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India

A mixed FY27 budget

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- The government aims to narrow the fiscal deficit Budget FY27 (i.e. April 2026 until March 2027) to 4.3% of GDP from 4.4% in FY26, in line with our expectations.

- The focus was on medium-term priorities of infrastructure and manufacturing sector development with limited near-term counter cyclical support for growth. India's equity indices closed 2% lower on budget day while government bond yields were higher when markets opened on 2 February.

- We continue to see room for the Reserve Bank of India (RBI) to cut its policy rate by 25bp in the current easing cycle, with the 6 February meeting setting up as a close call.

The finance minister announced the budget for the fiscal year 2027, i.e. starting April 2026 until March 2027 (FY27) on 1 February 2027. The government aims to modestly narrow the fiscal deficit to 4.3% of GDP in FY27 from 4.4% of GDP in FY26, in line with our expectations (see *India: Steady, albeit modest, fiscal consolidation*, 22 January 2026).

Focus on capital expenditures

The fiscal focus for FY27 is bolstering capital expenditures. Capex is budgeted to increase by 11.5%YoY from 4.2% in FY26 in the revised FY26 budget. Effective capital expenditures (which includes grants in aid for creation of capital assets) is budgeted to increase by 22.1% YoY from 6.0% in FY26. This increase in budget will be geared towards establishing new dedicated freight corridors from Dankuni in the East to Surat in the West, 20 new national waterways over the next five years and seven high speed rail corridors as 'growth connectors'. While the Modi administration has followed through on national infrastructure development plans since 2014 particularly on bolstering rail and road connectivity, the additional focus in Budget FY27 is on waterways development.

Meanwhile, the budget for current, i.e., operational, expenditures is set to grow at a slower pace of 6.6%YoY in FY27 from 7.4% in FY26. The rationalisation of operational expenditures will likely come from reduced requirements for remission of duties and taxes on exported products and lower requirements for imported urea and P&K fertilizers.

INR crores	FY25	FY26BE	FY26RE	FY27BE	*%YoY*	FY25	FY26RE	FY27BE
Total revenues	**4652869**	**5065345**	**4964842**	**5347315**		**4.7**	**6.7**	**7.7**
Revenue Receipts	**3036619**	**3420409**	**3342323**	**3533150**		**11.3**	**10.1**	**5.7**
Tax Revenue (Net to Centre)	2500039	2837409	2674661	2866922		7.4	**7.0**	**7.2**
Non Tax Revenue	536580	583000	667662	666228		33.5	**24.4**	**-0.2**
Capital receipts	**1616250**	**1644936**	**1622519**	**1814165**		**-5.7**	**0.4**	**11.8**
Recovery of Loans	24617	29000	30190	38397		-7.6	**22.6**	**27.2**
Other Receipts	17202	47000	33837	80000		-48.1	**96.7**	**136.4**
Total Expenditure	**4652867**	**5065345**	**4964842**	**5347315**		**4.7**	**6.7**	**7.7**
Revenue Account	3600914	3944255	3869087	4125494		3.1	**7.4**	**6.6**
Capital Account	1051953	1121090	1095755	1221821		10.8	**4.2**	**11.5**
Fiscal Deficit	**1574431**	**1568936**	**1558492**	**1695768**				
%GDP	4.8	4.4	4.4	4.3				

Source: Ministry of Finance; CEIC; OCBC Group Research.

Tax revenue assumptions appear realistic

Revenue collections are budgeted to grow 5.7% YoY in FY27 from 10.1% in FY26, with tax revenues (net to centre) projected to rise by 7.2% similar to 7% in FY26. Non-tax revenue collections are projected to drop 0.2% following a sharp 24.4% increase in FY26. The revenue math assumes nominal GDP growth of 10% in FY27, which is similar to our estimates.

The newly introduced tax measures include an increase in the securities transaction tax (STT) from 0.02% to 0.05% with STT on options premium and exercise of options raised to 0.15% from 0.1% and 0.125%, respectively. The equity indices (Sensex and Nifty) dropped close to 2% on 1 February on account of these higher taxes. The other reform reforms focused on improving tax administration including through the New Income Tax Act 2025, further tariff simplification measures, and lower the minimum alternate tax to 14% from 15%.

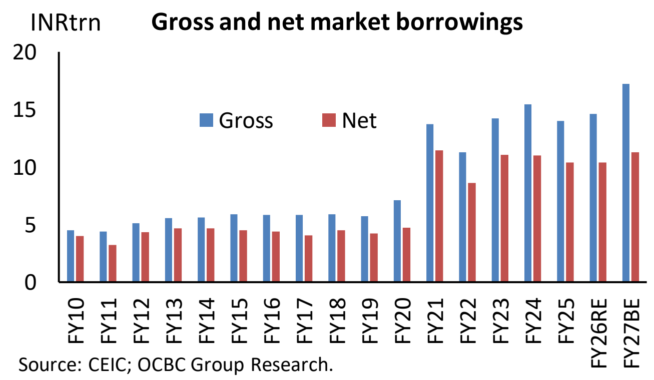
Focus on attracting higher value added manufacturing

The introduction of the various tax incentives in Budget FY27 underscored the government's commitment to bolstering the manufacturing sector, further supporting MSMEs and supporting the services sector. For the manufacturing sector, the government will exempt income tax for five years to non-residents providing capital goods, equipment or tooling, to any toll manufacturer in a bonded zone; raise duty free imports of specified inputs in the fishing, aircraft manufacturing, footwear and textiles sectors. The latter two have been impacted by the imposition of 50% on India's exports to the US.

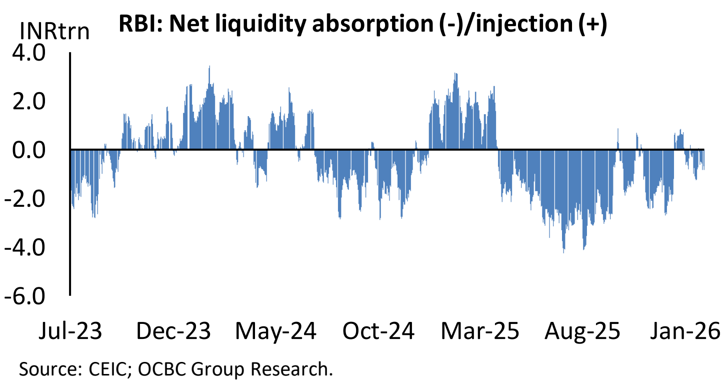
The government is doubling down on its intention to develop higher value-added industries. The finance minister announced a 21-year tax holiday until 2047 for foreign companies providing global cloud services using Indian data centre infrastructure. The India Semiconductor Mission (ISM) 2.0 sets aside INR1000crores to focus on semiconductor equipment, materials and design. The budget for the Electronics Components Manufacturing Scheme (ECMS) was significantly increased to INR40,000 crore (up from INR22,000–INR23,000 crore) for FY27 to support the hardware ecosystem.

Financing of the budget

The government has estimated gross borrowings of INR17.2lakh crores with net borrowings at INR11.3lakh crores. This compares to gross borrowings of INR14.6lakh crores and net borrowings of INR10.4lakh crores in FY26. This high gross borrowing figure led to higher yields on India's government bonds when markets opened on 2 February. Notwithstanding, the central government debt to GDP ratio is projected to be lower at 55.6% of GDP in FY27 from 56.1% in FY26. The medium-term glide path remains to reach a debt to GDP ratio of 50% +/- 1% by FY 2031, with the fiscal deficit acting as the operational target. The pace of fiscal consolidation to achieve the central government debt to GDP ratio by FY31 will remain gradual, reliant on a combination of narrowing the fiscal deficit but also raising economic growth.



Source: CEIC; OCBC Group Research.



Source: CEIC; OCBC Group Research.

RBI has room to cut

The room for counter-cyclical fiscal policy support in Budget FY27 was going to be limited, in our view. The measures in Budget FY27 corroborate this line of thinking, with GDP growth and fiscal consolidation in the coming fiscal year relying mainly on better capex disbursements and past reforms working its way through the economy.

Monetary policy has the space to provide some additional counter-cyclical support. With headline inflation likely to remain well contained in FY27, albeit rising gradually through the fiscal year, we have pencilled in another 25bp rate cut from RBI in the current easing cycle. While a rate cut at the 6 February meeting cannot be ruled out, the portfolio flows picture which remains challenging could be experience further volatility upon an additional rate cut, particularly with INR already a significant regional underperformer. Moreover, Budget FY27 did little to bolster near-term sentiment suggesting that the flows picture could remain under pressure, notwithstanding global developments.

Furthermore, banking sector liquidity remains tight suggesting that reduced effectiveness of an imminent rate cut. RBI announced additional liquidity measures on 23 January 2026 including a 90-day Variable Rate Repo operation for INR25,000 crore on January 30, 2026, USD/INR Buy/Sell Swap auction of USD10bn for a tenor of 3 years on 4 February 2026 and OMO purchase auctions for INR1,00,000 crore in two tranches of INR50,000 crore each to be held on 5 February and 12 February 2026. As such, we see the 6 February meeting as setting up as a close call.