

Economists see FY27 tax revenue growth near 11%

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WITH THE UNION Budget for 2026-27 set to be presented on February 1, economists expect India's gross tax revenue (GTR) to grow around 11% in FY27, marking a moderate rebound from the subdued performance in the current financial year. A slowdown from the 12.5% GTR growth originally projected for FY26 is widely anticipated.

The optimistic FY27 outlook largely depends on a return of nominal gross domestic product (GDP) growth to its long-term trend of 10.5-11%, compared with an estimated 8% nominal growth for FY26, as per the first advance estimates that

pegged real GDP growth at 7.4%. This implies a tax buoyancy of around 1 for FY27, slightly below the 1.1 projected for the current year.

Tax buoyancy in FY26, however, may fall significantly short of the target due to income tax and GST rate cuts.

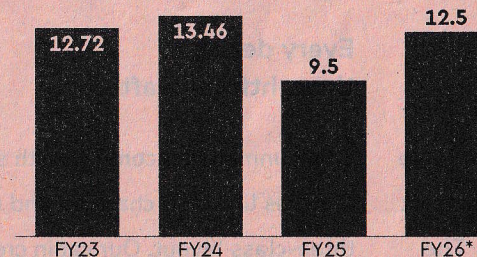
Economists note that since taxes are levied on nominal values, faster nominal GDP growth generally boosts collections.

"The expected nominal GDP rebound in FY27 will be driven primarily by inflation normalisation," said DK Joshi, Chief Economist at Crisil, who projects real GDP growth at 6.7% for FY27.

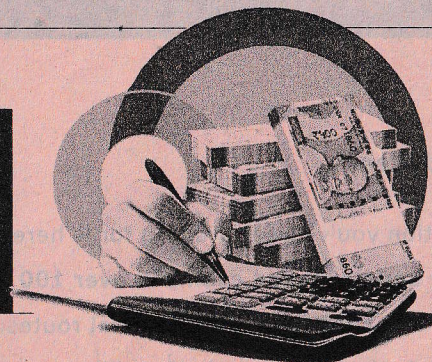
Madhavi Arora, Chief Economist at Emkay Global, expects GTR growth of 11-11.5% in FY27, assuming nominal GDP growth of about 10% and tax buoyancy close to 1-1.1x, meaning revenues should rise roughly in line

STEADY GROWTH

Gross tax revenue growth rate



* Budget estimate for FY26



with economic expansion.

Gaura Sen Gupta, Economist at IDFC First Bank, takes a more conservative view, projecting GTR growth at 8% for FY27 alongside 10% nominal GDP growth, implying tax buoyancy of 0.8x.

She attributes this to the full-year impact of recent GST rate cuts, but added that the Budget may still project more

optimistic numbers.

For FY26, Sen Gupta estimates GTR growth at 5.4-6%, reflecting shortfalls in both income tax and Central GST collections. She expects a ₹1.5 lakh crore deficit in Central GST receipts, partly offset by higher GST compensation cess collections.

The GST compensation

cess, introduced in 2017 to offset state revenue losses and later extended to repay Covid-era borrowings, will be discontinued from February 1 for categories such as tobacco. Replacement levies—including additional central excise on tobacco and a new health/national security cess on pan masala—are set to take effect.

A report by HDFC Bank projects tax buoyancy at 1.1x for FY27, up from a projected 0.64x in FY26, with nominal GDP growth at 10.1% and GTR growth at 11.7%.

The report also estimates a debt-to-GDP ratio of 55.1% and a fiscal deficit of 4.2% in FY27.

Sakshi Gupta, Principal Economist at HDFC Bank, pegs a ₹3.4 lakh crore GTR shortfall in FY26 against the government's target of ₹42.7 lakh crore—comprising ₹25.2 lakh crore in direct taxes and ₹17.4 lakh crore in indirect taxes. HDFC Bank estimates a ₹2.2 lakh crore gap in direct taxes and ₹1.1 lakh crore in indirect taxes.

Overall, economists expect tax revenues to recover in FY27 on stronger nominal GDP growth, though varying projections underline uncertainty over the pace of improvement and the lingering drag from GST reforms.

Kolkata