

Union Budget FY26 delivers fiscally prudent consumption boost

3 February, 2025

TRUST
In Partnership. With Trust.

Key takeaways

- The Union Budget for FY26 delivered a fine balance between fiscal prudence and injecting the economy with a consumption stimulus via income tax cuts. The Budget revised income tax slabs with no tax payable up to income of Rs.12 lakh, up from Rs.7 lakh that was effective earlier. This measure is expected to cost the exchequer an amount of Rs.1 lakh crore in direct taxes and Rs.2,600 crore in indirect taxes, and is aimed at lifting households' disposable income to boost consumption, savings and investment in the economy.

- With the revised estimate for fiscal deficit at 4.8% of GDP in FY25, the government is set to overachieve its budgeted target of 4.9%. For FY26, the government has penciled in deficit target of 4.4% of GDP. This would entail net market borrowing from dated securities at Rs.11.54tn, and gross market borrowing at Rs.14.82tn.

- Beyond FY26 and up to FY31, the Budget has outlined scenarios to lower the debt to GDP ratio to around 50% with certain ranges under various scenarios of nominal GDP growth and degrees of fiscal consolidation.

- The Budget continued its ongoing thrust on capital expenditure, so that as percent of GDP, capex would remain stable in FY26, compared to FY25. The Budget also continued to maintain its focus on key areas such as agriculture, rural economy, labor intensive industries, MSMEs, manufacturing, and exports. It also lay emphasis on regulatory reforms in various areas such as the proposal to simplify the income tax bill.

- Some of the main changes related to the financial sector include enhancing the FDI limit for the insurance sector to 100% from 74%, and setting up of credit enhancement facility by NaBFID for corporate bonds in infrastructure. For the non-financial sector, some of the key regulatory proposals in the Budget include setting up of a High level committee to review regulations, and further decriminalization of legal provisions.

Budget Highlights - I

- **Taxation:** In a major relief to individual taxpayers, the Union Budget for FY26 announced no income tax payable up to income of Rs.12 lakh, up from Rs.7 lakh that was effective earlier. This move is expected to cost the exchequer an amount of Rs.1 lakh crore in direct taxes and Rs.2,600 crore in indirect taxes. The measure is aimed at lifting households' disposable income; and thereby boost consumption, savings and investment.
- The government has also proposed to simplify the income tax bill by making it direct and concise, which would reduce the scope for litigation and enhance tax certainty.

Major relief to income taxpayers

Budget for FY25		Budget for FY26	
Income slab (Rs)	Tax rate (%)	Income slab (Rs)	Tax rate (%)
Upto 3 lakhs	Nil	Upto 4 lakhs	Nil
3-7 lakhs	5	4-8 lakhs	5
7-10 lakhs	10	8-12 lakhs	10
10-12 lakhs	15	12-16 lakhs	15
12-15 lakhs	20	16-20 lakhs	20
Above 15 lakhs	30	20-24 lakhs	25
		Above 24 lakhs	30

- The government also announced additional taxation related reforms to encourage voluntary compliance, reduce compliance burden, and facilitate ease of doing business. For instance, rationalization of TDS and TCS, reducing and simplifying tariffs for industrial goods, customs duty changes to support local manufacturing and value addition (textiles, critical minerals, electronic goods), and promote exports (handicraft, leather goods, marine products).
- **Financial sector measures:** Some of the main changes related to the financial sector include enhancing the FDI limit for the insurance sector to 100% from 74%, setting up of credit enhancement facility by NaBFID for corporate bonds in infrastructure, revamping central KYC registry to simplify the KYC process, etc.
- **Regulatory reform proposals for the non-financial sector:** For the non-financial sector, some of the key regulatory proposals in the Budget include 1) setting up of a High level committee to review regulations 2) further decriminalization of legal provisions.
- **Continued thrust on agriculture and rural growth:** The Budget stayed focused on measures to further boost growth of agriculture and allied industries, and thereby entail rural growth through measures such as launching a program to attain self-sufficiency in pulses, enhancing loan limit for Kisan Credit Cards, repositioning India Post as catalyst for rural economy, higher allocation of funds for rural schemes, etc.
- **Boost to manufacturing:** The Budget has proposed setting up of National Manufacturing Mission covering small, medium, and large enterprises to further 'Make in India' with focus on ease and cost of doing business, among other goals.

Budget Highlights - II

- **Support to MSMEs:** The Budget raised investment and turnover limits for classification of MSMEs, and also enhanced credit guarantee cover to improve access to credit.
- **Measures for labour-intensive sectors:** To enable employment-led development, the Budget introduced schemes for labour intensive sectors like tourism, textiles, footwear, leather, and toys.
- **Investment in people, economy, innovation:** In addition to agriculture and MSMEs, the Budget recognized investment as the third engine that will drive its development objectives. For investment in people, the Budget proposed measures involving education, skilling, and health. For investment in the economy, the some of the focus areas in the Budget included public private partnership in infrastructure, Asset Monetization Plan for FY25-30, and reforms in power and mining sectors. To enable energy security and transition efforts, the Budget proposed setting up of Nuclear Energy Mission that would involve amendments to existing laws, among other focus areas. In the final Budget for FY25 announced in July, the government had announced Research, Development and Innovation (RDI) initiative for private sector-driven research and in the latest Budget, allotted Rs.20,000 crore for this purpose.
- **Export promotion:** The Budget noted exports as the fourth engine to drive economic growth, and among various measures, proposed developing domestic manufacturing capacities to enable integration with global supply chains, and preparation of a national framework to promote Global Capability Centres in tier 2 cities.
- **Fiscal deficit and market borrowings:** The Budget stuck to the fiscal consolidation path with revised estimate for fiscal deficit at 4.8% of GDP for FY25, marking an over-achievement of its budget estimate of 4.9%. The Budget proposed fiscal deficit target of 4.4% of GDP for FY26. This would entail net market borrowing from dated securities at Rs.11.54tn, and gross market borrowing at Rs.14.82tn. However, net fresh issuances will be lower due to repayment of Rs.675bn through recovery from GST Compensation Fund.

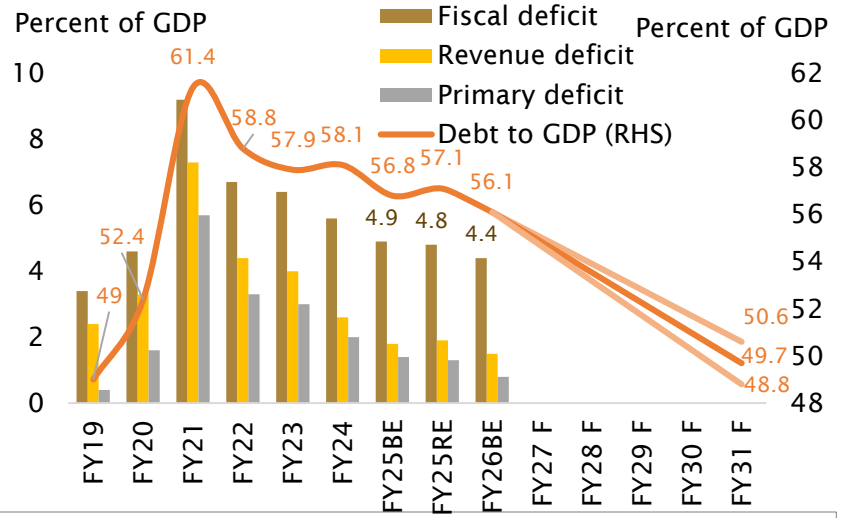
Funding of fiscal deficit

Rs.bn	FY23	FY24	FY25BE	FY25RE	FY26BE
Gross Market Borrowings	14210	15430	14010	14007	14820
Net market borrowing	12178	12310	11132	9545	11538
G-sec	11058	11778	11632	10745	11538
T-bill/Short term	1120	532	-500	-1200	0
Securities against small savings	3959	4514	4201	4119	3434
State provident funds	51	51	50	50	50
Other receipts	835	-887	-813	260	407
External debt	371	551	160	320	235
Draw Down of Cash Balance	-16	8	1404	1401	25
Fiscal deficit	17378	16546	16133	15695	15689

Fiscal consolidation on track; FY25RE at 4.8% of GDP, FY26BE at 4.4%

- The Centre's fiscal consolidation efforts are on track, with revised estimate for FY25 fiscal deficit at 4.8% of GDP, mildly below 4.9% penciled in budget estimates. For FY26, the government has set target at 4.4% of GDP, in line with the glide path for fiscal consolidation to lower deficit below 4.5% by FY26. The Budget assumes nominal GDP growth of 10.1% in FY26, which seems realistic compared to 9.7% growth in FY25.
- The RE for FY25 indicate that both receipts and expenditure are likely to be lower than budget estimates, with the undershoot in expenditure, particularly capex, sharper than in receipts. Within receipts, gross tax revenues are expected to exceed budget estimates, but higher devolution to States is likely to pull net tax revenues below budget estimates.
- Beyond FY26, the FRBM statement of the Budget has laid down three scenarios to lower debt to GDP ratio to 50% by FY31 with +/-1% uncertainty bands; under mild, moderate, high degrees of consolidation and with nominal GDP growth assumptions of 10%, 10.5%, 11%.

Fiscal consolidation on track



Note: Debt to GDP forecasts in the chart show moderate degree of fiscal consolidation assuming nominal GDP growth of 10% (50.6%), 10.5% (49.7%), and 11% (48.8%), respectively.

As per FY26BE, nominal fiscal deficit is stable vis-à-vis FY25RE, so that consolidation is to be driven by nominal GDP growth

	Rs. billion						%YY		% of GDP		
	FY24	FY25BE	FY25RE	FY25RE/ FY25BE	FY26BE	FY26BE/ FY25RE	FY25RE/ FY24	FY26BE/FY25RE	FY24A	FY25RE	FY26BE
Total receipts	27,888	32,072	31,470	-602.4	34,964	3,494	12.8	11.1	9.4	9.7	9.8
Revenue receipts	27,290	31,292	30,880	-412.4	34,204	3,324	13.2	10.8	9.2	9.5	9.6
Net tax revenues	23,273	25,835	25,570	-265.4	28,374	2,804	9.9	11.0	7.9	7.9	8.0
Non-tax revenues	4,018	5,457	5,310	-147.0	5,830	520	32.2	9.8	1.4	1.6	1.6
Non-debt capital receipts	598	780	590	-190.0	760	170	(1.3)	28.8	0.2	0.2	0.2
Total expenditure	44,434	48,205	47,165	-1040.3	50,653	3,489	6.1	7.4	15.0	14.6	14.2
Revenue expenditure	34,943	37,094	36,981	-113.4	39,443	2,462	5.8	6.7	11.8	11.4	11.1
Capital expenditure	9,492	11,111	10,184	-926.8	11,211	1,027	7.3	10.1	3.2	3.1	3.1
Gross fiscal deficit	16,546	16,133	15,695	-437.9	15,689	-6	(5.1)	(0.0)	5.6	4.8	4.4

Receipts growth to ease; particularly income tax, non-tax revenue

- As per revised estimates for FY25, total receipts are slated to be below budget estimates (BE) due to lower net tax and non-tax revenues, and non-debt capital receipts.
- Gross tax revenues are slated to be higher than BE despite lower indirect taxes, as buoyancy in income tax revenues is likely to more than offset the slump in corporate tax collections, thereby lifting direct tax revenues. Despite robust gross revenues, higher-than-budgeted devolution to states is expected to drag pull net tax revenues below BE. Muted interest receipts are likely to drag non-tax revenues despite bumper dividends. Also, low disinvestment receipts are expected to weigh on non-debt capital receipts.
- In FY26, total receipts are budgeted at around Rs.35tn, up 11%YY compared to FY25RE. This compares with 12.8%YY growth in FY25RE over FY24 that amounted to Rs.31.5tn.
- Growth in tax and non-tax revenues is expected to moderate, while non-debt capital receipts are slated to rise after falling in the previous two fiscal years. Direct tax revenue growth is slated to ease due to low income tax revenues, while corporate tax collections are expected to grow at faster pace. Indirect tax revenue growth is expected to improve amid stable increase in GST revenues and faster growth in other indirect taxes. Non-tax revenue growth is budgeted to ease, particularly dividends, though in nominal terms, revenue is expected to exceed the previous fiscal when RBI dividend was at a record high. Interest receipts are expected to rise.

	Rs. billion					%YY			% of GDP		
	FY24	FY25BE	FY25RE	FY25RE/ FY25BE	FY26BE	FY24/ FY23	FY25RE/ FY24	FY26BE/ FY25RE	FY24	FY25 RE	FY26 BE
Revenue receipts	27,290	31,292	30,880	-412.4	34,204	14.5	13.2	10.8	9.2	9.5	9.6
Gross tax revenues	34,655	38,402	38,535	132.8	42,702	13.5	11.2	10.8	11.7	11.9	12.0
Direct taxes	19,655	22,164	22,465	300.3	25,301	17.8	14.3	12.6	6.7	6.9	7.1
Corporation tax	9,111	10,200	9,800	-400.0	10,820	10.3	7.6	10.4	3.1	3.0	3.0
Income tax (incl. other taxes)	10,544	11,964	12,665	700.3	14,481	25.2	20.1	14.3	3.6	3.9	4.1
Indirect taxes	15,000	16,237	16,070	-167.4	17,401	8.3	7.1	8.3	5.1	5.0	4.9
Goods and services tax	9,572	10,619	10,619	0.0	11,780	12.7	10.9	10.9	3.2	3.3	3.3
Customs duty	2,331	2,377	2,350	-27.4	2,400	9.3	0.8	2.1	0.8	0.7	0.7
Excise duty	3,093	3,240	3,100	-140.0	3,220	(4.2)	0.2	3.9	1.0	1.0	0.9
Service tax	4	1	1	0.0	1	(1.3)	(76.5)	0.0	0.0	0.0	0.0
Transfers to states, UTs, etc.	11,383	12,567	12,965	398.2	14,328	19.0	13.9	10.5	3.9	4.0	4.0
Net tax revenues	23,273	25,835	25,570	-265.4	28,374	10.9	9.9	11.0	7.9	7.9	8.0
Non-tax revenues	4,018	5,457	5,310	-147.0	5,830	40.8	32.2	9.8	1.4	1.6	1.6
Interest receipts	383	382	340	-41.8	477	37.4	(11.0)	40.2	0.1	0.1	0.1
Dividend and profits	1,709	2,891	2,893	1.5	3,250	71.0	69.3	12.3	0.6	0.9	0.9
Non-debt capital receipts	598	780	590	-190.0	760	(17.2)	(1.3)	28.8	0.2	0.2	0.2
Total receipts	27,888	32,072	31,470	-602.4	34,964	13.6	12.8	11.1	9.4	9.7	9.8

Both revenue and capital spending to grow at faster rates in FY26

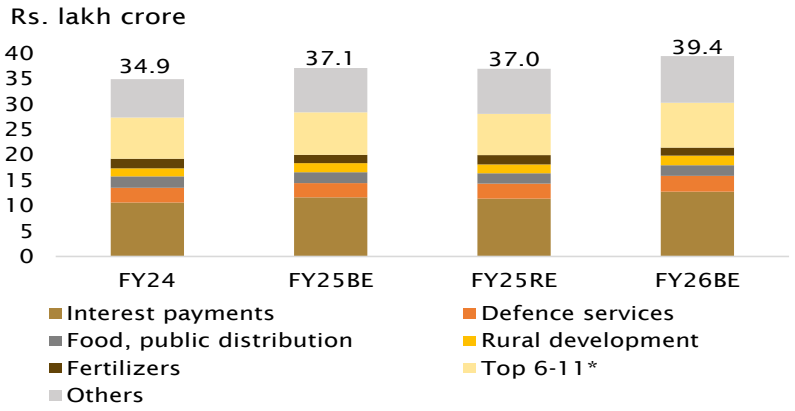
- As per revised estimates for FY25, total expenditure is expected to be lower by around one trillion rupees than the budget estimate at Rs.47.2tn, marking an increase of 6.1%YY. Around 90% of this undershoot is on the capital expenditure side, though there have been hits and misses on both accounts.
  - For instance, spending on pensions and agriculture is slated to be higher than BE, and on the capex side, spending on housing is likely to exceed BE. On the bright side, interest payments that account for over 30% of revenue expenditure, grew at less than half the pace posted in the previous fiscal year.
- In FY26, total expenditure is budgeted at Rs.50.7tn (14.2% of GDP) versus Rs.47.2tn in FY25 (14.6% of GDP). Both revenue and capital spending are expected to increase at faster rates, driving higher growth in total expenditure. The share of both in total spending is slated to remain stable at 78% and 22%, respectively.
  - Revenue expenditure is budged at Rs.39.4tn for FY26, up 6.7%YY, higher than 5.8% increase in FY25. The share in GDP is slated to ease mildly though, as nominal GDP is expected to grow at a faster clip. Capital expenditure is penciled in at Rs.11.2tn, similar to the level in FY25BE, but higher than FY25RE at Rs.10.2tn. The share in GDP is expected to be stable at a tad above 3% amid double- digit growth of 10.3%YY, higher than 7.3% increase in FY25.

	Rs. billion					%YY			% of GDP		
	FY24	FY25BE	FY25RE	FY25RE/ FY25BE	FY26BE	FY24/ FY23	FY25RE/ FY24	FY26BE/ FY25RE	FY24	FY25RE	FY26BE
Revenue expenditure	34,943	37,094	36,981	-113	39,443	1.2	5.8	6.7	11.8	11.4	11.1
Interest payments	10,639	11,629	11,379	-250	12,763	14.6	7.0	12.2	3.6	3.5	3.6
Transfer to States	1,657	1,604	1,583	-21	1,574	(8.3)	(4.5)	(0.5)	0.6	0.5	0.4
Subsidies	4,349	4,284	4,279	-6	4,262	(24.7)	(1.6)	(0.4)	1.5	1.3	1.2
Pensions	2,383	2,433	2,751	318	2,766	(1.4)	15.4	0.6	0.8	0.8	0.8
Agriculture and farmers' welfare	1,083	1,224	1,311	86	1,272	8.5	21.0	(3.0)	0.4	0.4	0.4
Education	1,234	1,206	1,140	-66	1,286	26.9	(7.5)	12.8	0.4	0.4	0.4
Health and family welfare	783	840	840	-	923	11.4	7.3	9.9	0.3	0.3	0.3
Rural development	1,619	1,776	1,739	-37	1,878	(8.4)	7.4	8.0	0.5	0.5	0.5
Others	11,195	12,097	11,958	-139	12,717	3.6	6.8	6.4	3.8	3.7	3.6
Capital expenditure	9,492	11,111	10,184	-927	11,211	28.3	7.3	10.1	3.2	3.1	3.1
Defence	1,646	1,822	1,705	-118	1,924	9.1	3.6	12.8	0.6	0.5	0.5
Railways	2,426	2,520	2,520	-	2,520	52.3	3.9	0.0	0.8	0.8	0.7
Roads and highways	2,639	2,722	2,725	2	2,722	28.1	3.2	(0.1)	0.9	0.8	0.8
Housing and urban affairs	264	286	317	30	376	(1.6)	19.7	18.8	0.1	0.1	0.1
Others	2,517	3,760	2,918	-842	3,668	27.8	15.9	25.7	0.9	0.9	1.0
Total expenditure	44,434	48,205	47,165	-1,040	50,653	6.0	6.1	7.4	15.0	14.6	14.2

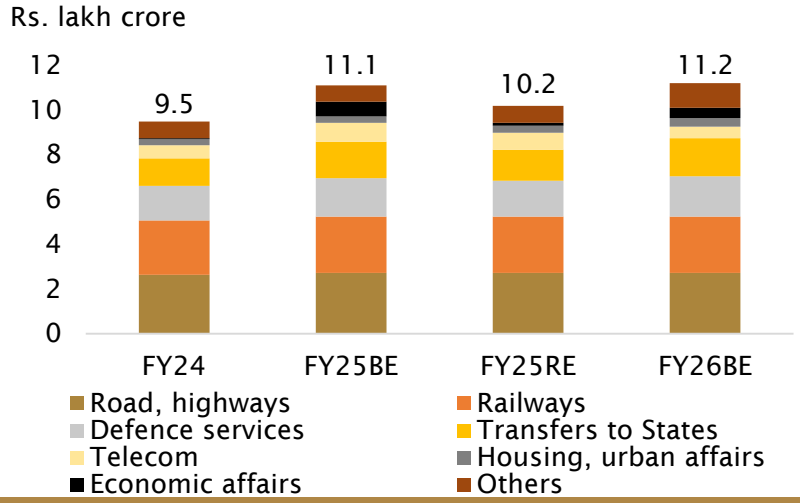
Interest payments to remain the heavyweight in revenue spending

- On the revenue side, interest payments account for the largest share at more than 30%. In FY26, this share is expected to rise to 32% from 31% in FY25RE, as payments grow at a higher rate of 12%YY versus 7% in FY25.
  - Other key items in revenue spending include defence, subsidies, and rural development. While overall subsidies are expected to remain stable, spending on defence and rural development is slated to increase. In addition to these, other main categories (noted as *top 6-11 in chart below) include transfers to States, police, defence pensions, education, agriculture and farmers' welfare, health and family welfare, and drinking water and sanitation. Transfers to States are budgeted to decline mildly, and more so in case of agriculture, but spending is expected grow in case of defence pensions and police. Double digit growth has been penciled in for education and a bump in drinking water and sanitation after a significant miss in FY25, as reflected in the difference between BE and RE.
- On the capital account, these four groups account for more than three-fourth of spending: roads, railways, defence, and transfers to States. Of these, spending on roads and railways has been kept unchanged vis-à-vis FY25BE and RE. There has been an increase in allocation to defence, transfers to States, housing. However, lower funds have been earmarked for telecom amid sharply lower-than-budgeted spending in FY25. In FY25BE, a portion of funds was set aside for infrastructure projects under Ministry of Economic Affairs (6% of capex). Amid 20% offtake in FY25, less funds have been allocated for FY26 (4.2% of capex).

Interest payments at over 30% share in revenue spend; less funds under Ministry of Economic Affairs for infra projects

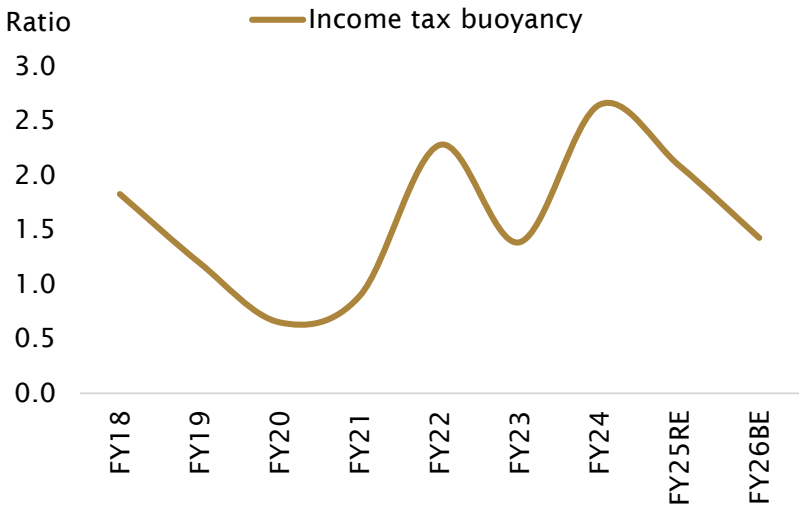


*Top 6-11 includes transfers to States, police, defence pensions, education, agriculture and farmers' welfare, health and family welfare, drinking water and sanitation

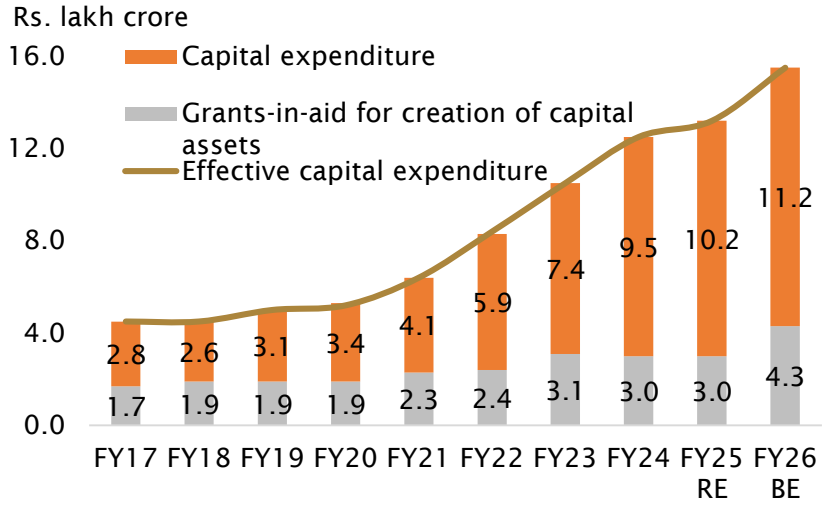


Appendix I

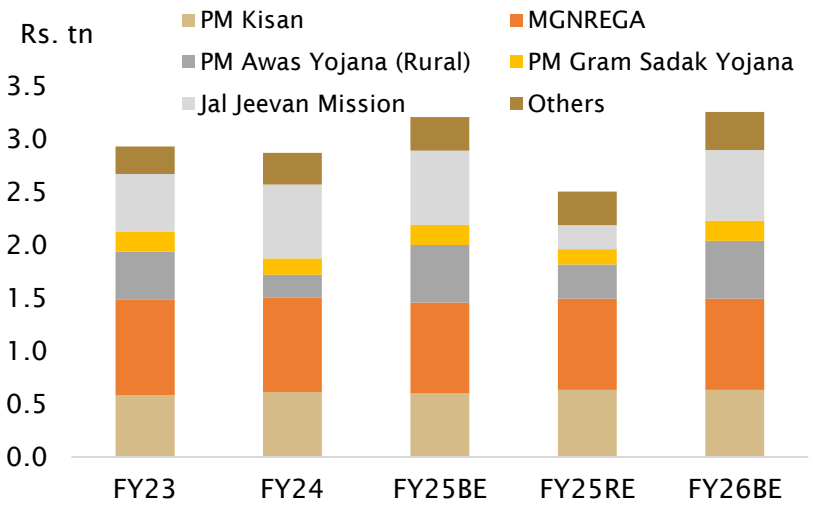
Moderation in FY26 due to tax relief measures



Over 40% hike in grants to States to create capital assets



Continued thrust on schemes for rural areas; allocation raised for electronics, auto, and textiles under PLI scheme



(Rs. crore)	FY25BE	FY25RE	FY26BE	Difference
Electronics and IT	6200	5777	9000	3223
Auto	3500	347	2819	2472
Pharma	2143	2151	2445	294
Food processing	1444	700	1200	500
Textiles	45	45	1148	1103
White goods*	298	214	445	231
Battery storage	250	15	156	140
Specialty steel	246	55	305	250
Drone and components	57	57	0	-57
Toys	0.01	0	0	0
Footwear and leather	0.01	0	0	0
Total	14183	9360	17517	8156.72

Note: * includes ACs and LED Lights

DISCLAIMER:

We are committed to providing completely independent views to help our clients reach a better decision. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendary nature. The recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Trust Group has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. Trust Group, its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of Trust Group. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose.

Copyright in this document vests exclusively with Trust Group.

Trust Group

1101, Naman Centre, Bandra Kurla Complex, Bandra (E), Mumbai -400 051, Maharashtra.

Ph: +91 22 4084 5000 • Fax: +91 22 4084 5052 • www.trustgroup.co.in