

UNION BUDGET EXPECTATIONS

Central Government Finances FY27

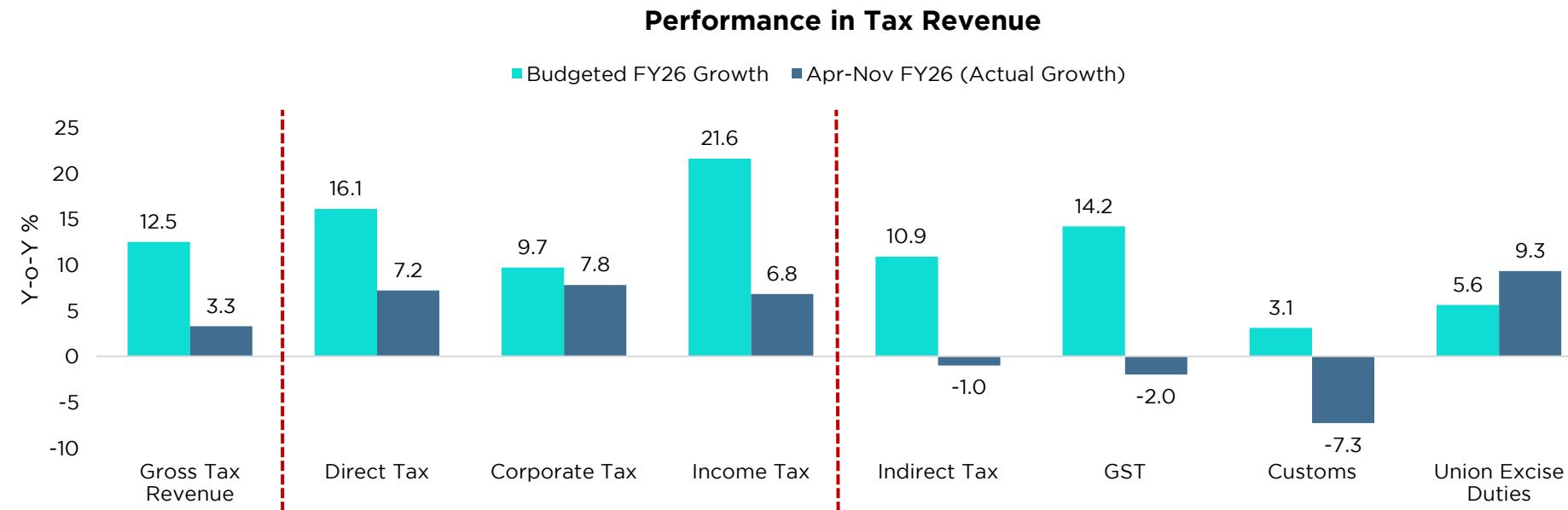




Likely Focus Areas of Budget

- 1 Employment Generation & Skill Development**
- 2 Boost Manufacturing Competitiveness with Focus on MSMEs and Export-oriented Sectors**
- 3 Concerted Support to the Agricultural Sector**
- 4 Emphasis on Research & Development and Innovation**
- 5 Focus on Deregulation and Enhancing Ease of Doing Business**

Weak Tax Collection in FY26 So Far



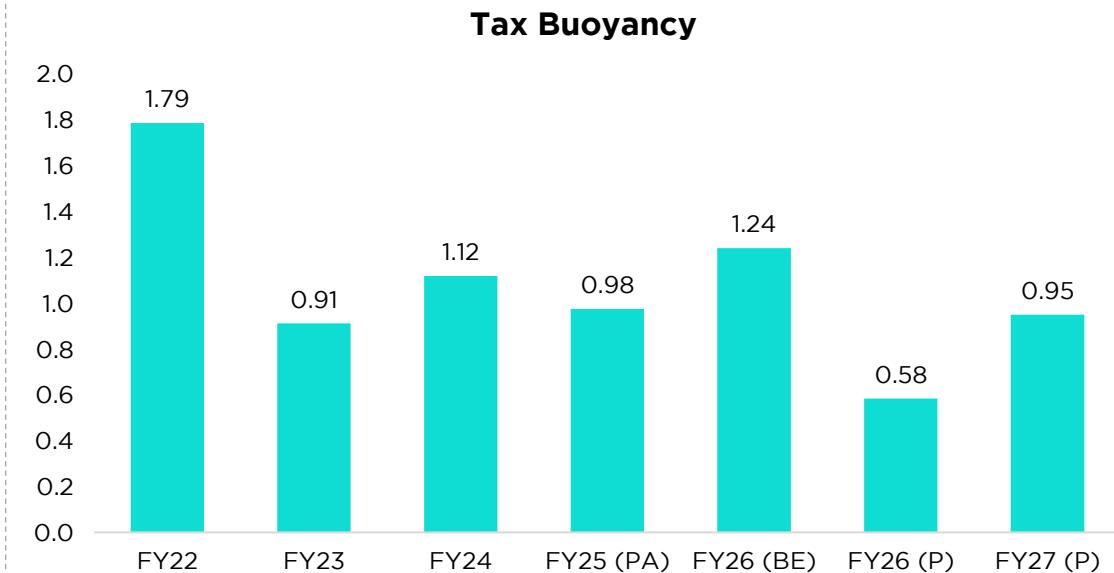
Source: CEIC, CareEdge; Note: Budgeted FY26 growth is calculated over provisional data for FY25

- Gross tax collections have been subdued in the fiscal year so far, up by just 3.3% (y-o-y) in 8M FY26, much lower than the budgeted growth of 12.5%.
- Direct tax collections have lagged in the year so far, with growth in corporate and income tax collections being lower than the budgeted annual growth.
- However, income and corporate tax growth have shown some improvement in the recent months.
- GST collections have contracted by 2% during 8M FY26, weighed by rationalisation in the GST structure implemented at the end of September.
- Among other indirect taxes, customs duty collections have contracted, whereas union excise duty collections have recorded a healthy growth in the fiscal year so far.

Tax Collections to Improve in FY27

	FY25 (PA)	FY26 (BE)	FY26 (P)	FY27 (P)	FY26 (P)	FY27 (P)
Rs Trillion						
Net Tax Revenue	25.0	28.4	26.4	28.9	5.6	9.6
Gross Tax Revenue	38.0	42.7	39.7	43.5	4.7	9.6
Direct Taxes	21.7	25.2	23.4	26.0	7.8	11.0
Corporate tax	9.9	10.8	10.7	12.0	8.1	12.0
Income tax	11.8	14.4	12.7	14.0	7.5	10.2
Indirect Taxes	15.6	17.4	15.5	16.8	-0.9	8.2
Goods & service tax	10.3	11.8	10.0	10.5	-2.7	4.5
Customs	2.3	2.4	2.2	2.4	-6.2	9.2
Union excise duty	3.0	3.2	3.3	3.9	9.4	18.8
Nominal GDP	330.7	357.0	357.1	393.2	8.0	10.1
Tax Buoyancy	0.98	1.24	0.58	0.95		

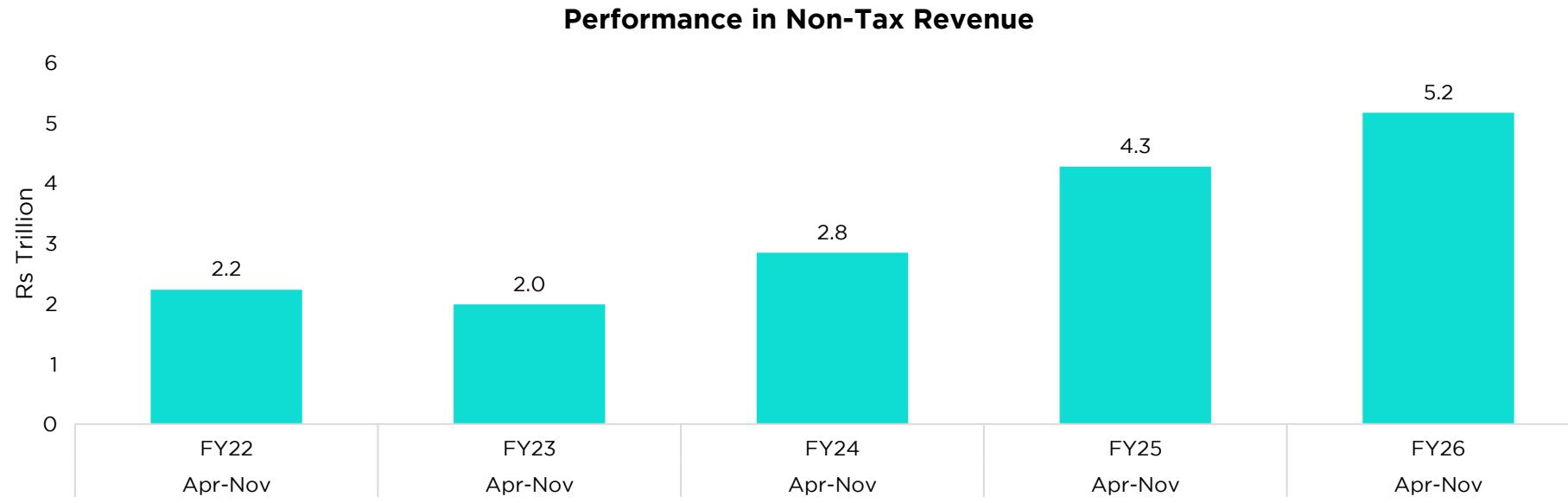
Source: CEIC, CareEdge; (PA): Provisional Actuals, (BE): Budget Estimate, (P): CareEdge Projections; FY26 (P) growth is over provisional data for FY25



Source: CEIC, CareEdge; (PA): Provisional Actuals, (BE): Budget Estimate, (P): CareEdge Projections; FY26 (P) growth is over provisional data for FY25

- Factoring the weaker tax performance in the fiscal year so far, we estimate the gross tax collections to witness a shortfall of Rs 3 trillion in FY26.
- Both direct as well as indirect tax collections are estimated to undershoot the budget estimate in FY26.
- Gross tax revenue is projected to improve in FY27, rising by 9.6%, marginally lower than the projected nominal GDP growth of 10.1%. We expected tax buoyancy at 0.95 in FY27.
- Direct tax collections are expected to see some improvement in FY27, aided by recovery in income and corporate tax collections.
- While GST rate rationalisation is expected to weigh on the collections, GST revenues are likely to see some improvement in FY27.
- Excise duty on tobacco products effective from 1 February 2026 is expected to support the growth in union excise duty collections in FY27.

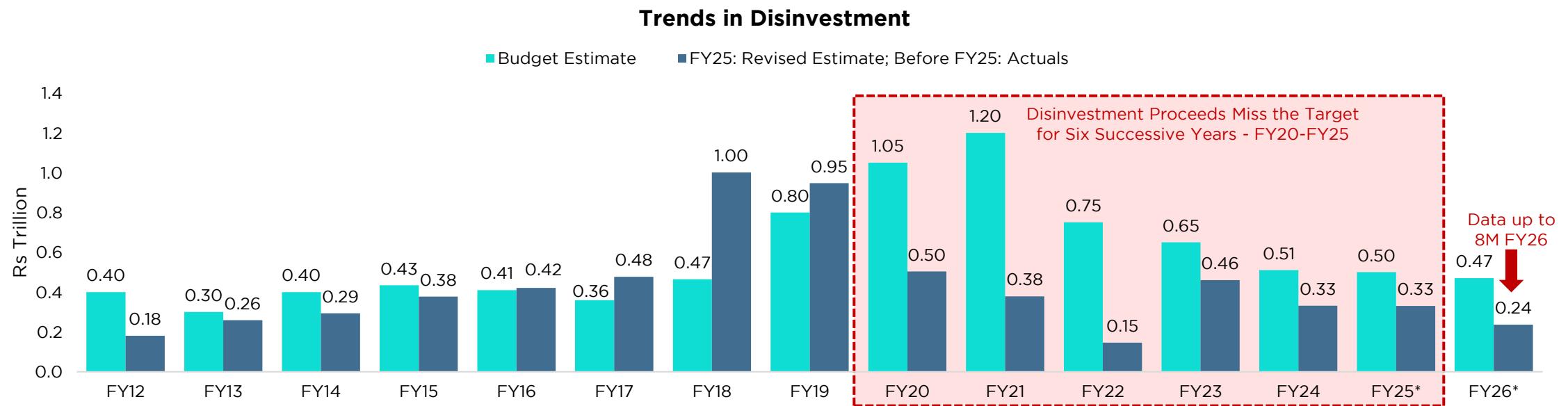
Non-Tax Revenue Rises Sharply, Supported by RBI Dividend



Source: CEIC, CareEdge

- While tax collections have shown a subdued performance in the current fiscal, the non-tax revenues have risen by a strong 20.9% during 8M FY26.
- With higher-than-expected dividend transfer by RBI, we expect the non-tax revenues to overshoot the budgeted amount of Rs 5.8 trillion, by Rs 0.3 trillion in FY26.
- We estimate the RBI dividend transfer to remain high in the range of Rs 2.0-2.5 trillion in FY27 compared to Rs 2.7 trillion in FY26.

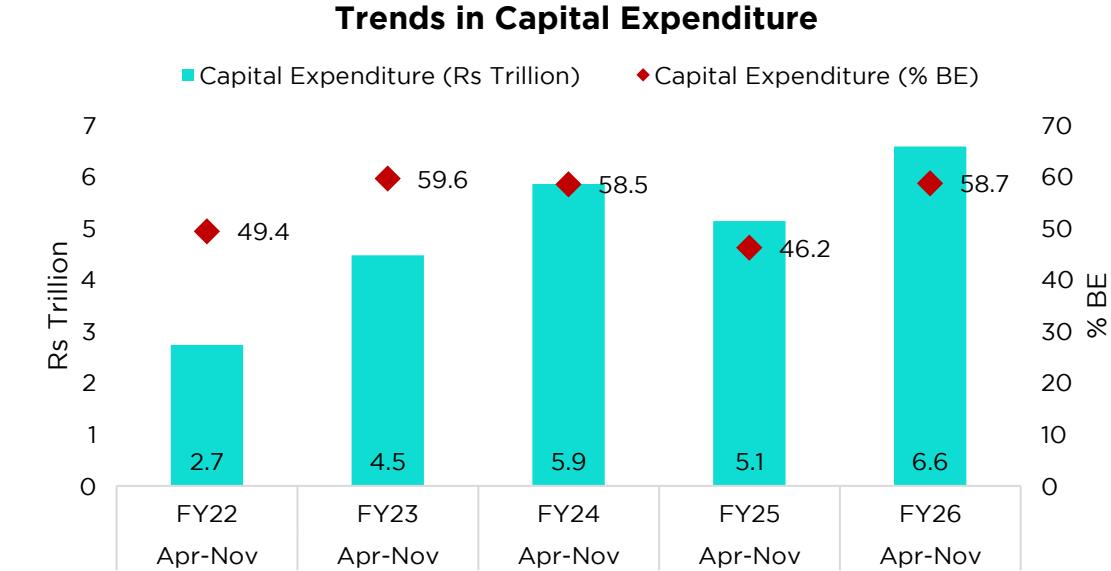
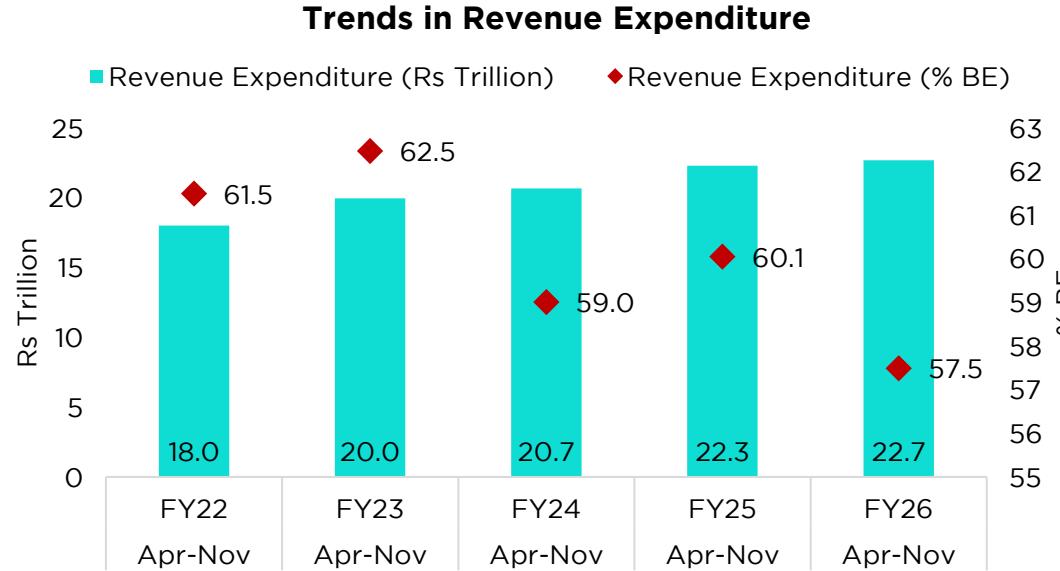
Disinvestment Lags so far in FY26



Source: CMIE, CareEdge; *Represents miscellaneous capital receipts which includes disinvestment and asset monetization as given since FY25 budget

- Disinvestment has been lacklustre this fiscal at just Rs 49 billion (8M FY26) as against budgeted miscellaneous capital receipt of Rs 470 billion (includes disinvestment and asset monetisation).
- However, asset monetisation (Rs 188.4 billion during 8M FY26) offered some support to the miscellaneous capital receipts.
- We estimate a slippage of Rs 0.2 trillion in the total non-debt capital receipts, based on the assumption that the IDBI disinvestment and LIC stake sale is likely to be deferred to the next fiscal.
- With Centre having repeatedly underachieved its disinvestment targets, a fresh look at disinvestment strategy remains critical to support further fiscal consolidation.

Centre's Revex Lags; Capex Healthy in FY26 So Far



Source: CEIC, CareEdge

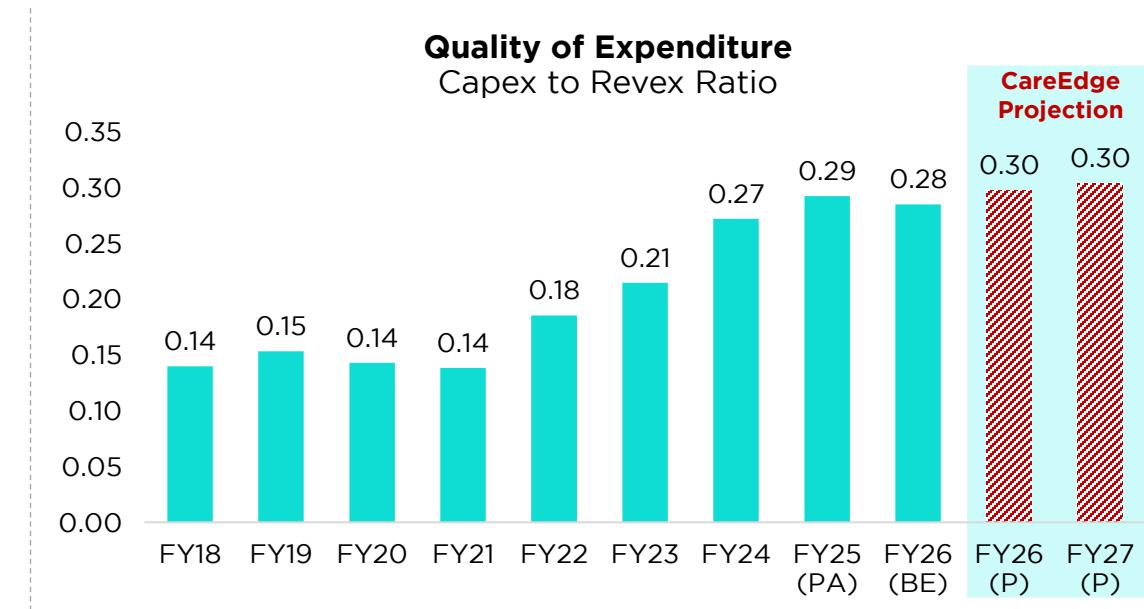
Source: CEIC, CareEdge

- During 8M FY26, Centre's revex growth remained subdued at 1.8% (y-o-y), achieving 57.5% of the budgeted amount Vs 60.1% in the corresponding period last year.
- The first batch of Supplementary Demands for Grants entail an additional net outgo of Rs 0.41 trillion in FY26, mainly towards fertilizer and petroleum subsidies.
- Capex logged an upbeat growth of 28.2% in 8M FY26, having met 58.7% of the budgeted amount.

Centre's Capex Focus to Continue

	FY25 (PA)	FY26 (BE)	FY26 (P)	FY27 (P)	FY26 (P)	FY27 (P)	Growth (Y-o-Y %)
Rs Trillion							
Revenue Expenditure	36.0	39.4	37.7	40.7	4.7	7.7	
Capital Expenditure	10.5	11.2	11.2	12.3	6.6	10.0	
Total Expenditure	46.6	50.7	49.0	53.0	5.2	8.2	

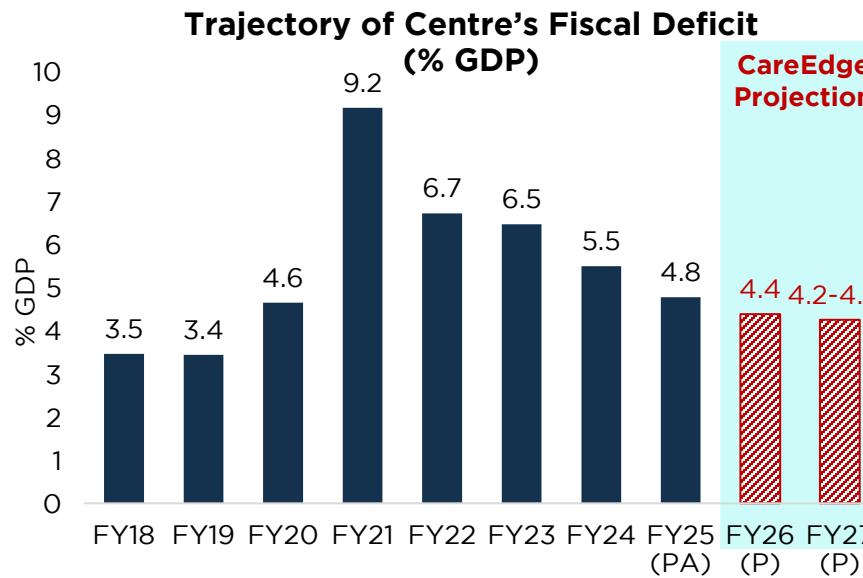
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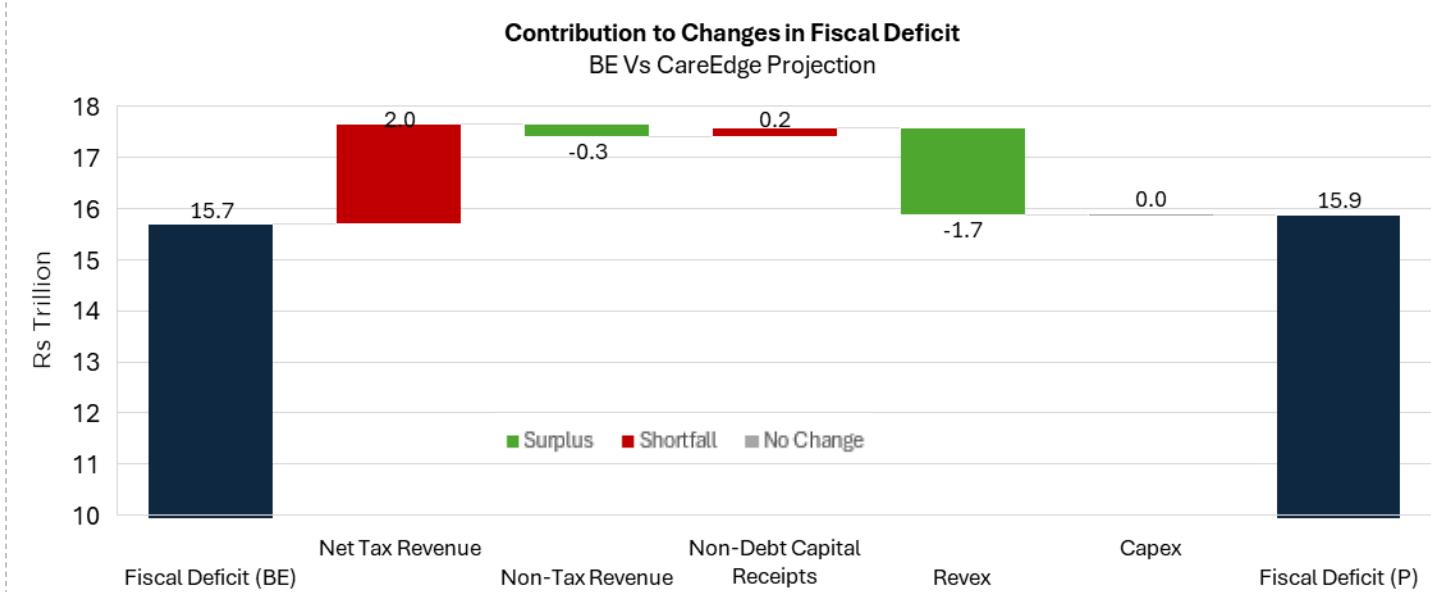
- For the full year, we expect the Centre to meet its capex target of Rs 11.2 trillion, however, revenue expenditure is expected to see a rationalisation to the tune of Rs 1.7 trillion.
- We expect the Centre to sustain its investment-led approach, with capex projected to grow by 10%, reaching Rs 12.3 trillion in FY27.
- We expect the quality of expenditure (capex-to-revex ratio) to remain encouraging at 0.3 in FY26 and FY27.

Centre to Stay on the Fiscal Consolidation Path



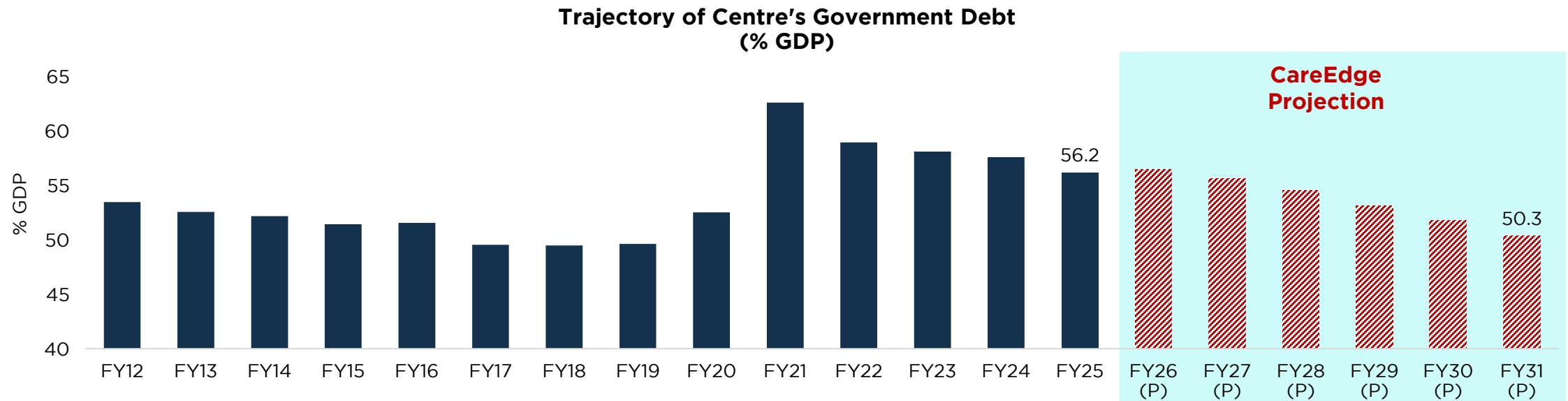
Source: CEIC, CareEdge; (PA): Provisional Actuals, (P): CareEdge Projections

- FY26 nominal GDP growth is estimated at 8% (First Advance Estimate) Vs the budgeted 10.1% growth. FY27 nominal GDP growth is projected at 10.1%.
- Revenue shortfall from slower growth in tax collections is expected to be partially offset by RBI's higher dividend transfer and lower-revenue spending.
- We estimate the FY26 fiscal deficit to marginally overshoot the budget estimate by Rs 0.2 trillion.
- However, the fiscal deficit to GDP is estimated to be contained at 4.4% in FY26. We expect fiscal deficit to GDP to be budgeted at 4.2-4.3% in FY27.
- Gross borrowing is expected to be in the range of Rs 16-17 trillion in FY27 (Vs 14.8 trillion in FY26). To manage heavy redemption of Rs 5.5 trillion in FY27, the RBI is likely to conduct switching of securities, which should help limit a sharp uptick in gross borrowing.
- Net borrowing is expected to range between Rs 11.5-12 trillion (Vs 11.5 trillion in FY26).



Source: CEIC, CareEdge; (BE): Budget Estimate, (P): CareEdge Projections

Centre to Stay on its Targeted Debt Reduction Track



Source: CEIC, CareEdge; (P): CareEdge Projections

- Going ahead, the Centre may go a little slower on fiscal consolidation, with fiscal deficit to GDP likely to be budgeted at 4.2-4.3% in FY27.
- We feel that the Centre will be able to bring down the debt to around 50 (+/- 1%) by the end of FY31 from the estimated 56.2% in FY25.
- We have based this on the assumption of nominal GDP growth averaging around 10.7% in the next five years.
- Laying a debt trajectory will give the Government the flexibility to manoeuvre the fiscal deficit target for each year, depending on the growth prospects.

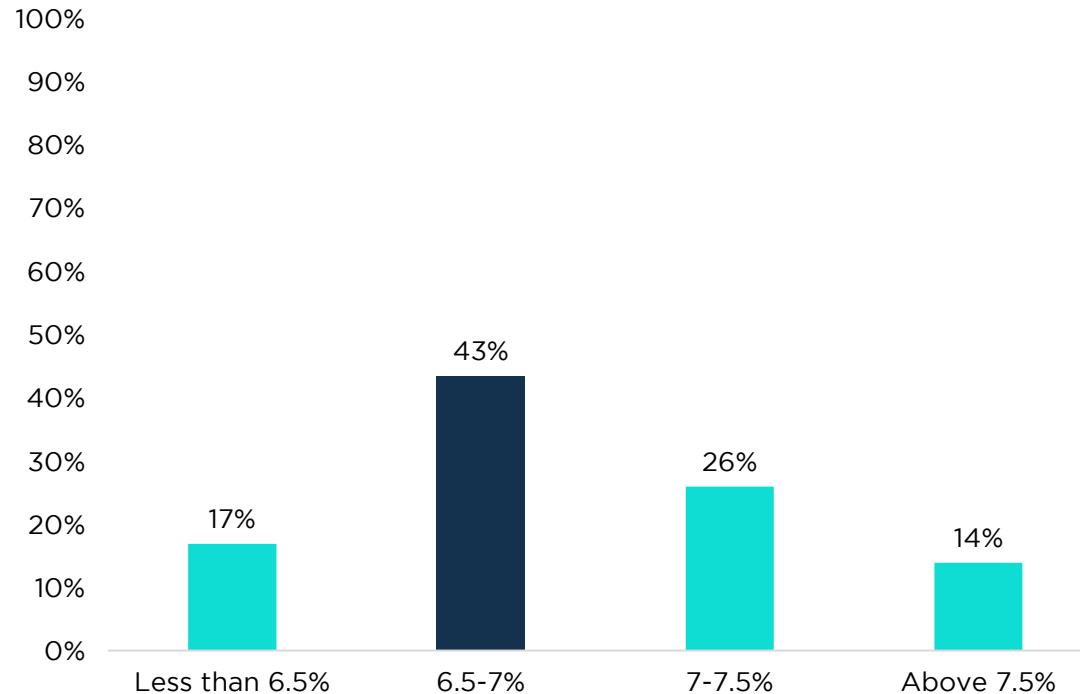


Findings of CareEdge Survey on Union Budget Expectations

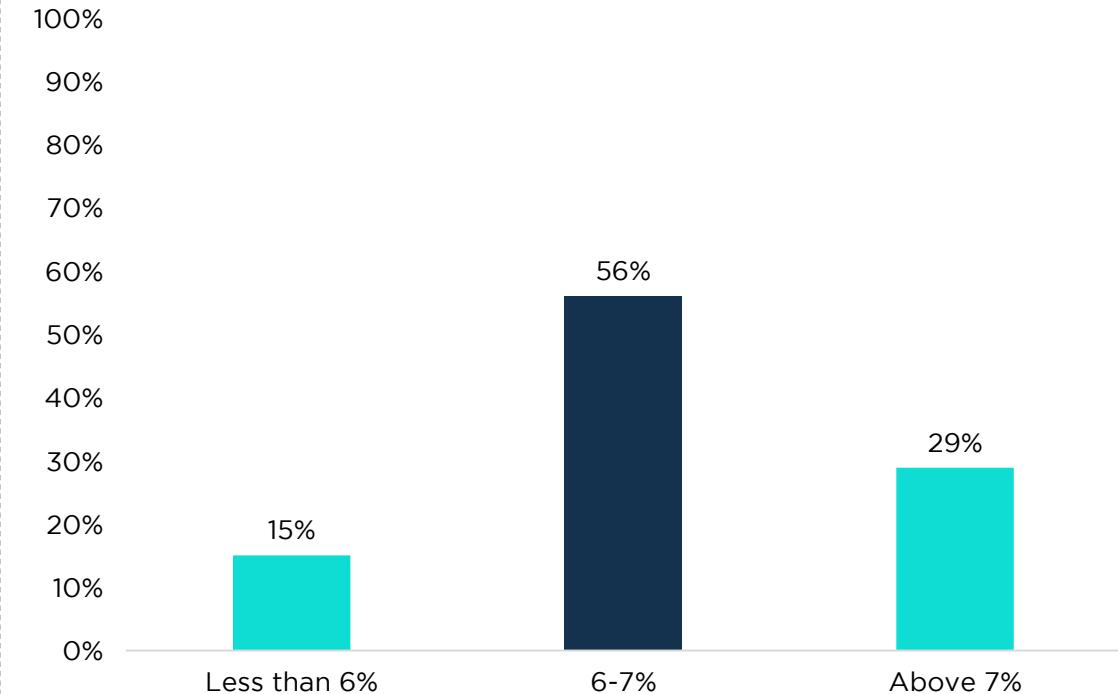
CareEdge Survey - Outlook on the Indian Economy

India's Growth Prospects Optimistic Despite Global Turbulence

What is your expectation of India's real GDP growth in FY27?



How do you see India's real GDP growth averaging over the next five years?

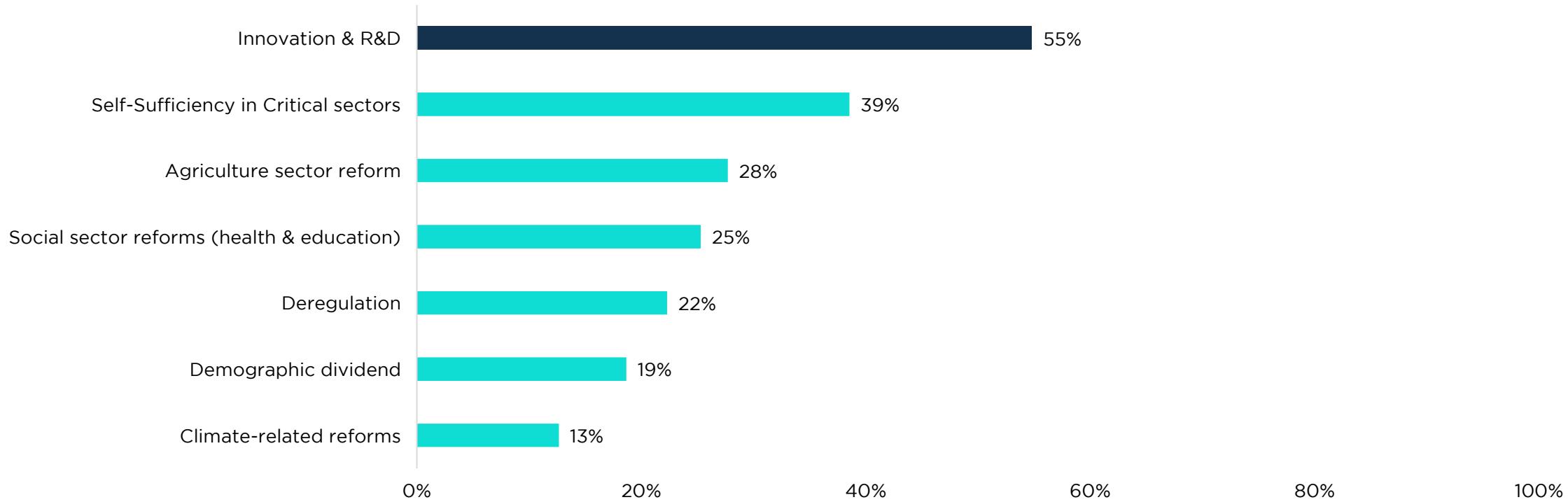


Source: CareEdge Survey; Total Number of Respondents: 200; Majority of the respondents were in financial services (57%) followed by manufacturing (19%); Other respondents were mainly from IT & IT-enabled services, trade, telecommunications and real estate services

CareEdge Survey - Outlook on the Indian Economy

Innovation Seen to be the Most Critical for Boosting Growth Potential

Which of the following areas remain critical to boost India's long-term growth potential? (Select Any 2)

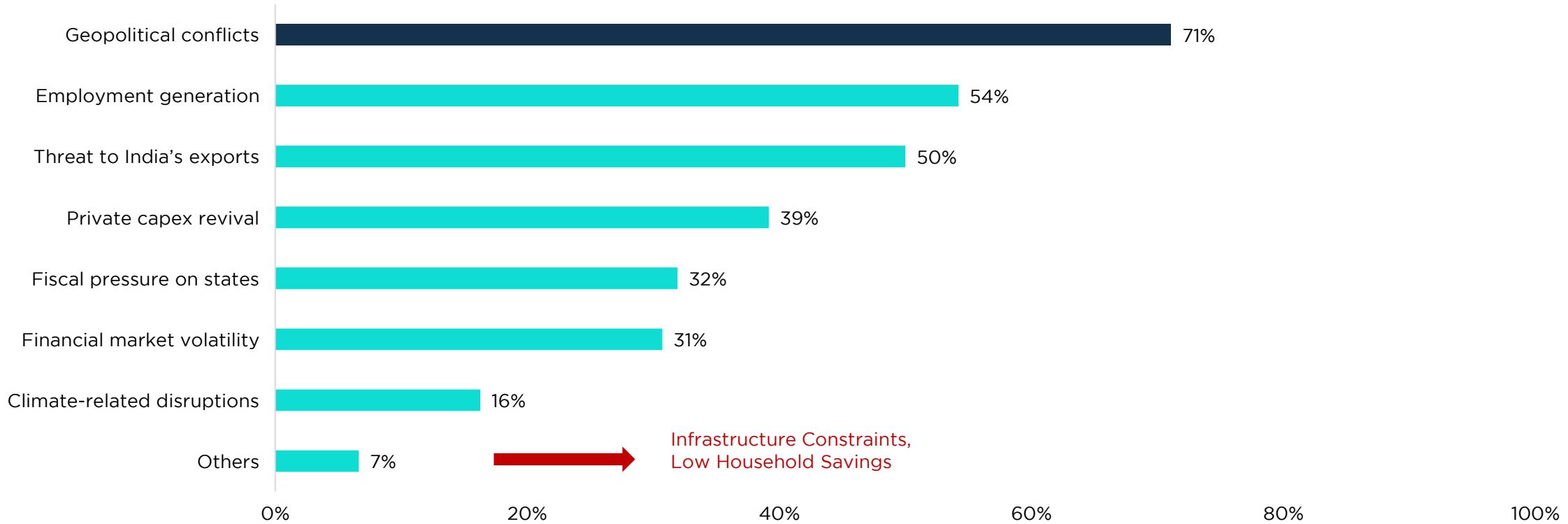


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CareEdge Survey - Outlook on the Indian Economy

Geopolitical Risks Seen as the Most Critical Challenge

In your view, what are the THREE major challenges confronting the Indian economy in FY27?

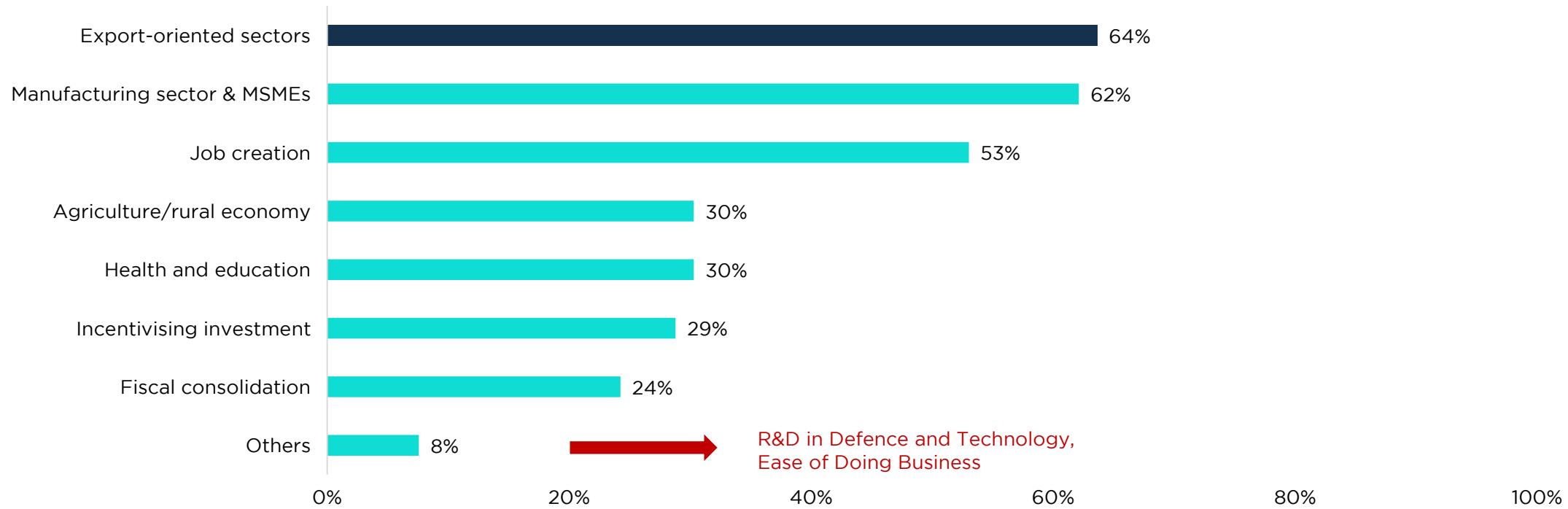


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CareEdge Survey - Outlook on Budget Priorities

Support to MSMEs, Export-Oriented Sectors Emerges as a Top Priority

What should be the top priority areas in the upcoming Budget? (Select Any 3)

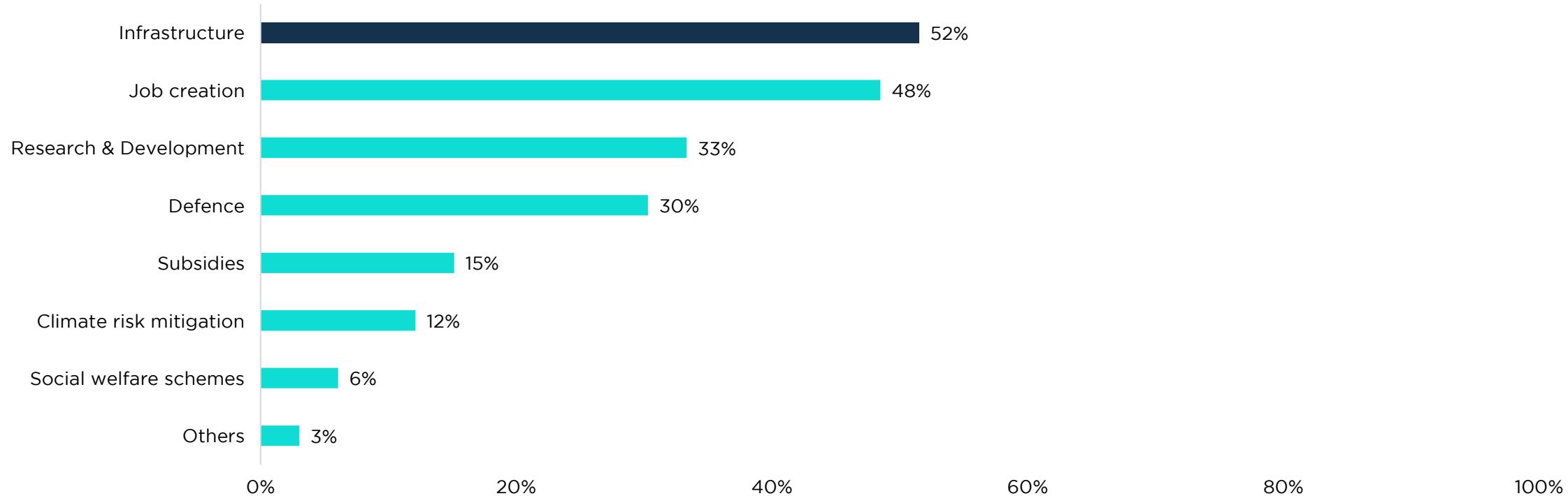


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CareEdge Survey - Outlook on Budget Priorities

Infrastructure Expected to Witness the Highest Increase in Spending

Which of the following areas should see the highest increase in government spending in the upcoming Budget? (Select Any 2)

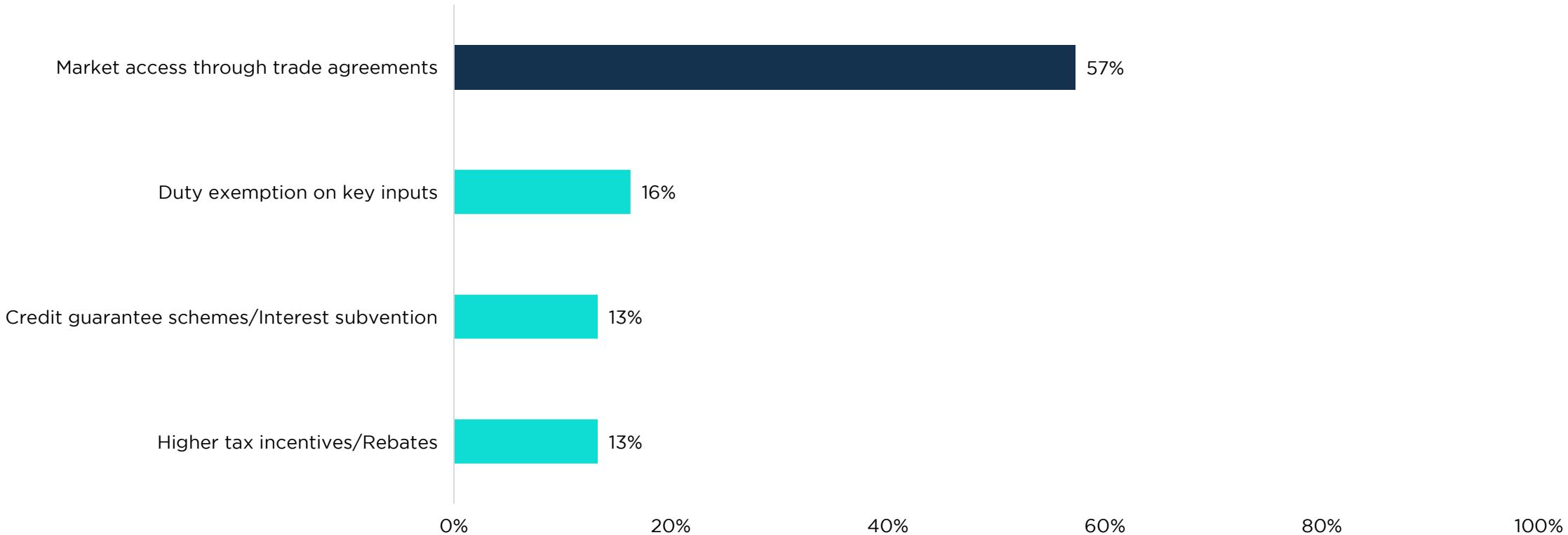


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CareEdge Survey - Outlook on Budget Priorities

Trade Agreements with Key Economies a Critical Support for Export Sectors

What should be the top budget priority to support the export-oriented sectors?



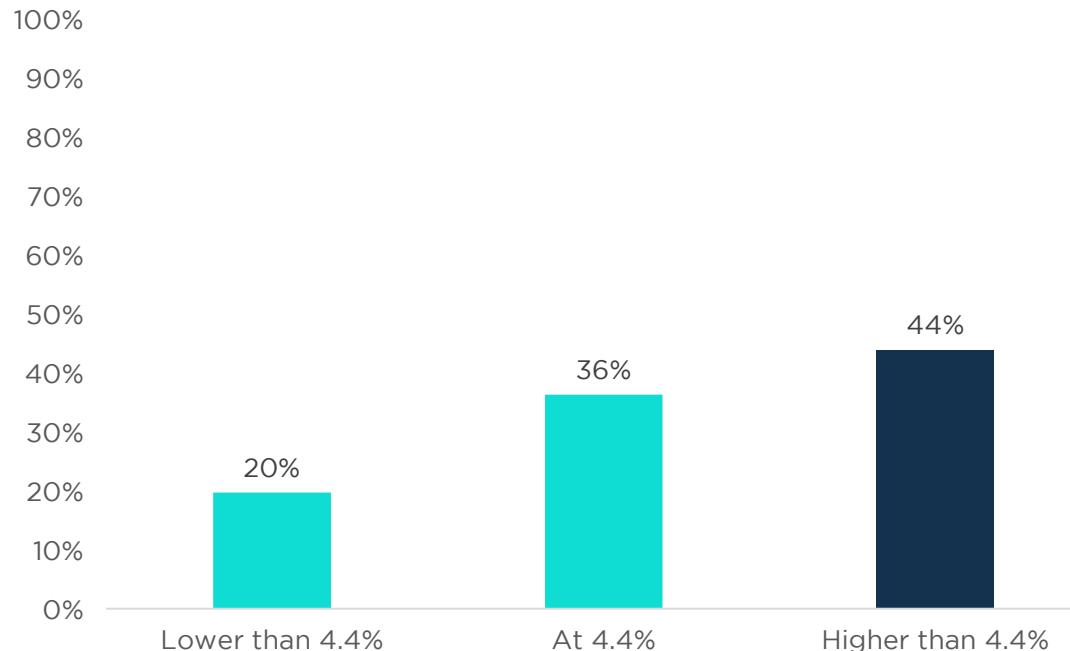
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CareEdge Survey - Outlook on Centre's Fiscal Objectives

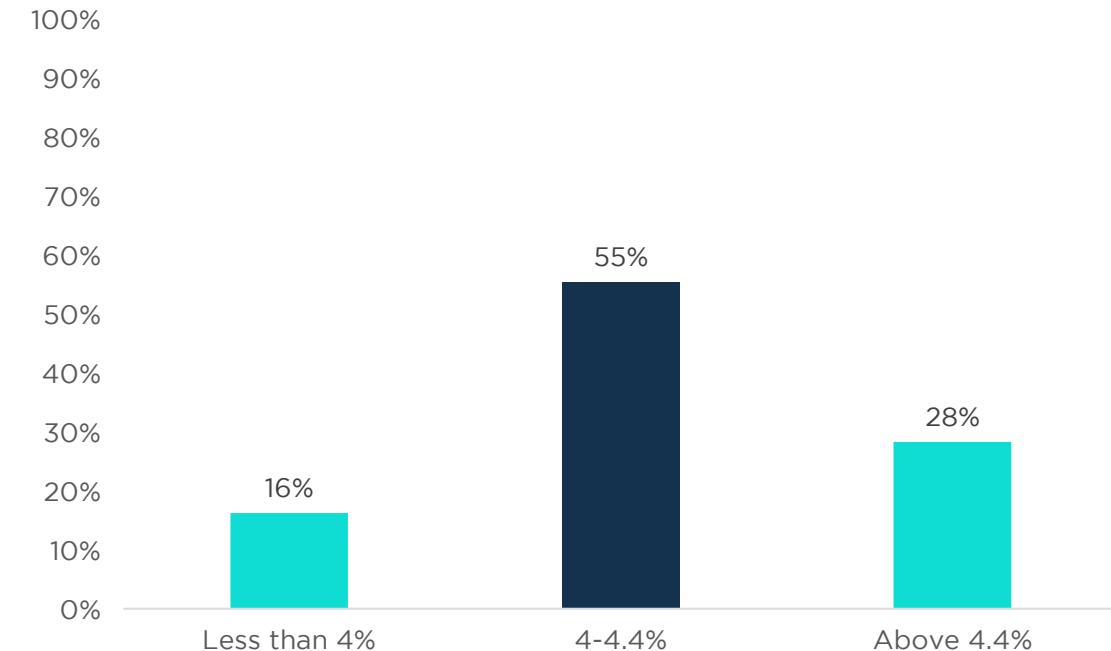
Fiscal Deficit Expected to be Higher than 4.4% in FY26

Where do you see the Centre's fiscal deficit in FY26?

Centre had budgeted the fiscal deficit at 4.4% of GDP in FY26



What is your expectation of Centre's budgeted fiscal deficit in FY27?



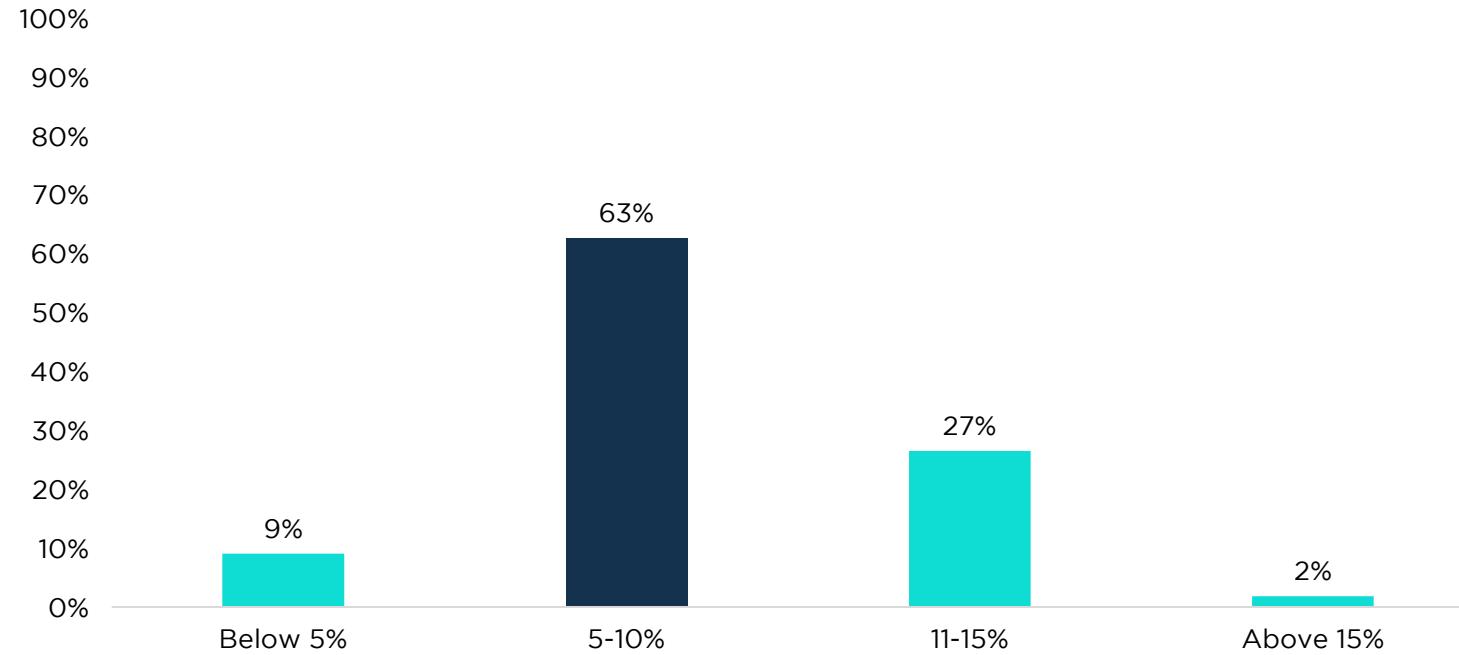
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CareEdge Survey - Outlook on Centre's Fiscal Objectives

FY27 Capex Growth Expected to be Encouraging

Where do you see the Centre's capex growth in FY27?

Budgeted capex growth was at 10% in FY26 (Rs 11.2 trillion)



Source: CareEdge Survey; Total Number of Respondents: 200; Majority of the respondents were in financial services (57%) followed by manufacturing (19%); Other respondents were mainly from IT & IT-enabled services, trade, telecommunications and real estate services



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