

Union Budget 2026

Fiscal consolidation to continue; tax cuts a surprise

FY25RE/ FY26BE deficit targets in-line; FY31 debt-to-GDP anchor shows continued commitment to fiscal discipline

- In-line deficit forecasts: FY25RE deficit 10bps of GDP below BE despite lower nominal GDP growth; FY26BE target of 4.4% in line with expectations
- Low/no impact of Covid in deficits: Primary deficit ratio in FY26 is now close to pre-Covid levels; the pace of consolidation to slow from here
- Debt-to-GDP ratio still elevated, so the anchor helps: helpful for bond markets, shows slower deficit reduction ahead, govt. retains fiscal flexibility
- Disinvestment needed to rise to create fiscal space: Faster fiscal consolidation, debt reduction, or a fiscal boost to growth needs use of balance sheet

Tax projections for FY26BE reasonable (except in personal tax), on slightly conservative GDP growth estimates

- Centre's nominal GDP projection of 10.1% is reasonable, though the outcome can be better; most tax assumptions appear reasonable
- Personal income tax growth assumption somewhat optimistic, given the Rs1tn of cuts announced, but personal income tax to GDP ratio to keep rising

Quality of expenditure continues to be better than pre-pandemic years; limited levers available for further consolidation

- Vs FY19 (looking through Covid and recovery), quality of spending has improved: more personal taxes spent on capex; more so as current budgets are transparent
- Jal Jeevan Mission, rural development and agriculture seeing an increase in FY26BE, but on a meaningfully reduced FY25RE

Unchanged absolute deficit, but slower inflows from small -savings schemes

- Gross and net market borrowings largely unchanged in absolute terms
- RBI needing to conduct OMOs should further support the secular demand growth for dated securities

Sectors: consumption boost to benefit discretionary more than staples; split of capex incrementally better for defense

- Consumption: Rs1tn of higher disposable income will benefit middle-class consumption likely to be directed towards higher discretionary spends like Autos
- Capex: Spend for roads and railways flat as expected, but higher spend in defense capex positive for the sector
- Positive for Pharma (higher PLI, Jan Ausidhi), EMS (lower BCD for inputs) and Housing (SWAMIH fund); negative for Insurance (higher competition)

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