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SPOTLIGHT

Budget 2026-27

Achieving fiscal prudence while meeting industry expectations

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Before the Union Budget release, there was strong anticipation and active debate on how it will power growth and support various sectors of the economy. As we parse through the details of the Union Budget 2026, we have attempted here to assess how the various announcements match up to some of the key expectations that we shared in the ET-PwC pre-Budget survey.

50% of the survey respondents highlighted the need for higher capex as the main lever to boost growth. Manufacturing was ranked as the second most important growth lever (25%), while consumption stimulus came in the third place (23%). If we look at the budget, then almost all of these levers have been accelerated to varying degrees.

Despite fiscal constraints, Central Government capex allocation has risen from INR 11.2 trillion (FY26 BE) to INR 12.2 trillion in FY27 BE. The budget has focused on several measures to continue with the infra push through higher allocation in order to progressively bring down the logistics costs in the economy. Some of the key announcements are a new dedicated freight corridor (Dankuni-Surat); 20 new national waterways connecting mineral-rich areas, industrial centres, and ports; a ship-repair ecosystem catering to inland waterways; and seven high-speed rail lines to connect key growth centres.

The second lever of preference—manufacturing—has also been addressed by the budget. It covers a stimulus for seven strategic and frontier sectors of the economy, tax reforms to boost manufacturing, and support for MSMEs. New age and electronics manufacturing as well as areas where India sees growing domestic demand and consequent high



imports have been given a focus. Some key announcements towards these include the Biopharma SHAKTI; India Semiconductor Mission 2.0; increased outlay for the Electronics Components Manufacturing Scheme; establishment of dedicated Rare Earth Corridors; establishment of chemical parks; strengthening capital goods capability through hi-tech tool rooms through Central Public Sector Enterprises (CPSEs); and a Scheme for Enhancement of Construction and Infrastructure Equipment (CIE) and a Scheme for Container Manufacturing.

While there were no big bang announcements related to the consumption stimulus, the higher capex allocations and the significantly higher

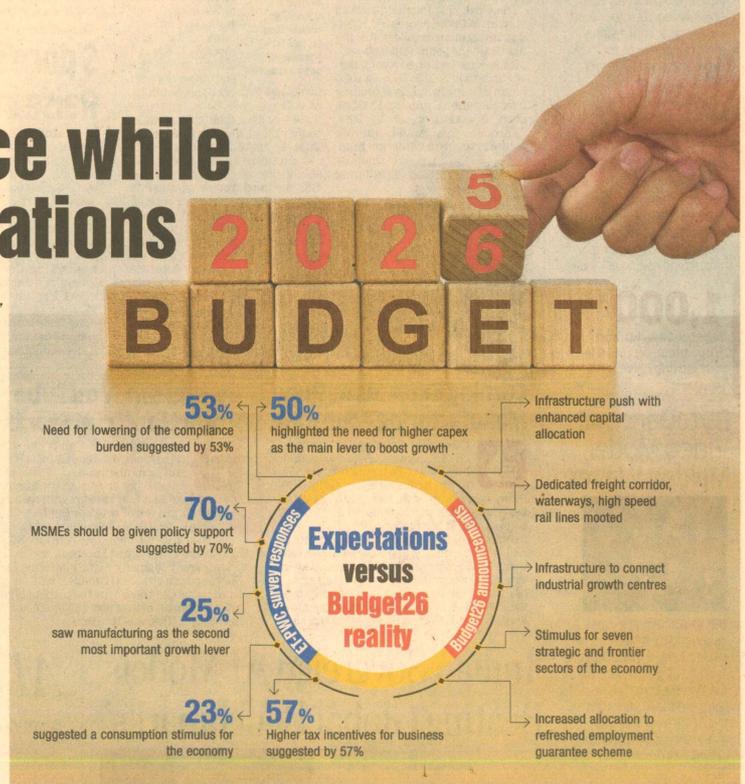


allocation to the refreshed employment guarantee scheme would provide some demand boost.

The ET-PwC survey respondents expected higher tax incentives (57%) while also seeking higher tax buoyancy as a key lever to reduce fiscal deficit (51%). The expectations were a bit conflicting and, as the respondents themselves acknowledged, given the need for fiscal prudence as well as the GST rate rationalisation and income tax reliefs provided in the previous year, there was not much room for further tax incentives. Projected at less than 1, the tax buoyancy expectations are also low in the budget. Though this seems to be an underestimation, a conservative tax buoyancy projection may have been taken based on the possibility of inflation remaining benign and hence nominal GDP undershooting the estimated 10% growth.

Respondents of the survey also highlighted the need for lowering of the compliance burden (53%) and policy support for MSMEs (70%). Further, 53% of the respondents cited input costs as the single biggest constraint for manufacturing and 80% identified it as the top constraint for businesses with below INR 1000 cr turnover). The budget has clearly addressed these concerns with duty cuts for upstream input products, a scheme to revive 200 legacy industrial clusters, and tax certainty as well as the replacement of penalties with fees as a signal to business that the Government wants tax resolution and not tax litigation.

MSMEs have received a lot of attention in the budget. The most impactful support measure announced is for bringing down the working capital cost for MSMEs. This has been done through mandating the Trade Receivables Discounting System (TReDS) for all CPSE purchases from MSMEs, introducing the Credit Guarantee



Fund Trust for Micro and Small Enterprises (CGTMSF)-backed invoice-discounting guarantees on TReDS, and enabling TReDS receivables to be issued as asset-backed securities. The creation of a cadre of 'Corporate Mitras' is going to significantly help MSMEs with compliances. The removal of the 1 million per consignment value cap on courier exports will also support these enterprises.

Some of the other expectations of the ET-PwC survey respondents included stronger and clearer transfer pricing and safe harbour rules to attract global

capability centres (GCCs). This expectation has been comprehensively addressed in the budget through the categorisation of all the common IT/TeS categories under one umbrella category (Information Technology Services). Further, the spelling out of a single safe-harbour margin of 15.5% for all IT services along with a higher turnover limit to use this route, automatic approvals through a rule-driven system (no tax officer vetting), and the option to retain safe harbour for five years are other steps in line with this expectation.

Against a backdrop of high

expectations, the Union Budget is required to balance competing priorities. There is a need to continue to adhere to fiscal discipline, improve the quality of the budget through a higher proportion of capex in total spending, and still provide the growth stimulus needed in an economy with a young demographic. In summary, the budget seems to have met the expectations of the survey respondents to a large extent, and we should now turn our focus towards execution.

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