India: Fiscal deficit widens sharply despite RBI windfall in Apr-May'FY27

01st July 2026

Fig.1 Fiscal consolidation target at 4.3% of GDP in FY27 (% of GDP)

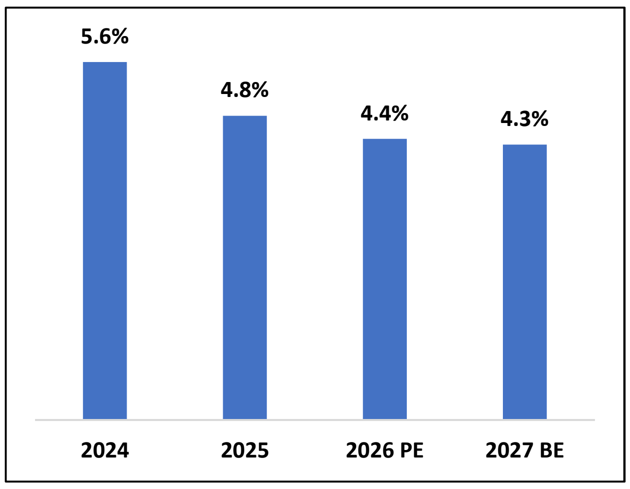


Fig.2. Fiscal dynamics in Apr-May FY27 are much worse vis-a-vis same period last year on West Asia conflict impact (% of revised / budgeted estimates)

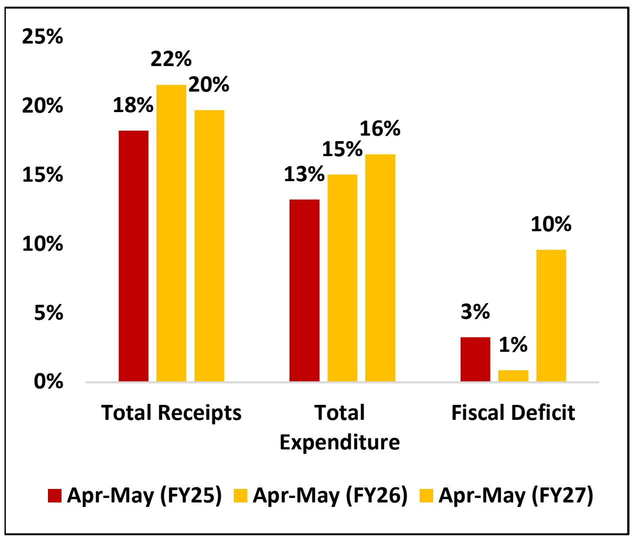
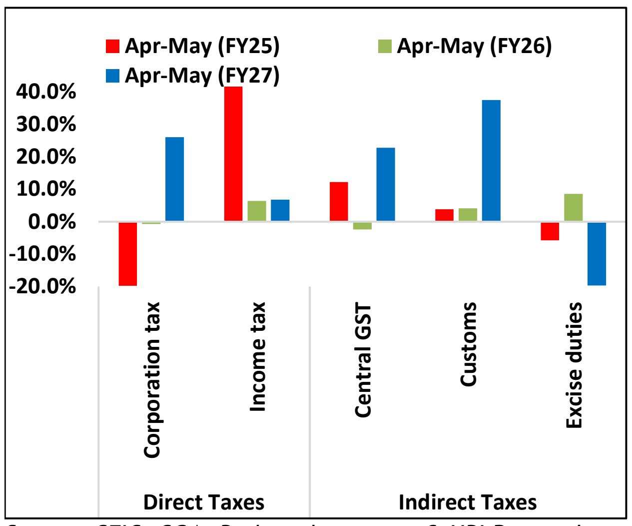


Fig.3. Tax revenue growth pickup primarily led by direct taxes while indirect taxes lag (%, y/y)



Source: CEIC, CGA, Budget documents & UBI Research

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Fiscal deficit in Apr-May'FY27 surges amid revenue slippage

- Fiscal deficit in Apr-May'FY27 spikes sharply to Rs. 1.62 lakh cr (9.6% of BE) vis a vis Rs. 0.13 lakh cr (0.8% of RE) in corresponding period last year. The deterioration came despite RBI's record surplus transfer due to softer tax collections and lower non-tax revenues during the period. While expenditure remained largely in line with the government's budgeted pace, subdued revenue mobilisation during the first two months resulted in a significant and wider fiscal gap.

- **Receipts**: ▪ Revenue receipts in Apr-May'FY27 witnessed a fall of 1.2% y/y from Rs.7.08 lakh cr last year to Rs.6.99 lakh cr this year. Both tax and non-tax revenues moderated in Apr-May'FY27, particularly non-tax revenue which fell by about 1.7% y/y. Non-debt capital receipts stood at Rs.20,000 cr as against Rs.25,000 cr last year. At Rs.7.19 lakh cr, total receipts registered a slide of 2% y/y from Rs.7.33 lakh cr last year.
  - Cumulatively, during Apr-May'FY27, revenue receipts were largely supported by **non-tax receipts**, including RBI's dividend of Rs. 2.87 lakh cr (Rs. 2.69 lakh cr last year). Non-tax revenue was up by 12.7% in the month of May while it was down 1.7% for the Apr-May period.
  - **Gross tax revenue** was up just 1.8% at Rs.5.25 lakh cr (Rs. 5.15 lakh cr last year) mainly due to 5.5% fall in indirect taxes collection which weighed heavily on a decent 10.5% growth in direct taxes collection.
  - **Direct taxes** collection went up from Rs. 2.37 lakh cr to Rs.2.62 lakh cr in Apr-May'FY27 with corporate taxes showing a remarkable growth of 26.1% y/y while income tax collection went up by 6.8% y/y.
  - **Indirect taxes** collection fell to Rs.2.63 lakh cr in Apr-May FY27 from Rs.2.78 lakh cr same period last year partly contributed by a slump in the collection of compensation cess which went down from Rs.25,006 cr to Rs.186 cr. Revenue from GST and customs was up by 22.8% and 37.5% respectively while excise duties were down by about 20%.

- **Expenditure:** Spending pace has gained momentum right from the beginning of financial year 26-27 as both revenue expenditure and capex rose leading to a 18.1% YoY rise in total expenditure in Apr-May'FY27.
  - **Capital expenditure** grew by 13.4% in Apr-May'FY27 to Rs.2.51 lakh cr making up for 20.5% of the BE of Rs. 12.22 lakh cr for capex for FY27. Frontloading of spending indicates govt's willingness to induce demand and support growth.
  - **Revenue expenditure** in Apr-May'FY27 averaged Rs. 6.3 lakh cr vs Rs. 5.25 lakh cr in corresponding period last year, jumping nearly 20% and achieving 15% of the budgeted target partly due to sharp jump in subsidies payment as a consequence of higher crude oil prices amid supply disruptions.
  - **Subsidy expenditure** rose 47% to Rs. 0.76 lakh cr from 0.51 lakh cr last year, driven by a 50% jump in urea subsidy and 46% rise in food subsidy in view of the US Iran war and resultant hike in oil import bill. The subsidies expenditure has already reached 18% of the budgeted target vis-a-vis 13% achievement same period last year.

- **Fiscal deficit financing**: In the Union Budget FY 2026-27, govt. has reiterated its commitment to continue on its fiscal consolidation path and reduce fiscal deficit to 4.3% of GDP in FY27 from 4.4% in FY26 (RE).
  - **Market borrowings** stands at Rs. 1.18 lakh cr for the period Apr-May'FY27 as against Rs. 0.98 lakh cr last year and Rs. 13.03 lakh cr BE.
  - **Fiscal financing through small savings** during Apr-May'FY27 stands at Rs. 0.92 lakh cr vis-a-vis Rs. 0.63 lakh crore last year growing by 47% y/y.
  - **Govt. cash balance** as of May'26 was at Rs. 3.44 lakh cr with cash buildup of Rs. 1.37 lakh cr vis-à-vis end-March 2026 balance of Rs. 2.07 lakh cr. Cash buildup has been lower this year than last year due to West Asia crisis led weaker revenue collections and higher upfront expenditure.

The sharp widening in the fiscal deficit during Apr-May raises concerns over the pace of revenue mobilisation While early reports had suggested that the govt may tolerate a fiscal deficit of up to 4.8% of GDP amid heightened geopolitical uncertainty and elevated crude oil prices, it is premature to infer a deviation from the FY27 fiscal consolidation path. At present, the FY27 fiscal deficit target of 4.3% appears challenging but remains achievable given the reversal in oil prices, drop in fertilizer prices apart from higher nominal GDP growth likely to support fiscal dynamics. We will closely watch the fiscal dynamics in the wake of evolving economic conditions and progress of monsoon as well.

Fig 4. Fiscal deficit in Apr-May FY27 at 9.6% of BE versus 0.8% in corresponding period FY26

Fiscal Numbers (Rs lakh crore)								
Parameter	May'25	Apr-May FY26	May'26	Apr-May (FY27)	May'26 (% YoY)	Apr-May (FY27) (% YoY)	FY27 (BE)	% of Actuals to FY27 BE
Revenue Receipts	4.51	7.08	4.96	6.99	10.0%	-1.2%	35.33	19.8%
Net Tax Revenue	1.61	3.51	1.70	3.48	5.2%	-0.8%	28.67	12.1%
Non Tax Revenue	2.90	3.57	3.27	3.51	12.7%	-1.7%	6.66	52.7%
Non Debt capital receipts	0.03	0.25	0.10	0.20	253.3%	-22.0%	1.18	16.6%
Total Receipts	4.54	7.33	5.06	7.19	11.5%	-2.0%	36.52	19.7%
Revenue expenditure	2.19	5.25	2.45	6.30	11.8%	20.1%	41.25	15.3%
Capex	0.62	2.21	0.61	2.51	-0.6%	13.4%	12.22	20.5%
Total Expenditure	2.81	7.46	3.06	8.81	9.1%	18.1%	53.47	16.5%
Fiscal Deficit / Surplus	1.73	-0.13	2.00	-1.62	15.5%	1133.4%	-16.96	9.6%

Fig. 5. Market borrowings and small savings drive fiscal financing despite govt cash balance build-up

Parameter	Apr-May (FY24)	Apr-May (FY25)	Apr-May (FY26)	Apr-May (FY27)
External Financing	0.04	0.01	-0.05	0.03
Domestic Financing	2.06	0.49	0.19	1.59
Market borrowings	1.83	1.55	0.98	1.18
Securities against small savings	0.96	0.65	0.63	0.92
State provident funds	0.01	0.00	-0.01	-0.01
Special deposits	0.02	0.00	0.00	0.00
Public account	0.58	0.61	1.04	0.81
Cash Balance drawdown	-0.90	-2.36	-2.49	-1.37
Ways & means advances	0.05	0.04	0.05	0.05
Total Financing	-0.49	0.00	0.00	0.00

Fig.6. Overall Gross Tax Revenue growth almost flat despite double digit growth in corporate tax and GST collections in Apr-May'FY27 (Rs. lakh crore)

Tax components	May'25	Apr-May (FY26)	YoY growth %	May'26	May'26 (% YoY)	Apr-May (FY27)	Apr-May'FY27 (% YoY)	(FY27) BE	% of Actuals to (FY27) BE
Direct									
Corporation tax	0.24	0.45	-0.8%	0.31	34.0%	0.57	26.1%	12.3	4.6%
Income tax	0.82	1.92	6.4%	0.88	6.8%	2.05	6.8%	14.7	14.0%
Central GST	0.77	1.55	-2.4%	0.83	7.6%	1.90	22.8%	10.2	18.7%
Customs	0.15	0.29	4.1%	0.23	48.8%	0.40	37.5%	2.7	14.8%
Excise duties	0.26	0.26	8.6%	0.21	-21.5%	0.21	-19.7%	3.9	5.5%
Others*	0.20	0.68	197.7%	0.13	-34.4%	0.11	-83.4%	0.28	40.2%
Gross Tax Revenue	2.44	5.15	12.1%	2.58	5.9%	5.25	1.8%	44.0	11.9%

*includes other taxes like STT & compensation cess etc

Source: CGA, Budget documents, CEIC, UBI Research

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