



EXPECTATIONS PRE - BUDGET 2025-26

1 Fiscal Performance of Government of India in FY2025



2 Key Expectations from FY2026 Budget



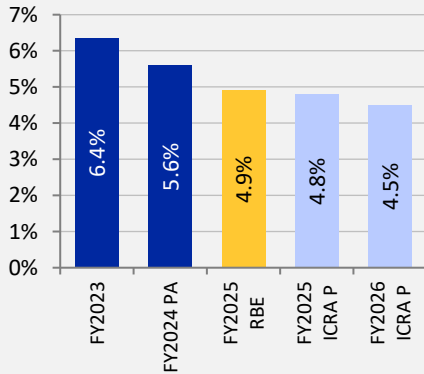
3 Expectations on Market Borrowings for FY2026





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EXHIBIT: Fiscal deficit (% of GDP)



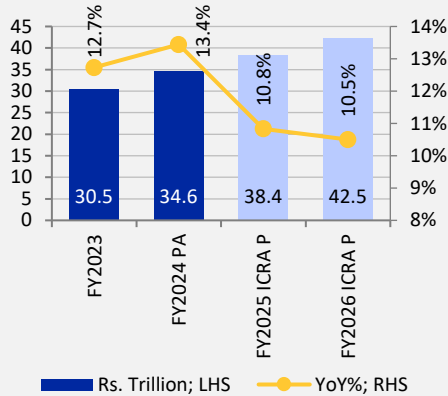
PA: Provisional Actuals; RBE: Revised Budget Estimate; P: Projected; Source: Union Budget, Gol; CGA, Ministry of Finance; ICRA Research

In the backdrop of the slowdown in domestic urban consumption and investment activity in FY2025, the Union Budget for FY2026 is likely to prioritise capital expenditure, reinforce focus on employment generation and skilling, and boosting manufacturing capacity, while also adhering to fiscal consolidation. The fiscal deficit target for FY2026 is estimated to be set at 4.5% of GDP, entailing a reduction of 25-30 bps over the projected 4.8% of GDP in FY2025 (vs. budgeted target of 4.9%). This, along with a likely dip in the revenue deficit, would allow for a capex target of ~Rs. 11 trillion for FY2026, similar to the budget estimate for FY2025, albeit 12-13% higher than the expected outgo in FY2025 (Rs. 9.7 trillion). Notably, the Government of India's (Gol's) target for non-tax revenues, particularly the RBI dividend could be a gamechanger for the FY2026 Budget math and a sharp swing on this account, vis-à-vis ICRA's projections could alter the fiscal deficit and/or create space for additional capex.

ICRA's expectations for FY2025:

- Gol's revenue receipts to print in line with FY2025 RBE, while total expenditure is expected to trail the target:** The Gol's net tax revenues (FY2025 RBE: Rs. 25.8 trillion; gross tax revenues; GTR to print in line with RBE of Rs. 38.4 trillion) as well as non-tax revenues (Rs. 5.4 trillion) are expected to remain largely in line with the FY2025 RBE. However, on the expenditure side, ICRA estimates the total spending to trail the FY2025 RBE of Rs. 48.2 trillion, with a lower-than-budgeted capital expenditure (Rs. 1.4 trillion lower than RBE) partially offsetting the projected overshooting in revenue expenditure (by +Rs. 325 billion) vis-à-vis the budgeted target for the fiscal.
- Fiscal deficit to print at 4.8% of GDP vs. target of 4.9% of GDP:** The anticipated miss in the capex target (by Rs. 1.4 trillion) is expected to outweigh the shortfall on account of disinvestment (Rs. 0.4 trillion) and overshooting in revex (Rs. 0.3 trillion) in FY2025. Accordingly, ICRA expects the fiscal deficit to print at Rs. 15.4 trillion in FY2025, trailing the RBE of Rs. 16.1 trillion. As a result, the fiscal deficit to GDP ratio would narrow to 4.8% in FY2025 vs. the target of 4.9%, despite the NSO's nominal GDP figure in advance estimates being lower than that included in the Budget.

EXHIBIT: GoI's gross tax revenues

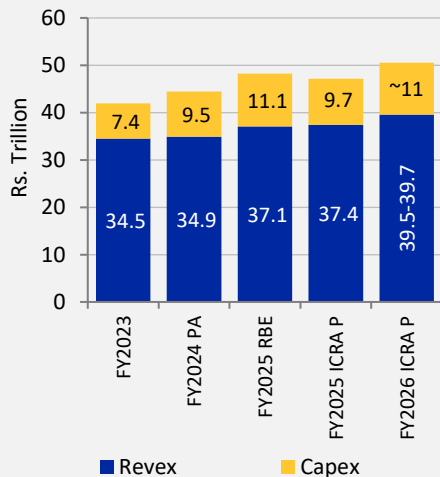


Source: Union Budget, GoI; CGA; ICRA Research

ICRA's expectations for FY2026:

- FY2026 fiscal deficit target seen at 4.5% of GDP:** Amidst the backdrop of slowdown in domestic urban demand and investment activity, the FY2026 Union Budget should aim to build in adequate growth for capital expenditure, reinforce focus on employment and skilling, and boost manufacturing capacity, while also adhering to fiscal consolidation. ICRA estimates a fiscal deficit target of 4.5% of GDP for FY2026, vs. 4.8% expected for FY2025 (RBE: 4.9% of GDP), with a capital expenditure growth of 12-13% amounting to Rs. 11 trillion.
- ICRA places YoY expansion in GTR at 10.5% in FY2026, with a tax buoyancy of 1.1:** While there may be some tax relief to personal income taxpayers in the Budget, ICRA believes that its impact on revenues is unlikely to be material, to ensure stable and predictable tax flows in the fiscal. Overall, the direct tax collections are estimated to grow by ~12% in FY2026, while the growth forecast for indirect taxes is pegged at a relatively moderate ~9% (GST at +10.5%). The latter considers a baseline growth estimate of ~5% in customs duty inflows, although the imposition of US tariff injects uncertainty to the outlook. The estimated growth in GTR for FY2026 is slightly higher than our nominal GDP growth forecast of 10.0% for the fiscal, implying a tax buoyancy of 1.1.
- Non-tax revenues may see a YoY dip in FY2026, while disinvestment target may be retained at Rs. 500 billion:** The non-tax revenues of the GoI are projected to decline by 6-7% to Rs. 5.1 trillion in FY2026 (vs. FY2025 RBE of Rs. 5.5 trillion), factoring in some moderation in the RBI's dividend surplus transfer, compared to the record Rs. 2.1 trillion seen in FY2025. Nevertheless, the target for non-tax revenues, particularly the RBI dividend could be a gamechanger for the FY2026 Budget math and a sharp swing on this account, vis-à-vis ICRA's expectations is likely to alter the fiscal deficit and/or provide room for additional capital spending. In addition, the FY2026 disinvestment target is likely to be kept unchanged at the FY2025 RBE of Rs. 500 billion.

EXHIBIT: GoI's expenditure trends



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

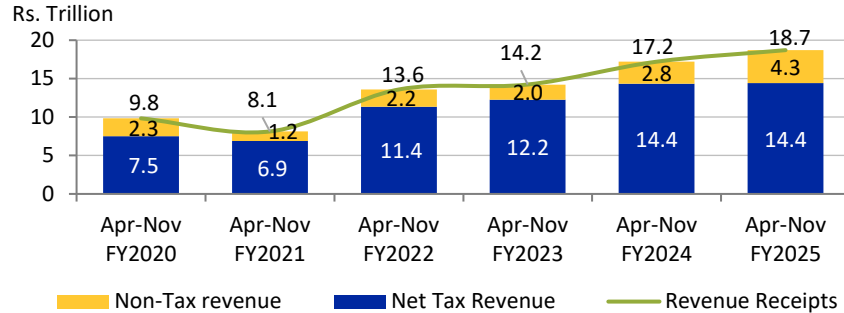
- Revenue expenditure estimated at Rs. 39.5-39.7 trillion in FY2026, a growth of 5.5-6.0%:** This builds in a 9.0% increase in the interest payments, and a modest 3.0% rise in aggregate subsidy outlay, amid a limited 4.5-5.0% growth in balance revex. There may be a fresh allocation of Rs. 300-350 billion towards the Employment Linked Incentive, launched in the July 2024 Budget. Besides, the allocation for the PLI scheme can be raised in FY2026, with the likely extension of the scheme to other labour-intensive sectors to boost domestic manufacturing.
- Capex target to be set at ~Rs. 11 trillion, a YoY growth of 12-13% on low base:** ICRA believes that the large shortfall expected in FY2025 (Rs. 9.7 trillion) vs. the target (Rs. 11.1 trillion) would create a space to build in a growth of 12-13% in the capital expenditure for FY2026, amounting to ~Rs. 11 trillion, which will help in supporting the growth in the next fiscal, as well as crowd-in private capex. We anticipate adequate allocations towards infrastructure-led sectors including roads, railways, highways, etc. in FY2026, while the outlay for interest free capex loan can be retained at the FY2025 budgeted amount of Rs. 1.5 trillion.
- Despite a likely reduction in revenue deficit, the fiscal deficit is estimated to widen to Rs. 16.0 trillion in FY2026 from Rs. 15.4 trillion expected for FY2025 (vs. target of Rs 16.1 trillion), owing to an increase in capex. Nevertheless, as a proportion of the GDP, it is anticipated to narrow to 4.5% from 4.8%, respectively. Looking ahead, ICRA awaits a forward-looking guidance on fiscal deficit targets or Central Government debt/GDP, even as the recommendations by the 16th Finance Commission will also be key, which may be released later in the fiscal.
- Net General Government dated market borrowings for FY2026 are pegged to rise to Rs. 19.6 trillion:** This is ~2.7% higher than Rs. 19.1 trillion projected for FY2025. With larger redemptions of G-sec and SGS, gross borrowings are estimated to rise by ~9.7% to Rs. 27.1 trillion in FY2026 from the projected Rs. 24.7 trillion in FY2025. While the increase in gross market borrowings is largely driven by higher redemptions, the expectations of rate cuts by the RBI is expected to augur well for yields in FY2026.



FISCAL PERFORMANCE OF GOVERNMENT OF INDIA IN FY2025

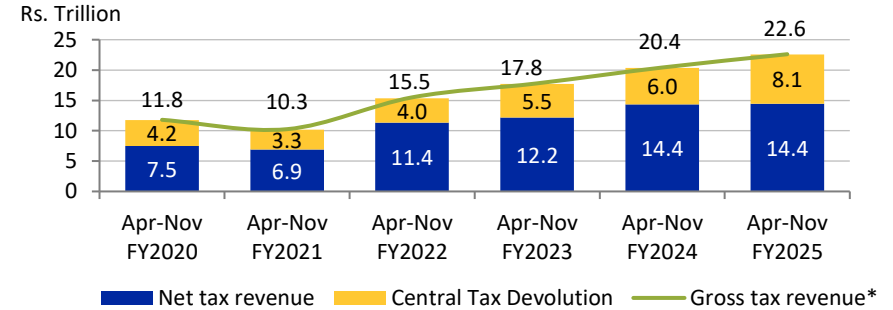
Gol's revenue receipts expanded by ~9% during April-November FY2025, driven by surge in non-tax revenues and direct taxes

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



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

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

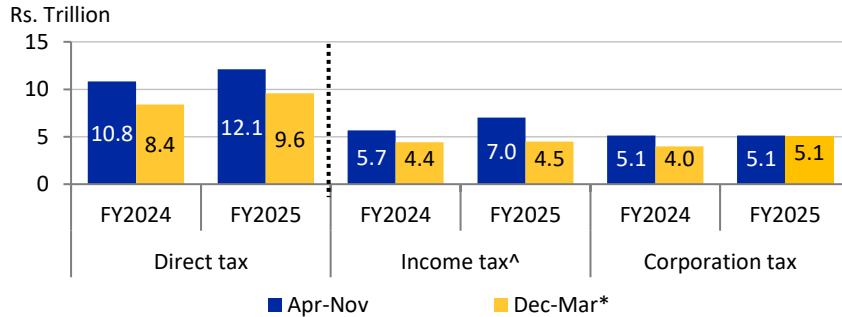


*inclusive of transfers to NCCF/NDRF; Source: CGA, Ministry of Finance, Gol; ICRA Research

- The Gol's revenue receipts rose by 8.7% YoY to Rs. 18.7 trillion during April-November FY2025 (59.8% of FY2025 RBE) from Rs. 17.2 trillion during April-November FY2024 (63.0% of FY2024 PA). This was driven by a sharp 50.2% expansion in non-tax revenues (to Rs. 4.3 trillion from Rs. 2.8 trillion; led by a surge in RBI dividend) during this period, even as the pace of growth in net tax revenues (+0.5%; to Rs. 14.43 trillion from Rs. 14.36 trillion) was muted.
- Net of refunds (gross of devolution to states), the Gol's tax revenues expanded by 10.7% YoY to Rs. 22.6 trillion during April-November FY2025 (58.9% of FY2025 RBE) from Rs. 20.4 trillion during April-November FY2024 (58.9% of FY2024 PA). This was led by a healthy uptick in direct taxes (YoY: +12.1%; 55.9% of FY2025 RBE), followed by a relatively low growth in indirect taxes (+7.7%; 61.6% of FY2025 RBE).
- The Centre's tax devolution rose sharply by 35.0% YoY to Rs. 8.1 trillion in April-November FY2025 from Rs. 6.0 trillion in April-November FY2024, leading to a lower growth in net tax revenues vis-à-vis the gross tax revenues during this period.

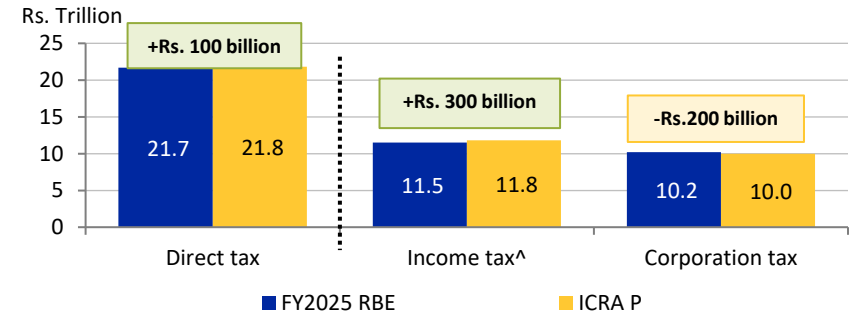
Direct tax collections rose by ~12% in 8M FY2025; projected to exceed FY2025 RBE marginally by ~Rs. 100 billion, led by higher income taxes

EXHIBIT: Trends in direct taxes



*Dec-Mar FY2025 is based on ICRA's projections for FY2025 and data for Apr-Nov FY2025; [^]Income tax excluding Securities Transaction Tax; Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: Trends in direct taxes in FY2025 BE vs. ICRA's projections for FY2025

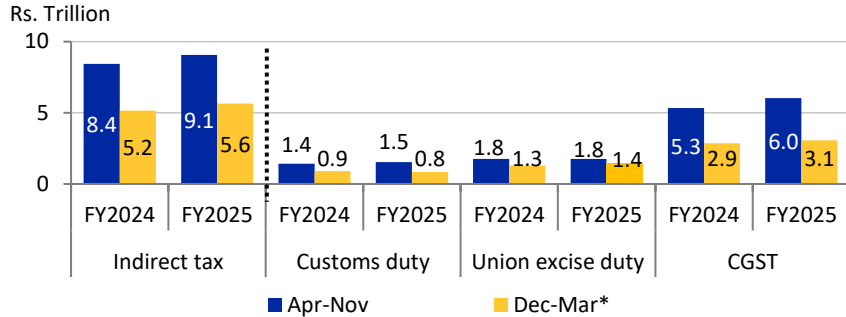


[^]Income tax excluding Securities Transaction Tax; P: Projected; RBE: Revised Budget Estimates; Source: CGA, Ministry of Finance, GoI; ICRA Research

- Direct taxes rose to Rs. 12.1 trillion in 8M FY2025 from Rs. 10.8 trillion in 8M FY2024, led by a robust uptick in income tax (YoY: +23.5%; 60.9% of FY2025 RBE), even as corporation taxes (YoY: -0.5%; 50.2%) declined slightly. However, these trends may have been partly distorted by the timing of the refunds. Thereafter, data released by the [Ministry of Finance](#) indicates that direct tax collections (net of refunds) rose by a healthy 15.9% YoY to Rs. 16.9 trillion in FY2025 (till January 12, 2025) from Rs. 14.6 trillion in the corresponding period of FY2024.
- Income tax collections need to grow by just 1.3% YoY during December-March FY2025 (+20.0% in Dec-Mar FY2024) to meet the FY2025 RBE (Rs. 11.5 trillion); as a result, ICRA expects such collections to exceed the FY2025 RBE by ~Rs. 300 billion. In contrast, corporation taxes need to expand by a sharp 28.2% during the rest of FY2025 (-0.2% during Dec-Mar FY2024) to meet the RBE (Rs. 10.2 trillion), which appears unlikely to be achieved. Consequently, ICRA expects these collections to trail the FY2025 target by ~Rs. 200 billion.
- Overall, ICRA expects direct taxes to exceed the FY2025 RBE (Rs. 21.7 trillion) slightly by ~Rs. 100 billion, registering a YoY growth of ~13% over the FY2024 Prov., similar to the budgeted expansion of 12.9%.

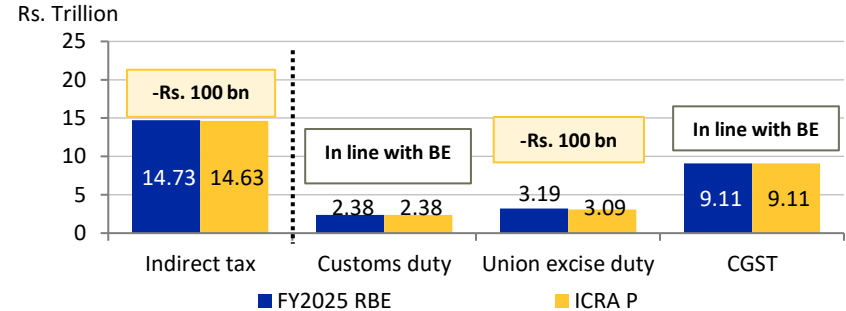
Undershooting in indirect taxes to be entirely offset by higher direct tax collections in FY2025, relative to the RBE

EXHIBIT: Trends in indirect taxes



*Dec-Mar FY2025 is based on ICRA's projections for FY2025 and data for Apr-Nov FY2025; Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: Trends in indirect taxes in FY2025 BE vs. ICRA's projections for FY2025

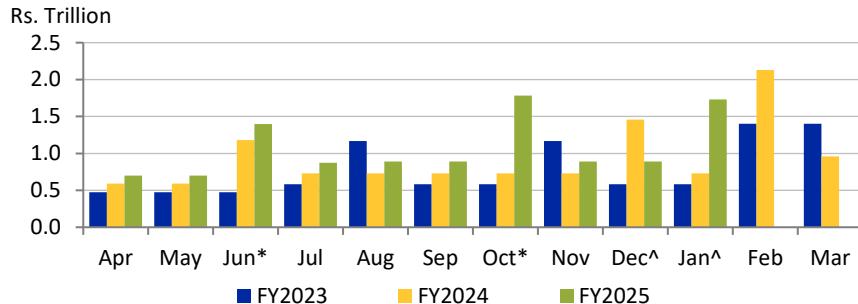


P: Projected; RBE: Revised Budget Estimates; Source: CGA, Ministry of Finance, GoI; ICRA Research

- The GoI's indirect taxes rose by 7.7% YoY to Rs. 9.1 trillion in 8M FY2025 (61.6% of FY2025 RBE) from Rs. 8.4 trillion in 8M FY2024 (62.0% of FY2024 PA), led by a robust uptick in CGST (YoY: +12.9%; 66.3% of FY2025 RBE), followed by a lower growth in customs duty (YoY: +8.7%; 64.8%), while union excise duty collections contracted (-0.6%; 54.9%) during this period. Additionally, the GoI's IGST settlement amounted to Rs. 278.5 billion in 8M FY2025, higher than Rs. 128.0 billion seen in 8M FY2024.
- While customs duty collections are implicitly projected to contract by 8.4% YoY in December-March FY2025 (+26.8% in December-March FY2024) to meet the FY2025 RBE (Rs. 2.4 trillion), excise duty inflows are required to grow by a sharper 11.4% during this period (+1.1% in December-March FY2024) to meet the target (Rs. 3.2 trillion). **ICRA expects excise duty collections to undershoot the FY2025 RBE by ~Rs. 100 billion; customs duty collections are likely to print in line with the budgeted target.**
- In addition, CGST collections are required to grow by 7.4% YoY during December-March FY2025 to meet the FY2025 RBE (Rs. 9.1 trillion), **which is likely to be achieved. Based on these trends, ICRA expects the total indirect tax collections to undershoot the budgeted target (Rs. 14.7 trillion) by ~Rs. 100 billion in FY2025.**
- **With the shortfall in indirect taxes being completely offset by the overshooting in direct taxes, ICRA projects the GoI's gross tax collections to print in line with the FY2025 target of Rs. 38.4 billion.**

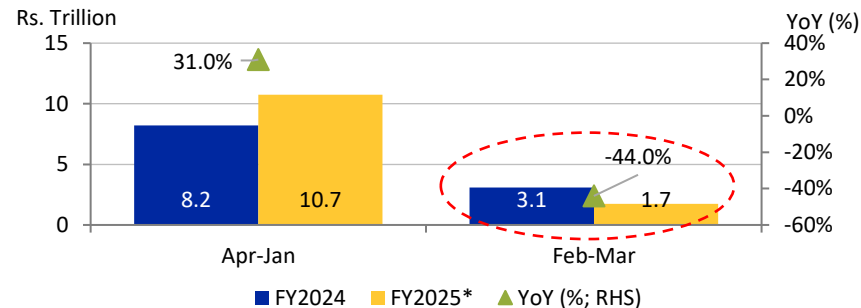
CTD surged by ~31% YoY during 10M FY2025; likely to contract in rest of FY2025, containing the incremental fiscal deficit

EXHIBIT: Monthly trends in tax devolution



*Data for June and October 2024 includes one additional CTD instalment of Rs. 699 billion and Rs. 891 billion, respectively; ^Based on press release by Ministry of Finance; Source: CGA, Ministry of Finance, Gol; ICRA Research

EXHIBIT: Trends in central tax devolution

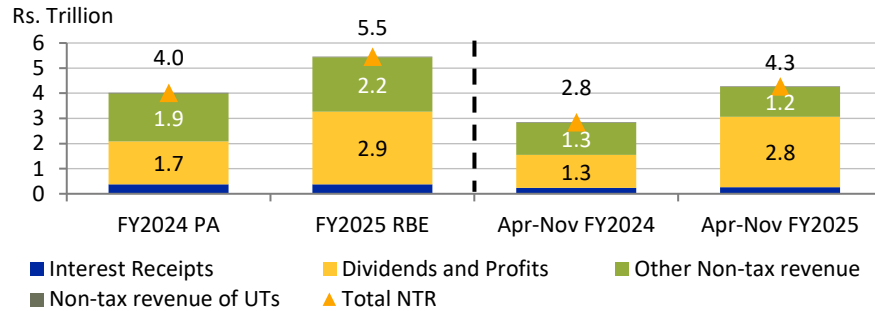


*Feb-Mar FY2025 is based on the data for FY2025 RBE and Apr-Jan FY2025; Source: CGA, Ministry of Finance, Gol, ICRA Research

- The central tax devolution (CTD) to states stood at Rs. 5.4 trillion in H1 FY2025, 19.6% higher than the year-ago level (Rs. 4.6 trillion). Thereafter, the Gol released an additional CTD tranche on October 10, 2024, with the total amount devolved in that month amounting to Rs. 1.8 trillion (YoY: +144%). Further, it transferred Rs. 890.9 billion each in November and December 2024. Based on a [press release](#) by the Ministry of Finance, the Gol has released Rs. 1.73 trillion to the states in January 2025, taking the total CTD transferred to the states to Rs. 10.7 trillion during April-January FY2025, 31.0% higher than the year-ago level of Rs. 8.2 trillion.
- As per ICRA's calculations, the Gol needs to transfer Rs. 1.7 trillion as CTD to states during February-March FY2025 to meet the FY2025 RBE (Rs. 12.5 trillion). This is a sharp 44.0% lower than the Rs. 3.1 trillion devolved in the corresponding year-ago period. **This would aid in containing the incremental fiscal deficit during the last two months of FY2025. Overall, based on ICRA's assessment of the gross tax revenues, the CTD would print largely in line with the FY2025 RBE.**

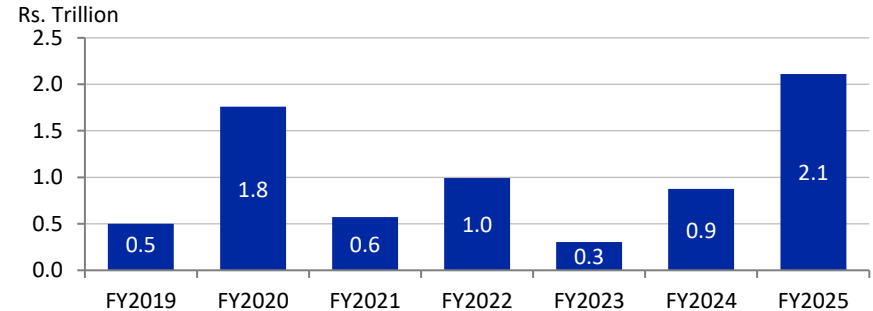
Non-tax revenues likely to print in line with FY2025 RBE of Rs. 5.5 trillion

EXHIBIT: 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, GoI; ICRA Research

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

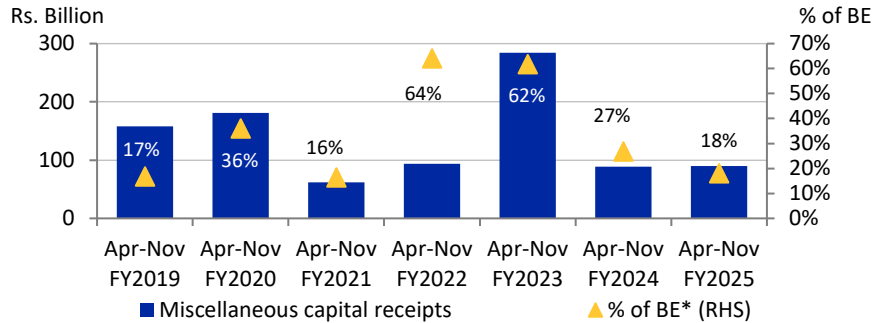


Source: RBI Annual Reports; Union Budget, GoI; ICRA Research

- The GoI's non-tax revenues surged by 50.2% to Rs. 4.3 trillion in April-November FY2025 (78.3% of FY2025 RBE) from Rs. 2.8 trillion in April-November FY2024 (70.8% of FY2024 PA), amid a record dividend payout released by the RBI (Rs. 2.1 trillion vs. Rs. 0.9 trillion released in FY2024).
- The dividends and profits more than doubled to Rs. 2.8 trillion during April-November FY2025 (96.5% of FY2025 RBE) from Rs. 1.3 trillion in April-November FY2024 (76.9% of FY2024 PA). Moreover, as per DIPAM, the dividend receipts from CPSEs stood at Rs. 483.8 billion up to January 15, 2025 (56% of FY2025 RBE). **Given these trends and a seasonal uptick in payouts in Q4 FY2025, ICRA expects the dividends and profits to exceed the FY2025 RBE (Rs. 2.9 trillion) by ~Rs. 250 billion.**
- Additionally, interest receipts rose to Rs. 0.3 trillion in 8M FY2025 (YoY: +14.2%; 70.2% of FY2025 RBE). However, other non-tax revenue contracted by 6.4% to Rs. 1.2 trillion in 8M FY2025 (55.4% of FY2025 RBE) from Rs. 1.3 trillion in 8M FY2024 (67.0% of FY2024 PA). **Consequently, the receipts under this revenue head need to rise substantially by ~54% YoY in December-March FY2025 to meet the FY2025 RBE (Rs. 2.2 trillion), which appears unlikely to be achieved.**
- **Based on this, ICRA expects a shortfall of ~Rs. 300 billion in other non-tax revenue in FY2025, relative to the RBE. This is likely to offset the higher-than-budgeted receipts on account of the dividends and profits in FY2025. Consequently, ICRA projects the non-tax revenues to print largely in line with the FY2025 RBE (Rs. 5.5 trillion).**

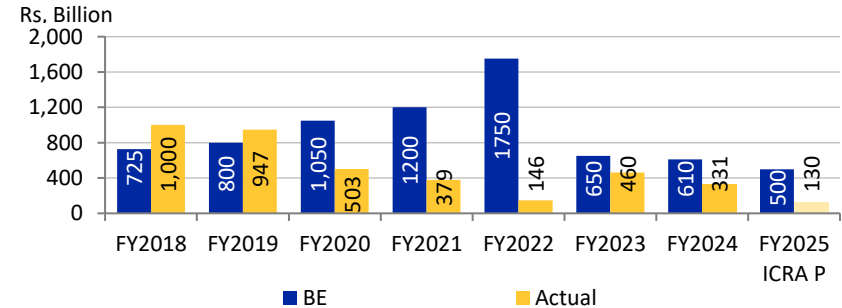
Disinvestment proceeds remained muted during 8M FY2025; miscellaneous capital receipts to undershoot FY2025 target by ~Rs. 370 billion

EXHIBIT: Trends in miscellaneous capital receipts during April-November FY2019-25



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

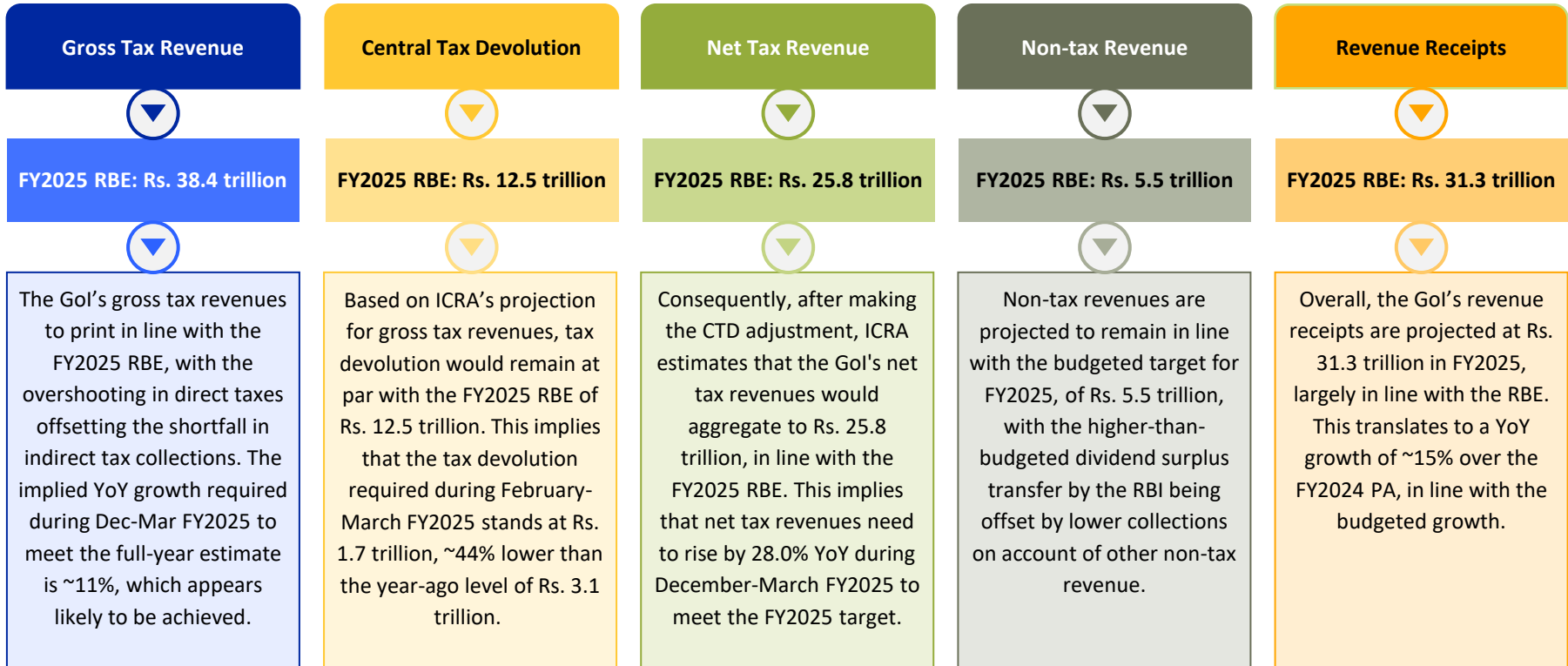
EXHIBIT: Annual trends in miscellaneous capital receipts



Provisional Estimates for FY2024; P: Projected; Source: CGA, Budget Documents, Gol; ICRA Research

- As per the CGA data, miscellaneous capital receipts remained tepid at Rs. 89.8 billion, or 18.0% of the RBE during April-November FY2025 (Rs. 88.6 billion in April-November FY2024; 26.7% of FY2024 PA).
- According to the data provided by the DIPAM, the total receipts from disinvestment stood at just Rs. 86.3 billion as on January 15, 2025. This included sales of the GoI's stake in General Insurance Corporation of India (3.39% stake for Rs. 23.5 billion), Cochin Shipyards Ltd. (4.95% stake for Rs. 20.2 billion) and Hindustan Zinc Ltd. (1.62% stake for Rs. 34.5 billion) through the offer for sale (OFS) route, as well as remittances from the Specified Undertaking of the Unit Trust of India (SUUTI; Rs. 8.2 billion).
- Currently, the expression of interest (EoIs) have been closed for the Shipping Corporation of India Ltd., FSNL, BEML Ltd., HLL Lifecare, NMDC Steel, IDBI Bank Ltd., Indian Medicines Pharmaceuticals Corporation Ltd., and Projects and Development India Ltd. **The disinvestment process for major CPSEs such as IDBI Bank and Shipping Corporation is expected to be finalised only in FY2026. Overall, ICRA anticipates a large shortfall of ~Rs. 370 billion in the miscellaneous capital receipts target of Rs. 500 billion for FY2025.**

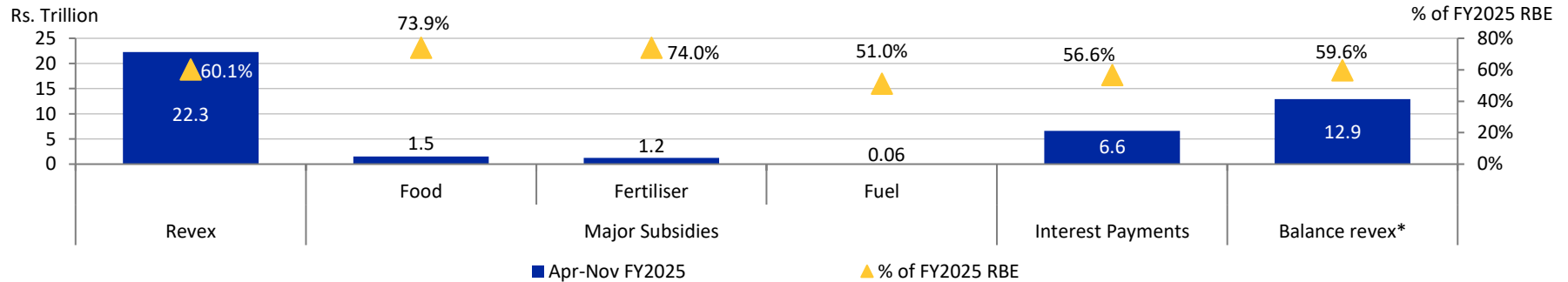
Revenue receipts to print in line with the FY2025 RBE of Rs. 31.3 trillion



Source: ICRA Research

Revenue expenditure increased by ~8% YoY during April-November FY2025, owing to higher subsidy outgo and interest payments

EXHIBIT: Centre's revenue expenditure during April-November FY2025



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

- The Gol's revenue expenditure rose by 7.8% YoY to Rs. 22.3 trillion (60.1% of FY2025 BE) in April-November FY2025 from Rs. 20.7 trillion in April-November FY2024 (59.1% of FY2024 PA), led by an uptick in the total outgo for major subsidies (+15.0%) and interest payments (+8.3%).
- The YoY expansion in major subsidies to Rs. 2.8 trillion in April-November FY2025 (73.3% of FY2025 RBE) from Rs. 2.4 trillion in April-November FY2024 (58.7% of FY2024 PA) was driven by a higher outgo for fuel (+443%; low base) and food (+32.7%), while that for fertilisers (-4.6%) contracted during this period.
- Additionally, the interest outgo rose by 8.3% to Rs. 6.6 trillion in April-November FY2025 (56.6% of FY2025 RBE) from Rs. 6.1 trillion in April-November FY2024 (57.1% of FY2024 PA). Moreover, the balance revenue expenditure (excluding interest payments and subsidies) stood at Rs. 12.9 trillion during the first eight month of FY2025, 6.1% higher than Rs. 12.2 trillion seen during the corresponding period of FY2024.

Revenue expenditure to mildly overshoot FY2025 RBE, driven by extra allocation towards subsidies

Food and Fuel Subsidy



- While no additional outlay was announced towards food subsidy in the 1st supplementary demand for grants (SDG) for FY2025, the Gol made an additional allocation of just Rs. 4.4 billion towards the fuel subsidy.
- The food subsidy needs to decline by ~45% YoY in December-March FY2025 to meet the RBE (Rs. 2.1 trillion), indicating that it may exceed the target. Moreover, healthy trends in the first advance estimates of kharif output of rice and coarse cereals are likely to boost procurement and necessitate extra funds.
- **Overall, ICRA expects the food subsidy to exceed the FY2025 RBE by ~Rs. 150 billion, while that for fuel may marginally overshoot the target by ~Rs. 10 billion.**

Fertiliser Subsidy



- After the escalation of the Red Sea crisis, the landed cost of DAP had surged, making imports unviable for the companies. To address this, in September 2024, the Gol announced a special one-time package, providing a maximum of Rs. 3,500/MT to cover the costs on the point of sale of DAP w.e.f. April-December 2024.
- Moreover, the Gol made an additional allocation of Rs. 65.9 billion for the fertiliser subsidy in the 1st SDG.
- **The subsidy needs to fall by ~31% YoY during December-March FY2025 to achieve the FY2025 RBE (Rs. 1.6 trillion). Given the modest additional allocation made under the 1st SDG, the fertiliser subsidy outlay appears to be largely adequate for FY2025.**

1st Supplementary Demand for Grants



- The Gol announced the 1st SDG on December 12, 2024, with a modest total net cash outgo of Rs. 441.4 billion.
- This includes additional allocation for the PM-Kisan scheme (Rs. 76.9 billion), Defence services (Rs. 80.4 billion), MoRTH (Rs. 21.5 billion; for repair, maintenance, etc.), and the Ministry of Home Affairs (Rs. 48.4 billion; for meeting additional expenses for the police). These account for ~51% of the total net cash outgo under the first SDG.
- **However, this marginal net cash outgo is unlikely to lead to a sharp overshoot in the revenue expenditure, relative to the FY2025 RBE.**

Revenue Expenditure

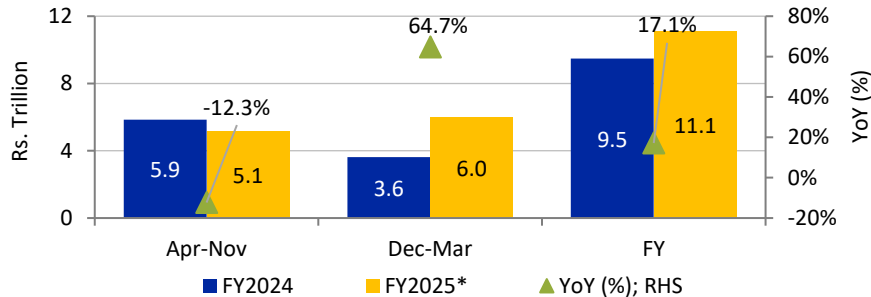


- The Gol's revenue expenditure is required to rise by ~4% YoY during December-March FY2025 to meet the FY2025 RBE of Rs. 37.1 trillion.
- In early September 2024, the Gol had relaxed the [cash management guidelines](#) for big releases (>Rs. 5 billion) for all items of expenditure in the remaining part of FY2025.
- **Based on the extra allocation for some major subsidies and the additional expenditure under the first SDG, ICRA expects the Gol's revenue spending to exceed the FY2025 target by ~Rs. 325 billion.**

Source: ICRA Research

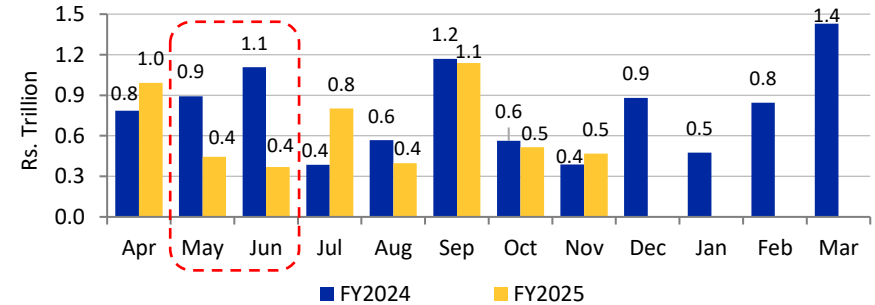
GoI's capex fell sharply by ~12% YoY during April-November FY2025; expected to miss FY2025 target by ~Rs. 1.4 trillion

EXHIBIT: Trends in Centre's capital expenditure



*Dec-Mar FY2025 is based on FY2025 RBE and Apr-Nov FY2025; Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: Monthly trends in Centre's capital expenditure

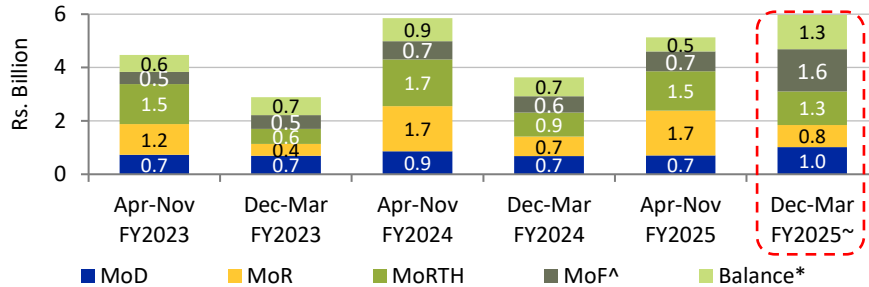


Source: CGA, Ministry of Finance, GoI; ICRA Research

- The GoI's capex contracted by 12.3% to Rs. 5.1 trillion in April-November FY2025 (46.2% of FY2025 RBE) from Rs. 5.9 trillion in April-November FY2024 (61.7% of FY2024 PA) owing to the lull seen during the General Elections, followed by the monsoon-led slowdown seen in H1 FY2025. This was much lower than the average of 56.2% of the full-year capex spent during April-November over the past four years.
- On a quarterly basis, the gross capex rose from an average of Rs. 603.5 billion in Q1 FY2025 (YoY: -35.0%) to Rs. 779.7 billion in Q2 FY2025 (+10.3%), before moderating to Rs. 492.7 billion in October-November FY2025 (+3.7%).
- Overall, the GoI needs to incur a capex of ~Rs. 1.5 trillion per month during December-March FY2025 to meet the FY2025 RBE, which entails a considerable expansion of ~65% on a YoY basis. This appears rather challenging, and at this juncture ICRA expects the capex target of Rs. 11.1 trillion for FY2025 to be missed by ~Rs. 1.4 trillion, which would still entail a high growth of ~26% during the last four months of the fiscal.

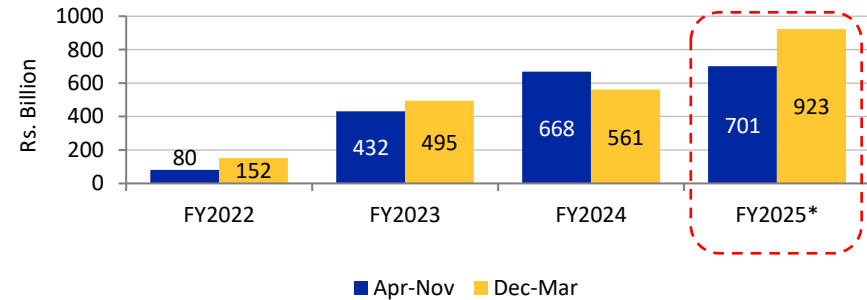
Lower capital outgo in defence, road and slow offtake of interest-free capex loans led to YoY contraction in capex in 8M FY2025

EXHIBIT: 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 RBE; ^Includes transfer to states; Source: CGA, Gol; ICRA Research

EXHIBIT: Capital transfer to states by the Ministry of Finance

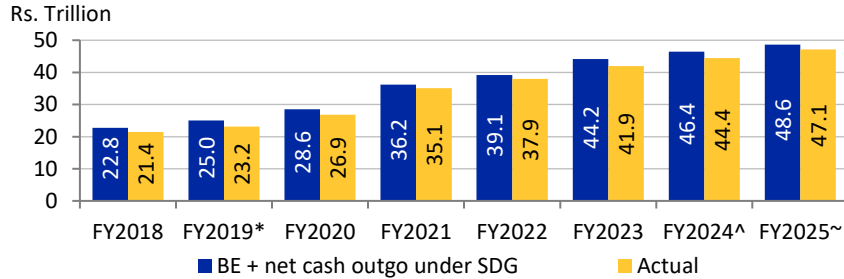


*Imputed value for Dec-Mar FY2025 required to meet the FY2025 target; Source: CGA, Ministry of Finance, Gol; ICRA Research

- The YoY moderation in capex in April-November FY2025 was caused by a YoY decline in the capital outlay for defence services (-7.5%), and lower capex by MoRTH (-15.9%) and the Ministry of Railways (-0.8%), even as that for the Ministry of Finance (+5.0%) rose marginally. In December-March FY2025, the capex of all these ministries needs to expand sharply (MoD: +47.8%; MoR: +14.8%; MoRTH: +40.4%; and MoF: +155%) to meet the respective targets for FY2025.
- Within the Ministry of Finance, the capital transfer to states rose by a modest 5.0% to Rs. 701.4 billion in April-November FY2025 from Rs. 668.2 billion in April-November FY2024, amid a slow progress of disbursements under the interest-free capex loans to the state governments (FY2025 RBE: Rs. 1.5 trillion). However, as per newspaper reports, the Gol has relaxed the conditions on the transfer of such loans to states in order to meet the full-year target.
- The balance portion of the capex, i.e. the gross capex minus the capex incurred by the aforesaid ministries, fell by a steep ~39% during April-November FY2025. **To meet the FY2025 RBE, the balance capex needs rise by ~84% YoY in December-March FY2025, which seems quite ambitious.**

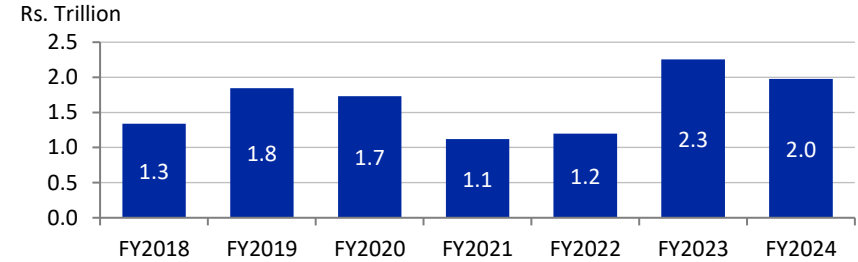
Total expenditure to trail the FY2025 RBE by ~Rs. 1.1 trillion

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



^Provisional estimates for FY2024; *Second batch of SDG for FY2019 is not available in the public domain and hence savings might be modestly lower than Rs. 1.8 trn; ~FY2025 includes only one SDG announced so far, ICRA's projections have been taken for FY2025 Actual; Source: Union Budget; ICRA Research

EXHIBIT: Estimated expenditure savings (BE + NSGD – Actual)

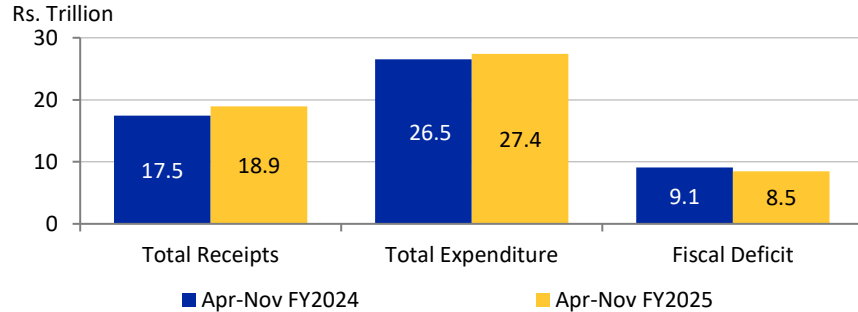


NSGD: Net cash outgo under Supplementary demand for grants; Aggregate expenditure savings of the GoI are computed by adding net cash outgo under the SDG to the budgeted total expenditure and subtracting actual spending incurred in each fiscal; Source: Union Budget, GoI; CGA; ICRA Research

- The GoI's total expenditure stood at Rs. 27.4 trillion (56.9% of FY2025 RBE) in April-November FY2025, 3.3% higher than the year-ago level of Rs. 26.5 trillion (59.7% of FY2024 PA), amid the contraction in capex during this period.
- The net cash outgo under the 1st SDG for FY2025 stood at a modest Rs. 441.4 billion, which is unlikely to have a significant impact on the total expenditure. Moreover, the GoI is estimated to have generated savings of Rs. 1.6 trillion per year on an average during FY2018-FY2024, as per ICRA's estimates. Such savings would aid in absorbing the extra allocation under the supplementary demand for grants for FY2025.
- Overall, based on ICRA's expectations, a large shortfall in capital expenditure is likely to more than offset the mild overshooting in revenue expenditure in FY2025 compared to the target. Consequently, ICRA projects the GoI's total expenditure to trail the FY2025 RBE (Rs. 48.2 trillion) by ~Rs. 1.1 trillion.

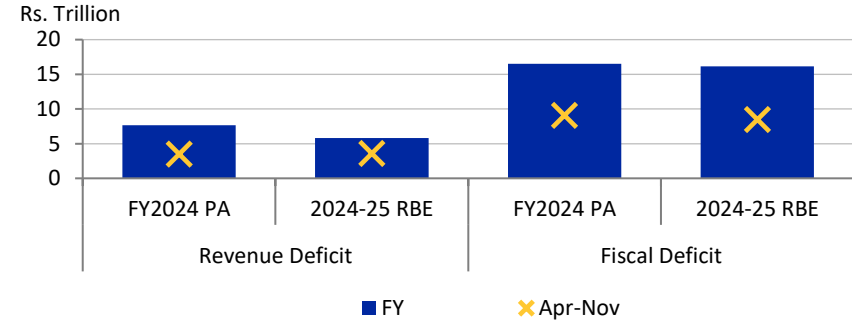
FY2025 fiscal deficit likely to narrow to 4.8% of GDP, against the target of 4.9%

EXHIBIT: Trends in revenues and expenditure of the GoI



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

EXHIBIT: Revenue and fiscal deficits



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

- With a slightly sharper uptick in revenue receipts (+8.7%) relative to the revenue expenditure (+7.8%), the revenue deficit rose only marginally to Rs. 3.6 trillion in April-November FY2025 from Rs. 3.5 trillion in April-November FY2024. In addition, with a sharp ~12% YoY contraction in capex, the GoI's fiscal deficit narrowed to Rs. 8.5 trillion in April-November FY2025 from Rs. 9.1 trillion in April-November FY2024.
- While the GoI's revenue deficit stood at 61.5% of the FY2025 RBE in April-November FY2024, higher than the print of 45.2% of FY2024 PA in April-November FY2024, the fiscal deficit was at 52.5% compared to the year-ago level of 54.8%.
- The anticipated miss in the capex target (by Rs. 1.4 trillion) is expected to outweigh the shortfall on account of disinvestment (Rs. 0.4 trillion) and overshooting in revex (Rs. 0.3 trillion) in FY2025. Accordingly, ICRA expects the fiscal deficit to print at Rs. 15.4 trillion in FY2025, ~Rs. 0.7 trillion lower than the RBE of Rs. 16.1 trillion. Consequently, in spite of the NSO's nominal GDP figure in first advance estimates (Rs. 324.1 trillion) being lower than what was included in the budget (Rs. 326.4 trillion), the fiscal deficit to GDP ratio would narrow to 4.8% in FY2025 vs. the target of 4.9%.**



ICRA

SHANGHAI
SENSEX
MOEX3
TSX

+14.35
-0.38 %
+0.20 %
-0.34 %
-1.57 %
+0.40 %
-0.73 %
-0.70 %
+0.43 %
+0.57 %
+0.55 %
-1.22 %
-0.35 %
+0.52 %
-0.37 %



KEY EXPECTATIONS FROM FY2026 UNION BUDGET

UNION BUDGET

FY2026 Union Budget likely to target fiscal deficit at 4.5% of GDP, balancing between fiscal consolidation and capex push to support growth



In the backdrop of a slowdown in domestic urban consumption and investment activity in FY2025, the Union Budget for FY2026 is likely to focus on the revival of these drivers to support the growth momentum. The sharp shortfall expected in the Centre's capex in FY2025 (Rs. 9.7 trillion) vis-à-vis the RBE (Rs. 11.1 trillion) provides sufficient fiscal space to enhance capital spending by 12-13% YoY to ~Rs. 11 trillion in FY2026. ICRA anticipates healthy allocation towards infrastructure sectors, including roads, highways, and railways, as well as interest-free capex loans to states.



The Centre is likely to reinforce focus on employment and skilling to address labour market issues. Consequently, there may be a fresh allocation of Rs. 300-350 billion towards the employment-linked incentive and internship schemes, launched in the July 2024 Budget. Besides, the allocation for the PLI scheme may be raised in FY2026, with the likely extension of the scheme to other labour-intensive sectors to boost domestic manufacturing. Additionally, the GoI is expected to focus on operationalising the measures to enhance credit flow to the MSME sector that were announced in the FY2025 Union Budget.



On the revenue front, there may be some relief for personal income taxpayers in the FY2026 Budget, although ICRA believes that its impact on revenues will not be materially large, to ensure stable and predictable tax flows through the fiscal. Moreover, the Centre's target for non-tax revenues, particularly the RBI dividend, could keenly influence the FY2026 Budget math and a sharp swing on this account, vis-à-vis ICRA's expectations, is likely to alter the fiscal deficit. Higher-than-expected non tax inflows in the Budget may create space for additional capex.

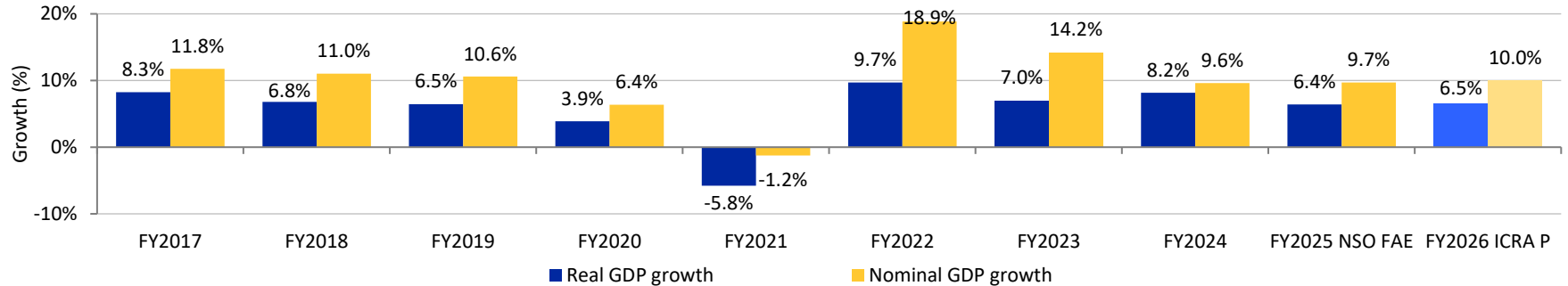


ICRA believes that the GoI will end up with a fiscal deficit of 4.8% of GDP in FY2025 against a target of 4.9% of GDP. This will allow it to factor in a reduction of another 25-30 bps to 4.5% of GDP in FY2026, and not dip below 4.5% that was included in the medium-term path of the July 2024 Budget, to support growth in FY2026 via higher capital outlay. In ICRA's view, a combination of modest fiscal support and monetary easing would be crucial to provide a backstop to India's GDP growth in FY2026, given the highly uncertain global environment and downside risks from the impending US tariff hikes. Looking ahead, we await a forward-looking guidance on the Central Government's debt/GDP ratio, even as the recommendations by the 16th Finance Commission will also be key, which may be released in the later part of FY2026.

Source: ICRA Research

ICRA forecasts real and nominal GDP growth for FY2026 at 6.5% and 10.0%, respectively

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



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

- ICRA projects the domestic GDP at constant 2011-12 prices to grow by 6.5% in FY2026 (in line with expected growth in FY2025), based on the assumption of an improvement in private consumption, especially in rural areas, and some recovery in investment activity, particularly the Government capex. External demand may remain sluggish amid an uncertainty around the imminent tariff-related measures by the US.
- Assuming a GDP deflator of 3.5% (CPI: +4.2% and WPI: +3.0 to +3.3%) for FY2026, the YoY expansion in nominal GDP is anticipated to increase slightly to 10.0% in the fiscal from 9.7% expected by the NSO for FY2025.
- For budgetary analysis, ICRA has used the NSO's First Advance Estimates (FAE) for nominal GDP of Rs. 324.1 trillion for FY2025 and our projection of Rs. 356.5 trillion (+10.0%) for FY2026.

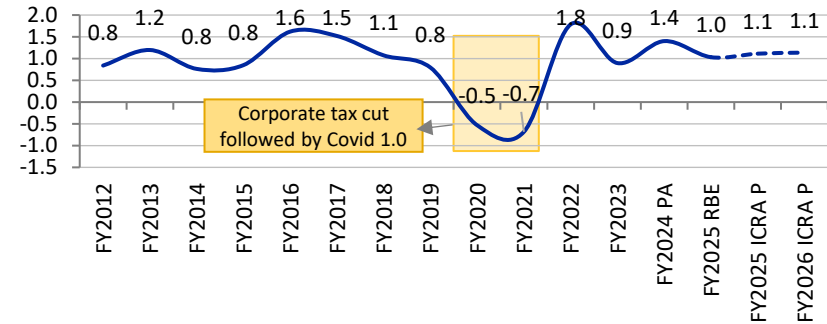
Gross tax revenues estimated to grow by 10.5% in FY2026, entailing a tax buoyancy of 1.1

EXHIBIT: Gross tax revenues of the GoI

Rs. Trillion	FY2024 PA	FY2025 RBE	FY2025 ICRA P	FY2026 ICRA P	Growth in FY2026 (%)
Gross tax revenues	34.6	38.4	38.4	42.5	10.5%
Direct taxes~	19.2	21.7	21.8	24.4	11.8%
Indirect taxes (including GSTCC)	15.4	16.7	16.6	18.1	8.8%

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

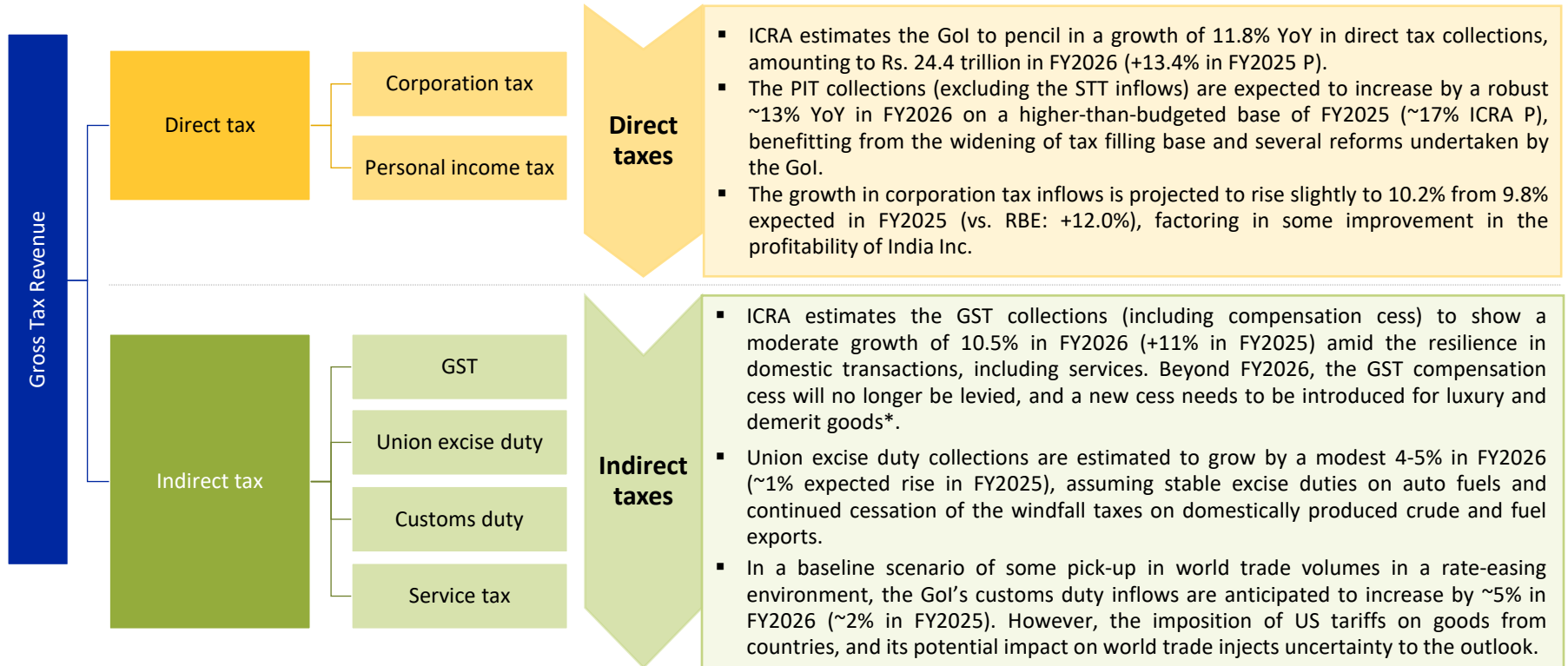
EXHIBIT: Tax buoyancy of the GoI



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 1.1 in FY2025 on expectations of a lower-than-budgeted nominal GDP figure (NSO FAE: Rs. 324.1 trillion vs. RBE: Rs. 326.4 trillion). While this exceeds the buoyancy of 1.0 budgeted for the fiscal, it would be much lower than 1.4 seen in FY2024 PA, wherein the growth in GTR (+13.4%) sharply outpaced that in nominal GDP (+9.6%, owing to the surge in net indirect tax growth).
- While there may be some tax relief for personal income taxpayers in the FY2026 Budget, its impact on revenues is unlikely to be materially large, to ensure stable and predictable tax flows through the fiscal. **ICRA estimates the GTR to grow by 10.5% to Rs. 42.5 trillion in FY2026 over the projected level for FY2025.**

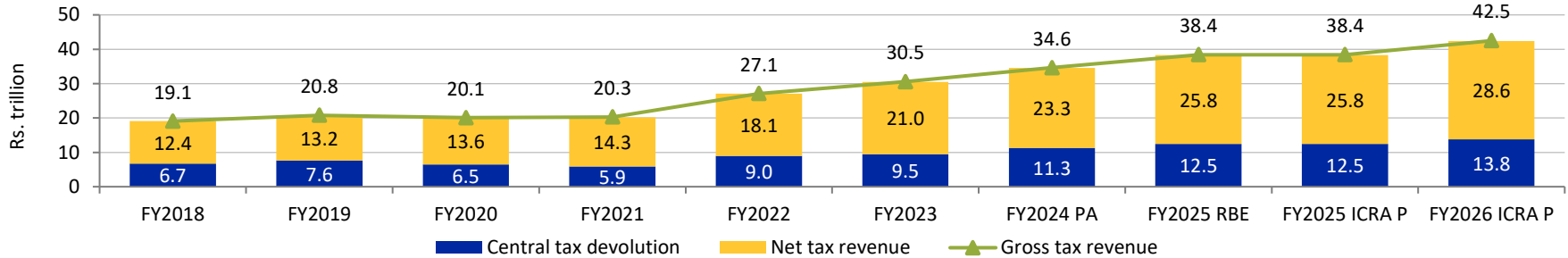
Govt likely to forecast a ~12% YoY expansion in direct taxes and a relatively moderate ~9% growth in indirect taxes in FY2026



*Refer to ICRA's [publication](#), GST compensation cess would need to be re-purposed after March 2026; energy transition or bringing POL into GST could be considered as end-uses, published in September 2024; Source: ICRA Research

Tax devolution to states and Gol's net tax revenues projected to grow at a similar pace of ~10.5% in FY2026

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

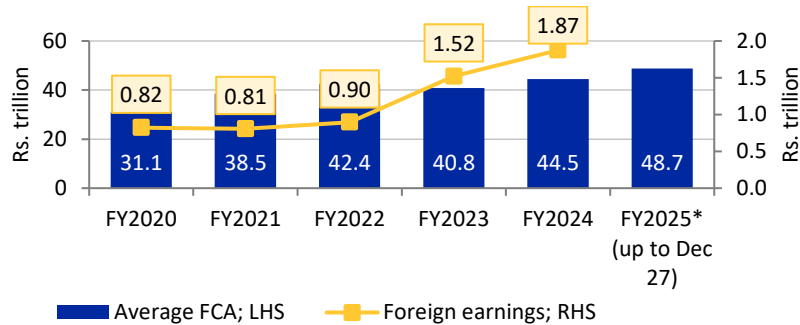


Actuals for FY2018-23; PA: Provisional actuals; RBE: Revised Budget Estimates; P: Projected; Source: Union Budget Documents, Gol; ICRA Research

- The 15th Finance Commission had recommended the share of states in the shareable Central taxes (or central tax devolution; CTD) at 41% for its award period of FY2022 to FY2026. However, the effective rate of devolution relative to the gross tax revenues of the Gol tends to be closer to 30-33%, as cess and surcharges are not included in the shareable pool. **Looking ahead, the GST Council needs to consider new tax rates for goods that are currently under the GST compensation cess ambit, and the potential use case for introducing a new cess, as well as whether those proceeds will be shared with the states.**
- **Based on ICRA's estimates for gross tax revenues and the effective rate of devolution, it projects the tax devolution to the states at Rs. 13.8 trillion in FY2026. This entails a growth of 10.6%, similar to the growth forecast for gross tax revenues.** The latter also includes some growth in the cess and surcharge component (namely cess on petroleum products, health and education, as well as surcharge on direct taxes) which are not shareable with the states.
- **After the CTD adjustment, ICRA foresees the Gol's net tax revenues to be budgeted to grow by 10.5% YoY to Rs. 28.6 trillion for FY2026.**

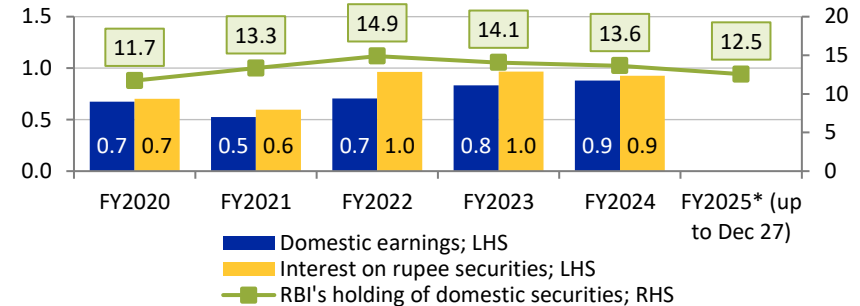
RBI's dividend surplus to GoI likely to moderate in FY2025 from record Rs. 2.1 trillion in FY2024

EXHIBIT: 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: 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: ICRA Research

- The RBI's foreign earnings are estimated to moderate in FY2025 from the peak of Rs. 1.87 trillion in FY2024 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 to Rs. 48.7 trillion during FY2025 so far (up to December 27, 2024) from Rs. 44.5 trillion in the previous fiscal.
- Similarly, the interest on holding rupee securities, a sizeable part of the RBI's earnings from domestic sources, is also anticipated to ease slightly in FY2025 from Rs. 0.9 trillion in FY2024, with the moderation in RBI's holdings of domestic securities (including T-bills) to Rs. 12.5 trillion as on December 27, 2024 from Rs. 13.6 trillion, as well as some softening in G-sec yields. Accordingly, the RBI's total income (from both domestic and foreign sources) is expected to moderate slightly in FY2025 from Rs. 2.8 trillion in FY2024.
- However, there is lack of clarity on how much the total expenditure of the RBI will be at the end of FY2025, as 75-77% of such amount stems from the risks provision i.e. the Contingency Fund, which is quite volatile and difficult to assess. It is likely that the such provision amount may rise from Rs. 428 billion in FY2024 (67% lower than FY2023), amid high volatility in the currency market since September 2024. Accordingly, **the RBI's dividend surplus may decline in FY2025 from the record Rs. 2.1 trillion in FY2024.**

Non-tax revenues can act as a gamechanger for budget math; disinvestment target seen at Rs. 500 billion

EXHIBIT: Non-tax revenues and its components

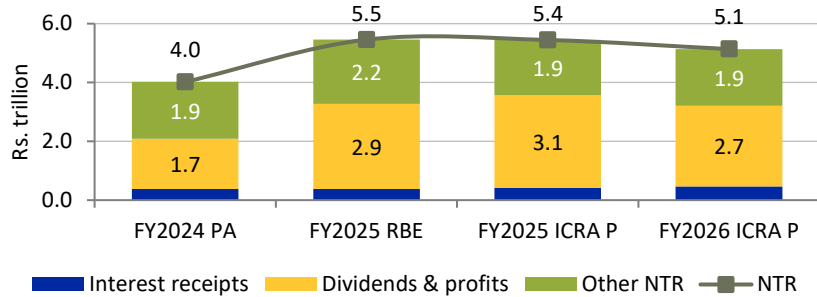
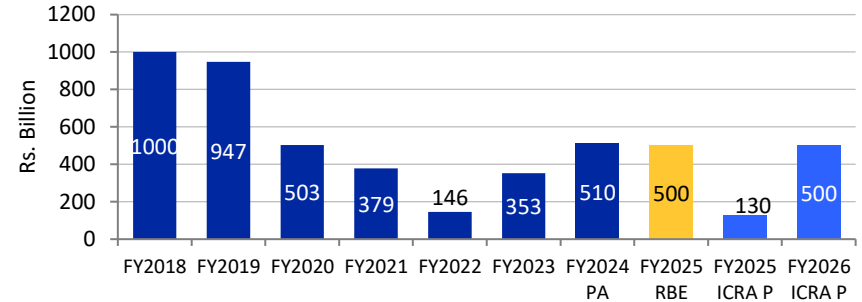


EXHIBIT: Trends in disinvestment proceeds



P: Projected; Balance 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 moderate by 12-13% to Rs. 2.7 trillion in FY2026 over Rs. 3.1 trillion expected for FY2025, mainly on account of a likely dip in dividend surplus from the RBI, even as the dividends from the PSEs may remain healthy.
- Based on this and the assumption of a 10% growth in interest receipts and a flattish level for other non-tax component, ICRA pegs **the non-tax revenues of the Gol to decline by a moderate 6-7% YoY to Rs. 5.1 trillion in FY2026. However, any swings on this account could keenly influence the budget math. For instance, a 10% growth in the non-tax revenues over the FY2025 BE would enhance the fiscal space by as much as Rs. 0.9 trillion vis-à-vis our current assumptions, which can provide room for additional capital spending.**
- Overall, the revenue receipts of the Gol are estimated to rise by 7-8% YoY to Rs. 33.5-33.8 trillion for FY2026 from Rs. 31.3 trillion estimated for FY2025.**
- Financial bids for the IDBI Bank are to be invited by March 2025. In our view, the FY2026 target for disinvestment is likely to be kept in line with the FY2025 RBE at Rs. 500 billion, although it will be much higher than the inflows of Rs. 130 billion expected in FY2025. Nevertheless, the actual inflows would be contingent on the evolving market conditions.

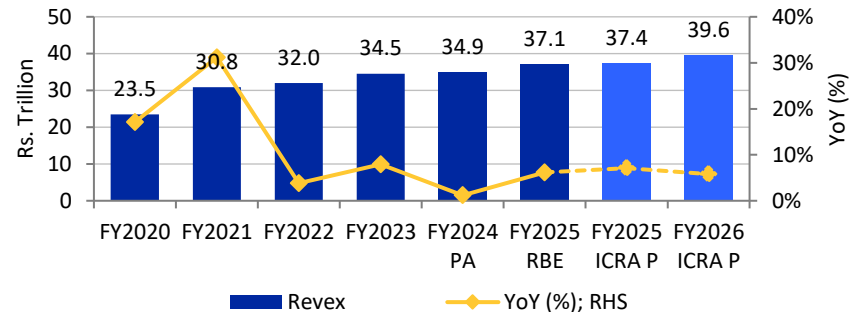
Govt's revenue expenditure to increase by 5.5-6.0% in FY2026 amid fresh allocation towards employment scheme

EXHIBIT: Revex and major heads

Rs. Trillion	FY2024 PA	FY2025 ICRA P	FY2026 ICRA P	Growth in FY2026
Revex	34.9	37.4	39.5-39.7	5.5-6.0%
Interest payments	10.6	11.6	12.7	9.0%
Aggregate Subsidy (towards food, fertiliser and fuel)	4.1	4.0	4.2	3.0%
MGNREGS	0.9	0.9	0.9	0%
Balance Revex*	19.3	20.9	21.8-22.0	4.5-5.0%

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

EXHIBIT: Annual trends in revenue expenditure

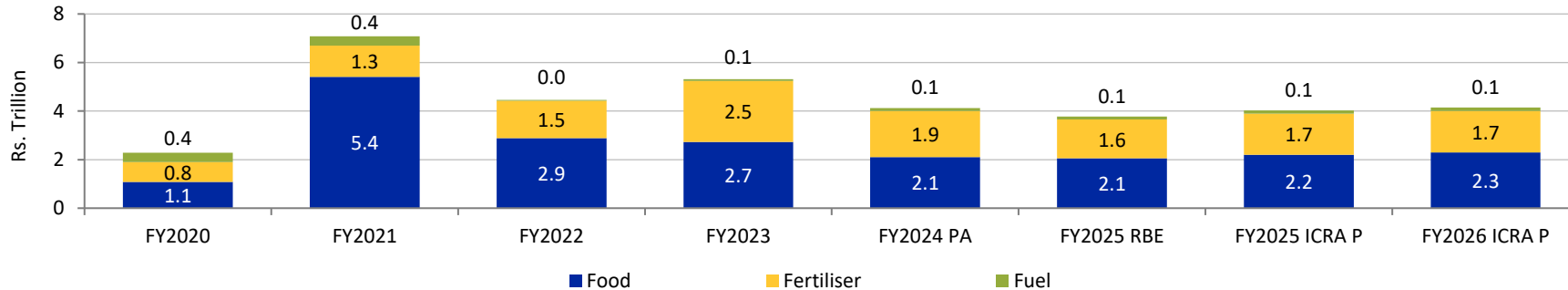


Source: CGA, Ministry of Finance, Govt; ICRA Research

- The revenue expenditure of the Govt is estimated to see a budgetary growth of 5.5-6.0% in FY2026, stemming from a 9.0% increase in interest payments and a modest 3.0% rise in the aggregate subsidy outlay. Besides, the farm sector is likely to reap benefits of a healthy agricultural output, which may not translate into distress conditions and high work demand under MGNREGS. Hence, the FY2026 outlay of the scheme may be kept unchanged at Rs. 860 billion, in line with FY2025 BE.
- As far as the balance portion of the revex is concerned, there may be a fresh allocation towards the employment-linked scheme (ELI) that was launched in the July 2024 Budget with an outlay of Rs. 2.0 trillion over the next five years. ICRA foresees an outlay of Rs. 300-350 billion to be made in FY2026, towards ELI, internship programme and upgradation of ITIs. Besides, the allocation for the PLI scheme may increase in FY2026, with a likely extension to other labour-intensive sectors to boost domestic manufacturing. Nevertheless, the Govt is likely to peg a 4.5-5.0% growth in the balance revex.
- The Govt is also likely form a Committee for the 8th Pay Commission during 2025. While the recommendations of the Committee will impact the pay and allowances for employees and pensioners, the budgetary impact of this increased committed expenditure will likely be visible in FY2027.

Aggregate subsidy burden in FY2026 likely to be budgeted at Rs. 4.2 trillion, a modest rise of 3% over expected outgo in FY2025

EXHIBIT: Annual trends in major subsidies

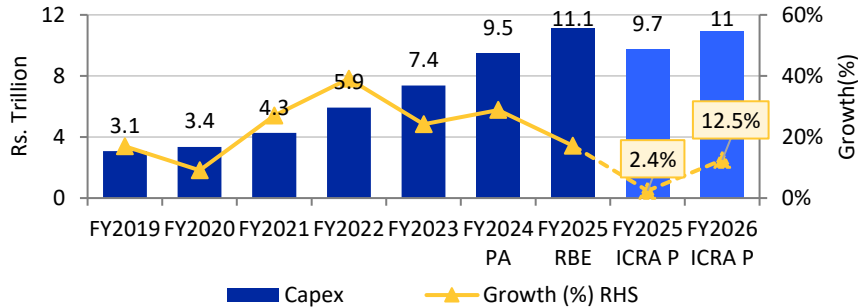


P: Projected; Source: CGA, Ministry of Finance, Gol; ICRA Research

- ICRA estimates the outlay for major subsidies (food, fertiliser and fuel) at Rs. 4.2 trillion in FY2026, a modest ~3% growth over the expected Rs. 4.0 trillion for FY2025, which entails an overshooting from the RBE 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. 2.3 trillion in FY2026, compared to Rs. 2.1 trillion included in FY2025 RBE. Besides, ICRA foresees the fuel subsidy to rise in FY2026 over the Rs. 119 billion in FY2025 RBE, while remaining quite modest vis-à-vis the levels seen before FY2022.
- For nutrient and urea-based fertilisers, ICRA pegs the combined subsidy requirement at Rs. 1.7 trillion for FY2026, in line with the expected outgo in FY2025, which is slightly above the BE of Rs. 1.6 trillion. This also entails the cost for extension of DAP subsidy till December 2025. In an event of a sustained increase in input and shipping costs, it is possible that the Gol may calibrate the subsidy during the year, and may not allocate the full amount of the expected subsidy requirement at the outset in the BE for FY2026, as seen in the previous fiscals.

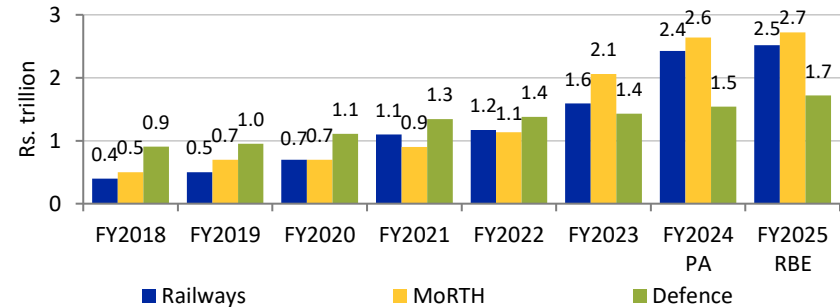
Capex target to be set at Rs. 11 trillion in FY2026, 12-13% growth over Rs. 9.7 trillion expected in FY2025

EXHIBIT: Trends in Govt's Gross Capital Expenditure



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

EXHIBIT: Trends in Govt's capital expenditure towards major sectors

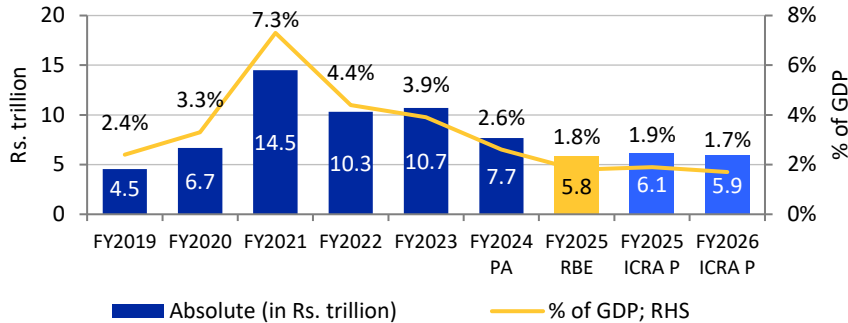


Source: Govt Budget Documents; CGA; Ministry of Finance, Govt; ICRA Research

- ICRA believes that a steep shortfall in FY2025 vis-à-vis the target (owing to General Elections and above-normal monsoons) would create a fiscal space to increase the capital expenditure by 12-13% in FY2026, amounting to ~Rs. 11 trillion (3.1% of GDP), which will support the growth in the next fiscal. This is a just shade below the budgeted target of Rs. 11.1 trillion in FY2025 (3.4% of GDP).
- ICRA estimates adequate allocation towards infrastructure sectors, such as roads, railways and highways, as well as for defence (to increase exports and self reliance) in FY2026, while the outlay for interest-free capex loan can be kept unchanged at the FY2025 budgeted amount of Rs. 1.5 trillion.
- ICRA estimates the capital expenditure target to be set at Rs. 11 trillion for FY2026, similar to the FY2025 budget, while entailing a 12-13% expansion over the expected turnout in FY2025 (Rs. 9.7 trillion; +2.4% YoY). This would result in an improvement in the quality of expenditure in FY2026 (capex/total exp = ~22%), after the likely deterioration in FY2025 (20.6%), compared to FY2024 (21.4%).

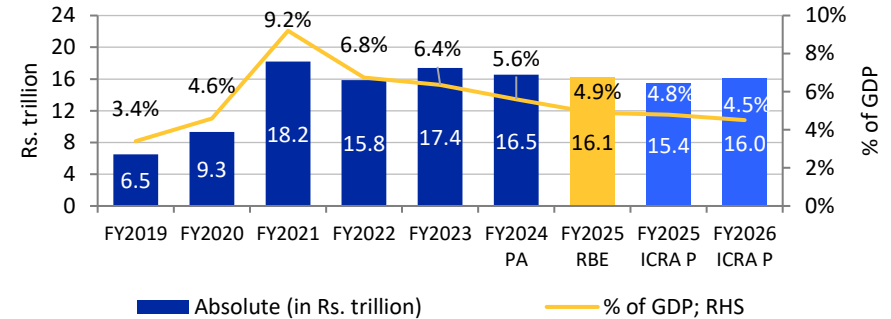
Govt's fiscal deficit target likely to be set at 4.5% of GDP in FY2026

EXHIBIT: Govt's Revenue Deficit (Absolute and % of GDP)



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

EXHIBIT: Govt's Fiscal Deficit (Absolute and % of GDP)



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

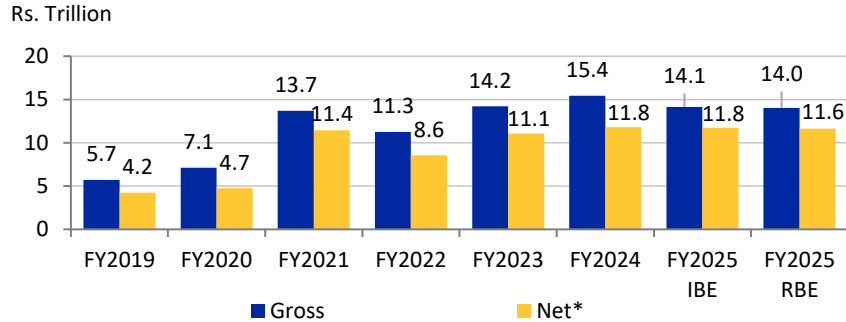
- With the assumption of a sharper expansion in revenue receipts (+7.7%) compared to revenue expenditure (+5.5 to +6.0%), ICRA expects the revenue deficit to reduce to Rs. 5.9 trillion (1.7% of ICRA's GDP estimate) in FY2026 from the Rs. 6.1 trillion (1.9% of GDP as per NSO's FAE) projected for FY2025.
- However, with a capex target of around Rs. 11.0 trillion (12-13% growth) and an assumption for disinvestment receipts at Rs. 500 billion, ICRA anticipates the Govt's fiscal deficit in absolute terms to widen to Rs. 16.0 trillion in FY2026 from Rs. 15.4 trillion projected for FY2025 (vs. target of Rs 16.1 trillion). Nevertheless, as a proportion of the GDP, it would narrow to 4.5% in FY2026 from 4.8% of GDP forecast for FY2025, entailing a reduction of 25-30 bps.
- ICRA believes that the Govt will end up with a fiscal deficit of 4.8% of GDP in FY2025 against a target of 4.9% of GDP. This will allow it to factor in a reduction of another 25-30 bps to 4.5% of GDP in FY2026, and not dip below 4.5% that was included in the medium-term path of the July 2024 Budget, to support growth in FY2026 via a higher capital outlay.

EXPECTATIONS ON MARKET BORROWINGS FOR FY2026



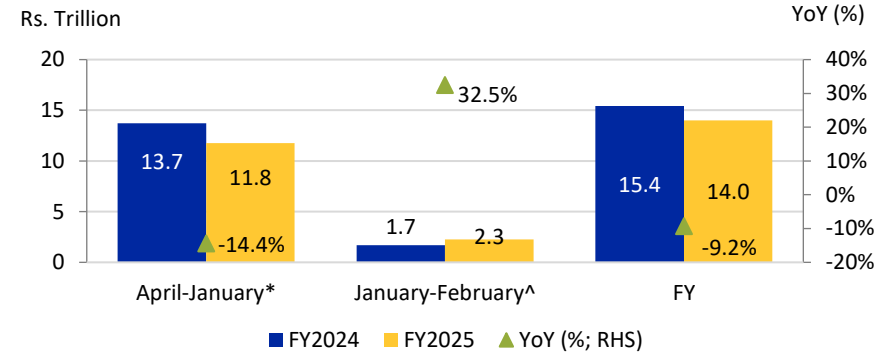
Govt unlikely to cut back market borrowings in FY2025 despite a lower fiscal deficit

EXHIBIT: Trends in Govt's gross and net market borrowings



*Adjusted for recovery of Rs. 0.78 trillion in FY2024 and Rs. 1.2 trillion in FY2025 RBE, from GST Compensation Fund and buy back of Rs. 302.5 billion by the Govt in FY2025 RBE; Note: Actuals till FY2024; BE: Budget Estimate; Source: RBI; Union Budget; ICRA Research

EXHIBIT: Actuals market issuances in FY2024-25 YTD

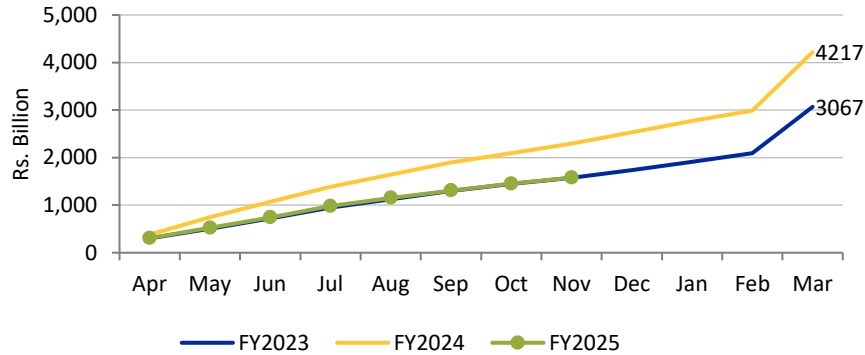


*By January 10, 2025; ^January 13 – February 28, 2025 and corresponding period of FY2024; Source: RBI; ICRA Research

- In FY2025 so far (till January 10, 2025), the Govt has raised Rs. 11.8 trillion (83.9% of total planned gross borrowings), which is 14.4% lower than the amount raised in the year-ago period. With an 8.2% YoY decline in redemptions so far, net market issuances stood at Rs. 8.3 trillion during FY2025 so far (up to January 10), a sharp ~17% lower than the year-ago level.
- The Govt conducted a buyback of G-secs on January 9, 2025, with a notified amount of Rs. 250 billion, of which Rs. 192.2 billion was accepted. Thereafter, it has indicated to conduct another buyback auction of G-secs worth Rs. 300 billion on January 17, 2025.
- **Although ICRA expects a lower fiscal deficit in FY2025 vis-à-vis the budgeted levels owing to a large miss in the capex target, this is not likely to result in a cut in market borrowings in Q4 FY2025. In fact, there is a possibility that the Govt will carry forward any surplus cash balances into the next fiscal.**

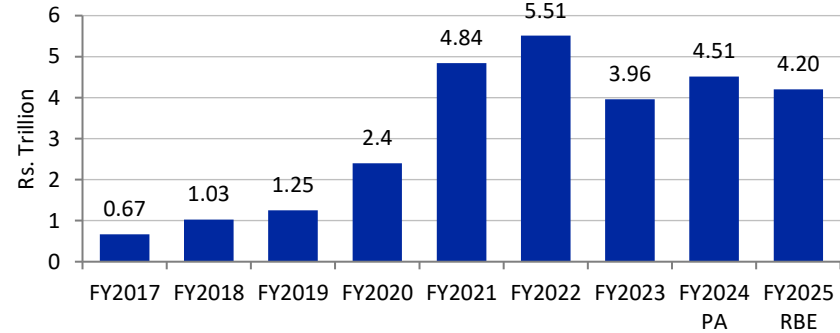
Small savings inflows likely to trail budgeted target for FY2025

EXHIBIT: Cumulative inflows in saving deposits and certificates, and PPF



Source: CGA; ICRA Research

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

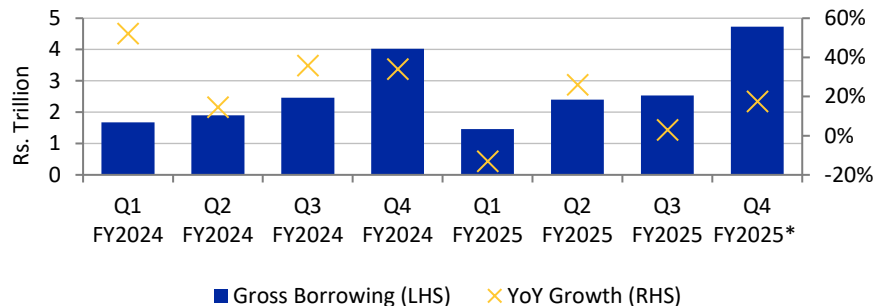


Source: DEA; ICRA Research

- As per the provisional data provided by the CGA, the cumulative inflows under savings deposit and certificates and PPF fell by 31.2% YoY to Rs. 1.6 trillion in 8M FY2025 (41% of FY2025 RBE) from Rs. 2.3 trillion in 5M FY2024 (54% of FY2024 PA) amid unchanged interest rates for small savings schemes as well as an increase in the number of taxpayers opting for the new tax regime.
- To meet the FY2025 RBE, inflows under savings deposits and certificates and PPF need to grow by 19.8% YoY to Rs. 2.3 trillion during December-March FY2025. This seems unlikely to be achieved despite the typical surge in collections seen during the last month of the fiscal as well as the elevated rates on such schemes relative to G-secs with comparable maturity or spreads higher than the acceptable levels.**

Actual SGS issuance in Q4 FY2025 could trail the indicated levels of Rs. 4.7 trillion

EXHIBIT: Gross SGS issuance by all state governments/UTs and their YoY growth



Note: * FY2025 based on Q4 indicative borrowing and YoY growth is over actual SGS issued in Q4 FY2024; Source: RBI; ICRA Research

EXHIBIT: Net and gross state G-sec issuance estimate in FY2025

Amount in Rs. Trillion	FY2024	9M FY2024	Based on Q4 FY2025 auction calendar		ICRA Est.	
			Q4 FY2025	FY2025	Q4 FY2025	FY2025
Net Borrowing	7.2	4.3	3.6	7.9	3.2	7.5
Redemption	2.9	2.0	1.2	3.2	1.2	3.2
Gross Borrowing	10.1	6.4	4.7	11.1	4.4	10.7

Source: RBI; ICRA Research

- The RBI pegged the gross issuance of SGS at Rs. 4.7 trillion for Q4 FY2025, a YoY expansion of ~17%. Nearly the entire incremental indicated amount of Rs. 704 billion for Q4 FY2025 relative to the year-ago level is led by Madhya Pradesh, Telangana and West Bengal. [In ICRA's view](#), the bridging of the large gap (Rs. 5 trillion or 50.6% YoY growth) between the capital spending indicated by 20 state governments (excluding Arunachal Pradesh, Goa, Himachal Pradesh, Jharkhand, Nagaland, Manipur, Meghalaya, Mizoram) in their FY2025 BE and the actual amount spent till April-November FY2025 appears challenging. Accordingly, ICRA expects the gross SGS issuance in Q4 FY2025 to be around Rs. 4.1-4.6 trillion lower than the indicated Rs. 4.7 trillion. At present, ICRA has retained its full-year estimate of SGS issuance for FY2025 at Rs. 10.5-11 trillion.
- If the gross SGS raised in Q4 FY2025 is in line with the indicated amount, the total borrowing in FY2025 would expand by 10.5% to Rs. 11.1 trillion from Rs. 10.1 trillion in FY2024. After adjusting for the estimated redemptions of Rs. 3.2 trillion, the net SGS issuance is pegged at Rs. 7.9 trillion in FY2025, 10.6% higher than Rs. 7.2 trillion in FY2024

General Government dated net market issuances to rise slightly to Rs. 19.6 trillion in FY2026, led by the states

EXHIBIT: Market Borrowings for the Centre, state governments, and General Government

Rs. Trillion	FY2024		
	G-secs	SGSs	General Govt
Gross	15.4	10.1	25.5
Redemptions	3.6*	2.9	6.5
Net	11.8	7.2	19.0
FY2025 ICRA P			
	G-secs	SGSs	General Govt
Gross	14.0	10.7	24.7
Redemptions	2.4*	3.2	5.6
Net	11.6	7.5	19.1
FY2026 ICRA P			
	G-secs	SGSs	General Govt
Gross	15.1	12.0	27.1
Redemptions	3.7*	3.7	7.4
Net	11.4	8.2	19.6

Centre

- With the Gol's fiscal deficit estimated at Rs. 16.0 trillion for FY2026, the net G-sec issuance is expected at Rs. 11.4 trillion (~71% of the fiscal deficit vs. ~75% in FY2025), 1.6% lower than the Rs. 11.6 trillion estimated for FY2025. After adding redemptions of Rs. 3.7 trillion (Rs. 2.4 trillion in FY2024), the gross market issuances of the Centre are pegged to rise sharply to Rs. 15.1 trillion in FY2026 vis-à-vis FY2025, entirely driven by higher redemptions.

States

- Based on our GSDP estimates, the states' fiscal deficit is projected at Rs. 11.7 trillion in FY2026. Assuming that 70-75% of this is funded by SGS, this implies a net issuance of Rs. 8.2-8.8 trillion and gross issuance of Rs. 12-12.5 trillion. Notably, the size of the allocation of the capex loan scheme in FY2026 BE would influence the states' market borrowing requirements for that fiscal.

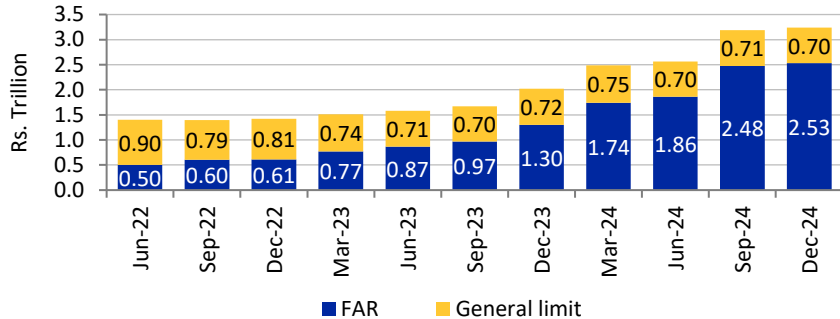
General Government

- Accordingly, the General Government net market borrowings are pegged at Rs 19.6 trillion in FY2026, ~2.7% higher than the Rs. 19.1 trillion expected in FY2025. With larger redemptions of G-sec and SGS, gross borrowings are estimated to rise by ~9.7% to Rs. 27.1 trillion in FY2026 from the projected Rs. 24.7 trillion in FY2025. While the increase in market borrowings is largely driven by higher redemptions, expectations of rate cuts by the RBI are expected to augur well for yields in FY2026.

*Net of recovery worth Rs. 781 billion in FY2024, Rs. 1,236.0 billion and including buy back of Rs. 302.5 billion by the Gol in FY2025, and Rs. 675 billion in FY2026 from the GST compensation fund; P: Projected; Source: RBI; ICRA Research

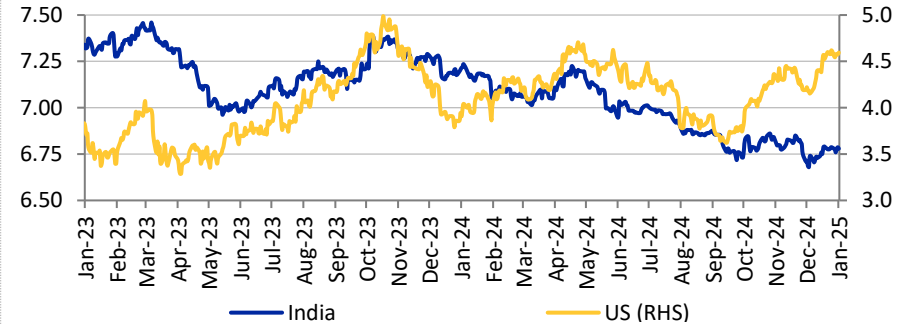
India's 10-year G-sec yield likely to trade in the range of 6.65-6.90% in near term

EXHIBIT: Central government securities held by FPIs under fully accessible route (FAR) and general investment route (GIR)



Source: NSDL; ICRA Research

EXHIBIT: India and US 10-year G-sec/Treasury yield



Source: Refinitiv; ICRA Research

- The inclusion of Indian G-secs in the J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Index suite has resulted in inflows of \$8.5 billion into the Indian bond markets from July 2024 onwards and \$21.6 billion since the announcement was made in September 2023. Moreover, the FAR holdings of G-secs rose to Rs. 2.53 trillion at end-December 2024 from Rs. 2.48 trillion at end-September 2024, nearly double the end-December 2023 level. **However, the augmented G-sec demand on account of the bond index inclusion-led FPI debt inflows is likely to dissipate in FY2026, as India's weight in the J.P. Morgan GBI-EM peaks by end-June 2025.**
- After witnessing net inflows in December 2024 (\$3.1 billion), the FIIs have withdrawn \$4.4 billion from Indian markets (equity, debt and hybrid) in January 2025 so far (till January 13), amid the uptrend in the DXY and UST yields, as well as rising crude oil prices and the ongoing slide in the USD/INR pair.
- **The MPC's rate decisions and global cues such as the quantum of easing signaled by the US Federal Reserve for 2025 and the incoming news on tariffs imposed by the US on various countries, including India, would influence the direction of G-sec yields and the steepness of the curve. In ICRA's view, the 10-year G-sec yield is likely to range between 6.65% and 6.90% in the near term.**

EXHIBIT: Centre's gross tax revenues in FY2024 PA, FY2025 RBE, and ICRA's projections for FY2025 and FY2026

Rs. Trillion	FY2024 PA	FY2025 RBE	FY2025 ICRA P (A)	FY2026 ICRA P (B)	Growth (B)/(A)
Gross tax revenues[~]	34.6	38.4	38.4	42.5	10.5%
Direct taxes	19.2	21.7	21.8	24.4	11.8%
Corporation tax	9.1	10.2	10.0	11.0	10.2%
Income tax	10.1	11.5	11.8	13.4	13.2%
Indirect taxes	13.6	14.7	14.6	15.9	8.4%
CGST + IGST	8.2	9.1	9.1	10.1	10.6%
Customs Duty	2.3	2.4	2.4	2.5	~5%
Union Excise Duty	3.1	3.2	3.1	3.2	4-5%
Other tax*	0.4	0.5	0.5	0.5	13.9%
Compensation cess for GST	1.4	1.5	1.5	1.7	10.2%

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

EXHIBIT: ICRA's projection for Gol's fiscal deficit in FY2025-26

Rs. Trillion	FY2024 PA	FY2025 RBE	FY2025 ICRA P (A)	FY2026 ICRA P (B)	Growth (B)/(A)
Revenue Receipts	27.3	31.3	31.3	33.7	7-8%
of which Net tax revenue	23.3	25.8	25.8	28.5	10.5%
of which Non-tax Revenue	4.0	5.5	5.4	5.1	-6% to -7%
Revenue Expenditure	34.9	37.1	37.4	39.6	5.5-6.0%
of which interest payments	10.6	11.6	11.6	12.7	9.0%
of which subsidies	4.1	3.8	4.0	4.2	3.0%
Revenue Balance	-7.7	-5.8	-6.1	-5.9	
Miscellaneous Capital Receipts	0.3	0.5	0.1	0.5	285%
Capital expenditure, net lending	9.2	10.8	9.4	10.6	12-13%
Fiscal Balance	-16.5	-16.1	-15.4	-16.0	

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



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