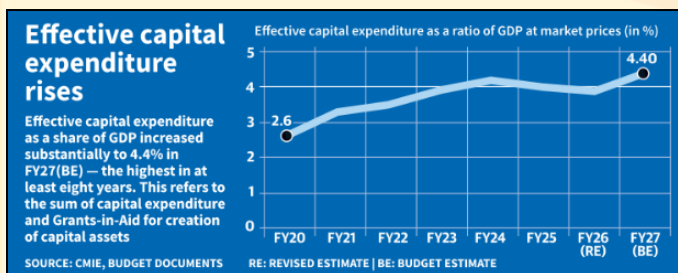


02 February 2026

Union Budget 2026



Union Budget 2026: Capital Expenditure Strategy



Budget Context and Strategic Vision

- Union Budget 2026 targets **productivity enhancement and employment generation** amid volatile global economic conditions.
- Finance Minister emphasised **deep integration with global markets** to attract stable, long-term investment.
- The Budget marked the **ninth consecutive presentation** by the same Finance Minister.
- No major **direct tax rate relaxations** were announced for individuals or corporations.

Capital Expenditure Push

- The Centre's **capital expenditure target** is set at **₹12.2 lakh crore for 2026–27**.
- This exceeds **₹10.9 lakh crore Revised Estimates of 2025–26** and **₹11.2 lakh crore Budget Estimates**.
- Capex is positioned as a **growth multiplier** for productivity, infrastructure, and employment creation.

Structural Reforms and Growth Framework

- The Budget aims to support **Viksit Bharat 2047** through sustained growth and competitiveness.
- It focuses on **building resilience to volatile global dynamics** and boosting domestic capacity.
- Emphasis is placed on **enhancing productivity across sectors** through systemic reforms.

Three Kartavyas for Development

- **First Kartavya**
 - Accelerate growth by strengthening **manufacturing, infrastructure, and energy security**.
 - Targeted areas include **seven strategic sectors, MSMEs, and city-economic regions**.
- **Second Kartavya**
 - Build capacity through **education, skilling, and services sector development**.
 - Focus sectors include **healthcare, medical tourism, AVGC, design, and animal husbandry**.
- **Third Kartavya**
 - Promote inclusion by **empowering farmers, Divyang, and vulnerable populations**.

Infrastructure and Regional Initiatives

- Support for **rare earth corridors** in Odisha, Kerala, Andhra Pradesh, and Tamil Nadu.
- Announcement of a **new national waterway in Odisha** connecting industrial and port regions.
- Launch of **East Coast Industrial Corridor** and a **Dankuni–Surat freight corridor**.

Trade and Energy Measures

- **Customs duty reductions** target marine, leather, and textile exports.
- Measures aim to **accelerate India's energy transition** and export competitiveness.

Basics of Capital Expenditure in Government Budgeting

- **Capital Expenditure (Capex)** refers to government spending on creating long-term productive assets.
- It includes investments in **machinery, buildings, health facilities, education infrastructure, and equipment**.
- Capex focuses on **capacity creation and future economic returns**, not immediate consumption.
- **Components of Capital Expenditure**
 - **Acquisition of fixed and intangible assets** such as infrastructure, technology, and institutional facilities.
 - **Upgradation of existing assets** to improve efficiency, capacity, and service delivery.
 - **Repair and maintenance of assets** to extend operational life and productivity.
 - **Repayment of government loans**, which reduces public liabilities and fiscal burden.
- **Multiplier Effect and Economic Impact**
 - Capex generates the **highest multiplier effect** among government expenditure categories.
 - It stimulates **ancillary industries, services expansion, and large-scale job creation**.

- According to the **National Institute of Public Finance and Policy**, revenue spending yields ₹0.98 multiplier.
- Capex delivers a **₹2.25 multiplier in the same year** and **₹4.80 over full expenditure cycle**.
- **Role in Productivity and Stability**
 - Capex improves **labour productivity** by strengthening physical and institutional infrastructure.
 - It functions as a **macroeconomic stabiliser** during economic downturns.
 - It supports **countercyclical fiscal policy** by boosting demand and investment during slowdowns.
- **Revenue Generation and Fiscal Benefits**
 - Asset creation enables **long-term revenue streams** through improved operational efficiency.
 - Repayment of loans under capex helps in **reducing government liabilities**.
 - Government capex **crowds in private investment**, expanding production capacity.
- **Contribution to Economic Growth**
 - Sustained capex **accelerates economic growth and employment generation**.
 - It strengthens the **foundation for long-term development and industrial expansion**.

Union Budget 2026-27: Fiscal Federalism and Financial Reforms



Fiscal Federalism and 16th Finance Commission Recommendations

- The **16th Finance Commission** retained the **41% vertical devolution** of central taxes to States.
- The Union Government accepted the recommendation in the **Budget 2026-27**.
- **₹1.4 lakh crore** was provided as **Finance Commission Grants** to States for the year.
- Grants include **Rural Local Body, Urban Local Body, and Disaster Management allocations**.
- The formula for horizontal distribution was **revised**, altering inter-State shares.
- **Five Southern States**, i.e., Tamil Nadu, Kerala, Andhra Pradesh, Telangana, and Karnataka, have gained higher shares.
- The move reflects **demographic performance and fiscal capacity adjustments** in allocation criteria.
- Panchayats will directly receive over **₹55,900 crore**, strengthening grassroots governance financing.

Capital Markets and Financial Sector Reforms

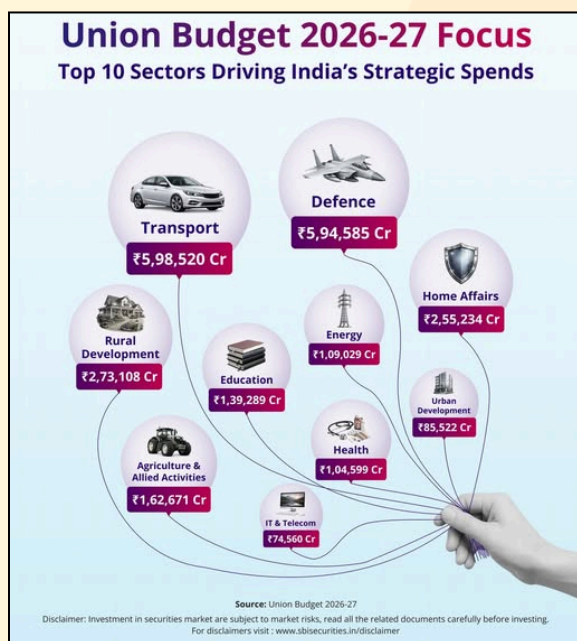
- **Equity and Derivatives Market Measures**

- The Budget prioritised **long-term capital instruments over speculative short-term trading**.
- **Securities Transaction Tax (STT)** on futures raised from **0.02% to 0.05%**.
- STT on **options premium and exercise** increased to **0.15%**.
- The Stock market reacted with an initial **2% decline**, reflecting short-term investor sentiment.
- The policy intent is to **shift retail investors toward long-term investment strategies**.
- High-frequency and scalping strategies face **reduced profitability due to higher trading costs**.
- Brokers may experience **lower transaction volumes and commissions** in derivatives segments.
- Brokers are expected to **offer investor education and compliance-driven platform upgrades**.
- Buyback taxation now treats proceeds as **capital gains instead of dividend income**.
- Retail investors face **20% tax on short-term gains and 12.5% on long-term gains**.
- **NRI Investment Liberalisation**
 - **Persons Resident Outside India (PROIs)** allowed to invest in listed equities.
 - Individual PROI limit increased from **5% to 10%**.
 - Aggregate PROI investment cap raised from **10% to 24%**.
- **Bond Market Deepening**
 - **₹100 crore incentive** for municipal bond issuances above **₹1,000 crore**.
 - Proposal for **corporate bond indices and total return swaps**.
 - Measures aim to strengthen **urban infrastructure financing and secondary debt markets**.

Banking Sector Reforms

- A High-Level Committee on Banking for Viksit Bharat proposed.
- Mandate includes **financial stability, inclusion, and consumer protection** alignment.
- Government highlighted **98% village coverage** by banking services.
- Critics cautioned against **privatisation risks to priority-sector lending and rural credit**.
- **Power Finance Corporation (PFC)** and **Rural Electrification Corporation (REC)** to be restructured.
- Objective is to improve **efficiency, scale, and alignment with renewable and nuclear transitions**.

Union Budget 2026-27: Sectoral Push



Industrial Policy: Textiles, MSMEs, and Manufacturing Ecosystem

- **Budgetary Allocations**
 - Textile sector allocation increased by **nearly 25%**.
 - MSME allocation **doubled**, reflecting employment and export priorities.

- **Manufacturing and Infrastructure Schemes**
 - **High-technology tool rooms** to be established by CPSEs.
 - Scheme for **Construction and Infrastructure Equipment Manufacturing** introduced.
 - **₹10,000 crore** allocated for **container manufacturing** over five years.
- **Textile and Handloom Programmes**
 - **National Fibre Scheme** for manmade fibre, silk, and wool.
 - **Mega Textile Parks** for technical textiles under challenge mode.
 - **Textile Expansion and Employment Scheme** for traditional cluster modernisation.
 - **National Handloom and Handicraft Programme** for artisan and weaver support.
 - **Tex-Eco Initiative** for sustainable and globally competitive textiles.
 - **Samarth 2.0** for skill development in the textile workforce.
- **MSME Financing and Market Access**
 - **₹10,000 crore SME Growth Fund** for future industrial champions.
 - **₹2,000 crore top-up** to the Self-Reliant India Fund.
 - **TReDS platform** mandated for CPSE purchases from MSMEs.
 - **CGTMSE credit guarantees** for invoice discounting on TReDS.
 - **GeM integration** and securitisation of MSME receivables proposed.
- **Biopharma SHAKTI and Health Sector Strategy**
 - **₹10,000 crore outlay** over five years for biopharmaceutical ecosystem development.
 - Focus on **biologics and biosimilars** for non-communicable disease management.
 - Three new **National Institutes of Pharmaceutical Education and Research (NIPERs)** proposed.

- Existing **seven NIPERs** to be **upgraded**.
- Network of **1,000 accredited clinical trial sites** planned.
- CDSCO strengthening** through scientific review cadres and specialist recruitment.
- Industry welcomed shift from **volume-based generics** to **high-value complex therapies**.

● Agriculture and High-Value Crop Promotion

- ₹350 crore** allocation for high-value crops in coastal and hilly regions.
- Crops include **coconut, sandalwood, cocoa, cashew, agar trees, almonds, walnuts, pine nuts**.
- Coconut Promotion Scheme** for replanting old and non-productive trees.
- Dedicated programme for **raw cashew and cocoa self-reliance**.
- States to partner in **sandalwood cultivation and post-harvest processing**.
- Farmer groups expressed concerns over **limited budgetary scale and continuity gaps**.

● Rural Employment and Social Protection

- ₹95,692 crore** allocated for **VB-G RAM G Act, 2025** scheme.
- ₹30,000 crore** provided for ongoing **MGNREGS** operations and liabilities.
- Total rural employment allocation reached **₹1.25 lakh crore**.
- Around **8.65 crore active job card holders** eligible for employment.
- Experts estimated **₹2.3 lakh crore** required to guarantee **125 workdays per worker**.
- New Act to replace **MGNREGA, 2005**, pending formal notification.
- States given **six months** to implement once law is notified.

Union Budget 2026–27: Education and Skill Development

Social spending improves						
Year	Health	Rural Development	Higher Education	School Education	Social Welfare	
FY20	2.36	5.30	1.37	1.96	1.66	
FY21	2.28	6.10	0.92	1.48	1.07	
FY22	2.22	6.03	0.88	1.23	1.07	
FY23	1.75	5.69	0.92	1.40	0.97	
FY24	1.84	5.43	1.25	1.53	0.95	
FY25 (RE)	1.90	4.43	0.98	1.40	0.98	
FY26 (BE)	1.91	4.29	1.03	1.42	1.01	
FY27 (BE)	1.96	5.11	1.04	1.56	1.17	

In FY27, allocation for various social sectors such as health, rural development, social welfare, higher education and school education as a share of total Budget climbed

All allocations are presented as a share of the total Budget (in %)
RE: Revised Estimate | BE: Budget Estimate | Source: Budget documents

Education and Skilling: Budgetary Expansion and Structural Reforms

- The Union Budget increased **Education Ministry allocation** to about **₹1.39 lakh crore**.
- This reflects a **14.21% rise** over the revised estimates of the previous fiscal year.
- The majority of the increase was directed towards the **Department of School Education and Literacy**.
- Atal Tinkering Labs** allocation rose sharply from **₹500 crore to ₹3,200 crore**.
- Samagra Shiksha scheme** received an additional **₹4,100 crore** over 2025–26 revised estimates.
- The **Kendriya Vidyalaya Sangathan** allocation increased by approximately **₹600 crore**.
- PM Poshan scheme** allocation rose by nearly **₹2,150 crore** to strengthen school nutrition.

Infrastructure for Higher Education and Employment Linkages

- The Budget announced **five university townships** near major industrial and logistics corridors.
- These townships aim to align **higher education with regional industrial demand**.
- A **girls' hostel in every district** was proposed to improve **STEM participation**.

- A high-powered **Education to Employment and Enterprise Standing Committee** was announced.
- The committee will focus on the **services sector as a driver of Viksit Bharat**.
- It will identify **growth-oriented sub-sectors** and emerging technology impacts on employment.
- The panel will recommend **AI integration in school curricula** and teacher training reforms.
- **State Councils for Educational Research and Training** will be upgraded for skill alignment.
- **Tax Collected at Source** for overseas education was reduced from **5% to 2%**.

Skilling Initiatives and Creative Economy Promotion

- The **Skill Development Ministry** allocation increased to **₹9,885.8 crore**, a **62% rise**.
- Most funding supports the **PM Skilling and Employability Transformation Scheme**.
- The scheme received **₹6,081.8 crore** for upgrading **Industrial Training Institutes**.
- **Content Creator Labs** will be set up in **15,000 secondary schools**.
- **Five hundred colleges** will also host these labs to promote **AVGC sector pathways**.
- Another **National Institute of Design** is proposed for eastern India.

Sports Manufacturing and Youth Development

- First-time **₹500 crore** allocation for sports goods manufacturing.
- Youth Affairs and Sports Ministry budget increased to **₹4,479.88 crore**.
- **Sports Authority of India** allocation raised to **₹917.38 crore**.
- **Khelo India Programme** funded with **₹924.35 crore**.
- Budget for **anti-doping institutions** reduced, raising compliance concerns.
- Government aims to position India as a **global hub for affordable sports equipment**.

Union Budget 2026–27: Social Welfare

Social spending improves		Year	Health	Rural Development	Higher Education	School Education	Social Welfare
In FY27, allocation for various social sectors such as health, rural development, social welfare, higher education and school education as a share of total Budget climbed		FY20	2.36	5.30	1.37	1.96	1.66
		FY21	2.28	6.10	0.92	1.48	1.07
		FY22	2.22	6.03	0.88	1.23	1.07
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		FY24	1.84	5.43	1.25	1.53	0.95
		FY25 (RE)	1.90	4.43	0.98	1.40	0.98
		FY26 (BE)	1.91	4.29	1.03	1.42	1.01
		FY27 (BE)	1.96	5.11	1.04	1.56	1.17

All allocations are presented as a share of the total Budget (in %)
RE: Revised Estimate | BE: Budget Estimate | Source: Budget documents

Social Justice and Tribal Affairs: Targeted Welfare Financing

- The **Social Justice Department** allocation stands at **₹13,687.59 crore**.
- The **Tribal Affairs Ministry** received **₹15,421.97 crore** for 2026–27.
- Allocations rose by **16.69% and 42.47%** compared with revised estimates.
- Increased funding supports **scholarships for SCs, STs, OBCs, and DNTs**.
- The **SEED scheme** for DNTs rose by over **64% to ₹101 crore**.
- **Atal Vayo Abhyuday Yojana** saw a near **₹100 crore** increase.
- The **Eklavya Model Residential Schools** scheme allocation reached **₹7,150.01 crore**.

Jal Jeevan Mission: Water Access and Accountability Challenges

- The **Jal Jeevan Mission** was allocated **₹67,600 crore** for 2026–27.
- This is marginally higher than the **₹67,000 crore** provided in 2025–26.
- The Ministry expects to spend only **₹17,000 crore** by March 2026.
- Several States reported **financial irregularities and poor-quality works**.
- **₹120.65 crore** loss was reported in **620 villages of Mahisagar district, Gujarat**.
- Action was taken against **621 officials, 969 contractors, and 153 inspection agencies**.
- As of December 2025, **12.52 crore rural households** received tap water connections.

Union Budget 2026–27: Infrastructure

Year	MORTH	Telecom	Power	Housing*
FY20	2.91	1.06	0.57	1.57
FY21	2.83	1.21	0.30	1.33
FY22	3.26	0.84	0.57	2.82
FY23	5.18	2.84	0.22	1.84
FY24	6.21	1.96	0.37	1.54
FY25	6.44	2.62	0.42	1.14
FY26 (RE)	5.78	1.08	0.43	1.15
FY27 (BE)	5.79	1.38	0.56	1.60

*Housing and Urban Affairs | RE: Revised Estimate | BE: Budget Estimate
All allocations are presented as a share of the total Budget (in %)

Infrastructure spending climbs
In FY27, allocations for telecom, power and housing as a share of the total Budget have improved notably, while funds for Road Ministry have stagnated
SOURCE: BUDGET DOCUMENTS

Rare Earth Corridors and Critical Mineral Strategy

- The Union Budget announced **rare earth corridors** in Odisha, Kerala, Andhra Pradesh, and Tamil Nadu.
 - Corridors aim to strengthen **mining, processing, research, and manufacturing** of critical minerals.
 - The initiative seeks to reduce India's **heavy dependence on Chinese rare earth imports**.
 - India's rare earth imports increased from **\$14.1 million in 2014 to \$17.5 million in 2024**.
- Over 45% of India's imports** currently originate from **China**.
- Rare earth elements comprise **17 metals**, grouped into **light and heavy categories**.
 - Light rare earths include **lanthanum, cerium, neodymium, and samarium**.
 - Heavy rare earths include **dysprosium, terbium, ytterbium, and yttrium**.
- The policy strengthens **supply chain resilience and industrial competitiveness**.
- These elements are essential for **electric vehicles, wind turbines, defence, smartphones, and hard drives**.
- China holds **nearly half of global reserves** and produces **over 60% of global output**.
 - It controls **around 92% of global refining capacity**, dominating the value chain.

- Further, China has supplied **nearly 30% of global exports** in the past five years.

Semiconductor Mission 2.0 and Electronics Manufacturing Push

- The **Electronics Component Manufacturing Scheme** outlay was raised from **₹22,805 crore to ₹40,000 crore**.
- The scheme already has **investment commitments double its original target**.
- The application window remains open until **2027 for indigenously manufactured capital machinery**.
- The government announced **India Semiconductor Mission (ISM) 2.0** to strengthen domestic capabilities.
- ISM 1.0 had an outlay of ₹76,000 crore** to expand semiconductor ecosystem foundations.
- ISM 2.0 will focus on **equipment, materials, and full-stack Indian intellectual property**.
- The mission aims to **fortify semiconductor supply chains** and reduce external dependence.

Carbon Capture, Utilisation, and Storage for Net-Zero Goals

- The Budget earmarked **₹20,000 crore** for **Carbon Capture Utilisation and Storage (CCUS)**.
- CCUS captures **CO₂ from power plants, steel, cement, chemicals, and refineries**.
- Captured carbon is either **utilised in products or stored in geological formations**.
- The Department of Science and Technology released a **CCUS roadmap in December 2025**.
- The roadmap aligns CCUS with **India's net-zero target for 2070**.
- CCUS is prioritised for **hard-to-abate sectors**, including **iron and steel industries**.
- India's approach is **research-led**, focusing on indigenous technology development.

- The plan follows a **three-phase progression** from laboratory to commercial readiness.
- Emphasis is on **point-source capture** and **shared transport and storage infrastructure**.
- Integration into **existing industrial facilities** is prioritised over greenfield deployment.
- Estimated initial research cost is **₹4,500 crore over the next two years**.

High-Speed Rail Corridors and Transport Infrastructure

- Seven **high-speed rail corridors** were approved with a total **4,000 km network**.
- The total projected outlay is **₹16 lakh crore**.
- Corridors will connect **Mumbai-Pune, Pune-Hyderabad, Hyderabad-Bengaluru, Hyderabad-Chennai, and Chennai-Bengaluru**.
- Northern corridors include **Delhi-Varanasi and Varanasi-Siliguri via Patna**.
- Travel time between **Chennai and Bengaluru** will reduce to **1.5 hours**.
- **Pune to Mumbai** travel time will drop to **45 minutes**.
- Railways received **₹2,78,030 crore**, a **10.8% increase** from the previous fiscal.
- **₹1,20,000 crore** is earmarked for **safety measures**, including **Kavach deployment**.
- Road Transport and Highways received **₹3.09 lakh crore**, a **10.7% hike**.
- Allocation to NHAI increased to **₹1.87 lakh crore**.

Aerospace Manufacturing and Seaplane Connectivity

- The Budget removed **7.5% to 15% customs duty** on components for civilian and training aircraft.
- Raw materials for **defence aircraft maintenance and overhaul** were exempted from customs duty.
- Incentives were announced to **indigenise seaplane manufacturing**.

- The policy aims to enhance **last-mile connectivity and tourism promotion**.
- A **viability gap funding scheme** will support seaplane operations.
- Seaplanes remain part of the **UDAN scheme since 2018**, but routes are pending.

Tourism Development and Cultural Infrastructure

- A pilot scheme will **upskill 10,000 tourist guides** across **20 iconic destinations**.
- A **National Institute of Hospitality** will train professionals for the tourism sector.
- A **National Destination Digital Knowledge Grid** will document cultural and heritage sites.
- **Buddhist circuits** will be developed in **Arunachal Pradesh, Sikkim, Assam, Manipur, Mizoram, and Tripura**.
- Fifteen archaeological sites, including **Lothal, Dholavira, Sarnath, and Leh Palace**, will be upgraded.
- The initiative will create **curated walkways** for experiential heritage tourism.
- **Ecologically sustainable tourism trails** will be developed across mountain and coastal regions.
- Trails include **Himachal Pradesh, Uttarakhand, Jammu and Kashmir, Eastern and Western Ghats**.
- **Turtle nesting and bird-watching trails** will be developed in coastal and lake regions.
- Tourism allocation stands at **₹2,438 crore for 2026–27**, slightly lower than last year.

Defence Modernisation and Strategic Autonomy

- Defence allocation set at **₹7.85 lakh crore**, highest ever.
- Constitutes **2% of GDP** and **14.67% of total Union expenditure**.
- **Capital expenditure** raised to **₹2.19 lakh crore**, up 22%.
- **75% of capital procurement** reserved for domestic industries.
- **₹1.85 lakh crore** allocated for capital acquisitions.

- Major projects include **fighter aircraft, submarines, drones, and smart weapons.**
- Revenue spending enhanced for **pensions, border infrastructure, R&D, and veterans' healthcare.**
- Policy reinforces **self-reliance and industrial capacity** in defence manufacturing.
- **Strategic commentary** highlights the need for higher long-term **defence-to-GDP ratios.**

Union Budget 2026–27: Fiscal Prudence



Budget Philosophy and Policy Orientation

- Budget 2026 prioritises **prudence over disruption**, avoiding major Big Bang economic announcements.
- The approach relies on **multiple sector-specific measures to drive medium-term economic momentum.**
- Diffused policymaking is preferred due to **heightened geoeconomic and geopolitical uncertainties.**
- The Budget targets **manufacturing, services, and labour-intensive sectors like textiles and leather.**

Manufacturing and Strategic Sector Focus

- Manufacturing support spans **seven priority areas: biopharma, semiconductors,**

electronics, rare earths, chemicals, capital goods, textiles.

- **India Semiconductor Mission 2.0** builds upon earlier gains from existing Production Linked Incentive schemes.
- **Electronics Component Manufacturing Scheme allocation increase** aims to strengthen global competitiveness.
- **Biopharma SHAKTI** receives ₹10,000 crore over five years to develop a global biopharma hub.
- Pharmaceutical exports benefit from **exemption from recent U.S. tariff measures.**

MSMEs, Exports, and Services Sector Measures

- **Champion MSMEs** initiative offers equity, liquidity, and professional support for export competitiveness.
- MSMEs contribute **48.6% of India's total exports**, highlighting their strategic importance.
- The **EU Free Trade Agreement timeline** may not immediately offset impacts of U.S. trade restrictions.
- A high-powered **Education to Employment and Enterprise Committee** targets services sector skill pathways.
- Healthcare and **medical tourism receive targeted policy attention** due to emerging global strengths.

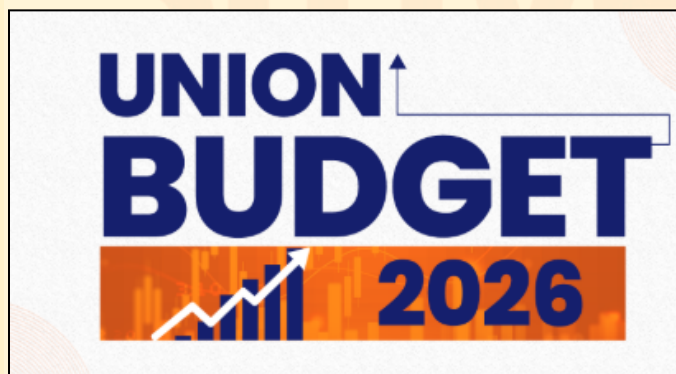
Regional Development and Infrastructure Push

- Dedicated **rare earth corridors** benefit Odisha, Kerala, Andhra Pradesh, and Tamil Nadu.
- **Coconut Promotion Scheme** supports Kerala's agricultural and livelihood ecosystem.
- **East Coast Industrial Corridor enhances industrial connectivity in West Bengal.**
- First new **national waterway project begins in Odisha**, boosting logistics efficiency.

Fiscal Strategy and Revenue Management

- Capital expenditure rises to **₹12.2 lakh crore**, around **4.4% of GDP**, highest in a decade.
- Focus includes **freight corridors, training institutes, and coastal cargo promotion initiatives**.
- Direct tax reliefs are limited to **protect fiscal stability** amid rising expenditure commitments.
- Corporate tax revenue is projected to **increase nearly 14%** over 2025-26 estimates.
- Fiscal deficit is targeted at **4.3% of GDP**, continuing the consolidation trajectory.

Union Budget 2026-27: Strategy and Challenges



Nature and Policy Role of the Union Budget

- The annual Budget is a **political and financial statement** addressing short- to medium-term challenges.

- It outlines **revenue, expenditure, and government priorities**, with emphasis on fine print over headlines.
- The Budget offers insight into **broad economic direction due to absence of long-term policy frameworks**.

Geopolitical Context Shaping Budget 2026–27

- The Budget is framed amid **heightened global turmoil** during the second Trump presidency.
- Steep U.S. tariffs have weakened prospects for closer **India-U.S. economic engagement**.
- India is pursuing **stronger ties with the European Union** through a major free trade agreement.
- China has imposed **restrictions on critical minerals, machinery exports, and skilled workers** for EVs.
- India's **import dependence on China** remains high despite policy efforts since 2020.

Manufacturing Performance and Structural Concerns

- The manufacturing sector shows **weak performance despite headline GDP growth of 6.5%–7% annually**.
- Manufacturing's **share in GDP and total employment has declined or stagnated**.
- Official GDP estimates appear **overstated compared to Annual Survey of Industries data**.
- **Fixed investment growth has remained modest**, eroding industrial capacity over the last decade.

Import Dependence and Policy Limitations

- Rising reliance on **imported capital and intermediate goods** constrains domestic industrial performance.
- An **inverted duty structure** raises tariffs on intermediates above final goods, discouraging investment.

- Initiatives like **Make in India**, **Aatma Nirbhar Bharat**, and **PLI** show **limited impact on import reduction**.
- Mobile phone assembly success reflects **high import content rather than deep domestic value addition**.

Tariff Reforms and Ease of Production

- The Budget proposes **customs duty rationalisation to correct inverted duty structures**.
- Lower duties on **capital and intermediate goods** aim to **encourage domestic value addition**.
- Simplified import procedures seek to **reduce delays and improve export competitiveness**.

Electronics, Rare Earths, and Strategic Inputs

- Electronics components remain **India's largest import dependence category**, mainly **sourced from China**.
- The Budget proposes **dedicated rare earth corridors** across mineral-rich coastal and southern States.
- Rare earths support **EV manufacturing, electronics, and critical technology supply chains**.
- Tax exemptions on **capital goods** extend to **lithium-ion cell production for battery storage**.

Labour-Intensive Exports and MSME Clusters

- Trade integration is seen to begin with **labour-intensive goods for export diversification**.
- The Budget promotes **new MSME clusters and modernisation of 120 legacy industrial clusters**.
- Financial support aims to **enable MSMEs to access capital markets and improve productivity**.

Investment Gaps and Centre-State Fiscal Silence

- High-technology manufacturing requires **foreign direct investment and proprietary multinational technologies**.
- Net FDI as a **ratio of GDP** has **approached zero in recent years**.
- SEZ firms are allowed **limited domestic sales instead of stronger export facilitation measures**.
- The Budget remains **silent on Centre-State fiscal challenges** amid Finance Commission recommendations.

Union Budget 2026–27: Industrial Growth Strategy



Economic Context and Budget Outlook

- Budget 2026–27 arrives during a **goldilocks phase of high growth and low inflation**.
- India has become the **fourth-largest economy**, overtaking Japan in global economic ranking.

- Geopolitical crises and **tariff wars create risks for sustaining long-term economic momentum.**
- The Budget balances **optimism with realistic assessment**, avoiding short-term policy stimuli.

Fiscal Strategy and Capital Expenditure

- Capital expenditure target raised to **₹12.2 lakh crore for FY27**, signalling infrastructure-led growth continuity.
- Fiscal deficit fixed at **4.3% of GDP**, reaffirming commitment to fiscal consolidation.
- Gross borrowing estimated at **₹17.2 trillion**, while net borrowing stands at **₹11.7 trillion**.
- Debt-to-GDP ratio targeted at **50% in midterm**, currently estimated around **55.6%**.
- Nominal GDP growth assumed above **10%**, implying CPI inflation near **4%**.

Manufacturing and Frontier Sector Support

- Budget prioritises **manufacturing, MSMEs, khadi, and handicrafts** from the opening speech.
- Support expanded for **seven strategic sectors**, including semiconductors, biopharma, and textiles.
- **Electronics Component Manufacturing Scheme** outlay increased to **₹40,000 crore**.
- **India Semiconductor Mission 2.0** aims to reduce dependence on vulnerable global supply chains.
- ₹10,000 crore allocated for **container manufacturing**, strengthening export logistics infrastructure.

MSMEs, Exports, and Structural Measures

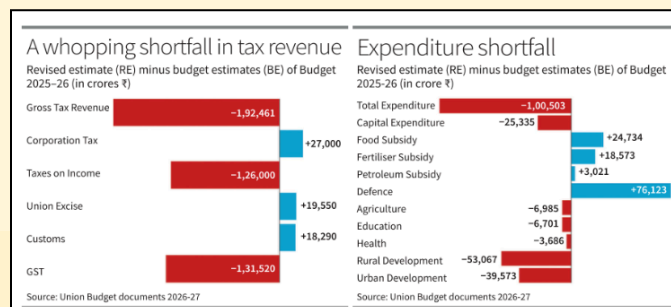
- Export sectors like **textiles, leather, and seafood** targeted due to higher U.S. duties.
- Proposed **₹10,000 crore SME Growth Fund** addresses equity gaps for scalable enterprises.
- Financing reforms signal **structural strengthening beyond traditional bank credit models.**

- Logistics investments focus on **freight corridors and transport networks for export competitiveness.**

Concerns, Gaps, and Policy Silences

- Disinvestment targets appear ambitious, with **₹47,000 crore target yielding only ₹8,768 crore previously.**
- **Zero-tax incentive until 2047** proposed for global cloud services using Indian data centres.
- Services sector employment expectations appear **contradictory amid automation and artificial intelligence adoption.**
- Budget remains silent on **rupee volatility highlighted in the Economic Survey.**
- Lack of a **comprehensive industrial policy and domestic demand strategy** risks weakening manufacturing growth.

Union Budget 2026–27 : Tax Revenue Risks and Demand-Side Concerns



Context and Reference to Budget 2025–26

- Budget 2026–27 assessed against outcomes of the previous **middle-class tax cut strategy**.
- Government expected **higher compliance and rising incomes** to offset reduced tax rates.
- The anticipated **revenue buoyancy did not materialise** as initially projected.

Tax Revenue Performance and Shortfalls

- Income tax collections fell short of estimates by **₹1.26 lakh crore** in Revised Estimates.
- Goods and Services Tax collections showed a further **shortfall of ₹1.31 lakh crore**.
- Corporate tax and excise duty performance marginally reduced the **overall gross tax gap**.
- Total gross tax revenue shortfall remained around **₹1.92 lakh crore**.

Impact on Expenditure and Development Priorities

- Fiscal deficit rules link **expenditure levels directly to realised tax collections**.
- Revenue shortfalls triggered **across-the-board expenditure reductions**.
- Capital expenditure, agriculture, education, health, and urban development faced **budgetary cuts**.
- Reduced spending affected **employment generation, income support, and essential public services**.

External Risks and Macroeconomic Uncertainty

- India faces **current account surplus with the United States and deficit with China**.
- Potential export decline from **U.S. tariff escalation could worsen external balance**.
- Economic Survey assigned **10% probability to external sector deterioration**.
- Budget planning assumed **continuity of stable global conditions**.

Demand-Side Strategy and Employment Concerns

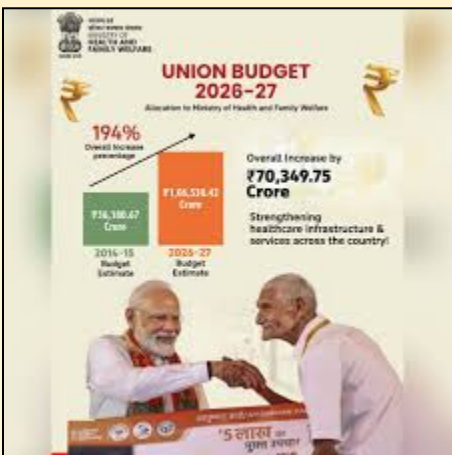
- Budget emphasises **fiscal prudence, supply-side measures, and MSME credit guarantees**.
- Employment outcomes, especially among **youth and urban women, remain weak**.
- Corporate investment growth continues to be **subdued despite repeated policy approaches**.
- Public capital expenditure prioritised **infrastructure over development-oriented spending**.

Policy Gaps and Missed Opportunities

- Employment-intensive sectors like **education, health, and agriculture received limited emphasis**.
- Welfare and development spending noted for **strong multi-round demand generation potential**.
- Environmental concerns, particularly **urban pollution, received no specific budgetary focus**.
- Absence of a **demand-led strategy raises questions on long-term employment sustainability**.

Union Budget 2026-27: Shifting Welfare Responsibilities





Overall Orientation of Social Sector Budget

- Budget 2026–27 introduces **no new flagship social welfare schemes**, marking a notable departure.
- Welfare agenda increasingly shaped through **legislation and national norms, not direct central spending**.
- Social sector continues to receive **low priority in both allocations and actual expenditure trends**.

Allocation Trends for Vulnerable Groups

- Key schemes include **NSAP, SAMARTHYA, PALNA, PM POSHAN, and Saksham Anganwadi**.
- Nominal allocation increases range from **0.2% for NSAP to 5.2% for Saksham Anganwadi**.
- Revised Estimates for 2025–26 remain **below Budget Estimates, indicating persistent underspending**.
- Welfare coverage for **children, pregnant women, elderly, single women, and persons with disabilities** remains constrained.

Health and Education Spending Patterns

- Health allocations rise by **6.4%**, while education allocations increase by **8.3% in Budget Estimates**.

- Revised Estimates for both sectors fall **3.7% and 5.2% below initial allocations**.
- Budget growth figures thus mask **actual contraction in real spending capacity**.

Declining Expenditure in Major Social Heads

- Largest Revised Estimate declines observed in **Urban Development, Rural Development, and Social Welfare**.
- Jal Jeevan Mission spending fell from **₹67,000 crore BE to ₹17,000 crore RE**.
- PMAY-Grameen and PMAY-Urban saw **significant downward revisions despite repeated headline allocations**.
- Centrally Sponsored Schemes display **systematic underspending across most welfare sectors**.

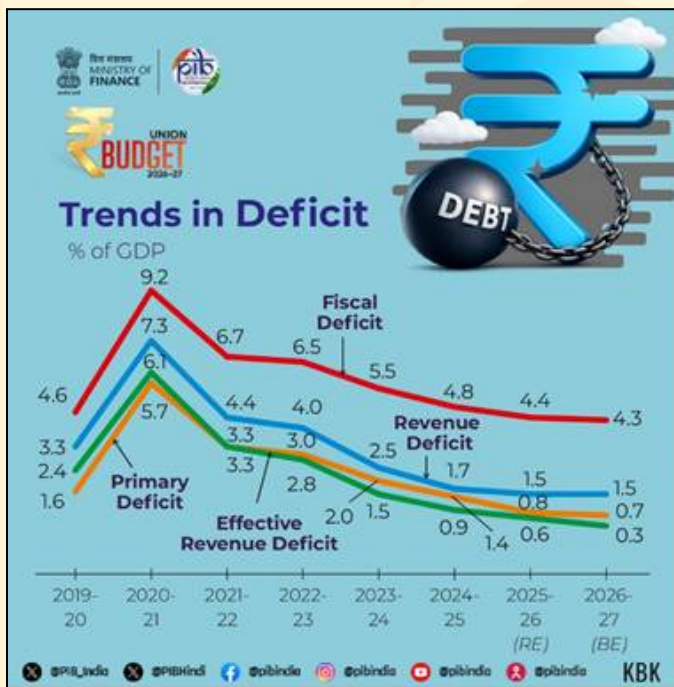
Shift of Welfare Responsibility to States

- Post-2015 reforms increased **State cost-sharing obligations under Centrally Sponsored Schemes**.
- VB-G RAM G allocation of **₹96,000 crore requires additional ₹56,000 crore from States**.
- True welfare spending now depends on **State budgetary capacity and fiscal prioritisation**.

Federal Fiscal Constraints and Concerns

- States receive only **34% of total tax revenues, below the 41% Finance Commission recommendation**.
- Higher reliance on **cesses and surcharges reduces divisible tax pool for States**.
- Finance Commission grants declined from **₹1,32,767 crore to ₹1,29,397 crore**.
- Growing welfare burden raises concerns over **State fiscal space and service delivery outcomes**.

Debt Targeting, and Development Expenditure in Budget 2026-27



Shift in Fiscal Policy Framework

- Fiscal policy now prioritises **debt-to-GDP ratio** over fiscal deficit-GDP as primary anchor.
- New rule targets **around 50% debt-GDP ratio by 2031**, higher than FRBM's 40% benchmark.
- Approach reflects a **modified "sound finance" framework**, allowing relatively higher public debt.

Deficit Reduction Strategy for FY27

- Primary deficit reduced from **0.8% to 0.7% of GDP** between FY26 and FY27.
- Fiscal deficit lowered from **4.4% to 4.3% of GDP** in FY27.
- Consolidation pace is **less severe than post-FY22 adjustments**, due to expanded fiscal space.

Revenue Trends and Non-Debt Receipts

- Government's **non-debt receipts share falls to 9.3% of GDP** in FY27.
- Decline driven by **0.3 percentage point fall in indirect taxes and GST**.
- Lower receipts constrain expenditure capacity under deficit-reduction commitments.

Expenditure Composition and Adjustment Burden

- Total expenditure-GDP ratio declines from **13.9% in FY26 to 13.6% in FY27**.
- Capital expenditure-GDP ratio remains stable at 3.1%**, reflecting growth-oriented prioritisation.
- Adjustment occurs mainly through **reduced revenue expenditure rather than capital outlays**.

Impact on Development and Rural Spending

- Development expenditure share falls from **6.1% to 5.7% of GDP** in FY27.
- Rural development and agriculture expenditure declines from **1.5% to 1.2% of GDP**.
- Revenue spending on **rural employment programmes accounts for major reduction**.

Demand and Growth Implications

- Positive demand impact of **lower indirect taxes and GST** is offset by spending cuts.

- Reduced **agricultural and rural expenditure dampens overall demand stimulus.**
- Growth support increasingly relies on **capital expenditure multipliers.**

Key Policy Concerns Highlighted

- Corporate **investment-capital ratio remains weak amid global uncertainty and export slowdown.**
- Fiscal strategy offers **limited stimulus for private investment revival.**
- Distributional burden of consolidation falls on **development and agricultural sectors.**
- **Corporate tax-GDP ratio remains unchanged from pre-COVID levels, raising equity concerns.**

Urban Development Financing in Union Budget 2026–27



Overall Urban Allocation Trend

- Total central urban development outlay reduced from **₹96,777 crore to ₹85,522 crore.**
- Nominal reduction equals **₹11,255 crore, reflecting an 11.6% contraction.**
- Real reduction is sharper when **inflation-adjusted fiscal impact** is considered.
- Urban sector faces mounting pressures from **migration, climate stress, infrastructure fatigue, and employment challenges.**

Policy Orientation and Fiscal Priorities

- Budget rhetoric highlights **capital investment, growth momentum, and Viksit Bharat vision.**
- Urban development treated as **residual adjustment category after macro-level fiscal priorities.**
- Cities no longer positioned as **growth-critical investment spaces within capital expenditure framework.**



Metro Rail Dominance in Urban Spending

- Allocation for metro and mass rapid transit reduced from **₹31,239.28 crore to ₹28,740 crore.**
- Cut equals **₹2,499.28 crore, approximately an 8% reduction.**
- Metro projects absorb **₹28,740 crore, about 33.6% of total urban allocation.**
- Budget remains **metro-centric**, prioritising capital-intensive and spatially limited transport systems.
- Bus systems, non-motorised transport, suburban rail, and last-mile connectivity receive **proportionally lower attention.**

Retreat of Flagship Urban Schemes

- **PMAY-Urban allocation reduced from ₹19,794 crore to ₹18,625 crore.**
- Housing cut equals **₹1,169 crore, nearly a 5.9% decline.**

- Urban housing shortage and **expanding informal settlements remain unaddressed adequately.**
- **Swachh Bharat Mission-Urban halved from ₹5,000 crore to ₹2,500 crore.**
- Sanitation funding reduction equals **50% rollback**, affecting waste management and public health systems.
- **AMRUT allocation** reduced from ₹10,000 crore to ₹8,000 crore.
- Water supply and sewerage investments weakened amid **groundwater depletion and climate variability.**

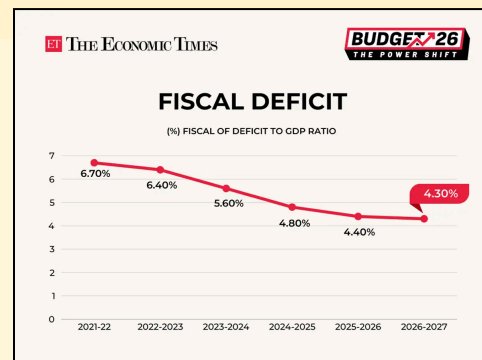
Institutional and Fiscal Implications

- Centrally sponsored urban schemes show **across-the-board allocation reductions.**
- No new mechanisms for **fiscal devolution or strengthened municipal financing frameworks.**
- Urban Local Bodies remain **dependent on tied transfers and limited long-term planning capacity.**

Developmental and Strategic Concerns

- Cities generate **bulk of GDP, employment absorption, and innovation ecosystems.**
- Budget reflects **select capital-heavy priorities over inclusive, service-oriented urban systems.**
- Reduced sanitation, water, and housing funding undermines **liveability, equity, and resilience goals.**
- Fiscal design treats cities as **cost centres rather than engines of national growth and transformation.**

Fiscal Deficit

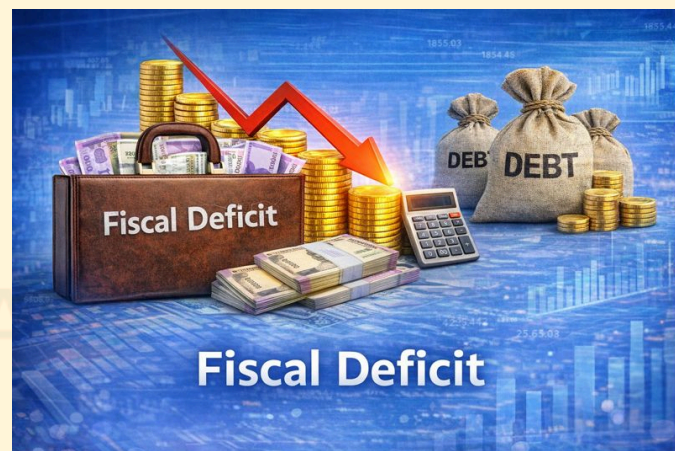


Context: The Union Government set the fiscal deficit target at **4.3 percent of GDP for 2026–27.**

Fiscal Deficit Target

- Targeted at **4.3 percent of Gross Domestic Product**
- Revised from **4.4 percent in 2025–26 estimates**
- Reduction of **ten basis points year-on-year**

Debt-to-GDP Target



- Estimated at **55.6 percent of GDP in 2026–27**
- Down from **56.1 percent in 2025–26 estimates**
- Long-term goal of **50 percent by March 2031**

Reason for Moderation

- Decline in **gross tax to GDP ratio**
- Ratio fell from **11.5 percent in FY25**
- Reduced to **11.2 percent in FY27 estimates**

Revenue Highlights

- Net tax receipts budgeted at **₹28.7 lakh crore**
- Growth of **7.2 percent over 2025–26 estimates**
- No major **personal or corporate tax cuts announced**

Tax Components

- Gross corporate tax targeted at **₹12.3 lakh crore**
- Gross income tax targeted at **₹14.7 lakh crore**

Expenditure Overview

- Total expenditure budgeted at **₹53.5 lakh crore**
- Growth of **7.7 percent over 2025–26 estimates**

Capital Expenditure

- Capex budgeted at **₹12.2 lakh crore**
- Growth of **11.5 percent year-on-year**
- Equals **4.4 percent of GDP**

Basics- Types of Deficit

- **Budget Deficit**
 - Total Expenditure minus Total Revenue
- **Revenue Deficit**
 - Revenue Expenditure minus Revenue Receipts
- **Fiscal Deficit**
 - Total Expenditure minus total non-debt receipts
 - Equals Budget Deficit plus Borrowings
- **Primary Deficit**
 - Fiscal Deficit minus Interest Payments
- **Effective Revenue Deficit**
 - Revenue Deficit minus Grants for Capital Assets

Schemes for Persons with Disabilities



Context: The Union Finance Minister announced Divyangjan Kaushal Yojana and Divyang Sahara Yojana in the Union Budget 2026–27.

About Divyangjan Kaushal Yojana

- Launched for **persons with disabilities (Divyangjan)**
- Focuses on **skill training for dignified livelihood opportunities**
- **Financial Allocation:** Allocated **₹200 crore** for the upcoming fiscal year
- **Training Framework**
 - Provides **industry-relevant and customised skill training**
 - Training tailored to **specific Divyang groups**
- **Sectors Covered**
 - Information Technology (IT)
 - Animation, Visual Effects, Gaming, and Comics (AVGC)
 - Hospitality sector
 - Food and Beverages sector



About Divyang Sahara Yojana

- Supports **assistive device manufacturing and service delivery**
- Strengthens institutional capacity for **Divyangjan support systems**
- **Financial Allocation:** Allocated **₹100 crore** for scheme implementation
- **Implementing Agency:** Implemented through **Artificial Limbs Manufacturing Corporation of India (ALIMCO)**
- **Key Provisions**
 - Scales up **production of high-quality assistive devices**
 - Promotes **research and development** in assistive technologies
 - Integrates **artificial intelligence** in product design and services
- **Retail and Service Infrastructure**
 - Strengthens **PM Divyasha Kendras nationwide**
 - Establishes **Assistive Technology Marts** as modern retail centres

PM Divyasha Kendra

- Provides **integrated services under one roof**
- Offers **assessment, counselling, distribution, and post-distribution care**
- Serves **Divyangjan and senior citizen beneficiaries**
- **Institutional Framework**

- ALIMCO is a **Central Public Sector Undertaking**
- Functions under **Department of Empowerment of Persons with Disabilities**.