

INVESTMENT LED GROWTH AND FISCAL DISCIPLINE: EVALUATING THE DEVELOPMENTAL IMPACT OF INDIA'S UNION BUDGET 2026-27

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ABSTRACT

The Union Budget 2026-27 is a key policy step of fiscal policy in India's push for Viksit Bharat, developed in an uncertain world of economic instability, geopolitical fragmentation, and fast-changing technology. This paper analyses the fiscal architecture of the Union Budget 2026-27 with a particular focus on fiscal policy orientation, capital expenditure strategy, deficit management, and sectoral priorities, and assesses its implications for India's economic development. Using a descriptive analytical technique on the basis of secondary data (official budget documents and policy releases), the following aspects of the analysis are performed: expenditure composition, deficit indicators, percentage of GDP, and sector-wise allocation.

Empirical evidence to the Budget reveals a huge tilt of investment-led growth, with total capital expenditure standing at Rs. 12.21 lakhs crores and effective capital expenditure increases to Rs. 17.14 lakhs crores, i.e., 4.4% of GDP, signifying a focus on infrastructure, logistics, energy transition, and industrial capacity building in the country (Government of India, 2026). Large-scale investments in roads, railways, and freight corridors, as well as renewable energy, are expected to crowd in private investment, generate employment, and improve productivity. At the same time, the Budget preserves fiscal prudence, the fiscal deficit is contained at 4.3% of GDP, the debt-to-GDP ratio is declining at 55.6%, and the effective revenue deficit has declined sharply to 0.3%, indicating the improved quality of spending (Press Information Bureau, 2026). Sectoral allocations also gave greater thrust to targeted support for manufacturing and MSMEs through the allocation of the SME Growth Fund of 10,000 crore for MSMEs, human capital development, and digital and green transitions.

The findings suggest that Union Budget 2026-27 is a strategic reorientation from short-term welfare dominance but towards medium and long-term development, led by fiscal governance/cum growth acceleration along with credible fiscal consolidation as a way to build India's long-term economic resilience.

Keywords: Union Budget 2026-27, fiscal policy, capital expenditure, fiscal deficit, economic development, India

1. INTRODUCTION

Union Budget 2026-27 comes at a time of economic slowdown and geopolitical uncertainty in the world economy, as well as rapid technological transformation, and the Budget needs to walk the fine line between stimulus of growth and fiscal discipline. As the principal fiscal policy tool, the Union Budget plays a key role in determining the macroeconomic stability and development over the long term. The Budget 2026-27 represents a strategic shift towards investment-led growth with an increase in capital expenditure to the tune of Rs12.21 lakh crore, and the effective capital expenditure is Rs17.14 lakh crore (4.4% of GDP), and also through fiscal consolidation on the way (Government of India, 2026). By taking infrastructure, manufacturing, MSMEs, energy transition, and human capital as the key focus, the Budget has as its objective to boost productivity, employment generation, and economic resilience while ensuring fiscal credibility (Press Information Bureau, 2026).

2. REVIEW OF LITERATURE

1) Public capex as a growth multiplier

A strand of research of ultimate importance is that of fiscal multipliers, in particular, the differential impact of capital vs. revenue expenditure. It has been widely supported that capex multipliers are bigger and more recurring due to their expansion of productive capacity (infrastructure, logistics, energy systems), and reduction of total costs to the economy. A recent empirical contribution on expenditure multipliers for India motivates the case for separate multiplier estimation of capital and revenue spending in central and state governments, adding to the analytical case

for capex prioritization (Swaroop, n.d.).

In addition to this, studies on time-varying multipliers establish the use of multipliers of government spending that may vary with the cycle and policy regime, suggesting that the effectiveness of capex will vary over the macro environment, financing cost, and implementation capacity (Sachdeva, 2023).

2) “Crowding-in” of private investment

The other theme that has been extensively argued out is whether the government investment space crowds the private capex by augmenting the anticipation of demand and lowering the costs of logistics and transactions. Policy facing tests are along the lines that a long-term infrastructure investment can stimulate complementary investment by businesses, particularly one that is aimed at enhancing connectivity, reliability of power, and urban productivity. The official consultation on the Economic Survey in India has consistently emphasized the importance of state capex to continue the growth pace and other contexts to allow the involvement of the private sector, particularly in the post-pandemic reset (Government of India, 2025/26).

Survey evidence in the future also indicates that the intention to invest in corporates will remain privately planned, with the opinion further enhancing the argument that the direction of the macro stability and infrastructure pipelines determines the business investment plan (Press Information Bureau, 2025).

3) Fiscal consolidation as “credible” and growth-friendly

According to recent macro-fiscal literature, the most sustainable kind of consolidation is credible yet non-disruptive, which means that the gap decreases in stages but safeguards growth-enhancing capex. The Economic Survey 202526 of India directly considers fiscal tightening as credible and able to co-exist with an enduring capital expenditure positioning of deficit reduction as a sustained medium-term stabilizing goal, as opposed to an austerity shock (Government of India, 2025/26).

The concept of striking a balance between consolidation and growth is emphasized by the International Monetary Fund Article IV consultation of India, which is more concerned with the quality of expenditure and macro structure (International Monetary Fund, 2025).

4) Debt sustainability and interest burden constraints

A similar line of work is the contribution of the dynamics of the public debt in India and the constraint existing due to high interest payments, which has a structural constraint on development space in future budgets. According to Eichengreen, Gupta, and Ahmed (2023), as long as the headline deficits do not assure debt sustainability, financing structure, contingent liabilities, and long-term expansion assumptions do, which are the reasons why the credibility of consolidation is important to sovereign borrowing cost. This is in line with the sustained issues in fiscal policy debates; despite deficit reduction, the interest-to-revenue ratio may decline when revenue buoyancy deteriorates, or interest rates on party borrowing are still high, and this is where tax efficiency is combined with expenditure quality.

5) Fiscal rules and FRBM credibility

Rule-based type of fiscal frameworks with emphasis made on FRBM architecture is still at the center of both scholarly and political discussions. According to the analytical commentary of the National Institute of Public Finance and Policy, it is the soundness of realistic anchors, off-budget transparency, and credibility of medium-term trails that make results possible in FRBM, particularly after the consequences of the pandemic period (NIPFP, 2025).

Associated NIPFP outputs are equally confident that the fiscal multipliers and growth effects need to determine the structure of spending, and capex and effective social spending provide greater returns in multiple years than untargeted revenue expenditures (NIPFP, 2022-2025).

6) Budget quality, capex effectiveness, and implementation risk

The latest budget analysis is expected to consider the quality and efficiency of spending alongside the magnitude of an allocation that appraises the timeliness of project conclusion, the ability of the state, the effectiveness of procurement exercise, and institutional checks on budgeting. According to policy research, effective use of policy has shown that effective capex (capex and grants to facilitate creation of capital assets) is a convenient measure to determine whether budgets are actually investment-led (ORF, 2026).

Simultaneously, the sectoral reporting demonstrates that the capex strategies are spreading to both core industries (e.g., steel PSUs) and social infrastructure (e.g., tertiary health institutions) and shows demand-capacity pressures and utilization issues, which can potentially influence results (Economic Times, 2026; Times of India, 2026).

7) Market and ratings-agency interpretation of consolidation

The interpretation of fiscal choices as understood by markets, as found in contemporary studies and commentary,

is also found. Analyses related to ratings agencies reported in international financial media refer to the fact that India is facing the 2026-27 budget, indicating further limited, but gradual, consolidation with the aim of stabilization of debt-to-GDP, but the issue is concerned with revenue expectations and levels of borrowing requirements (Reuters, 2026a, 2026b).

The significance of the literature is that political parameters involving fiscal choices (deficit goals, debt thresholds) have been related to risk premia, which consequently affect the choice of the household investment and financing infrastructure costs.

Synthesis and Research Gap

In the literature, there is an overwhelming agreement that the capex-based fiscal policy can enhance growth in the long run in the presence of credible consolidation and high execution quality. The main gap in research is micro-to-macro transformation: with particular sectoral capex (transport, energy transition, MSME finance) being converted to productivity and employment in the state and districts, and the impact of implementation limits having multiplier effects. The future work should be additionally assessed with a finer level of project and state outcome data to prove that effective capex can generate a sustained competitiveness, employment, and inclusion.

3. OBJECTIVES OF THE STUDY

The present study aims to:

1. Examine the fiscal policy orientation of the Union Budget 2026-27.
2. Analyze trends and composition of capital expenditure.
3. Evaluate fiscal deficit, revenue deficit, and primary deficit trends.
4. Assess sectoral allocations and their relevance to economic development.
5. Identify real economic implications and policy outcomes of Budget 2026-27.

4. RESEARCH METHODOLOGY

In the pursuit to analyse the fiscal structure and development orientation of the Union Budget 2026-27, the research design is a descriptive and analytical research design that solely makes use of secondary data. Authoritative and official sources have been used to gather data, such as the Budget at a Glance 2026-27 published by the Ministry of Finance and the Summary of Union Budget 2026-27 published by the Press Information Bureau. The presentation will incorporate the trend analysis, the percentage ratio analysis in relation to the GDP, and the expenditure analysis based on the sectors to assess the fiscal priorities and the outcome. Both qualitative and quantitative methods are used, such that analytical rigour and reliability are provided using tested government fiscal statistics.

5. FISCAL POLICY ORIENTATION OF UNION BUDGET 2026-27

Table 5.1: Fiscal Policy Orientation of Union Budget 2026-27

Fiscal Dimension	Budget Provision (2026-27)	Key Figures	Policy Orientation	Economic Development Implication
Total Expenditure	Expansionary but calibrated	₹53.47 lakh crore	Growth-supportive fiscal stance	Stimulates aggregate demand and public investment
Revenue Receipts	Strengthening non-inflationary resources	₹35.33 lakh crore	Revenue mobilization with compliance reforms	Enhances fiscal sustainability
Capital Expenditure (Capex)	Strong investment-led focus	₹12.21 lakh crore	Infrastructure-centric growth strategy	Boosts productivity, employment, and private investment
Effective Capital Expenditure	Capex + grants for asset creation	₹17.14 lakh crore ($\approx 4.4\%$ of GDP)	Long-term development orientation	Improves the quality of public expenditure
Fiscal Deficit	Gradual fiscal consolidation	4.3% of GDP	Prudence without growth sacrifice	Maintains macroeconomic stability
Revenue Deficit	Controlled but	1.5% of GDP	Partial reliance on	Indicates need for further

	persistent		borrowing for consumption	structural reforms
Effective Revenue Deficit	Significant improvement	0.3% of GDP	Shift from revenue to capital spending	Signals better expenditure efficiency
Primary Deficit	Near-fiscal balance (excluding interest)	0.7% of GDP	Responsible fiscal management	Enhances long-term debt sustainability
Debt to GDP Ratio	Declining trajectory	55.6% (BE 2026–27)	Medium-term consolidation path	Reduces interest burden over time
Federal Transfers to States	Strengthening cooperative federalism	₹25.43 lakh crore	Decentralized development strategy	Supports state-level capital formation
Interest Payments	Major fiscal constraint	₹14.04 lakh crore	Legacy debt servicing	Limits fiscal space for social spending
Overall Fiscal Strategy	Growth-first with discipline	—	Investment-led consolidation model	Supports Viksit Bharat vision

Source: Government of India, Ministry of Finance. Budget at a Glance 2026–27, and Press Information Bureau. Summary of Union Budget 2026–27

- The 2026-27 Union Budget has a position on a balanced fiscal approach, which balances the acceleration of growth with fiscal discipline, following the three guiding principles of kartavya, propelling growth, creating capacity, and promoting growth inclusive of the whole population.
- The expenditure is estimated at ₹53.47 lakh crore, which represents an expansionary policy to keep the economic activity going without straining the fiscal limits too much.
- Revenue receipts of 35.33 lakh crore identify better revenue collection by the adoption of compliance-based tax reforms and better performance in the non-tax revenue collection.
- The capital receipts of 18.14 lakh crore are still showing sustained, albeit controlled dependence on market borrowings to finance productive investment by the government.
- The major characteristic of the Budget is that the capital expenditure is given huge priority as 12.21 lakh crore is assigned to infrastructure and asset-creating functions, which increase the long-term productivity.
- The capital expenditure, such as the grants towards creation of capital assets, is effectively growing to 17.14 lakh crore (approximately 4.4% of GDP), and the sign of consumption-based expenditure is replaced by investment-based growth.
- Fiscal deficit is enclosed at 4.3% of GDP, representing a sign that they are determined to enhance fiscal consolidation slowly at the expense of growth targets.
- Improvement of the effective revenue deficit (0.3% of GDP) is an indication of improved expenditure quality and less on the revenue side.
- A dropping 55.6 percent ratio between the debt and the GDP enhances the macroeconomic stability and the fiscal space ahead.
- The Budget is, on the whole, a growth-first yet disciplined fiscal policy reflecting the long-term vision of development of India Viksit Bharat.

6. CAPITAL EXPENDITURE STRATEGY AND GROWTH IMPLICATIONS

Table 6.1: Capital Expenditure Strategy and Growth Implications in Union Budget 2026-27

Component	Budget Provision (2026–27)	Key Figures	Strategic Focus	Growth and Development Implications
Total Capital Expenditure	Significant increase in public investment	₹12.21 lakh crore	Infrastructure-led growth model	Stimulates demand, job creation, and economic momentum
Effective Capital Expenditure	Capex + grants for asset	₹17.14 lakh crore (≈4.4% of GDP)	Quality expenditure	Improves the long-term productive capacity of

	creation		enhancement	the economy
Share of Capex in Total Expenditure	Rising proportion over time	~22.8% of total expenditure	Shift from revenue to capital spending	Indicates structural improvement in fiscal composition
Transport Infrastructure	High allocation to rail, roads, and logistics	Roads, railways, freight corridors	Connectivity-driven development	Reduces logistics cost, boosts trade competitiveness
Urban & Regional Infrastructure	City Economic Regions (CERs)	₹5,000 crore per CER over 5 years	Urban-centric growth hubs	Promotes agglomeration economies and regional balance
Energy & Green Infrastructure	Support for renewable energy & batteries	Duty exemptions, energy outlay ₹1.09 lakh crore	Energy transition & sustainability	Encourages EV ecosystem, energy security
Manufacturing & Industrial Capex	Strategic sectoral investment	Textiles, biopharma, critical minerals	Make-in-India & Atmanirbhar Bharat	Enhances domestic value chains and exports
MSME Capital Support	SME Growth Fund	₹10,000 crore	Scaling MSMEs as growth engines	Facilitates innovation, employment, and exports
Crowding-in Effect	Public investment induces private capex	Multiplier-driven	Public-private synergy	Strengthens private sector confidence
Employment Generation	Labour-intensive capex focus	Construction, logistics, manufacturing	Inclusive growth	Generates direct and indirect employment
Long-term Productivity Impact	Asset-based spending	Infrastructure & technology assets	Structural transformation	Sustains high GDP growth potential
Overall Capex Strategy	Sustained and front-loaded	Multi-year investment pipeline	Development-oriented fiscal policy	Positions India for medium and long-term growth

Source: Government of India, Ministry of Finance. Budget at a Glance 2026–27, and Press Information Bureau. Summary of Union Budget 2026–27

- Lastly, capital expenditure has taken center stage in the fiscal growth strategy of the Union Budget 2026-27, representing a great change in emerging economic development, shifting to an investment-led one.
- The total capital expenditure is estimated to be at 12.21 lakh crore, showing a huge growth of investment by the government to finance infrastructure and productive assets.
- Quality improvement in terms of capital spending, which entails grants to asset creation, increases to 17.14 lakh crore, taking the form of almost 4.4% of GDP.
- Average capital expenditure on public in the last ten years has gone up by almost 700 percent, from ₹2 lakh crore in FY 2014-15 to more than 12 lakh crore in FY 2026-27, and clearly demonstrates the continued investment in infrastructure-led growth.
- An increasing proportion of expenditure on capital (approximately 22.8 percent of aggregate expenditure) indicates a structural change in the state of expenditure that does not focus on revenue-heavy expenditure.
- Major investments in transport infrastructure, roads, railways, freight corridors, and waterways are required to minimize logistics costs and competitiveness in trade.
- City Economic Regions and other urban and regional infrastructural developments foster agglomeration economies and even-distributed regional development.

- Capital support to energy transition, manufacturing, and the MSMEs reinforces the domestic value chains and creates employment.
- High capital expenditure will promote crowding-in of private investment, strengthening the public-private synergy.
- All in all, the capital expenditure plan boosts efficiency, generates jobs, and provides a healthy ground for long-term economic growth.

7. DEFICIT TRENDS AND FISCAL CONSOLIDATION

Table 7.1: Deficit Trends and Fiscal Consolidation in Union Budget 2026-27

Type of Deficit	2024-25 (Actuals)	2025-26 (Revised Estimates)	2026-27 (Budget Estimates)	% of GDP (2026-27)	Fiscal Interpretation	Implications for Economic Development
Fiscal Deficit	₹15.74 lakh crore	₹15.58 lakh crore	₹16.96 lakh crore	4.3%	Gradual fiscal consolidation	Maintains macroeconomic stability while supporting growth
Revenue Deficit	₹5.64 lakh crore	₹5.27 lakh crore	₹5.92 lakh crore	1.5%	Controlled but persistent	Indicates partial borrowing for consumption
Effective Revenue Deficit	₹2.92 lakh crore	₹2.19 lakh crore	₹0.99 lakh crore	0.3%	Significant improvement	Reflects a better quality of expenditure
Primary Deficit	₹4.59 lakh crore	₹2.84 lakh crore	₹2.92 lakh crore	0.7%	Near non-interest fiscal balance	Improves long-term debt sustainability
Debt to GDP Ratio	56.4%	56.1%	55.6%	—	Declining debt trajectory	Free future fiscal space
Interest Payments	₹11.16 lakh crore	₹12.74 lakh crore	₹14.04 lakh crore	~20% of total expenditure	Structural fiscal burden	Constrains social and capital spending
Deficit Financing Mode	Market borrowings dominant	G-secs & small savings	Net market borrowing ₹11.7 lakh crore	—	Market-linked financing	Signals confidence in fiscal credibility
FRBM Alignment	Off-path (pandemic legacy)	Re-anchoring phase	On the consolidation path	—	Medium-term fiscal discipline	Supports investor confidence
Overall Deficit Strategy	Stabilisation phase	Consolidation phase	Growth-friendly consolidation	—	Balanced fiscal management	Enables sustainable economic development

Source: Government of India, Ministry of Finance. Budget at a Glance 2026-27, and Press Information Bureau. Summary of Union Budget 2026-27

- **Fiscal discipline:** Fiscal discipline will be among the primary issues in the Union Budget 2026-27, owing to the increasing interest payments and the necessity to maintain the sustainability of long-term debts.
- The Budget maintains a slow pace of fiscal austerity therapies, thus not implementing radical reductions in expenditures that will interfere with economic recovery.
- BE 2026-27 Fiscal deficit is estimated to be 4.3% of GDP, a slight drop of 4.4%, so as to minimize deficit creation.

- In the case of controlled decline, this is a growth-supporting consolidation strategy that signifies that fiscal prudence is matched with development expenditure.
- In 2015, the revenue deficit amounted to 1.5 of GDP, implying that the consumption expenditure is still being funded by part of the government borrowing.
- Nevertheless, the effective revenue deficit has narrowed drastically to 0.3 percent of GDP, which is indicative of a tremendous improvement in the quality of spending by the state.
- The main deficit without interest payment is estimated to be 0.7 percent of the GDP, which indicates that the amount spent on non-interest spending is on the verge of fiscal equilibrium.
- Reducing the debt-to-GDP ratio to 55.6% enhances the fiscal credibility and slowly helps in decreasing the interest liability in the future.
- As a structural constraint, interesting payments consume almost a fifth of the aggregate spending despite consolidation efforts.
- The overall effects of the deficit management strategy of Budget 2026-27 are that it will ensure macroeconomic stability, investor confidence, and sustainable long-term economic growth.

8. SECTORAL ALLOCATIONS AND DEVELOPMENT PRIORITIES

Table 8.1: Sectoral Allocations and Development Priorities in Union Budget 2026-27

Sector	Budget Allocation / Initiative (2026-27)	Key Figures / Provisions	Development Priority	Economic and Social Implications
Infrastructure & Transport	Roads, railways, freight corridors, and high-speed rail	Transport outlay ₹5.99 lakh crore	Connectivity-led growth	Reduces logistics cost, boosts trade and regional integration
Manufacturing & Industry	Support for strategic and labour-intensive sectors	Textiles, biopharma, critical minerals	Industrial expansion & Atmanirbhar Bharat	Enhances domestic value chains and export competitiveness
MSME Sector	SME Growth Fund	₹10,000 crore	MSME scaling and formalization	Promotes entrepreneurship, employment, and innovation
Energy & Power	Renewable energy, battery manufacturing	Energy outlay ₹1.09 lakh crore; duty exemptions	Energy transition & sustainability	Supports EV ecosystem and energy security
Agriculture & Allied Activities	Digital agriculture and productivity enhancement	₹1.63 lakh crore; Bharat VISTAAR (AI-based advisory)	Farm income growth	Improves productivity, risk management, and rural resilience
Rural Development	Rural infrastructure and livelihoods	₹2.73 lakh crore	Inclusive rural growth	Strengthens employment and basic amenities
Urban Development	City Economic Regions (CERs)	₹5,000 crore per CER over 5 years	Urban-led economic hubs	Encourages agglomeration economies and balanced urbanization
Education	School, higher education, and skilling	₹1.39 lakh crore; AVGC labs	Human capital development	Builds a future-ready workforce
Health & Medical Infrastructure	Healthcare capacity and medical tourism	₹1.05 lakh crore; Regional Medical Hubs	Public health strengthening	Improves access, resilience, and health outcomes
Social Welfare	Targeted welfare schemes	₹0.62 lakh crore	Equity and social protection	Supports vulnerable populations

Defence	Defence preparedness and indigenization	₹5.95 lakh crore	National security & domestic production	Boosts the defence manufacturing ecosystem
Digital & Technology	IT, telecom, AI-enabled platforms	IT & Telecom ₹0.75 lakh crore	Digital economy expansion	Enhances productivity and service delivery
Federal Transfers to States	Devolution and grants	₹25.43 lakh crore	Cooperative federalism	Strengthens state-level development capacity
Overall Sectoral Strategy	Balanced and growth-oriented allocation	—	Inclusive and sustainable development	Aligns fiscal policy with Viksit Bharat vision

- The Union budget 2026-27 has a strategic sectoral allocation approach, as the budget targets those sectors that are promising growth, employment, and productivity in their specific areas.
- The infrastructure and transport are heavily invested in, and expenditure on roads, railways, freight corridors, and high-speed railways is suggested to reduce the logistics costs and enhance the industrial competitiveness.
- The manufacturing industry is facilitated by specific programs of textile, biopharma, and critical minerals, which boost the status of Atmanirbhar Bharat and Make in India goals.
- A special 10000 crore SME Growth Fund marks the government's desire to increase the MSMEs as sources of employment, innovation, and exports.
- The investments in energy and power become substantive and boost renewable energy, battery production, and critical mineral processing to proceed with the clean energy revolution in India.
- Exemptions on the duty on lithium-ion battery cells will encourage the production of EVs and energy-based products in the country.
- There is increased funding for education and health, which implies that the human capital development has been put at the center in terms of AVGC labs, skilling programs, and improvement of healthcare facilities.
- Agriculture and rural development: Food production and resilience Agriculture and rural development continue to be of high priority, with the focus on investment in irrigation, other related processes, and AI-based systems such as Bharat-VISTAAR to improve agriculture production and resilience.
- Economic urbanization and balanced urbanization are helped by the increased spending on urban development, such as City Economic Regions.
- All in all, the sectoral allocation policy will facilitate inclusive, sustainable, and long-term economic growth in line with the vision Viksit Bharat.

KEY FINDINGS

- A major increase in total expenditure (₹53.47 lakh crore) is indicative of the attitude with which the government has maintained economic momentum without having to overuse its fiscal expansion.
- The high concentration in capital expenditure (12.21 lakh crore) and effective capital expenditure (17.14 lakh crore) proves that there is a strategic shift of expenditure-based growth into an investment-based growth.
- The rising proportion of capital expenditure in the total expenditure indicates that the quality of expenditure was improved, and long-term productivity and asset formation became one of the priorities.
- The fiscal deficit that is slowly narrowing to 4.3% of GDP is a sign of a moderated fiscal tightening strategy that will not upset growth.
- The effective revenue deficit (0.3% of GDP) narrowed sharply, which indicates improved efficiency of the expenditure on the part of the government, or improvement in the imbalances on the revenue side.
- A near balance of primary deficit (0.7% of GDP) solidifies the beliefs regarding the long-term sustainability of Indian debt.
- Sectoral allocations also expose focused investment in infrastructure, manufacturing, MSMEs, energy transition, education, health, and agriculture, which are vital areas of employment and productivity.
- The other feature is that huge federal transfer to the states strengthens cooperative federalism and decentralized development.

- All in all, the fiscal and sectoral approach of the Budget is in line with the vision of Viksit Bharat, facilitating long-term, inclusive, and sustainable economic growth.

10. CHALLENGES AND POLICY CONCERNS

- The fiscal consolidation measures still affect the expenditure of the government since, currently, high interest payments are consuming a big portion of government expenditure, hence the lack of fiscal flexibility.
- They include: the fact that the revenue deficit has been persistent, which means that the spending on consumption has remained dependent on borrowing.
- A high reliance on market borrowings puts fiscal performance dramatically affected by interest rates and the world economy in a more extreme manner.
- The capability to implement capital projects efficiently is still a problem, as the states and local authorities are limited in their capacity.
- Economic uncertainty in the world could also impact future revenue and investment mood.
- By being efficient and timely in the execution of expenditures, it is important to achieve the desired growth.
- A long-term fiscal restraint will necessitate structural adjustments, better tax compliance, and rationalization of expenditures.

11. CONCLUSION

This discussion of the Union Budget 2026/27 brings out a clear shift in terms of development-based fiscal governance based on capital-based growth and the wise application of deficit management. The priority of productivity enhancement and employment creation is reflected in sustained use of infrastructure, renewable energy, manufacturing, as well as MSMEs, including large-scale transport corridors and the 10,000 crore SME Growth Fund. Meanwhile, the fiscal deficit containing year of 4.3% of GDP and the downward-trending debt-to-GDP ratio of 55.6% make the macro economically stable (Government of India, 2026). On the whole, the Budget is an indication of a viable policy structure that balances the growth aspirations and fiscal prudence in favor of the long-term vision of Viksit Bharat in India (Press Information Bureau, 2026).

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