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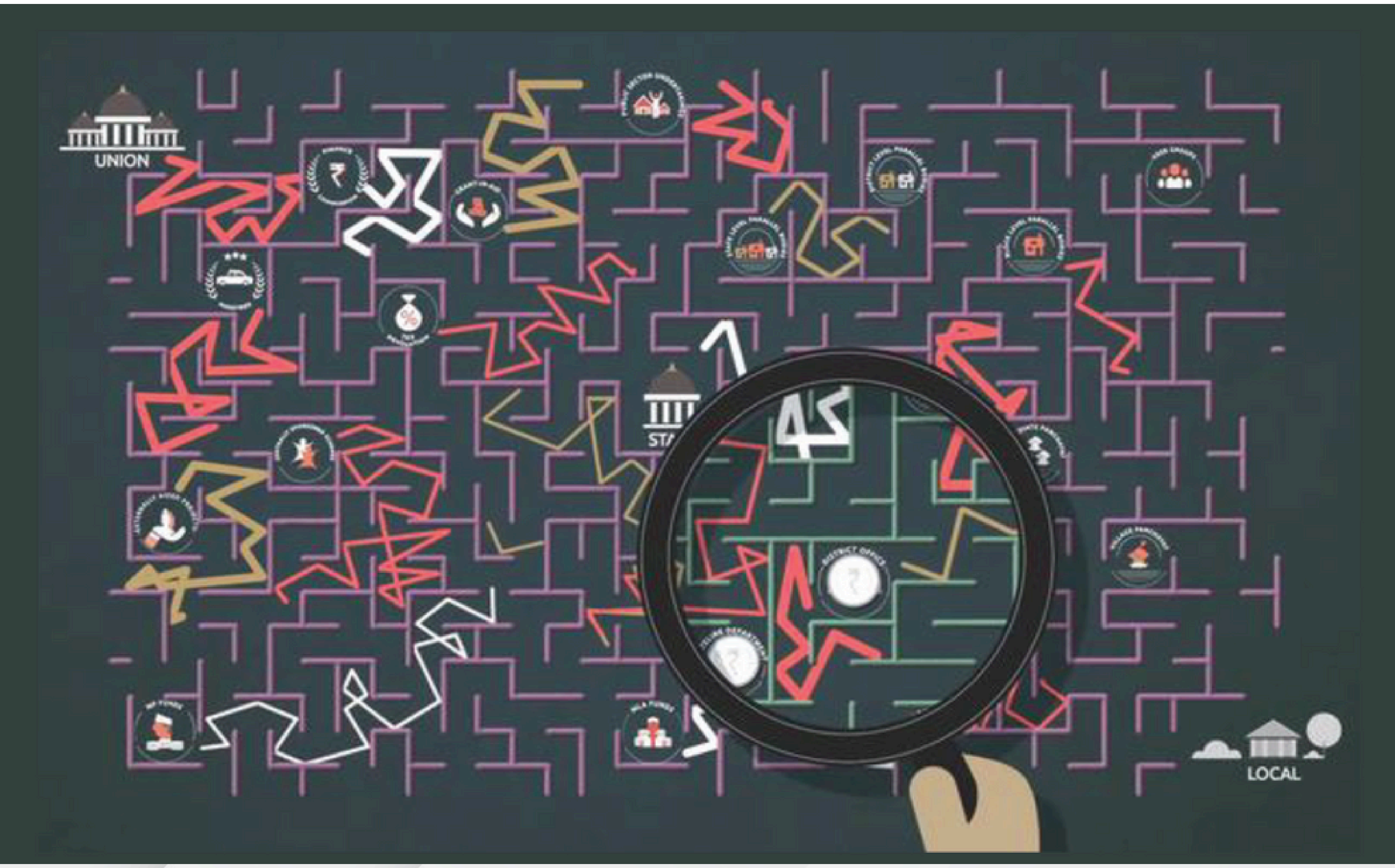

UNION BUDGET INSIGHTS

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2026-27

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OVERVIEW

The Union Budget for FY 26-27 comes at an important moment in India's fiscal journey. After the expansion in public spending during and immediately after the pandemic, fiscal policy has gradually shifted back toward debt stabilisation, even as growth remains uneven and geopolitical and trade uncertainties persist. The challenge before policymakers has been a familiar but difficult one: how to consolidate public finances while continuing to invest in infrastructure, services, and long-term development priorities. This tension is visible throughout the current budget.

The government continues on its fiscal consolidation path under the Fiscal Responsibility and Budget Management (FRBM) framework, targeting a reduction in fiscal deficit while maintaining a focus on capital expenditure as a driver of medium-term growth. However, the current budget also reflects emerging pressures: revenue growth has slowed, tax buoyancy has weakened relative to nominal GDP, and revised estimates for FY 25-26 indicate lower than expected receipts and muted expenditure compared to initial projections. Consolidation, therefore, is increasingly being achieved through restraint in revenue expenditure and tighter overall spending envelopes, even as interest payments and committed expenditures continue to rise.

These choices have important implications for the availability of resources for social and development spending. The last two years saw social sector expenditures reaching their lowest levels in FY 24-25, with their share in total expenditure and GDP remaining below even pre-pandemic levels. In fact, Centrally Sponsored Schemes (CSSs), once the Union government's primary vehicle for welfare delivery, have seen their share in overall transfers and GDP decline over time, reflecting both fiscal consolidation pressures and shifts in how resources are channelled to states.

At the same time, the recommendations of the Sixteenth Finance Commission (XVI FC) reshape the fiscal federal landscape for the coming five-year period. While the vertical devolution share to states remains unchanged at 41 per cent, changes in the horizontal distribution formula give a greater emphasis on economic contribution and efficiency alongside equity considerations. The Commission has also significantly increased the quantum of grants recommended for rural local governments (84 per cent) while those for urban local governments have increased nearly three-fold. This reflects a growing recognition of the current transition towards urbanisation and the role of local governments in delivering public services and infrastructure.

Over the next five years, these trends will influence inter-state fiscal space and the financing capacity of states as they continue to bear primary responsibility for delivering social and development services.

This brief situates the FY 26-27 Budget within these broader fiscal and institutional transitions, examining how evolving trends in receipts, expenditure, and intergovernmental transfers shape the Union government's fiscal space and, ultimately, public spending.

KEY HIGHLIGHTS

- Total receipts in FY 26-27 Budget Estimates (BEs) are ₹53.5 lakh, 8 per cent higher than the Revised Estimates (REs) for FY 25-26, driven by a 12 per cent increase in the capital receipts during this same period. REs for FY 25-26 saw a 2 per cent decline in revenue. The total share of receipts to GDP peaked at 17.7 per cent in FY 20-21 and in FY 26-27 BEs is estimated to decline to 13.6 per cent. Revenue receipts to GDP, in particular, too have declined from 9.4 per cent in FY 25-26 to 9 per cent in FY 26-27 BEs.
- The total expenditure for FY 26-27 BEs is projected at ₹53.47 lakh crore, an 8 per cent increase as compared to the REs of the previous year. Revenue expenditure accounts for 77 per cent of this.
- While capital expenditure has more than doubled from ₹4.26 lakh crore in FY 20-21 to ₹12.22 lakh crore in FY 26-27 BEs, the increase in revenue expenditure has been lesser with it rising from ₹30.84 lakh crore in FY 20-21 to ₹41.25 lakh crore in FY 26-27 BEs.
- In FY 26-27 BEs, interest payments are estimated to reach ₹14.04 lakh crore, a 10 per cent increase over FY 25-26 REs. They account for about 26 per cent of total Union government expenditure and 40 per cent of revenue receipts, indicating that debt servicing continues to absorb a significant share of fiscal space.
- Social sector expenditure, estimated at ₹9.8 lakh crore in FY 26-27 BEs, a 19 per cent increase compared to the REs of the previous year, has declined both as a share of GoI expenditure (from 30 per cent in FY 20-21 to 18 per cent in FY 26-27 BEs) and as a share of the GDP (from 5.3 per cent in FY 20-21 to 2.5 per cent in FY 26-27 BEs). This is because spending has largely been concentrated in infrastructure-oriented ministries such as the Ministry of Defence, Ministry of Railways, Ministry of Road Transport and Highways, Interest payments and Transfers to states.

KEY POLICY ANNOUNCEMENTS

- **Manufacturing and Industrie**s: Expansion is proposed across sectors including semiconductors, biopharma, electronics and infrastructure equipment, alongside revival of legacy industrial clusters, textile sector upgrading and development of rare earth corridors to strengthen domestic supply chains.
- **MSME growth and financing support**: A ₹10,000 crore SME growth fund, combined with additional liquidity and professional support measures, aims to improve MSME competitiveness and enable expansion of small enterprises.
- **Infrastructure and urban development:** Development of economic regions in Tier II and III cities and temple towns, expansion of rail and waterways connectivity, and incentives to deepen municipal bond markets to strengthen urban financing.
- **Human capital and services sector**: upgrading allied health institutions, training caregivers, establishing medical hubs, developing university townships, and expanding tourism and hospitality infrastructure to strengthen service sector employment.
- **Inclusion and livelihoods**: SHE Marts for women-led enterprises, livelihood and assistive support for persons with disabilities, expansion of mental health infrastructure, and strengthening emergency care capacity in district hospitals.

KEY HIGHLIGHTS

Total receipts in FY 26-27 Budget Estimates (BEs) are ₹53.5 lakh, 8 per cent higher than the Revised Estimates (REs) for FY 25-26, driven by a 12 per cent increase in the capital receipts during this same period. REs for FY 25-26 saw a 2 per cent decline in revenue. The total share of receipts to GDP peaked at 17.7 per cent in FY 20-21 and in FY 26-27 BEs is estimated to decline to 13.6 per cent. Revenue receipts to GDP, in particular, too have declined from 9.4 per cent in FY 25-26 to 9 per cent in FY 26-27 BEs.

The total expenditure for FY 26-27 BEs is projected at ₹53.47 lakh crore, an 8 per cent increase as compared to the REs of the previous year. Revenue expenditure accounts for 77 per cent of this.

While capital expenditure has more than doubled from ₹4.26 lakh crore in FY 20-21 to ₹12.22 lakh crore in FY 26-27 BEs, the increase in revenue expenditure has been lesser with it rising from ₹30.84 lakh crore in FY 20-21 to ₹41.25 lakh crore in FY 26-27 BEs.

In FY 26-27 BEs, interest payments are estimated to reach ₹14.04 lakh crore, a 10 per cent increase over FY 25-26 REs. They account for about 26 per cent of total Union government expenditure and 40 per cent of revenue receipts, indicating that debt servicing continues to absorb a significant share of fiscal space.

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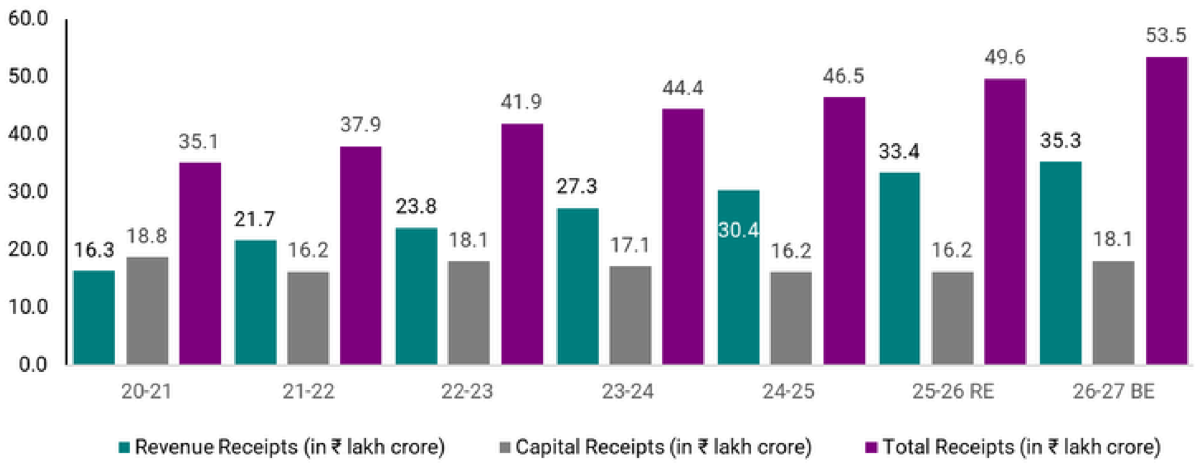
Inclusion and livelihoods: SHE Marts for women-led enterprises, livelihood and assistive support for persons with disabilities, expansion of mental health infrastructure, and strengthening emergency care capacity in district hospitals.

TRENDS IN GOI RECEIPTS

- Revenue mobilisation determines the fiscal space available for public spending, including on committed liabilities and the social sector, and is therefore a critical element of the budget-making process. The Receipts Budget, a core component of the Union Budget, sets out how the Union government proposes to finance its spending during the fiscal year.
- The Union government's total receipts comprise revenue and capital receipts. Revenue receipts do not create liabilities or reduce government assets and primarily consist of tax and non-tax revenues, making them the country's main source of income. In contrast, capital receipts either create liabilities or reduce government assets and largely comprise of borrowings, along with loan recoveries and disinvestment or sale of assets.
- In the FY 26-27 Budget Estimates (BEs), the total receipts are projected at ₹53.5 lakh crore, 8 per cent higher than the Revised Estimates (REs) for FY 25-26. This increase is primarily driven by capital receipts, which are estimated to rise by 12 per cent from ₹16.2 lakh crores to ₹18.1 lakh crore during the same period.
- In contrast, for FY 26-27 BEs, the rise in revenue receipts are estimated to grow at a slower pace, increasing from ₹33.4 lakh crore in FY 25-26 REs to ₹35.3 lakh crore in FY 26-27 BEs - only a 6 per cent increase.
- This reverses the downward trend that we had seen over the last five years with respect to capital receipts, which had decreased by 2 per cent on average between FY 20-21 and FY 24-25. During the same period, revenue receipts had grown by 16 per cent.
- It is important to note that for FY 25-26, GoI had projected ₹50.65 lakh crore, based on strong expansion of revenue receipts while capital receipts were budgeted to remain broadly flat. REs for FY 25-26, however, show a mid-year recalibration. Overall, revenues in FY 25-26 REs witnessed a 2 per cent decline during the year, with an equal 2 per cent decrease in revenue receipts and a 1 per cent decline for capital receipts.

Fig 1: Trends in Revenue, Capital and Total Receipts 20-21 to 26-27 BEs (in ₹ lakh crore)



Source: Budget at a Glance document, Union Budget, FY 22-23 to FY 26-27. Url. Last accessed on 1 February 2026.
Note: FY 20-21 to FY 24-25 amounts are Actuals, while FY 25-26 figures are REs and FY 26-27 are BEs.

- Taken together, these trends point to a slowdown in revenue growth and a shift in how the Union government is financing expenditure in the near term, underscoring the continued importance of sustained revenue mobilisation for maintaining durable fiscal space amid rising expenditure commitments. To interpret these aggregate figures, two considerations matter:

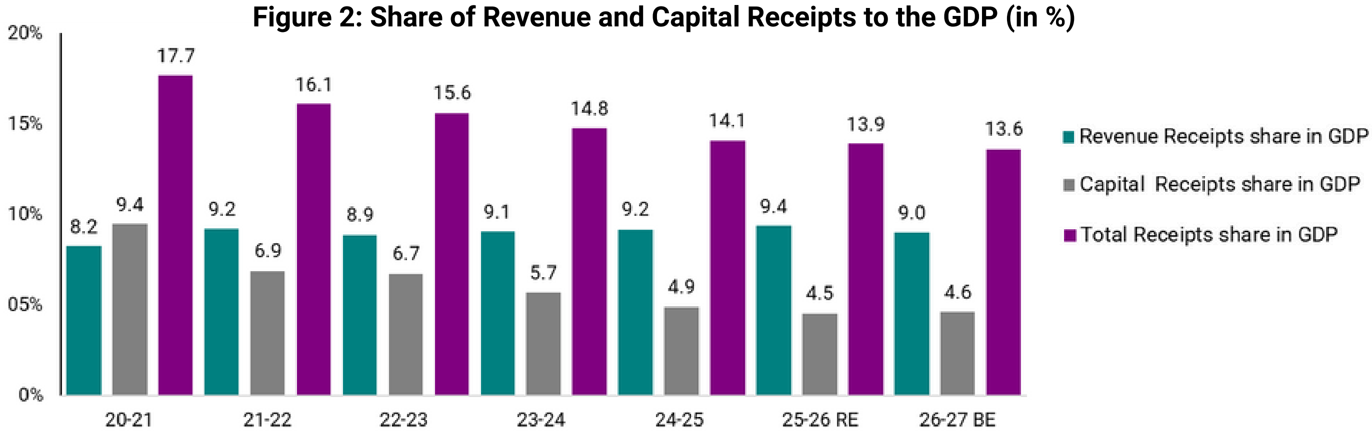
- First, the sustainability of fiscal space depends less on year-on-year growth and more on tax buoyancy—whether tax collections grow faster than nominal GDP. Weak tax buoyancy has long constrained fiscal space. When tax revenues underperform relative to the economy, fiscal consolidation often requires either expenditure restraint or increased reliance on borrowings and other non-tax sources.
- Second, the composition or quality of receipts matters as much as their size. Receipts arising from tax revenues including expansion of the tax base, provide more stable fiscal space, whereas reliance on borrowings or relatively volatile sources like the surplus by the Reserve Bank of India and dividends from Public Sector Enterprises can temporarily ease fiscal pressures without necessarily strengthening long-term revenue capacity.

The next few sections look at these two aspects in a little more detail.

WHAT RECEIPTS OF GOI RELATIVE TO GDP TELL?

- Analysing receipts in relation to the economy's size, usually measured as Gross Domestic Product (GDP) is an important metric to differentiate between cyclical movements and underlying fiscal capacity. The total receipts to GDP ratio captures the overall fiscal envelope available to the Union government, encompassing revenue receipts, as well as capital receipts.
- In FY 20-21, the share of total receipts to GDP reached a peak of 17.7 per cent, largely driven by a sharp increase in capital receipts during the pandemic, which alone accounted for 9.4 per cent of GDP. This spike was primarily due to market borrowings and the issuance of securities against small savings. Thereafter, total receipts as a share of GDP declined to 14.1 per cent in FY 24-25 and are further estimated to fall to 13.6 per cent in FY 26-27 BEs.
- For assessing the government's capacity to raise resources, revenue receipts to GDP ratio is a more informative metric. Revenue receipts have remained below 10 per cent of GDP over the years but have seen post-pandemic recovery. In FY 20-21, revenue receipts stood at 8.2 per cent of GDP, rising to 9.2 per cent in FY 24-25. In FY 25-26 REs, they had risen to 9.4 per cent.
- For FY 26-27 BEs, they are expected to decrease to 9 per cent, lower than even the figures in FY 23-24.
- Consistent with fiscal consolidation efforts, capital receipts—primarily driven by borrowings (discussed in the following section)—have declined as a share of GDP and are estimated at 4.6 per cent in FY 26-27 BEs.

Figure 2: Share of Revenue and Capital Receipts to the GDP (in %)



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EVOLVING COMPOSITION OF GOI'S RECEIPTS

- As noted earlier, revenue receipts comprise two components: tax revenue and non-tax revenue. Tax revenue is derived from direct and indirect taxes, including Personal Income Tax (PIT), Corporate Income Tax (CIT), Goods and Services Tax (GST), customs duties, and Union excise duties on select domestically produced goods.
- Non-tax revenue accrues from sources other than taxation and includes dividends and surplus transfers from public sector enterprises and financial institutions such as the Reserve Bank of India (RBI), interest receipts on government loans, and fees/charges levied for public services.
- The composition of government receipts is important as it shapes the sustainability of fiscal consolidation, and the extent to which resources are available for sharing with states as only tax revenues are part of the divisible pool and are shared with states based on the Finance Commission's recommendations.
- Between FY 20-21 and FY 26-27 BEs, tax revenues and borrowings together accounted for more than 85 per cent of the GoI's total receipts.
- In FY 26-27 BEs, the share of tax revenues remains the same as the FY 24-25 levels, i.e. 54 per cent. Share of borrowings, however, has decreased after the elevated levels during the COVID-19 period. In FY 25-26 REs, borrowings accounted for 31 per cent of total receipts, down from 34 per cent in FY 24-25. This share is projected to increase by one percentage point to account for 32 per cent in FY 26-27 BEs.
- Non-tax revenue, the third-largest component of total receipts, is projected to be ₹6.66 lakh crore in FY 26-27 BEs, a marginal decrease from FY 25-26 REs where it stood at ₹6.68 lakh crores but a 14 per cent increase compared to the BEs. It currently accounts for 12 per cent of total receipts.
- Between FY 20-21 and FY 24-25, non-tax revenues grew at an annualised rate of 22 per cent, due partly to the low base given COVID-19–related slowdown. In recent years, the growth in non-tax revenues has been driven primarily by record dividends and surplus transfers from the Reserve Bank of India (RBI), nationalised banks, and other financial institutions. In FY 24-25, the RBI and others transferred ₹2.34 lakh crore rupees as surplus to GoI. For FY 25-26 REs, too receipts under this head were 19 per cent more than the BEs reaching ₹3.04 lakh crore. For FY 26-27 BEs, it is estimated at ₹3.16 lakh crore.[1]
- The third component, namely recovery of loans and other receipts, also referred to as non-debt receipts are primarily from the disinvestment of the government's equity holdings. In FY 26-27, these receipts are estimated at ₹80,000 crore, more than double the FY 25-26 REs and a 70 per cent increase over BEs.[2] Disinvestment accounts for around 68 per cent of total non-debt capital receipts.
- The composition of receipts has direct implications for states. While Finance Commission recommendations determine the share of the divisible pool of Union taxes devolved to states, only revenues that fall within this pool are shared. Borrowings, cesses and surcharges, and most non-tax revenues lie outside the devolution framework.
- As a result, increases in GoI's fiscal space driven by non-shareable revenues—such as cesses, surcharges, or elevated non-tax inflows—do not automatically translate into proportional increases in states' fiscal space. The next section thus looks at tax revenues in more detail.

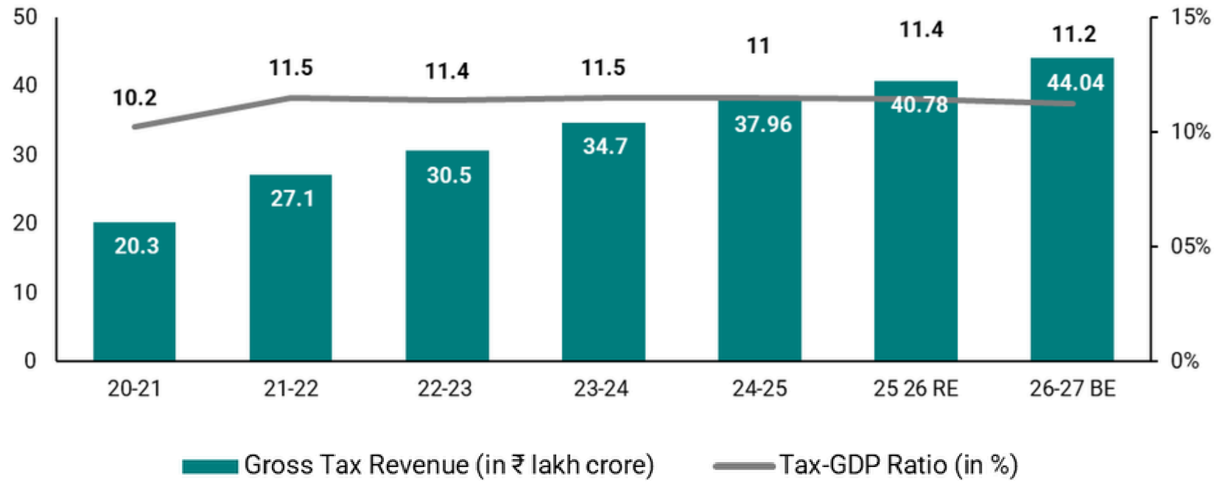
Figure 3: Distribution of Total Receipts across Components (in %)

Source: Budget at a Glance document, Union Budget, FY 22-23 to FY 26-27. Url. Last accessed on 1 February 2026.
Note: FY 20-21 to FY 24-25 amounts are Actuals, while FY 25-26 figures are REs and FY 26-27 are BEs.

HOW HAS GROSS TAX REVENUE PERFORMED??

- Gross Tax Revenue (GTR) is the total tax collected by GoI before any deductions and sharing of taxes with states.In FY 26-27 BEs, GTR is estimated to reach ₹44.04 lakh crore, reflecting an 8 per cent increase over FY 25-26 REs but only 3 per cent compared to the BEs. Over the last five years, GoI tax collections have grown sharply in nominal terms, nearly doubling from ₹20.3 lakh crore in FY 20-21 to ₹37.96 lakh crore in FY 24-25.
- However, it is useful to assess tax collections in relation to the size of the economy. There are two ways of doing this. First, the tax-to-GDP ratio provides a measure of how effectively the government mobilises revenues relative to economic activity. In recent years, this ratio has been increasing and is projected to reach 11.2 per cent in FY 26-27 BEs, marginally lower than last year's REs but higher than the BEs. It is important to note that India's tax-to-GDP ratio remains low especially when compared with peer emerging economies.
- Second metric is with respect to tax buoyancy[3] or the measure to see if tax revenues are growing faster than nominal GDP. Between FY 20-21 to FY 24-25, GTR grew significantly faster than nominal GDP, with a tax buoyancy of about 1.3. In FY 25-26 RE and FY 26-27 BE, tax buoyancy declined to 0.9 and 0.8, respectively, indicating that gross tax revenues are estimated to grow at a slower pace than nominal GDP.
- Between FY 20-21 and FY 24-25, gross tax revenues grew significantly faster than nominal GDP, implying a tax buoyancy of about 1.3.

Figure 4: Trends in GTR (in ₹ lakh crore) and Tax-GDP ratio (in %)



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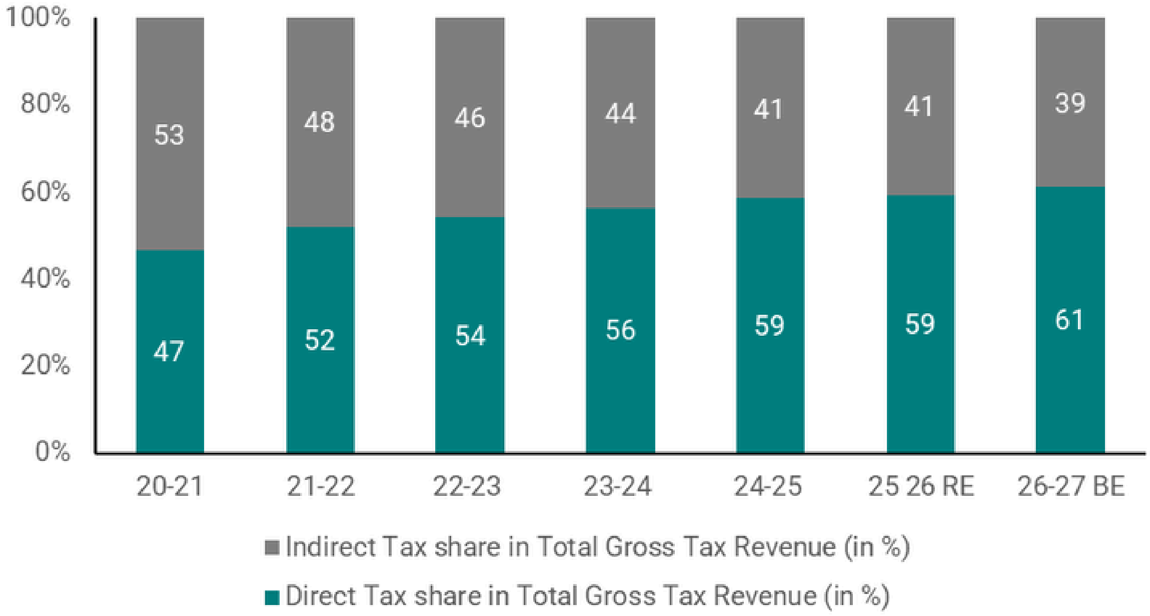
Note: FY 20-21 to FY 24-25 amounts are Actuals, while FY 25-26 figures are REs and FY 26-27 are BEs.

UNION AND OVERALL TAX COMPOSITION STRUCTURE: DIRECT AND INDIRECT TAXES

- Union GTR comprises two broad components: direct and indirect taxes. Direct taxes - paid on income and profits by individuals and businesses- are generally more progressive as the burden is linked to the taxpayer's ability to pay. In contrast, indirect taxes—levied on goods and services—are considered more regressive as they are linked to prices and affect all consumers equally, regardless of income.
- In FY 26-27 BEs, direct tax collections are projected to reach ₹26.97 lakh crore, representing an 11 per cent increase over FY 25-26 REs but a 7 per cent increase over BEs. In comparison, indirect tax collections are estimated to reach ₹17.07 lakh crore, an increase of 3 per cent from last year's REs and 2 per cent decline from the BEs. The relatively faster rise in direct tax collections, which are based on income and profits, indicates greater progressiveness in the tax system.
- As a share of total GTR, in FY 26-27 BEs, Union government direct taxes account for 61 per cent, while indirect taxes account for 39 per cent. The share of direct taxes, which fell to 47 per cent in FY 20-21 during the pandemic, has steadily increased since.
- However, when taxes collected by both the Union and state governments are considered, the trends in direct and indirect tax collections shift significantly. For instance, in FY 24-25, indirect taxes for the general government accounted for 59 per cent compared to direct taxes (41 per cent).[4]

Figure 5: Share of Direct and Indirect Taxes in GTR (in %)



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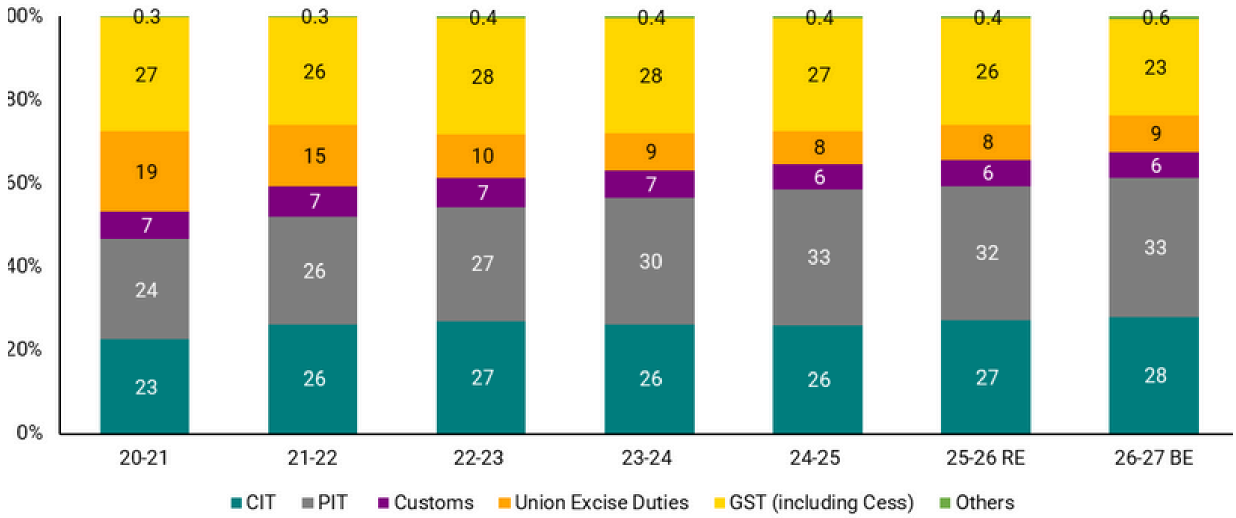
DRIVERS OF GROWTH IN TAX COLLECTIONS

- Union tax revenue is generated through five key sources: Corporate Income Tax (CIT) and Personal Income Tax (PIT) within direct taxes, and the central GST (including cess), union excise duties, and customs duties as part of indirect taxes. These five sources collectively contribute to almost 99 percent of the overall gross tax collection.
- Recent growth in direct tax revenues reflects a combination of factors, including the improvements in compliance and formalisation (particularly in PIT), recovery in corporate profitability in select sectors, and stabilisation and broadening of the GST framework. The relative contribution of these components, however, has varied across years.[5]
- In FY 26-27 BEs, the share of PIT in total GTR is projected to be 33 per cent, one percentage point higher than FY 25-26 REs but one percentage point lower than the BEs. The share of corporation tax has remained similar over the years. It was 25 per cent in FY 25-26 BEs, but increased to 27 per cent in the REs. For FY 26-27 BEs, it is estimated to contribute 28 per cent to total GTR.
- Following the recent GST reforms, the share of GST (including cess) has been falling from 28 per cent in FY 25-26 BEs to 26 per cent in the REs and is further expected to decline to 23 per cent in FY 26-27 BEs. The proportion is the lowest it has been since FY 18-19.
- The share of union excise duties has decreased over time and is estimated to be 9 per cent in FY 26-27 BEs (marginally up from FY 25-26 REs), while the share of customs has remained largely unchanged over the years and is estimated at 6 per cent for FY 26-27 BEs.

Figure 6: Trends in Composition of GTR (in %)



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PERSONAL INCOME TAX

The Income Tax Act, 2025, which will come into effect from 1 April 2026, marks structural reform of India's direct tax framework. The reform process began with the introduction of the Income-tax Bill, 2025 in the Lok Sabha in February 2025, which was passed by the Lok Sabha and the Rajya Sabha and received Presidential assent in August 2025. The Act focuses on administrative simplification such as simplifying legal language, removing obsolete provisions, and reorganising the statute to improve clarity, reduce litigation, and strengthen voluntary compliance—without altering tax rates or core tax policy principles.[6]

Key reforms include:

The Act replaces the earlier concepts of Assessment Year and Previous Year with a single, unified 'Tax Year', defined as the twelve-month financial year beginning 1 April. This simplification improves clarity, reduces ambiguity, and makes it easier for taxpayers to identify the relevant period for income reporting and tax compliance.

The Act empowers the Central Government to frame schemes to enhance efficiency, transparency, and accountability in tax administration, including by minimising direct interaction with taxpayers and optimising resources through economies of scale and functional specialisation.

The Act consolidates multiple compliance provisions to improve clarity. For instance, all Tax Deducted at Source (TDS) provisions have been unified under a single section (Section 393), simplifying the legal framework and making TDS rules easier to locate, interpret, and comply with

The Act defines virtual digital space to include digital environments such as email and cloud servers, social media accounts, online trading platforms, and asset-holding websites. It also broadens the scope of virtual digital assets to cover all digitally held assets using cryptographic ledger systems, including cryptocurrencies.

- For FY 26-27 BEs, PIT collections are estimated to reach ₹14.66 lakh crore, a 12 per cent increase over the previous year's REs but only 2 per cent higher than the BEs.
- It is important to note that over the last five years, actual PIT collections have exceeded REs, including in FY 20-21. Despite the COVID-19 pandemic and subdued REs, PIT collections recorded a 6 per cent increase in Actuals (₹28,144 crore). This trend continued year-on-year till FY 23-24.
- However, the last two years have seen a reversal in this trend. In FY 24-25, actual income tax collection was ₹21,829 crore less than the REs. Similarly, in FY 25-26, REs are ₹1.26 lakh crore less than the BEs (9 per cent). As of 11 January 2026, actual income tax collections stood at ₹9.29 lakh crore, 6 per cent higher than the tax collected during the same time in FY 24-25, but accounted for 71 per cent of the REs for FY 25-26.[7]

Table 1: Revised Estimates and Actuals of PIT (in ₹ crore)

PIT	20-21	21-22	22-23	23-24	24-25	25-26	26-27
Revised Estimates	₹459,000	₹615,000	₹815,000	₹1,022,325	₹1,257,000	₹1,438,000	₹1,466,000
Actuals	₹487,144	₹696,243	₹833,260	₹1,044,757	₹1,235,171	₹1,312,000	
Difference	₹28,144	₹81,243	₹18,260	₹22,401	(21,829)	(1,26,000)	

Source: Budget at a Glance document, Union Budget, FY 21-22 to FY 26-27. Url. Last accessed on 1 February 2026.
Note: For FY 25-26, figures are BEs and REs and FY-26-27 are BEs..

- Improved compliance and a widened taxpayer base are evident from returns filed. Between FY 20-21 and FY 24-25, the number of Income-Tax Returns filed (including revised return) increased from 6.72 crore to 8.56 crore, and the number of taxpayers increased from 8.23 crore to 12.13 crore.[8]

CORPORATE INCOME TAX

- CIT collections have also increased over time, albeit at a slower pace. For FY 26–27 BEs, CIT is estimated at ₹12.31 lakh crore, marking an 11 per cent increase over last year's REs and a 14 per cent increase over BEs.
- After a shortfall in CIT collections in FY 22-23 and FY 23-24, the last two years have seen actual collections higher than those initially projected. For instance, in FY 24-25, actual CIT collections were ₹6,767 crore more than the REs. Similarly, for FY 25-26, REs are ₹27,000 crore more than the BEs.
- Provisional data from the CGA shows that up to December 2025, CIT collections for FY 25–26 were 11 per cent higher than the corresponding period in FY 24–25. At the current pace, actual collections may further increase.

Table 2: Revised Estimates and Actuals of CIT (in ₹ crore)

CIT	20-21	21-22	22-23	23-24	24-25	25-26	26-27
Revised Estimates	₹446,000	₹635,000	₹835,000	₹922,675	₹980,000	₹1,082,000	₹1,231,00
Actuals	₹457,719	₹712,037	₹825,834	₹911,055	₹986,767	₹1,109,000	
Difference	₹11,719	₹77,037	(9,166)	(11,620)	₹6,767	₹27,000	

Source: Budget at a Glance document, Union Budget, FY 21-22 to FY 26-27. Url. Last accessed on 1 February 2026.
Note: For FY 25-26, figures are BEs and REs and FY-26-27 are BEs.

CUSTOM DUTIES

- Over the past year, India's customs policy has decisively shifted toward simplification, facilitation, and export competitiveness. Under Union Budget 25-26, the tariff structure was rationalised by scrapping seven more industrial tariff rates (bringing them down to eight slabs), limiting cesses to one per item, and correcting inverted duties to support domestic manufacturing, especially in EV batteries, electronics, textiles, shipbuilding, and critical minerals.[9] Complementing this, the India-European Union Free Trade Agreement adopts a calibrated import liberalisation: 49.6 per cent of tariff lines become duty-free at entry into force, while 39.5 per cent are liberalised gradually over 5, 7 or 10 years, together covering over 92 per cent of tariff lines balancing market opening with protection for sensitive sectors.[10]
- Building on this, Union Budget 26-27, further rationalised custom duties. Tariff on personal imports reduced from 20 per cent to 10 per cent and Basic Custom Duties (BCD) exemptions were extended for capital goods used in lithium-ion cells, critical minerals, aviation, and select medicines, among other things.[11]
- In FY 26-27, following the recent changes, customs duties are estimated to increase to ₹2.71 lakh crore, which is 5 per cent higher than last year's REs and 13 per cent higher than the BEs.
- Between FY 20-21 and FY 24-25, custom duty collections more than doubled in nominal terms, and actual collections have consistently exceeded budgeted amounts across most years.

Table 3: : Revised Estimates and Actuals of Customs Duties (in ₹ crore)

Custom Duties	20-21	21-22	22-23	23-24	24-25	25-26	26-27
Revised Estimates	₹112,000	₹189,000	₹210,000	₹218,680	₹235,000	₹240,000	₹271,200
Actuals	₹134,750	₹199,728	₹213,372	₹233,119	₹233,201	₹258,290	
Difference	₹22,750	₹10,728	₹3,372	₹14,439	(1799)	₹18,290	

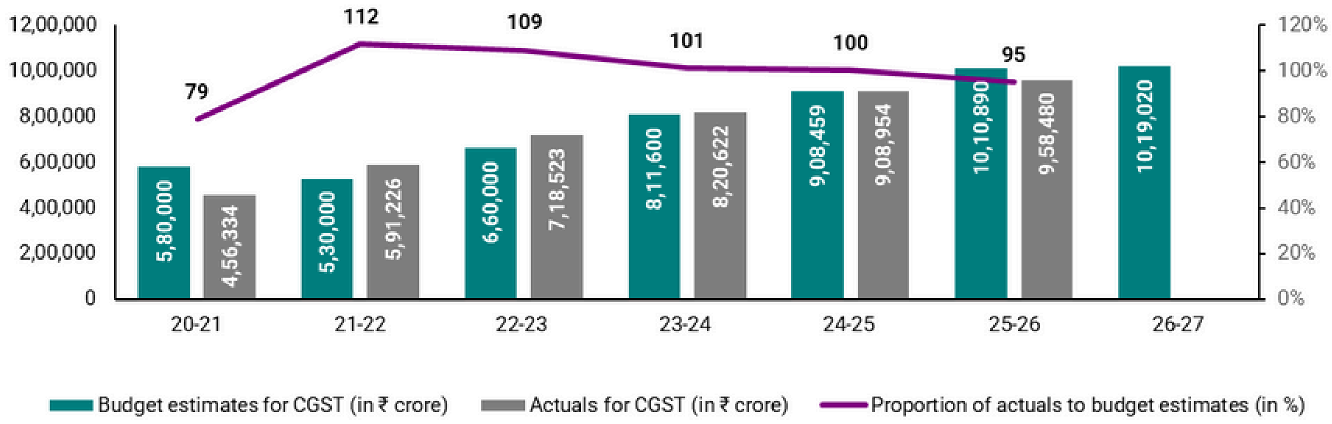
Source: Budget at a Glance document, Union Budget, FY 21-22 to FY 26-27. Url. Last accessed on 1 February 2026.
Note: For FY 25-26, figures are BEs and REs and FY-26-27 are BEs.

TRENDS OF UNION GOVERNMENT GST COLLECTION

- Union GST revenue comprises four components: Central Goods and Services Tax (CGST), levied on intra-state supplies; Integrated Goods and Services Tax (IGST), levied on inter-state transactions as well as imports and exports; Union Territory GST (UTGST), applicable on supplies within UTs without a legislature; and the GST Compensation Cess, imposed on select goods and services to compensate states for revenue losses. In addition, State GST (SGST) is levied by states on intra-state supplies.
- In September 2025, the GST Council approved GST 2.0, marking the most significant redesign of the GST framework since its rollout in 2017. Under GST 2.0, the earlier four slab structure of 5%, 12%, 18% and 28% were rationalised into a broad two-slab structure of 5% and 18%, along with a special 40% rate for sin, demerit, and select luxury goods. As part of this rationalisation, almost all items earlier taxed at 12% have been shifted to the 5% slab, while the bulk of goods and services previously taxed at 28% have moved to the 18% slab, reducing the tax burden on consumption.[12]
- Despite concerns over potential revenue loss, early trends suggest resilience in CGST collections. Post-reform collections during the October–December quarter of FY 25-26 were around 5 per cent higher than collections in the corresponding quarter of FY 24-25. However, REs for the year are estimated at ₹52,410 crore less than the BEs.

- For FY 26-27 BEs, CGST collections are projected to reach ₹10.19 lakh crore, 6 per cent more than FY 25-26 REs but only 1 per cent higher than the BEs.

Figure 7: Proportion of Actual to Budget Estimates for CGST



Source: Budget at a Glance document, Union Budget, FY 21-22 to FY 26-27. Url. Last accessed on 1 February 2026.
Note: For FY 25-26, figures are BEs and REs and FY-26-27 are BEs

TAX DEVOLUTION UNDER THE XVI FC

- In India's federal fiscal framework, the Union Government is mandated to share a portion of tax revenue collected with state governments in accordance with the recommendations of the Finance Commission, while retaining the remainder for its own expenditure responsibilities.
- The XVFC recommended that 41 per cent of the divisible pool of taxes be devolved to states, with inter se distribution based on six criteria aimed at balancing equity and performance: income distance (45 per cent), population (15 per cent), area (15 per cent), forest and ecology (10 per cent), fertility rate (12.5 per cent), and tax effort (2.5 per cent).[13]
- While horizontal devolution continues at 41 per cent for the XVI FC period, there have been significant changes to the formula for inter se distribution across states. The revised formula retains equity as the central principle but introduces a greater emphasis on efficiency and economic contribution.
- Under the revised formula, income distance remains the largest criterion, though its weight has been reduced from 45 per cent to 42.5 per cent and is now measured using per capita GSDP distance. Population (2011) has gained weight, increasing from 15 per cent to 17.5 per cent, while the weight assigned to area has declined from 15 per cent to 10 per cent. The forest and ecology criterion remains unchanged at 10 per cent.
- A major change is the introduction of a new criterion—states' contribution to national GDP—with a weight of 10 per cent, signalling a shift towards recognising economic performance in allocations. At the same time, the earlier tax effort criterion has been dropped, with the Commission noting that economic contribution partly captures differences in fiscal capacity and efficiency.
- Demographic criteria have also been modified, with the earlier fertility-based measure replaced by a broader demographic performance indicator, whose weight has been reduced from 12.5 per cent to 10 per cent. See Table 4 below for more details.
- These changes have altered the inter-state sharing ratio with a greater share going to several of the south indian states. The exact change in the sharing ratio is given in Annexure 1.

Table 4: Tax Devolution Formula for Horitzontal Distribution XV FC and XVI FC

Criteria	FC XV	FC XVI
Indicator	**Weight**	
Population (2011)	15	17.5
Demographic Performance		10
Fertility Rate	12.5	0
Area	15	10
Forest	10	10
Income Distance/Fiscal Capacity	45	
Per Capita GSDP Distance		42.5
Contribution to GDP	NA	10
Tax/Fiscal Effort	2.5	NA
Total	100	100

Source: XVI FC Report, Volume 1. Url. Last accessed on 1 February 2026.

- The actual share of the Union government's GTR devolved to states has been significantly lower, averaging around 31-34 per cent during the XV FC period. In FY 26-27 BEs, the first year of the 16th FC period, a similar trend continued, with tax devolution accounting for 35 per cent of GTR.
- Despite the proportion being lower, rising GTR in recent years meant that actual tax devolution to states from FY 20-21 to FY 24-25 was higher than the estimated amounts. The trend, however, changed in FY 25-26, where REs were ₹29,473 less than the estimated amounts.
- Taken cumulatively, however, while the XV FC (between FY 21-22 and FY 25-26) had estimated a total devolution of ₹42.25 lakh crore, actual transfers to states amounted to ₹56.56 lakh crore (including REs for FY 25-26), ₹14.31 lakh crore or 34 per cent higher.
- For FY 26-27 BEs, tax devolution to states is projected at ₹15.26 lakh crore, 10 per cent more than the previous years' REs but 7 per cent more than the BEs.

Table 5: Tax Devolution to States Budget Estimates and Actuals (in ₹ crore)

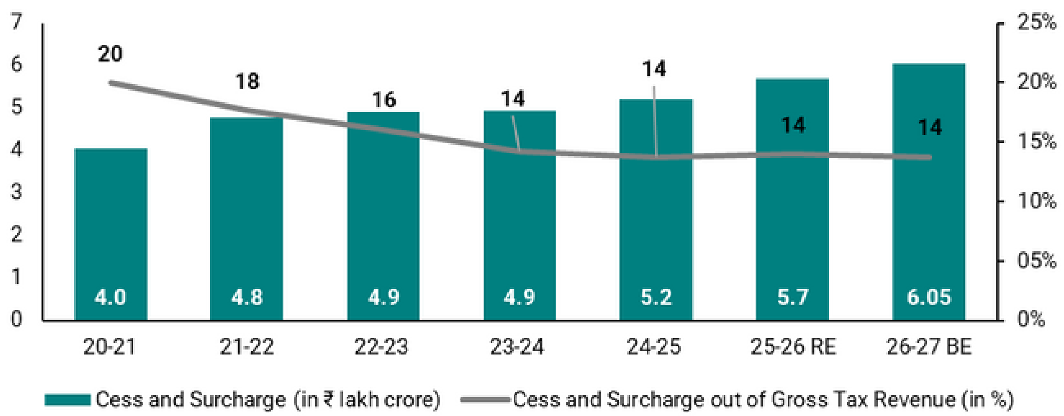
	20-21	21-22	22-23	23-24	24-25	25-26	26-27
Budget Estimates	₹784,181	₹665,563	₹816,649	₹1,021,448	₹1,247,211	₹1,422,444	₹1,526,255
Actuals	₹594,997	₹898,392	₹948,406	₹1,129,494	₹1,286,885	₹1,392,971	
Difference	(1,89,184)	₹232,829	₹131,756	₹108,046	₹39,674	(29,473)	

Source: Budget at a Glance document, Union Budget, FY 21-22 to FY 26-27. Url. Last accessed on 1 February 2026.
Note: For FY 25-26, figures are BEs and REs and FY-26-27 are BEs

CESSES AND SURCHARGES

- Cesses and surcharges form a significant component of the Union government's revenue strategy. Unlike taxes in the divisible pool, which are shared with states based on the FC recommendations, these levies are retained entirely by the Union and are not shared with states.
- Over the years, however, the share of cesses and surcharges in GTR have been declining. In FY 26-27 BEs, they are estimated to be around 14 per cent, continuing the downward trend from its all-time high of 20 per cent in FY 20-21 but remaining the same since FY 23-24.
- In absolute terms, however, they have grown from ₹5.7 lakh crore in FY 25-26 REs to ₹6.05 lakh crore in FY 26-27 BEs - a 6 per cent increase. Cesses on health and education, PIT and CIT surcharge, and petroleum and diesel are the main contributors. For FY 26-27 BEs, they contributed 83 per cent of total collections.
- The increasing reliance on cesses and surcharges has strengthened the Union's fiscal flexibility but reduced the predictability of transfers to states. This tension has featured prominently in submissions to the 16th Finance Commission. In its memorandum to the 16th Finance Commission, Sikkim has proposed expanding the divisible pool to include the Union's Gross Revenue Receipts, thereby bringing cesses, surcharges and non-tax revenues within the sharing framework. It also recommends capping cesses, surcharges and collection costs at 20 per cent of GTR, with any excess automatically devolved to States.[14] These proposals, however, have not been included into the 16th Finance Commission's approach.
- The XVI FC notes that, although cesses are not shareable, they often support welfare and infrastructure schemes that benefit states and are routed back through CSSs and other schemes.[15] However, cess-funded spending should be over and above the Union government's regular CSS allocations, and not a substitute for them.

Figure 8: Trends in Collection of Cesses and Surcharges



Source: Receipts Budget, Union Budget, FY 22-23 to FY 26-27. Url. Last accessed on 1 February 2026.
Note: FY 20-21 to FY 24-25 amounts are Actuals, while FY 25-26 figures are REs and FY 26-27 are BEs.

EXPENDITURES

- Union government expenditure reflects the translation of fiscal capacity into public outcomes. The size, composition, and trajectory of expenditure determines not only the pace of fiscal consolidation but also the policy choices made by the government.
- GoI's expenditure is classified into two broad categories:

Revenue expenditure: It covers spending required for the day-to-day functioning of the government and does not result in the creation of assets. It includes largely expenditure on committed liabilities such as salaries, pensions, and interest payments, defence revenue expenditure, and subsidies.

Capital expenditure (capex): It involves spending on the creation of fixed assets such as roads, buildings, railways, machinery, and equipment, which generate long-term economic value. Capex is also incurred in the repayment of loans or debt payments. This expenditure is funded through budgetary support as well as extra-budgetary resources or off-budget.

- Total expenditure of GoI for FY 26-27 BEs is projected at ₹53.47 lakh crore, an 8 per cent increase over FY 25-26 REs but a 6 per cent increase from the BEs. Within this, revenue expenditure accounts for ₹41.25 lakh crore or 77 per cent of total expenditure—and has declined by 1 percentage point compared to last year's RE and BEs.

Table 6: Revenue and Capital Expenditure (in ₹ lakh crore)

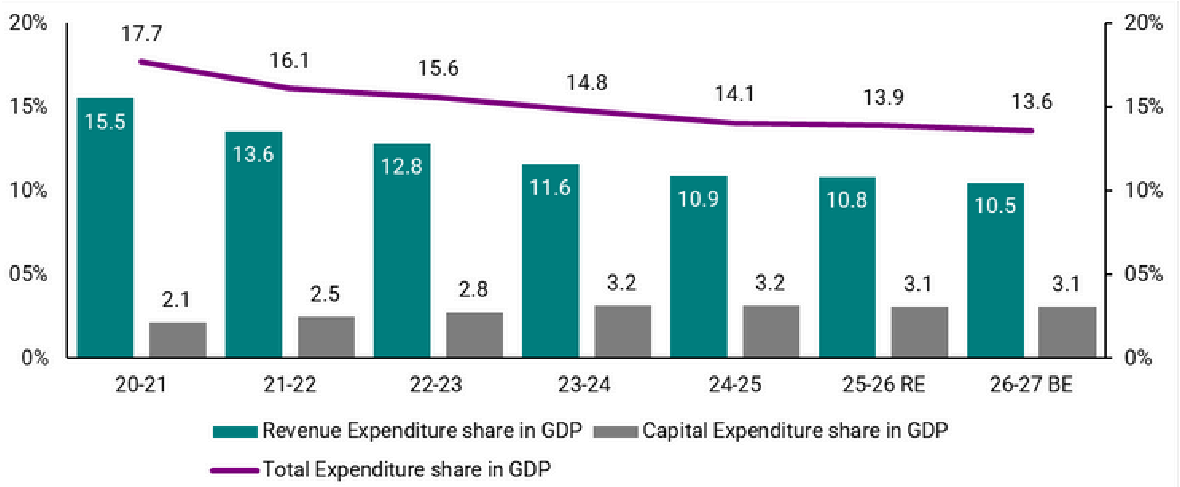
	20-21	21-22	22-23	23-24	24-25	25-26 RE	26-27 BE
Revenue Expenditure (₹ lakh crore)	₹30.84	₹32.01	₹34.53	₹34.94	₹36.01	₹38.69	₹41.25
Capital Expenditure (₹ lakh crore)	₹4.26	₹5.93	₹7.4	₹9.49	₹10.52	₹10.96	₹12.22
Total Expenditure (₹ lakh crore)	₹35.1	₹37.94	₹41.93	₹44.43	₹46.53	₹49.65	₹53.47

Source: Budget at a Glance document, Union Budget, FY 22-23 to FY 26-27. Url. Last accessed on 1 February 2026.
Note: FY 20-21 to FY 24-25 amounts are Actuals, while FY 25-26 figures are REs and FY 26-27 are BEs.

EXPENDITURE RELATIVE TO GDP

- Despite nominal increases, government spending is becoming smaller relative to the size of the economy. This reflects a deliberate shift towards fiscal consolidation following the pandemic-induced expansion.
- Over time, the share of revenue expenditure in total expenditure has declined, improving debt sustainability and creating space for capex.
- Since FY 20-21, when revenue expenditure (inclusive of Grants-in-Aid (GIA) for creation of Capital Assets) stood at 15.5 per cent of GDP, it has declined to 10.9 per cent in FY 24-25 and is further projected to fall to 10.5 per cent in FY 26-27 BEs. Over the same period, capital expenditure rose from 2.1 per cent of GDP to 3.2 per cent in FY 24-25, and is estimated to marginally decline to 3.1 per cent in FY 26-27 BEs. While the reduction in revenue expenditure has been sharp, the expansion in capital expenditure has been comparatively gradual. Consequently, total expenditure as a share of GDP is estimated at 13.6 per cent in FY 26-27 BEs, down from 17.7 per cent in FY 20-21.
- After the sharp expansion during the COVID-19 period driven by health spending, and food subsidies -there is a return to pre-pandemic spending patterns with a focus on lowering fiscal deficit targets and adhering to FRBM norms through expenditure contraction. However, the implications of a declining revenue expenditure-to-GDP ratio for social sector spending and service delivery need closer examination, which is taken up in the subsequent section.

Fig 9: Share of Total, Revenue and Capital Expenditure out of GDP (in %)

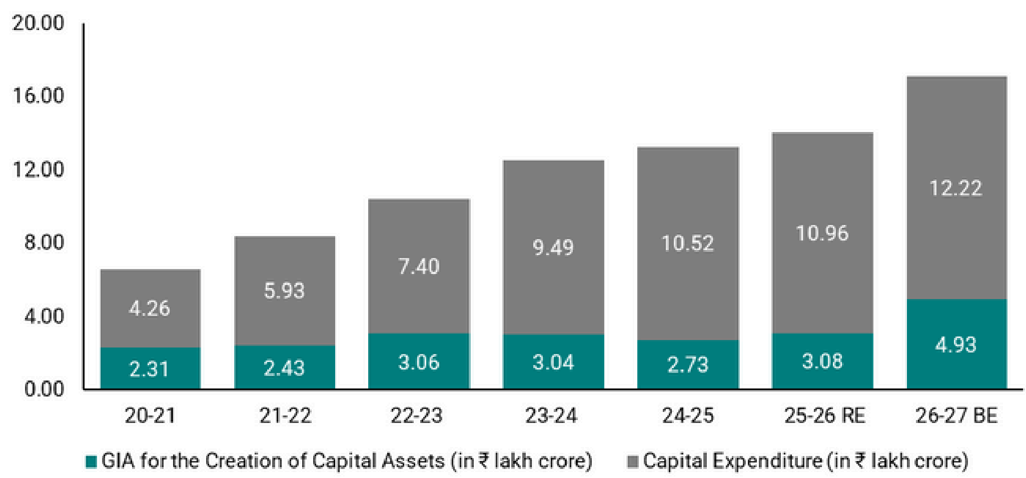


Source: (1) Budget at a Glance document, Union Budget, FY 22-23 to FY 26-27. Url. (2) Annual and Quarterly Estimates of GDP at current prices, 2011-12 series, MoSPI. Url.
Note: (1) For Revenue and Capital Expednitures, FY 22-23 to FY 24-25 amounts are Actuals, while FY 25-26 figures are REs and FY 26-27 are BEs.

CAPITAL EXPENDITURE

- Capex has more than doubled over the last five years, rising from ₹4.26 lakh crore in FY 20-21 to ₹10.52 lakh crore in FY 24-25. For FY 26-27 BEs, ₹12.22 lakh crore has been allocated for capex, which is 12 per cent higher than last year's RE and 9 per cent higher than the BEs. The difference is due to the fact that while ₹11.21 lakh crore was the BE for capex in FY 25-26, the REs were 2 per cent less at ₹10.96 lakh crore. Shortfalls in capex relative to BEs are not new. Except for FY 22-23 and FY 24-25, Actuals for capex have remained lower than REs.
- GoI also provides GIA for the creation of capital assets to State governments or other entities. These grants, distinct from general GIA, are allocated for capex-heavy schemes like Jal Jeevan Mission, Pradhan Mantri Awas Yojana, and the Mahatma Gandhi National Rural Employment Guarantee Scheme under different Ministries and Departments.
- For FY 26-27 BEs, GIA for capital assets is expected to be ₹4.93 lakh crore, an increase of 60 per cent over FY 25-26 REs and 15 per cent over the BEs, when it stood at ₹3.08 lakh crore. Here too, REs for FY 25-26 were significantly (28 per cent) lower than the BEs.
- However, between FY 20-21 and FY 24-25, the average annual growth rate of capex exceeded that of GIA for the creation of capital assets, with capex growing at 26 per cent compared to 6 per cent for GIA towards capital asset creation.

Fig 10: Capital Expenditure and GIA for Creation of Capital Assets (in ₹ lakh crore)



Source: Budget at a Glance document, Union Budget, FY 22-23 to FY 26-27. Url. Last accessed on 1 February 2026.
Note: FY 20-21 to FY 24-25 amounts are Actuals, while FY 25-26 figures are REs and FY 26-27 are BE**s.**

Table 7: Differences between Revised Estimates and Actuals for Capital Expenditure (in ₹ crore)

Capex	20-21	21-22	22-23	23-24	24-25	25-26	26-27
Revised Estimates	₹439,163	₹602,711	₹728,274	₹950,246	₹1,018,529	₹1,121,090	₹1,221,821
Actuals	₹426,317	₹592,874	₹740,025	₹949,195	₹1,051,953	₹1,095,755	NA
Difference	(12,846)	(9,837)	₹11,751	(1,051)	₹33,524	(25,335)	

Source: Budget at a Glance document, Union Budget, FY 21-22 to FY 26-27. Url. Last accessed on 1 February 2026.
Note: For FY 25-26, figures are BEs and REs and FY-26-27 are BEs.

- In FY 26-27 BEs, as in previous years, three Ministries/Departments account for the bulk (84 per cent) of capex.

Ministry of Railways: ₹2.78 lakh crore, (23 per cent) of total capex.
Ministry of Road Transport and Highways: ₹2.94 lakh crore, or 24 per cent of total capex.
Ministry of Defence: ₹2.31 lakh crore (19 per cent of total capex).

- In addition, transfers to States (Ministry of Finance) through Special Assistance as Loans to States, which provides financial assistance to State governments in the form of 50-year interest-free loans for capital investment projects and externally aided projects, are estimated to account for 19 per cent of total capex in FY 26-27 BEs.

Table 8: Capital Expenditure of Key Ministries (in ₹ lakh crore)

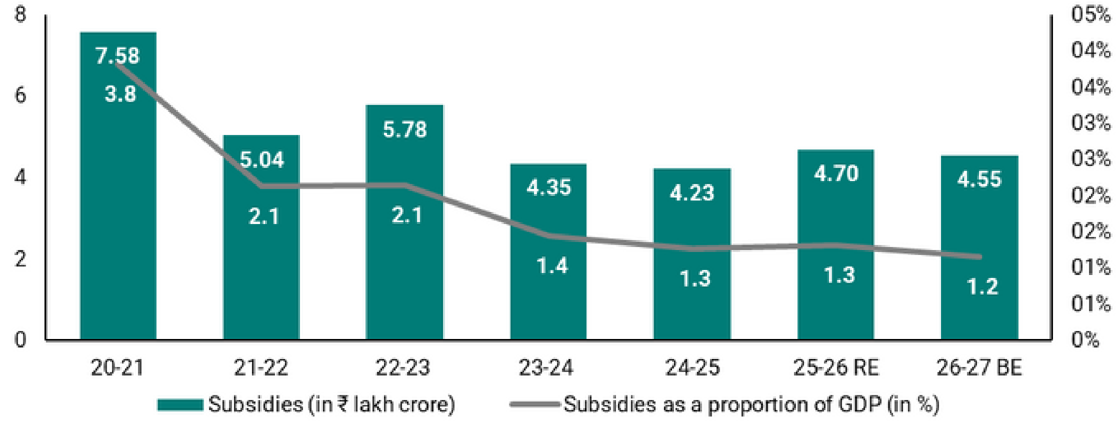
Sector / Ministry	20–21	21–22	22–23	23–24	24-25	25-26 RE	26-27 BE
Ministry of Defence	₹1.40 (33%)	₹1.45 (24%)	₹1.51 (20%)	₹1.65 (17%)	₹1.71 (16%)	₹1.97 (18%)	₹2.31 (19%)
Ministry of Railways	₹1.09 (26%)	₹1.17 (20%)	₹1.59 (22%)	₹2.40 (25%)	₹2.52 (24%)	₹2.52 (23%)	₹2.78 (23%)
Ministry of Road Transport and Highways	₹0.89 (21%)	₹1.13 (19%)	₹2.06 (28%)	₹2.64 (28%)	₹2.85 (27%)	₹2.72 (25%)	₹2.94 (24%)
Transfers to States	₹0.20 (5%)	₹0.23 (4%)	₹0.93 (13%)	₹1.23 (13%)	₹1.66 (16%)	₹1.75 (16%)	₹2.26 (19%)
Others	₹0.68 (16%)	₹1.95 (33%)	₹1.31 (18%)	₹1.58 (17%)	₹1.78 (17%)	₹1.99 (18%)	₹1.92 (16%)

Source: Union Expenditure Budget, Various Ministries, Union Budget, FY 22-23 to FY 26-27. Url. Last accessed on 1 February 2026.
Note: FY 20-21 to FY 24-25 amounts are Actuals, while FY 25-26 figures are REs and FY 26-27 are BEs.

SUBSIDIES

- A subsidy reduces the price of a commodity or service by having the government bear part of the cost. At the Union level, subsidies are largely concentrated in food, fertilisers, and petroleum. A substantial share of revenue expenditure- covering salaries, pensions, interest payments, and defence—is committed in nature, leaving limited flexibility. As per the Economic Survey 25-26, fiscal consolidation has focused on rationalising discretionary spending, particularly subsidies, to create fiscal space.[16]
- Major subsidies, which were high at 3.8 per cent of GDP during the pandemic, have been declining since FY 21-22 from ₹5.04 lakh crore (2.1 per cent of GDP) to ₹4.23 lakh crore (1.3 per cent of the GDP) in FY 24-25. For FY 26-27 BEs, subsidies are estimated at ₹4.55 lakh crore, representing a 3 per cent reduction over last year's RE and a 7 per cent increase over BEs. As a share of GDP it is projected at 1.2 per cent.

Fig 11: Trends in Subsidies (in ₹ lakh crore) and as a share of GDP (in %)

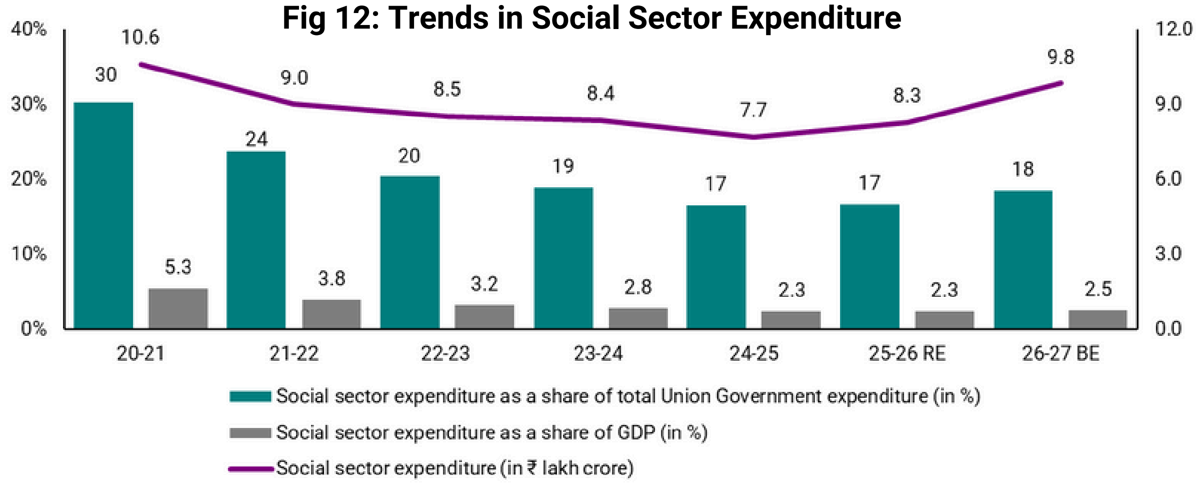


Source: Expenditure Profile, Statement 7, Union Budget, FY 22-23 to FY 26-27. Url. Last accessed on 1 February 2026.
Note: FY 20-21 to FY 24-25 amounts are Actuals, while FY 25-26 figures are REs and FY 26-27 are BEs.

SOCIAL SECTOR EXPENDITURE

- Social sector expenditure includes spending on welfare and development activities such as education, employment, food security, health, nutrition, rural development, social security and social justice, skill development, sports and culture, tribal and minority affairs, urban poor welfare, water and sanitation, and women and child welfare.
- For this analysis, social sector spending has been calculated by aggregating allocations to 16 Ministries associated with these sectors. This includes all Ministries under the Social Services head in the Union Budget AFS document, along with allocations to the Ministry of Rural Development, and the Ministry of Consumer Affairs, Food and Public Distribution.
- In FY 26-27 BEs, GoI's social sector expenditure is estimated at ₹9.8 lakh crore, 19 per cent higher than last year's REs and 4 per cent higher than the BEs.
- However, after reaching an all-time high of ₹10.6 lakh crore in FY 20-21 due to COVID-related spending, social sector expenditure has been declining. Between FY 20-21 and FY 24-25, it declined by 28 per cent, with social sector spending falling to an all-time low of ₹7.7 lakh crore in FY 24-25
- As a share of total expenditure, GoI's social sector expenditure has remained largely stagnant. In FY 26-27 BEs, it is projected to account for 18 per cent, slightly higher than FY 24-25 and FY 25-26 REs, which were at an all-time low of 17 per cent
- Over the years, social sector expenditure as a share of GDP has also declined—from 5.3 per cent in FY 20-21 to 2.3 per cent in FY 24-25 and estimated to marginally increase to 2.5 per cent in FY 26-27 BEs. It is important to note that social sector expenditure as a share of GDP is lower than pre-pandemic levels: in FY 18-19 and FY 19-20, it stood at 2.6 per cent.

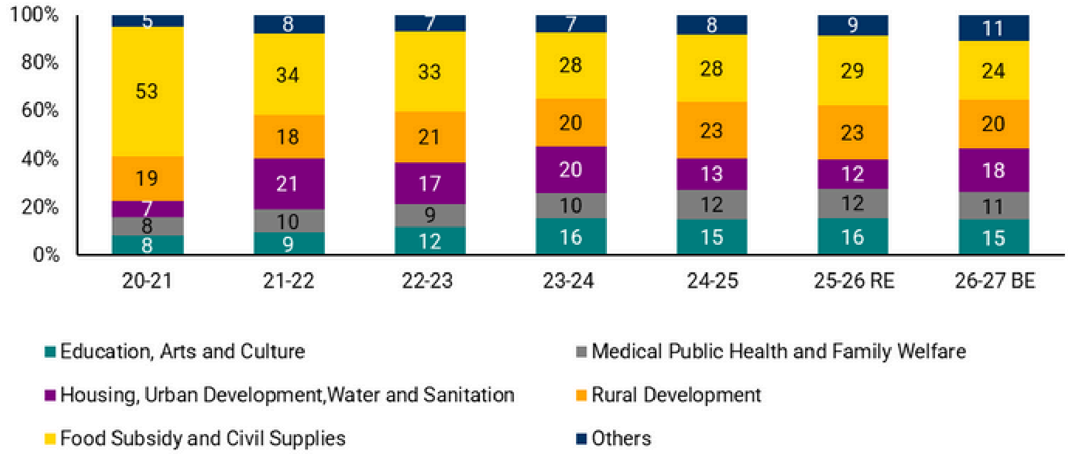
Fig 12: Trends in Social Sector Expenditure



Source: (1) Expenditure Profile, Statement 3, Union Budget, FY 22-23 to FY 26-27 Url. (2) Annual and Quarterly Estimates of GDP at current prices, 2011-12 series, MoSPI. Url. Last accessed on 1 February 2026. **Note:** For SSE, FY 22-23 to FY 24-25 amounts are Actuals,.

- In terms of the share of social sector expenditure across different components, for FY 26-27 BEs, the estimated share for Food Subsidy and Civil Supplies is 24 per cent, which is 5 percentage points lower than last year's REs, yet it continues to account for the largest share. The share for Rural Development is projected at 20 per cent, 3 percentage lower than FY 25-26 REs. In contrast, Housing, Urban Development, Water, and Sanitation is estimated at 18 per cent, marking an increase of 6 percentage points from last year's REs.
- Education, Art and Culture accounted for 15 per cent of expenditure, declining by 1 percentage point from last year's RE. Medical and Public Health and Family Welfare stood at 11 per cent, which is 1 percentage point lower than the REs.

Fig 13: Trends in Composition of Social Sector Expenditure (in %)



Source: 1) Expenditure Profile, Statement 3, Union Budget, FY 22-23 to FY 26-27 Url.
Note: FY 20-21 to FY 24-25 amounts are Actuals, while FY 25-26 figures are REs and FY 26-27 are BEs.

WHERE IS UNION GOVERNMENT EXPENDITURE GOING?

- While social sector expenditure has been declining over the years, an examination of Union Government expenditure by Ministries, Departments, and other major components shows where spending is concentrated. Over time, five major ministries/components have together accounted for more than 50 per cent of total Union expenditure.
- For FY 26-27 BEs, interest payments alone amounted to ₹14.04 lakh crore, accounting for 26 per cent of total Union government expenditure. This is followed by the Ministry of Defence (₹7.85 lakh crore), which is estimated to account for 15 per cent of total expenditure.

- Transfers to States, which largely comprise grants to local bodies and interest-free loans for capital asset creation, also form a significant share at 7 per cent. In addition, the Ministry of Road Transport and Highways accounts for around 6 per cent, while the Ministry of Railways accounts for about 5 per cent of total Union expenditure.
- Together, these components highlight a spending pattern increasingly driven by interest obligations and infrastructure-oriented ministries.

Table 9: Main Ministries/Components within Total Expenditure (in ₹ lakh crore)

Ministry / Category	24–25	25–26 (BE)	25–26 (RE)	26–27 (BE)
Ministry of Defence	₹6.36 (14%)	₹6.81 (13%)	₹7.33 (15%)	₹7.85 (15%)
Interest Payments	₹11.16 (24%)	₹12.76 (25%)	₹12.74 (26%)	₹14.04 (26%)
Transfers to States	₹2.99 (6%)	₹3.28 (6%)	₹3.56 (7%)	₹3.94 (7%)
Ministry of Railways	₹2.55 (5%)	₹2.55 (5%)	₹2.55 (5%)	₹2.81 (5%)
Ministry of Road Transport and Highways	₹2.99 (6%)	₹2.87 (6%)	₹2.87 (6%)	₹3.10 (6%)
Others	₹20.48 (44%)	₹22.37 (44%)	₹20.59 (41%)	₹21.73 (41%)

Source: Expenditure Profile, Statement 3, Union Budget, FY 22-23 to FY 26-27 Url. Last accessed on 1 February 2026.
Note: FY 24-25 amounts are Actuals, while FY 25-26 figures are REs and FY 26-27 are BEs.

FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT

REVENUE DEFICIT AND FISCAL DEFICIT

- Over the years, the GoI's revenue expenditure has exceeded its revenue receipts, leading to a revenue deficit. For FY 26-27 BE, the revenue deficit target is set at 1.5 per cent of GDP, which is similar to both the RE and BE of the previous year. With respect to the quantum of deficit, in FY 25-26 REs, it was estimated at ₹5.27 lakh crore, which was ₹2,918 crore more than the BEs. In FY 26-27 BEs, it is projected to marginally increase to ₹5.92 lakh crore.
- With respect to fiscal deficit, for FY 26-27 BEs, the target has been further revised to 4.3 per cent of GDP, following the achievement of the target set for FY 25-26 which was 4.4 per cent. The figures for both BEs and REs were the same suggesting that the government is on track to achieving its fiscal consolidation as per the roadmap announced in Budget 21-22.[17] The relatively gradual decrease in the fiscal deficit target set for FY 26-27 BEs has been partly due to higher interest payments and the emphasis on capital expenditure including the provision of interest-free loans to states.
- To give a comparative picture, in FY 18-19, the fiscal deficit stood at 3.4 per cent. However, it had surged to 9.2 per cent in FY 20-21 due to the COVID-19 pandemic.

Table 10: Trends in Revenue and Fiscal Deficit (in ₹ lakh crore)

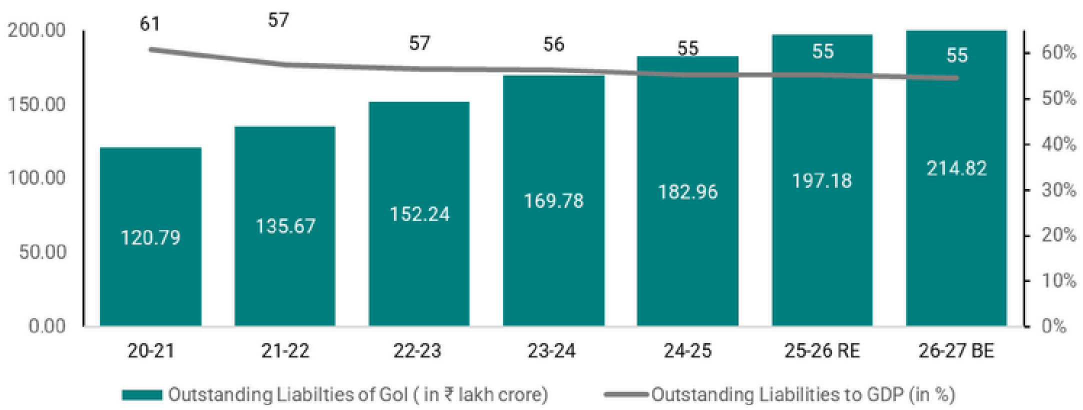
	20-21	21-22	22-23	23-24	24-25	25-26 RE	26-27 BE
Revenue Deficit (in ₹ lakh crore)	₹14.49 (7.3)	₹10.31 (4.4)	₹10.69 (4)	₹7.65 (2.6)	₹5.64 (1.7)	₹5.27 (1.5)	₹5.92 (1.5)
Fiscal Deficit (in ₹ lakh crore)	₹18.18 (9.2)	₹15.85 (6.7)	₹17.38 (6.4)	₹16.55 (5.6)	₹15.74 (4.8)	₹15.58 (4.4)	₹16.96 (4.3)

Source: Budget at a Glance document, Union Budget, FY 22-23 to FY 26-27. Url. Last accessed on 1 February 2026.
Note: (1) FY 20-21 to FY 24-25 amounts are Actuals. (2) Figures in parenthesis are as a percentage of GDP, taken from Budget at a glance.

OUTSTANDING LIABILITIES

- Outstanding liabilities is the stock of money borrowed by Union governments, accumulated over the years, which the government currently owes.
- Outstanding liabilities of the GoI are estimated to rise to ₹214.82 lakh crore in FY 26-27 BEs, representing a 9 per cent increase over FY 25-26 REs and BEs. The outstanding liabilities-to-GDP ratio has declined from an all-time high of 60.7 per cent during the COVID-19 period to 55.3 per cent in FY 24-25, and is further estimated to moderate to 54.7 per cent in FY 26-27 BE. The Union government has set a medium-term target to reach a debt-to-GDP ratio of 50±1 percent by 2030.[18]
- As per the definition of debt under the FRBM Act, which includes external debt valued at current exchange rates and liabilities arising from extra-budgetary resources, debt is estimated at 55.6 per cent of GDP in FY 26-27 BE, down from 56.1 per cent in FY 25-26 RE.[19]

Fig 14: Trends in Outstanding Liabilities (in ₹ lakh crore) and as a share of GDP (in %)

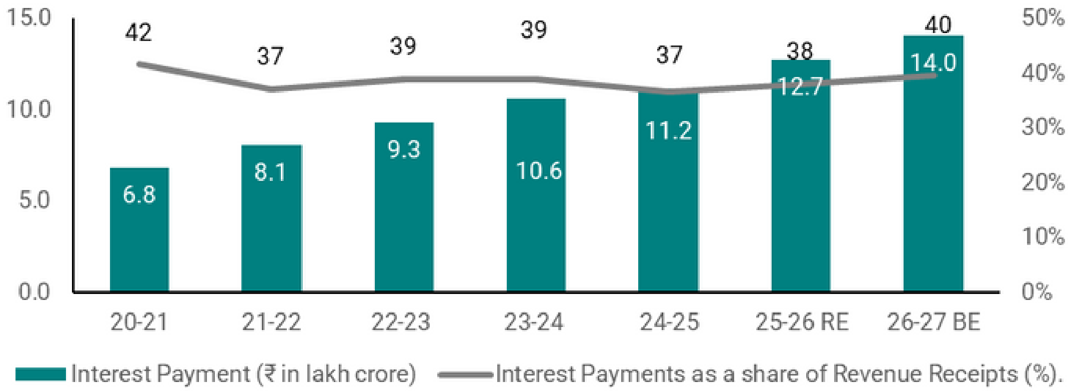


Source: Receipts Budget, Union Budget, FY 22-23 to FY 26-27. Url. Last accessed on 1 February 2026.
Note: FY 20-21 to FY 24-25 amounts are Actuals, while FY 25-26 figures are REs and FY 26-27 are BEs.

INTEREST PAYMENT

- Interest payments made by the Union government are the cost of servicing accumulated debt and include interest on internal and external loans, treasury bills, and small savings schemes.
- In FY 26-27 BEs, interest payments are estimated at ₹14.04 lakh crore, representing a 10 per cent increase over last year's RE and BEs. Over the years, interest payments as a share of total revenue receipts declined from an all-time high of 42 per cent in FY 20-21 to 37 per cent in FY 24-25. However, this share has inched up again, reaching 38 per cent of revenue receipts in FY 25-26 REs, and is further estimated to increase to 40 per cent in FY 26-27 BE, reflecting renewed pressure from rising debt servicing costs.

Fig 15: Trends in Interest Payments (in ₹ lakh crore) and as a Share of Revenue Receipts (in %)



Source: Budget at a Glance document, Union Budget, FY 22-23 to FY 26-27. Url. Last accessed on 1 February 2026.
Note: FY 20-21 to FY 24-25 amounts are Actuals, while FY 25-26 figures are REs and FY 26-27 are BEs.

GRANTS-IN-AID TRANSFERS TO STATES AND UTS

- GIA is a substantial mode of spending for the Union Government for the provision of public goods. GIA from the Union is the amount of money disbursed by the Union Government to State governments under three components:
  - Grants as determined by the Finance Commission,
  - Grants under CSSs, and
  - Other transfers to meet operational expenses, generate capital assets, and for the delivery of public services
- For FY 26-27 BEs, GIA transfers to States and UTs are estimated at ₹9.90 lakh crore, with 55 per cent allocated through CSSs, 31 per cent as Other Transfers, and 13 per cent as Finance Commission grants.
- Over time, the share of CSS in total transfers has declined from 51 per cent in FY 20-21 to 44 per cent in FY 24-25, while Other Transfers have increased. However, since FY 25-26, the share of CSS has begun to increase again. A major component of Other Transfers is the GST compensation cess. Although originally introduced to offset State revenue losses for five years up to June 2022, accumulated cess proceeds are now being used to service the principal and interest of loans raised by the Union government during the COVID-19 period.
- As with successive previous FCs, the XVI FC has also highlighted the urgent need to rationalise CSSs by linking their implementation to measurable, real-time output indicators to improve efficiency and outcomes. It recommends constituting a high-powered committee to reassess existing schemes and discontinue those with low or negative social returns, as such schemes crowd out higher-impact alternatives. The Commission noted that the top five CSS—MGNREGA, PMAY (urban and rural), Jal Jeevan Mission, Samagra Shiksha, and the National Health Mission—account for over half of total CSS spending and therefore merit detailed scheme-wise assessment.[20]

Table 11 : Composition of Transfer to States (in ₹ lakh crore)

(in ₹ lakh crore)	20-21	21-22	22-23	23-24	24-25	25-26 RE	26-27 BE
Finance Commission Transfers	₹1.84	₹2.07	₹1.73	₹1.49	₹ 1.21	₹ 1.53	₹ 1.29
Centrally Sponsored Schemes	₹3.84	₹4.54	₹4.38	₹4.45	₹ 4.02	₹ 4.20	₹ 5.49
Other Transfers	₹1.92	₹2.18	₹3.18	₹3.36	₹ 3.85	₹ 2.73	₹ 3.12

Source: Summary of Expediture, Expenditure profile,Union Budget, FY 22-23 to FY 26-27. Url. Last accessed on 1 February 2026.
Note: FY 20-21 to FY 24-25 amounts are Actuals, while FY 25-26 figures are REs and FY 26-27 are BEs.

- Over the same period, the share of CSS in GDP declined. In FY 20-21, CSS accounted for 1.93 per cent of GDP, which fell to 1.22 per cent in FY 24-25 and further to 1.18 per cent in FY 25-26 RE. In FY 26-27 BEs, the share of CSS in GDP is estimated to increase marginally to 1.4 per cent.
- During the XV FC period, the Commission had recommended ₹8.53 lakh crore as Finance Commission grants, while the Union Government allocated ₹8.03 lakh crore till FY 25-26 REs, lower than the recommended amount. However, the final amount might increase in Actuals.
- Under the XVI FC, total grants of ₹9.47 lakh crore have been recommended for the period FY 26-27 to FY 30-31, 11 per cent more than XV FC period. These include a ₹7.91 lakh crore grant for Rural and Urban local bodies with funds divided into basic and performance components in an 80:20 ratio. Performance-linked grants will be phased in gradually, starting in FY 27-28 for States and ULBs, and FY 28-29 for RLBs, ensuring capacity-building before performance-based disbursement.
- It is important to note that the recommended amount for RLBs is ₹4.35 lakh crore which was 84 per cent more than the XV FC recommended amount. Similarly, for ULBs, the XVI FC recommended ₹3.56 lakh crore, which was nearly three times the amount recommended under XV FC period.
- For FY 26-27, the Commission has recommended ₹1.29 lakh crore, and the same has been budgeted by the Union government in FY 26-27 BEs.
- The XVI FC does not recommend any revenue deficit grants, nor any sector- or State-specific grants to States

Table 12: Finance Commission Grants recommended by XV FC and XVI FC (in ₹ crore)

Finance Commission Grants	XV FC	XVI FC
Revenue Deficit Grants	294,514	NA
Rural Local Bodies	236,805	435,236
Urban Local Bodies	121,055	356,257
Health Grants	70,051	NA
Other Grants	8,450	NA
Disaster Management Grants	122,601	155,916
Total	853,476	947,409

Source: XVI FC Report, Volume 1. Url. Last accessed on 1 February 2026.

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ANNEXURE 1: STATE'S SHARE IN DIVISIBLE POOL

State	XV FC	XVI FC
Andhra Pradesh	4.05	4.22
Arunachal Pradesh	1.76	1.35
Assam	3.13	3.26
Bihar	10.06	9.95
Chhattisgarh	3.41	3.3
Goa	0.39	0.37
Gujarat	3.48	3.76
Haryana	1.09	1.36
Himachal Pradesh	0.83	0.91
Jharkhand	3.31	3.36
Karnataka	3.65	4.13
Kerala	1.93	2.38
Madhya Pradesh	7.85	7.35
Maharashtra	6.32	6.44
Manipur	0.72	0.63

State	XV FC	XVI FC
Meghalaya	0.77	0.63
Mizoram	0.5	0.56
Nagaland	0.57	0.48
Odisha	4.53	4.42
Punjab	1.81	2
Rajasthan	6.03	5.93
Sikkim	0.39	0.34
Tamil Nadu	4.08	4.1
Telangana	2.1	2.17
Tamil Nadu	4.08	4.1
Telangana	2.1	2.17
Tripura	0.71	0.64
Uttar Pradesh	17.94	17.62
Uttarakhand	1.12	1.14
West Bengal	7.52	7.22

ANNEXURE 2: KEY WELFARE MINISTRY ALLOCATIONS (IN ₹ CRORE)

Ministry	24-25 A	25-26 BE	25-26 RE	26-27 BE	Change 25-26 BE to 26-27 BE	Change 25-26 RE to 26-27 BE
Ministry of Agriculture and Farmers Welfare	139,744	137,757	133,370	140,529	2%	5%
Ministry of Education	110,736	128,650	121,949	139,289	8%	14%
Ministry of Youth Affairs and Sports	2,711	3,794	3,347	4,480	18%	34%
Ministry of Culture	3,245	3,361	3,550	3,417	2%	-4%
Ministry of Health and Family Welfare	90,684	99,859	96,854	106,530	7%	10%
Ministry of Ayush	3,312	3,993	3,672	4,409	10%	20%
Ministry of Housing and Urban Affairs	53,255	96,777	57,204	85,522	-12%	50%
Ministry of Jal Shakti	46,720	99,503	41,437	94,808	-5%	129%
Ministry of Information and Broadcasting	4,302	4,358	6,103	4,552	4%	-25%
Ministry Social Justice and Empowerment	10,115	14,886	12,694	15,357	3%	21%
Ministry of Tribal Affairs	10,132	14,926	10,824	15,422	3%	42%
Ministry of Minority Affairs	715	3,350	2,160	3,400	1%	57%
Ministry of Labour and Employment	11,408	32,646	12,688	32,666	0%	157%
Ministry of Skill Development and Entrepreneurship	2,775	6,100	2,704	9,886	62%	266%
Ministry of Women and Child Development	24,842	26,890	24,374	28,183	5%	16%
Ministry of Rural Development	179,307	190,406	188,753	197,023	3%	4%
Ministry of Consumer Affairs, Food and Public Distribution	215,009	215,767	238,409	239,521	11%	0%
Ministry of Power	19,714	21,847	21,588	29,997	37%	39%
Ministry of New and Renewable Energy	18,627	26,549	25,301	32,915	24%	30%
Ministry of Environment, Forests, and Climate Change	2,220	3,413	3,482	3,759	10%	8%

ANNEXURE 3: KEY WELFARE SCHEME ALLOCATIONS (IN ₹ CRORE)

Scheme	24-25 A	25-26 BE	25-26 RE	26-27 BE	Change 25-26 BE to 26-27 BE	Change 25-26 RE to 26-27 BE
Food Subsidy/PMGKAY	199,867	203,420	228,154	227,629	-0.20%	12%
VB-G RAM G				95,692	NA	NA
Jal Jeevan Mission	22,615	67,000	17,000	67,670	298%	1%
Pradhan Mantri Awas Yojana (Gramin)	32,327	54,832	32,500	54,917	69%	0.20%
Samagra Shiksha	36,502	41,250	38,000	42,100	11%	2%
National Health Mission (excluding AYUSH)	39,775	39,435	39,025	41,605	7%	6%
Mahatma Gandhi National Rural Employment Guarantee Scheme	85,834	86,000	88,000	30,000	-66%	-65%
Saksham Anganwadi and POSHAN 2.0	21,014	21,960	20,949	23,100	10%	5%
Pradhan Mantri Awas Yojana (Urban) +PMAY-U 2.0 +PMAY 2.0 ISS	5,865	26,794	7,800	21,625	177%	-19%
National Livelihood Mission - Ajeevika Rural	14,705	19,005	16,000	19,200	20%	1%
Pradhan Mantri Gram Sadak Yojana	17,871	19,000	11,000	19,000	73%	0%
PM POSHAN	9,903	12,500	10,600	12,750	20%	2%
National Social Assistance Programme	9,652	9,652	9,197	9,671	5%	0.20%
Amrut	5,647	10,000	7,500	8,000	7%	-20%
PM Schools for Rising India (PM SHRI)	3,504	7,500	4,500	7,500	67%	0%
Swachh Bharat Mission (Gramin)	3,613	7,192	6,000	7,192	20%	0%
Mission Shakti (Mission for Protection and Empowerment for Women)	1,835	3,150	2,000	3,200	60%	2%
Namami Gange Mission - II	2,976	3,400	2,687	3,100	15%	-9%
Swachh Bharat Mission (Urban)	1,893	5,000	2,000	2,500	25%	-50%
Mission VATSALYA (Child Protection Services and Child Welfare Services)	1,406	1,500	1,100	1,550	41%	3%

About ResGov

The Foundation for Responsive Governance (ResGov) is a Section 8 not-for-profit working to strengthen the capabilities of government and communities to ensure public initiatives reach the most vulnerable.

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