



MACRO ECONOMICS

Fiscal deficit and the Budget

What the Government earns, spends and borrows, and how to read the three deficit numbers

Union Budget 2026-27 (1 February 2026); Government accounts to the end of August 2026

For training and education only. Not investment advice.

The fiscal deficit is the Government's total borrowing requirement for a year, to pay for what it spends.

It is the gap between total spending and all receipts other than borrowing. The Budget states it in rupees and as a share of GDP.

Two accounts, four boxes

Every rupee goes in a revenue box or a capital box. The test is whether an asset or debt changes.



Revenue receipts

Taxes, and non-tax income such as dividends, interest and fees. They create no debt and sell no asset.



Revenue spend

Day-to-day spending such as salaries, pensions, subsidies, interest and grants. It creates no asset for the Centre.



Capital receipts

Borrowings, recovery of loans given earlier, and other receipts such as sale of stakes. A debt rises or an asset falls.



Capital spend

Spending that creates an asset, such as roads, railways and equipment, and loans the Centre gives out.

Source: Budget at a Glance 2026-27, Ministry of Finance, 1 Feb 2026 (structure of the receipts and expenditure table).

Three deficits from one set of numbers

THE SET-UP (ASSUMED)

One year of an imaginary government, in ₹ crore.

Revenue receipts 700. Loan recoveries and stake sales 20.

Revenue spending 850, of which interest 280. Capital spending 200.

- 1 Revenue deficit = revenue spending – revenue receipts = $850 - 700 = ₹150$ crore.
- 2 Total spending = $850 + 200 = ₹1,050$ crore. Receipts other than borrowing = $700 + 20 = ₹720$ crore.
- 3 Fiscal deficit = $1,050 - 720 = ₹330$ crore. This is the amount to be borrowed.
- 4 Primary deficit = fiscal deficit – interest payments = $330 - 280 = ₹50$ crore.

Fiscal deficit ₹330 crore. Revenue deficit ₹150 crore. Primary deficit ₹50 crore.

Illustration with assumed figures. Not a forecast.

The Budget's own numbers

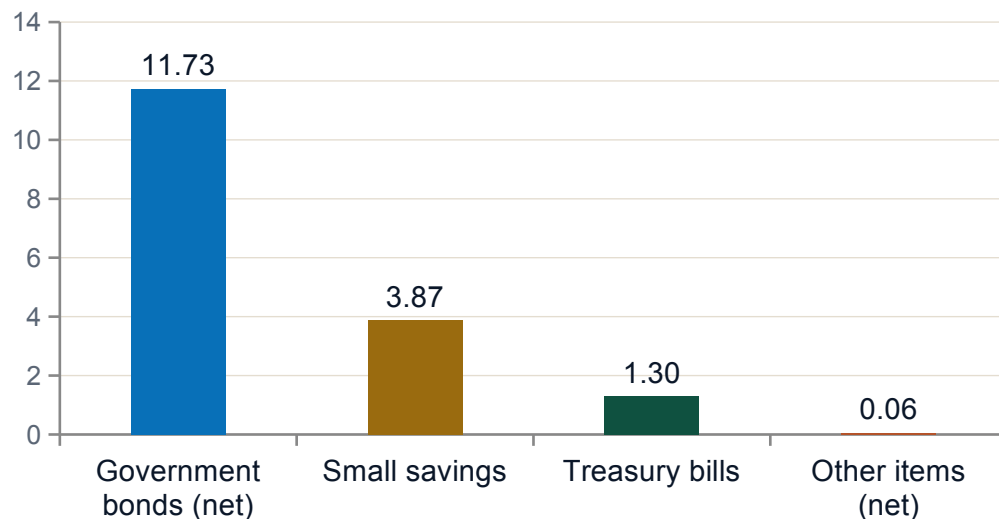
₹ crore, with per cent of GDP in brackets. RE is the Revised Estimate. BE is the Budget Estimate.

Item	2025-26 (RE)	2026-27 (BE)
Total expenditure	49,64,842	53,47,315
Interest payments (part of the above)	12,74,338	14,03,972
Revenue deficit	5,26,764 (1.5%)	5,92,344 (1.5%)
Fiscal deficit	15,58,492 (4.4%)	16,95,768 (4.3%)
Primary deficit	2,84,154 (0.8%)	2,91,796 (0.7%)

Source: Budget at a Glance 2026-27, Ministry of Finance, 1 Feb 2026. GDP for 2026-27 is taken there as ₹393,00,393 crore, 10% above the 2025-26 Advance Estimate.

How the 2026-27 deficit is financed

₹ lakh crore, Budget Estimate 2026-27



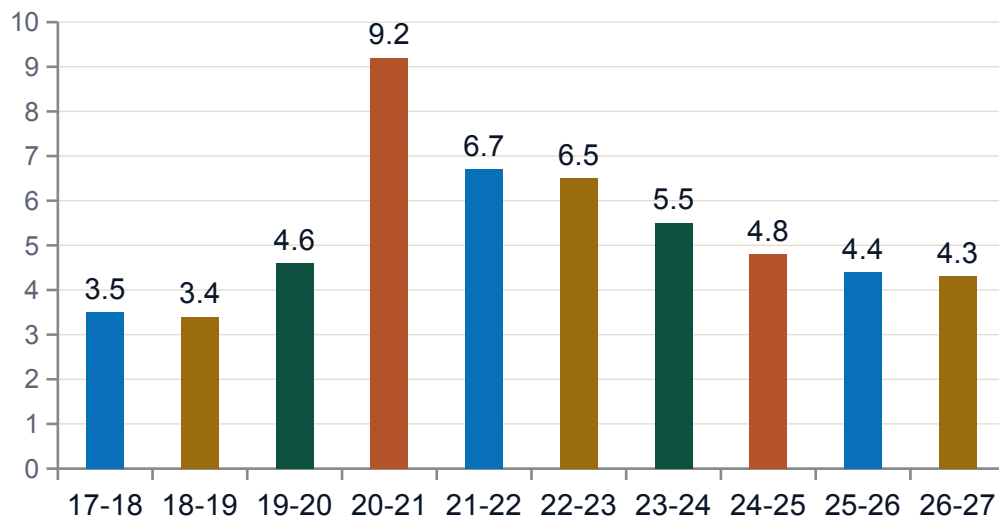
Read the chart

- The four bars sum to the fiscal deficit of ₹16.96 lakh crore.
- Net borrowing is new bonds sold minus bonds repaid or bought back. It is budgeted at ₹11.73 lakh crore.
- Gross borrowing, the total value of bonds to be sold, is budgeted at ₹17.20 lakh crore.
- Small savings are deposits in government savings schemes, lent to the Government.

Sources: Budget at a Glance 2026-27 (Sources of Financing; last bar is our sum of four items); FRBM Statements, Feb 2026, para 46.

The consolidation path

Fiscal deficit, % of GDP (25-26 RE, 26-27 BE)



The announced anchor

- The deficit reached 9.2% of GDP in 2020-21 and has been lower in each year since.
- The stated aim is now about debt: central government debt of $50 \pm 1\%$ of GDP by 2030-31.
- Debt is estimated at 56.1% of GDP in 2025-26 (RE) and 55.6% in 2026-27 (BE).
- The fiscal deficit is the yearly operating target used to reach it.

Sources: Budget at a Glance 2026-27 (Deficit Trends; Trends in Debt); Budget Speech 2026-27, paras 92-94; FRBM Statements, Feb 2026, paras 37 and 55.

Deficit and bond yields: the mechanism

1

The Government borrows

It meets most of the deficit by selling bonds. Gross sales of ₹17.20 lakh crore are budgeted for 2026-27.

2

Buyers have limited money

Banks, insurers, pension funds and mutual funds buy these bonds from the same pool of savings that companies borrow from.

3

More supply needs a price

If the supply of bonds grows faster than demand for them, buyers ask for a higher yield. Other forces can offset this.

4

Private borrowers follow

Company bonds are usually priced as a spread over government bond yields. Economists call a squeeze on private borrowing 'crowding out'.

Source for the borrowing figure: Statements of Fiscal Policy under the FRBM Act, Feb 2026, para 46. The steps describe a mechanism. They are not a forecast.

Three deficits, three different things

Deficit	Whose gap, and between what	Latest full-year figure
Fiscal deficit	The Central Government's total spending minus its receipts other than borrowing. Counted in rupees.	In 2025-26: ₹15,19,169 crore (provisional); RE: 4.4% of GDP
Trade deficit	The whole country's imports of goods minus its exports of goods. Usually quoted in US dollars.	US\$ 337.3 billion (goods, 2025-26, preliminary)
Current account deficit	The goods gap after adding net earnings from services, income and transfers such as remittances.	In 2025-26: US\$ 25.2 billion, 0.6% of GDP (preliminary)

Sources: Budget at a Glance 2026-27; CGA Provisional Accounts 2025-26 (unaudited); RBI press release, balance of payments, Q4 2025-26, 8 Jun 2026.

Where things stand

Budget Estimates are plans made on 1 February 2026. The monthly accounts show progress against them.

FISCAL DEFICIT (BE)

4.3%

Of GDP for 2026-27, or
₹16,95,768 crore.
2025-26 Revised
Estimate: 4.4%.

APRIL-AUGUST 2026

41.9%

Share of the full-year
estimate reached in
five months: ₹7,10,249
crore.

CENTRAL DEBT (BE)

55.6%

Of GDP for 2026-27, as
defined in the FRBM
Act. Aim: 50±1% by
2030-31.

10-YEAR G-SEC YIELD

6.96%

Yield on the 6.94% GS
2036 on 1 September
2026.

Sources: Budget at a Glance 2026-27; Controller General of Accounts, Union Government Accounts at a Glance, end of August 2026 (unaudited); RBI Current Rates, 1 Sep 2026.

Four things people get wrong



'A deficit means the Government lost money.'

Spending is above receipts other than borrowing. Part of that spending builds assets: capital expenditure is ₹12,21,821 crore in 2026-27 (BE).



'Revenue and fiscal deficit are the same.'

The revenue deficit covers day-to-day spending only. The fiscal deficit also counts capital spending, less loan recoveries and similar receipts.



'A fiscal deficit is a trade deficit.'

One is the Government's budget gap in rupees. The other is the country's gap in goods trade with the world. They can move in different directions.



'The fiscal deficit is 6.8% of GDP.'

Earlier Budgets gave higher figures for their own years. The 2026-27 Budget Estimate is 4.3%. Check the year before you quote one.

Check yourself

Q1

Revenue receipts are ₹500 crore, revenue spending ₹620 crore, capital spending ₹130 crore and loan recoveries ₹10 crore. Find the revenue deficit and the fiscal deficit.

Q2

In the same example, interest payments are ₹200 crore. What is the primary deficit, and what does it tell you?

Q3

What debt level has the Central Government said it aims to reach, and by which year?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- Receipts, expenditure, the three deficits, sources of financing, deficit and debt trends, GDP assumption: Budget at a Glance 2026-27, Ministry of Finance, 1 Feb 2026.
- Debt aim of 50±1% of GDP by 2030-31; debt of 55.6% (BE 2026-27) and 56.1% (RE 2025-26): Budget Speech 2026-27, paras 92-94, 1 Feb 2026.
- Gross borrowing ₹17.20 lakh crore and net ₹11.73 lakh crore through dated securities (BE 2026-27): Statements of Fiscal Policy under the FRBM Act, Feb 2026, paras 37, 46 and 55.
- Fiscal deficit April-August 2026, ₹7,10,249 crore, 41.9% of BE: Controller General of Accounts, Union Government Accounts at a Glance, end of August 2026 (unaudited).
- Goods trade deficit and current account deficit for 2025-26: RBI Press Release 2026-2027/412, 8 Jun 2026 (preliminary data).
- 10-year G-sec yield 6.9570% on 1 Sep 2026: RBI Current Rates, rbi.org.in (archived 2 Sep 2026). Remarks on yields: RBI Governor's Statement, 7 Oct 2026.

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