

Economic Research | India

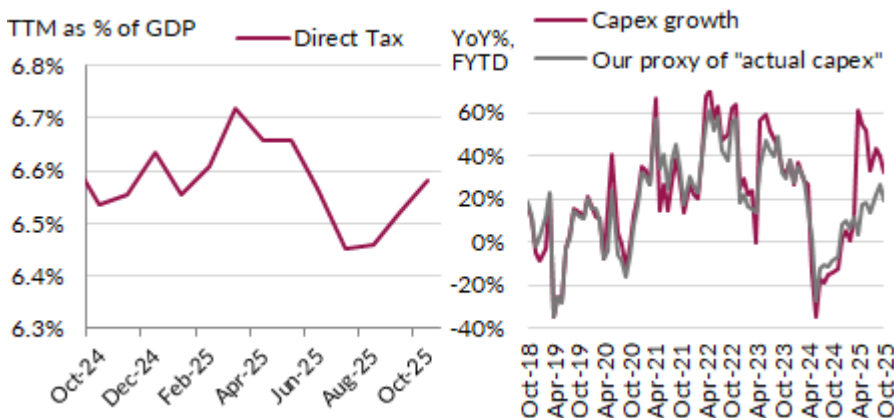
Fiscal risks now lower, capex growth still healthy

November 30, 2025

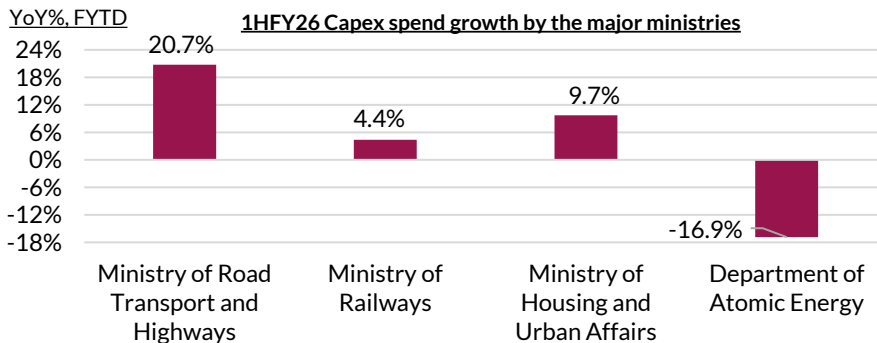
Fiscal Monitor

Signs of fiscal resilience are visible, with income tax up 13% and corporate tax up 9% during Jul–Oct, signaling recovery after Q1 weakness. GST collections were muted amid IGST and cess weakness. Capex spend remains strong despite headline distortions, while subsidies and revenue expenditure ex-interest declined. Despite slippage in tax receipts vs. target and nominal GDP risks, we expect low risk to FY26 fiscal deficit target as the shortfall can be managed via asset sales/higher PSU+RBI dividends.

Exhibit 1 - Tax receipts growth (FYTD) expected to rebound sharply



Capex spending (these 4 dept. were 66% of FY25 Capex spend excl. loans to states)



Source: CGA, Axis Bank Research

Direct tax: income tax collections +7% YoY FYTD but +13% YoY during Jul-Oct

FYTD central net revenue receipts rose 3.5% YoY, driven by a record RBI dividend. Net tax receipts fell 2.4% YoY due to higher state transfers (+16%), aided by surplus cash. Gross tax receipts grew 4% YoY: GST collections were muted (+1%, due to weakness in IGST but more importantly compensation cess), while direct taxes rose 6%—income tax up 13% and corporate tax up 9% during Jul–Oct, signaling recovery after 1Q weakness.

The gap between headline capex growth vs. 'actual' growth now narrowing

Capex is still strong (Fig 1, 6), but accounting rules distort headline, e.g. Rs500bn of capex in the Dept. of food & public distribution vs. Rs0.2bn budgeted (See appendix). +246% YoY growth in Telecom may also be some one-off payment. Subsidies fell 1% YoY in 7M (+20% YoY in fertilizer subsidies was offset by the decline in food subsidies which fell 17% YoY, Fig 7). Revenue expenditure excl. interest payments fell 5.4% YoY (FYTD).

Weakness in receipts now less of a concern, FY26 deficit target not a risk yet

While upgrades to GDP for FY23-25 ([link](#)) may have shrunk the FY26 deficit ratio to 4.3%, tax receipts are expected to be meaningfully lower vs. target. Despite downside risks to FY26 nominal GDP growth, we don't expect a major fiscal strain or a risk to the 4.4% target.

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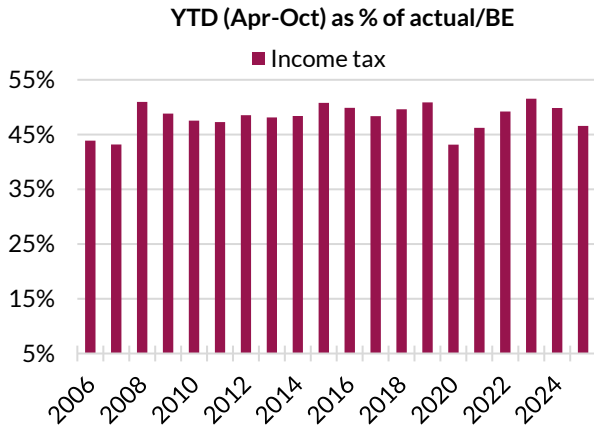
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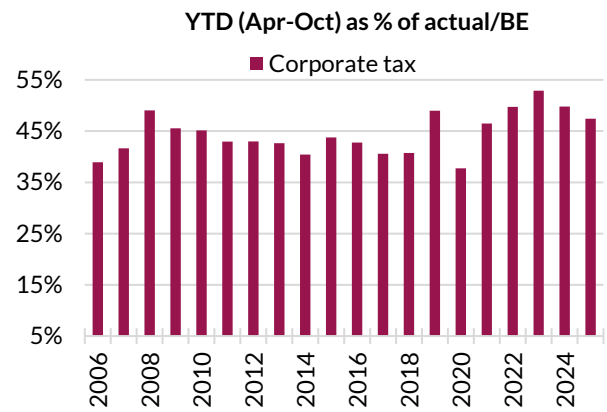
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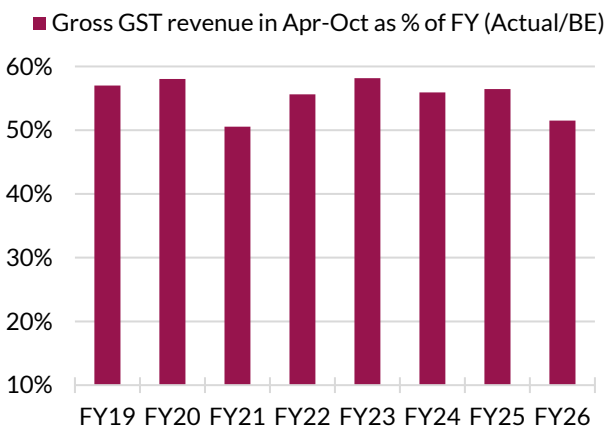
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Exhibit 2 - During Apr-Oct, income tax collections grew 7% YoY (+13%YoY during Jul-Oct); 1Q weakness now behind us


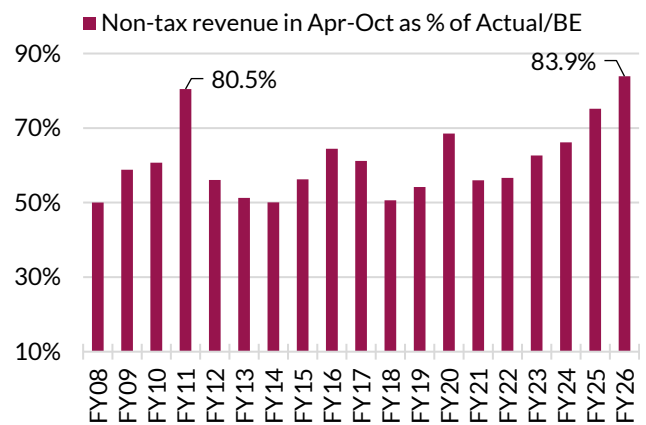
Source: CGA, Axis Bank Research

Exhibit 3 - During Apr-Oct, corporate tax receipts rose 5% YoY (+9%YoY during Jul-Oct); FY slippage likely < INR 400bn


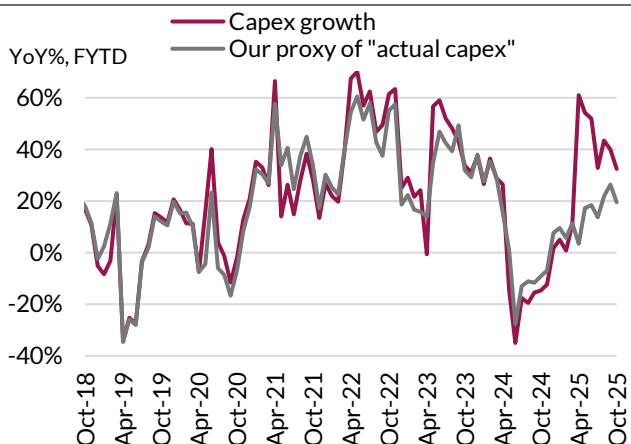
Source: CGA, Axis Bank Research

Exhibit 4 - GST collections grew 1% YoY FYTD (weakness in IGST+ compensation cess; CGST +10% YoY in Jul-Oct)


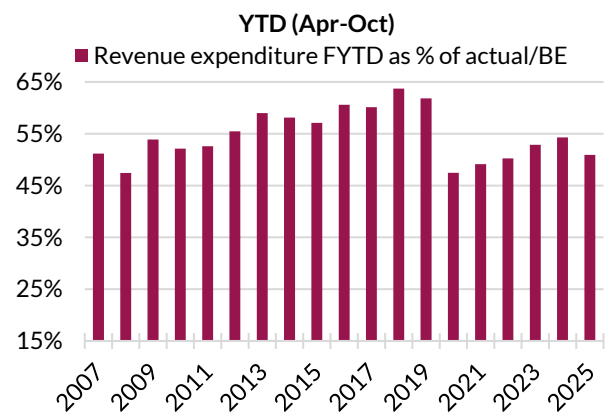
Source: CGA, Axis Bank Research

Exhibit 5 - Non-tax receipts in Apr-Oct rose 23% YoY; will likely more than offset slippage in corporate tax collections


Source: CGA, Axis Bank Research

Exhibit 6 - Headline capex spending growth (+32% YoY FYTD) misleading; "actual growth" is ~20% on a weak base


Source: CGA, Axis Bank Research

Exhibit 7 - Revenue expenditure +0% YoY FYTD but fell 5.4% YoY FYTD when excluded for interest payments (+13% YoY)


Source: CGA, Axis Bank Research

Appendix

Ways and Means Advances (WMA) for the Food Corporation of India (FCI) are temporary loans provided by the Government of India (GoI) to help bridge mismatches between the FCI's receipts and expenditures. These advances (short-term loans) are repaid by the end of the same financial year, typically March 31. The interest rate is typically at par with the weighted average rate of 364-day Treasury Bills.

Purpose: WMAs help FCI manage its finances when there are delays in receiving subsidy payments from the government, which are crucial for its operations like grain procurement, storage, and distribution

Allocation: In the fiscal year 2024-25, the government provided FCI with a WMA of Rs. 50,000 crore.

Utilization: FCI utilizes the WMA to cover expenses related to foodgrain procurement, transportation, and distribution when there are delays in receiving subsidy payments.

Equity Infusion: In some cases, the government may convert WMAs into equity, as seen with the recent approval of Rs 10,700 crore equity infusion in FCI. (Nov 2024: <https://www.pib.gov.in/PressReleaseIframePage.aspx?PRID=2071133>)

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