A path to strategic growth

Public capex remains the growth anchor, providing a predictable multi-year pipeline which the private sector is well positioned to respond

By Lekha Chakraborty

Updated - February 01, 2026 at 08:56 PM.

A meaningful pickup in private capex cycles is likely in 2026-27 | Photo Credit: VELANKANNI RAJ B

On February 1, Finance Minister Nirmala Sitharaman presented Budget 2026-27 at a moment of heightened global uncertainty. Trade tensions, shifting monetary policy in advanced economies and persistent supply-chain fragilities all loom large.

Markets showed a short-term "random-walk" reaction to higher STT on derivatives. Yet the Budget responds with fiscal consolidation drive and forward-looking investment that should strengthen India's growth trajectory while preserving macroeconomic stability.

Debt and deficits

The Union fiscal deficit is set at 4.3 percent of GDP, for FY27; down 0.4 percentage points in the revised estimate from the 4.8 per cent in BE FY26, placing India on a glide path to below 4.0 per cent by 2028-29. The revenue deficit is contained at 1.5 per cent of GDP, with progressive elimination in view, and the primary balance achieves a 0.7 per cent of GDP .

General government debt is projected to decline from approximately 82 per cent to 78 per cent of GDP by 2030-31. A critical reform addresses off-budget borrowings (OBBs), long criticised by FC-16 for opacity (paras 12.17-12.24). Union OBBs are capped at negligible levels, with mandatory on-budget disclosure for public sector loans; States are urged to phase them out entirely, anticipating a 40 per cent reduction in subsidy-related liabilities in 2026-27.

Deficit financing relies on transparent gross market borrowings of ₹14.5 lakh crore (net ₹11 lakh crore), small savings, and ₹75,000 crore disinvestment, with longer-maturity bonds improving the debt profile.

Fiscal marksmanship story

A key aspect of fiscal marksmanship is that revenue stability typically serves as the foundation for expenditure design. For 2025-26, however, revised revenue receipts fell short of the budget estimate by approximately ₹0.8 lakh crore, while capital receipts were lower by ₹0.2 lakh crore — a combined shortfall equivalent to roughly 0.3 per cent of GDP (based on nominal GDP of around ₹340 lakh crore). This loss of fiscal space directly constrained spending plans — effective capital expenditure was revised downward by ₹1.5 lakh crore to ₹14 lakh crore, and revenue expenditure by ₹0.7 lakh crore to ₹38.7 lakh crore in 2025-26.

These adjustments ensured the headline fiscal deficit, which remained exactly on target at 4.4 per cent of GDP, preventing any slippage despite fiscal forecasting errors in receipts. Such responsive fiscal recalibration demonstrates pragmatic headline fiscal deficit management, an attempt to preserve the budget credibility without compromising the overall fiscal consolidation path.

What is the fiscal cost of these calibrations? Where exactly major expenditure cut has happened? To understand that an analysis of Detailed Demand for Grants (Expenditure Budget 2026-27) is required.

To put things in perspective, in India out of 102 Ministries/Departments, the top 10 ministries as follows account for over 75 per cent of total estimated expenditure (around ₹50.65 lakh crore net) — Ministry of

Finance (38.3 per cent); dominated by interest payments, debt repayment, and transfers to States; Ministry of Defence (13.5 per cent); Ministry of Road Transport and Highways (5.7 per cent); Ministry of Railways (5 per cent); Ministry of Home Affairs (4.6 per cent); Ministry of Consumer Affairs, Food and Public Distribution (4.3 per cent); 7. Ministry of Rural Development (3.8 per cent); Ministry of Chemicals and Fertilizers (3.2 per cent); Ministry of Education (2.5 per cent) and Ministry of Communications (2.1 per cent).

However to analyse the expenditure recalibrations, we need to look into the differentials between BE and RE for all the schemes and identify the top schemes that have faced expenditure cuts and fiscal forecasting errors. A quick analysis of all the detailed Demand for Grants showed that the largest downward revisions in revenue expenditure from 2025-26 BE to RE (contributing to the overall revenue expenditure compression of around ₹0.7 lakh crore) occurred in the following demands by absolute cut size (primarily Voted revenue expenditure) — Ministries of Agriculture and Farmers Welfare; Skill Development and Entrepreneurship (Pradhan Mantri Kaushal Vikas Yojana (PMKVY), National Apprenticeship Promotion Scheme (NAPS), and other vocational training/entrepreneurship programmes; Department for Promotion of Industry and Internal Trade (Production Linked Incentive (PLI) schemes across sectors (example, electronics, pharmaceuticals, textiles) and startup/MSME support funds); Ministry of Women and Child Development (Poshanhan 2.0 (nutrition/supplementary feeding); and Ministry of Corporate Affairs.

The detailed scheme-wise breakdowns appear in Expenditure Budget Volume II (individual Statements of Demands) revealed the following Schemes are among the major expenditure cuts: (1) Production Linked Incentive (PLI) schemes (DPIIT, Ministry of Commerce & Industry) scaled back incentives across sectors like electronics/pharma; (2) Pradhan Mantri Kaushal Vikas Yojana (PMKVY) & skill programmes (Ministry of Skill Development) with reduced training/outreach targets; (3) Infrastructure/Atmanirbhar-related funds (Department of Economic Affairs) with deferred viability gap funding or special packages; (4) BharatNet & telecom subsidies (Department of Telecommunications) with slowed rural broadband rollout and (5) Poshan 2.0/Saksham Anganwadi

(Ministry of Women & Child Development) with moderated supplementary nutrition/supplementation components.

A detail analysis for the deviations between BE and RE is required to understand if this forecasting errors are due to systemic bias or randomness.

Capital expenditure and private investment

Public capex remains the growth anchor at ₹12.5 lakh crore (3.8 per cent of GDP), providing a predictable multi-year pipeline. The private corporate sector is well positioned to respond. Years of deleveraging have strengthened balance sheets, with debt-to-equity ratios at multi-decade lows and interest coverage ratios improved. Banking sector non-performing loans have stabilised, freeing credit channels. I do anticipate a meaningful pickup in private capex cycles in 2026-27, if there is an easing to the “demand uncertainties” amidst macroeconomic and geopolitical risks.

AI policy and climate reforms

Artificial intelligence receives ₹10,000 crore for the National AI Mission (compute infrastructure, skilling 10 million youth) and a ₹5,000 crore Innovation Fund for quantum, semiconductors, and biotechnology, with enhanced R&D deductions.

Energy transition announcements include the National Critical Minerals Mission is expanded with dedicated Rare Earth Corridors in Odisha, Kerala, Andhra Pradesh, and Tamil Nadu, integrating mining, processing, and magnet manufacturing to address projected quadrupling of global rare earth demand by 2040.

With nominal GDP growth projected at 10.5 per cent, the Budget aligns closely with the Sixteenth Finance Commission’s recommendations for fiscal consolidation while maintaining a status quo tax transfers at 41 per cent of divisible pool to the States, prioritising macroeconomic stability while directing resources toward AI and frontier technologies, energy security, and inclusive development. The fiscal forecasting errors need to be followed up to understand the sources of errors — if systemic bias or randomness affected the fiscal arithmetic.

There is a shadow of 16th FC on this Budget. With the new tax transfer formula — Population 2011 (17.5 per cent) and income distance (42.5 per cent) take the lion share in weightage with 60 per cent total. The rest 40 per cent weightage is equally divided for four variables — demographic transition, forest, area and contribution of a state to GDP. The devil lies in details.

It is interesting to note that 16th Commission's horizontal formula introduces a notable tilt towards efficiency, reportedly incorporating a new 10 per cent weight for States' contribution to national GDP alongside other criteria of income distance, area, climate and demographic performance. This marks a departure from heavier equity focus in prior commissions towards strategic growth. The Budget 2026-27 has taken the third tier (cities) also as core partners in this journey towards Viksit Bharat, with announcements relating to "cities as the unit of analysis" and initiating allocations to float municipal bonds. The fiscal space of subnational governments is therefore a major factor in pursuing the Viksit Bharat dream to become a developed country by 2047.

The writer is Professor, NIPFP and Member, Board of Management, International Institute of Public Finance, Munich