UNION BUDGET 2026

KEY HIGHLIGHTS PRESENTED BY
BAJAJ FINSERV MUTUAL FUND

KEY BUDGET THEMES (KARTAVYAS)

01

Building Resilient Growth Engines for a Competitive India

Focus Areas

- Enhancing productivity and competitiveness across strategic sectors
- Building resilience to volatile global dynamics through domestic capability
- Systemic approach combining reforms, investment, and competitiveness

02

Empowering People with Skills, Services & Opportunities

Core Pathway

- Skills → Jobs → Income → Aspiration-led consumption cycle
- **Workforce:** Expand skilling across health, creative economy, tourism, sports

03

Ensuring Inclusive Development Across Regions

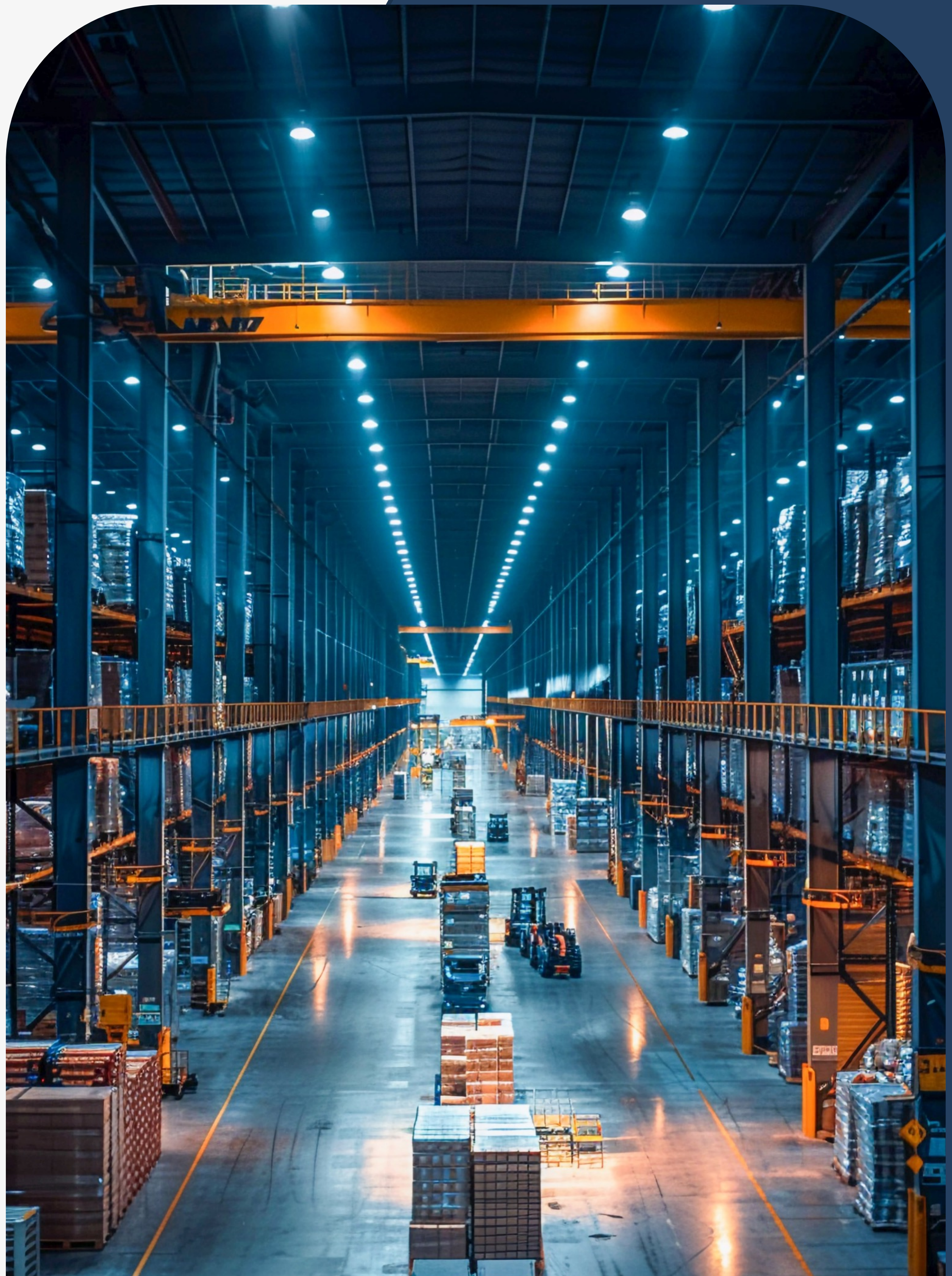
Sabka Sath, Sabka Vikas

- Increasing farmer incomes via productivity & entrepreneurship
- Targeted focus on Purvodaya States and North-East Region development
- Inclusion as a support to growth stability, not just welfare

Source: Union Budget Documents 2026, MSME: Micro, Small and Medium Enterprises

KARTAVYA 1

BUILDING RESILIENT GROWTH ENGINES FOR A COMPETITIVE INDIA



ACCELERATING & SUSTAINING INDIA’S ECONOMIC GROWTH

The first Kartavya focuses on:

- Enhancing **productivity and competitiveness**
- Building **resilience to volatile global dynamics**

AREAS OF INTERVENTION

- Scale up manufacturing in **7 strategic & frontier sectors**
- Create ‘Champion MSMEs’
- Ensure long-term energy security & stability
- Rejuvenate legacy industrial sectors
- Powerful push to infrastructure
- Develop City Economic Regions

IMPACT

- Kartavya 1 combines reforms, investment, and competitiveness, indicating that growth is being approached as a system, not a single policy lever.
- Explicit reference to resilience against global volatility suggests a focus on domestic capability, supply chain reliability, and investment continuity.
- The reform push alongside investment implies an attempt to lower friction costs so that capital deployed delivers higher productivity outcomes.

Source: Union Budget Documents 2026, MSME: Micro, Small and Medium Enterprises

MANUFACTURING SCALE-UP (7 STRATEGIC & FRONTIER SECTORS)

Biopharma SHAKTI

- Outlay ₹10,000 crore over 5 years
- 3 new NIPERs
- Network of 1000+ accredited clinical trial sites

India Semiconductor Mission 2.0

Produce equipment and materials, design full-stack Indian IP, fortify supply chains

Electronics Components Manufacturing Scheme

Outlay of ₹22,919 crore; proposed increase to ₹40,000 crore

Rare Earth Corridors

Support Odisha, Kerala, Andhra Pradesh, Tamil Nadu for mining, processing, research and manufacturing

Chemical Parks

Support States in establishing 3 dedicated Chemical Parks

IMPACT

- Manufacturing actions focus on capability-building in strategic supply chains (health, electronics, semiconductors, rare earths, chemicals).
- Explicit scale and institutional support point to an intent to improve domestic competitiveness and reduce dependency risks.

Source: Union Budget Documents 2026, NIPER: National Institute of Pharmaceutical Education and Research, IP: Intellectual Property

CHAMPION MSMES' + INFRASTRUCTURE CAPITAL FORMATION

SME Growth Fund:
Dedicated ₹10,000 crore fund to create future 'Champion' enterprises

Self-Reliant India Fund:
Top-up ₹2,000 crore to support micro enterprises' access to risk capital.

TReDS:
4 measures incl. CPSE mandate, CGTMSE credit guarantee support for invoice discounting, GeM–TReDS linkage, and TReDS receivables as asset-backed securities.

Public capex:
From ₹2 lakh crore (FY2014-15) to ₹11.2 lakh crore (BE 2025-26); proposes ₹12.2 lakh crore (FY2026-27).

Infrastructure Risk Guarantee Fund:
Partial credit guarantees to lenders for construction phase risks.

Dedicated REITs for recycling CPSE real estate assets.

IMPACT

- MSME measures combine risk capital + liquidity + compliance support, aiming to strengthen MSME scale and stability.
- Capex + guarantees + monetisation instruments indicate an attempt to reduce project risk and improve capital flow into infrastructure.

Source: Union Budget Documents 2026, BE: Budget Estimate, SME: Small and Medium Enterprises, TReDS: Trade Receivables Discounting System, CPSE: Central Public Sector Enterprises

PRODUCTIVITY, LOGISTICS, ENERGY TRANSITION, CITIES & MARKET DEEPENING

- Logistics: new **Dedicated Freight Corridors** (Dankuni–Surat); **20 new National Waterways** over 5 years (starting with **NW-5 Odisha**);
  Coastal Cargo Promotion Scheme to raise waterways/coastal share **6% → 12% by 2047**; ship repair ecosystem at **Varanasi & Patna**.
- **CCUS**: outlay **₹20,000 crore over 5 years**.
- **City Economic Regions (CER)**: mapping CERs; allocation **₹5,000 crore per CER over 5 years** (challenge mode; reform-cum-results based financing).
- **Seven High-Speed Rail corridors** proposed as "growth connectors".
- Financial sector: **High Level Committee on Banking for Viksit Bharat**.
- Corporate bond market: market-making framework; **total return swaps on corporate bonds**.
- Municipal bonds: incentive **₹100 crore** for a single issuance > **₹1,000 crore**; AMRUT scheme for smaller issuances continues.

IMPACT

- Logistics + city-region planning emphasize productivity and agglomeration benefits (lower friction, better connectivity).
- CCUS and green logistics measures support transition readiness alongside growth.
- Steps in banking, bonds, and municipal finance point to wider channels for long-term capital.

Source: Union Budget Documents 2026, CCUS: Carbon Capture Utilisation and Storage

KARTAVYA 2

EMPOWERING PEOPLE WITH SKILLS, SERVICES AND OPPORTUNITIES

EMPOWERING PEOPLE WITH SKILLS, SERVICES AND OPPORTUNITIES

Kartavya 2 marks a shift from poverty alleviation to aspiration-led growth. With nearly 25 crore people having exited multidimensional poverty, the policy focus now turns to sustaining upward mobility through jobs, skills, and productivity. The Budget positions the **services sector as the core pathway for Young India**, given its ability to generate employment, scale exports, and absorb technological change.

To institutionalise this transition, a **High-Powered 'Education to Employment & Enterprise' Standing Committee** is proposed to align skilling with industry demand, assess the impact of AI on jobs, and support India's ambition of achieving a **10% share in global services by 2047**.

Skills → Jobs → Income → Aspiration-led consumption

Workforce + employability creation
Expand skilling pipelines across healthcare, creative economy, tourism, sports, design, education.

Services export & new demand engines
Medical Value Tourism hubs; positioning services as exports + jobs.

Institutions + ecosystems
New expanded institutions and standards-led capacity creation across multiple sectors.

Source: Union Budget Documents 2026

HEALTHCARE & ALLIED SERVICES: BUILDING A CARE-AND-WELLNESS ECONOMY

Scaling high-employment services while strengthening quality and export potential

Healthcare and allied services are central to Kartavya 2, combining **high employment intensity** with rising domestic and global demand. The Budget focuses on expanding skilled manpower, formalising care services, and strengthening institutional capacity, laying the foundation for both **domestic service delivery and services exports**.

Key highlights:

Allied Health Professionals: Upgrade and expand institutions; target **100,000 additional AHPs over 5 years**

Care ecosystem: NSQF-aligned training; **1.5 lakh caregivers to be trained** in the coming year

Medical Value Tourism: Five Regional Medical Hubs to position India as a global healthcare destination

AYUSH & traditional medicine: New institutes and upgraded certification to support quality and exports

Animal husbandry services: Capital support for veterinary infrastructure; addition of **20,000+ professionals**

IMPACT
- Higher employment creation in formal services
- Improved healthcare capacity and service quality
- Incremental services exports and ancillary ecosystem growth

Source: Union Budget Documents 2026, AHP: Analytic Hierarchy Process

EXPERIENCE & CREATIVE ECONOMY: TURNING TALENT INTO JOBS AND EXPORTS

Treating creative, tourism, and sports services as economic sectors

The Budget extends the services push to **creative, tourism, education, and sports**, recognising their role in job creation, exports, and local economic development. The focus is on **institution-led capacity building**, structured skilling, and destination infrastructure.

KEY HIGHLIGHTS

AVGC / Orange Economy: Content creator labs in **15,000 schools and 500 colleges**

Design: New **National Institute of Design** to address talent gaps

Education infrastructure: 5 University Townships near industrial corridors; girls' hostels in STEM institutions

Tourism: National Institute of Hospitality; **10,000 guides** to be upskilled; digital destination mapping

Sports: Khelo India Mission covering talent pathways, coaching, sports science, and infrastructure

IMPACT

- Job creation across creative and experience-led services
- Stronger services exports and destination competitiveness
- Broad-based participation in aspiration-led growth

Source: Union Budget Documents 2026

KARTAVYA 3

ENSURING INCLUSIVE DEVELOPMENT ACROSS REGIONS AND COMMUNITIES

VISION OF SABKA SATH, SABKA VIKAS TOWARDS A VIKSIT BHARAT

This requires targeted efforts for:

- **Increasing farmer incomes** through productivity enhancement and entrepreneurship, with special attention to **small and marginal farmers.**
- **Empowering Divyangjan** through access to livelihood opportunities, training and high-quality assistive devices
- **Empowering the vulnerable** to access mental health and trauma care
- Focus on the **Purvodaya States** and the **North-East Region** to accelerate development and employment opportunities

IMPACT:

- Inclusion is positioned as **a support to growth stability**, not as stand-alone welfare.
- Targeted focus on farmers, vulnerable groups and regions aims to **reduce uneven participation in growth**.
- The approach integrates social objectives within the broader economic framework.

Source: Union Budget Documents 2026

INCREASING FARMER INCOMES: FISHERIES, ANIMAL HUSBANDRY, HIGH VALUE AGRICULTURE

- Fisheries: Integrated development of **500 reservoirs & Amrit Sarovars**
- Strengthening fisheries value chains with FPOs, start-ups and women-led groups
- Animal husbandry: Credit-linked subsidy and modernization of livestock enterprises
- Promotion of integrated livestock, dairy and poultry value chains
- Support for high-value crops: coconut, cocoa, cashew, sandalwood
- Support for agar trees (North-East) and nuts in hilly regions

IMPACT

- Focus on fisheries, animal husbandry and high-value crops supports **diversification of rural income sources.**
- Value-chain and producer-organization emphasis seeks to **improve market linkage and price realization.**
- Income diversification can help **moderate volatility in rural earnings** over time.

Source: Union Budget Documents 2026

PRODUCTIVITY, AI ADVISORY & WOMEN-LED ENTERPRISE ENABLEMENT

- Coconut Promotion Scheme to improve productivity and replace old trees
- Dedicated programmes for cashew and cocoa to enhance self-reliance and exports
- Focused cultivation and processing support for sandalwood
- Orchard rejuvenation and high-density nut cultivation with youth engagement
- Launch of **Bharat-VISTAAR**, a multilingual AI-based farm advisory tool
- Establishment **of SHE-Marts** for rural women-led enterprises

IMPACT

- Crop-specific programmes indicate a shift towards **productivity and value addition**, not area expansion.
- Bharat-VISTAAR addresses **information gaps and decision risk** in agriculture.
- SHE-Marts enable a transition from livelihoods to **enterprise ownership and formalisation**

Source: Union Budget Documents 2026

FISCAL CONSOLIDATION WITHOUT COMPROMISING GROWTH

Fiscal Consolidation: Staying the Course on Debt & Deficit

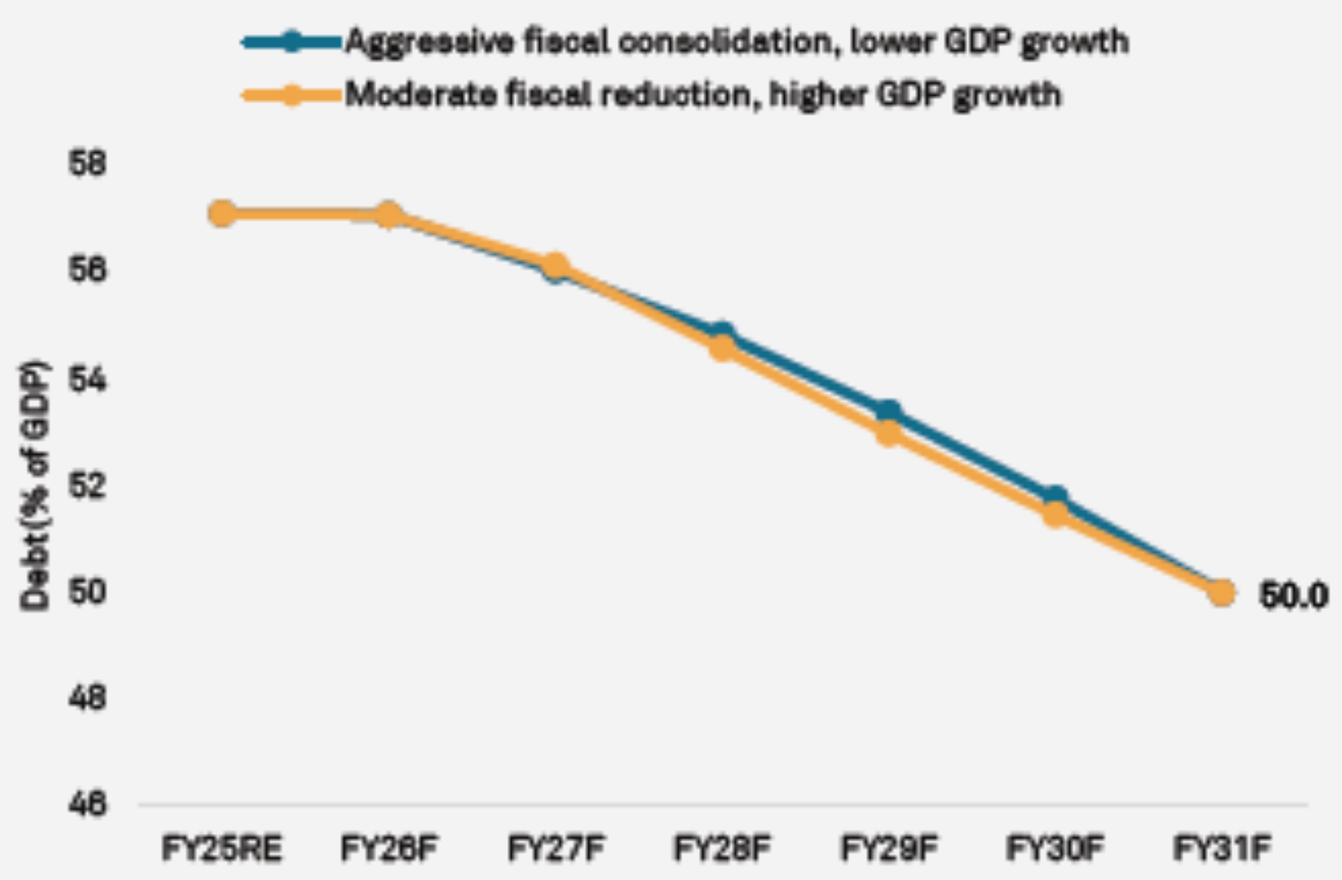
Key announcements:

- Medium-term debt anchor reaffirmed: Central Government debt at 50±1% of GDP by FY2030–31
- Debt-to-GDP declines to 55.6% in BE FY2026–27 (vs 56.1% in RE FY2025–26)
- Fiscal deficit continues on glide path:
    - 4.4% of GDP in RE FY2025–26
    - 4.3% of GDP in BE FY2026–27
- Fiscal deficit remains the primary operational tool for debt consolidation

Implications:

- A declining debt ratio and deficit glide path can improve macro stability and reduce future pressure from interest outgo, potentially freeing resources for priority spending.
- Credible consolidation can be supportive for bond markets by anchoring expectations on borrowing and inflation-risk premia (especially if growth holds up).
- For equities, fiscal discipline alongside capex continuity can support confidence in medium-term growth quality and policy stability.

Chart 1: Debt-to-GDP scenarios



Note: The number for FY25 is based on budget revised estimates, while those for the remaining years are Crisil forecasts
Source: Union Budget, National Statistics Office, CEIC, Crisil

Source: Union Budget Documents 2026, RE: Revised Estimate, BE: Budget Estimate

DIRECT AND INDIRECT TAXES

Key announcements in Direct Taxes:

- **New Income Tax Act, 2025** effective **1 April 2026**, with simplified rules and forms
- **Compliance & litigation easing**:
  - Revised return timeline extended to **31 March**
  - Simplified TDS/TCS, including **PAN-based processes for NRIs**
  - Rationalised penalty and prosecution framework
- **Investment & business support**:
  - **Tax holiday till 2047** for global cloud services using Indian data centres
  - Faster APAs and expanded safe harbour for IT services
  - **MAT rationalised** and made final tax at a lower rate

Key announcements in Indirect Taxes:

- **Customs tariff rationalisation** to support manufacturing and exports
- **Duty exemptions** for strategic sectors:
  - Battery energy storage, solar glass, nuclear power, critical minerals
- **Ease of living measures**:
  - Personal import duty cut to **10%**
  - Exemptions for select life-saving drugs and rare diseases
- **Trade facilitation**:
  - Trust-based customs systems and faster clearances
  - Courier export limits removed to support MSME exporters

Implications

- Enhances **tax certainty, compliance ease and investor confidence**
- Improves **India's cost competitiveness** across manufacturing, exports and digital infrastructure
- Supports a **stable, investment-friendly policy environment** without aggressive tax hikes

Source: Union Budget Documents 2026, MAT: Minimum Alternate Tax

OUR OUTLOOK

EQUITY MARKET OUTLOOK

- The Union Budget 2026 was largely a continuation of the previous budgets, reflecting clear continuity in government policy with a sustained focus on strengthening domestic industries.

- From an equity market perspective, the increase in Securities Transaction Tax (STT) in the F&O segment has weighed on market sentiment in the near term. However, this impact is expected to be temporary, and markets should gradually overcome this concern.

- The overall capital expenditure (CAPEX) allocation has increased by around 11–12 percent year-on-year compared to the revised estimates of FY26, which is a strong and positive signal for medium-term growth.

- Within CAPEX, the rail budget has grown by about 10 percent y-o-y following almost negligible growth last year. In addition, the defense budget has seen an increase of close to 12 percent, which is another positive from an equity market perspective.

- On the consumption front, there are no significant changes, as the government had already provided support in the previous budget through income tax cuts and subsequently through GST reductions during the year. However, the Union Budget 2026–27 has provided meaningful support to rural employment, with a combined nearly ₹1.26 trillion allocated to rural jobs guarantee schemes. This includes ₹95,692 crore for the Viksit Bharat Guarantee for Rozgar and Ajeevika Mission Gramin (VB-G RAM G) scheme and ₹30,000 crore for MGNREGA, which should support the rural economy.

- While there were expectations of changes in capital gains taxation to further enhance the attractiveness of Indian equities for foreign portfolio investors (FPIs), no such measures were announced in the Budget. In the context of India's current account deficit, continued efforts to attract stable capital inflows will remain important going forward.

F&O: Futures & Options, MGNREGA: Mahatma Gandhi National Rural Employment Guarntee Act

SECTORAL OUTLOOK

Sector	Impact	Remarks
Healthcare & Pharma	Positive	• Duty exemption on 17 cancer drugs; supportive for affordability. • BioPharma Strategy with ₹10,000 crore outlay over five years to strengthen digital healthcare and innovation.
Manufacturing & Infrastructure	Positive	• Electronic Components Manufacturing Scheme outlay raised to ₹40,000 crore. • Rare earth permanent magnet scheme proposed; critical mineral corridors across Odisha, Kerala, Andhra Pradesh and Tamil Nadu, including Tamil Nadu rare earth corridor. • ₹20,000 crore allocation over five years for carbon capture technologies across power, steel, cement, refineries and chemicals. • New scheme proposed for construction and infrastructure equipment (CIE). CAPEX push to sustain infrastructure momentum.
Banking	Positive	• High-level committee on banking for Viksit Bharat proposed. • Restructuring of PFC and REC under consideration. • Sector supported by strong balance sheets, improved asset quality and 98%+ village coverage.
Defence & Aviation	Positive	• Customs duty exemption on aircraft components and parts. • Duty exemption on imported raw materials for MRO by defence units.
Information Technology (AI & Data Centres)	Positive	• Tax holiday till 2047 proposed for foreign cloud service providers using Indian data centres.

DEBT MARKET OUTLOOK (1/2)

Fiscal Position: Consolidation Intact, No Shock

- Fiscal deficit expected at **4.3–4.4% of GDP**, marginally higher than market expectations (~4.2%)
- Slippage is **not material** and does **not dilute the consolidation glide path**
- Fiscal stance remains **digestible for markets**, preserving macro credibility
- No disruptive reversal or fiscal shock embedded in the budget

Net View: Comfort, not complacency

Government Borrowing: Near-Term Headwind

- **Gross borrowing at ~₹17.25 trillion**, higher than expectations (~₹16.5 trillion)
- Elevated supply comes amid:
  - High global long-term yields
  - Domestic yields already off historic lows
- Absorption comfort reduced → **upward pressure on medium-to-long end yields**
- Likely **5–10 bps near-term negative reaction** in bond markets

Conclusion: Borrowing is manageable, but a clear near-term drag for bonds

Medium-Term Debt Trajectory: Direction Clear

- Government reiterated commitment to lowering **debt/GDP from ~56% to ~55%** (50–60 bps consolidation)
- Pace of consolidation is **intentionally moderated** to support growth
- Long-term anchor of **~50% debt/GDP by FY30 remains intact**
- **Assessment:** Consolidation path is credible, even if slower

DEBT MARKET OUTLOOK (2/2)

Inflation & Policy Alignment
- Budget inflation assumptions are **conservative**
- No aggressive revenue or tax buoyancy assumptions
- Fiscal–monetary alignment remains **neutral to supportive**
  - RBI provided significant OMOs last year
  - Higher borrowing this year may require **continued RBI support**

Key Risk: Delay or reduction in RBI OMOs could stress market absorption

Growth, Revenue & Spending Sustainability
- **Nominal GDP growth assumption ~10.1%** appears reasonable
- Revenue assumptions are **conservative**, not aggressive
- Disinvestment target (~₹80,000 crore) carries **execution risk**
- Spending remains **growth-oriented**
  - Prior year's tax relief unlikely to repeat at scale
  - GST collections stable, but last year's one-offs may not recur

Market Implications & Strategy
Yield Curve Bias: Upward
- Transitioning out of a low-yield regime
- High global yields, elevated borrowing, and tight liquidity persist

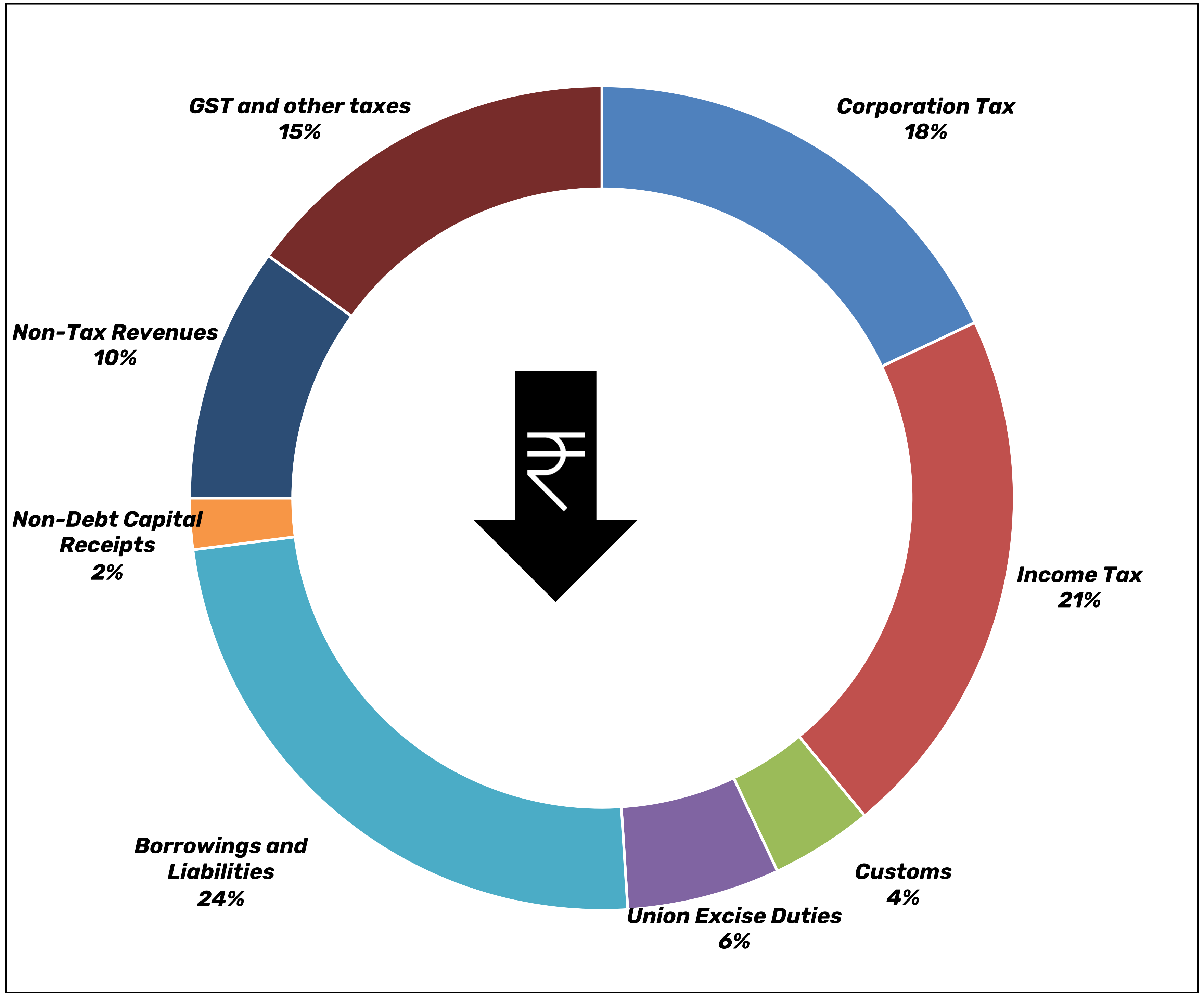
Duration View:
- Prefer **3–5 year maturity bucket**
- Near-term volatility offers **better entry points** over the next 1–2 months
- Long-term investors will get better entry points in coming months

Credit Spreads: Stable
- No adverse tax or regulatory changes impacting credit markets

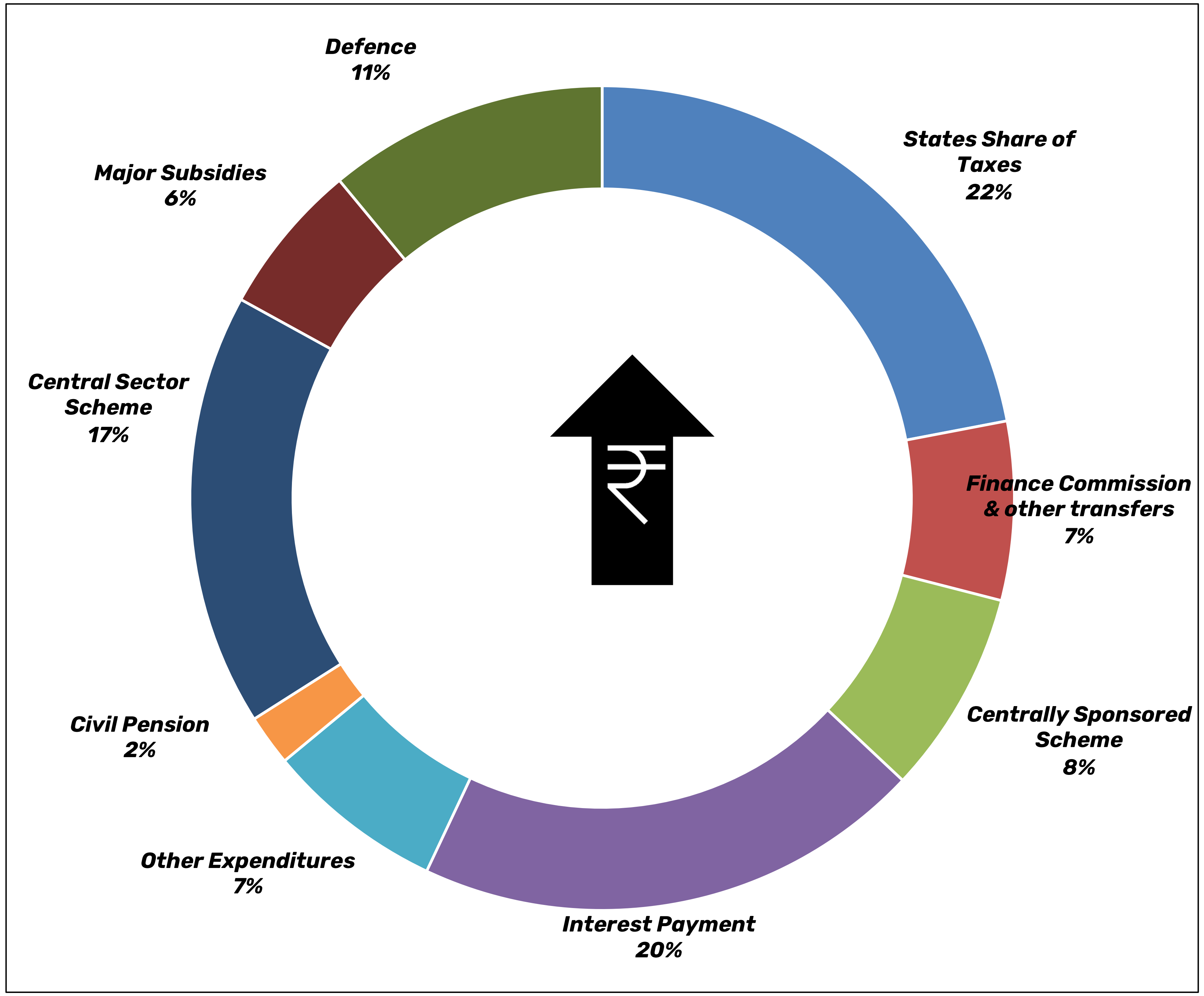
KEY ECONOMIC INDICATORS

RUPEE: COMES FROM & GOES TO

Rupee Comes From



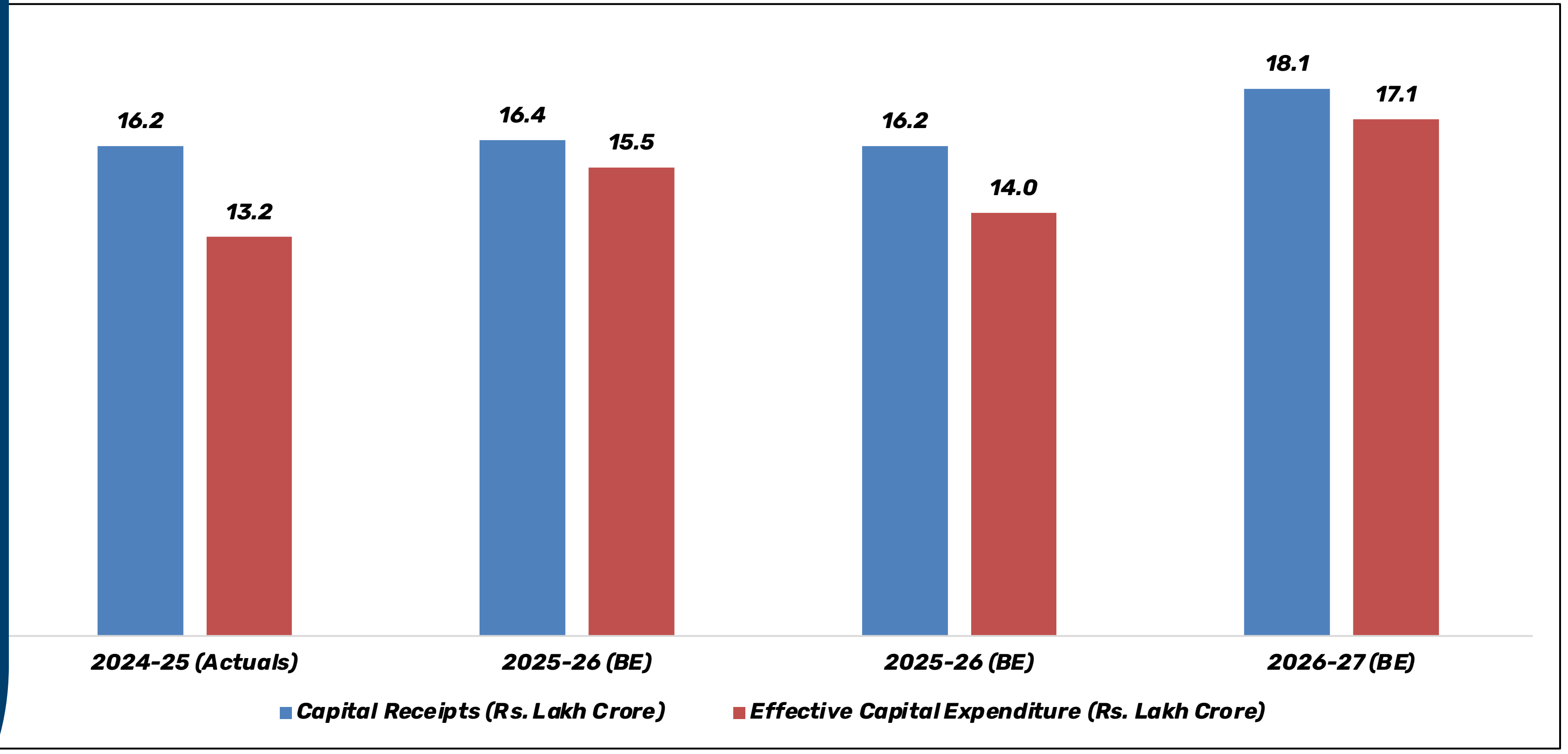
Rupee Goes To

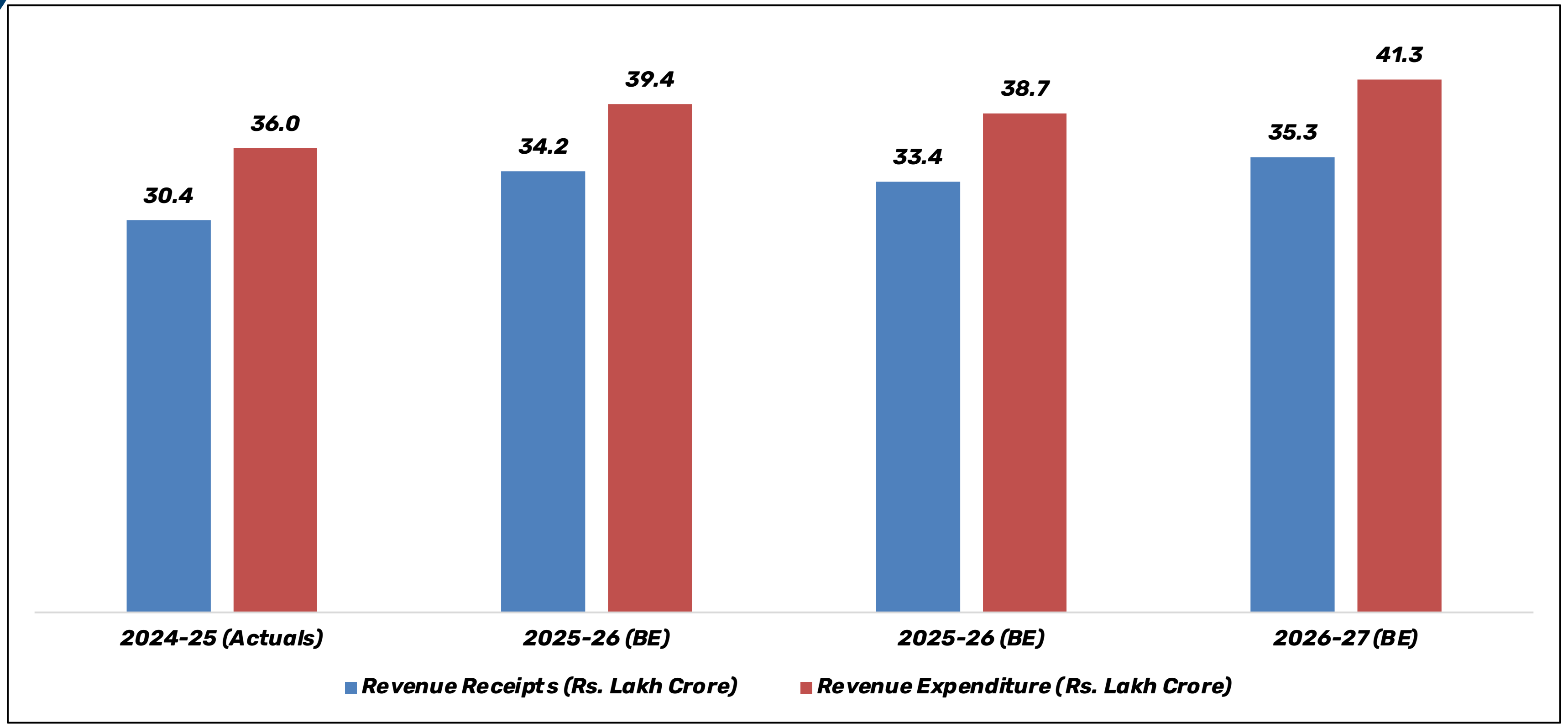


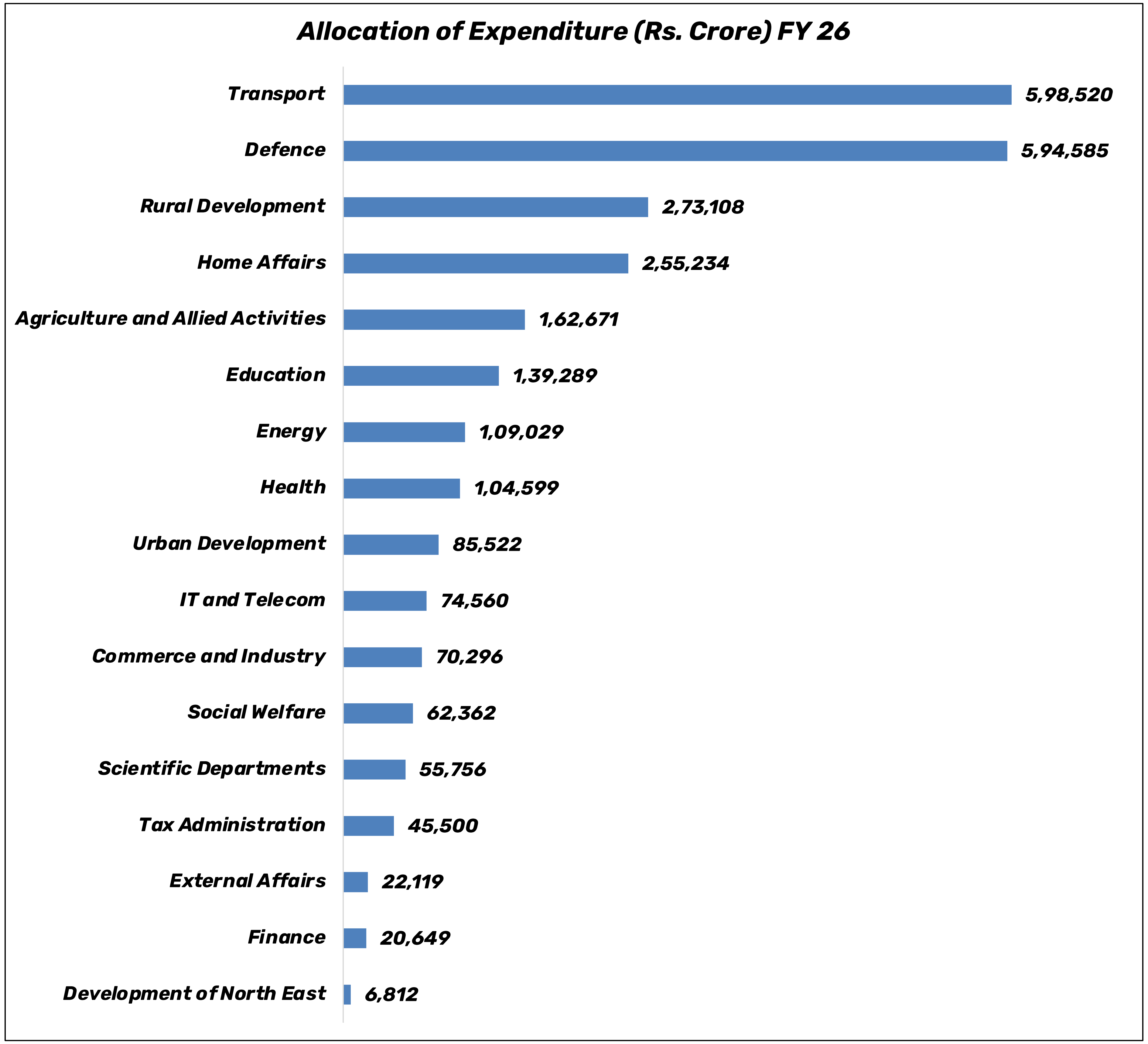
Source: Union Budget Documents 2026

Total Receipts Budget Estimates (FY25-26) 50.65 lakh crore

GOVERNMENT'S INCOME & SPENDING



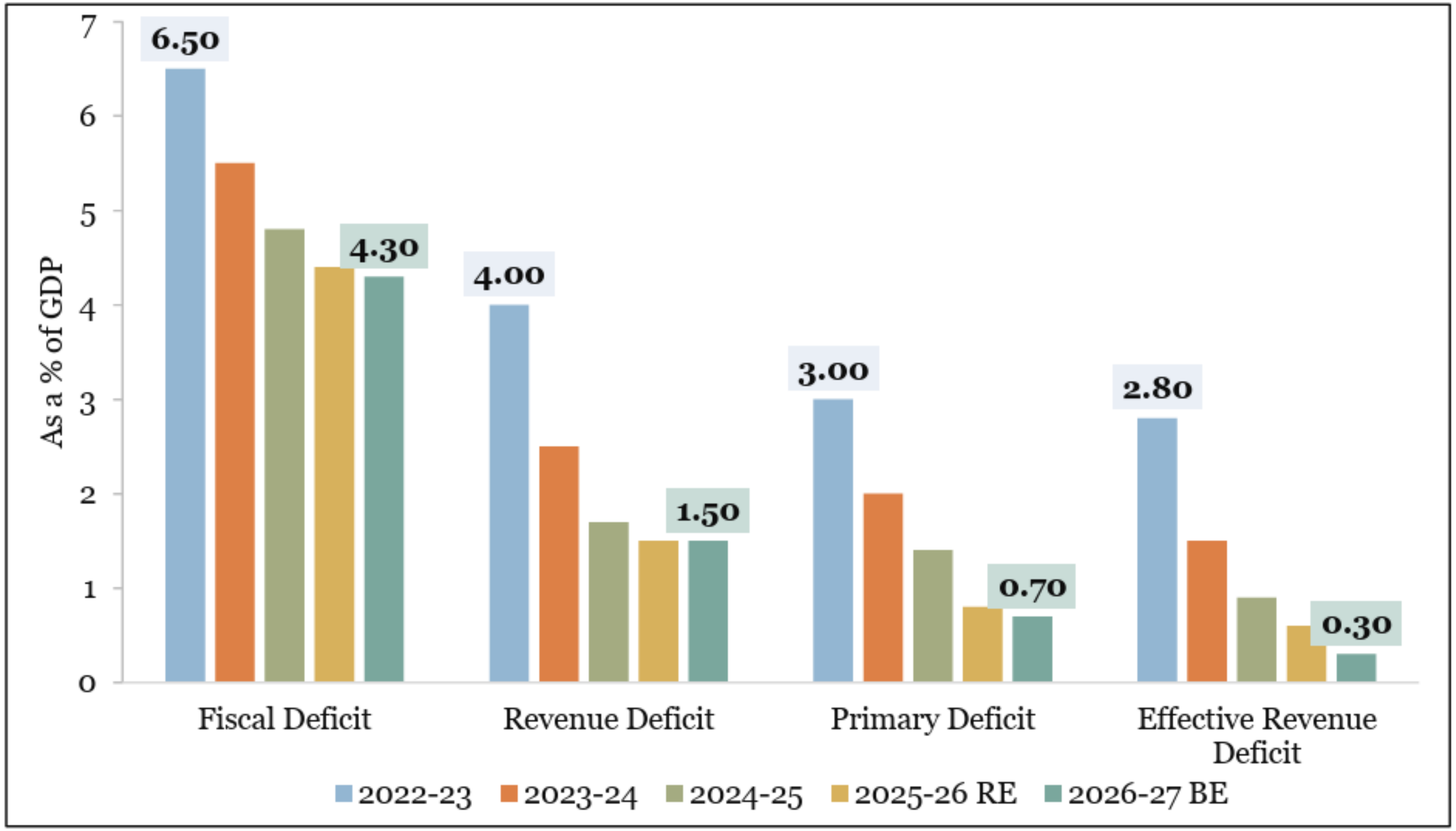




Source: Union Budget Documents 2026, BE – Budget Estimates, RE – Revised Estimates

ECONOMIC INDICATORS

Deficit Trends: India on fiscal consolidation path and improving quality of deficit



Source: Union Budget Documents 2026, BE – Budget Estimates, RE – Revised Estimates

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