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Union Budget impact on Banking sector

Union Budget 2026-27 has attempted to achieve a fine balance between growth and fiscal consolidation objectives. By estimating fiscal deficit at 4.3% the Budget has attempted to stick to the fiscal glide path though there is a significant increase in borrowing numbers compared to the previous Budget. There is focus on manufacturing, MSMEs, financial sector, services, employment & skill development, infrastructure, urbanization and fiscal consolidation.

There are no significant or path breaking measures and this can be termed as a cautious budget. As the past measures have resulted in a growth rate exceeding 7%, big bang measures were perhaps considered unnecessary. But capex outlay has been hiked by 9% and a credible debt consolidation path has been announced with debt to GDP ratio for FY27 expected to decline to 55.6% from 56.1% in FY26. As expected, fiscal deficit will be brought down to 4.3% from 4.4%.

Table 1: Budget Arithmetic

Rs Lakh Cr, %	FY26RE	FY27BE	Y/y, %
Net Tax Revenue	26.74	28.67	7.4
Non Tax Revenue	6.66	6.70	0.60
Non Debt Capital Receipts	0.55	1.17	112.72
Total Revenue	34.00	36.50	7.35
Revenue Expenditure	38.69	41.25	6.61
Capital Expenditure	10.96	12.22	11.50
Total Expenditure	49.65	53.47	7.69

Source: Budget documents

Budget Announcements & Impact

	Announcement	Impact
1.	Fiscal measures <ul style="list-style-type: none"> • The debt to GDP ratio proposed to be brought down to 55.6% from 56.1% in FY26. • Fiscal deficit to decline to 4.3% from 4.4% in FY26. • Rs 1.4 lakh crore to be granted to state in FY27 as per 16th Finance Commission recommendation. However the share of states remains unchanged at 41% 	<p>The proposed reduction in debt GDP ratio will offer credibility about fiscal health to global rating agencies and reduce overseas cost of borrowings for domestic institutions. The aim is to bring down the metric to 50%+ or - 1% by 2031.</p> <p>As gross borrowing is expected to be Rs 17.28 lakh crore and state borrowings are also expected to stay elevated G-Sec yields across the curve are expected to harden by 5-6 bps, despite lower indicative deficit.</p>

<p>2.</p>	<p>Infrastructure and public capex: Capex spend is budgeted to increase from Rs 11.2 Lakh Cr to Rs 12.2 lakh Cr in FY27. Measures include:</p> <ul style="list-style-type: none"> • Rs 2 lakh Cr interest free capex loans to states. • Infrastructure Risk Guarantee Fund for partial credit guarantees to lenders.. • Recycling of real estate assets of CPSEs through the setting up of dedicated REITs. • Establishment of new Dedicated Freight Corridors. • Operationalising 20 new National Waterways connecting mineral rich areas, industrial centres and ports. • Setting up of ship repair ecosystem catering to inland waterways. Coastal Cargo Promotion Scheme to increase the share of inland waterways and coastal shipping from 6% to 12% by 2047. 	<p>The hike in public capex comes to 9% and Rs 1 lakh crore in absolute terms, keeping pace with the previous years. However, as a share of nominal GDP:, the share of public capex shows a slight decline to 3.1% from the earlier 3.2%.</p> <p>Recycling of real estate assets of CPSES involves pooling the real estate assets of central PSUs into REITs, selling these units to investors and ploughing the money thus raised into these projects. This increases the pool of REITs as there are only a handful at present. Liquidity in REITs will increase</p> <p>Dedicated freight corridors, waterways and ship repair ecosystems will facilitate reduction of logistics costs. India's logistics cost continues to be on the higher side vis-à-vis peers.</p> <p>Sectoral impact: Infrastructure, banks, infra financing NBFCs</p>
<p>3</p>	<p>Energy Security: scheme to ensure Carbon Capture Utilization and Storage with an outlay of Rs 20000 Cr; Extension of Basic Customs Duty on capital goods used in Lithium-ion cells; BCD exemption on goods for nuclear [power projects till 2035; Exclusion of value of biogas used in blended CNG from central excise duty.</p>	<p>The carbon capture utilization scheme is aimed at sectors where switching to renewable energy is hard. The carbon capture scheme helps these sectors reduce their carbon intensity This measure helps domestic manufacturers with high carbon emission to maintain export competitiveness, especially in the context of carbon tax announced by EU.</p> <p>Moreover, such captured carbon can be converted into products like green urea. Power, steel, cement, refineries and chemical sectors will benefit.</p> <p>BCD exemption will incentivize import of lithium batteries and promote EV ecosystem while nuclear power sector also receives a boost, reducing dependence on thermal power.</p> <p>Sectoral impact: Cement, steel, power, refineries, chemicals</p>

4	<p>Urbanization:</p> <ul style="list-style-type: none"> • Focus on Tier II and Tier III cities as well as temple towns • 7 High-Speed Rail corridors between cities 	<p>Focus on Tier II and II cities as well as temple towns will create an enabling ecosystem for industries, start-ups and GCCs to develop as metros and Tier 1 cities are on the verge of saturation. This step increases economic growth by ensuring better connectivity and reducing logistics costs.</p> <p>Sectoral impact: Logistics, housing, data centres, GCCs</p>
5.	<p>Ease of doing business measures:</p> <ul style="list-style-type: none"> • Individual Persons Resident Outside India (PROIs) will be permitted to invest in equity instruments of listed Indian companies through the Portfolio Investment Scheme (PIS). • Reduced Tax collected at source (TCS) on overseas tour package from 5% and 20% to 2% and for education and medical purposes from 5% to 2% • TDS on Supply of manpower services to be either 1% or 2%. • Enable depositories to accept Form 15G/ 15H from taxpayers holding securities in multiple companies. • Time available for revising returns extended from 31st December to up to 31st March with the payment of a nominal fee and for non-audit business cases or trusts are proposed to be allowed time till 31st August. • Allowing taxpayers to update their returns even after reassessment proceedings at an additional 10 percent tax rate. • Non-production of books of account and documents and requirement of TDS payment is decriminalised. • Immunity from prosecution with retrospective effect from 1.10.2024 for non-disclosure • Exemption from Minimum Alternate Tax (MAT) to all non-residents who pay tax on presumptive basis. • Tax buyback for all types of shareholders to be taxed as Capital Gains. However, promoters will pay an additional buyback tax. MAT is proposed to be made final tax. 	<p>These measures go a long way in promoting a business-friendly climate which in turn helps attract foreign direct investments. This is needed for overseas investments to flow to India and for reduction in exchange rate volatility.</p> <p>Some of these measures like TCS reduction will promote overseas travel and make it less costly for overseas travel for education and medical purposes.</p> <p>MAT is not only reduced but is also the final tax. This implies carry forward of excess MAT may not be possible though cash flow positions of those who struggled to utilize previous credits will abate. This will also nudge corporates to move towards the 22% tax rate regime without exemptions.</p> <p>Share buyback to get costlier. Decriminalization of various provisions and facility to settle cases with penalties reduce litigation and transaction costs.</p> <p>Sectoral impact: MSMES, individuals</p>

	<ul style="list-style-type: none"> Honest taxpayers willing to settle disputes will now be able close cases by paying an additional amount in lieu of penalty. 	
6.	<p>Manufacturing sector:</p> <ul style="list-style-type: none"> Focus on cities with a population of more than 5 lakhs. India semi-conductor Mission 2.0 announced with an outlay of Rs 40000 cr. Scheme for Rare Earth Permanent Magnets, research, mining, processing and manufacturing Dedicated chemical parks Scheme for manufacture of affordable sports goods Electronic component manufacturing scheme Scheme for container manufacturing and integrated scheme for textiles Scheme for high value construction and infra equipment Extension of time on export of final product from the existing 6 months to 1 year, for exporters of leather or textile garments, Exemption from basic customs duty on specified parts used in the manufacture of microwave ovens. Exemption from basic customs duty on components and parts used in aircraft manufacturing. A special one-time measure to facilitate sale in domestic tariff area at concessional rate of duty by eligible manufacturing units of SEZs. 	<p>These measures will complement make in India, boost manufacturing competitiveness and augment exports of manufactured goods. This is an opportunity for India to be self-reliant in sectors like semiconductors where we are currently dependent on other countries. Manufacturing GDP growth will sustain above 7%.</p> <p>These measures are favorable for textiles and leather manufacturers.</p> <p>The one-time measure to facilitate sale in domestic tariff areas will help small and medium enterprises adversely impacted by global headwinds.</p> <p>Sectoral impact: SME, semiconductors, electronic goods, textiles, leather, mining, construction equipment</p>
7.	<p>MSME sector focus measures:</p> <ul style="list-style-type: none"> Dedicated ₹10,000 crore SME Growth Fund. Top up the Self-Reliant India Fund (2021) with ₹2,000 crore. Corporate Mitras to Tier II and III cities to support MSMES Mandate TReDS as the settlement platform for all purchases from MSMEs by CPSEs, 	<p>These measures will help MSMEs to navigate the headwinds caused by global headwinds not only by reducing transaction and compliance costs but also by improving their cash flow positions.</p> <p>Invoice discounting will de risk financiers and improve credit flow. Linking TReDS to Government e-market place will enable lenders to observe real time transactions.</p>

	<ul style="list-style-type: none"> • Introduce a credit guarantee support mechanism through CGTMSE for invoice discounting on the TReDS platform. • TReDS receivables as asset backed securities, to develop a secondary market and enhance liquidity and settlement of transactions 	<p>This will in turn boost employment generation and export performance of MSMEs.</p>
8.	<p>Services sector</p> <ul style="list-style-type: none"> • Clubbing of services under a single category of information technology services with a common safe harbour margin of 15.5%. • Continuation of safe harbour for a period of five years at the company's choice. For IT services increasing from ₹ 300 crore to ₹2,000 crore • Provision of tax holidays until 2047 to foreign companies providing cloud services to global customers through India-based data centre 	<p>Foreign companies wishing to set up data centres and GCCs in India will benefit through these measures. Global GCCs have emerged as huge employment generators with these GCCs and data centres reportedly employing around 19 lakhs.</p> <p>Sectoral impact: GCCs, IT services</p>
9.	<p>Financial sector:</p> <ul style="list-style-type: none"> • High level Committee on banking to align with Viksit Bharat. • STT on futures and options to be hiked by 150% and 50%. • Incentive of Rs 100 Cr for a single issuance of municipal bonds. • Power Finance Corporation and rural electrification corporation to be restructured • Comprehensive review of FEMA (non-debt instruments) rule. • Market making framework and total return swaps for corporate bonds 	<p>High level committee on banking is intended to usher in major reforms which might include measures relating to equity ownership, governance and steps to scale up banks to global levels.</p> <p>Hike in STT on futures and options is intended to discourage retail participation. A SEBI study had found that 90% of traders in the F& O segment incur losses</p> <p>Corporate bond markets could become more liquid.</p> <p>Finer details on restructuring PFC and REC have not emerged and it may be a merger as currently REC is the promoter of PFC holding a majority stake.</p>
10.	<p>Agriculture and farmincomes</p> <ul style="list-style-type: none"> • Dedicated programme for horticulture & animal husbandry • Dedicated programme for Indian cashew and cocoa, fisheries and sandalwood and fisheries segments. • Bharat Vistaar for integrating Agri Stack portals and ICAR package on agricultural practices using Artificial intelligence 	<p>These measures support entrepreneurs engaged in these areas which will augment employment income generation. Moreover, India's agriculture exports will increase.</p> <p>Agri GDP growth is likely to improve from the current trend growth rate of 3 to 3.5% on account of these measures.</p> <p>Sectoral impact: Agriculture & food processing</p>

Overall impact

- As borrowing programme would be high bond market yields are likely to stay elevated.
- MSME sector will benefit from the incentives announced including TReDS linkage with GeM portal and measures to improve cash flow positions
- **Steel, cement, thermal power, refineries, defence, logistics, transport & shipping, chemicals, textiles, food processing, toys and leather sectors to benefit**
- Incentives by way of duty reduction on inputs for lithium-ion batteries and nuclear reactors are beneficial for EVs and will encourage private investment in nuclear reactors.
- Outbound travel for education, tourist and medical purposes to increase
- Carbon utilization and storage scheme to promote carbon emission reduction and alignment with standards in our export destinations.
- Hike in capex outlay will boost overall economic growth. However private capex has to catch up.
- Hike in STT on futures and options to reduce speculative risky derivative trades.

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