



Part 1: Post-Budget Analysis 2026-27

Saksham Raj, Aditi Lazarus, Nagappan Arun, Inika Gupta, Anvita Tripathi, Srisoniya Subramoniam

Budget at a Glance

- The Union Budget 2026–27 projects a total expenditure of ₹53.47 lakh crore, registering a 7.7 per cent increase over the FY 2025–26 Revised Estimates of ₹49.6 lakh crore. Revenue receipts (excluding borrowings) are estimated at approximately ₹36.5 lakh crore, with net tax revenues of about ₹28.7 lakh crore, indicating continued reliance on tax buoyancy for fiscal support. Nominal GDP growth is projected at roughly 10 per cent, forming the macro anchor for revenue assumptions and deficit calibration.
- The fiscal deficit is targeted at 4.3 per cent of GDP, down from 4.4 per cent in FY 2025–26, signalling incremental consolidation within the medium-term glide path. The adjustment remains growth-conscious rather than contractionary, with borrowing contained but not sharply compressed.
- Capital expenditure is stepped up to ₹12.2 lakh crore, reflecting sustained emphasis on infrastructure creation and multiplier-led expansion. Effective capital expenditure remains elevated, underscoring a clear policy preference for asset formation over revenue spending, thereby shaping the infrastructure versus social expenditure balance within a constrained fiscal envelope.

Economic Context and Headwinds

- India's macroeconomic recovery shows mixed signs amid persistent structural headwinds. Household savings have declined markedly, with savings as a share of GDP falling to 18.1% in FY24, the third consecutive yearly drop, indicating weaker financial cushions for consumption and investment. At the same time, net household financial savings remained modest at around 5.1% of GNDI in 2023–24, even as liabilities increased, signaling growing reliance on credit for consumption needs.
- Private consumption growth has remained moderate relative to overall GDP expansion. PFCE recorded growth around 7.5–7.9% in FY26's first half, yet this pace reflects cautious demand conditions rather than robust income-driven consumption. Gross Fixed Capital Formation (GFCF) – a proxy for investment activity – has stayed near 30% of GDP, growing by about 7.8% in FY26, yet private investment sentiment remains uneven.
- External confidence also shows stress. Net FDI fell precipitously in FY25 to just \$353 million, down ~96.5% from the prior year's level, suggesting marked investor caution. Meanwhile, real wage growth remains subdued in many sectors despite nominal wage gains, limiting disposable income and cooling household demand.

Where the Money Comes From

Rupees (per ₹100)

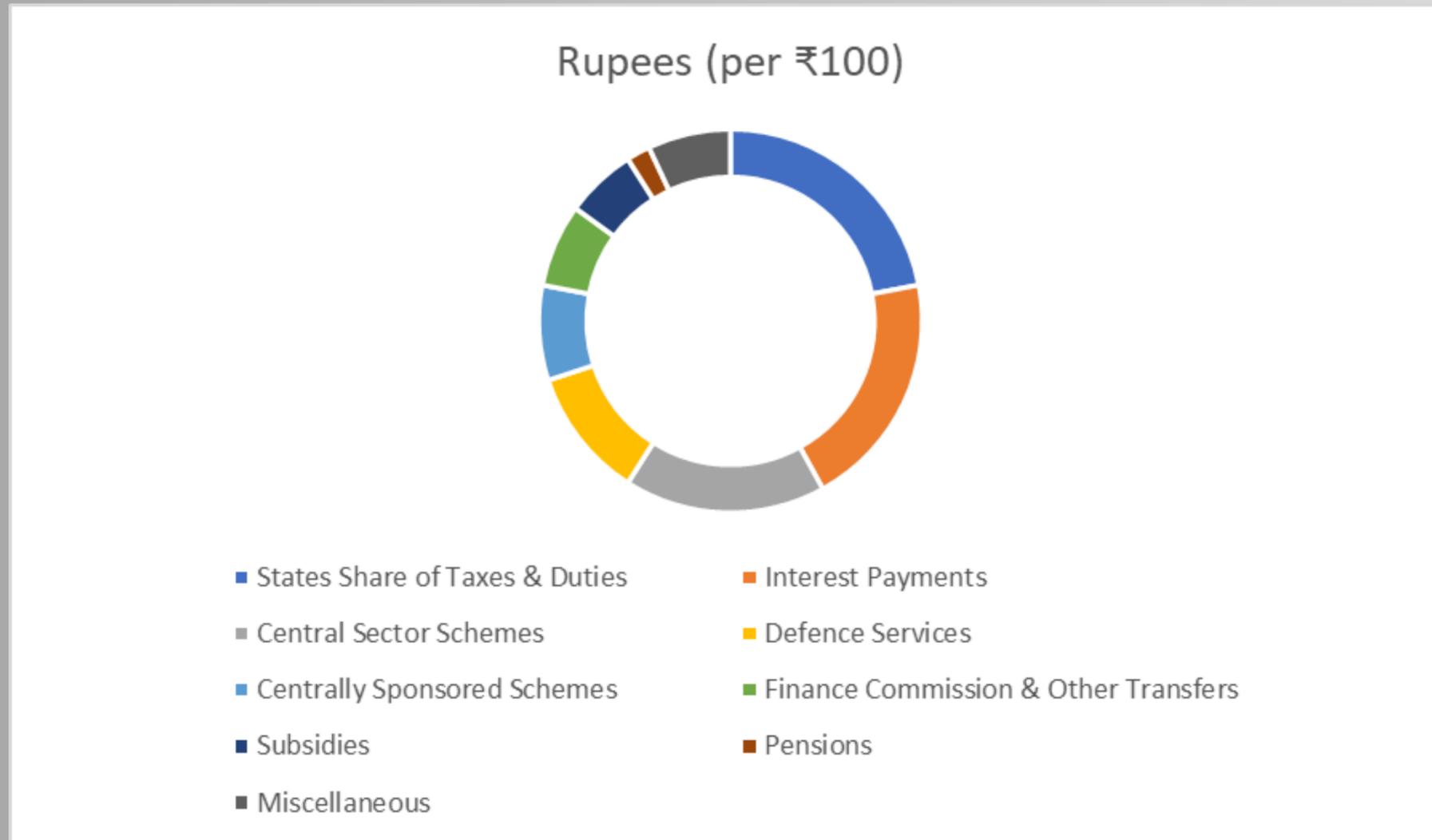


- Borrowings and Other Liabilities
- Income Tax
- GST and Other Taxes
- Corporation Tax
- Non-Tax Receipts
- Union Excise Duties
- Customs Duties
- Non-Debt Capital Receipts

Source	Rupees (per ₹100)
Borrowings and Other Liabilities	24
Income Tax	21
GST and Other Taxes	15
Corporation Tax	18
Non-Tax Receipts	10
Union Excise Duties	6
Customs Duties	4
Non-Debt Capital Receipts	2

Source: Union Budget 2026-27 via The Hindu

Where the Money Goes

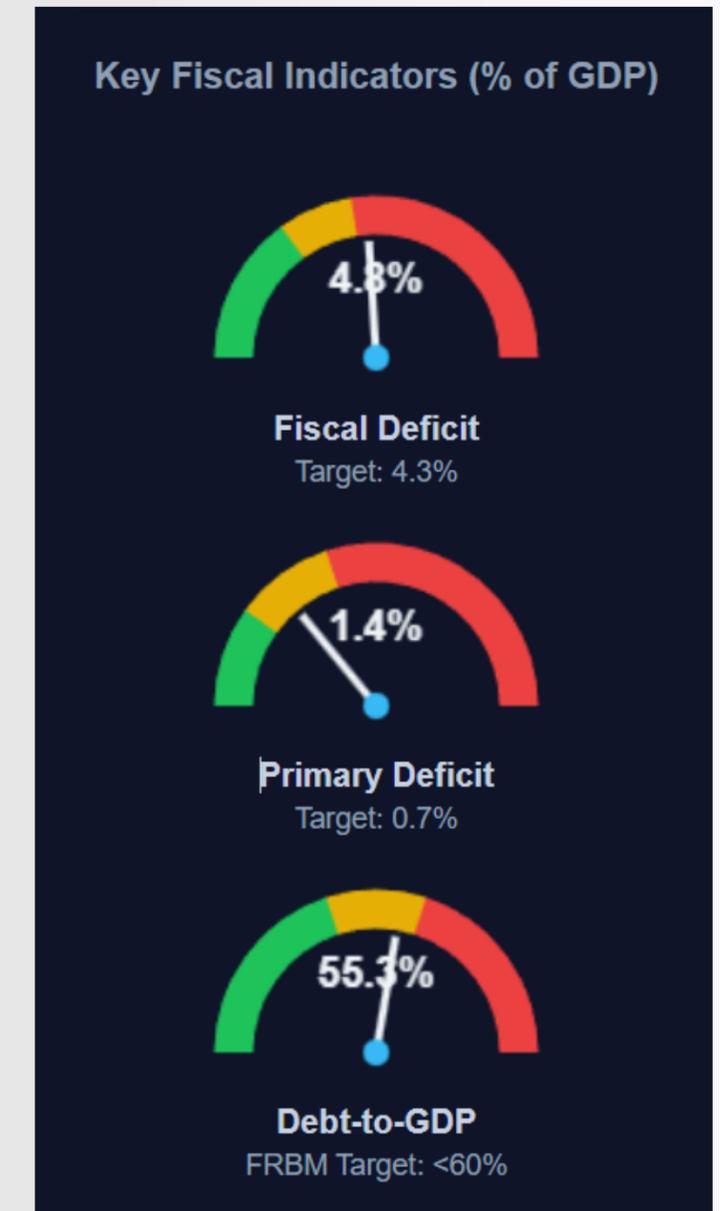


Destination	Rupees (per ₹100)
States Share of Taxes & Duties	22
Interest Payments	20
Central Sector Schemes	17
Defence Services	11
Centrally Sponsored Schemes	8
Finance Commission & Other Transfers	7
Subsidies	6
Pensions	2
Miscellaneous	7

Source: Union Budget 2026-27 via The Hindu

Fiscal Health Snapshot

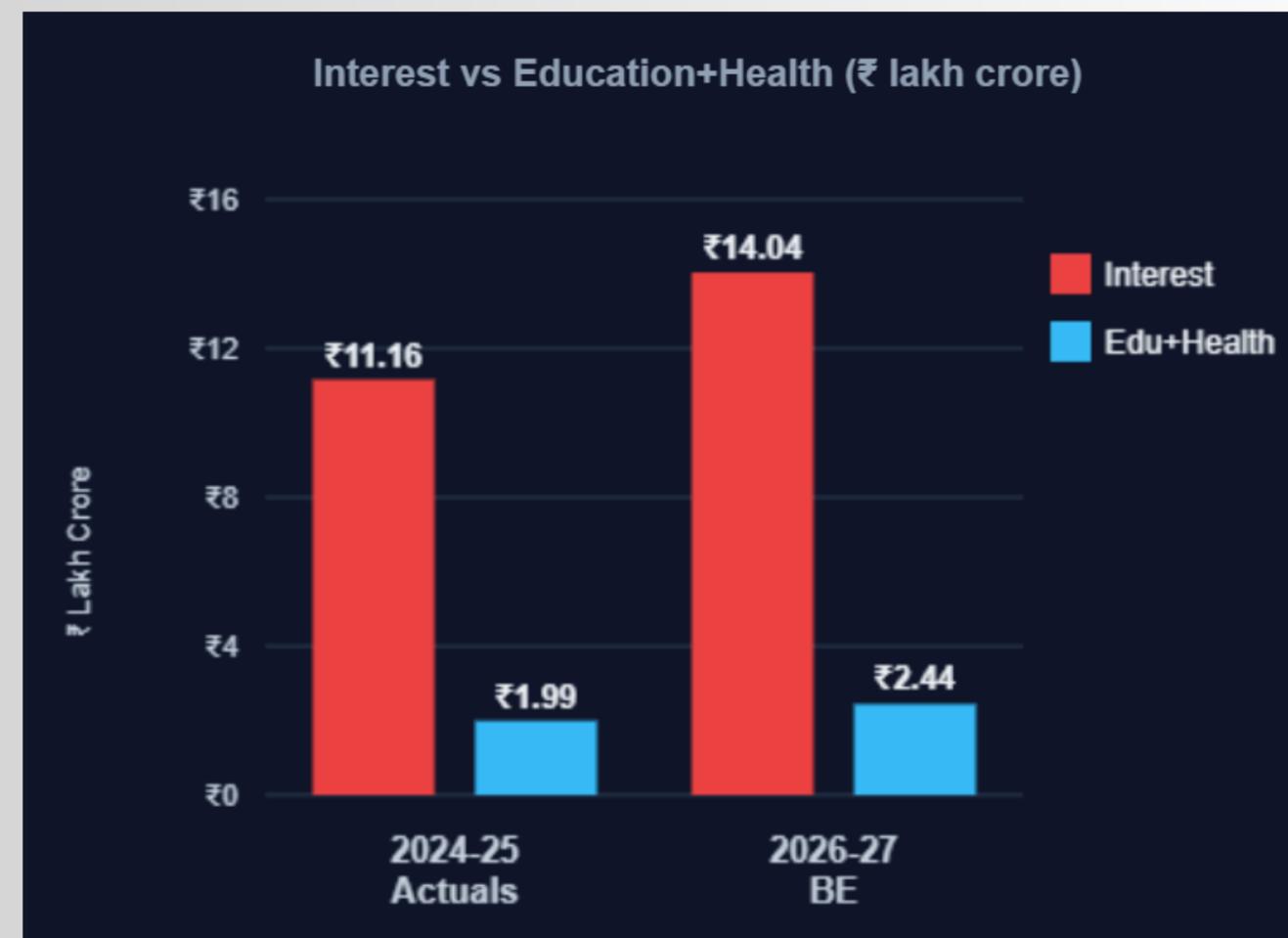
- Fiscal deficit is projected to decline from 4.8% (2024–25) to 4.3% (2026–27 BE), signalling continued fiscal consolidation and an effort to stabilise borrowing levels over the medium term.
- Revenue deficit remains steady at 1.5% of GDP, indicating persistent pressure on current expenditure despite consolidation targets.
- Primary deficit is set to narrow from 1.4% to a 0.7% target, reflecting tighter control over non-interest spending.
- Debt-to-GDP is expected to moderate from 55.3% (2024–25) to 54.7% (2026–27), suggesting gradual debt stabilisation.
- Fiscal consolidation may limit expansion of social sector schemes.



Source: Deficit Sheet,
Budget at a Glance

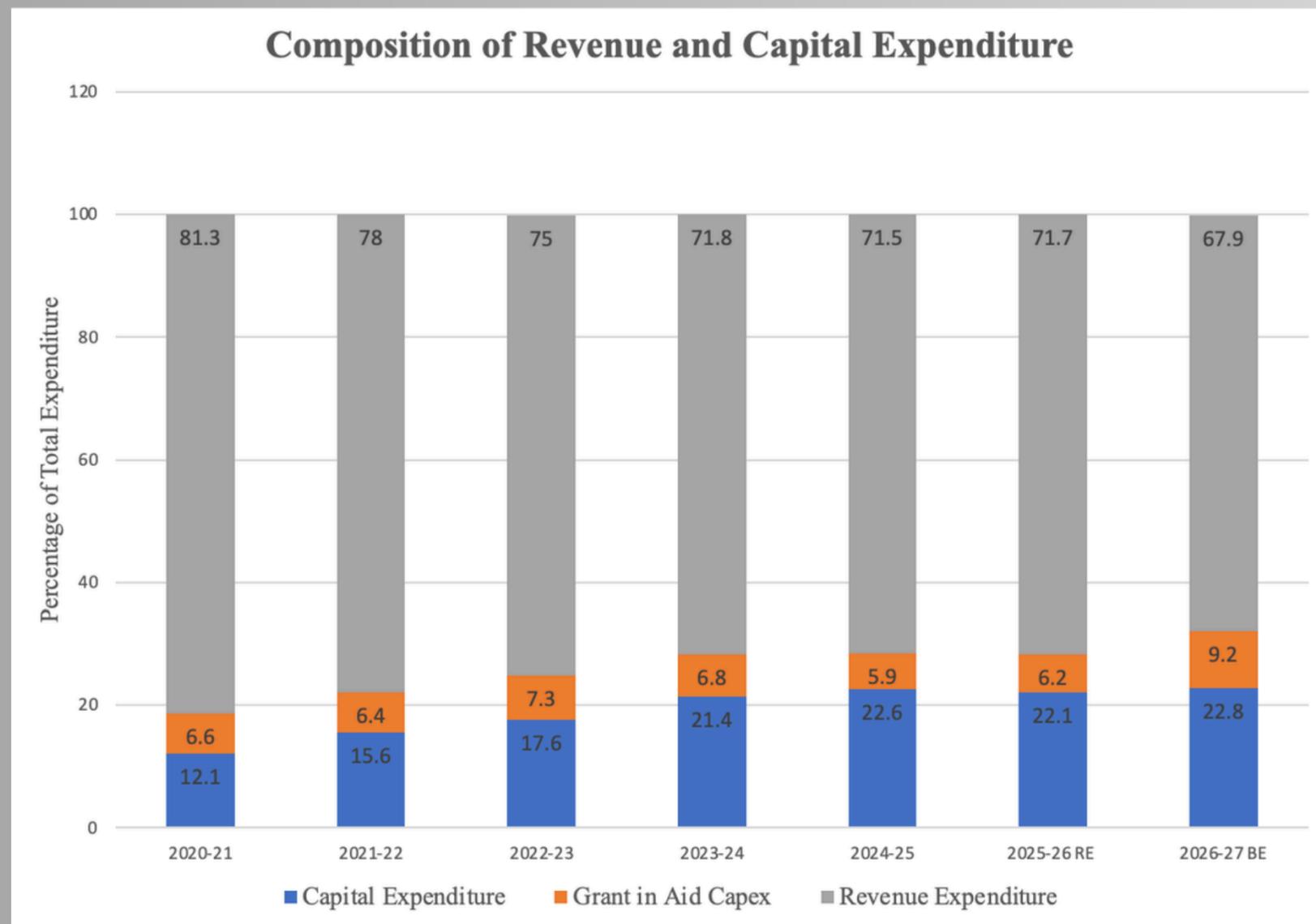
Interest Payments – The Fiscal Constraint

- Interest payments are budgeted at ₹14.04 lakh crore (2026–27 BE), underscoring the scale of debt servicing obligations in the Union Budget.
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- Year-on-year growth in interest payments stands at 14.23% (2025–26) and 10.17% (2026–27), indicating continued upward pressure despite moderation.
- Interest accounts for 26.26% of total expenditure (2026–27), limiting flexibility in reallocating funds.
- It also absorbs 39.74% of revenue receipts (2026–27), tightening fiscal space.
- The interest burden is 5.76x Education + Health combined, constraining discretionary social spending.



Source: Expenditure Sheet,
Outlay on Major Schemes

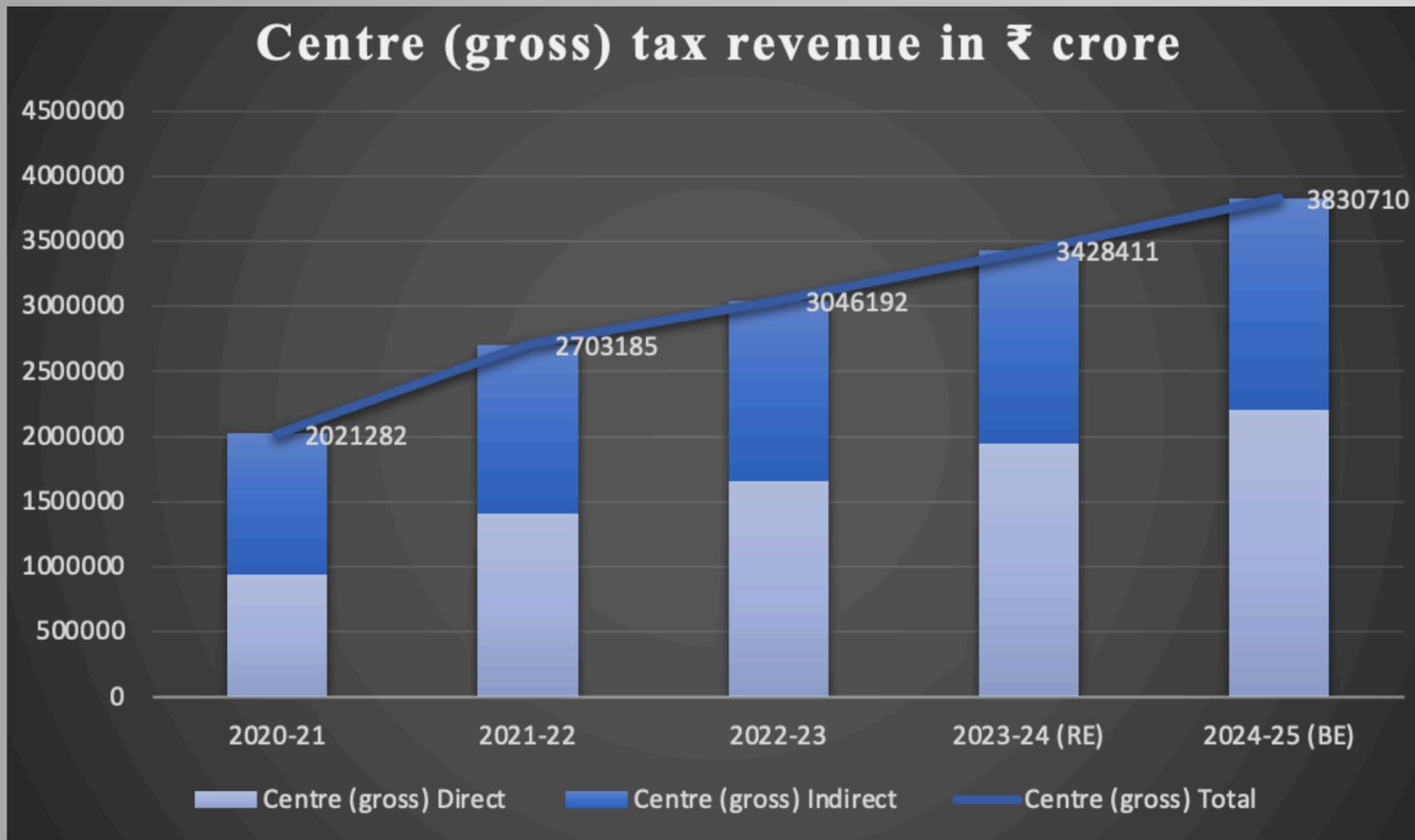
Revenue vs Capital Expenditure: The Trade-off



- Revenue expenditure has declined from 81.3% of total expenditure in 2020–21 to 67.9% in 2026–27 BE, a compression of 13.4% points over six years. Over the same period, the combined share of direct capital expenditure and grants for asset creation has increased from 18.7% to 32.0%. The fiscal deficit path is therefore being corrected through expenditure recomposition rather than absolute expenditure contraction.
- Direct capital expenditure has increased from ₹4.3 lakh crore in 2020–21 to ₹12.2 lakh crore in 2026–27 BE, while effective capital expenditure (including grants for asset creation) has expanded from ₹6.6 lakh crore to ₹17.1 lakh crore over the same period. As a share of GDP, effective CapEx has risen from 3.3% to 4.4%, and now constitutes 32% of total expenditure, the highest level in the series. The scale, GDP anchoring, and rising grant component (₹2.3 lakh crore to ₹4.9 lakh crore) indicate that public investment has transitioned from episodic stimulus to an institutionalised centre–state infrastructure strategy embedded within the fiscal framework.

Source: Budget at a Glance 2026-27

Tax Receipts Trends

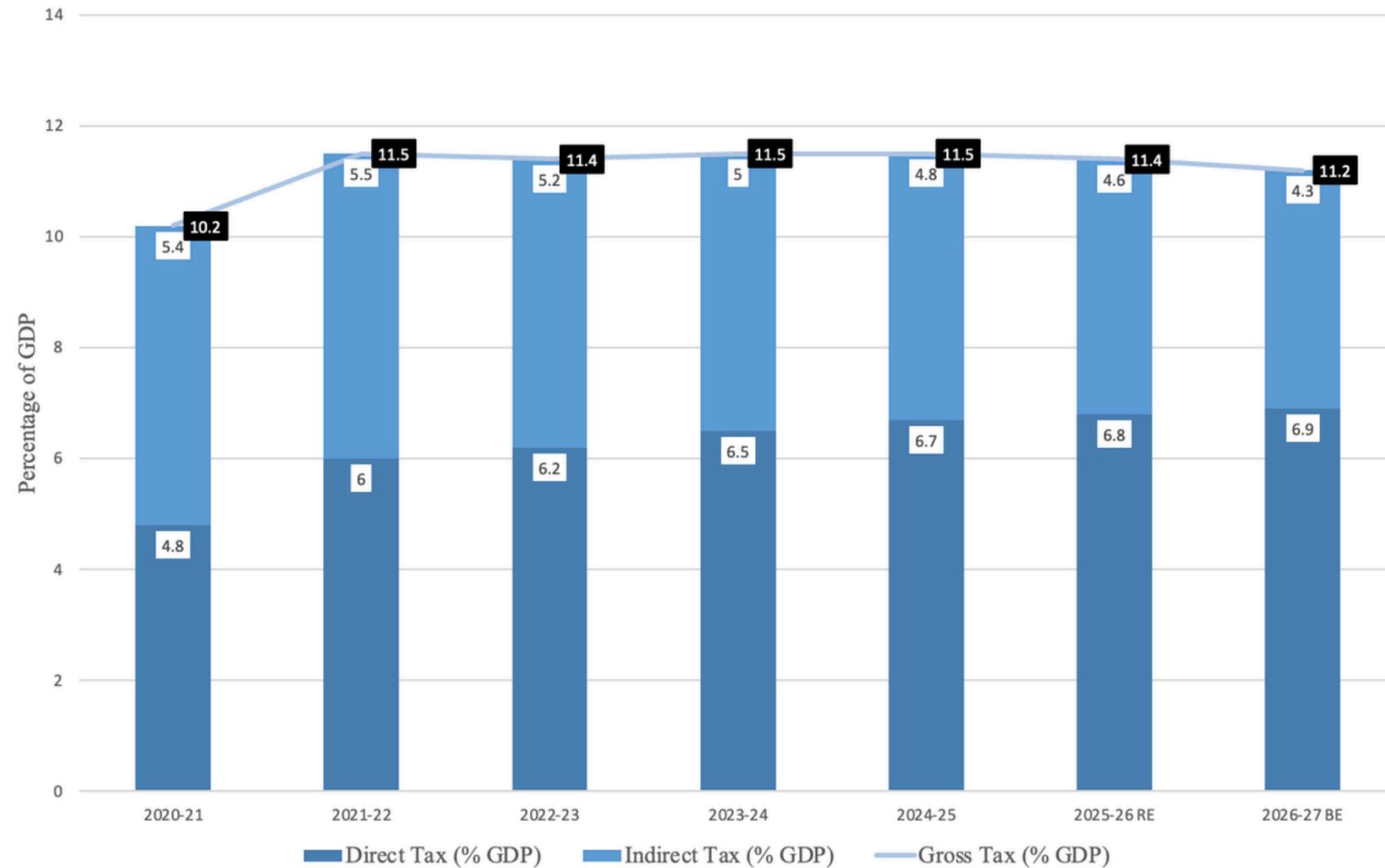


- As per RBI’s Handbook of Statistics on Indian Economy, Gross tax revenue of the Centre has increased from ₹20.2 lakh crore in 2020–21 to ₹38.3 lakh crore in 2024–25, reflecting a strong post-pandemic recovery. Direct taxes have grown faster than indirect taxes, raising their share in total gross revenue from 47% to nearly 58%, indicating a sustained shift toward income-linked taxation. However, despite robust nominal expansion, the tax-to-GDP ratio has remained broadly stable, suggesting that revenue growth is largely tracking economic expansion rather than structurally enlarging fiscal space.
- According to the Economic Survey 2026, GST collections have reached record highs, rising from ₹14.9 lakh crore in FY22 to ₹22.1 lakh crore in FY25. However, growth momentum has decelerated sharply, from 21.4% in FY23 to 9.4% in FY25 and 6.7% in FY26 (Apr–Dec), aligning closely with nominal GDP growth. Tax buoyancy has therefore stabilised rather than strengthened, suggesting that revenue expansion is tracking economic growth rather than outpacing it. The absence of sustained tax-to-GDP expansion implies that the government is not gaining additional fiscal space from revenue growth alone, limiting its ability to expand spending even as expenditure priorities are being reorganised.

Source: Table 103: DIRECT AND INDIRECT TAX REVENUES OF CENTRAL AND STATE GOVERNMENTS, RBI’s Handbook of Statistics on Indian Economy (2025)

Tax Policy as Economic Instrument: Who Pays, Who Gains?

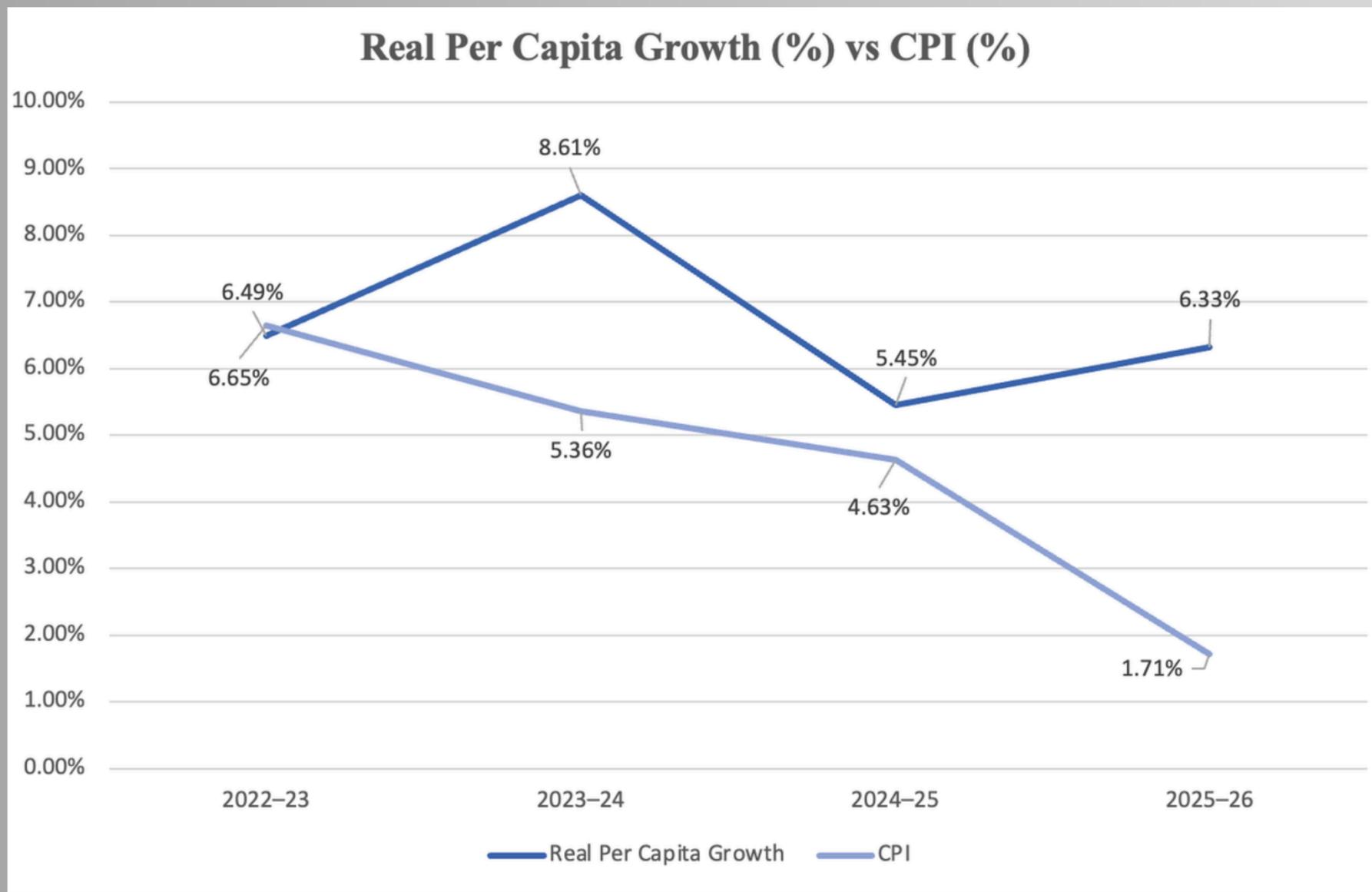
Trend in Tax Receipts 2020-21 to 2026-27



Source: Budget at a Glance 2026-27

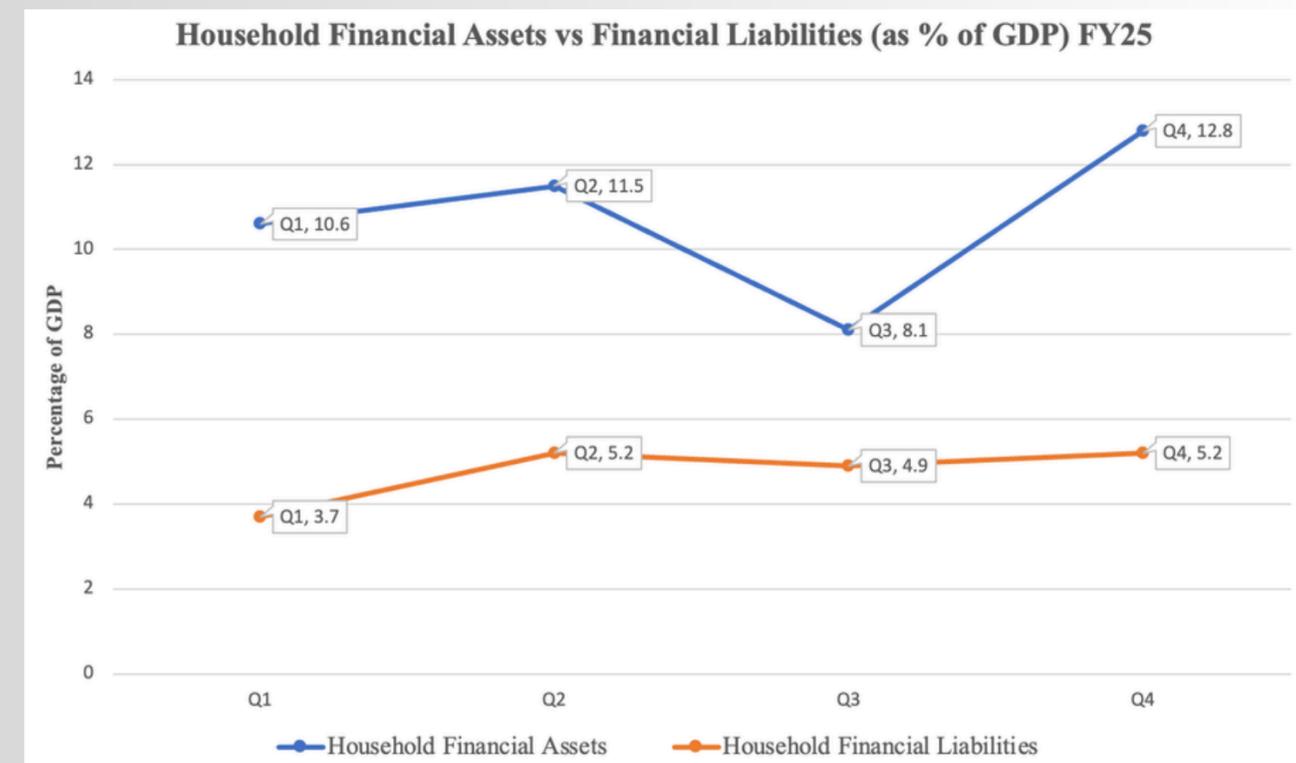
- Gross tax revenue has recovered from 10.2% of GDP in 2020–21 to 11.5% in 2023–24, but has since plateaued, moderating to 11.2% in 2026–27 BE. Over this period, the internal composition of taxation has shifted materially: direct taxes have increased from 4.8% of GDP to 6.9%, while indirect taxes have declined from 5.4% to 4.3%. The post-pandemic revenue recovery is therefore compositional rather than expansive – the tax base has deepened toward income-linked sources, but the aggregate tax-to-GDP ratio has not structurally moved beyond the 11–11.5% band.
- The Finance Bill 2026 recalibrates taxation at two behavioural margins. TCS on remittances above ₹10 lakh for education and medical treatment has been reduced from 5% to 2%, and TCS on overseas tour packages has been rationalised to a flat 2%. As TCS affects upfront cash flow rather than final tax liability, the measure primarily eases liquidity pressures for internationally mobile middle-class households.
- In contrast, Securities Transaction Tax (STT) on derivatives has been increased – from 0.1% to 0.15% on options, 0.125% to 0.15% on exercised options, and 0.02% to 0.05% on futures – raising transaction costs in high-turnover F&O markets. Taken together, these changes illustrate taxation being deployed not merely for revenue mobilisation, but as a behavioural instrument: easing household cash flow at the consumption margin while tempering speculative financial activity.

Household Disposable Income



Source: Economic Survey FY26

- Real per capita Net National Income growth was 6.49 percent in 2022-23, almost equal to CPI at 6.65 percent, leaving negligible real gains. In 2023-24, growth rose to 8.61 percent as CPI eased to 5.36 percent, creating a clearer real income cushion. Momentum moderated in 2024-25 with 5.45 percent growth against 4.63 percent inflation. In 2025-26, real growth is estimated at 6.33 percent while CPI averaged 1.71 percent for April to December, implying a stronger, though partial-year, buffer.



Source: RBI Household Financial Savings

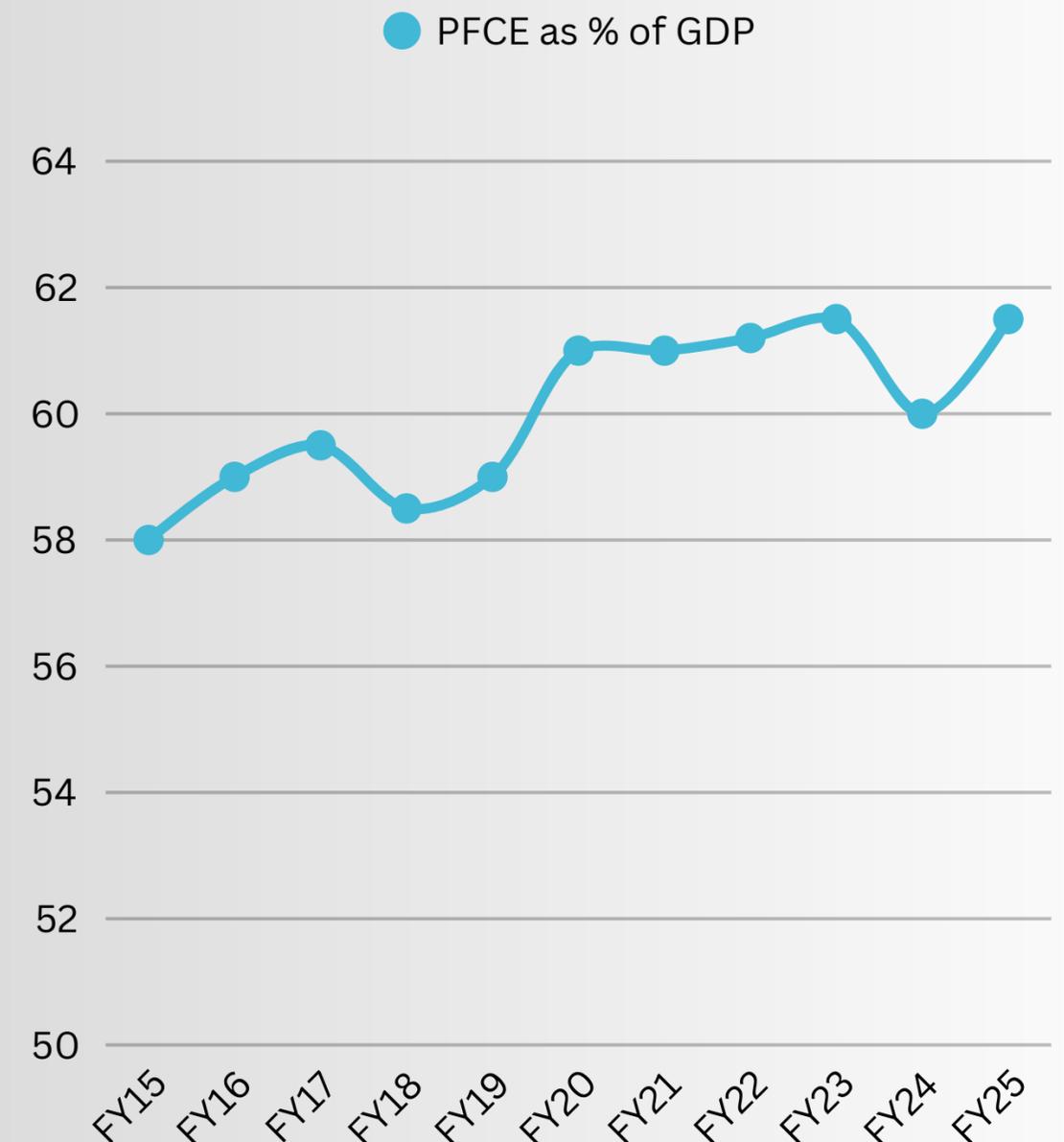
- Yet household financial flows indicate uneven balance sheet repair. Financial asset flows moved from 10.6 percent of GDP in Q1 to 11.5 percent in Q2, fell to 8.1 percent in Q3, and rebounded to 12.8 percent in Q4, averaging 10.8 percent annually. Liability flows remained elevated at 4.7 percent of GDP for the year. Income gains are therefore partly absorbed by leverage expansion, limiting durable consumption revival despite tax relief.

Consumption Revival – Assumption vs Reality

A strong GDP growth rate usually translates into a robust consumption across the economy, yet while India's GDP has grown, the growth rate of Private Final Consumption Expenditure (PFCE) has lagged behind. When calculated at current prices, the GDP has gone down from 9.8 to 8.0 from 2024-25 to 2025-26 but PFCE has fallen down to 8.2 from 12.0 within the same span. This indicates that the benefits of overall economic expansion is not translating into increased household spending, instead the recovery is driven by government spending and investment.

The urban-rural consumption pattern is assumed to be synchronized but recent trends highlight a worrying divergence. According to Motilal Oswal Financial Services Ltd. (MOFSL) and its latest ECOSCOPE report titled "Rural Rules, Urban Follows", rural consumption has been on a steady upward trend since second half of FY25. It outperforms urban consumption due to income guarantee schemes, better rainfall outcomes, and NBFC-led credit growth among others. This results in an uneven recovery leading to inequality in the economy.

It is important for wages to be in line with inflation so that their purchasing power is constant or improving. India is estimated to witness a 9 per cent increase in wages in manufacturing and automotive sectors in 2026. But alongside CPI is also rising with it reaching 148.2 by December 2025. Despite a projected wage hike, when coupled with a high inflation, there tends to be a reduction in real purchasing power. Hence, even if nominal incomes may rise, families may end up affording fewer goods and services therefore impacting overall spending and discretion.



Source: SMIE Economic Outlook, 1 Finance Research

Demand Side vs Supply Side Multipliers

- **CapEx Multiplier (Theoretical + Empirical Range):**

- The theoretical/short-run translates to **2.45** (NIPFP Structural Model) with the empirical range (long-run) cumulative multiplier reaching **4.80** over a five-year horizon. State capital outlay impact multipliers range from **2.13 to 2.71**, often more potent than central ones due to higher localization.

- **Social Spending Multiplier:**

- Estimated at **1.67**, with the key driver being improvements in "Social Determinants of Investment" (SDI), such as health and literacy, acting as prerequisites for private capital productivity.

- **Employment Multiplier Comparison:**

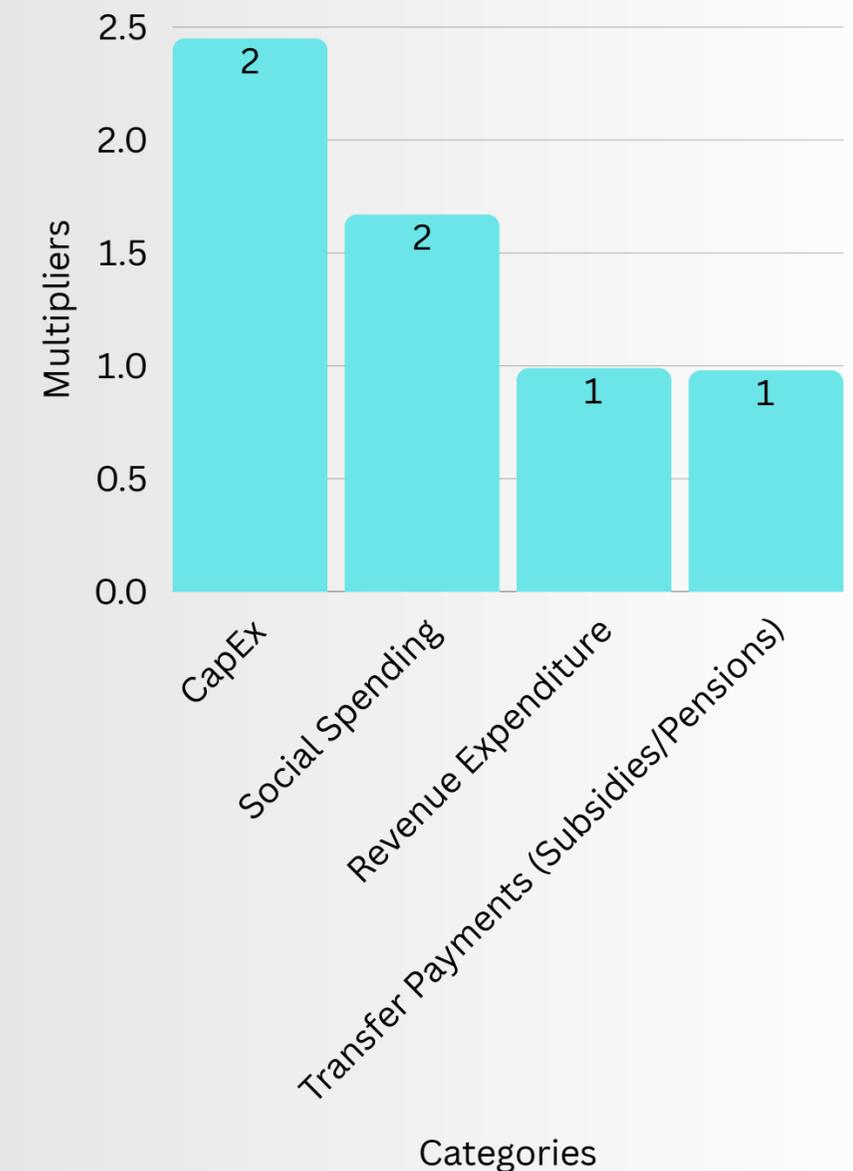
- In a display of low elasticity, growth is becoming increasingly capital-intensive with a low employment elasticity in manufacturing (estimated at **0.22**). Completed projects skew heavily toward transport services (61%), a sector noted for having limited job multipliers.

- **Simple Schematic: CapEx-led vs Demand-led Growth:**

- **CapEx-Led:** Public Investment → Infrastructure → Lower Costs → Higher Competitive Output → Induced Private Investment → Employment.
- **Demand-Led:** Social Spending → Increased Household Income → Rising Consumption → High Capacity Utilization → Voluntary Private Investment → Employment.

The key takeaway for the 2026-27 fiscal year is that infrastructure-led growth is no longer a sufficient condition for prosperity; it must be accompanied by a re-evaluation of social sector multipliers (1.67) and a strategic focus on labor-intensive sub-sectors. While the fiscal deficit of 4.3% signals prudence, the long-term sustainability of the Indian growth model will depend on whether the "Risk Guarantee Fund" and SASCI schemes can successfully "crowd-in" private investment fast enough to generate the 5 million additional jobs required annually. In the absence of a robust demand revival, the massive capacity created by the public CapEx push risks becoming a dormant asset, underscoring the necessity for a more balanced fiscal mix that integrates human capital with physical infrastructure.

Fig. Budget Multipliers over Categories



Capital Expenditure Push

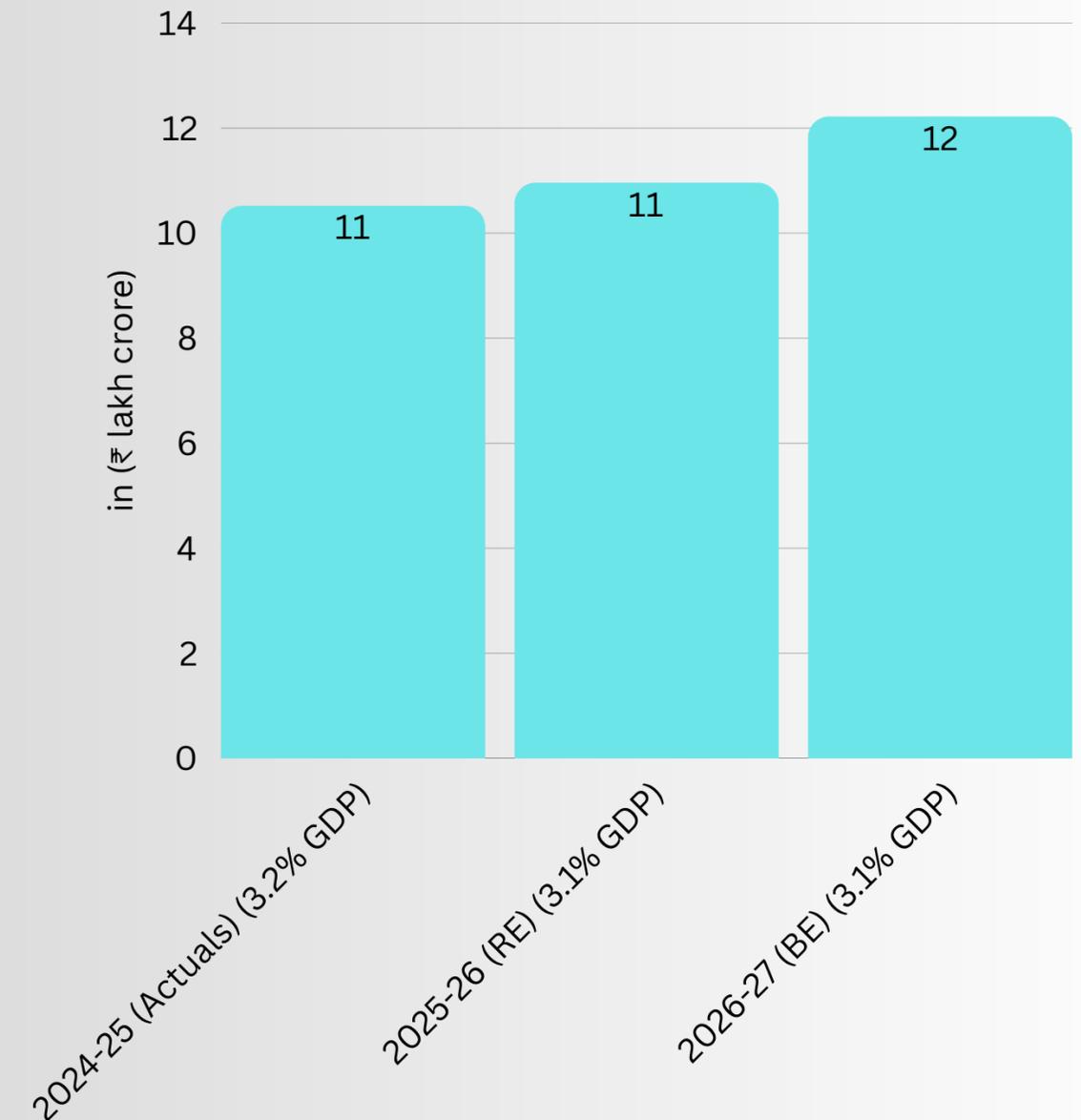
- **Total Capital Expenditure and Growth:**

- The budget estimate (BE) 2026-27 reports ₹12.22 lakh crore as total capex and effective capex (incl. capex+ capital grants) = ₹17.145 lakh crore. An 11.5% increase over the Revised Estimate (RE) 2025-26 (₹10.96 lakh crore). The capital expenditure as % of GDP is projected at 3.1% for BE 2026-27. The grants-in-aid for asset creation as part of the effective capital expenditure amount to ₹4.93 lakh crore (1.3% of GDP). Effective CapEx exceeds the total budgeted fiscal deficit (₹16.9 lakh crore), signaling borrowings are channeled into productive assets.

- **Infrastructure Emphasis in Budget Priorities:**

- The core sectors are road transport, railways, and defence and they account for over 90% of the core CapEx envelope. Development of seven high-speed rail corridors, a new dedicated freight corridor (Surat to Dankuni), and the Urban Challenge Fund (₹10,000 crore) for city redevelopment. The budget reflects a strategic pivot toward a structurally anchored fiscal approach, where infrastructure-led growth is the central pillar of the medium-term strategy.

Fig. CapEx Growth over the years



CapEx Growth over the years

Sectoral CapEx Breakdown

- The ₹12.2 lakh crore CapEx outlay's sectoral allocation shows a focused effort to support the energy transition and create nationally integrated transport networks. With an investment of ₹45,138 crore to expand next-generation digital infrastructure, the telecom industry is expanding at the fastest rate of 94.3% year over year.
- With a total allocation of ₹90,966 crore (a growth of 29.8%), including ₹32,914 crore specifically for New and Renewable Energy, the energy sector also stands to gain the most. The transportation sector continues to dominate in terms of volume: Indian Railways receives ₹2,77,697 crore (10.2% growth), while Roads and Bridges receive ₹2,75,772 crore (9.2% growth).
- Urban Development is supported by new schemes like the ₹10,000 crore Urban Challenge Fund and the mapping of City Economic Regions with annualized funding to establish new growth hubs. These core infrastructure sectors are seeing robust growth in allocations to lower logistics costs and enhance manufacturing competitiveness.

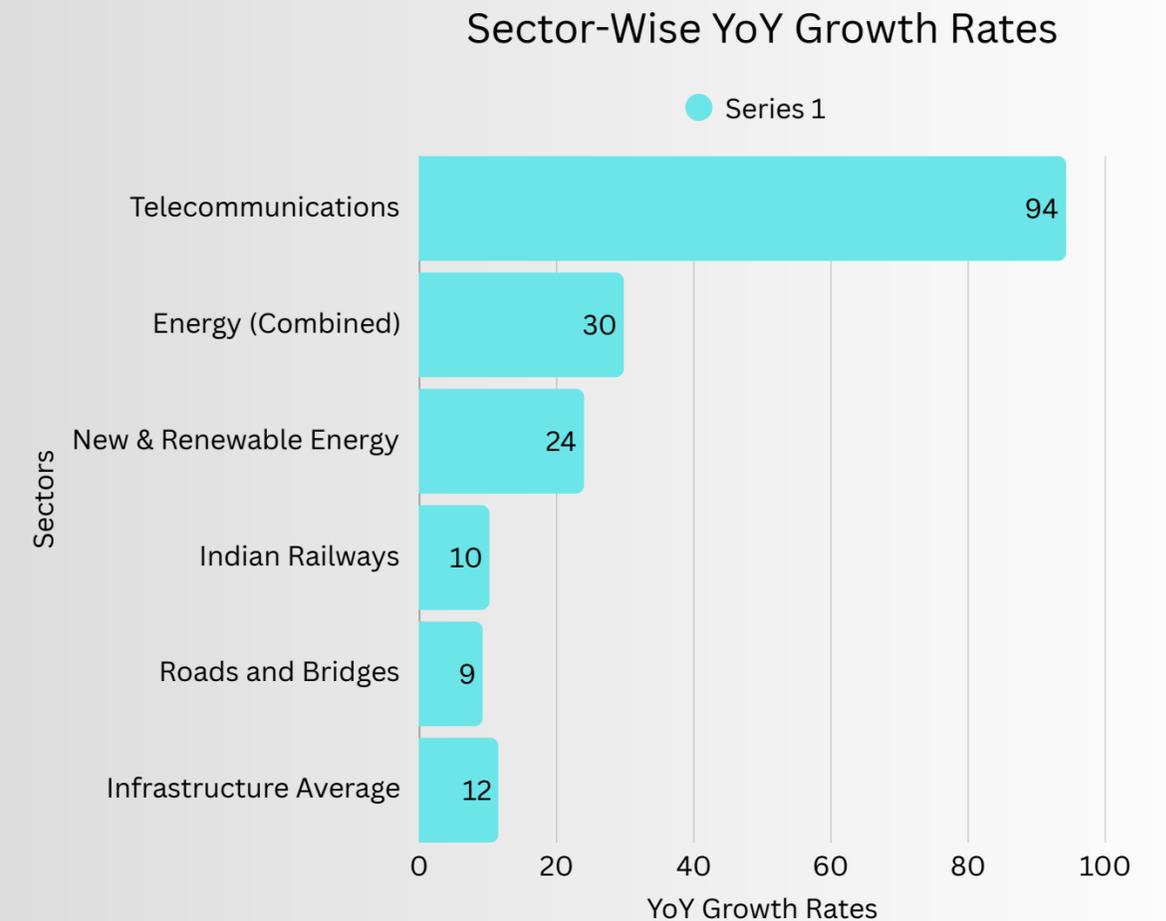


Fig. Sector-wise YoY Growth Rates

CapEx Push - Crowding-In Strategy

- Budget 2026-27 utilizes a "crowding-in" strategy where record public spending is designed to act as a de-risking catalyst rather than a substitute for private capital. Direct Union Public CapEx is budgeted at ₹12.22 lakh crore, an 11.5% increase intended to sharpen cost competitiveness. However, the full impact is best captured by Effective Capital Expenditure, which reaches ₹17.15 lakh crore (4.4% of GDP) when including ₹4.93 lakh crore in Grants-in-Aid to states for asset creation.
- A vital instrument is the Special Assistance to States for Capital Investment (SASCI), which has been increased to ₹2 lakh crore in 50-year interest-free loans to enable state-led infrastructure. This massive public investment is projected to unlock a \$175 billion commercially attractive equity investment opportunity for private capital over the next seven years. To facilitate this flow, the budget introduces the Infrastructure Risk Guarantee Fund to share project risks and accelerates asset recycling through dedicated REITs.

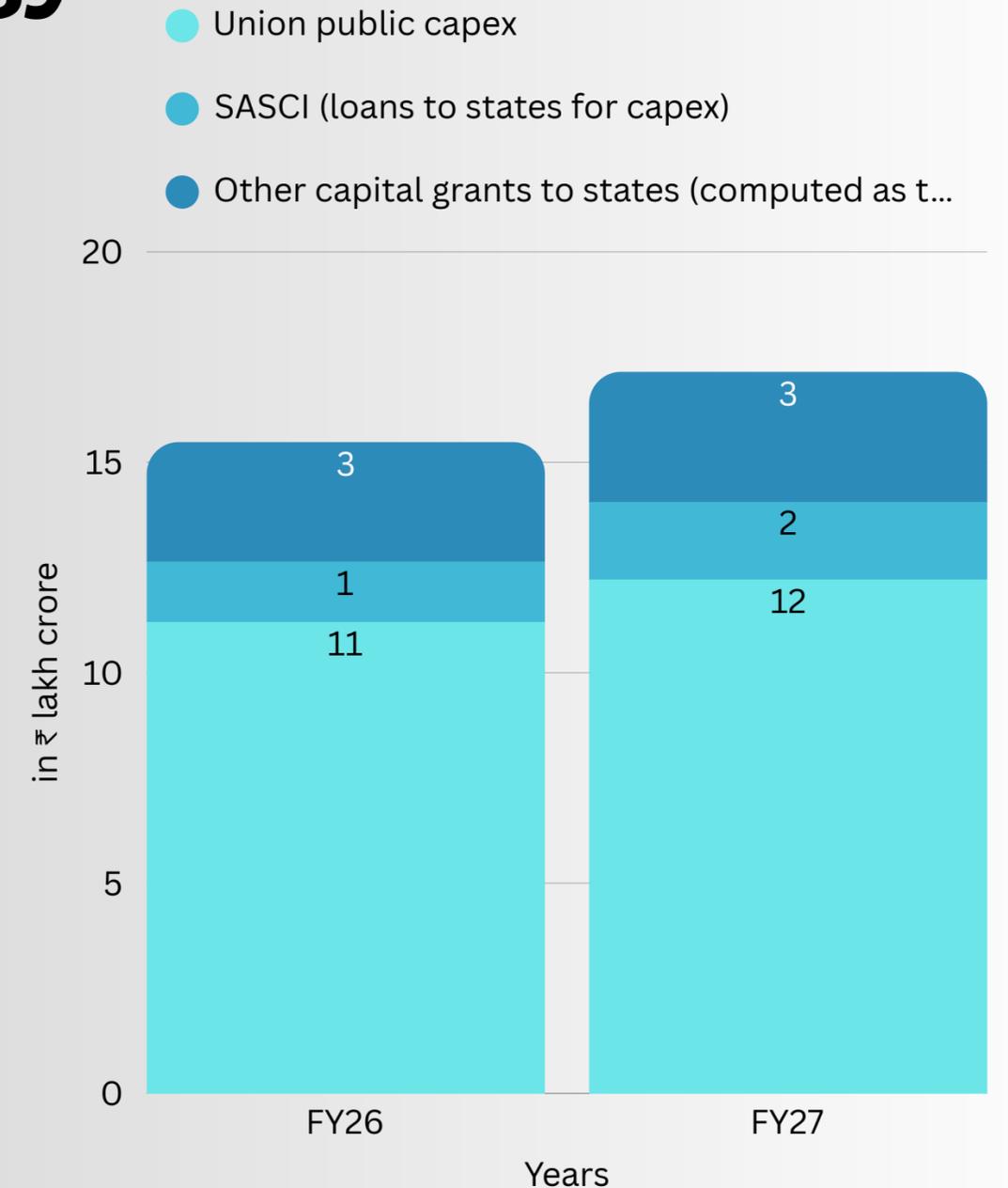
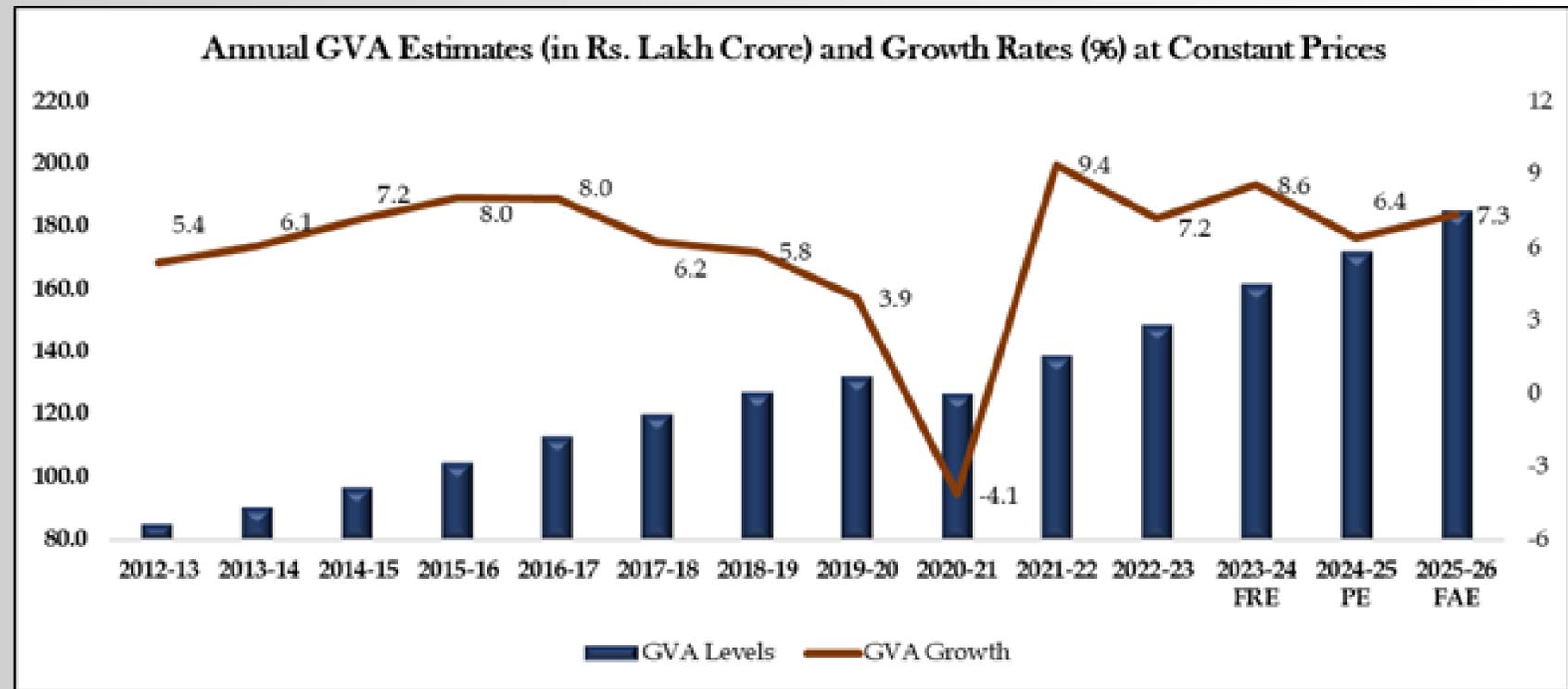


Fig. Public to Private Investment Flow

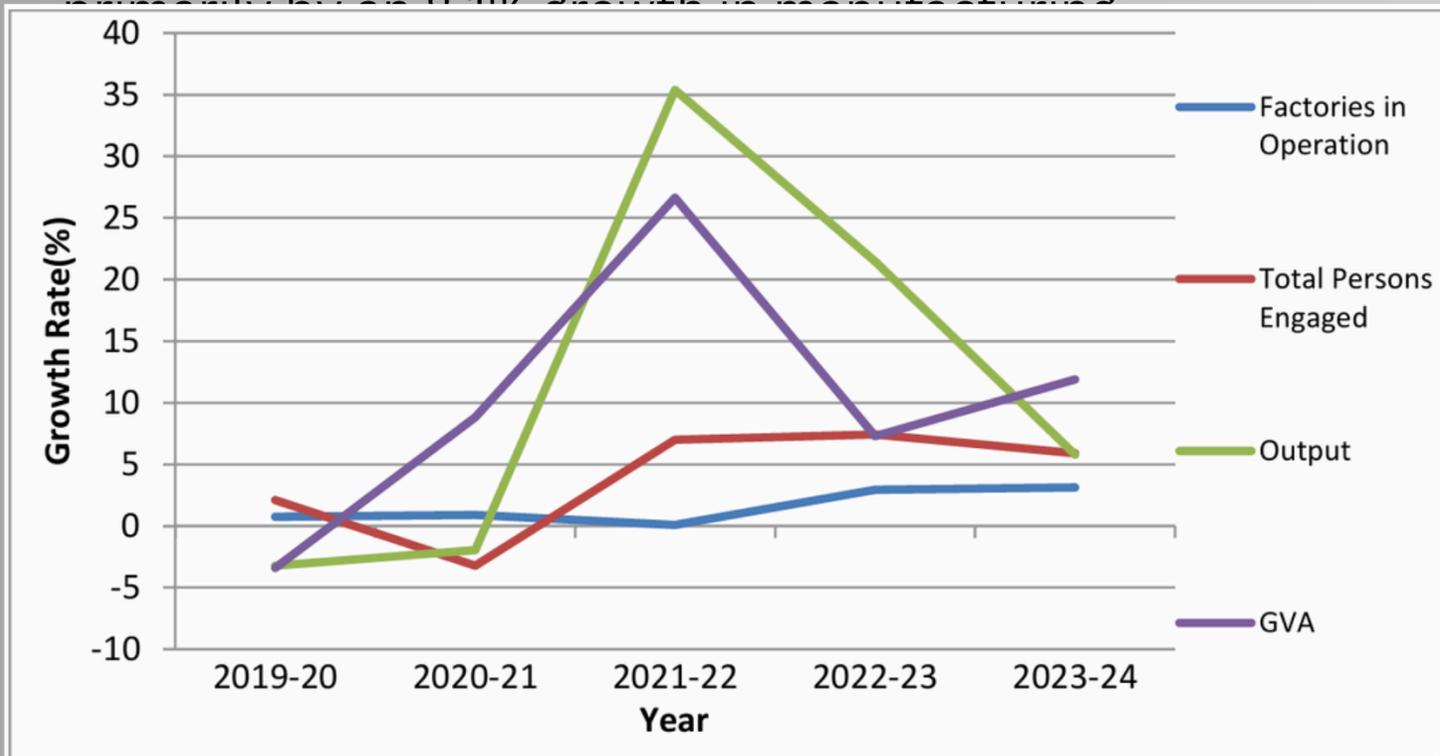
Manufacturing Outcomes

Inputs vs Results

- In FY 2025-26, manufacturing and construction in the secondary sector are estimated to grow at 7.0% at constant prices. Medium and high-technology industries now contribute 46.3% of India's manufacturing value added, signaling a move toward more sophisticated production structures. Industrial production rose by 7.8% in December 2025, the strongest expansion in over two years, driven primarily by a 9.1% growth in manufacturing.



Source: [Ministry of Statistics & Programme Implementation](#)



Annual Growth Rates (%) of Selected Characteristics for Different Years over Previous Year: All -India

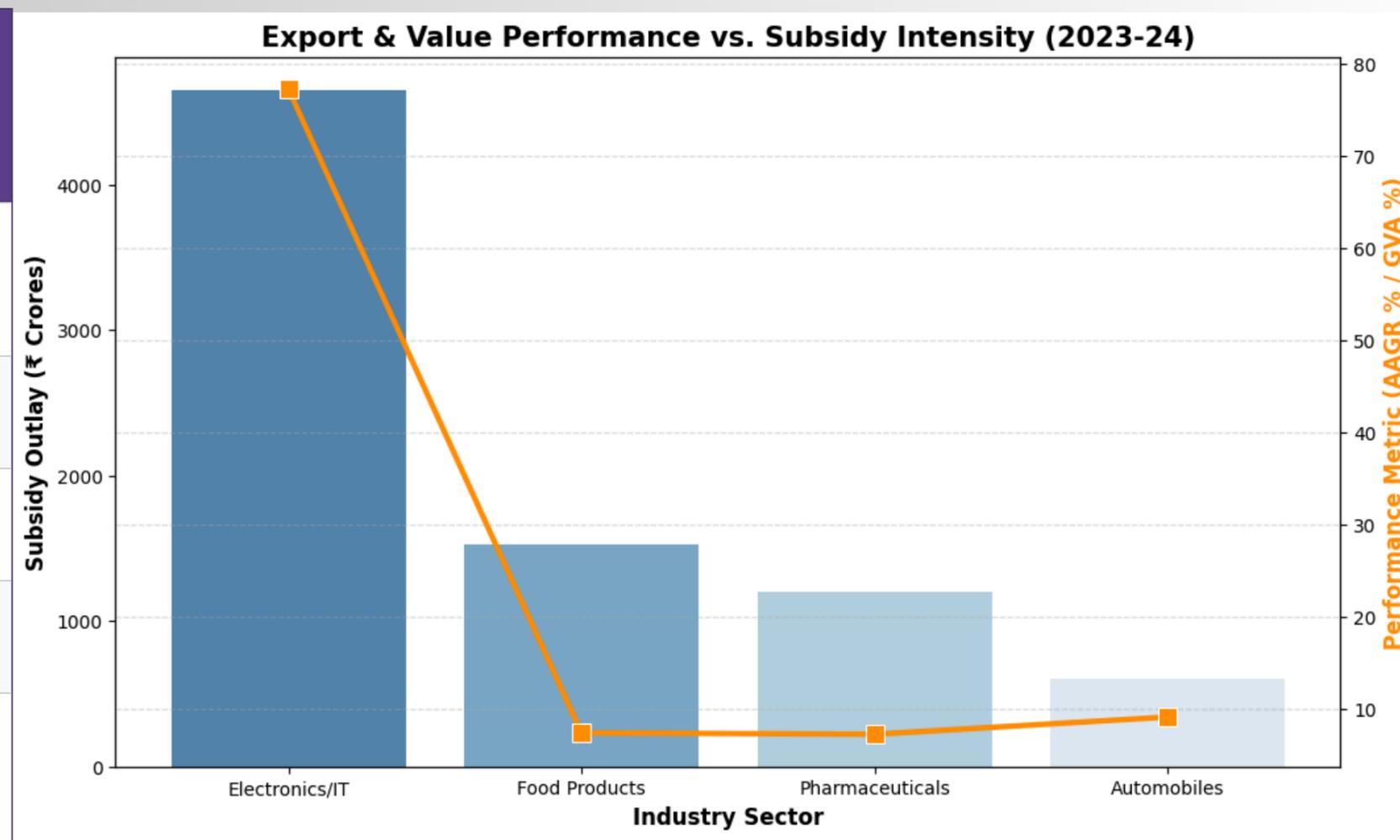
Source: [ASI Summary Results 2023-24](#)

- In the factory sector, five industries, i.e. Food (11.06%), Textiles (8.75%), Basic Metals (7.77%), Motor Vehicles (7.01%), and Wearing Apparel (6.83%) account for 41.43% of total employment. Conversely, GVA is driven by capital-intensive sectors like Basic Metals (11.56%) and Motor Vehicles (9.11%), which contribute to a 51.06% aggregate GVA share alongside four other key industries.
- The data reveals a structural mismatch between labor-heavy and value-heavy industries. While traditional sectors like Food and Textiles are the primary employment drivers, they contribute significantly less to the aggregate GVA compared to capital-intensive sectors like Chemicals and Pharmaceuticals. This concentration of 47.68% of fixed capital in high-GVA sectors underscores an efficiency vs. absorption trade-off, where industrial growth is increasingly decoupled from broad-based job creation.

PLI & Industrial Incentives – Cost-Benefit Test

PLI Sector	2023-24 Budget Estimate (₹ Crore)	Growth Context & Strategic Outlook
Automobiles & Auto Components	₹604	High capital intensity; part of a larger ₹25,938 cr scheme aimed at deep localization.
Electronics & IT Hardware	₹4,645	Highest annual growth; export performance led by an 77.2% AAGR in IT hardware.
Pharmaceuticals	₹1,200	Strategic intent to reduce import dependence for critical Active Pharmaceutical Ingredients (APIs).
Food Processing Industry	₹1,530	Substantial increase from the ₹801 crore Revised Estimate of the previous fiscal year.
Drones & Components	₹915	Listed under the "Domestic Industry Incentivisation Scheme" to foster emerging tech ecosystems.

Source: Outlay on Major Schemes (Self Made)



Source: ASI Summary Results (Self Made)

- The Production Linked Incentive (PLI) strategy remains fiscally expensive, with a ₹1.97 lakh crore committed outlay yielding approximately 12.6 lakh direct and indirect jobs. A structural disconnect exists between value-heavy sectors like Motor Vehicles (9.11% of GVA) and labor-intensive industries like Textiles (8.75% of employment). Furthermore, persistent import dependencies and stagnant real wages challenge the efficacy of high CapEx multipliers, making industrial success contingent on a currently absent domestic demand revival. The PLI scheme drives significant exports, particularly in IT hardware with a 77.2% AAGR, supported by a ₹4,645 crore allocation. However, high import dependence in pharmaceuticals and automobiles persists. Consequently, industrial competitiveness remains subsidy-reliant, risking external trade imbalances without a robust domestic consumption revival.

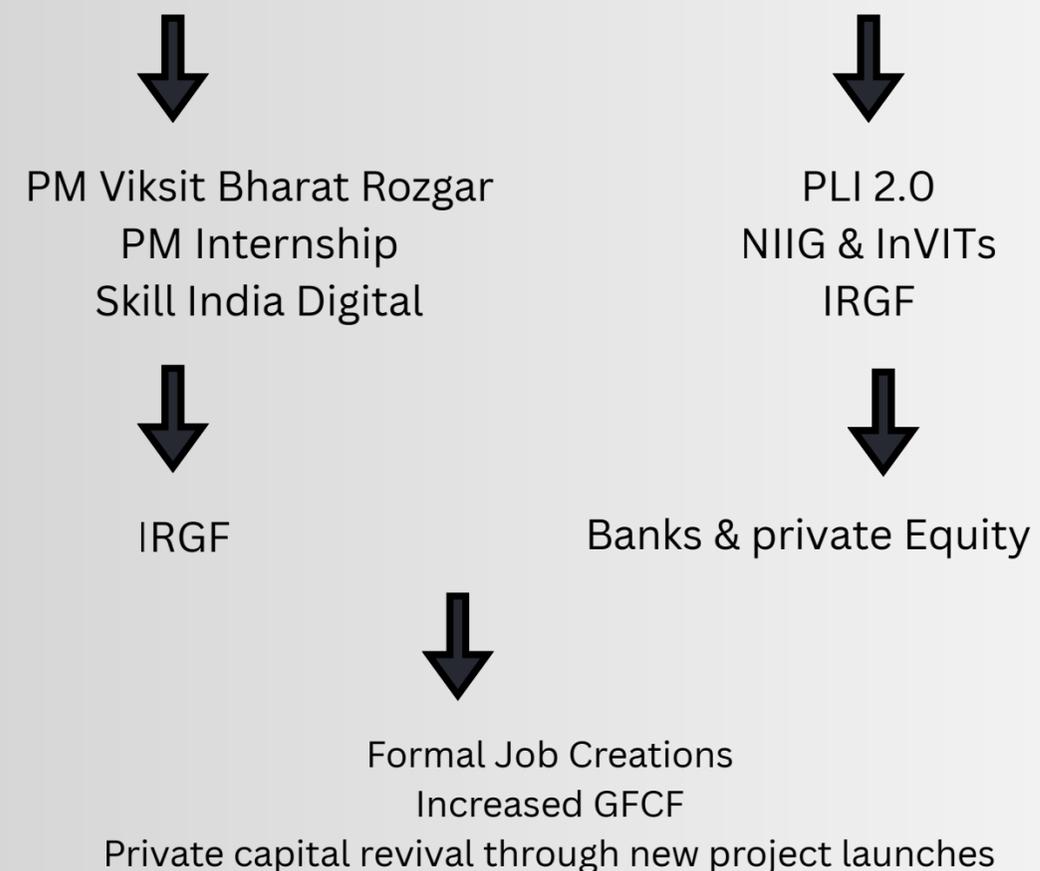
Employment and Private Investment Indicators

VIKSIT BHARAT PUSH: The VB-GRAM-G replaces the older MGNREGA with a Rs.95,692 Crore outlay in 2026, wherein it increases the work guarantee to 125 days from 100 days. It further shifts the funding ratio to 60:40 = Centre: State to encourage state participation. Furthermore, PM Viksit Bharat Rozgar scheme incentivizes first-time employees to obtain a direct benefit of up to Rs.15,000 over three installments. Schemes under this category have received funding of more than Rs.20,000 Crore. PM Internship scheme aims to provide internships to 1 crore youth in the top 500 companies wherein interns receive Rs.5,000/month with a one-time additional grant of Rs.6,000. This scheme saw a major reduction in budget allocation by almost 55%. And Skill India Digital is an initiative which is designed to promote the adoption of DPI in the country, which enables access to industry-aligned training programs and resources. As per Budget 25-26, skilling has received nearly Rs.9,900 crore which is a sharp year-on-year jump.

The Gross Fixed Capital Formation (GFCF) is estimated to have 7.8% growth rate at constant prices during FY26, compared to 7.1% growth rate in previous FY.

Budget 2026 further announced a landmark fund to provide partial credit guarantees to lenders known as Infrastructure Risk Guarantee Fund (IRGF). The capital outlay for infrastructure is Rs.12.2 lakh crore but the IRGF acts as a credit enhancer,, enabling private projects to be marked as 'bankable'. The Public capex has increased manifold over the years from Rs.2 lakh crore in FY15 to the present values. Additionally, Budget 2026 plans to invest Rs.30,000 crore in NIIF(National Investment and Infrastructure Fund) in an effort to foster opportunities in infrastructure, technology, and manufacturing.

Employment Schemes + Investment Measures

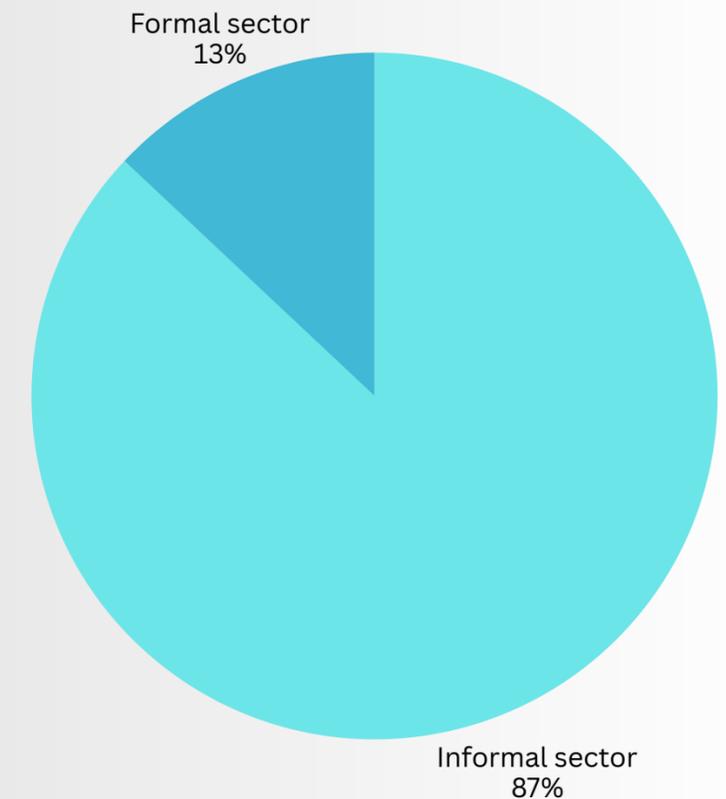


Employment Elasticity of Growth

The 2026-27 budget continues a high-capital intensity path with a record of Rs.12.22 lakh crore in central capex. In infrastructure particularly construction, steel, and cement, 25-30 jobs are created per Rs. 1 crore (both direct and indirect). To this effect, a standing committee on 'Education to Employment and Enterprise' shall be established to develop the service sector, which shall also assess the impact of artificial intelligence on jobs. Whilst viewing social welfare schemes such as VB-GRAM-G which creates around 380-450 man-days per Rs.1 crore, it is to be noted that though they provide immediate distress employment, they have a lower long-term productivity multiplier. As of September 2025, PLI schemes have created 12.6 lakh jobs from an investment of Rs.2 lakh crore, averaging around 6 jobs per Rs.1 crore. This reflects a shift toward a high-tech, capital-intensive manufacturing.

NITI Aayog's PLFS report highlights that while informal job share is still at a 87% of the total workforce, additions to the EPFO hit a record of 21.04 lakh net subscribers in July 2025. Additionally, 60% of these new formal jobs have been adopted by the 18-25 age group - this indicates that entry-level jobs are formalizing faster.

Hiring of youth is projected to rise by 11% in 2026 still elasticity remains low in high-growth sectors such as IT/finance due to a 54.8% employability gap. On the other hand, female LFPR hit a yearly high of 35.3% in December 2025. But while participation is rising, it is largely driven by self-employment and unpaid household help in rural areas rather than high salaried roles. Finally, services sector undoubtedly dominates the GDP with 53.6% and is expected to add 20 lakh jobs in 2026, construction sector follows with a growth rate of 9.4% in FY25 and finally manufacturing section is expected to have a growth of 7.0% in FY26.

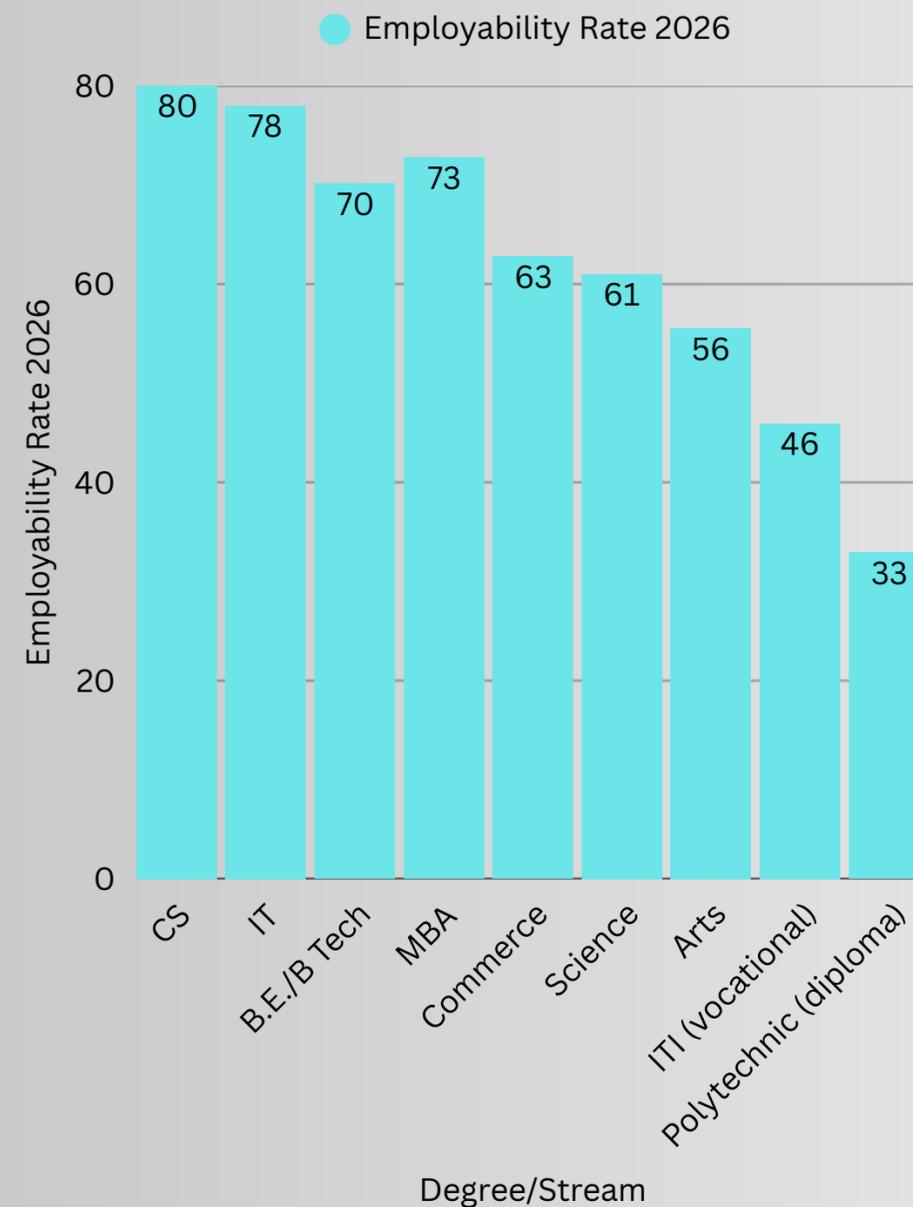


Source: PLFS 2025

Skill Mismatch & Labour Market Frictions

When degrees do not equal job-readiness, a structural mismatch is created. According to India Skills Report 2026, overall employability has risen to 56.35% from 54.8% in 2025. In the context of AI, while India holds about 16% of the global AI talent pool, less than 25% graduates are job-ready. Similarly we can discuss the MBA employability which has dipped to 72.76% while Computer science is at 80% and IT at 78%. This is indicative of the factor that specialized digital fluency is favoured over general degrees.

While the Budget 2026 has increased the skilling budget to Rs.9,885.8 crore (which is a 62% rise), there seems to be a placement friction. In Industrial Training Institutes, job placements have hovered below 50% historically. Additionally evaluations show that while 99% of the candidates are certified, only 45.4% find immediate waged jobs or self-employment which highlights a gap between certification and market value. Consequently, Budget 2026 has introduced PM-SETU scheme which funds 'placement-linked' disbursements rather than 'enrolment-based' funding like earlier.



Source: India Skills Report 2026

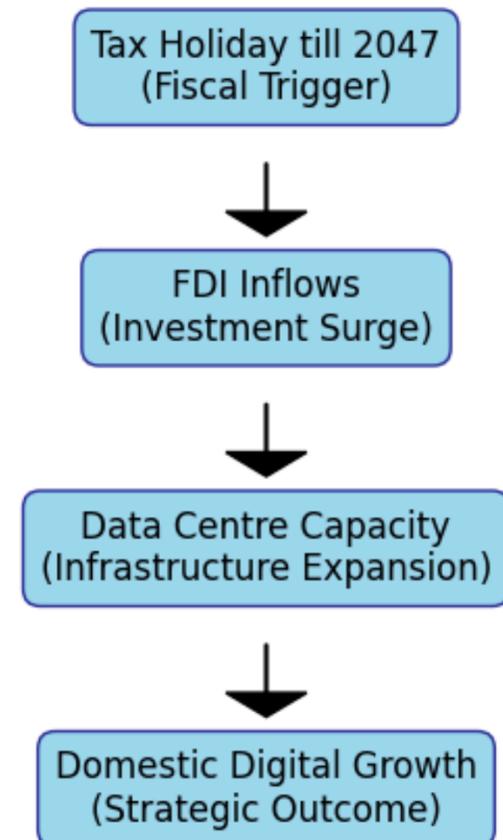
There also persists a deep sector-wise demand-supply gap. BFSI and Fintech has a high intent of hiring yet there is a lack of domain-specific fluency resulting in a skill mismatch. Additionally, manufacturing sector is expanding at 7.8% GVA but there is a shortage of industry 4.0 technicians leading to a technical gap. Now, freelancing is expected to reach 90M by 2030 but there is lack of portable social security and soft skills which is a market friction. Agriculture which has a stagnant rate of absorption has a structural overhang with surplus labour being present with low non-farm vocational skills.

Digital Infrastructure – FDI Incentives

The following process illustrates the strategic flow designed to catalyze India's digital economy:

- Tax Holiday (Policy Trigger): Foreign cloud companies utilizing India-based data centers are granted a tax holiday extending until 2047. This represents the longest period of tax certainty ever offered to the digital sector.
- Operational Provisions: To ensure compliance and ease of doing business, a Safe Harbour provision has been established for related-party data center services. Furthermore, services provided to Indian users must be routed through an Indian reseller entity to ensure domestic value retention.
- FDI Inflows: These fiscal certainties are expected to drive significant foreign direct investment (FDI) into the technology sector as global firms seek stable, long-term operational environments.
- Capacity Expansion: Increased investment is projected to lead to massive data center capacity expansion, supporting the rising demands of AI and cloud computing.
- Domestic Digital Growth: The final outcome is the acceleration of India's domestic digital infrastructure, fostering a robust ecosystem for sovereign AI and high-end technology services.

Digital Infrastructure Strategy Flow

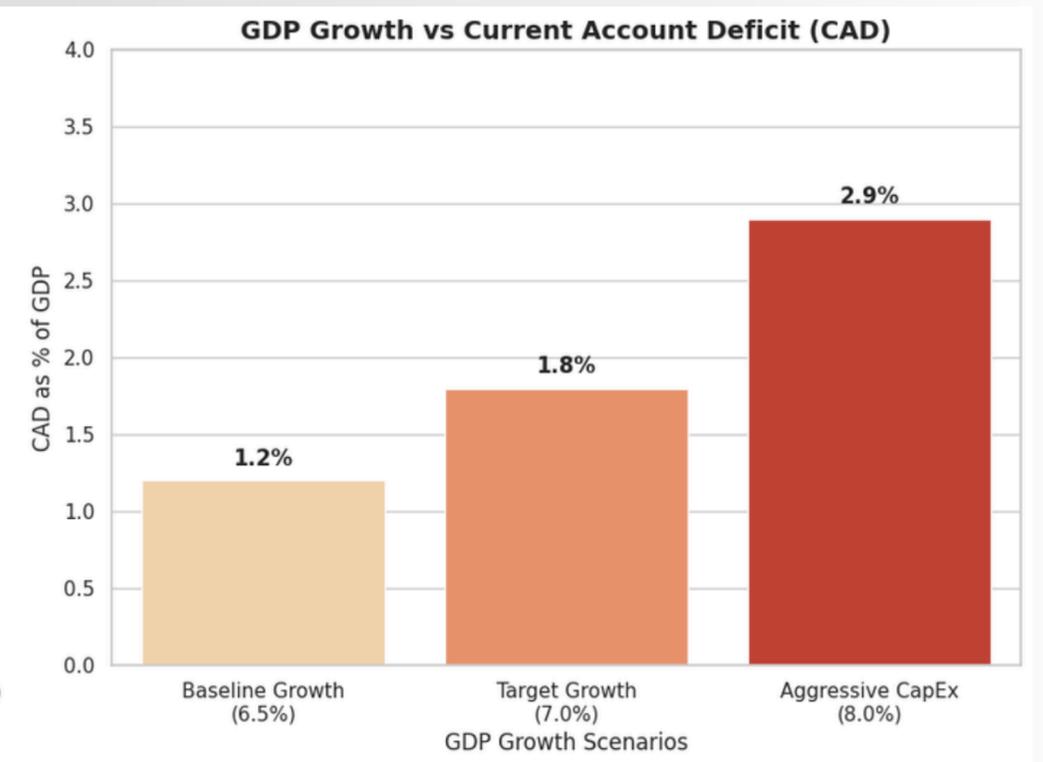
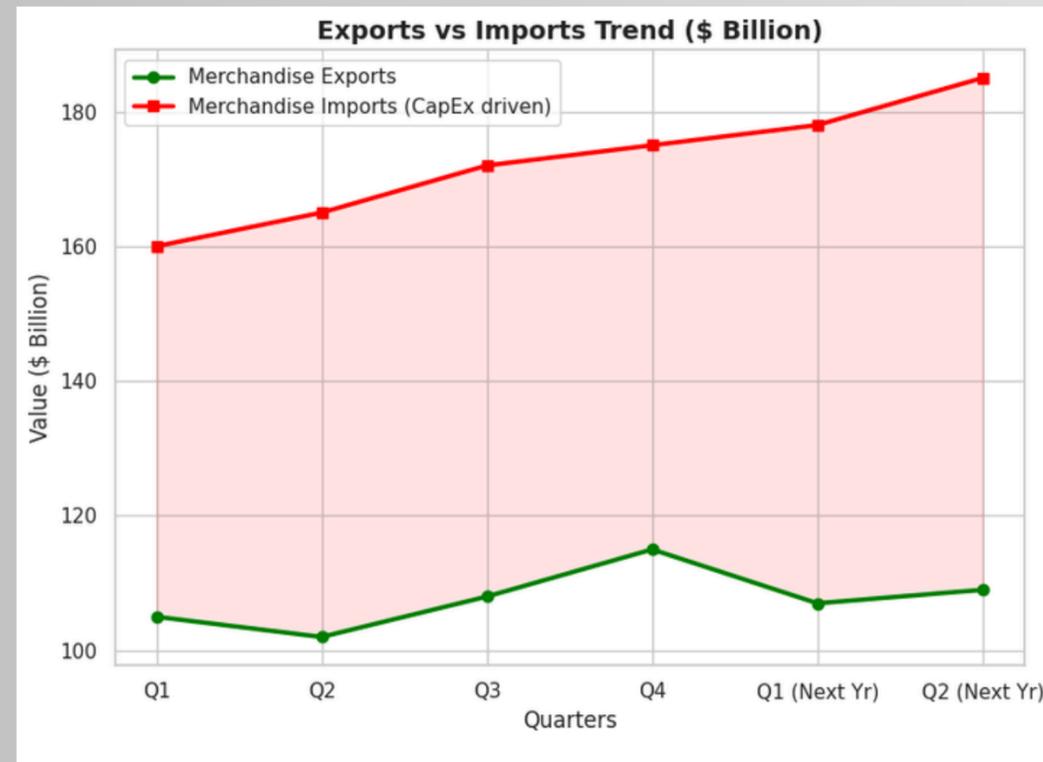


Source: Budget Speech 2026-27

External Sector Stress Test

India's infrastructure-led growth is exhibiting clear import intensity. In Q4 FY25, while merchandise exports contracted by 4.3% to \$115 billion, merchandise imports grew to \$175 billion. This import growth is heavily driven by capital goods essential for infrastructure, with imports of electrical machinery surging by 16.6% and nuclear reactors/boilers by 18.1% year-on-year. For FY25, total imports reached \$908 billion against exports of \$823 billion, leading to an overall combined trade deficit of \$84.8 billion, which is an 8% increase from the previous year. However, this widening merchandise gap is significantly buffered by record services exports, which reached \$387.5 billion in FY25, providing a crucial cushion for the current account.

The data underscores a structural mismatch: as domestic growth accelerates (fueled by CapEx), the import bill rises faster than exports. While India's overall exports grew at a 10% CAGR (2020-2024), its limited presence in large global demand pools means aggressive GDP growth targets could disproportionately widen the trade deficit. Despite the combined deficit expanding to \$84.8 billion in FY25, India's robust FX reserves (supported by the \$53 billion net services surplus in Q4 alone) remain highly adequate to absorb immediate external shocks. Therefore, we can see that infrastructure-led growth risks widening external imbalances, as domestic CapEx expansion drives a surge in capital goods imports (\$908 bn total FY25 imports) while merchandise export growth faces global headwinds.



Source: [NITI Aayog Trade Watch Report Q4 FY25](#), [RBI](#), [ASI 2023-24](#)(self made)

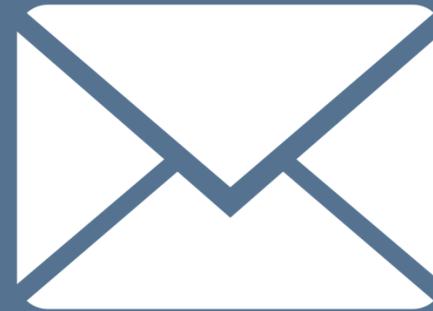
FTA Exposure & Strategic Trade-Offs

- India's FTA integration has deepened, but trade asymmetries are widening. In FY 2024–25, 720,996 preferential certificates of origin were issued (up from 684,724 in FY 2023–24), signaling rising utilization. However, in Q1 FY 26, imports from FTA partners stood at \$65.3 billion, against exports of \$38.7 billion, producing a \$26.7 billion deficit, nearly 60 % higher year-on-year. This indicates that market access gains are being offset by faster import penetration.
- Sectoral exposure remains uneven. Labor-intensive sectors such as textiles are projected to benefit (exports targeted at \$100 billion by 2030 under proposed EU access), yet FTA utilization among Indian firms remains below 25%, reflecting MSME compliance and scale constraints. Meanwhile, sectors facing import competition—electronics, chemicals, machinery—experience margin compression and employment risks.
- Safeguard measures, including tariff-rate quotas in ongoing negotiations, provide partial insulation. Trade liberalization without calibrated adjustment support—credit access, productivity upgrades, and safeguard enforcement—risks amplifying sectoral stress and widening structural trade deficits.

Takeaways

- The Union Budget 2026–27 continues fiscal consolidation, lowering the deficit to 4.3% of GDP from 4.4%, while total expenditure rises to ₹53.47 lakh crore. Capital expenditure is prioritised at ₹12.2 lakh crore ($\approx 4.4\%$ of GDP), reinforcing infrastructure-led growth. However, interest payments exceed ₹11 lakh crore, absorbing over 24% of total expenditure - projected to reach over 26% of total expenditure and constraining fiscal flexibility. Revenue expenditure remains compressed to maintain deficit discipline.
- Tax policy operates as a calibrated instrument—STT hikes and TCS rationalisation signal market discipline and household liquidity relief. Yet macro fundamentals weaken this strategy: household savings have fallen to 18.1% of GDP, real wage growth remains uneven, and PFCE growth trails nominal GDP expansion. CapEx multipliers depend on demand revival, which remains fragile.
- Manufacturing GVA growth and employment elasticity remain modest relative to allocation intensity, while FTA-driven import exposure widens trade deficits (Q1 FY26 FTA deficit: \$26.7 billion).

Thank You!



For inputs, comments or
clarifications please contact
The Centre for New
Economics Studies at
cnes@jgu.edu.in