

Inc 4.2
UNION ₹ BUDGET 2026
DECODING #BUDGET4STARTUPS



- ❑ Fine balance: Growth + Fiscal consolidation
- ❑ No path-breaking measures; builds on past 7%+ growth
- ❑ Capex hiked 11.5% to ₹12.22 lakh Cr (9% YoY)
- ❑ Fiscal Deficit: 4.3% (from 4.4%)
- ❑ Debt/GDP: 55.6% (from 56.1%), targeting 50% by 2031
- ❑ High borrowing (₹17.28 lakh Cr gross) may harden G-Sec yields by 5-6 bps

The Message is ..

The budget strikes a fine balance—no major surprises, as past reforms have delivered over 7% growth. Capex remains the engine, up 11.5%, but high government borrowing could pressure bond yields

In Rs Lakh Cr)	FY26BE	FY26 RE	FY27 BE	YoY %
Gross tax revenue	42.7	40.8	44.0	8.0
-Direct tax	25.2	24.2	27.0	11.4
Corporate tax	10.8	11.1	12.3	11.0
Income tax	14.4	13.1	14.7	11.7
Indirect tax	17.4	16.4	16.8	2.3
GST	11.8	10.5	10.2	(2.6)
Customs	2.4	2.6	2.7	5.0
Excise	3.2	3.4	3.9	15.6
Net tax revenue	28.4	26.7	28.7	7.2
Non tax revenue	5.8	6.68	6.66	(0.6)
Net revenue	34.2	33.4	35.3	5.7

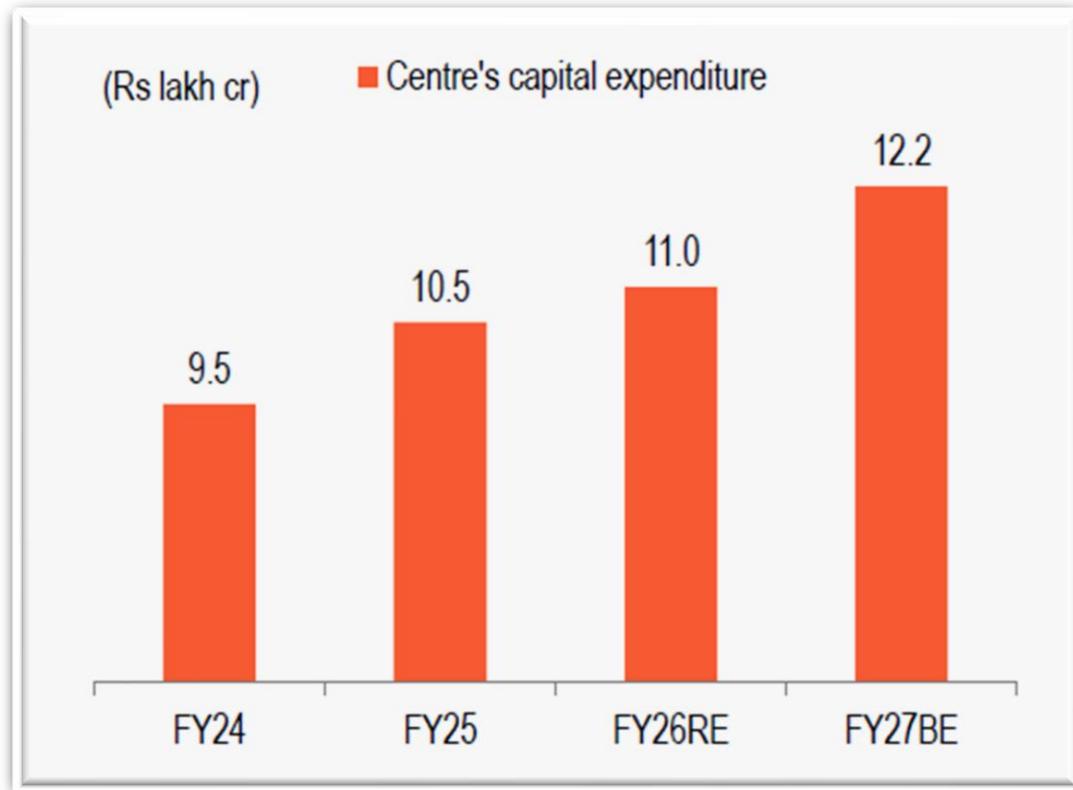
Revenue growth assumptions modest

Govt Borrowing (Amt. in Rs. Lakhs Crore)			
	FY 25	FY26(RE)	FY27(RE)
Centre	14	14.6	17.2
State	10.7	12.4	12.6
Total	24.7	27	29.8

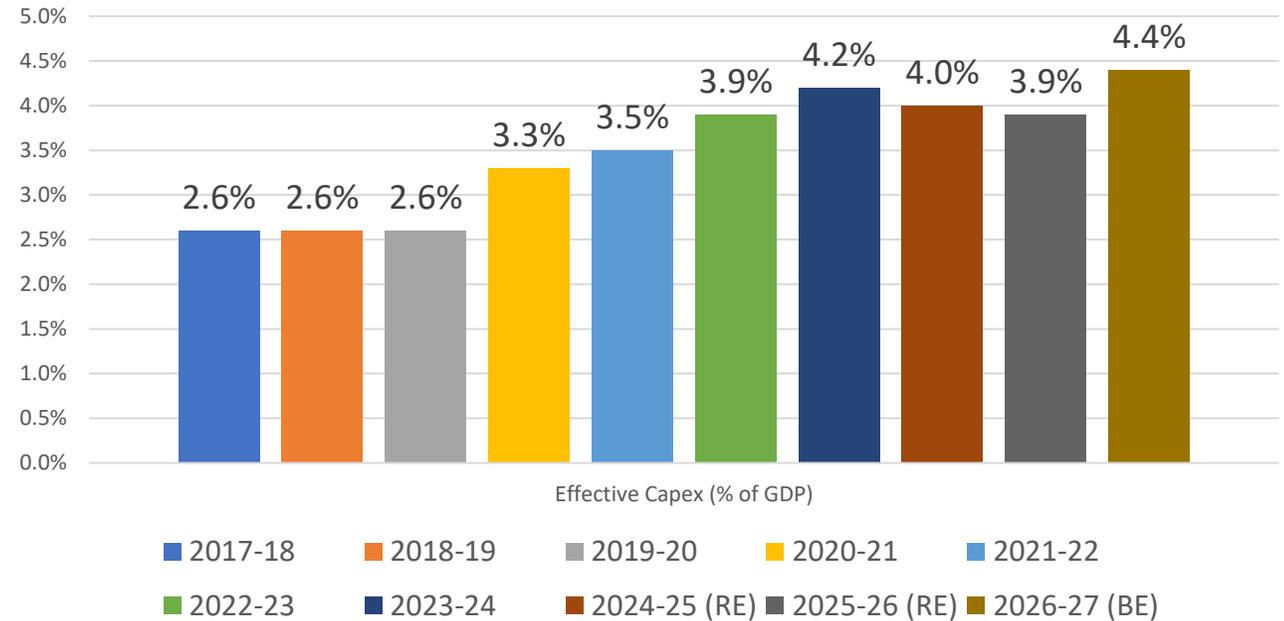
Gross borrowings of center and states high.

In Rs Lakh Cr)	FY25	FY26 RE	FY27 BE	FY27BE- FY26RE %	FY26RE- FY25 %
1. Budgetary capex	10.52	10.96	12.22	11.5	4.2
2. Grants for capex.	2.73	3.08	4.93	59.9	13.0
3. CPSE capex	4.89	4.34	4.84	11.5	-11.2
4. Effective capex (1+2)	13.25	14.04	17.14	22.1	6.0
5. Budget +CPSE (1+3)	15.40	15.30	17.06	11.5	-0.7
6. Total capex (1+2+3)	18.13	18.38	21.98	19.6	1.4
Total capex to GDP %	5.5	5.1	5.6		

**Total capex including through budgets, grants for capital asset
 Creational and CPSE capex estimated to increase by 50 bps in FY27**



Effective capex as % of GDP over the Years

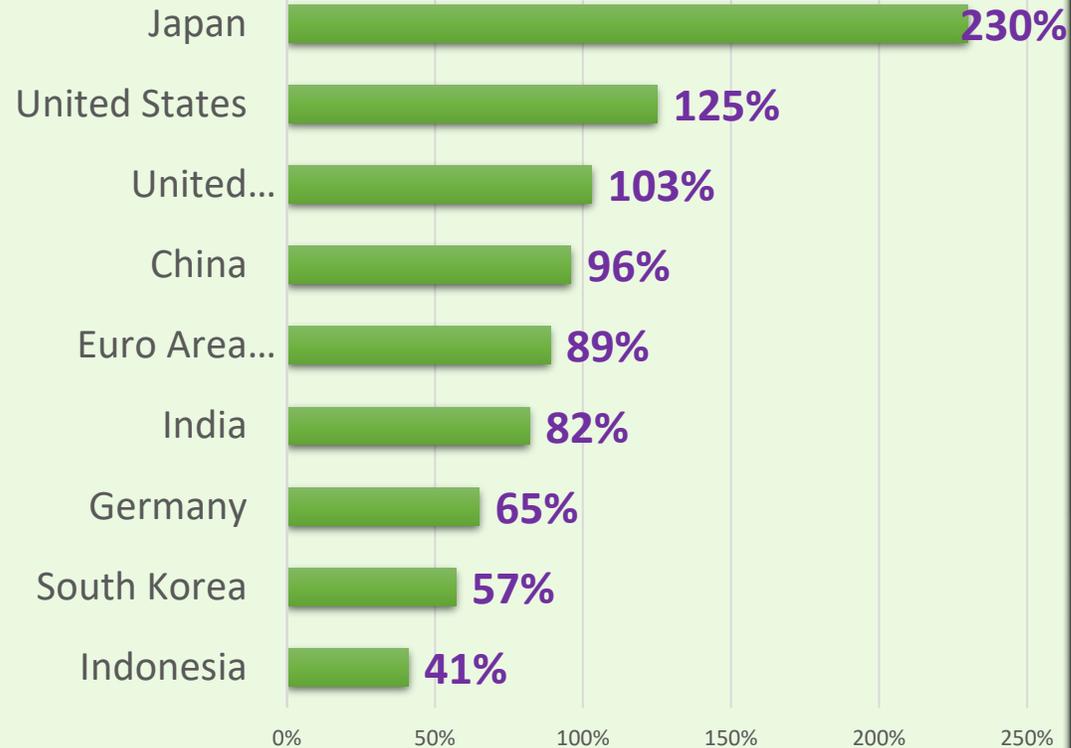


Though budgetary capex as a ratio to GDP is stagnant in FY27 effective capex including grants for capital asset creation is increasing

Major Ministries (Rs crore)	Share in Capital spending FY27BE	FY26RE	FY27BE
Road Transport and Highways	24	2,72,051	2,94,167
Railways	23	2,52,000	2,77,830
Defence	19	1,97,417	2,31,010
Telecommunications	4	23,916	47,275
Housing and Urban Affairs	3	32,978	34,808
Total capital expenditure	-	10,95,755	12,21,821

Major allocation towards defence, road ,transport and railways shows an increase. Cement, steel defence companies, telecom, housing financiers expected to do well.

Debt-to-GDP Ratio (2025 est.) Of Major Economies



State	Total Outstanding Liabilities (% of GSDP)	State	Total Outstanding Liabilities (% of GSDP)
Arunachal Pradesh	59.8	Tripura	30.5
Nagaland	47	Haryana	29.9
Punjab	46.4	Chhattisgarh	29.8
Himachal Pradesh	42.8	Tamil Nadu	29.2
Manipur	39.2	Uttar Pradesh	28.7
Meghalaya	39.1	Assam	27.9
West Bengal	38.9	Telangana	27.5
Sikkim	38.6	Karnataka	26.5
Bihar	36.8	Puducherry	25.9
Rajasthan	35.9	Goa	25.7
Kerala	35.5	Jharkhand	25.4
Andhra Pradesh	35.4	Uttarakhand	25.3
Jammu and Kashmir	33.7	Odisha	20.3
Mizoram	33.2	Maharashtra	19
Madhya Pradesh	31.3	Gujarat	17.9

- ✓ Gross borrowing of both Center and states combined to be close to Rs 30 lakh cr.
- ✓ India compares favorably with many others in debt to GDP ratio.
- ✓ States with high outstanding liabilities to GDP could have higher borrowing cost.

Snapshot of Sector specific announcements (1/2) ...

Sector	Key Measures	Key Implications	Sectoral impact
Infrastructure	<ul style="list-style-type: none"> Capex Rs 12.22 lakh crore Interest free loans to states Infra Risk Guarantee Fund, Dedicated Freight Corridors, 20 new waterways, REITs from CPSE assets 	Huge boost for infra segment and leads to multiplier effect on growth.	Cement, steel, logistics, infrastructure financiers, tourism
Manufacturing	<ul style="list-style-type: none"> Scale 7 frontier sectors (ISM 2.0, Biopharma SHAKTI ₹10k cr, Electronics ₹40k cr, rare earths, chemicals parks, textiles, containers). lithium batteries, nuclear reactors Revive 200 legacy clusters. 	Reduces imports, builds self-reliance, high-value jobs, global supply chain strength.	Semiconductors, electronics & engg goods, textiles, mining, EV, nuclear power
Export Promotion	<ul style="list-style-type: none"> Export Promotion Mission continuation. Bharat Trade Net platform. MSME support for barriers & value chains. 	Enhances competitiveness, forex earnings, MSME global integration.	MSMEs engaged in exports,
Agriculture	<ul style="list-style-type: none"> Bharat-VISTAAR (AI advisory). High-value crops (cashew, cocoa, coconut, sandalwood, horticulture). Fisheries & reservoir development. 	Raises farmer income/productivity, food security, rural jobs, diversification.	Marine food processing, horticulture,
Energy	<ul style="list-style-type: none"> CCUS scheme. Nuclear mission continuation. Duty cuts on critical minerals/batteries/solar. 	Advances green transition, energy security, lowers costs/emissions.	Cement, steel, power, chemicals, refineries

Snapshot of Sector specific announcements (2/2)...

Sector	Key Measures	Key Implications	Sectoral impact
MSME	<ul style="list-style-type: none"> ₹10k cr SME Growth Fund. Champion MSMEs (equity, credit, compliance). Enhanced guarantees & TReDS. 	Improves finance access, scale-up, employment, formalization.	MSMEs
Urbanization	<ul style="list-style-type: none"> City Economic Regions & Tier-II/III focus. High-speed rail + multimodal links. Heritage/tourism hubs. 	Balanced urban growth, reduces migration, agglomeration benefits.	Logistics, housing financiers, data centres, GCCs, cement, steel
Service	<ul style="list-style-type: none"> Orange Economy (AVGC labs, NID expansion). 5 medical tourism hubs. IT safe harbour tweaks, caregiver/Ayush training. 	Scales services exports, skilled jobs in health/tourism/creative/tech.	GCCs, IT & IT\$ES sector
Ease of Doing Business	<ul style="list-style-type: none"> Jan Vishwas Bill 2.0. Regulatory reforms & state index. Simplified compliance, 100% FDI in insurance. TCS reduction, liberal investment regime for PIOs 	Cuts red tape, attracts FDI, boosts rankings & entrepreneurship.outbound tours	Individuals, entrepreneurs, MSMEs, tour operators, education consultants
Finance sector	<ul style="list-style-type: none"> High level committee for bank reforms, STT hike on F&O, review of FEMA regulations, PSU power NBFC reforms, corporate bond market reform 	Banking, corporates and industries	Banking, industries and corporates

Category	Key Details
Purpose	Comprehensive review of India's banking ecosystem to align with Viksit Bharat 2047 vision
Coverage	Commercial Banks, Cooperative Banks, NBFCs
Nature of Reform	Structural, medium-to-long term reform agenda (not short-term stimulus)

Reform Area	Expected Measures
Structural & Governance Reforms	PSU bank consolidation, governance upgrades, scale efficiency
Digital Transformation	AI adoption, fintech partnerships, digital banking expansion
Credit Delivery & Inclusion	MSME, agriculture, priority sector credit expansion
Risk Management	Cyber risk control, regulatory strengthening, systemic stability
NBFC & PSU Financial Institutions	PFC & REC restructuring, tech adoption, credit scale-up

Aspect	Implication
Committee Formation	Expected soon
Terms of Reference (ToR)	Yet to be notified
Policy Horizon	Medium-to-long term (2026–2047)
Economic Impact	Supports infrastructure-led growth and rising credit demand

Positive

Capex → Loan growth, asset quality

MSME liquidity → Credit flow and beneficial for Various industries –infrastructure, logistics, cement, steel, textiles, housing financiers, tour operators, chemicals, refineries, power , food processing, MSME and banking sector

Challenges

High borrowing → Elevated yields

STT → Derivative dip, rupee weakness to increase subsidy bill, absence of measures for FIIs could lead to rupee weakness and increase subsidy bills

Net outlook will benefit

However, bond yields could harden and lack of measures for FIIs could lead to FII outflows and rupee weakness. This could push up subsidy bills.

Monetary Policy Expectations



Weightage of Items of CPI is also Changing ...

Category / Group	Old CPI (Base 2012) Weight (%)	New CPI (Base 2024) Weight (%)	Change (%)	Reason & Outcome
Food & Beverages	45.86	36.75	↓ 9.1 pp	Major reduction due to shift in expenditure patterns, Now less volatile CPI.
Housing, Water, Electricity, Gas & other fuels	10.07	17.66	↑ 7.6 pp	Inclusion of rural rent + broader utilities increases weight.
Transport, Information & Communication	8.59	12.41	↑ 3.82 pp	Reflects higher spending on transport and digital services.
Pan, Tobacco & Intoxicants	2.38	<i>Not separately shown</i>	—	Reclassified across groups; not a standalone reported weight.
Clothing & Footwear	6.53	6.38	↓ 0.15 pp	Small decrease (6.38% reported).
Fuel & Light	6.84	<i>Partly subsumed</i>	—	Largely grouped under “housing/utilities” in new classification - specific standalone not published.
Health	5.89	6.10	↑ 0.21 pp	Slight raise in new services weight.
Education	4.46 <i>(in old misc.)</i>	3.50	↓ (approx.)	Reorganized as standalone; lower standalone but better defined.
Recreation, Sport & Culture	1.68 <i>(old misc sub)</i>	4.86	↑ 3.18 pp	Significant rise showing more discretionary demand.
Personal Care, Social Protection & Misc. Goods/Services	3.89 <i>(part of old misc)</i>	5.04	↑ 1.15 pp	Services cluster expanded in new CPI.
Rural Sector Share	53.5%	55.4%	↑ 1.9 pp	Rural weight in combined increases.
Urban Sector Share	46.5%	44.6%	↓ 1.9 pp	Urban combined weight falls as rural share rises.

- Inflation should gradually move towards 4% in FY27 reducing rate cut chances
- But volatility due to food prices will subside
- Rate cut possibility diminishes
- Stance might remain accommodative
- GDP growth forecasts likely to see upside revision
- More liquidity infusion measures. May be a CRR cut also...

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