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Union Budget 2026-27: Analysis

"While aligning with the vision of Viksit Bharat 2047,the Budget misses to address the short term challenges"

Executive Summary

The Union Budget 2026–27 marks a decisive shift from cyclical recovery to long-term structural transformation, underscoring the government's intent to build durable economic capacity rather than pursue short-term stimulus. With total expenditure of ₹53.5 lakh crore, the budget carefully balances fiscal consolidation with targeted investments in high-tech manufacturing, MSME expansion, and large-scale infrastructure corridors. By avoiding populist giveaways and major tax cuts, the focus remains firmly on strengthening the supply side and enabling industrial scale-up aligned with the "Viksit Bharat" vision. Although markets reacted cautiously amid higher borrowing and transaction taxes, the budget lays a foundation for sustained growth through productivity enhancement, capital formation, and institutional resilience.

Revenue & Spending Estimates

- **FY27 total expenditure** budgeted at **₹53.5 lakh crore**, indicating steady growth in government spending.
- **FY27 net market borrowing (dated securities)** estimated at **₹11.7 lakh crore**, broadly manageable for bond markets.
- **Gross market borrowing** projected at **₹17.2 lakh crore**, implying sustained funding requirements.
- **Net tax receipts** estimated at **₹28.7 lakh crore in FY27**, underlining stable revenue buoyancy.

Government spending remains **growth-oriented**, with **controlled borrowing** and **healthy tax inflows**, supporting macro stability while maintaining fiscal discipline.

Fiscal Policy and Macroeconomic Outlook

- The government continues its path of fiscal rectitude, aiming to signal stability to global investors despite a volatile international environment.
- By targeting a fiscal deficit of 4.3% of GDP in FY27 (down from 4.4% in the previous year), the government is prioritizing a reduction in the debt-to-GDP ratio to 55.6% and maintaining macroeconomic credibility.
- Gross market borrowing at ₹17.2 lakh crore remains elevated, indicating that the government will continue to be the primary driver of credit demand while private sector capex stays cautious and in a wait-and-watch phase.

Key Strategic Pillars

A. Infrastructure and Connectivity (Capex-Led Growth)

- Under the Union Budget 2026–27, the Centre has reiterated its commitment to infrastructure and connectivity as a central pillar of economic growth, particularly in a phase where private investment remains cautious.

- To sustain momentum in core sectors, **public capital expenditure has been sharply increased to ₹12.2 lakh crore** in FY 2026–27, reflecting a continued capex-led strategy to drive national development.

- In the transport sector, the Government has outlined comprehensive plans to strengthen **railways and port connectivity** to support freight movement and logistics efficiency. As part of these initiatives, **new Dedicated Freight Corridors will be established linking Dankuni in the East with Surat in the West**, while **20 new National Waterways are to be operationalised over the next five years** to enhance multimodal cargo transport and reduce logistics costs.

- A landmark announcement in this budget is the proposal to **develop seven new high-speed rail corridors** as “growth connectors” aimed at fostering sustainable and rapid passenger mobility across India’s major economic regions. These corridors are planned between **Mumbai–Pune, Pune–Hyderabad, Hyderabad–Bengaluru, Hyderabad–Chennai, Chennai–Bengaluru, Delhi–Varanasi, and Varanasi–Siliguri**, creating a network of high-velocity links between financial, industrial, technology, and cultural hubs.

Together, this increased capital outlay and strategic focus on connectivity—spanning freight routes, waterways, and high-speed passenger rail—underscore the government’s continued leadership in infrastructure investment to stimulate growth, improve regional integration, and enhance India’s logistics and transport landscape.

B. Manufacturing & Supply Chain Security

Budget 2026 offers a targeted push for high-value manufacturing to reduce import dependence and integrate India into global supply chains.

- **Strategic Shift in Manufacturing:** Budget 2026 moves from broad manufacturing incentives to targeted interventions in frontier and high-value sectors to enhance supply chain security and reduce import dependence.

- **Frontier Sector Focus:** Priority is given to electronics, semiconductors, biopharma, capital goods and textiles, positioning India deeper within global value chains.

- **Semiconductors & Deep Tech:** The launch of ISM 2.0 and the ₹10,000 crore Biopharma SHAKTI mission reflect a push toward full-stack capabilities and domestic IP ownership in critical technologies.
- **Supply Chain Resilience:** Allocations of ₹40,000 crore for electronics and ₹10,000 crore for container manufacturing aim to address key vulnerabilities in logistics and electronics value chains.
- **Legacy Manufacturing Upgrade:** A dedicated scheme to rejuvenate 200 legacy industrial clusters ensures technology adoption and competitiveness in traditional manufacturing alongside high-tech expansion.
- **Dedicated Rare-Earth Corridors**: The Budget proposes dedicated rare-earth corridors in Odisha, Kerala, Andhra Pradesh, and Tamil Nadu to develop an integrated ecosystem covering mining, processing, research, and manufacturing, aimed at reducing import dependence in critical minerals.

C. MSME Empowerment

- **MSMEs as Drivers of the Next Growth Phase:** Small and medium enterprises are positioned as the "champions" of the next phase of economic growth, with MSME empowerment remaining a key focus area in the Union Budget 2026-27.
- **Enhanced Access to Long-Term Risk Capital:** The proposed ₹10,000 crore SME Growth Fund, along with additional allocation to the Self-Reliant India Fund, is expected to significantly improve access to long-term risk capital for micro and small enterprises.

Further, institutional hand-holding through business support frameworks is likely to enhance formalisation, scale-up capabilities, and productivity of MSMEs, positioning them as future growth engines of the Indian economy.

NBFC & Bond Market Boost:

• **NBFCs:** The Budget proposes restructuring NBFCs like Power Finance Corporation (PFC) and Rural Electrification Corporation (REC) to improve efficiency, expand credit, and support growth. This strengthens the sector and aligns it with future needs.

• **Corporate Bonds:** To strengthen the corporate bond market, the Budget introduces a market-making framework, access to funds, bond index derivatives, and total return swaps, aiming to boost liquidity, expand investor participation, and improve risk management.

• **Municipal Bonds: A ₹100 crore incentive** for municipal bond issuances above ₹1,000 crore in larger cities, along with continued support for smaller issuers, encourages capital-raising for infrastructure and urban development.

These measures deepen financial markets, boost credit flow via NBFCs, attract investors to bond markets, and channel long-term capital into infrastructure and private sector growth.

STT Changes on F&O Trades:

Sentiment was dampened by a hike in the **Securities Transaction Tax (STT)** and increased derivatives taxation, intended to curb speculative retail activity in the markets. The government proposes an increase in the STT on **futures trading from 0.02% to 0.05% and on options trading from 0.10% to 0.15%.**

The higher STT raises transaction costs for derivatives traders particularly high-frequency and short-term futures participants which could help curb excessive speculation in the F&O segment. With the cash market remaining unaffected, long-term equity investing becomes relatively more attractive, while the measure also aids revenue mobilisation without resorting to broad-based tax increases.

Income Tax 2026 Highlights

- Income Tax focuses on structural reform over rate changes, with the New Income Tax Act, 2025 coming into effect from 1 April 2026 to simplify laws, reduce litigation, and speed up dispute resolution. No changes have been made to personal tax slabs.

- Return-filing timelines have been streamlined to improve compliance. ITR-1 and ITR-2 deadlines remain 31 July, while non-audit businesses and trusts can file until 31 August. Revised returns are permitted up to 31 March with a nominal fee, and updated returns can be filed even after assessment proceedings, subject to a 10% additional tax.

- Relief is provided to accident victims by exempting MACT interest from tax and TDS. A one-time six-month foreign asset disclosure window offers immunity from prosecution for small taxpayers and NRIs, while compliance reforms integrate assessment and penalty proceedings, lower the pre-deposit for tax disputes to 10%, and decriminalise minor offences.

- Companies opting for the presumptive taxation scheme will be exempted from Minimum Alternate Tax (MAT), reducing compliance burden and improving tax certainty.

- **PROI investment limit** proposed to be **doubled from 5% to 10%**, providing greater flexibility for overseas/portfolio investors.

- The budget offers a tax holiday until 2047 for foreign companies providing global cloud services using data centres in India, along with a 15% safe harbour margin for related-party data centre service providers. This provides long-term tax certainty and cost competitiveness, likely accelerating hyper scaler investments, data centre capacity addition, and India's emergence as a global digital infrastructure hub.

Taxation of Share Buybacks- Capital Gains and Promoter Levy:

The Government announced that buyback of shares for all shareholders will be taxed as **Capital Gains**. Additionally, **promoters will be subject to an extra buyback tax**, leading to an effective tax rate of **22 % for corporate promoters** and **30 % for non-corporate promoters** on such buyback transactions.

This change broadens the tax base on share buybacks, aligning treatment across all types of shareholders and reducing preferential tax benefits previously available to certain promoter categories. By taxing buybacks as capital gains and levying additional tax on promoters, the measure is likely aimed at increasing revenue from share repurchases while encouraging companies and investors to consider the tax impact when planning buybacks.

Customs Duty and Trade Facilitation

The Union Budget 2026-27 introduces comprehensive customs reforms aimed at simplifying trade, lowering costs, and boosting domestic manufacturing. Key measures include tariff exemptions for green energy, aviation, defense, nuclear power and manufacturing inputs, along with digital and AI-driven customs processes, single-window clearances, and faster approvals for compliant traders through AEOs and extended advance rulings.

Exports, Personal Imports, and Ease of Living

Export facilitation is strengthened via duty-free marine exports, higher e-commerce limits, and concessional SEZ sales, while personal imports, healthcare products, and travel allowances are made more affordable and streamlined.

In conclusion, the Union Budget 2026–27 reflects a deliberate and disciplined approach, prioritising long-term capacity building over short-term stimulus through infrastructure-led growth, manufacturing scale-up, and supply-chain security. While equity markets may view the budget as neutral in the near term particularly due to the increase in STT on derivatives the broader framework remains constructive, with income tax reforms focused on simpler compliance, reduced litigation, and targeted relief without compromising revenue stability. Overall, the budget reinforces fiscal prudence and structural reform, laying the groundwork for a more resilient economy capable of navigating global volatility..