

A long-game Budget

Sitharaman calls for building capabilities to ensure growth resilience; tightens fiscal deficit target at 4.3% of GDP

Growth pulse

10%

nominal GDP growth projected for FY27, up from 8% in FY26 (1st AE); total Budget size at ₹53.5 trn

Capex push

₹12.22 trn
central government's capex target for FY27, versus ₹10.96 trn in FY26 (RE)

Lower debt ratio

55.6%

debt-to-GDP ratio projected for FY27, down from 56.1% in FY26 (RE)

High borrowing

₹17.2 trn

record gross borrowing projected in FY27; net market borrowing expected at ₹11.7 trn

Divisible pool

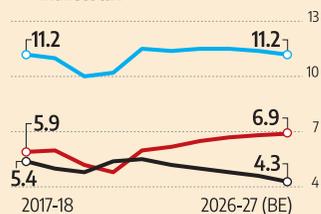
41%

states' share in central taxes for five years, based on report by the 16th Finance Commission

The tax scene

Receipts (as % of GDP)

— Gross tax revenue — Direct tax
— Indirect tax



Source: Union Budget 2026-27



ILLUSTRATION: AJAYA MOHANTY

RAJESH KUMAR
New Delhi, 1 February

The Union Budget for 2026-27, presented by Finance Minister (FM) Nirmala Sitharaman on Sunday, which was a first, had an excellent domestic macro backdrop. According to the first advance estimates, gross domestic product (GDP) in constant prices is projected to grow 7.4 per cent in the current financial year, against 6.5 per cent in 2024-25. Higher growth has been achieved with benign inflation conditions and continued fiscal consolidation. Further, as stated in the Economic Survey, India's potential growth has increased to 7 per cent from 6.5 per cent estimated three years ago.

However, there are concerns on the external front, which was also reflected in the initial paragraphs of Sitharaman's speech. "Today, we face an external environment in which trade and multilateralism are imperilled and access to resources and supply chains are disrupted," she noted. The focus, therefore, was on building capabilities, including in the services sector, to sustain growth over the medium-to-long term.

Among other things, to improve competitiveness in the services sector, the FM proposed setting up a "High-Powered 'Education to Employment and Enterprise' Standing Committee," which will recommend measures to make India a leader in services with a global share of 10 per cent by 2047.

To sustain the growth momentum, the FM announced measures in six key areas: Scaling up manufacturing in seven strategic and frontier sectors; rejuvenating legacy industrial sectors; creating champion micro, small and medium enterprises; sustained push to infrastructure building; ensuring long-

“THIS IS A HIGHWAY TO ENDLESS OPPORTUNITIES... THE REFORMS OFFER AN OPEN SKY FOR INDIAN YOUTH TO SOAR HIGH”

Narendra Modi
Prime Minister



term energy security and stability; and developing city economic regions.

Although the Budget speech highlighted that over 350 reforms have been rolled out since Prime Minister Narendra Modi's announcement in this regard in his 2025 Independence Day Speech, the stock market was spooked by the increase in securities transaction tax (STT) on futures and options. STT on futures is proposed to be increased to 0.05 per cent from 0.02 per cent. STT on options premium and exercise of options is proposed to be increased to 0.15 per cent from 0.1 per cent and 0.125 per cent, respectively. The benchmark BSE Sensex, after a largely indifferent start, ended the day with a loss of 1.88 per cent.

The FM also said that the government has accepted the recommendation of the Sixteenth Finance Commission to retain the vertical devolution at 41 per cent. The Union government has allocated ₹1.4 trillion to the states in 2026-27 as Finance Commission grants. On the fiscal front, the government is projected to achieve the fiscal deficit target of 4.4 per cent of GDP in the current financial year. From 2026-27, however, the government will start targeting the debt-to-GDP ratio. Accordingly, debt-to-GDP is pegged at 55.6 per cent in 2026-27, compared to the revised estimate of 56.1 per cent of GDP in 2025-26.

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Building capabilities to sustain growth

In the 2025-26 Budget speech, Sitharaman had said: “Our endeavour will be to keep the fiscal deficit each year such that the central government debt remains on a declining path as a percentage of the GDP.” It was indicated that the Union government would target reaching a debt-to-GDP ratio of 50±1 per cent by 2030-31. The fiscal deficit target, as a result, has been reduced marginally to 4.3 per cent of GDP for 2026-27. The nominal growth for the next financial year has been pegged at 10 per cent compared to the estimate of 8 per cent in the current year. A slower nominal growth would naturally make achieving the target more difficult. Further, receipts under miscellaneous capital receipts, read as disinvestment and asset monetisation receipts, have been

pegged at ₹80,000 crore compared to ₹33,837 crore in revised estimates for the current year.

Some of these projections may have to be revisited after the National Statistics Office releases the new GDP series later this month. Although it will not affect the actual economic activity on the ground, as economists have pointed out, there is a possibility that the size of the economy changes because of an expansion in coverage and improved methodology. One of the features of fiscal management over the past few years has been the improvement of the quality of expenditure. Capital expenditure is proposed to be increased to about ₹12.22 trillion in 2026-27 compared to the revised estimate of ₹10.96 trillion in 2025-26. Among other

things, the government will focus on building seven high-speed rail corridors.

Besides sustaining the focus on building public infrastructure, the FM announced several measures to improve activity in both the real and financial sectors. Among them is the proposal to launch India Semiconductor Mission 2.0. The allocation for the Electronics Components Manufacturing Scheme — launched in April 2025 — has been increased from ₹22,919 crore to ₹40,000 crore. The Budget also proposed to launch a scheme for rare-earth permanent magnets. It further proposed measures to improve capabilities in the capital goods sector. The Budget also focused on the textile sector, which would be useful as India looks to increase exports through free

trade agreements.

In the area of services, notably, the FM spoke about the orange economy. An institute will be set up to train individuals in animation, visual effects, gaming and comics. The Budget also focused on improving professional education in the areas of health and tourism. To attract investment, the Budget proposed a tax holiday up to 2047 for any company that provides services outside India by procuring data centre services in India. This should help boost investment, even as large global companies are already looking to set up data centres in India.

To boost activity in the financial services sector, the Budget proposes the setting up of a high-level committee on banking to comprehensively review the

sector. A restructuring of Power Finance Corporation and Rural Electrification Corporation has also been proposed. An incentive has been proposed to encourage municipal corporations to approach the bond market.

On the direct tax front, tax collected at source for several kinds of overseas expenses has been reduced from 5 per cent to 2 per cent. The FM also announced measures to help improve the ease of tax filing and disclosure of foreign assets for certain classes of taxpayers. Buybacks are now proposed to be taxed as capital gains. Promoters using this route will have to pay an additional tax.

Sitharaman also proposed to significantly ease compliance pressure on individual taxpayers. Softer penalties, prosecution immunity for minor lapses, reassessment-stage corrections, and fewer criminal defaults marked a shift from deterrence to disclosure.

On the indirect taxes front, the FM

moved further in the direction of simplification. For instance, the duty-free limit for specified inputs used for processing seafood for export was increased. Aside from a reduction and exemption of duty for a variety of products, in terms of process, the policy is now focused on trust-based systems. This should help improve the ease of doing business. However, revenue from Customs is expected to increase by about 5 per cent in 2026-27 compared to the revised estimate of 2025-26.

The Budget announced wide-ranging Customs duty reforms to promote exports, domestic manufacturing and clean energy. Measures include duty exemptions for critical minerals, batteries, nuclear power, aviation and health care, incentives for marine exports, eased trade compliance, extended duty deferral for authorised economic operators, and lower customs duties on key drugs and cancer medicines.