



panorama

February 2026



## Budget targets strong capex growth, higher rural spending, and larger transfers to local bodies

- India's fiscal consolidation has largely been driven by a decline in expenditure (% of GDP)
- Expect ~20 bps of fiscal consolidation annually to reach the FY31 debt-to-GDP target of 50%  $\pm$ 1%
- Total capex growth target remains robust at 20% YoY for FY27, though actual achievement is likely to be lower
- Rural scheme allocations rise sharply, but actual spending on certain schemes may fall short of budgeted levels
- PSU capital expenditure driven by petroleum, power and housing/urban affairs sectors
- PLI outlay up for auto and white goods, flat for telecom, food processing and pharma, and down for electronics
- Grants to local bodies rise, with part of the spending linked to sanitation, waste, and water management



## High borrowings and the likely end of the rate-cut cycle are keeping yields elevated

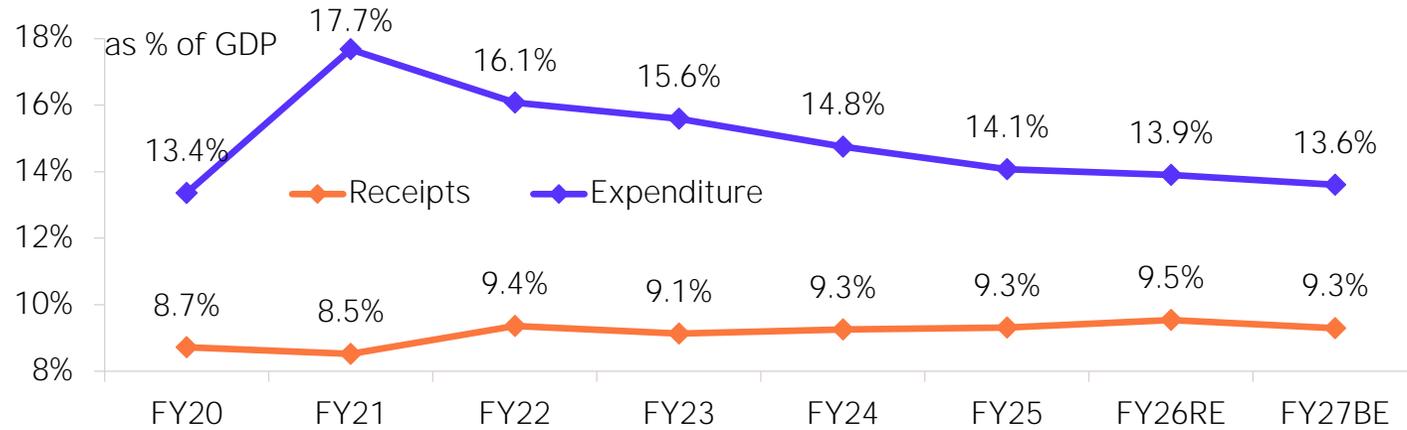
- Share of fiscal deficit financed through market borrowings has picked up
- Small savings' role in deficit financing has peaked as collections plateau amid a shift to the new tax regime
- Rise in net borrowings and higher redemptions lead to a steep increase in gross borrowings for FY27
- The RBI absorbed large G-sec supply via OMOs over the past year, while bank demand remained muted
- Increase in the CD ratio has led to a decline in SLR and, consequently, a reduction in banks' demand for G-sec
- The OIS market has begun pricing in a rate hike, reflected in the rise of the 1-year OIS rate one year forward
- Yields may ease near-term on account of RBI OMOs and rate cuts, but stay high over the longer term

# Budget & Debt Market



# India's fiscal consolidation driven by spending cuts, not receipts growth **360 ONE**

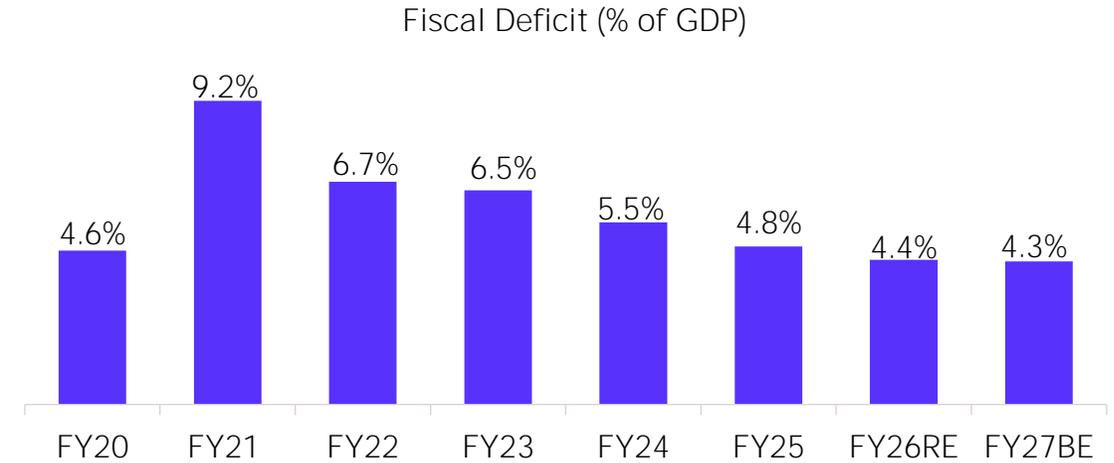
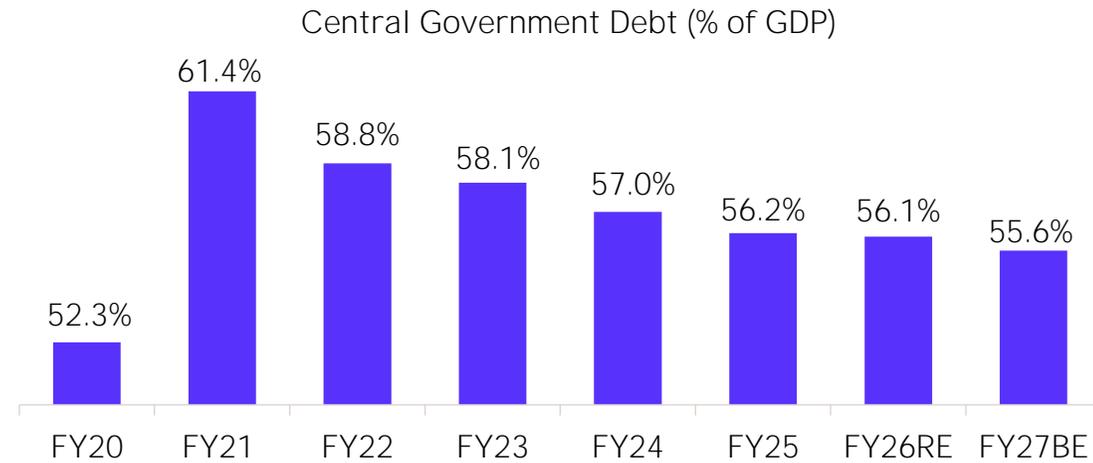
The central government targets lowering the debt-to-GDP ratio to 55.6% by FY27 and further to 50% ±1% by FY31



India's fiscal consolidation has largely been driven by a decline in expenditure (as a % of GDP), falling from a peak of 17.7% in FY21 to 13.6% in FY27BE

The Budget targets reducing the central government's debt-to-GDP ratio to 55.6% in FY27 from 56.1% in FY26, requiring a 10-bps fiscal deficit consolidation

Going ahead, we expect ~20 bps of fiscal consolidation annually to reach the FY31 target of 50% ±1% debt-to-GDP

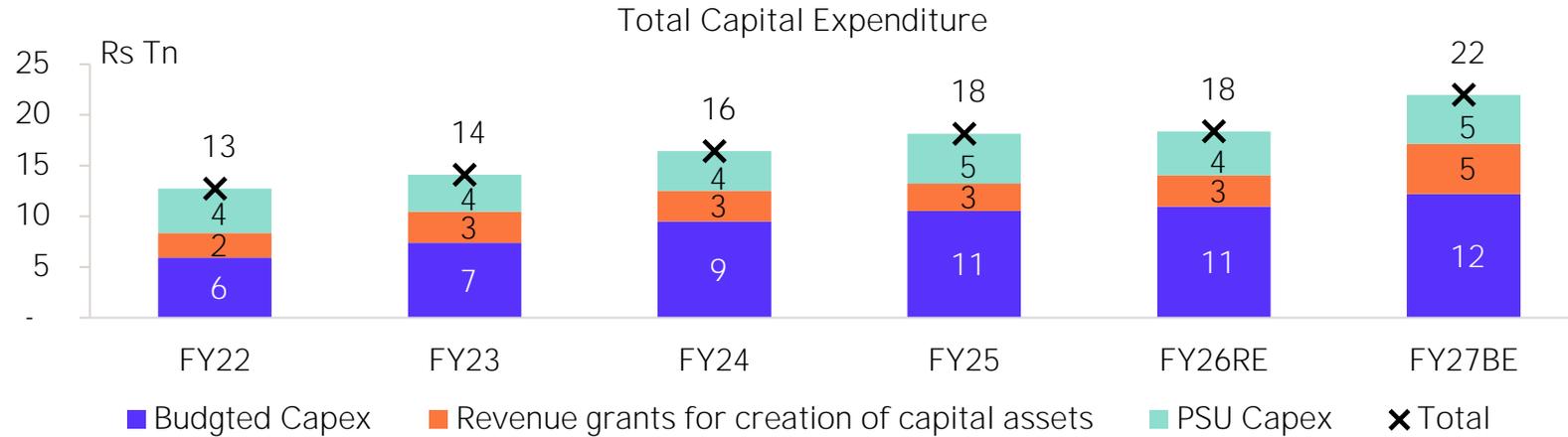


Source: Budget Documents, Ministry of Finance, 360 ONE Asset Research

Note: RE – Revised Estimates, BE – Budget Estimates

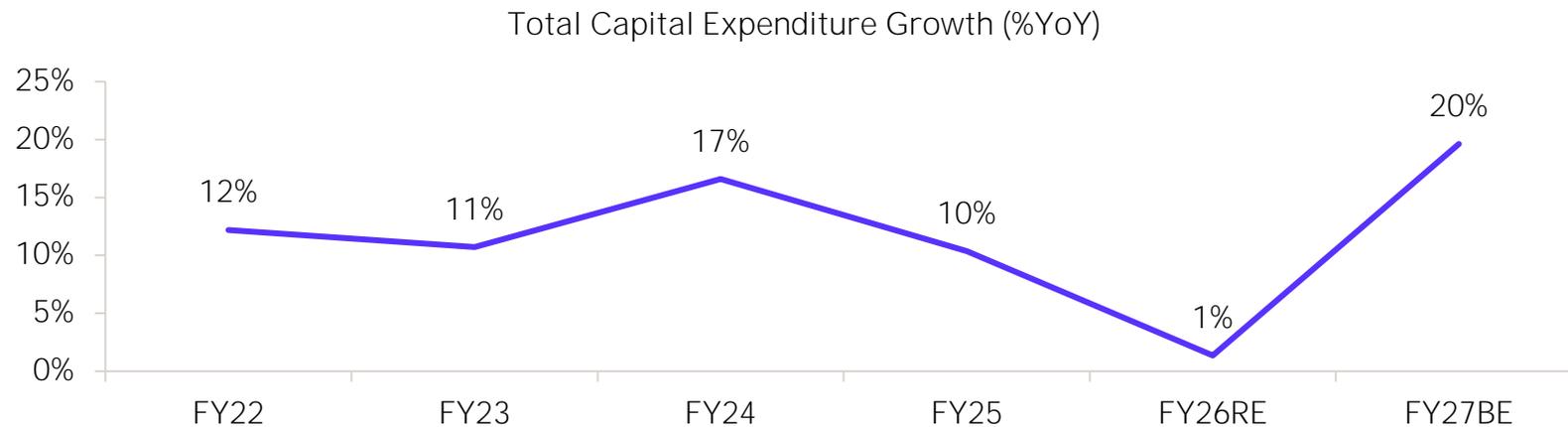
# Total capex growth target robust at 20% YoY for FY27

However, revenue grants for the creation of capital assets appear overstated, and the actuals could be lower



The total capital expenditure, including budgeted capex, revenue grants for capital asset creation, and capex by public sector undertakings (PSU), is targeted at a substantial Rs 22 tn in FY27BE

However, the actual outlay under the revenue grants for capital asset creation could be lower than budgeted (discussed in the next slide)



Total capex growth in FY26RE was subdued at 1% YoY, but is budgeted to accelerate to 20% YoY in FY27, the highest in recent years, although actual achievement may be lower

# Rural sector schemes witness a significant jump in allocation

However, actual spending under the Jal Jeevan Mission and the employment guarantee schemes could be lower than budgeted

Major Rural Schemes	Rs Bn			% YoY		
	FY25	FY26	FY27	FY25	FY26	FY27
	A	RE	BE	A	RE	BE
Pradhan Manti Gram Sadak Yojana	179	110	190	16%	-38%	73%
Pradhan Mantri Awas Yojna (PMAY) - Rural	323	325	549	48%	1%	69%
Jal Jeevan Mission	226	170	677	-68%	-25%	298%
National Rural Employment Guarantee Program	858	880	300	-4%	3%	-66%
VB - G RAM G Scheme			957			
National Rural Livelihood Mission	147	160	192	6%	9%	20%
Pradhan Mantri Kisan Samman Nidhi (PM-Kisan)	661	635	635	8%	-4%	0%
<b>Total</b>	<b>2,395</b>	<b>2,280</b>	<b>3,500</b>	<b>-12%</b>	<b>-5%</b>	<b>53%</b>

The government has budgeted a significant increase in rural sector-oriented schemes

The outlay under rural programs such as the National Rural Employment Guarantee Act (NREGA) and its replacement, the VB-G RAM G scheme, along with the Jal Jeevan Mission (JJM), includes a component for capital asset creation referenced earlier

However, states may take time to notify the new VB-G RAM G scheme, which could result in actual spending being lower than the budgeted amount

Additionally, the government has overbudgeted the JJM scheme over the past two years, with actual spending falling well below allocations, and this trend could repeat this year

As a result, actual rural expenditure and revenue grants for capital creation in FY27 may be lower than budgeted

# PSU capital expenditure driven by petroleum, power and housing sectors

PSE capex is budgeted to grow 11% YoY in FY27, recovering from an 11% contraction in FY26RE

Major Heads - CPSE Capex	Rs Bn			%YoY		
	FY25	FY26	FY27	FY25	FY26	FY27
	A	RE	BE	A	RE	BE
Ministry of Petroleum and Natural Gas	1,689	1,300	1,338	23%	-23%	3%
Ministry of Power	766	858	1,018	41%	12%	19%
Ministry of Housing and Urban Affairs	385	674	726	65%	75%	8%
Ministry of New and Renewable Energy	315	361	429	-17%	15%	19%
Ministry of Steel	107	175	251	5%	64%	44%
Ministry of Coal	317	228	247	8%	-28%	9%
Department of Food and Public Distribution	761	157	214	58%	-79%	36%
Ministry of Railways	170	130	150	-13%	-24%	15%
Atomic Energy	110	125	132	9%	13%	5%
Ministry of Ports, Shipping and Waterways	78	139	127	89%	79%	-9%
<b>Total</b>	<b>4,886</b>	<b>4,339</b>	<b>4,838</b>	<b>25%</b>	<b>-11%</b>	<b>11%</b>

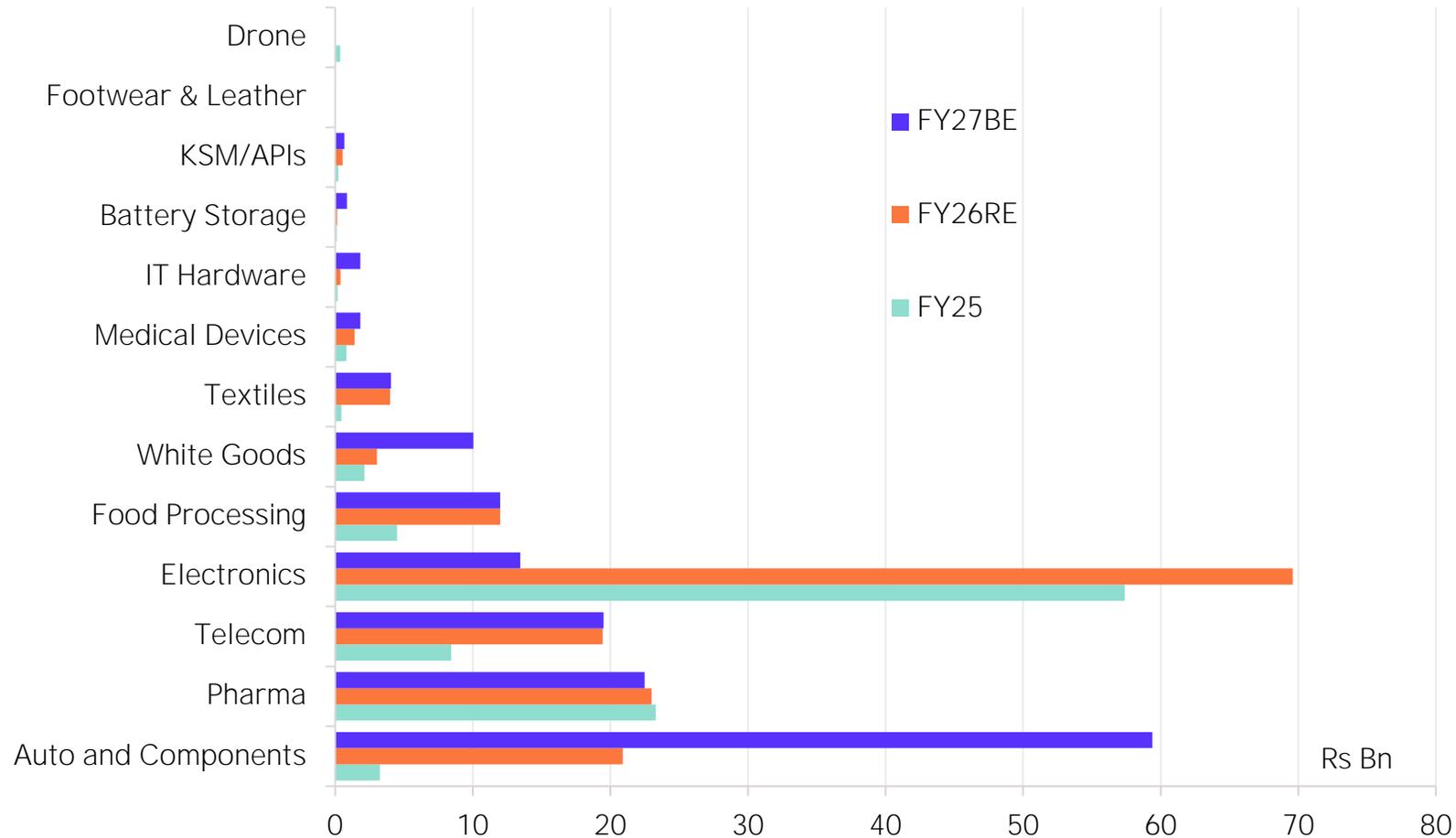
Petroleum, power, and housing/urban affairs account for the largest share of PSU capex, while capex by steel sector enterprises and the Department of Food and Public Distribution also records strong growth

Overall, PSU capex is budgeted to rise 11% YoY in FY27, recovering from an 11% contraction in FY26

# PLI outlay picks up for auto and white goods sectors

Outlay remains flat for Telecom, Food Processing and Pharma, while significantly falling for electronics

Production Linked Incentives Scheme - Expenditure



The total outlay for the Production-Linked Incentives (PLI) scheme is budgeted at Rs 146 bn for FY27 (FY26 RE: Rs 154 bn)

The Auto and components sector accounts for the largest share, with an outlay of Rs 59 billion

Electronics sees a sharp decline in allocation, dropping to Rs 13 bn in FY27BE from Rs 69 bn in FY26RE

In contrast, the White Goods sector records an increase in allocation, alongside IT Hardware, Medical Devices, and Battery Storage

# Grants to local bodies have increased under the 16<sup>th</sup> FC

Expenditure on sanitation, solid waste, and water management set to rise

Finance Commission Grants	Rs Bn		
	FY25	FY26	FY27
	A	RE	BE
Grants for Urban local bodies - Basic Component	193	260	373
Grants for Urban local bodies - Special Infrastructure Component	-	-	60
Grants for Urban local bodies - Urbanisation Premium	-	-	20
Grants for Rural local bodies	413	543	559
Grants-in-Aid for State Disaster Response Fund	203	243	226
Grants-in-Aid for State Disaster Mitigation Fund	50	93	56
Grants for Health Sector	106	252	-
Grants for Incubation of New Cities	-	-	-
Grants for Shared Municipal Services	-	2	-
Post Devolution Revenue Deficit Grants	245	137	-

The 16th Finance Commission (FC) has recommended grants of Rs 4.4 tn for rural local bodies and Rs 3.6 tn for urban local bodies over a five-year period

These grants are split into basic (80%) and performance-based (20%) components

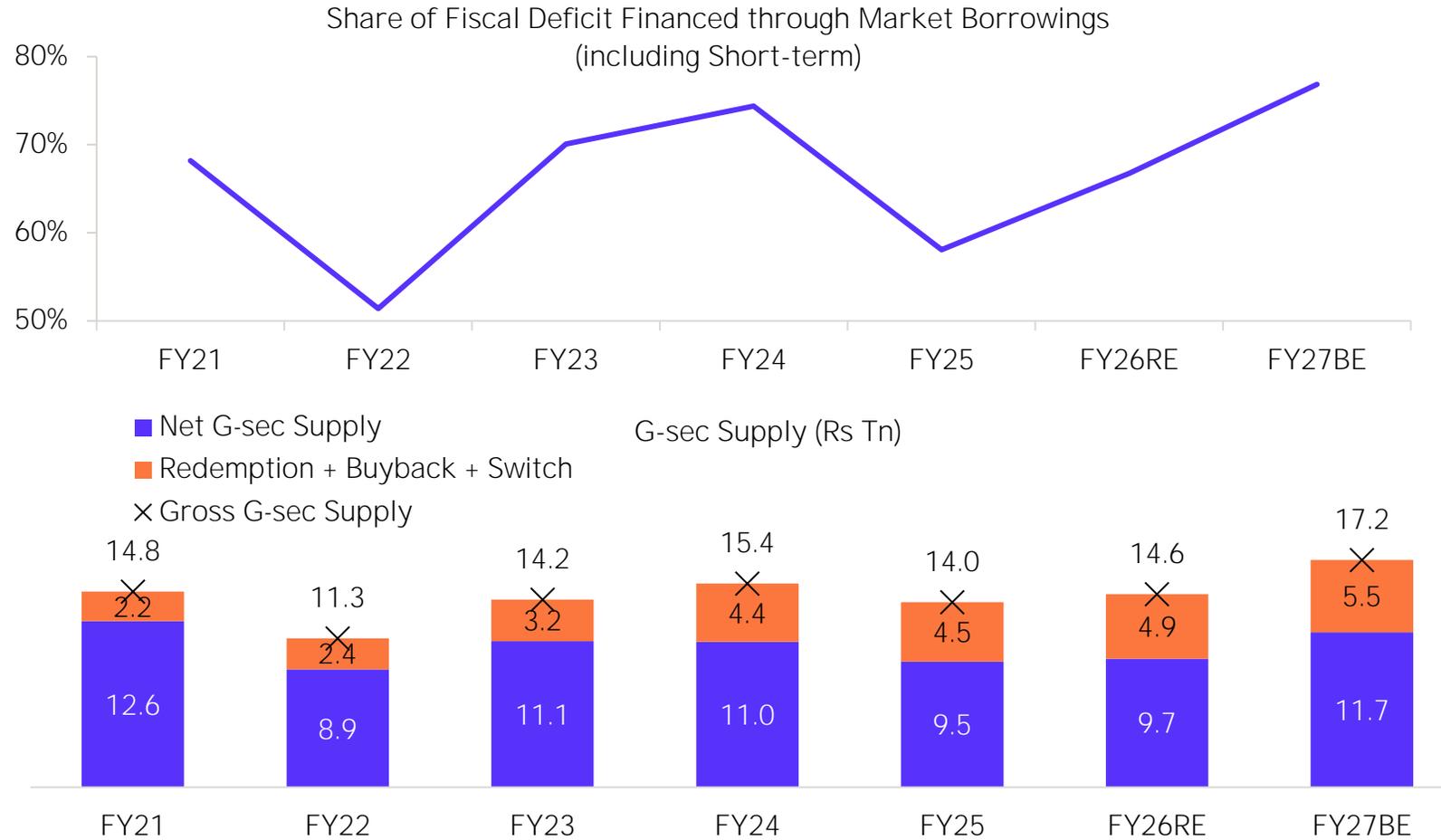
50% of the basic grant will be untied, while the remaining 50% will be tied to sanitation and solid waste management, and/or water management

Grants to urban local bodies will also include a special infrastructure and urbanisation premium component

Special infrastructure grants will be linked to the development of a comprehensive wastewater management system, with Rs 561 bn recommended over a five-year period

# Share of fiscal deficit financed through market borrowings has picked up

Rise in net borrowings (for deficit financing) and higher redemptions lead to a steep increase in gross borrowings for FY27



Share of fiscal deficit financed through market borrowings (including short-term) has increased from 58% in FY25 to 77% in FY27BE

Net dated borrowings are projected to rise from Rs 9.7 tn in FY26RE to Rs 11.7 tn in FY27BE

Redemptions (including buyback and switch) are also higher at Rs 5.5 tn, compared with Rs 4.9 tn in FY26RE

As a result, gross borrowings (net + redemptions) increase to Rs 17.2 tn in FY27BE from Rs 14.6 tn in FY26RE

However, the government announced switch operations post-budget, which effectively will reduce FY27 redemptions by Rs 1 tn, potentially lowering gross borrowings by the same amount

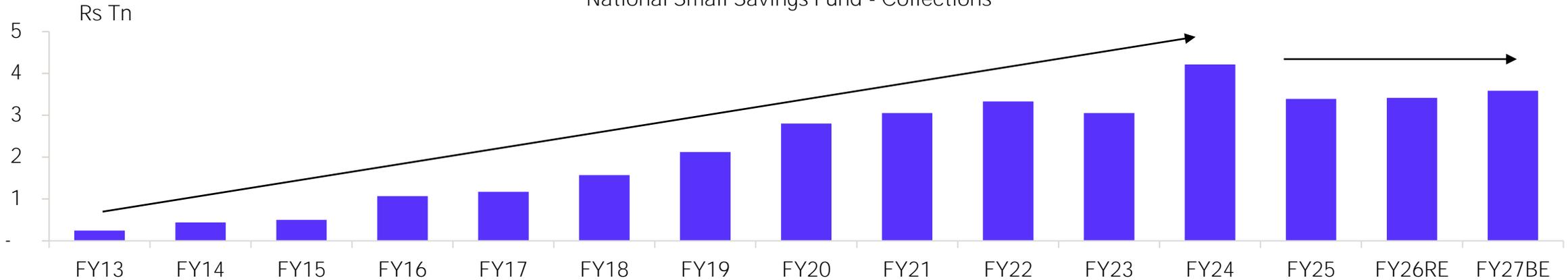
Source: Budget Documents, RBI, 360 ONE Asset Research

Note: RE – Revised Estimates, BE – Budget Estimates; Borrowings and redemption data have been adjusted for back-to-back loans extended to States/UTs in lieu of shortfall in GST revenue

# Small savings collections have plateaued as tax filers shift to new regime

The role of small savings in financing the fiscal deficit has peaked

National Small Savings Fund - Collections



Public Provident Fund Collections till December



Small savings collections have plateaued as taxpayers shift to the new income tax regime, which does not offer Section 80C benefits for investments in the Public Provident Fund (PPF)

PPF collections have declined over the past two years

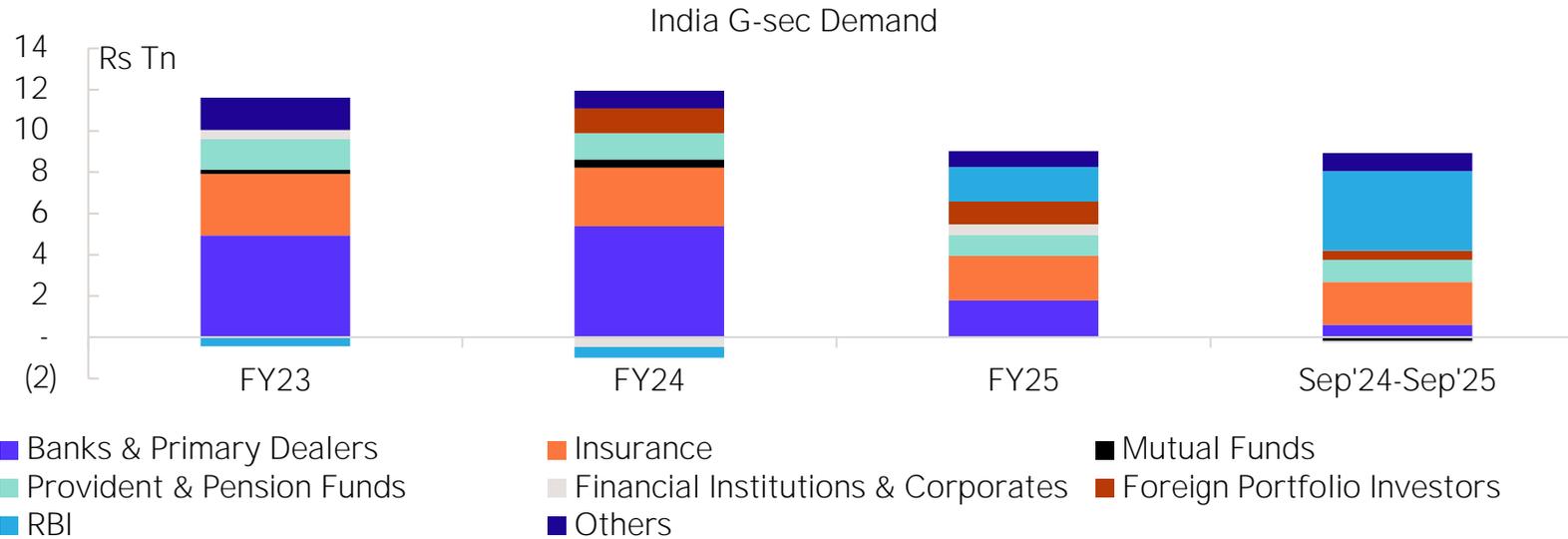
Consequently, the share of small savings in deficit financing has decreased, and this trend is expected to continue as more taxpayers migrate to the new regime

Hence, the share of market borrowings in financing the deficit is likely to remain elevated

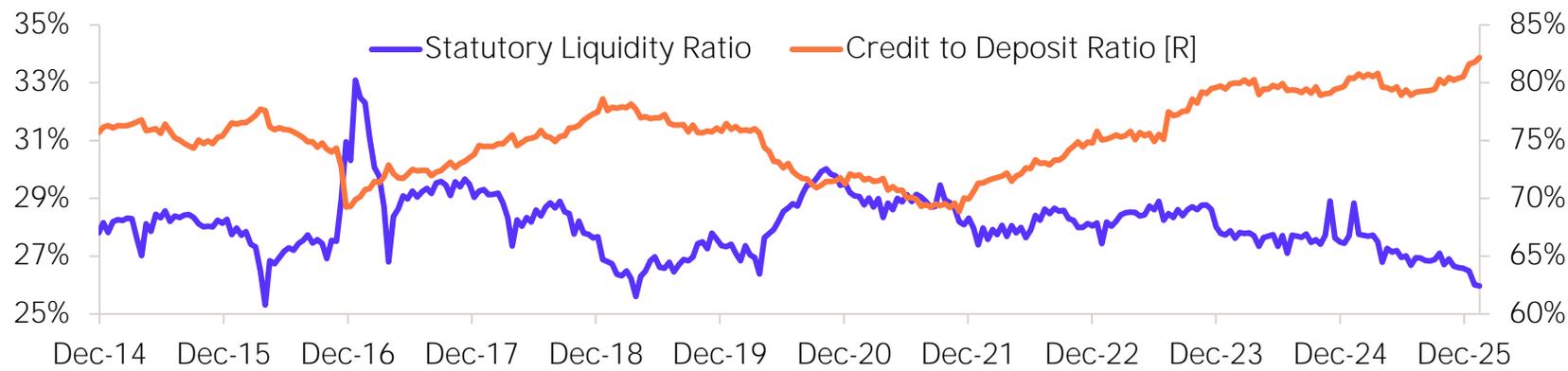
Source: Budget Documents, CGA, 360 ONE Asset Research

# Banking sector demand for G-secs has come down significantly

A high credit-to-deposit ratio has led to a decline in banks' demand for government securities



The RBI has absorbed significant G-sec supply over the past year through open market purchase auctions, while the bank demand has remained muted



The Statutory Liquidity Ratio (SLR) is the percentage of deposits that commercial banks maintain as liquid assets (cash and government securities)

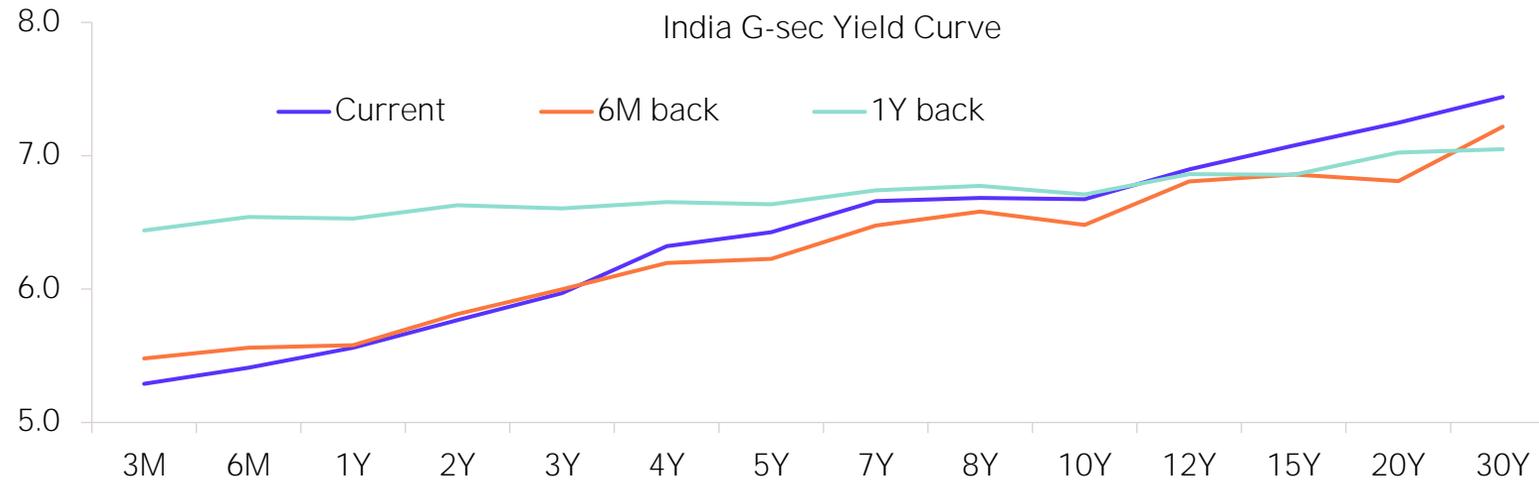
The SLR tends to have a negative correlation with the credit-to-deposit (CD) ratio

An increase in the CD ratio has led to a decline in the SLR on account of a reduction in banks' demand for government securities, as banks allocate a larger share of deposits toward lending

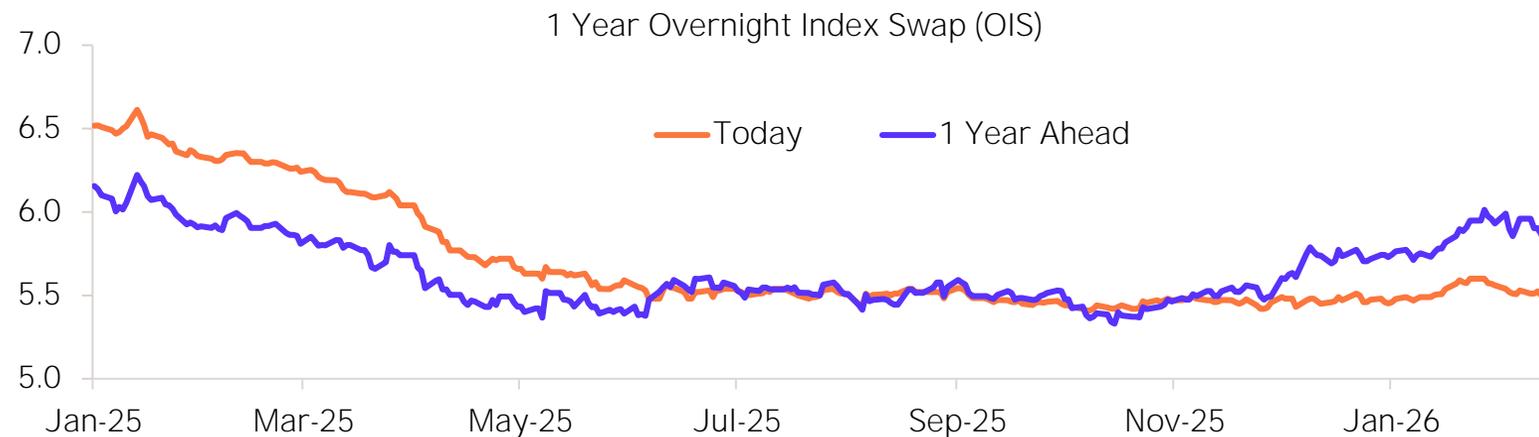
Source: RBI, 360 ONE Asset Research

# G-sec curve has steepened on account of high borrowings

The markets have begun factoring in a rate hike into the OIS curve



India's G-sec yield curve has steepened due to increased government borrowings, and as the rate cut cycle appears to be approaching its end



The Overnight Index Swap (OIS) market has begun pricing in a rate hike, reflected in the rise of the 1-year OIS rate one year forward

In the near term, long-end yields may ease modestly, supported by liquidity infusion from the Reserve Bank of India, a possible additional rate cut, and a decline in global yields following easing by the Federal Reserve

However, over the longer term, we expect yields to remain elevated

Source: Bloomberg, 360 ONE Asset Research

Note: Current as of 12<sup>th</sup> February 2026

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