

# DAILY NEWSP APER ANALYSIS

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**CHANAKYA IAS ACADEMY  
SECTOR 25 CHANDIGARH**

# Capex scale-up

Union Budget sets Centre's capital expenditure target at ₹12.2 lakh crore; India must stay deeply integrated with global markets, attracting stable long-term investment, says Finance Minister

T.C.A. Sharad Raghavan  
NEW DELHI

**W**hile acknowledging the strains created by the external global environment, Union Finance Minister Nirmala Sitharaman on Sunday presented the Union Budget 2026 in Parliament, with the aim of increasing productivity across sectors and ensuring employment generation.

Presenting her record ninth consecutive Budget, Ms. Sitharaman said India must remain deeply integrated with global markets, exporting more, and attracting stable long-term investment.

The Budget announced several customs duty reductions aimed at boosting exports of marine, leather, and textile products, and speeding up India's energy transition. It also announced multiple infrastructure projects. Notably, the Budget did not include any major direct tax rate relaxations, either for individuals or corporations.

#### Growth push

The Budget also set the Centre's capital expenditure target at ₹12.2 lakh crore in 2026-27, higher than the ₹10.9 lakh crore as per the Revised Estimates of 2025-26, as well as the ₹11.2 lakh crore initially budgeted that year.



**Our effort has been to continuously strengthen skill, scale and sustainability. [Budget] reflects the thinking of the youth, their dreams, resolve, and vigour**

**NARENDRA MODI**  
Prime Minister



**Youth without jobs. Farmers in distress, looming global shocks - all ignored. A Budget that refuses course correction, blind to India's real crises**

**RAHUL GANDHI**  
LoP in Lok Sabha

necting places such as Talcher and Angul and Kalinga Nagar to the Paradip and Dhamra ports. The Budget also included the announcement of an Integrated East Coast Industrial Corridor connecting Durgapur in West Bengal, as well as a new dedicated freight corridor connecting Dankuni in West Bengal to Surat in Gujarat.

The Finance Minister said that her first *kartavya* would be met through targeted measures in six areas: scaling up manufacturing in seven strategic and frontier sectors; rejuvenating legacy industrial sectors; creating "champion MSMEs"; a powerful push for infrastructure creation; ensuring long-term energy security and stability; and developing city-economic regions.

The second *kartavya* focused on measures targeted at the services sector through the education, training and skilling of the workforce in areas such as healthcare, medical tourism, animal husbandry, animation, visual effects, gaming and comics (AVGC), and design.

Announcements under the third *kartavya* included measures to increase farmer incomes through productivity enhancement and entrepreneurship, empowering India's divyang and vulnerable population through livelihood opportunities, training, high-quality assistive devices, and access to mental health and trauma care.

"We now propose to support the mineral-rich States of Odisha, Kerala, Andhra Pradesh and Tamil Nadu to establish dedicated rare earth corridors to promote mining, processing, research and manufacturing," Ms. Sitharaman announced in her speech.

Ms. Sitharaman also announced that the first of the new national waterways to be constructed would be in Odisha, con-

ded, was to fulfil the aspirations of the Indian people and build their capacity.

"Our third *kartavya*, is to ensure that every family, community, region and sector has access to resources, amenities and opportunities for meaningful participation," she said.

The Budget also included several customs duty reductions aimed at boosting exports of marine, leather, and textile products, and speeding up India's energy transition.

"Our first *kartavya* is to accelerate and sustain economic growth, by enhancing productivity and competitiveness, and building resilience to volatile global dynamics," she said. The second *kartavya*, she ad-

ded, was to fulfil the aspirations of the Indian people and build their capacity.

Ms. Sitharaman also announced that the first of the new national waterways to be constructed would be in Odisha, con-

- Capacity building and skill development.
- Inclusive access to resources and opportunities.

#### • Sectoral Focus:

- Manufacturing (strategic/frontier sectors).
- MSMEs (champion MSMEs).
- Services skilling: healthcare, medical tourism, AVGC, design.

#### • Social Inclusion:

- Farmer income through productivity and entrepreneurship.
- Livelihood, assistive devices, mental health access for divyang and vulnerable groups.

### Static Linkages

- Public capital expenditure multiplier (Economic Survey).
- National Industrial Corridor Development Programme.
- National Waterways Act, 2016.
- Critical Minerals strategy (energy transition, strategic autonomy).
- Inclusive growth and DPSPs (Articles 38, 39).

### Critical Analysis

#### Positives

- Sustains growth amid weak global demand.
- Improves logistics efficiency and export competitiveness.
- Strategic focus on rare earths enhances supply security.

#### Concerns

- Limited boost to consumption demand due to no tax relief.
- Execution and environmental challenges in mining and corridors.
- MSME credit and technology gaps remain.

### Way Forward

- Strengthen Centre-State coordination in infrastructure projects.
- Complement capex with demand-support measures if required.
- Accelerate MSME finance and technology adoption.
- Ensure environmental safeguards in mineral-rich regions.

## KEY HIGHLIGHTS

### Context of the News

- Union Budget 2026-27 presented by Nirmala Sitharaman amid global economic uncertainty.
- Focus on productivity-led growth, employment generation, and global integration.
- Ninth consecutive Budget by the same Finance Minister.
- No major changes in direct tax rates for individuals or corporates.

### Key Points

- Capital Expenditure:
  - ₹12.2 lakh crore for 2026-27 (RE 2025-26: ₹10.9 lakh crore).
  - Reinforces capex-led growth strategy.
- Exports & Trade:
  - Customs duty reductions for marine, leather, and textile sectors.
  - Objective: enhance export competitiveness and GVC integration.
- Infrastructure & Logistics:
  - Integrated East Coast Industrial Corridor.
  - Dedicated Freight Corridor: Dankuni (WB)-Surat (GJ).
  - First new National Waterway in Odisha connecting mineral and port regions.
- Strategic Minerals:
  - Rare earth corridors in Odisha, Kerala, Andhra Pradesh, Tamil Nadu.
- Three Kartavyas:
  - Economic growth and competitiveness.

# Tax devolution for States at 41%; South gets share hike

**T.C.A. Sharad Raghavan**  
NEW DELHI

The 16th Finance Commission (16th FC) has recommended that the Centre retain the 41% share of tax devolution to States as has been in force since 2021. Finance Minister Nirmala Sitharaman, in her Budget speech, announced that the Centre has accepted the recommendations.

"The government has accepted the recommendation of the Commission to retain the vertical share

of devolution at 41%," Ms. Sitharaman said. "As recommended by the Commission, I have provided ₹1.4 lakh crore to the States for the FY 2026-27 as Finance Commission Grants. These include Rural and Urban Local Body and Disaster Management Grants."

While the report recommended the same share of devolution between the Centre and States, it tweaked the formula that decides the division of the share. This raises the share for five Southern States –

Tamil Nadu, Kerala, Andhra Pradesh, Telangana, and Karnataka.

The 16th FC submitted its report to the President on November 17, 2025, which was tabled in Parliament on Sunday. It noted that the "only instrument" available to assist the finances of the Centre was its share in the divisible pool.

The report said there was no further space to cut the States' share in the di-

visible pool as the Centre's cesses and surcharges – not sharable with the States – had "cut" the size of the divisible pool from 89.1% of gross tax revenues in 2014-15 to 74%-80% during the 2020-24 period for which actual figures are available.

A State's population now accounts for 17.5% of the weightage up from the previous 15%. Its demographic performance – how successfully it has managed to contain popu-

lation growth – has a lower weightage of 10% from the previous 12.5%. The area of the State has been granted a 10% weightage by the 16th FC as compared to 15% previously.

A State's forest cover now receives a 10% weightage, the same as earlier. Per capita GSDP difference – the difference between a State's average per capita income and that of the State with the highest per capita income – has the highest weightage of 42.5%, down from 45% ear-

lier. As per the 16th FC's recommendations, Andhra Pradesh is to receive 4.217% of the devolved amount, up from the previous 4.047%.

Karnataka's share has gone up to 4.131% from 3.647%. Kerala's share has increased to 2.382% from 1.925%. Tamil Nadu's share has increased to 4.097% from 4.079%, and Telangana's share has gone up to 2.174% from 2.102%.

**4.3% FISCAL DEFICIT**  
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## KEY HIGHLIGHTS

### Context

- 16th Finance Commission report submitted to the President on 17 November 2025 and tabled in Parliament with Union Budget 2026–27.
- Centre accepted the recommendation to retain 41% vertical devolution of divisible pool taxes to States.
- ₹1.4 lakh crore provided as Finance Commission Grants for FY 2026–27 (Local Bodies + Disaster Management).
- Horizontal devolution formula revised, increasing shares of Tamil Nadu, Kerala, Andhra Pradesh, Telangana, Karnataka.

### Key Points

- Vertical Devolution:
  - States' share in divisible pool: 41% (unchanged since 15th FC).
- Divisible Pool Concern:
  - Share of divisible pool reduced from 89.1% (2014–15) to 74–80% (2020–24) due to cesses and surcharges.
- Horizontal Devolution Criteria (16th FC):
  - Per capita GSDP distance: 42.5% (↓ from 45%)
  - Population: 17.5% (↑ from 15%)
  - Demographic performance: 10% (↓ from 12.5%)
  - Area: 10% (↓ from 15%)
  - Forest cover: 10% (unchanged)
- Revised State Shares (examples):
  - Andhra Pradesh: 4.217%
  - Karnataka: 4.131%
  - Tamil Nadu: 4.097%
  - Kerala: 2.382%
  - Telangana: 2.174%

### Static Linkages

- Finance Commission: Article 280, Constitution of India.
- Divisible pool of taxes: Article 270.
- Cesses and surcharges: Article 271 (not shareable with States).
- Fiscal federalism objectives: vertical and horizontal balance.
- Equalisation principle in public finance (Economic Survey, NCERT Macroeconomics).

### Critical Analysis

#### Positives

- Maintains stability in Centre–State fiscal relations.
- Higher weight to income distance strengthens inter-State equity.
- Forest cover criterion supports environmental conservation.
- Addresses concerns of southern States regarding fiscal imbalance.

#### Concerns

- Excessive use of cesses and surcharges weakens fiscal federalism.
- Reduced weight to demographic performance may dilute population control incentives.
- States' fiscal dependence on Centre continues.
- Local bodies remain financially constrained.

### Way Forward

- Rationalise cesses and surcharges to expand divisible pool.
- Strengthen States' own tax capacity.
- Enhance transparency and predictability in transfers.
- Provide greater flexibility in utilisation of grants.
- Link future devolution to outcome-based performance indicators.

# Customs procedures to get simpler

Customs Integrated System will be rolled out in two years as a single, integrated and scalable platform for all the Customs processes; approvals for cargo clearance to be processed through a single and interconnected digital window by the end of the financial year

M. Soundariya Preetha  
COIMBATORE

The Union Budget has removed Basic Customs Duty on a range of products, but also raised the levy on some. It also envisions simplification of the Customs procedures, moving into "trust based systems" for ease of doing business.

The Basic Customs Duty on potassium hydroxide will go up to 7.5% from nil, increasing input costs for industries such as chemicals, soaps, detergents, and batteries unless there is adequate domestic availability. The duty on umbrellas (other than garden umbrellas) has been revised from 20% to either 20% or ₹60 per piece, whichever



**Hardness test:** Soaps and detergents may get dearer as levy on potassium hydroxide has been hiked to 7.5% from nil. FILE PHOTO

is higher, to curb low-priced imports.

All dutiable goods imported for personal use will see a reduction of duty from 20% to 10%. For chewing tobacco and Jarda-scented tobacco, the National Calamity Contingent Duty will be increased to 60% from 25% from May

1. However, effective duty rate on these products will remain unchanged.

The Global Trade Research Initiative report says that the Budget, though country-neutral, improves market access prospects for U.S. exporters across several high-value sectors.

Finance Minister Nirmala Sitharaman has also proposed to increase the limit for duty-free import of specified inputs used for processing seafood products for export, from the current 1% to 3% of the FOB value of the previous year's export turnover.

The time period for export of the final product under the Advance Authorisation scheme has been extended to one year from six months for export of leather or textile garments, leather or synthetic footwear and other leather products.

For better use of capacities of manufacturing units in Special Economic Zones that are hit by global trade

disruptions, there will be a one-time measure of concessional duty to facilitate sales to sell in the domestic tariff area limited to a prescribed proportion of their exports. Measures will be taken to ensure that the units in the domestic tariff area will not be affected.

For ease of doing business, approvals required for cargo clearance from various Government agencies will be seamlessly processed through a single and interconnected digital window by the end of the financial year. Processes in clearance of food, drugs, plant, animal and wild life products, accounting for around 70% of interdicted cargo, will be operational-

ised on this system by April. The duty deferral period for tier-two and tier-three Authorised Economic Operators will be increased to 30 days and eligible manufacturer-importers will also get the duty deferral facility.

The validity period of advance ruling, binding on Customs, will be increased from the present three years to five years.

Regular importers with trusted long-standing supply chains will be recognised in the risk system, so that the need for verification of their cargo can be minimised. Customs Integrated System will be rolled out in two years as a single, integrated and scalable platform for all the Customs processes.

Food, drugs, plant, animal and wildlife clearances (~70% interdicted cargo) operationalised by April.

Duty deferral:

- Tier-2 & Tier-3 AEOs: extended to 30 days.
- Extended to eligible manufacturer-importers.

Advance Ruling validity extended from 3 to 5 years.

Trusted importers to face minimal cargo verification via risk-based systems.

## KEY HIGHLIGHTS

### Context

- Union Budget announces selective changes in Basic Customs Duty (BCD) along with systemic reforms in Customs administration.
- Focus on tariff rationalisation, export promotion, Ease of Doing Business (EoDB) and trust-based compliance systems.
- Measures proposed by Finance Minister Nirmala Sitharaman.

### Key Points

- Tariff Measures
  - BCD on potassium hydroxide increased from nil to 7.5% → impacts chemical, detergent, soap, battery industries.
  - Duty on umbrellas (non-garden) revised to 20% or ₹60 per piece (whichever higher) → curb undervalued imports.
  - Duty on dutiable personal imports reduced from 20% to 10%.
  - NCCD on chewing tobacco and Jarda increased from 25% to 60% (effective duty unchanged).
- Export Promotion
  - Duty-free import limit for seafood processing inputs increased from 1% to 3% of previous year's FOB exports.
  - Advance Authorisation Scheme: Export obligation period extended from 6 months to 1 year for leather, textiles, footwear.
- SEZ Reforms
  - One-time concessional duty for SEZ units to sell into DTA up to a prescribed export-linked limit.
  - Safeguards to protect DTA manufacturers.
- Customs & Trade Facilitation
  - Single digital window for multi-agency cargo clearance by end of FY.

Customs Integrated System to be rolled out in two years.

External Assessment

- Global Trade Research Initiative: Budget is country-neutral but improves U.S. exporters' market access in high-value sectors.

### Static Linkages

- Customs duties as tools of trade policy and revenue mobilisation.
- Foreign Trade Policy instruments: Advance Authorisation, SEZs.
- Risk Management System (RMS) in Customs.
- WTO principles: MFN, bound tariffs.
- NCCD as a non-tariff fiscal levy.

### Critical Analysis

#### Advantages

- Improves Ease of Doing Business through digitalisation and trust-based systems.
- Boosts export competitiveness in seafood, leather and textiles.
- Reduces logistics cost and clearance time.
- Supports SEZs affected by global trade disruptions.

#### Concerns

- Higher input tariffs may raise manufacturing costs.
- Risk of cost-push inflation if domestic substitutes are inadequate.
- Greater foreign market access may pressure infant industries.
- Tobacco duty change weakens public health signalling.

### Way Forward

- Align tariff hikes with domestic capacity creation.
- Integrate Customs reforms with PLI and logistics policy.
- Strengthen risk analytics to prevent misuse of trust-based systems.
- Periodic review of SEZ-DTA concessions.
- Ensure tariff policy consistency with WTO commitments.

# FM hands out a mixed bag for capital markets

Ashokamithran T.  
MUMBAI

Finance Minister Nirmala Sitharaman delivered a mixed bag to the capital markets, prioritising long-term capital instruments over short-term ones in Budget 2026-27.

While raising tax on derivative transactions, the FM increased investment limits for NRIs, rationalised taxation on share buybacks, and proposed measures to deepen bond markets.

Ms. Sitharaman proposed to raise the Securities Transaction Tax (STT) on Futures to 0.05% from 0.02%. STT on Options Premium and Exercise of Options are both proposed to be raised to 0.15% from the present rates of 0.1% and 0.125% respectively, she said in her Budget speech in Parliament on Sunday.

While stock markets crashed up to 2% after this announcement, tax experts say this is more of "a speed bump than a roadblock."

While the announcement was enough to keep market players disappointed, Ms. Sitharaman delivered a sweet pill in the form of an increase in foreign investment limit for



PROIs will be permitted to invest in equity instruments of listed Indian companies through the Portfolio Investment Scheme

**NIRMALA SITHARAMAN,**  
Finance Minister

non-resident Indians. "Individual Person Resident Outside India (PROI) will be permitted to invest in equity instruments of listed Indian companies through the Portfolio Investment Scheme. It is also proposed to increase the investment limit for an individual PROI under this scheme from 5% to 10%, with an overall investment limit for all individual PROIs to 24%, from the current 10%," the FM said.

Beyond equity capital markets, the FM also proposed to provide a ₹100-crore incentive for single municipal bond issuances above the value of ₹1,000 crore. This is expected to improve municipal bond issuances which are currently lukewarm. Further, the Minister also proposed a framework to create markets on corporate bond indices and total returns swaps on such bonds.



## KEY HIGHLIGHTS

### Context of the News

- Union Budget 2026–27 introduced selective capital market reforms with focus on long-term capital formation.
- Measures included higher taxation on derivatives, liberalisation of NRI portfolio investment, and steps to deepen bond markets.
- Objective aligns with improving financial stability, productive investment, and urban infrastructure financing.

### Key Points

- Securities Transaction Tax (STT):
  - Futures: increased from 0.02% to 0.05%.
  - Options premium: increased from 0.10% to 0.15%.
  - Options exercise: increased from 0.125% to 0.15%.
- Purpose of STT hike: Curb excessive speculative trading and enhance market discipline.
- NRI Portfolio Investment Reforms:
  - Persons Resident Outside India (PROI) allowed to invest in listed equities through Portfolio Investment Scheme.
  - Individual investment limit increased from 5% to 10%.

- Aggregate limit for all PROIs raised from 10% to 24%.
- Municipal Bonds:
  - ₹100 crore incentive for single municipal bond issuances exceeding ₹1,000 crore.
- Corporate Bond Market:
  - Proposal for corporate bond indices.
  - Introduction of Total Return Swaps (TRS) on corporate bonds.

### Static Linkages

- Capital markets as a source of resource mobilisation (NCERT Macroeconomics).
- Role of bond markets in financial stability (RBI, Economic Survey).
- Municipal bonds linked to urban decentralisation and fiscal federalism (12th Schedule).
- Portfolio Investment governed under FEMA framework.

### Critical Analysis

#### Advantages

- Promotes long-term investment over speculative activity.
- Enhances foreign portfolio participation without ownership dilution.
- Supports development of municipal finance for urban infrastructure.
- Improves depth and risk management in bond markets.

#### Challenges

- Short-term reduction in market liquidity.
- Higher cost burden on retail derivative participants.
- Weak financial capacity and governance of Urban Local Bodies.
- Need for strong regulatory oversight for bond derivatives.

### Way Forward

- Strengthen municipal financial management and creditworthiness.
- Improve investor awareness and financial literacy.
- Gradual and predictable tax policy changes.
- Complement bond market reforms with market-making and credit enhancement.

# Banking sector set for sea change; PFC, REC to be restructured

Lalatendu Mishra  
Saptaparno Ghosh  
MUMBAI/DELHI

The Indian banking sector is heading for a major change with Finance Minister Nirmala Sitharaman proposing to set up a 'High Level Committee on Banking for Viksit Bharat' to enable the sector lend differently.

She said the committee will comprehensively review the financial sector

and align it with India's next phase of growth, "while safeguarding financial stability, inclusion and consumer protection."



"Indian banking sector today is characterised by strong balance sheets, historic highs in profitability, improved asset quality and coverage exceeding 98% of villages in the country," she said while presenting the Budget.

"High Level Committee



**Lending a hand:** The High Level Committee on Banking for Viksit Bharat will enable the sector lend differently. FILE PHOTO

to reform banks to suit Viksit Bharat is a clear call to privatisation of public sector banks. Private banks

work for profit and not priority-sector lending, rural credit access, and financial inclusion areas where

public banks historically play a stabilising role," Amarjeet Kaur, General Secretary, All India Trade Union Congress, said in a statement.

"The Finance Minister mentioned about rural branches in 98% villages but does not recognise that this was possible because of nationalised banking," she added.

Also, keeping the future requirement in mind the budget has proposed to restructure the Power Fi-

nance Corporation (PFC) and Rural Electrification Corporation (REC) to achieve scale and improve efficiency in public sector NBFCs.

Abhishek Nath, Sector Head for Energy and Power at the think-tank CSTEP, said the move would help NBFCs align with present requirements. "Today, we have to look at various technologies, including RE and nuclear generation, as well as transmission and storage," he stated.

## KEY HIGHLIGHTS

### Context of the News

- Union Budget announcement to constitute a High-Level Committee on Banking for Viksit Bharat.
- Objective: Review banking and financial sector architecture to meet India's next phase of growth.
- Assurance of financial stability, inclusion, and consumer protection.
- Statement made by Finance Minister Nirmala Sitharaman.
- Proposal to restructure Power Finance Corporation (PFC) and Rural Electrification Corporation (REC) to enhance efficiency of public sector NBFCs.

### Key Points

- Indian banking sector status:
  - Improved asset quality (GNPA at multi-year low – RBI/Economic Survey).
  - Record profitability and strong capital adequacy.
  - Banking coverage extended to 98%+ villages.
- Committee mandate:
  - Review credit delivery mechanisms.
  - Assess role of banks in long-term growth financing.
  - Align banking with Viksit Bharat vision.
- Trade union concern:
  - Committee seen as step towards privatisation of PSBs.
  - Fear of dilution of priority sector lending and rural banking.
- NBFC restructuring:
  - PFC and REC to support financing of renewables, nuclear, transmission, storage.
  - Objective: scale, efficiency, and alignment with energy transition.

### Static Linkages

- Bank Nationalisation (1969, 1980) → rural expansion & social banking.
- Priority Sector Lending (PSL) under RBI guidelines.
- Role of PSBs in counter-cyclical lending.
- NBFCs as long-term infrastructure financiers.
- Financial inclusion as pillar of inclusive growth.

### Critical Analysis

#### Positives

- Prepares banking sector for large-scale infrastructure and industrial financing.
- Opportunity to rationalise regulation and improve efficiency.
- Strengthens NBFC role in energy transition financing.
- Reflects confidence in banking sector health.

#### Concerns

- Risk of weakening social banking mandate of PSBs.
- Private banks less inclined towards rural/priority lending.
- Financial inclusion success largely PSB-driven.
- Need clarity on safeguards against excessive privatisation.

### Way Forward

- Clearly retain priority sector and inclusion mandates.
- Reform PSBs for efficiency without abandoning public ownership.
- Strengthen regulatory oversight and consumer protection.
- Align NBFC reforms with climate and energy transition goals.
- Ensure balanced public-private banking ecosystem.

# Tax holiday for data centres enthruses IT business leaders

Budget may facilitate domiciliation of global IT, data operations; boost to Global Capability Centres may spur innovation; tax holiday proposed for foreign firms establishing data centres in India

Mini Tejaswi  
BENGALURU

The Union Budget signalled a strategic shift toward institutionalised innovation by aggressively lowering regulatory barriers and strategically re-engineering India's fiscal framework to establish the nation as the definitive global hub for data, technology, and innovation, said industry experts and analysts.

Expanding the safe harbour threshold to ₹2,000 crore alongside an automated approval system also provided much-needed fiscal predictability for large Global Capability Centres (GCCs), industry stakeholders said. "The budget's precise, data-driven approach to safe harbour is a master stroke in regulatory clarity."

The proposal of a tax holiday until 2047 for any foreign company establishing data centres in India, coupled with a specific safe harbour (a legal provision or regulation that reduces



**Holiday from levies:** A data centre with fully operational server racks. GETTY IMAGES/ISTOCK

or eliminates liability, penalties or, tax, scrutiny for individuals and businesses, provided they meet specific, pre-defined conditions) of 15% on cost for companies providing data services from India to a related entity, creates a powerful anchor incentive," said Avinash Vashistha, chairman & CEO of Tholons and former Chairman and CEO of Accenture In-



dia. According to Mr. Vashistha, by clubbing all IT services under a single category with a common safe harbour margin of 15.5%, enhancing the monetary threshold for availing this benefit to ₹2,000 crore from ₹300 crore and approving it via automatic rule-driven model, the government delivered a predictable, scalable and globally competitive ecosystem that will

accelerate the domiciliation of global data and IT operations.

Gartner, a global tech research firm, said, in today's VUCA (Volatile, Uncertain, Complex, Ambiguous) landscape, this move transformed India from a mere delivery hub into a stable, strategic sanctuary for global enterprises.

**New sovereign currency** D.D. Mishra, VP analyst at Gartner, said, "Simultaneously, the 20-year tax holiday for cloud service providers acknowledges data is the new sovereign currency."

"This is a massive tailwind for AI-enabled data centres, though its success hinges entirely on our ability to scale industrial power infrastructure and cooling requirements."

The Budget has sent a decisive signal to global investors by providing a long-term tax holiday for foreign cloud service providers using Indian data centres, according to KPMG in India.

## Static Linkages

- Fiscal policy as a tool for investment-led growth (Economic Survey).
- Transfer Pricing & BEPS framework under the Income Tax Act, 1961.
- Services-led growth model (NCERT – Indian Economic Development).
- FDI policy liberalisation and non-debt capital inflows (DPIIT).
- Digital economy and infrastructure as growth multipliers (NITI Aayog).
- Energy–industry linkage in infrastructure development.

## Critical Analysis

### Advantages

- Reduces transfer pricing disputes and improves tax certainty.
- Encourages high-value FDI in data, cloud, and AI sectors.
- Supports India's transition from IT services provider to digital value-chain hub.
- Enhances predictability and scalability for multinational firms.

### Concerns

- High energy and water demand of data centres may strain infrastructure.
- Risk of revenue foregone due to long tax holidays.
- Potential regional imbalance in concentration of digital infrastructure.
- Need for robust data protection and cybersecurity capacity.

## Way Forward

- Align data centre expansion with renewable energy and green infrastructure.
- Strengthen data protection, privacy, and cyber governance frameworks.
- Promote decentralised digital infrastructure across states.
- Invest in skilling and R&D for AI, cloud, and data technologies.
- Periodic review of incentives to ensure fiscal sustainability.

## KEY HIGHLIGHTS

### Context of the News

- The Union Budget introduced targeted tax and regulatory reforms to promote India as a global hub for data, cloud computing, and digital services.
- Key measures include expansion of Safe Harbour Rules, long-term tax holidays for data centres, and automatic approval mechanisms for IT-related services.
- The reforms aim to attract foreign investment, strengthen Global Capability Centres (GCCs), and support AI-driven digital infrastructure.

### Key Points

- Safe Harbour threshold increased from ₹300 crore to ₹2,000 crore under transfer pricing provisions.
- Uniform Safe Harbour margin (~15–15.5%) applied to all IT and IT-enabled services.
- Automatic, rule-based approval system introduced to reduce litigation and discretion.
- 20-year tax holiday (up to 2047) for foreign companies establishing data centres in India.
- 15% cost-based Safe Harbour for data services provided to related foreign entities.
- Policy recognises data as a strategic economic asset critical for AI, cloud, and digital trade.
- Expected to enhance tax certainty, improve ease of doing business, and attract long-term FDI.

# Labour-intensive textile sector, MSMEs to get new schemes

M. Soundariya Preetha  
COIMBATORE

Labour-intensive textile and apparel and Micro, Small and Medium-scale Enterprise (MSME) sector impacted by geopolitical developments in the last two years received a boost from the Budget with new schemes and higher allocations.

## Jump in allocation

The textile sector will see almost a 25% jump in budgetary allocation for 2026-2027 from the current financial year while the MSME sector will see doubling of allocation.

Union Finance Minister Nirmala Sitharaman said Central Public Sector Enterprises would establish high technology tool rooms in two locations as digitally enabled automated service bureaux that locally design, test and manufacture high-precision components at scale and at lower cost.

A Scheme for Enhancement of Construction and Infrastructure Equipment would be introduced to boost local manufacturing of high-value and technologically-advanced equipment.

A sum of ₹10,000 crore would be allocated during the next five years for a scheme for container manufacturing.

For the 'labour-intensive textile sector,' the government proposed comprehensive measures that would include a special programme to promote sports goods, a National Fibre Scheme for man-made fibre, silk, wool, etc.,

mega textile parks developed on challenge mode for value addition to technical textiles, a Textile Expansion and Employment Scheme to modernise traditional clusters with capital support for machinery, technology upgradation and common testing and certification centres. A National Handloom and Handicraft programme would ensure targeted support for weavers and artisans, Mahatma Gandhi Gram Swaraj initiative would boost khadi, handloom and handicraft, Tex-Eco Initiative would promote globally competitive and sustainable textiles and apparel and Samarth 2.0 would upgrade the textile skilling ecosystem.

Under rejuvenation of legacy industrial clusters, the budget proposed a scheme to revive 200 legacy industrial clusters, create dedicated ₹10,000 crore SME Growth Fund to create future champions and top up the Self-Reliant India Fund set up in 2021 with ₹2,000 crore to enable micro units access risk capital.

## Settlement platform

The TReDS (Trade receivables discounting scheme) would be a mandatory transaction settlement platform for all purchases from MSMEs by CPSEs. A credit guarantee support mechanism would be introduced through CGTMSE for invoice discounting on TReDS platform; GeM would be linked with TReDS and TReDS receivables would be introduced as asset-backed securities, helping develop a secondary market.



## Manufacturing & Technology Support

- High-Technology Tool Rooms:
  - To be set up by CPSEs in two locations.
  - Digitally enabled, automated service bureaux.
  - Functions: Local design, testing, and mass manufacturing of high-precision components at lower cost.
  - Impact: Enhances MSME access to advanced manufacturing infrastructure.
- Scheme for Enhancement of Construction & Infrastructure Equipment:
  - Promotes domestic manufacturing of high-value, technologically advanced equipment.
  - Relevance: Import substitution and strengthening capital goods sector.
- Container Manufacturing Scheme:
  - ₹10,000 crore over five years.
  - Aims to reduce dependence on imported containers and support logistics resilience.

## Textile Sector-Specific Measures

- Sports Goods Promotion Programme:
  - Diversification into high-growth niche segments.
- National Fibre Scheme:
  - Focus on manmade fibre, silk, wool, etc.
  - Addresses fibre imbalance and global demand shift.
- Mega Textile Parks (Challenge Mode):
  - Emphasis on technical textiles and value addition.
- Textile Expansion & Employment Scheme:
  - Modernisation of traditional clusters.
  - Capital support for machinery, technology upgradation, testing & certification centres.
- National Handloom & Handicraft Programme:
  - Targeted support for weavers and artisans.
- Mahatma Gandhi Gram Swaraj Initiative:
  - Boost to khadi, handloom, and handicrafts.
- Tex-Eco Initiative:
  - Promotes sustainable and globally competitive textiles.
- Samarth 2.0:
  - Upgradation of textile skilling ecosystem.
  - Overall Impact: Employment generation, sustainability, and export readiness.

## MSME & Industrial Cluster Reforms

- Rejuvenation of Legacy Industrial Clusters:
  - Revival of 200 clusters nationwide.

## KEY HIGHLIGHTS

### Context

- Rationale: Labour-intensive textile and MSME sectors were adversely affected by geopolitical disruptions, supply chain realignments, and export uncertainties in the last two years.
- Objective: Employment generation, domestic manufacturing push, export competitiveness, and MSME credit flow.

### Budgetary Allocation

- Textile Sector: ~25% increase in allocation over 2025-26.
- Significance: Signals priority to employment-intensive manufacturing and value addition.
- MSME Sector: Allocation doubled.
- Significance: Addresses credit constraints, scaling challenges, and competitiveness of small firms.

- SME Growth Fund:
  - ₹10,000 crore dedicated fund.
  - Objective: Create future champions among MSMEs.
- Self-Reliant India Fund (SRIF):
  - Additional ₹2,000 crore.
  - Enables micro units to access risk capital, not just debt.

### **Credit, Payments & Market Reforms for MSMEs**

- TReDS as Mandatory Platform:
  - All MSME purchases by CPSEs to be settled via TReDS.
  - Significance: Addresses delayed payments problem.
- CGTMSE Credit Guarantee for TReDS:
  - Credit guarantee support for invoice discounting.
- GeM-TReDS Linkage:
  - Integrates government procurement with MSME financing.
- Asset-Backed Securities (ABS) on TReDS Receivables:
  - Enables a secondary market for MSME receivables.
  - Impact: Improves liquidity, lowers financing cost, deepens financial markets.

# ₹10,000-crore dosage for biopharma

Biopharma SHAKTI aims at facilitating domestic production of biologics and biosimilars; three new National Institutes of Pharmaceutical Education and Research to be set up; Central Drugs Standard Control Organisation to be strengthened according to global standards

N. Ravi Kumar  
HYDERABAD

The Union Budget has proposed a biopharma strategy for healthcare advancement through knowledge, technology, and innovation with an outlay of ₹10,000 crore over the next five years to develop India as a global biopharma manufacturing hub.

"Biopharma SHAKTI will build the ecosystem for domestic production of biologics and biosimilars," Finance Minister Nirmala Sitharaman said in the Budget speech on Sunday. Biopharma is part of the seven strategic and frontier sectors identified for scaling up by the government. The decision to facilitate



Biopharmaceuticals are complex medicines manufactured from living systems rather than chemical synthesis. GETTY IMAGES

innovation and ramp up production of biopharmaceuticals comes against the backdrop of India's disease burden shifting towards non-communicable diseases such as diabetes, cancer and autoimmune disorders. "Biologic medicines are key to longevity and quality of life at affordable

costs," the Finance Minister said.

Setting up three new National Institutes of Pharmaceutical Education and Research (NIPER) and upgrading existing seven facilities along with creation of a network of over 1,000 accredited India clinical trials sites forms part

of the strategy on biopharma. "We propose to strengthen the Central Drugs Standard Control Organisation (CDSCO) to meet global standards and approval timeframes through a dedicated scientific review cadre and specialists," Ms. Sitharaman said.

Biopharmaceuticals are complex molecules and unlike other medicines they are not manufactured through chemical synthesis. According to U.S. Food and Drug Administration, biological products are generally large, complex molecules produced through biotechnology in a living system such as a microorganism, plant cell or animal cell and of

ten more difficult to characterise than small molecule drugs.

## Industry reaction

Pharma industry leaders hailed the Budget announcement. Dr. Reddy's Laboratories chairman Satish Reddy said the ₹10,000-crore programme will be a key enabler for India's journey from volume to value leadership. "Alongside the expansion of the national clinical trials network and strengthening of the CDSCO..., these initiatives will enhance India's capacity to develop complex, high-value therapies," he said.

"The Budget's focus on health and biopharma is a

welcome step... we also appreciate the government's emphasis on strengthening CDSCO and advancing a more predictable, science-led regulatory framework. Aligning regulatory processes with global standards, while expanding India's clinical research capabilities, will help bring medical innovation to India faster," president and general manager of Eli Lilly and Company (India) Winslow Tucker said.

Anuj Sethi, senior director at Crisil Ratings, said India's pharmaceutical sector has been a leader in low-cost, small-molecule generics. The Biopharma SHAKTI will enable domestic companies to expand into more complex products such as biosimilars.

## KEY HIGHLIGHTS

### Background and Rationale

- Structural shift in disease burden: India is witnessing a transition from communicable diseases to non-communicable diseases (NCDs) such as diabetes, cancer and autoimmune disorders.
- Policy response: Biopharmaceuticals (biologics and biosimilars) are critical for long-term management of NCDs, improving longevity and quality of life.
- Strategic importance: Biopharma identified as one of the seven strategic and frontier sectors for scaling up under India's industrial and health strategy.

### Biopharma SHAKTI Programme

- Outlay: ₹10,000 crore over five years.
- Objective: Develop India into a global biopharma manufacturing hub, moving from volume-based to value-based leadership.
- Focus areas:
  - Domestic production of biologics and biosimilars
  - Promotion of knowledge, technology and innovation
  - Strengthening the entire biopharma ecosystem

### Key Institutional and Infrastructure Measures

- Human capital and education
  - Setting up three new National Institutes of Pharmaceutical Education and Research (NIPERs)
  - Upgradation of seven existing NIPER facilities
- Clinical research ecosystem
  - Creation of a network of 1,000+ accredited clinical trial sites across India

- Enhances India's capacity for advanced clinical research and faster drug development
- Regulatory strengthening
  - Capacity building of the Central Drugs Standard Control Organisation (CDSCO)
  - Introduction of a dedicated scientific review cadre and specialist reviewers
  - Aim: alignment with global regulatory standards and faster approval timelines

### Significance of Biopharmaceuticals

- Nature of biologics:
  - Large, complex molecules produced using living systems (microorganisms, plant or animal cells)
  - More difficult to characterise and regulate than small-molecule chemical drugs
- Strategic advantage:
  - High entry barriers → greater value addition
  - Essential for advanced therapies in oncology, endocrinology and immunology

### Industry and Economic Implications

- Sectoral diversification:
  - Enables Indian pharma companies to move beyond low-cost generics to complex, high-value products
- Global competitiveness:
  - Stronger clinical trials and science-based regulation improve India's credibility in global markets
- Innovation ecosystem:
  - Encourages R&D, public-private collaboration and technology transfer

# Debating Budget 2026 as turning point or tinkering

As is widely understood, the annual Budget is a political document responding to short to medium-term economic challenges. Formally, it is an annual revenue and expenditure statement outlining the government's priorities. As with any financial statement, the fine print matters the most, not obvious from the media headlines. Yet, it is useful to read the Budget closely to glean the broad direction of economic policy, especially as there are no other long-term policy documents or explicit economic targets in the public domain to locate the annual Budget.



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**Setting to the Budget**  
The proximate context of the Budget is the recent eruption of geopolitical turmoil triggered during the second term of the Donald Trump presidency in the United States. Many political and economic arrangements – or, the rules and norms of international relations that have been in place since the fall of the Berlin Wall – are now upended. India's long-term economic and security arrangements with the US are under threat. Mr. Trump's steep tariffs on India's labour-intensive goods have dashed hopes of a closer economic relationship with the US. In response, India is seeking closer ties with the European Union in the form of "mother of all" free trade agreement (FTA), though its details are still unclear. India's import dependence on China continues despite the policy efforts taken, since 2020, to correct this. Diplomatic relations remain strained. For instance, China has imposed restrictions on the exports of critical minerals, tunnel boring machines and the services of skilled workers for the electric vehicle (EV) industry.

Budget 2026-27 needs to be read in this context. Unlike previously, this Budget highlights the urgency of strengthening domestic manufacturing. It also aims to streamline import duties and procedures in order to reduce imports and achieve self-reliance, and to speed up exports.

Factually speaking, the Indian manufacturing sector has not performed satisfactorily for a while now, despite headline GDP growth of 6.5% to 7% annually in real terms (net of inflation). India has deindustrialised prematurely; the share of manufacturing in GDP has declined or, at best, has remained constant. Manufacturing employment in total employment has also

declined. The official GDP numbers for manufacturing seem overstated due to infirmities in estimation. Alternative figures, based on the more reliable Annual Survey of Industries (ASI), based on time tested production accounts of factories, show distinctly slower output growth rates. With very modest growth in fixed investment (or gross fixed capital formation), industrial capacity has eroded during the last decade.

Rising import dependence for most capital and intermediate goods is a reason for modest industrial performance. An inverted duty structure wherein intermediate goods face higher tariffs than final goods seems to be responsible for the poor industrial investments. Policy initiatives such as 'Make in India' (2014), Aatma Nirbhar Bharat (or Self-Reliant India Movement) in 2020 and Production Linked Incentives (PLI) seem to have largely failed to dent India's rising import dependence in manufactured goods despite some widely applauded successes in mobile phone assembly (with high import content, best exemplified by Apple iPhone exports).

Hence, the Budget aims to tackle domestic vulnerabilities. The tariff modifications seem to correct for the inverted duty structures (IDS) by reducing basic customs duties on capital and intermediate goods in order to encourage domestic value addition. Likewise, rationalising procedures at points of entry of goods would perhaps reduce delays, thus improving ease of production and exports.

**Focus on electronics, the China factor**  
The Budget makes substantial provision for augmenting the production of electronics parts and sub-assemblies, which form the single largest product group of dependence on China. The same holds for rare earth materials (used in the production of EVs and electronic goods) – a choke point as the Economic Survey recently and rightly highlighted. To tackle it, the Budget proposes to create a dedicated rare earths corridor running through "mineral-rich States of Odisha, Kerala, Andhra Pradesh and Tamil Nadu ... to promote mining, processing, research and manufacturing". Similar to encouraging the production of lithium-ion cells for battery storage, the Budget proposes to extend the tax exemption on capital goods to produce these items.

Policy-makers perceive India's trade integration has to begin with labour-intensive goods. Now, with the Trump tariffs on India's exports, there is an acute need to enhance the productivity of such goods to overcome these tariffs and ensure diversification away from the US. In line with this view, the Budget has laid emphasis on promoting new Micro, Small, and Medium Enterprises (MSME) clusters, modernising the old or "legacy" clusters (about 120 of them), and providing financial assistance to MSMEs to tap the capital market. In principle, these measures are welcome.

However, the Budget seems to fall short in efforts to boost fixed investment. To augment industrial capabilities, India needs to encourage investments in high-tech industries. Such technologies are mostly proprietary items of multinational corporations that often come bundled with foreign direct investment (FDI). In recent years, net FDI, as a ratio of GDP, has become practically zero. The Budget seems to make little effort to correct for the decline in foreign high-tech investments. Geopolitical uncertainties perhaps make it difficult to attract such technology-intensive investments, at least for now.

While the government is committed to promoting exports, the Budget has permitted firms located in special economic zones (SEZs) to sell a part of their output in domestic territory. This seems regressive. The government should tackle their hurdles to augment exports, rather than choose the softer option of allowing sales in the domestic market.

**A silence on Centre-State fiscal issues**  
The Budget, which has been presented in a difficult global context, seems well-intentioned to tackle import dependence in domestic manufacturing to attain greater self-reliance. However, considering the uncertainties, the Budget seems silent on many difficult issues. Centre-State fiscal issues have also been overlooked, considering the impending implementation of the recommendations of the Sixteenth Finance Commission. Whether the proposed measures would yield desired results to reverse India's industrial decline and import dependence (especially on China, a strategic threat) would depend on the specifics of the proposals (which we have not seen) and how they are implemented.

## Static Linkages

- Structural transformation and industrialisation.
- Inverted duty structure in indirect taxation.
- Capital formation and long-term growth.
- Import substitution vs export-led growth.
- Special Economic Zones as export-promotion instruments.
- Fiscal federalism and Centre-State relations.

## Critical Analysis

### Positives

- Tariff correction may improve domestic value addition.
- Focus on electronics and critical minerals strengthens supply-chain resilience.
- MSME clustering can improve productivity and employment.

### Concerns

- Limited push for fixed investment revival.
- Weak focus on attracting high-technology FDI.
- Allowing SEZ units to sell domestically dilutes export orientation.
- Centre-State fiscal issues not addressed despite upcoming Finance Commission.

## Way Forward

- Provide stable policy regime to revive FDI inflows.
- Shift from assembly-led to ecosystem-based manufacturing.
- Strengthen export competitiveness of SEZs.
- Enhance Centre-State coordination in industrial infrastructure.
- Integrate industrial policy with skilling, R&D and technology transfer.
- Set medium-term manufacturing targets.

## KEY HIGHLIGHTS

### Context of the News

- Union Budget 2026–27 presented amid global trade fragmentation and geopolitical uncertainty.
- Protectionist trade policies by major economies affecting global value chains.
- Persistent weakness in India's manufacturing sector despite multiple policy initiatives since 2014.
- Budget signals renewed emphasis on domestic manufacturing and import substitution.

### Key Points

- Manufacturing share in GDP stagnated at ~15–16% (Economic Survey).
- Manufacturing employment share declining → premature deindustrialisation.
- Gross Fixed Capital Formation growth modest → erosion of industrial capacity.
- Rising import dependence on capital and intermediate goods.
- Budget measures include:
  - Rationalisation of customs duties to correct inverted duty structure.
  - Simplification of import procedures.
  - Focus on electronics components and sub-assemblies.
  - Proposal for rare earths corridor in mineral-rich coastal States.
  - Expansion and modernisation of MSME clusters.
- Net FDI inflows as % of GDP declined sharply in recent years (RBI).

Budget 2026-27 needs to be read in the context of much geopolitical turmoil

# Budget 2026 bets big on industrial growth

Budget 2026-27 comes at a time when the economy is experiencing a rare goldlocks period of high economic growth and low inflation. The Indian economy has become the fourth largest, overtaking Japan, retaining its tag of being one of the fastest growing economies. Beneath the headline numbers lie some inherent challenges, which could be amplified by the uncertainty emanating from the geopolitical crises and tariff wars, and have the potential to hinder long-term growth. A fine balance between optimism and realistic assessment is needed at this juncture to sustain growth and enhance welfare. The Budget attempts this with a slew of long and short-term measures. It lays out a grand vision, skips specifics and maintains continuity over short-term policy stimuli.

The raise in the capex target to ₹12.2 lakh crore for FY27 from ₹11.2 lakh crore earmarked for the current fiscal signals continuity in maintaining growth primarily fuelled by public infrastructure expenditure. Reaffirming a commitment to fiscal consolidation while continuing to prioritise capital spending to support growth, the fiscal deficit target has been set at 4.3% of GDP for 2026-27.

## Sticking to fiscal prudence

The Budget shows that the overarching macro policy objective is to stick to fiscal prudence as the proposed numbers seem to be on the path of targeting the debt-to-GDP ratio of 50% in the mid-term though it would be at 55.6% this year. Fiscal deficit involves a gross borrowing of ₹17.2 trillion and a net borrowing of ₹11.7 trillion.

Though the net outflow from the market is the same, the gross borrowing is higher than last year. Growth in nominal GDP has been assumed to be above 10%, which appears more realistic. When we assume growth of 6.8%-7.2% in real GDP, as in the Economic Survey, inflation will be at 2.9%-3.2% in terms of the GDP deflator. This tends to indicate an average CPI inflation of closer to 4%-plus in the year ahead. These numbers will change when the new series of GDP is published. However, there may not be too much room for



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further rate cuts in this scenario, given the larger borrowing programme.

## Support for frontier sectors

Marking a stark departure from earlier Budgets, the focus on the manufacturing sector was right in the beginning of the Finance Minister's Budget speech. There is a concerted attempt to push industrial growth by targeting the emerging, legacy and the Micro, Small, and Medium Enterprises (MSME) including the khadi and handicrafts sectors.

The expansion of support for seven strategic and frontier manufacturing sectors, which includes semiconductors, electronics components, biopharma, chemicals, capital goods and textiles, is an intent to move beyond Production Linked Incentives. The Electronics Component Manufacturing Scheme outlay was increased to ₹40,000 crore, while the India Semiconductor Mission 2.0 was announced to deepen domestic chip manufacturing and reduce reliance on vulnerable global supply chains.

The Budget also announced ₹10,000 crore for a new container manufacturing scheme and reinforced the logistics backbone that is critical to export competitiveness through major freight corridors and transport investments. It also responded to disruptions caused by the tariff conflict between China and the United States, which has tightened access to critical minerals, most of which are inputs for electronics, defence equipment, electric vehicles and renewable energy systems.

Measures are addressed towards the export sectors hit by higher U.S. duties, particularly textiles, leather and seafood. The announcements related to MSMEs signal a shift toward a structural strengthening of financing. The proposed ₹10,000 crore small and medium enterprises (SME) Growth Fund is expected to complement bank credit by addressing the equity gap for scalable enterprises.

The Budget sprang some surprises. First, despite the huge gap between intention and execution of disinvestments, there is an

expectation of revenue realisation from disinvestments. The target for last year was ₹47,000 crore of which only ₹8,768 crore was realised. Second, it laid out a proposal for global cloud service providers such as Microsoft, Google and Amazon to use more Indian data centres, promising zero tax until 2047 on global cloud services provided by them through an Indian entity and from an Indian data centre. Twenty-two years of tax concession is one of the longest ever. Third, despite the low employment elasticity of the services sector, it anticipates higher employment generation in this sector. This seems contradictory as we see Artificial Intelligence and other technologies pushing jobs out of segments within services. Fourth, the push for more data centres does not seem to be backed by more trust on power generation, as these centres consume more power. Finally, though the Economic Survey pointed out the paradox in the system, that is a very good economy coexisting with a rather volatile rupee, the Budget maintains a silence on this.

## The gaps

Though the Budget starts with a thrust on the manufacturing sector, it needs to be complemented with a comprehensive industrial policy. Otherwise, these announcements would remain disjointed parts of a larger package. The focus on industrial growth also need sustained domestic demand, on which there is little discussion. The effective capital expenditure for 2025-26 was budgeted at ₹15,48,282 crore but the actual has only been ₹14,03,906 crore. This shortfall affects the assumed multipliers and demand generation thereof. As external demand is volatile, domestic employment and income growth are crucial for expansion of the manufacturing sector. This has the potential of turning out to be the weak link especially during a period of price rise. Ensuring this would be the challenge for 2026-27, for which we need to run a marathon and a sprint at the same time

*The views expressed are personal*

- Logistics & Infrastructure:
  - ₹10,000 crore for container manufacturing.
  - Investment in freight corridors and transport infrastructure.
- MSME Support:
  - ₹10,000 crore SME Growth Fund for equity financing.
  - Targeted support for export-oriented MSMEs affected by higher US tariffs.
- Digital Infrastructure:
  - Proposal of zero tax till 2047 for global cloud services provided via Indian data centres.

## Static Linkages

- Public capital expenditure and growth multiplier (Economic Survey).
- Fiscal consolidation under FRBM framework.
- Manufacturing-led structural transformation.
- MSMEs as drivers of employment and exports.
- Infrastructure-logistics-export competitiveness link.

## Critical Analysis

### Strengths

- Maintains fiscal prudence while prioritising growth.
- Signals transition from PLI-centric approach to broader manufacturing support.
- Strengthens MSME financing architecture.
- Addresses supply-chain vulnerabilities in strategic sectors.

### Limitations

- Absence of a comprehensive industrial policy framework.
- Under-execution of capital expenditure may weaken demand.
- Overestimation of services-sector employment generation.
- Data centre expansion not matched with power sector planning.
- Revenue assumptions from disinvestment remain uncertain.
- No explicit policy response to exchange-rate volatility.

## Way Forward

- Formulate an integrated industrial policy.
- Improve efficiency and timely execution of capital expenditure.
- Strengthen domestic demand through employment generation.
- Align digital infrastructure expansion with energy planning.
- Rationalise tax incentives with accountability mechanisms.
- Address macroeconomic risks from external sector volatility.

## KEY HIGHLIGHTS

### Context of the News

- Union Budget 2026–27 presented during a phase of high GDP growth with moderate inflation.
- India has become the 4th largest economy in nominal GDP terms.
- Budget framed amid global geopolitical tensions, tariff conflicts, and supply-chain disruptions.
- Focus on continuity of public investment, fiscal consolidation, and long-term growth.

### Key Points

- Capital Expenditure (Capex): ₹12.2 lakh crore (FY27) vs ₹11.2 lakh crore (FY26).
- Fiscal Deficit Target: 4.3% of GDP (FY27).
- Debt-to-GDP Ratio: 55.6% (current); medium-term target of 50%.
- Gross Market Borrowing: ₹17.2 trillion.
- Net Market Borrowing: ₹11.7 trillion.
- Nominal GDP Growth Assumption: >10%.
- Inflation Outlook:
  - GDP deflator: ~3%.
  - CPI inflation: ~4%+.
- Limited space for further monetary easing due to higher borrowing.

### Sectoral Measures

- Manufacturing Focus:
  - Support to 7 strategic/frontier sectors (electronics, semiconductors, biopharma, chemicals, capital goods, textiles).
  - Electronics Component Manufacturing Scheme: Outlay increased to ₹40,000 crore.
  - India Semiconductor Mission 2.0 announced.

## Credible, creditable

### The Budget chose prudence over adventurism, and multipronged measures over Big Bang reforms

Where Budget 2025 was largely dominated by the income-tax rate and slab relaxations, Budget 2026 has done away with Big Bang measures. Instead, its scatter-shot approach, through various sectoral and issue-based measures, when taken together, is aimed at propelling India's growth over the medium term. Given the level of geoeconomic and geopolitical uncertainties that the Indian economy faces, this diffused approach is likely a more effective policy than targeted Big Bang announcements would be. This is not the time for further disruption. Budget 2026 contains announcements for the manufacturing sector, various services sectors, as well as particular provisions to help labour-intensive sectors such as textiles and leather. In terms of manufacturing, the Budget includes measures covering seven well thought-out areas: biopharma, semiconductors, electronics, rare earths, chemicals, capital goods and textiles. Semiconductor and electronics manufacturing are the few sectors that have gained from the government's existing PLI schemes. The India Semiconductor Mission 2.0 and the increased allocation under the Electronics Component Manufacturing Scheme are appropriate follow-ups to this. These are sectors where India needs to become globally competitive. The Biopharma SHAKTI scheme is aimed at making India a global biopharma manufacturing hub with an allocation of ₹10,000 crore over the next five years. Pharmaceuticals, already a sector that India does well in, are exempt from the U.S.'s 50% tariffs. It is also important to support those sectors that are currently hit by those same tariffs. The National Export Promotion Mission announced in the last Budget was implemented only by December 2025, nine months into the financial year. The Centre should ensure that this Budget's integrated programme for the textiles sector does not face similar delays. Also, the various measures aimed at creating 'Champion MSMEs', providing them equity, liquidity, and professional support, must be implemented quickly. MSMEs account for 48.6% of India's exports, and the EU FTA, even if it is implemented soon, will not kick in quick enough to offset the ongoing pain caused by the U.S. tariffs. The services sector, too, stands to benefit from Budget 2026. The high-powered 'education to employment and enterprise' standing committee, announced by the Finance Minister, should get off the ground soon. The focus on health care and medical tourism, where India is already developing strengths, is a good start. In keeping with the Budget's multipronged approach, the Centre has sought to cater to the election-bound States this year through several smaller announcements – such as dedicated rare earth corridors to benefit Odisha, Kerala, Andhra Pradesh and Tamil Nadu, a Coconut Promotion Scheme for Kerala, an integrated East Coast Industrial Corridor for West Bengal, and the first of the new national waterways to begin in Odisha – rather than through the consolidated packages of the past.

As for the Centre's finances, Budget 2026 offers a mix of expenditure enthusiasm and revenue sobriety. The capital expenditure push, especially with regard to infrastructure creation, has continued, perhaps in reaction to the realisation that current conditions do not encourage private investment. Overall, capital expenditure is set to grow to ₹12.2 lakh crore in 2026-27, amounting to 4.4% of GDP, the highest in at least the last 10 years. This includes the announcement of dedicated freight corridors and training institutes for the manpower needed. These rail corridors are also to be supplemented by a Coastal Cargo Promotion Scheme to incentivise increasing the share of inland waterways and coastal shipping. It is noteworthy that the Centre has revised downwards its capital expenditure for 2025-26 to ₹10.9 lakh crore from the ₹11.2 lakh crore initially budgeted. It remains to be seen if this year's target will be met, but even coming close will provide a substantial fillip to the economy. On the revenue front, the Centre did not announce any major tax cuts for individuals or corporations. In 2019 and 2025, respectively, corporations and individuals received substantial tax relief. To announce more would have put undue stress on central finances at a time when its expenditure commitments – known and anticipated – are substantial. However, while direct taxes have largely received procedural improvements, the Budget has included a slew of indirect tax relaxations for the promotion of marine, leather and textile products exports, and speeding up India's energy transition. The tax revenue projections are largely sober. Corporate tax revenue is projected to grow nearly 14% over the Budget estimates of 2025-26. This is broadly in line with the revised estimates for 2025-26 coming in 12.4% higher than the actuals of the previous year. Income-tax revenue has been budgeted to grow 1.9% over the BE of 2025-26 – an expected outcome following last Budget's substantial rate relaxations. Gross GST revenue has been projected to contract 13.5% in 2026-27, a reflection of the September 2025 rate rationalisation and the end of the Compensation Cess. Taken together, the Centre's fiscal deficit has been projected at 4.3% of GDP in 2026-27, down from 4.4% estimated for 2025-26. While the Centre's fiscal consolidation path since the COVID-19 pandemic has been admirable, continued aggression in reducing the deficit deserves some questioning. Even the Economic Survey argued for some fiscal flexibility for the Centre given the geoeconomic and geopolitical conditions. Overall, Budget 2026 may disappoint those looking for massive tax relief or subsidies, but is nevertheless a credible and creditable effort.

## KEY HIGHLIGHTS

### Context

- Union Budget 2026–27 presented amid global geoeconomic and geopolitical uncertainties.
- Shift from tax-centric reforms (Budget 2025) to a diffused, sector-based growth strategy.
- Emphasis on stability, implementation and medium-term competitiveness rather than disruptive reforms.

### Key Points

- Manufacturing push across seven sectors:
  - Biopharma, Semiconductors, Electronics, Rare Earths, Chemicals, Capital Goods, Textiles.
- Biopharma SHAKTI Scheme: ₹10,000 crore over five years to strengthen domestic biopharma manufacturing.
- India Semiconductor Mission 2.0 and higher allocation to Electronics Component Manufacturing Scheme.
- Targeted support to labour-intensive sectors (textiles, leather, marine exports) through indirect tax rationalisation.
- Champion MSMEs programme: focus on equity, liquidity and managerial support.

- MSMEs contribute 48.6% of India's exports.
- Services sector measures:
  - High-level committee on education–employment–enterprise linkage.
  - Focus on healthcare and medical tourism.
- Capital expenditure:
  - ₹12.2 lakh crore in 2026–27 (4.4% of GDP) – highest in a decade.
  - Dedicated freight corridors, rail skilling institutes.
  - Coastal Cargo Promotion Scheme to enhance inland waterways and coastal shipping.
- Fiscal indicators:
  - Fiscal deficit: 4.3% of GDP (2026–27).
  - Corporate tax growth projected ~14%.
  - Income tax growth muted due to previous slab rationalisation.
  - GST revenue contraction due to rate rationalisation and end of Compensation Cess.

### Static Linkages

- Public capital expenditure as a counter-cyclical fiscal tool.
- Manufacturing and MSMEs in structural transformation.
- Logistics efficiency and infrastructure multiplier effect.
- Fiscal consolidation under FRBM framework.
- Export competitiveness and global value chain integration.

### Critical Analysis

#### Strengths

- Reduces policy disruption during global uncertainty.
- Strengthens strategic manufacturing sectors.
- Infrastructure-led growth compensates for weak private investment.
- Maintains fiscal discipline while supporting growth.
- Region-specific projects support cooperative federalism.

#### Concerns

- Risk of implementation delays.
- MSME support effectiveness depends on timely execution.
- Aggressive fiscal consolidation may limit policy flexibility.
- Export relief insufficient to offset short-term tariff shocks.
- GST revenue contraction may constrain future spending.

### Way Forward

- Time-bound implementation and monitoring of sectoral schemes.
- Greater Centre–State coordination for industrial corridors.
- Allow calibrated fiscal flexibility during external shocks.
- Strengthen logistics and trade facilitation.
- Align industrial policy with skilling and labour reforms.
- Improve outcome-based evaluation of MSME support programmes.

# Budget positions India to govern growth with judgement and resilience



N K SINGH AND NICHOLAS STERN

around 2.3 per cent of GDP. While real activity outpaces nominal growth, revenue buoyancy has weakened even as fiscal demands intensify. This strains the exchequer at a time when debt sustainability and macroeconomic management are becoming more binding. The challenges of India's "Goldilocks" economy call for the following blueprint:

First, fiscal credibility must be judged not only by headline deficit reduction but by the composition and economy-wide effects of public spending. The Centre's adjustment since FY21 has been substantial, with the deficit reduced from 9.2 per cent of GDP to 4.8 per cent in FY25 and 4.4 per cent for FY26. Public capex has risen to ₹11.21 lakh crore, while the general government debt-to-GDP ratio has declined by over seven percentage points. GST provides a new source of information as well as revenue, and encourages movement from informal to formal. Yet the fiscal stance must also be assessed against the domestic savings constraint. Government borrowing absorbs a large share of net household financial savings, which corporations no longer rely on. The shift in household savings toward greater risks on the stock market has increased borrowing costs rather than larger deficits. This is particularly relevant for manufacturing and smaller firms, where the cost of capital remains elevated. Fiscal discipline must crowd in private investment rather than pre-empt it. Public investment in efficient and clean infrastructure can open up opportunities for new private investment.

Second, state finances reinforce this concern. State deficits have risen since FY22, reaching around 3.2 per cent of GDP in FY25, while state debt remains close to 28 per cent of GDP. In integrated sovereign debt markets, sub-national slippages raise borrowing costs for all. Cooperative fiscal federalism must move beyond transfers toward shared discipline and credible rules.

Third, private investment remains the bridge between macroeconomic stability and sustained growth. The Centre is leading by example with additional grants of ₹1.6 lakh crore to raise states' capex. States must play a larger role, though capex cannot remain the primary growth engine. The investment rate has stabilised near 30 per cent of GDP, corporate balance sheets have strengthened, and capacity utilisation has improved. The Budget emphasises simplified regulations, faster contract enforcement, and lowering the economy-wide cost of capital.

Fourth, competitiveness and trade access are increasingly shaped by climate. Industrial GVA grew by 7 per cent in the first half of FY26, with medium- and high-technology manufacturing accounting for nearly half of this. The Budget strengthens competitiveness through rationalised customs duties, correction of inverted duty structures, faster MSME payments, and stronger private R&D. Climate risks to manufacturing now need to be addressed directly. Reducing emissions from cement and steel, supported by the Budget's focus on carbon capture utilisation and storage, will be good for India while enabling exports to Europe and elsewhere.

India must preserve *atmanirbharta* while deepening ties with trusted partners, particularly in the Asian economy. Call it *Carney-ism*. A blunt warning that we are living through a rupture, the old order is dead, and the transition disorderly. Influence will accrue to those capable of forming agile alliances across trade, energy, and security. The challenges will include finance, investment, energy, climate, biodiversity and security. The Budget implicitly acknowledges these as it seeks to protect growth.

Finally, human capital and cities will determine whether growth remains durable. India's workforce exceeds 56 crore, unemployment has declined to 4.8 per cent, and female labour force participation has crossed 41 per cent. AI is expected to lift productivity, with the Economic Survey projecting total factor productivity growth of 1.9 per cent annually.

Cities generate a disproportionate share of output and FDI. The FM's Budget speech highlighted the development of City Economic Regions (CERs), with funding of ₹5,000 crore per CER over five years linked to results. Between 2017 and 2025, municipal bonds — further incentivised in this Budget — raised ₹2,834 crore. Property taxes now account for about 60 per cent of urban local body revenues. Without stronger municipal finance and governance, India risks losing agglomeration benefits in labour absorption and capital attraction. Pollution and congestion are a major constraint on talent, investment, and growth. Urban infrastructure needs reforms that reduce emissions, manage mobility and improve service delivery. Stronger, cleaner public transport spurs inclusion and creates opportunities for poor people to benefit from urban growth.

In a harsher global environment, this Budget positions India not merely to grow, but to govern growth with judgement and resilience. We are in the classic Schumpeterian case, often associated with "creative destruction". This Budget provides new opportunities for investing in the new and enhancing India's creativity.

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- Workforce size >56 crore; unemployment 4.8%; female LFPR >41%.
- City Economic Regions (CERs): ₹5,000 crore per CER over five years.
- Municipal bonds raised ₹2,834 crore (2017–25).
- Property tax ~60% of ULB revenues.

## Static Linkages

- Fiscal deficit and debt sustainability.
- Twin deficits hypothesis.
- Crowding-in vs crowding-out of private investment.
- Cooperative fiscal federalism.
- Agglomeration economies in urbanisation.
- Climate change as non-tariff trade barrier.
- Schumpeterian creative destruction.

## Critical Analysis

### Strengths

- Fiscal consolidation improves macro credibility.
- Public capex supports private investment.
- Trade diversification reduces single-market risk.
- Climate-aligned manufacturing enhances export resilience.
- Urban reforms support productivity and labour absorption.

### Challenges

- High government borrowing absorbs household financial savings.
- Elevated cost of capital for MSMEs.
- Rising state-level fiscal stress.
- Climate compliance costs for industry.
- Weak municipal governance capacity.

## Way Forward

- Focus on quality of fiscal consolidation.
- Strengthen state-level fiscal discipline.
- Reduce economy-wide cost of capital.
- Integrate climate strategy with industrial policy.
- Deepen municipal finance and governance reforms.
- Build trusted trade and technology partnerships.
- Invest in human capital and productivity-enhancing technologies.

## KEY HIGHLIGHTS

### Context of the News

- Union Budget FY26 assessed in the context of global economic fragmentation and geopolitical uncertainty.
- Budget reflects a shift towards trade-led growth, export competitiveness, and technology-driven capital formation.
- Aligned with macroeconomic assessment in the Economic Survey.

### Key Points

- Growth strategy based on capital, technology, exports.
- Trade agreements with EU, UK, Australia, UAE, Oman to diversify export markets.
- Current Account Deficit at 1.3% of GDP (Q2 FY26); sustainable level ~2–2.5% of GDP.
- Fiscal deficit reduced from 9.2% (FY21) to 4.4% (FY26 BE).
- Public capital expenditure increased to ₹11.21 lakh crore.
- General government debt-GDP ratio declined by ~7 percentage points since FY21.
- State fiscal deficit around 3.2% of GDP (FY25); state debt ~28% of GDP.
- Investment rate stabilised near 30% of GDP.
- Industrial GVA growth 7% in H1 FY26; medium and high-technology manufacturing ~50%.
- Budget focus on:
  - Rationalised customs duties
  - Correction of inverted duty structures
  - Faster MSME payments
  - Private sector R&D
- Climate focus: carbon capture utilisation and storage (CCUS) for steel and cement.

The challenges of building coalitions will include finance, investment, energy, climate, biodiversity and security. The Budget implicitly acknowledges these

# Finance Minister has bypassed large parts of farm sector



**FROM PLATE TO PLOUGH**  
BY ASHOK GULATI AND PURVI THANGARAJ

**T**HE FIRST advance estimates for GDP in 2025-26 present a sobering picture for agriculture. While the overall GDP growth is projected at 7.4 per cent, agriculture growth is likely to slow down from 4.6 per cent in FY25 to 3.1 per cent in FY26. Expectations that the Union Budget will give a booster dose to the sector, which employs 45 per cent of the workforce and contributes roughly 17 per cent to the overall GDP, have been belied. The business-as-usual approach of subsidies dominating over developmental expenditures continues.

Farm and allied sectors have received Rs 1.63 lakh crore. The Ministry of Agriculture and Farmers' Welfare (MoAFW) received Rs 1.4 lakh crore in FY27 (budget estimate, BE), an increase of 5.4 per cent from Rs 1.33 lakh crore in FY26 (revised estimate or RE). Within the MoAFW, the Department of Agricultural Research and Education has seen a 3 per cent decrease. The allocation to the Ministry of Fisheries, Animal Husbandry, and Dairying increased by 26.7 per cent — a step in the right direction.

However, the bulk of the support to the rural-agrarian sector, amounting to Rs 6.7 lakh crore (12.6 per cent of the total Budget of Rs 53.5 lakh crore), focuses on welfare measures and subsidies. Allocations for food and fertiliser subsidies together stand at nearly 74 per cent of total Budget expenditure. The food subsidy alone is estimated at Rs 2.27 lakh crore, broadly the same as last year's revised estimate. The fertiliser subsidy is pegged at Rs 1.7 lakh crore, decreasing from Rs 1.86 lakh crore (FY26, RE), and increasing from Rs 1.67 lakh crore (FY26, BE). The Viksit Bharat-Guarantee for Rozgar and Ajeevika Mission (Gramin) (VB-G RAM G) was allocated Rs 95,692 crore.

The vision of Viksit Bharat cannot be realised without a stronger and more productive rural economy. Developmental expenditures are the only way to improve rural livelihoods. But the higher share of welfare measures and subsidies compared to MoAFW's budget does not advance this goal.

Our prescription for addressing this imbalance is straightforward: Invest in agricultural research and development. India

spends less than 0.5 per cent of its agricultural GDP on R&D, well below the 1 per cent benchmark associated with sustained productivity growth. ICRIER's research shows that for every million rupees spent on fertiliser subsidies, only 26 people are lifted out of poverty, while the same amount spent on agricultural research and extension can lift as many as 328 people out of poverty. Every rupee spent on fertiliser subsidies generates a return of just Rs 0.88 in agricultural GDP, while the return from agricultural R&D is Rs 11.2. Yet, year after year, public spending choices reflect the opposite priority. Subsidies look beneficial at first glance and fetch votes, while returns on research and infrastructure take time. But climate change, groundwater stress, declining soil quality and biodiversity loss make this model unsustainable.

Fertiliser subsidies continue to be input-linked and price-based, encouraging excessive use of nitrogenous fertilisers while discouraging the more ecologically sustainable balanced nutrient application. As the Economic Survey pointed out, a gradual shift from product-based fertiliser subsidies to per-acre, crop and agro-climatic zone-linked income support, combined with investments in soil testing and extension, will protect farmers while reducing distortions. The Budget has failed to bite the bullet.

India's farmers face variable monsoons, rising input costs, and natural resource constraints. Redirecting a portion of subsidies into targeted transfers, research and extension, and region-specific ecological recovery will sustain farmer incomes and public finances, while making agriculture more productive, resilient and sustainable. That is a reform agenda worth pursuing now.

There is also inherent consumer bias as the food subsidy remains the most dominant at Rs 2.27 lakh crores despite a significant reduction in poverty. This only speaks of irrationality in allocating scarce budgetary resources. The Centre's "reform express" seems to have bypassed large parts of the farm sector.

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Invest in agricultural research and development. India spends less than 0.5 per cent of its agricultural GDP on R&D, well below the 1 per cent benchmark associated with sustained productivity growth

## KEY HIGHLIGHTS

### Context of the News

- First Advance Estimates project GDP growth ~7.4%, while agriculture growth slows to ~3.1% in FY26 (from ~4.6% in FY25).
- Union Budget continues subsidy- and welfare-dominated spending in agriculture, with limited increase in developmental expenditure.
- Policy concerns raised regarding low public investment in agricultural R&D and persistence of input-linked subsidies, as highlighted in the Economic Survey.

### Key Points

- Agriculture employs ~45% of workforce and contributes ~17% to GDP.
- Allocation to farm and allied sectors: ~₹1.63 lakh crore.
- Allocation to Ministry of Agriculture & Farmers' Welfare: ~₹1.4 lakh crore (~5.4% increase over previous RE).
- Allocation to Department of Agricultural Research & Education: ~3% decline.
- Allocation to Fisheries, Animal Husbandry and Dairying: ~26.7% increase.
- Total rural-agrarian support (subsidies + welfare): ~₹6.7 lakh crore (~12.6% of total Budget).

- Food subsidy: ~₹2.27 lakh crore (largest component).
- Fertiliser subsidy: ~₹1.7 lakh crore; remains price-based and input-linked.
- India spends <0.5% of agricultural GDP on R&D, below the ~1% level associated with sustained productivity growth.
- Evidence shows higher poverty reduction and GDP returns from agri-R&D compared to fertiliser subsidies.

### Static Linkages

- Role of public investment in agriculture for long-term productivity.
- Green Revolution model and fertiliser-use imbalance (N:P:K distortion).
- Capital formation in agriculture vs revenue expenditure.
- Sustainable agriculture: soil health, water use efficiency, biodiversity.
- Food security vs farm income enhancement debate.

### Critical Analysis

#### Strengths

- Increased allocation to allied sectors supports diversification.
- Food subsidy ensures short-term food security.
- Marginal reduction in fertiliser subsidy indicates fiscal caution.

#### Limitations

- High share of subsidies crowds out productive investment.
- Input-linked fertiliser subsidy causes nutrient imbalance and soil degradation.
- Low R&D spending weakens climate resilience and productivity growth.
- Spending pattern not aligned with declining poverty levels.

### Way Forward

- Gradual shift from price-based fertiliser subsidies to per-acre / agro-climatic income support.
- Increase public spending on agricultural R&D, extension and irrigation.
- Strengthen soil testing, precision farming and technology diffusion.
- Promote region-specific, climate-resilient agriculture.
- Use DBT mechanisms to protect farmers while reducing distortions.

# Budget moves forward with future as focus but ducks key reforms

HERE ARE several things to commend in Union Finance Minister Nirmala Sitharaman's ninth full Budget. First, the continued focus on fiscal consolidation. Sitharaman has achieved the budgeted 4.4 per cent of GDP target for 2025-26, despite a huge Rs 1.63 lakh crore shortfall in tax collections. For the coming fiscal year, she has targeted a fiscal deficit of 4.3 per cent. Alongside this, there is an emphasis on bringing down the Centre's debt stock from 56.1 per cent of GDP in 2025-26 to 55.6 per cent in 2026-27. Seen in the context of the deficit- and debt-to-GDP ratios reaching 9.2 per cent and 61.4 per cent in the Covid year of 2020-21, this represents a remarkable commitment to fiscal prudence.

Second, this consolidation has taken place even as the Centre's capital expenditure has more than doubled, from Rs 4.26 lakh crore to Rs 10.96 lakh crore between 2020-21 and 2025-26. For 2026-27, the capex has been budgeted at Rs 12.21 lakh crore. Simply put, the quality of government spending has improved with more money being allocated to growth-stimulating avenues. Third, there is a well-meaning emphasis on scaling up domestic manufacturing in strategic and frontier industries such as biologics and biosimilars, semiconductors, electronics components, rare earth permanent magnets, and even shipping containers and tunnel-boring equipment — where China holds a dominant position. Fourth, the Budget has welcome measures towards reducing tax litigation by replacing prosecutions with penalties and fines in the case of minor offences and technical defaults. This has been accompanied by liberalisation of the safe harbour provisions involving transfer pricing in transactions between related entities. For IT services companies, the threshold for availing them has been raised from Rs 300 crore to Rs 2,000 crore, and it has also been made an automated rule-based process without any tax officer involvement.

THAT SAID, this Budget makes a misstep, while also being a missed opportunity. At a time when India's equity market is hugely underperforming relative to its emerging-market peers and there is outflow of money from foreign portfolio as well as direct investors, raising the securities transaction tax on futures and options was a bad idea. That the markets did not take kindly to it was reflected in the BSE Sensex closing 1,547 points lower or 1.88 per cent on Sunday. That the Budget had no positive stimulus to offer — a cut in capital gains or last time's mega income tax reliefs — did not help either.

Managing the economy is as much about managing sentiment in troubled geopolitical times. This was a Budget that should have addressed the major concern flagged by the Economic Survey: What is causing foreign investors to pause, and "their reluctance to commit to India"? The Survey had called for aggressive disinvestment and even lowering the minimum state stake from 51 to 26 per cent for the purpose of defining a "government company". The Budget has little to offer on that, either. Nor does it have any proposals for rationalisation of subsidies. The combined outgo on food and fertiliser subsidy in 2025-26 stood at Rs 4.15 lakh crore, overshooting the Budget estimate by Rs 43,307 crore. For the coming fiscal year, the bill has been pegged at Rs 398 lakh crore, which could well be exceeded without any moves to cap consumption of subsidised urea sales or open-ended procurement of wheat and rice. The question to ask is: When will the Narendra Modi government bite the bullet on privatisation and subsidy rationalisation? Hereon, the political space for taking hard decisions will, if anything, only recede.

THE HALLMARK of the Modi government has been that many of its consequential economic reforms have been announced outside the Budget. This goes for the 2019 corporate tax cuts, the labour codes, and the recent reduction and simplification of GST rates. That, on the face of it, holds out hope of more purposeful measures and action in the days ahead. One can certainly expect the Centre to act on the Finance Commission's recommendations on incentivising states to undertake much-needed power sector and subsidy reforms, apart from setting their fiscal house in order.

But the Union Budget matters a great deal in signalling the government's priorities, be it to investors or society at large. For instance, one of the major issues shaping the perceptions about India, not to speak of affecting its citizens, is pollution. Couldn't the Budget have proposed, say, a large dedicated fund for tackling this menace within the overall capital expenditure allocation head? The conviction that the Modi government showed in signing free trade agreements with the European Union, the UK, Australia and others needs replication when it comes to domestic economy and governance reforms, too.

## KEY HIGHLIGHTS

### Why is the Budget considered fiscally prudent?

- Fiscal deficit shows how much the government borrows in a year.
- Despite a ₹1.63 lakh crore tax shortfall, the government met its 4.4% of GDP target (2025–26).
- For 2026–27, the deficit is reduced further to 4.3%, showing commitment to FRBM targets.
- Debt-to-GDP ratio is projected to fall from 56.1% to 55.6%, indicating improving long-term sustainability.

### Why is higher capital expenditure important?

- Capital expenditure (capex) creates productive assets (roads, railways, ports).
- Capex increased from ₹4.26 lakh crore (2020–21) to ₹12.21 lakh crore (2026–27).
- Capex has a higher multiplier effect than revenue expenditure.

### Why is the manufacturing push significant?

- Focus on strategic sectors like semiconductors, rare earths, biologics.
- These sectors are critical for:
  - Supply chain resilience
  - Reducing import dependence (especially on China)
  - National security and technology leadership

### Why are tax litigation reforms relevant?

- Criminal cases for minor tax defaults discouraged investment.
- Budget replaces prosecution with penalties for technical offences.
- Safe harbour limits expanded to ₹2,000 crore for IT services.

### Why was the STT hike criticised?

- Securities Transaction Tax on futures and options was increased.
- At a time of FPI outflows, this reduced market attractiveness.
- Markets reacted negatively (Sensex fell sharply).

### Why is subsidy spending a concern?

- Food + fertiliser subsidy reached ₹4.15 lakh crore (2025–26).
- Overshooting indicates:
  - Open-ended procurement
  - Underpriced urea
- No roadmap for subsidy rationalisation provided.

### Why is lack of privatisation highlighted?

- Economic Survey suggested lowering government stake from 51% to 26%.
- Budget did not announce major privatisation or disinvestment.
- Political economy constraints may delay reforms.

### Why does pollution matter in Budget analysis?

- Pollution affects:
  - Public health
  - Labour productivity
  - Investor perception
- Budget did not create a dedicated pollution-control fund.