



# **DAILY EDITORIAL ANALYSIS**

**TOPIC**

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**THE CENTRE'S FISCAL OUTLOOK**

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## THE CENTRE'S FISCAL OUTLOOK

### Context

- The Centre's fiscal position in 2026-27 is expected to remain broadly close to budget estimates, despite risks from weak tax collections, higher subsidies, geopolitical tensions and volatile crude oil prices.

### Revenue Position of the Government

- **Gross Tax Revenue (GTR)** grew only **3.7%** in Q1 2026-27, reflecting weak growth in major tax sources.
- **Personal Income Tax (PIT)** grew by **6.8%**, while GST revenue contracted by **11%** in Q1.
- **Union excise duty** collections declined **22.4%**, partly because excise duties on fuel were reduced to cushion consumers from high crude prices.
- **Higher-than-budgeted nominal GDP growth**, estimated at **12.5–13%**, could provide some support to tax collections.

### Transfers to States and Fiscal Federalism

- The **16th Finance Commission** has retained the States' share in the divisible pool of Central taxes at **41%**, thereby maintaining the existing framework for tax devolution.
  - ♦ Tax devolution to states contracted by **19.5%** in **Q1 2026-27**.
- **Finance Commission grants** to States are budgeted to decline by **₹23,556 crore** during 2026-27, which could add to the fiscal pressures faced by States.
- The increased reliance on cesses can also raise concerns regarding fiscal federalism, because cesses are generally kept outside the divisible pool and therefore do not form part of the 41% share devolved to States.

### Government's Revenue-Mobilisation Measures

- To compensate for the revenue pressures, the government introduced the **Health Security and National Security (HSNS) Cess** from February 1, 2026, following the discontinuation of the GST Compensation Cess.
  - ♦ **A cess is a tax imposed for a specific purpose**, and unlike taxes forming part of the divisible pool, cesses are generally not shared with states through the Finance Commission's tax devolution mechanism.
- The government also **increased the windfall tax** on exports of diesel, petrol and aviation turbine fuel, thereby seeking to capture a portion of exceptional gains arising from favourable global energy-price conditions.
- Import duties were also increased on **gold and silver bullion** and certain other precious-metal products, providing an additional avenue for **revenue mobilisation** while also influencing import demand for non-essential commodities.

### Non-Tax Revenue as a Fiscal Cushion

- **Non-tax revenue** refers to government receipts other than **taxes and includes dividends from public-sector enterprises** and the RBI, **interest receipts, fees, royalties** and other administrative receipts.
- Non-tax revenue contributed around **37%** of the **Centre's net revenue receipts** during **Q1 2026-27**, making it an important cushion against the weakness in tax collections.
- The Reserve Bank of India's dividend transfer provided particularly strong support, with around **77% of the budgeted dividends** and profits for the entire year already realised in the first three months of 2026-27.
- **Strong non-tax receipts** can temporarily **reduce pressure on tax revenue and borrowing**, although sustainable fiscal consolidation ultimately requires **strengthening the government's recurring revenue base** rather than relying excessively on exceptional receipts.

### Expenditure Management of Government

- The Centre managed to contain the growth of revenue expenditure at **7.4% during Q1 2026-27, while capital expenditure** increased by **23.7%**, demonstrating that the government continued to prioritise productive public investment despite emerging fiscal pressures.
- **Capital expenditure** refers to government spending that creates physical or financial assets or reduces liabilities, while **revenue expenditure** largely relates to recurring expenditure such as salaries, pensions, subsidies and interest payments.

### Fiscal Deficit and Debt Position

- **Fiscal deficit** refers to the **excess of total government expenditure over total receipts** excluding borrowings and therefore represents the government's borrowing requirement during a financial year.
- During Q1 2026-27, the Centre's fiscal deficit amounted to around **18.2%** of the annual budgeted magnitude, while the **revenue deficit** represented only **0.4%** of its annual budget estimate.
- **The estimated Centre's debt-to-GDP ratio** is around **55.8%** under the new GDP series.

### Major Risks to the Fiscal Outlook

- **Weak tax revenue growth** could create a revenue shortfall if GST, income tax and other major tax collections fail to recover during the remaining quarters of 2026-27.
- **Persistently high crude oil prices** could simultaneously reduce fuel-tax collections and increase subsidy requirements, thereby putting pressure on both sides of the government's fiscal balance.
- **Higher borrowing requirements** could increase future interest payments and gradually reduce the fiscal space available for productive expenditure.
- **Greater reliance on cesses and surcharges** could create concerns regarding Centre-State fiscal relations because these revenues are generally not included in the divisible pool.

### Way Ahead

- The government should strengthen tax buoyancy by widening the tax base, improving compliance, promoting formalisation and using technology to reduce tax evasion.
- There is a need to strengthen **capital expenditure** while **rationalising inefficient and poorly targeted subsidies** so that fiscal consolidation does not come at the cost of long-term economic growth.
- India should strengthen energy security by diversifying energy sources, expanding renewable energy, improving energy efficiency and strengthening strategic petroleum reserves to reduce the fiscal vulnerability arising from imported crude oil.

Source: TH

### Daily Mains Practice Question

- [Q] **The Centre's fiscal outlook for 2026-27 remains broadly manageable, but geopolitical uncertainties and weak tax revenue growth pose significant risks to fiscal consolidation. Discuss the key factors shaping India's fiscal outlook and suggest measures to strengthen fiscal resilience.**

