Budget ’26 – Rolling Forward

Coming into ’25 the government was faced with a slowing economy. The year gone by had the government focussing on turbo-charging the consumption economy, as it looked inward in the wake of challenging global trade.

Starting with the tax deductions in Budget’25, followed by significant rationalization of GST rates in September’25, which led to foregoing almost INR 2 trn in tax collections.

Particulars	Δ	RE 2026	BE 2026
Indirect Tax	-1	16.4	17.4
Direct Tax	-1	24.2	25.2
Total Tax	-2	40.6	42.6

INR trn

Source – Budget Documents, Government of India

This came with co-ordinated moves from RBI which pushed liquidity through Open Market Operations (OMO’s), reduced Cash Reserve Ratio (CRR) to inject further liquidity & reduced interest rates by 125 bps through the year: all with the intent to jumpstart the economy.

On the numbers side, some interesting trends are presented below:

- The focus on driving consumption led to a palpable softness in capex. Total capex for FY26 is set to decline 0.7% vs 8.9% Nominal GDP growth of the economy.
- The loss in revenue was met through dividends from RBI, higher telecom receipts and material reduction in government outlays in its Pradhan Mantri Awas Yojana (PMAY) and Jal Jeevan Schemes

Particulars	Δ	RE 2026	BE 2026
RECEIPTS			
Dividends	0.5	3.1	2.6
Communication Services	0.6	1.4	0.8
SCHEMES OUTLAY			
PMAY	(0.1)	0.1	0.2
Jal Jeevan Mission	(0.5)	0.2	0.7
TOTAL SAVINGS	1.7		

Source – Budget Documents, Government of India

On the tax side, the government decided to increase securities transaction tax in the equity derivatives (futures and options) segment. Buybacks will attract less tax going forward as they will be treated as capital gains instead of dividend for investors.

Way Ahead

With FY26 behind, the government seems to be steering on its capex agenda with estimated spends for FY27 growing at a higher clip than the economy (vs an expected decline in FY26)

To summarize, government’s commitment to support consumption (no tax changes or rollbacks on cut in consumption tax), resume capital expenditure, infrastructure and manufacturing and maintaining fiscal prudence were the highlights of this budget.

However, at INR 53 trn, the government outlay supports only 13% of the economy.

Portfolio Impact

From a portfolio perspective, no major developments except for the change in derivative tariffs which are likely to have 25-30 bps of annualized impact on arbitrage returns, in sync with the industry.

Summary

If not for the increase in the Securities Transaction Tax (STT) from the equity derivatives market (INR100bn approx.) there was not much to start a conversation. Like in all previous financial years, most policy action around material aspects of the economy transpired between two budgets – this past year was not dissimilar. The focus is on the year to come; the budget is now behind us. No one's expectations were met, no one's expectation were belied.

Particulars (INR trn)	FY26BE	FY26RE	FY27BE
Total Expenditure	**54.9**	**54.0**	**58.3**
Allocated in Budget	50.7	49.6	53.5
Internal and Extra Budgetary resources	4.3	4.3	4.8
Revenue Expenditure	**39.4**	**38.7**	**41.3**
- Interest payment	12.8	12.7	14.0
- Farmers welfare	3.4	3.4	3.3
Capital Expenditure (Total)	15.5	15.3	17.0
Capital Expenditure (Budget allocation)	11.2	11.0	12.2
Total Receipts	**50.6**	**49.2**	**53.1**
Revenue Receipts	34.2	33.4	35.3
Capital Receipts	16.4	15.8	17.8
Sources of tax receipts			
Corporate tax growth	10%	12%	11%
Personal tax growth	14%	6%	12%
Center GST growth	11%	5%	6%
Non-tax receipts			
Dividend + Profits	3.3	3.8	3.9
Divestment	0.5	0.3	0.8
Net debt raise	15.7	15.6	17.0

Source – Budget Documents, Government of India & Old Bridge workings

Δ – Delta (absolute change)
RE - Revised Estimates
BE - Budget Estimates