2025-26
UNION BUDGET ANALYSIS

Consumption Revival: The Right Pill for Ailing Economy

Amidst darkening clouds of global uncertainty and early signs of slowing economy, consumption and corporate earnings, the budget has delivered on expectations of reviving economic growth through a slew of measures along with treading a path of fiscal prudence by setting a fiscal deficit target of 4.4% for FY26. The key highlight of the budget was relief for the middle-income class through tax relief, with measures aimed to increase the disposable income and boosting consumption. The government's capex allocation of Rs. 11.21 lakh crores in FY26 (vis-à-vis Rs. 10.18 lakh crores in FY25 RE) and efforts to align it into the most productive areas of the economy such as roads, railways, airports and infrastructure through is likely to have a multiplier effect and help accelerate capital formation in the economy. The intent to make these efforts percolate deep into the economy through close coordination with states (interest free loans), higher efforts towards simplifying ease of doing business (lowering TDS and TCS, decriminalization of about 100 laws) and incentives to drive investments (insurance, shipping) bode well for the long term. To sum it up, "no bad news is good news" is the essence of today's budget and has the right ingredients to drive home the theme of predictability and conservatism from the government.

Highlights of Budget

⇒ India being the fastest growing major economy, its development track record over past 10 years and structural reforms have drawn global attention. The next five years provide a unique opportunity to the country to realize 'Sabka Vikas', stimulating growth across all regions.

⇒ For FY26, the total receipts other than borrowings is estimated at Rs. 34.96 lakh crores and the total expenditure is estimated at Rs. 50.65 lakh crores. The net tax receipts are estimated at Rs. 28.37 lakh crores. The fiscal deficit is estimated at 4.4% of the GDP.

⇒ The revised fiscal deficit estimate is 4.8% of GDP for FY25, better than the budget estimate of 4.9%.

⇒ The capital expenditure for FY26 has been raised to Rs. 11.21 lakh crore. In FY25, the target was Rs. 11.11 lakh crore which was revised downwards to Rs. 10.18 lakh crores.

⇒ The budget allocation for the defense sector for FY26 stood at Rs. 4.9 lakh crores and for Rural Development, the allocation stood at Rs. 2.6 lakh crores (up 39.9% from the revised estimate of FY25). Expenditure of Home Affairs rose by 21.7% to Rs. 2.3 lakh crores.

⇒ The government has kept its FY26 disinvestment target at Rs. 47,000 crores. For FY25, the revised estimate stands at Rs. 33,000 crores, compared to the budgeted estimate of Rs. 50,000 crores.

⇒ The government proposed to outlay Rs. 1.5 lakh crores as a 50-year interest-free loan to states for capital expenditures and incentives for reforms.

⇒ Private players will contribute to the development of nuclear power facilities. The government aims for the development of 100GW of nuclear energy by 2047. A Nuclear Energy Mission for research & development of Small Modular Reactors (SMR) with an outlay of Rs. 20,000 crores will be set up.

⇒ The government will undertake a 'Prime Minister Dhan-Dhaanya Krishi Yojana' in partnership with states covering 100 districts, aiming to enhance agricultural productivity, adopt crop diversification and sustainable agriculture practices, augment post-harvest storage at the panchayat and block level, improve irrigation facilities, and facilitate availability of long-term and short-term credit, thereby helping 1.7 crore farmers.

⇒ A 5 year 'Mission for Cotton Productivity' to facilitate significant improvements in productivity and sustainability of cotton farming, and promote extra-long staple cotton varieties. This will help in increasing incomes of the farmers, and ensure a steady supply of quality cotton for rejuvenating India's traditional textile sector.

⇒ Enhanced credit availability through Kisan Credit Cards (KCC) facilitate short term loans for 7.7 crore farmers, fishermen, and dairy farmers. The credit is enhanced from Rs. 3 lakhs to Rs. 5 lakhs for loans taken through the KCC.

⇒ UDAN has enabled 1.5 crore middle-class people to meet their aspirations for speedier travel. The scheme has connected 88 airports and operationalized 619 routes. Inspired by that success, a modified UDAN scheme will be launched to enhance regional connectivity to 120 new destinations and carry 4 crore passengers in the next 10 years.

⇒ SWAMIH Fund 2 will be created as a blended finance facility, with contributions from the government, banks, and private investors. This Rs. 15,000 crores fund aims to expedite the completion of an additional 100,000 units.

⇒ New Urea plants opened in Eastern region and a 12.7 lakh metric ton annual capacity to be set up at Namrup, Assam to augment urea supply.

⇒ A new scheme for 5 lakh women, Scheduled Castes and Scheduled Tribes first-time entrepreneurs was launched under which they will be provided term loans up to Rs. 2 crores during the next five years.

⇒ The government proposes to fully exempt cobalt powder and waste, the scrap of lithium-ion batteries, lead, zinc, and 12 more critical minerals to secure availability for manufacturing and promote more jobs.

⇒ A Deep Tech Fund of Funds will also be explored to catalyze the next generation startups as a part of this initiative.

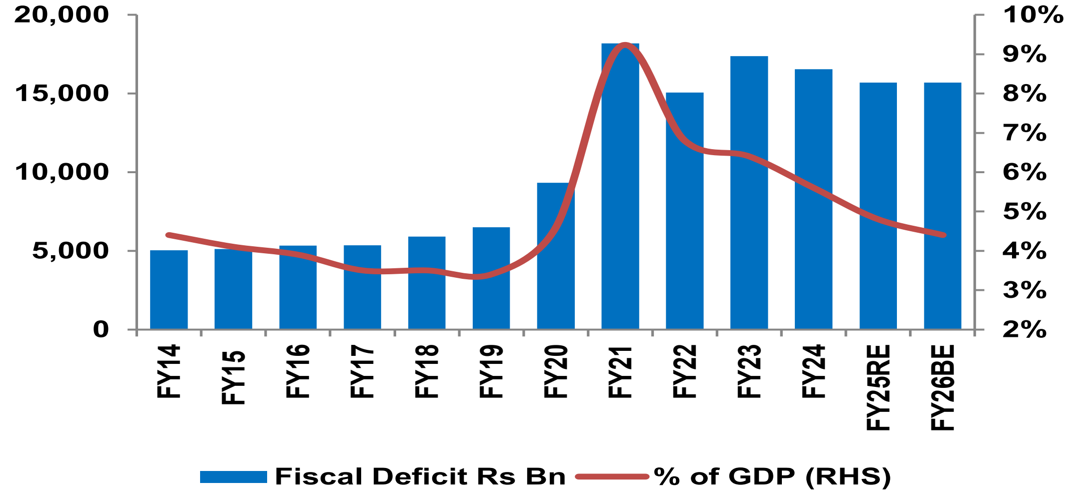
- ⇒ To improve access to credit, the credit guarantee cover for Micro and Small Enterprises will be Rs. 10 crores, for startups - Rs. 20 crores with the guarantee fee being moderated to 1% for loans and for well-run exporter MSMEs - term loans up to Rs. 20 crores. Customized credit card with limit of Rs. 5 lakhs for micro enterprises was introduced.
- ⇒ Proposal to add 35 additional capital goods for EV battery manufacturing and 28 additional capital goods for mobile phone battery manufacturing to the list of exempted goods.
- ⇒ The top 50 tourist destination sites in the country will be developed in partnership with states through a challenge mode. Land for building key infrastructure will have to be provided by states.
- ⇒ To enhance the footwear and leather sector, a focus product scheme is proposed. This scheme is expected to facilitate employment for Rs. 22 lakh persons, generate a turnover of Rs. 4 lakh crores, and exports of over Rs. 1.1 lakh crores.
- ⇒ Building on the National Action Plan for Toys, the government plans to implement a scheme to make India a global hub for toys. The scheme will focus on development of clusters, skills, and a manufacturing ecosystem that will create high-quality, unique, innovative, and sustainable toys that will represent the 'Made in India' brand.
- ⇒ To promote ease of doing business, a proposal has been put forward to set a time limit of two years, with one-year extension, for finalising the provisional assessment. The government will introduce the Jan Vishwas Bill 2.0, which aims to decriminalize more than 100 additional provisions in various laws.
- ⇒ A proposal has been made to streamline Tax Deduction at Source (TDS) by reducing the number of rates and thresholds at which TDS is deducted. Additionally, the threshold amounts for tax deduction will be increased to ensure better clarity and uniformity.
- ⇒ A presumptive taxation regime is set to be provided for non-residents who offer services to resident companies establishing or operating electronics manufacturing facilities. Additionally, a safe harbour for tax certainty will be introduced for non-residents who store components for supply to specified electronics manufacturing units.
- ⇒ A digital public infrastructure, 'BharatTradeNet' (BTN) for international trade, will be set up as a unified platform for trade documentation and financing solutions. This will complement the Unified Logistics Interface Platform. The BTN will be aligned with international practices.
- ⇒ To support the transformation of urban areas, an Urban Challenge Fund of Rs. 1 lakh crores will be set up to implement proposals for "Cities as Growth Hubs", "Creative Redevelopment of Cities" and "Water and Sanitation" announced in July budget. This fund will finance up to 25% of the cost of bankable projects with a stipulation that at least 50% of the cost is funded from bonds, bank loans, and PPPs. An allocation of Rs. 10,000 crores was proposed for 2025-26.
- ⇒ To encourage funding from Sovereign Wealth Funds and Pension Funds for the infrastructure sector, the date for making investments will be extended by five more years, until March 31, 2030.
- ⇒ The government proposed to add two more types of shuttle-less looms to the list of fully exempted textile machinery. In addition, the BCD rates on knitted fabrics covered by nine tariff lines were revised from 10% or 20% to 20% or 115 per kg, whichever is higher.
- ⇒ To help industries better plan their imports, a proposal has been made to extend the time limit for the end-use of imported inputs in the relevant regulations from six months to one year.
- ⇒ Withdrawals from the National Savings Scheme (NSS) by individuals on or after August 29, 2024, will be exempt. Additionally, similar treatment will be extended to NPS Vatsalya accounts as is available to regular NPS accounts, subject to overall limits.
- ⇒ A proposal has been made to introduce a new provision allowing importers and exporters to voluntarily declare material facts and pay the required duty with interest, without facing any penalties, after the clearance of goods.

Budget at a Glance (table)

Rs. Bn	FY21	FY22	FY23	FY24	FY25BE	FY25RE	FY26BE	Growth Rate
1. Revenue Receipts (i+ii)	16,339	17,884	23,832	27,290	31,292	30,880	34,204	10.8%
i) Tax Revenue (Net)	14,263	15,454	20,978	23,273	25,835	25,570	28,374	11.0%
ii) Non-Tax Revenue	2,076	2,430	2,854	4,018	5,457	5,310	5,830	9.8%
2. Capital Receipts	18,831	18,114	18,100	17,144	16,913	16,285	16,449	1.0%
iii) Recoveries of loans	197.28	130	262	266	280	260	290	11.5%
iv) Other Receipts	379	1,750	460	331	500	330	470	42.4%
v) Borrowings & other Liabilities	18,255	16,234	17,378	16,546	16,133	15,695	15,689	0.0%
Total Receipts (1 + 2)	35,170	35,999	41,932	44,434	48,205	47,165	50,653	7.4%
3. On revenue account of which	30,835	29,290	34,531	34,942	37,094	36,981	39,443	6.7%
vi) Interest Payments	6,799	8,097	9,285	10,639	11,629	11,379	12,763	12.2%
4. Capital Account	4,263	5,542	10,463	9,492	11,111	10,184	11,211	10.1%
Total Expenditure (3 + 4)	35,098	34,832	44,994	44,434	48,205	47,165	50,653	7.4%
5. Revenue Deficit	14,496	11,406	10,699	7,652	5,802	6,101	5,238	-14.1%
% of GDP	7.3%	5.1%	-3.9%	-2.6%	-1.8%	-1.9%	-1.5%	
6. Effective Revenue Deficit	12,187	9,215	7,637	4,613	1,894	3,102	967	-68.8%
% of GDP	6.2%	4.1%	-2.8%	-1.6%	-0.6%	-1.0%	-0.3%	
7. Fiscal Deficit	18,183	15,068	17,378	16,546	16,133	15,695	15,689	0.0%
% of GDP	9.2%	6.8%	-2.8%	-5.6%	-4.9%	-4.8%	-4.4%	
8. Primary Deficit	11,384	6,971	8,092	5,908	4,504	4,316	2,926	-32.2%
% of GDP	5.8%	3.1%	-3.0%	-2.0%	-1.4%	-1.3%	-0.8%	

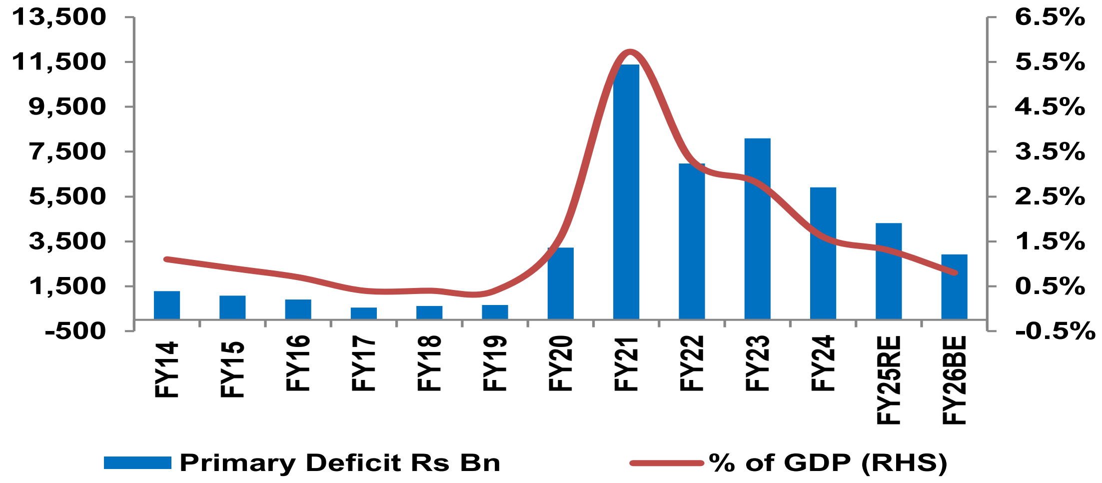
Source: Budget Documents, BP Equities Research

Fiscal Deficit as % of GDP



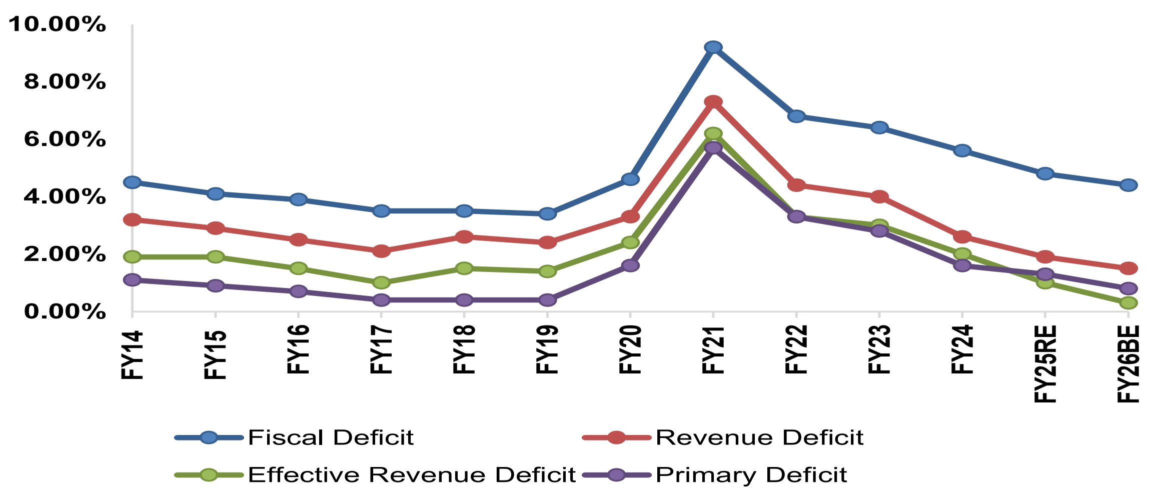
Source: Budget Documents, BP Equities Research

Primary Deficit as % of GDP



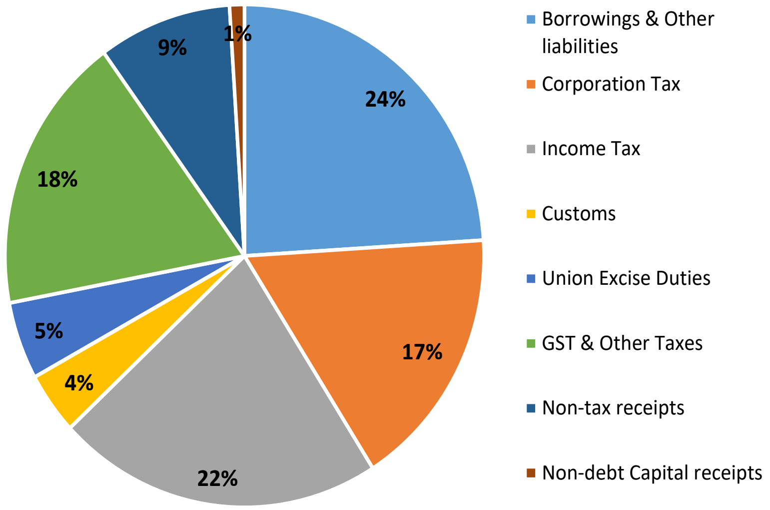
Source: Budget Documents, BP Equities Research

Deficit Trends as % of GDP

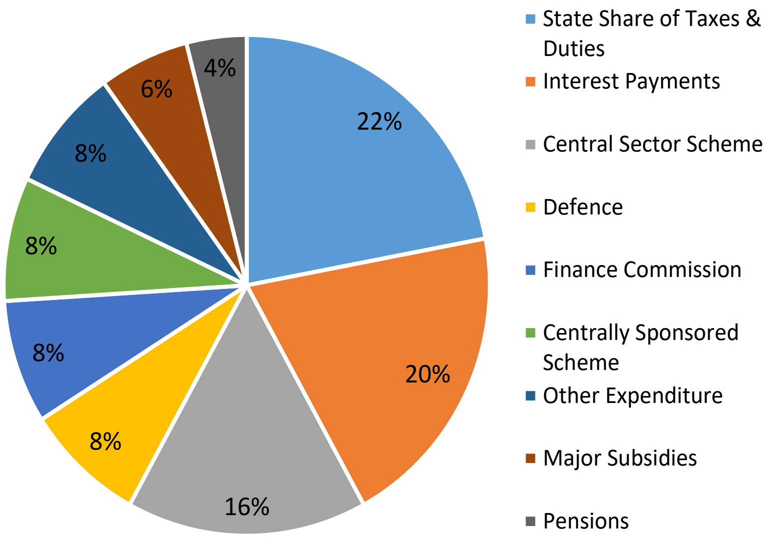


Source: Budget Documents, BP Equities Research

Revenue Contribution from Budget



Revenue Expenses from Budget



New Tax Regime 2025 vs 2026

Previous	Tax(%)	Now	Tax(%)
Upto Rs. 3 Lakhs	Nil	Rs. 0-4 Lakhs	Nil
Rs. 3-7 Lakhs	5%	Rs. 4-8 Lakhs	5%
Rs. 7-10 Lakhs	10%	Rs. 8-12 Lakhs	10%
Rs. 10-12 Lakhs	15%	Rs. 12-16 Lakhs	15%
Rs. 12-15 Lakhs	20%	Rs. 16-20 Lakhs	20%
Above Rs. 15 Lakhs	30%	Rs. 20-24 Lakhs	25%
		Above Rs. 24 Lakhs	30%

Source: Budget Documents, BP Equities Research

Union Budget Analysis 2025-2026

Announcement	Impact	Companies
Enhancing the credit guarantee cover for micro enterprises from Rs. 5 crores to Rs. 10 crores and the introduction of personalized credit cards for micro enterprises.	**Positive** for Banking sector	State Bank of India, ICICI Bank and HDFC Bank
Outlay of Rs. 1.5 lakh crores for the 50-year interest free loans to states for capital expenditure and incentives for reforms in order to strengthen core infrastructure. 3-year plan to be implemented in PPP mode, fostering a more structured approach to development.	**Positive** for Cement sector	Ambuja, Ultratech and ACC
FDI limit for insurance sector to be raised from 74% to 100%. It will bring in much-needed capital, enhance competition, and improve insurance penetration.	**Positive** for Insurance sector	HDFC Life, SBI Life and ICICI Prudential
Relief on drug imports by fully exempting 36 life-saving drugs and their bulk components from Basic Customs Duty and adding 6 more medicines to the concessional duty list at 5%.	**Positive** for Pharma sector	Sun Pharma, Divi's, Natco Pharma, Cipla, Dr. Reddy's and Biocon
The Prime Minister Dhan-Dhaanya Krishi Yojana's Agri Districts Programme is a significant initiative aimed at boosting agricultural productivity and rural prosperity.	**Positive** for Agrochemical sector	RCF, Chambal Fertilizers and Paradeep Phosphates
Reduction in BCD from 30% to 5% on Frozen Fish Paste (Surimi) for manufacturing and export of its analogue products.	**Positive** for Aquaculture sector	Apex Frozen Foods and Avanti Feeds
Proposal to add 35 additional capital goods for EV battery manufacturing and 28 additional capital goods for mobile phone battery manufacturing to the list of exempted goods.	**Positive** for Auto and EMS sector	Exide Industries, Amara Raja and Dixon
Under PM Gati Shakti, data will be made accessible to the private sector, and the development of the top 50 tourist destinations will be carried out in partnership with state governments.	**Positive** for Tourism sector	EaseMyTrip, Lemon Tree and Indian Hotels
Under Aatmanirbharta in pulses, the government is focusing on achieving Aatmanirbharta in edible oils and has launched a six-year mission with a special focus on Tur, Urad and Masoor. No income tax up till Rs. 12 lakhs are anticipated to boost the housing consumption.	**Positive** for FMCG sector	HUL, ITC, Marico, Zomato and Dabur

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