A Budget aligned with finance panel views

The revenue shortfalls are offset by expenditure compression, keeping the headline deficit on target

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Finance Minister Nirmala Sitharaman presented the Budget for 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

With the fiscal deficit targeted at 4.3 per cent of GDP for 2026-27 — down from the 4.4 per cent revised estimate for 2025-26 — the government has reaffirmed its commitment to gradual consolidation, aligning with a medium-term path toward below 4 per cent. This steady adjustment is commendable.

The primary deficit is 0.7 per cent of GDP for FY27, revenue deficit remained constant at 1.5 per cent. Phasing out of revenue deficit is 'golden principle' of fiscal rules, however it is not advisable in times of macroeconomic uncertainties and geopolitical risks.

The debt-to-GDP ratio is estimated to be 55.6 per cent of GDP in BE 2026-27, compared to 56.1 per cent of GDP in RE 2025-26, with a medium-term anchor of 50 per cent (℗1 per cent) by 2030-31. A critical reform addresses off-budget borrowings (OBBs), long criticised by 16th Finance Commission for opacity.

To finance the fiscal deficit, the net market borrowings from dated securities are estimated at ₹11.7 lakh crore. The balance of debt financing is expected to come from small savings and other sources. The gross market borrowings are estimated at ₹17.2 lakh crore. General government debt dynamics benefit from these measures, alongside contained gross market borrowings and efforts to lengthen debt maturities.

FISCAL MARKSMANSHIP

Fiscal marksmanship underscores pragmatic management. In 2025-26, revenue shortfalls — partly due to moderated buoyancy — were offset by expenditure compression, keeping the headline deficit on target despite forecasting variances. Effective capital expenditure was adjusted downward, yet the overall consolidation path remained intact.

This responsive recalibration preserves credibility, demonstrating that revenue stability anchors expenditure planning while allowing flexibility amid uncertainties. Closer analysis of forecasting errors — whether systemic or random — could further refine future budgets.

CAPEX, PVT INVESTMENT

Capital expenditure remains a key growth driver, with Central outlay at ₹12.2 lakh crore and effective capex (including state support) reaching ₹17.15 lakh crore. This multi-year pipeline provides predictability, carrying high multipliers in an economy where 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. A meaningful pick up in private capex cycles in 2026-27 can be expected, if there is an easing to the "demand uncertainties" amidst macroeconomic and geopolitical risks.

The Budget proposals are likely to spur private investments SHIV KUMAR PUSHPAKAR

AI, 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. The Budget has announced a 20-year tax holiday to foreign firms using local data centres built in India.

Energy transition announcements include the National Critical Minerals Mission, 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.

16TH FINANCE PANEL

The Budget aligns closely with the 16th 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.

The fiscal forecasting errors in revenue and expenditure 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 Finance Commission 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 FINEPRINT

The devil lies in the 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 has taken the third tier (cities) also as core partners in this journey towards Viksit Bharat, with announcements relate 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.

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