UNION BUDGET 2026-27

ECONOMIC RESEARCH AND DATA ANALYSIS VERTICAL(ERDAV)

FEBRUARY 2, 2026

From the desk of the Chief Economist

Dear Colleagues,

Hon'ble Finance Minister's ninth consecutive Union Budget, presented on February 1, 2026, outlines a pragmatic response to global trade uncertainty and supply-chain fragility. Budget 2026 balances fiscal consolidation with an assertive manufacturing strategy, positioning MSMEs as the primary engines of growth. The underlying premise is clear: India's manufacturing ambitions and its quest for economic resilience are inseparable from the success of its 7.6 Cr MSMEs.

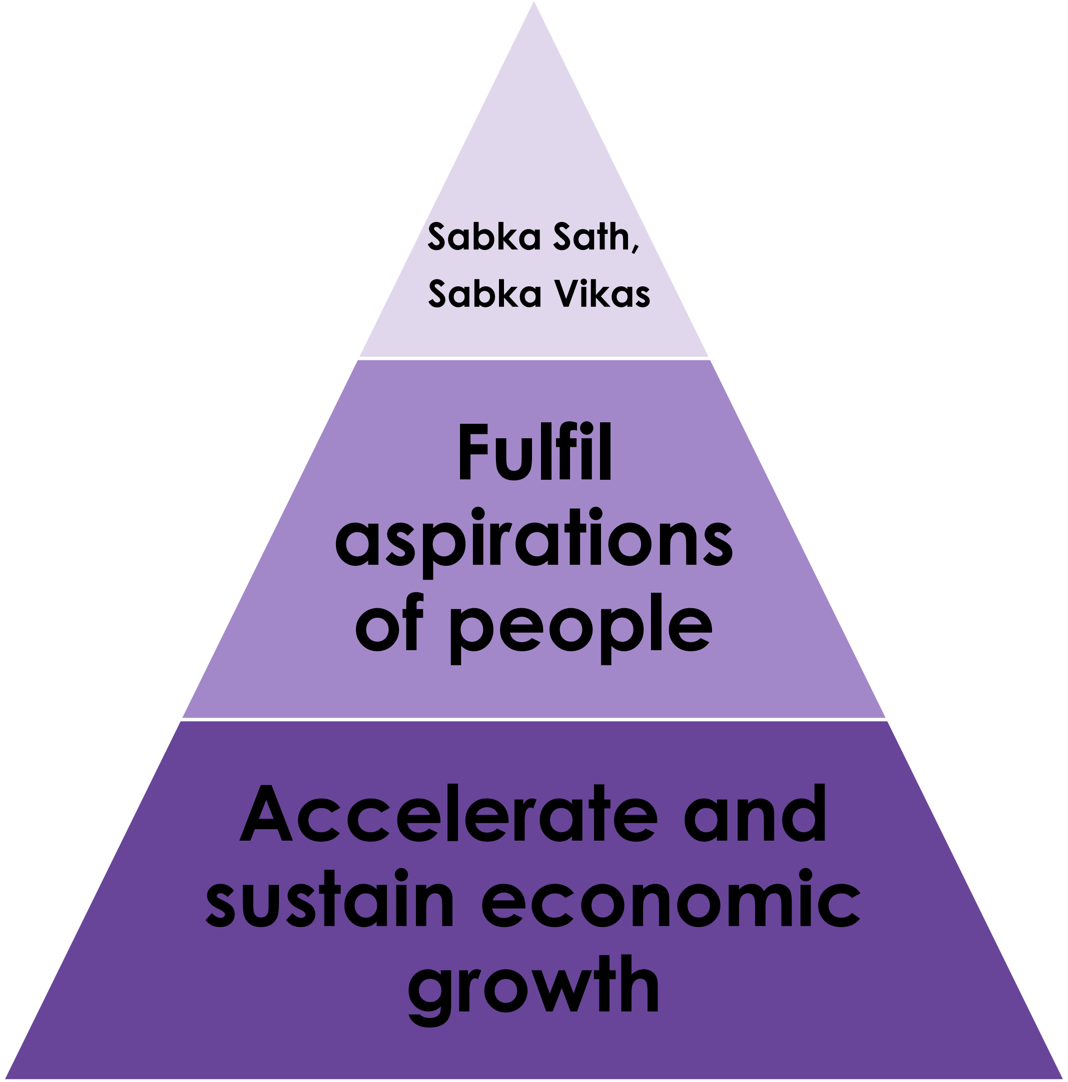
Fiscal management remains a clear strength. The government has set a fiscal deficit target of 4.3% of GDP for 2026–27, an improvement over the current year, while the debt-to-GDP ratio is projected to decline to 55.6%. This consolidation is notable given the 11% increase in capital expenditure to ₹12.2 lakh crore. By sustaining infrastructure-led growth without loosening fiscal discipline, the Budget demonstrates credible macroeconomic stewardship at a time of heightened global volatility.

The centrepiece of the Budget is a multi-pronged push to transform MSMEs into national "champions." Foremost among these is a ₹10,000 crore SME Growth Fund that will provide equity capital to potential MSME Champions. This marks an important shift away from excessive reliance on debt, acknowledging that high-potential MSMEs need patient capital rather than greater leverage. This initiative is reinforced by a ₹2,000 crore infusion into the Self-Reliant India Fund to support micro enterprises. Addressing a long-standing structural constraint, the government has mandated Central Public Sector Enterprises to route MSME payments through TReDS. Combined with its integration with the Government e-Marketplace and credit guarantees under CGTMSE, this move promises faster, cheaper access to working capital. The proposal to securitize TReDS receivables could further deepen liquidity through secondary markets. The introduction of "Corporate Mitras" in Tier-II and Tier-III cities attempts to address compliance challenges that often limit MSME formalization and scale, particularly outside major urban centers.

On the manufacturing front, the Budget adopts a targeted yet diversified approach. The ₹10,000 crore Biopharma Shakti initiative, ₹40,000 crore Semiconductor Mission 2.0, a multi-state Rare Earth Corridor, and a ₹10,000 crore plan to revive 200 legacy industrial clusters collectively aim to lift manufacturing's share of GDP toward the long-elusive 25% target and expand the MSME ecosystem.

While Budget 2026 reflects a coherent and mature growth strategy, execution will be decisive. Time bound implementation of the proposed schemes and supportive credit flows from the lenders will determine whether this Budget becomes a genuine inflection point for Indian manufacturing and the MSME sector.

Broad-Based Budget: Sankalp to build a Viksit Bharat



- **Fiscal Prudence:** Growth with discipline, fiscal deficit target **4.3% of GDP in FY27**, transition to Debt to GDP as primary fiscal anchor, reinforcing macro-credibility and investor confidence.

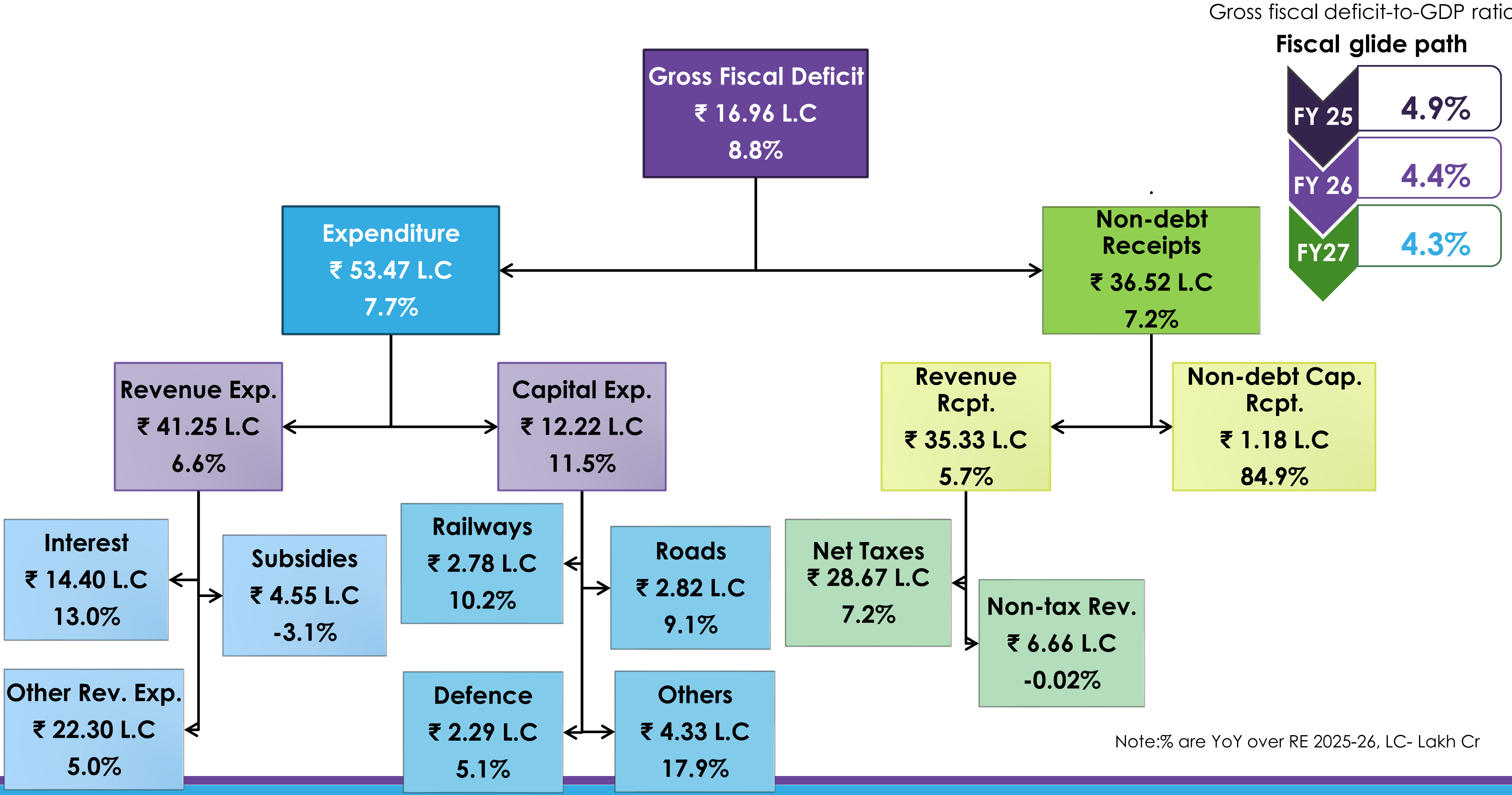
- **Capex: ₹12.2 Lakh Crore public capex**, reaffirming infrastructure as the primary growth and productivity multiplier.
- **Strategy:** Budget structured around **three Kartavyas,** accelerated growth, capacity-building (youth, skills, enterprises), and broad-based inclusion

- **Structural push for Manufacturing:** Strong emphasis on **semiconductors, electronics, biopharma, MSMEs, logistics, and strategic manufacturing**, signalling deeper integration into global value chains.

- **Infrastructure:** High-speed rail corridors, freight corridors, and national waterways aimed at reducing logistics costs and raising economy-wide efficiency.

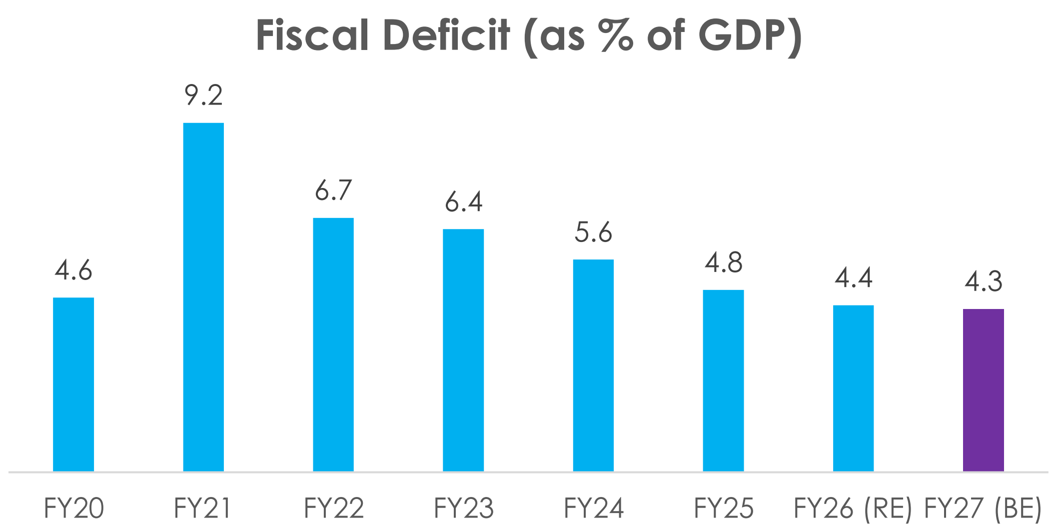
- **Taxation:** No income-tax slab changes; focus shifts to **certainty, simplification, and easier compliance**. The New Income Tax Act takes effect from April 2026.

Fiscal Math of Union Budget 2026-27 (Rs. Lakh Crore)

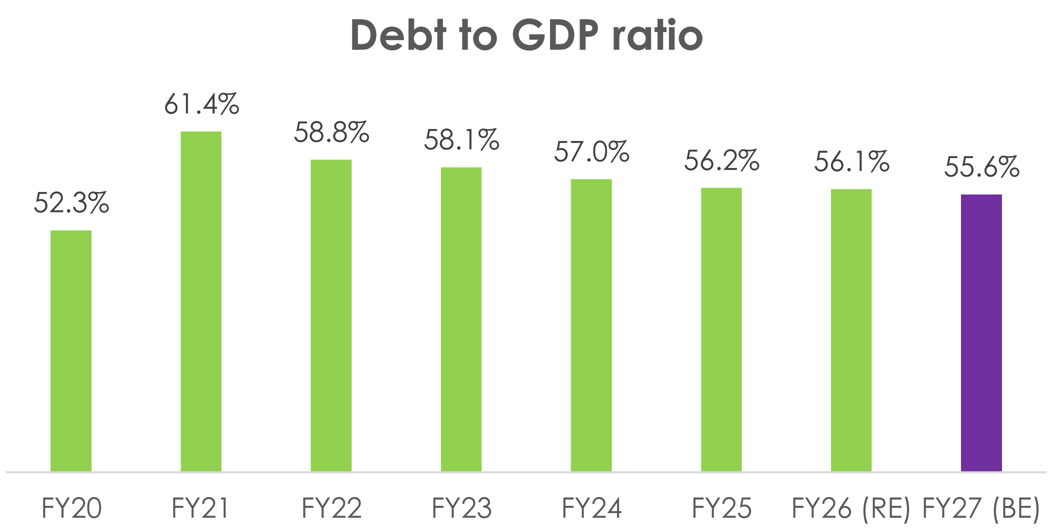


Note:% are YoY over RE 2025-26, LC- Lakh Cr

Fiscal Math: Deficit & Debt Direction



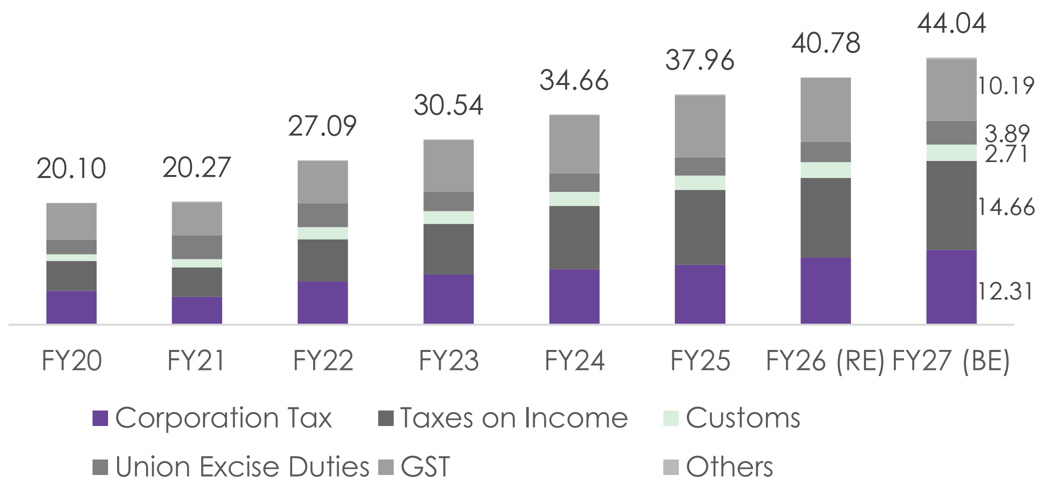
- The central government estimates the fiscal deficit at 4.4% of GDP in FY2026 (RE), **meeting the commitment of achieving 4.5% by FY2026 set in FY2022.**
- In line with the fiscal consolidation path, the fiscal deficit for FY2027 is budgeted at 4.3% of GDP.
- In absolute terms, the fiscal deficit is projected to increase to ₹16.9 lakh crore in FY2027, marking an 8.8% rise over the previous year.



- The debt-to-GDP ratio has been on a gradual downward trajectory from its pandemic levels of 61.4% in FY21 to 56.1% in FY26 (RE) and is budgeted to further decline further to 55.6% in FY27 (BE).
- The Government has set a medium-term target of achieving a debt-to-GDP ratio of 50 ± 1% by 2030-31. A sustained reduction in the ratio will ease the interest burden, thereby freeing up fiscal space for priority sector expenditure and developmental needs.

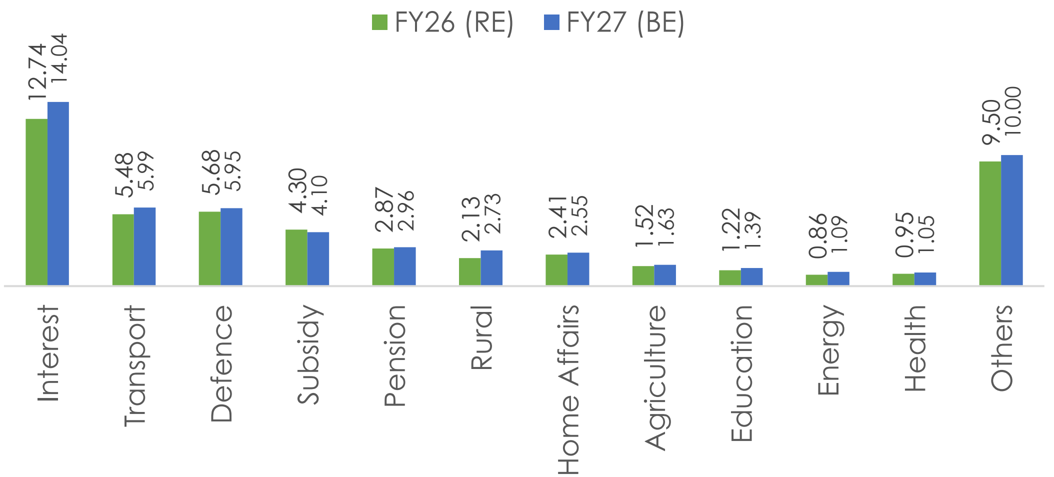
Fiscal Math: Revenue & Expenditure

Gross Tax Revenue (₹ lakh crore)



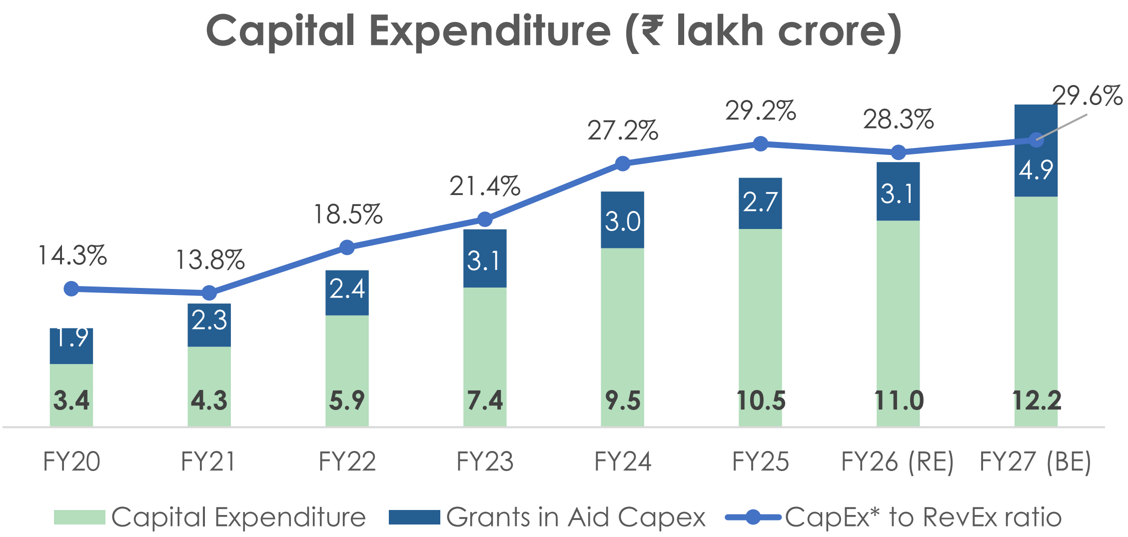
- Gross tax revenue is budgeted to rise to ₹44.04 lakh crore in FY27 (BE), reflecting a year-on-year increase of 8%, with income tax accounting for 47% of the incremental revenue.
- GST continues to be a significant contributor, after corporation tax and income tax, with a moderate decline of 3% in FY2027, likely on account of the GST rationalization in the current FY.

Expenditure Break-Up(₹ lakh crore)



- Interest payments remain the largest expenditure component, increasing from ₹12.74 lakh crore in FY26 (RE) to ₹14.04 lakh crore in FY27 (BE) and accounting for 26% of total expenditure.
- Transport expenditure (including capital outlay for roads and railways), form 11% of total spending, is budgeted to grow by 11.2%, while combined allocations for Health and Education are projected to rise by 12.6%.

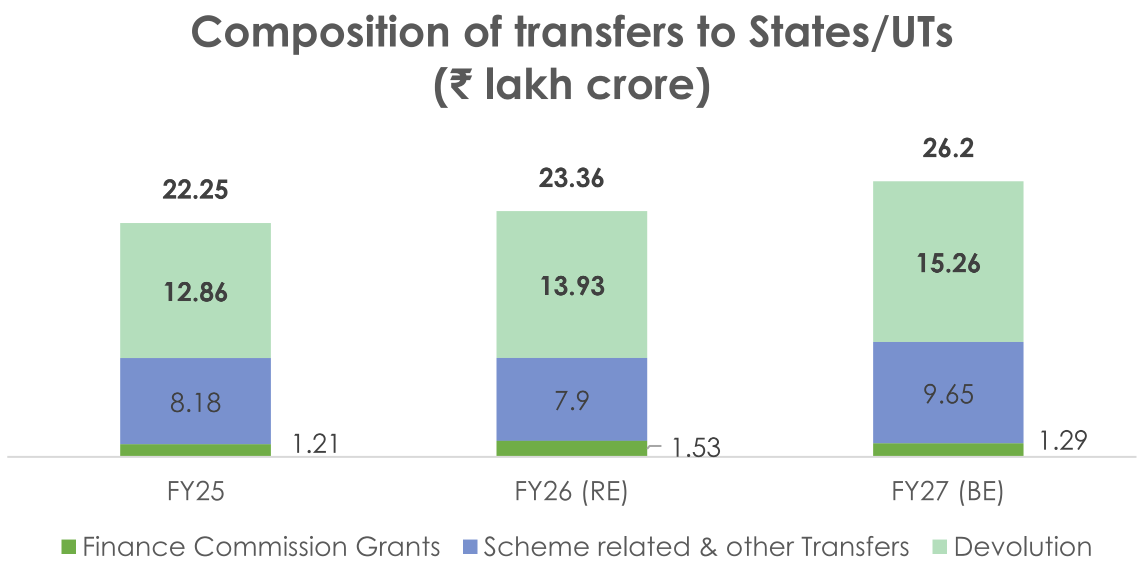
Fiscal Math: CapEx & State Devolution



*Capex excludes grant in aid

- Capital expenditure continues to strengthen, rising from ₹11.0 lakh crore in FY26 (RE) to ₹12.2 lakh crore in FY27 (BE), while Grants-in-Aid for capex increase sharply from ₹3.1 lakh crore to ₹4.9 lakh crore, reflecting a strong push for public investment.

- The CapEx-to-Revenue Expenditure ratio reaches a new high of 29.6% in FY27 (BE), indicating a sustained shift towards growth-oriented, asset-creating spending.



- Total transfers to States/UTs are budgeted to rise from ₹23.36 lakh crore in FY26 (RE) to ₹26.2 lakh crore in FY27 (BE), driven mainly by higher devolution and scheme-related transfers.

- Devolution increases from ₹13.93 lakh crore to ₹15.26 lakh crore while, Scheme-related and other transfers increase from ₹7.9 lakh crore in FY26 (RE) to ₹9.65 lakh crore in FY27 (BE) reflects a scaleup of centrally supported schemes.

Structural Boost to Make in India

Three Dedicated Chemical Parks
States will be supported to establish **three chemical parks** on a cluster-based, plug-and-play model to boost domestic production.

India Semiconductor Mission (ISM) 2.0
ISM 2.0 was announced to expand India's semiconductor ecosystem by supporting equipment and materials manufacturing, Indian IP design, and industry-led R&D and training.

Electronics Components Manufacturing Scheme
The outlay for the Electronics Components Manufacturing Scheme was increased to **₹40,000 crore** to deepen domestic value addition.

Scheme for Container Manufacturing
A **₹10,000 crore scheme over five years** was announced to build a globally competitive container manufacturing ecosystem.

Biopharma SHAKTI
Biopharma SHAKTI was launched with an outlay of **₹10,000 crore over five years** to make India a global hub for biologics and biosimilars.

Hi-Tech Tool Rooms in CPSEs
who will establish **Hi-Tech Tool Rooms** as digitally enabled facilities for designing and manufacturing high-precision components at scale and lower cost.

Textile Sector

Integrated Programme	• **National Fibre Scheme** to promote self-reliance in natural fibres (silk, wool, jute), man-made fibres, and new-age fibres. • **Textile Expansion & Employment Scheme** to modernise traditional clusters through machinery upgrades, technology upgradation, and common testing/certification facilities. • **National Handloom & Handicraft Programme** to integrate and strengthen existing schemes with targeted support for weavers and artisans. • **Tex-Eco Initiative** to foster globally competitive and sustainable textiles and apparel. • **Samarth 2.0** to modernise and upgrade the textile skilling ecosystem in collaboration with industry and academic institutions.
Mega Textile Parks	• Set up **Mega Textile Parks** in challenge mode; focus on value addition to technical textiles
Mahatma Gandhi Gram Swaraj	• To strengthen **khadi, handloom and handicrafts**; help in global market linkage and branding. Also support training, skilling, quality of process and production.
Extension of time-period for exports	• The time-period of export of textile/leather garments, leather/synthetic footwear or any other leather product by exporters extended from six months to twelve months.

Impact: The initiatives are likely to strengthen the textile value chain by boosting self-reliance, modernization and improving export competitiveness for MSME textile units.

Food Processing Sector

Area	Announcement	Expected Impact
High-Value Agriculture & Plantation Crops	Dedicated programmes for **cashew, cocoa and coconut**, including self-reliance in raw cashew and cocoa by **2030**, productivity enhancement, and support for high-value crops (coconut, nuts, sandalwood).	Improves raw material availability, value addition and export competitiveness for **nut, cocoa and coconut-based processing**.
Livestock, Dairy & Poultry	Credit-linked support and entrepreneurship development for **integrated livestock, dairy and poultry value chains**.	Strengthens upstream integration and quality for **meat, dairy and poultry processing** industries.
Fisheries & Aquaculture	Integrated development of **500 reservoirs and Amrit Sarovars** and strengthening fisheries value chains via Fish FPOs, start-ups and women-led groups.	Expands fish supply and supports **processing, cold storage and value-added seafood** segments.
Seafood Trade & Processing	**Duty-free treatment** for fish caught in EEZ/high seas, export recognition for foreign landings, and increase in **duty-free import limit for seafood inputs from 1% to 3% of FOB value**.	Lowers costs and boosts competitiveness of **seafood processors and exporters**.
Digital Agriculture Infrastructure	Launch of **Bharat-VISTAAR**, an AI platform integrating AgriStack and ICAR data.	Improves input quality, traceability and consistency for **food processing supply chains**.

Tax reform to support the Manufacturing Push

Exemption from income tax for five years to nonresidents providing capital goods, equipment or tooling, to any toll manufacturer in a bonded zone.

Increase the limit for duty-free imports of specified inputs used for processing seafood products for export, from the current 1 per cent to 3 per cent of the FOB value of the previous year's export turnover.

Duty-free imports of specified inputs extended to export of shoe uppers in addition to leather or synthetic footwear.

Exemption from basic customs duty on specified parts used in the manufacture of microwave ovens.

Provision of safe harbour to non-residents for component warehousing in a bonded warehouse

Export cargo using electronic sealing to be provided through clearance from the factory premises to the ship.

Deferred duty payment window to trusted manufacturer

Extension of time for the export of final product from the existing 6 months to 1 year, for exporters of leather or textile garments, leather and synthetic footwear.

Regular importers with trusted longstanding supply chains to be recognized in the risk system.

Exemption from basic customs duty on raw materials imported for manufacture of aircraft parts used in maintenance, repair, or overhaul requirements defence units.

A special one-time measure to facilitate sale in domestic tariff area at concessional rate of duty by eligible manufacturing units of SEZs.

Services Sector

Schemes to support States in **establishing five Hubs for Medical Value Tourism**, in partnership with the private sector.

Setting up of a **High-Powered "Education to Employment and Enterprise" Standing Committee** to focus on the Services Sector as a core driver of *Viksit Bharat*.

Upgrading and establishing new institutions for Allied Health Professionals (AHPs) in ten selected disciplines.

Development of **NSQF-aligned programmes** to train **1.5 lakh multi-skilled caregivers**.

AYUSH initiatives, including setting up **three new All India Institutes of Ayurveda**, upgrading AYUSH pharmacies and Drug Testing Laboratories for higher certification standards

Building a strong **Care Ecosystem**, covering geriatric and allied care services.

Promotion of **Medical Tourism** as a key services subsector.

Support to the **Orange Economy**, including **setting up AVGC Content Creator Labs in 15,000 secondary schools and 500 colleges**.

Setting up a new National Institute of Design through the challenge route in the **eastern region of India**.

The Budget offers a tax holiday till 2047 for global cloud services using India-based data centres, with a 15% safe-harbour margin to attract investment and growth.

Strengthening the sports sector through the Khelo India Mission by developing talent pathways, coaching systems, sports science integration, and sports infrastructure.

Financial Sector

- Incentive of ₹100 crore for single issuance of municipal bonds of more than ₹1000 crore. Current Scheme under AMRUT will continue.

- Restructuring Power Finance Corporation (PFC) and Rural Electrification Corporation (REC).

- Establishment of a High-Level Committee on Banking to review the sector efficiency and suggest next phase of reforms

- Introduction of Market making framework and total return swaps on corporate bonds.

- Raising the STT on Futures from 0.02% to 0.05%.
- STT on options premium and exercise of options to be raised to 0.15% from rate of 0.1% and 0.125%, respectively.

Key MSME Initiatives- A Snapshot

- The Budget announced a ₹10,000 crore MSME/SME Growth Fund to provide equity or quasi-equity support to high-potential MSMEs that demonstrate productivity gains, formalisation, technology adoption, and export readiness.
- Top up the Self-Reliant India Fund (2021) with ₹2,000 crore
- Tax Proposal - Removal of the current value cap of ₹10 lakh per consignment on courier exports

- Purchases by CPSEs from MSMEs are to be mandatorily routed through the Trade Receivables Discounting System (TReDS
- TReDS receivables as asset backed securities, to develop a secondary market and enhance liquidity and settlement of transactions
- Reviving 200 industrial clusters through cluster-level infrastructure and tech upgrades

- Introduce a credit guarantee support mechanism through CGTMSE for invoice discounting on the TReDS platform
- Linking GeM with TReDS to encourage cheaper and quicker financing.
- Government to facilitate Professional Institutions to develop 'Corporate Mitras' especially in Tier-II and TierIII towns, to help MSMEs meet compliance requirements at affordable costs.

Budget Measures that positively impact MSME Sector (1)

Area	Announcement	Expected Impact
Creation of MSME Champions	The government announced a three-pronged strategy to create "Champion MSMEs" through equity support, liquidity support, and professional support.	Repositions MSMEs from survival-oriented units to growth-oriented enterprises capable of scaling, formalising, and integrating into value chains. The policy objective is to build a squad of MSME Champions which will be capable of competing in the global export market and boost India's exports.
SME Growth Fund	A dedicated ₹10,000 crore SME Growth Fund proposed to support high-potential MSMEs based on select performance criteria.	Provides equity or quasi-equity capital, addressing the structural shortage of risk capital to promising SMEs with a solid track record in innovation and production, helping them upgrade technology and be globally competitive.
Self-Reliant India Fund	The Self-Reliant India Fund will be topped up by ₹2,000 crore.	An additional infusion specifically to support micro-enterprises, ensuring they have access to patient equity capital for expansion, reducing over dependence on debt.

Budget Measures that positively impact MSME Sector (2)

Area	Announcement	Expected Impact
Mandatory participation by CPSEs in TReDS	TReDS to be the mandatory transaction settlement platform for all purchases from MSMEs by CPSEs.	This will give a strong boost to TReDS (including RXIL) volumes, address delayed payments to MSMEs and improve their liquidity.
Credit Guarantee for TReDS transactions through CGTMSE	CGTMSE permitted to provide guarantee coverage for invoice discounting on the TReDS platform.	Lowers risk for lenders, encourages wider participation in MSME invoice discounting, and reduces financing costs for MSMEs.
GeM–TReDS Integration	GeM is to be linked with TReDS to share information on government purchases from MSMEs with financiers.	This will also help in better data availability for lenders, leading to improved underwriting and risk management.
Secondary Market for TReDS receivables	TReDS receivables proposed to be introduced as asset-backed securities to develop a secondary market.	This will expand MSME trade finance market, improve price discovery of buyer risk, develop a securitisation market for MSME receivables and bring institutional capital into it.

Budget Measures that positively impact MSME Sector (3)

Area	Announcement	Expected Impact
Corporate Mitras	Professional institutions like ICAI will develop a cadre of "Corporate Mitras" in Tier-II and Tier-III towns to assist MSMEs with compliance.	Reduce compliance burden, facilitate Ease of Doing Business, support formalisation, and help MSME promoters focus on productivity and growth.
Self Help Entrepreneurs (SHE)	Self-Help Entrepreneur (SHE) Marts are proposed to be set up as community-owned retail outlets within the cluster level federations (CLF) through enhanced and innovative financing instruments.	Women in rural areas will be encouraged to make the transition from credit-led livelihoods to being owners of enterprises. This will give a boost to the growth of nano and micro enterprises in rural areas and create opportunities for more CLF financing.
Revival of Legacy Industrial Clusters	A scheme to revive 200 legacy industrial clusters through infrastructure and technology upgradation.	Improves cost competitiveness and efficiency through cluster-level interventions rather than firm-specific subsidies, supporting regional manufacturing and jobs.
BioPharma Hub	The Biopharma SHAKTI (Strategy for Healthcare Advancement through Knowledge, Technology and Innovation) with ₹10,000 crore outlay over the next 5 yrs for developing the domestic ecosystem	Pharma MSMEs can transition from low-margin generics to high-value biologics by affordable access to a shared network of 1,000 clinical trial sites and specialized research infrastructure.

Budget Measures that positively impact MSME Sector (4)

Area	Announcement	Expected Impact
Larger ECMS Outlay	Electronics Component Manufacturing Scheme (ECMS) outlay almost doubled to ₹40,000 crore with a goal to move India from an assembly-focused hub to a high-value component manufacturing nation	ECMS to provide up to 25% capital subsidy and 4% to 8% turnover-linked incentives to lower the barrier for entering high-tech manufacturing for MSMEs and startups; specifically supports smaller players by low investment thresholds—starting at ₹10 crore for supply chain and capital equipment projects; also to integrates these businesses into Global Value Chains (GVCs) by funding domestic R&D and design
Measures for Capital Goods	(i) CPSEs to establish automated tool rooms at 2 strategic locations (ii) Construction and Infrastructure Equipment (CIE) Scheme to promote domestic manufacturing of advanced machinery like tunnel-boring machines, cranes, elevators, and firefighting equipment (iii) Container Manufacturing Scheme - ₹10,000 crore outlay over 5 years.	High-tech tool rooms to act as service bureaus where MSMEs can design, test, and manufacture high-precision components at a lower cost than imported alternatives. CIE and Container Scheme to open up opportunities for MSMEs through domestic supply chains.

Budget Measures that positively impact MSME Sector (5)

Area	Announcement	Expected Impact
Textile Sector Measures	Integrated Programme for the Textile Sector with 5 major sub-components: (i) Textile Expansion and Employment Scheme- capital assistance for modern machinery and technology upgrades in traditional clusters (ii) National Fibre Scheme- achieving self-reliance in natural (silk, wool, jute) and man-made fibres (iii) Tex-Eco Initiative- support MSMEs meet increasing global demand for "green" textiles (iv) Samarth 2.0: upgraded skilling ecosystem that connects MSMEs with industry-ready workers (v) Mega Textile Parks offer MSMEs plug-and-play facilities.	The measures will support MSME textile and garment units by providing capital assistance for machinery upgrades; establishing plug-and-play Mega Textile Parks to lower infrastructure costs and significantly lower the initial barrier to entry; stabilize raw material costs for small manufacturers and assist in sustainability initiatives.
Chemical Sector Measures	(i) Support states set up 3 dedicated Chemical Parks with integrated infrastructure, shared utilities, and streamlined regulatory processes (ii) Rare Earth Corridors in Odisha, Kerala, Andhra Pradesh, and Tamil Nadu	Higher MSME participation in intermediates and downstream chemical products, critical for supply chain depth and indigenous capabilities; reduce setup costs for small businesses.

Budget Measures that positively impact MSME Sector (6)

Area	Announcement	Expected Impact
Agro-Processing Sector	Priority on high-value agricultural products and sustainable processing (i) Targeted Crop Schemes-coconut, cashew, cocoa, and sandalwood (ii) Hilly Region Rejuvenation - value addition and post-harvest processing for walnuts, almonds, pine nuts. (iv) PLI Scheme Extension for Food Processing with an allocation of ₹1,200 crore for 2026-27 (v) Seafood Export Boost - limit for duty-free imports of essential processing inputs was tripled from 1% to 3% of FOB value.	The goal is to transform the food and agro-processing landscape into a global export hub, supporting MSMEs in innovative/organic food products,
Tourism and Hospitality Sector	(i) Support states in establishing five Regional Medical Tourism Hubs in partnership with the private sector (ii)15 archaeological sites to be developed into "vibrant, experiential cultural destinations". (iii) Niche Tourism Circuits (iv) Ecologically sustainable trails to boost small-scale eco-tourism entrepreneurs.	This will boost the business potential of service sector MSMEs – primarily smaller hotels, restaurants, travel agencies in smaller locations not in main tourist circuits.

Budget Measures that positively impact MSME Sector (7)

Area	Announcement	Expected Impact
Education and Skilling	(i) Education-to-Employment Standing Committee to identify high-growth sub-sectors and align school and college curricula directly with current MSME and service-sector needs (ii) Developing 5 university townships near industrial and logistics corridors (iii) Upgrading existing institutions to train 100,000 Allied Health Professionals (AHPs) and 1.5 lakh caregivers (iv)Tourism Guides- a pilot program with IIMs will train 10,000 tourist guides in 20 iconic sites	Over the medium to longer term, these measures will address the challenge of skilled labour availability for MSMEs, particularly small-scale healthcare providers, medical tourism startups, MSME tour operators and local hospitality brands.
Tax and Compliance Relief	(i) New Income Tax Act, 2025: A new, simplified Income Tax Act will come into effect from April 2026, aimed at making compliance easier for citizens and small businesses (ii) MAT Rate reduced from 15% to 14% (iv) Rationalised Safe Harbour – norms(V) Simpler tax settlement procedures	The focus on "trust-based" taxation and regulatory simplification to lower the compliance burden and improve EODB for MSMEs; IT and ITeS MSMEs to benefit from the unified safe harbour margin of 15.5% , providing greater tax certainty for mid-sized firms.

Sustainability Initiatives

Adoption of **Carbon Capture, Utilisation and Storage (CCUS)** technologies, aligned with the national roadmap launched in December 2025, to achieve higher readiness levels in end-use applications across **power, steel, cement, refineries and chemicals**, with an outlay of **₹20,000 crore over five years**.

Extension of exemption of **Basic Customs Duty (BCD)** on capital goods used for the manufacture of **Lithium-Ion Cells** to those used for **Battery Energy Storage Systems**.

Exemption of **BCD on import of sodium antimonate** for use in the manufacture of **solar glass**.

Extension of the existing **BCD exemption on imports of goods required for Nuclear Power Projects until 2035**, and expansion of the exemption to cover **all nuclear plants irrespective of capacity**.

Exemption of **BCD on import of capital goods required for processing of critical minerals in India**.

Exclusion of the entire value of **biogas** while computing **Central Excise duty on biogas-blended Compressed Natural Gas (CNG)**.

Thank You