

Government of India Finances

Gov's fiscal deficit reached 30% of target in 4M FY2026; 10Y yield to trade at 6.4-6.7%, amid fiscal concerns pertaining to GST cut

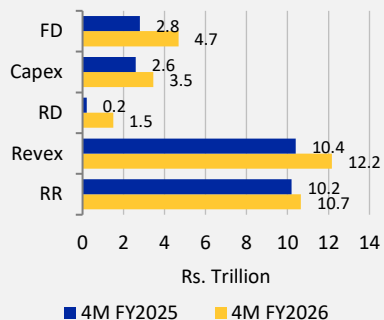
SEPTEMBER 2025





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EXHIBIT: Trends in key fiscal metrics in 4M FY2025-2026



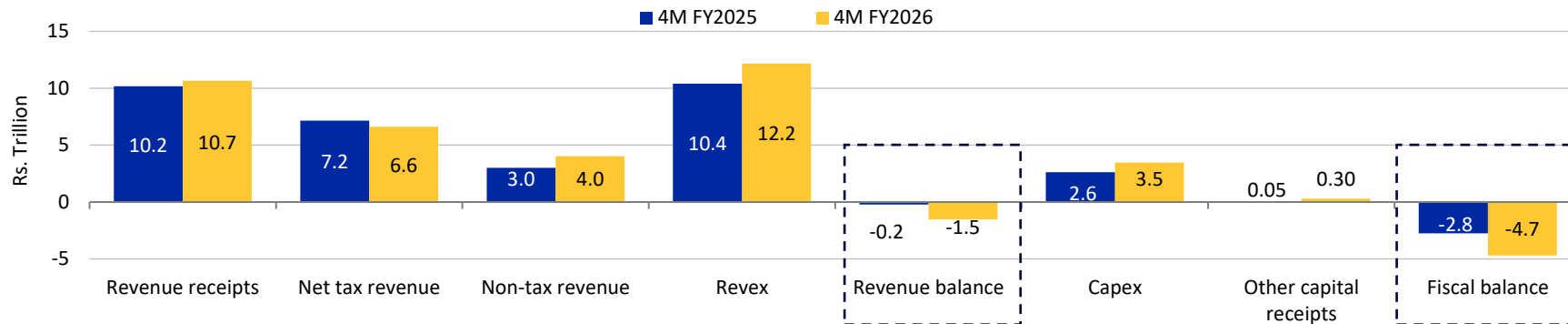
RR: Revenue receipts, Revex/Capex: Revenue/Capital expenditure; RD/FD: Revenue/Fiscal Deficit; Source: Union Budget, CGA, ICRA Research

The Government of India (Gol's) fiscal deficit surged to Rs. 4.7 trillion in 4M FY2026 (~30% of FY2026 Budget Estimates; BE) from Rs. 2.8 trillion in 4M FY2025, owing to multi-fold rise in the revenue deficit (Rs. 1.5 trillion vs. Rs. 0.2 trillion) and the frontloading of capex (~33% YoY to Rs. 3.5 trillion). The muted 0.8% growth in gross tax revenues (GTR) combined with the healthy ~17% increase in central tax devolution (CTD) compressed the net tax revenues (-7.5%) in 4M FY2026. The weak growth in tax collections implies that the required expansion in the remaining eight months of the fiscal to meet the FY2026 BE is quite steep, especially for income tax, although healthy progress in non-tax and miscellaneous capital receipts provides some comfort. India's 10Y G-sec yield (06.33 GS 2035) has increased by a sharp 22 bps in August 2025, as the upcoming GST cut raised concerns pertaining to the Gol's fiscal numbers and overshooting in the G-sec supply. ICRA expects the 10Y G-sec yield to trade between 6.40-6.70% in immediate term, with expected cooling if the Gol sticks to its budgeted borrowing amount in H2 FY2026, the calendar for which will be released at end-September 2025.

- Muted growth in GTR, healthy increase in CTD compressed net tax revenues in 4M FY2026:** The Gol's revenue receipts increased by a modest 4.8% YoY in 4M FY2026, as the 33.7% surge in non-tax revenues was mostly offset by the 7.5% fall in net tax revenues. The latter was attributed to the muted 0.8% rise in GTR owing to ~10% contraction in personal income tax (PIT) collections amid extension of income tax return (ITR) filing deadline, as well as the robust 17% increase in tax devolution to state governments. While the subdued trends in most tax heads is a bit concerning, although the growth is likely to improve as the base normalises.
- Total spending up by a sharp 20% in 4M FY2026:** The Gol upfronted capex (YoY: +32.8%; target: +6.6%) and revex (+17.1%; +9.5%) in 4M FY2026, with growth in both these metrics sharply outpacing their targets embedded in the FY2026 BE. While a ~36% surge in interest outgo boosted revex in 4M FY2026, the expansion in capex stemmed from defence, and other segments like 50Y interest free capex loans to states, and food and public distribution.
- G-sec yields have risen by 22 bps in August 2025:** ICRA foresees the 10-year G-sec yield to trade between 6.40-6.70% in the immediate term, owing to various developments, that have raised concerns around an overshooting in G-sec supply, including the impact of GST rationalisation on the fiscal health of the Centre and the states. However, yields could cool if the Gol sticks to its borrowing calendar for H2 FY2026, which will be released at end-September 2025.

Gol's fiscal deficit rose sharply to Rs. 4.7 trillion in 4M FY2026, owing to surge in revenue deficit and capex

EXHIBIT: Fiscal trends in April-July or 4M FY2025 and 4M FY2026



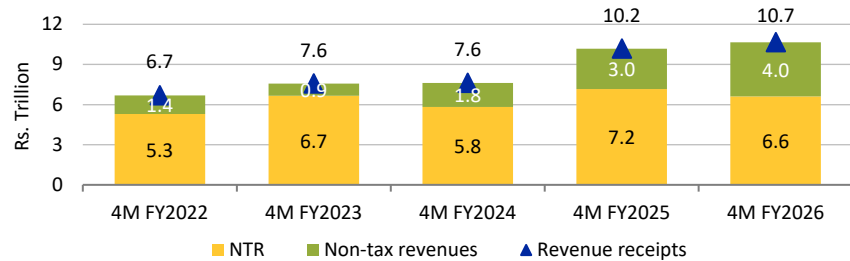
Source: CGA, Ministry of Finance, Gol; ICRA Research

- As per the provisional data released by the CGA, the Gol's revenue deficit widened quite sharply to Rs. 1.5 trillion in 4M FY2026 from Rs. 0.2 trillion in 4M FY2025. This was led by a significantly sharper rise in the revenue expenditure (+17.1%) vis-à-vis revenue receipts (+4.8%) in 4M FY2026.
- Moreover, the Gol's capex surged by ~33% to Rs. 3.5 trillion in 4M FY2026, while other capital receipts aggregated to Rs. 298 billion from the marginal Rs. 64 billion in 4M FY2025. As a result, the Gol's fiscal deficit rose to Rs. 4.7 trillion in 4M FY2026 from Rs. 2.8 trillion in 4M FY2025.

Govt's revenue receipts rose by a modest ~5% in 4M FY2026, with surge in non-tax revenues partly offset by contraction in net tax revenues

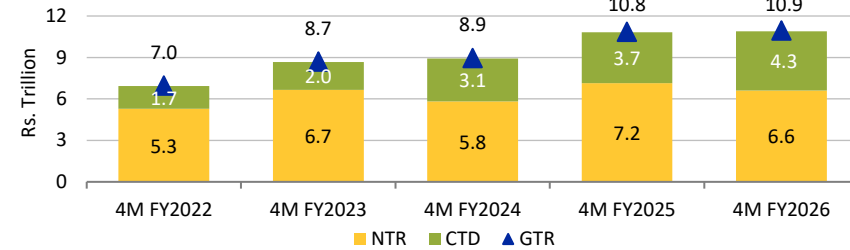


EXHIBIT: The Govt's revenue receipts rose by a modest 4.8% YoY in 4M FY2026, with the surge in non-tax revenues (+33.7%; owing to record RBI dividend) being partly offset by the 7.5% decline in net tax revenues



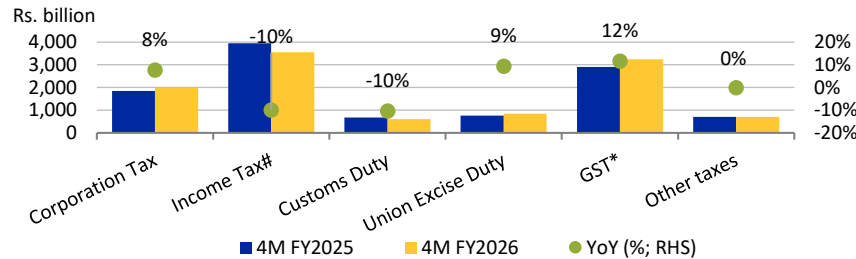
NTR: Net tax revenues; Source: CGA, Ministry of Finance, Govt, ICRA Research

EXHIBIT: The growth in the Govt's GTR was muted at 0.8% in 4M FY2026, while CTD to state governments registered a healthier expansion (+17%); consequently, the Govt's net tax revenues fell by 7.5% in 4M FY2026 (23% of FY2026 BE)



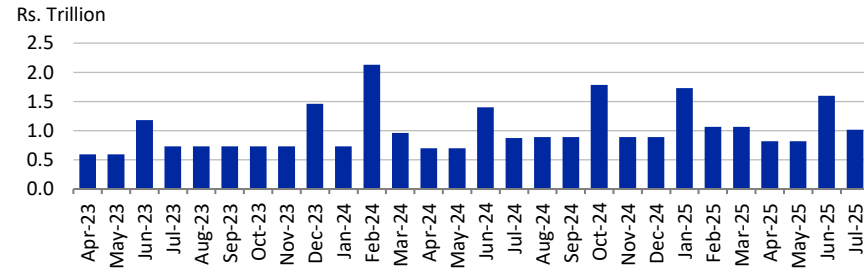
CTD: Central tax devolution; Source: CGA, Ministry of Finance, Govt, ICRA Research

EXHIBIT: The YoY expansion in GTR was supported by CT (+8%), excise duty (+9%), and GST (+12%) collections in 4M FY2026, while PIT (-10%; high base, extended ITR deadline) and customs duty inflows (-10%) contracted in this period



#excluding Security transaction tax (STT); *Includes Central Goods and Services Tax (CGST), Integrated GST (IGST), Union territory GST (UT-GST); Source: CGA, Ministry of Finance, Govt, ICRA Research

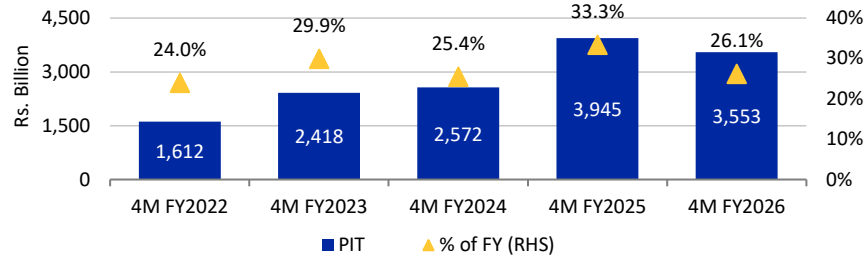
EXHIBIT: CTD to states remained healthy in July 2025 (Rs. 1.0 trillion; +17% YoY); overall, the Govt has transferred Rs. 4.3 trillion (30% of FY2026 BE) to states, ~17% higher than the year ago level of Rs. 3.7 trillion (28% of FY2025 PE)



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

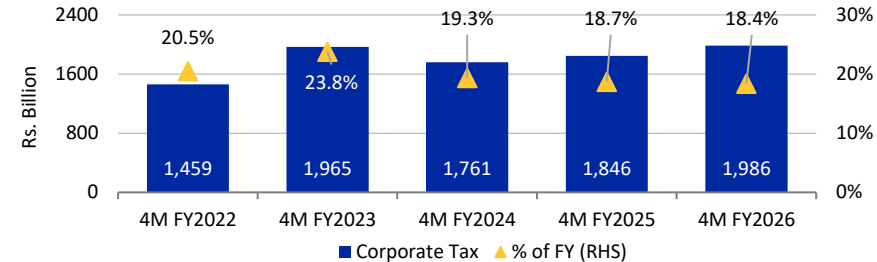
Direct tax collections contracted on YoY basis in 4M FY2026, led by PIT collections owing to high base and extension of the tax filing deadline

EXHIBIT: PIT collections fell by 9.9% YoY to Rs. 3.6 trillion in 4M FY2026 (26.1% of FY2026 BE) from Rs. 3.9 trillion in 4M FY2025 (33.3% of FY2025 PE), amid a high base (+53.4% in 4M FY2025) and the extension of the tax filing deadline



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

EXHIBIT: Corporate tax collections rose by 7.6% to Rs. 2.0 trillion in 4M FY2026; this amounted to 18.4% of the FY2026 BE, slightly lower than 18.7% of FY2025 PE seen in 4M FY2025



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

EXHIBIT: As per the IT dept. data, large refunds constrained the growth in net (of refunds) CT collections to just 2.9% YoY as on August 11, 2025; net PIT revenues contracted by 7.5% with the pushing forward of the tax filing deadline

Rs. Trillion	Gross	Refunds	Net
FY2025 (Up to August 11)			
Corporation Tax (CT)	3.08	0.86	2.22
Non-Corporation Tax (PIT)	4.83	0.37	4.45
FY2026 (Up to August 11)			
Corporation Tax (CT)	3.33 (+8.0%)	1.04 (+21.2%)	2.29 (+2.9%)
Non-Corporation Tax (PIT)	4.43 (-8.1%)	0.31 (-16.5%)	4.12 (-7.5%)

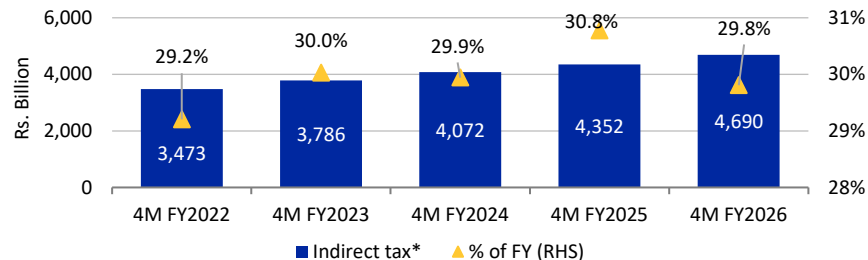
Figures in parenthesis depict YoY change; Source: [Income tax department](#), Gol; ICRA Research

- As per the latest [data](#) released by the IT department, the Gol's gross direct tax collections fell by 1.9% YoY to Rs. 8.0 trillion in FY2026 so far (up to August 11, 2025). This was entirely driven by a lower PIT collections (-8.1%) offsetting the uptick seen in corporate taxes (CT; +8.0%) and security transaction tax (STT) collections (+3.5%).
- After adjusting for refunds, net direct tax inflows eased by 3.9% on a YoY basis up to August 11, 2025, owing to the surge in refunds released to corporates (+21.2%).
- While net CT collections were 2.9% higher compared to last year, net PIT collections (refunds: -16.5% YoY) were 7.5% lower, amid the extension of deadline for the ITR filing till end-September 2025.

Source: Ministry of Finance, Gol; ICRA Research

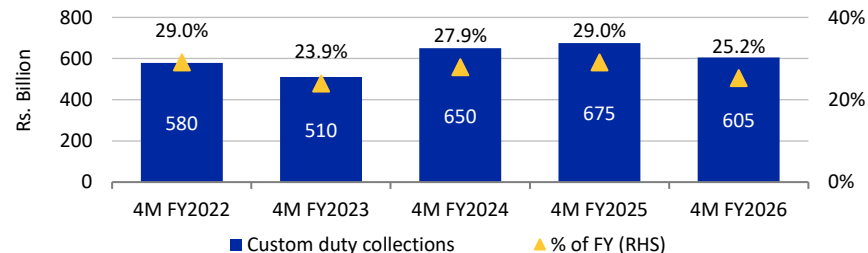
Indirect taxes rose by ~8% in 4M FY2026, led by turnaround in IGST flows and healthy growth in excise duty collections

EXHIBIT: Indirect tax collections rose by 7.8% YoY to Rs. 4.7 trillion in 4M FY2026, led by healthy growth in GST and excise duty collections, while trailing the required growth of 11.3% for FY2026



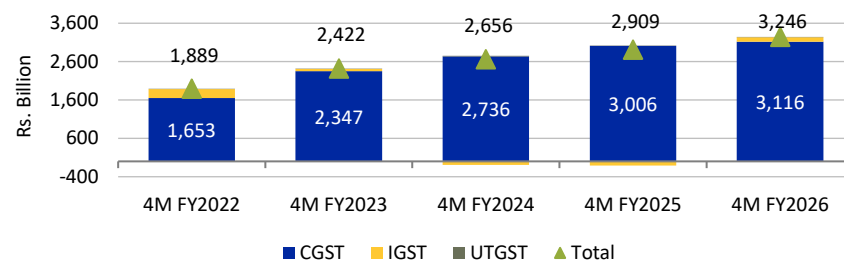
*Computed as CGST+UTGST+IGST+ Customs duty + Excise duty + Services tax; Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: Custom duty collections fell by 10.4% YoY to Rs. 0.6 trillion in 4M FY2026, dampened by lower gold imports (-3.2% in \$ terms), customs duty inflows reached 25.2% of FY2026 target, lower than ~29% in the year-ago period



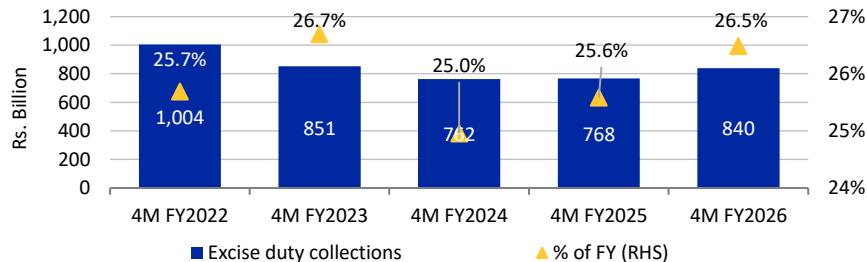
Source: CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: GST collections rose by a healthy 11.6% YoY in 4M FY2026, on the back of a turnaround in IGST flows relative to the year ago period, even as CGST collections rose by a sluggish 3.7% in 4M FY2026



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

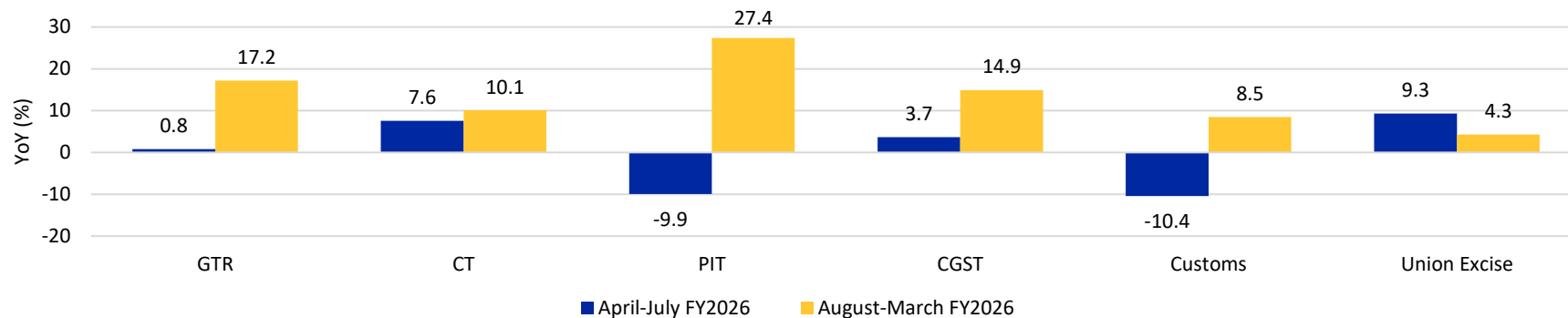
EXHIBIT: Excise duty collection rose by 9.3% YoY to Rs. 0.8 trillion in 4M FY2026, amounting to 26.5% of the FY2026 target as against 25.6% in the year ago period



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

GTR needs to rise by a steep 17.2% YoY during August-March FY2026

EXHIBIT: Actual growth in key tax heads in 4M FY2026 and required growth during August-March FY2026 to meet the respective budgeted targets



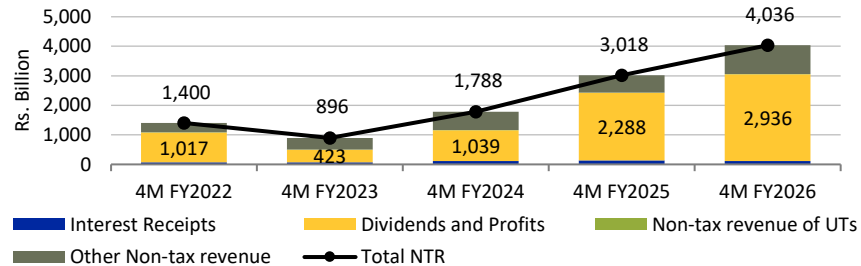
Source: Union Budget, CGA, Ministry of Finance, Gol; ICRA Research

- The Gol’s gross tax revenues need to rise by ~17% YoY in the remaining eight months of the fiscal to meet the FY2026 BE of Rs. 42.7 trillion, which requires an unusually steep expansion in PIT collections, to the tune of 27.4%, albeit on a muted base (+4.6% during August-March FY2025). While an easing base and the extension of the tax filing deadline will lead to a pick up in the growth rate in PIT collections, the asking rate is still quite steep and there could be a mild miss on this account vs. the FY2026 BE.
- The CGST collections also need to increase by a sharp 14.9% during August-March FY2026 to meet the target of Rs. 10.1 trillion, which seems like a tall ask, given the tepid growth in 4M FY2026 (+3.7%). Moreover, the impact of the Gol’s recently announced GST rationalisation on CGST revenues is unclear as yet.*
- Among other indirect taxes, while the required growth for excise duty (+4.3% during August-March FY2026) seems achievable, that for customs duty (+8.5%) seems somewhat steep, given the sharp ~10% YoY contraction seen in 4M FY2026.
- **Going ahead, if the Centre releases a double tranche of CTD in September-October 2025 as well, it will signal the Gol’s confidence in meeting the FY2026 BE, and thereby the fiscal deficit target.**

*Refer to ICRA’s [publication](#), *Timing of proposed GST rate changes to guide revenue growth, size of states’ fiscal deficit in FY2026*, published in September 2025.

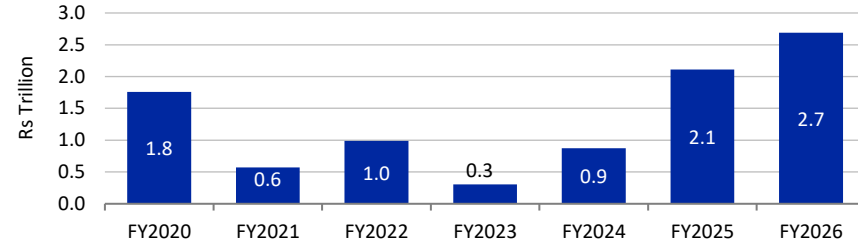
Healthy progress in non-tax and miscellaneous capital receipts could lead to material upside vis-à-vis the FY2026 BE, providing cushion on revenue front

EXHIBIT: Non-tax revenues rose by 33.7% YoY to Rs. 4.1 trillion in 4M FY2026, while amounting to 69.2% of the FY2026 BE, much higher than the average of 44.0% seen across the similar period of the last three years



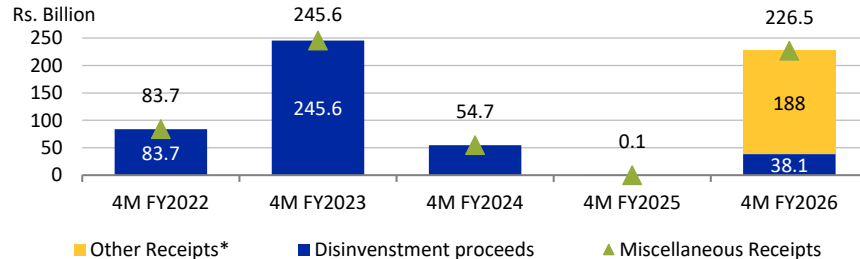
Source: CGA, Ministry of Finance, GoI; ICRA Research

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, implying an upside to non-tax revenues



Source: RBI; ICRA Research

EXHIBIT: Miscellaneous receipts amounted to Rs. 226.5 billion in 4M FY2026 as against nil in the year ago period, equivalent to a sizeable 48.2% of FY2026 target

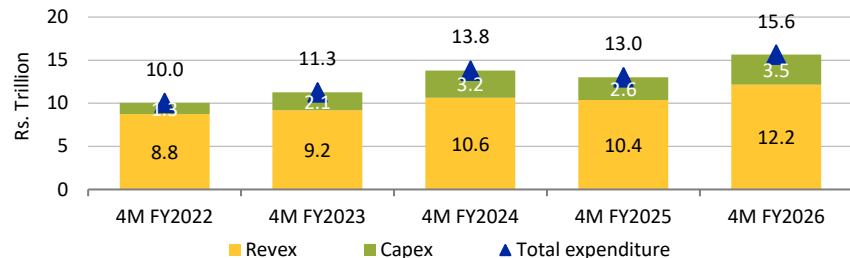


*Includes monetisation and other receipts; Source: CGA, Ministry of Finance, GoI; ICRA Research

- The RBI surplus transfer to the GoI was higher by ~Rs. 0.4-0.5 trillion vis-à-vis the amount assumed in the FY2026 Union Budget, implying an upside to non-tax revenues.
- On the miscellaneous receipts front, the financial bids are yet to be invited for the strategic disinvestment of IDBI Bank. While there are news reports stating the transaction will be completed by December 2025, it is estimated to fetch Rs. 500 billion to the GoI and the LIC.
- If this materialises, the GoI's fiscal math would turn more favourable for FY2026, with a significant revenue upside on this account likely against the target of Rs. 470 billion (of which ~48% has already been met by end-July 2025).

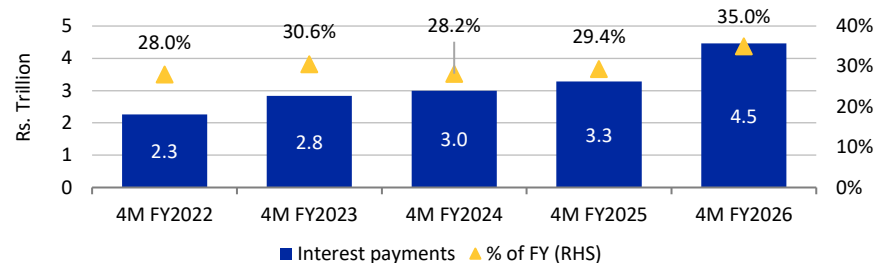
Gol's total spending surged by 20% in 4M FY2026, aided by a low base; sharp increase in interest payments may even out in coming months

EXHIBIT: The Gol's total expenditure expanded by a robust 20.2% YoY to Rs. 15.6 trillion, led by a healthy growth in both capex (+32.8%) and revex (+17.1%) during this period, partly aided by a low base



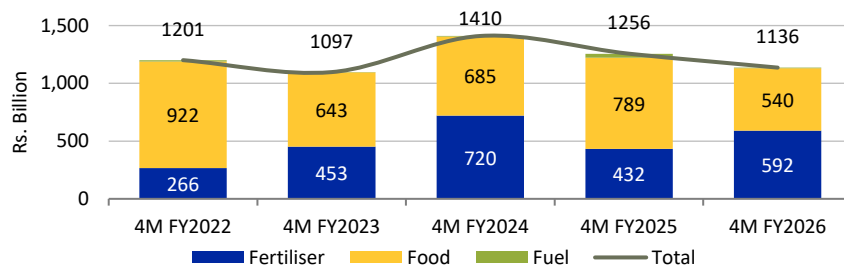
Source: CGA, Ministry of Finance, Gol; ICRA Research

EXHIBIT: Interestingly, the Gol's interest payments surged by 36.2% YoY to Rs. 4.5 trillion in 4M FY2026, amounting to 35% of the FY2026 BE, higher than the 28-31% seen during each of the last four fiscals



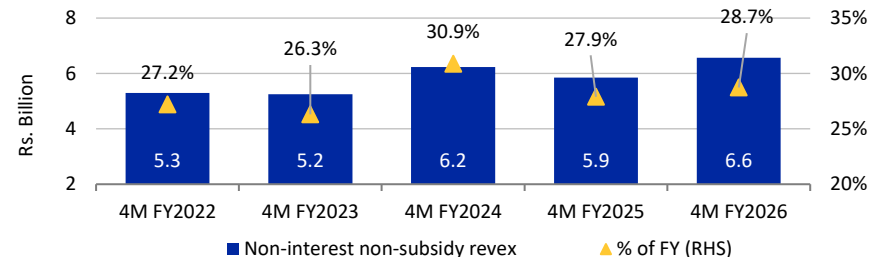
Source: CGA, Ministry of Finance, Gol; ICRA Research

EXHIBIT: However, the subsidy bill contracted by 9.6% YoY to Rs. 1.1 trillion in 4M FY2026 (29.6% of FY2026 BE), led by a sharp dip in food subsidy (-31.5%)



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

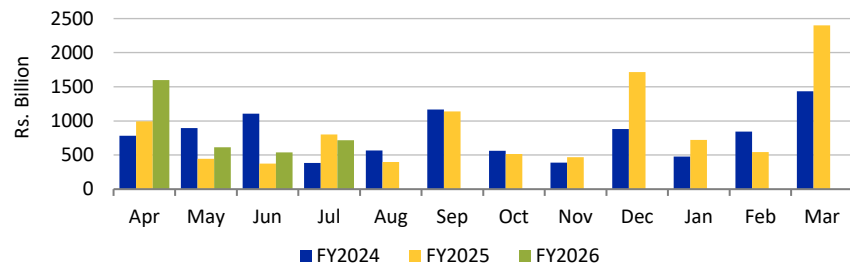
EXHIBIT: The Gol's non-interest non-subsidy revex rose by a healthy 12.1% YoY to Rs. 6.6 trillion in 4M FY2026, albeit on a low base (-6.0% in 4M FY2025); this was only 5.4% higher than the amount spent in 4M FY2024



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

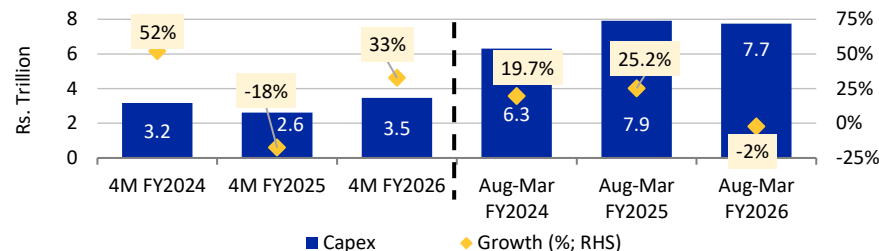
Gol's capex expanded by ~33% YoY in 4M FY2026, led by defence, other segments; can contract by ~2% in August-March FY2026 to meet the BE

EXHIBIT: After surging by over 50% in Q1 FY2026, the Gol's gross capex declined by 10.5% YoY in July 2025, amidst a high base (+108% in July 2024)



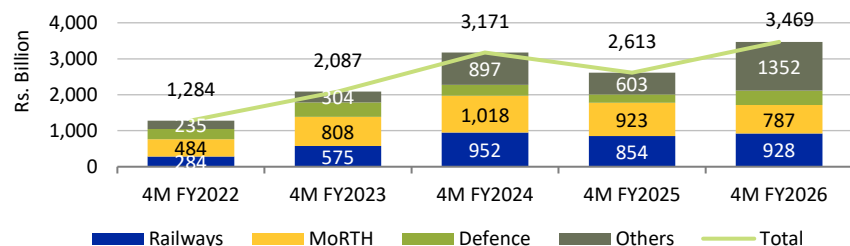
Source: CGA, Ministry of Finance, Gol; ICRA Research

EXHIBIT: Capex rose by 32.8% YoY to Rs. 3.5 trillion in 4M FY2026 (30.9% of FY2026 BE), 9.4% higher than the levels seen in 4M FY2024; the same can contract by ~2% in the remaining 8 months of FY2026 to meet the BE



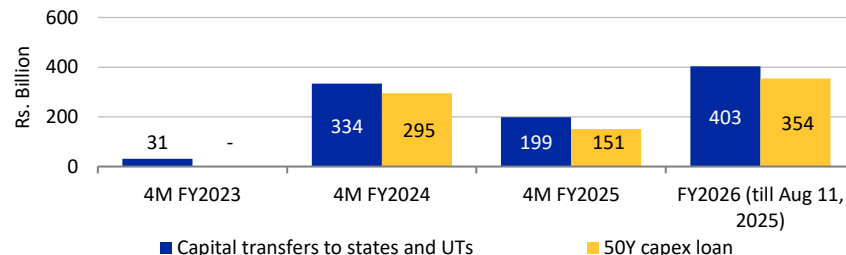
*Headroom available in 8M FY2025 and 8M FY2026 is based on FY2025 PE and FY2026 BE, resp.; Source: Union Budget; CGA; Ministry of Finance, Gol; ICRA Research

EXHIBIT: Around 84% of the YoY surge in absolute capex in 4M FY2026 stemmed from defence and other segments (DFPD and capital transfers to the states)



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

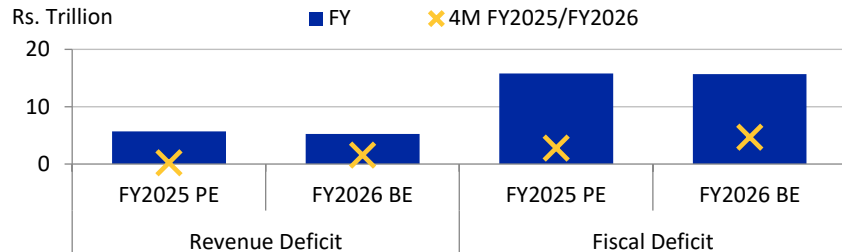
EXHIBIT: Capital transfers to states and UTs more than doubled on a YoY basis to Rs. 403 billion in 4M FY2026 from Rs. 199 billion in 4M FY2025; amount for 50Y capex loan scheme to the states surged to Rs. 354 billion till August 11, 2025



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

Fiscal deficit surged to Rs. 4.7 trillion or 30% of BE in 4M FY2026; G-sec yields have risen sharply owing to heightened fiscal risks

EXHIBIT: The GoI's fiscal deficit surged to Rs. 4.7 trillion (29.9% of FY2026 BE) in 4M FY2026 from Rs. 2.8 trillion (17.6% of FY2025 PE), with the robust growth in expenditure (+20%) outpacing the uptick in total receipts (+7%)



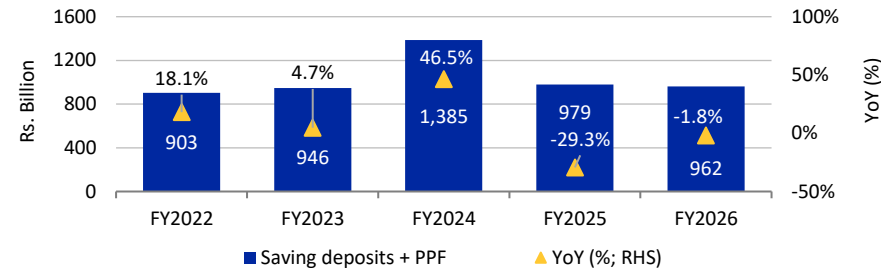
Source: Union Budget, CGA, Ministry of Finance, GoI; ICRA Research

EXHIBIT: India's 10-year G-sec yield increased by 22 bps to 6.59% on August 29, 2025 vs. end-July 2025 levels, amid risks posed to the GoI's fiscal target by the upcoming GST cut



Source: Refinitiv; ICRA Research

EXHIBIT: Inflows under savings deposit and certificates, and PPF fell by 1.8% YoY to Rs. 962 billion in 4M FY2026 (31.5% of FY2026 BE) from Rs. 979 billion in 4M FY2025 (29% of FY2025 PE)



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

- India's 10Y yield breached the 6.5% mark on August 19, 2025 and rose further to 6.62% on August 26, 2025, owing to concerns around the potential fiscal risks from impending GST rejig and a relief package for exporters, as well as the higher-than-indicated SDL issuances.
- ICRA foresees the 10-year G-sec yield to trade between 6.4-6.7% in the immediate term, owing to various developments, that have raised concerns around an overshooting in G-sec supply, including the impact of GST rationalisation on the fisc. However, yields could cool if the GoI sticks to its borrowing calendar for H2 FY2026, which will be released at end-September 2025.

Table A.1: Trends in Tax Revenue Receipts

	FY2025 PE		FY2026 BE		April-July FY2026		August-March FY2026 [^]
	Rs. Billion	Rs. Billion	Growth %	Rs. billion	% of BE	Growth % ~	Implicit Growth %
Gross Tax Revenues[^]	37,952.3	42,702.3	12.5%	10,929.1	25.6%	0.8%	17.2%
Direct Taxes	21,697.3	24,420.0	12.5%	5,539.0	22.7%	-4.3%	18.7%
Corporation Tax	9,867.7	10,820.0	9.7%	1,985.9	18.4%	7.6%	10.1%
Income Tax [*]	11,829.6	13,600.0	15.0%	3,553.2	26.1%	-9.9%	27.4%
Indirect Taxes	14,142.1	15,733.5	11.3%	4,689.7	29.8%	7.8%	12.8%
Central GST (CGST)	9,089.8	10,108.9	11.2%	3,116.3	30.8%	3.7%	14.9%
Union Territory GST (UTGST)	50.9	53.6	5.1%	11.2	20.8%	19.4%	1.9%
IGST	-330.0	0.0	--	119.1	--	--	--
Customs Duty	2,329.0	2,400.0	3.1%	605	25.2%	-10.4%	8.5%
Excise Duty	3,002.5	3,170.0	5.6%	839.6	26.5%	9.3%	4.3%
GST Compensation Cess	1,505.1	1,671.1	11.0%	503.1	30.1%	-0.5%	16.9%

[^]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 April-July FY2025/FY2026; Source: CGA, Ministry of Finance, GoI; Union Budget; ICRA Research

Table A.2: Trends in key fiscal metrics

	FY2025 PE		FY2026 BE		April-July FY2026		August-March FY2026^
	Rs. billion	Rs. billion	Growth	Rs. billion	% of BE	Growth~	Implicit Growth %
Revenue Receipts	30,364.3	34,204.1	12.6%	10,654.2	31.1%	4.8%	16.6%
Tax Revenues\$	24,988.9	28,374.1	13.5%	6,618.1	23.3%	-7.5%	22.0%
Non-Tax Revenues	5,375.4	5,830.0	8.5%	4,036.1	69.2%	33.7%	-23.9%
Revenue Expenditure	36,035.1	39,442.6	9.5%	12,167.0	30.8%	17.1%	6.4%
Revenue Balance	-5,670.8	-5,238.5		-1,512.8	28.9%		
Capital Receipts	172.0	470.0	173.2%	226.5	48.2%	--	41.6%
Capital Expenditure, Net Lending	10,273.9	10,920.9	6.3%	3,397.9	31.1%	33.3%	-2.6%
Fiscal Balance	-15,772.7	-15,689.4		-4,684.2	29.9%		

\$Net of Refunds, Net of States' share in Central Taxes; ~Relative to FY2025 PE; ^Based on FY2026 BE, FY2025 PE and the data for April-July FY2025/FY2026; Source: CGA, Ministry of Finance, Gol; Union Budget; ICRA Research



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