



Strengthening Fiscal Buffers

Union Budget 2025-26

Hon'ble Finance Minister Nirmala Sitharaman presented the Union Budget for FY2025-26 today with continued focus on fiscal consolidation. The fiscal deficit target for FY25 (RE) was lowered at 4.8% below the FY25 (BE) estimate of 4.9% due to lower capital expenditure. Fiscal deficit for FY26 was budgeted at 4.4% in line with Government's medium term fiscal consolidation roadmap and consensus market expectations. The Government also laid out its medium-term fiscal roadmap aiming to achieve Central Government Debt to GDP to a commendable 50% +/-1% by the year 2031 from 57.1% at present. This approach could provide requisite operational flexibility to the Government to respond to unforeseen developments while putting Central Government debt on a sustainable trajectory. The Government has assumed a pragmatic 10%-11% nominal GDP growth rate to achieve the stated Debt trajectory.

There were some apprehensions before the Budget today as a section of market participants were anticipating consumption stimulus to offset the recent personal consumption slowdown. However, we had long argued that the fall in consumption was not just due to fall in employment or slowdown in wage growth but due to reduction in disposable income emanating from increase in individual taxes ([Source: livemint](#)). Today, the Budget not only maintained its path of fiscal consolidation but balanced supply-side reforms along with boost in personal consumption by effectively reducing taxes to Nil for individuals with annual income up to ₹1.2 million under the new tax regime.

THE SALIENT HIGHLIGHTS OF THE FY26 UNION BUDGET ARE PRESENTED BELOW:

Receipts and its Major Components

in ₹ cr	FY24 A	FY25 BE	FY25 RE	FY26 BE	FY26 BE/ FY25 RE	FY25 RE/ FY24 A
Gross Tax Revenue	34,65,519	38,40,170	38,53,455	42,70,233	10.8%	11.2%
Corporation Tax	9,11,055	10,20,000	9,80,000	10,82,000	10.4%	7.6%
Income Tax	10,44,757	11,87,000	12,57,000	14,38,000	14.4%	20.3%
Customs	2,33,119	2,37,745	2,35,000	2,40,000	2.1%	0.8%
Excise	3,05,362	3,19,000	3,05,000	3,17,000	3.9%	(0.1%)
GST	9,57,208	10,61,899	10,61,899	11,78,000	10.9%	10.9%
Others	14,018	14,526	14,556	15,233	4.7%	3.8%
Less: States Share	11,38,268	12,56,671	12,96,495	14,32,824	10.5%	13.9%
Net Tax Revenue	23,27,251	25,83,499	25,56,960	28,37,409	11.0%	9.9%
Non-Tax Revenue						
Interest receipts	38,261	38,224	34,042	47,738	40.2%	(11.0%)
Dividends and Profits	1,70,877	2,89,134	2,89,285	3,25,000	12.3%	69.3%
Other Non-Tax Revenues	1,92,647	2,18,343	2,07,673	2,10,262	1.2%	7.8%
Total Revenue Receipts	27,29,036	31,29,200	30,87,960	34,20,409	10.8%	13.2%
Disinvestment Receipts	33,122	50,000	33,000	47,000	42.4%	(0.4%)
Debt Receipts	16,53,849	14,72,915	15,17,576	15,66,452	3.2%	(8.2%)
Total Capital Receipts	17,13,617	15,50,915	15,76,576	16,42,452	4.2%	(8.0%)
Total Receipts	44,43,447	48,20,512	47,16,487	50,65,345	7.4%	6.1%
Direct Tax as % of GDP	6.6%	6.8%	6.9%	7.1%		
Indirect Tax as % of GDP	5.1%	5.0%	5.0%	4.9%		

Source: Budget Documents

Expenditure & it's Major Components

in ₹ cr	FY24 A	FY25 BE	FY25 RE	FY26 BE	FY26 BE/ FY25 RE	FY25 RE/ FY24 A
Total Expenditure	44,43,447	48,20,512	47,16,487	50,65,345	7.4%	6.1%
out of which						
Subsidy	4,12,346	3,81,175	3,83,419	3,83,407	0.0%	(7.0%)
Budgeted Capex	9,49,195	11,11,111	10,18,429	11,21,090	10.1%	7.3%
Effective Capex	13,39,161	14,79,743	14,00,870	15,52,681	10.8%	4.6%
Interest	10,63,872	11,62,940	11,37,940	12,76,338	12.2%	7.0%
Budgeted Capex as % of GDP	3.2%	3.4%	3.1%	3.1%		
Effective Capex as % of GDP	4.5%	4.5%	4.3%	4.3%		
Subsidy as % of Expenditure	9.3%	7.9%	8.1%	7.6%		
Interest as % of Expenditure	23.9%	24.1%	24.1%	25.2%		

Source: Budget Documents

Financing of the Fiscal Deficit

in ₹ cr	FY24 A	FY25 BE	FY25 RE	FY26 BE
Fiscal Deficit	16,54,644	16,13,312	15,69,527	15,68,936
as % of GDP	5.6%	4.9%	4.8%	4.4%
Gross Dated Borrowing	15,43,000	14,01,000	14,00,697	14,82,000
Net Dated Borrowing	11,77,754	11,63,182	10,74,514*	11,53,834
Short Term Borrowing	53,205	(50,000)	(1,20,000)	
Total Market Borrowing	12,30,959	11,13,182	9,54,514	11,53,834
External Finance	55,121	15,952	31,992	23,490
Securities Against Small Savings	4,51,399	4,20,063	4,11,871	3,43,382

Source: Budget Documents

*Net borrowing for FY25RE has been adjusted ₹881Bn buyback

1. Revenue Estimates

- a. Tax revenue: The Budget has assumed a nominal GDP growth of 10.1% for BE FY26, which seems realistic given the economic survey's real GDP estimate of 6.3%-6.8%. The budget acknowledged downside risks to growth estimates due to persistent global uncertainty.

Despite the cut in personal taxes, the gross tax collection growth is assumed at 10.8% compared to 11.2% for FY25 RE on the back of robust income tax collections. The government is probably assuming a higher nominal GDP growth for FY26 which is likely to boost buoyancy. Growth assumptions in corporate taxes and GST collections appear to be realistic and could offset lower growth in personal tax collections. The government expects to collect ₹780 billion through taxes on securities trading compared to ₹550 billion FY25 RE.

- b. Non-tax revenue: Receipts from dividends and profits have been assumed at ₹3.25 trillion compared to ₹2.9 trillion for FY25 RE assuming a similar rate of dividend from RBI. Disinvestment has been kept modest ₹470 billion.

2. Expenditure Estimates

Total expenditure growth is budgeted at 7.4% y-o-y in FY26 compared to 6.1% for FY25RE. This may necessitate a cut in non-subsidy current expenditure.

Total capex (including PSU capex) at 4.3% of GDP is marginally lower than the last five-year average of 4.4%. However, the capex assumptions look more realistic and should not witness material downward revision. Interest-free bonds to states for capex were maintained at ₹1.5 trillion in FY26 BE. The Government also announced the Asset Monetization Plan of ₹10 trillion between 2025-2030 by monetizing government-owned assets and reinvesting the proceeds into new infrastructure projects.

3. Financing the Fiscal Deficit

The gross market borrowing of ₹14.8 trillion for FY26 is slightly higher than consensus market expectations of ₹14 to ₹14.3 trillion as small savings were cut to ₹3.4 trillion in FY26BE from ₹4.1 trillion in FY25 RE, while no net T-bill borrowing has been assumed. This could impart a steepening bias to the yield curve. The Government has also budgeted for a market switch of ₹2.5 trillion which further supplies duration to the market. However, we expect the Government to slow down on market switches as they have done in the past if it disrupts the yield curve.

Outlook: Continuity in fiscal consolidation is favorable for fixed income

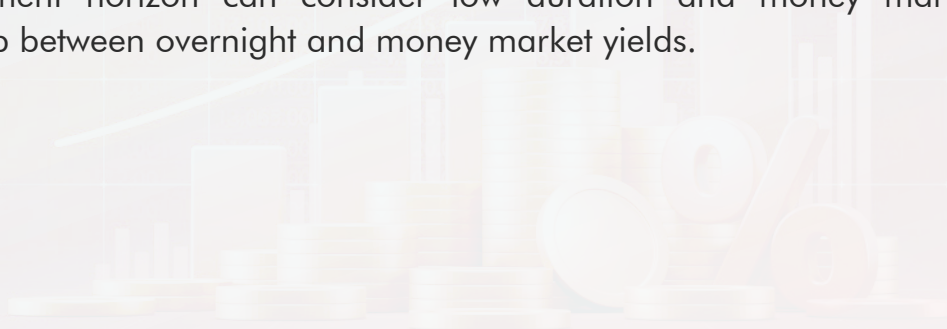
It remains to be seen whether the cut in personal income tax cut will boost consumption meaningfully in the medium term. As per [RBI's Financial Stability Report 2024](#), share of borrowers earning between ₹5 to ₹15 lakh had witnessed the maximum growth in personal loans between 2021 to 2024. Their share of personal loans outstanding had increased to a significant 37% in Sep 2024 from 26% in Sep 2021. It may be possible that the increase in their disposable incomes may be partly used to reduce leverage which may not boost growth meaningfully but should be constructive for financial sector asset quality marginally. Hence, we continue to expect moderate growth momentum going ahead.

From the medium-term perspective, the Budget is very constructive for domestic macro stability with its strong commitment to fiscal consolidation over the medium term. However, the increase in gross borrowing number compared to market expectations could be marginally negative in the near term and could result in steepening bias for the yield curve.

However, we expect RBI to continue with OMO buybacks in FY26 as well which should balance the supply demand dynamics for Indian bonds.

With the Budget behind us, the next event which will be looked forward by the market participants will be the RBI Policy on February 7th. A fiscally prudent budget as well as a favourable trajectory of food inflation should give comfort to RBI. The RBI has already started to respond on liquidity measures and has been using a combination of FX swaps, longer term VRRs (variable rate repos) and open market operations to ease liquidity. The decision to cut policy rates in the next meeting or wait for the next policy is largely a judgement call but we expect RBI to cut policy rates by 50-75bps in the next 6-9 months considering the expected fall in domestic inflationary pressures and slowing domestic growth momentum.

Given the expectations of a shallow rate cut cycle along with easier liquidity, the current valuations in the moderate duration (one-to-four year) are more compelling for patient investors to experience high accrual and the possibility of participating in capital gains as the rate cycle turns. Investors with more than 12 months investment horizon can consider allocation towards moderate duration (one-to-four year) categories. Those with less than 12 months investment horizon can consider low duration and money market, given the meaningful gap between overnight and money market yields.



Equity Perspective on Key Sectors



Infrastructure: Neutral to Negative

After a 25% CAGR in government capex over FY19-24, the capex momentum moderated in FY25 with revised capex estimate at ₹10.18 trillion i.e. 7.3% growth over FY24 actual, however 8% lower than FY25 BE. The government capex for FY26 BE at ₹11.21 trillion growth of 10% from FY25 RE i.e. 3.14% of GDP for FY25 RE and as well as FY26 BE. Further, IEBR capex at ₹15.39 trillion in FY26 BE (4.32% of GDP) increases by 16.8% on FY25 RE (4.07% of GDP).

Allocation for road and railway flat; however other infra expenditure picks up:

- **Railways capex** for FY26 BE at ₹2.65 trillion remains unchanged from FY25 RE.
- **Road capex** for FY26 BE at ₹2.72 trillion is marginally down 0.1% from FY25 RE.
- **Defence capex** for FY26 BE at ₹1.8 trillion increased by 12.9% from FY25 RE.
- **Jal Jeevan Mission (JJM)** for FY26 BE at ₹670 billion increased by 195% from FY25 RE, however, it had witnessed shortfall in spending at ₹227 billion in FY 25 RE versus FY 25 BE at ₹702 billion.
- Expenditure on **Housing & Urban Infra** (mix of revenue expenditure and capex for government) at ₹968 billion for FY26 BE witnessed sharp increase of 52% from FY25 RE. This was led by allocation of ₹100 billion for Urban Challenge Fund and ₹348 billion for Mass Rapid Transit System (MRTS) (21.6% increase from FY25 RE).
- Allocation to **Solar rooftop subsidy** (PM Surya Ghar Muft Bijli Yojana) increased to ₹200 billion in FY26 RE vs ₹111 billion in FY25 RE.



Building Materials: Marginally positive

- Budgeted outlays in FY26 BE for various schemes related to water supply and irrigation has increased substantially over FY25 RE. This is positive for plumbing pipe companies.
- The PMAY budget allocation is set to rise from ₹476 billion in 2024-25 to ₹781 billion in 2025-26 leading to higher demand for building materials.



Real Estate: Marginally Positive

- Taxpayers are allowed to claim the annual value of 2 self-occupied properties versus one earlier.



Banking and NBFC: Positive

- **Urban and Affordable Housing:** The PM Awas Yojana (PMAY) budget allocation is set to rise from ₹476 billion in FY25 RE to ₹781 billion in FY26 BE leading to increased demand for affordable housing loans.
- **Enhancing MSME Credit:** Credit Cards with a ₹5 lakh limit will be issued to 10 lakh micro enterprises registered on the Udyam portal in the first year, improving capital access. The collateral-free credit guarantee limit for MSMEs has been raised from ₹5 crore to ₹10 crore, easing access to term loans.
- **Agriculture Credit:** The credit limit under the Kisan Credit Card (KCC) scheme has been increased from ₹3 lakh to ₹5 lakh to facilitate short-term loans for farmers.
- **Infra Financing:** IEBR allocation of HUDCO has increased 48% to ₹618 billion which is positive for urban and infra financing.



Insurance: Marginally Negative

- **FDI limit in insurance sector increased to 100% from 74%:** Foreign insurers can now enter Indian markets without a partner. Implies higher competition, however, establishing distribution will still be key for any new player entering India.
- **Revision in income tax slabs:** Marginally negative for life insurers who have customer base that buys insurance for tax rebates. With new tax regime becoming more beneficial, need for buying insurance for rebates will be lower. However, ~70% people had already moved to new tax regime, so the impact is minimal for the sector.



FMCG: Positive

- **Positive for urban and discretionary consumption:** Income tax slabs and rates are being changed across the board to benefit all taxpayers and leave more money in their hands boosting household consumption. The major benefit would accrue to urban low-ticket and discretionary consumption like packaged foods, beverages, fashion and lifestyle, restaurants etc.
- **No change in tobacco taxation:** Positive for companies in cigarette industry.
- **Palm oil:** No change in the custom duties versus expectations of some reduction in duties. Negative for companies engaged in skin cleansing or packaged foods as the input costs remain elevated.



Metals: Neutral

- No Major announcements, No major changes in BCD.
- BCD reduction on copper and zinc scrap will slightly benefit recyclers.
- Push on nuclear power will benefit Stainless Steel players in long-term.



Automobiles: Positive

- Increased disposable income in the hands of household to drive automobile demand and positive for automobile stocks in both 2W & 4W segment.
- Other announcements which are beneficial for EV demand/manufacturing:
 - Custom duty cut to Nil on 35 capital goods for use in the manufacture of lithium-ion battery of EVs.
 - Scrap of lithium-ion battery and other critical minerals to be exempted from basic customs duty.
 - EV parts: Govt to establish a national manufacturing mission to enhance domestic value addition and build an ecosystem for EV batteries, motors, and controllers.
 - Increased budgetary allocation to multiple EV/ PLI schemes.



Electronics Manufacturing: Positive

- Reduction in custom duty on several sub-components to promote domestic component assembly:
 - BCD on open cell for flat panel display modules – reduced to 5% from 15% /10% earlier.
 - BCD on inputs and parts of the open cells for LED/LCD TV - exempted from 2.5% earlier.
 - BCD on inputs or parts/sub-parts of cellular mobile phones - exempted from 2.5% earlier.



Pharma/ Healthcare: Positive

- Addition of 36 lifesaving drugs/ medicines in exempted list, 6 medicines in 5% duty list and 13 new patient assistance programmes in exempt list (medicines for rare diseases, cancer, severe chronic diseases).
- Medical Tourism and Heal in India will be promoted in partnership with the private sector along with capacity building and easier visa norms.
- Department of Health and Family Welfare / Department of Health Research allocation increased by 11% for FY26 BE to ₹999 billion as compared to FY25 RE.



Oil & Gas: Negative

- **Liquid Petroleum Gas (LPG)** subsidy for FY25 has been revised up to ₹127 billion only as against total LPG under-recoveries for 9M FY25 by Oil Marketing Companies (OMC) at ₹292 billion. We expect the under recoveries to increase as OMCs continue to incur losses at current prices. Further, LPG subsidy for FY26 BE is set at ₹91 billion only.



Agrochemicals: Positive

- Government will undertake a 'Prime Minister Dhan-Dhaanya Krishi Yojana' in partnership with states. This programme is likely to help 1.7 crore farmers in multiple ways.
- Multiple announcements were made related launching a National Mission on High Yielding Seeds, Kissan Credit Cards (KCC), augmenting urea supply with a new plant with annual capacity of 12.7 lakh metric tons.
- Fertiliser subsidy for FY26 BE is pegged at ₹1,679 billion, down 2% from FY25 RE of ₹1,713 billion. While Urea subsidy stands flat at ₹1,190 billion versus FY25 RE, non-Urea subsidy is down by ₹34 billion versus FY25 RE.



Travel and Tourism: Positive

- Modified UDAAN scheme to be launched to enhance regional connectivity to 120 new destinations and carry 40 million more passengers in the next 10 years.
- Top 50 tourism destination sites to be developed in partnership with states.

GDP – Gross Domestic Product; RE – Revised Estimates; BE – Budgeted Estimate; FX – Foreign Exchange; A – Actual; PLI – Production Linked Incentive; OMO – Open Market Operations; HUDCO – Housing & Urban Development Corporation; NBFC – Non-Banking Financial Company; GST – Goods & Services Tax; PSU – Public Sector Undertaking; MSME – Micro, Small & Medium Enterprises; CAGR– Compounded Annual Growth Rate; EV – Electric Vehicles; CAPEX - Capital Expenditure; IEBR Capex – Internal and Extra-Budgetary Resources Capex; PM – Prime Minister; FM – Finance Minister; BCD – Basic Custom Duty

Source: Budget documents, UTI MF Research

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