सत्यमेव जयते

GOVERNMENT OF INDIA

Statements of Fiscal Policy as required under the Fiscal Responsibility and Budget Management Act, 2003

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MINISTRY OF FINANCE
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PREFACE

The Fiscal Responsibility and Budget Management Act, 2003, was enacted to, among other things, provide for the responsibility of the Central Government to ensure inter-generational equity in fiscal management and long-term macroeconomic stability. The Fiscal Responsibility and Budget Management Act, 2003 and the Fiscal Responsibility and Budget Management Rules, 2004 made under Section 8 of the Act came into force from 5th July 2004.

The FRBM framework mandates the Central Government to limit the Fiscal Deficit upto three per cent of Gross Domestic Product by 31st March, 2021. It further provides that the Central Government shall endeavour to limit the General Government Debt to 60 per cent of GDP and the Central Government Debt to 40 per cent of GDP, by 31st March, 2025.

In RE 2025-26, the Government has retained its Fiscal Deficit target at 4.4 per cent of GDP. Further, in line with the commitment made in the Budget Speech for FY 2021-22 and the fiscal consolidation path presented in Budget of FY 2025-26, the fiscal deficit to GDP in the FY 2026-27 is projected at 4.3 per cent.

This document contains the Macroeconomic Framework Statement and Medium-term Fiscal Policy cum Fiscal Policy Strategy Statement. They provide an assessment of the growth prospects of the economy and strategies of the Government in the forthcoming financial year relating to taxation, expenditure, market borrowings and other liabilities. A Statement of deviation explaining the reasons for deviation from the fiscal targets mentioned in Section 4 and compliance obligations under Section 7(3)(b) of the FRBM Act, 2003, on the Central Government, has also been included. The FRBM policy statements are hereby laid before both the Houses of the Parliament.

1. MACRO-ECONOMIC FRAMEWORK STATEMENT

Global Economic Environment

1. The global economy continued to be resilient and is projected to grow at a rate of 3.3 per cent in calendar year 2026 and at 3.2 per cent in 2027, according to the International Monetary Fund's World Economic Outlook of January 2026. This forecast is at par with the 3.3 per cent outturn in 2025 and remains below the long-term average of 3.7 per cent. Global headline inflation is expected to moderate, though the pace of decline varies across economies.

2. While the current economic stability reflects a balance between surging sectoral investment and shifting trade policies, this equilibrium remains precarious. Growth prospects continue to be vulnerable to geopolitical escalation and renewed trade tensions, both of which threaten to disrupt global flows. Aligning fiscal discipline with growth-friendly investments is seen as necessary to insulate the economy against adverse global shocks.

Domestic Economic Developments

a. Economic Growth

3. As per the first advance estimates published by the National Statistics Office, India's real GDP is estimated to grow by 7.4 per cent in FY 2025–26, with nominal GDP growth at 8 per cent. The services sector remains the primary growth driver, expanding by 9.1 per cent. Manufacturing and construction have grown by 7 per cent. Agriculture is estimated to grow at 3.1 per cent.

4. Except for the agricultural sector, all other sectors recorded higher growth than in the previous year. However, agricultural growth prospects remain supportive due to favourable farming conditions and robust farm output. Foodgrain production reached a record 3,577.32 LMT in 2024–25, with significant increases in rice, wheat, maize, and oilseeds. Procurement and buffer stocks remain adequate, supporting food security.

b. Consumption and Investment

5. Domestic demand continues to anchor growth. Private final consumption expenditure (PFCE) is projected to grow by 7 per cent, accounting for 61.5 per cent of GDP - the highest level since FY12. Government final consumption expenditure is also estimated to strongly rebound with a YoY growth of 5.2 per cent in FY26 as against 2.3 per cent in FY25. High-frequency indicators, such as UPI transactions, air and rail traffic, e-way bills, etc., reflect sustained momentum in both urban and rural consumption.

6. Investment activity remains strong, with gross fixed capital formation (GFCF) rising by 7.8 per cent in FY26, higher than the previous year. Further, the share of GFCF has remained stable at around 30 per cent of GDP for the past three years.

c. External Sector

7. India's total exports (merchandise and services) reached USD 825.3 billion in FY25, with continued momentum in FY26. Despite tariffs imposed by the United States, merchandise exports grew by 2.4 per cent (April–December 2025), while services exports increased by 6.5 per cent. Merchandise imports for April-December 2025 increased by 5.9 per cent.

8. Gross Foreign Direct Investment (FDI) inflows were recorded at USD 81.0 billion in FY25, and the momentum strengthened in FY26 with the highest inflow recorded in the first seven months of any financial year. During these seven months,

net FDI flows, after adjusting for repatriations and outbound FDI from India, totalled USD 6.2 billion, compared to USD 3.3 billion in the corresponding period last year. A net portfolio investment outflow of USD 3.9 billion was recorded from April to December 2025. On a yearly basis, the rupee experienced a depreciation of 4.9 per cent as of 9th January 2026.

9. The current account deficit declined to 0.8 per cent of GDP in H1 FY26 from 1.3 per cent in H1 FY25. Foreign exchange reserves stood at USD 687.2 billion as of 9 January 2025, providing a strong buffer against external shocks, as they cover 92 per cent of India's external debt (outstanding at the end of September 2025) and 11 months of merchandise imports.

d. Prices and Inflation

10. Inflationary pressures have moderated primarily due to lower food prices, with average retail inflation easing to 1.7 per cent in FY25 (April–December) compared to 4.9 per cent in the corresponding previous period. The Reserve Bank of India projects annual retail inflation at 2 per cent for 2025–26, and at around 4 per cent for H1 FY27, all within the target band.

e. Financial and Capital Markets

11. Resource mobilisation from primary markets reached ₹7.1 lakh crore in FY26 (April–September 2025). By the end of September 2025, the mutual fund industry's assets under management had expanded by 13 per cent to ₹75.6 lakh crore, and retail investor participation crossed the milestone of 12 crore unique investors. The banking sector remains robust, with declining Non-Performing Asset (NPA) ratios (2.1 per cent), strong capital adequacy of 17.2 per cent, and robust profit and return matrices as of September 2025. Monetary policy has been accommodative, with a cumulative reduction of 125 basis points in the policy rate since February 2025 and with a 'neutral' stance since June 2025. This has resulted in a 69-basis-point reduction in the weighted average lending rate for new loans.

f. Public Finances

12. The Union Government's fiscal deficit was 54.5 per cent of the budget estimate as of December 2025, in line with annual targets. Revenue and tax collections have increased, though at a moderate pace, and capital expenditure has grown by 15 per cent year-on-year during April–December 2025. The overall fiscal position remains stable. A detailed statement on the Public Finances is included in the later part of this Statement.

Outlook

13. India's growth outlook remains positive, supported by strong domestic demand, structural reforms, and a stable macroeconomic environment. The country received three sovereign rating upgrades during the year. Inflation outlook remains benign. Continued public investment, deregulation, labour market reforms, human capital investments, tax reforms, digital transformation, and the formalisation of the economy are expected to drive the economy into a higher growth trajectory, as indicated in the Economic Survey. Strong balance sheets in the corporate and financial sectors are also expected to drive a virtuous cycle of growth, fuelled by increased private-sector investment. One risk factor is the persistence of high tariffs on exports to the USA. It also affects investor sentiment, keeps capital inflows into India restrained, and forces Indian businesses to invest in lower-tariff jurisdictions or in the United States itself to cater to the large US domestic market. Weak net capital inflows keep the currency under pressure.

14. One offset is that free trade agreements and trade diversification partially mitigate the impact of high American tariffs. India's economic fundamentals provide a solid foundation for continued progress, but global uncertainties, energy transition challenges, domestic policy certainty and predictability and the private sector's short-term focus are areas to watch or improve upon, as appropriate.

Macroeconomic Framework Statement (Economic Performance at a Glance)					
S.No.	Item	Absolute value		Percentage change	
		April-December		April-December	
		2024-25	2025-26	2024-25	2025-26
Real Sector					
1	**GDP at Market Prices (₹ Crore) @**				
(a)	At current price	33068145	35713886	9.8	8.0
(b)	At 2011-12 price	18796955	20189919	6.5	7.4
2	Index of Industrial Production@@	149.3	154.2	4.2	3.3
3	Wholesale Price Index (2011-12=100)	154.8	154.9	2.2	0.04
4	Consumer Price Index: Combined (2012=100)	192.6	195.9	4.9	1.7
5	Money Supply (M3) (₹ thousand crore) $	26579	29801	9.0	12.1
6	**Imports at current prices ***				
(a)	In Crore	4583543	5056012	9.4	10.3
(b)	In USD Million	546363	578609	7.9	5.9
7	**Exports at current prices ***				
(a)	In Crore	2704317	2884251	3.3	6.7
(b)	In USD Million	322408	330290	1.8	2.4
8	Trade Balance (USD Million) *	-223956	-248319	18.0	10.9
9	**Foreign Exchange Reserves****				
(a)	In Crore	54,42,176	61,81,279	5.1	13.6
(b)	In USD Million	6,35,701	6,87,734	2.1	8.2
10	Current Account Balance (USD Billion) #	-25.3	-15.0	-	-
Government Finances (₹ crore) ##					
1	Revenue Receipts	2290710	2479109	12.16	8.22
2	Gross tax revenue	2750428	2984267	10.79	8.50
3	Tax Revenue (net to Centre)	1843053	1939254	6.54	5.22
4	Non-Tax Revenue	447657	539855	43.32	20.60
5	Capital Receipts	941384	901889	-6.97	-4.20
	of which				
6	Recovery of loans	18301	18226	-6.61	-0.41
7	Other Receipts	8994	27821	-10.53	209.33
8	Borrowings and other liabilities	914089	855842	-6.94	-6.37
9	Total Expenditure	3232094	3380998	5.82	4.61
10	Revenue Expenditure	2546757	2593063	6.98	1.82
11	Capital Expenditure	685337	787935	1.74	14.97
12	Revenue Deficit	256047	113954	-24.31	-55.49
13	Fiscal Deficit	914089	855842	-6.94	-6.37
14	Primary Deficit	105776	-55217	-54.81	-152.20

@: GDP for 2025-26 is the First Advance estimate and 2024-25 is a Provisional estimate (both for fiscal years).
@@: April – November
**: On a Customs basis.*
$: Outstanding as of December 31, 2025, and percentage change year-on-year.
***: at end-December 2025*
#: April – September.
##: April-December figure for 2024-25 and 2025-26 are Provisional Estimates as reported by the Controller General of Accounts.

2. MEDIUM TERM FISCAL POLICY CUM FISCAL POLICY STRATEGY STATEMENT

1. Union Budget 2026-27 has as its fiscal anchor the debt glide path indicated in Budget 2025-26 and Budget 2024-25 (regular) and is being presented against the backdrop of ongoing fiscal consolidation announced in FY 2021-22, which has provided a good foundation for making available the resources required to balance the development priorities without compromising on fiscal prudence. As announced in Budget 2021-22, the Government made true its intention of reaching a fiscal deficit below 4.5 per cent of GDP in FY 2025-26. Going ahead, it would be the endeavour of the Government to adopt a fiscal stance that would put the Central Government debt on a declining path.

2. Major fiscal indicators of the Union Government in the Revised Estimates (RE) of FY 2025-26 and the Budget Estimates (BE) of FY 2026-27 as a per cent of GDP, are summarized in the table below.

Fiscal Indicators - Rolling Targets as a Percentage of GDP

	Revised Estimates	Budget Estimates
	2025-26	2026-27
1. Fiscal Deficit	4.4	4.3
2. Revenue Deficit	1.5	1.5
3. Primary Deficit	0.8	0.7
4. Tax Revenue (Gross)	11.4	11.2
5. Non-tax Revenue	1.9	1.7
6. Central Government Debt	56.1	55.6

Notes:

1. *"GDP" is the Gross Domestic Product at Current Market Price.*
2. *Central Government Debt includes external public debt valued at current exchange rates, total outstanding liabilities on Public Account including investment in Special Securities of States under NSSF and EBR liabilities, etc.*
3. *Liabilities on account of investment in Special Securities of States, under NSSF are 0.7 per cent and 0.5 per cent of GDP in RE 2025-26 and BE 2026-27, respectively. The Central Government Debt net of these liabilities stands at 55.5 per cent and 55.1 per cent of GDP in RE 2025-26 and BE 2026-27, respectively.*

3. The process of fiscal consolidation since 2021-22 has resulted in improvement in fiscal deficit from 6.7 per cent of GDP in 2021-22 to 4.4 per cent of GDP in 2025-26 RE. This improvement is due to sustained efforts to maintain revenue receipts on the budgeted path and the rationalization of expenditure, without losing focus on economic growth. Continuation of the policy measures already implemented in the domain of taxation and expenditure management as presented under the fiscal policy strategy of this statement form the basis of projections.

4. However, uncertainty associated with significant changes in global macroeconomic and geopolitical environment continue to be concerns in fiscal policy management. While India's growth outlook remains positive, as mentioned in the Macroeconomic Framework Statement, it is not insulated from the risks emanating from outside the country. In this context, rolling targets for next two years have not been provided. A Statement explaining the reasons for deviation from the fiscal commitments / obligations mentioned in Section 4 and compliance obligations under Section 7(3)(b) of the FRBM Act, 2003, is provided at the end of this Statement.

Fiscal Policy Strategy for FY 2025-26

5. The Central Government's total expenditure during April – December 2025 was ₹33.81 lakh crore.

Within the total expenditure, capital expenditure stood at ₹7.88 lakh crore. Effective capital expenditure (defined as capital expenditure plus Grant-in-Aid for creation of capital assets) was ₹9.66 lakh crore.

6. Receipts of the Central Government during April-December 2025 are as follows. Gross Tax Revenue (GTR), at ₹29.84 lakh crore, recorded YoY growth of about 8.5 per cent in the first nine months of FY 2025-26 over the same period in the FY 2024-25. Revenue Receipts [Tax (net to Centre) plus Non-Tax Revenue] of the Centre were at ₹24.79 lakh crore. This was about 72.5 per cent of Budget Estimates of FY 2025-26.

7. During the nine months of FY 2025-26, Direct and Indirect tax receipts were ₹17.46 lakh crore and ₹12.38 lakh crore, respectively. These represent a YoY growth of around 7.9 per cent and 9.4 per cent in Direct tax and Indirect tax respectively.

8. Non-Tax Revenues (NTR) of the Union Government in the first nine months of FY 2025-26 were ₹5.40 lakh crore. This accounts for 92.6 per cent of BE of FY 2025-26 and much higher than the five years' moving average of 80.9 per cent of BE.

9. Fiscal Deficit at the end of December 2025, is estimated at ₹8.56 lakh crore (or 54.5 per cent of the Budget Estimate of FY 2025-26). Fiscal Assessment vis-à-vis mid-year benchmarks, as required under Rule 7 of FRBM Rules, 2004, has been carried out for H1 of FY 2025-26. There is no deviation in the three mid-year benchmarks prescribed under the FRBM Rules.

10. Given the above, the total expenditure in Revised Estimates (RE) 2025-26 is estimated at ₹49.65 lakh crore. This translates into a growth of 6.7 per cent over actuals of FY 2024-25. The Revenue Expenditure and Capital Expenditure are estimated at ₹38.69 lakh crore and ₹10.96 lakh crore, respectively, in RE 2025-26. The revenue receipts and non-debt capital receipts of the Central Government are projected at ₹33.42 lakh crore and ₹0.64 lakh crore, respectively.

11. Fiscal Deficit in RE 2025-26 is estimated at 4.4 per cent of GDP, at the same level as BE 2025-26. The Revenue Deficit and Primary Deficit are projected at 1.5 and 0.8 per cent of GDP, respectively, in RE 2025-26.

12. The projected fiscal deficit of ₹15.58 lakh crore in RE 2025-26 is planned to be financed through various means including market borrowing, NSSF, etc. The Gross and Net borrowings through dated securities (G-Sec) were planned at ₹14.82 lakh crore and ₹11.54 lakh crore in BE 2025-26, respectively. Up to January 27, 2026, the Government has completed Gross and Net borrowings of ₹12.75 lakh crore and ₹7.87 lakh crore, respectively, without any disruption with a weightage average yield of about 6.65 per cent and weightage average maturity of about 19.03 years.

13. Central Government debt, based on FRBM definition, is estimated to be at 56.1 per cent of GDP in RE 2025-26. It also includes the liabilities on account of investment in Special Securities of the States, under the NSSF, which are expected to be 0.7 per cent of GDP in RE 2025-26. The Central Government debt net of these liabilities is about 55.5 per cent of GDP in RE 2025-26.

14. Section 4(1)(c) of the FRBM Act places a ceiling of 0.5 per cent of GDP for assuming incremental guarantees with respect to any loan on security of the Consolidated Fund of India in a financial year. During FY 2024- 25, net accretion to the stock of guarantees was ₹43,628.39 crore (or 0.13 per cent of GDP). This is well within the limit of 0.5 per cent set under the FRBM Act. The Guarantees outstanding, given by the Union Government, were about ₹3.33 lakh crore at the end of FY 2024-25. As a percent of GDP, these have declined from 3.3 per cent in FY 2004-05 to 1.0 per cent by end of FY 2024-25. A disclosure statement on outstanding guarantees is part of the disclosure statements mandated under Rule 6 of FRBM Rules, 2004. This has been included in Statement 1(iii) of Receipt Budget, 2026-27.

Fiscal Outlook for FY 2026-27

15. In the Budget for FY 2026-27, nominal GDP is projected to grow by 10.0 per cent over the First Advance Estimates of FY 2025-26.

16. The Fiscal Deficit in BE 2026-27 is projected to be ₹16.96 lakh crore. This translates into a fiscal deficit to GDP ratio of 4.3 per cent in FY 2026-27 as against 4.4 per cent in RE 2025-26. Similarly, the Revenue Deficit is estimated at 1.5 per cent of GDP in BE 2026-27 at the same level compared to RE 2025-26.

Revenue Receipts (Tax and Non-tax)

17. In BE 2026-27, Gross Tax Revenue (GTR) is estimated at ₹44.04 lakh crore. It represents a growth of 8.0 per cent over RE 2025-26. Direct Taxes at ₹26.97 lakh crore are the major contributor to GTR (61.2 per cent of the GTR). Indirect taxes are estimated at ₹17.07 lakh crore.

18. In BE 2026-27, the GTR to GDP ratio is estimated at 11.2 per cent. The Budget 2026-27 is also the first year of the award period of Sixteenth Finance Commission (SFC). SFC has recommended for retaining the share of devolution to the States at 41 per cent of divisible pool. The Tax Revenues (Net to Centre) are projected to be ₹28.67 lakh crore.

19. In BE 2026-27, NTR of the Central Government is projected at ₹6.66 lakh crore. Revenue Receipts of the Union Government [comprising Tax Revenues (Net to Centre) and Non-Tax Revenues (NTR)], are estimated at ₹35.33 lakh crore. Revenue Receipt estimates assume a growth of 5.7 per cent over RE 2025-26.

Non-Debt Capital Receipts

20. In BE 2026-27, the Non-Debt Capital Receipts (comprising Recovery of Loans & Advances and Other Miscellaneous Capital Receipts) are estimated at ₹1.18 lakh crore. However, the actual realisation of Other Miscellaneous Capital Receipts depends on the prevailing market conditions during the course of the year.

Expenditure

21. The total expenditure of the Central Government in BE 2026-27 is projected to be ₹53.47 lakh crore (13.6 per cent of GDP) showing a growth of 7.7 per cent over RE 2025-26 of ₹49.65 lakh crore.

Capital Expenditure

22. The Budget for FY 2026-27 projects ₹12.22 lakh crore (3.1 per cent of GDP) towards capital expenditure. This includes capital support to States through SASCI (Special Assistance as Loan to States for Capital Expenditure) with an outlay of ₹2.0 lakh crore.

Effective Capital Expenditure

23. Effective Capital Expenditure of the Union Government includes GoI's capital expenditure and Grants-in-aid for creation of capital assets. Together, they constitute investments that enhance and upgrade productive capacity of the economy.

24. In BE 2026-27, the allocation under Grants-in-aid for creation of capital assets is projected at ₹4.93 lakh crore (or 1.3 per cent of GDP). Thus, the effective capital expenditure in FY 2026-27 is estimated at ₹17.15 lakh crore (or 4.4 per cent of GDP).

Revenue Expenditure

25. The Revenue Expenditure for BE 2026-27 has been projected to be ₹41.25 lakh crore or 10.5 per cent of GDP in BE 2026-27, compared to 10.8 per cent in RE 2025-26. Select items under the revenue expenditure head are discussed briefly in the following paragraphs.

(i) Interest Payments

26. In BE 2026-27, the Interest payments are estimated at ₹14.04 lakh crore against ₹12.76 lakh crore in BE 2025-26. The estimates of interest payment depend on the prevailing domestic and international interest rates.

(ii) Major Subsidies

27. Major subsidies which include food (₹2.28 lakh crore), fertiliser (₹1.71 lakh crore), and petroleum (₹0.12 lakh crore) are estimated at ₹4.11 lakh crore in BE 2026-27. Major subsidies at 1.0 per cent of GDP form roughly 10.0 per cent of Revenue Expenditure in BE 2026-27.

(iii) Pensions

28. The Pension commitment of the Union Government (for both civilian and defence together) is estimated at ₹2.96 lakh crore in BE 2026-27 (or 0.8 per cent of GDP) compared to ₹2.87 lakh crore in RE 2025-26 (0.8 per cent of GDP). The Pension payments are spread across the four Government of India Demands for Grants viz, Defence (Pensions), Civil (Pensions), Telecommunications and Department of Health & Family Welfare.

(iv) Tax devolution to the States

29. Based on recommendations of the Finance Commission (FC), the Union Government devolves taxes to States during the FC cycle. As mentioned previously, SFC recommended to retain States' share at 41 per cent in the divisible pool, and this recommendation is accepted by the Government. In BE 2026-27, tax devolution to the States is estimated at ₹15.26 lakh crore compared to ₹13.93 lakh crore in RE 2025-26 which includes an additional amount of ₹9,084.02 crore on account of dues receivable by the Union Government from States under devolution from the previous years. Tax devolution to the States in BE 2026-27 is 3.9 per cent of GDP and ₹1.33 lakh crore more than tax devolution of RE 2025-26 (including past arrears).

(v) Finance Commission Grants

30. In BE 2026-27, the Finance Commission grants are estimated at ₹1.29 lakh crore. Grants for Urban and Rural Local Bodies are estimated at ₹0.45 lakh crore and ₹0.56 lakh crore, respectively. The grants for financing disaster management are estimated at ₹0.28 lakh crore. Thus, total resources shared, tax devolution and FC Grants, with States through the Finance Commission route are estimated at ₹16.56 lakh crore in BE 2026-27.

Borrowings- Public debt and other liabilities

31. The Union Government finances its fiscal deficit through borrowings. These are in the form of dated securities (G-Sec), NSSF, external assistance, etc. In BE 2026-27, the Central Government has estimated the gross and net borrowings through dated securities (G-Sec) at ₹17.20 lakh crore (or 4.4 per cent of GDP) and ₹11.73 lakh crore (or 3.0 per cent of GDP), respectively. In RE 2025-26, the gross and net borrowings are projected at ₹14.61 lakh crore and ₹10.40 lakh crore respectively.

32. Other sources of financing the Fiscal Deficit are NSSF investments in Special securities of the Central Government, net external assistance and the Public Account balances, etc. For financing the Fiscal Deficit in BE 2026-27, borrowing from NSSF is estimated at about ₹3.87 lakh crore; whereas those from external sources and State Provident Funds are estimated at ₹15,385 crore and ₹3,500 crore (on net basis), respectively.

33. In accordance with the definition of 'Central Government debt' as defined in the FRBM Act, Central Government debt is estimated at 55.6 per cent of GDP in BE 2026-27 (which is lower than 56.1 per cent of GDP in RE 2025-26). The liabilities of the Central Government are mostly domestic in nature with a small portion (3.3 per cent of total liabilities at book value) sourced from external sector. Also, within the external sector, most of liabilities have been contracted through multilateral agencies.

34. A portion of outstanding liabilities on Public Account of India is on account of NSSF investment in the State Government special securities (which are *de facto* liabilities of the State Governments) and would be repaid by the States at the time of maturity. If such investments are excluded, the adjusted Central Government debt is estimated at 55.1 per cent of GDP at the end of FY 2026-27.

Assessment of sustainability relating to

(i) The balance between Revenue receipts and Revenue expenditure

35. In BE 2026-27, the revenue expenditure and revenue receipts of the Union Government are estimated at ₹41.25 lakh crore (10.5 per cent of GDP) and ₹35.33 lakh crore (9.0 per cent of GDP), respectively. The gap between the revenue expenditure and receipts is the Revenue Deficit, which is estimated at 1.5 per cent of GDP in BE 2026-27. The ratio of revenue receipts to revenue expenditure is projected at 85.6 per cent in BE 2026-27. Further, if adjustments on account of Grants-in-aid for creation of capital assets is considered – since these are capital in nature but accounted for as revenue expenditure of the Centre, the ratio of revenue receipts to revenue expenditure is about 97.3 per cent in BE 2026-27.

(ii) The use of capital receipts including market borrowings for generating productive assets

36. Ratio of Capital Expenditure to Fiscal Deficit measures the extent to which borrowed resources are used for financing the capital expenditure or asset creation of the Government. In BE 2026-27, this ratio is estimated at 72.1 per cent which higher than 70.3 per cent in RE 2025-26 and 66.8 per cent in FY 2024-25. Further, the ratio of Effective Capital Expenditure to Fiscal Deficit is estimated at 101.1 per cent in BE 2026-27 as compared to 90.1 and 84.1 per cent in RE 2025-26 and FY 2024-25, respectively. This indicates progressive improvement in the quality of public expenditure over the years.

Fiscal Policy Strategy for 2026-27

37. The fiscal policy strategy for FY 2026-27 will continue to be guided by the debt glide path indicated in the Budget 2025-26. The medium-term aim to reach a debt to GDP ratio of 50±1 per cent by FY 2030-31, with the fiscal deficit acting as the operational target. In line with the above targets, it is estimated that Central Government debt to GDP ratio will be 55.6 per cent of GDP in BE 2026-27 with Fiscal Deficit target of 4.3 per cent of GDP.

38. Other aspects of the fiscal strategy include support to economic growth through continued focus on capital expenditure, leaving adequate fiscal room to respond to global economic events and to ensure continued prosperity of the country in its journey towards Viksit Bharat.

Tax Policy

39. Any reform is a dynamic and ongoing process, and in this endeavor, several measures have been undertaken in the domain of direct taxes – both legislative and administrative. In addition, technological innovations have been at the forefront of direct tax administration to make it transparent and responsive, while reducing the compliance burden and strengthening the information networks to augment revenue.

40. Some important reform measures, initiated under direct taxes in recent years include the following:

a) The new simplified Income-tax Act, 2025 has been enacted by the Parliament which shall come into effect on 01.04.2026. The Act is a simplified version of the erstwhile Income-tax Act, 1961, making it concise, lucid, easy to read and understand. The simplification exercise was guided by three core principles of textual and structural simplification for improved clarity and coherence, no major tax policy changes to ensure continuity and certainty, and no modifications in tax rates, preserving predictability for taxpayers.

b) Finance Act, 2025 provided substantial relief under the new tax regime with new slabs and tax rates.

c) The period of holding of capital assets has been simplified with amended provisions, providing for a period of 12/24 months as holding period for capital assets.

d) To provide a level playing field between new manufacturing co-operative societies and new manufacturing companies, a new section 115BAE was introduced *vide* Finance Act, 2023 to provide concessional tax regime to such co-operative societies.

e) Measures have been undertaken to relax the norms for prosecution such as decriminalisation of Section 276A, substantial increase in threshold for launching prosecution. In line with the relaxation for prosecution in respect of TDS payments under 276B, prosecution in respect of TCS payments under section 276BB of the Act has also been decriminalised up to the due date of filing of quarterly TCS Statements.

f) Equalisation Levy at the rate of 2 per cent of consideration received for e-commerce supply of goods or services has been removed w.e.f 1st August, 2024. Further, equalisation levy at the rate of 6% of consideration for specified services has been removed from 1st April, 2025.

g) Amendments have been made in the Act to extend tax benefits to subscribers of Unified Pension Scheme, incentivize start-ups by extending eligibility of tax benefits to those incorporated before 01.04.2030, extension of tax benefits to specified persons under section 10(23FE) till FY 2029-30 for making investments etc.

h) PAN is being leveraged to become Business Identification Number (BIN) for providing registration to a number of government departments and services.

i) An Integrated e-Filing and Centralised Processing Center 2.0 (CPC 2.0) project was launched with a view to providing better e-filing experience, ease of compliance, more accurate and faster processing of ITRs.

41. In Indirect taxes, several measures to augment receipts under Goods and Services Tax (GST) have been taken. These, *inter-alia*, include:

a) Union Government on the recommendation of GST Council has undertaken a comprehensive rate rationalisation and structural simplification of 4-tiered tax rate structure into a citizen-friendly ‘Simple Tax’ - a 2-rate structure with a standard rate of 18% and a merit rate of 5%, a special de-merit rate of 40% for a select few goods and services. This will simplify the present tax structure and boost domestic consumption.

b) The Union Government has notified an optimal simplified GST registration scheme wherein registration shall be granted on an automated basis within three working days from the date of application in case of low-risk applicants and applicants for which output tax liability on supplies to registered person will not exceed ₹ 2.5 lakh per month. This measure will reduce the compliance friction in respect of the registration of the taxpayers.

c) The GST regime is progressively stabilising as is seen from the widening and deepening of tax base. In BE 2026-27, CGST receipts are estimated at ₹10.19 lakh crore, registering a growth of 6.3 per cent over RE 2025-26.

d) Customs duty rates have been rationalised in Budget 2025 with the intent to promote domestic value addition while also balancing the concerns of the domestic industry. Review of custom duty exemptions, review of customs duty rates, addressing issues of misclassification are an ongoing exercise and undertaken on continuous basis in consultation with the stakeholders including administrative ministries and trade associations.

e) As a measure of trade facilitation in customs, 31 separate customs duty notifications were merged into a single and comprehensive notification. This consolidation will streamline ease of compliance in customs procedure by offering one reference point and make regulations easier for interpretation and application. This initiative is in sync with the broader agenda of Government for fostering a transparent and business friendly environment and promotes ease of doing business.

f) Other measures taken for facilitation of trade and streamlining compliance measures are sanction of risk-based provisional refund to facilitate refund claims on account of zero-rated supply of goods or services or both, amendment in CGST Act to provide for GST refunds in respect of low value export consignments, simplified GST registration scheme for small and low-risk businesses, encouraging women participation in international trade, enhancing gender inclusivity in logistics etc.

Expenditure Policy

42. The Union Government continues to leverage technology as a significant tool for public financial management. The Treasury Single Account (TSA), Single Nodal Agency (SNA) and Central Nodal Agency (CNA) guidelines have ensured transparency and helped in better cash management.

43. SNA SPARSH (Single Nodal Agency - System for Payments and Reporting Across Sectors Holistically) aims at enabling “Just-in-time” fund flow from the Consolidated Fund of India and Consolidated Funds of States. Pilot rollout had been notified and, as of now, 50 Centrally Sponsored Schemes across States/UTs have been onboarded.

44. The scope of Direct Benefit Transfer (DBT) has been expanding with adoption of new programs and technologies under Digital India Program. It is aimed to achieve (i) “Just in time” transfer of funds and (ii) complete tracking of realization of funds from its release to its credit into the bank account of intended beneficiaries. Reforms in expenditure management makes a direct and significant contribution to the Digital India Initiative of Government of India by enabling electronic payment and receipt for Ministries/ Departments in Government of India.

Government Borrowings, Lending and Investments

45. Union Government’s debt management strategy stands on three pillars – reduction in borrowing costs, risk mitigation and market development.

46. In BE 2026-27, Gross and Net Market borrowings by the Government of India (GoI) through dated securities are budgeted at ₹17.20 lakh crore and ₹11.73 lakh crore, respectively, compared to ₹14.82 lakh crore and ₹11.54 lakh crore in BE 2025-26.

47. As on January 27, 2026, gross market borrowings through dated securities during FY 2025-26 stands at 86.0% (₹12.75 lakh crore) as against BE 2025-26. Further, as on January 27, 2026, net market borrowings through dated securities during FY 2025-26 stands at 68.2 percent (₹7.87 lakh crore) as against BE 2025-26. Notwithstanding the impact of global financial conditions on the Indian G-sec market, the market borrowing programme in FY 2025-26 has been conducted in a non-disruptive manner.

48. Further, to improve debt maturity profile and to better manage redemption pressures, an active debt management strategy through switching of securities has been adopted. Switching of securities of about ₹1.64 lakh crore has been completed till date. These measures have helped improve the Union Government's risk profile. Also, rollover risks in the Government debt portfolio is low. The Weighted Average Maturity (WAM) of primary issuances of dated securities in FY 2025-26 (up to January 27, 2026) stands at 19.03 years vis-à-vis 20.65 years in FY 2024-25 and 18.09 years in FY 2023-24. Similarly, the Weighted Average Yield (WAY) of primary issuance of dated securities in FY 2025-26 (up to January 27, 2026) moderated to 6.65 percent from 6.96 per cent in FY 2024-25. As on January 27, 2026, net issuance of T-Bills stands at ₹(-)0.49 lakh crore, which has helped in reduction in short-term liabilities.

49. The Union Government actively opted for buyback of dated securities (G-Sec) as part of its debt management strategy. During FY 2025-26, buy-back operations of dated securities maturing in FY 2026-27 amounting to ₹86,775 crore were conducted. This strategy has not only helped in saving interest costs but eased the liquidity conditions in the banking system apart from moderating the yields.

Strategic priorities for FY 2026-27

50. The fiscal strategy of the Union Government for FY 2026-27 has already been explained in detail in the foregoing paragraphs. It rests on the principle of continuing on the path of gradual fiscal consolidation while retaining operational flexibility. The strategic priorities for the FY 2026-27 are augmentation of resources through continuation of policy reforms introduced in tax domain in conjunction with reasonable rationalization of expenditure, prioritization of expenditure towards the key developmental sectors, enhancing the social and physical infrastructure of the country in an inclusive manner by supporting and strengthening the capital spending of States, improving public expenditure quality and management by leveraging technology and an active debt management strategy.

Conclusion and Policy Evaluation

Statement explaining the reasons for deviation from the fiscal targets mentioned in Section 4 and compliance obligations under Section 7(3)(b) of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003.

51. Section 4(1)(a) of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 mandates the Central Government to take appropriate measures to limit the Fiscal Deficit to three per cent of Gross Domestic Product (GDP) by 31st March, 2021. In continuation to this, Section 4(1)(b)(ii) requires that the Central Government shall endeavour to ensure that the Central Government debt does not exceed forty per cent of GDP by the end of FY 2024-25. Further, Section 4(1)(d) of the FRBM Act, 2003, also requires the Central Government to endeavour that the aforementioned fiscal targets are not exceeded after the stipulated dates. According to Section 7(3)(b)(i) of the FRBM Act, 2003, the Minister of Finance is required to make a statement in both Houses of Parliament explaining the deviation in meeting the obligations cast on the Central Government under this Act.

52. While the global growth is expected to be steady, the momentum is uneven and risks remain tilted to the downside. Global stability is based on a fragile balance of trade policy positions that are continuously shifting. Geopolitical flare-ups and possible escalation in tensions across continents could further upset this balance through supply chain and trade route disruptions, influencing investor sentiments.

53. As one of the fastest growing economies, the outlook for India remains positive, aided by strong growth momentum and active monetary policy strategy targeting inflation. Continued public investment, labour market reforms, human capital investments, tax reforms, digital transformation, and the formalisation of the economy are expected to drive the economy into a higher growth trajectory.

54. Against this backdrop, the Union Government would continue on its path of fiscal consolidation, while making all efforts to achieve inclusive, equitable and sustainable growth. The fiscal policy would be focused towards building strong macro-economic fundamentals that can withstand exogenous shocks and global uncertainties.

55. Starting FY 2026-27 till FY 2030-31, the Government would endeavour to keep fiscal deficit in each year such that the Central Government debt is on declining path.

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