



Union Budget 2026-27

FY27 Union Budget

Continuing with the Fiscal Consolidation

The Union Budget for FY2026–27 is presented with a continued focus on fiscal consolidation and debt reduction. The fiscal deficit target for FY26 is maintained at 4.4% of GDP, despite lower income tax collections and GST rate reductions during the year.

Going forward, the government has shifted focus to the Debt-to-GDP target, aiming to reduce the ratio from 56.1% in FY26 to 55.6% in FY27. Accordingly, the fiscal deficit target for FY27 is pegged at 4.3% of GDP.

1. Revenue Estimates

a. Tax revenue:

The Budget assumes nominal GDP growth of 10% YoY for FY27, which appears reasonable given a broader real growth expectation of around 7% and a modest pickup in inflation next year.

- **Direct Taxes:** The collection (income and corporate taxes) is budgeted to grow by 11.4% YoY in FY27, indicating tax buoyancy for direct taxes at 1.14. Given that the impact of the recent income tax cut is already reflected in FY26, a 11.7% YoY growth in income tax collection appears achievable.
- **Indirect Taxes:** This is expected to grow at a moderate 3% YoY in FY27, down from 5.2% in FY26RE and 11.2% in FY26BE. This largely reflects the impact of GST rate rationalisation as GST collections are budgeted to decline by 2.6% YoY in FY27BE.

Overall, gross tax collections are expected to grow 8% YoY, indicating a gross tax buoyancy of 0.80. On the whole, the government's tax projections appear realistic and achievable.

b. Non-tax revenue:

Non tax revenues, primarily from dividends and profits, are budgeted at ₹3.91 trillion in FY27, up from ₹3.76 trillion in FY26RE, based on the assumption of a broadly similar RBI dividend payout in FY27.

- **Disinvestment:** While the government has raised the FY27 disinvestment target significantly to ₹800 billion, up from ₹338 billion in FY26RE. Looking at the past trend of disinvestment receipts, the budgeted target appears aggressive.
- However, there is a possibility of a higher dividend from the RBI, given its contingency risk buffer stands near the upper threshold of its Economic Capital Framework (4.5% to 7.5% of assets).

2. Expenditure Estimates

Total expenditure is budgeted to grow 7.7% YoY in FY27, up from 6.7% in FY26RE.

- **Revenue Expenditure** is kept under control with a budgeted growth of 6.6% in FY27.
- **Centre's capital expenditure** is budgeted to grow by **11.5% in FY27BE**. Overall capital expenditure (including PSU capex) **is lowered to 4.3% of GDP in FY26RE (from 4.4% of GDP in FY26 BE) and kept steady at 4.3% of GDP in FY27BE**.
- **Interest-free Loans to states** for capital spending **have been raised to Rs. 1.85 trillion in FY27 (BE), growth of 28.5% YoY**.

3. Financing the Fiscal Deficit

Ahead of the Budget, market expectations were for a fiscal deficit target of around 4.2% of GDP and a Debt-to-GDP ratio of around 55%. Compared with these, the FY27 pace of fiscal consolidation is slightly slower.

Gross and net market borrowings for FY27 are budgeted at ₹11.7 trillion and ₹17.2 trillion, respectively. Borrowing through short-term debt (treasury bills) is pegged at ₹1.3 trillion in FY27BE vs Nil in FY26RE. Gross market borrowing is slightly higher than the broader market expectation of nearly ₹16.5 trillion.

In addition, the Government has budgeted market switches of ₹2.5 trillion, potentially adding to the duration supply. However, past experience suggests some reduction in the actual quantum of switches if they disrupt market yields.



THE KEY HIGHLIGHTS OF THE FY27 UNION BUDGET ARE OUTLINED BELOW:

Receipts and Expenditure

	₹ billion			% YoY			% GDP		
	FY25A	FY26RE	FY27BE	FY25A	FY26RE	FY27BE	FY25A	FY26RE	FY27BE
Net Tax Revenue	25,000	26,747	28,669	7.4%	7.0%	7.2%	7.6%	7.5%	7.3%
Gross Tax Revenue	37,964	40,778	44,041	9.5%	7.4%	8.0%	11.5%	11.4%	11.2%
Corporate Tax	9,868	11,090	12,310	8.3%	12.4%	11.0%	3.0%	3.1%	3.1%
Income Tax	12,352	13,120	14,660	18.2%	6.2%	11.7%	3.7%	3.7%	3.7%
Customs	2,332	2,583	2,712	0.0%	10.8%	5.0%	0.7%	0.7%	0.7%
Excise Duties	3,003	3,366	3,889	-1.7%	12.1%	15.6%	0.9%	0.9%	1.0%
GST	10,270	10,465	10,190	7.3%	1.9%	-2.6%	3.1%	2.9%	2.6%
Less-States' Share	12,869	13,930	15,263	13.9%	8.2%	9.6%	3.9%	3.9%	3.9%
Total-Non Tax Revenue	5,366	6,677	6,662	33.5%	24.4%	-0.2%	1.6%	1.9%	1.7%
Dividends and Profits	3,084	3,756	3,910	80.5%	21.8%	4.1%	0.9%	1.1%	1.0%
Non-Debt Capital Receipts	418	640	1,184	-30.0%	53.1%	84.9%	0.1%	0.2%	0.3%
Disinvestments	172	338	800	-48.1%	96.7%	136.4%	0.1%	0.1%	0.2%
Total Receipts	30,784	34,063	36,515	10.4%	10.7%	7.2%	9.3%	9.5%	9.3%
Revenue Expenditure	36,009	38,691	41,255	3.1%	7.4%	6.6%	10.9%	10.8%	10.5%
Interest Payments	11,156	12,686	14,000	4.9%	13.7%	10.4%	3.4%	3.6%	3.6%
Subsidies	4,226	4,695	4,548	-26.9%	11.1%	-3.1%	1.3%	1.3%	1.2%
Capital Expenditure	10,520	10,958	12,218	10.8%	4.2%	11.5%	3.2%	3.1%	3.1%
Capex Loan to States	1,250	1,440	1,850	-22.4%	15.2%	28.5%	0.4%	0.4%	0.5%
Total Expenditure	46,529	49,648	53,473	4.7%	6.7%	7.7%	14.1%	13.9%	13.6%
Fiscal Deficit	15,744	15,585	16,958	-4.8%	-1.0%	8.8%	4.8%	4.4%	4.3%
Debt Capital Receipts	15,736	15,128	16,631	-4.7%	-3.9%	9.9%	4.8%	4.2%	4.2%
Gross Market Borrowing	14,005	14,610	17,200	-9.1%	4.3%	17.7%	4.2%	4.1%	4.4%
Net Market Borrowing	11,627	11,328	11,732	-1.3%	-2.6%	3.6%	3.5%	3.2%	3.0%
Short Term Borrowing (T-bill)	-1,602	-	1,300				-0.5%	0.0%	0.3%
Small Savings & State PFs	4,335	3,760	3,903	-5.0%	-13.3%	3.8%	1.3%	1.1%	1.0%

Outlook: Increased bond supply to keep the yield curve steep

From a medium term standpoint, the Budget is constructive for macroeconomic stability due to its commitment to fiscal consolidation. That said, higher than anticipated gross borrowing could be mildly negative in the near term and contribute to a steeper yield curve.

We expect bond demand from insurance, pension funds and banks to improve next year. We also anticipate that the RBI will continue its Open Market Operation (OMO) purchases in FY27, which should offset some of the supply pressures and support bond market liquidity. That said, the yield curve is likely to remain steeper, given the overall supply pressure from the Centre and state bond issuances exceeding ₹30 trillion.

With the Budget now behind us, market attention will shift to the RBI's monetary policy decision later this week. With many of the rate cuts already implemented, the RBI's commentary on liquidity will be a key focus in the policy review. Further OMOs in the coming months are expected to be supportive for the bond market.

Against this backdrop of 'lower for longer' policy rates and improving liquidity conditions, short- to medium-term bonds should remain supported. Longer-maturity bonds may face pressure from the fiscal positions of the Centre and State governments, as well as the rising duration of state government bonds.

Given the evolving macro and policy environment, we maintain:

- **Moderate duration exposure**, anchored in the up-to-3-year segment, to benefit from roll-down and curve steepness, especially as short-end rates remain anchored by surplus liquidity.
- **Selective credit exposure** to well-managed NBFCs and corporate issuers, supported by benign funding costs and system-level liquidity.
- **Cautious stance on long duration**, as the terminal rate repricing is largely in the price; incremental gains appear limited barring a growth or inflation shock.

For investors, the environment remains supportive of carry-oriented strategies, with curve steepness and credit spreads continuing to offer selective value.

Investors with an investment horizon of more than 12 months can consider moderate-duration products such as short-term or corporate bond funds, which are well positioned to capitalise on a benign macro backdrop and a liquidity rich environment. Investors with a 6–12-month horizon can consider money market or low duration strategies.

Equity Perspective on Key Sectors



Infrastructure: Positive

- **Capex growth re-accelerates in FY27:** After a strong 26% CAGR over FY20–25 and a moderation in FY26 (RE at ₹10.96 trillion; +4.2% YoY and 2.3% below FY26BE), the government capex is budgeted to rise to **₹12.22 trillion in FY27BE** (+11.5% vs FY26RE). Government capex including IEBR is set to increase sharply to **22% in FY27BE** (from 8% in FY25 and 6% in FY26RE). Capex as % of GDP is likely to remain at **~3.1%**, while including IEBR it improves to **4.4% vs 4.0% in FY26RE**.
- **Higher state-led multiplier:** Transfers to states for capex are **up 29.4% vs FY26RE**, which should amplify overall investment through additional state-level spending.
- **Key sectoral push (Railways, Roads, Defence):** Combined capex for these three sectors is up **~11% in FY27BE** (vs 6% in FY24 and 2% in FY25).
 - Railways: ₹2.8 trillion (+10.2% vs FY26RE); announcement of **7 new high-speed rail corridors and one new dedicated freight corridor**.
 - Roads: ₹2.9 trillion (+8.0% vs FY26RE).
 - Defence: ₹2.2 trillion (+17.7% vs FY26RE).
- **Housing & Urban infrastructure:** Capex of **₹0.35 trillion** (+5.8% vs FY26RE), while **revenue expenditure jumping to 49.5% YoY to ₹0.86 trillion**, supporting urban development and allied sectors.



Building Materials: Marginally positive

- **PMAY allocations nearly double**, rising from ₹403 billion in FY26 to ₹765 billion in FY27. This may translate into a meaningful uptick in housing activity and **stronger demand for building materials**.
- **FY27 budgeted outlays for water supply and irrigation schemes have increased materially over FY26RE**, providing a favourable tailwind for companies in the **plumbing and pipes segment**.



Automobiles: Positive

- **PLI outlay of auto and auto components is up YoY from ₹20.9 billion to ₹59.4 billion**, with PM-E drive expense budget increasing from ₹13 billion to ₹15 billion, YoY.
- **Higher spend on road infrastructure and defence M&HCV procurement is positive for auto OEMs.**
- Rare-earth corridors in Odisha, Kerala, Andhra Pradesh, and Tamil Nadu shall help in establishing reliable EV supply chain.



Electronics Manufacturing: Positive

- **ECMS 2.0 allocation raised** from ₹240 billion to ₹400 billion over five years, strengthening the domestic components ecosystem.
- **ISM 2.0:** ₹10 billion for FY27 to support equipment, materials, full-stack Indian IP design, and supply-chain resilience.
- **PLI for large-scale electronics & IT hardware assembly reduced** from ₹70 billion (FY26RE) to ₹15.3 billion, reflecting **completion of PLI 1.0 for mobile phone assembly**.



BFSI: Marginally Negative

- **STT hike on derivatives:** The Budget has proposed to increase Securities Transaction Tax (STT) on derivatives, with Futures STT increased to 0.05% from 0.02%, while options STT on premium/exercise value raised to 0.15% from 0.10% / 0.125% respectively. In absolute terms, the cost impact is **far more pronounced for futures**; overall transaction costs rise by ~5–10% for options but **more than double for futures**.
- **Higher transaction costs** could moderate derivatives volumes, particularly for high-frequency traders and derivative-heavy global funds. The elevated breakeven costs may lead to **lower F&O trading activity** – negative for exchanges & brokers. The higher STT will be passed on to investors as part of TER, implying **no direct earnings impact of AMCs**.
- Expected increase in government borrowing may pressure yield; **likely to increase the cost funds for banks and NBFCs in the near-term**.
- The government plans to **set up a high-level committee to review the banking sector and align it with India's next phase of growth**. This may open the door to multiple reform pathways, including potential further consolidation of PSU banks through mergers.
- **Targeted support for textiles, MSMEs (including the ₹100 billion SME Growth Fund), and manufacturing** reinforces a long-term focus on employment generation and economic expansion.



Travel & Tourism: Positive

- **National Institute of Hospitality proposed:** To work closely with academia, industry and government to enhance training, skill development and service standards across the hospitality ecosystem. This should **support capacity building and quality improvement**, benefiting players across the travel and tourism value chain.
- Focus on developing tourism destinations (archaeological sites, hikes and trails) would drive demand, benefiting players in travel and tourism industry.



Healthcare: Marginally Positive

- **Biopharma SHAKTI:** Budgeted outlay of ₹100 billion over 5 years is aimed at positioning India as a global hub for biologics and biosimilars; **structurally positive for biopharma, biosimilars, CDMOs, CROs and clinical research**, supporting long-term innovation.
- **Cancer drugs & rare diseases:** Basic customs duty exemption on 17 drugs (largely oncology therapies) to improve affordability of high-cost treatments, and inclusion of 7 additional rare diseases for duty-free personal imports of drugs and FSMPs to likely benefit **MNC pharma players**.
- **Medical Value Tourism:** Launch of a PPP-based model with 5 regional medical hubs integrating hospitals, education, research, diagnostics, rehabilitation and post-care, a **positive sign for listed hospitals and diagnostics players**.



Agrochemicals: Marginally Positive

- **Focus on farmer income & productivity:** Budget emphasis on productivity enhancement and diversification into high-value crops, fisheries and animal husbandry may **support higher input usage**.
- **Chemical manufacturing push:** Proposal to establish **three dedicated chemical parks** to boost domestic production and reduce import dependence. This is positive for long-term capacity expansion and cost competitiveness.
- **Fertiliser subsidy rationalisation:** FY27BE fertiliser subsidy pegged at ₹1,708 billion (down 9% vs FY26RE of ₹1,865 billion). Urea subsidy reduced 7.6% YoY to ₹1,168 billion, while non-urea subsidy is down ~10% YoY to ₹54 billion.



Metals: Marginally Positive

- The Centre's support through **rare-earth corridors and basic customs duty exemption** on capital goods for processing critical minerals should strengthen domestic mining and processing, benefiting companies across the critical minerals value chain.



Real Estate: Marginally Positive

- **Commercial demand tailwinds:** Safe harbour rule changes, benefiting GCCs and tax holiday for data centres for MNCs should drive **incremental demand for office space**, supporting commercial real estate developers.



Logistics: Marginally Positive

- Launch of a **Coastal Cargo Promotion Scheme** to increase the share of inland waterways and coastal shipping from 6% to 12% by 2047 leading to higher port volumes.
- **Container manufacturing scheme** with a ₹100 billion outlay being planned over the next 5 years.



IT Services: Neutral

- **No major budgetary announcements** for core IT services. **Change in buyback taxation** is positive, particularly for large IT companies with strong cash flows.



Consumption: Neutral

- The **G RAM G Scheme (Guarantee for Rozgar and Ajeevika Mission Gramin)** has been introduced with an allocation of ₹957 billion FY27BE. Allocation to MGNREGA reduced to ₹300 billion FY27BE from ₹880 billion FY26RE. On a combined basis, representing **45% increase, would support rural demand**, benefiting value retail apparel and FMCG players.
- No NCCD rollback in the Budget, resulting in continued higher tax burden due to excise hike, is negative for tobacco players.



Oil & Gas: Neutral

- No increase in excise on retail fuel; the government has explicitly exempted the biogas/CBG value from excise computation in blended CNG to promote cleaner fuels.



Power Utilities: Neutral

- No major announcements for utilities. In line with target to boost nuclear power, import duty on key components has been slashed to Nil till 2035 (vs 7.5% earlier).



Textiles: Neutral

- **Lower overall allocation:** FY27BE textile budget pegged at ₹52.8 billion vs ₹57.7 billion in FY26BE (down 8.5% YoY).
- **Selective scheme support:** PM MITRA budgeted outlay up 50% YoY to ₹3 billion (from ₹2 billion); PLI allocation up marginally by 1.3% YoY to ₹4.05 billion.

A: Actual | AMC: Asset Management Company | BCD: Basic Customs Duty | BE: Budget Estimates | BFSI: Banking, Financial Services and Insurance | CAPEX: Capital Expenditure | CAGR: Compound Annual Growth Rate | CBG: Compressed Bio Gas | CDMO: Contract Development and Manufacturing Organisation | CNG: Compressed Natural Gas | CRO: Contract Research Organisation | ECMS: Electronics Components Manufacturing Scheme | EV: Electric Vehicle | FM: Finance Minister | F&O: Futures and Options | FMCG: Fast-Moving Consumer Goods | FSMP: Food for Special Medical Purposes | FX: Foreign Exchange | FY: Financial Year | GCC: Global Capacity Centres | GDP: Gross Domestic Product | GST: Goods and Services Tax | IEBR Capex: Internal and Extra-Budgetary Resources Capital Expenditure | IP: Intellectual Property | ISM: India Semiconductor Mission | IT: Information Technology | LPG: Liquefied Petroleum Gas | M&HCV: Medium and Heavy Commercial Vehicles | MGNREGA: Mahatma Gandhi National Rural Employment Guarantee Act | MNC: Multinational Corporation | MSME: Micro, Small and Medium Enterprises | NBFC: Non-Banking Financial Company | NCCD: National Calamity Contingent Duty | OEM: Original Equipment Manufacturer | OMO: Open Market Operations | OMC: Oil Marketing Company | PLI: Production Linked Incentive | PM: Prime Minister | PMAY: Pradhan Mantri Awas Yojana | PM E-DRIVE: Prime Minister Electric Drive Revolution in Innovative Vehicle Enhancement Scheme | PM MITRA: Pradhan Mantri Mega Integrated Textile Region and Apparel | PPP: Public-Private Partnership | PSU: Public Sector Undertaking | RBI: Reserve Bank of India | RE: Revised Estimates | SME: Small and Medium Enterprise | STT: Securities Transaction Tax | T-Bill: Treasury Bill | TER: Total Expense Ratio | YoY: Year-on-Year | YTM: Yield to Maturity

Source: Budget documents, UTI MF Research

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