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Debating Union Budget 2026 as Turning Point or Tinkering

Context

- The annual Union Budget is both a fiscal statement and a strategic document responding to short- and medium-term economic challenges.
- Beyond headline announcements, it signals the broader direction of economic **policy**, particularly in a context where long-term frameworks and explicit targets are absent.
- Budget 2026-27 assumes heightened significance as it is shaped by intensifying **geopolitical** uncertainty and persistent weaknesses in domestic **manufacturing**.

Geopolitical Context and Policy Imperatives

- The global environment surrounding Budget 2026-27 is marked by instability and the erosion of established international economic norms.
- Renewed tensions during the second term of Donald Trump's presidency disrupted global trade arrangements and complicated India's external economic relations.
- India's strategic ties with Russia face pressure, while steep U.S. **tariffs** on labour-intensive Indian exports have undermined prospects for closer bilateral trade.
- At the same time, India's dependence on **imports** from **China** remains substantial despite policy efforts since 2020 to curb it.
- Restrictions imposed by China on critical minerals, industrial machinery, and skilled services, particularly for electric vehicles, have exposed strategic vulnerabilities.
- Within this context, the Budget underscores the urgency of strengthening domestic industrial capabilities.
- The emphasis on reducing import dependence, streamlining trade procedures, and promoting domestic production reflects a growing alignment between economic and strategic priorities, framed around the goal of **self-reliance**.

Manufacturing Decline and Structural Weaknesses

- India's recent growth trajectory masks deep structural concerns. Despite robust headline **GDP** growth, the economy has experienced premature **deindustrialisation**.
- Manufacturing's share in output has stagnated or declined, while manufacturing **employment** has fallen relative to total employment.
- Concerns also persist about the reliability of official manufacturing growth estimates.

- Alternative data from the **ASI** suggest significantly slower output growth, pointing to underlying fragilities.
- Weak **investment**, especially in fixed capital, has contributed to the erosion of industrial **capacity**.
- Rising dependence on imported capital and intermediate goods further constrains domestic production.
- An inverted duty structure, where intermediate goods face higher **duties** than finished products, has discouraged domestic value addition.
- Flagship initiatives such as Make in India, Aatma Nirbhar Bharat, and the Production Linked Incentive schemes have yielded limited success in reversing these trends, apart from select assembly-driven gains.

Budgetary Measures and Their Limits

• Targeted Tariff Rationalisation

- Budget 2026–27 attempts to address these vulnerabilities through targeted tariff rationalisation and procedural reforms.
- By lowering customs duties on capital and intermediate goods, it seeks to correct distortions that discourage domestic production.
- Measures aimed at reducing delays at ports and simplifying import procedures may improve production efficiency and trade competitiveness.

• Focus on Electronics

- A major focus is on **electronics**, the sector with the highest dependence on China.
- The proposed development of a rare **rare-earths** corridor across mineral-rich States aims to strengthen domestic mining, processing, and manufacturing ecosystems.
- Continued tax exemptions for capital goods used in lithium-ion battery production further support supply chains critical for emerging industries.

• Focus on Labour-Intensive Sectors

- The Budget also prioritises labour-intensive sectors as engines of trade integration and diversification.
- Support for **MSMEs** through new industrial clusters, modernisation of legacy clusters, and improved access to capital markets could enhance **productivity**.
- However, these measures alone may be insufficient without complementary investments in scale, skills, and infrastructure.

Gaps in Investment and Fiscal Coordination

- Despite its stated objectives, the Budget remains cautious in addressing India's deficit in high-end industrial **technology**.
- Advanced manufacturing capabilities are closely linked to multinational firms and foreign capital. Yet net **FDI** inflows as a share of GDP have declined sharply in recent years.
- The Budget offers limited incentives to reverse this trend, possibly reflecting uncertainties in the global investment climate.

- The decision to allow firms in **SEZs** to sell part of their output domestically appears counterproductive.
- Rather than resolving export-related bottlenecks, this approach risks diluting export orientation and weakening long-term **exports**
- Another notable omission is the absence of discussion on Centre-State fiscal relations.
- With the recommendations of the Sixteenth Finance Commission forthcoming, issues of fiscal **federalism** and coordinated public investment remain unresolved, despite their importance in a volatile global environment.

Conclusion

- Budget 2026–27 represents a cautious but deliberate attempt to confront India’s industrial stagnation and strategic dependence on imports.
- Its focus on tariff correction, electronics manufacturing, and MSME support reflects awareness of structural constraints.
- However, the effectiveness of these measures will hinge on their detailed design and timely **implementation**.
- Without stronger investment momentum, renewed foreign capital inflows, and improved fiscal coordination, the ambition of transforming India’s industrial base may remain only partially fulfilled.

Debating Union Budget 2026 as Turning Point or Tinkering FAQs

Q1. What macroeconomic phase provides the backdrop for Budget 2026–27?

Ans. The Budget is presented during a phase of high economic growth combined with relatively low inflation.

Q2. How does the Budget aim to sustain growth while maintaining stability?

Ans. The Budget sustains growth through increased public capital expenditure while adhering to fiscal prudence.

Q3. Which sectors receive special emphasis to strengthen industrial capacity?

Ans. The Budget prioritises manufacturing sectors such as semiconductors, electronics, and MSMEs.

Q4. Why is employment generation in the services sector questioned?

Ans. Employment generation is questioned because automation and artificial intelligence are reducing labour absorption in services.

Q5. What is identified as a key weakness in the Budget’s growth strategy?

Ans. The limited focus on domestic demand and gaps in execution are identified as key weaknesses.

Source: **The Hindu**

Union Budget 2026 Bets Big on Industrial Growth

Context

- The Union Budget 2026–27 is presented during a rare phase of strong **economy** performance marked by high **growth** and relatively low **inflation**.
- India's rise to become the fourth-largest global economy reinforces optimism, yet underlying vulnerabilities remain.
- Geopolitical tensions, tariff wars, and supply-chain disruptions pose risks to long-term expansion.
- Against this backdrop, the Budget seeks to balance optimism with realism by maintaining continuity, articulating a long-term vision, and offering selective short-term interventions aimed at sustaining growth and improving **welfare**.

Growth with Fiscal Prudence

- A defining feature of the Budget is its adherence to **fiscal** discipline while continuing to rely on public investment as the main growth driver.
- The increase in **capex** to ₹12.2 lakh crore for FY27 signals continuity in infrastructure-led expansion.
- Simultaneously, the commitment to **consolidation** is reflected in the fiscal **deficit** target of 4.3% of GDP, aligning with the medium-term goal of lowering public debt.
- The borrowing programme involves significant **borrowing**, with higher gross market issuances even as net borrowings remain stable.
- Assumptions of nominal GDP growth above 10% appear realistic given projected real growth and moderate inflation.
- However, the scale of government borrowing may restrict further monetary easing, limiting room for interest rate cuts.
- This interaction between fiscal and monetary policy underscores the delicate balance required to sustain momentum without destabilising macroeconomic conditions.

Strategic Push for Manufacturing and Frontier Sectors

- A notable shift in the Budget is its early and explicit focus on **manufacturing**.
- The strategy targets emerging industries, legacy sectors, and **MSMEs**, signalling an intent to broaden the production base beyond services.
- Support for seven strategic sectors, including **semiconductors**, electronics, biopharma, chemicals, capital goods, and textiles, reflects a move beyond earlier incentive-based frameworks toward deeper industrial capability building.
- Enhanced allocations for electronics and the launch of India Semiconductor Mission 2.0 aim to reduce dependence on fragile global supply chains.
- Investments in **logistics**, freight corridors, and container manufacturing strengthen export competitiveness, particularly in a volatile global trade environment.
- Measures supporting **exports** affected by higher tariffs, alongside the creation of an SME Growth Fund, address structural financing gaps and encourage scalable enterprise growth.

Contradictions and Policy Surprises

- Despite its coherence in several areas, the Budget presents notable inconsistencies.

- Expectations of substantial revenue from **disinvestment** appear optimistic given repeated shortfalls in previous years.
- A major surprise is the long-term tax exemption for global cloud service providers operating through Indian data centres, raising questions about opportunity costs and revenue foregone.
- The anticipation of job creation in the **services** sector contrasts with trends of automation and artificial intelligence reducing labour absorption, weakening assumptions around **employment**
- The strong push for data centres increases demand for **data** infrastructure but is not matched by a corresponding emphasis on **power** generation, despite the sector's high energy intensity.
- Additionally, the continued silence on exchange rate volatility leaves the issue of the **rupee** unaddressed, despite its macroeconomic significance.

Structural Gaps and Demand Constraints

- While the emphasis on manufacturing is welcome, the absence of a comprehensive industrial **policy** framework risks leaving initiatives fragmented.
- Industrial expansion requires sustained domestic **demand**, yet demand-side measures receive limited attention.
- Shortfalls in effective capital expenditure relative to budgeted targets weaken multiplier effects and undermine assumptions of demand-led expansion.
- Given uncertainty in global markets, domestic income and job growth are critical to sustaining manufacturing momentum.
- Weak **execution** of planned investments and rising prices threaten real purchasing power, potentially constraining consumption.
- Addressing these gaps is essential to building long-term **resilience** and ensuring that growth translates into broad-based gains.

Conclusion

- The Union Budget 2026–27 reflects an attempt to balance ambition with caution.
- It reinforces infrastructure-led **investment**, prioritises strategic manufacturing, and maintains macroeconomic stability.
- However, optimistic revenue assumptions, internal contradictions, and limited attention to domestic demand and implementation challenges constrain its transformative potential.
- **Sustained growth** will depend on aligning vision with delivery and strengthening the **structural foundations of the economy**.

Union Budget 2026 Bets Big on Industrial Growth FAQs

Q1. Why is Budget 2026–27 considered strategically important?

Ans. It reflects India's attempt to align economic policy with geopolitical challenges and reduce external vulnerabilities.

Q2. What structural problem affects India's manufacturing sector?

Ans. India has experienced premature deindustrialisation with stagnant output and declining manufacturing employment.

Q3. How does the Budget address import dependence on China?

Ans. It promotes domestic electronics production and proposes a rare earths corridor to secure critical inputs.

Q4. Why are MSMEs emphasised in the Budget?

Ans. MSMEs are seen as key drivers of labour-intensive production, export diversification, and productivity growth.

Q5. What is a major limitation of Budget 2026-27?

Ans. It makes limited efforts to revive high-technology investment and foreign direct investment inflows.

Source: **The Hindu**

India's Budgetary Blueprint for Resilience - Governing Growth in a Fragmented World

Context

- There is the need to analyse the Union Budget 2026-27 against the backdrop of intensifying geopolitical uncertainty, trade fragmentation, and macroeconomic constraints.
- The core argument is that the Budget marks **a decisive shift** towards trade, capital formation, technology, and export competitiveness as engines of growth, while attempting to preserve macroeconomic stability in a volatile world.

Changing Global Order - From Integration to Fragmentation

- The global economy is witnessing a rupture in the old order, marked by –
 - **Tariffs**, export controls, and licensing regimes by the US and China
 - Restrictions on advanced technologies
 - Fragmentation of global value chains
- This has reignited debates on –
 - Inflation vs growth trade-offs
 - Capital flows and currency management
 - India's attractiveness as an investment destination
- The Budget and Economic Survey 2025-26 subtly recognizes this chaotic shift, supporting "**Carney-ism**"—"the notion that nations that can forge agile alliances in the areas of commerce, energy, and security will gain influence.

Trade as an Engine of Growth

- **Budget speech:** The Finance Minister's mantra this year has been capital, technology, and export competitiveness.

- **Reflected in:**
 - Trade agreements with the EU, UK, Australia, UAE and Oman
 - Rationalisation of customs duties and correction of inverted duty structures
- The approach **balances** Atmanirbharta (self-reliance) with deeper integration with trusted partners, particularly in Asia and Europe.

Macroeconomic Constraints - CAD, Debt and Savings

- The Economic Survey warns that a persistent Current Account Deficit (CAD) raises macro risk premium, and interest rates.
- However, CAD of 1.3% of GDP (Q2 FY26) need not be eliminated by running down forex reserves, as India has managed higher CADs in the past with adequate buffers.
- The FRBM Review Committee placed sustainable CAD at around 2.3% of GDP.

Blueprint for India's "Goldilocks" Economy

- **Fiscal credibility beyond headline deficits**
 - **Fiscal consolidation since FY21:**
 - Deficit reduced from 9.2% (FY21) to 4.8% (FY25) and 4.4% (FY26).
 - Public capex has risen to Rs 11.21 lakh crore, while the general government debt-to-GDP ratio has declined by over seven percentage points.
 - **Role of GST:** GST provides a new source of information as well as revenue, and encourages movement from informal to formal.
 - **Challenges:**
 - Government borrowing absorbs a large share of net household financial savings.
 - Shift of household savings to equity markets may raise borrowing costs.
 - High cost of capital hurts manufacturing and MSMEs.
 - **Imperative:** Fiscal discipline must **crowd in** private investment, not pre-empt it.
- **State finances and cooperative fiscal federalism**
 - State deficits have risen since FY22, reaching around 3.2% of GDP in FY25, while state debt remains close to 28% of GDP.
 - In integrated sovereign debt markets, sub-national slippages raise borrowing costs for all. Therefore, cooperative fiscal federalism must move beyond transfers toward shared discipline and credible rules.
- **Private investment as the growth bridge**
 - The Centre is leading by example with additional grants of Rs 1.6 lakh crore to raise states' capex.
 - However, capex alone cannot remain the primary growth engine, private investment must lead, as it remains the bridge between macroeconomic stability and sustained growth.

- The investment rate has stabilised near 30% of GDP, corporate balance sheets have strengthened, and capacity utilisation has improved.
- The Budget emphasises **simplified regulations**, faster contract enforcement, and lowering the economy-wide cost of capital.

- **Competitiveness, manufacturing and climate**

- Industrial GVA grew by 7% in the first half of FY26, with medium and high-technology manufacturing accounting for nearly half of this.
- The Budget strengthens competitiveness through rationalised customs duties, correction of inverted duty structures, faster MSME payments, and stronger **private R&D**.
- The Budget's focus on carbon capture utilisation and storage (**CCUS**), will be good for India while enabling exports to Europe (e.g., **CBAM**) and elsewhere.
- This means climate action is now an instrument of industrial and trade policy.

Human Capital, AI and Urban Transformation

- **Labour and productivity**

- India's workforce exceeds **56 crore**, unemployment has declined to **8%**, and female labour force participation has crossed **41%**.
- **AI** is expected to lift productivity, with the Economic Survey projecting total factor productivity growth of 1.9% annually.

- **Urban transformation**

- **Cities as growth engines:** Cities generate a disproportionate share of output and FDI. Budget focus on City Economic Regions (**CERs**). **For example**, ₹5,000 crore per CER over five years, and funding will be linked to outcomes.
- **Urban finance:** Between 2017 and 2025, municipal bonds — further incentivised in this Budget — raised Rs 2,834 crore. Property taxes now account for about 60% of urban local body revenues.
- Without stronger municipal finance and governance, India risks **losing agglomeration** benefits in labour absorption and capital attraction. **Pollution and congestion** are a major constraint on talent, investment, and growth.
- Therefore, urban infrastructure needs **reforms** that reduce emissions, manage mobility and improve service delivery.

Challenges and Way Forward

- **Fragmented global order and trade uncertainty:** Build agile alliances across trade, energy and security.
- **High cost of capital:** For MSMEs and manufacturing. Crowd in private investment through lower cost of capital.

- **Rising state-level fiscal risks:** Maintain credible fiscal consolidation with quality expenditure. Strengthen cooperative fiscal federalism.
- **Climate risks to industrial competitiveness:** Integrate climate policy with industrial strategy.
- **Weak urban governance and infrastructure stress:** Invest in human capital, AI adoption and urban reforms. Stronger, cleaner public transport spurs inclusion and creates opportunities for poor people to benefit from urban growth.

Conclusion

- In a harsher and more fragmented global environment, the Union Budget seeks not just to accelerate growth, but to govern growth with judgement and **resilience**.
- It reflects a **Schumpeterian** moment of creative destruction, creating space for new investments, technologies and alliances.
- By aligning **fiscal prudence**, trade openness, climate competitiveness and urban transformation, the Budget positions India to protect growth while reshaping its development trajectory for a turbulent world.

India's Budgetary Blueprint FAQs

Q1. How does the Union Budget signal a shift in India's growth strategy?

Ans. The Budget repositions trade, capital formation, technology and export competitiveness.

Q2. Why is eliminating the current account deficit (CAD) by drawing down foreign exchange reserves risky?

Ans. Because a moderate CAD is sustainable for India, and excessive reserve depletion would raise macroeconomic vulnerability.

Q3. Why is fiscal credibility in India increasingly assessed beyond headline deficit reduction?

Ans. Fiscal credibility now depends on the composition and crowding-in effect of public spending.

Q4. How has climate policy become integral to India's manufacturing competitiveness and trade access?

Ans. Reducing emissions in sectors like cement and steel through CCUS enhances export competitiveness.

Q5. Why are cities and municipal finance critical to sustaining India's long-term growth momentum?

Ans. Cities drive output, FDI and labour absorption, but without stronger municipal finance and governance, India risks losing agglomeration benefits.

Source: **IE**

Source: <https://vajiramandravi.com/current-affairs/daily-editorial-analysis-2-february-2026/>

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