

Budget 2026-27: Fiscally prudent, yet growth-oriented

Against the backdrop of substantial rationalisation in corporate tax, personal income tax and GST over the past years, expectations from this Budget were restrained. The outcome largely met those expectations, with fiscal consolidation on track. The revised FY26 fiscal deficit stands at 4.4%, narrowing further to 4.3% of GDP in FY27, broadly in line with market consensus. Importantly, this consolidation has been achieved without compromising growth priorities. Capital expenditure is budgeted to rise 9% to ₹12.2 lakh crore, reaffirming the government's commitment to a capex-led growth strategy. While gross market borrowing at ₹17.2 lakh crore is on the higher side, the projected ₹1.3 lakh crore of T-bill issuance provides some offset. Markets, however, were hoping for a switch of approximately ₹1 lakh crore of RBI-held bonds maturing in FY27 into longer-dated securities. Such a move could have lowered the gross borrowing programme closer to ₹16 lakh crore, easing pressure on bond yields and reducing interest costs. The RBI's monetary policy next week is expected to maintain a status quo on policy rates even as bond yields are rising. Overall, the Union Budget FY2026-27 strikes a measured balance between fiscal discipline and growth support, delivering continuity rather than surprises. Also, the Budget appears realistic in its assumptions. With nominal GDP growth projected at 10.1% in FY27, the envisaged 7.2% growth in net tax revenue receipts looks achievable and credible.

From a capital markets standpoint, the Budget delivered a mixed outcome. The hike in Securities Transaction Tax (STT) on futures and options, coupled with the decision to retain the status quo on capital gains taxation, weighed on market sentiment. Balancing this, the surprise move to tax buyback proceeds as capital gains for non-promoters was a clear positive. It improves tax clarity and enhances fairness for minority shareholders. The next catalyst now rests with SEBI, which has an opportunity to rationalise buyback regulations that have progressively tightened in recent years.

The Budget also sets an ambitious ₹80,000 crore target for asset monetisation and disinvestment in FY27, a sharp step-up from the revised estimate of ₹34,000 crore for FY26, implying a significantly higher execution bar. The inclusion of minority stake sales and recycling of existing assets is intended to accelerate infrastructure creation and capital redeployment. That said, as highlighted in the Economic Survey, the disinvestment roadmap could have been more aggressive. A greater emphasis on strategic sale would not only have supported fiscal outcomes but also driven efficiency gains across the system.

For the corporate bond markets, the Budget proposes a set of measures aimed at deepening liquidity and improving trading ecosystem efficiency. These include the introduction of a market-making framework for corporate bonds, enhanced access to funds, and the development of derivatives on corporate bonds including Total Swap Returns (TRS). On municipal finance, incentives have been recalibrated to encourage benchmark-sized bond issuances and address the historically small ticket sizes of municipal bonds. The Budget proposes a ₹100 crore incentive for a single municipal bond issuance exceeding ₹1,000 crore, while the existing scheme will continue to support issuances of up to ₹200 crore.

The Finance Minister's proposal to constitute a high-level committee to review India's banking sector as part of the Viksit Bharat 2047 agenda signals a move beyond incremental reforms toward a comprehensive rethinking of the sector for its next phase of growth. While details are awaited, there is an expectation that the committee will address long-pending issues around governance, ownership norms, voting rights, and corporate participation in banking.

Our Views

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The Budget proposes a major liberalisation of the Portfolio Investment Scheme (PIS) by raising investment limits for persons resident outside India (PROIs). The individual holding limit in a listed Indian company is set to double from 5% to 10%, while the aggregate cap for all such investors will rise from 10% to 24%, a move designed to attract greater foreign retail capital. Equally significant is the government's decision to review the FEMA (Non-Debt Instruments) Rules, 2019. While details are awaited, the revision is expected to simplify compliance, recalibrate pricing norms, and reduce friction in structuring and exiting foreign investments, making India's investment regime more predictable and investor-friendly.

The Budget also gives due attention to sunrise sectors such as data centres, semiconductors, biopharma, medical tourism, university townships, new freight corridors, national waterways, and coastal cargo, through tax incentives and higher allocations. Notably, foreign cloud service providers will enjoy a tax holiday until 2047 when providing global services via India-based data centres, signaling India's push to become a hub for strategic tech and infrastructure sectors.

In summary, while the Budget may not offer headline-grabbing giveaways, it prioritises fiscal prudence with targeted growth enablers. It lays a solid foundation for medium- to long-term competitiveness, a narrative markets and investors will be watching closely as implementation unfolds.

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