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Consumption focused budget

Union budget for FY26 is a consumption oriented budget, with focus on investment and overall spending. The changes proposed in the income tax will boost consumption. The fiscal deficit has been revised lower and this supports the smooth-glide path for achieving the FRBM target and bodes well for the fiscal consolidation. This is positive for the economy overall and will help in stabilizing the currency, managing inflation. This will further give space to the RBI in lowering rates in the coming policy meet and support the economy. Given the borrowing is in line with expectation, will provide comfort to yields and it will remain range bound.

FY25 fiscal deficit at 4.8%: In line with our view, the revised fiscal deficit target for FY25 is now at 4.8% (BoB est.: ~4.8-4.9%), lower than the budgeted estimate of 4.9%. This is mainly owing to lower than projected expenditure (6.1% in FY25 (RE) versus 8.5% rise projected in BE). This is led by slower growth in both revenue and capex by 5.8% and 7.3% respectively. Lower capex was also on account of slower infra spending given the election year. Despite lower spending, RBI's dividend of Rs 2.1 lakh crore will keep the deficit in check and help the government meets its target.

FY26 fiscal deficit at 4.4%: Fiscal deficit target for FY26 (BE) at 4.4% is in line with our expectations (4.3-4.4%). The government continues to remain on the path of fiscal consolidation which will boost investors' confidence with a possibility of a rating upgrade. The lower fiscal deficit is expected to improve India's debt to GDP ratio closer to the target mark of 60% by FY27.The capex has been budgeted at Rs 11.2 lakh crore against a revised number of Rs 10.1 lakh crore for FY25. In terms of income, the government expects normalization of revenues, Centre's net revenue is expected to grow by 10.8% which is in line with nominal GDP growth, pegged at 10.1% in FY26. Furthermore, dividend from financial sector of Rs 2 lakh crore will provide further support in FY26. The net tax receipts has been estimated at Rs 28.4 lakh crore in FY26.

With respect to borrowing, it is estimated that gross borrowing will increase to Rs 14.8 lakh crore against Rs 14.1 lakh crore in FY25RE. The net borrowing is expected at Rs 11.5 lakh crore, with the remaining financing expected from small saving and other sources. This will be positive for the bond market.

Table 1: Fiscal Estimates

(Rs bn)	FY25BE	FY25RE	FY26BE	% Increase	
				FY25RE/FY24	FY26BE
Tax Revenue					
Corporation Tax	10.2	9.8	10.8	7.6	10.4
Taxes on Income	11.9	12.6	14.4	20.3	14.4
Indirect Taxes	16.2	16.0	17.4	7.1	8.3
Total - Tax Revenue	38.4	38.5	42.7	11.2	10.8
Less: State's Share	12.5	12.9	14.2	13.9	10.5
Centre's Tax Revenue	25.8	25.6	28.4	9.9	11.0
Total Non-Tax Revenue	5.5	5.3	5.8	32.2	9.8
Centre's Revenue (net)	31.3	30.9	34.2	13.2	10.8
Capital Receipts					
Internal Debt Market Borrowing	11.6	11.6	11.5	(1.5)	(0.8)
Miscellaneous	0.5	0.3	0.5	(0.4)	42.4
Others	3.4	3.8	4.4	(23.9)	16.0
Total Capital Receipts	15.5	15.8	16.4	(8.0)	4.2
Total Receipts	48.2	47.2	50.7	6.1	7.4
Expenditure					
Total Expenditure	48.2	47.2	50.7	6.1	7.4
Revenue	37.1	37.0	39.4	5.8	6.7
Capital	11.1	10.2	11.2	7.3	10.1
Revenue Deficit	5.8	6.1	5.2		
Fiscal Deficit	16.1	15.7	15.7		
% of GDP	**4.9%**	**4.8%**	**4.4%**		

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