2 February 2026

FY27 Budget: Fiscal Prudence and CAPEX Continuity, with Reforms Dispersed and Back-Ended

DMI FINANCE

- The FY27 Union Budget is broadly in line with expectations, reaffirming fiscal consolidation, continued focus on CAPEX, and continuity of reform efforts, though the reform agenda appears dispersed and likely back-ended.
- FY26 fiscal deficit (RE) is maintained at 4.4% of GDP, with revenue expenditure rationalisation and stronger non-tax revenues offsetting tax-collection shortfalls.
- After supporting consumption through tax cuts in FY26, the FY27 Budget demonstrates a continued commitment to fiscal consolidation while deliberately preserving the public capital expenditure impulse.
- From FY27, fiscal consolidation is anchored to the debt-to-GDP ratio, with the Centre's debt ratio budgeted to decline to 55.6% from an estimated 56.1% in FY26, and the FY27 fiscal deficit at 4.3% of GDP.
- Capital expenditure is budgeted to rise by 11.5% YoY to Rs 12.2 lakh crore and remain at ~3.1% of GDP in FY27, reinforcing infrastructure-led growth emphasis.
- Expenditure quality continues to improve, with the capex-to-revenue spend ratio reaching a near two-decade high, driven by higher transfers to states and capital outlays for defence and the transport sector.
- Fiscal sensitivities persist around high reliance on non-tax revenues (notably the RBI's dividend transfers) and divestment proceeds, alongside optimistic assumptions for income tax collections.
- Policy priorities in the FY27 Budget are anchored around three core *kartavya (duties)*: (i) accelerating and sustaining growth by enhancing productivity, competitiveness, and resilience; (ii) building human capacity to meet rising aspirations; and (iii) ensuring broad-based access to resources and opportunities across regions and sectors, aligned with the vision of Sabka Sath, Sabka Vikas.
- While the reform agenda is broad-based, several initiatives span multiple sectors and ecosystems, and are inherently medium-term in nature, implying a lag before tangible growth, investment, and employment gains materialise.
- In FY27, the Centre's gross and net market borrowings through dated securities are budgeted at Rs 17.2 lakh crore and Rs 11.7 lakh crore, respectively, compared with Rs 14.6 lakh crore and Rs 10.4 lakh crore in FY26 (RE). The increase in gross borrowings is partly attributable to higher redemptions scheduled in FY27.
- Elevated gross market borrowings in FY27 could exert upward pressure on bond yields, increasing the likelihood of the RBI's OMOs to manage bond supply conditions and anchor G-Sec yields.

Pramod Chowdhary
Chief Economist
pramod.chowdhary1@dmifinance.in

Bhawna Sachdeva
Economist
bhawna.sachdeva@dmifinance.in

Shantanu Sharma
Economist
shantanu.sharma@dmifinance.in

www.dmifinance.in

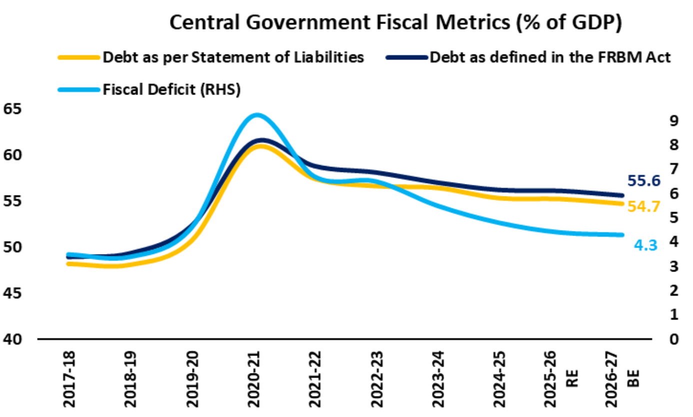
+91 11 4120 4444

DMI Finance Private Limited
Express Building, 9-10, 3rd Floor,
Bahadur Shah Zafar Marg,
Delhi – 110002.

FY27 Budget: Fiscal Prudence without Sidelining CAPEX; Continued Reforms Push

The FY27 Union Budget is broadly in line with our expectations, reaffirming the government's commitment to fiscal consolidation, a continued focus on capital expenditure, and reform continuity. However, the reform agenda appears incremental and dispersed, rather than anchored around a single/few bold structural pivot(s). Several initiatives span multiple sectors and ecosystems, and are inherently medium-term in nature, implying a lag before tangible growth, investment, and employment gains materialise.

Fiscal parameters are largely aligned with expectations. After supporting consumption through tax cuts in FY26, the FY27 Budget demonstrates a continued commitment to fiscal consolidation while deliberately preserving the public capital expenditure impulse. ***Notably, from FY27 onwards, the anchor for fiscal consolidation shifts from the fiscal deficit-to-GDP ratio to the debt-to-GDP ratio. Consistent with the medium-term objective of reducing Central government debt to 50±1% of GDP by FY31, the Centre has budgeted a decline in its debt-to-GDP ratio to 55.6% in FY27, from an estimated 56.1% in FY26. This aligns with a moderate fiscal consolidation, with the fiscal deficit budgeted at 4.3% of GDP in FY27, down from 4.4% in FY26, in line with our expectations***. The adjustment is driven primarily by a moderation in revenue expenditure, while capital expenditure is maintained at around 3.1% of GDP, underscoring the continued priority accorded to infrastructure-led growth.



Source: Union Budget Documents; Note: FRBM refers to the Fiscal Responsibility and Management Act

FY26 Fiscal Deficit (RE) at 4.4% of GDP, in Line with Budgeted Target

Consistent with our expectations, the FY26 fiscal deficit has been maintained at 4.4% of GDP in the Revised Estimates (RE). The shortfall in tax revenues was largely offset by lower-than-budgeted expenditure, primarily the revenue expenditure, and stronger non-tax revenues, helping the government adhere to the fiscal consolidation path despite revenue pressures.

Total government expenditure for FY26 is now estimated at 13.9% of GDP, lower than the 14.2% of GDP projected in the Budget Estimates (BE). This moderation is driven mainly by rationalisation of revenue expenditure, which declined from 11.0% of GDP (BE) to 10.8% (RE). Capital expenditure is estimated marginally lower at Rs 11.0 lakh crore, compared with Rs 11.2 lakh crore in the BE. Importantly, the revised estimate implies a sharp contraction of around 16% YoY in capex during Q4 FY26, following a strong 15% YoY expansion in FYTD26 (Apr–Dec). Given this steep implied adjustment, we see a possibility of capex overshooting in the final outturn.

On the revenue side, total receipts (excluding borrowings) for FY26 are lower by Rs 0.9 lakh crore, led by a shortfall in tax collections following income tax and GST rate cuts, as well as weaker-than-budgeted disinvestment proceeds. Nearly half of the tax revenue shortfall was offset by higher non-tax revenues, driven primarily by a larger-than-budgeted RBI dividend transfer, which provided a meaningful cushion to the fiscal position.

FY27 Fiscal Deficit Targeted at 4.3% of GDP, Aligned with Medium-Term Consolidation Path

From FY27 onwards, the anchor for fiscal consolidation has formally shifted from the fiscal deficit-to-GDP ratio to the debt-to-GDP ratio. In line with the government's medium-term objective of reducing central government debt to 50±1% of GDP by FY31, the Centre has budgeted a decline in its debt-to-GDP ratio to 55.6% in FY27, from an estimated 56.1% in FY26. This is consistent with the budgeted fiscal deficit of 4.3% of GDP in FY27, compared with 4.4% in FY26, implying a moderate and calibrated pace of consolidation. This corresponds to ~Rs 16.96 lakh crore of fiscal deficit in FY27.

The fiscal adjustment in FY27 is driven primarily by a moderation in expenditure growth, with total expenditure budgeted at 13.6% of GDP, down from 13.9% in FY26 (RE). The compression is led by slower growth in revenue expenditure, while capital expenditure is largely maintained at around 3.1% of GDP, underscoring the continued priority accorded to public investment. At an aggregate level, tax revenue assumptions appear broadly realistic, although projections for income tax collections appear somewhat optimistic. Dependence on non-tax revenues, particularly the RBI's dividend transfers and divestment proceeds, remains elevated, representing a key source of fiscal sensitivity.

Nominal GDP growth for FY27 is projected to grow by 10%, compared with 8.0% in FY26. This assumption appears reasonable, given expectations of a pickup in inflation alongside steady economic growth, which should provide a supportive denominator effect for fiscal consolidation.

For FY27, the central government has budgeted total receipts of Rs 36.5 lakh crore, a 7.2% YoY increase from FY26 (RE). Within this, gross tax collections are projected to grow by 8.0%, a modest improvement over 7.4% growth in FY26 (RE), taking the tax-to-GDP ratio to 11.2% in FY27. This implies an overall tax buoyancy of around 0.8, slightly lower than 0.9 in FY26 (RE), suggesting a realistic aggregate tax assumption.

Within gross tax revenues, direct taxes are budgeted to grow by 11.4%, up from 9.0% in FY26 (RE). This acceleration is driven primarily by a sharp pickup in income tax collections, projected at 11.7% growth, nearly double the growth recorded in FY26, while corporate tax growth is budgeted to moderate slightly relative to FY26 (RE). We view the implied income tax buoyancy of around 1.2 (versus 0.8 in FY26 RE) as optimistic, whereas the overall direct tax buoyancy of about 1.1, broadly unchanged from the previous year, appears realistic. Accordingly, there remains a moderate risk of slippage on income tax collections should growth or compliance gains underperform expectations.

Within indirect taxes, GST collections are budgeted to decline by 2.6% in FY27, compared with 1.9% growth in FY26 (RE), reflecting the full-year impact of GST rate cuts, whereas the impact in FY26 was largely confined to the second half of the year. This conservative GST revenue assumption looks reasonable, suggesting no material downside risk to GST collections estimates.

Part of the GST-related revenue pressures is expected to be offset by a sharp rise in excise duty collections, projected to grow by 15.6%, following the replacement of the GST compensation cess on tobacco products with excise duty. Customs duty collections, by contrast, are budgeted to grow moderately, reflecting the impact of multiple exemptions announced in the Budget. Overall, indirect tax revenues are projected to grow by a modest 3.0% in FY27, translating into a tax-to-GDP ratio of about 4.3%.

Beyond tax revenues, reliance on non-tax revenues, particularly the RBI's dividends, remains elevated, with total dividend transfers from the RBI and other public sector financial institutions budgeted at Rs 3.2 lakh crore. Disinvestment receipts are targeted at Rs 80,000 crore in FY27, compared with a revised estimate of Rs 34,000 crore in FY26. Achieving the FY27 target will hinge on the successful completion of the IDBI Bank stake sale, which, if executed, would significantly improve the likelihood of meeting the divestment objective.

Fiscal Space Created through Revenue Expenditure Rationalisation, while Capital Spending Preserved

On the expenditure side, total central government expenditure is budgeted to rise by 7.7% YoY to Rs 53.5 lakh crore in FY27, compared with 6.7% growth in FY26 (RE). This translates into an expenditure-to-GDP ratio of 13.6% in FY27, down from 13.9% in FY26 (RE). The degree of consolidation is more pronounced than in the FY26 Budget Estimate, which projected expenditure at 14.2% of GDP,

Fiscal Metrics	INR Lakh Crores				% of GDP				% YoY		
	FY25 A	FY26 BE	FY26 RE	FY27 BE	FY25 A	FY26 BE	FY26 RE	FY27 BE	FY26 RE over FY25 A	FY27 BE over FY26 BE	FY27 BE over FY26 RE
Revenue Receipts	**30.4**	**34.2**	**33.4**	**35.3**	**9.2**	**9.6**	**9.4**	**9.0**	**10.1**	**3.3**	**5.7**
Net Tax Revenues	**25.0**	**28.4**	**26.7**	**28.7**	**7.6**	**7.9**	**7.5**	**7.3**	**7.0**	**1.0**	**7.2**
Gross Tax Revenues	**38.0**	**42.7**	**40.8**	**44.0**	**11.5**	**12.0**	**11.4**	**11.2**	**7.4**	**3.1**	**8.0**
Direct Tax	22.2	25.2	24.2	27.0	6.7	7.1	6.8	6.9	9.0	7.0	11.4
Corporate Tax	9.9	10.8	11.1	12.3	3.0	3.0	3.1	3.1	12.4	13.8	11.0
Income Tax	12.4	14.4	13.1	14.7	3.7	4.0	3.7	3.7	6.2	1.9	11.7
Indirect Tax	15.7	17.5	16.6	17.1	4.8	4.9	4.6	4.3	5.2	-2.5	3.0
Customs	2.3	2.4	2.6	2.7	0.7	0.7	0.7	0.7	10.8	13.0	5.0
Union Excise Duty	3.0	3.2	3.4	3.9	0.9	0.9	0.9	1.0	12.1	22.7	15.6
GST*	10.3	11.8	10.5	10.2	3.1	3.3	2.9	2.6	1.9	-13.5	-2.6
Non-Tax Revenues	**5.4**	**5.8**	**6.7**	**6.7**	**1.6**	**1.6**	**1.9**	**1.7**	**24.4**	**14.3**	**-0.2**
Dividend from PSE	0.7	0.7	0.7	0.8	0.2	0.2	0.2	0.2	-4.2	8.7	5.6
Dividend from RBI & PSU	2.3	2.6	3.0	3.2	0.7	0.7	0.9	0.8	30.0	23.4	3.7
Non-Debt Capital Receipts	0.4	0.8	0.6	1.2	0.1	0.2	0.2	0.3	53.1	55.8	84.9
Disinvestments & Others	0.2	0.5	0.3	0.8	0.1	0.1	0.1	0.2	96.7	70.2	136.4
Total Receipts	**30.8**	**35.0**	**34.1**	**36.5**	**9.3**	**9.8**	**9.5**	**9.3**	**10.7**	**4.4**	**7.2**
Total Expenditure	**46.5**	**50.7**	**49.6**	**53.5**	**14.1**	**14.2**	**13.9**	**13.6**	**6.7**	**5.6**	**7.7**
Revenue Expenditure	**36.0**	**39.4**	**38.7**	**41.3**	**10.9**	**11.0**	**10.8**	**10.5**	**7.4**	**4.6**	**6.6**
Interest Payments	11.2	12.8	12.7	14.0	3.4	3.6	3.6	3.6	14.2	10.0	10.2
Subsidy	4.2	4.3	4.7	4.5	1.3	1.2	1.3	1.2	11.1	6.7	-3.1
Capital Expenditure	**10.5**	**11.2**	**11.0**	**12.2**	**3.2**	**3.1**	**3.1**	**3.1**	**4.2**	**9.0**	**11.5**
Fiscal Deficit	**15.7**	**15.7**	**15.6**	**17.0**	**4.8**	**4.4**	**4.4**	**4.3**			

*Source: CMIE, Budget documents, BE - Budget Estimates, RE - Revised Estimates A - Actuals. Note: * GST is inclusive of cess in previous years* indicating a sustained effort at expenditure rationalisation over the past year.

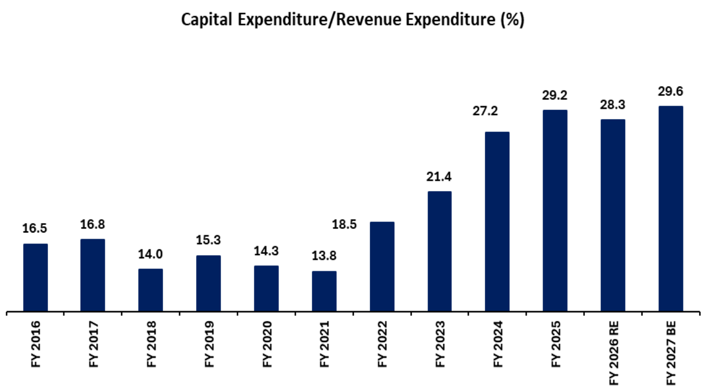
Relative to FY26 (RE), the bulk of expenditure savings is driven by slower growth in revenue expenditure, which is budgeted to increase by a modest 6.6% in FY27. This moderation is partly driven by a contraction in subsidy outlays. Core revenue expenditure (excluding interest payments and subsidies) is projected to grow at 6.7%, indicating continued restraint in discretionary spending. Within major schemes, higher allocations are provided to the Jal Jeevan Mission, followed by the Grameen Rojgar Yojna/MNREGA and the Pradhan Mantri Awas Yojana (Rural), reflecting a targeted social-sector focus. Meanwhile, interest payments are expected to remain stable at 3.6% of GDP in FY27.

The Government has accepted the recommendation of the 16th Finance Commission to retain the vertical devolution share to states at 41%. Further, the Commission has recommended an annual fiscal deficit cap of 3% of states' GDP for FY27–FY31, implying a renewed emphasis on fiscal consolidation at the State level over the medium term.

Focus on Capex Well Retained

Encouragingly, the focus on capital expenditure has been retained in FY27, even as the post-pandemic recovery phase is well behind us. Capital expenditure is budgeted to grow by 11.5% YoY to Rs 12.2 lakh crore in FY27, and is maintained at 3.1% of GDP, underscoring the government's continued emphasis on public investment as a key growth driver.

Capital-to-Revenue Expenditure Ratio Near Two-Decade High



Source: Union Budget Documents, CMIE; DMI Calculations

With this sustained capex push, the quality of expenditure continues to improve, as the capital-to-revenue expenditure ratio rises to a near two-decade high of 29.6%. Capital expenditure is led by transport, including railways and roads, transfers to states for capital loans, and defence services. Overall, the capex profile suggests a calibrated shift towards strengthening state-level investment capacity and strategic sectors, while maintaining momentum in core infrastructure.

Elevated Market Borrowing to Put Pressure on Bond Market

In FY27, the Centre's gross and net market borrowings through dated securities are budgeted at Rs 17.2 lakh crore and Rs 11.7 lakh crore, respectively, compared with Rs 14.6 lakh crore and Rs 10.4 lakh crore (net of buyback and switches) in FY26 (RE). The increase in gross borrowings is partly attributable to higher redemptions scheduled in FY27.

Financing of the Deficit

INR Lakh Crores	FY25 A	FY26 RE	FY27 BE
Fiscal Deficit (A)	**15.74**	**15.58**	**16.96**
Fiscal Deficit (% of GDP)	**4.8**	**4.4**	**4.3**
Sources of Funding	**FY25 A**	**FY26 RE**	**FY27 BE**
Net Short Term Borrowings	-1.6	0.0	1.3
External Finance	0.5	0.2	0.2
Securities Issued Against Small Savings	4.3	3.7	3.9
State Provident Fund (Net)	0.0	0.0	0.0
Other Receipts (Net)	1.8	0.8	-0.5
Drawdown of Cash Balances	0.0	0.5	0.3
Net G-sec Borrowing (B)	**10.7**	**10.4**	**11.7**
Redemption + Net Switching of Securities + Buy Backs (C)	3.3	4.2	5.5
Gross Borrowing (B+C)	**14.0**	**14.6**	**17.2**
Net Borrowing as % of Fiscal Deficit	**68.2**	**66.8**	**69.2**

Source: Union Budget Documents

Even so, the elevated gross borrowing requirement is likely to remain a key concern for bond markets, particularly in an environment of sticky global yields, and could exert upward pressure on government bond yields. Against this backdrop, greater RBI support through open market operations (OMOs) will likely be required to absorb supply pressures and help anchor G-Sec yields, especially during periods of heavy bond issuance.

Reforms Push: Reforms Broad-based but Initiatives Dispersed and Largely Back-Ended

The FY27 Union Budget seeks to sustain reform momentum while balancing growth ambition with inclusion, and to continue emphasising self-reliance while maintaining integration with global markets to support exports and long-term investment. The policy approach aims to strengthen domestic capabilities, support exports, and attract long-term investment, though largely through incremental, sector-specific interventions rather than sweeping structural reforms.

Policy priorities in FY27 are anchored around three core kartavya (duties): (i) accelerating and sustaining growth by enhancing productivity, competitiveness, and resilience; (ii) building human capacity to meet rising aspirations; and (iii) ensuring broad-based access to resources and opportunities across regions and sectors, aligned with the vision of Sabka Sath, Sabka

Vikas. In addition, the Budget introduces a range of compliance and tax-related measures, discussed in subsequent sections. Overall, while the **reform agenda remains broad-based, many initiatives are dispersed across sectors and likely to deliver results over the medium term, with possible moderate near-term transformational impact.**

Kartavya I: Accelerating and Sustaining Economic Growth, and Building Resilience

Under the first *kartavya*, the government outlines a six-pillar strategy covering manufacturing expansion, rejuvenation of legacy industrial clusters, creation of "Champion MSMEs", a sustained infrastructure push, long-term energy security, and the development of City Economic Regions. The approach reflects a deliberate effort to strengthen the economy's supply-side fundamentals, raise productivity, and enhance resilience to global volatility, while continuing to rely on public investment and targeted reforms to crowd in private capital.

Manufacturing interventions are broad-based, spanning both frontier and traditional sectors. In biopharma, the Biopharma SHAKTI programme, with an outlay of Rs 10,000 crore over five years, aims to position India as a global manufacturing hub for biologics and biosimilars through ecosystem development and institutional strengthening. Parallel initiatives under India Semiconductor Mission 2.0 seek to deepen domestic capabilities across equipment, materials, and design full-stack intellectual property, supported by industry-led research and skilling. The manufacturing push is further reinforced by the expansion of the Electronics Components Manufacturing Scheme, alongside plans to develop rare-earth corridors in mineral-rich states and to support the establishment of three dedicated chemical parks, underscoring the emphasis on import substitution and higher domestic value addition.

A distinct thrust is placed on strengthening capital goods and industrial manufacturing, recognising their role as critical value-chain enablers. The Budget proposes Hi-Tech Tool Rooms as digitally enabled hubs for high-precision component design and manufacturing, alongside a dedicated Construction and Infrastructure Equipment (CIE) scheme to support domestic production of technologically advanced equipment. A container manufacturing scheme with a multi-year outlay is also proposed to create a globally competitive container manufacturing ecosystem. A separate scheme to revive 200 legacy industrial clusters has been proposed to improve cost competitiveness through infrastructure and technology upgrades.

Labour-intensive manufacturing, particularly textiles, received focused support through an integrated programme that encompasses self-reliance in natural fibres, modernisation of traditional clusters, targeted assistance for weavers and artisans, skill upgrading, sustainability initiatives, and the development of mega-textile parks. Complementary measures for khadi, handicrafts, and sports goods manufacturing seek to strengthen employment generation and export orientation through targeted steps.

MSMEs are supported through a broad framework spanning equity, liquidity, and operational capability. The proposed Rs 10,000 crore SME Growth Fund aims to provide patient equity to scalable "Champion" MSMEs, while an additional Rs 2,000 crore infusion into the Self-Reliant India Fund sustains access to risk capital for micro enterprises. On liquidity, the Budget deepens digital financing by mandating TReDS as the transaction settlement platform for all purchases from MSMEs by CPSEs, introducing CGTMSE-backed guarantees for invoice discounting on the TReDS platform, linking GeM with TReDS, and TReDS receivables as asset-backed securities to develop a secondary market, thereby enhancing liquidity and settlement of transactions. These measures are complemented by professional support through the development of a cadre of accredited "Corporate Mitras", which could help ease compliance and strengthen formalisation, particularly in Tier II and Tier III centres.

Logistics efficiency and multimodal connectivity are key pillars of the infrastructure push. Measures include the development of new Dedicated Freight Corridors, expansion of inland waterways, beginning with key mineral and industrial corridors, and promotion of coastal shipping to enable a modal shift away from road and rail. These initiatives are complemented by regional training institutes and centres of excellence to build a skilled workforce, strengthening the employment linkages of infrastructure investment.

Reinforcing cities' role as engines of growth, the proposed City Economic Regions (CERs) framework seeks to unlock agglomeration benefits in Tier II and Tier III cities through reform-linked, results-based financing aligned with city-specific growth drivers. In parallel, the development of seven high-speed rail corridors between cities, serving as growth connectors, aims to expand environmentally sustainable passenger mobility. Together, these measures are intended to lower logistics costs, improve spatial integration, and support more balanced medium-term growth.

The FY27 Budget also seeks to build on the strength of India's financial system. The government proposed a High-Level Committee on Banking for Viksit Bharat to align banking sector reforms with the next phase of growth. As part of the Viksit Bharat roadmap for NBFCs, the proposed restructuring of Power Finance Corporation and Rural

Electrification Corporation aims to enhance scale, efficiency, and technology adoption across public-sector NBFCs. The government also proposed a comprehensive review of the Foreign Exchange Management (Non-debt Instruments) Rules to create a more contemporary, user-friendly framework for foreign investments.

To deepen capital markets, the Budget proposed a market-making framework for corporate bonds and the introduction of total return swaps on corporate bonds, to enhance liquidity and price discovery. Urban infrastructure financing is supported through incentives for large municipal bond issuances, alongside continued AMRUT-linked support for smaller issuances. Ease-of-doing-business measures include liberalisation of portfolio investment norms for Persons Resident Outside India (PROIs).

In addition, the government continues to take steps to promote emerging technologies through the AI Mission, National Quantum Mission, Anusandhan National Research Fund, and the Research, Development and Innovation Fund, positioning technology as a cross-cutting enabler of productivity, inclusion, and long-term growth.

Kartavya II: Fulfilling Aspirations and Building Capacity

Under the second kartavya, the FY27 Budget places renewed emphasis on human capital formation and services-led growth, aligned with the needs of a young and expanding workforce. A key institutional anchor is the proposed Education-to-Employment-and-Enterprise Standing Committee, tasked with identifying priority services sectors, emerging skill requirements (including those shaped by AI), and pathways to expand employment and exports, consistent with India's longer-term ambition to raise its global share in services.

Healthcare and allied services form an important pillar of the capacity-building agenda. The Budget proposes expanding the pipeline of skilled health professionals alongside building a structured care ecosystem for geriatric and allied services through multi-skilled caregiver training. In parallel, a scheme to establish five Regional Medical Hubs seeks to position India as a global medical value tourism destination. The Budget also aims to strengthen India's leadership in traditional medicine by expanding Ayurveda institutions and supporting the related ecosystem. In addition, veterinary education and infrastructure are proposed to be expanded through a loan-linked subsidy scheme.

The Budget broadens its focus to emerging and creative services, education infrastructure, tourism, and sports. Support for the AVGC (Animation, Visual Effects, Gaming & Comics) sector through content-creator labs in schools and colleges aims to address rising skill demand in digital creative industries. Design education is strengthened through a new national institute in eastern India, while University Townships along major industrial and logistics corridors seek to better integrate higher education with regional economic ecosystems.

Tourism-led employment is reinforced through upgraded hospitality education, structured guide-skilling programmes, digital documentation of cultural and heritage assets, and targeted eco-tourism initiatives. In parallel, the proposed Khelo India Mission positions sports as a long-term engine for talent and employment through integrated athlete development pathways, systematic coaching and support staff development, and expanded sports infrastructure.

Kartavya III: Sabka Sath, Sabka Vikas

The third kartavya focuses on extending the gains of growth to underserved households, regions, and communities, combining income enhancement, social empowerment, and region-specific development to ensure more inclusive participation in India's growth trajectory.

A significant thrust is placed on raising farm incomes through productivity enhancement, diversification, and value-chain development across fisheries, animal husbandry, and high-value agriculture, including crop-specific programmes such as the Coconut Promotion Scheme. In parallel, women-led rural entrepreneurship is strengthened through Self-Help Entrepreneur (SHE) Marts, which facilitate a transition from credit-led livelihoods to enterprise ownership through community-based retail platforms.

Regional development receives focused attention through targeted interventions in the Purvodaya States and the North-Eastern Region, spanning industrial corridors, sustainable mobility, tourism, and heritage development, aiming to boost rural incomes, inclusion, and balanced regional growth.

Key Tax Proposals: Emphasis on Simplification and Compliance Ease

The FY27 Budget's key tax proposals emphasise simplification, certainty, and reduced compliance friction, while seeking to strengthen India's competitiveness as a destination for investment, technology, and skilled talent. On direct taxes, the centrepiece is the Income Tax Act, 2025, effective from April 2026, aimed at simplifying the tax framework and reducing litigation. Ease-of-living measures include income tax exemption on interest awarded by MACT (Motor Accident Claims Tribunal), lower TCS rates on the sale of overseas tour program package and for pursuing education and for medical purposes under the Liberalised Remittance Scheme, streamlined TDS provisions for supply of manpower services, extended timelines for filing revised returns, and automated mechanisms for lower or nil TDS certificates. The Budget also advances dispute resolution by integrating assessment and penalty proceedings, rationalising penalties and prosecutions, and establishing a one-time foreign asset disclosure window for small taxpayers.

Structural measures support priority segments especially the IT sector. The reforms unify IT services (software development services, IT-enabled services, knowledge process outsourcing services and contract R&D services relating to software development) under a single category of Information Technology Services, with a common safe harbour margin of 15.5%, and automated, rule-based approval of safe harbour and faster, more flexible APA processes. Global investment is encouraged through tax holidays for foreign companies that provide cloud services to customers worldwide by using data centre services in India, with a safe harbour of 15% on costs if the company providing data centre services from India is a related entity. MAT exemptions have been provided to all non-residents who pay tax on a presumptive basis, and targeted incentives given for toll manufacturing, and high-skilled non-resident professionals.

The additional tax proposals include shifting the taxation of share buybacks to the capital gains regime for all shareholders, with an effective tax rate of 22% for corporate promoters and 30% for non-corporate promoters. The government also hiked STT on futures to 0.05% from the current 0.02%, STT on options premium and exercise of options to be raised to 0.15% from the present 0.1% and 0.125% respectively, to curb speculation. The higher STT has led to disappointment in the market, with the NIFTY50 closing ~2.0% lower on the Budget Day session though it showed recovery on 2nd Feb. It also announced changes related to MAT to enable companies to shift to the new regime, wherein MAT will become a final tax from 1 April 2026, with the rate reduced to 14% (from 15%), with no further MAT credit accumulation post FY26 and set-off of brought-forward MAT credit allowed only under the new corporate tax regime, capped at 25% of tax liability.

On indirect taxes, the focus is on tariff rationalisation, export promotion, and trade facilitation, alongside targeted support for strategic and sunrise sectors. Measures include enhanced export support for marine, leather, textile, and MSME-led courier exports. Targeted and conditional customs duty relief is extended to energy transition technologies, nuclear power, critical minerals, aviation, electronics, and healthcare inputs, while a strong thrust is placed on trust-based and digital customs reforms to improve clearance efficiency and predictability.

DISCLAIMER

This research report/material (the “Report”) is for the personal information of the authorised recipient(s) and is not for public distribution and should not be reproduced or redistributed to any other person or in any form without DMI’s prior permission.

In the preparation of this Report, DMI has used information that is publicly available as well as data gathered from third party sources. Information gathered and material used in this Report is believed to have been obtained from reliable sources. DMI, however makes no warranty, representation or undertaking, whether expressed or implied, that such information is accurate, complete or up to date or current as of the date of reading of the Report, nor does it assume any legal liability, whether direct or indirect or responsibility for the accuracy, completeness, currency or usefulness of any information in this Report. Additionally, no third party will assume any direct or indirect liability. It is the responsibility of the user or recipient of this Report to make its/his/her own decisions or enquiries about the accuracy, currency, reliability and correctness of information found in this Report.

Any statement expressed as recommendation in this Report is general in nature and should be construed strictly as current opinion of DMI as of the date of the Report and may be subject to change from time to time without prior intimation or notice. The readers of this Report should carefully read, understand and investigate or enquire (either with or without professional advisors) into the risks arising out of or attached to taking any decisions based on the information or opinions contained in this Report. DMI or its officers, directors, personnel and employees, including persons involved in the preparation or issuance of this Report may have potential conflict of interest with respect to any recommendation and related information and opinions.

Neither DMI nor any of its officers, directors, personnel and employees shall be liable for any loss, claim, damage of whatsoever any nature, including but not limited to, direct, indirect, punitive, special, exemplary, consequential, as also any loss of profit in any way arising from the use of this Report or the information therein or reliance of opinions contained in this Report, in any manner.

No part of this Report may be duplicated or copied in whole or in part in any form and or redistributed without the prior written consent of DMI. Any reproduction, adaptation, distribution or dissemination of the information available in this Report for commercial purpose or use is strictly prohibited unless prior written authorization is obtained from DMI. The Report has been prepared in India and the Report shall be subject only to Indian laws. Any foreign reader(s) or foreign recipient(s) of this Report are requested to kindly take note of this fact. Any disputes relating to the Report shall be subject to jurisdiction of Republic of India only.