

FY'26 Budget: Fiscally Prudent with focus on the 3 D's - Demand, Deregulation and Development

02-02-2025

Banking Research Team

1. Focus on fiscal prudence remains intact

- FY26 fiscal deficit budgeted at 4.4% of GDP versus 4.8% in FY25 Revised est. (RE) vs 4.9% Budgeted (BE)
- Consolidation to be achieved via expenditure rationalization while revenues remain flat
- Quality of spending remains in focus with capex kept unchanged as % of GDP while revex takes the hit
- More importantly, fiscal math is “credible” - another key highlight of the Budget
 - *Nominal GDP growth of 10.1% from less than 10% in last two years is credible*
 - *However, while overall tax buoyancy is assumed to stay at ~1, income tax growth of 14.4% looks on the higher side despite revenue foregone of ~Rs 1 lakh crore on tax cuts. Yet, an improved tax compliance seen in recent years may continue to provide a filip to growth.*
- Long term roadmap provided to align fiscal glide path with fall in debt to GDP to 50±1% by FY31 vs 57.1% for FY25. This requires the government to maintain stringent focus on fiscal consolidation

2. Budget for the ‘great Indian middle class’

- The much-needed income tax cuts provided entailing revenue loss of Rs 1 lakh cr
- Growth boost from income tax cuts likely to be at least 0.3-0.4% of GDP using tax multiplier of ~1. using [RBI estimates](#) of an average marginal propensity to consume of 0.54 making tax multiplier of 1.16. There is an upward bias to our estimate given MPC may be higher for low-income segments.
- We compliment the government as it seeks to address the core issue of weak demand affecting the Indian economy ([as highlighted in our 2025 outlook report](#)) despite the strict fiscal constraints

3. Deregulation push for Viksit Bharat; ‘Trust first, scrutinize later’ is the new mantra

- ‘Trust’ word repeated eight times in FM speech
- Strong emphasis on improving ease of doing business 2.0 in coordination with states
- Creation of high-level committee for reviewing & recommending reforms for non-financial regulations

4. Focus on long term structural reforms to support Viksit Bharat goals remains

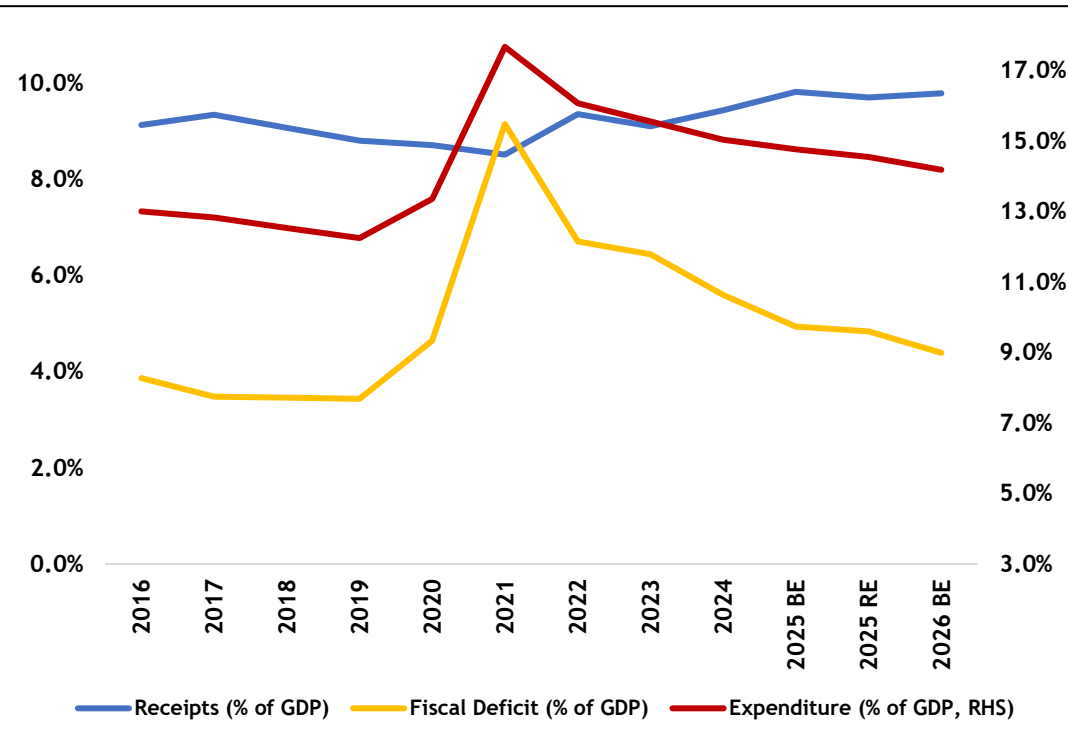
- Infra stays the key focus area with some efforts to diversify capex spend into urban infra, science & technology etc
- Capex budget shows government hitting absorptive capacity in sectors like roads and railways
- MSMEs remain a key focus area with steps taken to reduce their funding gap (~Rs 20-25 lakh cr)
- Employment and skill development re-emphasised even as budget allocation kept at Rs 14,000 cr

5. Slight negative surprise from higher gross borrowing nos

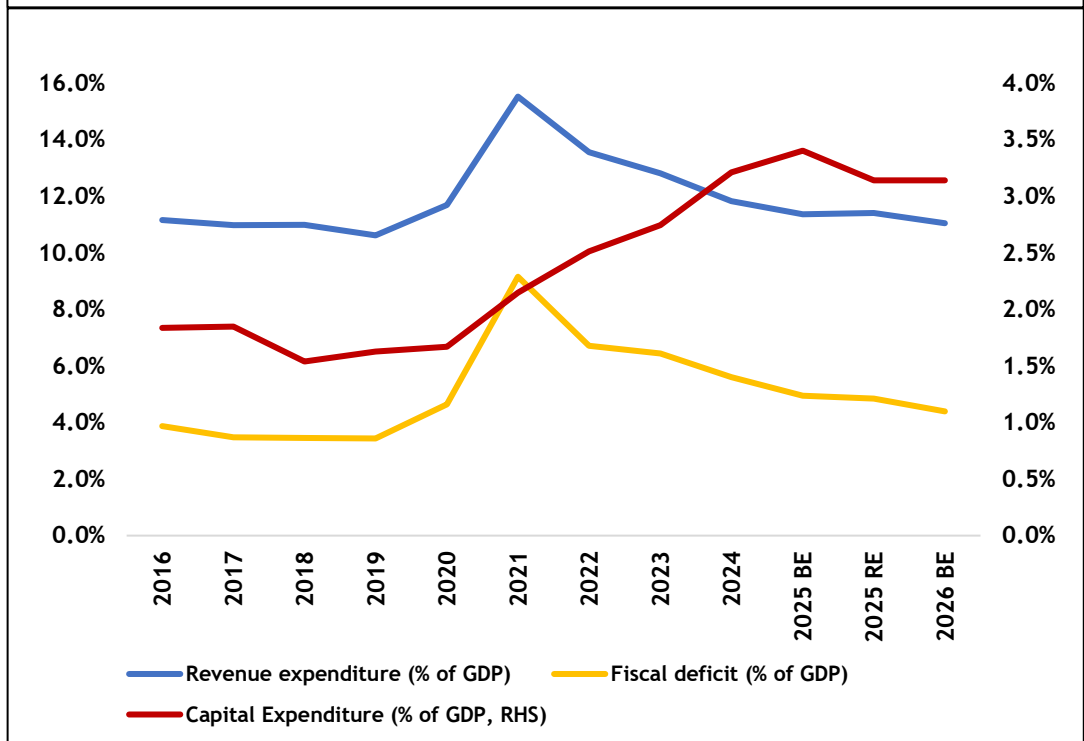
- Gross borrowing budgeted at Rs 14.8 lakh cr. (our and consensus estimate of Rs 14 lakh cr, unchanged versus FY25).
- Net borrowings assumed to remain flat at Rs 11.5 lakh cr. Meanwhile, borrowings in Tbills taken as NIL vs redemption of Rs 1.2 lakh cr in FY25
- With the MPC likely to cut rates by 25bps next week and the RBI also providing liquidity via OMOs, upward pressure, if any, on long term bond yield is likely to remain in check.

Govt stuck to fiscal glide path with focus back on quality of spending

Fiscal consolidation likely to be achieved via reduction in spending even as receipts edge up (% of GDP)



Quality of fiscal spending regains some focus in FY'26 after suffering somewhat in FY'25



- Fiscal deficit budgeted to consolidate to 4.4% of GDP in FY26 as per the road map from 4.8% in FY25 (BE: 4.9%)
- Expenditure as % of GDP reduced to 14.2% from 14.6% in FY25 while revenues likely to edge up 9.8% from 9.7% this year.
- Capex budget reduced to Rs 11.21 lakh crore vs. RE of Rs 10.18 lakh crore in FY25 (revised lower from BE of Rs. 11.11 Lakh Cr). Hence, capex growth is seen at ~10% from 7.3% in FY25 while revex growth is capped lower at 6.7%.

Gross borrowings budgeted to rise in FY26 in a slight negative surprise

Net Dated Borrowing kept flat while short term borrowing switched to NIL in FY26

Rs lakh crore	2023	2024	2025 BE	2025 RE	2026 BE
External	0.4	0.6	0.2	0.3	0.2
Market borrowings	12.2	12.3	11.1	10.4	11.4
- Dated	11.1	11.8	11.6	11.6	11.5
- Short Term	1.1	0.5	-0.5	-1.2	0.0
Small savings	4.0	4.5	4.2	4.1	3.4
State provident funds	0.1	0.1	0.1	0.1	0.1
Others (incl. Public A/c)	0.8	-0.9	-0.8	0.3	0.4
Draw Down of Cash Balance	0.0	0.0#	1.4	0.5	0.0
Total Financing	17.4	16.5	16.1	15.7	15.7

FY26 Gross borrowing surprised on the upside

Rs lakh crore	2025 RE	2026 BE
Market Borrowings - Dated	11.63	11.54
Redemptions (as on 27 th Jan'25)	3.62	3.96
Net Redemptions	3.62	3.96
of which: funded by GST Compensation cess fund	1.24	0.55
Gross Borrowings	14.01	14.82*

* Balance to be funded via G-Sec Buybacks

- Gross Borrowings increased in FY26BE to Rs.14.82 lakh crore against our/consensus estimate of ~Rs.14.0 lakh crore, due to higher redemptions of Rs.3.28 lakh crore vis-à-vis Rs.2.38 lakh crore in FY25 Prov. While o/s redemption as of 27th Jan'25 was Rs.3.96 lakh crore, it has been adjusted for Rs.0.55 of GST compensation cess fund and rest from G-Sec buybacks (total budgeted for FY25 at Rs.0.88 lakh crore).
- Net borrowings are budgeted to remain flat in FY26 at Rs.11.5 lakh crore, while the short term borrowings is expected to switch to flat from a redemption of Rs.1.2 lakh crore this year.
- Draw down of Cash Balance was brought to NIL as per estimated of Rs.1.4 lakh crore in FY25 (Rs.0.5 for fiscal financing and Rs.0.9 lakh crore for buybacks). Meanwhile, small savings collections are budgeted to drop in FY26 after staying relatively resilient in FY25. We see this assumption as conservative given that RBI's liquidity measures are likely to drive deposit rates lower and bode well for small savings collections.

Number revised from Rs.-1.72 lakh crore initially, with adjustment made with Public Accounts.

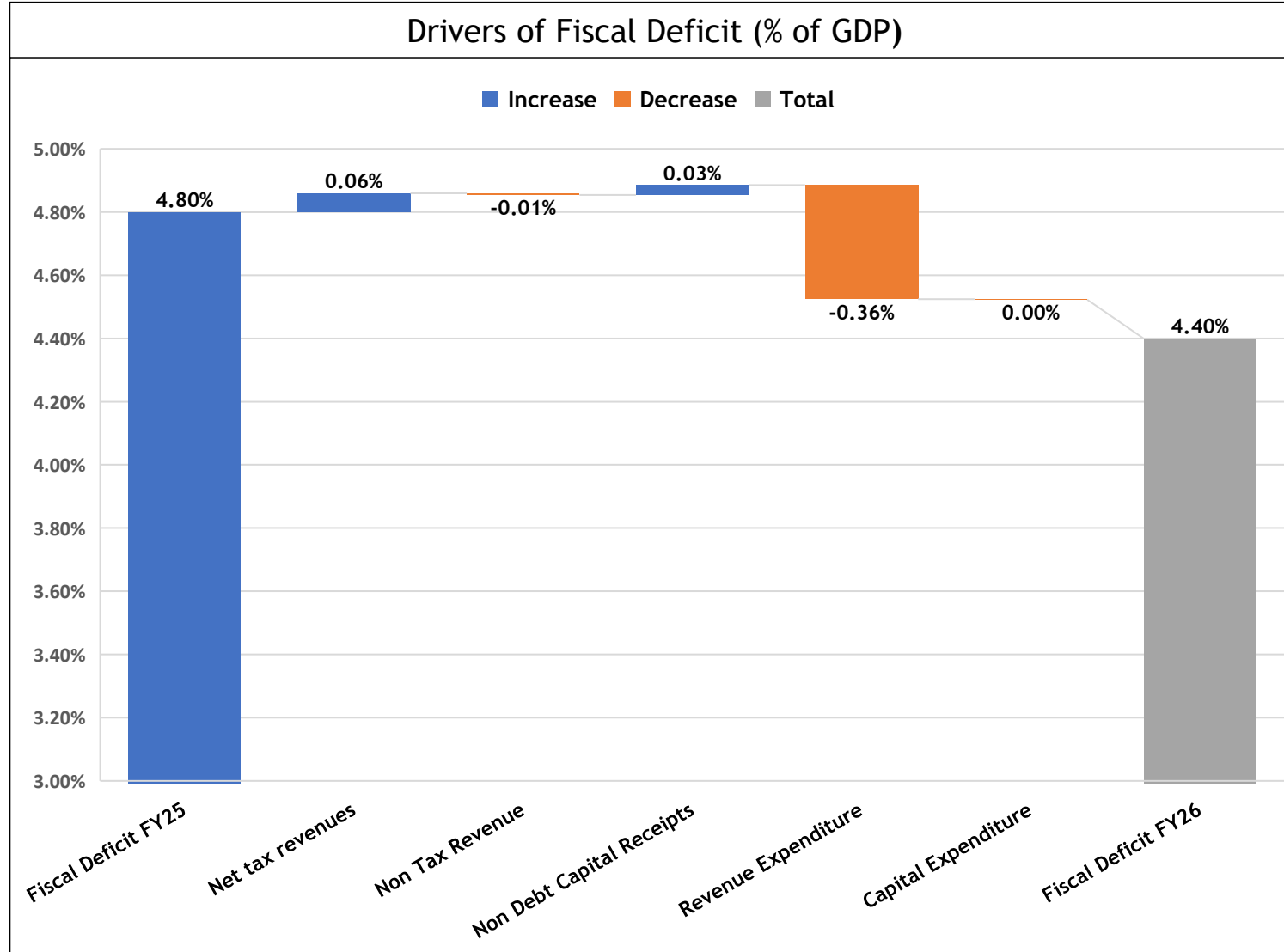
Source: Budget documents. UBI research

Budget numbers broadly credible, slight downside in Income Tax receipts

% of GDP	FY25 RE over FY25 BE	FY26 BE over FY25 RE
Total Receipts	-0.12%	0.09%
Revenue Receipts	-0.06%	0.05%
-Gross Taxes	0.12%	0.07%
-Direct Taxes	0.14%	0.16%
Corporate Tax	-0.10%	0.01%
Income Tax	0.24%	0.15%
-Indirect Taxes	-0.02%	-0.08%
GST	0.02%	0.02%
-Net tax Revenues	-0.03%	0.06%
-Non Tax Revenue Receipts	-0.03%	-0.01%
Non Debt Capital Receipts	-0.06%	0.03%
Total Expenditure	-0.22%	-0.36%
-Revenue Expenditure	0.04%	-0.36%
-Capital Expenditure	-0.26%	0.00%
Fiscal Deficit	-0.10%	-0.45%

- Nominal GDP growth of 10.1% from less than 10% in last two years is credible. The other assumptions also appear reasonable.
- However, while tax buoyancy is assumed to stay at ~1, the income tax growth of 14.4% looks on the higher side despite revenue foregone of ~Rs 1 lakh crore on tax cuts. This can lead to a gap of c.Rs 45,000 cr. yet an improved tax compliance seen in recent years may continue to provide a flip to growth.

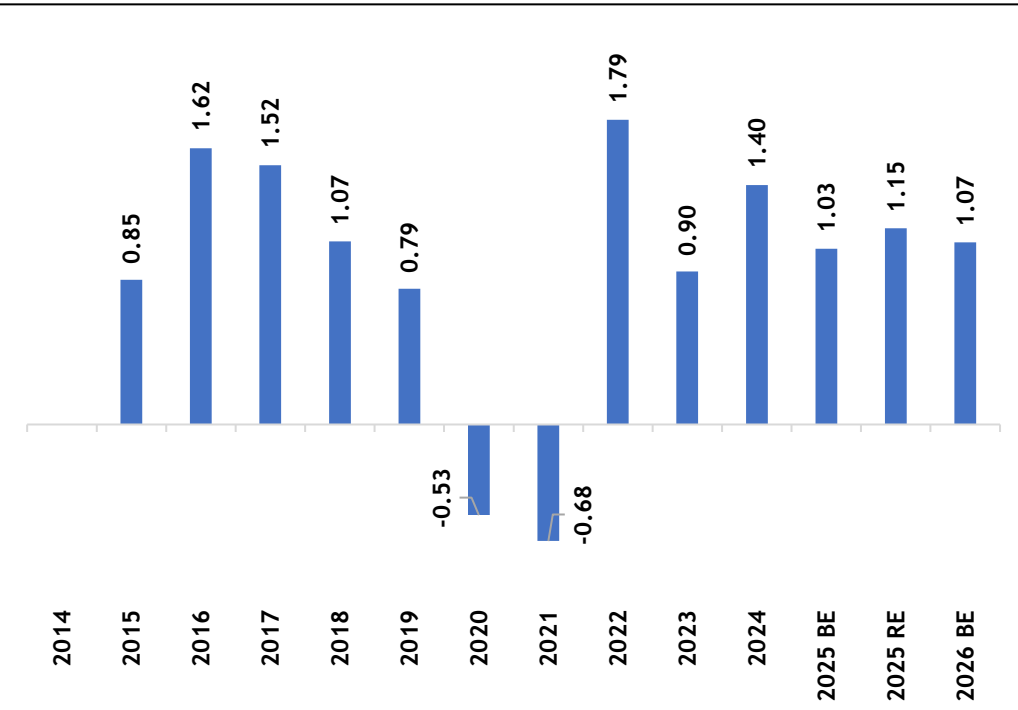
Fiscal consolidation in FY26 driven by lower revex and strong income tax buoyancy



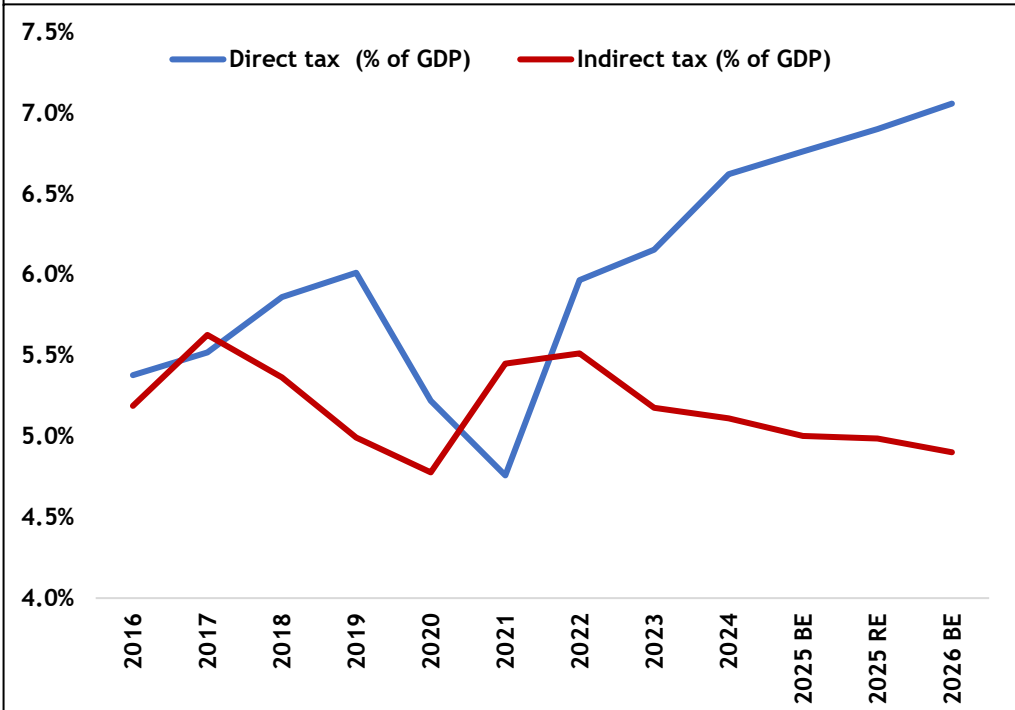
- Fiscal consolidation in FY26 likely to be primarily achieved via expenditure rationalization while receipts edge up
- Revenue expenditure budgeted to drop by ~0.4% of GDP to become the prime driver of consolidation
- Within receipts, sustained strength in income tax collections is likely to support fiscal dynamics though our estimates show that trends need to be closely watched
- While this implies a negative fiscal impulse, we still see the net impact on growth as positive on demand boost from income tax cuts

Tax buoyancy of ~1 despite income tax cut, looks slightly higher and needs close watch

Sustained tax buoyancy of ~1 (despite income tax cuts) is likely to support pickup in revenues.

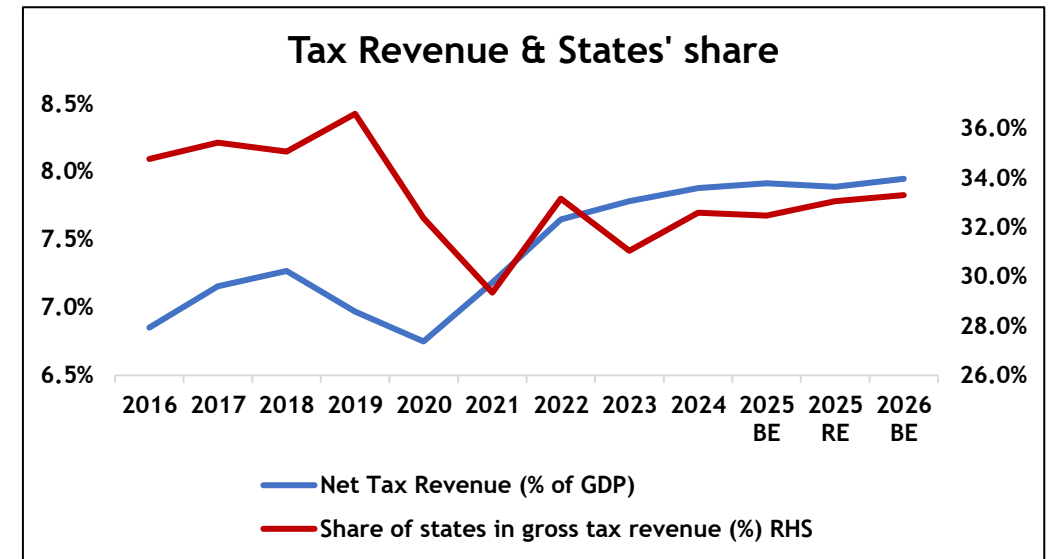
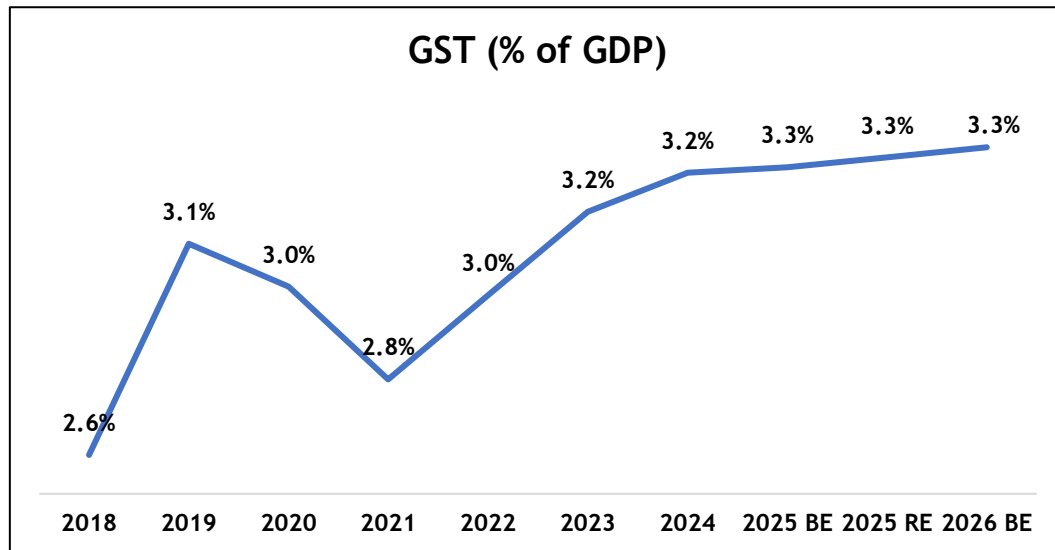
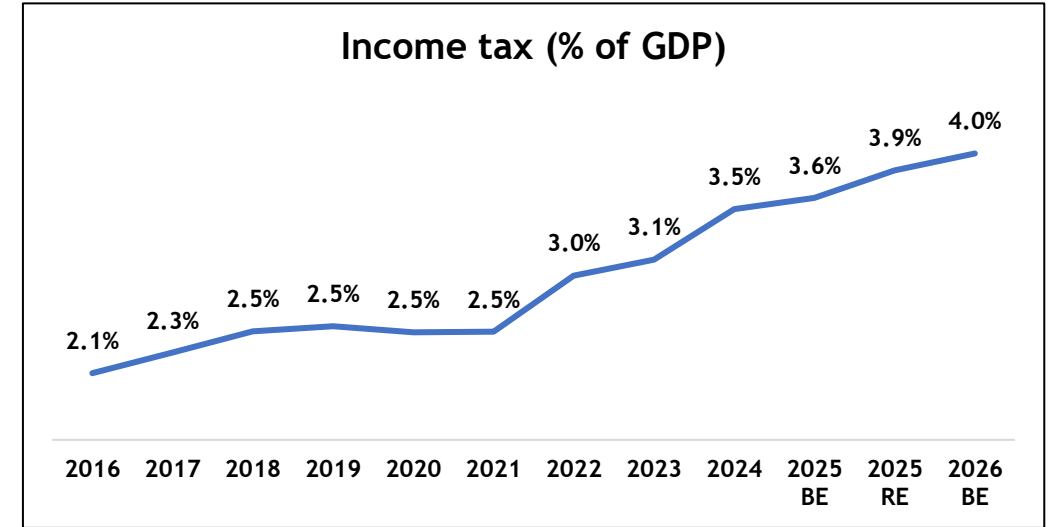
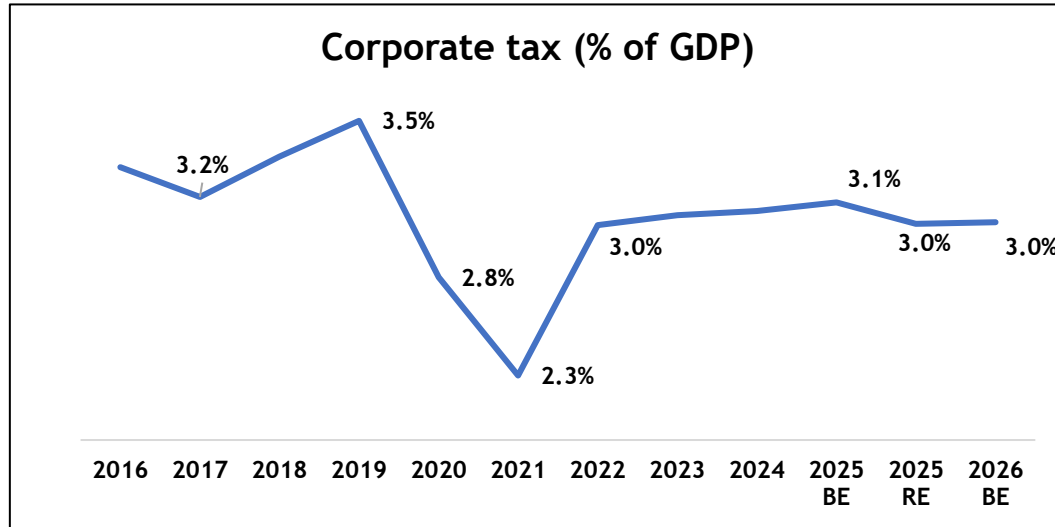


Direct tax receipts expected to maintain uptrend in contrast to indirect taxes

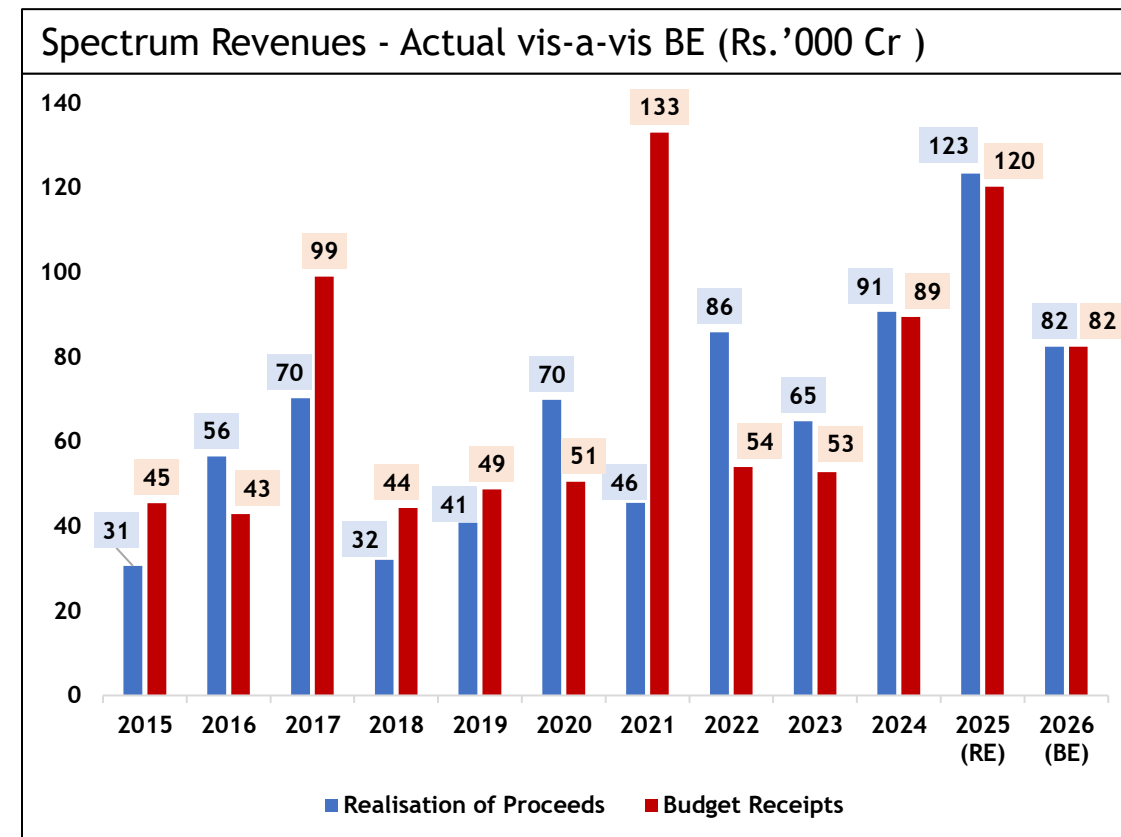
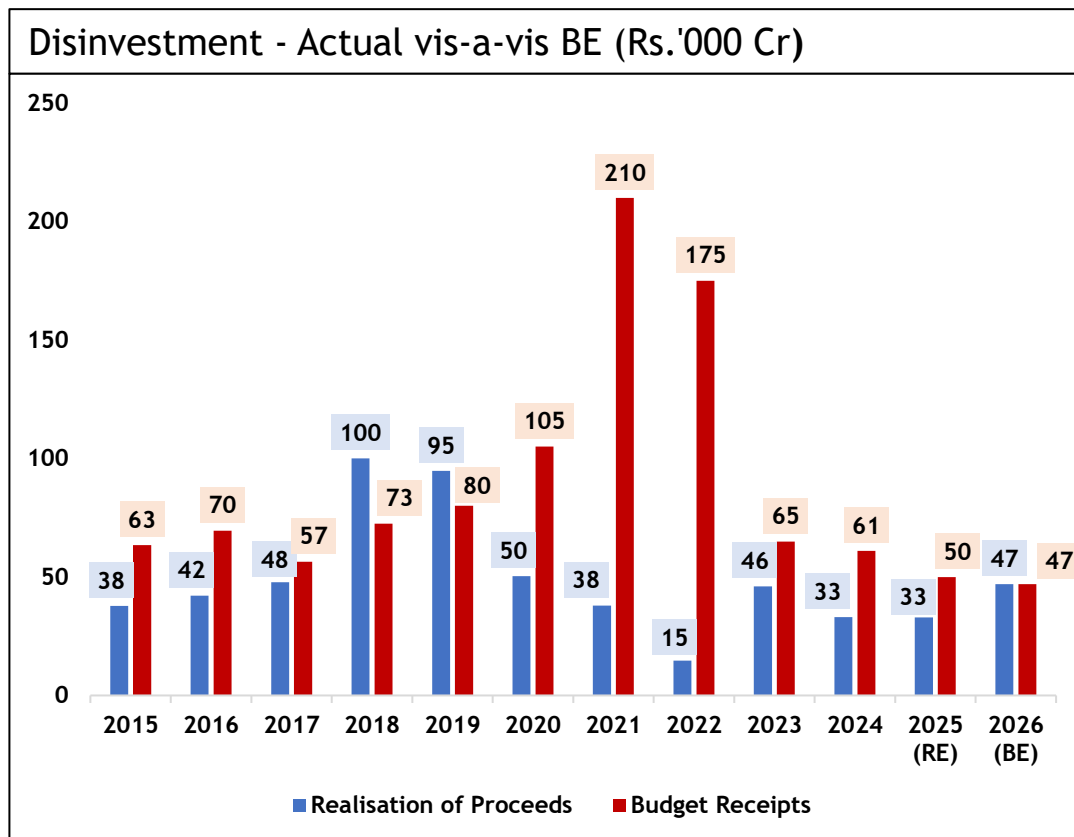


- Overall tax buoyancy of ~1 assumes similar levels for corporate tax and GST while a buoyancy of income tax is expected to remain elevated at ~1.4. The latter looks difficult to us given the impact of revenue foregone from income tax cuts.
- The direct taxes as a % of GDP is budgeted to clock a fresh record high of 7.1% in FY26 while indirect taxes expected to slip further to 4.9% of GDP.

Income tax receipts budgeted to continue to beat nominal GDP growth while other tax segments assumed to stay aligned



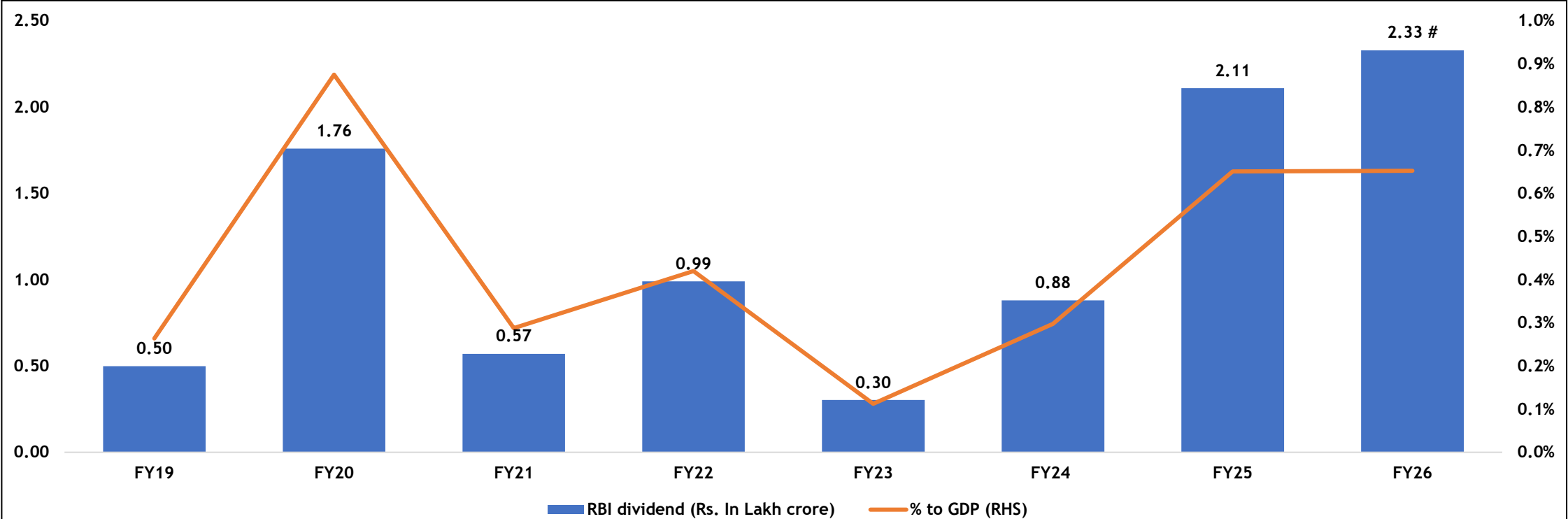
Divestment and spectrum receipts assumptions also appear reasonable



- Divestment target of Rs 47,000 Cr from a downwardly revised Rs 33,000 Cr in FY25 also appears on the higher side.
- Meanwhile spectrum target kept lower at 82,000 Cr with no fresh spectrum auction in sight.

RBI Dividend continues to have significant fiscal impact

RBI Dividend remained a consistent contributor of 0.7% of GDP in FY25RE & FY26BE



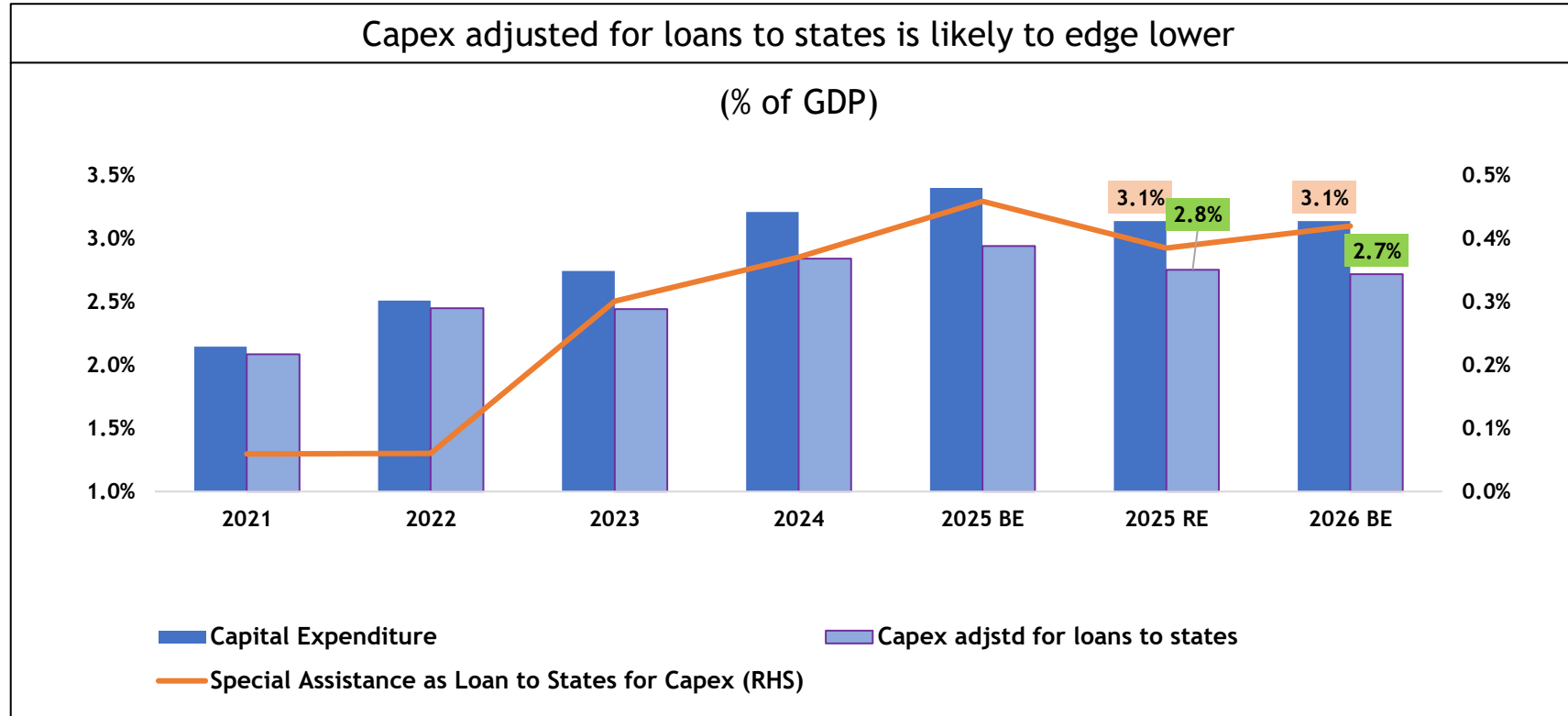
- RBI dividend is budgeted to clock fresh record high in FY26 at ~Rs 2.33 lakh crore. We find the assumption reasonable.
- The central bank's P&L is likely to benefit from FX earnings on the back of gross FX sales (USD 196bn FYTD till November) and an estimated rise by another USD 70-100bn in full fiscal year. As per our estimate, this factor itself may nearly double the exchange gains versus Rs 83,615 crore in FY24.

#The dividends from RBI, Nationalised Banks & Fis has been budgeted at Rs.2.56 lakh crore and we assume that dividends ex RBI remain flat in FY26;
Source: RBI, Budget documents, UBI research

Expenditure rationalization primarily led by revex

Expenditure of Central Government								
	(Rs. Lakh Crore)				(% of GDP)			
	FY24	FY25 BE	FY25 RE	FY26 BE	FY24	FY25 BE	FY25 RE	FY26 BE
Total Expenditure	44.43	48.21	47.16	50.65	15.0%	14.8%	14.6%	14.2%
Revenue Expenditure, of which:	34.94	37.09	36.98	39.44	11.8%	11.4%	11.4%	11.0%
Interest Payments	10.64	11.63	11.38	12.76	3.6%	3.6%	3.5%	3.6%
Major Subsidies	4.12	3.81	3.83	3.83	1.4%	1.2%	1.2%	1.1%
<i>Food</i>	2.12	2.05	1.97	2.03	0.7%	0.6%	0.6%	0.6%
<i>Petroleum</i>	0.12	0.12	0.15	0.12	0.0%	0.0%	0.0%	0.0%
<i>Fertilizer</i>	1.88	1.64	1.71	1.68	0.6%	0.5%	0.5%	0.5%
Capital Expenditure	9.49	11.11	10.18	11.21	3.2%	3.4%	3.1%	3.1%

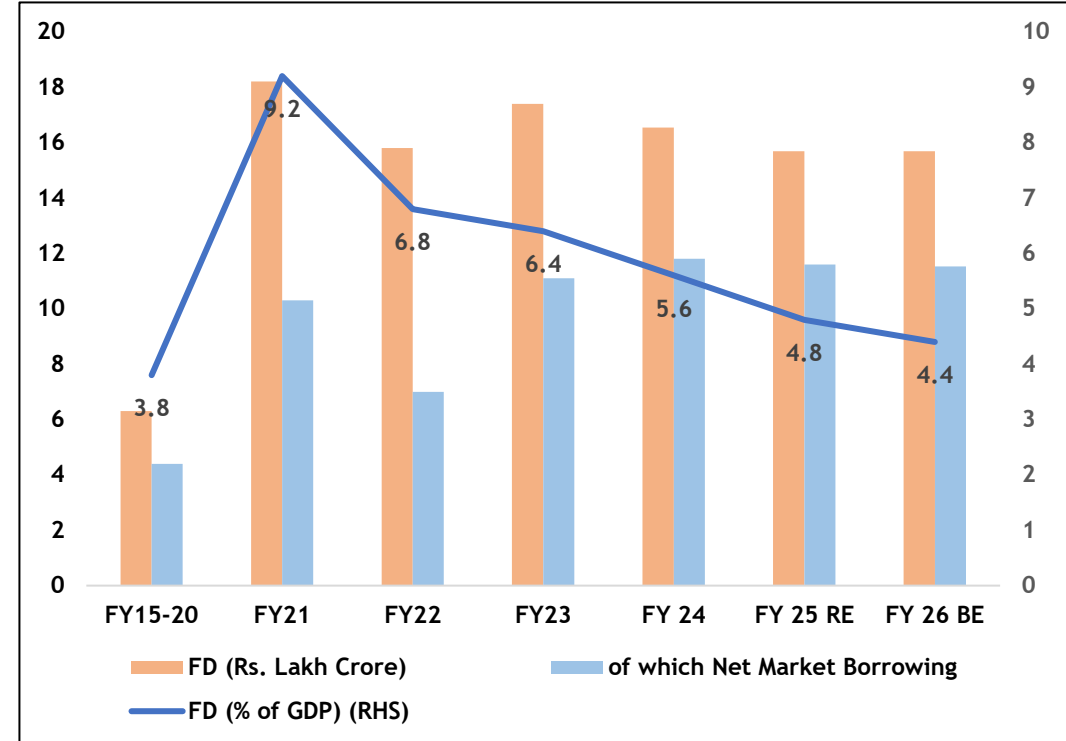
- Expenditure as % of GDP reduced to 14.2% from 14.6% in FY25 driven by drop in revenue spending while capex budget has been kept flat
- Within revex, the rationalization in expenditure in FY26 BE versus FY25 RE has been primarily led by subsidies (0.1% of GDP), pension (0.1%) and lower grants to states from GST compensation cess fund along with fall in reserve fund allocation which offset the uptick in interest payments (0.1%).



- Capex budgeted to stay flat after clocking a sharp spike post covid as at 3.1% of GDP, it stands at almost 2x versus FY15 levels
- The ministry wise segment data shows that the allocation for key ministries like roads and railways has been kept flat versus FY25, signaling that the center has hit absorptive capacity in these sectors
- Interestingly, the Rs 1 lakh accretion in capex budget in FY26 vs FY25 has been driven by loans to states (25%), science & technology (20%), defense (10%), urban infra (9%) etc.

Flat fiscal deficit and net borrowing in FY26 supports our view of yield curve steepening as liquidity measures kick in

Parameter	FY15-20	FY21	FY22	FY23	FY24	FY25 RE	FY26 BE
FD (% of GDP)	3.8	9.2	6.8	6.4	5.6	4.8	4.4
FD (Rs. Lakh Crore)	6.3	18.2	15.8	17.4	16.5	15.7	15.7
of which: Net Market Borrowing (Rs. in Lakh Crore)	4.4	10.3	7.3	11.1	11.8*	11.6*	11.5

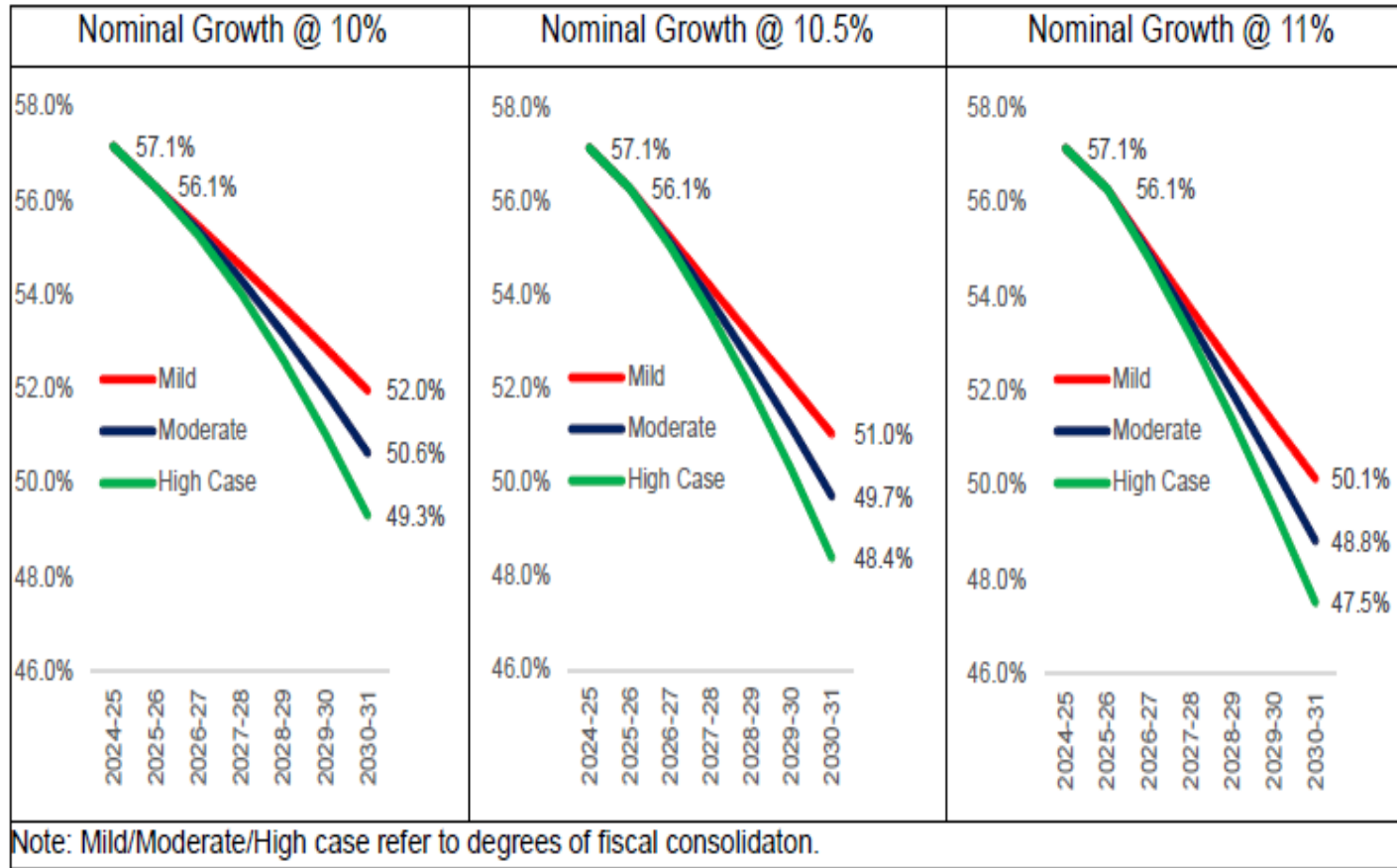


- Government would endeavor to keep fiscal deficit in each year (from FY 2026-27 till FY 2030-31) such that the Central Government debt is on declining path to attain a debt to GDP level of 50+/-1% by 31st Mar 2031.
- While the FY26 fiscal deficit is largely similar to FY25 at Rs.15.7 lakh crore, the gross borrowing has gone up to Rs.14.8 lakh crore. While the near term impact may be slightly negative for bond markets, however, with MPC expected to cut rates by 25bps next week and RBI providing liquidity via OMOs, we expect the yield curve to steepen with longer tenor bond yields likely to remain range bound.
- Under switching of securities, Rs.2.5 lakh crore is budgeted for FY26, which is likely to be in securities maturing in FY27 and beyond.

Fiscal Numbers

	(Rs. Lakh Crore)						(% of GDP)					
	FY24	FY25 BE	FY25 UBI RE	FY25 RE	FY26 UBI BE	FY26 BE	FY24	FY25 BE	FY25 UBI RE	FY25 RE	FY26 UBI BE	FY26 BE
Total Receipts	27.9	32.1	32.1	31.5	35.0	35.0	9.4%	9.8%	9.9%	9.7%	9.8%	9.8%
Revenue Receipts	27.3	31.3	31.7	30.9	34.5	34.2	9.2%	9.6%	9.8%	9.5%	9.6%	9.6%
-Net tax revenue	23.3	25.8	26.1	25.6	28.7	28.4	7.9%	7.9%	8.1%	7.9%	8.0%	7.9%
-Non Tax Revenue	4.0	5.5	5.6	5.3	5.8	5.8	1.4%	1.7%	1.7%	1.6%	1.6%	1.6%
Non Debt Capital Receipts	0.6	0.8	0.4	0.6	0.5	0.8	0.2%	0.2%	0.1%	0.2%	0.1%	0.2%
Total Expenditure	44.4	48.2	47.8	47.2	51.2	50.7	15.0%	14.8%	14.8%	14.6%	14.3%	14.2%
-Revenue Expenditure	34.9	37.1	37.8	37.0	39.7	39.4	11.8%	11.4%	11.7%	11.4%	11.1%	11.0%
-Capital Expenditure	9.5	11.1	10.0	10.2	11.5	11.2	3.2%	3.4%	3.1%	3.1%	3.2%	3.1%
Fiscal Deficit	16.5	16.1	15.7	15.7	16.2	15.7	5.6%	4.9%	4.8%	4.8%	4.5%	4.4%
Nominal GDP	295.4	326.4	324.1	324.1	358.1	357.0						

Long term fiscal roadmap provided from FY27 to FY31



- Government would endeavor to keep fiscal deficit in each year (from FY 2026-27 till FY 2030-31) such that the Central Government debt is on declining path to attain a debt to GDP level of about 50±1 per cent by 31st March 2031 (the last year of the 16th Finance Commission cycle).
- Debt to GDP is estimated at 57.1% as of FY25. This requires the government to maintain stringent focus on fiscal consolidation.

A Budget (way) beyond numbers

Sector	Budget Announcements	Budget impact	Very Positive
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Income Tax Relief	<ul style="list-style-type: none"> ➤ The nil tax slab has been increased for income up to ₹12 lakh, up from ₹7 lakh, boosting middle-class spending power. ➤ Under this revised structure, individuals earning up to ₹12 lakh annually will not incur any income tax liability. ➤ New slabs are:- <table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse; text-align: center;"> <thead> <tr style="background-color: #1a3d4d; color: white;"> <th>Annual Income (₹)</th> <th>Tax Rate (%)</th> </tr> </thead> <tbody> <tr><td>0 - 4,00,000</td><td>Nil</td></tr> <tr><td>4,00,001 - 8,00,000</td><td>5</td></tr> <tr><td>8,00,001 - 12,00,000</td><td>10</td></tr> <tr><td>12,00,001 - 16,00,000</td><td>15</td></tr> <tr><td>16,00,001 - 20,00,000</td><td>20</td></tr> <tr><td>20,00,001 - 24,00,000</td><td>25</td></tr> <tr><td>Above 24,00,000</td><td>30</td></tr> </tbody> </table>	Annual Income (₹)	Tax Rate (%)	0 - 4,00,000	Nil	4,00,001 - 8,00,000	5	8,00,001 - 12,00,000	10	12,00,001 - 16,00,000	15	16,00,001 - 20,00,000	20	20,00,001 - 24,00,000	25	Above 24,00,000	30	<ul style="list-style-type: none"> ➤ Effectively increasing the nil tax slab from the previous ₹7 lakh is expected to increase the middle class's disposable income, enhancing household consumption, savings, and investment. ➤ This adjustment is projected to result in an annual revenue loss of ~Rs 1 lakh crore for the exchequer and is a significant move to push for a pickup in adoption of new tax regime (~75% of taxpayers currently estimated in the new regime) ➤ Growth boost from income tax cuts likely to be at least 0.3-0.4% of GDP using tax multiplier of ~1. using RBI estimates of an average marginal propensity to consume of 0.54 making tax multiplier of 1.16. There is an upward bias to our estimate given MPC may be higher for low-income segments. ➤ We compliment the government as it seeks to address the core issue of weak demand affecting the Indian economy (as highlighted in our 2025 outlook report) despite the strict fiscal constraints 	
Annual Income (₹)	Tax Rate (%)																		
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TDS/TCS rationalization for easing difficulties	<ul style="list-style-type: none"> ➤ Streamlining TDS rates and increasing thresholds will make tax structure more straightforward, reducing the complexity for taxpayers. ➤ The TDS limit for tax deduction on interest on deposit for senior citizens doubled from the present Rs 50,000 to Rs 1 lakh. ➤ The annual limit of Rs 2.40 lakh for TDS on rent increased to Rs 6 lakh. ➤ The threshold to collect TCS on remittances under RBI's Liberalized Remittance Scheme (LRS) increased from Rs 7 lakh to Rs 10 lakh. ➤ The provisions of the higher TDS deduction will apply only in non-PAN cases. ➤ Decriminalisation for the cases of delay of payment of TCS up to the due date of filing statement. 	<ul style="list-style-type: none"> ➤ Overall, above measures are expected to simplify tax compliance, reduce administrative burdens, and increase disposable incomes. Simplifying tax structure may even lead to improved tax compliance. ➤ Raising the TDS threshold on rental income is likely to benefit owners, with moderate rental earnings, by reducing tax-related deductions and enhancing liquidity. ➤ Increasing the TCS threshold for remittances simplifies the process for individuals sending money abroad, making foreign transactions more accessible. ➤ The provisions of the higher TDS deduction in non-PAN cases will increase PAN registration and in long term it will bring more people under tax ambit. 	
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Sector	Budget Announcements	Budget impact	Very Positive
Ease of Doing Business & Deregulation	<ul style="list-style-type: none"> ➤ Establishment of a High-Level Committee for Regulatory Reforms <ul style="list-style-type: none"> • <i>A new committee will be formed to review all non-financial sector regulations, certifications, licenses, and permissions.</i> ➤ Introduction of an Investment Friendliness Index of States <ul style="list-style-type: none"> • <i>An index will be developed to evaluate and rank states based on their business-friendly policies and regulatory frameworks.</i> ➤ Decriminalization of Over 100 Legal Provisions under Jan Vishwas Bill 2.0 <ul style="list-style-type: none"> • <i>The government plans to decriminalize more than 100 legal provisions to reduce the fear of legal repercussions among entrepreneurs</i> ➤ Time-Limit for Finalizing Provisional Assessments under the Customs Act <ul style="list-style-type: none"> • <i>A time limit of two years, extendable by one year, has been proposed for finalizing provisional assessments</i> 	<ul style="list-style-type: none"> ➤ These measures would streamline regulations and eliminate redundancies. Also, compliance costs for businesses is expected to reduce significantly. • This is in line with the key theme of the Economic Survey. Specifically, the Ease of Doing Business 2.0 is likely to be a coordinated initiative between Centre and states to fix the root cause behind the difficulties of doing business in India. ➤ Investment Friendliness Index is anticipated to inspire states to implement more business-friendly policies, making business environment relaxed for both domestic and foreign investors. ➤ Decriminalizing certain legal provisions can decrease fears among entrepreneurs regarding punitive actions, thereby encouraging innovation and risk-taking. ➤ Setting clear timelines for customs assessments can expedite trade processes, reduce holding costs. 	

Sector	Budget Announcements	Budget impact	Positive
Agriculture and Food processing	<ul style="list-style-type: none"> ➤ Prime Minister Dhan-Dhaanya Krishi Yojana - Developing Agri Districts Programme ➤ National Mission on High Yielding Seeds ➤ Mission for Aatmanirbharta in Pulses ➤ Mission for Cotton Productivity ➤ Enabling framework for sustainable harnessing of fisheries ➤ Enhanced Credit through KCC limits & Modified Interest Subvention Scheme from Rs. 3 lakh to 5 lakh to benefit 7.7 crore farmers and fisherman. ➤ Atmanirbharta in urea production ➤ Comprehensive Programme for Vegetables & Fruits to promote production, efficient supplies and processing will be launched in partnership with states. ➤ Support to National Co-operative Development Corporation to receive support 	<ul style="list-style-type: none"> ➤ Expenditure of Min of agriculture is increased to Rs. 1.27 lakh crore in BE 2025-26, with growth of 3.8%. ➤ PM Dhan Dhanya scheme will enhance agricultural productivity, adopt crop diversification and sustainable agriculture practices along with facilitating availability of long-term and short-term credit. It is to cover 100 Aspirational districts with low productivity, moderate crop intensity and below-average credit parameters. It is likely to help 1.7 crore farmers. ➤ Rural prosperity programme will address under-employment in agriculture through skilling, investment, technology, and invigorating the rural economy. The opportunities will be diversified for landless labourers. Global and domestic best practices will be incorporated and Phase-1, will have 100 developing Agri-districts. ➤ Atmanirbhar pulses scheme, will be implemented in line with oil seeds scheme through which area under cultivation was improved significantly. This scheme will ensure commercial availability of pulses along with improving post-harvest storage and management. Central agencies (NAFED and NCCF) to procure these 3 pulses, as much as offered during the next 4 years from farmers who register with these agencies and enter into agreements. ➤ Mission for Cotton productivity will increase the income for farmers and ensure a steady supply of quality cotton for rejuvenating India's traditional textile sector. ➤ India' Seafood exports are valued at Rs. 60,000 crore. Sustainable harnessing of fisheries from Indian Exclusive Economic Zone will unlock the untapped potential of the marine sector focus on the Andaman & Nicobar and Lakshadweep Islands. ➤ By ensuring Atmanirbharta in Urea production, supply capacity of 12.7 lakh metric tons will be added annually from the new plant to be set-up in Namrup Assam. ➤ <i>Comprehensive programme will ensure remunerative prices for farmers, also, appropriate institutional mechanisms for implementation and participation of farmer producer organizations and cooperatives will strengthen the rural supply ecosystem.</i> 	

Sector	Budget Announcements	Budget impact	Positive
Employment and skilling	<ul style="list-style-type: none"> ➤ Scheme for First-time Entrepreneurs for 5 lakh women, and SC, STs. ➤ Food Processing through National Institute of Food Technology, Entrepreneurship and Management. 	<ul style="list-style-type: none"> ➤ The allocation for employment and skill development scheme has been at -Rs 14,000 cr in FY26 BE versus -Rs 10,000 cr in FY25 BE 	
Skill development	<ul style="list-style-type: none"> ➤ Institutes of Hospitality Management to be set-up for organizing intensive skill-development programmes ➤ The term loan of upto Rs. 2 crore during the next 5 years along with entrepreneurship and managerial skills will provide boost to the women, and SC, STs. ➤ Research, Development & Innovation Allocating ₹ 20,000 crore to implement private sector driven Research, Development and Innovation initiative. ➤ Expansion of medical education: 10,000 additional seats with the goal of adding 75,000 seats in the next 5 years ➤ Centre of Excellence in AI for education with outlay of ₹500 crore. ➤ Atal Tinkering Labs: 50 Thousand Labs to be set up in government schools in next 5 years. ➤ 05 National Centres of Excellence for skilling to be set up with global expertise and partnerships. ➤ Bharatiya Bhasha Pustak Scheme: To provide digital form of Indian language books for school and higher education. ➤ Expansion of Capacity in IITs 	<ul style="list-style-type: none"> ➤ As per Economic Survey 2024-25, “only 8.25% of graduates are employed in roles that align with their qualifications, indicating a critical gap between education and job requirements. Furthermore, over 50% of graduates and 44% of postgraduates are underemployed in low-skill jobs, underscoring the need for reforms to better align educational outcomes with industry demands.” ➤ These initiatives add onto the efforts laid out in the last Budget, yet the progress in this regard needs close watch 	
Employment and skilling	<ul style="list-style-type: none"> ➤ Top 50 tourist destinations to be developed in partnership with states (Land for building key infrastructure to be provided by states). Hotels at those destinations will be included in the infrastructure HML. 	<ul style="list-style-type: none"> ➤ Looking at the potential and rapidly expanding tourism sector and India being ranked 39th position in the World Economic Forum's Travel and Tourism Development Index (TTDI) 2024 showing positive signs of revival post-pandemic, the industry witnessed over 92 lakh foreign tourist arrivals in 2023, implying a YoY increase of 43.5%. 	
Tourism	<ul style="list-style-type: none"> ➤ Employment-led growth: <ul style="list-style-type: none"> ✓ skill-development programmes for youth including Institutes of Hospitality Management; ✓ MUDRA loans for homestays, ✓ Improving ease of travel and connectivity to tourist destinations, ✓ Performance-linked incentives to states for effective destination management, ✓ E-visa facilities along with visa-fee waivers for certain tourist groups, ✓ Emphasis on places of spiritual and religious significance with special focus on destinations related to the life and times of Lord Buddha. ✓ Medical Tourism to be promoted in partnership with private sector (capacity building and easier visa norms). 	<ul style="list-style-type: none"> ➤ India has significantly earned foreign exchange receipts amounting to over ₹2.3 lakh crore through tourism, indicating a 65.7 per cent YoY increase. 	

Sector	Budget Announcements	Budget impact	Positive																																				
MSMEs	<ul style="list-style-type: none"> ➤ Credit Cards for Micro Enterprises: Customized Credit Cards with a ₹ 5 lakh limit for micro enterprises registered on Udyam portal (<i>first year 10 lakh such cards will be issued</i>). ➤ Scheme for first time Entrepreneurs: For 5 lakh first-time entrepreneurs, including women, Scheduled Castes and Scheduled Tribes, a new scheme, to be launched, to provide term loans up to ₹ 2 crore during the next 5 years. ➤ Fund of funds for startups : A fresh contribution of Rs 10,000 crores for New fund of funds. ➤ Revision in classification criteria for MSMEs <table border="1" data-bbox="369 514 1388 799"> <thead> <tr> <th rowspan="2">₹ in Crore</th> <th colspan="2">Investment</th> <th colspan="2">Turnover</th> </tr> <tr> <th>Current</th> <th>Revised</th> <th>Current</th> <th>Revised</th> </tr> </thead> <tbody> <tr> <td>Micro Enterprises</td> <td>1</td> <td>2.5</td> <td>5</td> <td>10</td> </tr> <tr> <td>Small Enterprises</td> <td>10</td> <td>25</td> <td>50</td> <td>100</td> </tr> <tr> <td>Medium Enterprises</td> <td>50</td> <td>125</td> <td>250</td> <td>500</td> </tr> </tbody> </table> ➤ Enhancement of credit guarantee cover <table border="1" data-bbox="369 856 1133 1092"> <thead> <tr> <th>₹ in Crore</th> <th>Current</th> <th>Revised</th> </tr> </thead> <tbody> <tr> <td>Micro & small enterprises</td> <td>5</td> <td>10</td> </tr> <tr> <td>Start-ups</td> <td>10</td> <td>20</td> </tr> <tr> <td>Exporter MSMEs</td> <td colspan="2">For Term Loans Up To 20 crore</td> </tr> </tbody> </table> ➤ Focus on Labour Intensive Sectors- <ol style="list-style-type: none"> 1. Scheme for Footwear & Leather Sectors with expected employment for 22 lakh persons with turnover of ₹ 4 lakh crore and exports of over ₹ 1.1 lakh crore. 2. Toy Sector with focus on development of clusters, skills, manufacturing ecosystem to create high-quality, unique, innovative, and sustainable toys to represent the 'Made in India' brand. 3. Support for Food Processing: Establishment of a National Institute of Food Technology in Bihar, enhanced income for the farmers and skilling, entrepreneurship and employment opportunities for the youth. 	₹ in Crore	Investment		Turnover		Current	Revised	Current	Revised	Micro Enterprises	1	2.5	5	10	Small Enterprises	10	25	50	100	Medium Enterprises	50	125	250	500	₹ in Crore	Current	Revised	Micro & small enterprises	5	10	Start-ups	10	20	Exporter MSMEs	For Term Loans Up To 20 crore		<ul style="list-style-type: none"> ➤ MSME contributes approximately 30% of the GDP and being a labour-intensive sector, it provides around 7.5 crore employment with 45% of export and 36% of manufacturing. The budget steps will further boost inclusive and supportive environment for their expansion and contribution to the Indian economy. ➤ The Enhancement of credit guarantee cover will strengthen the credit flow to MSMEs as the sector is having credit gap of Rs 20-25 lakh crore as per economic survey 2023-24. ➤ MSMEs are spread across various industries with a significant share in manufacturing and services. The Credit Cards for Micro Enterprises will have impact on approx. 97% (classified as Micro) of the MSMEs to see a boost in terms of credit availability. The revision in classification criteria for MSMEs will further add up the numbers. ➤ Revision in Classification of MSMEs will allow more enterprises to benefit from government schemes and incentives designed to support the MSMEs. The higher investment and turnover thresholds will enable MSMEs to scale their operations without the immediate concern of losing their classification status, encouraging growth and competitiveness. ➤ Focus on Labour Intensive sectors mainly classified as MSMEs as per announcement will not only provide employment and sector specific benefits but also facilitate other sectors like food processing will have impact on Agri products. 	
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Sector	Budget Announcements	Budget impact	Positive
Infrastruc ture	<ul style="list-style-type: none"> ➤ Public Private Partnership in Infrastructure: Infrastructure-related ministries will come up with a 3-year pipeline of projects that can be implemented in PPP mode. States to be encouraged and can seek support from the India Infrastructure Project Development Fund scheme for PPP proposals. ➤ Support to States for Infrastructure: With an outlay of ₹ 1.5 lakh crore, 50-year interest free loans to states for capital expenditure and incentives for reforms. ➤ Power Sector Reforms: Incentivize distribution reforms and augmentation of intra-state transmission. Additional borrowing of 0.5 % of GSDP to states, contingent on these reforms. ➤ Asset Monetization Plan 2025-30: launched to plough back capital of ₹ 10 lakh crore in new projects ➤ Urban Challenge Fund ₹ 1 lakh crore to implement the proposals for ‘Cities as Growth Hubs’, ‘Creative Redevelopment of Cities’ and ‘Water & Sanitation’. ➤ Maritime Development Fund with a corpus of ₹25,000 crore for long-term financing with up to 49% contribution by the government ➤ Nuclear Energy Mission for Viksit Bharat: Amendments to the Atomic Energy Act and the Civil Liability for Nuclear Damage Act will be taken up for active partnership with the private sector. ➤ UDAN: Regional connectivity to 120 new destinations and carry 4 crore passengers in the next 10 years. ➤ Future needs of Bihar Greenfield airports, Financial support for the Western Koshi Canal ERM Projects ➤ SWAMIH Fund-2 ₹ 15,000 crore for expeditious completion of one lakh dwelling units through blended finance ➤ PM Gati Shakti Data for Private Sector assisting the private sector (PPP) in project planning, access to relevant data and maps from the PM Gati Shakti portal will be provided. ➤ The Shipbuilding Financial Assistance Policy to be revamped to address cost disadvantages including Credit Notes for shipbreaking in Indian yards to promote the circular economy. Shipbuilding Clusters will be facilitated to increase the range, categories and capacity of ships with additional infrastructure facilities, skilling and technology to develop the entire ecosystem. 	<ul style="list-style-type: none"> ➤ Capital Expenditure Allocation: The government has allocated a record ₹11.21 lacs crore for infrastructure development as against ₹10.18 lacs crore (RE) for FY 2024-25. The traditionally major Capex led sectors like Roads (Rs 2.72 lakh cr), Railways (Rs 2.52 lakh crore), has not seen any increase in their FY26 Budget versus FY25. Communication sector has seen sharp decrease(38%) in the volume to Rs 52,700 cr on reduced need for capital infusion in a key government entity. ➤ Sharp capex budget growth pickup seen in the segments like Housing & Urban Affairs (31%) to Rs 37,623 Cr, Science and Technology (~300x vs FY25) to Rs 20097 cr and 50-yr interest free loans to states (Rs 25,000cr) to Rs 1,50,000 cr. Capex diversion to these sectors will have strong multiplier effect. ➤ Urban infrastructure has been in focus and to have Capex growth in term of UDAN, Urban Challenge Fund etc. Other major like SWAMIH Fund-2 (Special Window for Affordable and Mid-Income Housing) in stressed housing projects will boost and expedite completion of another 1 lakh units. ➤ Urban infra has a high multiplier effect. For instance, focus on affordable housing is crucial as residential construction drives 60% of cement and 35% of steel demand. ➤ PPP in infrastructure along with sharing of PM Gati Shakti Data Will encourage private sector participation in infrastructure with added advantage of NaBFID’s partial credit enhancement support. 	

Sector	Budget Announcements	Budget impact	Neutral
LRS (Liberalized Remittances Scheme)	<ul style="list-style-type: none"> ➤ The threshold to collect tax at source (TCS) on remittances under LRS is proposed to be increased from 7 lakh to 10 lakh. Further proposed to remove TCS on remittances for education purposes, where such remittance is out of a loan taken from a specified financial institution <p><u>TCS for Education and Medical Purpose:</u> Up to INR 700,000 - Nil; Above INR 700,000- 5% (In case of Education Loan- 0.5%)</p> <p><u>For Overseas Tour package:</u> Up to INR 700,000- 5%; Above INR 700,000- 20%</p> <p><u>For any other purpose under LRS:</u> Up to INR 700,000- Nil; Above INR 700,000- 20%</p>	<ul style="list-style-type: none"> ➤ The reduction in TCS threshold limit on LRS remittances is a positive step that enhances financial flexibility, reduces temporary tax burdens, and makes international transactions more efficient for students, individuals and businesses. ➤ Eases Financial Burden for Foreign Education & Medical Treatment and also boosts Foreign Travel & Tourism 	
Custom Duty changes	<ul style="list-style-type: none"> ➤ <u>Reduction in Customs Duty on Imports of the following items:</u> Aquafarming & Marine exports, Chemicals, Waste and Scrap of Critical Minerals and others Drugs and Medicines, Precious Metals, Textile, Handicraft and Leather Sector, Capital Goods, IT and Electronics Space Sector, Motorcycles ➤ <u>Customs duty on gold:</u> separate classifications introduced for high-purity silver and gold, both attracting a 10% duty. ➤ Export duty on Leather - Crust Leather (hides and skins) has been reduced from 20 % to NIL 	<ul style="list-style-type: none"> ➤ Reduction in customs duty to reduce input costs, deepen value addition, promote export competitiveness, boost domestic manufacturing etc ➤ The revised customs duty brings greater clarity to precious metal imports and is expected to curb excessive inflows while protecting India's external balances. ➤ The reduction in export duty on leather items is a strategic move that enhances global competitiveness, increases exports and boosts India's economy. 	
FDI limit hike for insurance sector	<ul style="list-style-type: none"> ➤ The FDI limit for the insurance sector will be raised from 74 to 100 per cent. This enhanced limit will be available for those companies which invest the entire premium in India. 	<ul style="list-style-type: none"> ➤ Increasing the FDI limit in the insurance sector drives economic growth, improves financial stability, increases insurance penetration, and enhances product offerings for Indian consumers. It is a crucial step toward making India a leading global insurance market. 	

Thank You !

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