India's fiscal deficit widens in Q1 amid surge in capex

Rise in capex signals govt's continued push to support economic growth through investment

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India's fiscal deficit nearly doubled in the first quarter of fiscal year 2026 (FY26), compared with the same period of the previous year, driven by a sharp rise in capital expenditure, signalling the government's continued push to support economic growth through public investment.

Data released on Thursday by the Controller General of Accounts showed the fiscal deficit for April-June (Q1 FY26) at ₹2.81 trillion, or 17.9% of the full-year target.

The fiscal deficit stood at ₹1.36 trillion in the same period last year.

The surge comes amid a ramp-up in central government capex, which rose to ₹2.75 trillion in Q1, 24.5% of the annual goal, compared to ₹1.81 trillion a year earlier.

While the fiscal gap widened, the year-on-year comparison is partly skewed due to the 2024 general election, which had slowed spending in the early months of the previous fiscal year.

This year's early outlay suggests a front-loading of investments in infrastructure and public services, even as private sector capex remains uneven.

In the first quarter of FY26, the Centre's total expenditure rose to ₹12.22 trillion, 24.1% of the full-year target, up from ₹9.7 trillion in the same period last year, reflecting a sharp increase in both capital and revenue spending.

₹2.81 tn
India's fiscal deficit in the first quarter of fiscal year 2026

Revenue expenditure, which includes day-to-day government costs like salaries, rose to ₹9.47 tn, or 24% of the annual estimate, compared to ₹7.89 tn in Q1 FY25. REUTERS

Revenue expenditure, which includes day-to-day government costs such as salaries, climbed to ₹9.47 trillion, or 24% of the annual estimate, compared to ₹7.89 trillion in Q1 FY25.

Net tax collections came in at ₹5.4 trillion, or 19% of the annual target, marginally lower than ₹5.5 trillion a year earlier.

Non-tax revenue surged to ₹3.73 trillion, 64% of the budgeted figure, up from ₹2.8 trillion last year, helping offset the dip in tax inflows.

Overall, total revenue receipts stood at ₹9.41 trillion, covering 26.9% of the FY26 target, versus ₹8.34 trillion during the same period in FY25.

India's total expenditure on major subsidies held largely steady in the first quarter of FY26, rising marginally to ₹3.83 trillion from ₹3.81 trillion in the same period a year ago, official data showed.

The modest increase came despite a sharp drop in food subsidy, which fell to ₹42,227 crore in Q1 FY26, from ₹61,969 crore in the year-ago period.

This decline was offset by higher outlays on fertilizers. The nutrient-based fertilizer subsidy rose to ₹9,499 crore from ₹7,914 crore a year earlier, while the urea subsidy surged to ₹31,523 crore from ₹19,911 crore in Q1, FY25.

₹12.22 tn
The government's total expenditure in Q1 FY26

The central government has maintained a strong commitment to fiscal consolidation, with the deficit for FY26 projected at ₹15.69 trillion, lower than the ₹16.85 trillion reported in FY25.

Finance minister Nirmala Sitharaman reiterated in her budget speech earlier this year, affirming the Centre's glide path to reduce fiscal deficit to 4.4% of GDP by 2025-26 (FY26).

Fiscal deficit, or the shortfall between government spending and revenue, excluding borrowings, shows how much the government must borrow to meet its expenses.

While moderate deficits can help sustain economic momentum, a sharp rise would raise concerns over inflationary pressures and rising public debt.

"Although the GoI's (government of India's) capital expenditure expanded by a sharp 52% y-o-y in Q1 FY2026, this was on a low base and was 1% lower than the levels seen in Q1 FY2024. Nevertheless, the capex amounted to a healthy at about 25% of the FY2026 BE," said Aditi Nayar, chief economist, Icra Ltd.

"The healthy y-o-y growth in the capex number in Q1 FY2026, is also likely to have supported investment demand, auguring well for the GDP growth print for the quarter," she added.