

POST-BUDGET **POLICY NOTE**

UNION BUDGET
2026-2027

Mentoring Excellence

SUBMITTED BY:

STUDENTS OF

MADRAS SCHOOL OF ECONOMICS

Contributions

NAME	BATCH
Akshaya Sashi Kumar	BA (3 rd year)
Aksyaaluckshmi Mu	IMA
Anavadya AS	IMA
Aniruddh Krishnan	IMA
Balaji Chandramouli	MA FE (1 st year)
Barathivaasan P	MA GE (1 st year)
D Nivedha	MA GE (1 st year)
Dharshini	MA GE (1 st year)
Drishti Gupta	MA GE (1 st year)
Gautam Das	IMA
Hemasivasoorya Ganesan	IMA
Jana Nandhini P	IMA
Jayapreethi K N	IMA
K S Ananya	IMA
Mathimalar G K	IMA
Mithraa AR	IMA
P.A.Shrikarthikayini	IMA
Parthiv M Jagannath	MA GE (1 st year)
Pragalad J	IMA
Priyanshi Deolal	MA GE (1 st year)
Ratna Priya R	BA (3 rd year)
Rudhra vahini V	IMA
Sai Nirupama C S	IMA
Sambhav Jain	MA GE (1 st year)
Samuel J	MA GE (1 st year)
Shruthilaya V	IMA
Srestha Sahu	MA GE (1 st year)
Stuti Gauba	MA GE (1 st year)
Theebiga A	BA (3 rd year)
Tinkudharan Gangadharan	IMA
Varshini Pooja S	IMA
Vedant Sharan	IMA
Vidhatri	IMA
Yugapriya T	MA EE (2 nd year)

Compiled by

NAME	BATCH
Akshaya Sashi Kumar	BA (3 rd year)
Ratna Priya R	BA (3 rd year)

Introduction

The Union Budget 2026-27 was presented at a time when the Indian economy was navigating a complex environment shaped by strong domestic growth impulses alongside heightened global uncertainty. In the pre-budget phase, India remained one of the fastest-growing major economies, with real GDP growth for 2025-26 estimated in the range of 7-7.5 per cent, driven primarily by private consumption and public capital expenditure. However, the external environment remained challenging due to subdued global demand and geopolitical tensions, all of which constrained export growth and capital flows.

On the domestic macroeconomic front, inflation had moderated from its post-pandemic highs. Due to this however, nominal GDP growth moderated to around 8%, which complicated the budget calculus of the government. Revenue buoyancy had begun to stabilise following earlier tax rationalisation measures, allowing the government some fiscal space while maintaining its medium-term consolidation path. With these factors at play, the key pre-budget policy challenge was to sustain high growth without compromising fiscal discipline.

Within this context, the Budget 2026-27 placed strong emphasis on capex-led growth, macro-stability, and structural transformation. A significant increase in central government capital expenditure was announced, reinforcing infrastructure-driven growth through higher allocations for transport, logistics, urban infrastructure, energy transition, and digital public infrastructure. This reflects the government's continued reliance on public investment as a catalyst for crowding in private investment and enhancing long-term productive capacity.

On the fiscal side, the budget reaffirmed commitment to fiscal consolidation, with a calibrated reduction in the fiscal deficit (4.3% of GDP, compared to last year's 4.4%) and a focus on improving the quality of expenditure. Revenue-side measures centred on compliance simplification and reduced litigation, rather than major rate changes.

Sectorally, the budget prioritised manufacturing and exports through support for industrial ecosystems, supply-chain resilience, and technology-intensive sectors such as electronics, semiconductors, and green manufacturing. Agriculture and rural development received targeted support aimed at productivity enhancement, irrigation, storage, and income diversification rather than purely consumption-oriented subsidies. Social sector spending focused on health, education, skilling, and employment-linked initiatives, aligning welfare objectives with labour-market outcomes.

Overall, the Union Budget 2026-27 reflects a policy stance that seeks to balance growth, stability, and long-term structural goals, positioning fiscal policy as an instrument for sustained development rather than short-term stimulus.

Expenditure Prioritisation and Revenue Mobilisation

The Union Budget 2026–27 reflects a deliberate attempt to balance fiscal consolidation with sustained public investment, responding to competing stakeholder expectations across households, businesses, States, investors, and vulnerable groups. In the pre-budget context, the central challenge lay in maintaining fiscal discipline while continuing to fund infrastructure, welfare, defence, and social services, at a time when households sought relief through better public services, businesses and MSMEs looked for infrastructure-led growth and policy stability, and investors demanded a credible deficit and debt management path. At the same time, the continued dependence of poorer households on subsidies and welfare spending constrained the scope for abrupt expenditure compression. Against this backdrop, the Budget adopts a consolidation strategy that relies not on expenditure cuts, but on expenditure prioritisation, compliance-led revenue mobilisation, and growth-supported fiscal arithmetic.

On the fiscal front, the Budget targets a fiscal deficit of 4.3 per cent of GDP for 2026–27, marking a modest but credible step in the ongoing consolidation process. This is underpinned by a historically high public capital expenditure allocation of ₹12.2 lakh crore, around 4.3 per cent of GDP, reinforcing the government’s view that investment-led growth remains central to medium-term economic expansion. The fiscal framework is anchored in a gradual decline in the debt-to-GDP ratio to 55.6 per cent, with the stated objective of reducing interest payment pressures over time and freeing fiscal space for priority sectors. Total expenditure is estimated at ₹53.5 lakh crore, supported by non-debt receipts of ₹36.5 lakh crore, while net and gross market borrowings are projected at ₹11.7 lakh crore and ₹17.2 lakh crore respectively. The decision to retain the States’ vertical devolution share at 41 per cent, along with transfers of approximately ₹1.4 lakh crore, signals continuity in cooperative federalism and ensures predictability in sub-national finances.

Public expenditure policy under the Budget continues to prioritise capital formation over revenue expansion, with capital outlay accounting for over one-fifth of total expenditure. The emphasis remains firmly on transport infrastructure, particularly roads and railways, along with energy and logistics, reinforcing ongoing project pipelines rather than introducing large new institutional frameworks. Interest-free capex loans to States have been extended, underscoring

the Centre's reliance on State governments to translate budgetary allocations into on-ground investment. Incremental support for urban infrastructure and municipal financing, including incentives of ₹100 crore for single bond issuances by municipal corporations, represents a modest but positive signal toward strengthening local-level infrastructure finance. However, the overall approach reflects continuity rather than strategic rebalancing, with limited shifts toward social infrastructure or urban public services.

On the revenue side, the Budget adopts a compliance and certainty-driven approach rather than headline rate changes. Direct tax reforms focus on simplification, predictability, and reduced litigation through the implementation of the Income Tax Act, 2025, which consolidates provisions, introduces a single tax year, and streamlines assessment and penalty processes. Extensions in revised return filing timelines, rationalisation of prosecution provisions, and single-window compliance mechanisms are likely to improve taxpayer experience and reduce administrative friction. Corporate taxation reforms emphasise certainty, with Minimum Alternate Tax becoming a final tax at a reduced rate, alongside targeted incentives for IT services, data centres, and global investment. Indirect tax measures, including GST reforms and customs duty rationalisation for critical minerals and clean energy inputs, aim to improve cash flows, support strategic sectors, and address long-standing procedural bottlenecks.

The implications of this combined expenditure and revenue strategy are broadly growth-supportive. Sustained capital spending is expected to support near-term growth and employment, particularly in infrastructure-linked sectors, while fiscal consolidation at a calibrated pace reassures investors and credit markets. Improved tax certainty and procedural simplification may enhance compliance-led buoyancy without increasing inflationary pressures or compliance costs. However, important gaps remain. Capital expenditure continues to be concentrated in transport and defence, with relatively limited emphasis on health, education, and urban services that generate long-term productivity gains. State-level execution capacity remains uneven, raising risks of underutilisation despite higher allocations and loans. On the revenue side, optimistic assumptions about buoyancy and reliance on administrative efficiency place heavy demands on implementation capacity.

Overall, the Budget signals a shift toward “smarter” fiscal consolidation, one that prioritises growth-supporting expenditure and compliance-led revenue mobilisation rather than blunt fiscal tightening. While the direction is sound, the effectiveness of this strategy will depend on execution quality, outcome-based monitoring of capital spending, and the ability to translate

tax design reforms into consistent administrative practice. Sustained gains in fiscal space will ultimately require not just higher investment, but better investment, supported by credible medium-term planning and institutional follow-through.

Education and Skill Development

In the run-up to the Union Budget 2026–27, expectations from the education and skill development sector centred on correcting the growing disconnect between educational expansion and employment outcomes. Students sought affordable, market-relevant education that translated into stable jobs, while parents expected improved quality in public institutions to reduce dependence on costly private colleges and coaching. Higher education institutions looked for predictable funding for research, accreditation, and incentives to deepen industry partnerships and experiential learning. Employers continued to emphasise the need for job-ready graduates and stronger industry–academia linkages, while State governments sought enhanced fiscal support, clearer outcome-based metrics, and better coordination of centrally sponsored schemes to align education and skilling investments with regional labour market needs.

Against this backdrop, the Union Budget 2026–27 increased education spending to ₹1.39 lakh crore, an 8.27 per cent rise over the previous year and the highest nominal allocation so far. A key policy signal is the creation of a High-Powered Education to Employment and Enterprise Standing Committee, tasked with aligning education policy with services-led growth, assessing the impact of artificial intelligence on employment, and strengthening employability and export potential. The Budget also places emphasis on access and inclusion, announcing the establishment of one girls' hostel in every district through viability gap funding or capital support to address gender disparities, particularly in higher and STEM education. In addition, five university townships are proposed along major industrial and logistics corridors, integrating higher education, research, skills, and residential infrastructure.

The Budget reinforces digital learning and skills development through the rollout of AVGC content-creation labs in 15,000 schools and 500 colleges, reflecting anticipated demand for creative and digital skills by 2030. Professional and higher education is further supported through funding for industry-linked skills and training in STEM, healthcare, and technology, alongside investments in scientific research infrastructure, including new and upgraded telescope facilities to advance astronomy and astrophysics.

While these measures strengthen employment-oriented growth and sectoral skilling, gaps remain. Higher education financing continues to be largely input-based, with limited linkage to employability outcomes or placement performance. The absence of targeted incentives for private institutions constrains reform of the education pipeline that supplies the workforce, even as job creation remains a central policy objective. More critically, foundational school education continues to be underprioritized. Allocations for schemes such as Samagra Shiksha have seen only marginal increases, with overall spending still well below the National Education Policy 2020 target of 6 per cent of GDP. Limited emphasis on learning outcomes, teacher training, and school-level infrastructure risks weakening educational foundations and widening inequalities. The Budget also lacks a strategic focus on expanding or strengthening premier institutions such as IITs and IIMs, potentially constraining research capacity and global competitiveness. Overall, while the Budget signals continuity and incremental reform, a more outcome-driven and pipeline-oriented approach is needed to fully address India's education-skill mismatch.

Health & Public Healthcare

In the run-up to the Union Budget 2026–27, expectations from the health and public healthcare sector centred on scaling public investment to strengthen infrastructure, expand preventive care, address rural health gaps, and resolve persistent shortages of healthcare professionals. Stakeholders anticipated a clear glide path toward public health expenditure of 2.5–3 per cent of GDP, alongside incentives to boost domestic pharmaceutical manufacturing, integrate sustainability into healthcare delivery, and improve affordability of treatment. There was also a strong demand for greater emphasis on preventive and primary care, particularly as the disease burden increasingly shifting toward non-communicable diseases and mental health challenges.

Against this backdrop, the Union Budget 2026–27 allocated ₹1,05,530.42 crore to the Ministry of Health and Family Welfare, outlining a broad reform agenda aimed at strengthening healthcare delivery and innovation. A key announcement is the launch of *Biopharma SHAKTI*, with an outlay of ₹10,000 crore over five years, focused on biologicals, biosimilars, and non-communicable diseases, supported by the establishment of three new NIPERs and the upgradation of seven existing institutes. The Budget also announced a scheme to establish five Medical Value Tourism hubs in partnership with States and the private sector, positioning India as a global healthcare destination through integrated medical, research, diagnostic, and

rehabilitation infrastructure. Traditional medicine received renewed attention through the expansion of AYUSH institutions, upgrades to pharmacies and testing laboratories, and strengthening of the WHO Global Traditional Medicine Centre in Jamnagar to promote evidence-based research and certification.

Mental health and trauma care were prioritised through the establishment of NIMHANS-2 and the upgradation of National Mental Health Institutes in Ranchi and Tezpur as regional apex institutions, alongside the setting up of emergency and trauma care centres in district hospitals. To address workforce shortages, the Budget proposes the upgradation of existing Allied Health Professional institutions and the establishment of new ones across public and private sectors, supported by NSQF-aligned programmes to build a comprehensive care ecosystem for geriatric and allied services. Complementing these supply-side measures, indirect tax reforms exempted 17 cancer-related drugs from basic customs duty and extended duty exemptions to treatments for additional rare diseases, improving affordability for patients.

These measures are likely to generate employment, attract investment, strengthen research capacity, particularly in traditional medicine, and reduce treatment costs, while expanding mental health and trauma care access. However, the Budget remains skewed toward curative and tertiary care. Preventive healthcare, including screening, early diagnosis, primary care strengthening, and public health outreach, receives limited explicit emphasis. Without a stronger preventive care focus and a clearer medium-term spending roadmap toward the National Health Policy targets, the risk remains that rising healthcare allocations may not fully translate into long-term cost containment and population-wide health outcomes.

Social Welfare and Social Protection

In a country with a large population of underprivileged households, economically vulnerable workers, and opportunity-seeking women and youth, expectations from the Union Budget 2026–27 were centred on a shift from fragmented welfare transfers to an employment-linked, inflation-adjusted, and inclusion-driven social protection framework. Stakeholders expected social sector spending to move closer to 21–25 per cent of total expenditure, with a stronger focus on women’s economic empowerment, youth and poor employment generation, efficient Direct Benefit Transfers, and improved income stability for farmers. More than a fiscal expansion, the expectation was to build a more egalitarian welfare architecture while improving implementation efficiency and outcome orientation.

Against this backdrop, the Budget places social welfare under the government's "Third Kartavya" of Sankalp, with the social sector receiving an estimated ₹6 lakh crore aimed at supporting the poor, underprivileged, and disadvantaged. A major highlight is the sharp rise in the Gender Budget, which now accounts for 9.37 per cent of total expenditure in FY 2026–27, up from 8.86 per cent in the previous year. The total gender outlay has increased to approximately ₹5.08 lakh crore, the highest ever, marking an 11.3 per cent year-on-year rise. Part A of the Gender Budget, schemes with 100 per cent allocation for women, rose significantly to ₹1.07 lakh crore. New initiatives such as SHE-Mart, a women-led, community-owned retail entrepreneurship platform, and productivity-oriented women's groups in agriculture aim to enhance market access and financial independence for rural women.

Rural employment and livelihoods received a notable push, with rural development allocations rising by 21 per cent to ₹2.31 lakh crore. A structural shift is evident in the transition from MGNREGA to the Viksit Bharat Guarantee for Rozgar and Ajeevika Mission (VB-GRAM), which received ₹95,692 crore, while MGNREGA was allocated ₹30,000 crore. Combined rural employment spending of ₹1.25 lakh crore exceeds previous years, alongside income-enhancing measures such as Bharat Vistar, an AI-enabled multilingual agricultural advisory platform, CLI-linked animal husbandry schemes, and diversification into high-value crops like cashew and coconut.

Youth and poor empowerment are addressed through modest increase in education spending, with a focus on AI, digital skills, the creator and gig economy, and collaborations with professional bodies like ICAI and ICSI for short-term skilling. Job creation through sports manufacturing and development programmes also signals cross-sector employment potential. Disability and mental health welfare received targeted support through allocations to Divyangjan Kaushal Yojana, Divyang Sahara Yojana, and expanded trauma care under the health budget.

However, despite higher headline allocations, the social sector accounts for only about 11.2 per cent of total Union expenditure, down sharply from earlier proportions, indicating a declining relative priority. The Budget remains heavily capital expenditure driven, with welfare spending increasingly supply-side in nature. Significant gaps persist: the sharp reduction in MGNREGA risks weakening a rights-based employment safety net; gender allocations lack explicit inclusion of transgender welfare and measures to address gender-based violence; rural employment funding may fall short of providing the promised 125 days of work; and the

emphasis on export-oriented agriculture over MSP expansion may heighten income vulnerability. Overall, while the Budget expands welfare schemes, its infrastructure-first orientation risks undermining equity, human capital formation, and the durability of inclusive growth.

Employment and Labour Markets

In the run-up to the Union Budget 2026–27, expectations from the employment and labour market policy framework were shaped by the need to prepare the economy for significant structural and demographic shifts in the nature of work. Post-pandemic labour market recovery has highlighted concerns not merely about the quantity of jobs created, but about their quality, stability, and alignment with emerging economic conditions shaped by geopolitics, technological change, and resource constraints. Stakeholders increasingly expected a pivot toward employment quality, greater formalisation, and stronger social security coverage—particularly for gig and platform workers. There was also a strong expectation that labour policy would explicitly support women’s workforce participation by enabling flexible work arrangements and expanding contributory social protection mechanisms.

Against this backdrop, the Union Budget 2026–27 places employment generation at the centre of its labour policy agenda through the launch of the *Pradhan Mantri Viksit Bharat Rozgar Yojana (PM-VBRY)*, with an allocation of ₹20,082.70 crore. The scheme, restructured from the earlier employment generation programme, is designed to incentivise job creation across sectors, promote formalisation, and expand social security coverage, with eligibility tied to net new jobs created between August 2025 and July 2027. This marks a notable shift from passive labour welfare toward an active labour market policy framework, aligning India’s approach more closely with global best practices. Complementing this, social security allocations have been increased to ₹11,465.99 crore, with the Employees’ Pension Scheme remaining the largest component, alongside continued support for contributory pension schemes such as PM Shram Yogi Maandhan and PM Karam Yogi Maandhan, extending coverage to unorganised workers, retail traders, and the self-employed.

The Budget also strengthens labour market matching and institutional capacity through increased allocations for the National Career Services platform and targeted coaching and guidance programmes for SC/ST and OBC candidates, supporting employability and inclusion. Allocations for labour statistics under the Labour and Employment Statistical System have been enhanced, signalling recognition of the importance of reliable labour market data for

policy design. Sectorally, employment generation is expected to be supported indirectly through tourism-led skilling initiatives, expansion of labour-intensive manufacturing such as textiles, and increased support to MSMEs under self-reliance frameworks. The transition from MGNREGA to the asset-oriented G-RAM-G programme further reflects a shift toward durable employment creation.

However, important concerns remain. Employment outcomes continue to be treated largely as a by-product of growth rather than as an explicit, measurable policy target. While PM-VBRY emphasises job creation, it does not sufficiently differentiate between stable, high-quality employment and short-term or low-productivity jobs, raising the risk of underemployment and income insecurity. Moreover, skilling initiatives remain largely supply-driven, with limited assurance of demand-side job absorption. Without stronger coordination between industrial policy, skilling, and labour market incentives, the Budget's employment strategy risks falling short of addressing India's long-term job quality challenge.

MSMEs & Entrepreneurship

In the lead-up to the Union Budget 2026–27, expectations from the MSME and startup ecosystem centred on easing structural constraints that continue to limit scale, productivity, and innovation. MSMEs, despite being central to employment generation and exports, face persistent challenges in accessing affordable finance, managing cash flows, navigating regulatory compliance, and transitioning out of informality. Startups, particularly in early and growth stages, have been impacted by a slowdown in funding across all stages, heightening the demand for risk capital, R&D support, and predictable tax and regulatory frameworks. Stakeholders, including MSME financiers, incubators, industry bodies, and venture capital investors, expected the Budget to strengthen credit access through wider adoption of TReDS, simplify GST and compliance burdens, expand equity support, and create a more enabling environment for innovation-driven entrepreneurship.

The Union Budget 2026–27 responds to these expectations through a three-pronged strategy focused on equity support, liquidity, and professional assistance for MSMEs. A dedicated ₹10,000 crore SME Growth Fund has been announced to help promising enterprises scale into “future champions,” alongside a ₹2,000 crore top-up to the Self-Reliant India Fund to expand equity and quasi-equity financing. Liquidity constraints are addressed through mandatory onboarding of CPSE purchases onto the TReDS platform, extension of credit guarantees for invoice discounting, linking GeM with TReDS, and permitting securitisation of TReDS

receivables to develop a secondary market. In addition, professional institutions such as ICAI, ICSI, and ICMAI will develop short-term modular programmes to create accredited “Corporate Mitras” in Tier II and Tier III towns, reducing compliance costs and improving regulatory adherence for smaller firms.

For startups, the Budget reinforces support through an additional ₹10,000 crore allocation to the Fund of Funds for Startups, to be deployed via SEBI-registered venture and alternative investment funds, supporting early and growth-stage enterprises. The India Semiconductor Mission 2.0, with a large outlay, creates opportunities for startups in chip design, electronics, and hardware manufacturing. Further, higher safe-harbour thresholds for IT services, tax support for cloud infrastructure, and removal of the ₹10 lakh cap on courier export consignments are likely to benefit technology-driven startups and export-oriented MSMEs.

These measures are expected to improve liquidity, enforce payment discipline, encourage cash-flow based lending aligned with RBI guidance, and help MSMEs scale production and access export markets. However, gaps remain. While equity and liquidity support are strengthened, explicit risk-sharing mechanisms for venture capital investment, particularly for early-stage and informal enterprises, are absent. The Budget also refrains from introducing new startup-specific tax incentives such as ESOP tax reforms, fresh tax holidays, or direct R&D grants. As a result, while the Budget strengthens the foundations for MSME formalisation and scale-up, startup investment sentiment remains largely market-driven, with limited fiscal cushioning for early-stage risk.

Mentoring Excellence

Infrastructure and Urban Development

In the run-up to the Union Budget 2026–27, expectations from the infrastructure and urban development sector centred on continuity in public capital expenditure alongside a rebalancing towards urban service delivery and execution capacity. While recent budgets had significantly expanded headline infrastructure outlays, stakeholders remained concerned about uneven urban outcomes, weak last-mile connectivity, and persistent implementation bottlenecks at the level of Urban Local Bodies (ULBs). There was also a growing demand for predictable capital support to states and cities, stronger mechanisms to crowd in private investment, and a shift from flagship, project-led expansion to integrated urban mobility, housing, water, and sanitation systems, particularly in Tier II and Tier III cities.

The Union Budget 2026–27 largely meets expectations on scale and continuity, reaffirming infrastructure as a central growth engine through sustained capital expenditure and institutional

financing reforms. Key announcements include continued investment in Dedicated Freight Corridors, expansion of National Waterways and coastal shipping, development of high-speed rail corridors between major urban centres, and the adoption of a “City Economic Regions” approach to strengthen urban-led growth. The Budget also introduced an Infrastructure Risk Guarantee Fund to provide partial credit support for large projects, expanded incentives for municipal bond issuances, and promoted asset recycling through REITs and InVITs. Together, these measures signal a shift towards diversified, market-linked infrastructure financing while maintaining public investment momentum.

These interventions are likely to improve logistics efficiency, reduce transportation costs, and support trade and manufacturing competitiveness, while the focus on Tier II and Tier III cities could help ease metropolitan congestion and create new growth nodes. Enhanced risk-sharing and financing instruments may improve state and city-level project pipelines and encourage private participation. However, the urban development agenda remains tilted toward large transport and connectivity projects, with comparatively limited visibility for everyday urban infrastructure such as public transport systems, water supply, sanitation, drainage, and solid waste management areas, that directly shape quality of life and labour productivity.

A key concern is that the Budget does not adequately address the institutional and technical capacity constraints of ULBs, which continue to impede project execution and asset maintenance. While municipal bond incentives are welcome, weaker cities may struggle to access capital markets without deeper reforms in urban finances and governance. Moreover, the emphasis on inter-city and high-speed connectivity risks overshadowing the need for affordable mass transit and last-mile solutions within cities. Without parallel investments in urban planning capacity, service-level outcomes, and intergovernmental coordination, the risk remains that rising infrastructure outlays may not fully translate into inclusive and sustainable urban development.

Agriculture and Rural Development

The Union Budget 2026–27 signals a strategic shift in India’s rural and agricultural policy framework, moving away from demand-driven welfare toward a technology-enabled, asset-linked development model. Within a macro-fiscal context anchored by a fiscal deficit target of 4.3 per cent of GDP and a long-term debt anchor of 50 per cent by 2030, the government has sustained a high capital expenditure outlay of ₹12.2 lakh crore, positioning infrastructure and productivity enhancement as the primary drivers of rural transformation. Ahead of the Budget,

agricultural stakeholders had sought a reorientation from subsidy-heavy support toward technology-backed productivity gains, greater climate resilience, and diversification of rural livelihoods. There were also demands to enhance PM-Kisan transfers to offset rising input costs and climate risks, alongside calls for reforming MGNREGA to transition rural employment from short-term wage support to skill-based, asset-creating livelihoods.

The Budget responds through a three-pillar strategy centred on AI-led agricultural modernisation, restructuring rural employment frameworks, and diversification into high-value agriculture. A major announcement is the launch of Bharat VISTAAR, a multilingual AI-enabled platform, integrating AgriStack data with ICAR best practices. Supported by the Digital Agriculture Mission with an outlay of ₹2,817 crore and powered by Bhashini for local-language access, the platform aims to serve nearly 140 million farm holdings by improving access to advisory services, risk management tools, and productivity-enhancing information. In rural employment, the replacement of MGNREGA with the Viksit Bharat Guarantee for Rozgar and Aajeevika Mission marks a structural shift from demand-driven wage employment to skill-oriented livelihood creation aligned with long-term infrastructure development under the Vision 2047 agenda. The VB-G RAM G Act, 2025 seeks to embed durable asset creation and employability into rural public works.

The Budget also emphasises diversification into high-value agriculture through targeted crop missions, including coconut replantation to support 30 million livelihoods, cashew and cocoa programmes aimed at global branding by 2030, sandalwood ecosystem restoration in partnership with States, and rejuvenation of hilly regions through high-density plantations of walnuts, almonds, and pine nuts with value addition. Complementing these measures, rural housing and basic services receive continued support, with ₹54,882 crore allocated to Pradhan Mantri Awas Yojana Gramin and an increased outlay of ₹67,670 crore for the Jal Jeevan Mission to advance universal rural water access.

While these measures promise productivity gains, youth engagement, and asset-linked employment, gaps remain. AI-driven agriculture risks excluding marginal farmers due to digital and access constraints, while the transition from wage-based employment to skill-oriented livelihoods may create short-term income disruptions. Export-oriented agriculture also faces emerging risks from mechanisms such as the EU's Carbon Border Adjustment Mechanism in the absence of robust emissions tracking. Critically, the Budget remains silent on a legal guarantee for Minimum Support Price, drawing criticism from farmer groups, particularly in

Punjab and Haryana. Concerns also persist that capital-heavy, corridor-focused investments may underprioritize small-scale rural industries. Ultimately, the success of this strategy will depend on digital inclusion, effective livelihood diversification, and the capacity of new crop missions to withstand increasing climate volatility.

Climate Change and Green Transition

Ahead of the Union Budget 2026–27, stakeholders across the renewable energy and clean technology ecosystem expected stronger fiscal and policy support to accelerate India’s green transition. Solar, wind, hydro and grid companies sought higher allocations, enhanced grants, viability gap funding and tax incentives such as PLI extensions, accelerated depreciation and tax holidays. Offshore wind, energy storage and decentralised energy systems like rooftop solar required targeted support, while green hydrogen stakeholders expected the creation of a dedicated Green Hydrogen Fund to support R&D and infrastructure. Electric vehicle manufacturers looked for expanded public investment in charging infrastructure. At the same time, farmers, rural communities and workers in fossil-fuel-linked sectors, expected greater emphasis on climate-resilient agriculture, disaster mitigation, reskilling programmes and livelihood support to manage the social costs of decarbonisation.

The Budget delivers a selective expansion of green energy support, primarily through industrial and manufacturing-focused interventions. Allocations for the Ministry of Environment, Forest and Climate Change were increased by around 8 per cent to ₹3,759.5 crore, while funding for pollution-control schemes, including State Pollution Control Boards and the National Clean Air Programme, rose to ₹1,091 crore from ₹853.9 crore in the previous year. A major announcement is the earmarking of ₹20,000 crore for carbon capture, utilisation and storage (CCUS) projects, signalling the government’s intent to decarbonise energy-intensive and hard-to-abate industrial sectors. To strengthen clean energy manufacturing, customs duty exemptions were extended to battery storage systems and key components and import duties on solar glass materials were reduced to zero. The Budget also announced the establishment of dedicated rare-earth mineral corridors across multiple States to support domestic supply chains for clean energy and strategic technologies.

These measures are likely to accelerate clean power deployment and reduce capital costs for domestic manufacturing of solar modules, battery storage and associated components. Fiscal support for CCUS signals a long-term approach to industrial decarbonisation, while duty rationalisation improves the competitiveness of Indian manufacturers and strengthens supply-

chain resilience. Targeted support for grid and storage infrastructure improves the feasibility of integrating higher shares of variable renewable energy into the power system, supporting India's clean energy targets.

However, several limitations remain. Notably, the term “climate” was not mentioned even once in the Budget speech, in contrast to the previous year, reflecting a symbolic downgrading of climate framing. Budgetary emphasis remains skewed towards mitigation through renewables, CCUS and manufacturing, with limited scaling up of climate adaptation measures. There is no significant fiscal push for household-level energy efficiency, public transport electrification or urban planning reforms that directly reduce emissions and improve air quality. The absence of climate tagging of expenditures or a consolidated climate finance statement makes it difficult to assess alignment with India's NDC targets. Support for workers and regions dependent on fossil-fuel-linked activities also remains minimal. Overall, while the Budget strengthens the supply-side foundations of India's green transition, it falls short of a comprehensive climate strategy that balances mitigation with adaptation and just-transition concerns.

Finance

The Budget 2026–27 places emphasis on strengthening the financial sector to support India's transition towards *Viksit Bharat*. A major announcement is the setting up of a High-Level Committee on Banking, aimed at aligning the banking system with the economy's next growth phase. To promote alternative sources of urban financing, the Budget provides an incentive of ₹100 crore for a single municipal bond issuance exceeding ₹1,000 crore, while continuing support under the AMRUT scheme. The proposed restructuring of Power Finance Corporation (PFC) and Rural Electrification Corporation (REC) seeks to improve efficiency in power-sector financing. Further, a comprehensive review of Foreign Exchange Management Act (FEMA) (Non-Debt Instruments) Rules is intended to rationalise foreign investment regulations. To deepen capital markets, the Budget introduces a market-making framework and total return swaps (TRS) for corporate bonds. On the taxation side, STT on futures has been increased from 0.02% to 0.05%, while STT on options premium and exercise has been raised to 0.15%.

These measures are expected to enhance financial deepening and market efficiency. The banking committee could address structural issues such as governance, credit delivery and financial inclusion. Municipal bond incentives may reduce dependence on bank credit for urban infrastructure. Restructuring PFC and REC can strengthen power-sector lending and balance sheets. The FEMA review is likely to improve ease of doing business and attract foreign capital,

while market making and TRS can enhance liquidity, price discovery and risk management in the corporate bond market.

However, the Budget relies heavily on committees and reviews rather than time-bound reforms, raising concerns about implementation delays. Municipal bond incentives mainly benefit large urban local bodies, excluding smaller municipalities. Higher STT may increase transaction costs and reduce derivatives market liquidity, potentially discouraging participation. The absence of targeted measures for bank recapitalisation, MSME credit expansion and fintech regulation remains a notable gap.

Defence

The Union Budget 2026–27 for the defence sector was framed against the backdrop of heightened geopolitical tensions and recent military operations, notably Operation SINDOOR, which placed renewed emphasis on operational readiness and modernisation. Ahead of the Budget, stakeholder expectations centred on a substantial increase in capital expenditure to replenish depleted inventories, accelerate force modernisation, and strengthen preparedness along sensitive borders. There was also a strong demand for higher allocations toward defence R&D to advance indigenous capabilities under the Aatmanirbharta framework and reduce long-standing dependence on imported platforms and technologies.

The Budget responded with a significant expansion in defence outlays. The Ministry of Defence received an all-time high allocation of ₹7.85 lakh crore, marking a 15.3 per cent increase over the previous year. Capital expenditure accounts for 27.95 per cent of the total allocation, representing a 21.8 per cent jump over last year's estimates and the highest single-year increase in modernisation funding to date. Revenue expenditure has been distributed across operational preparedness, pay and allowances, defence pensions, and civil organisations, ensuring that immediate readiness requirements are met without crowding out capital investment. R&D allocations to DRDO were raised to ₹29,100 crore, reinforcing the focus on indigenous technology development. Border infrastructure also received a boost, with the Border Roads Organisation allocated ₹7,394 crore to accelerate strategic projects such as tunnels and airfields in forward areas. Veteran welfare was addressed through a sharp 45 per cent increase in funding for the Ex-Servicemen Contributory Health Scheme.

These measures significantly enhance the defence sector's financial capacity to address both short-term and medium-term priorities. The sharp increase in capital expenditure provides room to conclude pending mega-procurement projects such as Rafale-M and Project-75I

submarines, while also replenishing ammunition stocks used in recent operations. Duty waivers for maintenance, repair and overhaul (MRO) activities are expected to lower operational costs and support the emergence of India as a regional aerospace MRO hub, benefiting both public sector firms like HAL and private players. Higher revenue expenditure allocations ensure that operational gaps are addressed without diverting funds meant for modernisation.

However, important challenges remain. Despite the emphasis on indigenisation, the Budget does not introduce new, targeted measures to promote deep-tech manufacturing of critical subsystems such as engines, sensors, and avionics, where import dependence remains high. Execution risks also persist: the Ministry of Defence has historically faced difficulties in fully utilising large capital allocations within a single fiscal year due to procedural delays. The absence of a non-lapsable capital fund continues to constrain long-term procurement planning, as unutilised funds lapse at year-end. Overall, while the Budget marks a strong commitment to defence preparedness and modernisation, its effectiveness will hinge on procurement reforms and execution capacity.

Digital Economy and Digital Public Infrastructure

Ahead of the Union Budget 2026–27, there were strong expectations of a fiscal shift toward strengthening Digital Public Infrastructure (DPI) as a core pillar of India’s growth and inclusion strategy. With platforms such as UPI, ONDC, Aadhaar, and DigiLocker expanding rapidly, stakeholders expected predictable public funding to prevent congestion, downtime, and systemic risks. There was also a clear demand for targeted investment to bridge digital divides affecting rural households, MSMEs, and informal workers facing challenges related to connectivity, device access, digital literacy, and language barriers. More broadly, DPI was expected to be treated as essential public infrastructure underpinning trust, inclusion, and the sustainability of the digital economy.

The Budget addressed these expectations primarily through investment-friendly policy signals rather than direct public provisioning. A key announcement was the introduction of a long-term tax holiday till 2047 for foreign companies providing cloud and data-centre services from India, aimed at attracting global investment into domestic digital infrastructure. The Budget also highlighted the expanding use of artificial intelligence across sectors, particularly through Bharat Vistar, an AI-powered multilingual advisory platform integrating government data systems for agriculture and services. India Semiconductor Mission 2.0 was launched with a substantial outlay to strengthen chip design, advanced materials, fabrication capacity, and

supply chains critical for digital electronics. In addition, the mandate to route CPSE purchases from MSMEs through TReDS, alongside linking GeM with TReDS, reinforces digital transaction platforms and improves liquidity for smaller firms. The National Destination Digital Knowledge Grid was announced to digitally document sites of cultural and historical significance.

These measures strengthen India's positioning as a global digital services and technology hub by attracting private and foreign investment, improving interoperability between government and market platforms, and supporting employment in IT services, cloud management, digital content, and platform operations. They also enhance ease of doing business for startups and MSMEs that rely on DPI for payments, procurement, and compliance.

However, gaps remain significant. The Budget does not provide explicit budgetary support for DPI maintenance, system upgrades, or platform integrity, raising concerns about long-term sustainability. Digital inclusion priorities, rural connectivity, affordable devices, and digital literacy, remain inadequately addressed. Cybersecurity funding appears insufficient in the context of rising digital fraud and data risks, and the heavy reliance on private investment limits public control over critical digital infrastructure. Overall, while the Budget recognises DPI as an enabler of growth, it stops short of treating it as core public infrastructure requiring sustained public investment, clear governance frameworks, and explicit equity safeguards.

Conclusion

The Budget 2026-27 appears carefully calibrated, reaffirming that slower nominal GDP growth reflects the trade-offs associated with a disinflationary macroeconomic stance. These numbers leverage proven 3.9-4.8x capex multipliers (validated by FY26's outperformance) to revive growth and restore tax buoyancy through strategic compliance architecture (Income Tax Act 2025), not rate engineering, which is set to deliver fiscal outperformance in a self-reinforcing cycle mirroring FY26.

This ₹12.2 lakh crore capex surge (4.4% GDP, decade high) arrives with strategic positioning against dormant private investment, starved nominal GDP, and wary global capital, crowding in ₹25 lakh crore private cap, follow-on while reviving fiscal buoyancy through demand-led nominal growth. Rather than simple reallocation, the approach emphasises targeted infrastructure investment aligned with the Viksit Bharat vision.

It is set to ignite employability transformation, pivoting boldly from generic inputs via High-Powered Committee to address persistent youth employability challenges through targeted skilling interventions through AI-skilling and AVGC labs across 15k schools, channelling talent into services export pipelines perfectly timed for demographic dividend peak. Foundational learning lacks focused diversion, it needs mitigating risks of advanced skilling initiatives outpacing improvements in foundational education, however the policy is still poised for comprehensive youth uplift.

This momentum is set to flow into health's biopharma leap, executing a surgical shift from treatment payouts to global production via Biopharma SHAKTI (₹10k cr) and tourism hubs, with the potential to address supply gaps and strengthen biosimilar export capacity over time amid China+1 realignments. While SHAKTI is expected to scale brilliantly, Primary care still holds more potential for integrated funding, to counter flooding NCD threats, the sector is primed for holistic health export leadership, yet the grassroots can't have an eye lost upon.

Digital markets introduce complex sovereignty and regulatory considerations, the government boldly has pushed for the cloud tax holiday till 2047, which is said to lure \$50B AI FDI, while STT futures hike (0.02→0.05%) is expected to moderate excessive speculative activity in derivatives markets, fuelling inclusive digital prosperity.

Agriculture is next to weave in with Bharat-VISTAAR's AI precision advisories for 140mn farmers, ditching blanket subsidies to deliver 5-7% yield jumps in rainfed exclusion, demanding this timely unlock amid climate shocks, with smartphone access expandable via ecosystem partnerships to bridge urban-rural gaps, which help unlocking resilient rural engines.

Creative economy is set to extend the talent flow, rejecting elite skilling for mass AVGC export factories (15k schools, 2mn jobs by 2030), unlocking \$50B gaming via school-to-Urban pipelines, propelling global content dominance, teacher readiness coupled alongside shall prove better results.

Climate is poised to seal the chain with ₹20k cr CCUS redirected from solar optics to hard-to-abate steel/cement decarbonisation, delivering measurable capture to dodge greenwashing ahead of EU CBAM tariffs, the budget faces an issue of just transition for 10mn workers, but however the policy alongside the issue being addressed to support long-term industrial competitiveness and sustainability.

Rejecting sectoral silos, the budget exudes interlocked growth triggers: manufacturing anchors export leap, Bharat-VISTAAR ignites rural productivity, High-Powered Committee activates demographic dividend, Biopharma SHAKTI captures China+1 biosimilars are all geopolitically advantageous, positioning India as the century's central economy. If supported by effective execution, the Budget strengthens the medium-term trajectory toward Viksit Bharat.

Farmers' expectations regarding enhancements to PM-KISAN transfers and a legal assurance on MSP have received limited attention, and some degree of unmet expectation is also visible among other stakeholder groups. The Budget reflects a clear shift in welfare design, moving away from direct, demand-driven transfers toward supply-side and structural interventions aimed at creating more stable and productivity-linked welfare outcomes. While the increased allocation for the gender budget is a positive development, the absence of explicit provisions for the transgender community points to gaps in inclusivity. The government has articulated a long-term framework for welfare anchored in stability and structural reform; the effectiveness of this approach will ultimately depend on whether these reforms translate into improved outcomes for groups whose immediate concerns remain unaddressed.

The budget marks a decisive shift from citizen-focused benefit transfers to building an architecture of empowerment, one that enables individuals to actualize benefits themselves. This transition represents a significant institutional shift that requires careful execution, yet when executed well, it allows citizens to harness structural tailwinds. The three kartavyas have set a precedent for this transformation, laying the groundwork for a model that strengthens both overall domestic and international standing. However, the fruition of this vision will depend on well-laid structural pathways and robust institutional mechanisms that ensure even the last citizen remains at the centre.