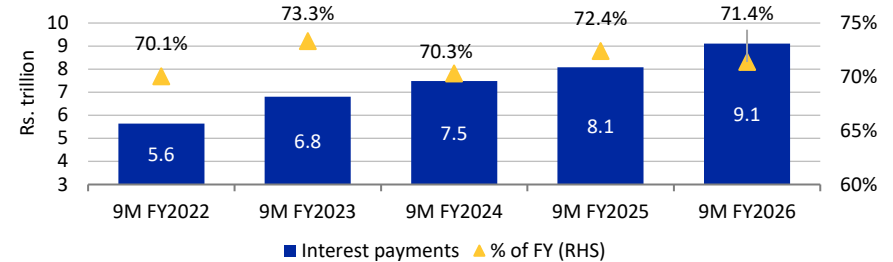
Source: CGA, Ministry of Finance, Gol; ICRA Research

EXHIBIT: The subsidy outgo rose by 3.4% YoY to Rs. 3.2 trillion in 9M FY2026 (83% of FY2026 BE vs. 79% in FY2025 PA), with sharp uptick in fertilisers being partly offset by lower food subsidy (amid higher loans to FCI)



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

EXHIBIT: The Gol's interest expenditure rose by a steep 12.7% YoY to Rs. 9.1 trillion in 9M FY2026; interest expenses as a share of revex increased to 35% in 9M FY2026 from an average of ~30% during 9M FY2022-25



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

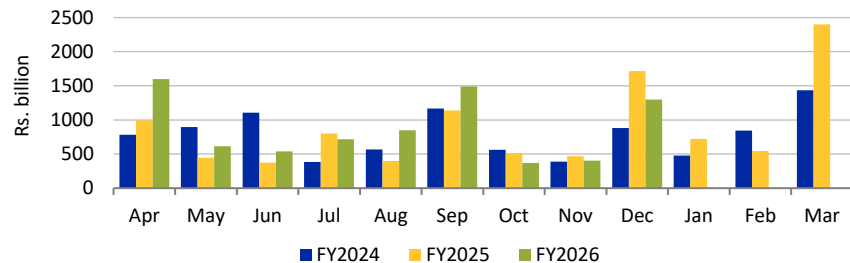
EXHIBIT: The Gol's non-interest non-subsidy revex fell by 4.7% in 9M FY2026, pushing up the required growth in Q4 FY2026 to a substantial ~38%, which is unlikely to materialise, leading to sizeable expenditure savings

(% YoY)	9M FY2026	Q4 FY2026*	FY2026 BE
Revenue expenditure	+1.8%	+27.9%	+9.5%
Interest Payments	+12.7%	+18.6%	+14.3%
Subsidies	+3.4%	-18.7%	-1.2%
Non-interest non-subsidy revex	-4.7%	+37.8%	+8.8%

*Required growth rate based on FY2026 BE and 9M FY2026 data; Source: CGA, Ministry of Finance, Gol; ICRA Research

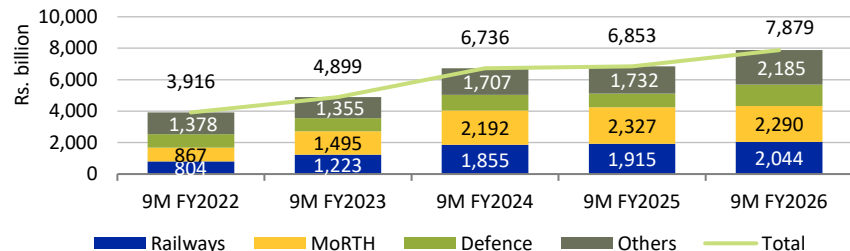
Capex contracted by 23% in Q3 FY2026, taking down 9M FY2026 growth to 15%; Gol may raise FY2026 capex amount in RE aided by revex savings

EXHIBIT: The Gol's capex contracted for the third consecutive month in Dec 2025 (-24.5% YoY), marking a decline of 23% in Q3 FY2026, which is likely to weigh on the GDP growth in the quarter



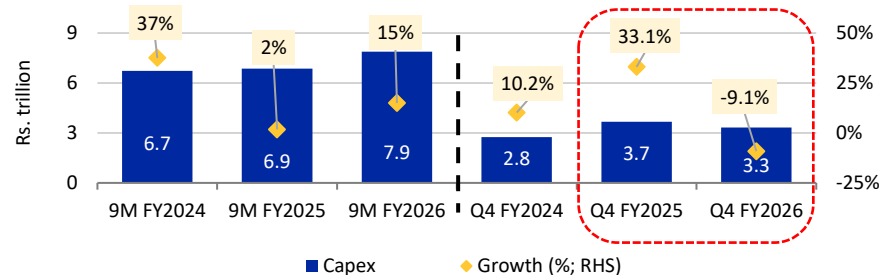
Source: CGA, Ministry of Finance, Gol; ICRA Research

EXHIBIT: The expansion in total capex during 9M FY2026 was largely driven by defence (+54.7% YoY); while growth in the capex of railways was relatively modest at 6.7%, that for MoRTH contracted by 1.6% during this period



MoRTH: Ministry of Railways, Road Transport and Highways; DFPD: Department of Food and Public Distribution; Source: CGA, Ministry of Finance, Gol; CEIC; ICRA Research

EXHIBIT: Nevertheless, total capex rose by 15% to Rs. 7.9 trillion in 9M FY2026; capex needs to contract by ~9% YoY during Q4 FY2026 to print in line with FY2026 BE of Rs. 11.2 trillion



*Headroom available in Q4 FY2025 and Q4 FY2026 is based on FY2025 PE and FY2026 BE, resp.; Source: Union Budget; CGA; Ministry of Finance, Gol; ICRA Research

- Capex in 9M FY2026 amounted to ~70% of the FY2026 BE, higher than 65% of FY2025 PA during 9M FY2025, owing to upfronted spending in H1 FY2026.
- The YoY rise of Rs. 1.0 trillion in capex in 9M FY2026 stemmed from Defence (+Rs. 481 bn), railways (+Rs. 129 bn), and Department of Food and Public Distribution (+Rs. 310 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 (from the peak outstanding amount of Rs. 500 billion in Oct 2025), and may be replaced by higher subsidy; this would provide headroom for other capex to be incurred in Q4 without exceeding the FY2026 BE.
- Capital transfers to states (incl. 50Y capex loan) stood at Rs. 984 billion in 9M FY2026, slightly higher than outgo in 9M FY2025 (Rs. 966 billion).
- **ICRA anticipates the Gol to enhance the allocation for capex somewhat over the FY2026 BE, limiting the contraction in Q4 FY2026.**

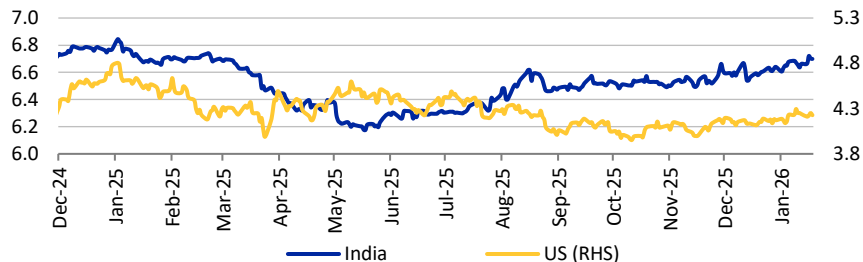
Gol's gross market borrowings rose by ~3% YoY in 10M FY2026; small savings inflows to overshoot FY2026 BE

EXHIBIT: In FY2026 so far (up to Jan 30), the Gol's gross borrowings stood at Rs. 13.1 trillion (~88.8% of FY2026 BE), 2.6% higher on a YoY basis; with a 9.5% rise in redemptions so far, net market issuances have fallen by a marginal 0.1% YoY

Rs. trillion	FY2025	FY2026	Growth
Gross Borrowings - Planned	14.0	14.7	5.1%
Gross Borrowings Completed by Jan 30	12.7	13.1	2.6%
% of Gross Borrowings completed	90.9%	88.8%	
Devolvement by Jan 30	0.07	0.00	
Cancellations by Jan 30	0.10	0.16	55.3%
Redemptions	2.4	3.3	38.0%
Redemptions by Jan 30	3.6	4.0	9.5%
Net Borrowings	11.63	11.44	-1.7%
Net Borrowings Completed by Jan 30	9.12	9.11	-0.1%
% of Net Borrowings completed	78.4%	79.7%	

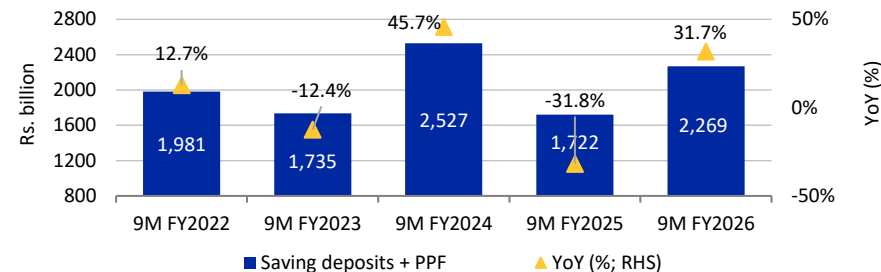
Source: RBI, ICRA Research

EXHIBIT: After printing at 6.59% at end-Dec 2025, India's 10Y G-sec yield has surged by ~11 bps in Jan 2026, crossing the 6.7%-mark on Jan 28, after a gap of nine months, despite liquidity infusion measures announced by the RBI



Source: Refinitiv; ICRA Research

EXHIBIT: Inflows under savings deposit and certificates, and PPF increased by ~32% YoY to Rs. 2.3 trillion in 9M FY2026 (74% of FY2026 BE vs. 51% in 9M FY2025), albeit on a low base



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

- Given the trends in savings deposits and certificates and PPF collections, such inflows can contract by a sharp 53% YoY during Q4 FY2026 without missing the FY2026 target. This seems highly unlikely, given that the interest rates on small savings schemes were kept unchanged for Q4 FY2026 and these remain elevated relative to G-secs with comparable maturity or spreads higher than the acceptable levels.
- Even if small savings inflows are flat during Q4 FY2026 compared to the year-ago levels, this will imply an overshooting of ~Rs. 0.9 trillion on this account. Amid expectations of unchanged market borrowings vis-à-vis the FY2026 BE, this would likely boost the Gol's cash balances, that would be carried into FY2027 to reduce the size of gross G-sec issuances for next year.

Table A.1: Trends in Tax Revenue Receipts

	FY2025 PE	FY2026 BE		April-December FY2026			Q4 FY2026 [^]
	Rs. billion	Rs. billion	Growth %	Rs. billion	% of BE	Growth % ~	Implicit Growth %
Gross Tax Revenues[^]	37,952.3	42,702.3	12.5%	29,842.7	69.9%	8.5%	23.1%
Direct Taxes	21,697.3	24,420.0	12.5%	17,054.6	69.8%	8.0%	24.6%
Corporation Tax	9,867.7	10,820.0	9.7%	8,327.7	77.0%	12.4%	1.4%
Income Tax [*]	11,829.6	13,600.0	15.0%	8,727.0	64.2%	4.2%	41.2%
Indirect Taxes	14,142.1	15,733.5	11.3%	11,449.0	72.8%	12.9%	7.1%
Central GST (CGST)	9,089.8	10,108.9	11.2%	7,106.2	70.3%	5.5%	27.4%
Union Territory GST (UTGST)	50.9	53.6	5.1%	47.0	87.7%	74.3%	-72.6%
IGST	-330.0	0.0	--	156.4	--	--	1013.2%
Customs Duty	2,329.0	2,400.0	3.1%	1,957.2	81.5%	15.0%	-29.4%
Excise Duty	3,002.5	3,170.0	5.6%	2,194.1	69.2%	9.9%	-3.0%
GST Compensation Cess	1,505.1	1,671.1	11.0%	897.8	53.7%	-19.5%	98.5%

[^]Net of Refunds, Gross of States' share in Central Taxes; ^{*}excluding security transaction tax; [~]Relative to FY2025 PE; [^]Based on FY2026 BE, FY2025 PE and the data for 9M FY2025/FY2026; Source: CGA, Ministry of Finance, Gol; Union Budget; ICRA Research

Table A.2: Trends in key fiscal metrics

	FY2025 PE	FY2026 BE		April-December FY2026		Q4 FY2026 [^]	
	Rs. billion	Rs. billion	Growth	Rs. billion	% of BE	Growth [~]	Implicit Growth %
Revenue Receipts	30,364.3	34,204.1	12.6%	24,791.1	72.5%	8.2%	26.2%
Tax Revenues ^{\$}	24,988.9	28,374.1	13.5%	19,392.5	68.3%	5.2%	36.9%
Non-Tax Revenues	5,375.4	5,830.0	8.5%	5,398.6	92.6%	20.6%	-52.0%
Revenue Expenditure	36,035.1	39,442.6	9.5%	25,930.6	65.7%	1.8%	27.9%
Revenue Balance	-5,670.8	-5,238.5		-1,139.5	21.8%		
Capital Receipts	172.0	470.0	173.2%	278.2	59.2%	209.3%	133.7%
Capital Expenditure, Net Lending	10,273.9	10,920.9	6.3%	7,697.1	70.5%	15.4%	-10.5%
Fiscal Balance	-15,772.7	-15,689.4		-8,558.4	54.5%		

^{\$}Net of Refunds, Net of States' share in Central Taxes; [~]Relative to FY2025 PE; [^]Based on FY2026 BE, FY2025 PE and the data for 9M FY2025/FY2026; Source: CGA, Ministry of Finance, GoI; Union Budget; ICRA Research



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