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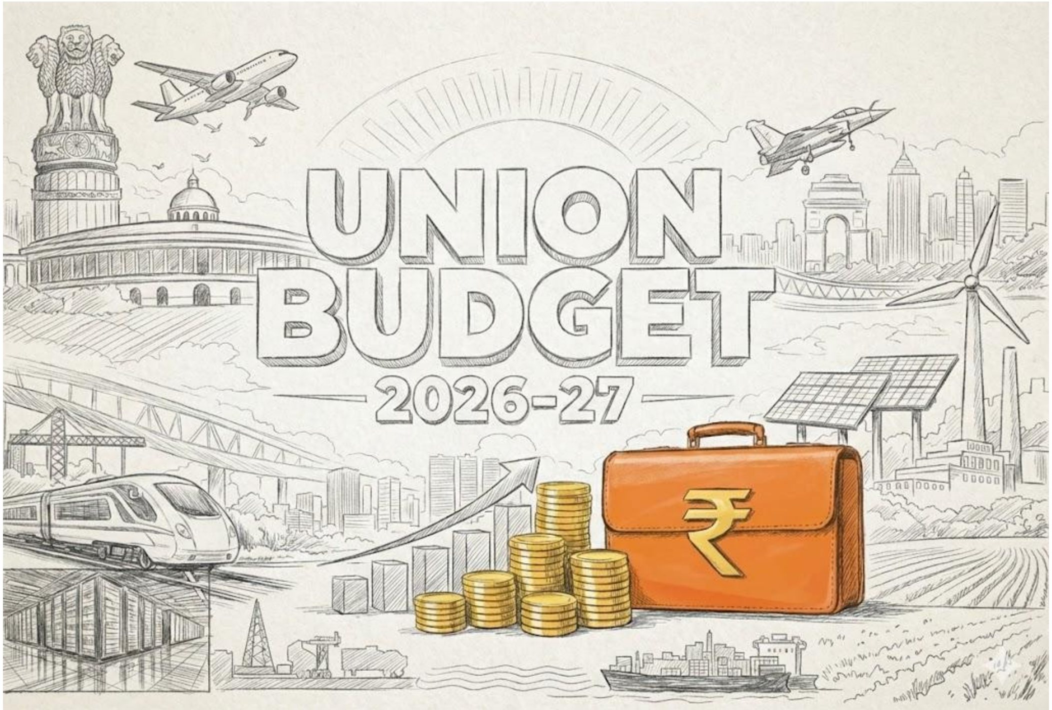
Staying the Course: Capex-Led Growth with Fiscal Discipline



FY27 Budget: Capex at 4.4% of GDP, Fiscal Deficit at 4.3%

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Staying the Course: Capex-Led Growth with Fiscal Discipline

Over the past decade, the government's expenditure mix has undergone a clear and deliberate shift, underscoring a structural pivot towards investments in capital assets for long-term sustainable growth.

The FY27 Budget reinforces this trajectory, with a renewed emphasis on capital formation signalling the government's continued conviction that durable growth, crowding-in of private investment, and macro stability are best achieved through sustained public capex rather than short-term fiscal stimulus. As illustrated in the Exhibit 1, capex plus grants as a share of the budget has risen steadily- from ~21–22% in the FY16 to over **32% in FY27 (BE).**

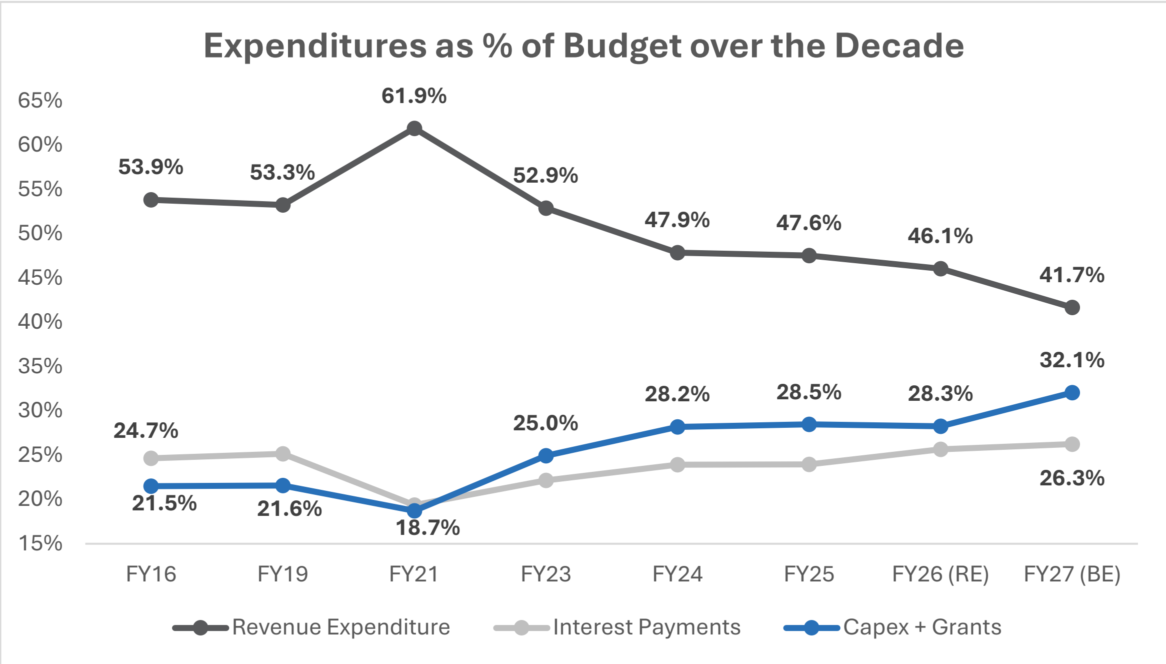

Exhibit 1: Composition of Budget Expenditure (% of Budget), Capex Gains Share as Revenue Expenditure Moderates

This divergence highlights the stark re-prioritisation underway: **away from consumption-heavy spending and towards asset creation and long-term growth multipliers.**

Importantly, this capex expansion has not come at the cost of fiscal discipline:

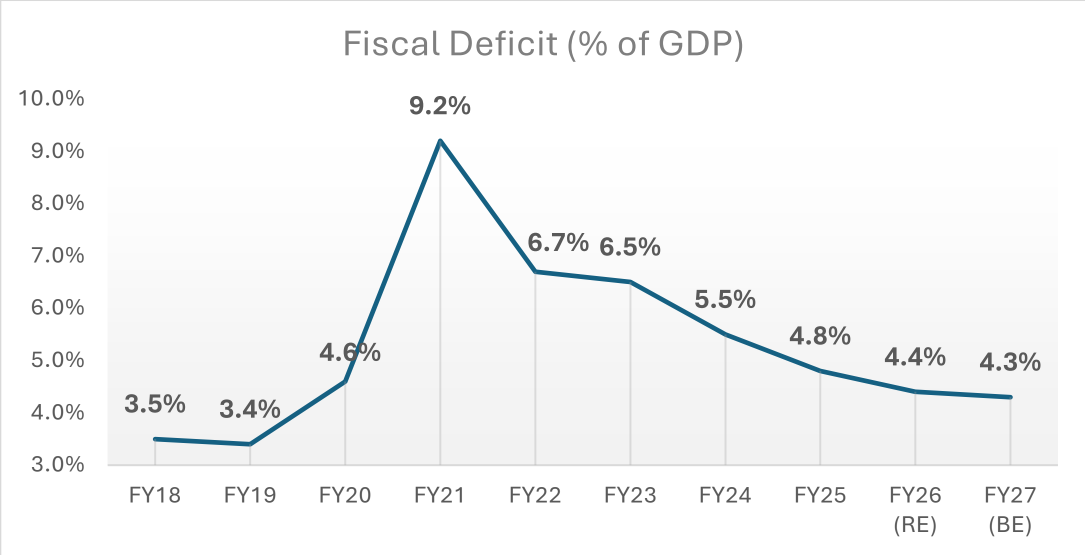

Exhibit 2: Fiscal Deficit (% of GDP) declining over the years

FY27 Budget Key Highlights

1) **Nominal GDP** for FY27 is projected to grow by **10.1%**, with the economy estimated at **₹393 lakh crore.**

2) The government has set a **fiscal deficit target of 4.3% of GDP** for FY27, reinforcing its commitment to fiscal consolidation while continuing to support growth.

3) **Capital expenditure** is budgeted at **₹12.2 lakh crore in FY27 (BE)**, representing an **11.5% year-on-year increase**. When grants for capital assets are included, total public capex rises to **₹17.14 lakh crore**, implying a **22.1% increase over FY26 (RE).**

4) **Total capex including grants** is estimated at **~4.4% of GDP**, underscoring the continued emphasis on infrastructure-led investment.

5) The government's fiscal focus has increasingly shifted towards **debt sustainability**, with the **debt-to-GDP ratio** estimated at **56.1% in FY26**, expected to decline to **55.6% in FY27**. Over the medium term, the debt ratio is targeted to glide down to **~50% (±1%) by FY31.**

Allocation across Omni Growth Vectors - Budgetary Support to Key Structural Themes

Capex allocation in FY27 continues to be concentrated in core infrastructure and strategic sectors. Let's look at major growth vectors for which capex has been allocated & growth rates:

Capex Budget	FY27 (BE)	% Budget	1Y CAGR	5Y CAGR	10Y CAGR
Road Transport Waterways (Mobility)	2,95,367	24.2%	8.1%	21.0%	21.7%
Railways (Rail & Mobility)	2,77,830	22.7%	10.3%	18.8%	19.9%
Defence (Strategic Defence)	2,52,282	20.6%	18.2%	10.7%	9.7%
Housing & Urbanization	35,290	2.9%	5.5%	6.2%	7.9%
Electronics & Communication	48,923	4.0%	93.0%	60.7%	27.9%
Others	3,12,129	25.5%	4.6%	11.8%	15.0%
Grand Total	**12,21,821**	**100%**	**11.5%**	**15.6%**	**15.7%**

Exhibit 3: Capex allocation across key Growth Vectors in Budget FY27 (BE) & past growth-rates

Defence registering a robust ~17.6% YoY increase despite capex execution already overshooting budgeted levels in FY26 (RE), underscoring the sustained focus on modernisation and indigenisation.

Railways and Road Transport, Highways & Waterways also witnessed healthy growth on a high base, with allocations rising by ~10.3% and ~8.1% YoY, respectively, reflecting continued prioritisation of network expansion, capacity augmentation, and logistics efficiency.

Electronics, the government's policy support remains strong, marked by the launch of the **India Semiconductor Mission (ISM 2.0)** and a significant enhancement in the budgetary outlay for the Electronics Components Manufacturing Scheme (ECMS) from ₹22,919 crore to ₹40,000 crore.

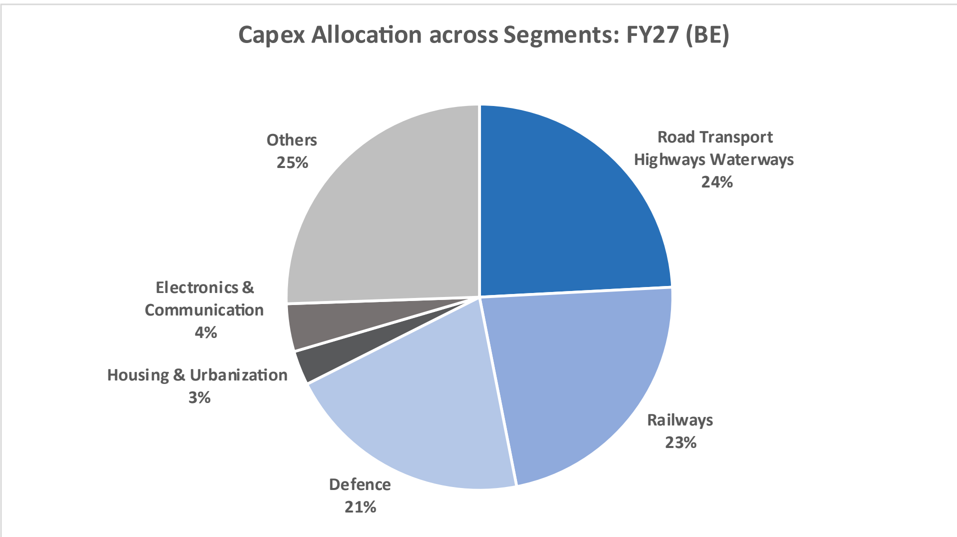

Exhibit 4: Capex allocation across largest & high-growth Segments

Collectively, these top three sectors- Roads (Mobility), Railways, and Defence- account for ~67.6% of total budgeted capex, highlighting the government's ongoing emphasis on infrastructure-led growth and strategic capability building.

Key Highlights for Omni Growth Vectors

INFRASTRUCTURE:

a) Establishment of **new Dedicated Freight Corridors** connecting Dankuni in the East, to Surat in the West.

b) Operationalising **20 new National Waterways** connecting mineral rich areas, industrial centres and ports.

c) Launch a Coastal Cargo Promotion Scheme to increase the share of inland waterways and coastal shipping from **6% to 12%** by 2047.

d) Setting up **Infrastructure Risk Guarantee Fund** to provide prudently calibrated partial credit guarantees to lenders.

e) **'Growth Connectors' - 7 High-Speed Rail corridors** between cities - Mumbai-Pune, Pune-Hyderabad, Hyderabad-Bengaluru, Hyderabad-Chennai, Chennai-Bengaluru, Delhi-Varanasi, VaranasiSiliguri - the same can create an ordering opportunity of **~₹ 7 lakh crore** over the long term.

ENERGY:

a) ₹20,000 crore Carbon Capture Utilization and Storage CCUS scheme to support decarbonisation of energy-intensive sectors.

b) Basic Customs Duty (BCD) exemption on sodium antimonate imports for solar glass manufacturing.

c) BCD exemption on capital goods for critical minerals processing in India.

d) Extended BCD exemption on capital goods for lithium-ion cell manufacturing (energy storage).

e) BCD exemption for nuclear power project imports extended till 2035, applicable across capacities.

f) Full excise duty exemption on biogas value in biogas-blended CNG.

BANKING & FINANCIAL SERVICES:

a) **High-Level Committee on Banking** to be set up for *Viksit Bharat*, aligned with India's next growth phase.

b) **₹100 crore incentive** for **single municipal bond issuances above ₹1,000 crore**; AMRUT-linked scheme to continue.

c) **Introduction of market-making framework and total return swaps** for the corporate bond market.

FY27 Budget: Capital Formation Over Consumption

The FY27 Budget continues to prioritise capital formation

- **Capital expenditure** is budgeted at **Rs 12.2 lakh crore**, translating into **11.5% YoY growth** and once again outpacing overall budget expansion. Importantly, when grants for capital assets are included, total public capex rises by **~22% YoY to ~Rs 17.1 lakh crore**, reaffirming the government's sustained emphasis on infrastructure-led growth.

Particulars	2025-26 (RE)	2026-27 (BE)	1-Yr Growth (%)
Tax Revenue	26,74,661	28,66,922	7.2%
Non-Tax Revenue	6,67,662	6,66,228	-0.2%
Recovery of Loans	30,190	38,397	27.2%
Other Receipts	33,837	80,000	136.4%
Borrowings & Other Liab	15,58,492	16,95,768	8.8%
Total Receipts	**49,64,842**	**53,47,315**	**7.7%**

Particulars	2025-26 (RE)	2026-27 (BE)	1-Yr Growth (%)
Revenue Expenditure	22,86,598	22,28,820	-2.5%
Interest Payments	12,74,338	14,03,972	10.2%
Grants for Capital Assets	3,08,151	4,92,702	59.9%
Capex	10,95,755	12,21,821	11.5%
Total Expenditure	**49,64,842**	**53,47,315**	**7.7%**

Exhibit 5: Union Budget FY27 (BE) Y-o-Y growth (%) over FY26 (RE)

- In contrast, **revenue expenditure** is budgeted to decline by ~2.5% YoY, following a modest uptick in FY26 (RE). This moderation reflects the effort to rebalance the expenditure mix away from consumption-oriented spending.

- **Interest payments** are projected to grow by 10.2% YoY, remaining a predictable and largely inflexible element of the fiscal framework.

- On the receipts side, **Tax revenues** are budgeted to grow by 7.2% over FY26 (RE), materially below the government's nominal GDP growth assumption of ~10% for FY27. This conservative stance on tax buoyancy leaves room for potential upside should nominal growth translate more effectively into tax collections during the year.

- **Non-tax revenues** appear flat on a revised-estimate basis, despite implying a ~14% increase over FY26 (BE). This apparent stagnation is largely a base effect, driven by higher-than-anticipated dividend transfers in FY26, which elevated the comparison base. At an absolute level, non-tax revenues have been maintained, indicating normalisation rather than any dilution.

- **Borrowings and other liabilities** are budgeted to rise by 8.8% YoY, consistent with the ongoing fiscal consolidation path.

Overall, the FY27 Budget reflects a measured policy mix- strong support for capital expenditure, restraint on revenue spending, and a cautious approach to revenue assumptions- allowing growth objectives to be pursued without compromising fiscal discipline.

FY27 Budget vs Omni Estimates: Broadly Aligned

A comparison of the FY27 Budget with Omni's pre-budget estimates (Report link) indicates strong directional convergence. The FY27 Budget reinforces the same fiscal playbook articulated in Omni's pre-budget framework- **Sustained Capital investment and restraint on revenue expenditure,** highlighting continuity in strategy.

Particulars	2026-27 (Omni BE)	2026-27 (BE)
Tax Revenue	30,11,664	28,66,922
Non-Tax Revenue	6,41,300	6,66,228
Recovery of Loans	29,000	38,397
Other Receipts	47,000	80,000
Borrowings & Other Liab	16,09,011	16,95,768
Total Receipts	**53,37,975**	**53,47,315**

<table>
<tr><th>Particulars</th><th>2026-27 (Omni BE)</th><th>2026-27 (BE)</th></tr>
<tr><td>Revenue Expenditure</td><td>22,29,409</td><td>22,28,820</td></tr>
<tr><td>Interest Payments</td><td>14,16,735</td><td>14,03,972</td></tr>
<tr><td>Grants for Capital Assets</td><td rowspan="2">16,91,830</td><td>4,92,702</td></tr>
<tr><td>Capex</td><td>12,21,821</td></tr>
<tr><td>Total Expenditure</td><td>53,37,975</td><td>53,47,315</td></tr>
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Exhibit 6: Omni FY27 Estimates as compared to actual FY27 Budget Estimates

FY26 (RE):

FY26 revised estimates reflect a modest recalibration of the budget, driven primarily by shifts within the receipts mix rather than any material deviation from the fiscal consolidation path.

Even after ~Rs 1 lakh crore reduction in receipts, core capital expenditure remained largely intact. **Capex utilisation was 99.3%,** highlighting the sustained priority accorded to infrastructure-led spending.

Revenue expenditure saw a modest uptick of ~2% on a revised basis, while **interest payments** remained broadly stable. **Grants for capital assets** were scaled back and acted as the primary adjustment lever during the year.

Particulars	2025-26 (BE)	2025-26 (RE)
Tax Revenue	28,37,409	26,74,661
Non-Tax Revenue	5,83,000	6,67,662
Recovery of Loans	29,000	30,190
Other Receipts	47,000	33,837
Borrowings & Other Liab	15,68,936	15,58,492
Total Receipts	**50,65,345**	**49,64,842**

Particulars	2025-26 (BE)	2025-26 (RE)
Revenue Expenditure	22,40,725	22,86,598
Interest Payments	12,76,338	12,74,338
Grants for Capital Assets	4,27,192	3,08,151
Capex	11,21,090	10,95,755
Total Expenditure	**50,65,345**	**49,64,842**

Exhibit 7: Comparison of FY26 Budget Estimates and Actual FY26 (RE)

Tax revenues came in below budgeted levels, reflecting softer income tax and GST buoyancy amid slower-than-expected nominal GDP expansion through the year. This shortfall, however, was largely offset by stronger **non-tax revenues**, led by higher dividend transfers and CPSE-related inflows.

Borrowings and other liabilities tracked closely with budgeted levels. This allowed the fiscal deficit to be maintained at the targeted 4.4% of GDP.

Overall, FY26 (RE) outcomes point to a preference for expenditure mix- **preserving capex quality**, without compromising fiscal discipline.

Below was our expected outcome which is broadly aligned with the actual revised estimates:

Particulars	2025-26 (BE)	2025-26 (Omni RE)	2025-26 (RE)
Tax Revenue	28,37,409	27,37,876	26,74,661
Non-Tax Revenue	5,83,000	5,83,000	6,67,662
Recovery of Loans	29,000	29,000	30,190
Other Receipts	47,000	47,000	33,837
Borrowings & Other Liab	15,68,936	15,68,936	15,58,492
Total Receipts	**50,65,345**	**49,65,812**	**49,64,842**

Particulars	2025-26 (BE)	2025-26 (Omni RE)	2025-26 (RE)
Revenue Expenditure	22,40,725	22,18,318	22,86,598
Interest Payments	12,76,338	12,76,338	12,74,338
Grants for Capital Assets	4,27,192	3,50,067	3,08,151
Capex	11,21,090	11,21,090	10,95,755
Total Expenditure	**50,65,345**	**49,65,812**	**49,64,842**

Exhibit 8: Comparison of FY26 Budget Estimates, Omni Revised Estimates & Actual RE

Summary

Budget FY27 focuses on the structural continuity in India's fiscal strategy, with a clear emphasis on capital expenditure-led growth over consumption-driven spending. Our analysis highlights how the government has steadily reoriented the expenditure mix over the past decade- raising capex (including grants) to over 32% of total expenditure and ~4.4% of GDP in FY27, while gradually moderating revenue expenditure. Importantly, this shift has been achieved without compromising fiscal discipline, as reflected in the continued glide path of the fiscal deficit and a stabilising debt trajectory.

Overall, the budget underscores the government's sustained conviction that durable growth and private investment crowd-in are best supported through persistent public capex, a theme that remains central to our assessment.

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