

Center's capex at 52% of FY26BE in 1HFY26

- Capital spending continued to surge in Sep'25. On an FYTD basis, capital outlay stood at INR5.8t, or 52% of FY26BE, the highest in the last six years. Within capex, defense spending remained robust, rising sharply YoY in 1HFY26, and outlay on roads maintained healthy growth. However, railway spending remained comparatively weak.
- Revenue spending contracted for the second consecutive month. On an FYTD basis, revenue spending remained subdued in 1HFY26 (44% of FY26BE, the lowest in over a decade). Within revenue expenditure, subsidies contracted in 1HFY26, while YoY growth in pensions and interest payments was lower than in the last year.
- On the receipts side, government receipts rebounded in Sep'25 after three months of decline, aided by strong non-tax inflows and a pickup in income tax collections.
- Total receipts stood at 50% of FY26BE in 1HFY26 vs. 52% in 1HFY25. Within receipts, net tax revenue remained weak (43% of FY26BE, the lowest in five years), mainly led by muted GST and direct tax collections. On the other hand, non-tax inflows remained robust in 1HFY26 (82% of FY26BE), the highest in over a decade.
- Consequently, the fiscal deficit widened in 1HFY26 (INR5.7t vs. INR4.7t in 1HFY25), achieving 37% of FY26BE, the highest in five years, reflecting robust capital spending alongside weaker GST and direct tax growth.
- **Outlook:** We believe the fiscal deficit remains manageable despite higher defense spending.
- We see a possibility of 10bp of slippage risk due to trailing revenue receipts. But the positive in fiscal math is that revenue expenditure is yet to pick up.
- We expect G-sec 10Y to be around 6.3% by the end of Mar'26, on our expectations of an additional 50bp rate cut spread over Dec'25 and Feb'26.

Exhibit 1: Total spending contracted 8% YoY in Sep'25

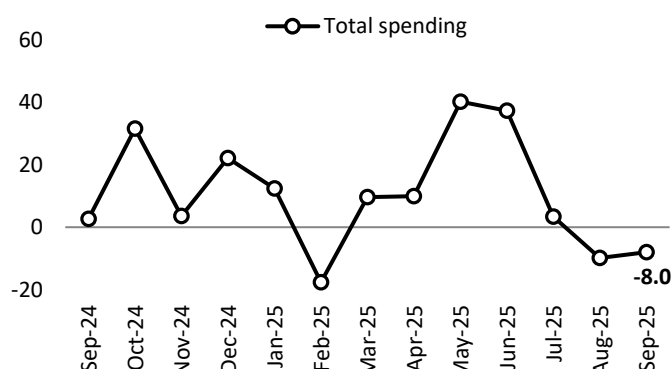
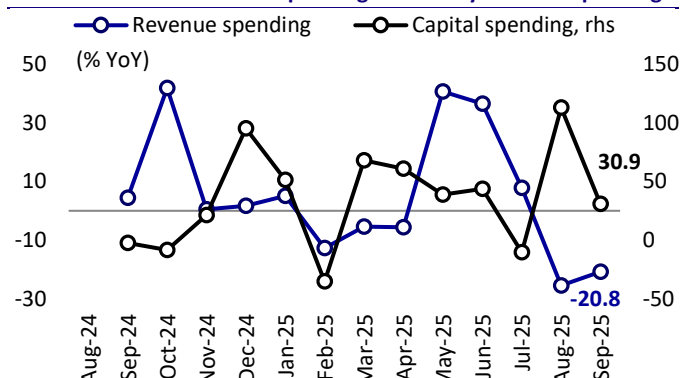


Exhibit 2: Deceleration in spending was led by revenue spending



Source: Controller General of Accounts (CGA), MOFSL

Exhibit 3: Total receipts increased 6.6% YoY in Sep'25

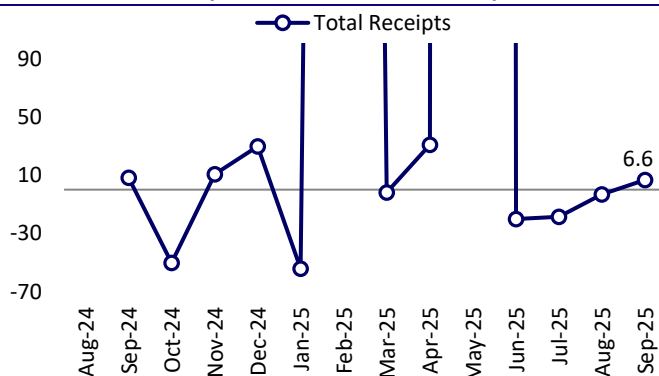
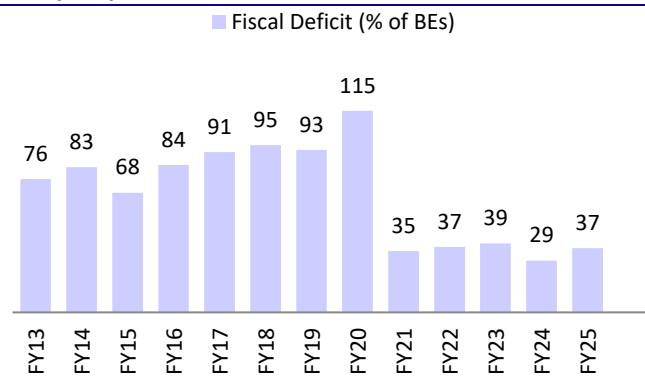


Exhibit 4: Fiscal deficit stood at 37% of BEs in Apr-Sep'25 vs. 29% over Apr-Sep'24



Apr-Jun for all years; Source: CGA, MOFSL

Radhika Piplani – Research Analyst (Radhika.Piplani@motilaloswal.com)

Tanisha Ladha – Research Analyst (Tanisha.Ladha@Motilaloswal.com)

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Data highlights

- Total spending growth by the central government remained weak in Sep'25, contracting for the second straight month in Sep'25 (-8% vs. -9.9% in Aug'25). The contraction in total spending was mainly led by a sharp contraction in revenue spending (-20.8% in Sep'25 vs. -25.5%/+4.4% in Aug'25/Sep'24). On the contrary, capital spending jumped 30.9% in Sep'25 after increasing 113% in Aug'25. Notably, capital spending excluding loans and advances grew 42.2% in Sep'25 (vs. +59% in Aug'25 and -1.8% in Sep'24; refer to Exhibits 1 and 2).
- In Apr-Sep'25, capital outlay surged to INR5.8t (up 40% YoY), or 52% of FY26BE, a marked increase from INR4.1t in FY25. At the same time, revenue spending stood at INR17.2t in Apr-Sep'25, representing 44% of FY26BE, the lowest in at least a decade (vs. 46% of FY25BE or INR17t in Apr-Sep'24). Accordingly, the government's total spending in Apr-Sep'25 stood at INR23t, up 9.1% YoY (vs. a contraction of 0.4% in Apr-Sep'24) and accounting for 45% of FY26BE (vs. INR21t in Apr-Sep'24; 44% of FY25BE).
- Total receipts increased 6.6% YoY in Sep'25 after contracting for three straight months (vs. -3.2%/+8.1% growth in Sep'24/Aug'25; Exhibit 3). While net tax revenue increased 7.1% in Sep'25 (vs. a contraction of 6.3% in Aug'25), non-tax receipts surged 145%. Within net tax revenue, direct taxes increased 11% in Sep'25, and indirect tax growth moderated to 2%. Within direct taxes, while corporate tax collections remained weak, they grew 0.4% in Sep'25; income taxes increased 33.7% in Sep'25. Within indirect tax collections, while GST revenue collection marked its third successive contraction (-6% in Sep'25 vs. -12.9% in Aug'25), customs duty collection increased at a 13-month high pace of 29% in Sep'25 (vs. -15.9% in Aug'25). At the same time, excise duty collections increased 10.3% during the month.
- During Apr-Sep'25, total receipts growth of the government increased 5.7% YoY (vs. 15.5% in Apr-Sep'24), led by a contraction in net tax revenue. Direct taxes increased 3.1% during Apr-Sep'25, while indirect tax collection grew 2.6% YoY. Within direct taxes, income tax revenue increased 4.7% YoY, while corporate taxes increased 1.1% during Apr-Sep'25. Total receipts stood at INR17.3t, representing 50% of FY26BE, the lowest in five years (vs. INR16.4t, or 52% of FY25BE during Apr-Sep'24).
- Consequently, the Union government reported a fiscal deficit of INR5.7t for Apr-Sep'25, amounting to 37% of FY26BE vs. INR4.7t for Apr-Sep'24 (or 29% of FY25BE).
- **Outlook:** We believe the fiscal deficit remains manageable despite higher defense spending.
 1. We see a possibility of 10bp of slippage risk due to trailing revenue receipts. But the positive in fiscal math is that revenue expenditure is yet to pick up.
 2. We expect G-sec 10Y to be around 6.3% by the end of Mar'26, on our expectations of an additional 50bp rate cut spread over Dec'25 and Feb'26.

Exhibit 5: Details of Central Government Finances (Sep'25 and 1HFY26)

Central Govt. finances	Monthly (INR b)			FYTD, % YoY		FY2025BE	
	Sep-25	Sep-24	(% YoY)	2025/2024	2024/2023	INR b	(% of BE)
Gross tax revenue	5,214	4,811	8.4	0.8	12.1	38,402	35
Direct Taxes	3,873	3,491	11.0	-1.0	12.9	22,070	30
Corporate Tax	2,373	2,369	0.2	2.1	-6.0	10,200	22
Income Tax	1,500	1,122	33.7	-2.5	25.5	11,870	37
Indirect Taxes	1,292	1,266	2.1	2.9	9.5	16,187	40
Custom	240	186	29.0	-11.9	12.9	2,377	35
Excise Duty	270	245	10.3	7.6	4.2	3,190	35
GST	782	835	-6.3	5.0	10.2	10,619	43
Net tax revenue	4,190	3,913	7.1	-7.3	8.7	25,835	31
Non Tax revenue	257	227	13.2	31.7	59.6	5,457	81
Non debt capital receipts	28	57	-51.2	260.6	-42.4	780	41
Total Receipts	4,475	4,198	6.6	5.4	18.3	32,072	40
Total Expenditure	4,225	4,591	-8.0	13.8	-1.2	48,205	39
Revenue expenditure	2,733	3,452	-20.8	7.2	4.1	37,094	39
Interest Payments	495	1,149	-56.9	32.1	8.9	11,629	45
Subsidies	2,024	2,147	-5.7	-8.7	-4.2	3,812	112
Capital expenditure	1,492	1,140	30.9	43.4	-19.5	11,111	39
Loans Disbursed	90	154	-41.6	175.0	-31.5	-	
Fiscal Deficit	-250	393	-163.6	37.5	-32.3	16,133	37
Revenue deficit	-1,714	-689	148.8	38.8	-49.7	5,802	34
Primary deficit	-745	-755	-1.3	98.4	-87.3	4,504	15

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Nainesh Rajani

Email: nainesh.rajani@motilaloswal.com

Contact: (+65) 8328 0276

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Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com
Mr. Neeraj Agarwal	022 40548085	na@motilaloswal.com
Mr. Siddhartha Khemka	022 50362452	po.research@motilaloswal.com

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