Budget Review | Union Budget 2025-26

A budget for the middle class

Boosting consumption: A thrust for faltering consumer demand is the headliner in this budget. The FM's response has come through rationalisation of income tax slabs across all income brackets, along with tweaks to both the TDS and TCS limits. This is likely to spur consumer demand and savings by the lower and middle class that has faced challenges from elevated food inflation and muted growth in wages.

The Employment push: The budget's strategy is to promote MSMEs by improving access to credit and reclassification of turnover limits which could incentivise them to grow and generate employment. Further, healthcare for gig workers and a push to labour-intensive sectors like footwear, toys, food processing and tourism is expected to further boost employment. How much of this will pay off in terms of absorbing the 7-8 million people joining the workforce each year remains to be seen and hinges on execution.

Changing the approach towards investments: Over the last four years, the government did the heavy lifting in terms of driving the investment cycle. **However, there seems to be a shift this year with the budget setting out a more conservative capex target – broadly unchanged from last year's budgeted figure** of close to 11 lakh crore rupees or 3.1 per cent of GDP for 2025-26. Instead, the budget relies on the "crowding-in" effect to take over, encouraging greater private participation for capacity creation through models like the PPP. **This is a prudent approach and recognises the limits of expansion in government investment especially as the government tries to consolidate India's fiscal debt position.**

Deregulation: A focus on improving ease of doing business, advocating for a "light touch" regulatory approach and further decriminalisation of various laws. The bet is that it would help attract foreign investments, reduce compliance costs, and improve the efficiency of investments over the medium-term.

Fiscal consolidation on track: The fiscal target for 2025-26 has been set at 4.4 per cent of GDP, 40bps lower than 4.8 per cent for the current fiscal. It is worthwhile looking at how this is achieved, despite the 1 lakh crore revenue foregone due to the income tax reductions. The budget balances the fiscal math by being slightly optimistic on direct tax collection assumptions for both income and corporate tax. Moreover, the reliance remains on a higher RBI dividend of 2.6 lakh crore rupees for 2025-26. Finally, the growth on the expenditure side is compressed, with just 10 per cent growth targeted in capex and slower growth even in revenue expenditures excluding interest payments and subsidies (of 5.1% in FY26 vs. 6.9% for FY25 RE). The budget calculations are based on nominal GDP growth of 10.1% for FY26 compared to 9.7% for FY25.

Medium-term fiscal consolidation: The budget outlines it intent of reducing the central government debt to GDP ratio to 50+/- 1 per cent by 2030-31 from 56.1 percent projected for 2025-26. Our calculations show that this would align with a fiscal deficit of close 3.0-3.3 per cent of GDP and provides space for a capex target of close to 3-3.5 per cent of GDP by 2030-31.

What does this mean for growth? It is widely known that fiscal multipliers for capex are significantly higher than those for tax cuts. That said, fragmented and anaemic consumer demand has been one the major issues holding back animal spirits in the corporate sector. A push for the lower- and middle-income households – where the propensity to consume is high -- **could provide the much-needed sentiment boost to get the private investment cycle rolling. Secondly, the government is still looking at expanding its capex target in "level terms", along with attempting to get both the states and the private sector to get on board.** This combined with an improvement in rural demand on the back of healthy agriculture production this year could further support GDP growth. **We expect growth at 6.6% in FY26.**

Bond market: Gross borrowings are pegged at INR 14.8 lakh crore for FY26 compared to INR 14.01 lakh crore for FY25. On a net basis, net borrowings are targeted at INR 11.54 lakh crore –compared to the lower revised net borrowing for FY25 at INR 10.7 lakh crores. The reliance on small savings for financing the fiscal deficit in FY26 has gone down to INR 3.4 lakh crores from INR 4.1 lakh crores in FY25 RE. These estimates are broadly in line with our estimates and demand both from domestic and foreign investors is likely to be sufficient to absorb this supply in 2025-26. **We expect the 10-year bond yield to move towards 6.3% by the end of 2025** driven by RBI rate cuts, OMO purchases by the RBI, lower inflation and increase in foreign debt flows as the Fed resumes its rate cut cycle during the course of 2025.

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Budget Details: Receipts

Optimistic targets -- Revenue Receipts budgeted to increase by 10.8% in FY26 over revised estimates for FY25: *The budget has set the revenue receipts target at INR 34.2 lakh crore for FY26, an increase of nearly 3.3 lakh crore from revised estimates for FY25.* ***We see the tax collections estimates to be slightly optimistic.*** *Gross Tax-to-GDP ratio is expected to increase to 12.0% in FY26 BE from 11.9% in FY25, despite the revenue foregone due to the reduction in personal income tax. For instance, growth in direct tax receipts is assumed at 12.7% in FY26 BE versus 14.4% in FY25 RE, however adjusting for INR 1 lakh crore of revenue foregone due to changes in tax rates and slabs, the implied growth comes in much higher at 17.1%, which seems optimistic. The reliance on a healthy RBI dividend remains high --expected at a record INR 2.6 lakh crore.*

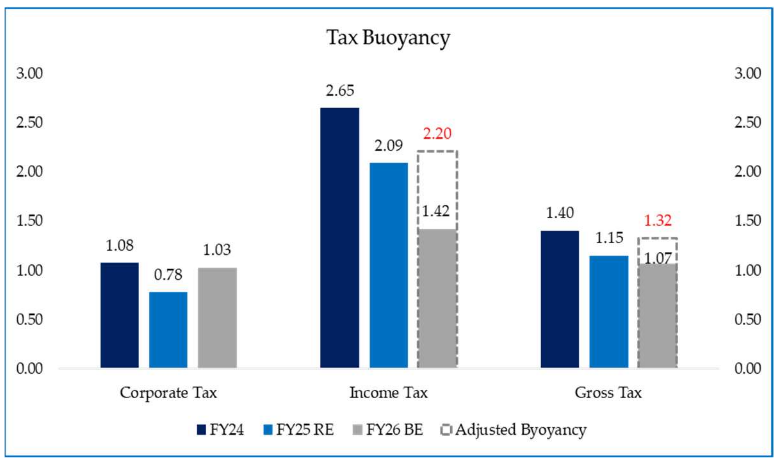
Nominal GDP growth assumption for FY26 BE at 10.1% YoY *as compared to 9.7% growth in FY25 seems realistic, given expected moderation in inflation levels in FY26. Our own estimate for nominal GDP growth is of 10.2% for FY26.*

Breakdown of Total Receipts

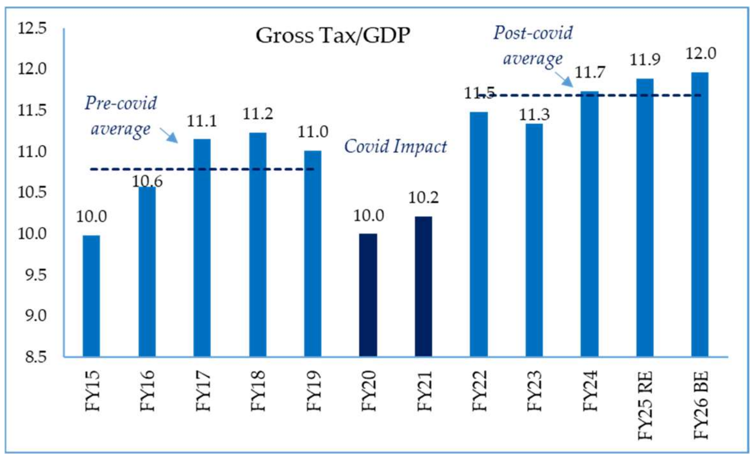
	INR Lakh Crore				% YoY	
	FY24 A	FY25 BE*	FY25 RE	FY26 BE	FY25 RE vs FY24 A	FY26 BE vs FY25 RE
Revenue Receipts	27.3	31.3	30.9	34.2	13.2	10.8
Net Tax revenue	23.3	25.8	25.6	28.4	9.9	11.0
Gross Tax revenue	34.7	38.4	38.5	42.7	11.2	10.8
Direct Tax	19.6	22.1	22.4	25.2	14.4	12.7
Income Tax	10.4	11.9	12.6	14.4	20.3	14.4
Corporate Tax	9.1	10.2	9.8	10.8	7.6	10.4
Indirect Tax ex GST	5.4	5.6	5.4	5.6	0.3	3.1
Customs	2.3	2.4	2.4	2.4	0.8	2.1
Excise	3.1	3.2	3.1	3.2	-0.1	3.9
GST	9.6	10.6	10.6	11.8	10.9	10.9
Non tax revenue	4.0	5.5	5.3	5.8	32.2	9.8
RBI Dividend	1.1	2.3	2.3	2.6	122.1	9.3
PSU Dividend	0.7	0.6	0.6	0.7	-15.9	25.5
Non Debt Capital Receipts	0.6	0.8	0.6	0.8	-1.3	28.8
Divestment	0.3	0.5	0.3	0.5	-0.4	42.4
Total Receipts	27.9	32.1	31.5	35.0	12.8	11.1
Nominal GDP	295.4	326.4	324.1	357.0	9.7	10.1

Source: Budget Documents, HDFC Bank. *FY24 A: Actuals, FY25 RE: Revenue Estimates, FY26 BE: Budget Estimates

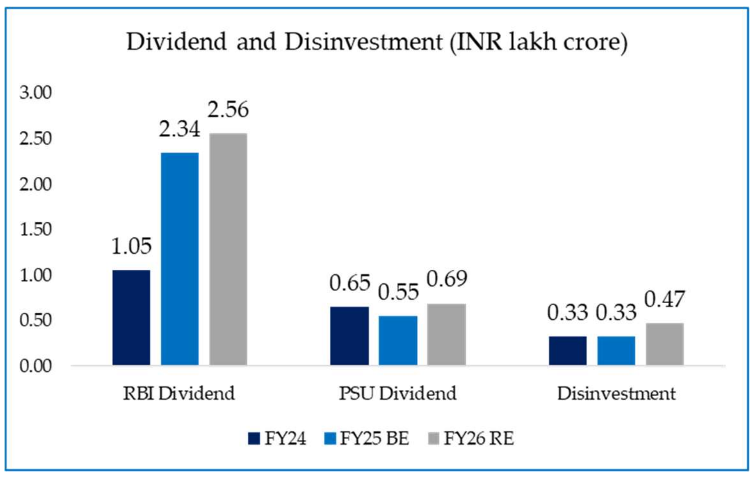
Adjusted tax buoyancy (excluding impact of tax foregone from the base year) is projected to be higher in FY26 vs. FY25 RE



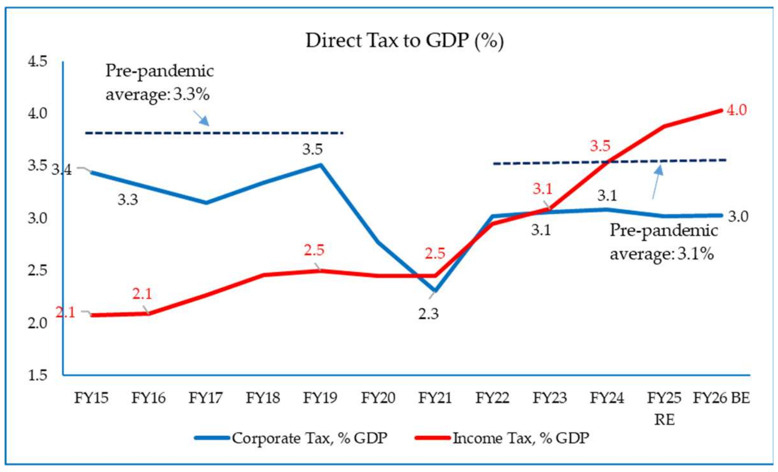
Tax to GDP ratio budgeted to rise marginally to 12.0% in FY26 BE from 11.9% in FY25 RE



RBI dividend budgeted at INR 2.56 lakh crore in FY26, disinvestment targets at INR 0.47 lakh crore



Income tax to GDP ratio continues to increase while corporate tax to GDP has stagnated since pandemic.



Source: Budget Documents, HDFC Bank

- **Gross Tax to GDP ratio is expected to pick-up to 12.0% in FY26 BE (vs. 11.9% FY25 BE)**. Income tax buoyancy is budgeted at 1.42 (vs 2.09 in FY25 RE), while corporate tax buoyancy is budgeted to improve to 1.03 for FY26 BE (vs 0.78 in FY25 RE). However, if one were to adjust the FY25 base to exclude impact of the revenue foregone due to tax changes, the budget actually assumes the tax buoyancy to rise in FY26 – to 2.2 for income tax and 1.3 for overall gross tax. This seems optimistic in our opinion.

- **Healthy GST collections:** GST collections are budgeted at INR 11.8 lakh crore in FY26 implying a growth of 10.9% over FY25 RE of INR 10.6 lakh crore. This implies monthly average GST collections of INR 1.96 lakh crores in FY26 compared to an average of INR 1.8 lakh crore in FY25.

- **Record dividends from RBI:** Dividend from RBI is estimated at INR 2.56 lakh crore in FY26 BE higher than FY25 RE figure of INR 2.34 lakh crore. This once again is a record high for the second year in a row largely on account of substantial FX intervention through dollar sales by the RBI over the last few months.

- **Income tax slabs and rates revised down:** In an effort to boost consumption and put more money in the hands of people, the slabs and rates for income tax have been revised significantly. The ceiling for income tax exemption has been increased from INR 7 Lakh to INR 12 Lakh. The change in slabs and rates under the new tax regime is estimated to lower the tax burden and free up income for households – for instance, for individuals earning INR 24,00,000 per annum the tax savings are estimated to be as much as INR 1,10,000 per annum. These changes will lead to a revenue loss of nearly INR 1 lakh crore to the exchequer.

The revised tax rates and the resulting benefit has been illustrated below:

Income tax slabs and rates have been revised

Annual Taxable Income (INR)			
2024-25		2025-26	
Tax Slab	Slab Rate	Tax Slab	Slab Rate
Standard Deduction	INR 75,000	Standard Deduction	INR 75,000
Total Income up to INR 7 Lakh	Nil	Total Income up to INR 12 Lakh	Nil
Income above INR 7 Lakh		Income above INR 12 Lakh	
0 - 3 Lakhs	Nil	0 - 4 Lakhs	Nil
3 - 7 Lakhs	5%	4 - 8 Lakhs	5%
7 - 10 Lakhs	10%	8 - 12 Lakhs	10%
10 - 12 Lakhs	15%	12 - 16 Lakhs	15%
12 - 15 Lakhs	20%	16 - 20 Lakhs	20%
Above 15 Lakhs	30%	20 - 24 Lakhs	25%

Note: The slab and rates are applicable if income crosses the threshold of INR 12 lakh (earlier INR 7 Lakh)

Reduction in tax liability of up to INR 1,10,000

Income Thresholds (In Rupees)	Slab Rates		Tax Liability		Savings under revised slab	Change in Total Tax Payable
	Existing	New	Existing	New		
3,00,000	0%	0%	0	0	0	*0*
4,00,000	5%	0%	5,000	0	5,000	*5,000*
7,00,000	5%	5%	15,000	15,000	0	*5,000*
8,00,000	10%	5%	10,000	5,000	5,000	*10,000*
10,00,000	10%	10%	20,000	20,000	0	*10,000*
12,00,000	15%	10%	30,000	20,000	10,000	*20,000*
15,00,000	20%	15%	60,000	45,000	15,000	35,000
16,00,000	30%	15%	30,000	15,000	15,000	50,000
20,00,000	30%	20%	1,20,000	80,000	40,000	90,000
24,00,000	30%	25%	1,20,000	1,00,000	20,000	1,10,000
25,00,000	30%	30%	30,000	30,000	0	1,10,000
Total Tax Payable (Income 25 Lakh)			*4,40,000*	*3,30,000*	*1,10,000*	

Source: Budget Documents, HDFC Bank

Capex target broadly unchanged, lower growth in expenditure vs. FY25 BE

The overall expenditure target of the central government is budgeted to increase by 7.4% to INR 50.7 lakh crore in FY26 budget estimates*, compared to 6.1% in FY25 RE. This implies an increase of INR 3.5 lakh crore over previous years' revised numbers. However, the growth in expenditure figures for FY26 should be seen in context of the lower figures for FY25 due to slow spending momentum. For FY25, the total expenditure is lower by INR 1 lakh crore -- primarily due to the lower capex -- in the revised numbers.* ***If one were to compare FY26 BE with what was budgeted in FY25, the compression in expenditure growth is more apparent. For instance, total expenditure was budgeted to increase by 8.5% in FY25 – higher than what has been now budgeted for FY26 (at 7.4%).***

- **The total revenue expenditure for FY26 is budgeted to rise by 6.7% at INR 39.4 lakh crore**, this is higher by INR 2.5 lakh crore over the revised estimates for FY25. The major segments which witnessed an increase on the revenue expenditure side were interest payments (+ INR 1.4 lakh crores) and core revex (+ INR 1.1 lakh crores, this is defined as excluding subsidy and interest payments).

- **Core revex breakdown – higher allocation for drinking water, PMAY:** The revenue expenditure excluding interest payments and subsidies increased by 5.1% in FY26 BE to INR 22.4 lakh crores from INR 21.3 lakh crore. Among major schemes, allocation of MNREGS and PM-KISAN remained unchanged over FY25 RE. However, allocation for rural drinking water mission increased nearly three-times the revised estimates for FY25, while housing (PM Awas Yojana – rural + urban) witnessed an increase in allocation by over INR 30,000 crores.

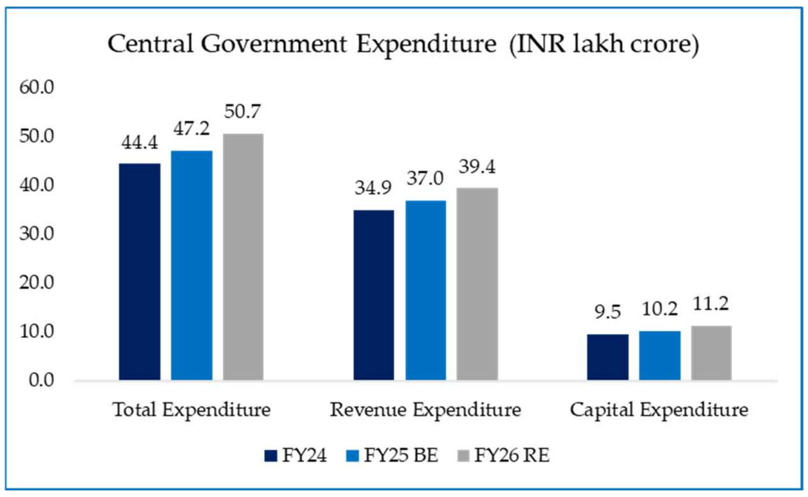
- **Capex on roads and railways unchanged, target for telecom reduced:** While total capital expenditure has increased from INR 10.18 lakh crore to INR 11.21 lakh crore in FY26 budget estimates, over revised estimates for previous year, capital expenditure in FY25 saw a reduction of INR 93,000 crore from budget estimates of INR 11.11 lakh crore. In FY26, capital expenditure on roads and railways have been kept broadly unchanged from last year, while that of telecom has been reduced.

- **MSME classification revised, credit availability enhanced:** Classification of MSMEs was revised both for investment and turnover criteria. At the same time, credit guarantee cover was also increased for micro and small enterprises (from INR 5 crore to INR 10 crore), for start-ups (from INR 10 crore to INR 20 crore) and for export oriented MSMEs (loans up to INR 20 crore).

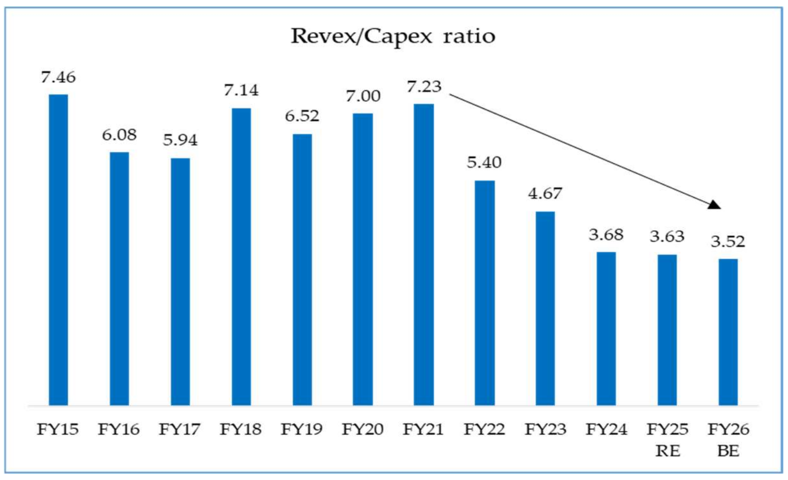
MSME Classification	Investment		Turnover	
in INR Crore	**Current**	**Revised**	**Current**	**Revised**
Micro Enterprises	1.0	2.5	5.0	10.0
Small Enterprises	10.0	25.0	50.0	100.0
Medium Enterprises	50.0	125.0	250.0	500.0

Source: Budget Documents, HDFC Bank

Capital expenditure at INR 11.2 lakh crore in FY26 BE is higher by INR 1 lakh crore over last year's RE

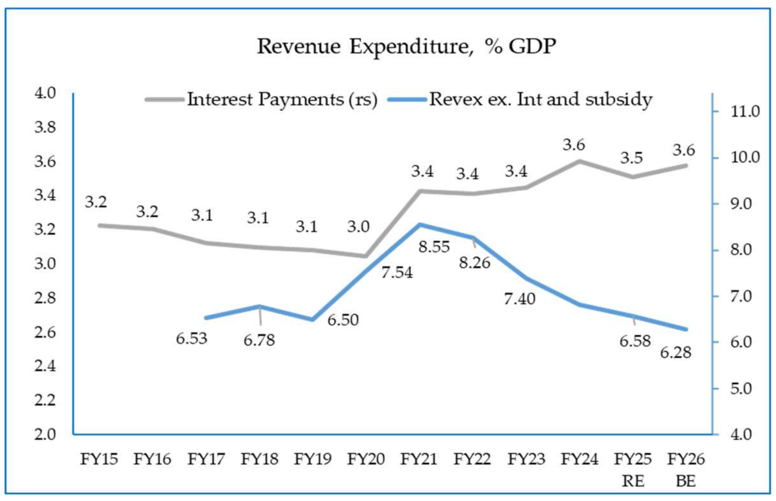


Quality of expenditure continues to improve with capex growth higher than growth in revex (a lower ratio implies better quality of expenditure).



Source: Budget Documents, HDFC Bank

Revenue expenditure on schemes as % of GDP continues to decline



Capex allocation kept unchanged for railways and roads, reduced for telecom

Capex Allocation for Major Sectors			
Major Capex Items (INR lakh crore)	**FY25 RE**	**FY26 BE**	**% YoY**
Railways	2.52	2.52	0.0
Roads	2.72	2.72	-0.1
Defence	1.70	1.92	12.9
State Capex Loans	1.25	1.50	20.0
Telecom	0.75	0.52	-31.0
Housing	0.32	0.38	18.8
Others	0.92	1.65	79.6
Total	**10.18**	**11.21**	10.1

Source: Budget Documents, HDFC Bank

Outlay on major schemes/sectors: FY26 BE vs FY25 RE

Outlay on major sectors/schemes (INR Crore)						Change	
S. No	Sector/Schemes	2023-2024 Actual	2024-2025 Budget Estimates	2024-2025 Revised Estimates	2025-2026 Budget Estimates (Final)	FY26 BE vs FY25 RE % YoY	Change: FY26 vs. FY25 (INR cr)
1	**Agriculture**	**2,07,436**	**2,11,851**	**2,04,359**	**2,34,937**	***15.0***	***30,578***
1.1	PM-KISAN	61,441	60,000	63,500	63,500	*0.0*	*0*
1.2	Crop Insurance	12,949	14,600	15,864	12,242	*-22.8*	*-3,622*
2	**Rural Development**	**2,41,193**	**2,65,808**	**1,90,675**	**2,66,817**	***39.9***	***76,142***
2.1	MNREGS	89,154	86,000	86,000	86,000	*0.0*	*0*
2.2	PMGSY (Rural Roads)	15,380	19,000	14,500	19,000	*31.0*	*4,500*
2.3	Rural Drinking Water	69,992	70,163	22,694	67,000	*195.2*	*44,306*
3	**Education**	**1,23,365**	**1,25,638**	**1,14,054**	**1,28,650**	***12.8***	***14,596***
3.1	National Education Mission	32,830	37,500	37,010	41,250	*11.5*	*4,240*
3.2	PM POSHAN	8,458	12,467	10,000	12,500	*25.0*	*2,500*
4	**Health**	**81,594**	**89,287**	**88,032**	**98,311**	***11.7***	***10,279***
4.1	National Health Mission	33,043	36,000	36,000	37,227	*3.4*	*1,227*
4.2	POSHAN 2.0	21,810	21,200	20,071	21,960	*9.4*	*1,889*
4.3	PMSSY (Swastya Suraksha)	1,390	2,200	1,736	2,200	*26.7*	*464*
5	**Social Welfare**	**42,065**	**56,501**	**46,482**	**60,052**	***29.2***	***13,570***
6	**Urban Development**	**68,565**	**82,577**	**63,670**	**96,777**	***52.0***	***33,107***
6.1	Metro Projects	19,506	21,336	24,691	31,239	*26.5*	*6,548*
6.2	AMRUT and Smart Cities	5,591	8,000	6,000	10,000	*66.7*	*4,000*
7	**Transport**	**5,26,765**	**5,44,128**	**5,41,384**	**5,48,649**	***1.3***	***7,265***
7.1	Roads (MoRTH)	2,75,986	2,80,519	2,80,519	2,87,333	*2.4*	*6,814*
7.2	Railways	2,45,791	2,55,348	2,55,348	2,55,445	*0.0*	*97*
8	**Housing (PMAY)**	**43,454**	**84,671**	**47,596**	**78,126**	***64.1***	***30,530***
9	**Energy**	**52,405**	**63,403**	**63,403**	**81,174**	***28.0***	***17,771***

Source: Budget Documents, HDFC Bank

Subsidy allocations for food has increased marginally, contracted for all others

Subsidy Allocation under Major Heads			
Major Items (INR lakh crore)	**FY25 RE**	**FY26 BE**	**% YoY**
Food	1.97	2.03	3.0
Fertiliser	1.71	1.68	-2.0
Fuel	0.15	0.12	-17.7
Interest	0.28	0.28	-1.1
Others	0.16	0.15	-8.1
Total	4.28	4.26	-0.4

Source: Budget Documents, HDFC Bank

Transfer of central resources to states (INR lakh crore)

Transfer of Central Resources to States (INR Lakh Crores)					
Year	Tax Devolution to states	Finance Comission Grants	Centrally Sponsored Schemes	Other Transfers	Total Transfer
FY24	11.3	1.49	4.4	3.4	20.6
FY25 RE	12.9	1.27	4.2	3.7	22.8
FY26 BE	14.2	1.33	5.4	3.7	25.6
% YoY					
FY26 over FY25	10.5	4.4	30.5	0.0	12.5

Source: Budget Documents, HDFC Bank

Financing of Fiscal Deficit:

The budget has targeted a fiscal deficit of 4.4% of GDP for FY26 (compared to 4.8% in FY25 revised estimates) which translates to INR 15.7 lakh crores in level terms.

The details of the financing of fiscal deficit show that the government plans to increase the gross market borrowing to INR 14.8 lakh crore, while reliance on small savings funds is expected to decline. The net borrowing for FY26 is

estimated at INR 11.54 lakh crores. The government has also reduced the net market borrowings for FY25 to INR 10.7 lakh crores with the financing from other receipts (includes receipts from reserve funds, deposits etc.) going up by almost INR 50,000 crores.

We expect the 10-year bond yield to inch lower over the coming weeks as fiscal deficit for FY25 is lower than budgeted and is targeted to reduce further in FY26. We see a range of 6.55 – 6.75% in Q1 FY26 and 6.3-6.4% by Dec-2025 end. Expected cuts by RBI, lower US yields, and an expected improvement in FII debt flows are expected to support domestic yields.

Financing of Fiscal Deficit

INR Trn	FY23	FY24	FY25 BE	FY25 RE	FY26 BE
Fiscal Deficit	**17.4**	**17.3**	**16.1**	**15.7**	**15.7**
FD % GDP	6.4	5.6	4.9	4.8	4.4
Net market borrowings	**11.1**	**11.8**	**11.6**	**10.7**	**11.5**
Net Repayments (excluding recovery from GST compensation fund, buybacks)	3.1	3.6	2.1	1.5	3.28
Buybacks				0.88	-
Switches				1.47	2.50
Gross Market Borrowings	**14.2**	**15.4**	**14.0**	**14.0**	**14.8**
Short term borrowings	1.1	0.0	-0.5	-1.2	0.0
Other sources of financing					
Securities against small savings	**4.0**	**4.7**	**4.2**	**4.1**	**3.4**
State provident fund net	0.1	0.1	0.1	0.1	0.1
Other receipts net	0.8	0.8	-0.8	0.3	0.4
Draw down of cash balance	-0.02	-0.27	1.40	1.40	0.02
Small savings % FD	23	27	26	26	22
Net borrowing % FD	64	68	72	68	74

Source: Budget Documents, HDFC Bank. *FY24 A: Actuals, FY25 RE: Revenue Estimates, FY26 BE: Budget Estimates