Budget 2026-27: Reform express

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Budget assumptions

To arrive at budget ratios, government makes some critical assumptions.

- Government expects nominal GDP to rise by 10% in FY27, recovering from 8% growth in FY26.
- Overall tax revenue-GDP is estimated to remain broadly stable at 11.2% in FY27BE.
- Direct tax-GDP ratio is expected to increase to 6.9% from 6.8% last year.
- Indirect tax-GDP ratio will remain steady at 4.3% as per FY27BE.
- Capex is expected to rise by 11.5% in FY27BE to Rs 12.2 lakh crore following 4.2% growth registered in FY26RE (Rs 11 lakh crore).
- Overall size of the budget, as % of GDP, has been brought further down to 13.6% in FY27BE from 13.9% in FY26RE.
- Fiscal deficit ratio in FY27BE is targeted at 4.3%, down from 4.4% in FY26RE.

Glide path

- Government has committed that "starting FY27 till FY31, the Government would endeavour to keep fiscal deficit in each year such that the Central Government debt is on declining path".
- In the speech, FM reiterated that "Central Government would target reaching a debt-to-GDP ratio of 50±1% by FY31".
- Government aims to lower its debt-GDP ratio from 56.1% in FY26RE to 55.6% in FY27BE.
- The FY26RE print also includes the liabilities on account of investment in Special Securities of the States, under the NSSF, which are expected to be 0.7% of GDP.

Revenue

Tax collections

- Gross tax collections are estimated to register significant incremental improvement in FY27BE compared with last year (Rs 3.3 lakh cr).
- This will be driven by double-digit increase in both corporate and income tax receipts.
- This also implies that corporate profitability is expected to maintain momentum.
- Indirect tax receipts are expected to come down marginally, noting the impact of rationalization of GST rates.
- This decline will be compensated by expected increase in both customs and excise collections.
- Under non-tax revenue, in FY27 as well, a higher dividend is expected from RBI and banks at Rs 3.16 lakh crore versus Rs 3.05 lakh crore in FY26RE.

Rs lakh crore	FY26BE	FY26RE	FY27BE	FY27BE (%YoY)
Gross tax collections	42.7	40.8	44.0	8.0
-Total direct tax	25.2	24.2	27.0	11.4
---Corporate tax	10.8	11.1	12.3	11.0
---Income tax	14.4	13.1	14.7	11.7
-Total indirect tax	17.4	16.4	16.8	2.3
---GST	11.8	10.5	10.2	(2.6)
---Customs	2.4	2.6	2.7	5.0
---Union excise	3.2	3.4	3.9	15.6
Centre's net tax revenue	28.4	26.7	28.7	7.2
-Total non-tax	5.8	6.68	6.66	(0.2)
---Interest receipts	0.5	0.40	0.42	4.0
---Dividend	3.3	3.8	3.9	4.1
Centre's net revenue	34.2	33.4	35.3	5.7

Source: Budget documents, Bank of Baroda Research| RE: Revised Estimate, BE: Budget Estimate

Capital receipts

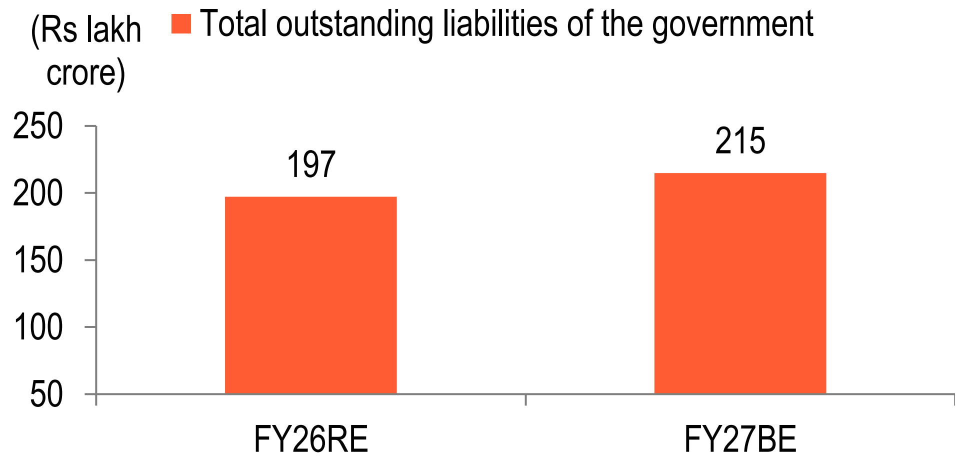
- The gross borrowing number at Rs 17.2 lakh crore pegged for FY27 has been higher than market estimates.
- This is likely to keep yields sticky. However, net borrowing being broadly maintained will be comforting.
- FY27 has significant repayment burden of Rs 5.5 lakh crore.
- Short term borrowing is also likely to rise to Rs 1.3 lakh crore.
- Thus, India's yield curve may experience some flattening bias due to increase in both long and short end part of the curve.

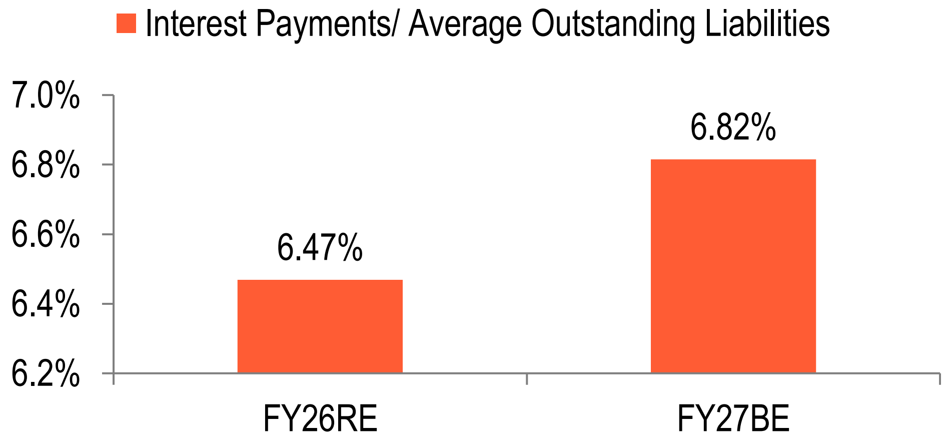
(Rs lakh crore)	FY26BE	FY26RE	FY27BE
Gross Borrowings	14.8	14.6	17.2
Repayments	-3.3	-3.3	-5.5
Net-Market Loans	11.5	11.3	11.7
Net-Short Term Borrowings	0	0.0	1.3
Net-Securities against Small Savings (NSSF)	3.4	3.7	3.9
Fiscal Deficit (FD)	15.7	15.6	17.0
Ratios			
Net-Short Term Borrowings/FD	73.2	72.7	69.2
NSSF/FD	21.7	23.9	22.8

Source: Budget documents, Bank of Baroda Research| RE: Revised Estimate, BE: Budget Estimate

Liabilities and rates

- Total liabilities of the central government is expected to pick up to Rs 215 lakh crore.
- Interest cost is pegged higher at Rs 14 lakh crore as per FY27 BE compared to Rs 12.7 lakh crore as per FY26RE.
- This has increased the Effective interest rate which is calculated as interest payment/average outstanding liabilities.
- Effective interest rate is expected to go up to 6.82% in FY27.
- However, there is provision of switching of securities of Rs 2.5 lakh crore in FY25, which might smoothen out repayment profile of the centre.





Source: Budget documents, Bank of Baroda Research| RE: Revised Estimate, BE: Budget Estimate

Expenditure

Spending boost

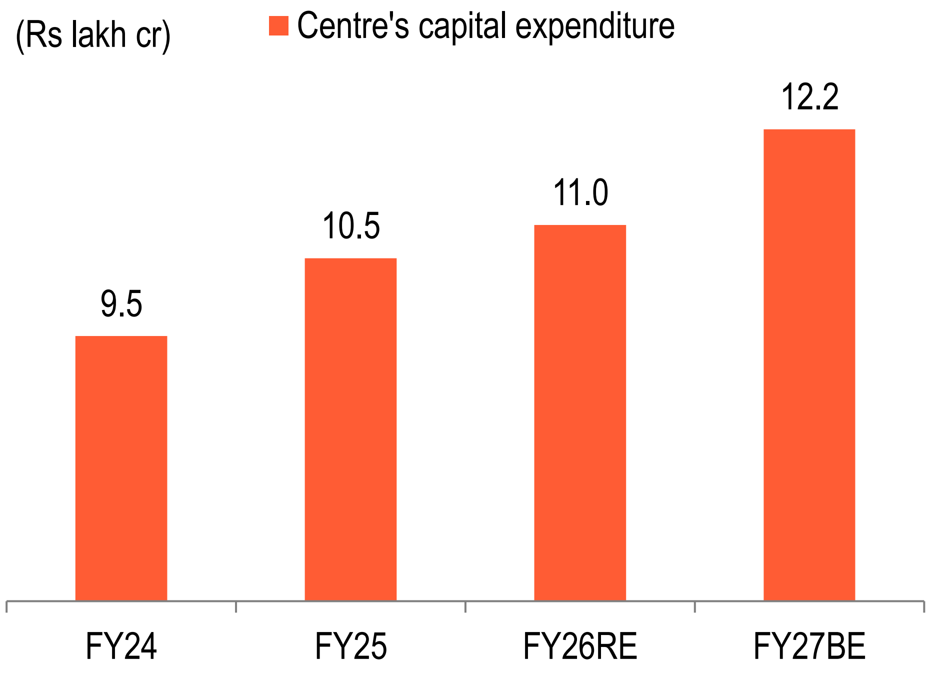
- Centre's overall expenditure is estimated to increase from Rs 49.6 lakh crore in FY26RE to Rs 53.5 lakh crore in FY27BE.
- This will be led by both, revenue and capital spending.
- Within this, revenue spending is set to increase to Rs 41.3 lakh crore in FY27BE, a Rs 2.6 lakh crore increase from last year, mainly on account of interest repayment and servicing of debt (Rs 1.3 lakh crore).
- Apart from this, pensions, rural development and agriculture will be driving the growth in revenue spending.
- Government has also announced substantial budget for welfare schemes, some of which include:
- Subsidies (Rs 4.1 lakh crore in FY27BE)
- PM KISAN (Rs 63,500 crore)
- PM Awas Yojna-Rural and Urban (Rs 73,541 crore)
- VB-G-RAM-G (Rs 95,692 crore)

Rs lakh crore	FY26BE	FY26RE	FY27BE
Pension	2.77	2.87	2.96
Defence	4.92	5.68	5.95
Subsidy	3.83	4.30	4.10
Education	1.29	1.22	1.39
Home Affairs	2.33	2.41	2.55
Interest repayment	12.76	12.74	14.04
Rural Development	2.67	2.13	2.73
Agriculture	1.71	1.52	1.63

Source: Budget documents, Bank of Baroda Research| RE: Revised Estimate, BE: Budget Estimate

Thrust to capex continues

- In FY27BE, Centre's capex spending is expected to increase sharply to Rs 12.2 lakh crore from Rs 11 lakh crore as per FY26RE.
- As % of GDP, ratio of capex will go up from 3.07% to 3.11%.
- The continued upward trajectory of capex reflects government's intention to give investment cycle the desired impetus.
- Increased focus in the Budget through PPP mode of project implementation will crowd in private investment.
- This will also act as a boost to investor confidence.



Source: Budget documents, Bank of Baroda Research| RE: Revised Estimate, BE: Budget Estimate

Ministry-wise capex

Major Ministries (Rs crore)	Share in Capital spending FY27BE	FY26RE	FY27BE
Road Transport and Highways	24	2,72,051	2,94,167
Railways	23	2,52,000	2,77,830
Defence	19	1,97,417	2,31,010
Telecommunications	4	23,916	47,275
Housing and Urban Affairs	3	32,978	34,808
Total capital expenditure	**-**	**10,95,755**	**12,21,821**

Source: Budget documents, Bank of Baroda Research| RE: Revised Estimate, BE: Budget Estimate

- Major allocation towards defence, road transport and railways.
- Thus, holistic push towards quality infra spending has been made in the Budget.

Sector specific announcements

Infrastructure

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- Allocation to public capex has been enhanced to Rs 12.2 lakh crore.
- Setting up of Infrastructure Risk guarantee fund and it will provide partial credit guarantee.
- Optimizing public sector real estate holding thorough CPSE recycling initiative (dedicated REITs).
- Forming new dedicated freight corridor connecting East to West.
- Operationalizing 20 new waterways by connecting mineral rich areas. Industrial centers and ports.
- To enhance domestic production, 3 dedicated chemical .parks to be established.
- To indigenize manufacturing of seaplanes, VGF scheme to be introduced.
- Development of integrated east coast industrial corridor-Purvodaya
- 7-high speed rail corridors to be made-Growth connectors.

Manufacturing

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- Aim to scale up manufacturing in 7-strategic sectors:
- Enhanced allocation for electronic component manufacturing to Rs 40,000 cr.
- Semiconductor mission 2.0 to be launched with higher outlay
- To support rare earth minerals, dedicated Rare Earth corridors to be formed for Odisha, Kerala, Andhra Pradesh and Tamil Nadu.
- To enhance domestic production, 3 dedicated chemical .parks to be established
- Setting up of the Biopharma-SHAKTI with outlay of Rs 10,000 cr over next 5-years, with aim to make India next global biopharma manufacturing hub.
- Scheme for container manufacturing to be formed with outlay of Rs 10,000cr.
- Integrated programme for textiles, with schemes such as national fibre, formation of text-eco initiative along with integrating national handloom and handicraft programme.

Export promotion

- **Fisheries and marine exports:**
  - Fish caught in Exclusive Economic Zone (EEZ) or High Seas by an Indian vessel will be duty free.
  - If these fish land on any foreign port, it will be deemed as exports.
- **Small businesses, artisans and start-ups:**
  - The current limit of Rs. 10 lakh per consignment on courier exports of goods made by small business, artisans and start-ups will be removed.
  - This will provide greater access to these individuals to the global market amidst increasing e-commerce opportunities.
  - Further, handling of return or rejected consignments will be improved by using digital processes.

Customs

- **For export promotion:**
  - The limit for exemption for duty free imports of specific inputs used for seafood products for exports has been increased to 3% of the last year's turnover from 1% currently.
  - For leather footwear, duty free imports of shoe uppers have been promoted.
  - Timeline for export of final products for leather and textile garments and leather or synthetic footwear has been enhanced from 6 months to 1 year.

- **Clean energy:**
  - Exemption on basic customs duty (BCD) for lithium-ion cells for battery energy storage systems.
  - Customs duty on sodium antimonate also reduced to zero, to promote production of solar glass.
  - For goods required for Nuclear Power Projects, zero customs duty has been announced.

Customs (contd…)

- **Domestic capacity augmentation:**
  - Imports of capital goods required for mining of rare earth minerals have been given exemption from BCD.
  - BCD on parts required for manufacture of civilian, training and other aircrafts has been exempted.
  - Similarly, BCD on imports of raw materials for manufacture for parts used for maintenance, repair, or overhaul requirements by units in defence sector to be exempted.
  - Exemption of BCD on specific parts used in the manufacturing of microwave ovens.

- **Ease of Living:**
  - Tariffs on products imported for personal use reduced to 10% from 20%.
  - Exemption on customs duty on 17 drugs and medicines, to provide relief to cancer patients.
  - Personal imports of drugs, medicines and Food for Special Medical Purposes (FSMP), would be expanded to cover 7 new diseases and will be eligible for duty exemption

Financial sector reforms

- A “High Level Committee on Banking for Viksit Bharat” to be set up with a focus on aligning the banking sector to India’s next phase of growth.

- Under NBFCs for Viksit Bharat, two public sector NBFCs (Power Finance Corporation and Rural Electrification Corporation) will be restructured. The focus is on scaling up and improving efficiency.

- For improving the depth of the corporate bonds markets, a market making framework has been announced. This can lead to some diversification of large corporate borrowings from banks to the corporate bond market.

- To encourage the issuance of municipal bonds, the government will provide an incentive of Rs 100 crore for every single bond issuance of over Rs 1,000 crore. At the same time, the AMRUT scheme which incentivizes bond issuance of upto Rs 200 will continue and will be helpful for smaller cities.

- Increase in Securities Transaction Tax (STT):

  - Futures: 0.05% from 0.02%
  - Options premium: 0.15% from 0.1%
  - Exercise of options: 0.15% from 0.125%

Tax simplification measures

- TCS rate reduced from 5% to 2% on sale of overseas tour programme, without any amount.
- TCS also lowered on education and medicinal purposes under LRS to 2%.
- Individual PRIOs permitted to invest in equity through portfolio investment scheme.
- Time extended for filing revised returns up to 31st Mar 2025 with a nominal fees.
- Customs integrated system (CIS) to be rolled out as single, integrated platform for customs processes.
- MAT (Minimum Alternate tax) to be made final tax with no further carry forward and will be lowered to 14%.

Rural sector reforms

- **Aim to raise farmer income through agri and allied sectors**:
  - Dedicated programme for horticulture to expand high density cultivation of walnuts, pine and almonds.
  - On animal husbandry, a) provide loan-linked capital subsidy support scheme, b) support entrepreneurship and facilitate job creation.
  - Support high value agri, coconut promotion scheme to raise production and dedicated programme for cashew and cocoa.
  - On fisheries, integrated development of 500 reservoirs and Amrit reservoirs , strengthen value chains and enable market linkages for startups.
  - States to promote focused cultivation and post-harvest processing for sandalwood.
  - Bharat-VISTAAR (Virtually integrated system to access agricultural resources), integrate agristack portal and ICAR package with AI systems.

Services and employment

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- A high-powered standing committee on ‘Education to Employment and Enterprise’ to recommend measures to make services as a driver for Viksit Bharat. India to become a global leader in services with a 10% share by 2047.

- Existing institutions for Allied Health Professionals (AHPs) to be upgraded and new AHP Institutions established in private and Government sectors. This will cover 10 selected disciplines, including optometry, radiology, anesthesia, OT Technology, Applied Psychology and Behavioural Health.

- Under the care ecosystem, 1.5 lakh caregivers will be trained who will provide geriatric and allied care services such as wellness, yoga etc.,

- To promote medical tourism, five regional medical hubs will be setup in collaboration with the private sector.

- 5 University Townships will be setup in the vicinity of major industrial and logistic corridors.

- A National Institute of Hospitality to be setup by upgrading the existing National Council for Hotel Management and Catering Technology.

Information technology

- Software development services, IT enabled services, knowledge process outsourcing services and contract R&D services relating to software development will be clubbed together under Information Technology Services with a common safe harbour margin of 15.5% percent applicable to all.

- Further, the threshold for availing safe harbour has been enhanced from Rs 300 crore to Rs 2,000 crore.

- The process of safe harbour to be automated and it can be continued for a period of 5 years.

- Fast-track process for Advanced Pricing Agreement (APA), to be concluded within 2 years, further extendable by 6 months.

- Facility of modified returns available to the entity entering APA will also be extended to its associated entities.

Impact

Macro

- Growth:
  - Growth in agriculture will be supported by higher allocation to schemes like VB- G RAM G, PM-KISAN, PM Awas Yojna (rural), Baharat-VISTAAR and schemes for promotion of horticulture products.

- Industry to gain on the back of
    - Focus on strategic sectors
    - Enhanced allocation for electronic and semiconductor manufacturing
    - Building rare-earth corridor will give a boost to mining sector
    - Focus has also been on bio-pharma/chemical parks, and container manufacturing .
    - Reduction in custom duties will boost Make in India initiative

- Focus has also been towards technology-led public services, simplifying tax structures and ease in compliance.

- Public admin sector will be driven by higher revenue spending.

Macro (contd...)

- Employment:
  - Significant thrust given to upskilling and education.

- The rationalization of custom duties will be beneficial to consumers, particularly for imported personal use items. This will lower inflation.

- Government borrowing programme has pegged gross borrowings higher which can push up bond yields. However, net borrowings have been kept at similar levels.

- Exports will get a boost from various schemes announced in the Budget. Textiles, leather and marine exports to benefit the most.

- MSMEs also likely to benefit due to targeted schemes such as SME Growth Fund, Self-Reliant India Fund and modifications to the TReDS scheme.

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