

# FY27 Budget

Key Highlights and Market Impact

02<sup>nd</sup> Feb 2026



## FY27 Union Budget: Key Figures and Fiscal Assumptions

	Rs. lakh cr				% Growth		% GDP	
	FY25	FY26BE	FY26RE	FY27BE	FY26RE	FY27BE	FY26RE	FY27BE
<b>1. Total Non Debt Receipts (A+B+C)</b>	30.8	35.0	34.1	36.5	10.7	7.0	9.5	9.3
<b>A. Net tax revenue</b>	25.0	28.4	26.7	28.7	7.0	7.2	7.5	7.3
Gross tax revenue	38.0	42.7	40.8	44.0	7.4	8.0	11.4	11.2
Direct tax	22.2	25.2	24.2	27.0	9.0	11.4	6.8	6.9
Corporate tax	9.9	10.8	11.1	12.3	12.4	11.0	3.1	3.1
Income tax	12.4	14.4	13.1	14.7	6.2	11.7	3.7	3.7
Indirect Tax	15.6	17.4	16.4	16.8	5.2	2.3	4.6	4.3
Custom duties	2.3	2.4	2.6	2.7	10.8	5.0	0.7	0.7
Excise Duties	3.0	3.2	3.4	3.9	12.1	15.6	0.9	1.0
GST	10.3	11.8	10.5	10.2	1.9	-2.6	2.9	2.6
<b>B. Non-tax Revenue</b>	5.4	5.8	6.7	6.7	24.4	-0.2	1.9	1.7
Dividends & Profits (RBI, Banks, PSUs)	3.1	3.3	3.8	3.9	21.8	4.1	1.1	1.0
Economic services receipts	1.5	1.6	2.1	1.9	42.5	-10.1	0.6	0.5
<b>C. Non Debt Capital Receipts</b>	0.4	0.8	0.6	1.2	53.1	84.9	0.2	0.3
Disinvestment	0.2	0.5	0.3	0.8	96.7	136.4	0.1	0.2
<b>2. Total Expenditure (A+B)</b>	46.5	50.7	49.6	53.5	6.7	7.7	13.9	13.6
<b>A. Revenue Expenditure</b>	36.0	39.4	38.7	41.3	7.4	6.6	10.8	10.5
<b>B. Capital Expenditure</b>	10.5	11.2	11.0	12.2	4.2	11.5	3.1	3.1
<b>Fiscal Deficit (2-1)</b>	15.7	15.7	15.6	17.0				
<b>Nominal GDP</b>	330.7	357.0	357.1	393.0	8.0	10.0		
<b>Fiscal Deficit (as % of GDP)</b>	4.8	4.4	4.4	4.3				
<b>Debt to GDP (as % of GDP)</b>	56.2	56.1	56.1	55.6				

Source: Budget Note, BE - Budgeted Estimates, RE - Revised Estimates

Note: FY27BE figures are based on FY26RE

### Growth and Macro Assumptions

- The FY27 Union Budget assumes 10% nominal GDP growth, compared to 8% in FY26 RE. We believe this growth assumption is conservative.
- In absolute terms, nominal GDP is projected at INR 393 lakh crore (USD 4.3 tn, based on a USD/INR exchange rate of 92).

### Fiscal Deficit and Debt Position

- The fiscal deficit target for FY27 is set at 4.3% of GDP, marginally lower than 4.4% in FY26.
- In absolute terms, the FY27 fiscal deficit is budgeted at INR 17.0 lakh crore, implying an 8.8% increase over FY26 RE.
- The budget targets a reduction in the debt-to-GDP ratio from 56.1% in FY26 to 55.6% in FY27. This represents a slower pace of consolidation than market expectations.
- The government targets a debt-to-GDP ratio of 49-51% by FY31, indicating that faster consolidation will be required in later years.

## Revenue Receipts

- Total non-debt receipts in FY27 are budgeted at INR 36.5 lakh crore, a 7% growth over FY26 RE.
- Gross tax revenue is estimated to grow by 8.0% over FY26 RE, which is considered conservative.
- Lower tax growth is driven by weak indirect tax collections, mainly due to GST rate cuts and lower growth in customs duties.
- Direct tax collections are assumed to grow by 11.4% in FY27. Indirect tax collections are expected to grow by only 2.3%.
- Gross tax buoyancy is projected to decline to 0.8 in FY27 from 0.9 in FY26, largely due to lower buoyancy in indirect taxes following GST cuts.
- Non-tax revenues are expected to remain largely flat at INR 6.7 lakh crore.
- The RBI dividend transfer is estimated at around INR 2.7-2.9 lakh crore, broadly in line with or slightly higher than FY26.

## Expenditure and Capital Spending

- Total expenditure in FY27 is budgeted at INR 53.5 lakh crore, reflecting a 7.7% growth over FY26.
- Revenue expenditure is expected to grow by 6.6%. Capital expenditure (capex) is budgeted to grow by 11.5%.
- Capex is budgeted at INR 12.2 lakh crore in FY27. Including government grants, effective capex is estimated at INR 17.1 lakh crore. This implies a 22.1% growth in effective capex over FY26 RE.
- 

## Market Borrowings

- To finance the fiscal deficit, the government plans gross market borrowings of INR 17.2 lakh crore in FY27. This is higher than market expectations of INR 16-16.5 lakh crore.
- Net market borrowings (adjusted for redemptions) are budgeted at INR 11.7 lakh crore.
- Net market borrowings including T-bills are estimated at INR 13.0 lakh crore.

## Impact on Fixed Income Market

- We expect elevated gross market borrowings of INR 17.2 lakh crore as the key overhang for the bond market, especially with SDL supply already high in Q4 FY26.
- The sharp rise in net market borrowings (incl. T-bills) to 76.9% of the fiscal deficit in FY27 BE (from 66.8% in FY26 RE and 58.1% in FY25) is supply-negative, though stronger-than-assumed small savings or other financing sources could partially offset this pressure.
- In the near term, we expect 10-year G-sec yield to move up by 5-10 bps, with yields likely to trade in the 6.70-6.80% range.
- We believe market direction will remain data and supply-driven until there is clarity on the government's borrowing profile, expected with the H1 FY27 G-sec borrowing calendar around end-March 2026.
- Given the volatile, supply-heavy environment, we remain cautious on high-duration exposure and continue to prefer accrual-led strategies. AAA-rated medium-duration corporate bonds offer attractive spreads and healthy accruals and remain our focused segment.

## Capital Markets – Key Takeaways from Union Budget

- **Speculative Derivatives Trading Discouraged**  
**STT on derivatives increased – futures to 0.05% (from 0.02%), options to 0.15%** (sell-side premium from **0.10%**, buyer-side exercise from **0.125%**), while cash-market STT remains unchanged, the move aligns SEBI data showing **~90% of retail F&O traders lose ~₹1 lakh+ annually**, signalling intent to curb excessive speculation.
- **STT Impact on Arbitrage, Equity Savings & SIF Strategies**  
The STT hike on futures is expected to create a **headline drag of ~20–40 bps for arbitrage funds, ~5–15 bps for equity savings funds, and ~5–20 bps for derivatives-heavy SIFs**, as per industry estimates; however, **most of the arbitrage impact is expected to be passed on to long futures participants over time**, keeping the steady-state return impact materially lower than the theoretical maximum.
- **Sovereign Gold Bond (SGB) Tax Benefit Restricted**  
Tax-free maturity gains only for original holders, likely diverting secondary market demand toward Gold ETFs and mutual funds.
- **Higher Overseas Investor Limits (PROI / NRI)**  
Individual PROI limit increased from **5% to 10%** and aggregate limit from **10% to 24%**, supporting higher foreign equity inflows.
- **TDS / TCS Rationalisation**  
Simplified TDS on manpower services and revised TCS on **scrap, minerals and overseas tours** ease working-capital pressure for listed firms.
- **MAT Simplified and Reduced**  
MAT converted into a **final tax** and rate cut to **14%**, No new MAT credit from FY27; existing credits usable only under the new regime, capped at 25% of annual tax, improving earnings visibility and nudging regime shift.
- **Income Tax Act, 2025 (Effective 1 April 2026)**  
Replaces the 1961 Act with **25–30% fewer sections**, clearer capital-gains definitions, and reduced interpretational ambiguity, lowering the scope for tax disputes.
- **Centralised Form 15G / 15H Filing**  
Single Form 15G/15H submission via depositories reduces excess TDS for investors holding **multiple dividend-paying stocks**.
- **One-Time Foreign Asset Disclosure Scheme**  
**6-month window** to regularise undisclosed foreign assets with tax and penalty, offering **full immunity from prosecution**.
- **Interest Deduction on Leveraged Investments Removed**  
Deduction of interest (earlier capped at 20% of income) on borrowings for MF or dividend income withdrawn, improving tax neutrality.

## Equity Market Outlook and Sectoral Impact

- The Government's primary goal was on reviving a weak consumption demand in FY26 through tax cuts which led to a slowdown in capex. With consumption demand showing signs of revival post GST cut in Sep-25 the FY27 the Union budget shifted its focus back towards charting a growth-oriented roadmap for "Viksit Bharat." It unequivocally reflected in the highest-ever effective capex allocation of INR 17.17trn (+22% YoY) while maintaining a fiscal deficit target of 4.3% (-10bps YoY) for FY27BE. The budget prioritized manufacturing growth through special programmes for semiconductors, rare earth metals, biopharma, electronics manufacturing and MSMEs.
- The Union Budget FY27 reflects the government's undeterred focus on uplifting economy through long term sustainable investments, while adhering to the fiscal glide path. Increased allocation to housing (PMAY), railways, roads, defence and PLI for Auto & Electronics is positive for industrials, EMS, mining, infrastructure, and pharmaceuticals sectors.

## Sectoral Announcements

Sector	Announcement	Impact
Automobiles	Allocation to PLI for automobile and auto components significantly increased to Rs 59.5bn, well above the FY26BE of Rs 28.2bn and FY26RE of Rs 20.9bn	Beneficial for auto OEM and ancillaries who have qualified for PLI related schemes. Lower support in terms of demand incentives for Evs which is negative for leading new age EV companies.
	Allocation to PM Electric Drive Revolution in Innovative Vehicle Enhancement (PM E-DRIVE) Scheme stands at Rs 15.0bn, which is much below the FY26BE of Rs 40.0bn though above the FY26RE of Rs 13.0bn.	
BFSI	Provision for credit guarantee scheme cover for MSEs (GECL) at INR90bn for FY27BE vs. INR90bn for FY26BE (FY26RE: Nil).	Positive for SME focused lenders and affordable-focused HFCs in rural segment. Increase in STT on F&O is negative for capital market players.
	Increase in outlay for Pradhan Mantri Aawas Yojna to Rs. 765bn in FY27BE from Rs. 403bn in FY26RE.	
	Increase in STT rates for Futures to 0.05% (vs. 0.02% earlier) and for Options to 0.15% (vs 0.1%/0.125% earlier).	

## Sectoral Announcements

Sector	Announcement	Impact
Industrials & Infrastructure	Overall increase in allocation for capital expenditure by 11.5% YoY to Rs. 12.2 lakh cr while effective capex to increase by 22.1% YoY from the revised estimate to Rs. 17.1 lakh cr in FY27 driven by 55.1% YoY increase in grants.	Positive for the sector as capex had suffered in FY26 largely on account of lower grants to states due to slowdown in states capex. Continued increased allocation to defence is positive for defence companies. Increased allocation for roads and railways is positive for construction companies.  The cloud and data center tax incentive would likely spur significant investment in data centers in India. This along with increased outlay for RE would be positive for electrical equipment manufacturers.
	Capital outlay on defence to increase by 17.6% YoY in FY27BE to Rs. 2.19 lakh Cr on back of a 17% YoY growth in capex in FY26RE over FY25RE	
	Outlay on roads to increase by 8.1% YoY in FY27BE to Rs. 2.94 lakh Cr post a flattish outlay in FY26E	
	Outlays for railways budgeted to increase by 10.3% YoY to Rs. 2.78 lakh cr post a meager 4% increase in outlay between FY24-26	
	Total capital outlay for Ministry of New and Renewable Energy at INR 428.9bn for FY27BE vs. INR 360.6bn during FY26RE; an increase of 19% YoY	
	Grant of tax holidays to foreign companies offering cloud services globally using Indian data centers until 2047. Related Entities providing data center services from India to get a safe-harbor of 15% on cost	
IT	Buybacks will now be taxed as capital gains for all shareholders. To curb tax arbitrage misuse, promoters face an additional buyback tax, resulting in an effective rate of 22% for corporate promoters and 30% for non-corporate promoters.	Buybacks likely to increase as it becomes more tax-efficient option specially for retail shareholders. Tax exemption on data center services incentivizes data center expansion for most IT services firms.
	Grant of tax holidays to foreign companies offering cloud services globally using Indian data centers until 2047	
Travel and Tourism	The TCS rate on overseas tour program packages has been slashed to a flat 2%. This replaces the earlier, much higher slabs of 5% and 20%.	Positive as this reduces the upfront cash outflow for international travelers, making foreign travel packages more affordable.

## Sectoral Announcements

Sector	Announcement	Impact
Healthcare and Pharma	Allocation for Department of Health and Family Welfare increased by ~10% YoY to Rs. 1,017bn.	Allocation towards creation of Biopharma hubs aims to make India a global hub for biologics and biosimilar would be positive for pharma companies with Biologics portfolio
	Budget allocation for Department of Pharmaceuticals increased by 36% YoY to Rs. 59 bn. Healthcare and biopharma Allocation of Rs. 100 bn over the next five years for development of BioPharma hubs under Biopharma SHAKTI	
Cement, Metals, Building Materials	Increase in outlays on roads (+8% YoY), metro/MRTS (+7% YoY), PMAY scheme and Gram Sadak Yojna	Higher allocation towards highways to boost cement, steel and building materials demand both directly and indirectly.  Lower spends in FY24/25/26 under PMAY has already slowed cement /building materials demand in the past 2-3 years. Increased allocation should boost demand in coming years.

# Disclaimer

This communication is being sent by the Investment Advisory Group of HSL IA., registered under SEBI (Investment Advisors) Regulations, 2013 under the Registration number INA000011538.

This note has been prepared exclusively for the benefit and internal use of the recipient and does not carry any right of reproduction or disclosure. Neither this note nor any of its contents may be used for any other purpose without the prior written consent of HSL IA, Investment Advisory Group (HSL IA). In preparing this note, we have relied upon and assumed, without any independent verification, accuracy and completeness of all information available in public domain or from sources considered reliable. This note contains certain assumptions and views, which HSL IA considers reasonable at this point in time, and which are subject to change. Computations adopted in this note are indicative and are based on current market prices and general market sentiment. No representation or warranty is given by HSL IA as to the achievement or reasonableness or completeness of any idea and/or assumptions. This note does not purport to contain all the information that the recipient may require. Recipients should not construe any of the contents herein as advice relating to business, financial, legal, taxation, or other matters and they are advised to consult their own business, financial, legal, taxation and other experts / advisors concerning the company regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this note and should understand that statements regarding future prospects may not be realized. It may be noted that investments in equity and equity-related securities involve a degree of risk and investors should not invest any funds unless they can afford to take the risk of losing their investment. Investors are advised to undertake necessary due diligence before making an investment decision. For making an investment decision, investors must rely on their own examination of the Company including the risks involved. Investors should note that income from investment in such securities, if any, may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Neither HSL IA nor any of its employees shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this material. This note does not constitute an offer for sale, or an invitation to subscribe for, or purchase equity shares or other assets or securities of the company and the information contained herein shall not form the basis of any contract. It is also not meant to be or to constitute any offer for any transaction. HSL IA and its affiliates, officers, directors, key managerial persons and employees, including persons involved in the preparation or issuance of this material may from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein. HSL IA may at any time solicit or provide commercial banking, credit, advisory or other services to the issuer of any security referred to herein. Accordingly, information may be available to HSL IA, which is not reflected in this material, and HSL IA may have acted upon or used the information prior to, or immediately following its publication.

HSL IA neither guarantees nor makes any representations or warranties, express or implied, with respect to the fairness, correctness, accuracy, adequacy, reasonableness, viability for any particular purpose or completeness of the information and opinions. Further, HSL IA disclaims all liability in relation to use of data or information used in this report which is sourced from third parties.

Please note that HDFC Securities has a proprietary trading desk. This desk maintains an arm's length distance with the HSL IA team and all its activities are segregated from HSL IA activities. The proprietary desk operates independently, potentially leading to investment decisions that may deviate from research views.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600

For grievance redressal contact Customer Care Team Email: [customercare@hdfcsec.com](mailto:customercare@hdfcsec.com) Phone: (022) 3901 9400

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

This information is for educational/information purposes only.