Union budget FY26: Focus Shifts to Consumption

Focus on inclusive growth, thrust on consumption and falls short on capex spend, while maintaining fiscal prudence

Budget is a continuation on its developmental journey towards a "Viksit Bharat":

- Budget focused on engines of development that include Agriculture, MSME, Investments and Exports.
  1. Agriculture: Focus on "GYAN" (Garib, Youth, Annadata, Nari). The government has emphasized farmers, youth, and women:
     - Agriculture as the first engine of growth with developing Agri Districts Programme (Prime Minister Dhan-Dhaanya Krishi Yojana) similar to the Aspirational Districts Programme, which aims to enhance productivity, adopt sustainable agricultural practices & facilitate availability of long-term and short-term credit; which will cover 100 districts likely to help 1.7 cr farmers
     - Launch a 6-year "Mission for Aatmanirbharta in Pulses" with a special focus on Tur, Urad and Masoor; establish a Makhana Board in Bihar; launch a National Mission on High Yielding Seeds and a Mission for Cotton Productivity
     - Kisan Credit Cards (KCC) facilitate short term loans for 7.7 crore farmers – loan limit enhanced from INR 3 lakhs to INR 5 lakhs – a positive for PSU Banks
  2. MSMEs: encompasses manufacturing and services with a focus on MSMEs – contributing 45% to India's exports
     - To improve access to credit, the credit guarantee cover to be enhanced for MSMEs to INR 10 Cr leading to additional credit of INR1.5 lakh Cr in next 5 years and for Startups to 20Cr with the guarantee fee at 1% in 27 focus sectors important for Atmanirbhar Bharat
     - Credit Cards for Micro Enterprises: Customised Credit Cards with a ₹ 5 lakh limit for micro enterprises registered on Udyam portal. In the first year, 10 lakh such cards to be issued.
     - Fund of funds set up with Govt contribution of additional INR 10,000 Cr towards AIFs for startups (AIFs for startups received over INR 91,000cr commitment)
     - For 5 lakh first time entrepreneurs (incl. women, SC, ST) new scheme, to be launched, to provide term loans up to ₹ 2 crore during the next 5 years.
     - Manufacturing Mission Furthering "Make in India" - To promote employment and entrepreneurship opportunities in sectors like footwear & leather, toy sector, food processing and clean tech manufacturing (focus on solar PV cells, EV batteries, motors and controllers, electrolyzers, wind turbines, very high voltage transmission equipment and grid scale batteries)
  3. **Investing in Economy:**
     - PPP in Infrastructure: Each infrastructure-linked ministry to prepare a 3-year pipeline of projects in PPP mode. India Infrastructure Project Development Fund (IIPDF) scheme to prepare PPP proposals
     - Support for States for Infrastructure: INR 1.5 lakh cr outlay for the 50-year interest free loans to states for capital expenditure and reform incentives
     - Asset Monetization Plan 2025-2030: 2nd Asset Monetization Plan for 2025-30 to be launched to plough back capital of INR 10 lakh cr in new projects

- Urban Challenge Fund: INR 1 lakh cr outlay to implement proposals for 'Cities as Growth Hubs', 'Creative Redevelopment of Cities' and 'Water and Sanitation'
- Power Sector Reforms: To incentivize electricity distribution and augmentation of intra-state transmission capacity, additional borrowing of 0.5% of GSDP will be allowed to states
- Nuclear Energy Mission (NEM): NEM for R&D of Small Modular Reactors (SMR) with INR 20,000 cr outlay will be set up & 5+ indigenously developed SMRs will be operationalized by 2033

4. Investing in Innovation:

- Deep Tech FoF: Deep Tech Fund of Funds will also be explored to catalyze the next generation startups
- PM Gati Shakti Data Access: Firms will gain access to key infrastructure data & maps from the PM Gati Shakti portal to drive innovation and growth

5. Exports as an engine of growth:

- Export Promotion Mission (EPM): EPM to facilitate easy access to export credit, cross-border factoring support & support to MSMEs to tackle non-tariff measures in overseas markets
- BharatTradeNet: Digital public infrastructure, 'BharatTradeNet' (BTN) for international trade will be set-up as a unified platform for trade documentation & financing and will complement Unified Logistics Interface Platform
- National Framework for GCC: National framework will be formulated as guidance to states for promoting Global Capability Centres in emerging Tier-2 cities

Key Budget announcements on the macroeconomy:

	FY2025 RE	FY2026 BE
Total Receipts (₹ Lakh Crore)	31.47	34.96
Net Tax Receipts (₹ Lakh Crore)	25.57	28.37
Total Expenditure (₹ Lakh Crore)	47.16	50.65
Capital Expenditure (₹ Lakh Crore)	10.18	11.21
Fiscal Deficit (% of GDP)	4.80%	4.40%
Gross Market Borrowings (₹ Lakh Crore)	14.01	14.82
Net Market Borrowings (₹ Lakh Crore)	11.63	11.54
Nominal GDP	9.70%	10.10%
Real GDP	6.40%	6.5%*

*basis Economic Survey estimates of Real GDP between 6.3% - 6.8% for FY26

- Real GDP is projected to grow at 6.5% as per the Economic Survey while nominal GDP to grow at 10.1%.
- The resultant fiscal deficit is expected to consolidate further at 4.4% of GDP for FY26 (v/s 4.8% FY25RE). This is positive for bonds.
- Moderate thrust on capex: Capital expenditure is budgeted at INR 11.21 lakh cr which is 3.1% of GDP (increase of 10.1% v/s FY25RE). Including Grants-in-aid for creation of capital assets the effective outlay is INR 15.5 lakh cr (4.3% of GDP).
- Revenue receipts projected at INR 34.96 lakh crore for FY26 (+11.7% over FY25RE). Revenue deficit in FY26 is expected to fall to 1.5% of GDP v/s 1.9% of GDP FY25RE
- Expectations of Gross market borrowings at INR 14.82 lakh crore and Net market borrowings at INR 11.54 lakh crore for FY26 (Net borrowing are marginally lower than FY25RE). Marginally higher gross borrowing could be attributed towards lower National Small Savings Fund (NSSF) borrowing and higher T-bill borrowing.

- Disinvestment target for FY26 is pegged at INR 47,000cr (v/s INR 33,000cr FY25RE).
- Central Government Debt expected to fall to 56.1% of GDP in FY26 v/s 57.1% of GDP as per FY25RE.
- Tax revenue (gross) is expected to grow at 12.0% in FY26 over 11.9% in FY25RE (Direct and Indirect taxes are estimated to contribute 59% and 41%, respectively).
- Income tax growth to come in at 14.4% YoY as per FY26BE, while corporate tax collections to grow at 10.4% YoY
- GST collections are expected to come in at INR 11.8 lakh cr in FY26 thus expected to grow at 10.9% over FY25RE.

Key Tax Proposals:

1. Budget kept the capital gains tax rates and STT rates unchanged
2. Direct Tax:
    - For taxpayers under the New Tax Regime, increase in tax exemption for salaried employees to INR 12,75,000 of annual income (including standard deduction) would lead to savings of INR 80,000 p.a.
    - Further changes to tax slabs for individuals with higher income would lead to maximum tax savings of INR 1,10,000 p.a.
3. It is proposed to widen the scope of exemption from income from house property i.e. the deeming provision relating to let out property is now proposed to apply upto 2 house properties without any restrictions.
4. TCS threshold limit on LRS is proposed to be increased to INR 10 lakh from INR 7 lakh.
5. Government will table the New Tax bill in the coming week. Details are awaited.

Impact on markets and strategy ahead:

- There were limited expectations from the market participants going into the Union Budget.
- From market perspective, two large announcements that came through the Budget, viz. personal income tax savings for middle class consumers of INR 1 lakh crore and increase in FDI limits for insurance companies.
- Discretionary consumer and travel / leisure companies will hope to see strong growth in top line. Some part of the tax savings generated could also go towards investments and insurance.
- Some of the proceeds could also be utilized for repayment of personal / consumer loans thus reducing the stress in this segment.
- Market would keenly watch the fiscal math play out amidst announcements on tax changes that would lead to the Government foregoing INR 1 lk cr on direct taxes. Also, considering the corporate tax growth rate seen in FY25RE v/s FY24 (7.5% YoY), the current estimates in an already slowing economy and weaker corporate earnings seems to be stretched when one looks at growth estimates for FY26 (10.4% YoY). Same is the case for personal income tax given sluggish growth in incomes and tax reliefs provided in this Budget. Also, the Budget estimates STT collections to grow at ~40% over last year which looks steep considering a weaker equity market that we are currently witnessing.
- Given the above, the expected revenue growth of 11% needs to be monitored as we believe there could be some slippages seen here given a tepid economic environment and hence could have 0.2% - 0.3% impact on fiscal deficit.
- This could have bearing on government bond yields. How the government manoeuvres the probable shortfall either by conducting OMOs or by reducing capital expenditure needs to be seen.
- Capex oriented sectors which were expecting disproportionate increase in Government spending and have

been trading at premium valuations could come under pressure given capex execution in the past few years has been ~7% (much lower than budgeted estimates).

- Market focus should now clearly move back to the ongoing corporate earnings season, relatively expensive valuations, unfolding of Trump policies, global geopolitical developments and more importantly the guidance from RBI and the US Fed on rates.
- Thus, we continue to advocate caution for incremental money allocated towards equities – buy on dips strategy and staggered investment is preferred with a large cap bias
- On Fixed Income, we retain our focus on dynamically managed fund strategies and also tactically allocate towards high yielding debt options to optimize net returns.

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