



# INDIA'S UNION BUDGET 2026-27:

Balancing fiscal prudence and  
investment-led growth



February 2026



# EXECUTIVE SUMMARY



1

India's Union budget sets FY27 fiscal deficit at 4.3% of GDP, underpinned by 10% nominal growth, with total expenditure of INR 53.47 lakh crore, receipts of INR 36.51 lakh crore, and capital outlay raised to INR 12.2 lakh crore, reinforcing the government's focus on infrastructure-led growth.

2

FY27 tax plan keeps slabs unchanged, simplifies compliance, lowers TCS/TDS on overseas remittances, and extends cloud service tax holidays to 2047. Duty exemptions on health-critical items; concessional rates on foreign services and data centres.

3

FY27 initiatives include a INR 10,000 crore SME growth fund with a Self-Reliant India Fund top-up to build "Champion SMEs," alongside stronger receivables financing (TReDS, CGTMSE) and "Corporate Mitras" for better compliance.

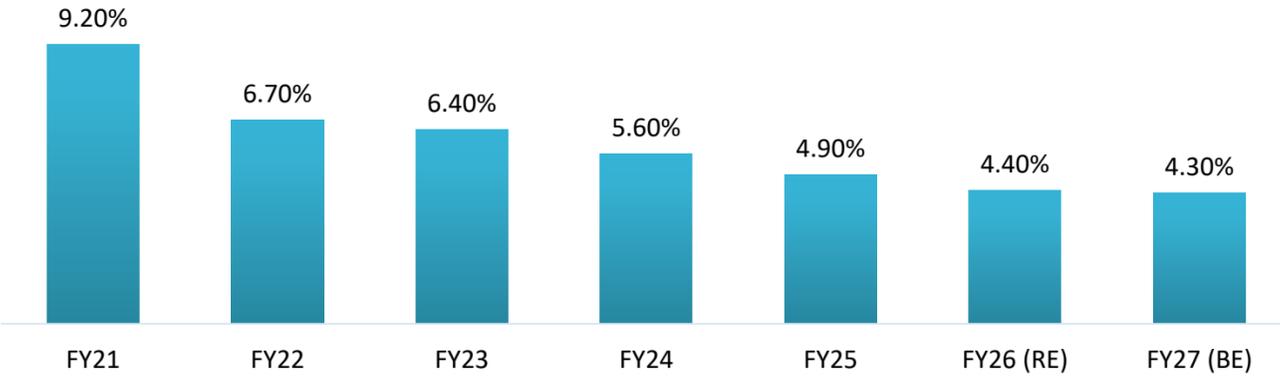
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FY27 infra push includes seven high-speed rail corridors, expanded freight corridors and waterways to cut logistics costs, and an Infrastructure Risk Guarantee Fund to attract private capital.

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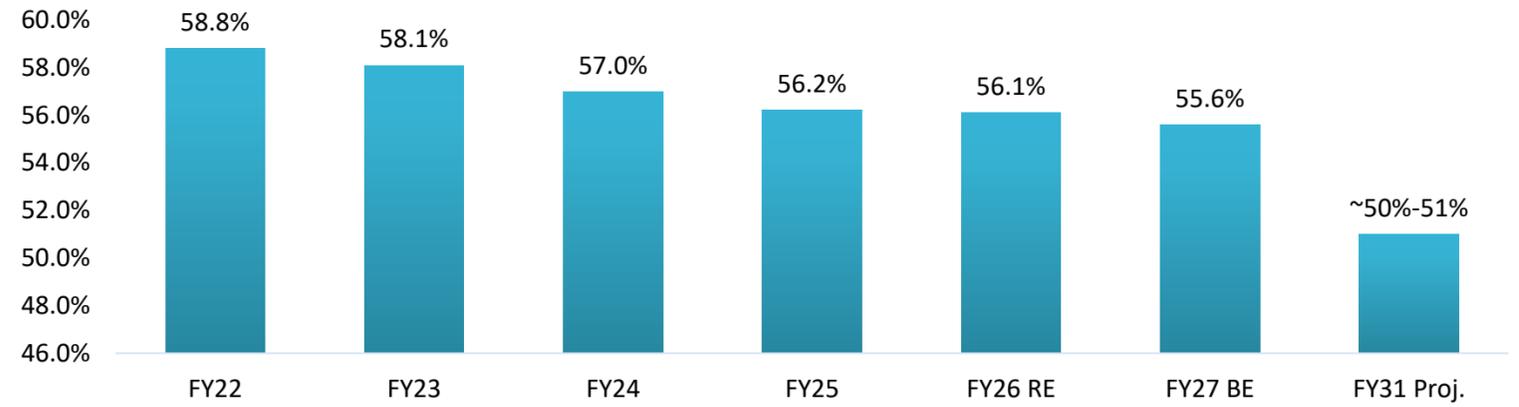
FY27 focus areas include an expanded Semiconductor Mission and rare earth corridors for self-reliance, bond market reforms with higher NRI limits to draw capital, and the INR 10,000 crore SHAKTI scheme to build a global biopharma hub.

### Fiscal Deficit as % of GDP



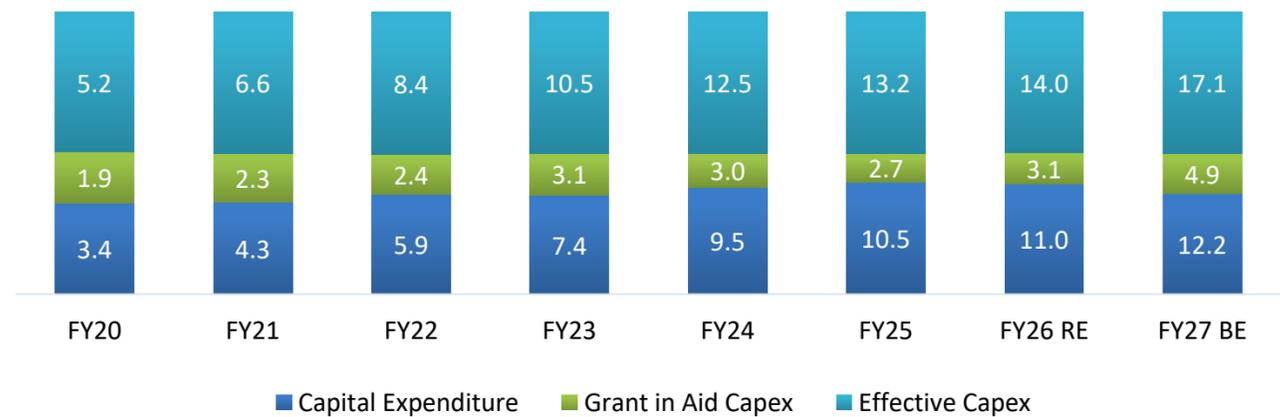
India's fiscal deficit moderates to 4.3% from 4.4%, reflecting calibrated consolidation without compromising growth. From a credit rating perspective, this signals gradual fiscal consolidation balances growth, debt sustainability, and enhances borrowing predictability.

### Debt-to-GDP Ratio



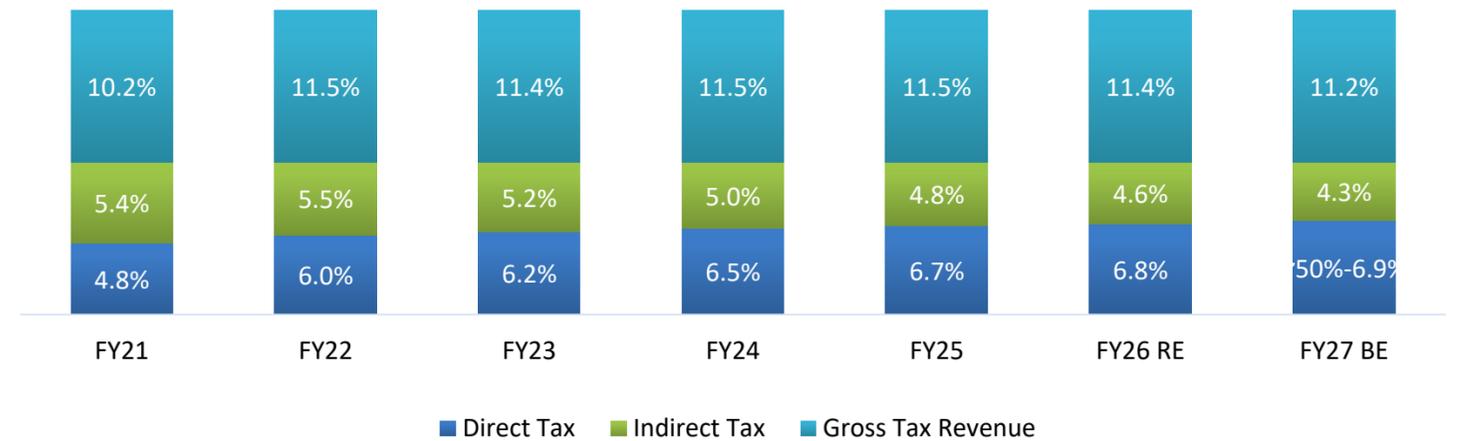
India shifts fiscal anchor from deficit-focused targets to debt-to-GDP ratio, aiming for 50% of GDP by FY2031. From a credit rating perspective, lowering debt-to-GDP ratio to 50% aligns India with investment-grade peers, enhancing sovereign creditworthiness, fiscal flexibility, and supporting potential ratings upgrade.

### Capital Expenditure (INR lakh crore)



FY27 capex of INR 12.2 lakh crore (3.1% GDP) sustains infrastructure-led growth, crowds in private investment, and supports debt-to-GDP reduction to 55.6%, strengthening sovereign rating stability.

### Tax Receipts (% of GDP)



Stable tax receipts as share of GDP underpin fiscal consolidation, support elevated capex, improve debt affordability, and strengthen India's sovereign credit profile and medium-term sustainability.

# Key Fiscal Indicators – Credit Perspective

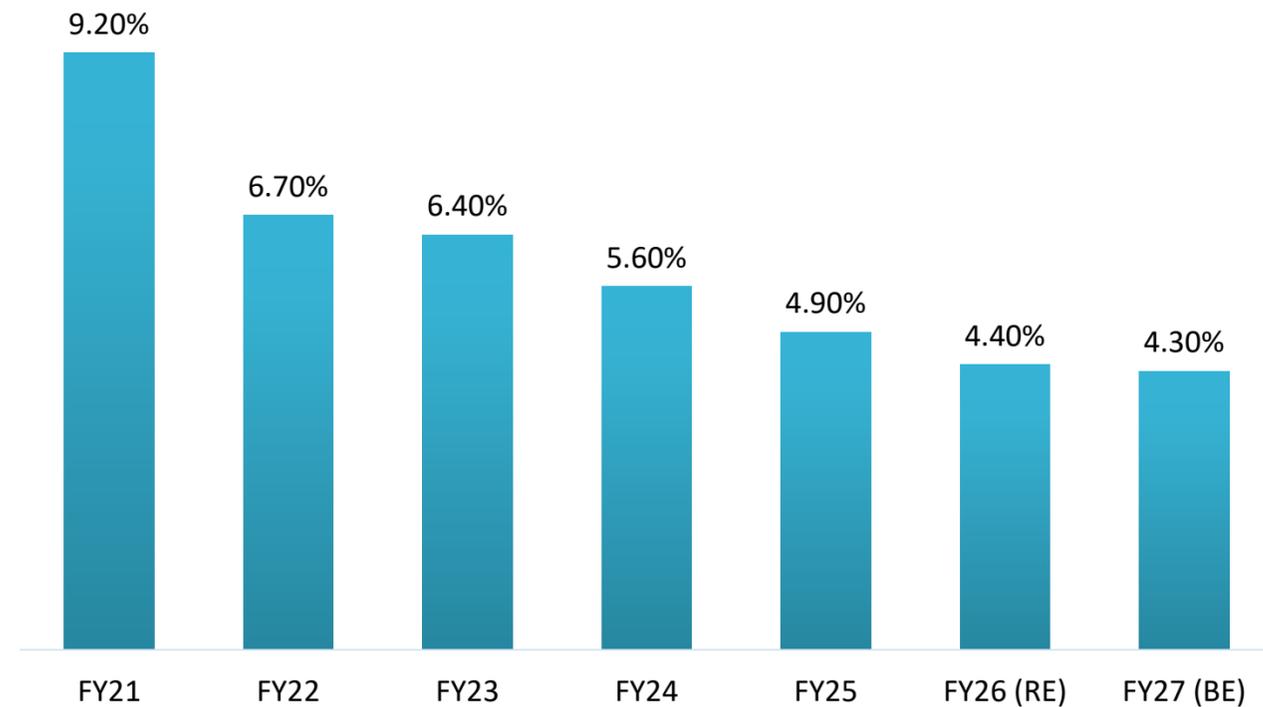
Indicator	Credit view	Implication
Total Expenditure	<b>Credit View: Growth-supportive with consolidation bias</b> Total expenditure growth balances fiscal consolidation with growth. The mix favors asset creation over consumption stimulus, which is medium-term credit-positive for sustainability.	<ul style="list-style-type: none"> <li>• Supports medium-term growth and revenue buoyancy</li> <li>• Limits structural slippage in deficit metrics</li> </ul>
Capex	<b>Credit View: Strong positive</b> Capex as policy anchor uses public investment to multiply growth, supporting infrastructure, productivity gains, and crowding-in of private investment.	<ul style="list-style-type: none"> <li>• Enhances medium-term GDP growth potential</li> <li>• Positive spillovers for infrastructure-linked sectors</li> <li>• Improves sovereign balance sheet quality</li> </ul>
Effective Capex	<b>Credit View: Positive, but execution-sensitive</b> Effective capex (including grants and loans for asset creation by states/PSUs) remains elevated, highlighting a broader public-sector investment push beyond the central budget.	<ul style="list-style-type: none"> <li>• Strengthens general government investment cycle</li> <li>• Credit-positive if execution by states/PSUs remains timely</li> <li>• Execution slippages remain a key watchpoint</li> </ul>
Revenue Receipts (excl. borrowings)	<b>Credit View: Improving quality</b> Revenue receipts show improved buoyancy, supported by steady tax collections and stable non-tax revenues. The emphasis remains on sustainable revenue sources rather than one-off measures	<ul style="list-style-type: none"> <li>• Supports fiscal consolidation</li> <li>• Reduces dependence on debt-funded expenditure</li> </ul>
Total Receipts (excl. borrowings)	<b>Credit View: Stable and predictable</b> Total receipts growth broadly tracks nominal GDP, indicating realistic assumptions and conservative budgeting.	<ul style="list-style-type: none"> <li>• Enhances credibility of fiscal math</li> <li>• Reduces risk of mid-year borrowing pressures</li> </ul>
Gross Tax Revenue	<b>Credit View: Structurally positive</b> Gross tax revenue growth reflects continued formalisation, compliance gains, and broad-based tax buoyancy, rather than rate-led tax increases.	<ul style="list-style-type: none"> <li>• Improves long-term revenue elasticity</li> <li>• Credit-positive for debt sustainability</li> </ul>
Net Tax Receipts	<b>Credit View: Neutral to mildly positive</b> After devolution to states, net tax receipts remain adequate to fund central priorities, though higher transfers limit discretionary fiscal space.	<ul style="list-style-type: none"> <li>• Reinforces cooperative federalism</li> <li>• Moderates central government fiscal flexibility</li> </ul>
Non-Tax Revenue	<b>Credit View: Stable but limited upside</b> Non-tax revenues (dividends, fees, spectrum-related inflows) provide steady support but remain secondary to tax revenues in scale and predictability.	<ul style="list-style-type: none"> <li>• Provides fiscal buffer</li> <li>• Limited structural impact on consolidation</li> </ul>
Fiscal Deficit (% of GDP)	<b>Credit View: Anchored to consolidation path</b> The fiscal deficit continues on a gradual consolidation trajectory, consistent with medium-term fiscal targets.	<ul style="list-style-type: none"> <li>• Supports sovereign rating stability</li> <li>• Signals policy commitment to debt reduction</li> </ul>

# Key Fiscal Indicators – Credit Perspective

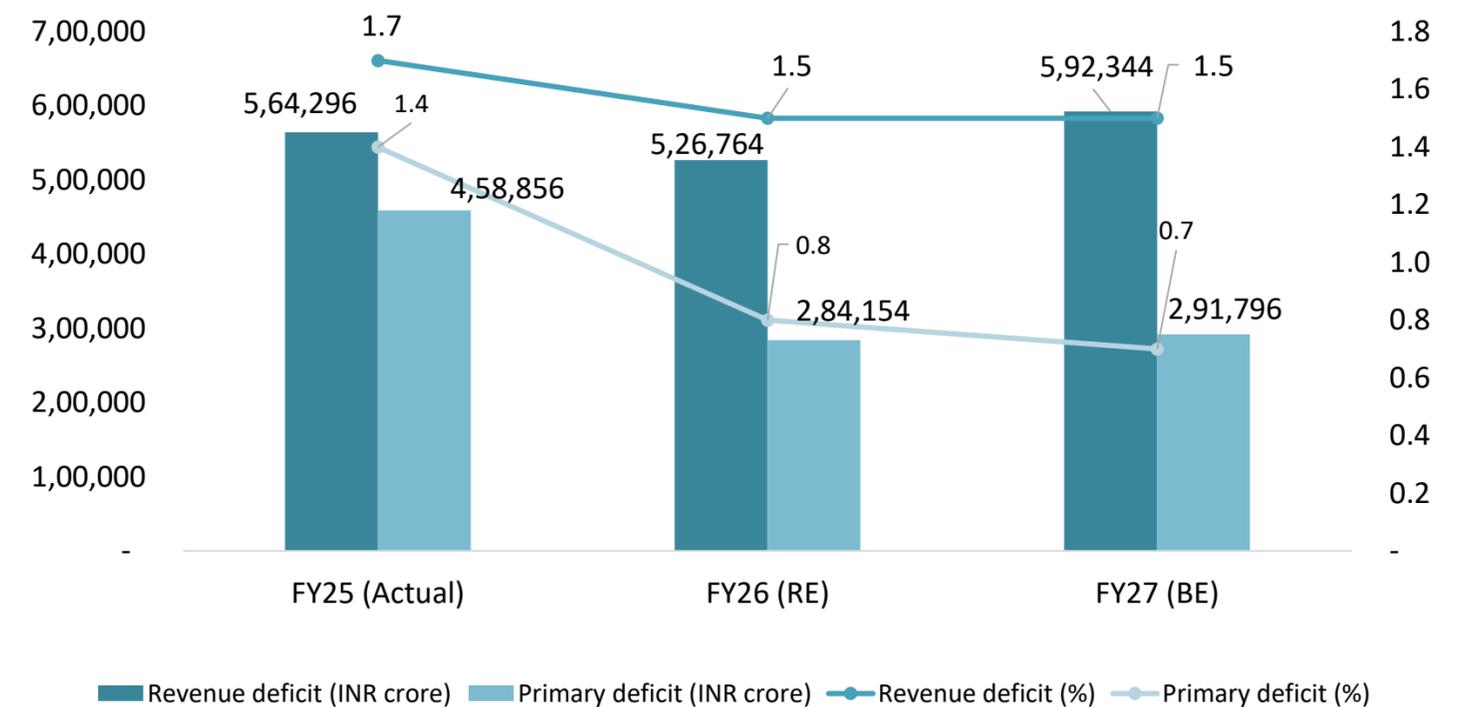
Indicator	Credit view	Implication
Fiscal Deficit (INR)	<b>Credit View: Manageable in nominal terms</b> In absolute terms, the deficit reflects scale effects of a growing economy rather than fiscal deterioration.	<ul style="list-style-type: none"> <li>• Borrowing needs remain elevated but manageable</li> <li>• Dependent on sustained nominal GDP growth</li> </ul>
Revenue Deficit (% of GDP)	<b>Credit View: Improving quality of deficit</b> A declining revenue deficit underscores a shift toward asset-creating expenditure rather than consumption.	<ul style="list-style-type: none"> <li>• Enhances fiscal quality</li> <li>• Credit-positive over medium term</li> </ul>
Primary Deficit (% of GDP)	<b>Credit View: Narrowing trend</b> A lower primary deficit indicates that fiscal consolidation is not driven solely by interest cost dynamics.	<ul style="list-style-type: none"> <li>• Strengthens debt sustainability metrics</li> <li>• Reduces vulnerability to interest rate shocks</li> </ul>
Interest Payments	<b>Credit View: Structural constraint</b> Interest payments remain a large share of revenue expenditure, reflecting accumulated debt stock.	<ul style="list-style-type: none"> <li>• Constrains fiscal flexibility</li> <li>• Makes growth and consolidation critical for credit metrics</li> </ul>
Total Transfers to States/UTs	<b>Credit View: Neutral for sovereign; positive for general government</b> Higher transfers strengthen state finances but reduce central fiscal maneuverability.	<ul style="list-style-type: none"> <li>• Supports capex at the sub-national level</li> <li>• Execution efficiency at states remains key</li> </ul>
Market Borrowings (Net)	<b>Credit View: Elevated but stable</b> Net market borrowings remain high in absolute terms but are aligned with deficit and redemption needs.	<ul style="list-style-type: none"> <li>• Requires sustained market confidence</li> <li>• Supported by deep domestic debt markets</li> </ul>
Total Borrowings & Liabilities	<b>Credit View: High stock, improving flow dynamics</b> Outstanding liabilities remain elevated, but incremental borrowing is increasingly growth-linked rather than consumption-driven.	<ul style="list-style-type: none"> <li>• Debt trajectory stabilises with growth</li> <li>• Medium-term consolidation remains essential</li> </ul>
Nominal GDP Growth Assumption	<b>Credit View: Realistic and achievable</b> Nominal GDP assumptions appear conservative and aligned with macro fundamentals, supporting revenue projections.	<ul style="list-style-type: none"> <li>• Enhances credibility of fiscal estimates</li> <li>• Limits downside risks to deficit outcomes</li> </ul>
Debt-to-GDP Ratio (Outstanding Liabilities)	<b>Credit View: Gradual moderation</b> The debt ratio is expected to stabilise and trend down gradually, contingent on sustained growth and fiscal discipline.	<ul style="list-style-type: none"> <li>• Credit-positive if consolidation persists</li> <li>• Sensitive to growth or interest rate shocks</li> </ul>

# India's fiscal deficit trend- Consistent glide path of consolidation post-COVID demonstrates fiscal credibility

Fiscal Deficit as % of GDP



Revenue and Primary deficit



Budget continues calibrated fiscal consolidation, balancing debt sustainability with growth imperatives effectively.



Roadmap intact: Deficit trajectory remains aligned with the medium-term fiscal consolidation path, reinforcing policy credibility.



Credit supportive: Improved deficit quality and manageable borrowing strengthen medium-term sovereign credit fundamentals.



Revenue deficit at 1.5% of GDP reflects improved buoyancy and expenditure discipline.



Primary deficit at 0.7% demonstrates sustainable fiscal position before interest payments.

1

Continued Fiscal Consolidation with Growth Orientation

- **Fiscal deficit target for FY27:** 4.3% of GDP — down from an estimated 4.4% in FY26, demonstrating a disciplined glide path toward lower deficits while maintaining growth momentum.
- The government has consistently reduced its deficit post-pandemic, signalling a long-term commitment to fiscal prudence without sacrificing investment-led growth.

2

Debt-to-GDP as Anchor Metric

- **Debt-to-GDP ratio:** Projected to decline to 55.6% in FY27 from 56.1% in FY26.
- Medium-term target: 50%  $\pm$ 1% by 2030-31—shifting focus to overall sovereign balance-sheet sustainability.
- Broader metric reflects strategic shift toward long-term debt management, supporting fiscal credibility and investor confidence.

3

Investment-Led Growth Within Disciplined Spending

- **Capital expenditure (Capex):** Increased to about INR 12.2 lakh crore for FY27, underscoring the priority on infrastructure and growth drivers even under fiscal consolidation.
- Capex remains a key engine of growth, crowding-in private investment and boosting productivity without worsening deficit trends.

4

Revenue and Borrowing Strategy

- **Net market borrowings** estimated at INR 11.7 lakh crore to finance the deficit, balancing financing needs with stable debt metrics.
- Higher revenue buoyancy (tax and non-tax receipts) assists in narrowing gaps and supports the consolidation roadmap.

5

Quality Over Quantity in Expenditure

- Focus on effective capital formation rather than higher revenue spending, helping improve the quality of public finances.
- Fiscal strategy emphasises sustained investment (productive outlays) over consumption spending, enabling long-run growth without fiscal stress.

**Balanced fiscal consolidation:** The 2026-27 Budget lays a disciplined fiscal roadmap with a gradual reduction in deficits and a clear shift toward managing debt-to-GDP as a core anchor. This strategy supports sustainable, investment-led growth through high capital expenditure and improved revenue buoyancy while strengthening India's macroeconomic credibility over the medium term.

# Borrowing programme and debt market implications

FY27 gross market borrowing of INR 17.2 lakh crore reflects marginal increase, primarily for rollover and capex funding. Net borrowings decline as GDP share, indicating improved debt dynamics. Elevated absolute levels remain manageable within credible fiscal consolidation framework, supporting sovereign rating stability.



## Reform-Focused Policy Direction

Budget emphasised "reform over rhetoric" with 350+ measures spanning GST simplification, labour codes, compliance reduction, and deregulation to boost ease of doing business and productivity.

01



## Growth with Guardrails

Growth initiatives balanced with fiscal discipline—high public capex of INR 12.2 lakh crore continues decade-long infrastructure push for long-term growth multipliers.

02



## Fiscal Discipline & Macro Stability

Fiscal deficit targeted at 4.3% of GDP for FY27 with policy shift to debt-to-GDP management, reinforcing macro stability and long-term sovereign balance sheet health.

03



## Capex-Led Growth with Quality

High-speed rail, freight corridors, waterways, and city-economic regions to reduce logistics costs, supported by Infrastructure Risk Guarantee Fund for private capital mobilisation.

04



## Manufacturing & Strategic Reforms

India Semiconductor Mission 2.0, rare-earth corridors, chemical parks, and biopharma ecosystems build indigenous capacity, while MSME reforms foster "Champion MSMEs" through liquidity and scale-up support.

05



## Tax & Regulatory Simplification

Tax compliance reforms—lower TCS, extended filing windows, and automation—support trust-based framework and competitiveness through reduced friction and rationalised duties.

06



## Inclusive development

Guided by three kartavyas: accelerating sustainable growth, fulfilling people's aspirations and capacities, and ensuring inclusive development (Sabka Sath, Sabka Vikas).

07

## Tax revenue performance

Category	FY26 (RE) Growth	FY27 (BE) Growth
Gross Tax Revenue	7.4%	8.0%
Direct Taxes	8.9%	11.4%
– Corporate Income Tax	12.4%	11.0%
– Personal Income Tax	6.2%	11.7%
Indirect Taxes	5.3%	1.9%
– Goods and Services Tax (GST)	1.9%	-2.6%
– Union Excise Duties	12.1%	15.6%

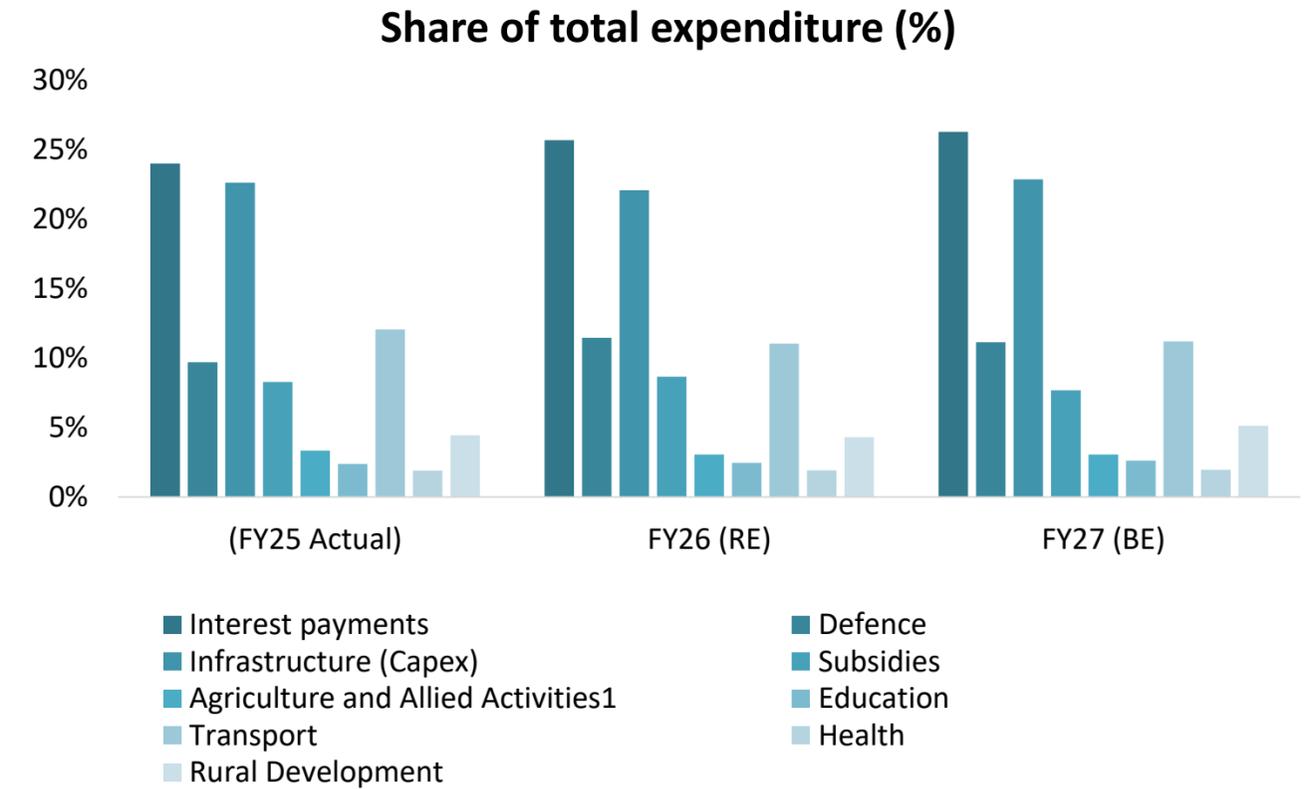
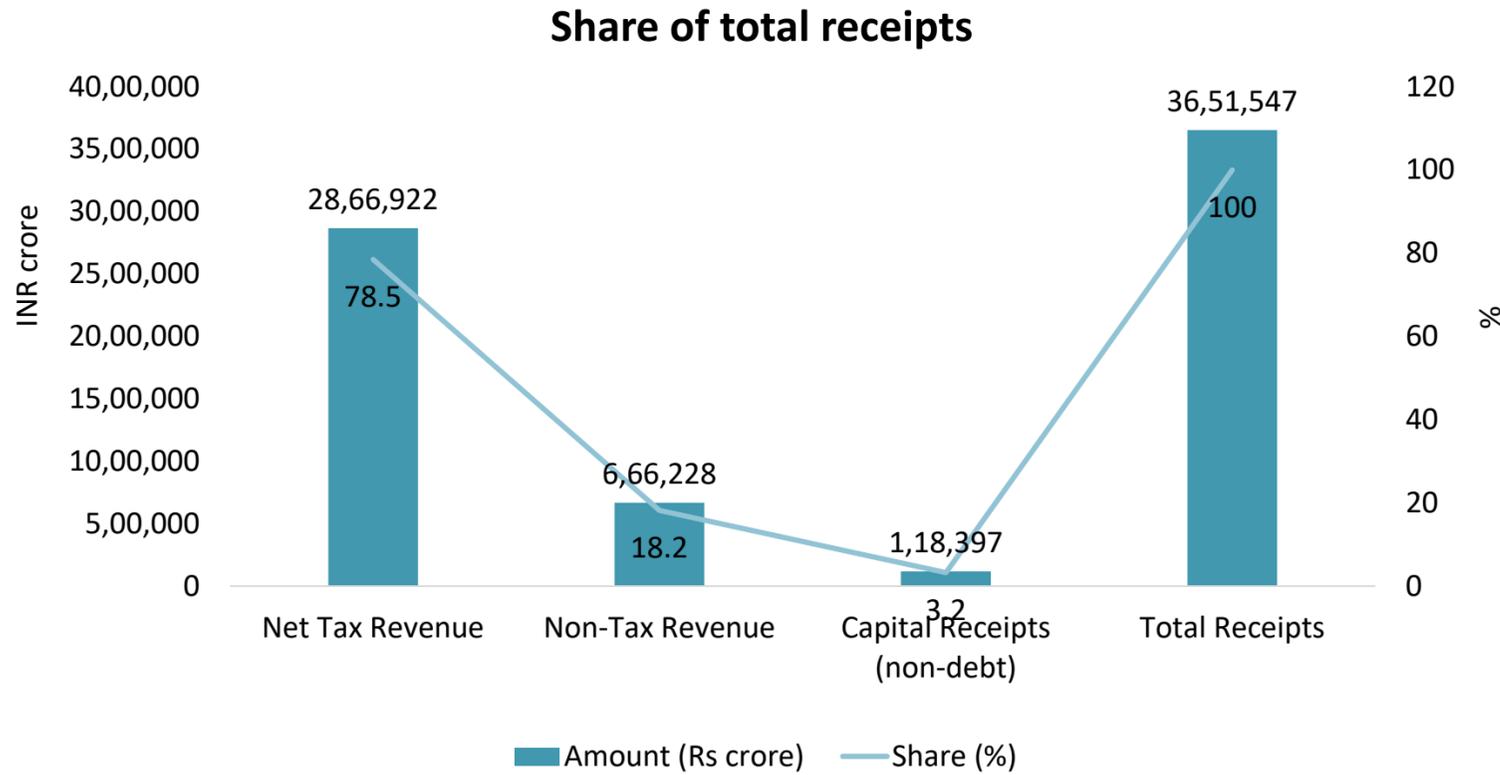
### Outlook

- Revenue growth is structural, driven by improved GST compliance, formalization, and digitized tax administration.
- Underlying tax base expansion reduces risk of sharp revenue underperformance despite growth cycle sensitivity.
- INR 800 billion disinvestment target remains ambitious, representing key downside risk to non-debt capital receipts.

### Credit Rating Implications: Positive

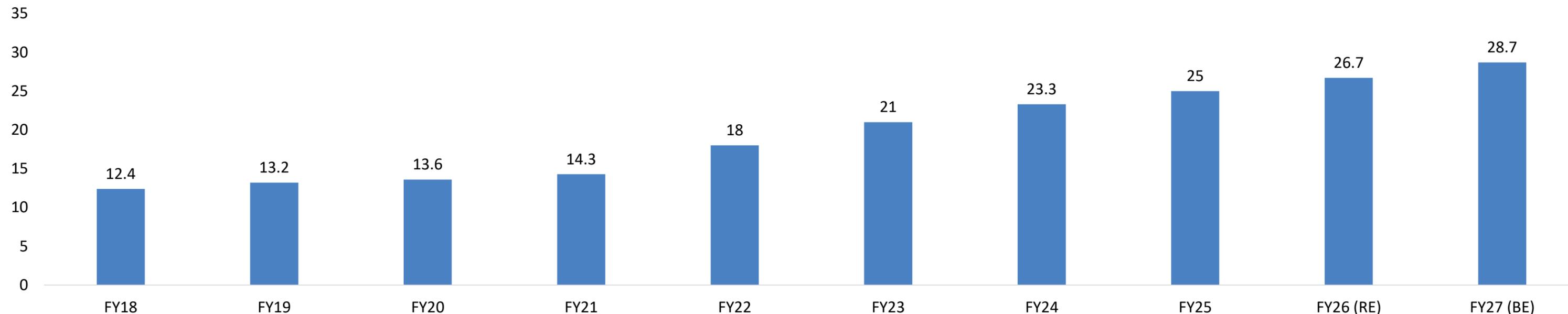
- Continued dominance of direct taxes improves revenue quality.
- GST stability enhances predictability and Centre-State fiscal coordination.
- Absence of aggressive tax measures supports growth and compliance

# Breakdown of total receipts and expenditure



- Net tax revenue (net of devolution to states) is the largest source, accounting for nearly four-fifths of total receipts.
- Nearly half the budget goes into interest payments and infrastructure, showing a balancing act between managing past obligations and building future capacity. This highlights the fiscal challenge: nearly **40% of revenue receipts** are absorbed by servicing debt, limiting fiscal space for development.
- Nevertheless, the increasing share for **capital outlays** supports long-term productivity and employment generation. Defence and social spending together account for a meaningful share but are smaller compared to debt servicing and capex.
- Subsidy spending remains controlled, consistent with policy emphasis on efficiency and targeted delivery.

Tax revenue growth (Net tax receipts) (in lakh crore)



- Net tax receipts are projected to grow by 7–8% in FY2026-27 over FY2025-26.
- The moderation in growth reflects slower GST growth and previously granted tax relief measures, offset by higher direct and corporate tax expectations.
- Stronger nominal GDP assumption underpins confidence in tax revenue growth supporting fiscal projections.

- **STT hike details:** Union Budget 2026-27 raised STT on futures to 0.05% (from 0.02%), options premium/exercise to 0.15% (from 0.10%/0.125%); cash equity rates unchanged—aims to curb speculation and boost revenue.
- **Market impacts:** Increases transaction costs, likely reducing intraday/derivatives volumes (hitting retail traders hardest) and short-term liquidity, but minimal effect on long-term institutional flows.
- **Credit rating benefits:** Enhances revenue buoyancy and predictability, supports FY27 deficit target of 4.3% GDP with low admin costs, bolstering sovereign fiscal metrics and debt sustainability.

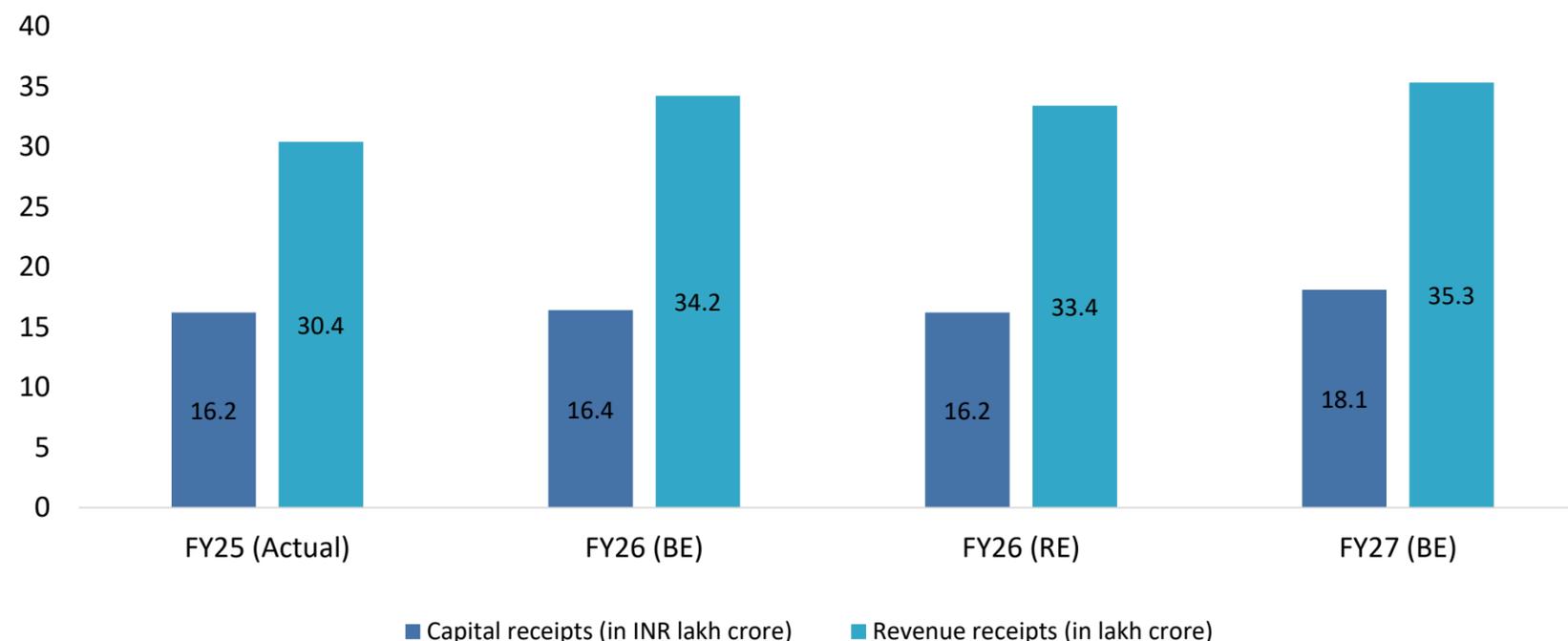
# Disinvestment targets at INR 80,000 crore - Execution will define fiscal credibility

- The Union Budget 2026-27 has set an ambitious disinvestment and asset monetisation target of INR 80,000 crore for FY27, a sharp 136% jump over the revised estimate of INR 33,800 crore in FY26
- This ambition underscores renewed focus on PSU stake sales and asset monetization amid fiscal consolidation, though historical shortfalls raise questions on execution and its impact on fiscal credibility
- This aggressive target reflects the government’s renewed push to fund capital expenditure and reduce fiscal dependence on borrowings, but execution risks remain given repeated shortfalls in past years.
- Positive:** Successful realisation would reduce reliance on market borrowings and strengthen fiscal metrics.
- Negative/Risk:** Repeated shortfalls erode confidence in budget projections and raise concerns about realistic revenue forecasts — a key credit market consideration.

Fiscal Year	Budget Estimate (INR crore)	Revised Estimate (INR crore)	Actual Realisation (INR crore)	
FY24	51,000	-	-	
FY25	50,000	40,000	10,200	
FY26	51,000	around 33,800	around 8,800 (till Jan 2026)	
FY27	-	-	-	Target: 80,000

# Capital and revenue receipts - reducing borrowing pressure, strengthening fiscal credibility

## Revenue buoyancy and asset monetization support sovereign credit”

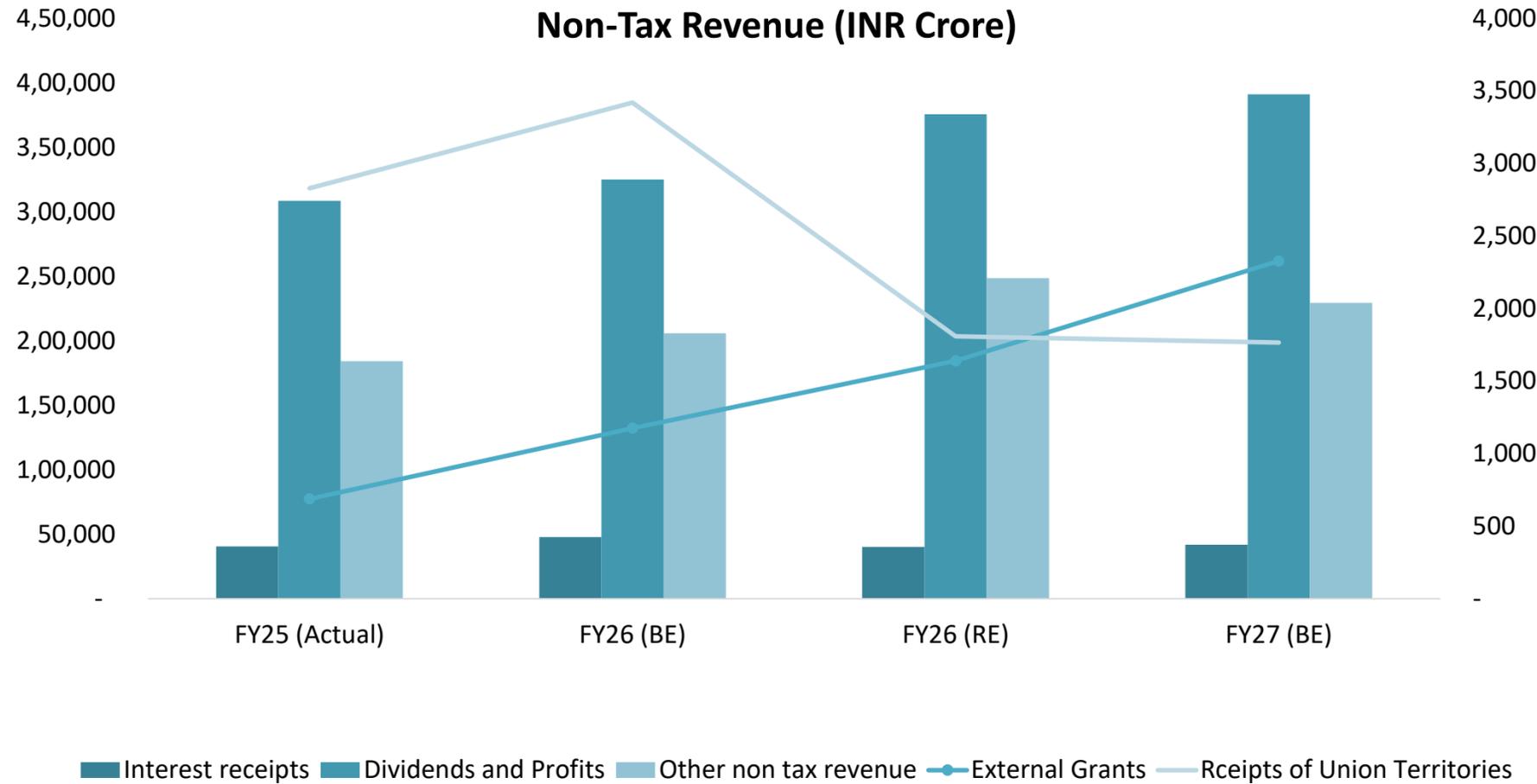


- Revenue receipts dominate the non-debt financing mix, driven by tax collections and non-tax sources.
- Capital receipts expected to rise sharply, led by disinvestment & asset monetization — a key fiscal lever.
- Balanced financing strategy — combining revenue strength, capital receipts and borrowings — supports fiscal consolidation and capex goals.
- Budget 2026–27 balances fiscal prudence with growth needs — higher revenue receipts and disciplined capital receipts improve sovereign credit outlook, while borrowings remain manageable.

### Credit implications

- Budget 2026-27 strengthens fiscal credibility through revenue buoyancy and targeted capital receipts, supporting debt sustainability and a stable sovereign credit profile.
- Positive for sovereign credit profile: revenue buoyancy and predictable capital receipts enhance fiscal credibility
- Reduces contingent liability risk by relying on asset monetisation instead of off-budget financing
- Supports stable funding environment for banks, NBFCs, and infrastructure financiers
- Credit differentiation arises if revenue growth underperforms or disinvestment targets are missed

# Non-tax revenues: Dividends driving discipline



### Credit implications

- Credit-positive for sovereign fiscal profile due to enhanced revenue diversification and predictable inflows
- Reduces dependence on market borrowings, improving debt sustainability metrics
- Enhances market confidence, lowering borrowing costs and volatility in interest rates
- Sensitivity remains if CPSE dividends, asset monetisation, or auction proceeds underperform

- India's Union Budget 2026-27 estimates non-tax revenue at INR 6.66 lakh crore. This forms roughly 10% of total government receipts excluding borrowings. Dividends lead via RBI surplus and PSU efficiencies; interest grows modestly from state/loan recoveries.
- Budget 2026-27's emphasis on non-tax revenues strengthens fiscal flexibility and liquidity, supporting debt sustainability and a stable sovereign credit profile.

## Stability & Predictability in Tax Structure

- No change in income tax slabs or core tax rates for FY 2026-27 — providing certainty and planning stability for individuals and businesses
- Focus shifted away from headline rate changes toward structural and procedural reform

## New Income Tax Act — Simplification & Clarity

- A new simplified Income Tax Act, 2025 will come into effect from 1 April 2026, aimed at easier interpretation and reduced litigation.
- Simplified rules and forms reduce compliance complexity and support transparent administration.

## Ease of Compliance & Voluntary Compliance

- Return revision deadline extended to 31 March (from 31 December) with nominal fee, enabling timely error rectification.
- Automated process for lower/nil TDS certificates for small taxpayers reduces administrative burden.
- Staggered ITR filing deadlines clarify timelines for individuals, businesses and trusts.

## Targeted Tax Relief & Efficiency Enhancements

- Interest from Motor Accident Claims Tribunal awards made fully tax-exempt with no TDS, improving cash flows for beneficiaries.
- TCS rates reduced for overseas tour packages, education and medical remittances under LRS to 2% — easing cost burdens.
- TDS on manpower supply services standardised at 1%/2%, easing compliance for labour-intensive sectors.

## Non-Resident & Foreign Asset Measures

- One-time disclosure window for small foreign assets with immunity provisions encourages reporting and reduces deterrents.
- Changes in TDS deposit procedures for non-resident property sellers reduce procedural complexity.

## MAT & Capital Gains Taxation

- MAT (Minimum Alternate Tax) proposed as a final tax with reduced rate (14%), with limited MAT credit utilisation in new regime — less future litigation.
- Share buyback gains taxed as capital gains for all shareholders, with additional buyback tax on promoters — strengthening equity fairness.

## Customs duty rationalisation (Indirect taxes)

### Tariff simplification & sector support

- **Marine, leather & textiles:** Duty-free import limits for specified export inputs raised from 1% → 3% of FOB value to boost exports & reduce input cost.
- **Energy transition:** Continued Basic Customs Duty (BCD) exemption on capital goods for Li-ion cell/battery manufacturing and sodium antimonate (solar glass).
- **Nuclear power:** BCD exemptions extended up to 2035 to support long-term capacity build-up.
- **Critical minerals:** BCD exemption on capital goods for processing to expand domestic value addition in strategic materials.
- **Aviation & electronics:** BCD exemptions on key aircraft parts & MRO inputs, and selected electronics components to attract investment.

### Consumer & compliance relief

- **Personal imports:** Duty on dutiable personal goods cut from 20% → 10% to lower travel/consumption tax burden.
- **Medicines:** BCD exempted on 17 cancer & select rare disease drugs.

## GST & other indirect tax process improvements

- **GST refund simplification:** Threshold for export refund claims removed and processes streamlined for faster cashflow support.
- **GST valuation & compliance clarity:** Amendments to valuation (post-sale discounts), place of supply, and procedural clarity to lower disputes & litigation.

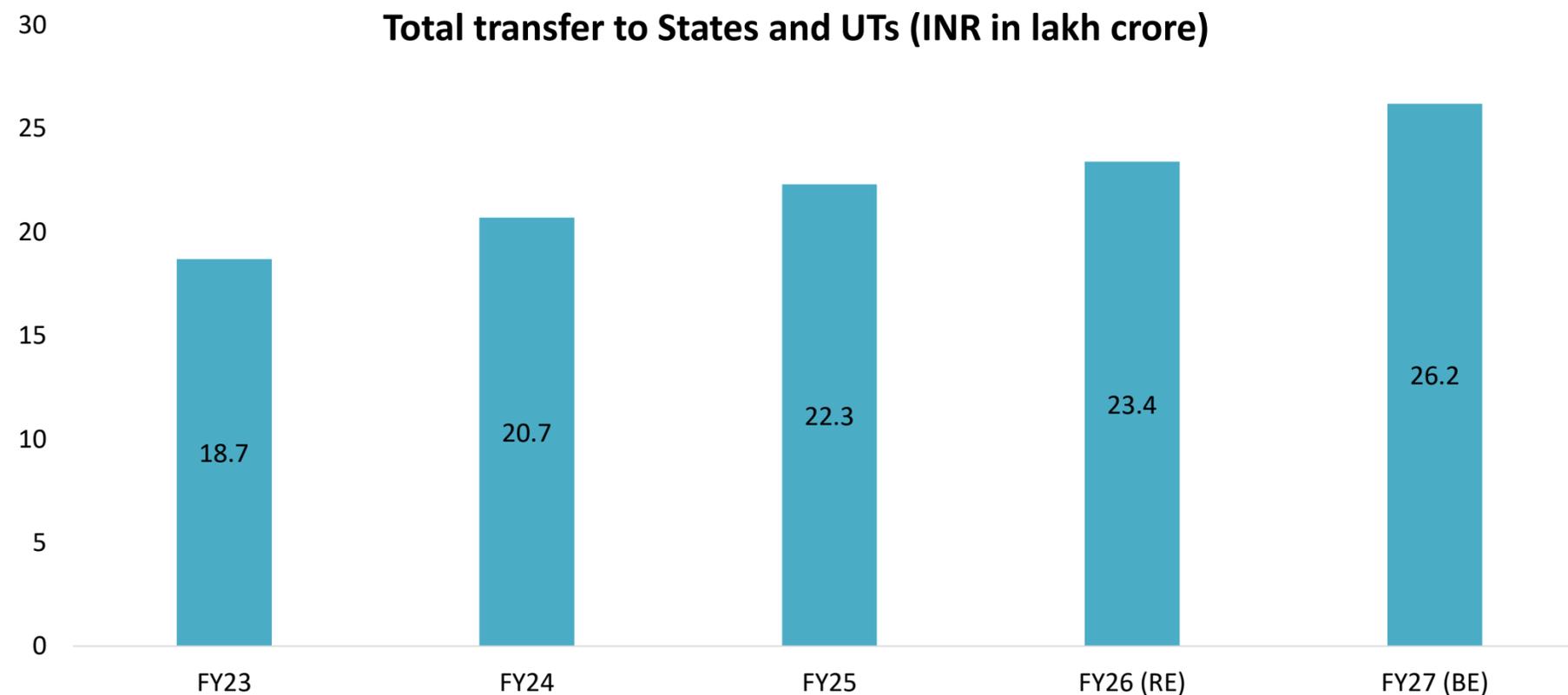
## GST & other indirect tax process improvements

- Facilitating smoother trade & lower cost of compliance
- Advance rulings: Validity extended from 3 → 5 years — improves planning certainty for importers/exporters.
- AEO (Authorised Economic Operator): Duty deferral period extended to 30 days for Tier-2/3 AEOs.
- Courier & e-commerce exports: INR 10 lakh consignment value cap removed to boost parcel-based exports.
- Marine export inputs: Higher duty-free import limits support competitiveness of seafood exports.
- Customs process reforms: Push towards trust-based, digital customs clearance, risk-based audits, and integrated systems to reduce physical intervention and transaction costs.

### Strategic impacts:

- ✓ Export competitiveness: Duty rationalisation enhances global competitiveness.
- ✓ Ease of Doing Business: Reduced compliance costs.
- ✓ Domestic value addition: Exemptions support priority manufacturing.

# State transfers: INR 26.21 trillion surge in FY27, up 12% y-o-y



## Credit implications

- Positive for state finances: Higher transfers improve liquidity and reduce borrowing needs.
- Positive for infrastructure & social sectors: Grants support state-level projects, strengthening credit outlook for contractors and service providers.
- Neutral for sovereign credit: Transfers are budgeted within fiscal consolidation path, balancing central and state needs.
- Risks: Execution capacity varies across states; fiscal discipline at state level remains uneven.

- The total transfers to States and Union Territories (UTs) in Budget 2026-27 are projected at INR 26.21 lakh crore, marking a 12.2% increase over the FY26 revised estimate, reinforcing fiscal federalism amid the Viksit Bharat vision.
- Tax devolution remains the dominant channel of Centre-to-State transfers, reinforcing predictable revenue flows for states:
  - States' share in Central Taxes: INR 15.3 lakh crore
  - Grants & Other Transfers: INR 10.9 lakh crore

# Sectoral impact summary matrix

Sector/Theme	Budget Stance	Headline impact (qualitative)
Agriculture & allied	Neutral	Productivity, quality and resilience focus; fertiliser support trimmed.
Infrastructure & logistics	Positive	Strong capex, multimodal connectivity, housing push.
Energy and green transition	Positive	Grid, storage, green hydrogen, BESS, CCUS supported.
Manufacturing (incl. PLI)	Positive	Seven-pillar strategy, sector-specific schemes, tariff tweaks.
MSMEs	Positive	Liquidity, equity, TReDS-linked reforms, EPM support.
Tourism	Neutral	Thematic & medical tourism push; execution challenge remains
Banking & NBFCs	Neutral/positive	MSME liquidity architecture, infra guarantee fund, PS NBFC scale-up.
Capital markets	Neutral/positive	Market-making in corporate bonds, municipal bonds incentives.

# Sector-wise impact & credit implications

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## Capex-led growth with fiscal discipline - credit positive

### Key budget measures: Capex corridors: building growth foundations

- Public capital expenditure increased to INR 12.2 lakh crore to sustain growth momentum.
- Infrastructure Risk Guarantee Fund to provide partial credit guarantees for private developers and lenders, aimed at de-risking large projects.
- Dedicated freight corridors, 20 new national waterways and high-speed rail corridors to strengthen logistics connectivity.
- New schemes to boost construction & infrastructure equipment (CIE) and container manufacturing (INR 10,000 crore) to enhance domestic capital goods competitiveness.
- High-quality capex in Union Budget 2026-27 boosts potential growth—a key sovereign credit mitigator—while lower logistics costs drive medium-term revenue buoyancy and debt sustainability.
- Balanced financing curbs contingent liabilities, strengthening fiscal credibility for sovereign and sub-sovereign ratings and reducing execution risks for infrastructure developers.
- Overall, the budget's infrastructure push remains credit-positive, aligning growth enhancement, revenue support, and fiscal consolidation.

### Credit implications

- Sustained infrastructure spend should bolster order books for EPC contractors, capital goods OEMs and ancillary sectors (steel, cement, equipment finance).
- Availability of partial credit guarantees may mitigate execution risks, lower project financing costs, and improve debt service coverage.

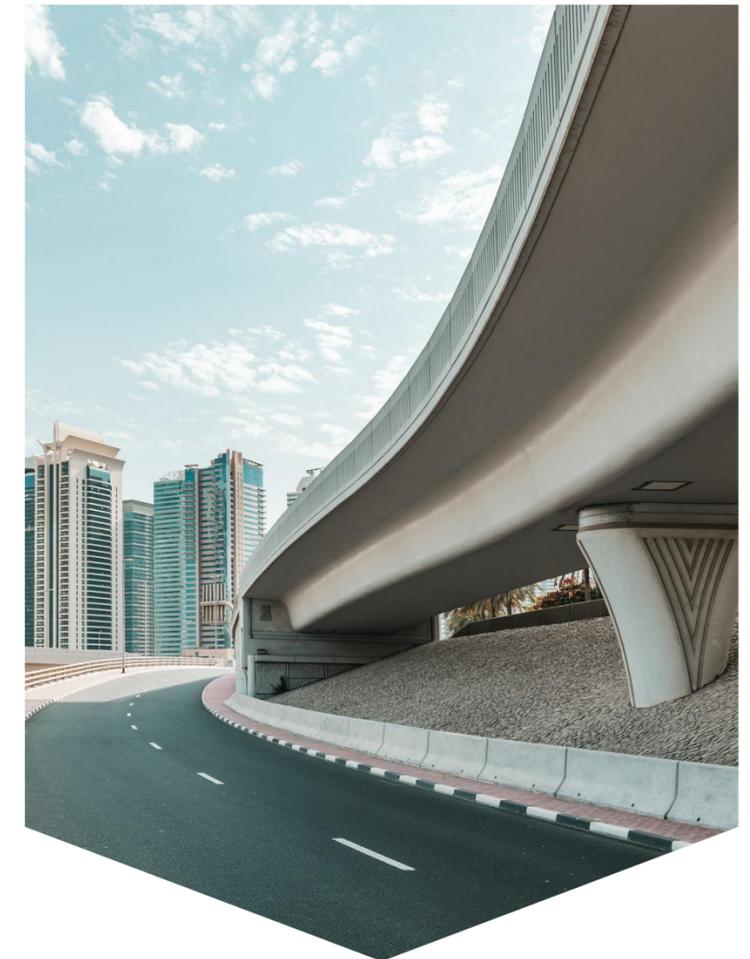
### Risks & Challenges

- Execution bottlenecks (land, clearances) remain; stress can persist in small contractors with weak balance sheets.
- Higher capex could increase sovereign and sub-sovereign borrowings, impacting risk premia.

# Capex by key infrastructural ministries

Ministry	FY26RE (INR crore)	FY27BE (INR crore)	Growth (%)
Road Transport & Highways (total)	281,628	304,246	8.0
Railways (total)	265,000	292,830	10.5
Ports, Shipping & Waterways	15,811	15,698	-0.7
Rural Development	126,964	194,134	52.9
Housing & Urban Affairs	115,709	145,064	25.4
Power	103,479	122,856	18.7
New & Renewable Energy	59,432	72,113	21.3

- Capex concentration in high-multiplier sectors increases efficiency of public spending.
- Infrastructure build-out reduces logistics costs, improving competitiveness, and remains a durable growth anchor.



# Manufacturing & industrial policy: Strengthening growth drivers with contained fiscal risk

## Frontier push: from legacy to high-tech

### Key budget measures:

- Launch of India Semiconductor Mission 2.0 with increased focus on equipment, materials and IP development.
- Electronics Components Manufacturing Scheme (ECM) outlay boosted to INR 40,000 crore.
- Biopharma Shakti programme to boost domestic drug manufacturing.
- Schemes for construction & infrastructure equipment (CIE) and container manufacturing (INR 10,000+ crore).
- Revive and upgrade legacy industrial clusters with technology and infrastructure aid.
- Scaling up seven strategic and frontier sectors (semiconductors, defence, EVs, green hydrogen, etc.).
- National Fibre Scheme for self-sufficiency in textiles and allied industries.
- New Hi-Tech Tool Rooms under CPSEs and integrated textile programmes also unveiled.
- Manufacturing & industrial policy measures in Budget 2026-27 are credit-positive, as they support durable growth, export competitiveness and fiscal sustainability without materially increasing sovereign risk
- Expansion of PLI schemes and R&D incentives strengthen high-tech industries, while modernization support rejuvenates legacy sectors, enhancing competitiveness and credit resilience.

### Credit implications

#### Growth Opportunities

- Enhanced incentives and capital support strengthen import substitution and global competitiveness, improving profitability prospects for domestic manufacturers.
- Scale up in technology, semiconductor and electronics segments can lead to higher capex cycles and export diversification.

#### Risks & Challenges

- Execution risk in nascent high-tech segments may temper near-term cash flows until global supply chain integration improves.
- Dependence on global technology partners can expose firms to external demand shocks.

## Budget 2026-27 strengthens PSBs, consolidates NBFCs, and accelerates fintech integration.

### Key budget measures - reshaping India's credit ecosystem with resilience and scale:

- **Banking sector:** The budget announces a high-level committee on Banking for Viksit Bharat to review reforms and chart a roadmap aligned with India's medium-term growth ambitions. Public sector banks will receive fresh capital buffers to strengthen capital adequacy, reduce systemic risk, and enhance financial stability. Credit delivery will also be better aligned with infrastructure, MSMEs, and other growth-critical sectors, reinforcing banks' role as growth enablers while supporting sovereign and financial sector stability.
- **NBFCs:** Smaller NBFCs will be merged into larger, sovereign-backed entities to achieve scale, access cheaper capital, and improve technology-driven efficiency. As a result, larger NBFCs will emerge as key credit engines for MSMEs, infrastructure, and long-term financing, while smaller players face diminishing relevance.
- **Fintech & Digital Finance:** The budget promotes faster technology adoption in banking and fintech under regulatory oversight to improve efficiency, innovation, and credit access for underserved MSMEs and rural borrowers. At the same time, stricter compliance norms for NBFCs and fintechs aim to safeguard systemic stability and mitigate risks in an increasingly digital financial ecosystem.
- Budget 2026-27 announcements are neutral-to-credit positive for financial services and NBFCs, supporting credit growth through policy stability, risk-sharing mechanisms and macro tailwinds, without elevating fiscal or regulatory risks. Stronger PSB capital adequacy, fintech integration, and NBFC credit access reduce systemic risk and broaden financial inclusion, supporting stable credit outlooks.

### Credit implications

- Neutral-to-credit positive for financial services and NBFCs
- Supports earnings visibility, funding access and asset quality stability
- No material increase in sovereign contingent liabilities or systemic risk
- Credit differentiation persists across NBFCs based on underwriting & ALM discipline

### Risks & Challenges

- Continuation of high capex can lead to elevated borrowing and credit demand, challenging asset quality if project delays occur.
- NBFCs with concentrated real estate and infra exposure remain sensitive to interest rate shifts.

# Real estate and urban infra boost for real estate credit

Headline	Budget announcements	Credit implications
<b>Government Infra Push — Engine for Real Estate Demand</b>	<ul style="list-style-type: none"> <li>Capital expenditure rose to INR 12.2 lakh crore, prioritizing urban infrastructure, transport connectivity, and logistics to drive housing and commercial demand.</li> </ul>	<ul style="list-style-type: none"> <li>Improved infrastructure lowers execution timelines and enhances project viability; supports demand growth &amp; collateral values for developers and lenders</li> </ul>
<b>City Economic Regions (CERs): New Growth Clusters</b>	<ul style="list-style-type: none"> <li>CER initiative with annual support of INR 5,000 crore per region over 5 years to boost integrated development of urban clusters outside traditional metros.</li> </ul>	<ul style="list-style-type: none"> <li>Boosts diversified residential, retail, office &amp; hospitality demand; spreads risk across broader urban catchments.</li> </ul>
<b>Infrastructure Risk Guarantee Fund</b>	<ul style="list-style-type: none"> <li>New Infrastructure Risk Guarantee Fund to offer partial credit guarantees to lenders and investors in real estate and construction projects</li> </ul>	<ul style="list-style-type: none"> <li>Enhances lender confidence and reduces risk perception of long-tenor financing.</li> <li>Potential to improve project credit profiles and reduce funding costs for developers.</li> </ul>
<b>REITs &amp; Asset Monetisation</b>	<ul style="list-style-type: none"> <li>Policy support for dedicated CPSE REITs to monetise public sector real estate assets</li> </ul>	<ul style="list-style-type: none"> <li>Improves liquidity &amp; investor participation in real estate through institutional flows. Supports balance sheet restructuring for large property owners.</li> </ul>
<b>Housing Segment &amp; Connectivity Impact</b>	<ul style="list-style-type: none"> <li>Despite limited housing tax incentives, infrastructure-led policies are expected to drive residential absorption in emerging markets. High-speed rail and urban mobility projects will expand housing catchments and create new micro-markets.</li> </ul>	<ul style="list-style-type: none"> <li>Peripheral housing &amp; mixed-use projects likely to perform well as connectivity expands.</li> <li>Banks and housing finance companies may see improved asset quality in these segments over time.</li> </ul>
<b>Indirect enablers</b>	<ul style="list-style-type: none"> <li>Investment in freight corridors, waterways, and urban utilities will support industrial and logistics real estate. Balanced urbanisation will ease pressure on core metros and unlock growth across city tiers.</li> </ul>	<ul style="list-style-type: none"> <li>Logistics parks, warehousing and mixed-use developments benefit from improved spatial connectivity and diversified demand.</li> </ul>

Headline	Budget announcements	Credit implications
<b>Historic healthcare budget allocation</b>	<ul style="list-style-type: none"> <li>The healthcare budget crossed INR 1 lakh crore for the first time, reflecting prioritisation of health systems strengthening across prevention, care delivery and workforce expansion.</li> </ul>	<ul style="list-style-type: none"> <li>Higher public outlays improve funding certainty and reduce dependency on ad-hoc spending, strengthening the credit outlook for healthcare service providers.</li> </ul>
<b>Biopharma SHAKTI — new growth engine</b>	<ul style="list-style-type: none"> <li>INR 10,000 crore Biopharma SHAKTI mission over five years to build an end-to-end biopharma ecosystem — covering biologics, biosimilars, clinical research, manufacturing and regulation.</li> </ul>	<ul style="list-style-type: none"> <li>Improves long-term growth visibility for pharma manufacturers and their supply chains.</li> <li>Drives higher capex and tech adoption, potentially strengthening credit profiles for strong executors.</li> </ul>
<b>Strengthening clinical research &amp; regulatory framework</b>	<ul style="list-style-type: none"> <li>Establish a nationwide network of 1,000 accredited clinical trial sites to accelerate drug R&amp;D and global competitiveness.</li> <li>Strengthen the drug regulator with a scientific review cadre to align approvals with global timelines.</li> </ul>	<ul style="list-style-type: none"> <li>Improved regulatory efficiency and infrastructure reduce time-to-market risk and support higher valuation and investability of pharma firms.</li> </ul>
<b>Human capital &amp; allied health expansion</b>	<ul style="list-style-type: none"> <li>Expand AHP training across key disciplines to scale the health workforce, targeting 1 lakh AHPs over five years.</li> <li>Upgrade medical education and establish centres for clinical exposure and research.</li> </ul>	<ul style="list-style-type: none"> <li>Strengthened healthcare workforce improves service quality, reduces operational risk for hospitals/diagnostic chains and enhances long-term capacity utilisation.</li> </ul>
<b>Making medicines affordable</b>	<ul style="list-style-type: none"> <li>Full customs duty exemption on 17 life-saving cancer drugs and therapies, and extended duty relief for medicines for rare diseases — expected to reduce prices meaningfully.</li> </ul>	<ul style="list-style-type: none"> <li>Supports demand growth for domestic pharma products.</li> <li>Potential margin pressure for import-dependent players; opportunity for domestic manufacturers to expand share.</li> </ul>
<b>Regional medical hubs &amp; traditional medicine focus</b>	<ul style="list-style-type: none"> <li>Creation of 5 regional medical hubs (public-private) integrating care delivery, research and medical tourism.</li> <li>Establishment of new All India Institutes of Ayurveda and upgrading AYUSH infrastructure.</li> </ul>	<ul style="list-style-type: none"> <li>Diversifies healthcare demand across services, wellness, and value tourism, improving credit prospects for specialty care and AYUSH players.</li> <li>Supports financing growth in ancillary healthcare infrastructure (diagnostics, pharma distribution, medical equipment).</li> </ul>

# MSMEs and Services: strengthening the financial rails

Headline	Budget announcements	Credit implications
<b>Focus on Scaling MSMEs</b>	<ul style="list-style-type: none"> <li>• INR 10,000 crore SME Growth Fund: Dedicated equity support to help high-potential MSMEs scale into future “champions”.</li> <li>• INR 2,000 crore top-up to the Self-Reliant India Fund: Continued risk-capital support for micro enterprises.</li> </ul>	<ul style="list-style-type: none"> <li>• These funds mark a shift toward equity support alongside traditional credit — important for long-term capacity building and reduced credit reliance.</li> </ul>
<b>Enhancing Liquidity &amp; Credit Access</b>	<p><b>TReDS Reforms:</b></p> <ul style="list-style-type: none"> <li>• Mandate all CPSE purchases from MSMEs to be settled via TReDS for faster payments.</li> <li>• Credit Guarantee Support (CGTMSE) extended for invoice discounting.</li> <li>• TReDS receivables tradable as asset-backed securities to deepen finance markets</li> </ul>	<ul style="list-style-type: none"> <li>• Improves working capital flows, shortens cash conversion cycles and reduces reliance on costly short-term credit.</li> </ul>
<b>Ease of Compliance &amp; Professional Support</b>	<ul style="list-style-type: none"> <li>• <b>Corporate Mitras Initiative:</b> A new cadre of trained para-professionals to help MSMEs with compliance, accounting, governance and regulatory processes, especially in Tier II/III towns.</li> </ul>	<ul style="list-style-type: none"> <li>• This initiative addresses support gaps and reduces compliance costs — a structural boost to formalisation and creditworthiness.</li> </ul>
<b>Services Sector Recognised as Growth Engine</b>	<ul style="list-style-type: none"> <li>• Budget prioritizes IT &amp; ITES, tourism, AVGC, healthcare, sports, and digital content as key growth and job drivers.</li> </ul>	<ul style="list-style-type: none"> <li>• Services account for a large share of India’s GDP and employment; policy attention supports demand stability and job creation.</li> </ul>
<b>Structural &amp; Market-Access Enhancements</b>	<ul style="list-style-type: none"> <li>• <b>Export &amp; Foreign Demand Support:</b> Removal of the consignment value cap on courier exports to boost small enterprise exports. Legacy Cluster Revival: Revitalisation of 200 industrial clusters supporting MSME supply chains.</li> </ul>	<ul style="list-style-type: none"> <li>• These measures align with broader manufacturing and export competitiveness strategies.</li> </ul>

Source: Ministry of Finance

Headline	Budget announcements	Credit implications
<b>AI-Enabled Agriculture — Bharat-VISTAAR</b>	<ul style="list-style-type: none"> <li>• Launch of Bharat-VISTAAR, a multilingual AI platform integrating AgriStack and ICAR best practices to provide real-time advisory support, boosting farmer productivity and reducing risk.</li> </ul>	<ul style="list-style-type: none"> <li>• Promotes productivity enhancements and precision farming techniques across diverse farming contexts.</li> </ul>
<b>Support for High-Value &amp; Diversified Crops</b>	<ul style="list-style-type: none"> <li>• Budget supports high-value crops (coconut, cashew, cocoa, sandalwood, nuts) through targeted schemes to boost productivity and global competitiveness.</li> </ul>	<ul style="list-style-type: none"> <li>• Diversification into high-margin crops aims to raise farmer incomes and reduce dependency on traditional staples.</li> </ul>
<b>Livestock &amp; Fisheries Boost</b>	<ul style="list-style-type: none"> <li>• Enhanced support for livestock and fisheries through higher allocations, integrated Amrit Sarovar development, and stronger value chains to boost rural jobs and exports.</li> </ul>	<ul style="list-style-type: none"> <li>• Recognises allied sectors as key income drivers beyond crop agriculture.</li> </ul>
<b>Women-Centric Rural Enterprise Support (SHE-Marts)</b>	<ul style="list-style-type: none"> <li>• Introduction of SHE-Marts—community platforms supporting rural women’s transition from credit dependence to market-ready business ownership.</li> </ul>	<ul style="list-style-type: none"> <li>• Encourages women-led rural enterprises, strengthening rural non-farm livelihoods.</li> </ul>
<b>Rural Infrastructure &amp; Livelihoods</b>	<ul style="list-style-type: none"> <li>• Record allocations for agriculture (INR 1.40 lakh crore) and rural development (INR 1.97 lakh crore) strengthen rural livelihoods, infrastructure, and social security.</li> <li>• Continued support for large-scale rural employment schemes such as MGNREGA and initiatives like the VB-GRAM G Act.</li> </ul>	<ul style="list-style-type: none"> <li>• Sustained funding for rural employment and infrastructure underpins income stability and demand stimulus.</li> </ul>

- Credit-positive for banks and NBFCs with significant rural and agricultural portfolios due to improved repayment capacity
- Supports asset quality stability in farm and rural lending, reducing NPAs in smaller-ticket exposures
- Indirectly positive for agri-based corporates and food processing NBFCs through better market linkages and supply-chain efficiency

## Key Announcements

Proposal on setting up of Banking Committee to review the sector

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Restructuring of Power Financiers

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Issuance of Municipal bonds

## Takeaway

To align it with India's next phase of growth, while safeguarding financial stability, inclusion, and consumer protection

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Public Sector NBFCs restructuring begins with Power Finance Corporation and Rural Electrification Corporation for improved scale and efficiency.

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INR 100 crore incentive proposed for municipal bond issuances exceeding INR 1,000 crore to encourage large city borrowing.

## BWR View

- Banking Reforms: High-level Committee ensures structural reforms, improved governance, and boosted credit growth.
- Infrastructure: Railways (INR 2.81L Cr, +10%), Roads (INR 3.1L Cr, +8%), Power (INR 29,997 Cr, +39%).
- Urban Development: INR 8,000 Cr for Smart Cities; INR 28,695 Cr for Metro projects.
- Swachh Bharat: 21% increase to INR 9,692 Cr for sanitation initiatives.
- MSME Support: Mandatory TReDS, INR 10,000 Cr fund, enhanced financing to ease liquidity, boost credit.

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- Rationalization enables scalability, enhanced profitability, and self-sustenance for power financiers.
- Frees government capital from consolidated entity for capex deployment and growth requirements.

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- High-value municipal bonds enhance local bodies' debt-raising capacity for infrastructure growth; smaller towns gain access with corporate subscriptions and state grant support.
- Risk assessment framework and liquidity backstop for such issuances require clear definition and ongoing monitoring.



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- AEO: Authorised Economic Operator
- AHP: Allied Health Professional
- ALM: Asset Liability Management
- AVGC: Animation, Visual Effects, Gaming and Comics
- BCD: Basic Customs Duty
- BE: Budget Estimate
- BESS: Battery Energy Storage Systems
- CCUS: Carbon Capture Utilization and Storage
- CER: City Economic Region
- CGTMSE: Credit Guarantee Fund Trust for Micro and Small Enterprises
- CIE: Construction & Infrastructure Equipment
- CPI: Consumer Price Index
- CPSE: Central Public Sector Enterprise
- ECAI: External Credit Assessment Agency
- ECM: Electronics Components Manufacturing
- EPC: Engineering, Procurement, and Construction
- EPM: Export Promotion Mission
- FY: Fiscal Year
- G-Sec: Government Security
- HFC: Housing Finance Company

- ICAR: Indian Council of Agricultural Research
- IT: Information Technology
- ITES: Information Technology Enabled Services
- ITR: Income Tax Return
- LRS: Liberalised Remittance Scheme
- MAT: Minimum Alternate Tax
- MGNREGA: Mahatma Gandhi National Rural Employment Guarantee Act
- MRO: Maintenance, Repair, and Overhaul
- MSME: Micro, Small and Medium Enterprises
- NBFC: Non-Banking Financial Company
- NCD: Non-Convertible Debenture
- NPA: Non-Performing Asset
- OEM: Original Equipment Manufacturer
- PLI: Production Linked Incentive
- RE: Revised Estimate
- REIT: Real Estate Investment Trust
- TCS: Tax Collected at Source
- TDS: Tax Deducted at Source
- TReDS: Trade Receivables Discounting System
- VB-G RAM G: Viksit Bharat - Guarantee for Rozgar and Ajeevika Mission (Gramin)