UNION BUDGET ANALYSIS 2026

Introduction

The Constitution of India defines the Union Budget as the 'Annual Financial Statement' in Article 112', which presents the government's estimated receipts and expenditures.[1] Functionally, the budget acts both as a financial and policy instrument, forecasting revenues from taxes, non-tax sources, and borrowings, while allocating expenditure in pursuit of policy objectives.[2] In this context, the FY26-27 budget was presented by Nirmala Sitharaman, Minister of Finance, for the ninth consecutive time in the Lok Sabha. Marking a departure from tradition, this 88th budget was presented for the first time on a Sunday, i.e., the 1st of February '26, and is the first to be prepared at the Kartavya Bhawan, aligned with the motto of Sabka Sath, Sabka Vikas. With the tabling of this financial statement, the finance minister emphasised the vision to "transform aspiration into achievement and potential into performance".[3]

Structurally, the Yuva Shakti-driven budget emphasises strengthening domestic manufacturing, scaling high-growth services, and reinforcing infrastructure as key drivers for long-term economic expansion.[3] The key highlights of the budget include the establishment of new sectoral and infrastructure pillars such as the Biopharma SHAKTI, India Semiconductor Mission 2.0, strategic corridors, AVGC (Animation, Visual Effects, Gaming, and Comics) and content creator labs, and the SME growth fund. Furthermore, it introduces a significant simplification of tax laws and compliance measures through the new Income Tax Act 2025, effective from April 2026.

On the macroeconomic front, the budget estimates a nominal GDP growth rate of 10 percent (real growth plus inflation), with the fiscal deficit pegged at 4.3 percent of GDP, continuing a downward trajectory from 4.4 percent in the previous year.[4] Notably, as compared to the 2025-26

[1] Constitution of India, 1950, art. 112.
[2] PMF IAS, *Government Budgeting in India: Types, Objectives & Challenges* (PMF IAS) https://www.pmfias.com/government-budgeting-in-india/ accessed 11 February 2026.
[3] Ibid.
[4] PRS Legislative Research, Union Budget 2026-27 Analysis (6 February 2026) https://prsindia.org/files/budget/budget_parliament/2026/Union_Budget_Analysis-2026-27.pdf accessed 11 February 2026

budget, the key priority areas and sector-wise allocation remain largely consistent, marking no major shift.[5] The biggest allocation of total spending continues to be made towards defence at ₹7,84,678 cr, followed by road transport and highways at ₹3,09,875 cr. Accordingly, this article takes a step further to discuss the fiscal composition, taxation proposals, sectoral highlights, strategic initiatives, infrastructure, and urban development in more detail.[6]

Fiscal Composition

The total estimated revenue is ₹35,33,150 crore (a 5.7% increase), and expenditure is ₹53,47,315 crore (a 7.7% increase). This underlines a strong emphasis on public capital expenditure (Capex), which has been increased to ₹12.2 lakh crore from ₹11.2 lakh crore in the previous budget estimate. The fiscal deficit is estimated at ₹16,95,768 crore, representing 4.3% of GDP, which reflects a steady decline from the COVID-period peak of 9.2% in 2020-21. Simultaneously, the debt-to-GDP ratio is projected at 55.6%, continuing a downward trend from 61.4% in recent years, with a long-term goal to free up resources by reducing interest outgo.[7] A detailed composition of the revenue inflow and expenditure outflow is given below.

Rupee Inflow and Outflow Composition

(a) Major Inflows:

Taxation (direct, indirect, and corporation taxes combined) remains the largest source of income, contributing approximately 54% of total funds. Other significant components include non-tax revenue (10%), derived from sources like interest receipts, licence fees, and dividends from the RBI and Public Sector Enterprises (PSEs); excise duties (taxes on specific goods produced within the country) at 6%; and customs (4%) on imported and exported goods. Additionally, the non-debt capital receipts (2%) include recoveries of loans and proceeds from disinvestment, while roughly 24% come from borrowings and other liabilities.

[5] Ibid

[6] Press Information Bureau, Highlights of the Union Budget 2026-27 (Government of India, 1 February 2026) https://static.pib.gov.in/WriteReadData/specificdocs/documents/2026/feb/doc202621776101.pdf accessed 11 February 2026

[7] Ibid.

(b) Major Outflows:

1. States' Share of Taxes: This is the largest single outflow at 22%, circulating tax money back to state governments for regional development.
2. Interest Payments: Accounting for 20% of total expenditure, this is a direct consequence of high borrowing levels.
3. Central Sector Schemes: The spending allocated to Central Sector Schemes is 17%, whereas Centrally Sponsored Schemes (programs where funding is shared between the Center and the States) is 8%
4. Infrastructure (Transport): This is the top sectoral priority (excluding interest payments), receiving approximately 11% of total expenditure.
5. Defence: It is allocated roughly 15% of total spending.
6. Social Sectors: Education and Health have received relatively lower allocations at 2.6% and 2% of total expenditure, respectively.
7. Subsidies and Pensions: Major subsidies account for 6% of spending, while civil pensions account for 2%.[8]

Taxation Policy Features and Personal Finance

The Union Budget 2026-27, while described as "noticeably quieter" regarding personal income tax slabs, introduces significant "fine-tuning" of the tax structure. The primary legislative intent **is** to discourage speculation, regularise investments, and boost domestic manufacturing.[9]

(a) Direct taxation and Capital markets

The budget targets high-frequency trading and specific investment instruments through several key adjustments:

[8]Ministry of Finance, Government of India, *Budget at a Glance: Union Budget 2026-27* (Budget Documents, Government of India, 1 February 2026) https://www.indiabudget.gov.in/doc/Budget_at_Glance/budget_at_a_glance.pdf accessed 11 February 2026.
[9]*Budget 2026: The only explainer you'll need* (Zerodha Varsity, 2 February 2026) https://zerodhavarsity.substack.com/p/budget-2026-the-only-explainer-youll accessed 11 February 2026.

1. Hike in Securities Transaction Tax (STT): In order to curb excessive speculation, the STT on the sale of futures has risen from 0.02% to 0.05%, while the tax on options premium increased from 0.10% to 0.15%.
2. Share Buyback Reforms: To address loopholes, the budget eliminates "tax arbitrage" by taxing buybacks as capital gains rather than dividend income. While non-promoter shareholders benefit from the 12.5% long-term rate, promoters face higher effective rates of 22% (corporate) or 30% (individual).
3. Sovereign Gold Bonds (SGB): The capital gains exemption on SGB redemptions is now restricted to bonds purchased in the original RBI issue and held till maturity; consequently, secondary market purchases will no longer be tax-exempt.
4. Mutual Fund Deductions: Investors can no longer claim a deduction for interest paid on money borrowed to invest in dividends or mutual funds.
5. Minimum Alternate Tax (MAT): The MAT rate is reduced from 15% to 14%, but further credit accumulation will cease from April 1, 2026.[10]

(b) **Indirect taxes and Customs duty rationalization**

1. Manufacturing Incentives: The basic customs duty (BCD) exemptions are extended for capital goods used in producing lithium-ion cells, solar glass, and critical minerals.
2. Healthcare and Consumer Goods: The customs duties are exempted for 17 essential drugs (including those for cancer) and specified parts for microwave oven manufacturing.
3. Personal Imports and Trade: The tariff rate on dutiable goods imported for personal use is halved from 20% to 10%. Additionally, fish caught in Exclusive Economic Zones (EEZ) by Indian vessels are now duty-free.[11]

(c) **Ease of compliance and Administration**

The government is enacting the new Income Tax Act of 2025, effective from April 2026. Other compliance reliefs include:

[10] Ibid.
[11] *The Budget 2026 explained* (Finshots, 2 February 2026), https://finshots.in/archive/the-budget-2026-explained-nirmala-sitharaman/ accessed 11 February 2026.

1. TCS Reductions: Tax Collected at Source (TCS) on overseas tour packages and remittances for education or medical purposes is reduced to a flat 2%.
2. Foreign Asset Disclosure: A one-time six-month window is provided for taxpayers to regularise past non-disclosures of foreign assets up to ₹1 crore by paying tax and penalties with immunity from prosecution.
3. Simplified Property Transactions: Resident buyers can now use their PAN instead of a TAN to deposit TDS when buying property from an NRI.[12]

Infrastructure and Connectivity

The allocation in this sector is driven by the "multiplier effect", operating on the premise that every ₹1 spent on capex yields an immediate economic boost of ₹2.45.[13]

1. Transport: Receives the highest developmental allocation at ₹5,98,520 crore (11.2% of total expenditure). Key projects include seven high-speed rail corridors and new dedicated freight corridors connecting Surat to Dankuni.
2. Urbanisation: The budget maps City Economic Regions (CERs) with an allocation of ₹5,000 crore per region over five years to maximise the economic potential of urban hubs.

Defence and Strategic manufacturing

In parallel, the government continues to emphasise national security and domestic production to reduce import dependency.

1. Defence: Allocated ₹7,84,678 crore (15% of expenditure), matching transport as a top priority.
2. Biopharma SHAKTI: A new five-year strategy with a ₹10,000 crore outlay aims to make India a global hub for biologics and biosimilars.

[12] *Union Budget 2026 explained: revenue sources* (The Hindu, 2026) https://www.thehindu.com/business/budget/union-budget-2026-explained-revenue-source/article70577799.ece accessed 11 February 2026.
[13] Banikinkar Pattanayak, *Budget 2026: States may get bigger capex push as Centre plans higher interest-free loans* (The Economic Times, 6 December 2025) https://economictimes.indiatimes.com/news/economy/finance/budget-2026-states-may-get-bigger-capex-push-as-centre-plans-higher-interest-free-loans/articleshow/125795210.cms?from=mdr accessed 11 February 2026.

3. Semiconductors and Electronics: The launch of the India Semiconductor Mission (ISM) 2.0 and a doubled outlay of ₹40,000 crore for electronics component manufacturing signal a massive push for high-tech self-reliance.
4. Metals & Mining: The focus here is on accelerating domestic capacity for rare earth and critical minerals, including dedicated corridors across four states (Odisha, Kerala, Andhra Pradesh, and Tamil Nadu).
5. Chemicals: Establishment of three dedicated chemical parks and a ₹20,000 crore outlay for Carbon Capture, Utilisation, and Storage (CCUS) technologies.
6. Textiles: A comprehensive package including the National Fibre Scheme and the development of Mega Textile Parks.
7. Real Estate: Special REITs will be launched for the monetisation of public sector assets.[14]

The "Orange Economy" and Social Services

Turning to the creative sector, the budget formally recognises the "Orange Economy" (industries like VFX, gaming, and design), projecting a need for 2 million professionals by 2030.

1. Creative Education: The government will support setting up AVGC Content Creator Labs in 15,000 secondary schools and 500 colleges.
2. Social Allocations: While education (2.6%) and health (2%) remain relatively stable, new initiatives include establishing a girls' hostel in every district for STEM institutions and creating five regional medical hubs to boost medical value tourism.[15]

Agriculture and Rural welfare

Finally, the focus in agriculture has shifted from basic subsidies toward enhancing productivity in high-value segments.

1. Rural Development: Receives ₹2,73,108 crore, with a significant portion directed to the VB-G RAM G Act (the successor to MGNREGA), which is allocated ₹95,692 crore.

[14] EY, Union Budget 2025-26: Key Insights, Tax Updates & Sectoral Impact (EY India, 2025) https://www.ey.com/en_in/services/tax/union-budget-2025 accessed 11 February 2026.
[15] Press Information Bureau (n 7)

2. Strategic Crops: The Coconut Promotion Scheme will replace ageing trees with high-yield varieties, while the Bharat-VISTAAR AI tool will provide farmers with customised advisory services.[16]

Energy transition and Sustainability

Decarbonisation is explicitly prioritised with an INR 20,000 crore roadmap for Carbon Capture, Utilisation, and Storage (CCUS) over five years, covering heavy industries like steel, cement, and refineries. Furthermore, the budget also extends customs duty exemptions for battery energy storage manufacturing, solar inputs, and all nuclear power project goods until 2035 to accelerate the deployment of clean energy technologies. [17]

Concluding Remarks

Ultimately, the Union Budget 2026-27 lays out a comprehensive roadmap anchored in the philosophy of Kartavya (Duty) and Yuva Shakti (Youth Power).By prioritising high-multiplier sectors like infrastructure and defence and introducing strategic pillars such as the "Orange Economy" and the "Biopharma SHAKTI" mission 3, the government has signalled a decisive shift from post-pandemic recovery to long-term structural transformation.[18]
The restriction of Sovereign Gold Bond (SGB) capital gains exemptions to original subscribers and the hike in Securities Transaction Tax (STT) on derivatives act as dual mechanisms. They curb speculative excesses while mobilising revenue to maintain the fiscal deficit target of 4.3%.[19] Simultaneously, the introduction of the Income Tax Act 2025 and the VB-G RAM G Act represents a willingness to expend political capital on deep-rooted legislative reforms that modernise the country's fiscal and welfare architecture.[20]

[16]Ibid.
[17]Ministry of Finance (n 9)
[18]The Infra Post, 'Where Does Every Rupee Come From – and Where Does It Go? Budget 2026-27: Details Government Revenue and Spending Pattern' (The Infra Post, 1 February 2026) https://theinfrapost.com/where-does-every-rupee-come-from-and-where-does-it-go-budget-2026-27-details-govt-revenue-and-spending-pattern/
[19]Moneylife Digital Team, *Bought Sovereign Gold Bonds from the Market? Budget 2026 Brings a Capital Gains Tax Shock* (Moneylife, 2 February 2026) https://www.moneylife.in/article/bought-sovereign-gold-bonds-from-the-market-budget-2026-brings-a-capital-gains-tax-shock/79547.html
[20]The Indian Express, 'No Mention of VB-G RAM G in Budget Speech, Finance Minister Allocates Rs 95,692.31 Crore' (Indian Express, 1 February 2026) https://indianexpress.com/article/india/no-mention-of-vb-g-ram-g-in-budget-speech-finance-minister-allocates-rs-95692-31-crore-10507237/

However, the structural shift in rural welfare moving from the 100% centrally funded MGNREGA to the 60:40 shared VB-G RAM G model places a significant onus on state governments. While this promotes fiscal federalism, it also risks straining state finances.[21] Similarly, the pivot towards "mission-mode" interventions in social sectors, such as the Medical Tourism Hubs and AVGC Labs, suggests a strategy focused on qualitative outcomes and private sector leverage, counterbalancing the statistically stagnant allocations for education (2.6%) and health (2%).[22]

In conclusion, the efficacy of this budget will not be measured solely by the allocations but by the successful operationalisation of its new institutional frameworks: the "City Economic Regions", the "Infrastructure Risk Guarantee Fund" and the digital backbone of "Bharat-VISTAAR". If executed effectively, these pillars have the potential to reduce the debt-to-GDP ratio to the targeted 50% by 2031.

[21] Multibagg AI, 'Budget 2026: Rural Employment Overhaul with ₹95,692 Crore VB-G RAM G Allocation' (Multibagg AI, 1 February 2026) https://www.multibagg.ai/market-pulse/articles/budget-2026-rural-employment-vbg-ramg-cml3wdrxc0013mr0j4bsqls24 (multibagg.ai

[22] Invest India, 'India's Union Budget FY 2026-27: Key Highlights' (Invest India, 1 February 2026) https://www.investindia.gov.in/team-india-blogs/indias-union-budget-fy-2026-27-key-highlights