Beyond Headlines

EDITION 2

DECODING BUDGET '26

FINANCE AND INVESTMENT CELL
SHRI RAM COLLEGE OF COMMERCE

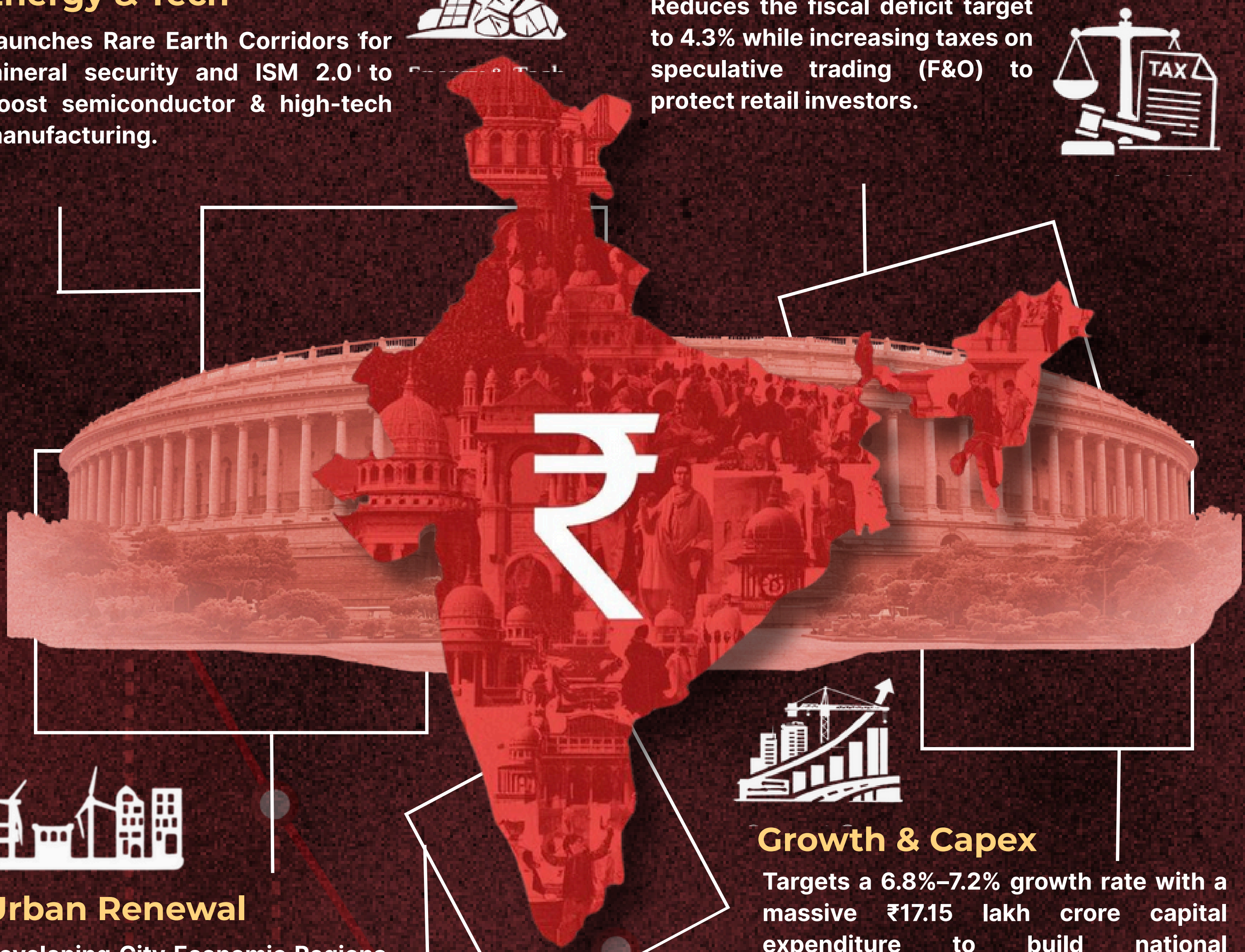
BUDGET 2026

Energy & Tech

Launches Rare Earth Corridors for mineral security and ISM 2.0 to boost semiconductor & high-tech manufacturing.

Fiscal Stability

Reduces the fiscal deficit target to 4.3% while increasing taxes on speculative trading (F&O) to protect retail investors.



Growth & Capex

Targets a 6.8%–7.2% growth rate with a massive ₹17.15 lakh crore capital expenditure to build national infrastructure.

Urban Renewal

Developing City Economic Regions in Tier-2/3 cities with ₹5,000 crore each to reduce pressure on major metros.

Orange Economy

Focuses on formalizing the AVGC & Comics sector to create 2 million jobs by 2030.

Niche Tourism

Focus on Medical/Buddhist circuits.

Blue Economy

Sustainable maritime infrastructure.

Green Transition

promoting green hydrogen and small modular nuclear reactors

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INTRODUCTION

Budget 2026-27 feels less like an announcement-heavy exercise and more like a quiet attempt to adjust how growth is being pursued. There are no sharp turns but there are several small signals about what the government seems more comfortable prioritising now and what it is slowly moving away from.

The focus is not only on how fast the economy grows, but on where that growth comes from and how durable it is. Some choices suggest an effort to reduce pressure on a few overworked centres, while others point to a desire to lock India into longer-term global systems rather than rely on short cycles of demand.

As the inaugural budget prepared in Kartavya Bhawan, the policy framework is codified through the "3 Kartavyas": (i) Accelerating and Sustaining Economic Growth via enhanced productivity and competitiveness; (ii) Building Capacity to fulfil citizen aspirations; and (iii) Sabka Sath, Sabka Vikas, ensuring equitable access to resources across all regions and demographics. This strategic triad seeks to insulate the domestic economy from volatile global dynamics while maintaining a consistent real growth momentum of 6.8% to 7.2%.

The following table discusses the core financial data, illustrating a persistent commitment to investment-led growth and rigorous fiscal consolidation.

The budget projects 10% nominal GDP growth for FY27. When contrasted with the real growth target of 6.8% to 7.2%, this implies a GDP deflator of approximately 3%, suggesting a managed inflation-growth trade-off. Strategically, the commitment to reduce the Fiscal Deficit to 4.3%and the long-term target of 50%±1% debt-to-GDP by FY31 is designed to enhance investor confidence and mitigate transfer pricing friction.

More critically, the budget reveals a "productive bias" in the quality of expenditure. While the Revenue Deficit remains stagnant at 1.5% of GDP, Effective Capital Expenditure is slated to rise to 4.4% of GDP (₹17.15 lakh crore). This shift suggests that fiscal consolidation is being achieved by curbing unproductive revenue spending while aggressively expanding the asset-creation budget, thereby lowering the incremental capital-output ratio (ICOR) and freeing up resources for priority sectors like the creative economy.

Some of the most novel highlights of the budget are as follows -

Orange Economy

Budget 2026–27 puts a clear spotlight on the Orange Economy. AVGC, digital media, gaming, design, and related creative sectors have been grouped together more seriously this time.

The headline number is the target of around 2 million jobs by 2030, supported through:

- skilling programs,
- incubation support, and
- easier access to finance for small creative firms.

There is also mention of export promotion for Indian content and IP, though exact allocation figures can be inserted here if needed.

What stands out is not just the job numbers, but the timing. Traditional job engines are not absorbing labour fast enough, especially educated youth. Creative industries sit in an awkward middle space:

- not fully informal,
- not heavy industry either.

They scale faster, require less physical capital, and plug naturally into global markets. That probably explains why the government is willing to back them now, even though outcomes are harder to measure.

There is also a soft power angle that is not stated directly. Indian gaming studios, animation houses, and content platforms already export work quietly. Formalising this ecosystem helps India move from being a backend service provider to owning IP. That shift matters long term. IP creates recurring value, not one-time wages.

The risk, though, is execution. Creative work clusters best in cities with talent density and cultural freedom. If support becomes too scheme-driven, it may miss how these industries actually grow.

Still, as a direction, this feels like an attempt to recognise where modern employment is quietly moving, rather than forcing old models to stretch further. However, uncertain rules can limit growth despite funding and strong momentum in the space.

City Economic Regions

The budget introduces City Economic Regions with an allocation of ₹5,000 crore per region over five years. The focus is on Tier-2 and Tier-3 cities, to turn them into self-sustaining growth hubs rather than satellite towns dependent on metros.

Infrastructure, logistics, housing, and local industry support are the main pillars.

This move seems to accept something policymakers have resisted for years: megacities are saturated. Mumbai, Delhi, Bengaluru keep pulling people in, but returns are falling. Congestion costs, housing stress, and urban inequality are no longer side effects; they are structural limits. Pushing growth outward is less about balance and more about necessity.

By bundling cities with surrounding districts into economic regions, the government is trying to break the idea that growth must be city-centric.

- Manufacturing units,
- warehouses, and
- service firms

can sit outside core cities if connectivity works. That is the best. If roads, rail, and digital infrastructure align, smaller cities can absorb jobs without recreating metro-level chaos.

The long-term impact depends heavily on state capacity. Money alone will not build ecosystems.

- Local governance,
- land policies, and
- skill availability

will decide outcomes. Some regions may take off unevenly, others may stall. That unevenness is not a failure, but it will look messy.

Overall, this feels less like a flashy reform and more like a slow correction. If it works, it could quietly reshape India’s urban map over a decade, not overnight.

Rare Earth Corridors

Budget 2026 announces dedicated rare earth corridors across four coastal states. The aim is to strengthen supply chains for critical minerals used in electronics, EVs, defence, and renewable energy. Processing, logistics, and downstream manufacturing are all part of the corridor concept. The four states selected to establish dedicated rare earth corridors are Odisha, Kerala, Andhra Pradesh and Tamil Nadu. These specific states were chosen because they are mineral-rich and already possess some existing mining and processing infrastructure.

This is clearly a strategic move, not just an industrial one. Globally, rare earth supply chains are concentrated and politically sensitive. India has reserves, but has historically underutilised them due to environmental concerns, regulatory delays, and lack of processing capability. The corridor approach suggests a shift from passive ownership to active integration.

Why now? Because demand is no longer optional. EVs, wind turbines, chips, and advanced batteries all rely on these materials. Depending on imports in such a space creates vulnerabilities that are no longer theoretical. Trade disruptions, geopolitical tensions, and price shocks have made that clear.
There is also a coastal logic here. Ports reduce logistics friction, and coastal industrial clusters are easier to plug into global value chains. At the same time, this raises environmental and social questions. Mining and processing are disruptive. Managing community impact will be as important as extraction targets.
In the long run, if India can move beyond raw extraction into processing and component manufacturing, value capture increases significantly. That is the real prize. Otherwise, corridors risk becoming just another export channel with limited domestic spillover.

ISM 2.0

With a greater emphasis on scaling manufacturing and integrating India into international electronics supply chains, ISM 2.0 expands upon the previous India Semiconductor Mission. In addition to skill development and infrastructure support, the budget indicates ongoing incentives for fabs, ATMP units, and supplier ecosystems. This is where specific incentive sizes can be entered.
The tone is different now. Previous attempts felt almost symbolic and aspirational. ISM 2.0 seems more realistic. Being dependable at particular points in the chain is more important than becoming a chip superpower. That distinction is important. Consistency is more rewarded in semiconductor ecosystems than ambition.
Global restructuring is another reason for this push. Businesses are moving away from reliance on a single nation by diversifying their supply chains. India is presenting itself as a long-term hedge. Even a partial integration creates jobs, learning opportunities, and strategic leverage, but it won't quickly replace current hubs.
There may be serious repercussions. Precision tools and chemicals are among the many suppliers that electronics manufacturing depends on. Clusters typically form after a few anchor units stabilize. That process is cumulative, slow, and frequently frustrating.
The dangers are still known. Incentives alone cannot address high capital costs, power and water constraints, and talent shortages. But it would be worse to back off now. ISM 2.0 doesn't feel like a big victory, but rather a recognition that this is a ten-year project. That realistic

Niche Tourism

The budget uses geography and culture to create highly targeted tourism circuits that strengthen India's soft power:
• Buddhist Tourism Circuits: To capitalise on religion and culture, New Delhi is advocating for the creation of these circuits in the Northeast.
• Experiential Heritage: With carefully planned walkways and immersive storytelling technologies, fifteen archaeological sites, including Sarnath and Lothal, will be transformed into dynamic experiential destinations.
• Eco-Trails: In addition to holding the inaugural Global Big Cat Summit, the budget calls for the construction of particular mountain, turtle, and bird-watching trails in a few states.
• Medical Value Tourism: To draw in foreign patients with superior, more affordable medical care, the government will assist states in setting up five medical tourism hubs in collaboration with the private sector.

Securities Transaction Tax

In the Budget 2026-2027, the Government proposed significant increases to the Securities Transaction Tax (STT), specifically targeting the Futures and Options (F&O) segment of the capital market.

The impact and details of these changes include:

Rate Adjustments: The STT on Futures is set to increase from 0.02% to 0.05%. For Options, the tax on both premiums and the exercise of options will rise to 0.15% (from 0.1% and 0.125% respectively).

Market Regulation: The primary objective is to provide a "reasonable course correction" within the F&O segment, suggesting an effort to manage speculative trading volumes.

Fiscal Consolidation: The hike is designed to generate additional revenue for the Government. This supports the broader goal of reducing the fiscal deficit to 4.3% of GDP for the 2026-27 financial year.

Contextual Shifts: These changes coincide with a move to encourage more stable, long-term equity investment by increasing the individual investment limit for Persons Resident Outside India (PROI) from 5% to 10%.

Roadmap for Viksit Bharat

The 2026–27 Union Budget represents a relatively sophisticated supply-side response to a period of persistent global trade disruptions and strategic uncertainty. Rather than relying on broad stimulus or demand-heavy measures, the government appears to be prioritising structural resilience. This is visible in the attempt to balance fiscal discipline, with the deficit anchored at around 4.3%, alongside tightly targeted interventions aimed at strengthening domestic production, diversification, and risk absorption. The emphasis is less on short-term acceleration and more on insulating the economy against external shocks.

Across initiatives such as the Orange Economy push, City Economic Regions, ISM 2.0, and Rare Earth Corridors, the budget consistently focuses on reducing upstream vulnerabilities while improving downstream productivity. Measures like the effective 0.7% tax regime for electronics warehousing signal an intent to make India operationally competitive within global value chains, not just attractive on paper. Similarly, the development of monazite-rich rare earth corridors reflects a recognition that access to critical inputs is now as important as final-stage manufacturing.

What ties these interventions together is the logic of ecosystem-building. Rather than isolated sectoral incentives, the budget attempts to align infrastructure, skills, logistics, and taxation within specific growth clusters. This approach is also extended into newer areas such as niche tourism, which is positioned less as a consumption booster and more as a regional development and employment lever. By focusing on targeted tourism segments rather than mass expansion, the government seems to be aiming for higher value addition with lower strain on existing infrastructure.

On the financial side, adjustments to the Securities Transaction Tax indicate an awareness of capital market behaviour and revenue stability, without aggressively disrupting investor sentiment. This suggests a preference for fine-tuning over abrupt policy shifts, consistent with the broader tone of the budget.

Taken together, Budget 2026–27 reads as a cohesive macroeconomic roadmap rather than a collection of headline announcements. Its success will depend heavily on execution and coordination across states and institutions. Still, the underlying strategy reflects an effort to move India toward long-term structural transformation by systematically addressing both supply constraints and strategic exposure in an increasingly fragmented global economy.

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APPENDIX

- Key features of budget 2026-2027
- Budget at a glance
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- Union Budget 2026: Key Highlights by Groww