

Openomics 2026: Doctrine of Discipline

Lekha Chakraborty / February 6, 2026, 00:23 IS



IN AN INCREASINGLY fractious global economic landscape marked by escalating trade tensions, geopolitical uncertainties, and protectionist policies, nations must craft fiscal strategies that prioritise fiscal resilience. The Union Budget for 2026-27, presented by Finance Minister Nirmala Sitharaman on February 1, 2026, exemplifies such strategic foresight to ensure macroeconomic stability. Still, the challenges persist regarding economic growth—the ‘shy’ private corporate investment, mounting capital flight and exogenous shocks. The International Monetary Fund (IMF) has recently upgraded India’s growth forecast for fiscal year 2025-26 to a robust 7.3 per cent, reflecting strong domestic momentum. This resilient outlook is underpinned by India’s prudent fiscal consolidation and sustained emphasis on productive public infrastructure investment.

High debt is substantiated when directed towards infrastructure investment.

In times of macroeconomic uncertainty, elevated public debt can be justified when directed towards closing “output gaps” through growth-enhancing capital expenditures—a principle the Budget adeptly embodies. Central to this strategy is an unwavering commitment to infrastructure development, with capital outlays reaching a record ₹12.2 lakh crore. This allocation underscores the government’s recognition that physical and

digital connectivity are essential for long-term economic vitality. Amid global supply chain disruptions and rising protectionism, this capex thrust boosts productivity, and expects to generate a virtuous cycle of investment and employment creation.

Shielding strategic sectors from a fracturing multilateral order.

Higher defence allocations further acknowledge geopolitical risks, enhancing strategic autonomy in an era of persistent tensions. The Budget's focus on AI and frontier technologies is particularly timely. By expanding initiatives in seven strategic sectors—including the National AI Mission, establishment of rare earth hubs in mineral-rich states, and a landmark 20-year tax holiday (extending till 2047) for foreign companies setting up or using data centres in India—the government is deliberately positioning the country to counter global headwinds and sustain its trajectory as one of the fastest-growing major economies. This is not a pursuit of fiscal autarky but a calibrated response to a fracturing multilateral order, where higher tariffs and volatile financial markets disproportionately affect emerging markets.

While trade tariffs may lack systemic economy-wide impacts, sector-specific vulnerabilities—potentially exacerbated by policy shifts in major trading partners—are significant. The Budget introduces targeted buffers, including incentives for domestic production and trade diversification, to shield affected sectors. In an environment where countries increasingly turn to “near-shoring” or “friend-shoring” in line with gravity models of trade, India is strategically gravitating towards resilient supply chains and new trade partnerships.

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What holds India together and why nations federate.

The subnational governments are increasingly articulating about the fiscal space crunch. The 16th Finance Commission report tabled in Parliament on the Budget day maintained a 41 per cent tax transfer to states, amidst a “grand bargain” by the states for 50 per cent

tax devolution. The states are indispensable partners in the journey towards Viksit Bharat by 2047. Enhancing states' fiscal space is crucial, enabling them to invest in localised priorities—health, education, climate and infrastructure—while aligning with national goals. This cooperative federalism is crucial for inclusive growth across diverse regions. The tax transfer formula is designed with population (17.5 weightage), income distance (42.5); and the factors like area, forest, contribution to GDP, demographic transition are given equal weight of 10 per cent. The debates persist on equity versus efficiency aspects of this tax transfer design in India.

Fiscal consolidation remains a guiding principle, demonstrating a clear commitment to fiscal transition.

The fiscal deficit is pegged at 4.3 per cent of GDP for FY27, with a medium-term roadmap to reduce it to 3 per cent. Adhering to the golden rule of fiscal policy—zero revenue deficits—is desirable by phasing out revenue deficits so borrowings fund only capital spending. However, the government is proceeding cautiously with gradual plans for phasing out revenue deficits, maintaining the revenue deficit at 1.5 per cent of GDP in FY27 to preserve essential social infrastructure spending. The Central government debt-to-GDP ratio is on a steady downward path, from current levels towards 30 ± 1 per cent by 2030. This disciplined fiscal trajectory enhances macroeconomic stability, bolsters investor confidence, and creates buffers against global capital flow volatility.

There is a focus on making India the leader in energy transition.

The Budget also advances India's energy transition, aligning fiscal policy with climate imperatives amid global headwinds. Significant allocations for renewable energy, small modular nuclear reactors, and green hydrogen missions signal a strategic pivot towards sustainable growth. By incentivising clean energy infrastructure and critical minerals processing, the government is reducing import dependence while positioning India as a leader in the global energy transition. These measures complement fiscal prudence by fostering new growth engines that are resilient to fossil fuel volatility and geopolitical energy risks.

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Sectoral announcements reflect a sophisticated grasp of multifaceted challenges. Agriculture, the backbone of rural livelihoods, benefits from targeted interventions and AI-driven innovations. Emerging domains such as bio-pharma and skill development align with global technology shifts. Tourism receives a boost through regional medical hubs and cultural heritage initiatives, diversifying revenue sources and creating jobs in a world still cautious about external demand volatility.

There is a conspicuous absence of aggressive consumption stimuli in the Budget. Pay Commission awards are on the anvil to respond to that, while the government abstained from many populist announcements to woo the voters. This restraint is justified by the imperative of long-term resilience.

To conclude, the Union Budget 2026-27 represents masterful economic statecraft in turbulent times. It positions India to endure global storms ensuring macroeconomic stability. The growth story is yet another.