

Driving India's Growth through Capex Investments with Fiscal Discipline

Historical Budget Analysis & Future Outlook



Estimated ~Rs 53.5 trillion budget with 15% capex growth & 4.2% fiscal deficit for FY27

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Driving India's Growth through Capex Investments with Fiscal Discipline

BUDGET 2026-27:

Budget FY27 is projected as a steady-state, capex-driven budget that balances growth support with fiscal consolidation.

- FY27 Budget Size:
~₹53.5 lakh crore
- Overall Growth:
~7.5% YoY
- Capex Growth:
~15% (including grants)
- Fiscal Deficit:
~4.2% of GDP



Historical Budget Analysis & Future Outlook

The upcoming Union Budget is expected to reinforce the government's long-standing strategy of combining **capital-led growth with fiscal discipline**, positioning public investment as the primary engine of economic momentum. With limited room for aggressive fiscal expansion, the focus is likely to remain on sustaining the capex push while creating conditions for a gradual recovery in consumption. By prioritising execution over experimentation, the budget aims to preserve macro-stability, crowd in private investment, and continue to serve as a key pillar supporting India's high-growth narrative. Key highlights:

- **Centrepiece:** From FY16, when capex accounted for roughly **one-fifth of the total budget**, its share has risen consistently to **over 30.6% in FY26**.
- **Next Phase:** With defence and core infrastructure remaining dominant, the composition of spending will gradually shift towards technology, energy, and urbanisation.
- **Fiscal consolidation:** We estimate FY27 fiscal deficit to be maintained at ~4.2% of GDP, with only a marginal ~3% increase in borrowings, underscoring commitment to debt sustainability.
- **Capex-led growth intact:** We have projected Capex to grow at ~15% YoY from FY26 (RE) to FY27 (BE), likely to reach ~₹17 trillion including grants, reinforcing the public investment push.

“Capex is a Gift that keeps on Giving.”

Once a piece of Infrastructure is created, it keeps on paying not only for years but for decades.

Capital Budget 2016–2025: Following the Money

Over the past decade, India’s Union Budget has undergone a **structural transformation**, with capital expenditure steadily emerging as the centrepiece of fiscal policy. From FY16, when capex accounted for roughly **one-fifth of the total budget**, its share has risen consistently to **over 30.6% in FY26**, marking a decisive shift in how public resources are allocated.

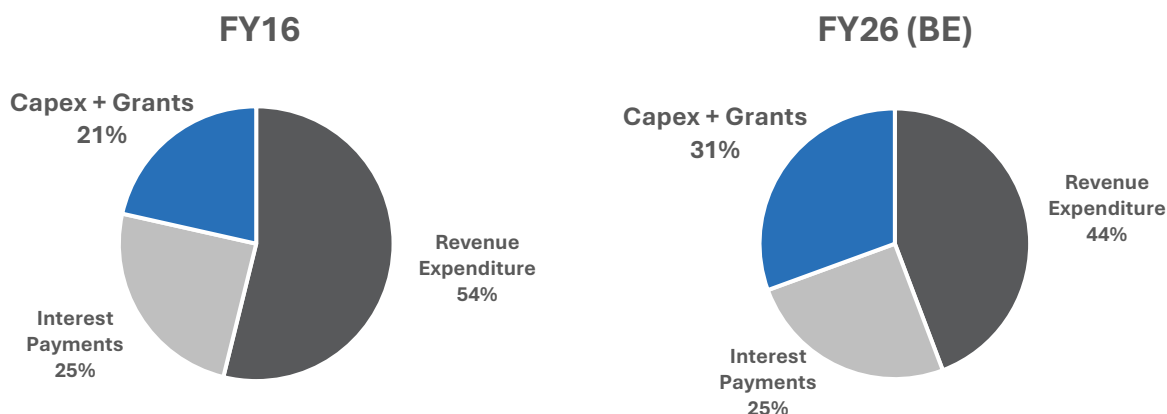


Exhibit 1: Expenditure Break-up under major headers FY16 vs FY26 (BE)

Capex and grants for capital assets has grown 4x from Rs 3.85 lakh crore in FY16 to 15.5 lakh crore in FY26 (BE). As a % of GDP capex has grown from 2.8% in FY16 to 4.3% in FY26.

Growth rates- While India’s total budget has expanded at a healthy pace over the last ten years, the composition of that growth tells the real story. **Capital expenditure has grown at a materially faster rate than revenue expenditure**, underscoring the government’s long-term focus on asset creation, infrastructure development, and productivity enhancement. Over the past decade, capex has grown at close to a **15% CAGR**, comfortably outpacing revex growth.

Expenditure	1Y	3Y	5Y	7Y	10Y
Revenue Expenditure	-0.9%	0.3%	0.6%	8.9%	8.8%
Interest Payments	12.2%	11.2%	13.4%	11.9%	11.2%
Capex + Grants	17.4%	14.0%	18.7%	17.5%	14.9%
Total Budget	7.4%	6.5%	7.6%	11.8%	11.0%

Exhibit 2: CAGR growth rates of major Expenditure headers (FY16 to FY26)

Ministry-Wise Budget Allocation Trends

Revenue Expenditure: Persistent Priorities

Excluding interest payments and transfers to states, Defence, Housing & Urbanisation, and Agriculture & Fertilisers have remained the largest revenue expenditure heads in both FY16 and FY26 (BE), indicating a high degree of persistence in revenue-side priorities.

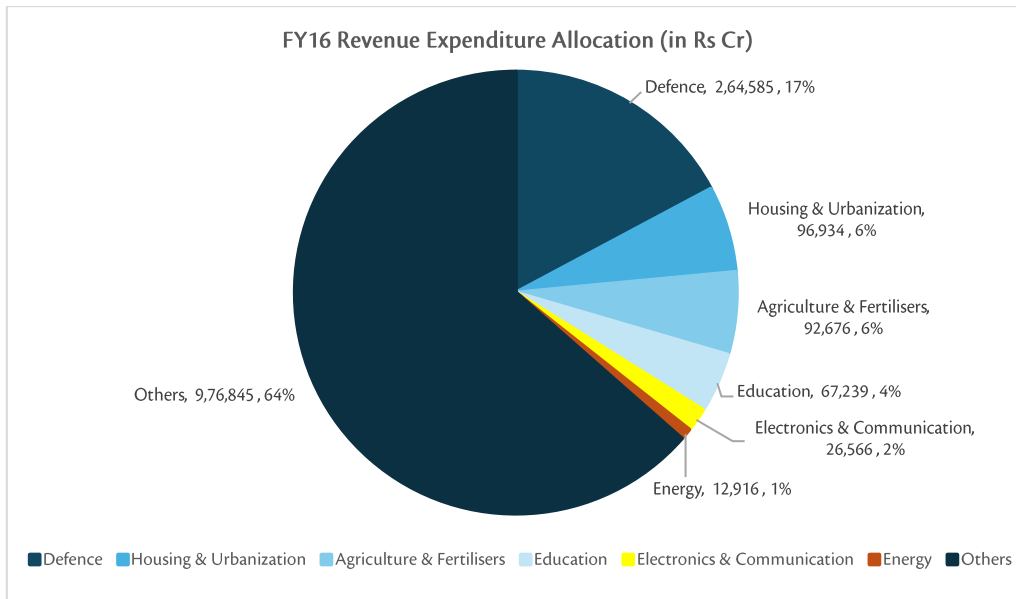


Exhibit 3: FY16 Revenue Expenditure Allocation (in Rs Cr)

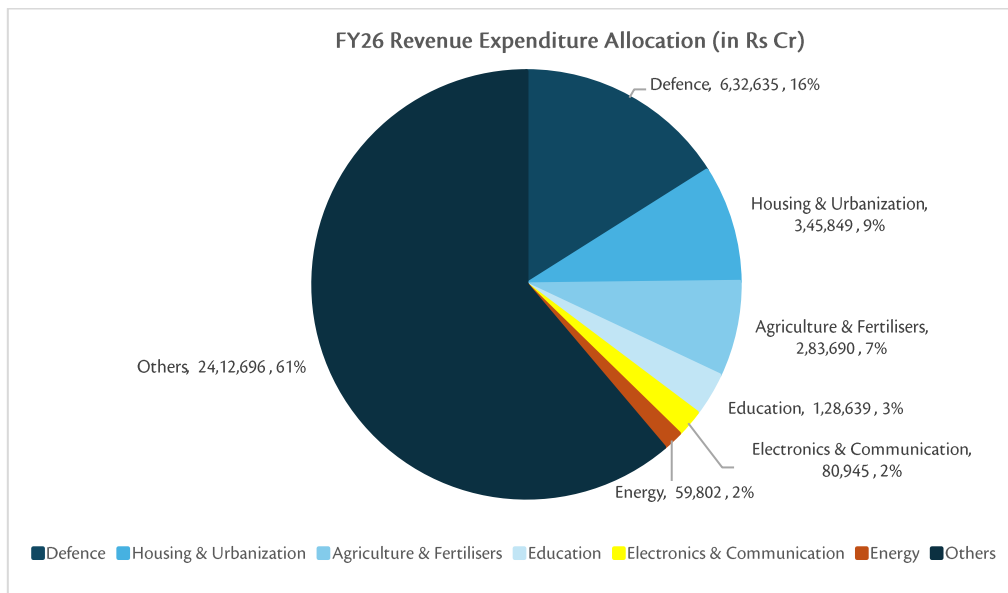


Exhibit 4: FY26 Revenue Expenditure Allocation (in Rs Cr)

- **Defence** revenue expenditure has increased from ₹2.6 lakh crore in FY16 to ₹6.3 lakh crore in FY26, translating into a ~9% CAGR over 10 years, with relatively stable and non-episodic allocations.
- **Agriculture & Fertilisers** revenue expenditure has grown at a robust ~12% CAGR over the past decade, but near-term allocations have moderated, with -10% YoY growth in FY26 (BE) and a -7% CAGR over three years. This partly reflects favourable monsoon outcomes in recent years, alongside a normalisation in fertiliser subsidy requirements after elevated outlays.
- **Housing & Urbanisation** allocations have expanded sharply over the long term, from ₹1.0 lakh crore in FY16 to ₹3.5 lakh crore in FY26, translating into a ~14% 10-year CAGR. However, the category exhibits pronounced short-term volatility, with 34% YoY growth in FY26 (BE) following a contraction in FY25 (RE). This volatility reflects scheme-based allocations and the timing of fund releases.

Revenue Expenditure: Emerging Shifts

We now focus on revenue expenditure heads that have delivered above-trend growth over the past decade. These buckets signal structural shifts in spending priorities.

- **Energy** revenue expenditure rose sharply from ₹13,000 crore in FY16 to ₹60,000 crore in FY26 (BE), translating into a ~17% CAGR over the decade, with strong momentum in the near term (~25% YoY; ~29% over three years). This reflects rising energy demand driven by economic growth, digitalisation, expanding data-centre capacity, and higher household consumption, alongside continued fiscal support for power-sector stability and energy transition initiatives.
- **Electronics & Communication** revenue expenditure increased from ₹27,000 crore in FY16 to ₹80,000 crore in FY26 (BE), implying a ~12% 10-year CAGR, despite recent moderation (-11% YoY; ~-4% over three years). Long-term growth has been driven by allocations to the Ministry of Electronics & IT, including PLI schemes, domestic electronics manufacturing, digital infrastructure, and strategic technology programmes.

We also briefly note trends in education and interest payments, which, while not high-growth buckets, remain structurally important to the revenue budget.

- **Education** revenue expenditure increased from ₹70,000 crore in FY16 to ₹1.3 lakh crore in FY26 (BE), implying a ~7% CAGR over 10 years. While growth has accelerated recently (~13% YoY; ~10% over three years), long-term expansion remains modest relative to India's demographic needs.

Capital Expenditure: Infrastructure-Led Growth

Capital expenditure is now examined across ministries, with a focus on absolute allocation levels and growth trends, to identify structural priorities in asset creation.

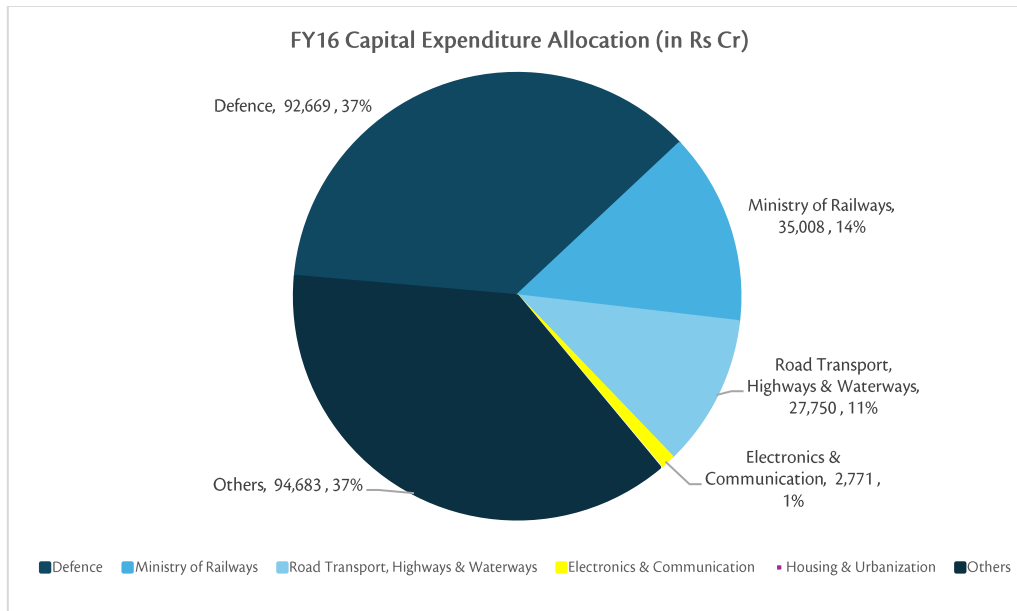


Exhibit 5: FY16 Capital Expenditure Allocation (in Rs Cr)

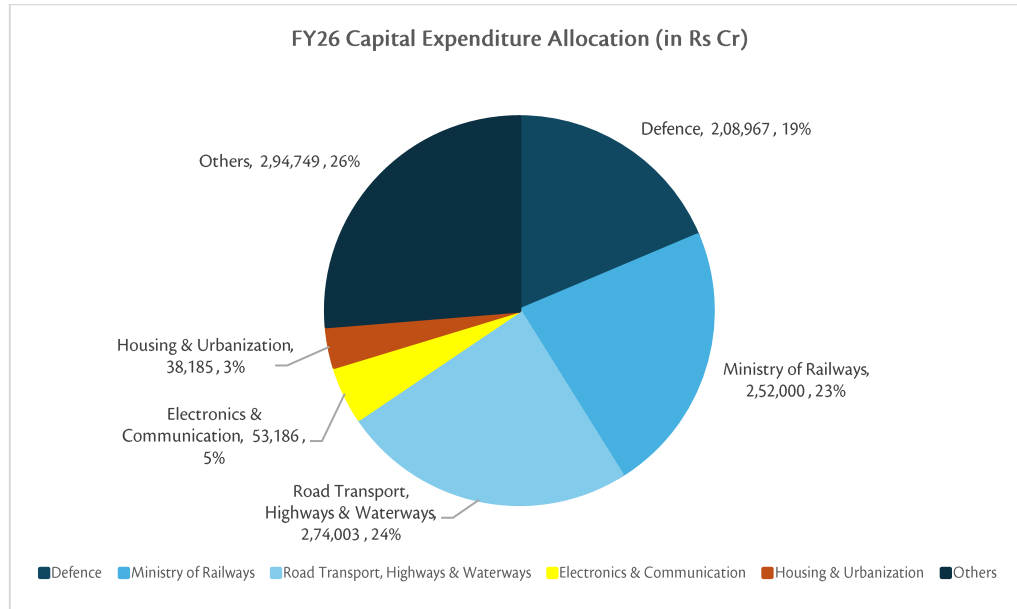


Exhibit 6: FY26 Capital Expenditure Allocation (in Rs Cr)

Road Transport, Highways & Waterways, Railways, and Defence remain the largest components of the capital expenditure budget in both FY16 and FY26 (BE), underscoring the sustained policy emphasis on infrastructure build-out and defence modernisation.

- Capital outlays on **road and transport infrastructure** have risen sharply from ₹28,000 crore in FY16 to ₹2.7 lakh crore in FY26, implying a ~26% CAGR over the past decade, though growth has moderated recently (flat YoY; ~10% over three years).
- **Railways** capex has increased from ₹35,000 crore in FY16 to ₹2.5 lakh crore in FY26, translating into a ~22% 10-year CAGR, with allocations remaining elevated despite recent stabilisation (flat YoY; ~17% over three years). This reflects sustained investments in network expansion, capacity augmentation, and modernisation.
- **Defence** capex has grown more steadily, rising from ₹93,000 crore in FY16 to ₹2.1 lakh crore in FY26, implying a ~8% CAGR over 10 years, with recent acceleration (~15% YoY), consistent with the ongoing push towards modernisation, indigenisation, and platform upgrades.

Having been sustained for over a decade, the pace of infrastructure-led capex expansion may moderate in the coming years, as large projects move closer to completion and fiscal consolidation considerations reassert themselves.

Emerging Drivers

As large infrastructure categories approach maturity, attention is increasingly shifting towards emerging capex drivers within the budget. Electronics & Communication and Housing & Urbanisation stand out as the fastest-growing capex heads over the past decade, indicating areas where incremental capital allocation is likely to be directed.

- **Electronics & Communication** capex has expanded from ₹3,000 crore in FY16 to ₹53,000 crore in FY26 (BE), implying a ~34% CAGR over 10 years. This growth has been driven by sustained investments in telecom infrastructure, including the 5G rollout by BSNL/MTNL, alongside the build-out of strategic technology capabilities. Medium-term drivers include the AI-led digital push, PLI schemes, domestic electronics manufacturing, data infrastructure, and semiconductor ecosystem development. The -31% YoY decline in FY26 (BE) reflects a reduction in one-time revival packages and the fact that large parts of the telecom rollout are nearing completion, rather than a shift in policy direction.
- **Housing & Urbanisation** capex has increased sharply from a low base of ₹1,000 crore in FY16 to ₹38,000 crore in FY26 (BE), translating into a ~75% CAGR over the past decade, with continued momentum in the recent period (~19% YoY; ~12% over three years). This reflects growing emphasis on urban infrastructure, affordable housing, and city-level asset creation, positioning the segment as a key incremental capex driver going forward.

Total Budget: Continuity in Priorities, Gradual Rebalancing

Total budget allocations largely mirror the underlying trends observed in revenue and capital expenditure, with continuity in priority sectors and similar growth dynamics. Defence, Housing & Urbanisation, Road Transport & Highways, and Railways continue to dominate total allocations in FY26 (BE), reflecting the combined impact of committed revenue spending and sustained capex support.

- **Defence** remains the single largest allocation, increasing from ₹3.6 lakh crore in FY16 to ₹8.4 lakh crore in FY26, implying a ~9% CAGR over 10 years, with steady growth across both short and medium horizons (~7% over one and three years). This reflects the dual burden of operational expenditure and modernisation-led capex.
- **Housing & Urbanisation** shows strong long-term expansion, rising from ₹97,000 crore in FY16 to ₹3.8 lakh crore in FY26, translating into a ~15% 10-year CAGR, alongside pronounced short-term volatility (~33% YoY growth in FY26 (BE)). This mirrors the episodic nature of both revenue support and capital outlays in the sector.
- **Road Transport, Highways & Waterways** allocations have grown from ₹48,000 crore in FY16 to ₹2.9 lakh crore in FY26, implying a ~20% CAGR over the decade, though recent growth has moderated (~3% YoY; ~10% over three years), consistent with signs of capex maturity.
- **Railways** has recorded one of the strongest long-term expansions, increasing from ₹35,000 crore in FY16 to ₹2.6 lakh crore in FY26, implying a ~22% CAGR, with allocations stabilising in the near term (flat YoY), reflecting a shift from expansion to consolidation and execution.
- **Energy** has seen sustained growth in total allocations, rising from ₹19,000 crore in FY16 to ₹72,000 crore in FY26, translating into a ~14% CAGR over 10 years, with strong recent momentum (~18% YoY; ~20% over three years), consistent with rising energy demand and continued policy support.

Total Budget	Absolute Numbers		CAGR		
	FY16	FY26 (BE)	1Y	3Y	10Y
Defence	3,57,254	8,41,601	6.8%	6.9%	8.9%
Housing & Urbanization	97,073	3,84,034	32.8%	7.0%	14.7%
Road Transport, Highways & Waterways	48,237	2,90,804	2.6%	10.0%	19.7%
Ministry of Railways	35,008	2,55,445	0.0%	16.3%	22.0%
Electronics & Communication	29,337	1,34,131	-20.0%	-3.5%	16.4%
Energy	19,265	72,445	17.6%	20.4%	14.2%

Exhibit 7: Total Budgetary Allocation Trends of Major Buckets

Overall, budgetary allocations reflect a high degree of continuity in fiscal priorities. With defence and core infrastructure remaining dominant, the composition of spending is gradually shifting towards technology, energy, and urbanisation, even as structural constraints from interest payments limit flexibility on the revenue side.

Methodology

The analysis of ministry-wise budgetary allocations examines both structural trends and recent spending dynamics. Long-term priorities are assessed using 10-year levels and growth, while short-term momentum is captured through 1-year and 3-year growth rates, excluding COVID-impacted years to avoid pandemic-related distortions. This framework allows a distinction between structural shifts in spending priorities and near-term tactical adjustments in allocations.

For the purpose of analysis, individual ministries and departments have been aggregated into functional spending buckets.

- **Road Transport, Highways & Waterways:** Ministry of Road Transport and Highways, Ministry of Ports, Shipping and Waterways
- **Housing & Urbanisation:** Ministry of Housing and Urban Affairs, Department of Water, Department of Rural Development

- **Defence:** Defence Services, Ministry of Defence (Civil), Defence Pensions, Police
- **Electronics & Communication:** Department of Posts, Department of Telecommunications, Ministry of Electronics and Information Technology
- **Energy:** Atomic Energy, Ministry of Power, Ministry of New and Renewable Energy
- **Education:** Department of School Education and Literacy, Department of Higher Education
- **Agriculture & Fertilisers:** Department of Agriculture and Farmers Welfare, Department of Fertilisers
- **Ministry of Railways:** Ministry of Railways

FY26 Analysis: Where We Stand Today (Till Nov'25)

With more than half the fiscal year behind us, collections up to **November 2025** offer the first reliable read on how FY26 is shaping up. At an aggregate level, receipts are tracking broadly in line with historical mid-year patterns, but the composition tells a more nuanced story.

Receipts Side

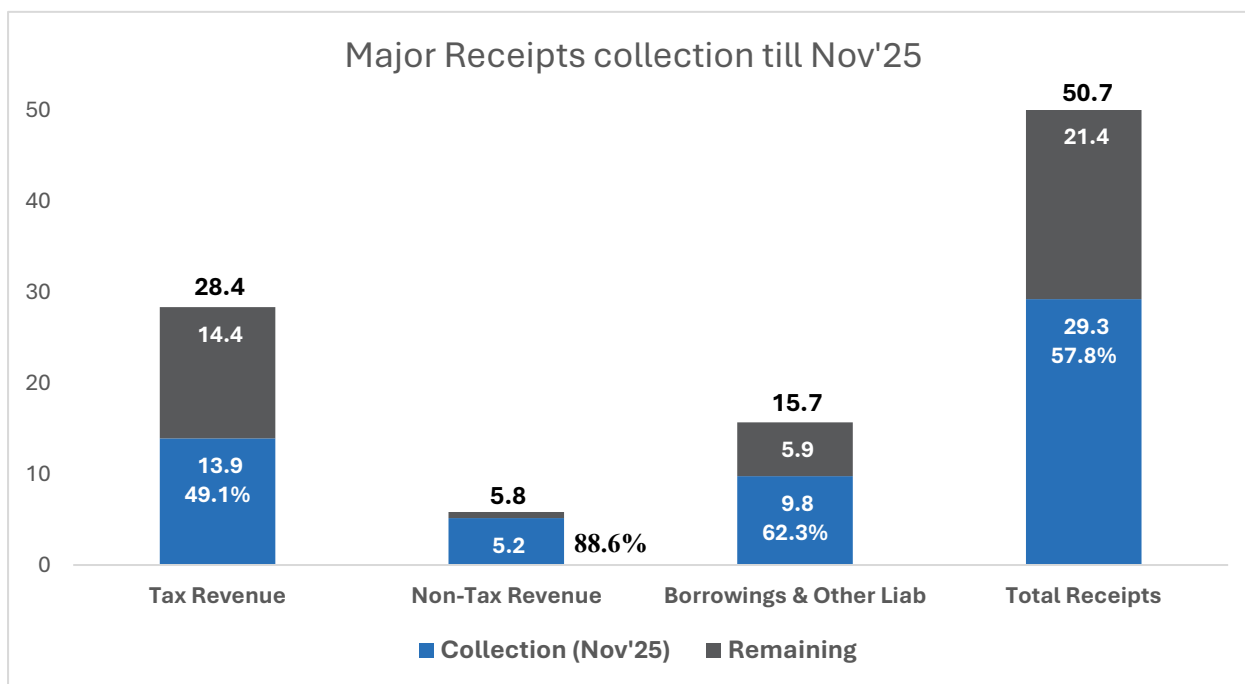


Exhibit 8: Receipts Collection till Nov'25

Rs Crore	FY26 (BE)	Collection upto Nov'25	% Completion	3-Yr Avg Collc'n (FY23, FY24 FY25)
Tax Revenue	28,37,409	13,93,946	49.1%	60.3%
Non-Tax Revenue	5,83,000	5,16,366	88.6%	82.0%
Recovery of Loans	29,000	15,210	52.4%	72.3%
Other Receipts	47,000	23,717	50.5%	25.4%
Borrowings	15,68,936	9,76,671	62.3%	54.0%
Total Receipts	50,65,345	29,25,910	57.8%	59.2%

Exhibit 9: Absolute collection till Nov'25 along with past 3-yr average collection

Growth Without Price Support: The Nominal GDP Constraint

Economic activity in H1FY26 has remained strong, with real GDP growth running at a healthy pace of **7.8%**, reflecting resilient domestic demand and sustained investment momentum. However, with inflation remaining unusually benign, nominal GDP growth in H1 FY26 has been lower than recent years at **8.8%**.

This divergence between robust real growth and subdued inflation has important fiscal implications. Since **tax collections are more closely linked to nominal activity** rather than real output, the lower nominal GDP growth has translated into moderate tax buoyancy. As a result, tax revenue collections up to November 2025 have grown at a measured pace despite strong underlying economic momentum, setting the context for the softer revenue outcomes observed this year.

- **Tax Revenue:** Tax receipts were dragged down by lower income tax and GST collections. Major headers under Tax Revenue has shown a modest growth of ~7% to 8%. Gross GST has increase by 7.7% y-o-y (Apr-Dec'25). Similarly net collection of Corporate, Non-corporate, STT and other taxes increased by 6.8% as of 17th Dec 2025 data. Union Excise Duties also showed 7.9% growth in 7MFY'26.
- **Non-Tax Revenue:** Strong non-tax revenue inflows, led by the record ₹2.7 trillion dividend transfer from the RBI, have provided meaningful support to the government's fiscal position in FY26.
- **Borrowings:** 62.3% of the budgeted borrowings were consumed, slightly above the average utilisation compared to previous fiscals but we expect it to be in-line by the end of this fiscal.

Expenditure Side

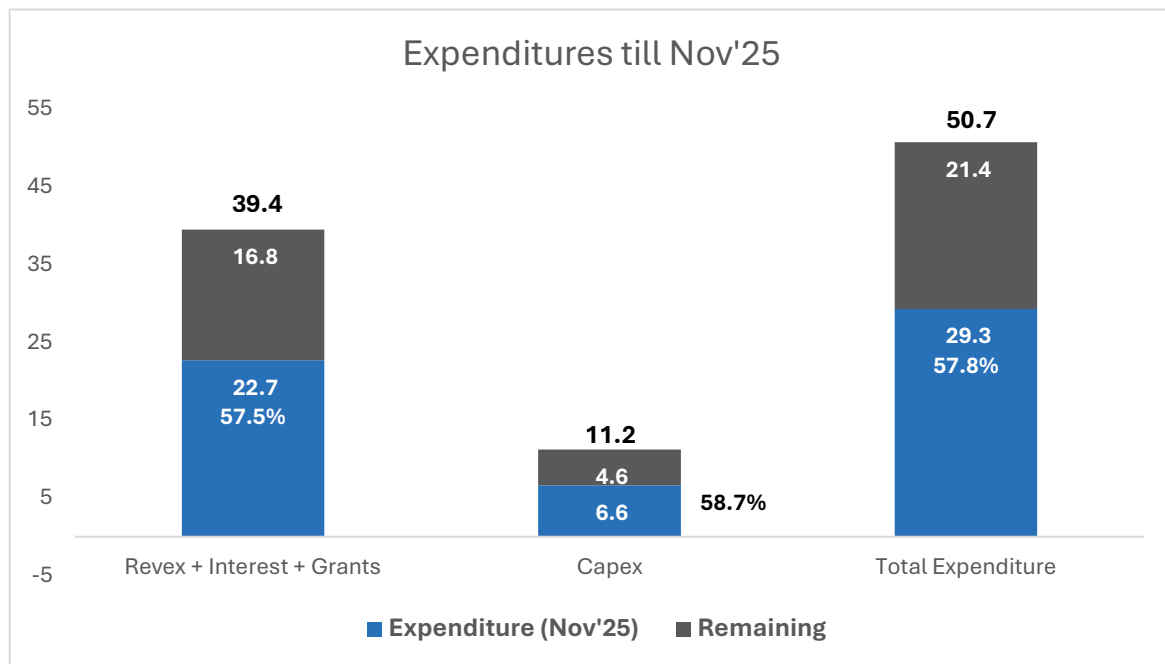


Exhibit 10: Expenditure under major headers till Nov'25

Rs Crore	FY26 (BE)	Expend (Nov'25)	% Completion	3-Yr Avg Exp
Revex + Interest + Grants	39,44,255	22,67,700	57.5%	60.5%
Capex	11,21,090	6,58,210	58.7%	54.8%
Total Expenditure	50,65,345	29,25,910	57.8%	59.2%

Exhibit 11: Expenditures till Nov'25 along with past 3-yr average expenditure

- **Revenue Expenditure (incl. Interest & Grants):** Revenue expenditure stood at 57.5% of the FY26 budget as of Nov'25, slightly below the three-year average of 60.5%. Interest payments remain broadly on track at 58.4%.
- **Capital Expenditure:** Capex execution remains strong, with 58.7% of the annual outlay utilised, ahead of the three-year average of 54.8%. The front-loaded spending highlights the government's continued emphasis on infrastructure-led growth and supports confidence in meeting the full-year capex target.

FY26 Revised Estimates

With most major revenue and expenditure trends now visible, FY26 revised estimates reflect a **measured recalibration**. The revisions are driven primarily by lower tax buoyancy observed during the year, while non-tax revenues and expenditure execution remain broadly aligned with budgeted assumptions.

Receipts

Budget Estimates	FY26 (BE)	Omni FY26 (RE)
Tax Revenue	28,37,409	27,37,876
Non-Tax Revenue	5,83,000	5,83,000
Recovery of Loans	29,000	29,000
Other Receipts	47,000	47,000
Borrowings	15,68,936	15,68,936
Total Receipts	50,65,345	49,65,812

Exhibit 12: Omni Revised Budget Estimates for FY26 (Receipts), OmniScience Insights Labs

- **Tax Revenue:** Based on collection trends up to November and historical realization patterns, we revise FY26 tax revenues to grow at ~7.1% over FY25 (RE), lower than the original budget assumption. The moderation is broad-based across major tax heads. As a result, tax revenues are revised down by ~₹1.0 lakh crore versus FY26 BE.
 - Gross GST Collection grew by 7.7% y-o-y (Apr-Dec'25 over Apr-Dec'24)
 - Corporate Tax, Non-Corporate Tax, STT and other Taxes grew at 6.8% as on 17/Dec/2025 over the same period last year.
 - Union Excise Duties grew by 7.9% in 7M FY26.

Note: We assume a conservative continuation of the current trend, with tax revenues growing at 7.1% for the remaining four months of the year. Should nominal GDP growth for FY26 align closer to the government's 8.0% estimate, tax collections could exceed our revised estimates.

- **Non-Tax Revenue and Other Receipts:** Non-tax revenues are retained broadly unchanged in the revised estimates, supported by strong dividend inflows and stable CPSE profitability. Other receipts and recoveries of loans are also assumed to close in line with budgeted levels.

Expenditure

Budget Estimates	FY26 (BE)	Omni FY26 (RE)
Revenue Expenditure	22,40,725	22,18,318
Interest Payments	12,76,338	12,76,338
Grants for Capital Assets	4,27,192	3,50,067
Capex	11,21,090	11,21,090
Total Expenditure	50,65,345	49,65,812

Exhibit 13: Omni Revised Budget Estimates for FY26 (Expenditure), OmniScience Insights Labs

As FY26 tax revenues are tracking modestly below budgeted assumptions, the adjustment is far more likely to be absorbed by revenue expenditure rather than capital outlays.

Revenue Expenditure & Grants:

Revenue expenditure is revised marginally lower to ₹22.2 lakh crore in FY26 (RE) from ₹22.4 lakh crore in BE (-1%) as we have seen only ~7-8% growth in major Tax headers from Nov'25 data. Grants will also reduce but still showing a ~16.7% increase over FY25(RE) which was ₹3 lakh crore.

Interest Payments:

Interest payments are retained unchanged at ₹12.76 lakh crore, in line with the original budget estimate. This reflects the predictable nature of debt servicing costs.

Capital Expenditure (Capex):

Capital expenditure is maintained at ₹11.21 lakh crore, underscoring the government's continued commitment to infrastructure-led growth.

Net Impact~

Overall, for FY26, budget is revised down by ~₹1.0 lakh crore to ₹49.66 lakh crore, aligning with the downward revision in receipts while preserving the quality and composition of spending.

FY27 Omni Estimates: Growth anchored in fiscal discipline

Our FY27 projections are built on a normalized macro environment, conservative growth assumptions, and a continued commitment to fiscal consolidation. With FY26 revised estimates providing a cleaner base, the FY27 framework prioritises capex-led growth, stable revenue expansion, and controlled borrowing.

Rs Crore	Omni FY26 (RE)	FY27 (Omni Estimate)	Growth (%)
Tax Revenue	27,37,876	30,11,664	10%
Non-Tax Revenue	5,83,000	6,41,300	10%
Recovery of Loans	29,000	29,000	0%
Other Receipts	47,000	47,000	0%
Borrowings	15,68,936	16,09,011	3%
Total Receipts	49,65,812	53,37,975	7.5%
Rs Crore	Omni FY26 (RE)	FY27 (Omni Estimate)	Growth (%)
Revenue Expenditure	22,18,318	22,29,409	0.5%
Interest Payments	12,76,338	14,16,735	11%
Grants for Capital Assets	3,50,067	16,91,830	15%
Capex	11,21,090		
Total Expenditure	49,65,812	53,37,975	7.5%

Exhibit 14: Omni FY27 Budget Estimates based on Omni FY26 (RE),
OmniScience Insights Labs

Receipts

Tax Revenue:

Tax revenues are projected to grow at ~10% YoY in FY27, in line with past trends and a nominal GDP growth assumption of ~9%.

Non-Tax Revenue:

Non-tax revenues are assumed to grow at ~10%, reflecting normalised dividend payouts and steady profitability of CPSEs. Unlike the previous year, the projection does not assume record transfers from the Reserve Bank of India, making the revenue base more sustainable.

Borrowings and Other Liabilities:

Borrowings are assumed to increase by a modest ~3% YoY, serving as a balancing plug while maintaining the fiscal consolidation path. This implies a FY27 fiscal deficit of ~4.1–4.2% of GDP, an improvement over FY26.

Expenditure: Capex Remains the Centrepiece

Revenue Expenditure:

Revenue expenditure is projected to grow by ~0.5%, remaining largely flat in real terms. This is consistent with the trend observed over the past five years and reflects continued control over non-capital spending.

Interest Payments:

Interest payments are assumed to grow at ~11%, in line with historical trends and higher outstanding debt.

Capital Expenditure (Capex) & Grants for Capital Assets:

Direct capital expenditure is maintained at elevated levels, reinforcing the government's focus on infrastructure-led growth. Including grants, total public capex is estimated at ~₹17 trillion in FY27.

Appendix for Past Growth Rates

These are the growth rates observed for each header from FY16 to FY26 (BE):

Receipts (CAGR)	1Y	3Y	5Y	7Y	10Y
Tax Revenue	11.0%	10.6%	14.7%	11.6%	11.6%
Non-Tax Revenue	9.8%	26.9%	22.9%	13.8%	8.8%
Recovery of Loans	11.5%	3.5%	8.0%	7.0%	3.4%
Other Receipts	42.4%	0.7%	4.4%	-9.5%	1.1%
Borrowings & Other Liab.	0.0%	-3.3%	-2.9%	13.4%	11.4%
Total Receipts	7.4%	6.5%	7.6%	11.8%	11.0%
Expenditure (CAGR)	1Y	3Y	5Y	7Y	10Y
Revenue Expenditure	-0.9%	0.3%	0.6%	8.9%	8.8%
Interest Payments	12.2%	11.2%	13.4%	11.9%	11.2%
Grants for Capital Assets	42.4%	11.7%	13.1%	12.1%	12.5%
Capex	10.1%	14.9%	21.3%	20.3%	16.1%
Total Expenditure	7.4%	6.5%	7.6%	11.8%	11.0%

Exhibit 15: Past CAGR growth rates for each header under Receipts & Expenditure (FY16 to FY26)

Summary

India's budgetary framework over the past decade reveals a clear and deliberate policy shift- away from incremental expansion of the government's size and toward **quality-led growth driven by capital expenditure**. The sustained rise in capex as a share of the total budget, alongside restrained growth in revenue expenditure, underscores a long-term strategy focused on asset creation, productivity enhancement, and crowding in private investment.

FY26 developments reaffirm this approach. While tax collections have moderated due to lower nominal GDP growth, fiscal management has remained pragmatic. Importantly, expenditure execution trends continue to reflect discipline, with capex front-loading reinforcing confidence in full-year outcomes.

Looking ahead, FY27 is expected to extend this structural playbook rather than redefine it. The projected budget framework balances **capex continuity with fiscal consolidation**, signalling a preference for stability over short-term stimulus. Public investment is going to remain the central growth lever and borrowing increases will be kept modest.

In essence, India's fiscal story is no longer about headline expansion, but about **strategic allocation**. By consistently prioritising capital formation over consumption-led spending, the budget continues to act as a foundational pillar of India's high-growth narrative- one built on durability, discipline, and long-term intent.

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