



MAINS iMPACT 2025

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UNION BUDGET 2026-2027

SYLLABUS:

GS 3 > Economic Development > Budgeting > Union budget

REFERENCE NEWS:

- Union Minister for Finance and Corporate Affairs Smt. Nirmala Sitharaman presented the Union Budget 2026-2027 in Parliament on Feb 1st, 2026.

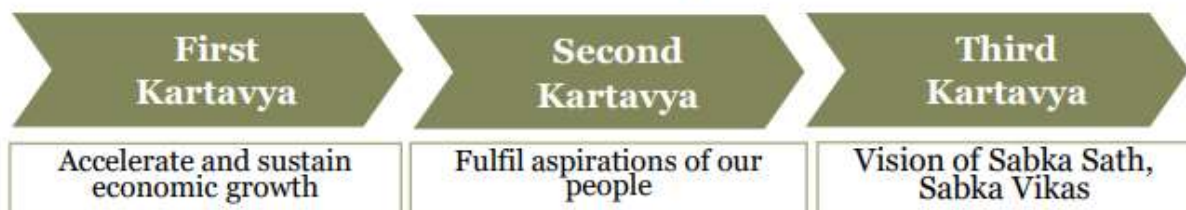
MORE ON NEWS:

- As the first Budget presented from **Kartavya Bhawan**, the Union Budget 2026–27 is anchored in **three guiding Kartavya**.
 - **First kartavya** is to **accelerate and sustain economic growth**, by enhancing productivity and competitiveness, and building resilience to volatile global dynamics.
 - **Second kartavya** is to **fulfil aspirations of people** and build their capacity, making them strong partners in India's path to prosperity
 - **Third kartavya**, aligned with vision of **Sabka Sath, Sabka Vikas**, is to ensure that every family, community, region and sector has access to resources, amenities and opportunities for meaningful participation.

Yuva Shakti-driven Budget

Government's 'Sankalp'

To focus on poor, underprivileged and disadvantaged



- While there were **no changes announced in the income tax slabs**, Ms. Sitharaman announced the implementation of the **New Tax Act from April 1, 2026**.
- This was the first time in the history of India that the **Union Budget was presented on a Sunday**.

- Presenting her record **9th straight Budget**, Ms. Sitharaman stepped up the government's **capital expenditure outlay to ₹12.2 lakh crore** from ₹11.2 lakh crore last year, underscoring its focus on **infrastructure-led growth amid global uncertainty**.
- The Minister said the government expects the **fiscal deficit to be at 4.3%** of the GDP in 2026-27, **lower than 4.4% projected** for the current financial year.

BUDGET:

- The budget is a statement of the **estimated receipts and expenditure of the Government of India in a financial year**, which begins on 1st April and ends on 31st March of the following year.
- The Indian Constitution refers to the budget as the '**Annual financial statement**' (**Article 112**). In other words, the term '**budget**' has **nowhere been used in the Constitution**.
- It gives item wise details of government receipts and expenditure for three consecutive years:
 - Actuals for the preceding year
 - Revised estimates for the current year and
 - Budget estimates for the ensuing (coming) year
- The Budget is **presented in Parliament on a date fixed by the President**.

MAJOR HIGHLIGHTS OF THE UNION BUDGET 2025-26:**PHILOSOPHY & VISION****Core Budget Philosophy**

- **Youva Shakti-driven Budget**
- Emphasises Government's '**Sankalp**' to focus on:
 - Poor
 - Underprivileged
 - Disadvantaged
- Balances:
 - High growth aspirations
 - Inclusion
 - Global economic integration

Three Kartavya Framework:

1. **First Kartavya:** Accelerate and sustain economic growth by:
2. **Second Kartavya:** Fulfil people's aspirations by:
3. **Third Kartavya:** *Sabka Sath, Sabka Vikas* by:

Global & Domestic Challenges Highlighted

- Weakening multilateralism and trade disruptions
- Supply-chain stress
- Rising demand for:
 - Water
 - Energy
 - Critical minerals

- Technology-driven transformation of production systems

THREE KARTAVYA FRAMEWORK

1. FIRST KARTAVYA: ACCELERATE & SUSTAIN ECONOMIC GROWTH

A. Growth Strategy – Six Focus Areas

- Scaling manufacturing in **7 strategic & frontier sectors**
- Rejuvenating legacy industries
- Creating **Champion MSMEs**
- Large push to infrastructure
- Ensuring long-term energy security
- Developing **City Economic Regions (CERs)**

B. Manufacturing & Industrial Policy

1. Biopharma SHAKTI

- **Outlay:** ₹10,000 crore (5 years)
- Objective: Make India a **global biopharma manufacturing hub**
- Components:
 - 3 new NIPERs + upgrade of 7 existing
 - **1000+ accredited clinical trial sites**
 - Strengthening CDSCO with scientific review cadre
 - Faster, globally benchmarked approvals

2. Textile Sector – Integrated Programme

- National Fibre Scheme (natural, man-made & new-age fibres)
- Textile Expansion & Employment Scheme
- National Handloom & Handicraft Programme
- Tex-Eco Initiative (sustainable & competitive textiles)
- Samarth 2.0 for modernised skilling

C. MSMEs

- **₹10,000 crore SME Growth Fund**
- Aim: Develop MSMEs as **future champions**
- Incentive-linked support based on performance criteria

D. Infrastructure & Connectivity

1. Public Capital Expenditure

- Increased from **₹11.2 lakh crore** (BE 2025–26) to **₹12.2 lakh crore (FY 2026–27)**

2. Freight & Logistics

- New Dedicated Freight Corridor: **Dankuni–Surat**
- **20 new National Waterways** in 5 years
 - NW-5 (Odisha): Talcher–Angul → Paradip & Dhamra ports
- Regional Centres of Excellence for logistics manpower

3. High-Speed Rail Corridors

- Seven corridors as **“Growth Connectors”**:
 - Mumbai–Pune
 - Pune–Hyderabad

- Hyderabad–Bengaluru
- Hyderabad–Chennai
- Chennai–Bengaluru
- Delhi–Varanasi
- Varanasi–Siliguri

E. City Economic Regions (CERs)

- Cities mapped based on growth drivers
- **₹5,000 crore per CER over 5 years**
- Challenge-based, reform-linked financing

F. Energy & Critical Minerals

- Customs duty exemption on:
 - Lithium-ion battery manufacturing capital goods
 - Capital goods for critical mineral processing
 - Nuclear power project imports (extended till 2035)
- Excise exclusion for biogas in biogas-blended CNG

2. SECOND KARTAVYA: Fulfil aspirations & build capacity

Services sector anchoring

- High-Powered “Education to Employment and Enterprise” Standing Committee (services as core driver of Viksit Bharat)

Creation of professionals for Viksit Bharat

- Upgrade existing allied health institutions + establish new AHP institutions
- Add **1,00,000 Allied Health Professionals** in 5 years
- **Five Regional Medical Hubs** for medical tourism
- AYUSH: **3 new All India Institutes of Ayurveda**

Animal Husbandry

- Scale up veterinary professionals by **20,000+**
- Loan-linked capital subsidy scheme for:
 - Vet/para-vet colleges, hospitals, diagnostics, breeding facilities (private sector)

Orange Economy (AVGC)

- Support to Indian Institute of Creative Technologies, Mumbai
- AVGC content creator labs in **15,000 schools** and **500 colleges**

Education

- **5 University Townships** near major industrial/logistics corridors (challenge route)
- **1 girls’ hostel in every district** (VGF/capital support)

Tourism

- Upgrade NCHMCT to **National Institute of Hospitality**
- Upskill **10,000 guides** in **20 tourist sites** (12-week hybrid course with an IIM)
- National Destination Digital Knowledge Grid for digital documentation of places of significance

Heritage & culture tourism

- Develop **15 archaeological sites** (including Lothal, Dholavira, Rakhigarhi, Adichanallur, Sarnath, Hastinapur, Leh Palace) into experiential cultural destinations

Sports

- Launch **Khelo India Mission** to transform sports sector over the next decade

3. THIRD KARTAVYA: Sabka Sath, Sabka Vikas

Targeted efforts in 4 areas

1) Increasing farmer incomes

- Integrated development of **500 reservoirs and Amrit Sarovars**
- High value agriculture support for coastal crops:
 - coconut, sandalwood, cocoa, cashew
- **Coconut Promotion Scheme**
- **Bharat-VISTAAR**: multilingual AI tool integrating AgriStack + ICAR package of practices

2) Empowering Divyangjan

- **Divyangjan Kaushal Yojana** for task-oriented roles in:
 - IT, AVGC, hospitality, food & beverages

3) Mental health and trauma care

- **NIMHANS-2** in North India
- Upgrade National Mental Health Institutes in **Ranchi** and **Tezpur** as Regional Apex Institutions

4) Purvodaya States & North-East focus

- Integrated East Coast Industrial Corridor (node at **Durgapur**)
- **5 tourism destinations** in 5 Purvodaya states
- Provision of **4,000 e-buses**
- Buddhist Circuits scheme in:
 - Arunachal Pradesh, Sikkim, Assam, Manipur, Mizoram, Tripura

Finance Commission grants

- **₹1.4 lakh crore** to states (FY 2026–27) as recommended by the **16th Finance Commission**

FISCAL CONSOLIDATION & MACROECONOMIC NUMBERS

Key Indicators

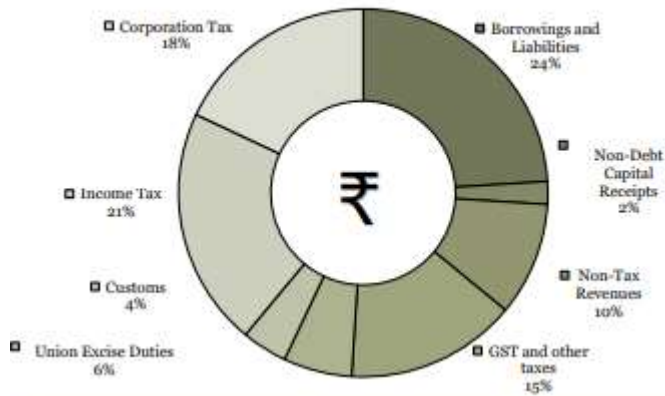
- Fiscal Deficit:
 - RE 2025–26: **4.4% of GDP**
 - BE 2026–27: **4.3% of GDP**
- Debt-to-GDP Ratio:
 - RE 2025–26: 56.1%
 - BE 2026–27: **55.6%**

Budget Estimates 2026–27

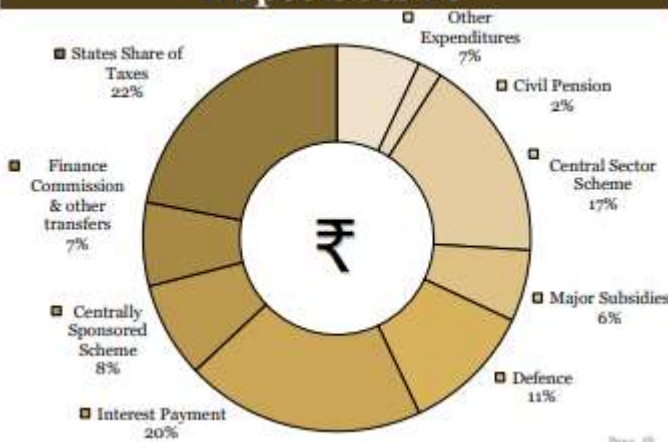
- Non-debt receipts: **₹36.5 lakh crore**
- Total expenditure: **₹53.5 lakh crore**
- Net tax receipts: **₹28.7 lakh crore**
- Net market borrowing: **₹11.7 lakh crore**

- Gross market borrowing: ₹17.2 lakh crore

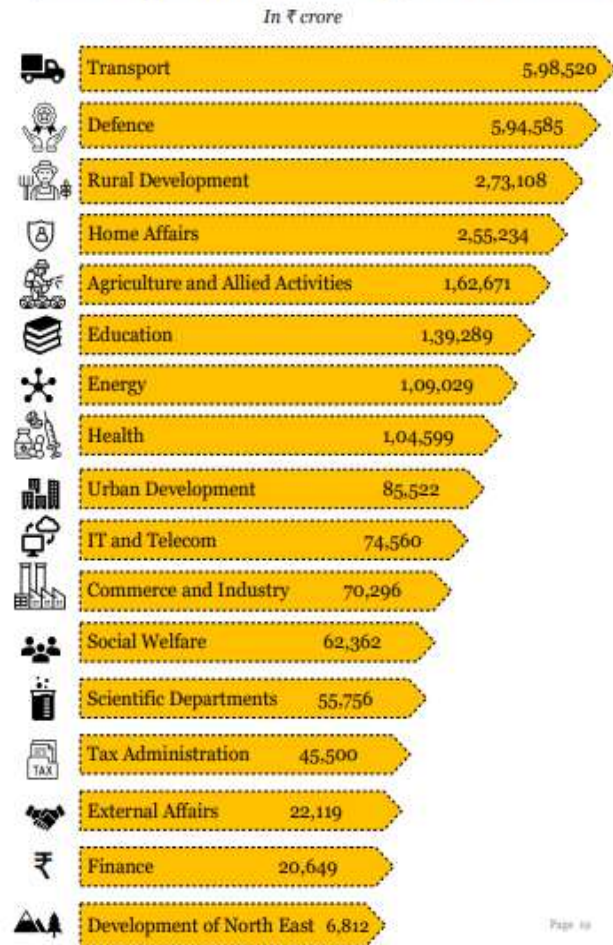
Rupee Comes From



Rupee Goes To



Expenditure of Major Items



DIRECT TAX REFORMS

A. Structural Reforms

- New Income Tax Act, 2025 effective April 2026
- Simplified rules & redesigned forms
- Staggered filing timelines

B. Taxpayer Relief

- Reduction in TCS:
 - Overseas tour packages: **to 2%**
 - Education & medical remittances (LRS): **to 2%**
- Extended return revision till 31 March
- One-time 6-month foreign asset disclosure scheme

C. Penalty & Prosecution Rationalisation

- Integrated assessment + penalty orders
- Pre-deposit reduced from 20% to 10%
- Immunity extended to misreporting cases
- Decriminalisation of minor procedural offences
- Foreign assets < ₹20 lakh immune from prosecution (retrospective)

D. Cooperatives

- Deduction extended to:
 - Cattle feed

- Cotton seed
- Inter-cooperative dividends deductible
- 3-year dividend exemption for national cooperative federations

E. IT & Global Business

- Unified IT services category
- Safe harbour margin: **15.5%**
- Threshold raised to **₹2,000 crore**
- Tax holiday till **2047** for foreign cloud providers
- MAT exemption for non-residents on presumptive basis

INDIRECT TAXES & CUSTOMS

A. Customs Duty Rationalisation

- Exemptions for:
 - Lithium-ion batteries
 - Critical minerals
 - Defence & civil aviation components
 - 17 drugs and medicines
- Personal import tariff cut: **20% → 10%**
- Rare disease drug list expanded

B. Trade Facilitation

- Warehouse operator-centric framework
- Single digital clearance window
- AI-based non-intrusive container scanning
- Advance ruling validity extended to 5 years
- EEZ fish catch made duty-free

POSITIVES / STRENGTHS OF UNION BUDGET 2026–27:

- **Fiscal credibility with gradual consolidation:**
 - Fiscal deficit target **4.3% (BE 2026–27)** vs **4.4% (RE 2025–26)** signals continued consolidation without abrupt spending cuts.
 - Rating agency view: **“broadly neutral” for growth**, with capex-led mix seen as positive even as overall debt/interest burden remains elevated.
- **Capex-led growth engine retained:**
 - Capex stepped up to **₹12.2 lakh crore** (from ₹11.2 lakh crore), keeping infrastructure as the main counter-cyclical lever amid global uncertainty.
- **Manufacturing strategy becomes more “ecosystem” than “incentive-only”:**
 - Strong push on **biopharma (₹10,000 cr)**, **semiconductors/ISM 2.0**, electronics components, chemicals parks, rare earth corridors, tool rooms, container manufacturing—signals depth across supply chain and skills.
- **Logistics competitiveness: DFCs + waterways + trade facilitation:**
 - New Dedicated Freight Corridor (Dankuni–Surat), new waterways, warehousing reforms, a single digital window, AI-based risk assessment and scanning, and courier export liberalisation together reduce transaction costs and improve India’s export readiness.

- **Services & human capital: employment pipeline building**
 - “Education to Employment and Enterprise” standing committee + large-scale skilling moves (AHPs, AVGC labs, hospitality upgrades, tourism guide skilling) indicate focus on employability, not only degrees.
- **Inclusion & “vulnerable sections” lens shows up in delivery-type measures**
 - Girls’ hostels (one per district for STEM institutions), Divyangjan Kaushal, mental health expansion (NIMHANS-2, upgrades), farmer advisory (Bharat-VISTAAR) are directly oriented to capability-building and access.
- **Compliance simplification in taxation (less friction)**
 - Implementation of **Income-tax Act, 2025** from **1 April 2026** and compliance-oriented simplifications (forms, processes, rationalised penalty/prosecution) can reduce disputes and cost of compliance.

CRITICISMS / CONCERNS RAISED ABOUT THE BUDGET:

- **Pace of fiscal consolidation questioned:**
 - Fitch Ratings flags **slowing pace of consolidation** and points out India’s debt/deficit/interest burden remains high vs peers even if trajectory is improving.
- **Market sentiment: Securities Transaction Tax / investor-facing irritants**
 - Multiple market-linked changes (STT on derivatives, buyback taxation changes etc.) triggered concern among investors; commentary notes budget credibility but disappointment on **FII-friendly measures**.
- **Big borrowing programme can pressure bonds / yields**
 - Reuters flags that **large borrowings** (given deficit financing needs) could affect bond markets—especially if global rates/liquidity are tight.
- **“Execution risk” is high:**
 - Many announcements are scheme-heavy (corridors, waterways, CERs, industrial parks, hostels, hubs). Criticism typically centres on whether ministries/states can execute on time, coordinate land/clearances, and avoid cost overruns. (Inference from the scale/structure of proposals in PIB highlights.)
- **Distributional / state-specific dissatisfaction:**
 - Industry groups welcomed the broad thrust but some state-level stakeholders flagged missing/insufficient allocations for specific large projects.
- **Political critique: strategy and statesmanship questioned**
 - Senior opposition criticism argues the budget falls short on overall economic strategy and statesmanship (political critique, not technical audit).

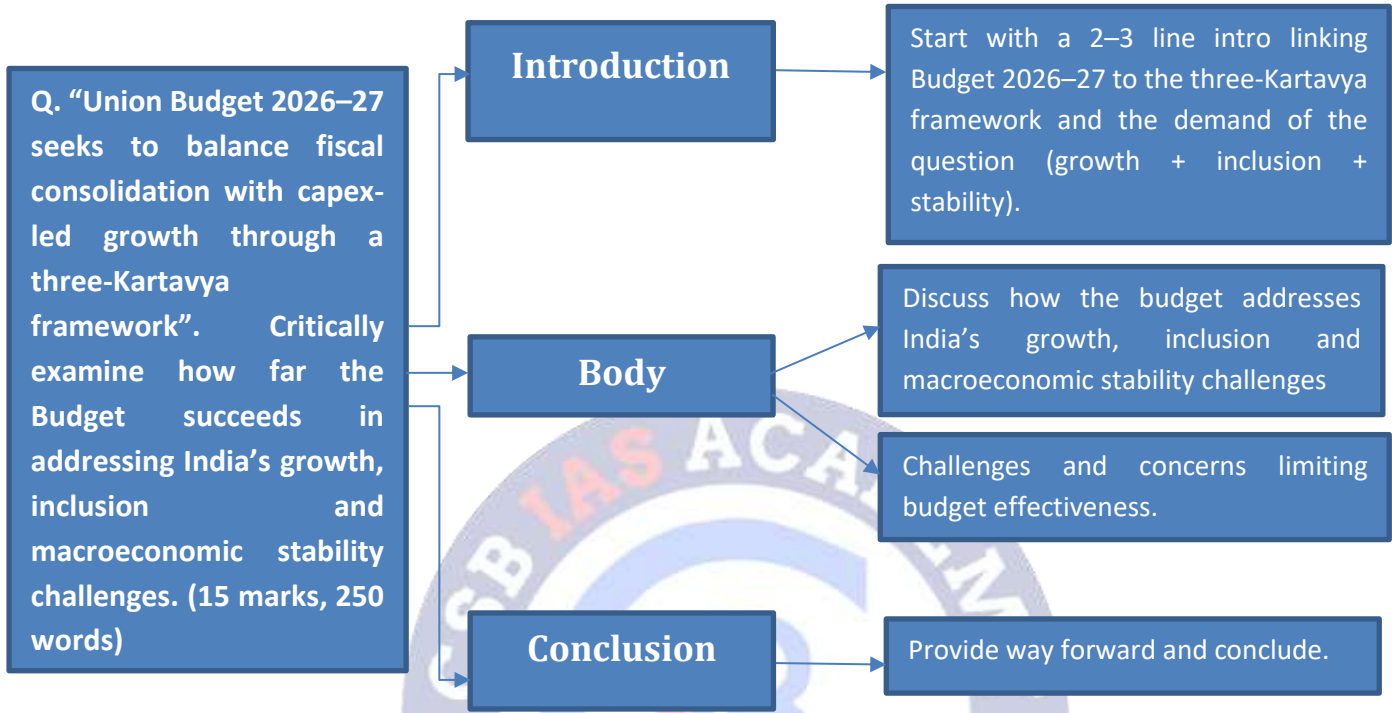
CONCLUSION:

- Union Budget 2026–27 prioritises capex-led growth, manufacturing depth and human capital while maintaining fiscal discipline; however, its success will ultimately depend on effective execution, Centre–State coordination and timely delivery of announced reforms.

PRACTICE QUESTION:

Q. “Union Budget 2026–27 seeks to balance fiscal consolidation with capex-led growth through a three-Kartavya framework”. Critically examine how far the Budget succeeds in addressing India’s growth, inclusion and macroeconomic stability challenges.(15 marks, 250 words)

APPROACH:



MODEL ANSWER:

Union Budget 2026–27 is anchored in a three-Kartavya framework that seeks to balance capital-driven economic growth, social inclusion and macroeconomic stability in a challenging global environment. The Budget reflects an effort to combine long-term developmental ambition with fiscal discipline.

How the Budget Addresses India’s Growth, Inclusion and Macroeconomic Stability Challenges

1. Growth through Capex-led Expansion and Manufacturing Ecosystems

- The Budget sustains a capex-led growth model by increasing public capital expenditure to ₹12.2 lakh crore, reinforcing infrastructure-driven multiplier effects and crowding in private investment.
- Manufacturing policy shifts from fragmented incentives to **ecosystem building** across biopharma, semiconductors, textiles, MSMEs and capital goods, strengthening supply chains, technological capability and job creation.

2. Productivity and Competitiveness via Logistics and Trade Reforms:

- Structural inefficiencies in logistics are addressed through a new Dedicated Freight Corridor (Dankuni–Surat), expansion of inland waterways and warehouse-centric customs reforms.
- Single digital clearance, AI-based risk assessment and courier export liberalisation reduce transaction costs and improve India’s export competitiveness in global value chains.

3. Inclusion through Capability-based Human Capital Development

- The Budget prioritises **capacity building over passive welfare**. Large-scale skilling in allied health, AVGC, tourism and sports aligns education with labour market demand.

- Targeted measures such as girls' hostels in STEM institutions, Divyangjan Kaushal Yojana, mental health infrastructure expansion and Bharat-VISTAAR for farmers enhance participation of vulnerable groups in economic growth.

4. Regional Balance and Cooperative Federalism

- Focused initiatives for Purvodaya states and the North-East, including the East Coast Industrial Corridor, tourism clusters and e-bus deployment, aim to correct spatial inequalities.
- Finance Commission grants of ₹1.4 lakh crore strengthen state finances, supporting decentralised development and cooperative federalism.

5. Macroeconomic Stability and Fiscal Credibility

- The fiscal deficit is reduced to 4.3% of GDP, with a declining debt-to-GDP ratio, signalling continued fiscal consolidation.
- Tax administration reforms and the rollout of the New Income Tax Act simplify compliance, reduce litigation and improve revenue predictability, contributing to macroeconomic stability.

Challenges and Concerns Limiting Budget Effectiveness:

1. Slow Pace of Fiscal Consolidation

- Despite improvement, India's debt and interest burden remain high relative to peers, limiting fiscal space for future shocks.

2. Market Sensitivity and Borrowing Pressures

- Large market borrowings may exert pressure on bond yields, especially amid global monetary tightening. Market-linked tax changes have also dampened investor sentiment.

3. High Execution and Institutional Capacity Risks

- The Budget is scheme-heavy, with ambitious infrastructure, industrial and social sector commitments. Weak execution capacity, land acquisition delays and Centre–State coordination gaps could dilute outcomes.

4. Uneven Regional and Sectoral Expectations

- Some regions and sectors perceive insufficient allocations for specific projects, raising concerns about equitable distribution and political economy challenges.

Way Forward:

- Strengthen **outcome-based monitoring** and time-bound project execution mechanisms
- Enhance **Centre–State coordination** through shared dashboards and joint task forces
- Crowd in **private investment** via regulatory certainty and faster clearances
- Prioritise **quality of expenditure** by linking capex to productivity and employment outcomes
- Build **institutional capacity at sub-national levels** to absorb and utilise funds efficiently

Union Budget 2026–27 makes a credible attempt to balance growth, inclusion and macroeconomic stability through its three-*Kartavya* framework. While its design supports long-term development and fiscal prudence, its transformative impact will ultimately depend on execution capacity, institutional coordination and sustained reform momentum.