

Union Budget FY27 estimates debt-to-GDP at 55.6% in FY27 vs. 56.1% in FY26; fiscal deficit target at 4.3% of GDP vs. 4.4% in FY26

February 5, 2026

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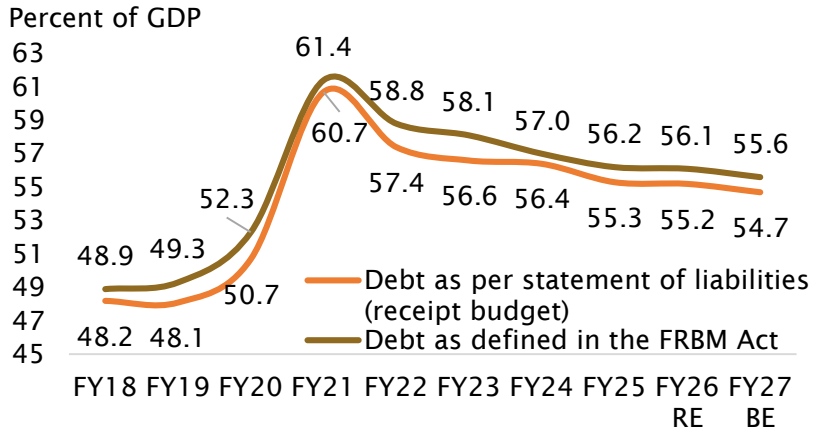
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- **Fiscal math and borrowing:**
  - The Union Budget has estimated the debt-to-GDP ratio at 55.6% in FY27BE, compared to 56.1% in FY26RE. The fiscal deficit for FY26RE is expected to be in line with BE at 4.4% of GDP, and is projected to ease further to 4.3% in FY27BE.
  - To finance the fiscal deficit, the government has estimated net market borrowings from dated securities at Rs.11.7 lakh crore, with gross market borrowings at Rs.17.2 lakh crore.

- **Nominal GDP growth:**
  - For all its calculations, the Budget math assumes nominal GDP growth forecast of 10.0% in FY27 over the first advance estimates of FY26.

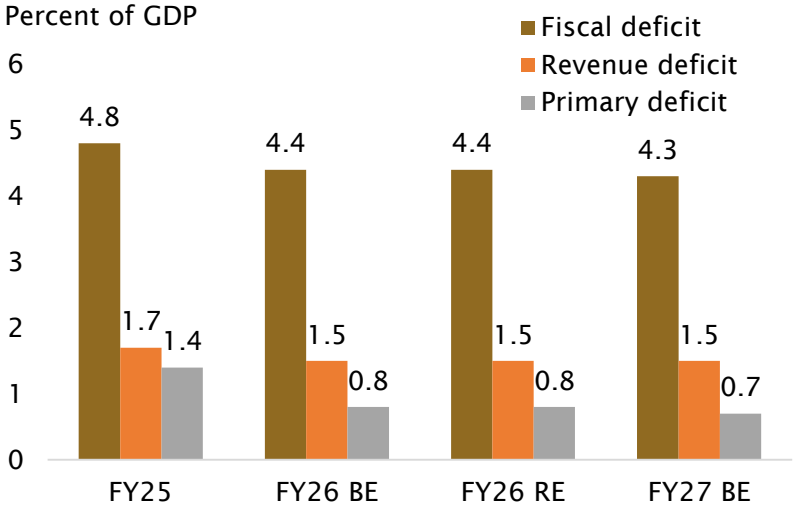
- **16th Finance Commission:**
  - The commission recommended that the government retain the vertical share of Central tax devolution to States at 41%. This suggestion has been accepted by the government and will hold from FY27-31. Accordingly, the Centre will provide Rs.1.4 lakh crore to the States for FY27 as Finance Commission Grants.

Central govt. debt for FY27 estimated at 55.6% of GDP



Note: Debt in FRBM Act includes external debt valued at current exchange rate, and liabilites on account of extrabudgetary resources.

Fiscal deficit target for FY27 at 4.3% of GDP



FY27BE capex projected at Rs.12.2 lakh crore, up 9.0% over FY26BE amid mild undershoot in FY26 as per RE

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- **Infrastructure focus:**
  - The government has allocated Rs.12.2 lakh crore for capital expenditure in FY27. This marks 9.0% increase from Rs.11.2 lakh crore earmarked in FY26BE. But the revised estimates indicate an undershoot in FY26 at Rs.11.0 lakh crore, implying 11.5% growth in capex based on FY26RE.
  - Some of the measures proposed in the Budget to continue infrastructure development are 1) Infrastructure Risk Guarantee Fund for partial credit guarantees to lenders 2) dedicated REITs for recycling real estate assets of CPSEs 3) establishing dedicated freight corridors and operationalizing new national waterways 5) setting up ship repair ecosystem 6) coastal cargo promotion 7) incentives to indigenize manufacturing of seaplanes.

- **Urbanization and regional focus areas:**
  - The Budget has introduced the concept of City Economic Regions with focus on tier II and tier III cities, and has allocated funds for their development. It also includes development of seven high-speed rail corridors.
  - The Budget has proposed measures to develop the Purvodaya States (Bihar, Jharkhand, West Bengal, Odisha, Andhra Pradesh) by setting up of an integrated East Coast Industrial Corridor, and the north-eastern region by building Buddhist sites.

- **Financial sector:**
  - The Budget has proposed measures to further the resilience of the financial sector, such as 1) setting up a high level committee on banking to review the sector and align it with the economy's next phase of growth 2) restructure the Power Finance Corporation and Rural Electrification Corporation 3) review foreign exchange management rules (non-debt instruments) 4) policies to further develop the corporate and municipal bond markets 5) permitting individual persons resident outside India (PROI) to invest in equity instruments and raising their individual and collective limits under the portfolio investment scheme.

Renewed emphasis on services sector for job creation

- **Manufacturing:**
  - The government has identified seven strategic and frontier sectors, where it plans to scale up manufacturing and has accordingly proposed schemes and allocated funds. These are 1) biopharma 2) semiconductors 3) electronic components 4) rare earth magnets 5) chemicals 6) capital goods; including hi-tech tool rooms, construction and infrastructure equipment, and container manufacturing 7) textiles, including sports goods. The Budget also proposes revival of 200 legacy industrial clusters and support to MSMEs.
  - The Budget includes tax reforms to boost sub-sectors such as toll manufacturing, warehousing, footwear, aircraft parts, etc. It proposes customs duty exemptions to enable energy transition, support nuclear power projects, and processing of critical minerals. The Budget also provides tax support for labor-intensive export sectors such as marine, leather and textiles.

- **Services sector:**
  - The Budget proposes setting up a standing committee on 'Education to Employment and Enterprise' to raise India's share in global services to 10% by 2047. It notes the government's renewed emphasis on services, particularly for new career pathways. The Budget proposes specific schemes and targets for these identified sectors – health, animal husbandry, orange economy, education, tourism and sports.
  - Some of the key tax reforms to support the sector include 1) clubbing services under a single category of IT services with common safe harbor margin of 15.5% 2) increasing safe harbor threshold for IT services 3) tax holiday until 2047 to foreign firms providing global cloud services using India-based data centre services.

- **Agriculture, rural and other inclusion initiatives:**
  - The Budget plans to increase farmer incomes through initiatives in areas such as fisheries, animal husbandry, and high value agriculture. To encourage rural women-led enterprises, the Budget has introduced Self-Help Entrepreneur (SHE) Marts that will be set up as community-owned retail outlets. The Budget has designed schemes to empower persons with disabilities. Lastly, the Budget includes measures to support mental health and trauma care.

Total receipts growth is budgeted to ease in FY27 amid slower growth in indirect tax revenues and fall in non-tax revenues

- The pace of growth in total receipts is budgeted to ease in FY27, reflecting moderation in revenue receipts growth. Even as gross tax revenues are slated to grow at a faster pace than in FY26, indirect tax growth is expected to slowdown due to decline in GST revenues. Devolution to States is expected to grow at a faster pace, and non-tax revenues are likely to fall. The Budget has penciled in surge in disinvestments for FY27.
- The estimates for income tax and GST revenue collections for FY26 have been revised lower, reflecting the impact of tax relief and rate rationalization.

	Rs.bn					%YY			% of GDP		
	FY25	FY26BE	FY26RE	FY26RE /BE	FY27BE	FY25	FY26RE/FY25	FY27BE/ FY26RE	FY25	FY26RE	FY27BE
Revenue receipts	30366	34204	33423	-781	35268	11.3	10.1	5.5	9.2	9.4	9.0
Gross tax revenues	37964	42702	40778	-1925	44041	9.5	7.4	8.0	11.5	11.4	11.2
Direct taxes	22219	25200	24210	-990	26970	13.6	9.0	11.4	6.7	6.8	6.9
Corporation tax	9868	10820	11090	270	12310	8.3	12.4	11.0	3.0	3.1	3.1
Income tax*	12352	14380	13120	-1260	14660	18.2	6.2	11.7	3.7	3.7	3.7
Indirect taxes	15605	17351	16413	-938	16791	4.3	5.2	2.3	4.7	4.6	4.3
Goods and services tax	10270	11780	10465	-1315	10190	7.3	1.9	-2.6	3.1	2.9	2.6
Customs duty	2332	2400	2583	183	2712	0.0	10.8	5.0	0.7	0.7	0.7
Excise duty	3003	3170	3366	196	3889	-1.7	12.1	15.6	0.9	0.9	1.0
Other tax revenues	140	151	155	3	280	2.5	10.6	80.9	0.0	0.0	0.1
Transfers to states, UTs, etc.	12963	14328	14031	-297	15372	13.9	8.2	9.6	3.9	3.9	3.9
Net tax revenues	25000	28374	26747	-1627	28669	7.4	7.0	7.2	7.6	7.5	7.3
Non-tax revenues	5366	5830	6677	847	6662	33.5	24.4	-0.2	1.6	1.9	1.7
Interest receipts	404	477	402	-76	418	5.7	-0.7	4.0	0.1	0.1	0.1
Dividend and profits	3084	3250	3756	506	3910	80.5	21.8	4.1	0.9	1.1	1.0
Others	1877	2103	2519	416	2335	-2.6	34.2	-7.3	0.6	0.7	0.6
Non-debt capital receipts	418	760	640	-120	1184	-30.0	53.1	84.9	0.1	0.2	0.3
Recovery of loans	246	290	302	12	384	-7.6	22.6	27.2	0.1	0.1	0.1
Misc. capital receipts	172	470	338	-132	800	-48.1	96.7	136.4	0.1	0.1	0.2
Total receipts	30784	34964	34063	-901	36452	10.4	10.7	7.0	9.3	9.5	9.3

Note: Income tax includes STT, other taxes

Capex to lift total expenditure growth in FY27 amid slower growth in revenue spending

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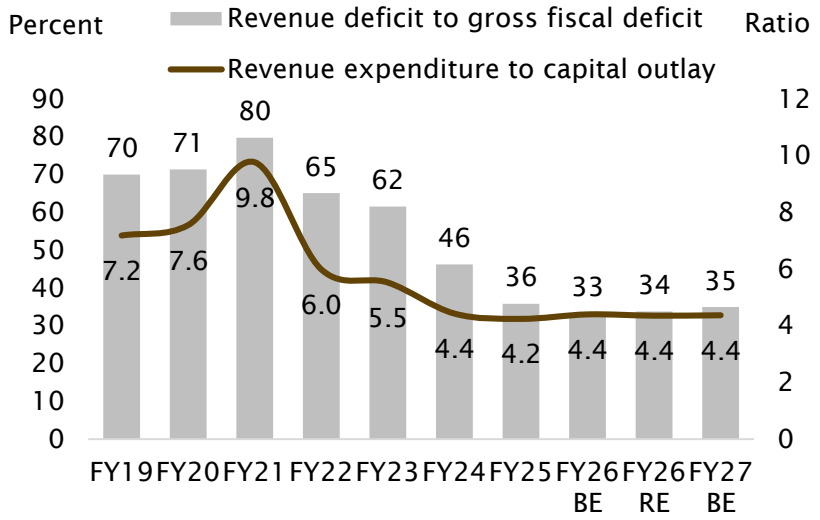
- Subsidies and transfers to States (under Finance Commission grants) are budgeted to decline in FY27. Interest payments are slated to increase at a slower pace, even as their share in revenue expenditure is projected to increase. Roads, railways and defence will continue to do the heavy lifting in capex in FY27.

	Rs.bn					%YY			% of GDP		
	FY25	FY26BE	FY26RE	FY26RE/BE	FY27BE	FY25	FY26RE/FY25	FY27BE/FY26RE	FY25	FY26RE	FY27BE
Revenue expenditure	36009	39443	38691	-752	41255	3.1	7.4	6.6	10.9	10.8	10.5
Interest payments	11156	12763	12743	-20	14040	4.9	14.2	10.2	3.4	3.6	3.6
Subsidies	4226	4262	4695	433	4548	-2.8	11.1	-3.1	1.3	1.3	1.2
Defence services	4431	3117	3498	380	3655	52.5	-21.1	4.5	1.3	1.0	0.9
Pensions	2738	2766	2866	100	2962	14.9	4.7	3.3	0.8	0.8	0.8
Rural development	1767	1878	1870	-8	1944	9.1	5.9	3.9	0.5	0.5	0.5
Transfer to States	1333	1574	1815	241	1678	-19.6	36.2	-7.6	0.4	0.5	0.4
Police	1351	1438	1463	25	1525	17.5	8.3	4.3	0.4	0.4	0.4
Education	1107	1286	1219	-67	1393	-10.2	10.1	14.2	0.3	0.3	0.4
Agriculture and farmers' welfare	1299	1272	1230	-42	1305	19.9	-5.3	6.1	0.4	0.3	0.3
Health and family welfare	850	923	905	-18	988	8.5	6.5	9.2	0.3	0.3	0.3
Compensation to States/UTs*	1504	1306	180	-1126	0.0	3.7	-88.0		0.5	0.1	
Others	4250	6855	6206	-649	7218	-25.3	46.0	16.3	1.3	1.7	1.8
Capital expenditure	10520	11211	10958	-253	12218	10.8	4.2	11.5	3.2	3.1	3.1
Defence	1706	1924	1974	50	2310	3.7	15.7	17.0	0.5	0.6	0.6
Railways	2519	2520	2520	0	2778	3.9	0.0	10.3	0.8	0.7	0.7
Roads and highways	2853	2722	2721	-2	2942	8.1	-4.7	8.1	0.9	0.8	0.7
Loans to States for capex	1495	1500	1500	0	2000	36.4	0.3	33.3	0.5	0.4	0.5
Telecom	738	518	239	-279	473	24.4	-67.6	97.7	0.2	0.1	0.1
Housing and urban affairs	316	376	330	-46	348	19.6	4.3	5.5	0.1	0.1	0.1
Others	891	1651	1674	23	1367	7.6	87.9	-18.3	0.3	0.5	0.3
Total expenditure	46529	50653	49648	-1005	53473	4.7	6.7	7.7	14.1	13.9	13.6

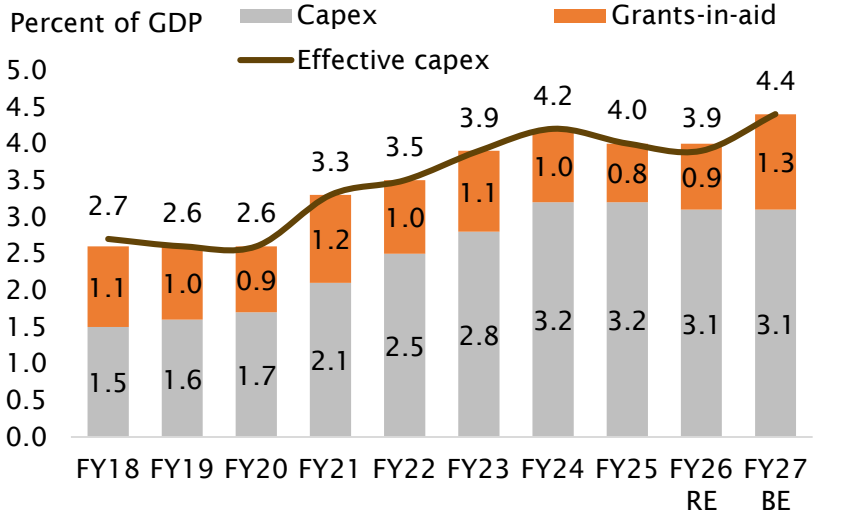
* Compensation to States/UTs for revenue losses on roll out of GST has been phased out w.e.f. 2026-2027.

Spending quality to be largely stable in FY27

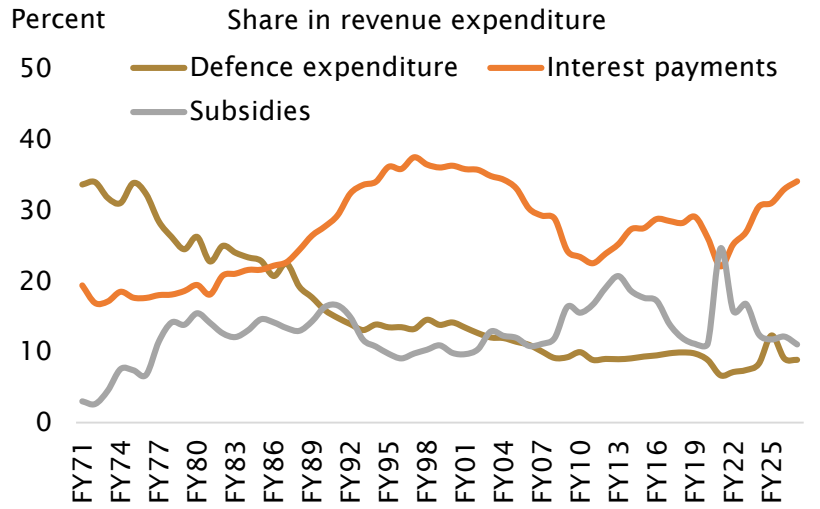
Spending quality to be largely stable in FY27

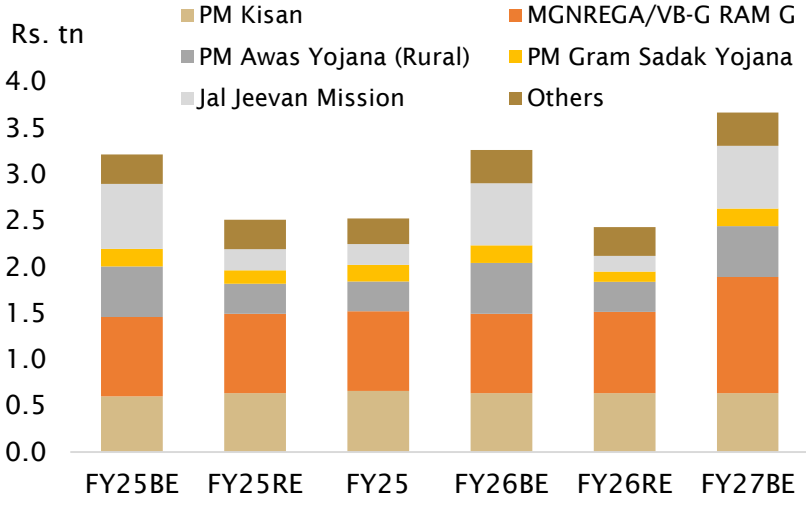


Grants-in-aid to lift effective capex higher in FY27



Share of interest payments in revenue spending on an uptrend; rural schemes spend lower than BE in past two years





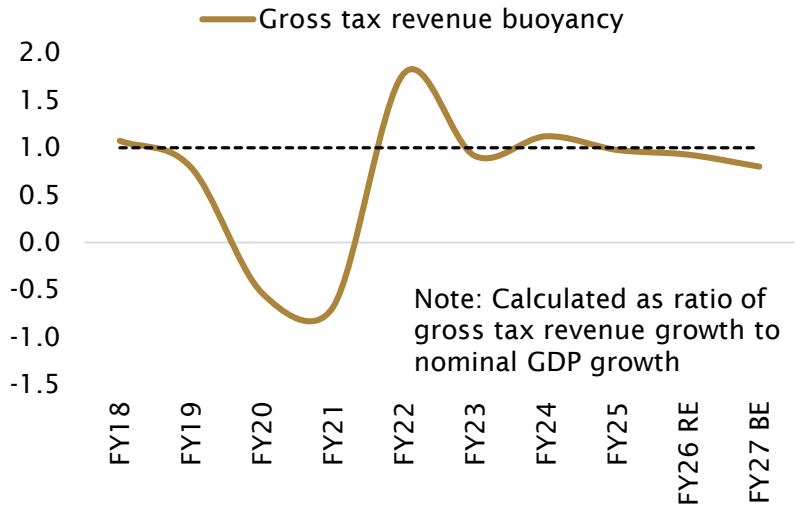
Decline in GST revenues, slower growth in customs duty collections to lower gross tax buoyancy in FY27

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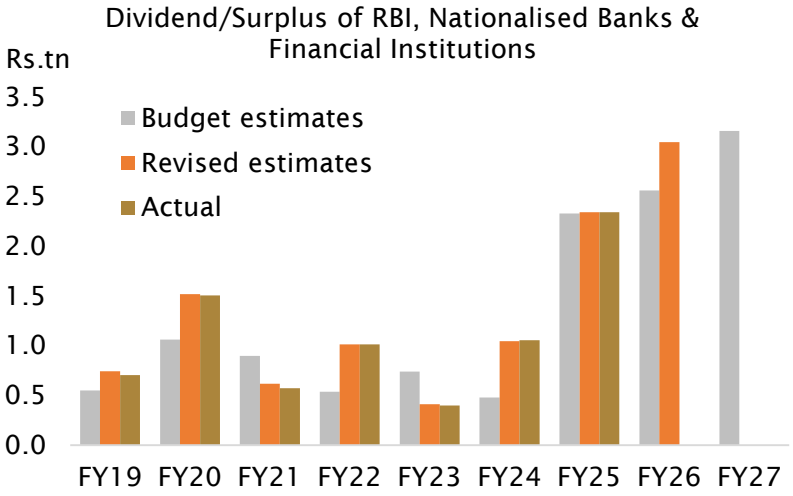
T-bill borrowing budgeted after gap of two years

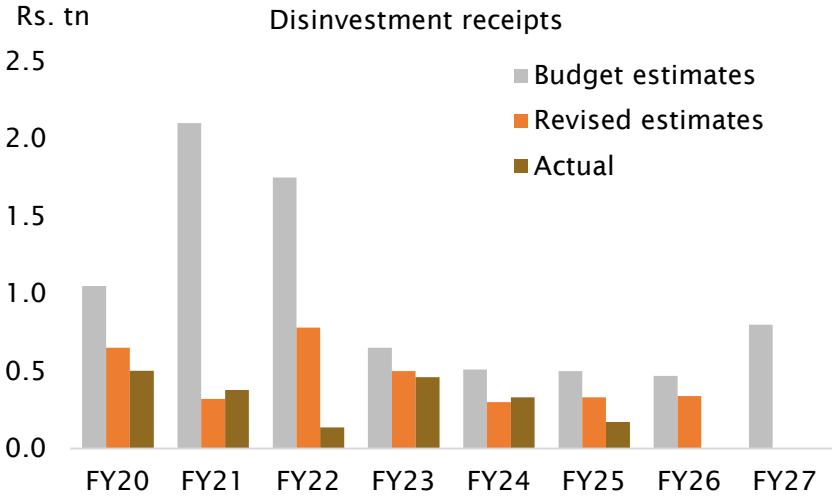
Rs.bn	FY24	FY25	FY26RE	FY27BE
Gross Market Borrowings	15430	14007	14610	17200
Net market borrowing	12310	10027	11328	13032
G-sec	11778	11629	11328	11732
T-bill/Short term	532	-1602	0	1300
Securities against small savings	4514	4295	3722	3868
State provident funds	51	40	38	35
Other receipts	-887	1787	759	-458
External debt	551	473	205	154
Draw-down of cash balance	8	6	457	327
Fiscal deficit	16546	15744	15585	16958

Tax buoyancy to be sub-1% for second year in FY27



RBI, fin. inst. dividend to be up 23%YY as per FY27BE; ; disinvestment target miss in recent years casts shadow on FY27BE





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