# Budget tax relief to boost demand, consumption: Rating agencies

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The Union Budget 2026 will boost growth over the next few years by increasing domestic demand through tax cuts for households, S&P Global ratings said on Tuesday.

S&P expects India will hit its deficit targets despite revenue loss from lifting the threshold for minimum taxable income and slower economic growth. In its report on the Budget, Moody's Ratings said the foregone revenue due to tax cuts would slow the pace of the country's fiscal consolidation, even as total spending declines as a share of gross domestic product (GDP). It noted that tax measures will bolster middle-class spending power and consumption.

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Fitch Ratings said the Budget would be broadly neutral for growth and continued to project real GDP expansion of 6.4 per cent in FY25 and 6.5 per cent in FY26. Tax cuts, it said, may provide a modest consumption boost.

S&P said the slower growth in capital investments for FY26 does not suggest a deterioration in the quality of government spending. "India's Union Budget remains in line with our expectation of gradual fiscal consolidation... We believe bottlenecks in executing infrastructure projects will ease as supply chain pressures lessen and general elections are over," S&P Global Ratings said in a press statement.

S&P said the Budget allocation for capital expenditure is 3.1 per cent of GDP, unchanged from last financial year and is an increase of 10 per cent year-on-year in absolute terms. The central government has lowered its fiscal deficit estimate for FY25 to 4.8 per cent of GDP from 4.9 per cent while budgeting a fiscal deficit of 4.4 per cent of GDP for FY26. Noting that fiscal deficit projections seemed realistic, Fitch Ratings said there was a risk of modest slippage in revenue collection targets amid a recent moderation in economic growth. "We expect government capex to remain relatively high, but overall, the fiscal deficit reduction is likely to be slightly contractionary," Fitch said.

Moody's Ratings said the boost to spending due to rising disposable income would benefit makers of two-wheelers, passenger vehicles and white goods, and ride-hailing service providers.