



Dr. Rajeev Kumar
Academician

Union Budget 2026–27: Growth and Structural Transformation

The Union Budget 2026–27 has come amid global economic uncertainty and domestic economic resilience. It focuses on investment-led growth and structural reform, along with fiscal consolidation. The budget seeks to achieve rapid, sustainable and inclusive economic growth, and toward this objective, it prioritises capital expenditure within a prudent fiscal approach. Projected allocations in the budget reveal an inclusive approach, while elevated levels of effective capital expenditure reflect a reiterated commitment to rapid economic growth. Rationalisation of subsidies, selective customs duty adjustments, and

reforms in financial markets reveal the structural transformation agenda of the budget. The budget moves toward improved fiscal sustainability by narrowing the fiscal deficit, primary deficit and the debt-to-GDP. The budget combines macroeconomic discipline, fiscal discipline, reforms, and productive public investment.

Introduction

The Union Budget 2026–27 has come amid an uncertain and fragile global economic scenario caused by geopolitical tensions, trade fragmentation, and elevated sovereign debts across developed and developing economies. In contrast, domestic economic performance showed resilience. With an estimated strong growth rate of real GDP of 7.4 per cent in the fiscal year 2025–26, the Indian economy emerged as the fastest-growing major economy for the fourth consecutive year. Robust domestic demand, enhanced capital outlays, sound macroeconomic fundamentals, and prudent monetary and fiscal policies have accentuated the pace of growth.

The Union Budget for FY 2026–27 emphasises policy continuity and fiscal consolidation and reflects a structural shift in the role of government from direct provider of goods and services to a facilitator of private investment and market-led growth. With enhanced capital expenditure, along with reduced fiscal deficits and debt-GDP ratio, the

budget reaffirms the government's belief in investment-led growth and its commitment to fiscal prudence and inclusive development.

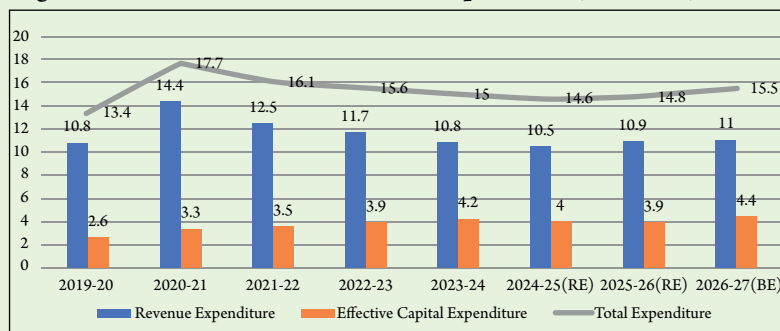
Revenue and Expenditure Trends

Traditionally, the Union Budget presents estimates for three consecutive years¹. The union government expenditure shows a systematic pattern over time. Figure 1 shows how total government expenditure, which peaked at 17.7% of GDP during the pandemic year 2020–21, has since moderated and stabilised

at around 15% of GDP. In contrast, and more importantly, effective capital expenditure has steadily increased from 2.6% of GDP in FY 2020–21 to 4.4% in FY 2026–27 (BE). On the other hand, as a healthy indicator, revenue expenditure is in a declining trend without compromising developmental expenditure. This compositional shift reflects a systematic transition from consumption-led fiscal expansion to asset creation and public investment.

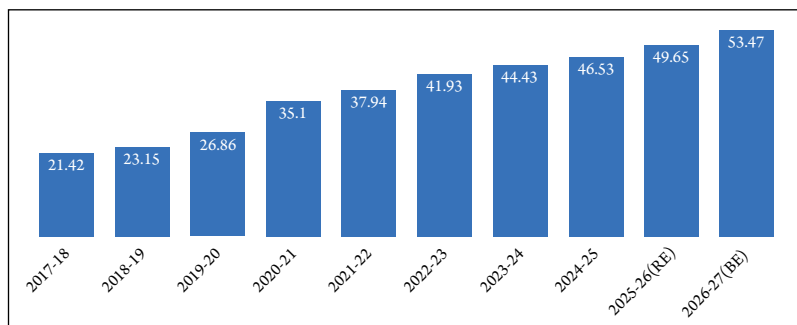
Figure 2 shows that, in terms of absolute figures, the Union Government expenditure has more

Figure 1: Trends in Union Government Expenditure (% of GDP)

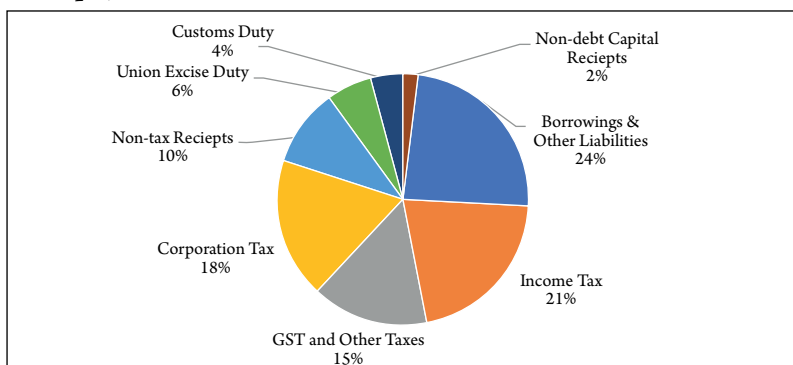


Source: Union Budget Documents

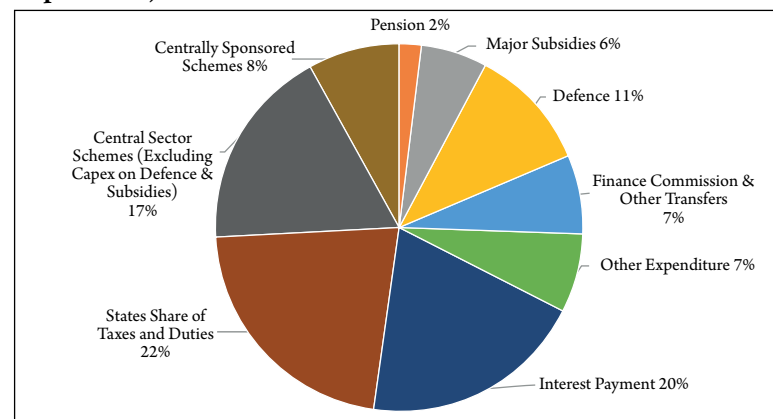
¹ Annual Financial Statement, that is the Union Budget, presents estimates for three years: Revised Estimates (RE) for the ongoing year in which the budget is presented; Actual Estimates (AE) for the previous year that has passed; and Budget Estimates (BE) for the ensuing year.

Figure 2: Trends in Union Government Expenditure (Rs. Lakh Cr.)

Source: Union Budget Documents

Figure 3: Sources of Revenue in the Union Budget, 2026-27 (% of Total Receipts)

Source: Union Budget, 2026-27

Figure 4: Items of Expenditure in the Union Budget 2026-2027 (% of Total Expenditure)

Source: Union Budget, 2026-27

than doubled over the past decade, from ₹21.4 lakh crore in FY 2017-18 to ₹53.5 lakh crore in FY 2026-27 (BE). However, this fiscal growth has been broadly aligned with economic growth reflected by a more stable expenditure-to-GDP ratio (Figure 1). The upward trend reflects growing

developmental commitments, infrastructure expansion, and higher capital allocations.

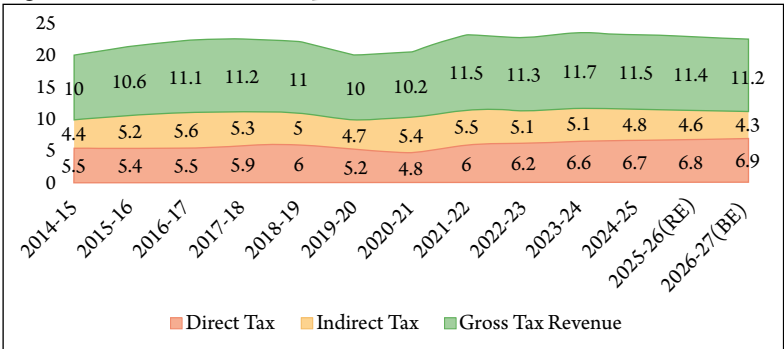
The revenue profile of the budget shows that the revenue of the Union Government mainly comes from tax sources. Figure 3 shows the share

“A three-pronged approach has been proposed to provide equity support, liquidity support, and professional support to the MSMEs. As many MSMEs fail due to lack of risk capital and managerial capacity, there will a ₹ 10,000 crore SME Growth Fund for equity and quasi-equity financial support.”

of various sources of revenue of the Union government. About two-thirds of revenue comes from taxes, where income tax, corporation tax and GST are the largest contributors. This reflects improved compliance and formalisation of the economy. Government borrowings also significantly contribute to the overall revenue of the government, but as we see later, a declining primary deficit indicates that these borrowings are largely used to meet interest liabilities.

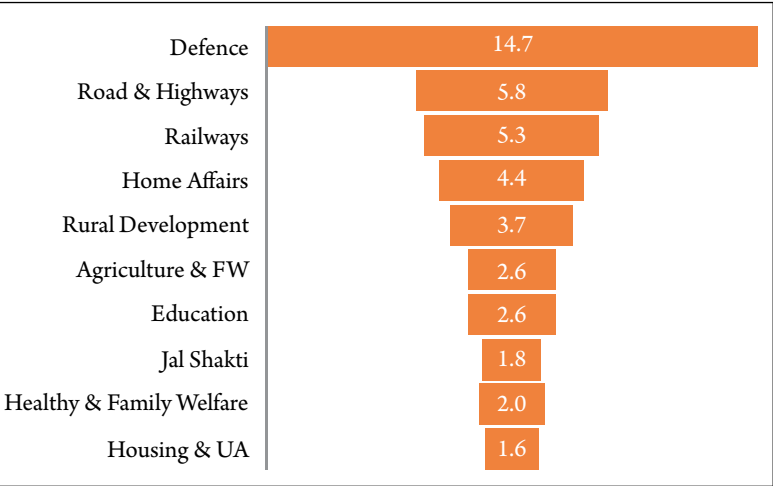
The expenditure profile of the budget 2026-27 shows that a significant portion of the total expenditure is committed expenditure, wherein interest payments and states' share of central taxes account for over 40 per cent of the budget (Figure 4). Further, defence expenditure and subsidies have about 18 per cent share. This expenditure profile indicates that the government has limited flexibility in its expenditure due to mandatory obligations. Further, the Fiscal Responsibility and Budget Management (FRBM) Act constrains the government's debt-raising capacity. So, the government not only has limited flexibility in budgetary allocations but also faces revenue constraints.

Figure 5: Trends in Tax Receipts of the Central Government (% of GDP)



Source: Union Budget Documents

Figure 6: Budgetary Allocations of Top Ten Ministries for 2026-27 (% of Total Expenditure)



Source: Union Budget, 2026-27

Trends in Revenue from Direct and Indirect Taxes

Sustained buoyancy of central taxes over the last decade has strengthened the Centre’s fiscal position. Figure 5 shows that the gross tax revenue remained mostly stable at around 11-12% of the GDP, which shows improved revenue productivity of central taxes. The share of direct tax relative to indirect taxes has been rising over this period due to greater tax elasticity with respect to income growth and the growing formalisation of the economy.

The Threefold Approach in the Budget

The budget introduces a threefold duty-based approach. The first duty

is to accelerate and sustain economic growth; the second duty is to fulfil people’s aspirations and build their capacity; and the third duty is to ensure that growth provides inclusive access to resources and opportunities. This approach reflects a departure from fragmented and piecemeal policymaking to a more integrated framework of development where economic growth, human capital, and inclusion support each other. To provide a supportive environment for this threefold approach, the budget emphasises continuous, adaptive and forward-looking structural reforms, a robust and resilient financial sector, and cutting-edge technologies. In fact, the budget envisages greater complementarity between state and market or public and private

sectors. The budget reveals that the government is committed to reforms and to building and enabling public policy framework for the private sector to innovate and flourish. It is in continuation of several economic reforms that have been undertaken in the last ten years to create employment, boost investment and productivity, and promote economic growth.

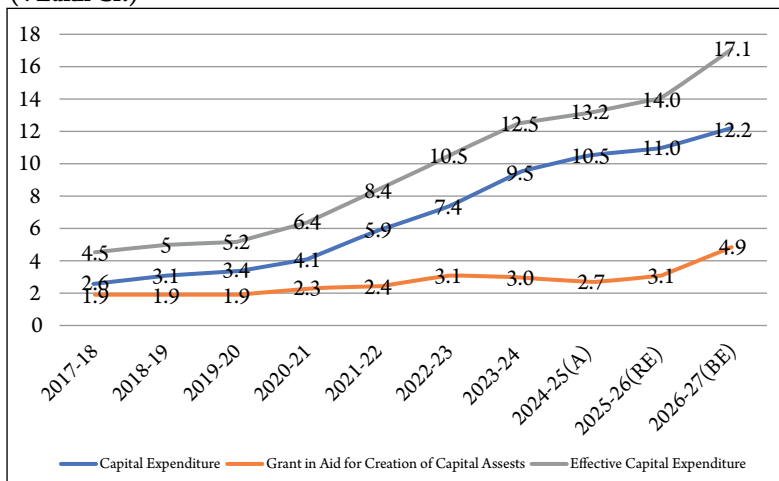
Scaling up Manufacturing

Toward the first duty, that is to promote economic growth, the budget proposes a strategic boost for manufacturing by focusing on selected areas such as legacy industrial sectors, MSMEs, infrastructure, energy, and city economic regions. The budget moves the economy towards a mature industrial policy in the country. Some of the key steps include: biopharma SHAKTI (with an expenditure of ₹ 10,000 crore over the next five years) to develop India as a global biopharma manufacturing hub; India Semiconductor Mission 2.0, boosting expenditure on the Electricity Components manufacturing Scheme, the establishment of rare earth corridors, and three dedicated chemical parks.

MSME

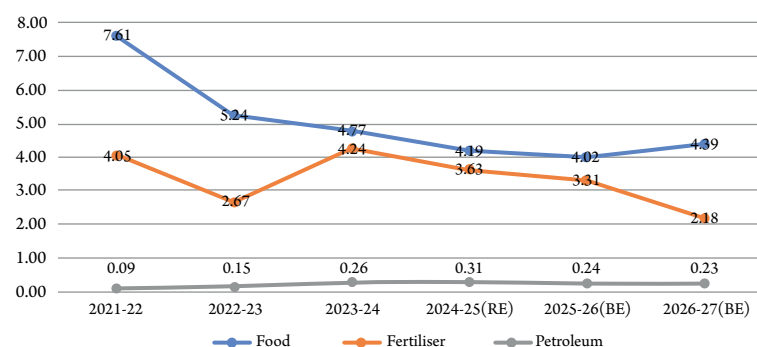
The budget recognises that MSMEs are often trapped in low-scale and low productivity despite being central to growth, employment and supply chains. A three-pronged approach has been proposed to provide equity support, liquidity support, and professional support to the MSMEs. As many MSMEs fail due to lack of risk capital and managerial capacity, there will a ₹10,000 crore SME Growth Fund for equity and quasi-equity financial support. The TReDS platform will help garner liquidity support to loosen working capital constraints. Para-professionals trained by ICAI, ICSI and ICMAI, and the Corporate Mitras will provide professional support to MSMEs at affordable costs.

Figure 7: Trends in Capital Expenditure of the Union Government (₹ Lakh Cr.)



Source: Union Budget Documents

Figure 8: Trends in Central Government Subsidies (% of Total Expenditure)



Source: Union Budget Documents

Capex and Infrastructure

The government has once again reaffirmed its commitment to infrastructure development in this budget by enhancing the capital expenditure to ₹12.2 lakh crore and effective capital expenditure² to ₹17.1 lakh crore (Figure 7). Thus, despite progressive fiscal consolidation, there has been a six times rise in capital expenditure in the last ten years. These trends confirm a decisive shift toward asset creation as a part of the core growth strategy. Apart from the existing initiatives for large-scale enhancement of public infrastructure,

such as Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs) and institutions like NIIF and NABFID, there will be an Infrastructure Risk Guarantee Fund (IRGF) to provide a partial credit guarantee to lenders.

In the budget, the government has recognised the cities, especially Tier II and Tier III, as engines of growth, innovation and opportunities, and a transformative concept of City Economic Region (CERs) has been evolved with an allocation of ₹ 5,000 crore per CER for the next five years.

The budget also emphasises environmentally sustainable freight and passenger transportation systems for logistics efficiency and regional connectivity, which include freight corridors, coastal shipping, national waterways, high-speed lanes and seaplanes.

Rationalisation of Subsidies

The trend in the expenditure on the three major subsidies (food, fertiliser and petroleum) shows a gradual recalibration of the expenditure priorities of the government. Food subsidy has stabilised at around 4-4.5 per cent of total expenditure; however, a sharp moderation in the budget for FY 2026-27 is visible in the fertiliser subsidy (Figure 8). This moderation is mainly due to the normalisation of global commodity prices rather than the withdrawal of support³. Petroleum subsidy remains marginal throughout. The overall pattern suggests that subsidy rationalisation is creating fiscal space for capital expenditure without compromising welfare commitments.

Financial Sector Reforms

The budget proposes to take financial sector reforms forward by setting up a High-Level Committee on Banking for Viksit Bharat and restructuring Power Finance Corporation and Rural Electrification Corporation. India has evolved a robust banking system where banks have strong balance sheets, high profitability and near universal coverage. The committee will review the banking sector to align it further with the vision of Viksit Bharat. Further, the budget mentions corporate bond market reforms, incentives for municipal bonds and a review of foreign investment rules.

Macroeconomic Framework in the Budget

The budget has a nuanced macroeconomic framework visible in

² Effective capital expenditure is the sum of capital expenditure and grants given by the central government for capital asset creation).

³ The fertiliser subsidy spiked during 2022-24 due to surge in the prices of natural gas and fertiliser due to pandemic and geopolitical conflicts. As international commodity prices have been stabilizing now, the subsidy burden has also decreased without any reduction in the support to farmers.

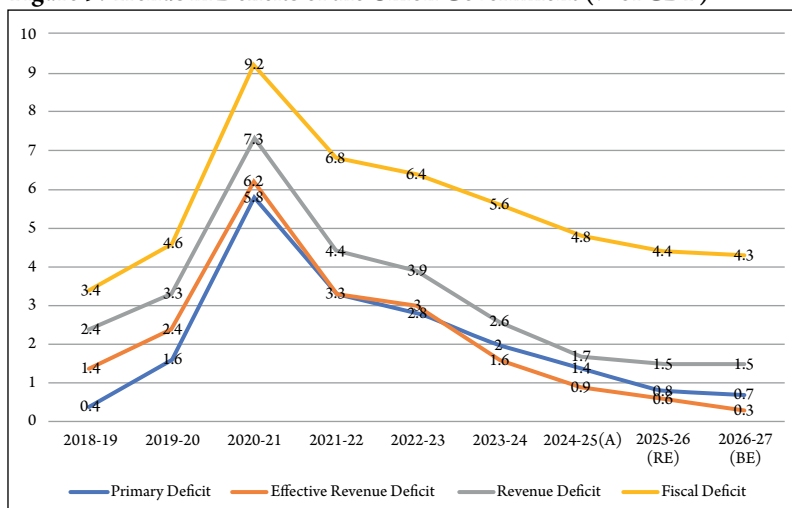
“The government's focus remains largely on the enhancement of productive capacity and long-term economic resilience rather than redistribution and subsidisation for consumption. The budget targets around 7 per cent growth that is quite plausible against the underlying macroeconomic fundamentals.”

its approach toward public investment-led growth, fiscal consolidation, supply-side reforms, and thrust on the role of the private sector. The government's focus remains largely on the enhancement of productive capacity and long-term economic resilience rather than redistribution and subsidisation for consumption. The budget targets around 7 per cent growth that is quite plausible against the underlying macroeconomic fundamentals.

Fiscal Framework in the Budget

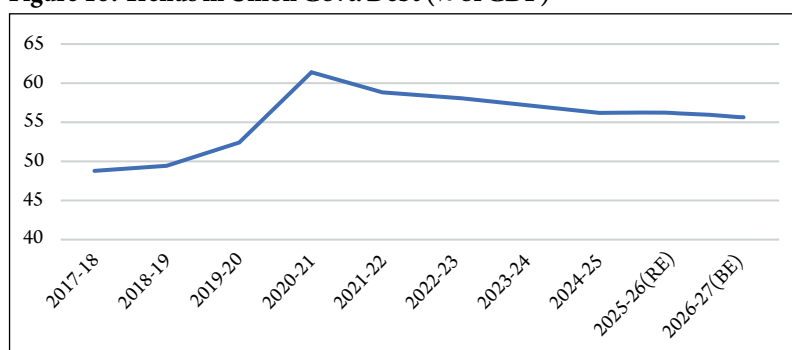
Like past several budgets, this budget also shows the continued commitment of the government to fiscal prudence, along with growth-accelerating expenditure. The budget proposes to prune the fiscal deficit to 4.3 per cent of the GDP in FY 2026-27 and target a reduction in the debt-to-GDP ratio to 55.6 per cent without compressing the expenditure in productive sectors (Figures 9 & 10). In a tight fiscal scenario, it is indeed very tough to make such commitments. Apart from a reduction in fiscal deficit, primary deficit is also projected to decline to 0.7 per cent of the GDP, while revenue deficit will remain at 1.5 per cent of the GDP. A stable revenue deficit signals

Figure 9: Trends in Deficits of the Union Government (% of GDP)



Source: Union Budget Documents

Figure 10: Trends in Union Govt. Debt (% of GDP)



Source: Union Budget Documents

stability in the gap between revenue receipts and revenue expenditure. Revenue deficit reflects the excess of current expenditure (on salaries, subsidies, interest payments, pensions, etc.) over revenue receipts and thus may be called government dissaving. A lower value of this deficit means a larger share of government borrowings is directed toward capital expenditure rather than on current consumption expenditure. A lower value of primary deficit reflects a move towards greater long-term debt sustainability, wherein the government is reducing its reliance on borrowing beyond the cost of debt servicing⁴. These indicators suggest that the fiscal behaviour of the government is well aligned with the FRBM Act,

which mandates fiscal prudence and sustainable debt management.

Service Sector, Human Capital and Employment

The budget of FY26 realistically recognises that manufacturing alone cannot address the employment challenge for the growing workforce in India, and the services sector in India has a comparative advantage in human capital-intensive activities. So, in the budget this year, there is a renewed emphasis on services like healthcare, care economy, tourism, AVGC, design, education, and sports, etc. The budget plans initiatives like university townships, one girls' hostel in each district, and upgraded research

⁴ In India, Fiscal deficit is equal to the net borrowings of the government. Primary deficit = Fiscal deficit - Interest payments Revenue deficit is the difference between revenue expenditure and revenue receipt.

infrastructure to boost participation and productivity. This budget does not announce short-term employment schemes, but rather adopts a capability-building approach for employment. Skills, credentials and institutions are treated as drivers of labour market outcomes.

Agriculture Sector

The budget looks forward to a productivity-oriented empowerment of diversified areas within the agriculture sector, comprising fisheries, livestock, high-value crops, and value chains. Greater focus is visible on high-value crops such as coconut, sandalwood, cocoa, and cashew in the coastal areas, and almonds, walnuts and pine nuts in hilly areas. Apart from that, an AI tool-based system named Bharat-VISTAAR for advisory support to farmers and SHE-Marts to support rural women led enterprise will be launched.

Tax Proposals

The budget this year maintains a status quo in the rate and slab structure of income tax, and similarly, base corporate tax rates remain unchanged. Thus, the tax proposals in the budget this year are mainly focused on stability, which in turn will provide certainty to taxpayers, investors and businesses. The budget focuses on the need for administrative simplification, TCS rationalisation, and compliance reforms. Further, the emphasis is on compliance improvement rather than rate adjustments. A significant change has been made in the Securities Transaction Tax (STT) to rationalise taxation of high-frequency and speculative trading segments. This modest change in the STT rate will enhance revenue from capital market taxation without making any change in capital gain tax. Thus, without disturbing investors' confidence, the government will be able to raise more revenue from a buoyant financial system.

Indirect tax proposals, in the budget, focus mainly on the rationalisation of customs duties and simplifications. The budget extends several basic

“A significant change has been made in the Securities Transaction Tax (STT) to rationalise taxation of high-frequency and speculative trading segments. This modest change in the STT rate will enhance revenue from capital market taxation without making any change in capital gain tax.”

customs duty exemptions and relaxations to support domestic manufacturing in sectors like energy, aviation, critical minerals, and defence and to boost export-oriented sectors like marine, leather textiles, and e-commerce. Relaxations and exemptions in duty on personal use goods, certain lifesaving medicines and rare disease treatments will improve ease of living in the country. The approach on the indirect tax front aims to promote manufacturing, exports and reduce compliance difficulties. Decriminalisation of minor tax offences and expansion of faceless, technology-driven assessments will further strengthen administrative efficiency. Overall, these tax proposals reflect a focus on revenue productivity, tax base, and rationalisation of financial market taxation.

Conclusion

The Budget for the fiscal year 2026-27 shows a policy continuation and a further investment-centric approach. Sustained enhanced capital expenditure is the main strength of this budget. The persistence of high levels of effective capital expenditure shows that public investment will be the catalysis of economic growth. The budget unequivocally accepts the role of the private sector in the process of development and proposes



to prepare a facilitating framework for the private sector to operate. Further, the budgeted allocation figures for different ministries and different schemes reflect the continued efforts of the government for inclusive development. Declining fiscal and primary deficit targets, along with a stabilising debt-GDP ratio, will provide confidence to the investors in the economy.

The government is steering the Indian economy toward a model of development that is inclusive and sustainable. With targeted capability creation, an improved fiscal framework, and investment in human capital, the budget will prove to be a catalyst for rapid economic growth.

References

- Govt. of India, Union Budget documents for various years
- Govt. of India, Economic Survey, 2025-26
- Musgrave, A. Richard & Peggy B. Musgrave. 1989. *Public Finance in Theory and Practice*, 5th Edition, McGraw-Hill Book Company
- Rangarajan C. & D.K. Srivastava. 2005. *Fiscal Deficits and Government Debt: Implications for Growth and Stabilisation*, *Economic & Political Weekly*, July
- Rao, M.G. 2000. *Tax Reform in India: Achievement and Challenges*, *Asia Pacific Journal*, Vol7, No. 2
- Sury, M.M. 1990. *Government Budgeting in India*, Commonwealth Publishers, Delhi

Author may be reached at
eboard@icai.in