



COMPLIMENTARY EDITION

UNION BUDGET

2026-27



Understanding the Numbers. Understanding the Nation.

SITOK IAS

Simplicity Towards Knowledge

For UPSC & Academic Preparation



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Union Budget Basics (For Beginners)

The **Union Budget** is basically the "National Pocketbook." It is a detailed plan where the Government tells the people how much money it expects to earn and how it plans to spend that money in the next year.

In the Indian Constitution, the word "Budget" is never actually used; instead, **Article 112** calls it the "**Annual Financial Statement**" (AFS). It is prepared by the **Department of Economic Affairs** (under the Ministry of Finance) and is presented by the **Union Finance Minister** in the Lok Sabha (usually on February 1st). It is an "annual" document because our financial system runs on a **Fiscal Year** which starts on **April 1st** and ends on **March 31st** of the next year.

The Union Budget consists of two main parts:

1. **Revenue Budget** – shows income and expenditure that does not create assets (day-to-day spending, salaries, subsidies, taxes).
2. **Capital Budget** – shows money spent on creating assets or reducing liabilities, such as infrastructure, defence equipment, loans, and investments.

The Budget Dictionary

1. The Time-Travel Terms (Understanding the Dates)

These terms tell you *which* version of the truth you are looking at.





- **Financial Year (FY):** The period from **April 1 to March 31**. Budget 2026-27 covers the upcoming cycle starting April 2026.
- **Budget Estimates (BE):** The "**Goal**." The government's initial plan for what it *hopes* to earn and spend.
- **Revised Estimates (RE):** The "**Mid-term Review**." Updated numbers halfway through the year based on real performance.
- **Actuals:** The "**Final Result**." Confirmed, audited numbers from two years ago (e.g., FY 2024-25).

2. The GDP Family (The "National Income")

This measures the size and health of the entire Indian economy.

- **Nominal GDP:** The "**Face Value**." Total value of everything produced at today's prices. It looks big because it includes inflation (rising prices).
- **Real GDP:** The "**True Growth**." Total value calculated using prices from a fixed past year (2011-12). It removes the "noise" of inflation to show if we actually produced more goods.
- **Debt-to-GDP Ratio:** The "**Credit Score**." It compares what the government owes (Total Debt) to what the country *earns* (GDP).

2026-27 Target: 55.6% (Lower than last year, which is a good sign!).

Example: "India's Mango Economy"

Imagine India produces only mangoes.

Base Year means the reference year whose prices we use to compare growth. It is a fixed year chosen as a benchmark to remove inflation effect.

Why we need it?

Because prices change every year. If we don't fix one year's prices, we cannot know whether GDP increased due to Higher production OR Higher prices.



**Year 1 (Base Year - 2011-12)**

Production: 100 mangoes

Price per mango: ₹10

$$\text{GDP} = 100 \times 10 = ₹1000$$

This is both Nominal and Real GDP in the base year.

Now move to 2026-27.**Case 1: Prices rise, production same**

Production: 100 mangoes

Price per mango: ₹20

$$\text{Nominal GDP} = 100 \times 20 = ₹2000$$

$$\text{Real GDP (using old price ₹10)} = 100 \times 10 = ₹1000.$$



GDP doubled on paper. But we did NOT produce more mangoes. This is inflation effect.

Case 2: Production actually increases

Production: 150 mangoes

Price per mango: ₹20

$$\text{Nominal GDP} = 150 \times 20 = ₹3000$$

$$\text{Real GDP (using old price ₹10)} = 150 \times 10 = ₹1500.$$



Now Real GDP increased from ₹1000 to ₹1500. This means actual growth happened. More mangoes were produced.

Nominal looks big. Real shows truth.**Example: Debt to GDP**

Imagine:

Country's Total Income (GDP) = ₹100

Government Debt = ₹60

$$\text{Debt-to-GDP} = 60\%$$

This means:

For every ₹100 the country earns in a year, Government owes ₹60.



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Now suppose:

GDP grows to ₹120

Debt remains ₹60.

Debt-to-GDP = 50%.

Debt didn't reduce.

But ability to repay improved.

GROWTH OF GDP AND DEBT LINK

GDP Grows **FAST**

Good



GDP

- ↑ Tax income **rises**
- ↓ Borrowing **reduces**
- ▮ Debt stays **stable**



Debt-to-GDP Ratio ↓ **50%**

GDP Grows **SLOWLY**

Bad



GDP

- ⊖ Tax income **stagnates**
- ↑ Borrowing **continues**
- ↗ Debt ratio **rises**



Debt-to-GDP Ratio ↑ **60%**



3. The Receipts Group (The "Income")

Where the money actually comes from.

- **Gross Tax Revenue (GTR):** The "Total Collection." Every rupee collected from every tax before it is shared with anyone.
- **Net Tax Receipts:** The "Centre's Pocket Money." This is what is left for the Central Government after it gives the States their mandatory share (usually 41%).
- **Fiscal Consolidation:** The "Money Diet." A policy of gradually reducing the government's borrowing and "tightening the belt" to keep the economy stable.

Example: "India's Big Kitchen Budget"

Imagine the Government runs a giant kitchen.

Step 1: Gross Tax Revenue (GTR) – The Total Collection

Suppose in one year, the Government collects:

Income Tax = ₹500

GST = ₹700

Corporate Tax = ₹400

Customs + Excise = ₹200

Total Collection = ₹1800

This ₹1800 is **Gross Tax Revenue (GTR)**. It is the full amount collected before sharing.

Step 2: Sharing with States

By rule, around 41% must go to States.

41% of ₹1800 = ₹738

This money is transferred to States.

Step 3: Net Tax Receipts – Centre's Actual Money

What remains with Centre?

₹1800 - ₹738 = ₹1062

This ₹1062 is **Net Tax Receipts**. This is the Centre's actual usable money.

So:



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GTR = Total collected

Net Tax Receipts = What Centre keeps after sharing

Now **add borrowing**. Suppose Centre spends ₹1500 but has only ₹1062.

Gap = ₹438

This ₹438 is borrowing. This is Fiscal Deficit.

Now comes Fiscal Consolidation – The Money Diet

Suppose next year:

Better tax collection → Net Tax rises to ₹1200

Spending control → Total spending reduced to ₹1400

New Gap = ₹200. Borrowing reduced from ₹438 to ₹200.

That gradual reduction of borrowing = Fiscal Consolidation.

One-Line Understanding:

GTR = Total taxes collected

Net Tax Receipts = Centre's share after 41% goes to States

Fiscal Consolidation = Gradually reducing borrowing year after year

4. The Deficit Family (The "Gap" between Income & Expense)

These terms explain why the government needs to borrow money.

- **Fiscal Deficit:** The "**Borrowing Requirement.**" The total gap between what the government spends and what it earns (without borrowing).

2026-27 Target: 4.3% of GDP.

- **Revenue Deficit:** The "**Daily Running Gap.**" When daily income (taxes) isn't enough to pay daily bills (salaries/interest). It's like using a credit card to buy groceries.

Target: 1.5% of GDP.





- **Effective Revenue Deficit:** The "Productive Gap." It is Revenue Deficit *minus* money given to states to build assets. It shows the "pure consumption".
- **Primary Deficit:** The "New Loan Gap." Fiscal Deficit *minus* interest on old loans. It shows how much we are borrowing for *today's* needs specifically.

Example: "Government Household Budget"

Imagine the Government is a family.

Total yearly income = ₹1000

Total yearly spending = ₹1500

So immediately we see:

Gap = 1500 - 1000 = ₹500

That ₹500 must be borrowed.

That is Fiscal Deficit.

Now break the ₹1500 spending.

Out of ₹1500:

- Salaries, pensions, subsidies = ₹800
- Interest on old loans = ₹200
- Money given to states to build roads/schools = ₹200
- New infrastructure by Centre = ₹300

Now we classify.

<p>Revenue Expenditure (daily bills):</p> <ul style="list-style-type: none"> • Salaries, pensions, subsidies = ₹800 • Interest = ₹200 <p>So Revenue Expenditure = 800 + 200 = ₹1000</p> <p>Revenue Income = ₹1000</p>	<p>Now imagine salaries increase to ₹900.</p> <p>Then:</p> <p>Revenue Expenditure = 900 + 200 = ₹1100</p> <p>Revenue Income still = ₹1000</p> <p>Revenue Deficit = 1100 - 1000 = ₹100</p>
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<p>So:</p> <p>Revenue Deficit = Revenue Expenditure - Revenue Income = 1000 - 1000 = 0</p> <p>Meaning: The family can pay its daily expenses from its income. It is NOT borrowing for groceries or electricity bills.</p> <p>This is good.</p>	<p>Now the family is borrowing ₹100 just to pay daily bills.</p> <p>This is not healthy long term.</p>
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So Revenue Deficit becoming zero is good.

Now Effective Revenue Deficit.

Remember: ₹200 was given to states to build roads and schools.

“Out of ₹1500:

- Salaries, pensions, subsidies = ₹800
- Interest on old loans = ₹200
- **Money given to states to build roads/schools = ₹200**
- New infrastructure by Centre = ₹300”

In the Union Budget classification, that ₹200 given to states for building roads is recorded as Revenue Expenditure in the Centre’s books.

That money creates assets. So even if total Revenue Deficit is ₹100, some part of revenue spending actually builds assets. Effective Revenue Deficit removes asset-building grants.

Formula:

Effective Revenue Deficit = Revenue Deficit - Grants for asset creation

If grants = ₹200, Revenue Deficit = ₹100 | Effective Revenue Deficit = 100 - 200 = -100

In practice, ERD is not interpreted as negative “-100”. What it really means is there is zero pure consumption borrowing.



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So ERD becoming zero is very healthy.

Now Fiscal Deficit.

$$\begin{aligned}\text{Fiscal Deficit} &= \text{Total Spending} - \text{Total Income} \\ &= 1500 - 1000 = ₹500\end{aligned}$$

This includes everything:

- Infrastructure
- Roads
- Asset building
- Interest
- Consumption

Should Fiscal Deficit be zero? Not necessarily.

If the family borrows ₹300 to build a house, that is not bad.

So borrowing for infrastructure (₹300 new infra + ₹200 grants) is productive borrowing.

In a growing country, some Fiscal Deficit is normal.

But it should not explode.

Now Primary Deficit.

$$\text{Primary Deficit} = \text{Fiscal Deficit} - \text{Interest}$$

$$500 - 200 = ₹300$$

This shows how much fresh borrowing is happening for today's spending.

If Primary Deficit becomes zero:

It means the family is only borrowing to pay old interest, not for new overspending. That is strong fiscal discipline.

If Primary Deficit becomes negative (Primary Surplus):

The family earns enough to pay interest without borrowing.

Debt will start stabilizing.



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That is very good.

One-Page Understanding:

Fiscal Deficit = Total Gap (Spending - Income)

Revenue Deficit = Daily bills gap

Effective Revenue Deficit = Pure consumption gap

Primary Deficit = Fresh borrowing excluding old interest

Flow Logic:

Income insufficient → Borrowing needed → Fiscal Deficit

If borrowing for daily bills → Revenue Deficit

Remove asset grants to states → Effective Revenue Deficit

Remove old interest → Primary Deficit

Best case:

Revenue Deficit → 0

Effective Revenue Deficit → 0

Primary Deficit → 0 or negative

Fiscal Deficit → Moderate and sustainable

Zero Fiscal Deficit is not required in a growing economy. Sustainable Fiscal Deficit is the goal.

The Big Picture (The Soul of the Budget)

The 2026-27 Budget is officially titled a "Yuva Shakti-driven Budget." It moves away from short-term "populist" giveaways and focuses on a duty-based framework called the **Three Kartavyas**. This is a shift from "Rights" to "Responsibilities" of the state toward its citizens to achieve *Viksit Bharat 2047*.

The Three Kartavyas (The Three Duties)

The entire budget is built on these three pillars. Think of these as the "Homework" the government has set for the nation:



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First Kartavya: Accelerating and Sustaining Economic Growth

- **What it means:** Ensuring the economy doesn't just grow fast for one year, but stays strong for decades.
- **Focus:** It emphasizes **Productivity** (making more with less) and **Competitiveness** (making Indian goods cheap and good enough for the world).
- **The "Why":** In a world where global wars and supply chains are unpredictable, India must be "resilient" or tough enough to handle shocks.

Second Kartavya: Fulfilling Aspirations and Building Capacity

- **What it means:** Helping people achieve their dreams by improving their personal "capacity."
- **Focus:** This is all about **Human Capital**. It focuses on better schools, modern hospitals, and "Skilling" (teaching jobs of the future like AI or specialized caregiving).
- **The "Why":** Growth is useless if the people aren't skilled or healthy enough to take the jobs that growth creates.

Third Kartavya: Sabka Saath, Sabka Vikas (Inclusive Development)

- **What it means:** Making sure the benefits of the first two Kartavyas reach every single person.
- **Focus:** Targeted efforts for **Farmers, Women, the Poor, and the Underprivileged**. It's about ensuring that a small farmer in a village has the same "access to resources" as a businessman in a city.
- **The "Why":** True development (Viksit Bharat) is only possible when every region and community moves forward together.

The Slogan: "The 3-P Rule"

The Finance Minister used a very punchy slogan to describe the government's working style this year:

"Action over Ambivalence, Reform over Rhetoric, and People over Populism."

Macro-Economic Health Card (2026-27)

Indicator	2025-26 (Revised)	2026-27 (Budget)	Meaning
Total Expenditure	₹49.6 Lakh Crore	₹53.5 Lakh Crore	The total "expense" of the country. It has grown by roughly 7.7%.



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Total Receipts (Non-Debt)	₹34 Lakh Crore	₹36.5 Lakh Crore	The actual "income" (Taxes + Dividends). Borrowings are not included here.
Net Tax Receipts	₹26.7 Lakh Crore	₹28.7 Lakh Crore	This is the pure tax money that stays with the Centre after giving States their share.
Fiscal Deficit Target	4.4% of GDP	4.3% of GDP	The "gap" filled by borrowing. The goal is to reach below 4.0% soon.
Nominal GDP Growth	~10.5%	10%	The value of the economy including inflation. (Real growth is pegged at ~7%).
Debt-to-GDP Ratio	56.1%	55.6%	Total debt compared to the economy size. Target is 50% by 2031.

Sector-wise Analysis of Union Budget 2026–27

1. Manufacturing & Industry (Strategic and Frontier Sectors)

Problems in this sector

India's manufacturing sector faces several structural challenges. Domestic manufacturing value addition is lower compared to major economies like China, Germany, and Japan. Dependence on imported components – especially in electronics and high-tech value chains – makes firms vulnerable to global supply shocks. Many legacy industrial clusters are outdated and lack modern infrastructure and technology.

Contribution to GDP: Manufacturing contributes roughly 17–18% of India's GDP before Budget 2026–27, which is lower than China's ~30% contribution to GDP from manufacturing. This shows the need for scaling up manufacturing capacity.

What Budget 2026–27 announce;

- **Biopharma SHAKTI:** A new initiative with an outlay of ₹10,000 crore over five years to strengthen India's capabilities in biologics and biosimilars – aiming to make India a global biopharma manufacturing hub with upgraded labs and training centres.
- **India Semiconductor Mission 2.0:** Expansion of the semiconductor mission focusing on equipment, materials, Indian IP design, and resilient supply chains.
- **Electronics Components Manufacturing Scheme:** Outlay increased from ₹22,919 crore to ₹40,000 crore to deepen value chains.





- **Rare Earth Corridors & Chemical Parks:** Dedicated zones in four states to support mining, processing, and manufacturing of critical minerals and permanent magnets.
- **Textile Sector Programme:** National Fibre Scheme, Samarth 2.0, Tex-Eco initiative, and cluster modernisation to support all kinds of fibres and technical textiles.
- **Legacy Industrial Cluster Revival:** Scheme to upgrade 200 old industrial clusters with infrastructure and tech upgrades.
- **Champion MSMEs:** A ₹10,000 crore SME Growth Fund to nurture high-potential firms as globally competitive “champion” enterprises.

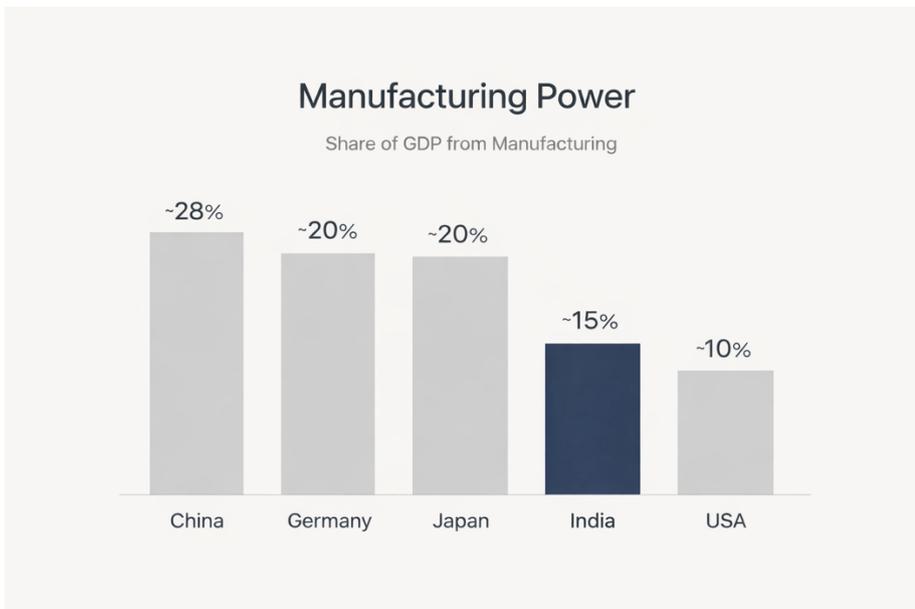
How is it different from last year;

In the 2025–26 budget, the focus was more general on manufacturing and MSME support without such large, sector-specific, high-investment schemes. While schemes like PM MITRA Parks and credit support existed, Budget 2026–27 moves beyond credit and infrastructure towards targeting global competitiveness in high-tech and strategic areas. The new proposals are designed to make India a **manufacturing powerhouse in advanced sectors** rather than focusing mainly on general industrial growth.

Global Comparison-

Country	Manufacturing % of GDP (approx)
China	~28%
Germany	~18-20%
Japan	~20%
India	~13-17%
USA	~10-11%





Possible Impact;

These initiatives will boost domestic value addition, strengthen global competitiveness, and modernize industrial clusters, leading to higher productivity and employment in the sector.

2. Infrastructure & Transport (Physical Connectivity)

Problems in this sector

India's logistics cost is roughly 14% of GDP (compared to 8% in developed nations), making exports expensive. Traditional road transport is also carbon-heavy and slow. The country lacks multi-modal connectivity, and deep-sea shipping and inland waterways are underdeveloped.

What Budget 2026–27 announce;

- **7 High-Speed Rail Corridors:** Including Mumbai-Pune, Delhi-Varanasi, and Hyderabad-Bengaluru.
- **Dedicated Freight Corridor (DFC):** A new east-west corridor connecting Surat to Dankuni.
- **20 New National Waterways:** To be operationalized over 5 years to move cargo cheaply via rivers.
- **Container Manufacturing:** A ₹10,000 Crore scheme to make India self-reliant in shipping containers.

How is it different from last year;

Capital Expenditure (Capex) was increased to ₹12.2 Lakh Crore (an 11.5% hike from last year's ₹11.2 Lakh Cr). The focus moved from just "Highways" (NHAI) to "Multi-modal" connectivity, including Rail and Waterways, and a strong emphasis on reducing carbon emissions in logistics.



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Global Comparison (Strengthen Mains Answers)

Country	Infrastructure % of GDP (approx.)
China	~5-7% of GDP
India	~3.1% of GDP (Central) ~4.4% including states
United States	~2.5-3.0% of GDP
European Union (avg)	~2.5-3.5% of GDP
Japan	~3-4% of GDP

Possible Impact;

Lower logistics costs and improved multi-modal transport will make "Make in India" products more competitive globally and reduce environmental footprint.

3. Agriculture (Rural Stability)

Problems in this sector

Farmers lack real-time, localized data. Traditional extension services are too slow for a country as large as India. High post-harvest losses and low value addition limit farmer incomes, especially for high-value crops. Women entrepreneurs in rural areas have limited access to markets.

What Budget 2026-27 announce;

- **Bharat-VISTAAR:** A multilingual AI-powered "National Digital Backbone" integrating weather, soil data, and market prices to provide personalized advisories to every farmer in their own language.
- **High-Value Crops Scheme:** Dedicated support for Coconut, Cocoa, and Cashew in coastal areas and Walnuts/Almonds in hilly regions.
- **SHE-Marts:** Community-owned retail outlets for rural women-led enterprises to sell products directly.

How is it different from last year;

Last year focused on "Natural Farming" and "Millet Promotion." This year emphasizes technological interventions (Bharat-VISTAAR) and entrepreneurship (SHE-Marts), marking a shift from production support to integrated digital and value-added approaches.



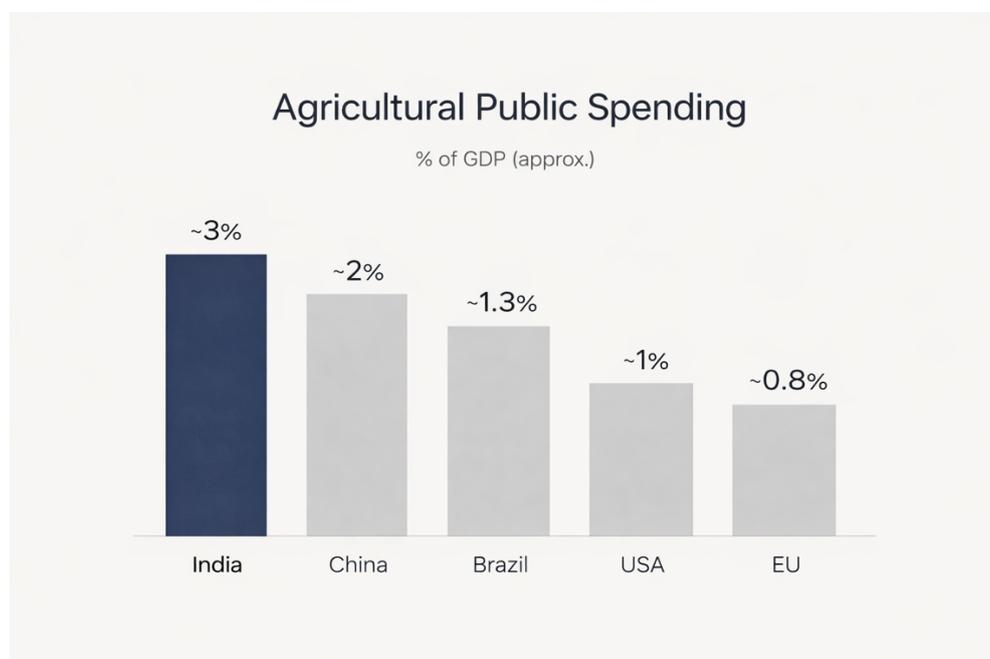
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Global Comparison (Strengthen Mains Answers)

Country	Agri Public Spending (% of GDP)
India	~2.5–3.5%
China	~1.5–2.0%
Brazil	~1.0–1.5%
USA	~0.8–1.2%
European Union (avg)	~0.5–1.0%
Japan	~0.8–1.0%
South Korea	~1.5–2.0%

Among major large economies – yes, India is one of the highest, often the highest in percentage terms.



India's number looks high mainly because:

- Large population dependent on farming
- Heavy fertilizer subsidy
- Food subsidy via PDS
- MSP procurement
- PM-KISAN transfers
- Irrigation programs

So in large comparable economies, India is at the higher end.

But here's the key insight:



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High % of GDP does not mean highest efficiency.

USA spends lower % of GDP but:

- Has very high productivity per farmer
- Mechanised agriculture
- Smaller population dependent on farming

India spends more because:

- Agriculture employs ~40%+ workforce
- Food security is politically and socially central

Possible Impact;

Improved access to real-time data and AI advisories will reduce crop losses, increase farmer income, and boost exports of high-value crops.

4. Services & IT Sector

Problems in this sector

India's services and IT sector, despite being a major contributor to GDP and exports, faces structural and policy-related challenges. IT activities such as software services, ITES, KPO, and contract R&D are classified separately, leading to tax complexity, higher compliance burden, and frequent transfer pricing disputes. Safe harbour limits are low and approvals short-term, creating uncertainty. India also lags behind global peers in cloud and data centre infrastructure. Emerging service segments like the creative or "Orange Economy" (AVGC sector) lack organised skill development and ecosystem support. Tourism services face poor training and lack standardisation among guides.

What Budget 2026–27 announce;

- **Unified "Information Technology Services" category:** Merges software services, ITES, KPO, and contract R&D for simpler tax treatment.
- **Higher Safe Harbour limits and longer certainty:** Threshold raised to ₹2,000 crore, common margin of 15.5%, approvals valid for five years.
- **Fast-tracking of transfer pricing agreements:** Unilateral Advance Pricing Agreements (APAs) to be resolved within two years.
- **Long-term incentives for cloud services and data centres:** Tax exemptions for foreign companies providing global cloud services in India until 2047.





- **Push to the “Orange Economy” (Creative Economy):** AVGC content creator labs in 15,000 schools and 500 colleges.
- **Tourism services upgradation:** Pilot programme to train 10,000 high-quality tourist guides at 20 iconic destinations.
- **Education-to-Employment focus:** High-powered committee to align education, skills, and enterprise needs.

How is it different from last year;

The budget shifts focus from general “IT Services” to include the “Creative Economy” (Orange Economy) and structured tourism skill development. Safe Harbour reforms and long-term cloud incentives are a clear improvement over last year’s short-term policies.

Global Comparison (Strengthen Mains Answers)

Country / Region	Services (% of GDP) (approx)
USA	~ 68%
UK	~ 80%
Singapore	~ 70-72%
Japan	~ 70%
Germany	~ 68%
European Union (average)	~ 72-74%
India	~ 55%
China	~ 53-55%
South Korea	~ 60-62%
Brazil	~ 62-64%

Possible Impact;

This will reduce compliance burden, foster a globally competitive IT and creative workforce, and position India as a hub for the \$200 billion gaming and digital content industry.

5. Education & Skill Development (The “Yuva Shakti” Pillar)

Problems in this sector

There is a significant gap between what universities teach and what industries require, leading to





unemployability. Safety and travel hurdles limit higher education access for girls. Skill development programs are fragmented and not linked to market needs.

What Budget 2026–27 announce;

- **University Townships:** 5 townships near industrial hubs for “Integrated Learning.”
- **Orange Economy (AVGC):** Content creator labs in 15,000 secondary schools.
- **District Girls Hostels:** One hostel in every district for STEM students.
- **Caregiver Skilling:** Training 1.5 lakh caregivers for the elderly and disabled.

How is it different from last year;

The Education Ministry received ₹1.39 Lakh Crore (an 8.27% increase). Focus shifted from “School Infrastructure” to industry-linked skilling and higher education tied to employability.

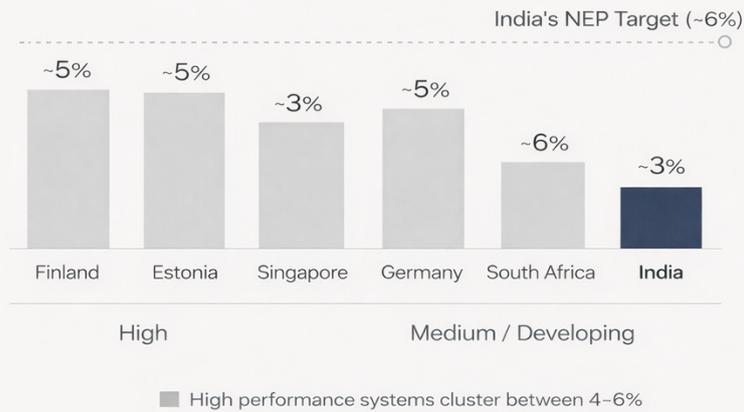
Global Comparison (Strengthen Mains Answers)

Country	Education Spending (% of GDP)	Notes
South Africa	~ 6.0–6.5%	High spending, mixed outcomes
Canada	~ 5.5–6.0%	Strong performance, equitable system
Finland	~ 5.0–5.5%	High quality public education
UK	~ 5.0–5.5%	OECD-level investment
USA	~ 5.0–5.5%	Public only; total incl. private higher
Estonia	~ 5.0%	Strong digital & PISA performance
Germany	~ 4.5–5.0%	Strong vocational system
South Korea	~ 4.5–5.0% (public)	High performance; private spending very high
China	~ 4.0%	Rapid expansion phase
Japan	~ 3.5–4.0%	Efficient but lower public %
Singapore	~ 2.8–3.5%	Top performance, highly efficient system
India	~ 2.7–3.1%	NEP target: 6%



NEP Target vs. Education Spending

Public spending as % of GDP



Key Observations

- Most top performers cluster between **4-6% of GDP**.
- Singapore is an exception – lower % but very high efficiency.
- India is currently below OECD average levels.
- High spending does not automatically equal high performance (South Africa vs Singapore example).

Possible Impact;

Better alignment of education with industry needs will make youth employable in modern sectors like AI, gaming, and healthcare, harnessing India's demographic dividend.

6. Health & Mental Wellness (Human Capital)

Problems in this sector

High out-of-pocket expenditure (OOPE) for families and a massive shortage of specialized medical technicians remain major challenges. Mental health is a "silent crisis" with almost no specialized institutional support in Northern India. Access to quality healthcare is uneven across regions.

What Budget 2026-27 announce;

- **NIMHANS-2:** A second National Institute of Mental Health and Neurosciences will be set up in North India to balance regional access.
- **Regional Medical Hubs:** 5 hubs in partnership with the private sector to promote Medical Tourism and specialized surgery centers.



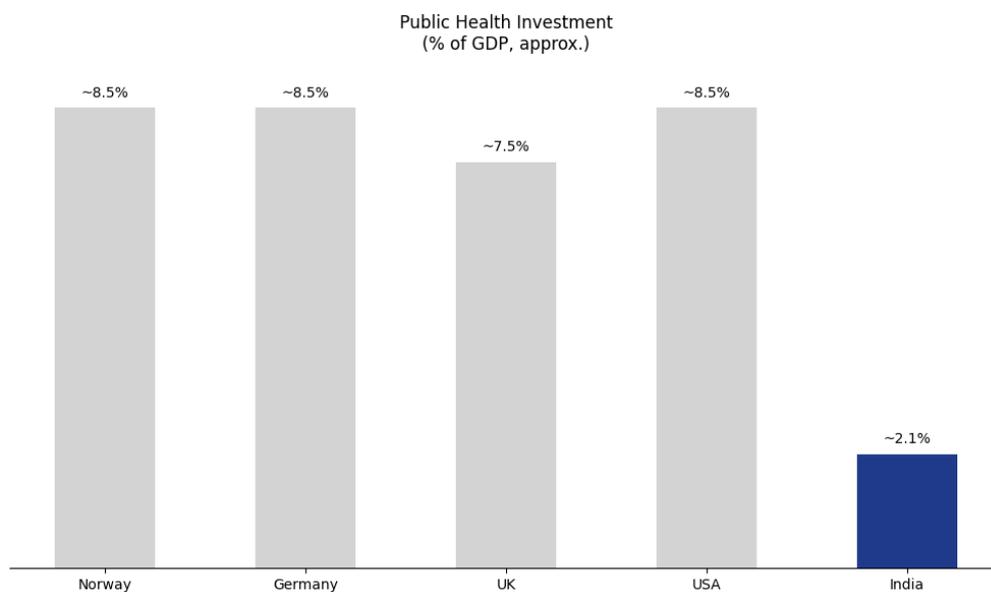
- **Allied Health Professional Scheme:** Training 1 lakh technicians in anesthesia, radiology, and laboratory technologies to assist doctors.
- **Cancer Care:** Customs duty removed for 17 life-saving cancer drugs to make them more affordable.

How is it different from last year;

The 2025-26 budget focused mainly on "Digital Health Records." Budget 2026-27 shifts focus to **human resource capacity** (more trained technicians) and **mental health equity** (NIMHANS-2), addressing both workforce and specialized care gaps.

Global Comparison (Strengthen Mains Answers)

Country	Public Health Spending (% of GDP)	Notes
Norway	~8-9%	Strong welfare state, universal coverage
Sweden	~8-9%	High tax-funded healthcare model
Denmark	~8-9%	Fully public universal system
Germany	~8-9%	Social insurance model
France	~8-9%	High public coverage
UK	~7-8%	NHS system (tax-funded)
Canada	~7-8%	Public insurance model
Japan	~8%	Aging population increases spending
Brazil	~4-5% (public)	Total ~9-10% incl. private
USA	~8-9% (public only)	Total ~16-18% (highest in world)
India	~2.0-2.2%	Rapidly increasing, still low





Possible Impact;

Better availability of trained medical staff and cheaper life-saving drugs will reduce family OoPE and improve access to healthcare, particularly in underserved regions.

7. Science, Technology & Space

Problems in this sector

India's R&D spend has been stagnant for years. The space sector needs to move from "government-only" to **industry-led models** to compete globally, especially against companies like SpaceX. Domestic AI and data infrastructure is limited, slowing innovation.

What Budget 2026–27 announce;

- **Space Outlay:** Increased to ₹13,706 Crore (10% rise over RE).
- **Planetary Research:** Four major telescopes, including the National Large Solar Telescope, to be built or upgraded.
- **Gaganyaan Push:** 46% of space budget allocated to Capital Expenditure for hardware (satellites and rockets).
- **AI Data Centers:** Tax holiday for foreign companies providing data center services in India till 2047.

How is it different from last year;

The 2025–26 budget focused on "Space Policy 2023" and planning. Budget 2026–27 emphasizes **hardware realization**, astrophysics infrastructure, and long-term AI and data center incentives, making India ready for human spaceflight and global data processing leadership.

Global Comparison (Strengthen Mains Answers)

Country	R&D Spend % of GDP
India	~0.7%
Israel	~5.4%
South Korea	~4.8%

Possible Impact;

Strengthened space and AI infrastructure will position India as a global hub for advanced research, human spaceflight, and AI data services.



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8. Defence (Strategic Autonomy)

Problems in this sector

High dependence on imported spare parts and aero-engines remains a challenge. Recent exercises and “Operation Sindoor” highlighted gaps in emergency readiness and self-reliance in defence manufacturing.

What Budget 2026–27 announce;

- **Record Outlay:** ₹7.85 Lakh Crore (highest among all ministries).
- **Capital Head:** ₹2.19 Lakh Crore for new acquisitions (24% increase).
- **Indigenization:** ₹1.39 Lakh Cr (75% of capital budget) reserved for domestic procurement, including aero-engines and drones.

How is it different from last year;

Allocation is 15% higher than the 2025–26 BE. Budget 2026–27 has a specific push for **indigenous production**, particularly aero-engines and unmanned systems, strengthening India’s strategic autonomy.

Global Comparison (Strengthen Mains Answers)

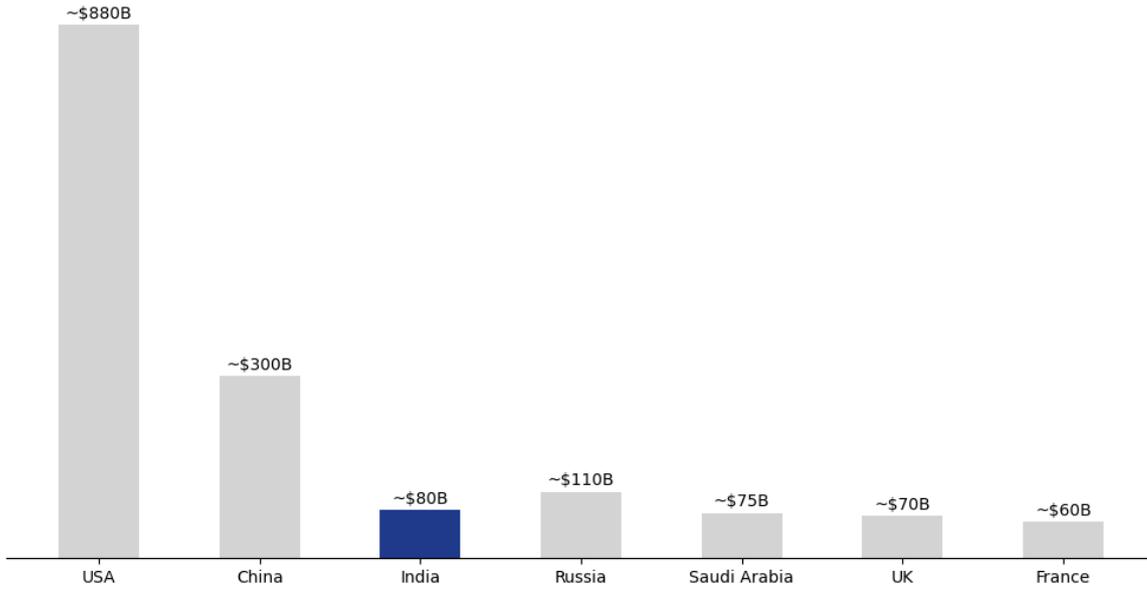
Country	Defence Spending (% of GDP)	Approx. Annual Spending (USD)	Notes
USA	~3.3–3.5%	~\$850–900 billion	Largest military budget globally
China	~1.6–1.8%	~\$290–310 billion	Second largest in absolute terms
India	~1.9–2.1%	~\$75–85 billion	Third largest in Asia
Russia	~4–6% (higher in war years)	~\$100–120+ billion	% spiked post-Ukraine war
UK	~2.2–2.5%	~\$65–75 billion	NATO member
Germany	~1.5–2.0%	~\$60–70 billion	Increasing toward NATO target
France	~2.0–2.3%	~\$55–65 billion	Strong nuclear capability
Saudi Arabia	~6–8%	~\$70–80 billion	Very high % relative to GDP



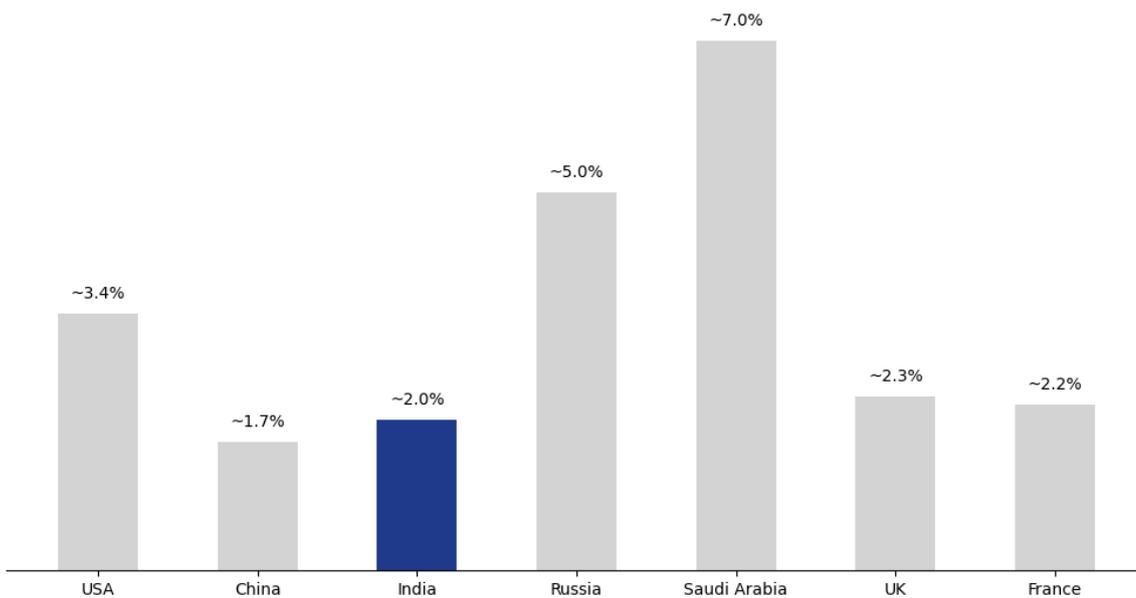


South Korea	~2.5–2.8%	~\$45–55 billion	High regional security needs
Japan	~1.0–1.2%	~\$45–55 billion	Increasing gradually
Israel	~4–5%	~\$20–25 billion	High security intensity

Defence Spending
(USD Billions, approx.)



Defence Spending
(% of GDP, approx.)



Possible Impact;

Enhanced domestic production reduces import dependency, strengthens emergency preparedness, and positions India to become a net exporter of defence equipment.



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9. Social Justice & Empowerment (The Vulnerable Pillars)

Problems in this sector

Marginalized groups like Persons with Disabilities (Divyangjan) and Denotified Tribes (DNTs) face high unemployment and lack specialized assistive technology. Senior citizens require better care infrastructure.

What Budget 2026–27 announce;

- **Divyangjan Kaushal Yojana:** Skilling 1 lakh Divyangjan for formal workforce integration.
- **Divyang Sahara Yojana:** Modern, high-tech assistive devices (AI-powered wheelchairs, hearing aids) at subsidized rates.
- **SEED Scheme:** Allocation increased 64% to ₹101 Cr for housing, health insurance, and coaching for nomadic/semi-nomadic tribes.
- **Atal Vayo Abhyuday Yojana:** ₹100 Cr increase for elderly care homes.

How is it different from last year;

The 2025–26 budget focused on scholarships. Budget 2026–27 shifts focus to **livelihood (Kaushal)** and **dignity (Sahara)** through technology and skilling.

Global Comparison (Strengthen Mains Answers)

Country	Social Empowerment / Social Protection (% of GDP)	Notes
France	~14–16%	Large welfare state
Germany	~13–15%	Strong social insurance model
Sweden	~12–14%	Nordic welfare state
Norway	~11–13%	Universal model
UK	~10–12%	Welfare + housing + disability benefits
Canada	~10–12% total social protection (subset 4–5% targeted vulnerable programs)	Strong indigenous & social transfers
USA	~8–10%	Social Security + Medicaid etc.
Australia	~9–11%	Pension + disability + indigenous programs
Brazil	~12–14%	Bolsa Família & pension-heavy model



South Africa	~9-11%	Large social grant system
India	~1-2% direct targeted empowerment (excl. food subsidy broader welfare)	Focused schemes like SC/ST welfare, minority affairs, women & child development

Possible Impact;

Marginalized groups gain skills and assistive technology, moving from welfare dependence to productive economic participation.

10. Tribal Affairs (Development of the Margins)**Problems in this sector**

Tribal areas remain disconnected from modern economic opportunities. Students in remote tribal belts lack access to high-quality English-medium residential schooling. Infrastructure and skill development gaps hinder economic participation and employability.

What Budget 2026-27 announce;

- **Eklavya Model Residential Schools (EMRS):** Allocation increased to ₹7,150 Crore (up from ₹4,900 Cr) to complete 740 schools across India.
- **Critical Mineral Corridors:** Linking mineral-rich tribal areas (Odisha, Jharkhand) to manufacturing hubs to provide local youth with employment opportunities in rare earth processing.

How is it different from last year;

Allocation for the Ministry of Tribal Affairs sees a 42.47% hike compared to 2025-26 RE. The focus shifts from survival-oriented programs to **high-tech education and employment-linked infrastructure**.

Global Comparison (Strengthen Mains Answers)

Country	Estimated Targeted Spending	Notes
Canada	~4-5% of federal budget	First Nations infrastructure, education, healthcare, reconciliation programs
Australia	~3-4% of federal budget	Indigenous advancement strategy, Closing the Gap programs



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New Zealand	~3-4% of budget (Maori-focused programs embedded across ministries)	Treaty-based framework
USA	~1-2% of federal budget (Bureau of Indian Affairs + Indian Health Service + grants)	Tribal sovereignty system
Brazil	<1% (FUNAI + indigenous land protection programs)	Focus on Amazonian tribes
South Africa	<1% (focused rural & land reform programs)	Not indigenous-specific in Western sense
India	~2-3% of total Union Budget via ST Sub-Plan (Tribal Affairs + EMRS + skill & livelihood schemes)	Large tribal population (~8-9%)

Possible Impact;

Bridging the education and employment gap will help tribal youth access better jobs and integrate into modern economic activities.

11. Urban Development & Housing (The Engines of Growth)**Problems in this sector**

Tier-2 and Tier-3 cities grow in an unplanned manner, causing slums and poor drainage. Affordable housing supply has dropped by 20% since the pandemic, increasing pressure on metros.

What Budget 2026-27 announce;

- **City Economic Regions (CERs):** Selected cities receive ₹5,000 Crore each over 5 years via "Challenge Mode" for building modern infrastructure.
- **PMAY-Urban 2.0:** Allocation increased tenfold (₹3,000 Cr) for urban housing.
- **PMAY-Gramin:** Rural housing allocation rises to ₹54,917 Crore.

How is it different from last year;

The focus moves from **central planning** to **performance-linked funding**, rewarding cities that implement reforms effectively.

Global Comparison (Strengthen Mains Answers)

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Country	% of GDP (Approx.)	Notes
China	~4-6%	Massive state-led urban expansion & infrastructure push
Germany	~3-4%	Strong municipal housing + urban planning system
France	~3-4%	Large social housing & urban renewal programs
Sweden	~3-4%	Public housing + municipal model
South Korea	~3-4%	Aggressive urban transport & housing development
UK	~2.5-3.5%	Local authority housing + transport
Canada	~2-3%	Transit-heavy urban spending
Australia	~2-3%	Urban transport + housing
USA	~1.5-2.5%	Heavy reliance on local/state governments
Brazil	~2-3%	Urban mobility & housing programs
India	~1-2% (direct urban spending)	PMAY, Smart Cities, AMRUT, Metro projects

Possible Impact;

Better infrastructure in smaller cities reduces migration to metros and creates “economic hubs,” supporting growth and jobs locally.

12. Fisheries & Blue Economy (The Rising Sector)**Problems in this sector**

Indian fishermen are largely restricted to coastal waters and cannot compete effectively in the deep sea. Post-harvest losses are as high as 20%, reducing profitability and export potential.

What Budget 2026-27 announce;

- **Deep Sea Reform:** Indian vessels fishing in the EEZ and High Seas get duty-free benefits.
- **Landing as Exports:** Fish landed in foreign ports treated as exports, with tax benefits for fishermen.
- **Integrated Reservoir Development:** Development of 500 reservoirs and Amrit Sarovars for inland fish farming.



**How is it different from last year;**

Highest-ever allocation of ₹2,761 Crore, focusing on **export competitiveness** and the **High Seas**, whereas earlier budgets focused mainly on coastal infrastructure.

Global Comparison (Strengthen Mains Answers)

Country	Public Fisheries / Blue Economy Spending	Notes
Norway	~ 1-2% of GDP (marine + ocean economy combined)	Major deep-sea fishing & offshore sector
Japan	~ 0.5-1% of GDP	Heavy marine subsidy + coastal protection
China	~ 1%+ (varies; large subsidies)	World's largest fishing fleet
South Korea	~ 0.5-1%	Strong coastal & deep-sea focus
Iceland	Significant share of GDP (fish = major export sector)	Fishing central to economy
EU (avg.)	Targeted fisheries fund via CFP	Centralized maritime policy
USA	<0.5%	Focused subsidies + NOAA funding
Canada	<0.5%	Atlantic & Pacific fisheries management
India	₹2,761 Cr (specific scheme; broader blue economy higher)	EEZ, inland reservoirs, PMMSY

Possible Impact;

India's share in the global \$160 Billion seafood market is expected to double, boosting exports and rural incomes.

13. Energy Transition (The Green Kartavya)**Problems in this sector**

Heavy industries like steel and cement cannot easily shift to renewable energy. Storage of renewable energy is expensive due to high import duties on batteries and critical equipment.

What Budget 2026-27 announce;

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- **Carbon Capture (CCUS):** ₹20,000 Crore over 5 years to help factories capture emissions.
- **PM Surya Ghar (Muft Bijli Yojana):** Allocation increased to ₹22,000 Crore to provide free solar power to 1 crore households.
- **Customs Duty Waivers:** Exemption on capital goods used for manufacturing Lithium-ion cells and processing critical minerals.

How is it different from last year;

While 2025–26 focused on **Green Hydrogen**, Budget 2026–27 emphasizes **energy storage (batteries)** and **carbon capture**, addressing industrial and residential energy transition bottlenecks.

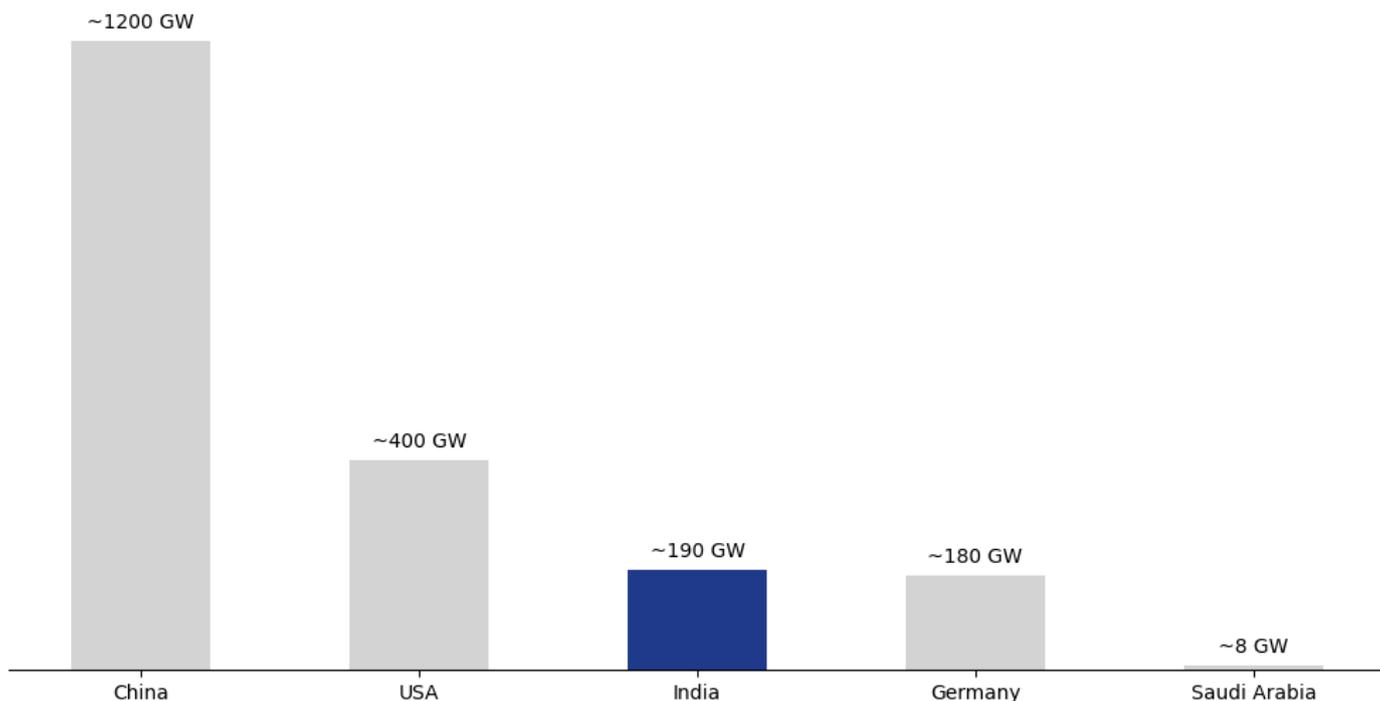
Global Comparison (Strengthen Mains Answers)

Country	Installed Renewable Capacity (GW)	Notes
China	~1,200 GW	Largest in the world by far
USA	~380–420 GW	Large wind + solar + hydro
Brazil	~200+ GW	Strong hydro dominance
India	~180–200 GW	Rapid solar growth
Germany	~170–190 GW	Mature renewable market
Japan	~140–160 GW	Solar-heavy system
UK	~60–70 GW	Wind-heavy
Norway	~35–40 GW	Mostly hydro
Saudi Arabia	<10 GW	Very low renewable penetration
Indonesia	~15–20 GW	Underdeveloped renewable base
Nigeria	<5 GW (utility scale)	Very low grid-scale renewables





Renewable Energy Capacity
(Current Installed, approx.)



Possible Impact;

Cheaper EVs, cleaner industry, and faster progress toward Net Zero 2070.

14. Foreign Aid & External Affairs

Problems in this sector

Shifting geopolitics require India to prioritize “loyal” neighbors while signaling displeasure to others. Aid allocations can be a diplomatic tool.

What Budget 2026–27 announce;

- **Total MEA Budget:** ₹22,118 Crore.
- **Bhutan:** ₹2,288 Cr for hydro-projects (top priority).
- **Bangladesh:** Reduced to ₹60 Cr due to political instability.
- **Chabahar Port:** Zero allocation reflecting US-Iran sanctions tension.

How is it different from last year;

Significant reduction in aid to Bangladesh (halved) and “strategic pause” on Iran reflects a more selective and **geo-strategically informed allocation**, unlike 2025–26.



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Global Comparison (Strengthen Mains Answers)

Country	Approx. Annual Foreign Aid (USD)	% of GNI (approx.)	Notes
USA	~\$60–70 Bn	~0.2–0.3%	Largest in absolute terms
Germany	~\$30–35 Bn	~0.8%	Major EU donor
UK	~\$10–15 Bn	~0.5–0.7% (varies)	Reduced from 0.7% target
France	~\$15–18 Bn	~0.5%	Africa-focused
China	~\$5–10 Bn (estimated, opaque)	Not OECD-reported	Belt & Road-linked finance
India	~₹22,000 Cr (~\$2.5–3 Bn equiv.)	Small % of GNI	Neighbourhood First, LoCs

Possible Impact;

Budgetary allocations act as diplomatic tools to reward stability and support strategic partnerships while signalling caution in politically unstable regions.

15. Financial Sector & Taxation

Problems in this sector

Retail investors are over-leveraged in risky “Futures and Options” trading. Small taxpayers face harassment over forgotten foreign assets. Compliance burdens and litigation in direct and indirect taxes (TDS, TCS, customs disputes) also remain significant, discouraging voluntary compliance and increasing uncertainty for small and medium taxpayers.

What Budget 2026–27 announce;

- STT Hike:** Securities Transaction Tax on Futures raised to **0.05%** and on Options to **0.15%**, aimed at discouraging speculative trading in derivatives.
- Foreign Asset Disclosure:** A **6-month window** for small taxpayers to declare overseas assets without heavy penalties, reducing compliance stress and litigation.
- IFSC Tax Holiday:** Extended from **10 to 20 years** for units in **GIFT City**, encouraging international financial services and capital flows into India.
- Minimum Alternate Tax (MAT) Reform:** MAT rate reduced from **15% to 14%** and made a **final tax** under the old regime; existing MAT credit can be set off up to **1/4th** of tax liability for companies opting for the new regime.





5. **New Income Tax Act, 2025:** The Budget proposes replacing the existing Income Tax Act, 1961 with a simplified **Income Tax Act, 2025** effective **1st April 2026**, aiming to reduce litigation and modernise tax law.

6. **TCS/TDS Rationalisation:**

- **TCS on foreign travel, education, and medical remittances** under the Liberalised Remittance Scheme (LRS) reduced to **2%**.
- TDS on manpower services fixed at **1%/2%** to reduce ambiguity.
- Revised deadlines extended for filing and revising returns.
- Automated Safe Harbour and lower TDS certificate procedures introduced.

7. **Customs and Duty Rationalisations:**

- **Customs duty on personal imports** reduced from **20% to 10%** (ease of living).
- **Basic customs duty fully exempted** on **17 cancer drugs** and medicines for certain rare diseases.
- Exemptions on specified parts used in microwave oven manufacturing and capital goods for renewable/battery manufacturing extended.
- Duty-free input limits for marine, leather, and textile sectors increased from **1% to 3%** of FOB value for export processing.

8. **Other Compliance & Ease Measures:**

- Decriminalisation and rationalisation of technical defaults in direct tax (convert penalties to fees for minor defaults).
- Extended advance ruling validity and duty deferral for compliant operators.
- Digitalisation of customs procedures to reduce physical interventions and litigation.

How is it different from last year-

Budget 2025-26 did not propose many of these tax simplification and procedural reforms – especially the **New Income Tax Act, 2025**, the **extended IFSC holiday**, and **compliance-led measures** like automated TDS/TCS norms, foreign asset disclosure window, and duty rationalisation. Budget 2026-27 combines **speculative trading controls** with **tax relief for legitimate taxpayers** and customs duty rationalisation, which was not a major focus in 2025-26.

Global Comparison (Strengthen Mains Answers)





Country	How They Perform	What They Do
USA	World's deepest capital markets	Strong SEC enforcement, transparent disclosure norms, large institutional investor base, predictable taxation
UK (London)	Global financial centre	Flexible listing rules, global arbitration hub, competitive corporate tax (historically), deep forex & derivatives markets
Singapore	Asia's financial gateway	Tax holidays for financial services, MAS strict but efficient regulation, strong investor protection, no capital gains tax
Hong Kong	China gateway market	Low taxes, simple regime, strong securities regulation, deep IPO market
Switzerland	Private banking hub	Banking secrecy tradition (reduced but legacy strength), wealth management dominance, tax stability
Germany	Stable EU banking system	Strong prudential regulation, universal banking model
Japan	Mature but conservative market	Strong corporate governance reforms, large institutional capital
India	Growing emerging market	SEBI regulation, STT on transactions, IFSC (GIFT City) tax incentives, FDI liberalisation, disclosure reforms

Possible Impact;

Encourages responsible trading, protects small investors, enhances ease of compliance, and boosts India's financial hubs like GIFT City while making critical imports cheaper and simplifying tax law for businesses and individuals.

Revenue and Expenditure: How India Funds Its Priorities

After reviewing the sector-wise allocations and proposed initiatives in the Union Budget 2026-27, the next step is to understand how the government collects money and how it spends it.

REVENUE SIDE (MONEY COMING IN)

The government expects to receive **₹36.5 Lakh Crore** (excluding loans) in 2026-27. This is the "income" it doesn't have to pay back.

1. Tax Revenue (₹28.7 Lakh Crore - Net to Centre)



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What it means: The money you and I pay to the government. It is split into two types:

- **Direct Taxes:** Paid directly by people or companies (Income Tax, Corporate Tax).
- **Indirect Taxes:** Paid when you buy things (GST, Customs Duty, Excise).

What changed in Budget 2026–27:

- **Direct Tax Growth:** Budgeted to grow by 11.4%. No changes were made to income tax slabs, but the **Income Tax Act, 2025** was launched to simplify the law.
- **STT Hike:** Tax on "Futures" (0.05%) and "Options" (0.15%) was increased.
- **Indirect Tax Relief:** Customs duty was scrapped for 17 **cancer drugs** and reduced on gold/silver.

Why the change was made:

- To make the tax system "Trust-based" and reduce paperwork through the new Act.
- The STT hike was made to discourage risky "speculative gambling" in the stock market by retail investors.

2. Non-Tax Revenue

What it means: Money earned without taxing—like dividends from the RBI, profits from PSUs (like LIC or SBI), and fees for services (like spectrum auctions).

What changed in Budget 2026–27: Expected to see a slight dip because the massive "telecom windfall" (5G auctions) from previous years is cooling down.

3. Capital Receipts (Non-Debt)

What it means: Money coming from "selling assets" (Disinvestment) or "getting back loans" the government gave to others.

- **What changed:** The focus has moved from selling entire companies to "**Asset Monetization**" (e.g., renting out railway land).

EXPENDITURE SIDE (MONEY GOING OUT)

The government plans to spend a total of ₹53.5 Lakh Crore in 2026-27.

1. Revenue Expenditure (₹41.25 Lakh Crore)





What it means: The "Running Costs." This money doesn't create a new asset; it just keeps things moving (Salaries, Pensions, Subsidies, and Interest on old loans).

- **Major Sectors: Interest Payments** (takes away 26% of the budget) and **Subsidies** (Food, Fertilizer).
- **What changed:** It grew by 6.6%, which is lower than the growth in Capex.
- **Why?** The government wants to control "wasteful" spending to save money for building infrastructure.

2. Capital Expenditure (Capex) (₹12.2 Lakh Crore)

What it means: The "Investment" for the future. Money spent on building things that last—highways, bridges, and ports.

Why it is important & how it affects growth:

1. **The Multiplier Effect:** For every ₹1 spent on Capex, the economy grows by roughly ₹3.00 over time.
2. **Job Creation:** Building a bridge creates immediate work for laborers and engineers.
3. **Efficiency:** Better roads make products cheaper to transport.

What changed in Budget 2026–27: A massive 11.5% increase. Major sectors include **Roads (₹3.1 Lakh Cr)** and **Railways (₹2.8 Lakh Cr)**.

The Big Shift: Why move from Indirect to Direct Tax?

In this budget, the government is betting more on **Direct Taxes** (income/corporate tax) than **Indirect Taxes** (GST/Customs). Here is why this shift is vital for a "Viksit Bharat":

In the 2026-27 Budget, Direct Taxes are estimated at **61.2%** of the Gross Tax Revenue, showing that this shift is already happening. Here is the analysis of why this move is necessary:

1. Fairness (Reducing the "Poor Man's Burden")

Indirect tax is **regressive**. Whether a billionaire or a daily-wage laborer buys a packet of salt, they both pay the same 5% GST. This takes a much larger "slice" of a poor person's income. Direct tax is **progressive**, meaning it only charges those who can afford it. Moving to direct tax makes the system more "just."





2. Controlling Inflation

When the government needs more money and raises Indirect Taxes (like GST or Excise on fuel), the price of goods goes up immediately for everyone. This causes inflation. Direct Taxes don't affect the price of your bread or milk; they only reduce the "extra" cash in the pockets of the wealthy, which helps keep prices stable for the common man.

3. Economic Formalization

A high Direct Tax collection is a sign of a "Healthy Economy." It shows that more people are moving from the informal "cash" economy into the formal system where they have bank accounts and file returns. This formalization makes it easier for the government to track wealth and catch big tax evaders.

4. Revenue Stability

Indirect tax depends on people **spending**. If there is a recession and people stop buying cars or luxury items, GST collection drops. Direct tax depends on **earning**. Even in tough times, corporate profits and salaries provide a more stable and predictable flow of money for the government to build roads and hospitals.

5. Global Best Practices:

Advanced economies (US, UK, Germany, Japan) have a **higher proportion of direct taxes** in total revenue, making their tax systems fairer and growth-friendly.





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