

Union Budget 2026-27 Analysis

Budget Highlights

- **Expenditure:** The government is estimated to spend Rs 53,47,315 crore in 2026-27, 7.7% higher than the revised estimate of 2025-26. Interest payments account for 26% of the total expenditure, and 40% of revenue receipts.
- **Receipts:** The receipts (other than borrowings) in 2026-27 are estimated to be Rs 36,51,547 crore, about 7.2% higher than the revised estimate of 2025-26. Tax revenue which forms major part of the receipts is also expected to increase by 8% over the revised estimate for 2025-26.
- **GDP:** The government has estimated a nominal GDP growth rate of 10% in 2026-27 (i.e., real growth plus inflation).
- **Deficits:** Revenue deficit in 2026-27 is targeted at 1.5% of GDP. This is similar to the revised estimate of 1.5% in 2025-26. Fiscal deficit in 2026-27 is targeted at 4.3% of GDP, lower than the revised estimate of 4.4% of GDP in 2025-26.
- **Debt:** The central government aims to reduce its outstanding liabilities to around 50% of GDP by March 2031. In 2026-27, outstanding liabilities are estimated to be 55.6% of the GDP.

Main Tax Proposals in the Finance Bill

- **No change in income tax slabs:** Tax structure for assessment year 2026-27 remains unchanged from the previous year.
- **Tax holidays:** A tax holiday until 2047 has been granted to foreign companies providing global cloud services using Indian data centres, provided services to Indian customers are routed through an Indian reseller. Further, the tax holiday for units in International Financial Services Centre (IFSC) and Offshore Banking Units has been increased from 10 to 20 years. Income of IFSC units will be taxed at 15% after this period.
- **Tax on share buybacks:** All share buybacks are proposed to be taxed as capital gains, with an additional buyback tax for promoters. This makes the effective rate 22% for corporate and 30% for non-corporate promoters.
- **Increase in Securities Transaction Tax (STT):** STT rates have been increased as follows: from 0.1% to 0.15% on options, from 0.125% to 0.15% on options exercised, and from 0.02% to 0.05% on futures.
- **Deductions against income from mutual funds:** No deduction shall be allowed for interest expenditure incurred in earning dividend income or income from mutual fund units. Such deduction was allowed previously up to 20% of gross dividend or income from mutual fund units.
- **Minimum Alternate Tax (MAT):** No credit accumulation shall be available for MAT from April 1, 2026. MAT rate is being reduced from 15% to 14%. MAT credits can be set off up to 25% of the tax liability only in the new tax regime.
- **Foreign Assets of Small Taxpayers – Disclosure Scheme, 2026:** A timebound scheme for disclosure of foreign assets by certain small taxpayers such as returning non-residents has been introduced. It provides graded relief, including immunity from penalty and prosecution, subject to payment of tax, additional levy, or a fixed fee, depending on the category of non-disclosure.
- **Relaxations for non-residents:** These include: (i) a five-year income tax exemption for supplying capital goods to electronics manufacturers, (ii) exemption of global income for expert non-residents working in India for up to five years under notified schemes, and (iii) MAT exemption has been extended to more categories of non-residents.
- **Rationalisation of penalty and prosecution:** Several offences have been decriminalised, or entail a maximum imprisonment of two years.
- **Tax collected at source (TCS):** TCS on remittance of more than Rs 10 lakh for the purposes of education or medical treatment has been reduced from 5% to 2%. TCS on sale of overseas tour package, including expenses for travel or hotel stay, has been reduced from 5% and 20% (depending on the amount) to 2%.

Policy Highlights

- **Finance and Economy:** A ‘High Level Committee on Banking for Viksit Bharat’ will be set up to review the sector. The Foreign Exchange Management (Non-debt Instruments) Rules will be reviewed to simplify framework for foreign investments. Individual Persons Resident Outside India (PROI) will be permitted to invest in equity instruments of listed Indian companies through the Portfolio Investment Scheme. The investment limit under this scheme will be increased from 5% to 10% for individual PROI. A market making framework (with access to funds and derivatives on corporate bond indices) and total return swaps on corporate bonds have been proposed. An incentive of Rs 100 crore has been announced for single bond issuance of more than Rs 1,000 crore to encourage issuance of municipal bonds.

- **Industry and Commerce:** A scheme will be introduced to revive 200 legacy industrial clusters through updated technology and infrastructure. An integrated programme for the textile sector will be introduced with five sub-parts: (i) National Fibre Scheme, (ii) Textile Expansion and Employment Scheme, (iii) National Handloom and Handicraft Scheme, (iv) Tex-Eco Initiative, and (v) Samarth 2.0. To strengthen khadi, handloom and handicrafts, Mahatma Gandhi Gram Swaraj initiative has been proposed. To enable the creation of ‘Champion SMEs,’ following initiatives are proposed: (i) SME Growth Fund, with outlay of Rs 10,000 crore, (ii) top up of Self-Reliant India Fund, and (iii) liquidity support.
- **Infrastructure:** Public capex will be increased from Rs 11.2 lakh crore to Rs 12.2 lakh crore. An Infrastructure Risk Guarantee Fund will be set up to strengthen the confidence of private developers. Five tourism destinations will be developed in the Purvodaya states and 4,000 electric buses will be allocated to the region. A dedicated freight corridor will connect Surat to Dankuni and 20 new national waterways will be operationalised over the next five years. Schemes will be launched for Enhancement of Construction and Infrastructure Equipments and for container manufacturing.
- **Urban development:** City Economic Regions (CERs) will be mapped based on specific growth drivers, with allocation of Rs 5,000 crore per CER over five years. Seven high speed rail corridors will be developed between select cities.
- **Labour and Employment:** A Standing Committee on ‘Education to Employment and Enterprise’ will be established to develop the service sector. The Committee will also assess the impact of artificial intelligence on jobs.
- **Education:** Five university townships will be created in the industrial and logistic corridors. Support will be provided to the Indian Institute of Creative Technologies, Mumbai to establish animation, visual effects, gaming and comics content creator labs in 15,000 secondary schools and 500 colleges.
- **Energy:** Outlay of the Electronics Component Manufacturing Scheme will be raised from Rs 22,919 crore to Rs 40,000 crore. Dedicated Rare Earth Corridors will be established in Odisha, Kerala, Andhra Pradesh and Tamil Nadu. Rs 20,000 crore will be allocated over five years for carbon capture utilisation and storage. Semiconductor Mission 2.0 will be launched.
- **Health:** New Allied Health Professional institutions will be established in both public and private sectors, in disciplines such as radiology, anaesthesia, and behavioural health. To promote medical tourism, five regional medical hubs will be established. Three All India Institutes of Ayurveda will also be established.
- **Pharmaceuticals:** To enable domestic production of biologics and biosimilars, the Biopharma SHAKTI (Strategy for Healthcare Advancement through Knowledge, Technology, and Innovation) scheme will be implemented for five years with an outlay of Rs 10,000 crore. Three National Institutes of Pharmaceutical Education and Research will be established and seven existing institutions will be upgraded.
- **Agriculture:** Deductions will be extended to cooperative members engaged in supplying cotton seeds and cattle feed. The animal husbandry sector will be supported through a credit linked subsidy programme. A coconut promotion scheme will be implemented to increase production.

Budget estimates of 2026-27 as compared to revised estimates of 2025-26

- Total Expenditure:** The government is estimated to spend Rs 53,47,315 crore in 2026-27. This is an increase of 7.7% over the revised estimate of 2025-26.
- Revenue expenditure** is estimated to increase by 6.6% and capital expenditure by 11.5% over the revised estimate of 2025-26. Allocations towards rural employment guarantee scheme (VB-G RAM G which replaced MGNREGA) increased by 42.8 % over the revised estimate for 2025-26. Interest payments are expected to increase by 10.2%. About 65.3% of the revenue receipts are spent on committed expenditure (salaries, pensions, and interest payments).
- Total Receipts:** Government receipts (excluding borrowings) are estimated to be Rs 36,51,547 crore, 7.2% higher than the revised estimate of 2025-26. The gap between these receipts and the expenditure will be plugged by borrowings, budgeted to be Rs 16,95,768 crore, 8.8% higher than the revised estimate of 2025-26.
- Transfer to states:** The central government will transfer Rs 26,20,769 crore to states in 2026-27, an increase of 12.2% over the revised estimate of 2025-26. Transfer to states includes tax devolution of Rs 15,26,255 crore and grants and loans worth Rs 10,94,514 crore. Within this, Rs 1,85,000 crore has been allocated to states as capital expenditure loans.
- Deficits:** Revenue deficit is targeted at 1.5% of GDP, similar to the revised estimate for 2025-26 (1.5% of GDP). Fiscal deficit is targeted at 4.3% of GDP in 2026-27, lower than the revised estimate for 2025-26 (4.4% of GDP).
- GDP growth estimate:** The nominal GDP is estimated to grow at a rate of 10% in 2026-27.

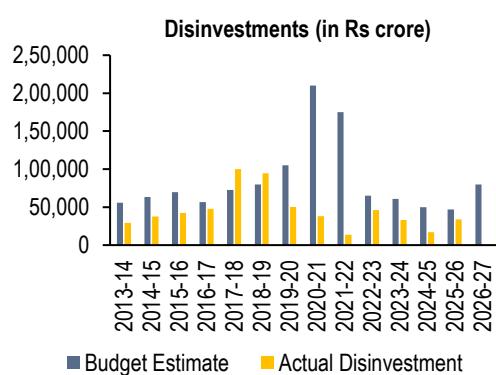
Table 1: Budget at a Glance 2026-27 (Rs crore)

	Actuals 2024-25	Budgeted 2025-26	Revised 2025-26	Budgeted 2026-27	% change (2025-26 RE to 2026-27 BE)
Revenue Expenditure	36,00,914	39,44,255	38,69,087	41,25,494	6.6%
Capital Expenditure	10,51,953	11,21,090	10,95,755	12,21,821	11.5%
of which:					
Capital Outlay	8,55,244	8,95,245	8,87,364	9,43,042	6.3%
Loans and Advances	1,96,710	2,25,844	2,08,391	2,78,780	33.8%
Total Expenditure	46,52,867	50,65,345	49,64,842	53,47,315	7.7%
Revenue Receipts	30,36,619	34,20,409	33,42,323	35,33,150	5.7%
Capital Receipts	41,818	76,000	64,027	1,18,397	84.9%
of which:					
Recoveries of Loans	24,617	29,000	30,190	38,397	27.2%
Disinvestments	17,202	47,000	33,837	80,000	136.4%
Total Receipts (excluding borrowings)	30,78,436	34,96,409	34,06,350	36,51,547	7.2%
Revenue Deficit	5,64,296	5,23,846	5,26,764	5,92,344	12.4%
% of GDP	1.7%	1.5%	1.5%	1.5%	
Fiscal Deficit	15,74,431	15,68,936	15,58,492	16,95,768	8.8%
% of GDP	4.8%	4.4%	4.4%	4.3%	
Primary Deficit	4,58,856	2,92,598	2,84,154	2,91,796	2.7%
% of GDP	1.4%	0.8%	0.8%	0.7%	

Sources: Budget at a Glance, Union Budget Documents 2026-27; PRS.

Expenditure which brings a change to the government's assets or liabilities (such as construction of roads or recovery of loans) is capital expenditure, and all other expenses are revenue expenditure (such as payment of salaries or interest payments). In 2026-27, **capital expenditure** is expected to increase by about 11.5% over the revised estimates of 2025-26. **Revenue expenditure** is expected to increase by 6.6% over the revised estimates of 2025-26.

Disinvestment is the government selling its stakes in Public Sector Undertakings (PSUs). In 2025-26, the government is estimated to meet 71.9% of its disinvestment target. The disinvestment target for 2026-27 is Rs 80,000 crore, higher than the budget target of 2025-26 (Rs 47,000 crore). This marks the first increase in the disinvestment target after five consecutive years of downward revisions and shortfalls in achieving the targets.



Note: Revised Estimate for 2025-26 taken as Actuals.
Sources: Union Budget Documents (various years); PRS.

Receipts Highlights for 2026-27

- **Receipts** (excluding borrowings) in 2026-27 are estimated to be Rs 36,51,547 crore, an increase of 7.2% over the revised estimates for 2025-26. This is mainly on account of centre's net tax revenue growing by 7.2%.
- **Gross tax revenue** is budgeted to increase by 8% in 2026-27, over the revised estimates for 2025-26. This is lower than the estimated growth in nominal GDP of 10% in 2026-27. Corporation tax and income tax for 2026-27 are expected to grow by about 11% and 11.7% over the revised estimates of 2025-26, respectively. Revenue from CGST in 2026-27 is expected to register an increase of 6.3% over the revised estimate of 2025-26.
- **Devolution to states** from centre's tax revenue is estimated to be Rs 15,26,255 crore in 2026-27, an increase of 9.6% over the revised estimates for 2025-26. In 2025-26, devolution to states is estimated to be Rs 13,92,971 crore, 2% lower than the budgeted (Rs 14,22,444 crore).
- **Net tax revenue** (excluding states' share in taxes) is estimated to be Rs 28,66,922 crore in 2026-27, which is an increase of 7.2% over the revised estimate for 2025-26. In 2025-26, net tax revenue at the revised stage is expected to be 5.7% lower than the budget estimate. This is mainly due to lower than budgeted receipts from Income Tax and GST.
- **Non-tax revenue** includes interest receipts on loans given by the centre, dividends, license fees, tolls, and charges for government services. Non-tax revenue is estimated at Rs 6,66,228 crore in 2026-27, roughly same as the revised estimate for 2025-26. 59% of the non-tax revenue in 2026-27 is estimated to come from dividend and profits.
- **Capital receipts** (excluding borrowings) are targeted at Rs 1,18,397 crore, an increase of 85% over the revised estimates for 2025-26. This increase is driven by higher receipt estimated from disinvestment. The revised estimates for 2025-26 are 15.7% lower than the budgeted amount for that year. This is mainly due to underachievement of disinvestment targets.

Table 2: Break up of central government receipts in 2026-27 (Rs crore)

	Actuals 2024-25	Budgeted 2025-26	Revised 2025-26	Budgeted 2026-27	% change (2025-26 RE to 2026-27 BE)
A. Gross Tax Revenue	37,96,382	42,70,233	40,77,772	44,04,086	8%
of which:					
Corporation Tax	9,86,767	10,82,000	11,09,000	12,31,000	11%
Taxes on Income	12,35,171	14,38,000	13,12,000	14,66,000	11.7%
Goods and Services Tax	10,27,041	11,78,000	10,46,480	10,19,020	-2.6%
CGST	8,76,471	10,10,890	9,58,480	10,19,020	6.3%
GST Compensation Cess	1,50,570	1,67,110	88,000	0	-
Customs	2,33,201	2,40,000	2,58,290	2,71,200	5%
Union Excise Duties	3,00,253	3,17,000	3,36,550	3,88,910	15.6%
B. Devolution to States	12,86,885	14,22,444	13,92,971	15,26,255	9.6%
C. Centre's Net Tax Revenue	25,00,039	28,37,409	26,74,661	28,66,922	7.2%
D. Non-Tax Revenue	5,36,580	5,83,000	6,67,662	6,66,228	-0.2%
of which:					
Interest Receipts	40,435	47,738	40,165	41,763	4%
Dividends and Profits	3,08,424	3,25,000	3,75,590	3,91,000	4.1%
Other Non-Tax Revenue	1,84,206	2,05,668	2,48,461	2,29,373	-7.7%
E. Capital Receipts (without borrowings)	41,818	76,000	64,027	1,18,397	84.9%
of which:					
Disinvestment	17,202	47,000	33,837	80,000	136.4%
Receipts (without borrowings) (C+D+E)	30,78,437	34,96,409	34,06,350	36,51,547	7.2%
Borrowings	15,74,431	15,68,936	15,58,492	16,95,768	8.8%

Sources: Receipts Budget; Union Budget Documents 2026-27; PRS.

- **Indirect taxes:** Total indirect tax collections are estimated to be Rs 16,79,130 crore in 2026-27. Of this, the government has estimated to raise Rs 10,19,020 crore from CGST.
- **Corporation tax:** In 2026-27, the collection from taxes on companies is expected to increase by 11% over the revised estimates for 2025-26.
- **Taxes on income:** Income tax collection is expected to increase by 11.7% in 2026-27. In 2025-26, income tax rates were cut and the government estimated a revenue of Rs 14,38,000 crore after factoring revenue foregone of one lakh crore rupees. As per revised estimates, income tax revenue is Rs 13,12,000 crore, a further shortfall of Rs 1,26,000 crore.
- **Non-tax revenue:** Non-tax revenue in 2025-26 is estimated to be 14.3% higher than budgeted. This is driven by a higher than budgeted receipt from: (i) dividend/surplus of RBI, Nationalised Banks and Financial Institutions, and (ii) communication services (charges for telecom spectrum and licencing fees).

Expenditure Highlights for 2026-27

- Total expenditure** in 2026-27 is expected to be Rs 53,47,315 crore, which is an increase of 7.7% over the revised estimate of 2025-26. Out of this: (i) Rs 17,71,928 crore is proposed to be spent on central sector schemes (8.2% increase over the revised estimate of 2025-26), and (ii) Rs 9,89,885 crore is proposed to be spent on centrally sponsored schemes (17.1% increase over the revised estimate of 2025-26).
- According to the revised estimates of 2025-26, government expenditure on centrally sponsored schemes and other transfers* is estimated to be lower by Rs 2,03,802 crore (19%) from budget estimates. This is primarily due to underspending in Jal Jeevan Mission (Rs 50,000 crore unspent) and Pradhan Mantri Awas Yojana- Urban and Rural (Rs 40,226 44,664 crore unspent).*
- The government has estimated to spend Rs 2,96,214 crore on pension in 2026-27, which is 3% higher than the revised estimate of 2025-26. Expenditure on interest payment in 2026-27 is estimated to be Rs 14,03,972 crore, which is 26% of the government's total expenditure. In 2026-27, interest payments are expected to increase by 10% as compared to revised estimates of 2025-26. Other grants, loans, and transfers (Rs 3,11,691 crore) include Rs 1,85,000 crore as special loans to states for capital expenditure.
- As per the recommendations of the 16th Finance Commission (FC), FC grants for 2026-27 are estimated at Rs 1,29,397 crore. This is 15% lower than the revised estimates of 2025-26 (see Annexure for details on FC recommendations).

Table 3: Break up of central government expenditure in 2026-27 (Rs crore)

	Actuals 2024-25	Budgeted 2025-26	Revised 2025-26	Budgeted 2026-27	% change (2025-26 RE to 2026-27 BE)
Central Expenditure	37,44,781	40,16,003	41,19,301	43,57,429	5.8%
Establishment Expenditure of Centre	8,29,423	8,68,096	7,82,701	8,24,114	5.3%
Central Sector Schemes	14,94,392	16,21,899	16,37,156	17,71,928	8.2%
Other Expenditure <i>of which Interest Payments</i>	14,20,966 11,15,575	15,26,008 12,76,338	16,99,445 12,74,338	17,61,387 14,03,972	3.6% 10.2%
Centrally Sponsored Schemes and other transfers	9,08,086	10,49,343	8,45,540	9,89,885	17.1%
Centrally Sponsored Schemes	4,02,368	5,41,850	4,20,078	5,48,798	30.6%
Finance Commission Grants <i>of which:</i>	1,20,858 Rural Local Bodies Urban Local Bodies Disaster Management Grants Post Devolution Revenue Deficit Grants	1,32,767 41,262 19,260 25,249 24,483	1,52,953 48,573 26,158 26,969 13,705	1,29,397 55,909 45,272 28,216 0	-15.4% 2.9% 74.0% -15.8% 14.4%
Other Grants <i>of which Capex Loans to States</i>	3,84,860 1,49,484	3,74,725 1,50,000	2,72,510 1,44,000	3,11,691 1,85,000	28.0%
Total Expenditure	46,52,867	50,65,345	49,64,842	53,47,315	7.7%

Sources: Budget at a Glance, Union Budget Documents 2026-27; PRS.

Expenditure by Ministries

In 2026-27, the top 13 ministries in terms of allocations account for 54% of the estimated total expenditure (Table 4). Of these, the Ministry of Defence has the highest allocation in 2026-27, at Rs 7,84,678 crore, accounting for 15% of the total budgeted expenditure of the central government. Other ministries with high allocations include: (i) Road Transport and Highways (6% of total expenditure), (ii) Railways (5%), and (iii) Home Affairs (5%).

Table 4: Ministry-wise expenditure in 2026-27 (Rs crore)

	Actuals 2024-25	Budgeted 2025-26	Revised 2025-26	Budgeted 2026-27	% change (2025-26 RE to 2026-27 BE)
Defence	6,36,003	6,81,210	7,32,512	7,84,678	7.1%
Road Transport and Highways	2,99,460	2,87,333	2,87,142	3,09,875	7.9%
Railways	2,55,263	2,55,445	2,55,466	2,81,377	10.1%
Home Affairs	2,24,585	2,33,211	2,41,485	2,55,234	5.7%
Consumer Affairs, Food and Public Distribution	2,15,009	2,15,767	2,38,409	2,39,521	0.5%
Rural Development	1,79,307	1,90,406	1,88,753	1,97,023	4.4%
Chemicals and Fertilisers	1,84,993	1,61,965	1,91,186	1,77,061	-7.4%
Agriculture and Farmers' Welfare	1,39,744	1,37,757	1,33,370	1,40,529	5.4%
Education	1,10,736	1,28,650	1,21,949	1,39,289	14.2%
Health and Family Welfare	90,684	99,859	96,854	1,06,530	10.0%
Communications	1,47,832	1,08,105	79,768	1,02,267	28.2%
Jal Shakti	46,720	99,503	41,437	94,808	128.8%
Housing and Urban Affairs	53,255	96,777	57,204	85,522	49.5%
Total Expenditure	46,52,867	50,65,345	49,64,842	53,47,315	7.7%

Sources: Expenditure Budget, Union Budget 2026-27; PRS.

* Corrected on February 2, 2026.

- Ministry of Defence:** Allocation is estimated to increase by Rs 52,166 crore (7%) in 2026-27, over the revised estimate of 2025-26. The allocation towards capital outlay for defence services in 2026-27 is estimated to be Rs 2,19,306 crore, 17.6% higher than the revised estimates of 2025-26.
- Ministry of Jal Shakti:** Allocation is estimated to increase by Rs 53,371 crore in 2026-27, over the revised estimates of 2025-26. Revised estimate for 2025-26 was Rs 41,437 crore as compared to budgeted Rs 99,503 crore. This underspending is mainly due to Jal Jeevan Mission, where the expenditure is lower by Rs 50,000 in the revised estimates as compared to budgeted estimates of 2025-26 (see Table 6).
- Ministry of Housing and Urban Affairs:** Allocation towards Housing and Urban Affairs is estimated to increase by Rs 28,318 crore (49.5%) to Rs 85,522 crore in 2026-27. This is primarily due to increased allocation towards PMAY-Urban, with underspending of ~~22,332~~^{17,894†} crore between budgeted and revised estimates of 2025-26 (see Table 6).
- Ministry of Chemicals and Fertilisers:** Allocation towards Chemicals and Fertilisers is estimated to decrease by Rs 14,125 crore (7.4%) to Rs 1,77,061 crore in 2025-26. This is primarily due to decrease in fertiliser subsidy (see Table 5).

Expenditure on Subsidies

In 2026-27, the total expenditure on subsidies is estimated to be Rs 4,54,773 crore, lower than the revised estimate of 2025-26 by 3.1% (Table 5). In 2025-26, at the revised estimates stage, food subsidy was 12% more than budgeted estimate and fertiliser subsidy was 11% higher. In 2026-27, food subsidy estimated at Rs 2,27,629 crore and fertiliser subsidy at Rs 1,70,799 crore, together constituting 87% of the total subsidy bill. LPG subsidy constitutes 2.6% of the total subsidy bill.

Table 5: Subsidies in 2026-27 (Rs crore)

	Actuals 2024-25	Budgeted 2025-26	Revised 2025-26	Budgeted 2026-27	% change (2025-26 RE to 2026-27 BE)
Food subsidy	1,99,867	2,03,420	2,28,154	2,27,629	-0.2%
Fertiliser subsidy	1,70,683	1,67,887	1,86,460	1,70,799	-8.4%
Interest subsidy	21,885	27,840	24,666	27,441	11.3%
LPG subsidy	14,479	12,100	15,121	12,085	-20.1%
Other subsidies	15,692	14,969	15,105	16,820	11.3%
Total	4,22,606	4,26,216	4,69,505	4,54,773	-3.1%

Sources: Expenditure Profile, Union Budget 2026-27; PRS.

Expenditure on Major Schemes

Table 6: Scheme-wise allocation in 2026-27 (Rs crore)

	Actuals 2024-25	Budgeted 2025-26	Revised 2025-26	Budgeted 2026-27	% change (2025-26 RE to 2026-27 BE)
VB-G RAM G	0	0	0	95,692	-
MGNREGS	85,834	86,000	88,000	30,000	-66%
Jal Jeevan Mission/National Rural Drinking Water Mission	22,612	67,000	17,000	67,670	298%
PM-KISAN	66,121	63,500	63,500	63,500	0%
Pradhan Mantri Awas Yojana – Rural	32,327	54,832	32,500	54,917	69%
Samagra Shiksha	36,288	41,250	38,000	42,100	11%
National Health Mission	38,889	37,227	37,100	39,390	6%
Saksham Anganwadi and POSHAN 2.0	21,014	21,960	20,949	23,100	10%
Modified Interest Subvention Scheme	22,600	22,600	22,600	22,600	0%
Pradhan Mantri Awas Yojana – Urban	5,865	25,794	7,900	22,025	179%
PM Surya Ghar Muft Bijli Yojana	7,818	20,000	17,000	22,000	29%
PM Viksit Bharat Rozgar Yojana	0	0	0	20,083	-
Bharatnet	3,995	22,000	5,500	20,000	264%
Research, Development and Innovation (RDI) Scheme	0	20,000	3,000	20,000	566.7%

Sources: Expenditure Profile, Union Budget 2026-27; PRS.

- VB-G RAM G has the highest allocation in 2026-27 (Rs 95,692 crore). In December 2025, MGNREGA was replaced by the VB-G RAM G Act. In 2026-27, MGNREGS has also been allocated Rs 30,000 crore.
- Jal Jeevan Mission has been allocated Rs 67,670 crore in 2026-27. In 2025-26, the revised estimate (Rs 17,000 crore) is significantly lower than the budget estimate (Rs 67,000 crore).
- Pradhan Mantri Awas Yojana-Urban has been allocated Rs ~~21,625~~^{22,025†} crore in 2026-27, an increase of 179% over the revised estimate for 2025-26. The Pradhan Mantri Awas Yojana-Rural has an allocation of Rs 54,917 crore in 2026-27, an increase of 69% over the revised estimate of 2025-26. Revised estimates for both schemes for 2025-26 is significantly lower than the budget estimates. The budget allocation in 2026-27 is similar to amounts originally budgeted in 2025-26.

[†] Corrected on February 2, 2026.

- The Viksit Bharat Rozgar Yojana has an allocation of Rs 20,083 crore in 2026-27. The scheme provides incentives to newly employed youth and employers.
- The Bharatnet and the Research, Development and Innovation Scheme have been allocated Rs 20,000 crore each in 2026-27. In 2025-26, as per revised estimates, spending under Bharatnet is expected to be 25% of the budgeted amount, and under RDI scheme, at 15% of the budgeted amount.

Loans to states for capital expenditure

- Rs 1,85,000 crore rupees has been budgeted for special interest-free loans to states for capital expenditure in 2026-27. The revised estimates for 2025-26 is Rs 1,44,000 crore, against a budget allocation of Rs 1,50,000 crore.

Expenditure on Scheduled Caste and Scheduled Tribe sub-plans and schemes for the welfare of women, children, and the North Eastern Region (NER)

- Programmes for the welfare of women and children have been allocated Rs 6,33,176 crore in 2026-27, an increase of 25% over the revised estimate of 2025-26. These allocations include programmes being implemented across all ministries.
- Allocation towards the welfare of women is estimated to increase due to increased allocation towards the Pradhan Mantri Awas Yojana. Under the Awas Yojana, the female head of the family must be the owner or co-owner of the house.
- Allocation towards the welfare of children is estimated to increase due to a higher allocation towards school education under POSHAN, PM-SHRI, and the Samagra Shiksha scheme. Allocation for Scheduled Castes is estimated to be higher due to increased allocation under the Jal Jeevan Mission and the Viksit Bharat Rozgar Yojana.

Table 7: Allocations for women, children, SCs, STs and NER (Rs crore)

	Actuals 2024-25	Revised 2025-26	Budgeted 2026-27	% change (2025-26 RE to 2026-27 BE)
Welfare of Women	3,59,722	3,97,885	5,00,879	25.9%
Welfare of Children	99,099	1,07,945	1,32,297	22.6%
Scheduled Castes	1,23,372	1,61,205	1,96,400	21.8%
Scheduled Tribes	1,05,711	1,23,435	1,41,089	14.3%
North Eastern Region	87,736*	88,741	1,08,335	22.1%

Note: *Revised estimates taken as actuals

Sources: Expenditure Profile, Union Budget 2026-27; PRS.

Deficits and Debt

The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 requires the central government to progressively reduce its outstanding debt, revenue deficit and fiscal deficit, and to give three-year rolling targets for these. Note that the Medium-Term Fiscal Policy Statement has not provided rolling targets for deficits since 2021-22.

Fiscal deficit is an indicator of borrowings by the government for financing its expenditure. The fiscal deficit in 2026-27 is estimated to be 4.3% of GDP, lower than 2025-26 (4.4% of GDP).

Revenue deficit is the excess of revenue expenditure over revenue receipts. Such a deficit implies that the government needs to borrow funds to meet recurring expenses which may not provide future returns. The revenue deficit in 2026-27 is estimated to be 1.5% of GDP, same as 2025-26.

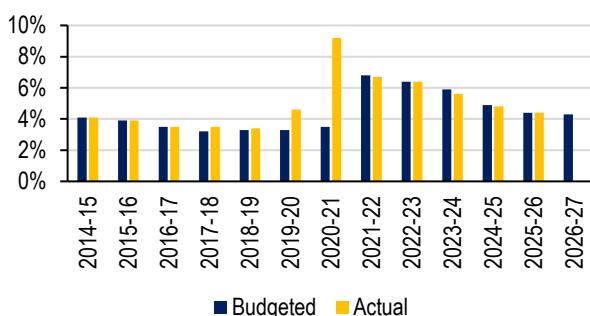
Primary deficit is fiscal deficit less interest payments. It is estimated to be 0.7% of GDP in 2026-27.

Table 8: Deficits (as % of GDP)

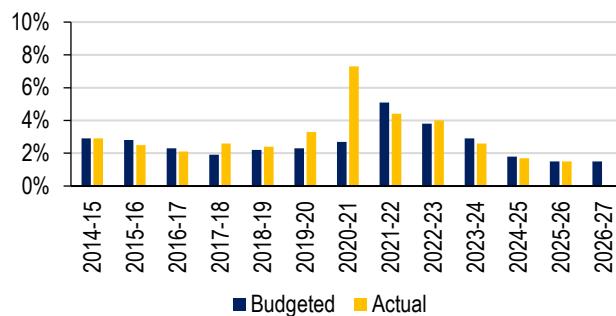
	Actuals 2024-25	Budgeted 2025-26	Revised 2025-26	Budgeted 2026-27
Fiscal Deficit	4.8%	4.4%	4.4%	4.3%
Revenue Deficit	1.7%	1.5%	1.5%	1.5%
Primary Deficit	1.4%	0.8%	0.8%	0.7%

Sources: Budget at a Glance, Union Budget 2026-27; PRS.

Fiscal Deficit: Budgeted vs Actual (as % of GDP)



Revenue Deficit: Budgeted vs Actual (as % of GDP)

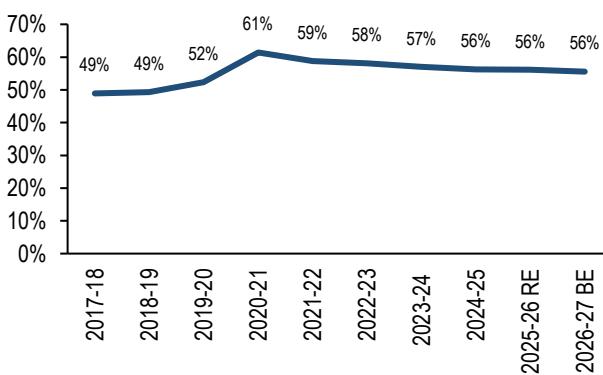


Note: Revised Estimate for 2025-26 taken as Actuals.

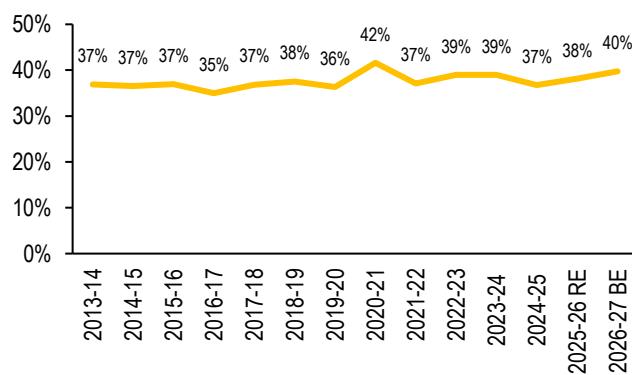
Sources: Budget at a Glance, Union Budget (various years); PRS.

- **Outstanding liabilities** is the accumulation of borrowings over the years. A higher debt implies that the government has a higher loan repayment obligation over the years.
- Centre's outstanding liabilities in 2026-27 are estimated to be 55.6% of GDP. Outstanding liabilities rose between 2018-19 and 2020-21, reaching a high of 61% of GDP in 2020-21, and have moderated thereafter. The government aims to reduce the outstanding liabilities to around 50% ± 1% of GDP by March 2031.
- Interest payments as a percentage of revenue receipts increased from 37% in 2013-14 to 42% in 2020-21. It is estimated to be 40% of revenue receipts in 2026-27.

Outstanding Liabilities (% of GDP)



Interest Payment as % of Revenue Receipts



Note: RE is revised estimate and BE is budget estimate.

Sources: Handbook of Statistics on Indian Economy, RBI; MOSPI, Union Budget Documents 2026-27; PRS.

Annexure: Recommendations of the 16th Finance Commission

The Report of the 16th Finance Commission (Chair: Dr. Arvind Panagariya) was tabled in Parliament on February 1, 2026. The recommendations will apply for the five-year period between 2026-27 and 2030-31. Key recommendations of the Commission include:

- **Share of states in central taxes:** The 16th Commission (FC) has recommended the share of states in the divisible pool of central taxes at 41%. Divisible pool is arrived at after excluding cost of collection and cesses and surcharges from the gross tax revenue collected by the central government. The share remains unchanged from the 15th Finance Commission award period (2021-26).
- **Devolution Criteria:** To determine distribution of central taxes among states, the Finance Commissions come up with a formula with weightage for certain parameters. The 16th FC has given the highest weightage to income distance (Table 9). Income distance is the distance of a state's per capita GSDP from the state with the highest per capita GSDP. On this parameter, a state with lower per capita GSDP will have a higher share in devolution to maintain equity among states. The 15th FC had also used this criterion with a comparatively higher weightage.
- The 16th FC has introduced a new parameter which accounts for the contribution to national GDP. This replaces the tax and fiscal efforts parameter used by the 15th FC which rewarded states with a higher tax collection efficiency. Contribution to GDP has also been given a comparatively higher weightage.
- Other parameters include population, area, and forest cover. These parameters are similar to the 15th FC. Weightage for area has been reduced.
- **Grants-in-aid:** The 16th FC has recommended grants worth Rs 9.47 lakh crore over the five-year period. These comprise grants for: (i) urban and rural local bodies, and (ii) disaster management. The 16th FC has discontinued the following grants recommended by the 15th FC: (i) revenue deficit grants, (ii) sector-specific grants for education, justice, statistics, and agriculture, and (iii) state-specific grants.
- A certain percentage of grants to local bodies will be performance-linked with an aim to incentivise growth in revenue from own sources. Special infrastructure component aims to facilitate interventions in comprehensive wastewater management. Urbanisation premium is aimed at incentivising rural to urban transition.
- **Fiscal roadmap:** The 16th FC has recommended that the Centre should bring down fiscal deficit to 3.5% of GDP by 2030-31. It recommended the annual fiscal deficit limit for states to be 3% of GSDP. It also recommended strictly discontinuing the practice of off-budget borrowings for states and bringing all such borrowings onto their budgets. The definition of fiscal deficit and debt should be expanded to uniformly include all off-budget borrowings.

Table 9: Criteria for devolution

Criteria	14 th FC 2015-20	15 th FC 2021-26	16 th FC 2026-31
Income Distance	50.0	45.0	42.5
Area	15.0	15.0	10.0
Population (1971)	17.5	-	-
Population (2011)	10.0	15.0	17.5
Demographic Performance [#]	-	12.5	10.0
Forest [^]	7.5	10.0	10.0
Tax and fiscal effort	-	2.5	-
Contribution to GDP	-	-	10.0
Total	100	100	100

Note: [#] rewards efforts made by states in controlling their population relative to 1971 population.

[^]The 14th and 15th FC accounted for the share in moderately dense and very dense forest cover. The 16th FC has also considered open forest cover and increase in overall forest cover.

Sources: Reports of the 14th, 15th, and 16th Finance Commissions; PRS.

Table 10: Grants for the 2026-31 period (Rs crore)

Grants	Amount
Local governments	7,91,493
Rural local bodies	4,35,236
Basic Grant	3,48,188
Performance Grant	87,048
Urban local bodies	3,56,257
Basic Grant	2,32,125
Performance Grant	58,032
Special Infrastructure Component	56,100
Urbanisation Premium	10,000
Disaster management	1,55,916
Total	9,47,409

Sources: Report of the 16th Finance Commission; PRS.

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