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India

Steady, albeit modest, fiscal consolidation

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- The government will announce the FY27 (i.e. year ending March 2026) budget on 1 February. We expect the government to meet its FY26 fiscal deficit target of 4.4% of GDP and narrow the FY27 fiscal deficit by a modest 0.1-0.2% of GDP.
- Despite the recent weakness in asset markets, the GDP growth outlook has been remarkably resilient. We peg FY26 GDP growth at 7.5% with GDP growth slowing to 6.4% in FY27.
- We continue to see room for the Reserve Bank of India (RBI) to cut its policy rate by 25bp in the current easing cycle.

The finance minister will announce the budget for the fiscal year 2027, i.e. starting April 2026 until March 2027 (FY27) on 1 February 2027 before which, the economic survey will be presented on 29 January 2026.

We expect the authorities to continue with fiscal consolidation in FY27, albeit to a more modest degree than in recent years. Our forecast is for the government to narrow the fiscal deficit by 0.1-0.2% of GDP from FY26 implying a deficit of 4.2-4.3% of GDP. The reduced pace of fiscal consolidation reflects the newer GST regime, changes to the personal income tax structure and slightly slower economic growth momentum.

We do not expect large cutbacks in expenditures, particularly capex, while current expenditures could moderate slightly provided the changes in the rural employment guarantee scheme yield some fiscal savings at the centre and global oil prices remain low allowing for the subsidy bill to stay manageable.

Poor revenue collections will likely necessitate expenditure cutbacks in FY26

Revenue collections have been under pressure for FY26 (i.e. April 2025 to March 2026). Central government revenue collection growth slowed to 2.1%YoY in April to November 2025 compared to 8.7% during in the same period in FY25. Slower personal income tax growth likely reflects the changes in personal income tax brackets announced in Budget FY25 (see *FY26 Budget: Consolidation and Consolation*, 03 February 2025) and moderating nominal GDP growth in 2Q25 and 3Q25. In addition, GST collections were also lower for the October to December 2025 quarter following the readjustment of GST slabs in September 2025 (see *India: GST slabs readjusted – a boost to reforms*, 4 September 2025). Meanwhile, non-tax revenue collections expanded 20.9%YoY for April to November 2025 and will likely slightly exceed the government's budget estimate (BE).

INR crores	FY25	FY26BE	FY25 (April to Nov 2024)	FY26 (April to Nov 2025)	% of BE	%YoY
Total revenues	**4655517**	**5065345**	**1894408**	**1949239**	**38.5**	**2.9**
Revenue Receipts	**3036429**	**3420409**	**1870455**	**1910312**	**55.9**	**2.1**
Tax Revenue (Net to Centre)	2498885	2837409	1443435	1393946	49.1	-3.4
Non-Tax Revenue	537544	583000	427020	516366	88.6	20.9
Capital receipts	**1619088**	**1644936**	**23953**	**38927**	**2.4**	**62.5**
Recovery of Loans	24616	29000	14972	15210	52.4	1.6
Other Receipts	17202	47000	8981	23717	50.5	164.1
Total Expenditure	**4655517**	**5065345**	**2741002**	**2925910**	**57.8**	**6.7**
Revenue Account	3603510	3944255	2227502	2267700	57.5	1.8
Capital Account	1052007	1121090	513500	658210	58.7	28.2
Fiscal Deficit	**1577270**	**1568936**	**846594**	**976671**		
%GDP	4.8	4.4				

Source: CEIC; OCBC Group Research.

There will need to be cutbacks in expenditures for the government to meet the fiscal deficit target of 4.4% of GDP. Some of these are likely already materialising as current expenditures excluding interest payments dropped by 3.0% YoY for April-November 2025 compared to

+7.6% in the same period in 2024. Capital expenditures excluding loans disbursed, however, continue to grow at a strong pace of 24.7%YoY from April-November 2025 versus –15.4% during the same period in 2024. Total expenditures reached 57.8% of the BE as of November 2025.

INR crores	FY25	FY26BE	FY26 RE (OCBC forecasts)	FY27 (OCBC forecasts)	*%YoY*	FY26 RE (OCBC)	FY27 (OCBC forecasts)
Total revenues	**4655517**	**5065345**	**4804024**	**5226069**		**3.2**	**8.8**
Revenue Receipts	**3036429**	**3420409**	**3158085**	**3422937**		**4.0**	**8.4**
Tax Revenue (Net to Centre)	2498885	2837409	2547859	2751687		2.0	8.0
Non-Tax Revenue	537544	583000	610226	671249		13.5	10.0
Capital receipts	**1619088**	**1644936**	**1645939**	**1803132**		**1.7**	**9.6**
Recovery of Loans	24616	29000	26405	27726		7.3	5.0
Other Receipts	17202	47000	39717	39717		130.9	0.0
Total Expenditure	**4655517**	**5065345**	**4804024**	**5226069**		**3.2**	**3.2**
Revenue Account	3603510	3944255	3772286	4111792		4.7	9.0
Capital Account	1052007	1121090	1031738	1114277		-1.9	8.0
Fiscal Deficit	**1577270**	**1568936**	**1579816**	**1735689**			
%GDP	4.8	4.4	4.4	4.3			

Source: CEIC; OCBC Group Research.

Limited fiscal consolidation for FY27

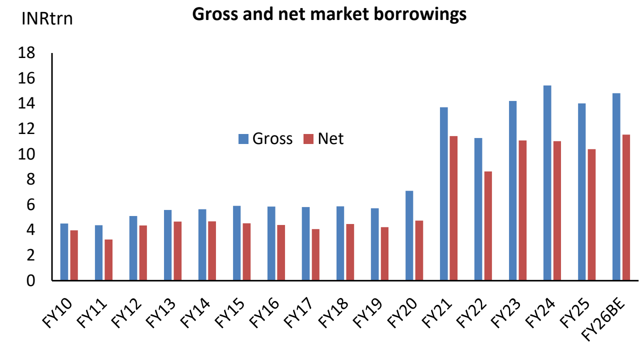
We expect the pace of fiscal consolidation to be modest for FY27 with the government looking to narrow the fiscal deficit by 0.1-0.2% of GDP, i.e. setting a fiscal deficit target of 4.2-4.3% of GDP. A strong pace of fiscal consolidation will require new revenue generation measures for which the timing is not appropriate considering external headwinds and the counter-cyclical tilt of government policies. Our baseline is for the authorities to maintain the current tax structures for key tax rates while focusing on bolstering tax administration measures and plugging loopholes to improve collections. This suggests that tax revenues will likely expand in line or slightly below nominal GDP growth.

On the expenditure front, current expenditures will likely remain dictated by personnel spending, subsidies and interest payments although the subdued global oil prices can help check the overall cost of the subsidy bill. The run-rate for subsidy spending on the major items for FY26 is still largely within the full year budget, although petroleum subsidies have already hit 71.3% of the BE as of November 2025. The government's revamped Mahatma Gandhi National Rural Employment Guarantee Scheme (Mahatma Gandhi NREGS) into the Viksit Bharat Guarantee for Rozgar and Ajeevika Mission (Gravin) (VB G RAM G for short) could imply lower allocations for the centre since the state cost sharing for wages (for most states) will now formally be 60:40. But this remains to be seen.

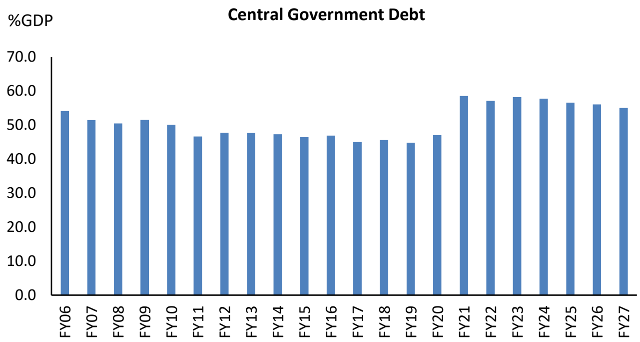
More fundamentally, the pipeline for infrastructure spending remains strong. The cabinet approved new highway projects including a six-lane Nashik-Solapur-Akkalkot greenfield corridor in Maharashtra and the widening and strengthening of NH-326 in Odisha. These will use a combination of the build-operate-transfer toll model involving private developers as well as the government's EPC (engineering-procurement-construction) model, which could potentially tap some on-budget funds.

The financing of the fiscal deficit will continue to be done mainly through government borrowings. The government pegged the gross borrowing needs at INR14.82 lakh crores for FY26, with net borrowings at INR11.54 lakh crores. As of 9 January 2026, gross government securities raised was INR11.82 lakh crores while net was INR7.86 lakh crores. The issuance calendar for the second half of the FY26 pegs borrowing at INR6.77 lakh crores. Gross borrowings are likely to be higher for FY27 compared to FY26, with redemptions for FY27 at INR5.5trn.

We continue to expect the central government debt to GDP ratio to be lower at 55% of GDP in FY27 from 56.1% of GDP in FY26 supported by continued nominal GDP growth. A steady decline in the government debt to GDP will, in our view, be a more consistent measure of fiscal consolidation in FY27 considering heightened external headwinds.



Source: CEIC; OCBC Group Research.



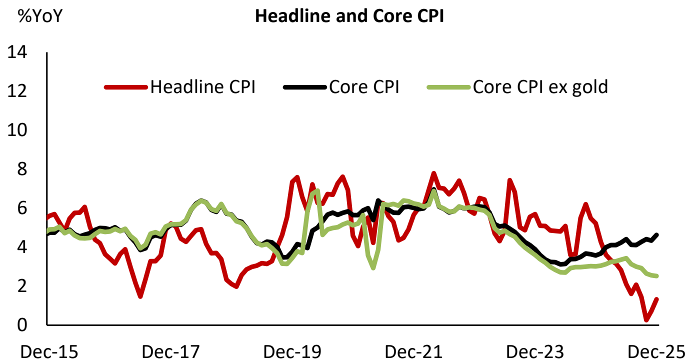
Source: CEIC; OCBC Group Research.

Robust incoming activity data

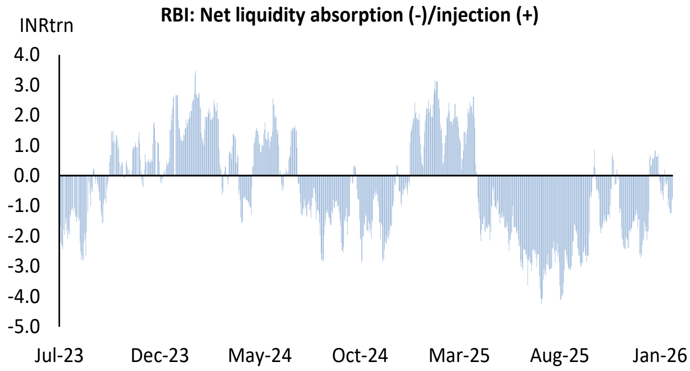
Notwithstanding the recent weakness in Indian assets – the stock market, bonds and the currency - Budget FY27 will be delivered against a backdrop of resilient economic growth. The incoming activity data for the October-December 2025 quarter suggests solid economic growth of 7.4% YoY versus 8.2% in the previous quarter. This will likely take real GDP growth for FY26 to 7.5% YoY. We continue to expect a moderation in real GDP growth for FY27 to 6.4%YoY mainly on account of slower export growth but also a normalisation in household consumption.

Headline inflation remained below RBI's 2-6% target range from July-December 2025, coming in at 1.3% for December 2025 versus 0.7% in November. The disinflation in food prices continued for a fourth consecutive month in December, with core inflation edging up slightly to 4.6%YoY in December from 4.3% in November. However, excluding gold prices, core inflation eased to 2.5% YoY from 2.6% in November. For FY26, headline CPI is likely to ease to 1.7% YoY versus 4.6% in FY25. Inflationary pressures are likely to remain well contained through FY27 and we expect headline CPI inflation to average 3.5% in FY27.

For RBI, relatively tight liquidity conditions will likely remain a challenge. RBI announced additional liquidity enhancing measures in December 2025, with OMO purchases in four tranches of INR50,000crore each on 29 December 2025, 5 January 2026, 12 January 2026, and 22 January 2026. This follows similar operations in the early part of December 2025 (see India: *RBI cuts by 25bp but holds onto neutral stance*, 5 December 2025). RBI also conducted a USD/INR Buy/sell swap auction of USD10bn on 13 January 2026. Seasonal liquidity tightness on account of advance tax payments, intervention risks from INR depreciation pressures are likely to keep RBI nimble in its liquidity management approach. In terms of monetary policy, we continue to see the door open for further easing. Our forecast remains for another 25bp rate cut from the RBI in the current easing cycle.



Note: Core is headline CPI excluding Food & Beverages and Fuel & Light.
Source: CEIC; OCBC Group Research.



Source: CEIC; OCBC Group Research.

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