



# BUDGET ANALYSIS 2026-2027

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## BUDGET ANALYSIS 2026-2027

### BUDGET ANALYSIS : 2026-2027

Finance Minister Nirmala Sitharaman presented the **Union Budget 2026-27** on February 1, 2026. The budget, themed around the vision of "**Viksit Bharat**" (Developed India), emphasizes stability, infrastructure-led growth, and a significant overhaul of the tax system

The Union Budget 2026-27, presented in Parliament on 1st February 2026, is India's annual financial blueprint outlining projected revenues and expenditures, policy priorities, sectoral allocations, fiscal targets, and structural reforms for the upcoming fiscal year. Prepared in the backdrop of sustained global economic uncertainties, inflationary pressures, and the government's vision of *Viksit Bharat* (Developed India), this budget aims to balance economic growth with fiscal prudence. This analysis breaks down the budget's macroeconomic assumptions, fiscal parameters, tax proposals, and sectoral priorities to aid Parliamentarians and analysts in understanding the implications of the budgetary decisions.

This document is essential for students, practitioners, and policymakers alike because it moves beyond headlines to critically assess what is proposed, why it matters, and how feasible it is in the current context.

### EXECUTIVE SUMMARY – WHAT THIS BUDGET IS ABOUT





## BUDGET ANALYSIS 2026-2027

### Core Objectives of the Budget

1. Sustain economic growth while controlling inflation.
2. Maintain fiscal discipline with deficit targets.
3. Encourage investment in strategic sectors.
4. Promote ease of doing business and foreign investment.
5. Support infrastructure, MSMEs, manufacturing, and services.
6. Enhance social sector outcomes (health, education).

These objectives align with the government's *Viksit Bharat Vision 2047*, which targets economic transformation and higher productivity.

## Pillars of Growth and Development





## BUDGET ANALYSIS 2026-2027

### Yuva Shakti-driven Budget

#### Government's 'Sankalp'

To focus on poor, underprivileged and disadvantaged



### India's Reform Express



- Government has undertaken **comprehensive economic reforms** towards creating employment, boosting productivity and accelerating growth.
- Over **350 reforms** have been rolled out, including GST simplification, notification of Labour Codes, and rationalisation of mandatory Quality Control Orders.
- High Level Committees** have been formed.
- Central Government is working with the State Governments on **deregulation** and reducing compliance requirements.

#### I. FISCAL FRAMEWORK

##### 1. Total Expenditure and Growth

For 2026-27, the Union Government has projected total expenditure at ₹53,47,315 crore, marking a 7.7% increase over the revised estimate (RE) of 2025-26.



## BUDGET ANALYSIS 2026-2027

This expenditure is split between:

- Revenue expenditure: 6.6% growth
- Capital expenditure: 11.5% growth

The emphasis on capital outlay shows support for infrastructure and development spending that has long-term growth effects rather than short-term consumption expansion.

Capital expenditure rising faster than revenue expenditure is generally positive, because it signals investment in asset creation, infrastructure, and capacity building — not just routine government spending.

### 2. Fiscal and Revenue Deficit Targets

Key deficit targets set forth in the budget:

- Fiscal Deficit: 4.3% of GDP (lower than 4.4% in 2025-26 RE)
- Revenue Deficit: 1.5% of GDP (same as previous year)
- Primary Deficit: 0.7% of GDP

A shrinking fiscal deficit at a time when the economy is not slowing sharply reflects an intent to balance growth with fiscal responsibility. This strategy is meant to maintain investor confidence, control inflation, and prevent excessive debt buildup.

### 3. Government Borrowing and Liabilities

To finance the deficit, the government plans borrowings of ₹16,95,768 crore, about 8.8% higher than the revised estimates of the previous fiscal. Government liabilities are estimated at 55.6% of GDP, with a phased approach to reduce them to around 50% by March 2031.

Analysis: This debt path is moderate compared to many emerging economies. By targeting a gradual decline rather than abrupt cuts, the government avoids fiscal contraction that could dent growth.

## II. RECEIPTS AND REVENUE GENERATION

### 1. Tax Revenue

Total receipts (excluding borrowings) are estimated at ₹36,51,547 crore, a 7.2% increase over the previous year's revised estimates. The growth in net tax revenue reflects recovery in both corporate tax (~8% growth) and income tax (~11.7% growth).

However, in the current year 2025-26, net tax revenues are lower than initial budget estimates due to shortfalls in income tax and GST collections, indicating some revenue volatility.

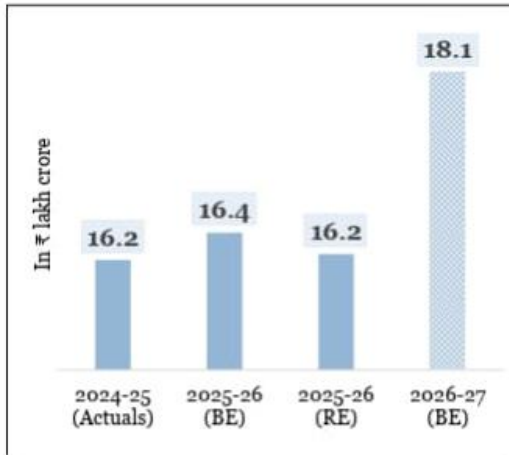


## BUDGET ANALYSIS 2026-2027

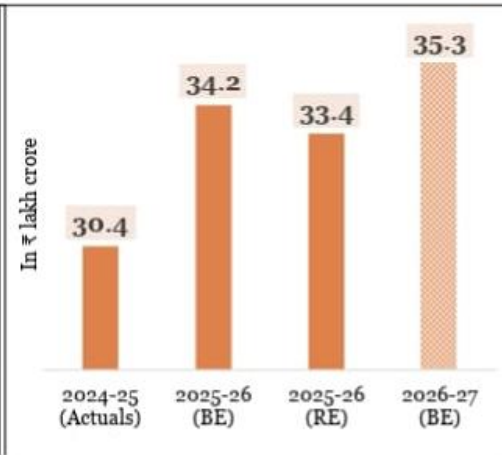


### RECEIPTS

#### Capital Receipts

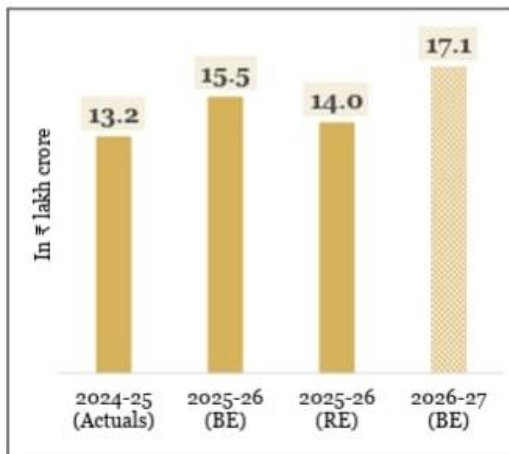


#### Revenue Receipts

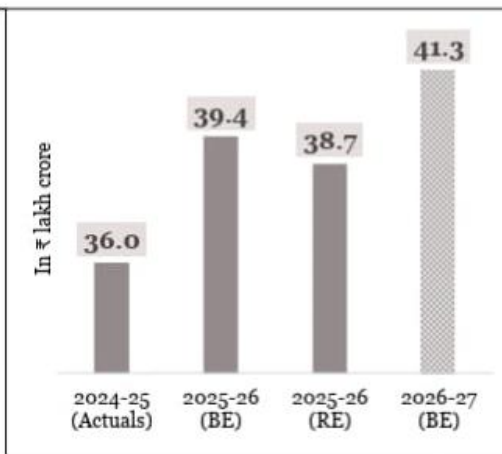


### EXPENDITURES

#### Effective Capital Expenditure



#### Revenue Expenditure

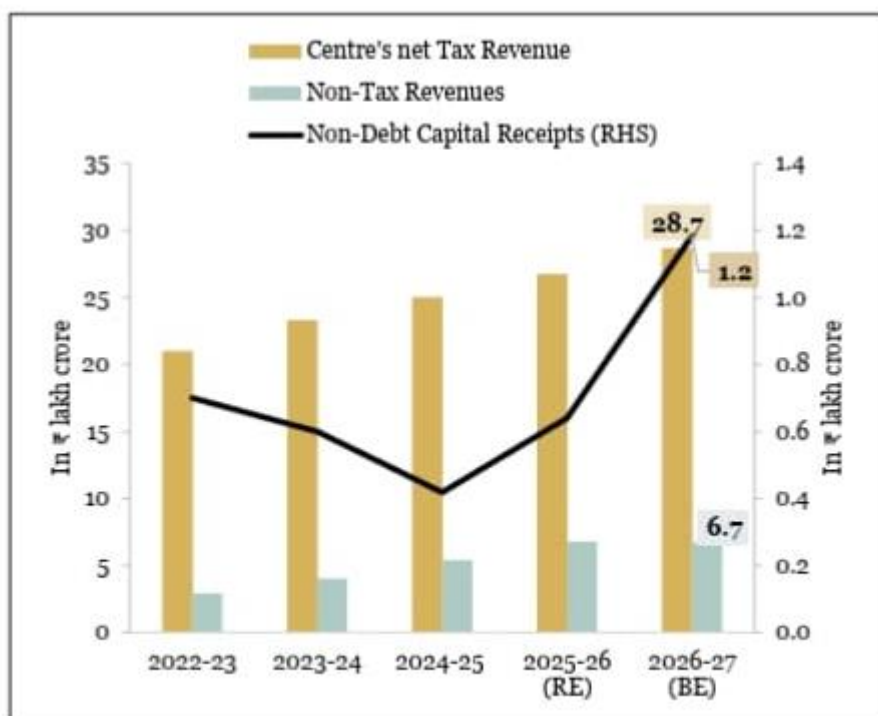


## 2. Non-Tax Revenue

Non-tax revenue is expected to remain nearly flat and is largely driven by dividends from RBI and financial institutions, telecommunications license fees, and surcharges.



## BUDGET ANALYSIS 2026-2027



### 3. Disinvestment & Capital Receipts

Capital receipts, excluding borrowings, are projected to rise by 84.9% driven largely by a higher disinvestment target of ₹80,000 crore, reversing a multi-year trend of lower disinvestment outcomes. This reflects renewed emphasis on asset monetization and strategic divestment.

Analysis: A higher divestment target can both raise revenue and improve public sector efficiency, but execution risk persists — past targets have often fallen short.

### III. FISCAL POLICY AND TAX PROPOSALS

It highlights both macro fiscal policy and key tax changes:

#### No Change in Basic Income Tax Structure

The basic income tax slabs remain unchanged, but there are several structural tax changes:

- Tax holiday until 2047 for foreign cloud services companies operating Indian data centers.
- Increase in Securities Transaction Tax (STT) for futures and options.
- All share buybacks taxed as capital gains, with a higher effective rate for promoters.
- Reduction of Minimum Alternate Tax (MAT) from 15% to 14%, but with stricter credit utilisation rules.
- Deductions for TCS on foreign remittances for education and medical purposes reduced.

These changes are aimed at broadening tax bases, discouraging non-productive investment behaviour (e.g., share buybacks) and incentivizing global firms to invest in Indian digital infrastructure.



## BUDGET ANALYSIS 2026-2027

### IV. SECTORAL ALLOCATIONS AND KEY INITIATIVES

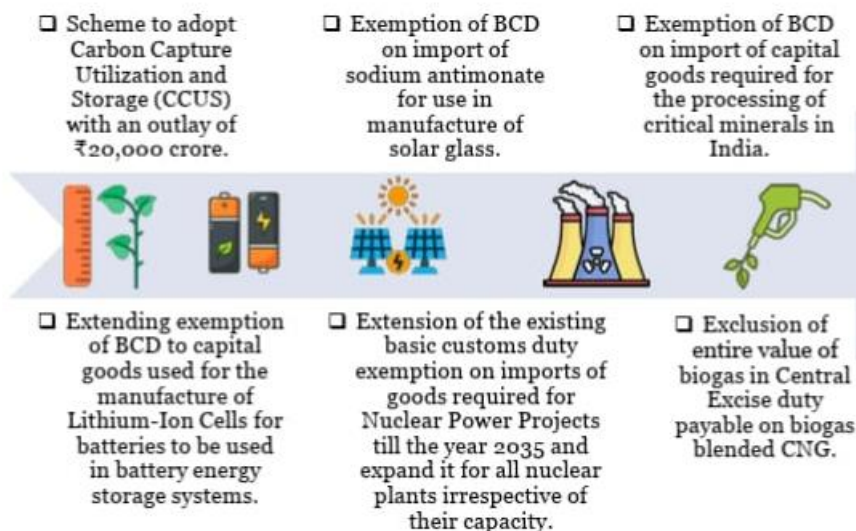
The PRS Analysis dives into the sectoral commitments embedded in the budget. Some key points include:

#### 1. Infrastructure & Connectivity

- Public capital expenditure is estimated to rise from ₹11.2 lakh crore to ₹12.2 lakh crore.
- An Infrastructure Risk Guarantee Fund will be established to improve private sector confidence in infrastructure projects.
- 20 new national waterways will be operationalised and a dedicated freight corridor connecting Surat to Dankuni will be developed.
- 7 high-speed rail corridors are planned across major city pairs (e.g., Delhi-Varanasi, Mumbai-Pune).

Real-world impact: High-speed rail can transform connectivity and regional economies, while national waterways and freight corridors improve logistics efficiency. These developments signal a continued push for infrastructure-led growth.

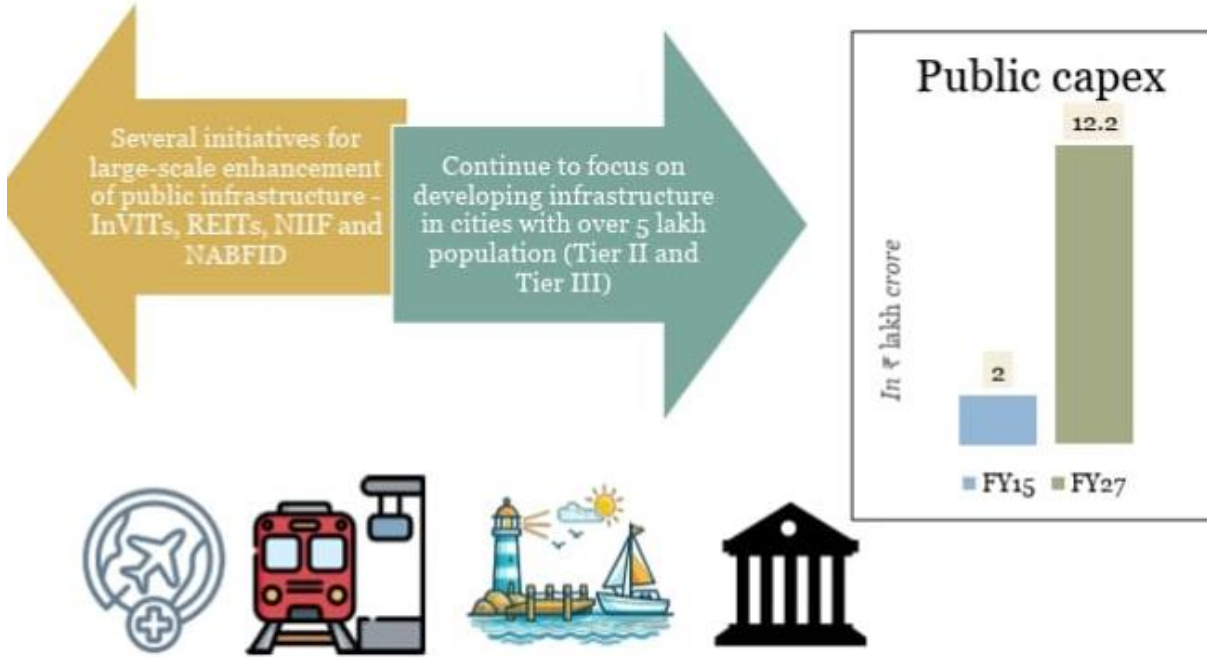
## Ensuring long-term energy security and stability





## BUDGET ANALYSIS 2026-2027

### Infrastructure



- ❖ **Setting up Infrastructure Risk Guarantee Fund** to provide prudently calibrated partial credit guarantees to lenders.
- ❖ Recycling of real estate assets of CPSEs through the setting up of dedicated REITs.
- ❖ Establishment of new **Dedicated Freight Corridors** connecting Dankuni in the East, to Surat in the West.
- ❖ Operationalising **20 new National Waterways** connecting mineral rich areas, industrial centres and ports.
- ❖ Setting up of ship repair ecosystem catering to inland waterways.
- ❖ Launch a **Coastal Cargo Promotion Scheme** to increase the share of inland waterways and coastal shipping from 6% to 12% by 2047.
- ❖ Launching a **Seaplane VGF Scheme** to indigenise manufacturing.
- ❖ ₹2 lakh crore support to states under **SASCI Scheme**.
- ❖ **Purvodaya: Development of Integrated East Coast Industrial Corridor.**

## 2. Manufacturing and Industry

The budget introduces several targeted schemes:

- Revive 200 legacy industrial clusters with updated technology.



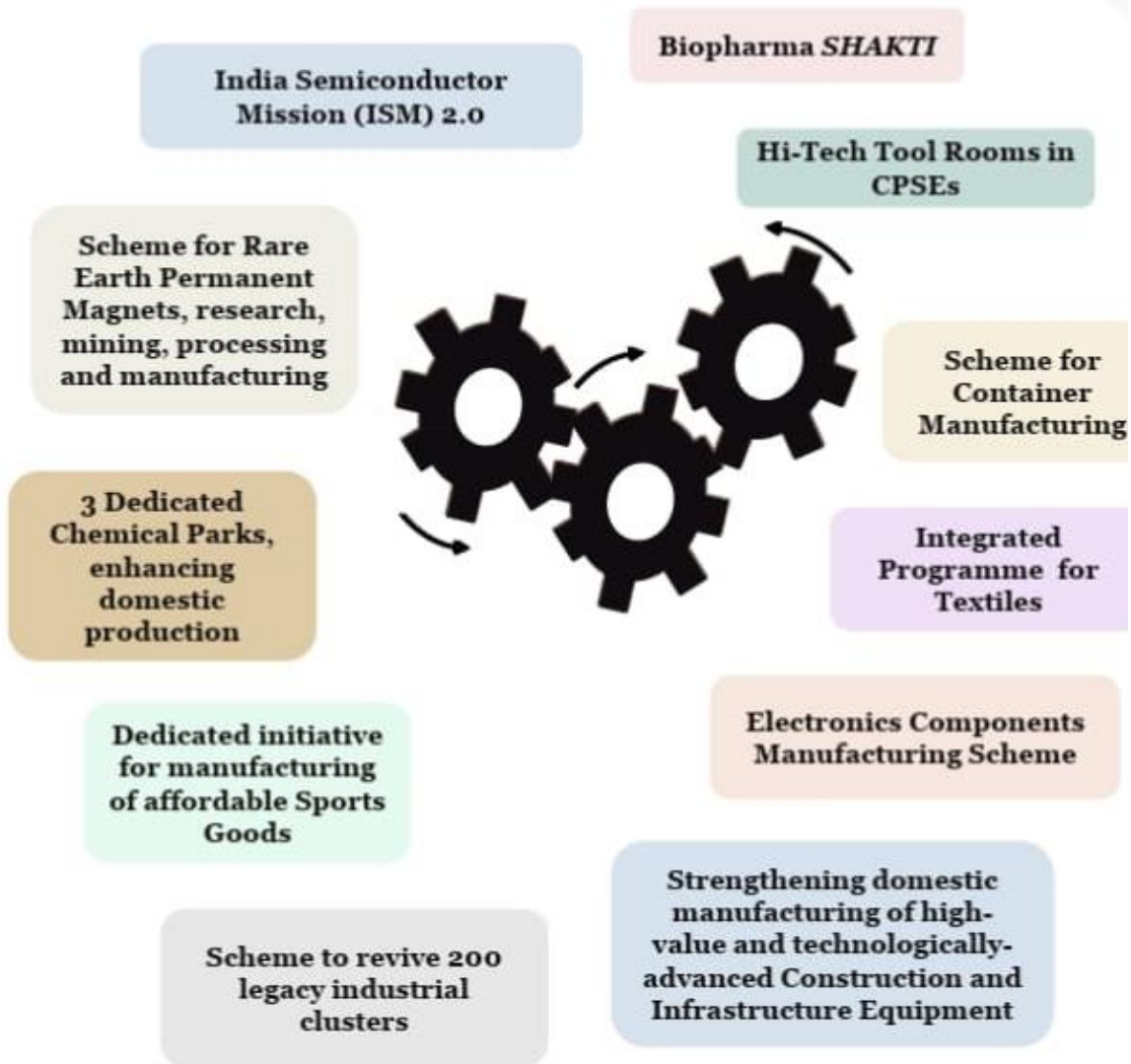
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- Integrated textile programme with multiple components: national fibre scheme, expansion incentives, and handloom & handicraft support.
- SME Growth Fund with a ₹10,000 crore outlay to empower micro and small enterprises.
- Enhanced support for electronics component manufacturing.





## BUDGET ANALYSIS 2026-2027

### Tax Reforms to boost Manufacturing Sector



Exemption from income tax for five years to non-residents providing capital goods, equipment or tooling, to any toll manufacturer in a bonded zone.

Provision of safe harbour to non-residents for component warehousing in a bonded warehouse.

Deferred duty payment window to trusted manufacturers.

Increase the limit for duty-free imports of specified inputs used for processing seafood products for export, from the current 1 per cent to 3 per cent of the FOB value of the previous year's export turnover.

Duty-free imports of specified inputs extended to export of shoe uppers in addition to leather or synthetic footwear.

Extension of time for the export of final product from the existing 6 months to 1 year, for exporters of leather or textile garments, leather and synthetic footwear.

Exemption from basic customs duty on specified parts used in the manufacture of microwave ovens.

Exemption from basic customs duty on components and parts used in aircraft manufacturing.

Exemption from basic customs duty on raw materials imported for manufacture of aircraft parts used in maintenance, repair, or overhaul requirements defence units.

Regular importers with trusted longstanding supply chains to be recognized in the risk system.

Export cargo using electronic sealing to be provided through clearance from the factory premises to the ship.

A special one-time measure to facilitate sale in domestic tariff area at concessional rate of duty by eligible manufacturing units of SEZs.

By focusing on legacy sectors and MSMEs, the budget aims to deepen industrial capacity and deliver inclusive manufacturing growth. This also signals a strategic shift from consumption — a short-term pull — to production — a long-term push.



## BUDGET ANALYSIS 2026-2027

### 3. Services Sector - Education, Innovation and Labour

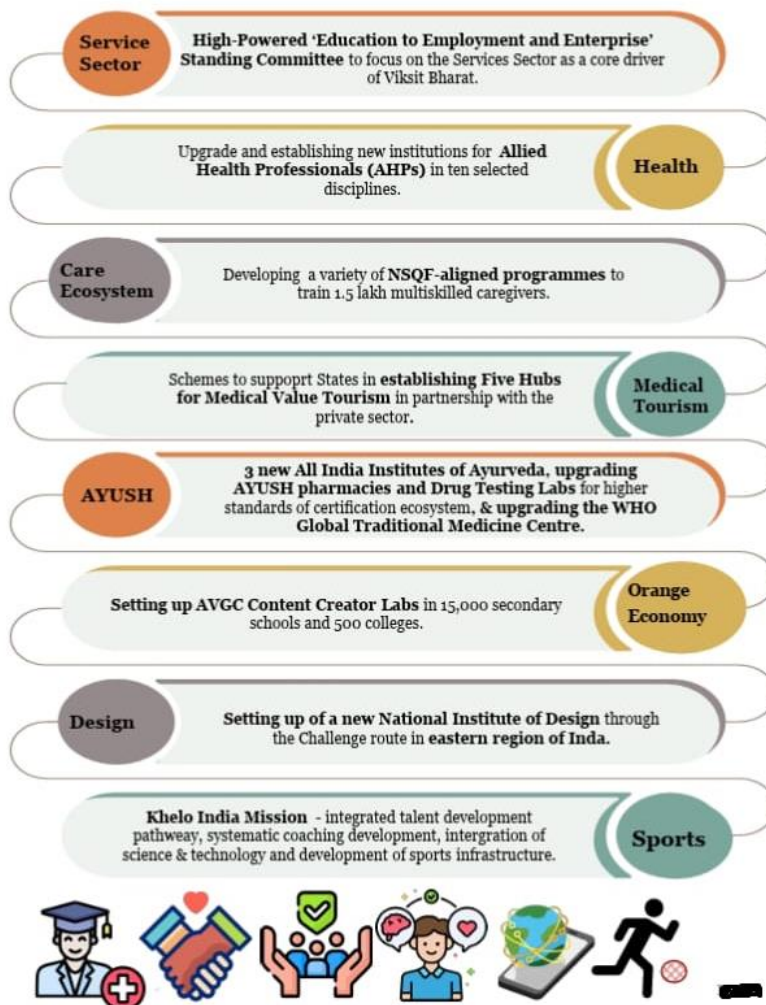
- Five university townships near industrial corridors.
- Support for animation, gaming, visual effects, and creative tech labs in schools and colleges.
- Standing committee on *Education to Employment and Enterprise* to strengthen industry-skill linkages.

### Healthcare and Pharmaceuticals

- New Allied Health Professional institutions.
- Five regional medical hubs to promote medical tourism.
- Biopharma SHAKTI programme with ₹10,000 crore outlay to enhance domestic production of biologics and biosimilars.

Healthcare upgrades align with efforts to improve public health infrastructure while capturing global medical tourism demand.

These initiatives aim to align education with job market needs and strengthen India's human capital.





## BUDGET ANALYSIS 2026-2027

### Education

**5 University Townships** in the vicinity of major industrial and logistic corridors.

**A girls' hostel** in Higher Education STEM institutions in every district.

Setting up or upgrading of four **Telescope Infrastructure facilities**.

**Setting up a National Institute of Hospitality** as a bridge between academia, industry and the Government.

### Tourism

**Pilot scheme for upskilling 10,000 guides** in 20 iconic tourist sites.

**National Destination Digital Knowledge Grid** to digitally document all places of significance.

To develop ecologically sustainable **Mountain trails, Turtle Trails and Bird watching trails** in select states.

**India to host the first ever Global Big Cat Summit.**

**Develop 15 archeological sites** into vibrant, experiential cultural destinations.

**Development of Buddhist Circuits** in North East Region.

### Tax Reforms to boost Services Sector

Clubbing of services under a single category of information technology services with a common safe harbour margin of 15.5%.

Safe harbour threshold for IT services increasing from ₹ 300 crore to ₹2,000 crore.

Approval of safe harbour for IT services by an automated rule-driven process.

Continuation of safe harbour for a period of five years at the company's choice.

Fastracking unilateral APA process for IT services with an aim to conclude it within a period of two years. Can be extended by a further period of six months on the taxpayer's request.

Extension of facility of modified returns for APA-availing entities to its associated entities.

Provision of tax holidays until 2047 to foreign companies providing cloud services to global customers through India-based data centre services. Related Entities providing data center services from India to get a safe-harbour of 15% on cost.

Exemption to global income of non-resident expert for a stay period of 5 years under notified schemes.

### 4. Energy & Technology

- Increase in electronics component manufacturing outlay.
- Dedicated rare earth corridors in key states.
- ₹20,000 crore for carbon capture utilisation and storage over five years.
- Launch of Semiconductor Mission 2.0.

These measures target energy security, clean energy transition, and critical mineral independence.



## BUDGET ANALYSIS 2026-2027

### 5. Financial Sector



## Financial Sector

Setting up of **High Level Committee on Banking for Viksit Bharat** to align with India's next growth phase.

Incentive of ₹100 crore for single issuance of municipal bonds of more than ₹1000 crore. Current Scheme under AMRUT will continue.

Restructuring Power Finance Corporation (PFC) and Rural Electrification Corporation (REC).

Comprehensive Review of the Foreign Exchange Management (FEMA) (Non-debt Instruments) Rules.

Introduction of Market making framework and total return swaps on corporate bonds.

## Tax Proposals for Financial Sector

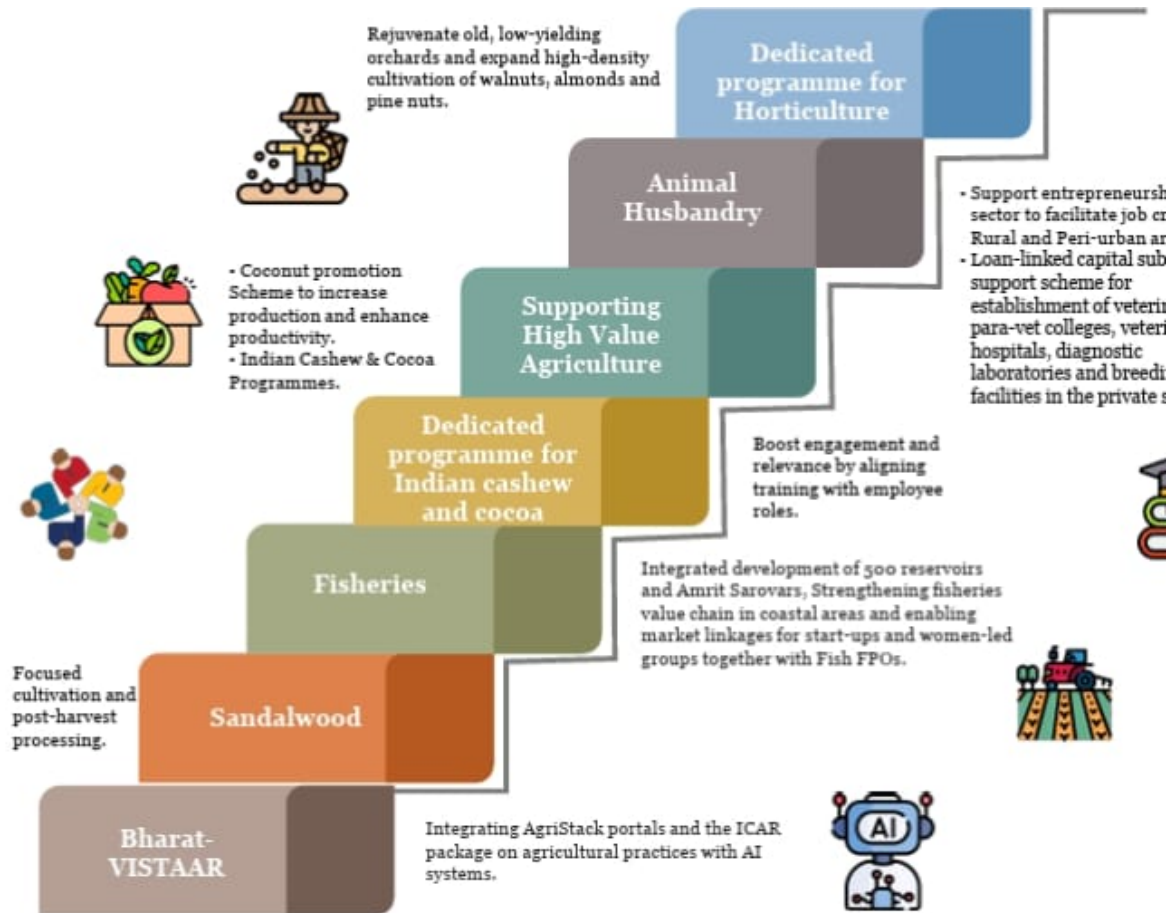
- Raising the STT on Futures from 0.02% to 0.05%.
- STT on options premium and exercise of options to be raised to 0.15% from rate of 0.1% and 0.125%, respectively.





## BUDGET ANALYSIS 2026-2027

### 6. Agriculture and allied Sector



### TAX PROPOSALS

- Fish catch by an Indian fishing vessel in Exclusive Economic Zone (EEZ) or on the High Seas to be made free of duty. Treating the landing of such fish on foreign port as export of goods.
- Deduction allowed to primary cooperative society engaged to include supply of cattle feed and cotton seed produced by members.
- Allowing inter-cooperative society dividend income as deduction under the new tax regime to the extent distributed to members.
- Exemption from tax dividend income received by a notified national co-operative federation from investments made in companies up to 31.1.2026 from tax for a period of three years. Exemption to be allowed only for dividends distributed to its member co-operatives.



## BUDGET ANALYSIS 2026-2027

### V. STATES, FEDERAL TRANSFERS & DEBT MANAGEMENT

Transfers to states are set to increase to ₹26.20 lakh crore, supported by:

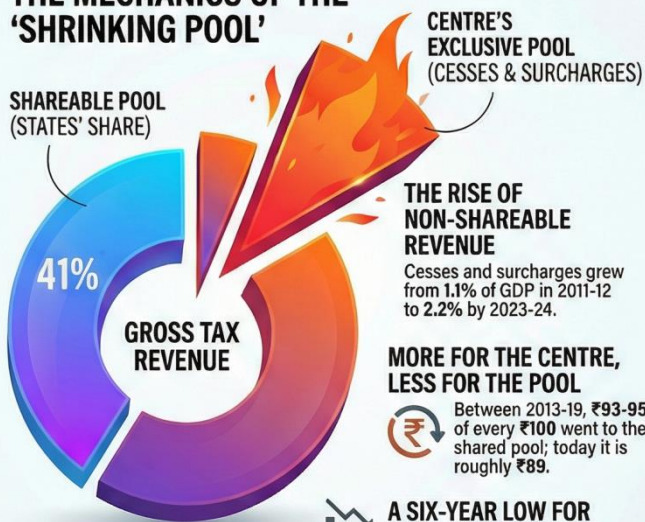
- Rs 15,26,255 crore in tax devolution
- ₹10.94 lakh crore in grants and loans

Retaining the vertical devolution share at 41%, this budget reinforces cooperative federalism and ensures states have resources for developmental priorities.

## FISCAL FRICTION: WHY INDIA'S STATES ARE GETTING A SMALLER SLICE OF THE TAX PIE

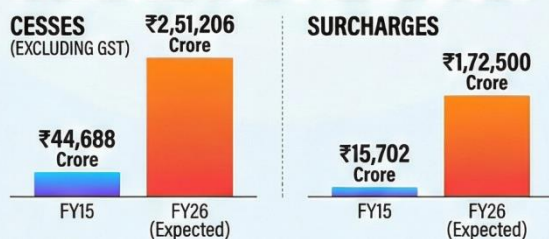
How the 16th Finance Commission's decision to maintain a 41% devolution rate actually results in less revenue for States due to the Centre's use of cesses and surcharges.

### THE MECHANICS OF THE 'SHRINKING POOL'

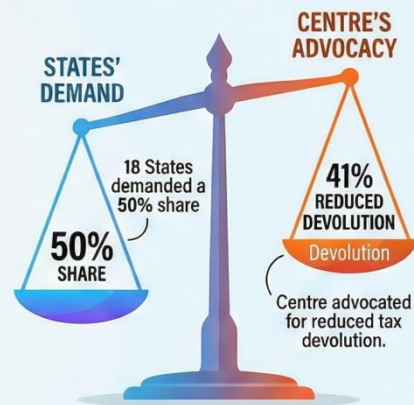


**A SIX-YEAR LOW FOR SHAREABLE REVENUE**  
The divisible pool's share of Gross Tax Revenue has remained below 90% since FY2019.

### EXPLOSIVE GROWTH OF EXCLUDED REVENUE



### CONFLICTING PRIORITIES & THE FC VERDICT



### DEFENCE AND INFRASTRUCTURE OVER STATES

The FC justified the status quo by citing the Centre's needs for national security and infrastructure.



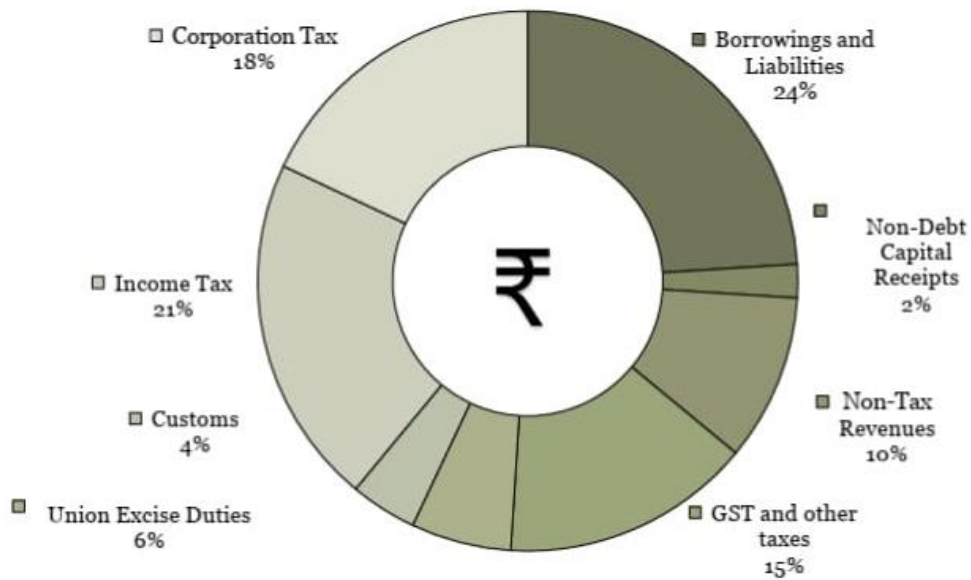
### AN 'UNDESIRABLE' LONG-TERM STRATEGY

The FC admitted that relying on cesses is detrimental as the Centre may lose interest in shared taxes.

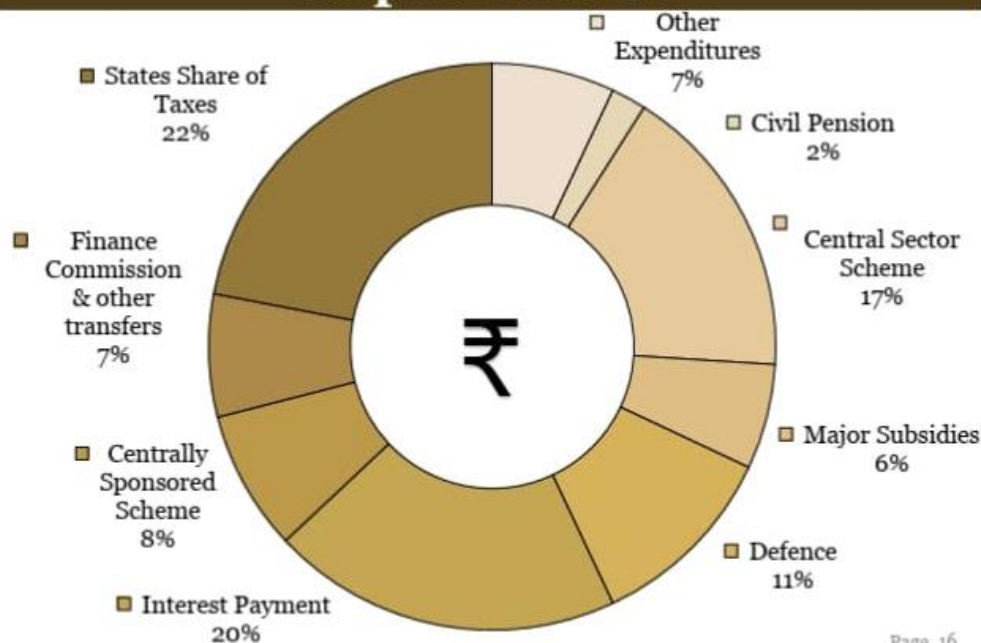


## BUDGET ANALYSIS 2026-2027

### Rupee Comes From



### Rupee Goes To



The strategy of extending capital expenditure loans to states encourages them to invest in infrastructure and services without placing undue pressure on state finances.



## BUDGET ANALYSIS 2026-2027

### Income Tax Slabs

## UNION BUDGET 2026-27: INDIVIDUAL INCOME TAX UPDATE

Presented by FM Nirmala Sitharaman on February 1, 2026

### ⊗ NO CHANGES TO INCOME TAX SLAB RATES

Government maintains the structure from Budget 2025. The **NEW TAX REGIME** remains the **DEFAULT** choice for taxpayers.

### CURRENT INCOME TAX SLABS (NEW REGIME) FOR TAX YEAR 2026-27

Income Slab (₹)	Tax Rate (%)
0 – 4,00,000	Nil
4,00,001 – 8,00,000	5%
8,00,001 – 12,00,000	10%
12,00,001 – 16,00,000	15%
16,00,001 – 20,00,000	20%
20,00,001 – 24,00,000	25%
Above 24,00,000	30%

**Key Takeaway:** Continued Benefit for Middle-Income Earners

The Union Budget 2026-27 is best understood as a growth-centric, investment-oriented, and fiscally disciplined budget. It does not resort to short-term populism but prioritises structural reforms and long-term capacity building.

#### KEY INITIATIVES :

#### Manufacturing & Technology:

- **Biopharma SHAKTI:** A ₹10,000 crore, 5-year plan to establish India as a global biopharma hub.
- **India Semiconductor Mission (ISM) 2.0:** Focuses on developing equipment, materials, and full-stack IP.
- **Electronics Components Manufacturing Scheme:** Expanded to ₹40,000 crore.



## BUDGET ANALYSIS 2026-2027

- **Rare Earths & Magnets:** Scheme for mining, processing, and manufacturing, including the development of Rare Earth Corridors.

### Infrastructure & Logistics:

- **Capital Expenditure:** Increased to ₹12.2 lakh crore.
- **Logistics/Freight:** Development of new freight corridors (Dankuni-Surat) and 20 new national waterways.
- **Energy Security:** ₹20,000 crore for Carbon Capture Utilization and Storage (CCUS) technologies over 5 years.

### MSME & Industrial Growth:

- **SME Growth Fund:** A dedicated ₹10,000 crore fund to support "Champion SMEs".
- **Industrial Cluster Revival:** Scheme to rejuvenate 200 legacy industrial clusters.
- **Chemical Parks:** Three dedicated parks to boost domestic production.

### Textiles & Agriculture:

- **Integrated Programme for Textiles:** Includes the National Fibre Scheme, Textile Expansion, and Samarth 2.0.
- **Mahatma Gandhi Gram Swaraj:** Initiative to strengthen Khadi and handloom.
- **Agriculture:** Launch of *Bharat-VISTAAR* (multilingual AI tool) for AgriStack integration.

### Other Key Areas:

- **Taxation:** A 6-month foreign asset disclosure window for small taxpayers and no changes to income tax slabs.
- **Bharat-VISTAAR:** A new AI-driven tool integrating agricultural resources to provide real-time advisory services to farmers.
- **Coconut Promotion Scheme:** A dedicated program to improve coconut production by replacing old trees.
- **High-Value Agriculture Programme:** Support for high-value crops, including initiatives for cashew, cocoa, sandalwood, and horticulture in hilly regions.
- **Animal Husbandry & Fisheries Development:** Includes credit-linked subsidies, integrated development of reservoirs for fisheries, and support for Livestock FPOs.
- **National Fibre Scheme:** Focuses on increasing production of natural fibers like silk, wool, and jute.
- **SHE-Marts:** Community-owned retail outlets for women-led agribusinesses.
- **Fertilizer Subsidy:** A significant allocation to reduce input costs for farmers.
- **Agricultural Research & Education:** Funding for ICAR to support innovation.

### Rural Development & Infrastructure (Agriculture-Related)

- **Viksit Bharat - Guarantee for Rozgar and Ajeevika Mission (VB-G RAM G):** Restructured employment scheme.
- **Amrit Sarovar/Reservoir Projects:** Integrated development of water bodies for agricultural use.