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Budget 2026-27 Must Keep the Growth Momentum

Context

- India entered 2025 amid global economic uncertainty, facing headwinds that many feared would derail its growth trajectory.
- Concerns were reinforced when the United States imposed **50% tariffs**, prompting speculation that India's export-led sectors would face significant strain.
- Yet, contrary to these expectations, the Indian economy proved resilient. This resilience was not accidental but rooted in sustained reform efforts, which PM Modi described as **a continuous national mission**.
- The upcoming 2026-27 Budget is therefore expected to reinforce this mission by deepening reforms, enhancing competitiveness, and strengthening domestic levers of growth.

Fiscal Strategy for Growth

- A central policy challenge ahead is balancing **growth-enhancing expenditure** with prudent fiscal consolidation.
- Strengthening the domestic engines of consumption, investment, and productivity requires targeted public spending, especially in infrastructure and social sectors, without undermining fiscal credibility.
- Maintaining India's current glide path of **fiscal consolidation** is critical to containing debt risks and sustaining macroeconomic stability, particularly during a time of volatile global capital flows.

Defence Sector as an Industrial and Strategic Lever

- One of the most significant reform thrusts has been in national defence, not only for security reasons but also as a catalyst for industrialisation.
- Continued prioritisation of capital expenditure is necessary to modernise defence capabilities, with proposals to increase the share of capital outlays to 30% in the coming budget.
- **Enhanced funding** for the Defence Research and Development Organisation would fortify indigenous innovation, while new defence industrial corridors, building on progress in Uttar Pradesh and Tamil Nadu, could geographically diversify industrial capacity.
- An eastern corridor would align defence production with broader regional development goals.
- Private enterprises have also emerged as key drivers of defence exports, accounting for nearly two-thirds of exports in 2024-25.

- Institutional support through a defence export promotion council could strengthen coordination across ministries, foreign missions, defence firms and foreign buyers.
- Such coordination is essential for meeting India's ambitious export target of ₹50,000 crore by 2028-29.

Strategic Sectors and Critical Mineral Supply Chains

- India's industrial transition toward clean energy, advanced manufacturing, electric mobility, semiconductors and other strategic technologies is reshaping **resource requirements**.
- The establishment of the National Critical Mineral Mission in 2025 has given India a strategic platform to secure minerals essential for these industries.
- Complementing this mission with a tailings recovery programme and dedicated financing could further enhance resource security, reduce import dependence, and foster a circular economy for critical minerals, elements increasingly central to technological competitiveness.

Export Competitiveness and Trade Facilitation

- In a period of global trade fragmentation, export competitiveness will require more than market access and exchange rate stability.
- Schemes such as the Remission of Duties and Taxes on Exported Products remain vital in offsetting embedded costs that erode price competitiveness.
- Significantly raising the scheme's budgetary allocation would support exporters facing tightening global margins.
- **Reducing tariff complexity** and rationalising customs slabs would address inverted duty structures that currently penalize domestic manufacturers and discourage value addition within India.

Deepening Capital Markets and Financial Infrastructure

- **Sustained growth** also depends on expanding long-term financing beyond the banking sector.
- Deepening corporate bond markets is critical for large-scale infrastructure, manufacturing, and urban development.
- Policy measures such as **widening issuer eligibility**, encouraging large firms to issue market instruments, increasing investment caps for insurers, and adjusting rating thresholds could boost market liquidity and diversify funding sources.
- Permitting provident funds to invest in non-convertible debentures issued by infrastructure and real estate trusts would mobilise long-term domestic capital for sectors traditionally reliant on public financing.

Institutional Efficiency and Dispute Resolution

- A modern economy requires efficient **dispute resolution systems**.
- India's direct tax appellate system faces significant pendency, especially at the Commissioner of Income Tax (Appeals) level, where vacancies approach 40%.
- A dual-track disposal system that differentiates cases by complexity and value could accelerate resolution, reduce uncertainty for businesses, and improve tax administration credibility, an underrated component of

competitiveness.

Emerging Technologies and Industrial Scale

- Sectors such as drones highlight India's evolving innovation ecosystem.
- Global competitiveness in the drone sector will require both R&D and scale.
- Policy proposals for enhancing production-linked incentives and establishing a dedicated R&D fund would accelerate the commercialisation cycle and bolster export readiness, mirroring approaches adopted successfully by major manufacturing economies.

Conclusion

- As India prepares the 2026–27 Budget, its economic priorities are clear: sustain momentum, strengthen structural competitiveness, and crowd in **private investment**.
- This requires a combination of fiscal discipline, policy certainty, and reform continuity.
- By **addressing bottlenecks** across defence, manufacturing, critical minerals, export policy, financial markets, and institutional efficiency, India can fortify its **domestic growth engines** and enhance its global standing.

Budget 2026-27 Must Keep the Growth Momentum FAQs

Q1. Why did India's economy remain resilient in 2025 despite global challenges?

Ans. India's economy remained resilient because the government sustained its reform efforts and strengthened domestic growth drivers.

Q2. What fiscal approach is recommended for the 2026–27 Budget?

Ans. The recommended fiscal approach is to increase productive expenditure while maintaining the fiscal consolidation path.

Q3. Why is the defence sector considered important for growth?

Ans. The defence sector is important because it promotes indigenisation, boosts exports, and stimulates industrial development.

Q4. How can India improve export competitiveness?

Ans. India can improve export competitiveness by increasing scheme allocations, simplifying customs tariffs, and reducing inverted duty structures.

Q5. What financial reform can support long-term capital formation?

Ans. Deepening the corporate bond market can support long-term capital formation by diversifying financing beyond banks.

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