



# इसलवार्त्त

2026-2027

CDM ANALYSIS OF UNION BUDGET



## **Editor**



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# SAMARTH

## CDM HANDBOOK ON UNION BUDGET 2026-27

"AN ANALYSIS FROM DEFENCE PERSPECTIVE"



नैपुण्यात् विजयो ध्रुवम्  
*Victory Through Excellence*

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## **PREFACE**

The Indian economy continues to demonstrate remarkable resilience and adaptability amid an increasingly complex global environment marked by geopolitical tensions, financial volatility, and structural disruptions in trade and supply chains. Building on the strong post-pandemic recovery, sustained macroeconomic stability has been achieved through prudent fiscal management, calibrated monetary policy, and a clear focus on long-term growth enablers. At the global level, economic prospects remain cautious, with uneven recovery across regions and persistent geopolitical risks. In this backdrop, the Union Budget adopts a proactive stance of prioritising capital expenditure, enhancing domestic capacities, and reinforcing supply-side resilience to ensure India's growth trajectory and strategic autonomy.

The “Samarth - CDM Analysis of Union Budget 2026-27” presents a focused and analytical overview of the budget, with special reference to defence and their strategic implications. The handbook integrates data-driven insights and graphic illustrations to serve as a concise ready reckoner for higher defence management and strategic decision-makers.

The College of Defence Management remains steadfast in its commitment to providing high-quality in-house research and consultancy support, contributing to informed strategic management and capacity building within the Armed Forces.

17 Feb 26

  
(G Srinivas)  
Maj Gen  
Commandant

**Air Cmde Vivek Gupta, VM**  
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## **FOREWORD**

'Samarth - CDM Analysis of Union Budget 2026-27' presents a comprehensive examination of the Union Budget with a focused emphasis on the Defence Fiscal and its broader strategic implications. The analysis underscores the intrinsic linkage between Defence and Development, the two indispensable pillars for the sustained progress of a developing nation.

The compilation highlights how the budget reflects India's evolving strategic vision and its unwavering commitment to Atmanirbhar Bharat, particularly in the defence domain. It examines budgetary provisions across various sub-segments of the Indian Armed Forces, encompassing expenditure towards raising, training, and sustaining military capability, while also addressing modernisation and preparedness imperatives.

By integrating fiscal analysis with strategic perspectives, this edition seeks to provide clarity on resource allocation priorities and their long-term impact on national security and capacity building. The study is intended to serve as a valuable reference for higher defence management and practitioners engaged in strategic decision-making.

I place on record my sincere appreciation to Gp Capt HS Jaggi and Col Gagan Singh for their diligent efforts in compiling this edition.

  
(Vivek Gupta)  
Air Cmde  
HF RM

17 Feb 26

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CHAPTER 1

**GEOPOLITICAL POLARISATION AND ECONOMIC IMPLICATIONS**

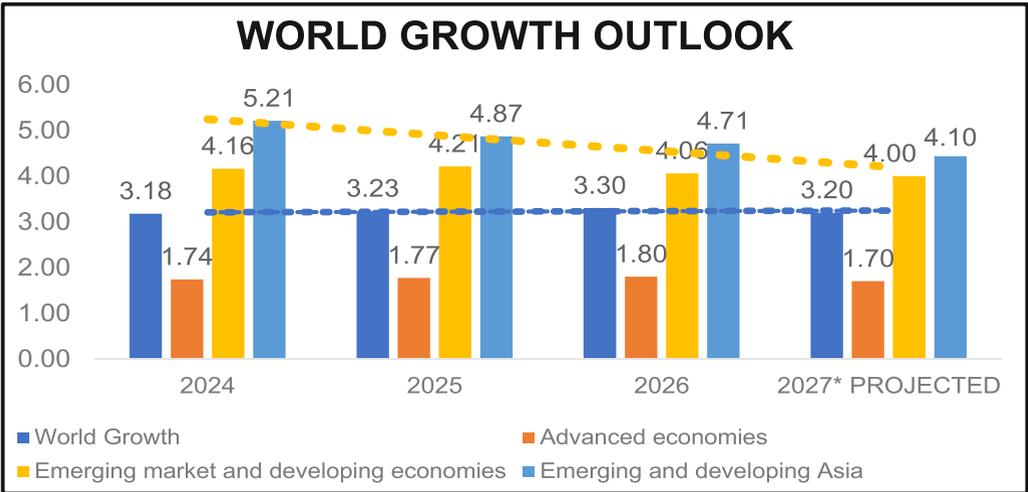
**1. Environment Scan.** In the year 2026, the world is balancing on a precipice. The turmoil caused by kinetic wars, alongside the deployment of economic weapons for strategic advantage, continues to fragment societies. Rules and institutions that have long underpinned stability are under siege in a new era in which trade, finance and technology are wielded as weapons of influence. Longstanding geopolitical alliances are being reshaped as global rules and norms are increasingly contested. Goeconomic confrontation is already contributing to a loss of trust affecting international relations. But the reverse is also happening, **governments are taking hostile actions on trade, investment and other goeconomic issues** when they feel that the **rules-based international system is weakening**. They have less to lose than before. This vicious cycle looks set to continue over the next two years.



Rich Picture of Weakening International Order

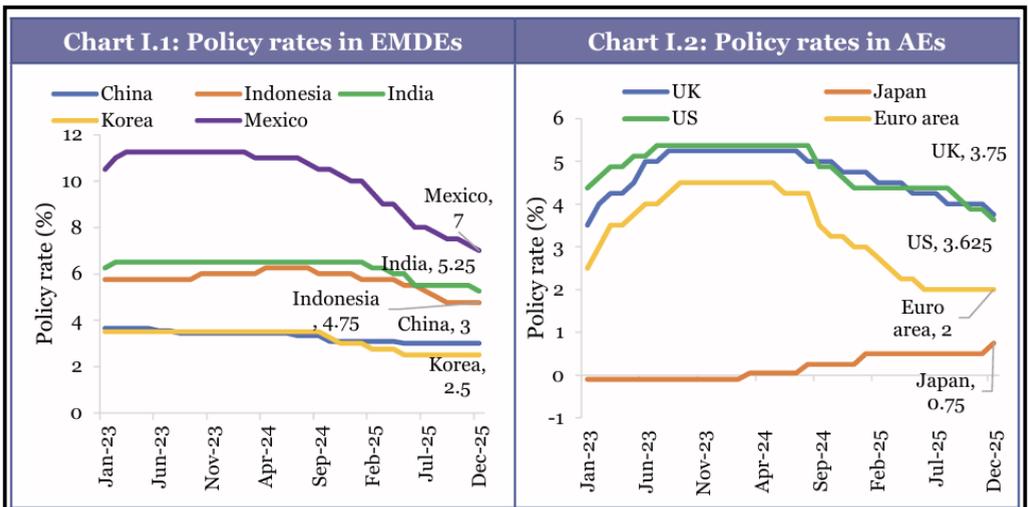
2. **Global Economic Outlook.** The global economy has entered a phase in which geopolitical considerations exert much stronger influence than in the 2010s. Rapidly evolving country alignments and supply chains, as well as technological developments, necessitate supplementing traditional economic assessments with a geopolitical perspective. **Strategic competition is increasingly fuelling trade wars**, while nations vie for **access to critical minerals and technological resources in a manner reminiscent of a new colonial scramble**. The United States has **imposed extensive export controls on advanced semiconductors and associated manufacturing equipment to constrain China's access to next-generation AI and chip technologies**, expanding coverage based on end-use and foreign-direct product rules. **These measures aim to hinder strategic military and civilian capabilities in rival states**. China has **tightened export licensing and controls on key rare earth elements and permanent magnet materials essential for defence, electronics, and energy transitions**. Restricted trade and investment in response to perceived national security threats are now the new normal.

3. Against this backdrop, World economy is expected to grow at 3.3 per cent for 2026 and 3.2 per cent for 2027, **the forecasts mark a slight deceleration from the estimated 3.3 per cent achieved in 2025**. **Headwinds from shifting trade policies are offset by tailwinds from surging investment related to technology**, including artificial intelligence (AI), more so in North America and Asia than in other regions, as well as fiscal and monetary support, broadly accommodative financial conditions, and adaptability of the private sector. **While tariffs and uncertainty are projected to continue to weigh on the level of activity, the effect on growth is expected to fade during 2026 and 2027**. **Risks to the outlook for the global economy remain tilted to the downside**. The resilience exhibited so far is driven largely by a few sectors and often supported by monetary and fiscal accommodation. It could be disrupted by either sectoral dynamics or shocks disseminating from long-standing broader risk factors.



Source: IMF

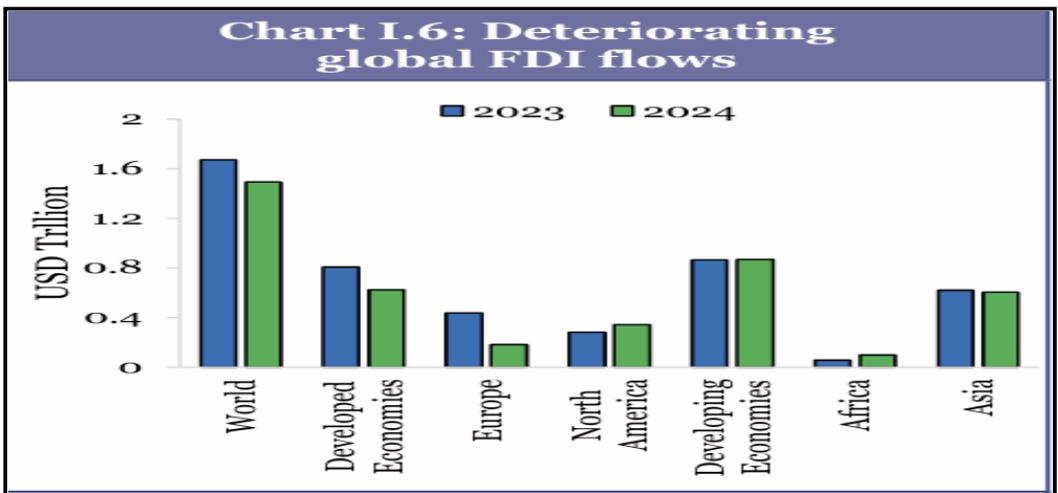
4. **Growth and Inflation Diverge.** Global inflation has been largely steady. While the global median of sequential inflation has firmed slightly, for both headline and core rates, annual inflation has been stable, surprisingly mild on the downside. **Globally, the shift from aggressive monetary policy tightening to a neutral or accommodative stance is still underway.** Variance in growth-inflation dynamics has led to divergent trajectories of central bank policy rates across major economies. This has implications for capital flows as fund houses trot the globe in search of higher yields. **Amidst ongoing weaknesses in growth and inflation, fiscal policies in major economies stay expansionary.**



Source: Economic Survey 2025-26



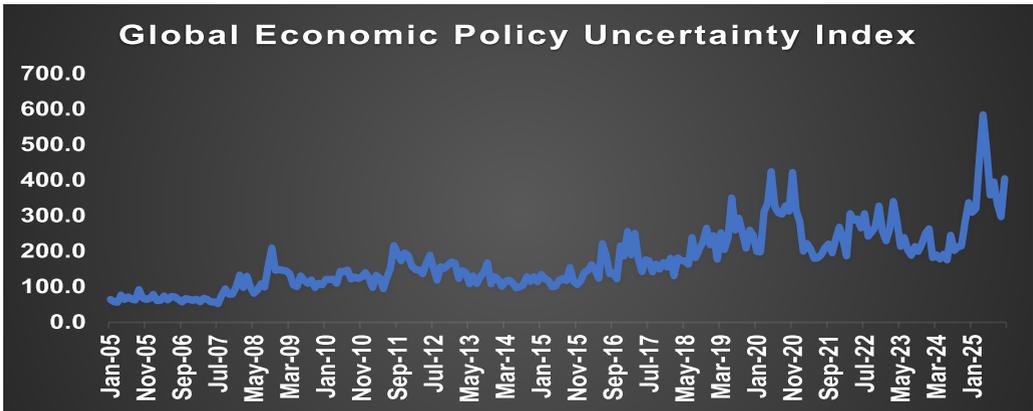
5. **Global Deficit Trend and Borrowing Costs.** While the **projected primary deficits for 2025 are generally smaller** than the record deficits of 2020 and 2021, they are still significantly higher than pre-pandemic levels, **except in Brazil and India.** **Long-term borrowing costs have stayed elevated** as investors question the ability of governments to cover massive budget deficits. These pressures are showing in elevated bond yields across major Advanced Economies (AEs), particularly in the ultra-long tenure segment. Global economic uncertainty remains elevated compared to historical trends, primarily on account of fragmentation in geopolitical relationships and lower visibility on policy continuity. This, coupled with the aforementioned macroeconomic developments, has led to a **deterioration in global foreign direct investment (FDI) flows.**



Source: Economic Survey 2025-26

6. **Global Fragmentation.** The trend of global geoeconomic fragmentation is firmly in place, despite moments of tensions appear to ease temporarily. **Areas such as defence, digital infrastructure and energy are drawing larger shares of budgets,** reflecting the demands of a more unpredictable world and the imperatives of technological change. Looking ahead over the next two years, a wider range of economic levers may be used by governments worldwide within the broader objectives of building national security and advancing geopolitical interests. While the actions of China and the United States are most closely watched, all countries are affected by the changes underway. In turn, **the transformation of the global order will continue to be shaped by the strategic interests of many countries and regions.** The Eastern and Western blocs have

profound negative implications for global economic growth. **Non-aligned countries face particular risks if they do not find a new balance.** Even partial decoupling in trade, investment, finance, and technology ecosystems could significantly raise costs for businesses and slow global economic activity.



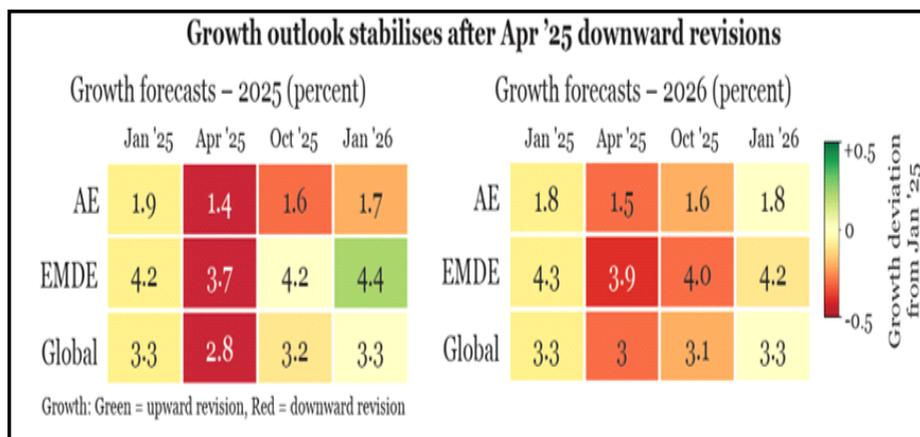
Source: World Economic Forum

7. **Global Economic Environment.** The global economy has shown resilience, but the outlook remains clouded by trade tensions, fiscal strains and persistent uncertainty. Global economic activity moderated to its lowest level in six months in December 2025 as growth across manufacturing and services softened. Growth projections for major AEs, including the US, the UK and the Euro area, were revised upward. Among emerging market and developing economies (EMDEs), growth remained robust, led by India and China. However, the world's economic environment is indicating **downside risks in the form of inflated asset values, building debt pressures and intensifying geopolitical tensions**, which are shifting trade and investment patterns.

8. **Global Supply Chains.** Global trade performed better than expected in 2025, driven by early shipments ahead of higher tariffs and robust services exports. But growth is projected to slow in 2026, as temporary drivers fade and trade barriers and policy uncertainty persist. Investment remains subdued in most regions. With multilateralism facing ever stronger headwinds and rising evidence of the **decline of the rules-based international order**, there is a greater risk of cross-border economic and military conflicts and inaction on global challenges. **Global supply chains and regional/ bilateral agreements are increasing while countries work to secure access to essential technologies and resources.** Concentration of



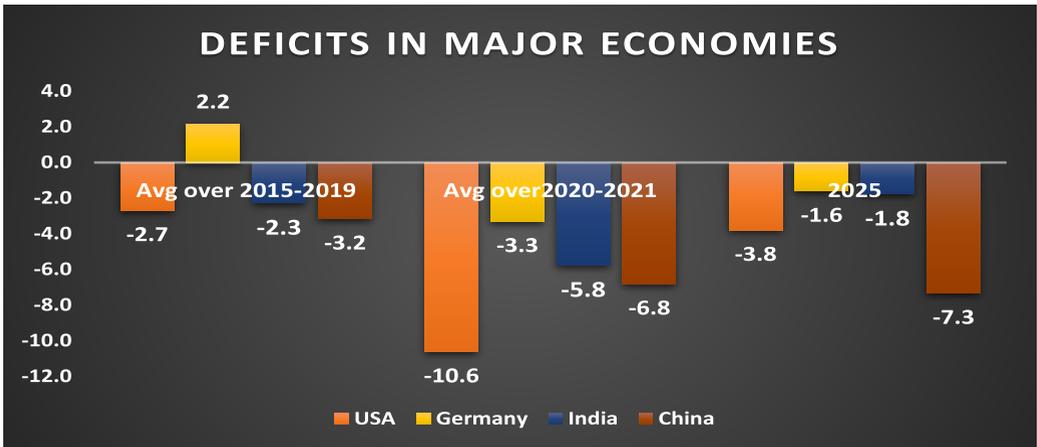
strategically important resources (minerals, materials, technologies) among a small number of individuals, businesses or states that can control access and dictate discretionary pricing. Major disruption or collapse of a systemically important global supply chain or industry with an impact on the global economy, financial markets or society, leading to an abrupt shock to the supply and demand of systemically important goods and services at a global scale, remains a major risk.



AE- Advanced Economies, EMDE – Emerging & Developing Economies

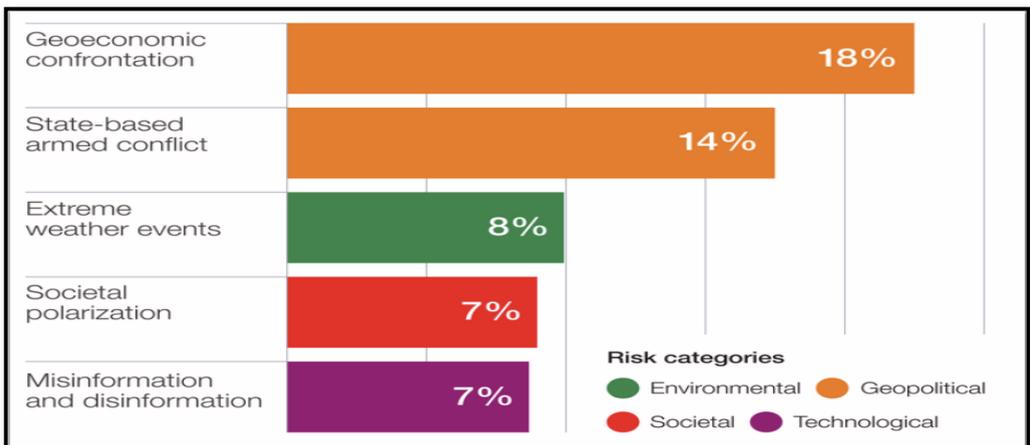
Source: Economic Survey 25-26

9. **Fiscal Risks.** Growing debt in both advanced and developing economies poses a risk in an environment with higher spending pressures and relatively high interest rates. While inflationary pressures are relatively subdued in the immediate term, higher tariffs, debt monetisation, and other drivers could bring back more widespread inflation concerns. The International Monetary Fund (IMF) projects 3.1% global gross domestic product (GDP) growth in 2026, below the 2000-2019 average of 3.7% with downward risks. Apart from fiscal issues, **key areas of concern are the impacts of policy uncertainty (especially related to protectionism), labour-supply shocks, possible financial market corrections and the weakening of key institutions, including central banks.** Amidst ongoing weaknesses in growth and inflation, fiscal policies in major economies stay expansionary. While the projected primary deficits for 2025 are generally smaller than the record deficits of 2020 and 2021, when substantial fiscal stimulus was used to address the pandemic impact, they are still significantly higher than pre-pandemic levels, except in Brazil and India. Long-term borrowing costs for the world's biggest economies have stayed elevated as investors question the ability of governments to cover massive budget deficits.



Source: UNCTAD Report

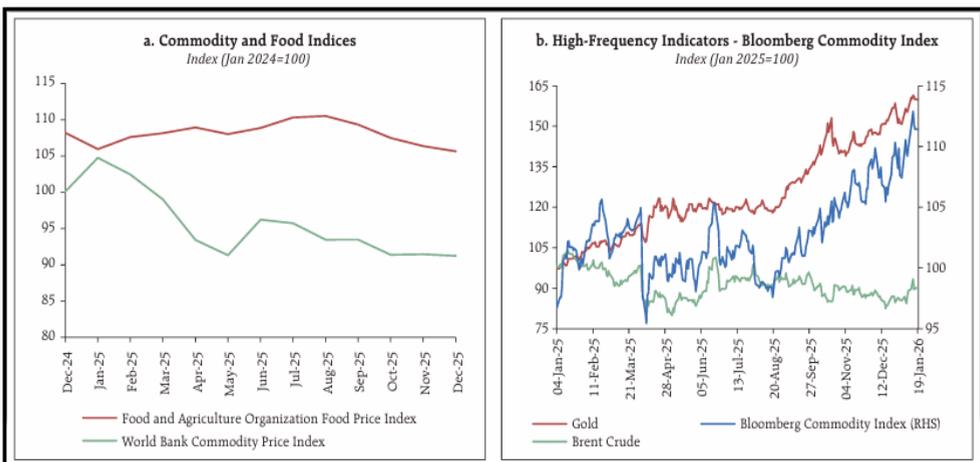
10. The next two years are likely to see the continuing convergence of a set of economic and financial challenges. A sharp run-up in the prices of precious metals has raised concerns of bubble-like activity there, too. Some of these prices have since stabilised or corrected, but concerns about overvalued markets remain. **Governments are likely to adopt more aggressive policies to shape the global monetary system to their advantage.** Governments and central banks are expressing concern about how flows into foreign currency-pegged stablecoins could weaken their financial systems and jeopardize monetary sovereignty. Emerging market countries with soft currencies are especially vulnerable. Several risks could worsen the inflation outlook. **Rising prices of natural resources if geoeconomic confrontation intensifies are of concern.** Further, the inflationary pressures associated with higher tariffs should not be underestimated.



Top five Global Risks: Source World Economic Forum

11. Technological developments and innovations are driving opportunities, with vast potential benefits from health and education to agriculture and infrastructure, but also leading to new risks across domains, from labour markets to information integrity to autonomous weapons systems. Trade and global value chains continue to experience their most significant disruption in decades, and trade policy uncertainty is high. Among the worst-case scenarios, **governments could impose tariffs not only on those countries/blocs imposing tariffs on them, but on all their trading partners.** Such across-the-board tariffs globally would lead to a substantial contraction in global trade. **Countries not aligned with either China or the United States could face pressure to comply with sanctions regimes.** The number of sectors considered “strategic” to national security and affected by sanctions, including export controls and investment bans, is rising. **Sectors that have recently been targeted with sanctions include AI, chips, biotech, quantum, drones and rare earths.**

12. **Commodity Prices.** Global commodity prices exhibited divergent movements. The World Bank Commodity Price Index declined marginally due to lower energy prices, while non-energy items, such as metals and precious metals, registered a notable uptick. Gold prices maintained an upward trajectory, and Crude oil prices held steady on a favourable demand-supply balance. Prices edged higher in early January amidst rising geopolitical tensions, but partly corrected later. Inflation eased but remained at elevated levels in the Advanced Economies (AEs) amidst persistent services inflation.



Source: World Bank



**13 Global Challenges.** Technological developments and innovations are driving opportunities, with vast potential benefits from health and education to agriculture and infrastructure, but also leading to new risks across domains, from labour markets to information integrity to autonomous weapons systems. Trade and global value chains continue to experience their most significant disruption in decades, and trade policy uncertainty is high. Among the worst-case scenarios, **governments could impose tariffs not only on those countries/blocs imposing tariffs on them, but on all their trading partners.** Such across-the-board tariffs globally would lead to a substantial contraction in global trade. **Countries not aligned with either China or the United States could face pressure to comply with sanctions regimes.** The number of sectors considered “strategic” to national security and affected by sanctions, including export controls and investment bans, is rising. **Sectors that have recently been targeted with sanctions include AI, chips, biotech, quantum, drones and rare earths.**

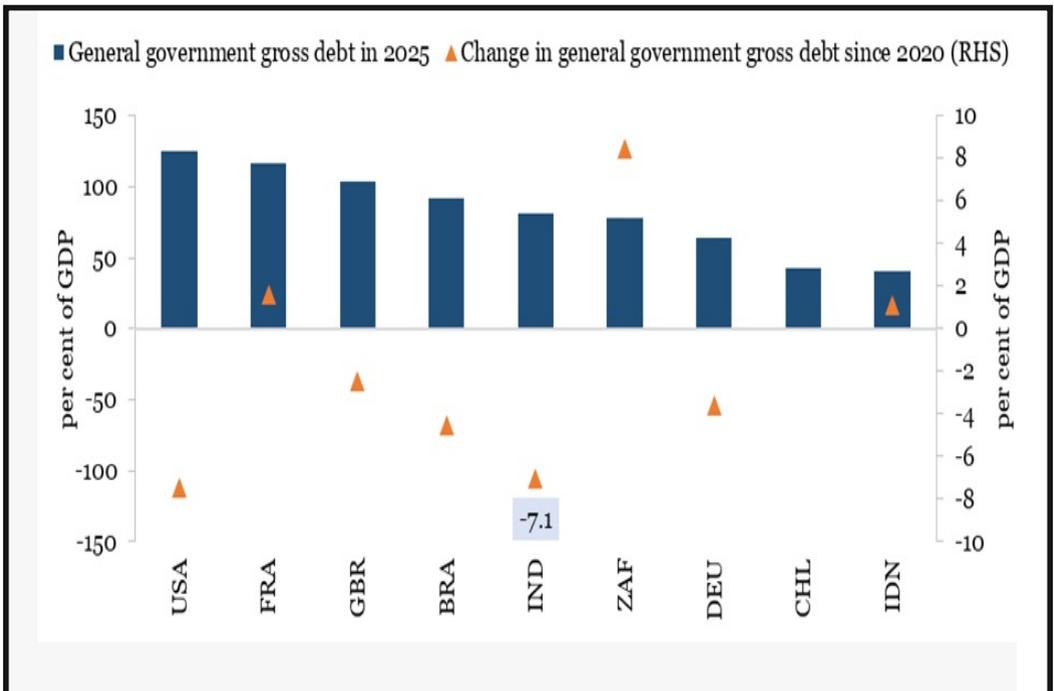
**14. Challenges for India.** Despite US tariffs on Indian exports, RBI's recent assessment of a “goldilocks” economy reflected a surge of 8.2% year-on-year real GDP growth in the Sept Qtr alongside near-zero inflation. At the same time, **India is continuing on its reform path by reducing employment restrictions, and AI adoption is surging alongside** investments from US technology firms. The first advance estimates of real GDP growth for 2025-26 reflected the resilience of the Indian economy, driven by domestic factors amidst a challenging external environment. High-frequency indicators suggest continued buoyancy in growth impulses with demand conditions remaining upbeat. **The GDP growth estimates for 2025-26 indicate that India will remain the fastest-growing major economy in the world.** India has made significant efforts to diversify and strengthen its exports, aiming to mitigate external sector risks. **The country received three sovereign rating upgrades during the year.** Inflation outlook remains benign. One risk factor is the persistence of high tariffs on exports to the USA. It also affects investor sentiment and keeps capital inflows into India restrained. Weak net capital inflows keep the currency under pressure.

**15. Forex Market.** The Indian rupee (₹) depreciated against the US dollar in December 2025, pressured by foreign portfolio outflows and uncertainty surrounding the India-US trade deal. The volatility of the INR remained relatively



lower than that of most major currencies. India runs a trade deficit in goods. Its net trade surplus in services and remittances is not enough to offset it. India depends on foreign capital flows to maintain a healthy balance of payments. When they run drier, rupee stability becomes a casualty. Therefore, the Indian rupee underperformed 2025.

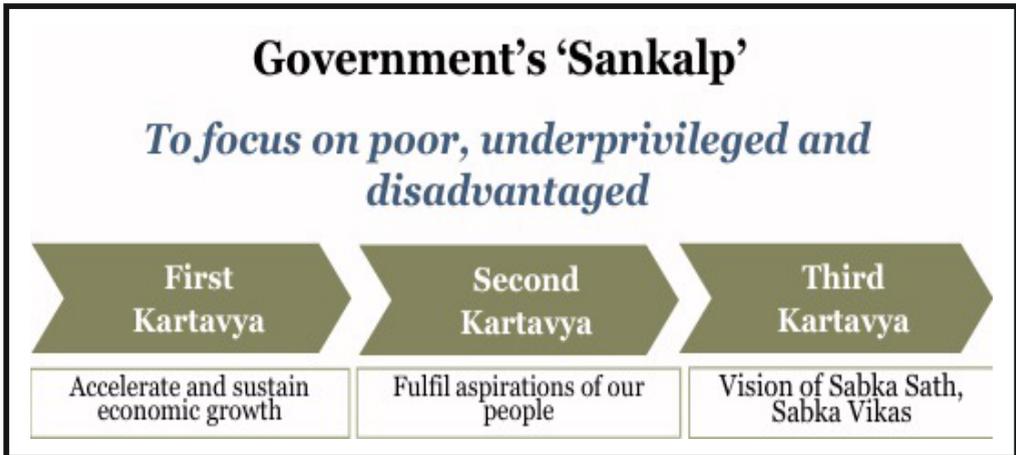
16. **Way Forward.** Recognising today's climate of geoeconomic confrontation, governments can nonetheless find ways to collaborate and identify areas of consensus. Global progress is not attainable in the short term, but “**coalitions of the willing**” can move forward in specific areas of trade and investment. Economic inducements that foster mutual gains should be prioritised over those that are designed to cause economic pain to other countries. The ability of the private sector to engage with stakeholders across the political spectrum, domestically and abroad, should be safeguarded. Public-private consultation mechanisms can help to support transparency around decision-making, clarifying the business environment in an era of intensifying economic and financial statecraft.





## Key Takeaways

- ✓ Geoeconomic confrontation is contributing to a loss of trust affecting international relations.
- ✓ Hostile actions on trade, investment and other geoeconomic issues are weakening the rules-based international system.
- ✓ The world's economic environment is indicating downside risks in the form of inflated asset values, building debt pressures and intensifying geopolitical tensions.
- ✓ India remains the fastest-growing major economy in the world.
- ✓ Economic inducements that foster mutual gains should be prioritised over those that are designed to cause economic pain to other countries.



CHAPTER 2

ECONOMIC SURVEY AND IMPLICATIONS  
FOR DEFENCE

1. **Economic Means Strategic Ends.** Over the past few years, deliberate use of economic means to achieve strategic ends has witnessed a rapid resurgence. **This shift reflects rising geopolitical competition, concerns over technological dominance and vulnerabilities exposed in traditional global value chains.** Economic policy employs traditional instruments, including fiscal, monetary, and trade tools, to achieve economic objectives such as reducing deficits, controlling inflation, and promoting economic growth. **Economic statecraft goes a step further by employing economic tools to achieve foreign policy or national security objectives,** such as compelling a country to stop hostilities with a third party or to liberalise its markets. **Economic statecraft can manifest as either 'carrots' or 'sticks', depending on the objective and the parties involved.** Tools of economic statecraft can be broadly categorised into the domains of trade, capital and other tools. Economic Survey highlights disruptions during the pandemic, the weaponisation of energy and finance during geopolitical conflicts, and the growing use of export controls in advanced-technology sectors have underscored the limits of efficiency-driven global integration.

2. **Changing Security Landscape.** Geopolitical tensions have intensified considerably during the recent past. Armed conflict has flared up in Eastern Europe and Western Asia after decades of relative peace. Even traditionally pacifist nations like Japan have upped their defence spending to 2 per cent of their GDP. Advanced and emerging economies alike are therefore re-evaluating their exposure to concentrated supply chains, critical raw materials, and key technologies, often under the pretext of security. China has tightened export licensing and controls on key rare earth elements and permanent magnet materials essential for defence, electronics, and energy transitions. **In early 2026, China banned certain dual-use item exports to Japan, including materials crucial to the automotive and technology sectors, in response to diplomatic tensions. Chinese authorities have added foreign defence and technology firms to "Unreliable Entities Lists," restricting trade and investment in response to perceived national security threats,** while Western nations have used sanctions against Russian entities to constrict war-related supply chains. Monetary policy alone cannot manage persistent price pressures. Better alignment between

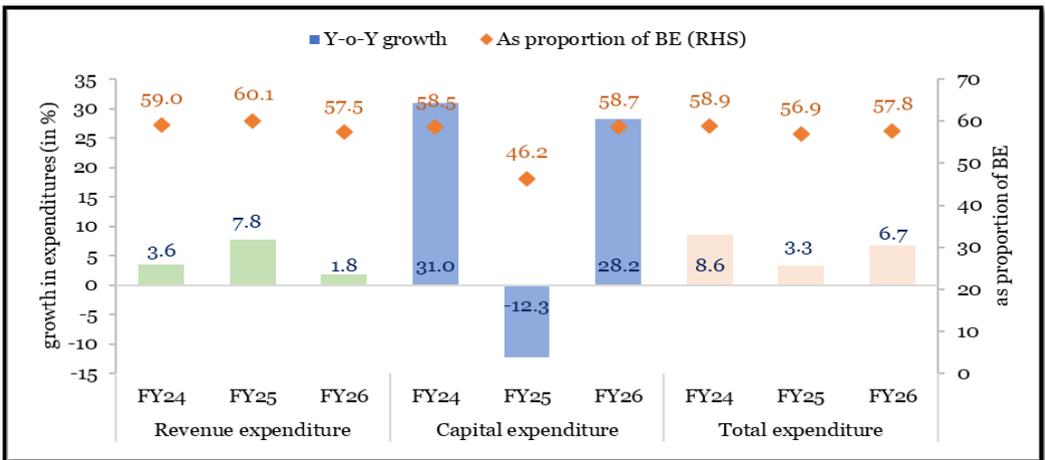
monetary, fiscal and industrial policies is essential to stabilise inflation, support investment, and protect vulnerable areas.

3. India is in an increasingly fragmented and geopolitically contested global order with increasing political rivalries, weaponisation of trade, financial volatility and supply-chain disruptions. For India's defence sector, this reinforces the centrality of military preparedness as an economic and strategic necessity rather than a discretionary expenditure. Defence planning must account for persistent grey-zone conflicts, prolonged standoffs, and technology-driven warfare, requiring sustained capital investment and faster capability induction. Strategic Autonomy, Indigenisation and Defence Manufacturing, being a core theme of the Economic Survey, is the transition from import substitution to strategic resilience and indispensability. For defence, this validates Atmanirbharta as a strategic imperative. **Defence manufacturing, including aircraft, ships, electronics, ammunition and space-based assets, must evolve into globally competitive ecosystems.** India's dependency on China for certain critical sectors needs careful examination during increasing fragmented global order.



India's Import Dependency on China

4. India's fiscal deficits consolidated in the aftermath of successive economic shocks, and a significant part of the adjustment has been achieved through the rationalisation of revenue expenditure. **The revenue expenditure has moderated from 13.6 per cent of GDP in FY22 to 10.9 per cent in FY25, thereby creating space for more productive capital expenditure.** A large share of revenue expenditure, covering salaries, pensions, interest payments, and defence, is committed in nature, highlighting the importance of rationalising discretionary spending, particularly subsidies, to create fiscal space. The Centre has progressively scaled up capital expenditure from an average of 1.7 per cent of GDP in the pre-pandemic period to an average of 2.9 per cent of GDP in the years after the pandemic. The sustained expansion of the capital component, achieved alongside declining revenue and fiscal deficits, reflects a deliberate rebalancing of expenditure towards asset-creating outlays. **Benefit would accrue to the Armed Forces as well with increased capital expenditure, particularly for dual use infrastructure.**

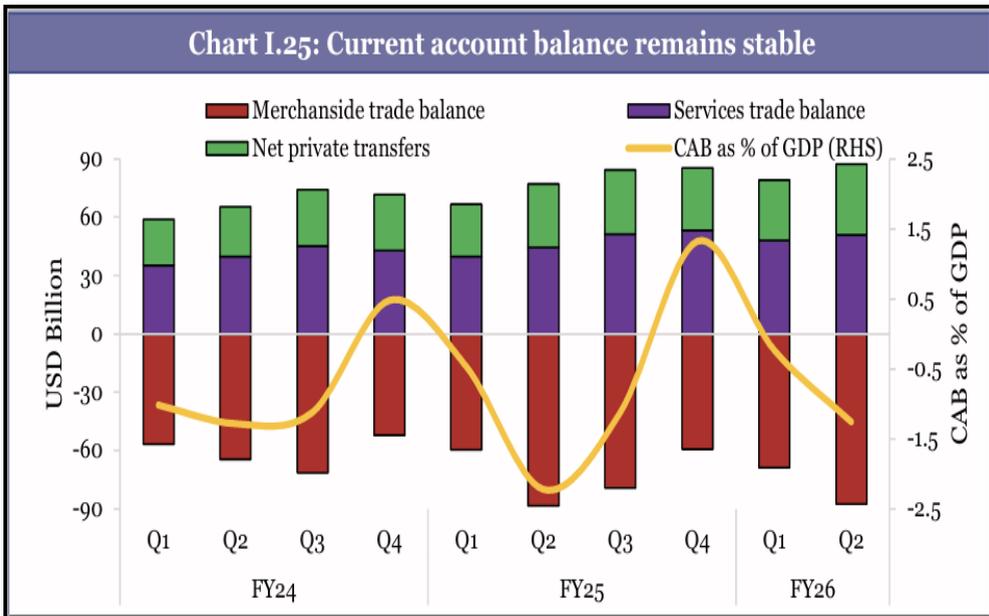


Source: Economic Survey 25-26

5. **Space Technology.** India's space sector has emerged as a fast-growing, technology-intensive and increasingly commercial segment of the services economy. Valued at about USD 8.4 billion (around 2 per cent of the global space market), it is projected to expand to USD 44 billion over the next decade, driven by launch services, satellite communications, earth observation, navigation and a rapidly growing private ecosystem. **India's satellite data services market is valued at USD 495 million in 2024, driven by applications in defence, climate services, logistics and urban planning.** Policy initiatives such as the Indian Space Policy (2023), the operationalisation of IN-SPACe, and liberalised FDI norms have

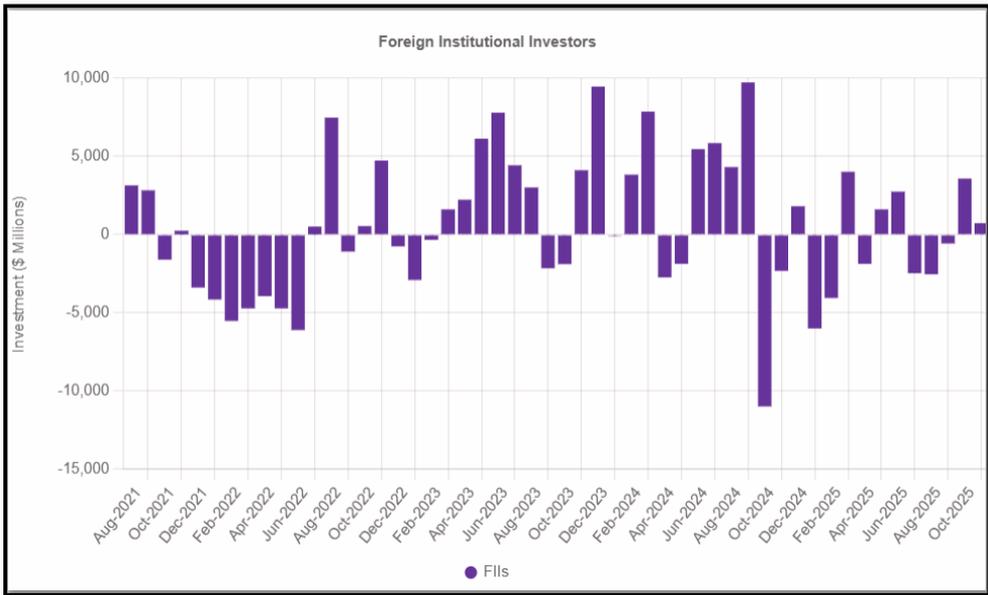
lowered entry barriers and enabled a transition towards a mixed public-private services model. This has enabled the space sector to evolve into a high-value, export-oriented and innovation-driven services segment. The benefit of these policy initiatives would accrue to the Defence Sector as well.

6. **Trade Balance.** Against a backdrop of global trade uncertainty, **India's total exports (merchandise and services) reached a record USD 825.3 billion in FY25**, with continued momentum in FY26. Despite heightened tariffs imposed by the United States, merchandise exports grew by 2.4 per cent (Up to Dec 2025), while services exports increased by 6.5 per cent. Merchandise imports for the same period increased by 5.9 per cent. Following the trends in previous years, **the rise in merchandise trade deficit has been counterbalanced by an increase in services trade surplus, while the growth in remittances has bolstered this balance.** In most years, remittances have surpassed gross FDI inflows, underscoring their importance as a key source of external funding. As a result, the current account deficit remains moderate at 0.8 per cent of GDP in H1 FY26. Negative balance of trade leads to weakening of the rupee and thus the cost of imports. This has implications for India's defence sector as well due to reliance on imports for niche technology and equipment.



Source: Economic Survey 2025-26

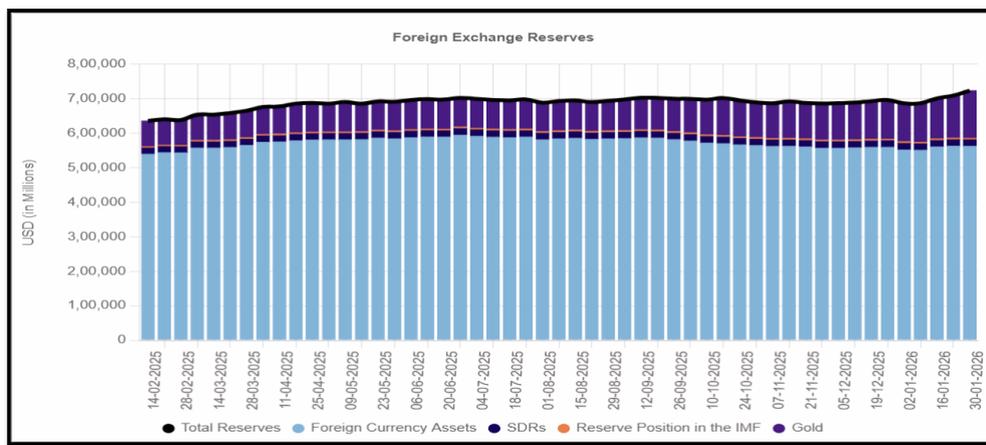
7. **Foreign Direct Investment.** Within the capital account, gross FDI inflows continued to rise significantly, growing by 16.1 per cent YoY up to November 2025. While repatriation flows have marginally declined by 4.2 per cent, an increase in FDI by India abroad of 34.9 per cent over this period capped the growth in net FDI. Moreover, **foreign portfolio investments have experienced fluctuations, with three months of sizable net inflows and six months of net outflows from April to December 2025, resulting in a net outflow of USD 3.9 billion as of December 2025, compared to net inflows of USD 10.6 billion in the corresponding period of the previous year.** FPI flows this year have been tepid due to elevated uncertainty and increased interest in AI-related financial investments in countries such as the US, Taiwan, and Korea. **As a result, there was a balance of payments (BOP) deficit of USD 6.4 billion in H1 FY26 compared to a surplus of USD 23.8 billion in H1 FY25, which was funded by a decline in foreign exchange (forex) reserves.**



Source: RBI

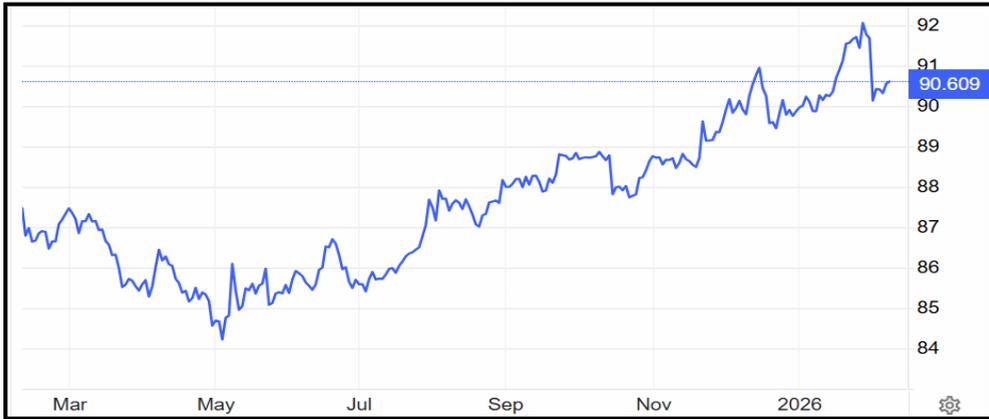
8. **Balance of Payments & Forex Reserves.** Widened BOP deficit, coupled with market uncertainty over the outcome of a trade deal with the US, has exerted pressure on the Indian Rupee, causing it to weaken. **Between April 2025 and January 2026, the Indian rupee depreciated by approximately 6.5 per cent against the US dollar.** Over the medium to long term, exchange rate dynamics are expected to be guided by structural fundamentals, such as productivity gains,

export diversification towards higher-value goods and services, and a stable policy environment rather than short-term fluctuations. **Forex reserves cover over 11 months of imports as of 16 January 2026 and approximately 94.0 per cent of the external debt outstanding as of the end of September 2025**, offering a comfortable liquidity cushion. However, global developments are complicating the outlook in the medium term.



Source: RBI

**9. Impact of Currency Depreciation.** The Indian currency has been depreciating sharply, hitting new record lows, with limited to no signs of recovery. Indian rupee is majorly correcting on the back of a mismatch of supply and demand as India remains an import-heavy nation, with large imports of crude oil, gold and consumer electronics, which need to be paid in dollars. Besides that, reducing imports of Russian oil, which was not paid in dollars, is also denting the sentiments for INR. According to the RBI data, **the rupee is headed for its eighth consecutive year of depreciation** against the US dollar. **The Indian currency has depreciated more than 33 per cent in the last 10 years, while its depreciation stands nearly 105 per cent since the beginning of this century.** The rupee is likely to remain under pressure and could trade in the 89.50-91.20 range in the near term, especially if crude oil prices stay elevated and foreign investors remain risk-averse. A meaningful recovery will depend on a revival in foreign inflows, clarity on global rate-cut cycles, and improvement in India's export momentum. Until then, **the currency is expected to stay weak but orderly, guided by selective RBI intervention. The depreciated rupee has implications for the existing defence contract and, therefore, budgetary allocations since imports become costly.**



Source: Tradingeconomics.com

10. **Monetary Policy.** Inflation across economies has trended downward and monetary policies are therefore expected to become more accommodative and supportive of growth. Inflation has moderated to historically low levels, although some firming is expected to occur going forward. Balance sheets across households, firms and banks are healthier, and public investment continues to support activity. In the case of India, Inflationary pressures have moderated primarily due to lower food prices, with average retail inflation easing to 1.7 per cent in FY25 (April-December) compared to 4.9 per cent in the corresponding previous period. **The Reserve Bank of India projects annual retail inflation at 2 per cent for 2025-26, and at around 4 per cent for H1 FY27, all within the target band.** Consumption demand remains resilient, and private investment intentions are improving. These conditions provide resilience against external shocks and support the continuation of growth momentum. The forthcoming rebasing of the CPI series in the coming year will also have implications for inflation assessment and warrant careful interpretation of price dynamics. **Defence allocations need to factor in both a depreciating currency and inflation. Inflation reduces purchasing power, thus have direct bearing on budgetary allocations.**

11. **Critical Technologies.** India is also establishing itself as a strong contender in critical technologies. The Critical Technology Tracker, published by the Australian Strategic Policy Institute (ASPI), shows **that India now ranks among the top five countries in 45 of 64 critical technologies, up from just 4** in the period from 2003 to 2007. This breadth **across defence, space, quantum computing, AI, and advanced materials signals an expanding strategic capability** essential for Aatmanirbharta.



12. **Innovation & R&D.** India's ranking in the Global Innovation Index (GII) improved from 66th in 2019 to 38th in 2025. Council of Scientific and Industrial Research (CSIR) has demonstrated tangible progress in advancing applied research and translating it into deployable solutions across strategic sectors, including infrastructure, health, chemicals, energy, aerospace, biotechnology and defence. In defence and chemicals, CSIR-Indian Institute of Chemical Technology's (IICT) development of an indigenous process for CL-20 propellant materials strengthens self-reliance in high-energy materials. Collectively, these developments reflect a clear shift from laboratory research to deployable and commercially relevant technologies that support nation-building. **High cost of capital is identified as a structural challenge** for India. This has direct implications for defence research and advanced manufacturing, which are capital-intensive and have long gestation periods. **There is a need for greater support for R&D in defence innovation, particularly in AI, cyber, space, drones, and autonomous systems, through funding, risk-sharing, and long-term contracts.**

13. **Necessity for India's own AI.** The AI ecosystem remains sufficiently young that existing imbalances and constraints need not define its future trajectory. This creates an opening for India to shape a more value-creating and dignified employment opportunity for its workforce. Developments in AI will have natural spillovers into existing sectors such as services, manufacturing, defence and power. In this context, reliance on foreign multinationals for AI-based solutions will leave India vulnerable to shifts in geopolitics, potentially constraining the country's future diplomatic choices. Just as critical minerals and semiconductors are utilised to shape foreign policy, AI capability and resources will similarly be utilised for geostrategic negotiations. Accordingly, **AI should not be regarded merely as a technological advancement, but as a strategic priority with far-reaching implications** for India.

14. **Critical Vulnerabilities.** The strategic context has shifted in ways that materially alter the calculus of openness. Export controls, technology denial regimes, carbon border mechanisms, and industrial policy in the West and East alike signal the end of naïve globalisation. **We operate in an environment where access to inputs, technologies, and markets cannot be assumed to be frictionless or permanent.** In such circumstances, **Swadeshi becomes a defensive as well as offensive policy lever, a means to ensure continuity of production in the face of external shocks, and a pathway to build enduring national capabilities that**



**reinforce economic sovereignty.** This includes goods, components, and technologies where denial of access would impose immediate and asymmetric national costs, and where global supply is highly concentrated. Typical examples include defence-critical systems, core infrastructure inputs, energy security components, public health essentials, and foundational industrial technologies. A disciplined approach to indigenisation requires clarity on when intervention builds long-run capability and when it merely preserves inefficiency.

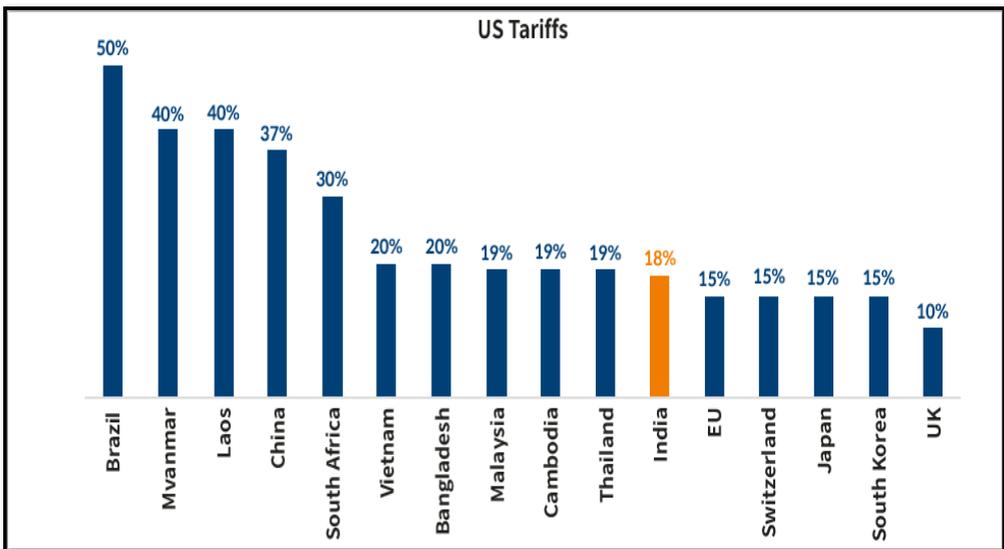
**15. Risks Factors for India Going Forward.** Economic Survey flags slower growth in major economies, trade disruptions, and heightened geopolitical uncertainty. The global shocks could affect capital flows, exchange rates, and financial market sentiment. The Survey highlights the impact of US trade policy, including the imposition of a 25 per cent reciprocal tariff, along with an additional 25 per cent penalty (for buying Russian oil) on several Indian exports during 2025. These punitive measures created uncertainty for exporters. **The Indian rupee fell to record lows in early 2026,** driven by foreign portfolio outflows, importer demand for dollars, and uncertainty linked to US tariffs and global risk aversion. Rupee depreciation has partly cushioned exporters by offsetting some of the tariff-related cost pressures. However, **sustained currency volatility could affect capital flows,** inflation expectations, and external financing conditions. The global shocks often affect India with a lag. **Even if near-term growth appears resilient, global disruptions could gradually affect exports, investment flows, technology transfers, and financial markets. Trade shocks, in particular, may show delayed effects as contracts adjust and supply chains reconfigure over time, applicable equally to the Defence Sector.**

**16. Trade Agreements.** The EU and India announced a landmark Free Trade Agreement on 27 Jan 26. The two economies, which together represent about a quarter of the world's population, spent nearly two decades haggling over the terms of the deal. The US tariffs-based trade policy over the last year helped propel the two sides toward a final agreement. **Many of the world's major economies have raced to forge new bilateral agreements as doing business with the U.S. has suddenly, and in many cases dramatically, become more expensive and less predictable.** The US has agreed to reduce the reciprocal tariff on Indian imports from 50% to 18%. Just to recall US had imposed a 25% reciprocal tariff along with a punitive tariff of 25% for purchasing oil from Russia. In recent times, India has inked



trade deals with regions like the EU, UK, Oman, New Zealand and EFTA. From a competitiveness standpoint, India is better placed. With US tariffs on Indian exports now at 18%, India enjoys a meaningful advantage over competing export economies such as Vietnam, China, Brazil, Thailand, and South Africa, where tariffs range between 19% and 40%. The US-India trade deal can be considered as a positive from a macro and market standpoint. However, one should wait for the fine print for more clarity. Also, one should bear in mind that the tariff policies under the current US administration have often undergone change reflecting broader political or strategic considerations rather than purely economic ones. Hence, this is one of the key risks one may watch out for.

**17. India's Outlook.** The FY26 was an unusually challenging year for the economy on the external front. Heightened uncertainty in global trade and the imposition of high, penal tariffs created stress for manufacturers, particularly exporters, and affected business confidence. The government responded by using this crisis as an opportunity to push through key measures such as GST rationalisation, faster progress on deregulation, and further simplification of compliance requirements across sectors. FY27 is therefore expected to be a year of adjustment, as firms and households adapt to these changes, with domestic demand and investment gaining strength. That said, it must be acknowledged that the external environment remains uncertain, which shapes the overall outlook.

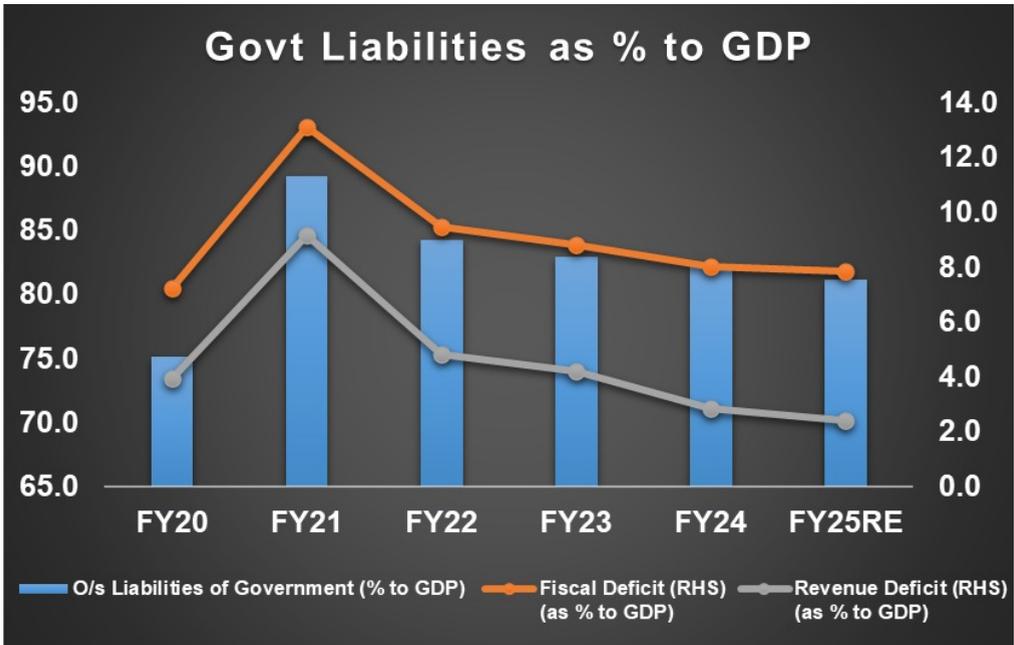


Source: WTO



## Key Takeaways

- ✓ Economic statecraft can manifest as either 'carrots' or 'sticks', depending on the objective and the parties involved.
- ✓ Countries are re-evaluating their exposure to concentrated supply chains, critical raw materials, and key technologies, often under the pretext of security.
- ✓ Monetary policy alone cannot manage persistent price pressures. Better alignment between monetary, fiscal and industrial policies is essential to stabilise inflation, support investment, and protect vulnerable areas.
- ✓ High cost of capital remains a structural challenge for India with direct implications for defence research and advanced manufacturing, which are capital-intensive and have long gestation periods.
- ✓ AI should be regarded as a strategic priority with far-reaching implications for India and the Defence Sector.

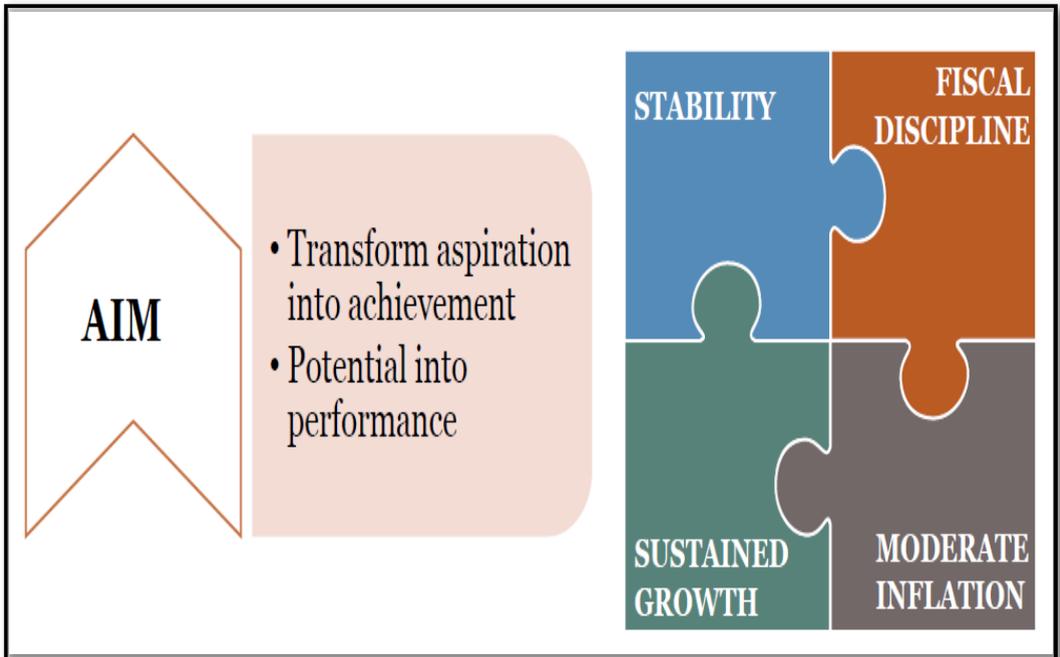


Source: Various Budgets

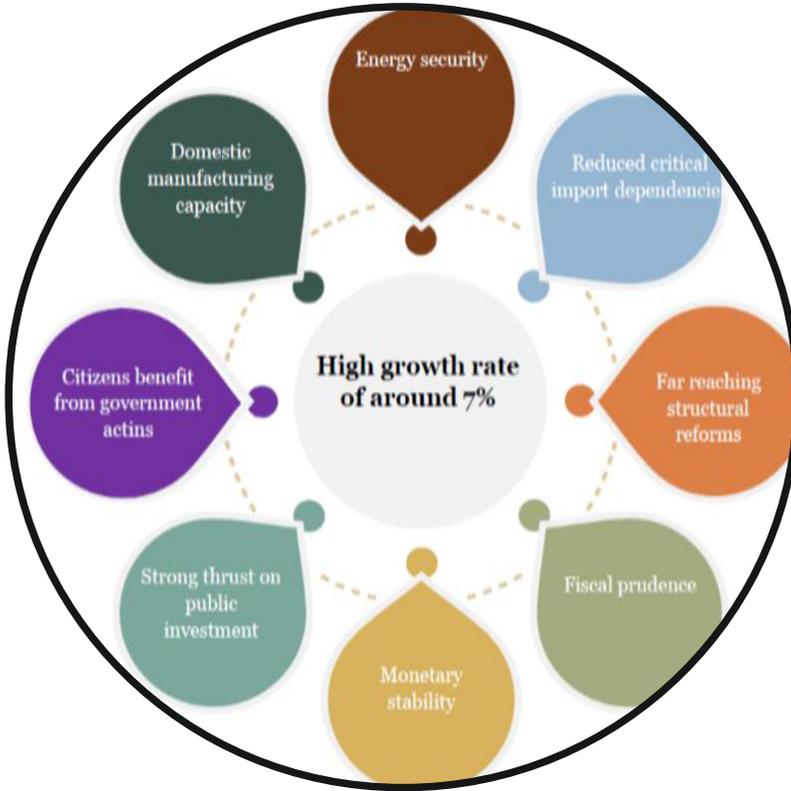
CHAPTER 3

OVERVIEW OF NATIONAL BUDGET

1. **Budget Theme.** Budget 26-27 showcased the continued focus of the government on the poor and underprivileged. The government emphasised the need to accelerate and sustain economic growth by enhancing productivity and competitiveness and building resilience to volatile global dynamics. Govt adopted a three-pronged approach, with the first being to **sustain the momentum of structural reforms**, the second to ensure a **robust, resilient financial sector** to mobilise savings, **allocate capital efficiently**, and manage risks. The third is to **provide cutting-edge technologies**, including AI applications, to serve as force multipliers for better governance.



2. **GDP.** India's real GDP is estimated to grow by 7.4 per cent in FY 2025–26, with nominal GDP growth at 8 per cent. The services sector remains the primary growth driver, expanding by 9.1 per cent. Manufacturing and construction have grown by 7 per cent. Agriculture is estimated to grow at 3.1 per cent. India's growth outlook remains positive, supported by strong domestic demand, structural reforms, and a stable macroeconomic environment.

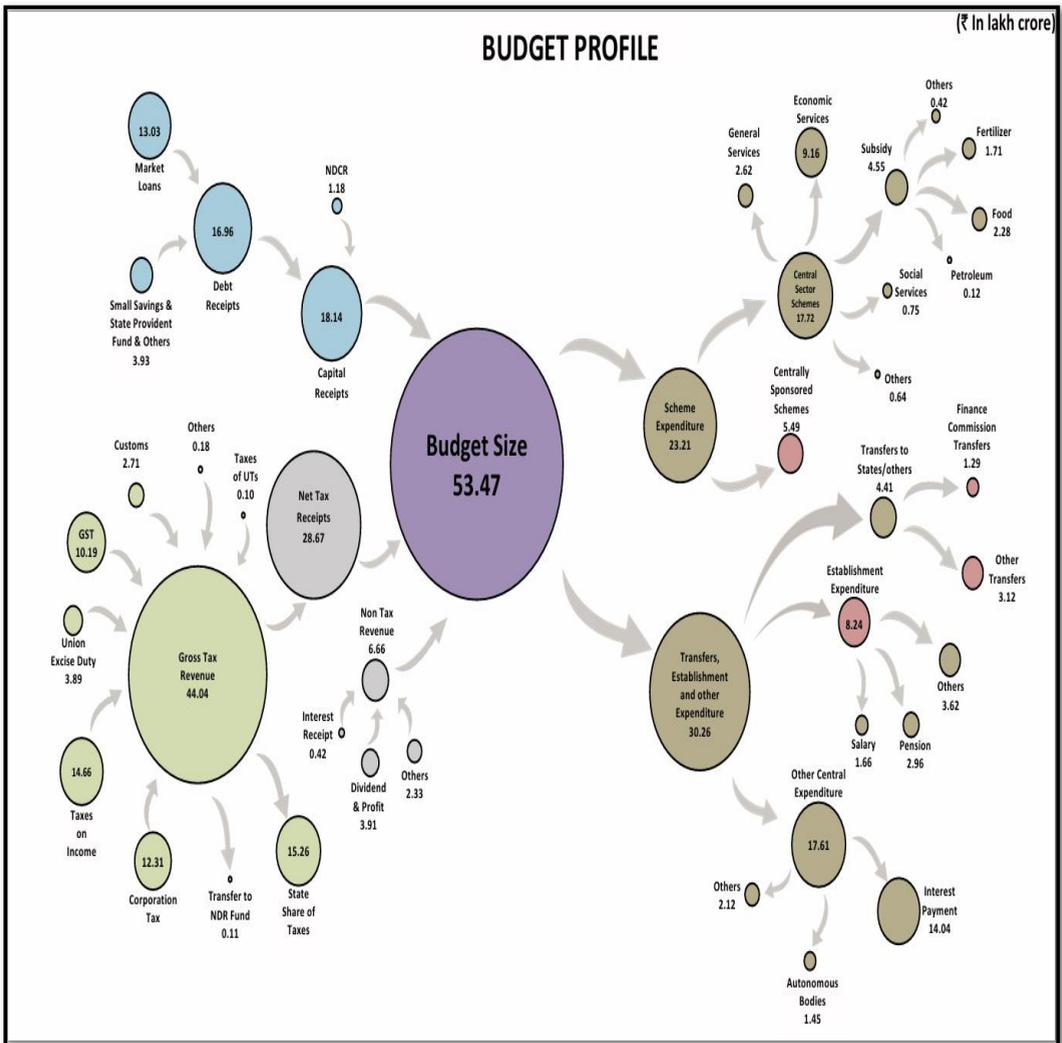


3. **Growth Rate.** India's GDP at Market Prices (Nominal) reached ₹ 357,13,887 Crore, showing a growth of 8% during FY 25-26 and GDP at 2011-12 price (Real GDP) is pegged at ₹ 330,68,145 Crore with a growth rate of 7.4%. The growth trajectory for the economy is as highlighted below:-

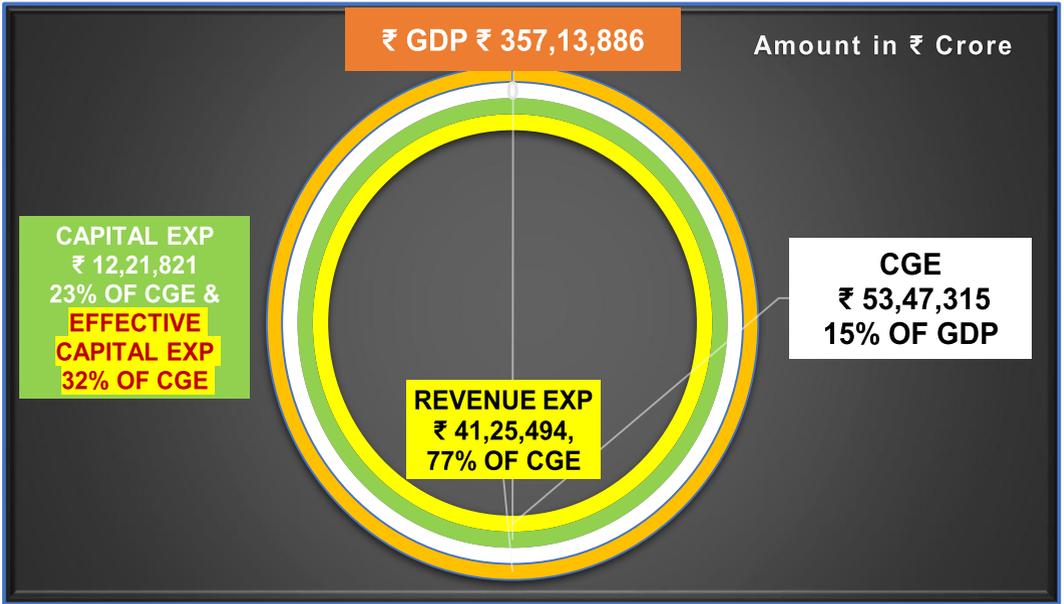


Source: MoSPI

4. **Budget Profile.** The total expenditure in Budget Estimates (BE) 2026-27 is estimated at ₹53,47,315 crore, of which **total capital expenditure is ₹12,21,821 crore and effective capital expenditure (including Grants for Capital Expenditure) is ₹17,14,523 crore.** This will result in a higher multiplier effect for the economy. In Revised Estimates (RE) 2025-26, the total expenditure is estimated at ₹49,64,842 crore. Against this, total expenditure in the Actuals for FY 2024-25 was ₹46,52,867 crore. The total capital expenditure is estimated at ₹10,95,755 crore in RE 2025-26 as against ₹10,51,953 crore in the actuals of FY 2024-25.

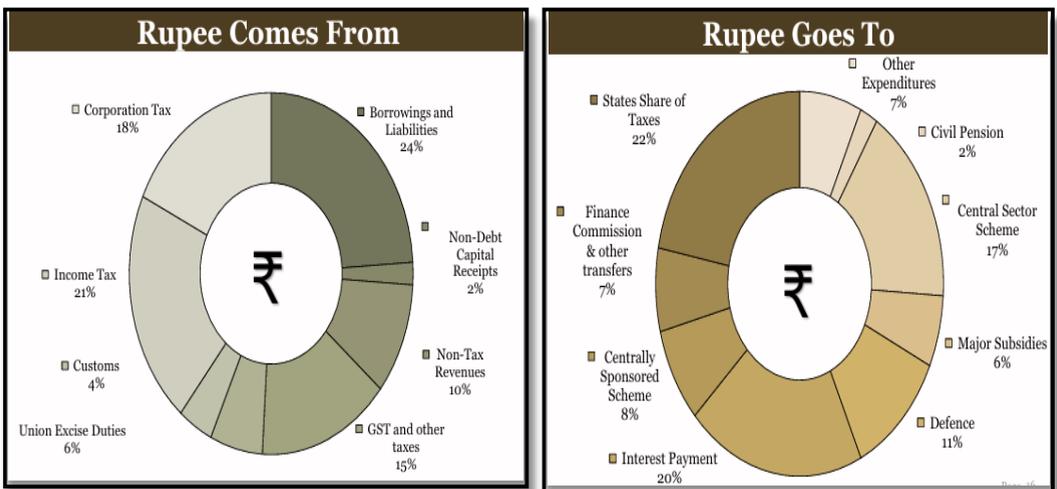


Source: Union Budget 2026-27



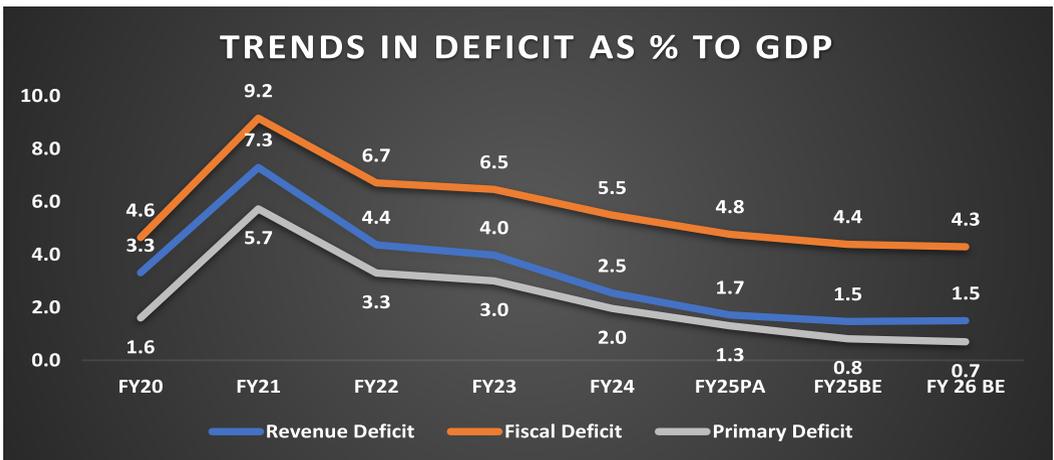
Source: Union Budget 2026-27

5. **Sources and Application of Funds.** Out of the total CGE of ₹ 53.47 lakh Crore, ₹ 16.95 lakh Crore is proposed to be generated through Borrowings, which works out to be 31.7% of the CGE. During the LFY, the borrowings stood at ₹ 15.58 lakh (31.3% of CGE) as per the RE for FY 25-26 and ₹ 15.68 lakh as per the BE of FY 25-26. The Budget Profile for the Union Budget is as shown below:-



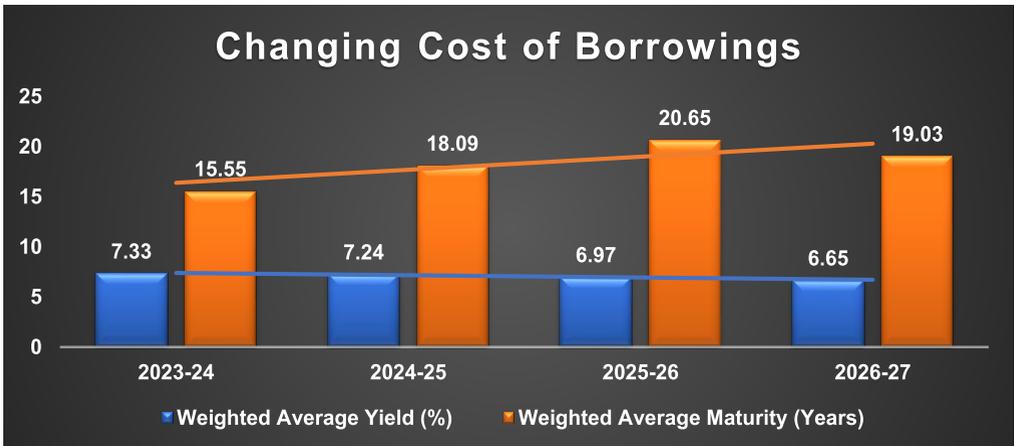
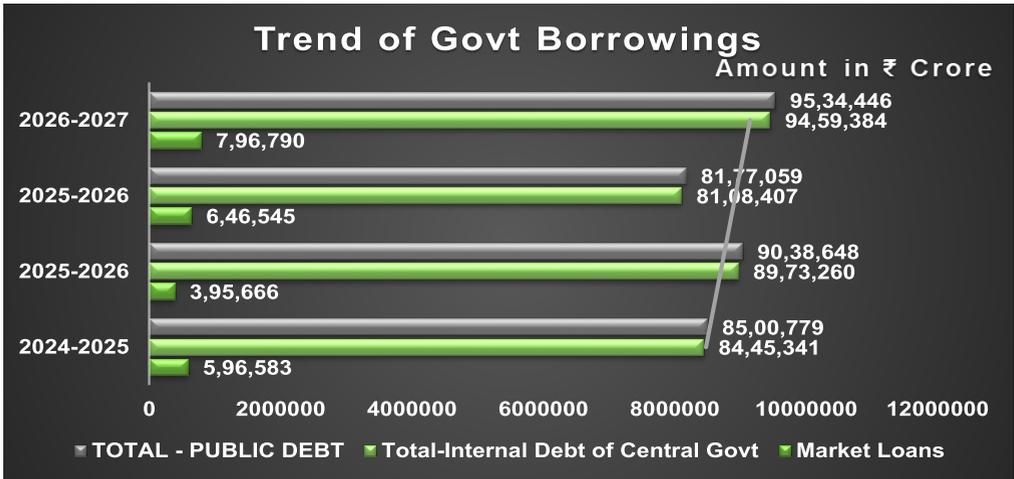
Source: Union Budget 2026-27

6. **Deficits.** Fiscal Deficit in RE 2025-26 is estimated at 4.4 per cent of GDP, at the same level as BE 2025-26. The projected fiscal deficit of ₹15.58 lakh crore in RE 2025-26 as against BE 2025-26 of ₹15.58 lakh crore. The Gross and Net borrowings through dated securities (G-Sec) were planned at ₹14.82 lakh crore and ₹11.54 lakh crore in BE 2025-26, respectively. The weighted average yield and maturity is about 6.65% and 19.03 years. The Fiscal Deficit in BE 2026-27 is projected to be ₹16.96 lakh crore. This translates into a fiscal deficit to GDP ratio of 4.3 per cent in FY 2026-27 as against 4.4 per cent in RE 2025-26. Similarly, the Revenue Deficit is estimated at 1.5 per cent of GDP in BE 2026-27 at the same level compared to RE 2025-26.

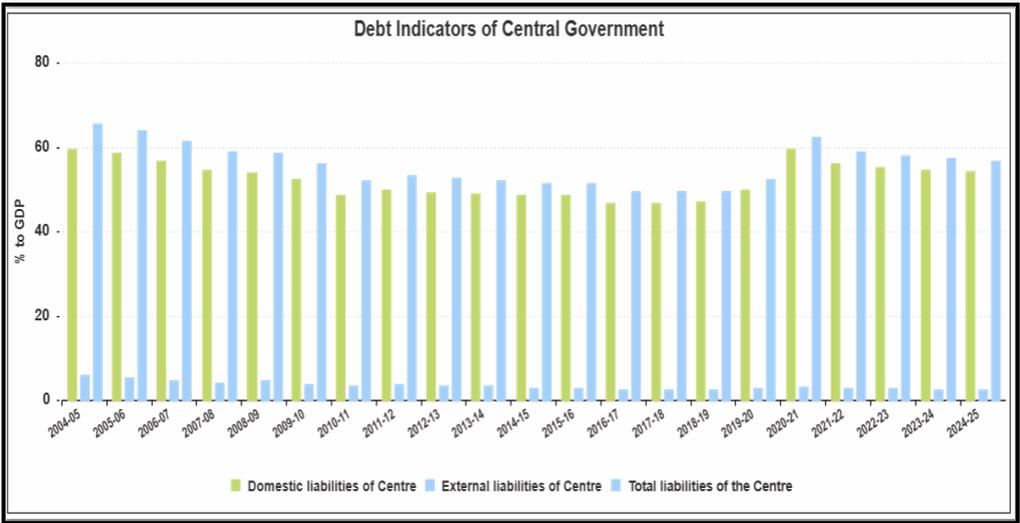


Source: Union Budgets

7. **Cost of Borrowings.** FRBM statements of the years since 2023-24 suggest that the government is able to reduce its borrowing cost, with the weighted average yield going down from 7.33% to 6.65%. However, the tenure of the government borrowings has increased from 15 years to 19 years during the same period. Govt has proposed to improve the debt maturity profile through an active debt management strategy by switching securities of about ₹1.64 lakh crore. These measures would help to improve the Union Government's risk profile. The Union Government actively opted for the buyback of dated securities (G-Sec) as part of its debt management strategy. During FY 2025-26, buy-back operations of dated securities maturing in FY 2026-27 amounting to ₹86,775 crore were conducted. **This strategy has not only helped in saving interest costs but also eased the liquidity conditions in the banking system, apart from moderating the yields**

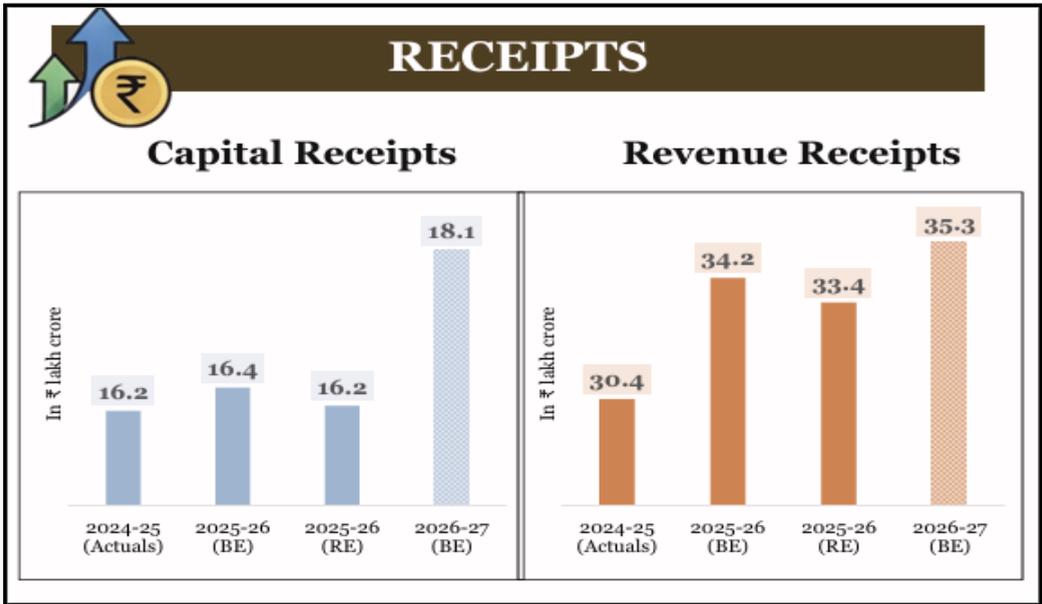


8. RBI's Monetary policy has been accommodative, with a cumulative reduction of 125 basis points in the policy rate since February 2025 and with a 'neutral' stance since June 2025. **This has resulted in a 69-basis-point reduction in the weighted average lending rate for new loans.** As of 27 January 2026, gross market borrowings through dated securities during FY 2025-26 stand at 86.0% (₹12.75 lakh crore) as against BE 2025-26. Further, as on 27 January 2026, net market borrowings through dated securities during FY 2025-26 stand at 68.2 per cent (₹7.87 lakh crore) as against the BE 2025-26. Notwithstanding the impact of global financial conditions on the Indian G-sec market, the market borrowing programme in FY 2025-26 has been conducted in a non-disruptive manner. The overall fiscal position remains stable.

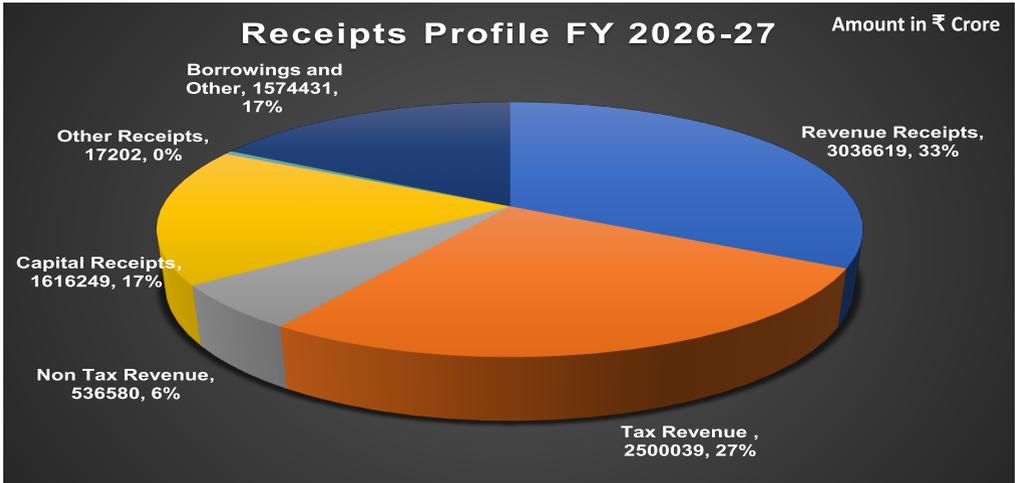


Source RBI

9. **Receipts Profile.** Total Revenue receipts during FY 2026-27 are estimated to be ₹ 35.33 lakh crore against the BE 2025-26 of ₹ 34.20 lakh crore and RE 2025-26 of ₹ 33.42 lakh crore, respectively. Total Capital receipts are estimated to be ₹ 18.14 lakh crore, out of which 94% (₹ 16.95 lakh crore) is in the form of borrowings.

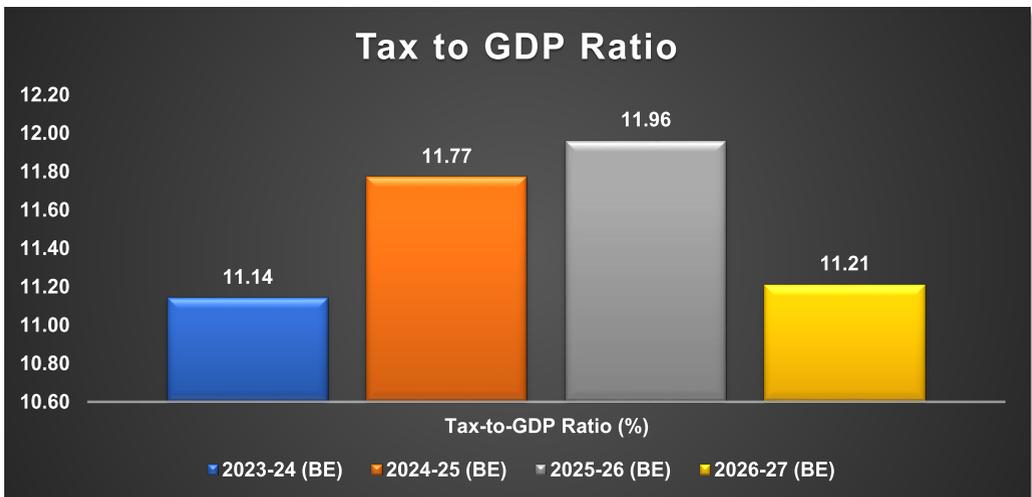


Source: Budget at Glance

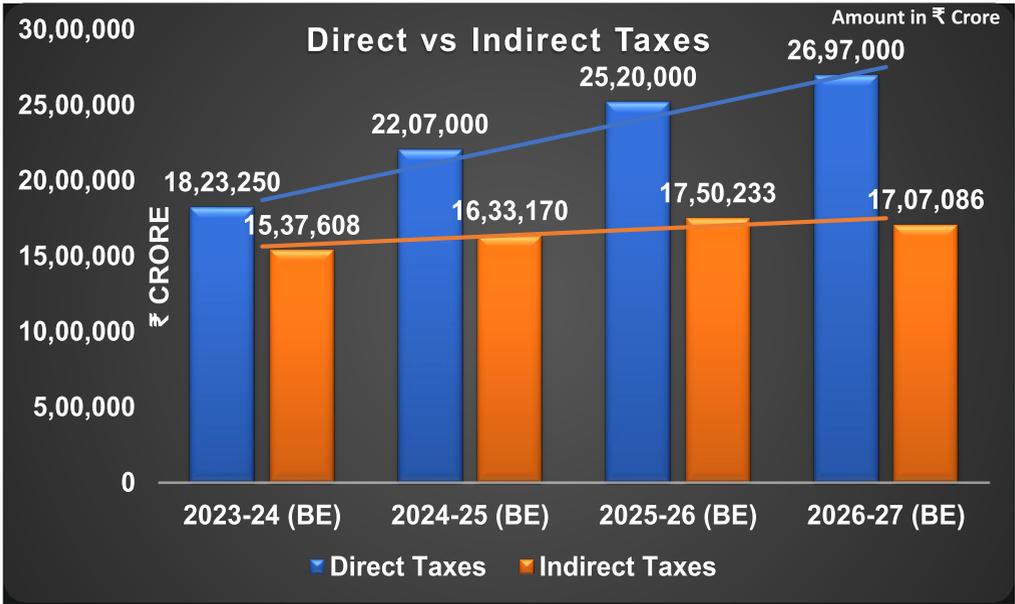


Source: Based on Union Budget 2026-27

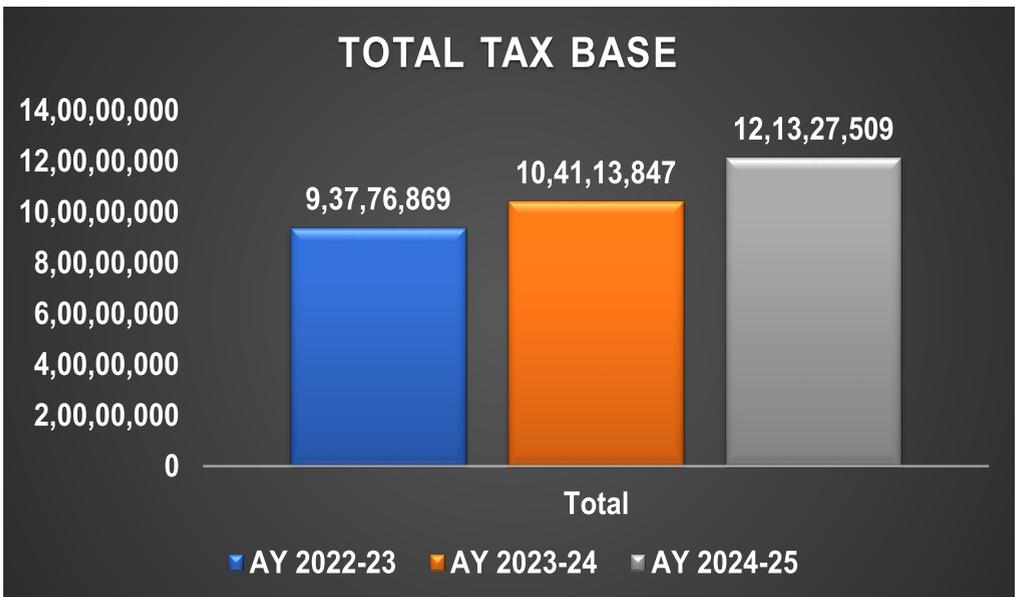
10. **Tax Revenue.** During the nine months of FY 2025-26, **Direct and Indirect tax receipts were ₹17.46 lakh crore and ₹12.38 lakh crore, respectively.** These represent a YoY growth of around 7.9 per cent and 9.4 per cent in Direct tax and Indirect tax, respectively. In BE 2026-27, Gross Tax Revenue (GTR) is estimated at ₹44.04 lakh crore. It represents a growth of 8.0 per cent over RE 2025-26. Direct Taxes at 26.97 lakh crore are the major contributor to GTR (61.2 per cent of the GTR). Indirect taxes are estimated at ₹17.07 lakh crore. Overall tax to GDP ratio remains around 11.5% which is more than 25% for the major economies of the world.



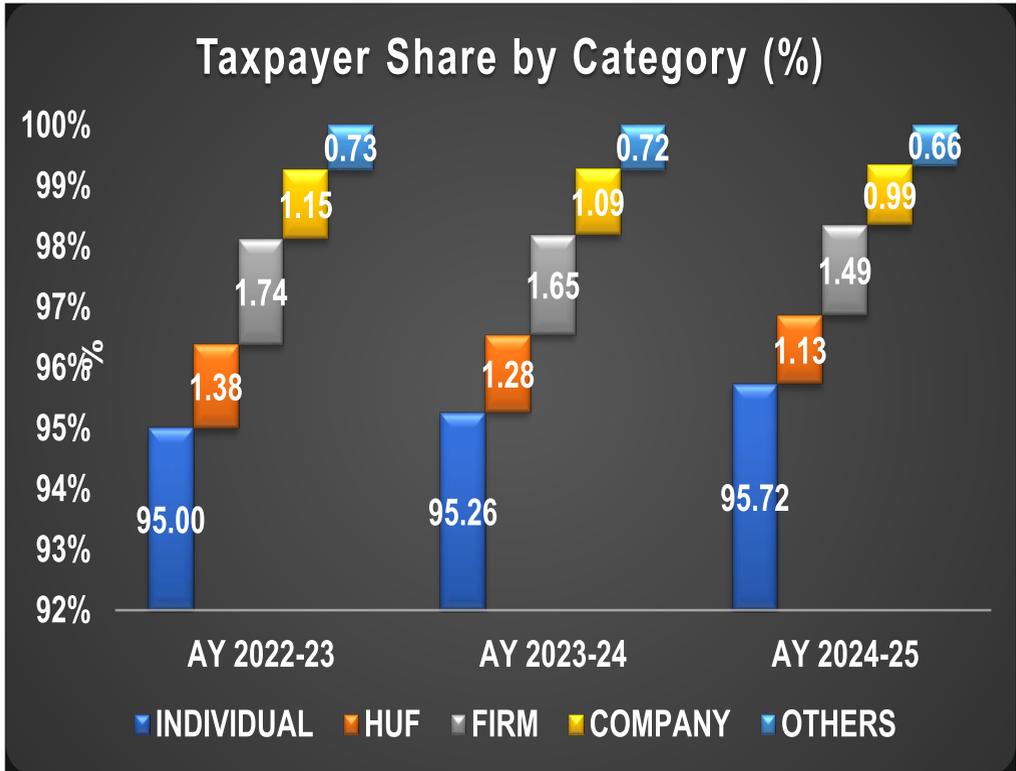
Source: Various Union Budgets



11. **Tax Base.** The direct tax base for the country remains low, which is about 12 crore and since 2022-23 contributes more than indirect taxes like GST. There is a need to increase the tax base. YoY increase in the tax base is 11% and 16.5% in FY 24 and FY 25.



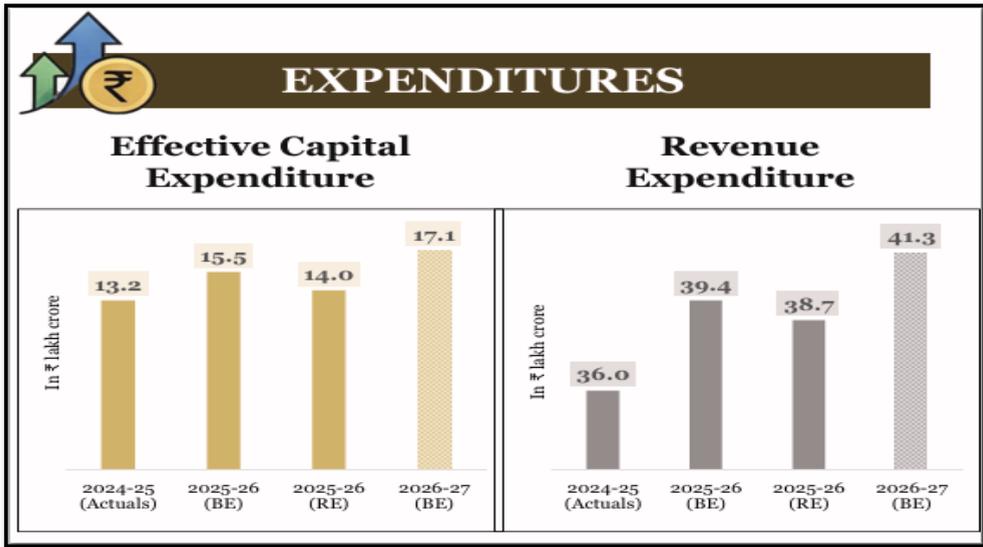
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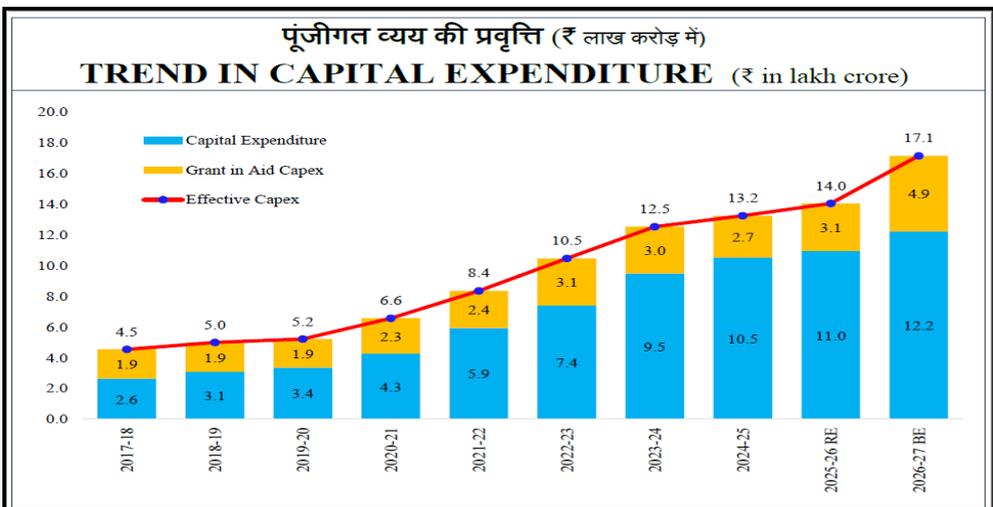
12. **Non-Tax Revenue.** Non-Tax Revenues (NTR) of the Union Government in the first nine months of FY 2025-26 were ₹5.40 lakh crore. This accounts for 92.6 per cent of BE of FY 2025-26 and is much higher than the five-year moving average of 80.9 per cent of BE. In BE 2026-27, NTR of the Central Government is projected at ₹6.66 lakh crore. Revenue Receipts of the Union Government [comprising Tax Revenues (Net to Centre) and Non-Tax Revenues (NTR)], are estimated at ₹35.33 lakh crore. Revenue Receipt estimates assume a growth of 5.7 per cent over RE 2025-26.

13. **Expenditure Profile.** The total expenditure of the Central Government in BE 2026-27 is projected to be ₹53.47 lakh crore (13.6 per cent of GDP), showing a growth of 7.7 per cent over RE 2025-26 of ₹49.65 lakh crore

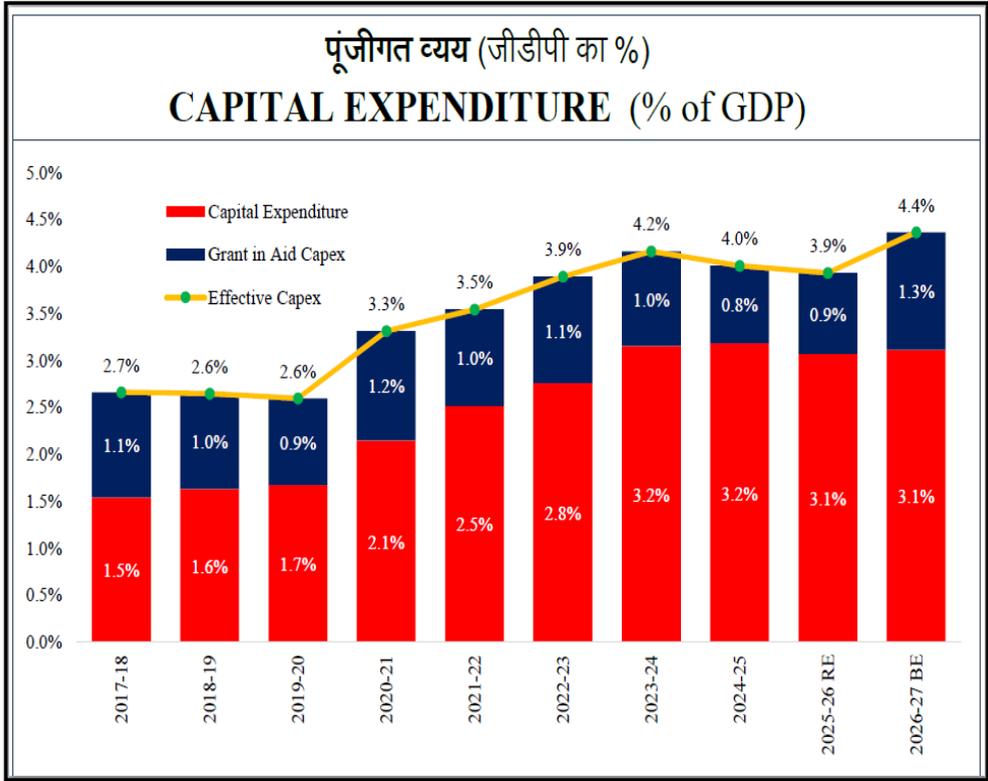


Source: Budget at Glance

14. **Capital Expenditure.** The Budget for FY 2026-27 projects ₹12.22 lakh crore (3.1 per cent of GDP) towards capital expenditure. This includes capital support to States through SASCI (Special Assistance as Loan to States for Capital Expenditure) with an outlay of ₹2 lakh crore. In BE 2026-27, the allocation under Grants-in-aid for creation of capital assets is projected at ₹4.93 lakh crore (or 1.3 per cent of GDP). Thus, the effective capital expenditure in FY 2026-27 is estimated at ₹17.15 lakh crore (or 4.4 per cent of GDP).



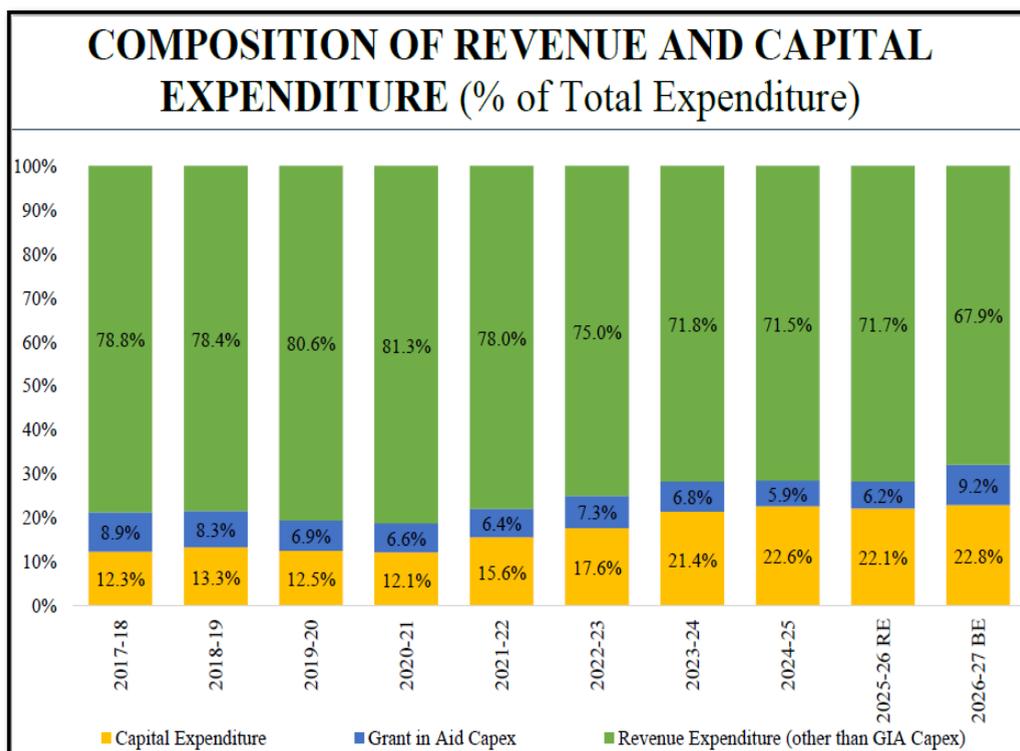
Source: Union Budget 2026-27



Source: Union Budget 2026-27

15. Ratio of Capital Expenditure to Fiscal Deficit measures the extent to which borrowed resources are used for financing the capital expenditure or asset creation of the Government. In BE 2026-27, this ratio is estimated at 72.1 per cent, which is higher than 70.3 per cent in RE 2025-26 and 66.8 per cent in FY 2024-25. Further, the ratio of Effective Capital Expenditure to Fiscal Deficit is estimated at 101.1 per cent in BE 2026-27 as compared to 90.1 and 84.1 per cent in RE 2025-26 and FY 2024-25, respectively. **This indicates progressive improvement in the quality of public expenditure over the years.**

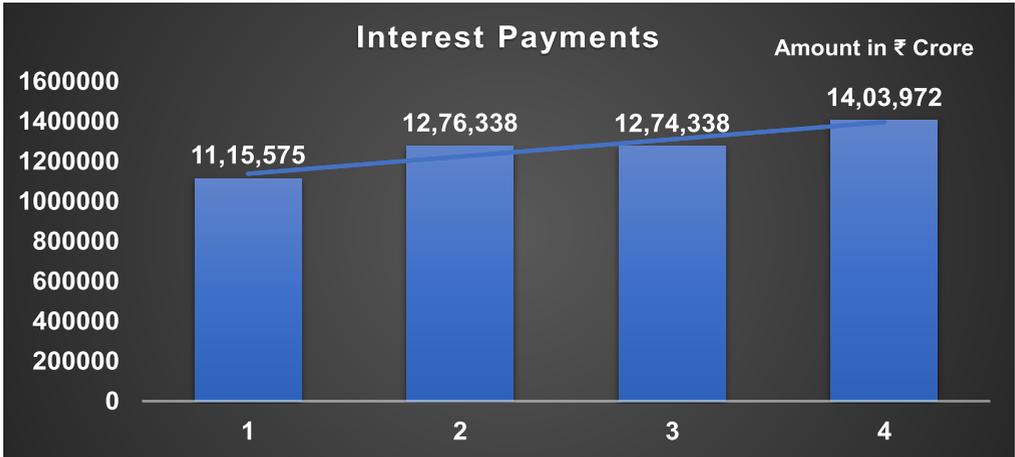
16. **Revenue Expenditure.** The Revenue Expenditure for BE 2026-27 has been projected to be ₹41.25 lakh crore or 10.5 per cent of GDP, compared to 10.8 per cent in RE 2025-26. Out of the revenue expenditure, major share belongs to interest payments.



Source: Union Budget 2026-27

**17. Balancing Act between Revenue Expenditure and Revenue Receipts.** In BE 2026-27, the revenue expenditure and revenue receipts of the Union Government are estimated at ₹41.25 lakh crore (10.5 per cent of GDP) and ₹35.33 lakh crore (9.0 per cent of GDP), respectively. **The gap between the revenue expenditure and receipts is the Revenue Deficit, which is estimated at 1.5 per cent of GDP in BE 2026-27. The ratio of revenue receipts to revenue expenditure is projected at 85.6 per cent in BE 2026 27.** Further, if adjustments on account of Grants-in-aid for creation of capital assets are considered - since these are capital in nature but accounted for as revenue expenditure of the Centre, **the ratio of revenue receipts to revenue expenditure is about 97.3 per cent in BE 2026-27.**

**18. Interest Payments.** In BE 2026-27, the Interest payments are estimated at ₹14.04 lakh crore against ₹12.76 lakh crore in BE 2025-26. This indicates a 10% increase in expenditure due to interest payment. The estimates of interest payment depend on the prevailing domestic and international interest rates. Interest payments remains one of the highest expenditure out of the CGE.



Source: Union Budget 2026-27

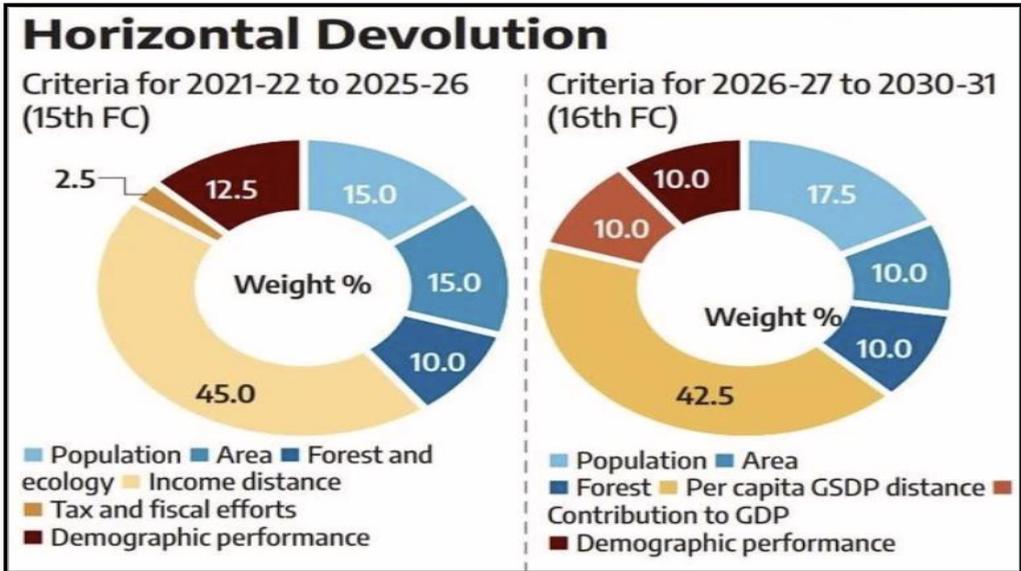
19. **Pensions.** The Pension commitment of the Union Government (for both civilian and defence together) is estimated at ₹2.96 lakh crore in BE 2026-27 (or 0.8 per cent of GDP) compared to ₹2.87 lakh crore in RE 2025-26 (0.8 per cent of GDP). The Pension payments are spread across the four Government of India Demands for Grants, viz., Defence (Pensions), Civil (Pensions), Telecommunications and the Department of Health & Family Welfare. Pension expenditure of government has gone up by 3.5% YoY over 2025-2026



Source: Union Budget 2026-27

20. **XVth Finance Commission.** Based on recommendations of the Finance Commission (FC), the Union Government devolves taxes to States during the FC cycle. Sixteenth FC recommended retaining the States' share at 41 per cent in the divisible pool, and this recommendation is accepted by the Government. The

Commission has recommended that to bring in more transparency about the divisible pool and the actual devolution every year, the Union Government disclose the data pertaining to net proceeds as certified by CAG under Article 279. The Commission has determined the inter se share of States, based on population, demographic performance, area, forest, er capita income distance and contribution of the State to Gross Domestic Product (GDP) as criteria.



Source: XVI<sup>th</sup> Finance Commission

**21. Control of States' Fiscal Deficits.** The Commission has recommended that States' fiscal deficit should be capped at 3 per cent of their respective GSDP (excluding loans under SASCI), and to ensure the stability of the debts of the State Government, this should be strictly enforced in accordance with clause (3) of Article 293 of the Constitution. The Union Government should reduce its fiscal deficit to 3.5 per cent of GDP by the end of the award period. The Commission has recommended that States should completely discontinue the practice of incurring off-budget borrowings, bringing all such borrowings onto their budgets. It has suggested a format for reporting off-budget borrowings of States and recommended that lending institutions should provide an alternative source of data to strengthen the reporting framework for off-budget borrowing. The Commission has recommended that the Fiscal Responsibility Legislation (FRL) framework of the States be amended to bring uniformity and remove inconsistencies, and align them with the fiscal consolidation roadmap of the Commission.

**22. Devolution of Funds for Multiplier Effect.** In BE 2026-27, tax devolution to the States is estimated in RE 2025-26, which includes an additional amount of ₹9,084 crore on account of dues receivable by the Union Government from States under devolution from the previous years. Tax devolution to the States in BE 2026-27 is 3.9 per cent of GDP and ₹1.33 lakh crore more than tax devolution of RE 2025-26 (including past arrears). In BE 2026-27, the Finance Commission grants are estimated at ₹1.29 lakh crore. Grants for Urban and Rural Local Bodies are estimated at ₹0.45 lakh crore and ₹0.56 lakh crore, respectively. The grants for financing disaster management are estimated at ₹0.28 lakh crore. Thus, total resources shared, tax devolution and FC Grants, with States through the Finance Commission route, are estimated at ₹16.56 lakh crore in BE 2026-27.

**23. The Fiscal Strategy.** The fiscal policy strategy for FY 2026-27 will continue to be guided by the debt glide path indicated in the Budget 2025-26. The medium-term aim is to reach a debt to GDP ratio of  $50 \pm 1$  per cent by FY 2030-31, with the fiscal deficit acting as the operational target. In line with the above targets, it is estimated that the Central Government debt to GDP ratio will be 55.6 per cent of GDP in BE 2026-27 with a Fiscal Deficit target of 4.3 per cent of GDP. Other aspects of the fiscal strategy include support to economic growth through continued focus on capital expenditure, leaving adequate fiscal room to respond to global economic events and to ensure the continued prosperity of the country in its journey towards Viksit Bharat.

### Key Takeaways

- ✓ **The total expenditure in Budget Estimates (BE) 2026-27 is estimated at ₹53,47,315 crore which is 13.6 per cent of GDP.**
- ✓ **Enhanced capital expenditure allocations (₹12,21,821 crore and effective capital expenditure of ₹17,14,523 crore) is expected to have a higher multiplier effect for the economy.**
- ✓ **₹ 16.95 lakh Crore is proposed to be generated through Borrowings, which works out to be 31.7% of the CGE.**

- ✓ The weighted average yield going down from 7.33% to 6.65% however, the tenure of the government borrowings has increased from 15 years to 19 years.
- ✓ The direct tax base for the country remains low.
- ✓ Overall tax to GDP ratio remains around 11.5% which is more than 25% in the major economies of the world.
- ✓ The Revenue Expenditure for BE 2026-27 has been projected to be ₹41.25 lakh crore or 10.5 per cent of GDP, compared to 10.8 per cent in RE 2025-26. Out of the revenue expenditure, major share belongs to interest payments.
- ✓ Sixteenth FC recommended retaining the States' share at 41 per cent in the divisible pool, and the recommendation is accepted by the Government.

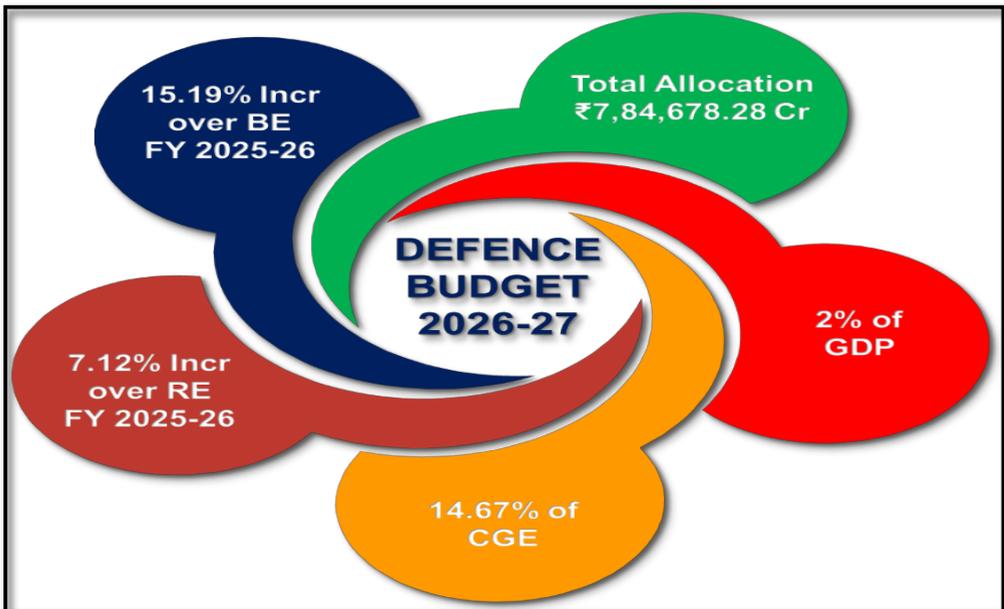
In ₹ crore	Key Numbers			
	2024-25 (Actuals)	2025-26 (Budget Estimates)	2025-26 (Revised Estimates)	2026-27 (Budget Estimates)
Revenue Receipts	3,03,6619	34,20,409	33,42,323	35,33,150
Capital Receipts	16,16,249	16,44,936	16,22,519	18,14,165
Total Receipts	46,52,867	50,65,345	49,64,842	53,47,315
Total Expenditure	46,52,867	50,65,345	49,64,842	53,47,315
Effective Capital Expenditure	13,24,609	15,48,282	14,03,906	17,14,523
Revenue Deficit	5,64,296	5,23,846	5,26,764	5,92,344
Effective Revenue Deficit	2,91,640	96,654	21,8613	99,642
Fiscal Deficit	15,74,431	15,68,936	15,58,492	16,95,768
Primary Deficit	4,58,856	2,92,598	28,4154	2,91,796

CHAPTER 4

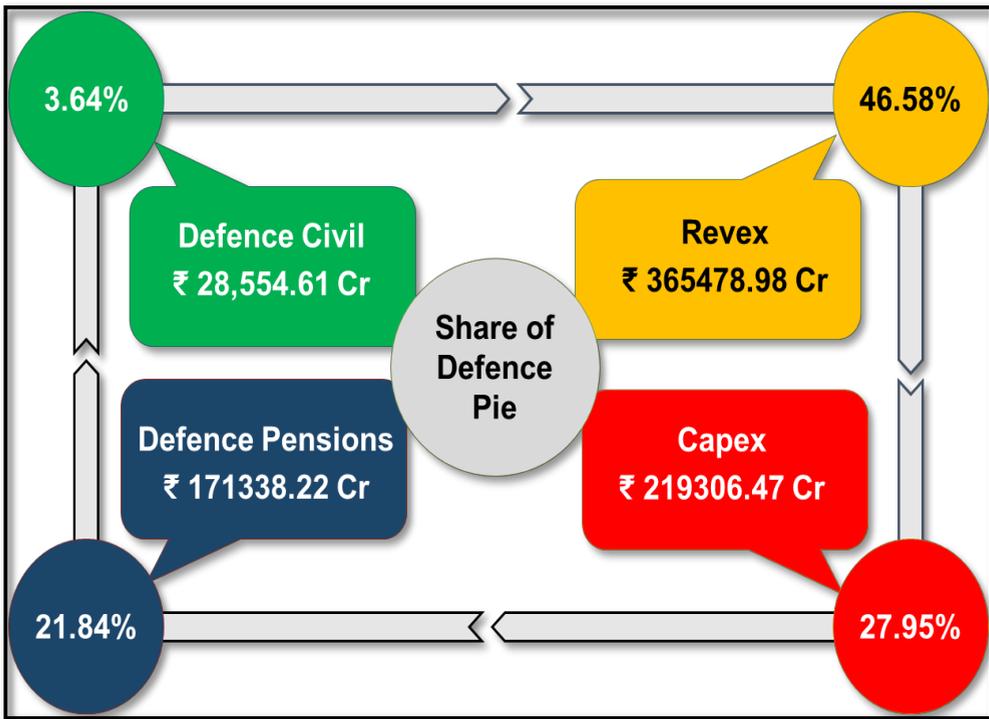
ANALYSIS OF DEFENCE BUDGET

1. **Overview.** The Union Budget 2026–27, the first after the historic success of *Operation Sindoor*, reflects the Government's sustained focus on strengthening national security through modernisation, self-reliance and innovation. With a strong push for indigenous defence manufacturing, focused investments in research and infrastructure, and continued priority for the welfare of veterans, the Defence Budget promises a more secure and resilient India, aligned with the long-term vision of Viksit Bharat@2047.

2. **Budget in Numbers.** The defence allocation of ₹7.84 lakh crore in BE 2026–27 represents a 15% increase over the BE of FY 2025–26 (₹6.81 lakh crore) and a 7% increase over the RE of FY 2025–26 (₹7.32 lakh crore). The defence outlay amounts to about 2% of the estimated GDP and 14.67% of CGE, the highest allocation among all ministries. In comparative terms, Pakistan allocates about 2.7% of its GDP to defence, China around 1.7%, the United States 3.4%, Russia 7.1% and Turkey 1.9%, placing India's defence effort in the mid-range among major military powers. The enhanced allocation provides for modernisation, operational capability & sustenance besides additional commitments arising from emergency procurement under both revenue and capital heads.

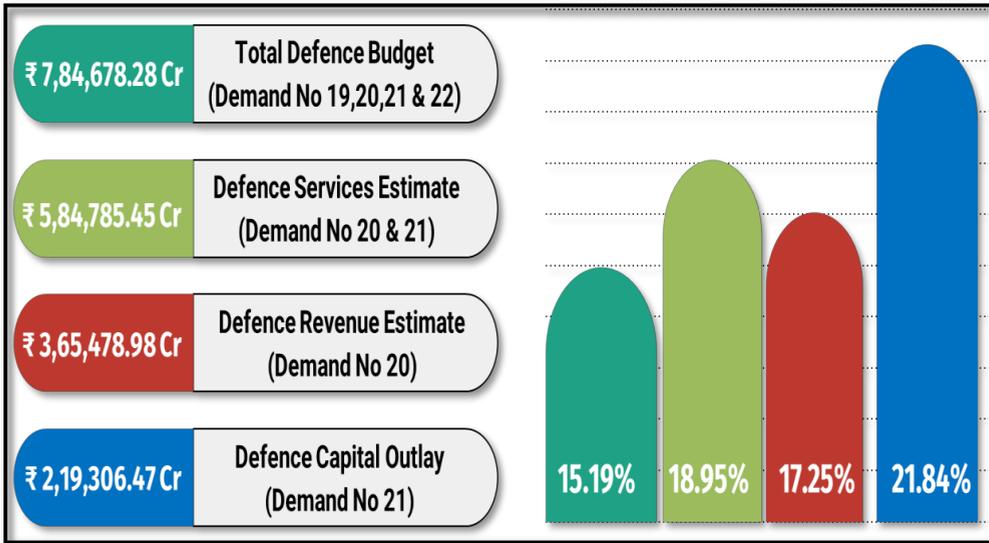


3. India's defence budget rose from ₹2.53 lakh crore in 2013–14 to ₹7.84 lakh crore in 2026-27, an increase of approximately ₹5.32 lakh crore, marking about a three-fold rise. Out of the total allocation made to the Ministry of Defence, 27.95% of the Defence Budget allocation is for capital expenditure, 20.17% for revenue expenditure on sustenance and operational preparedness, 26.40% for revenue expenditure on pay and allowances, 21.84% for defence pensions, and 3.64% for civil organisations



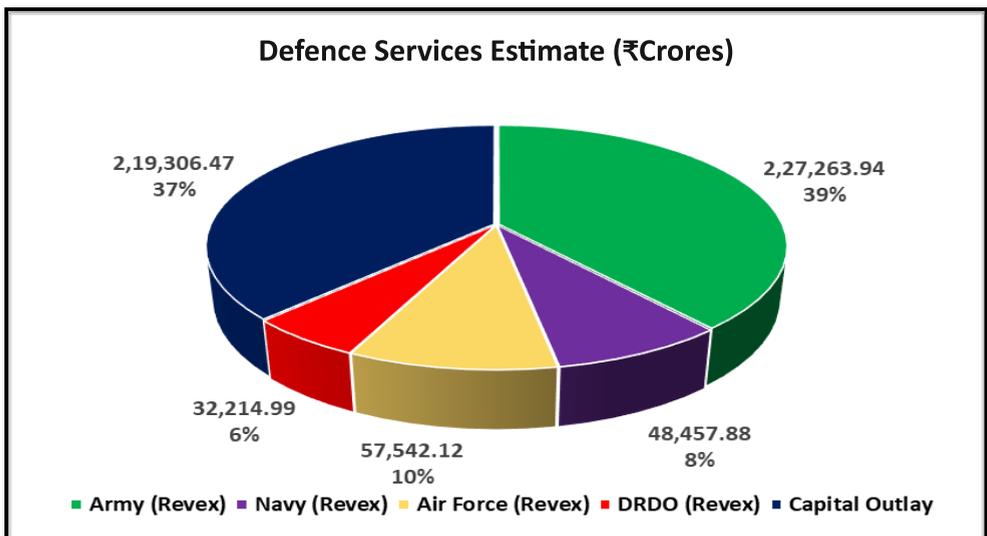
Union Budget 2026-27

4. During the FY 2026-27, outlay for capital expenditure has been significantly enhanced to ₹2.19 lakh crore, reaffirming the Government's resolve to strengthen operational capability and advance the objective of Aatmanirbhar Bharat. As against the BE of 2025-26 for capital outlay of ₹1.80 lakh crore, services are allocated ₹1.86 lakh crore as per RE 2025-26, which is a good indicator that services were able to utilise their capital budget. Out of the total defence budget of ₹7.84 lakh crore, MoD (Civil) is allocated ₹28,554 crore, which is 3.64% of the defence budget. Further, the defence pension share is about 21.84%.



Union Budget 2026-27

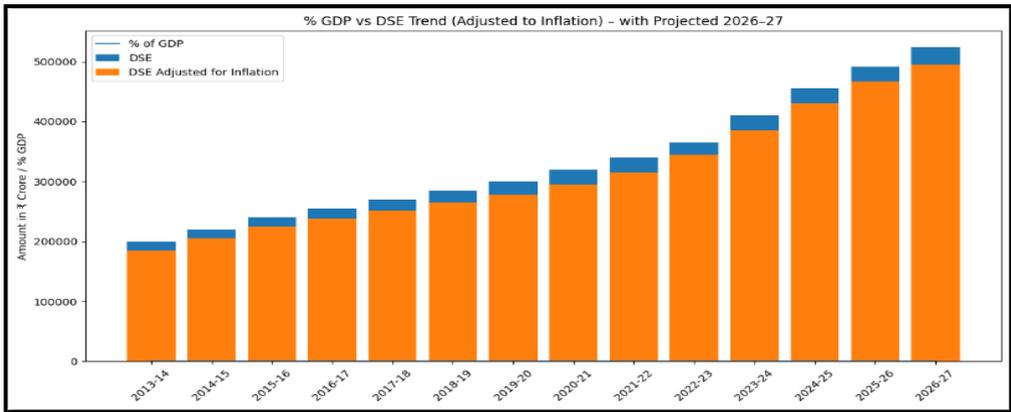
5. **Defence Services Estimate.** Defence Services estimate excludes MoD (Civil) and Defence Pensions. Analysis indicates that the Army is allocated 37%, the Navy 8% and the Air Force 10% of the DSE, respectively. Capital allocation is being done to all services under one head since 2024-25 to ensure effective utilisation of capital budget and bring efficiency. The ratio of allocation for services **Revenue to Capital** excluding DRDO Revex, is 1.5:1.



Union Budget 2026-27

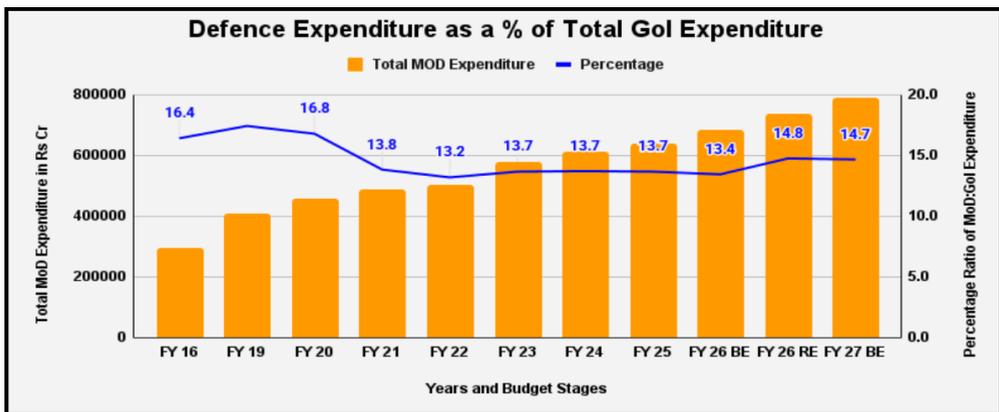
## Trend Analysis

6. **GD PVs DSE (Adjusted to inflation).** Overall trend of defence allocation during FY 2025-26 and FY 2026-27 has been 1.8% and 2% of GDP, respectively. Higher allocation as a percentage of GDP would facilitate capability building and sustenance. Inflation-adjusted allocation, though, remains around 1.6% to 1.7%. The overall allocation to services have grown at a CAGR (Compounded Annual Growth Rate) of 7.94% from 2021 to 2026 which is above average inflation rate of 6.16%.



Various Union Budgets

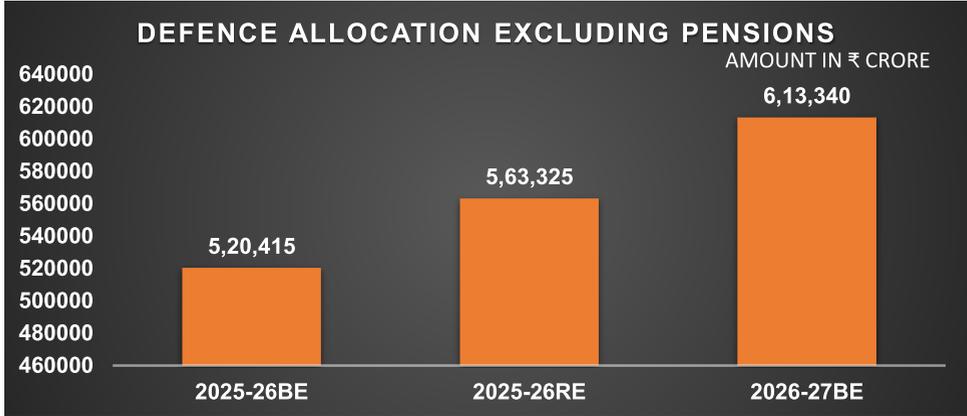
7. **CGEVs Defence Budget.** Defence allocation as a percentage to CGE is 14.7% for the BE 2026-27, higher than BE 2025-26, which was 13.4%. There has been about a 1% increase in the defence allocation as a percentage of CGE since FY 22, which is a good indicator that the government is giving impetus to modernising defence services.



Based On Various Union Budgets

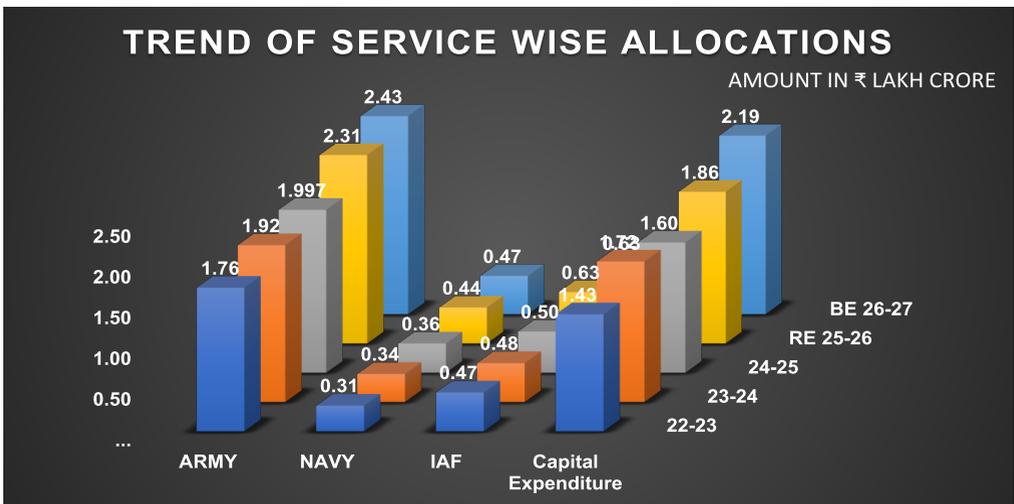


8. The allocations excluding pensions show an increase by 9% over the BE of 2025-26 and 8% over RE 2025-26. The increase is predominantly for capability building and sustenance for the services.



Based On Union Budget 2026-27

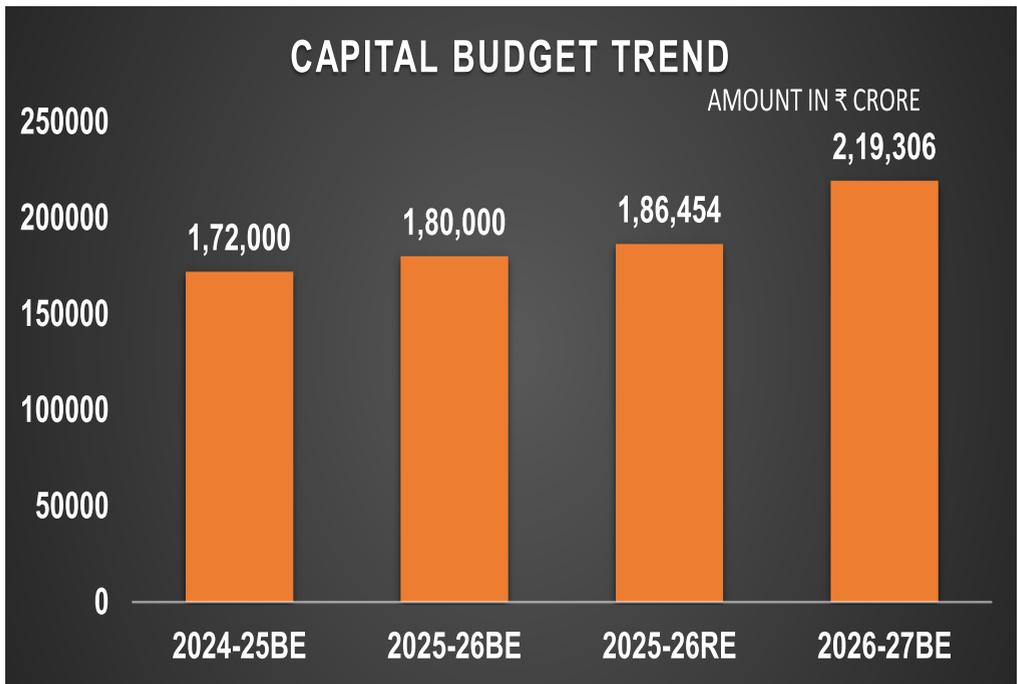
9. **Allocation to Services.** The trend of service-wise allocations since 2022-23 continues in BE FY 2026-27, with a progressive increase in the share of capital expenditure, while revenue growth remains moderate. In BE FY 2026-27, expenditure on Pay and Allowances (Salary) amounts to ₹2,05,620 crore (56.3% of Defence Services Revenue), while non-salary expenditure accounts for ₹1,59,858.98 crore (43.7%), supporting operational sustenance. Alongside this, a 21.8% increase in Capital Outlay underscores a sustained focus on defence modernisation and capability enhancement.



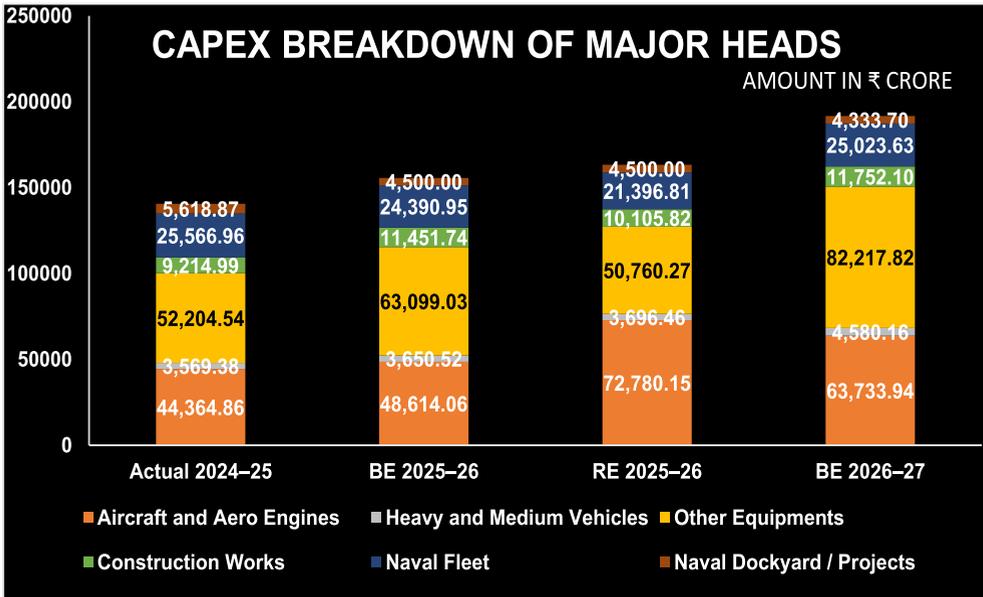
Based on Union Budgets



**10. Capital Allocation Trend.** As far as Capital Expenditure is concerned, BE FY 2026-27 provides an allocation of ₹2,19,306.47 crore, representing a 21.8% increase over BE FY 2025-26 (₹1,80,000 crore). This significant enhancement follows the trend observed in RE FY 2025-26, where capital outlay increased to ₹1,86,454.20 crore and underscores a renewed emphasis on capital acquisition and modernisation of the Armed Forces. Closer examination of the capital budget suggests an increase of 31% for aircraft & aero engines, 30% for other equipment requirements and 25.5% for heavy and medium vehicles over FY 2025-26BE. The allocation for Heavy and Medium Vehicles is ₹4,580 crore for FY 2026-27. Increase in allocations for aircraft and aero-engines signals movement on high value platforms such as Multi Role Fighter Aircraft (MRFA) programme, Airborne Early Warning and Control (AEW&C) aircraft systems and Medium Transport Aircraft and for other equipment indicates acquisitions of Electronic Warfare Systems, loitering munitions, lightweight radars, MLRS, heavyweight torpedoes, surveillance radars and BVR air-to-air missiles. Further, increased allocations for vehicles indicates scaling up of mobility, logistics and combat support capabilities, including procurement of light specialist vehicles and armoured recovery vehicles.



Various Union Budgets

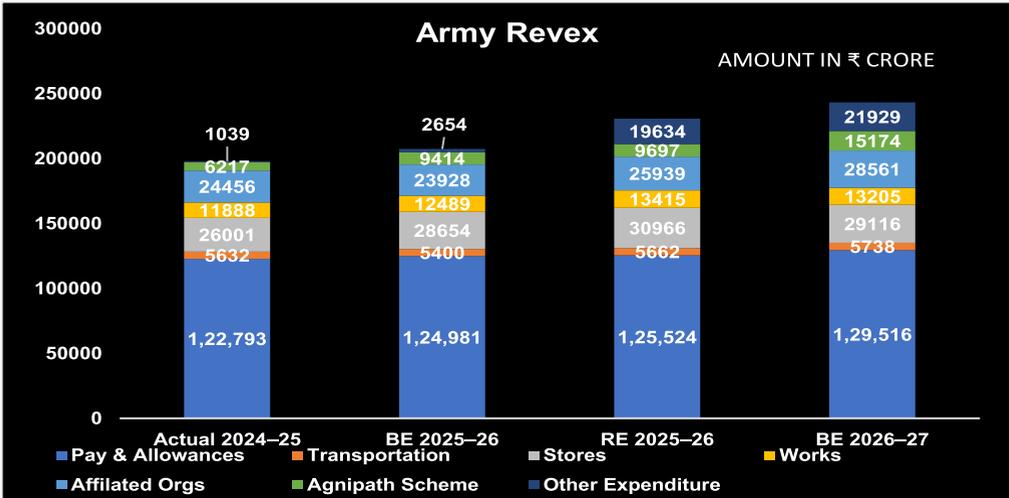


Union Budget 2026-27

### Analysis of Revenue Budget

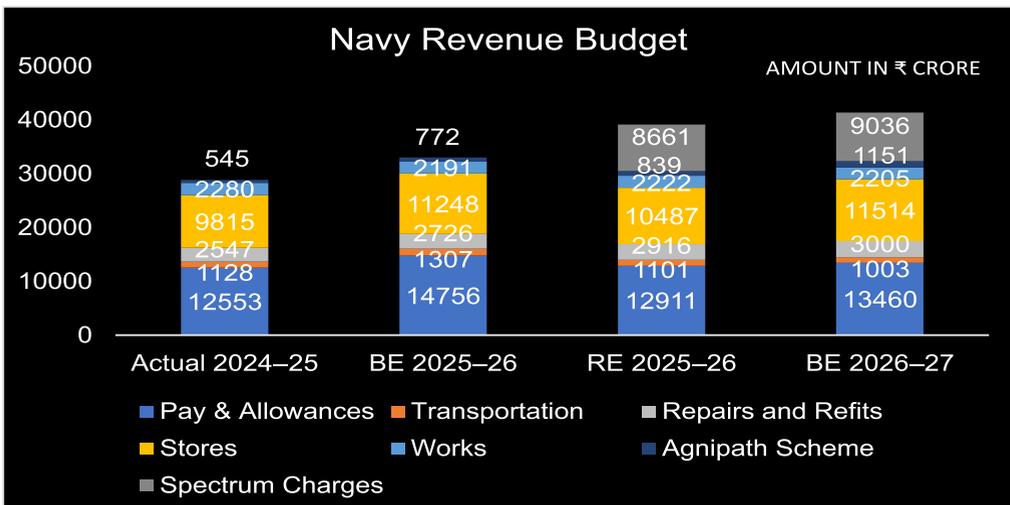
11. On the Revenue Head, the allocation for the Armed Forces in BE FY 2026-27 stands at ₹3,65,478.98 crore, registering an increase of 17.23% over FY 2025-26BE. Of the total revenue allocation for the Services in BE FY 2026-27, **the Army accounts for ₹2.08 lakh crore (57%), followed by the Air Force at ₹0.54 lakh crore (15%) and the Navy at ₹0.38 lakh crore (10%)**. Analysis of the increase in service-wise budget reflects 17.2% increase for the Army, 22.7% for the Navy and 17.6% for the Air Force over the revenue budget of FY 2025-26BE.

12. **Army Revex.** The Army continues to account for the largest share of Defence Services (Revenue), reflecting its manpower-intensive structure and sustained operational commitments. Revenue allocation increased from ₹2,07,520 crore in BE 2025-26 to ₹2,43,238.98 crore in BE 2026-27, following a sharp upward revision in RE 2025-26. In BE 2026-27, the Army constitutes approximately 66.6% of the total Defence Services (Revenue). The trend underscores persistent pressures from pay and allowances, force maintenance and operational readiness requirements.



### Union Budget 2026-27

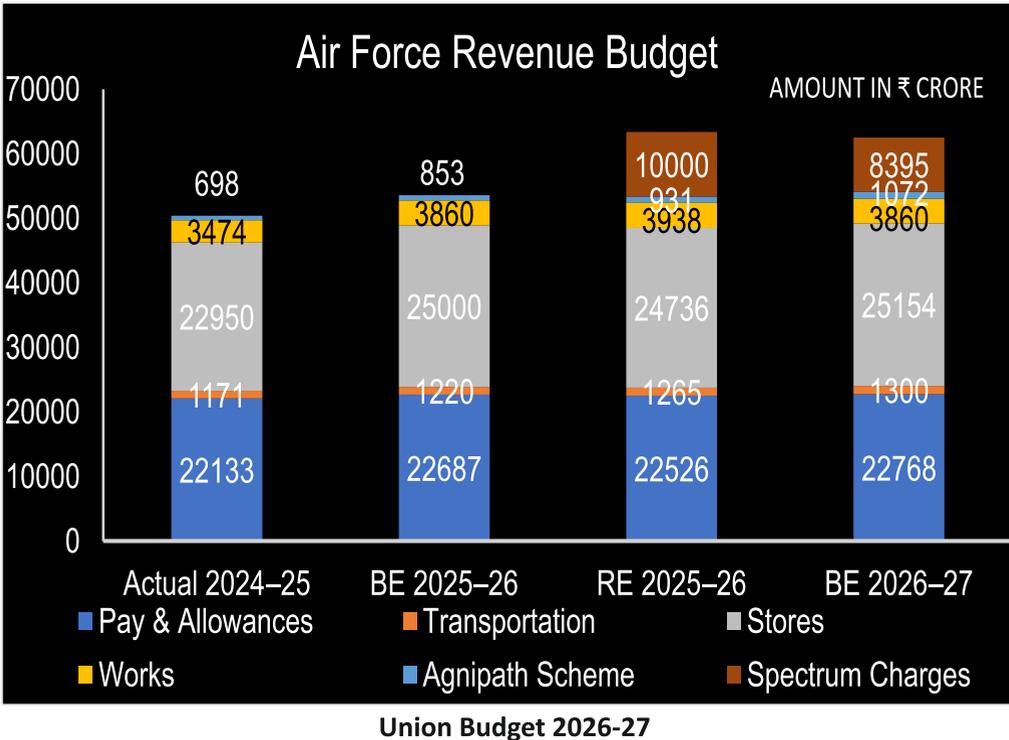
13. **Navy Revex.** Revenue expenditure for the Navy has shown a steady upward trajectory in line with expanding maritime roles and sustained deployments. **The allocation increased from ₹38,149.80 crore in BE 2025-26 to ₹46,800.00 crore in BE 2026-27.** The Navy accounts for about 12.8% of Defence Services (Revenue) in BE 2026-27. Navy's Other Central Sector Expenditure increased from ₹25,387.86 crore in RE 2025-26 to ₹26,758 crore in BE 2026-27, reflecting a measured rise of about 5.4%. **The expenditure profile is dominated by Stores and Spectrum Charges**, highlighting growing costs related to fleet sustainment and secure communications, while Repairs and Refits show steady provisioning.



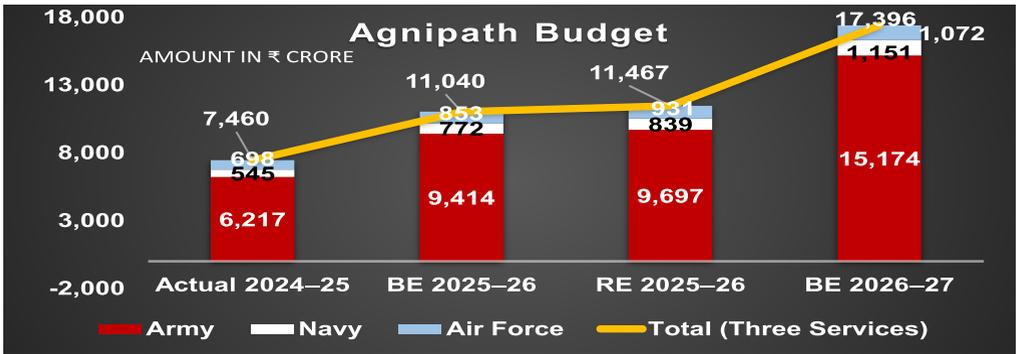
### Union Budget 2026-27



14. **Air Force Revex.** The Air Force allocation rose from ₹53,700 crore in BE 2025-26 to ₹63,150.00 crore in BE 2026-27, following a significant upward revision in RE 2025-26. In BE 2026-27, the Air Force constitutes around 17.3% of total Defence Services (Revenue). The stabilisation at a higher level highlights continued expenditure on maintenance of advanced air platforms, spares, fuel and technical support systems.



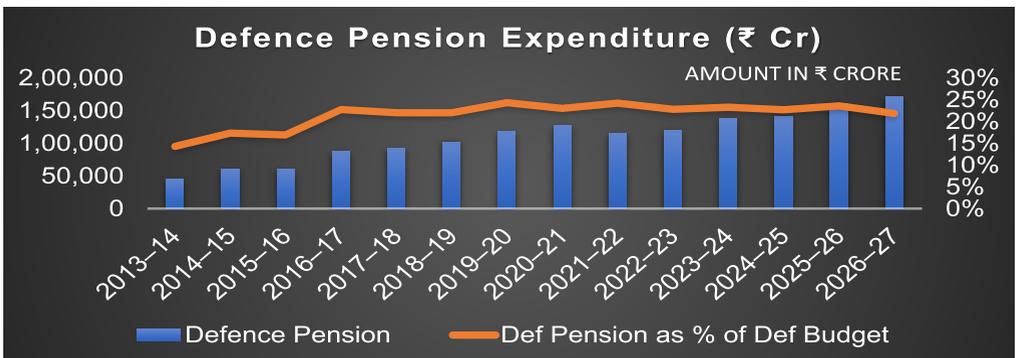
15. **Agnipath Scheme.** The Agnipath Scheme witnessed a sharp increase from ₹11,039.51 crore in BE 2025-26 to ₹17,396.18 crore in BE 2026-27, a substantial rise of about 52%. This jump in BE 2026-27, reflects the first Seva Nidhi payouts as initial Agniveer cohorts complete four years of service. While this creates a near-term spike in revenue expenditure, it is a front-loaded reform cost designed to structurally reduce long-term pension liabilities. Over time, Agnipath is expected to moderate pension growth, rebalance manpower costs toward a younger, more agile force, and free fiscal space for capital modernisation, addressing the persistent pressure of pensions that currently consume around one-fourth of the defence budget.



Union Budget 2026-27

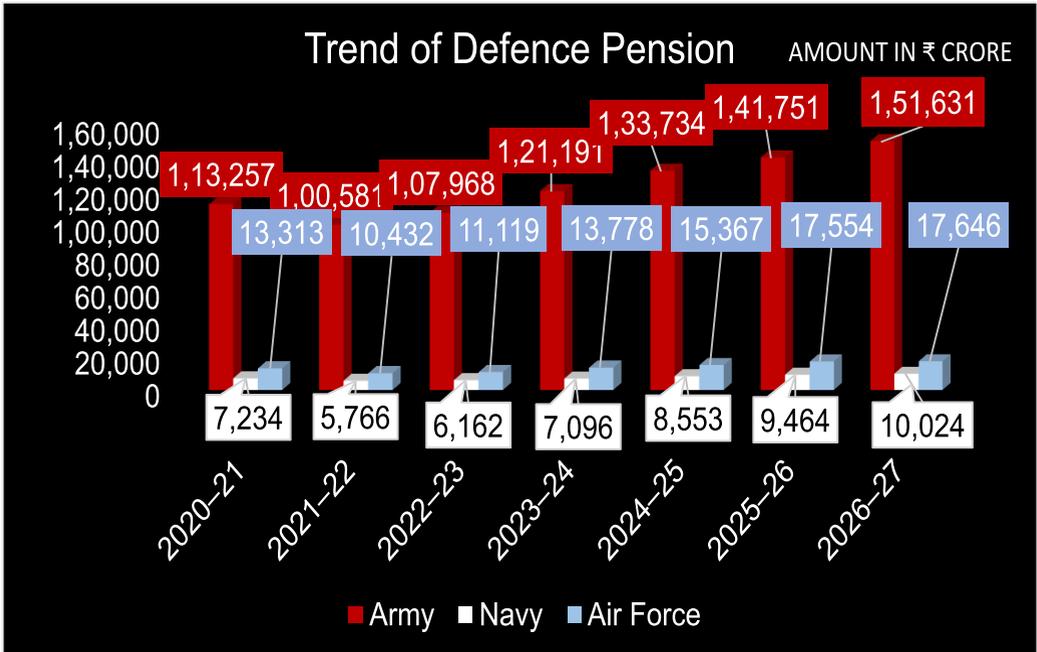
16. **Spectrum Charges (Army, Air Force & Navy).** Spectrum charges constitute a high and recurring revenue cost, increasing from ₹36,130.56 crore in BE 2025-26 to about ₹37,200 crore in BE 2026-27 and are paid to the Department of Telecommunications for the use of dedicated defence spectrum. The Army bears the largest share (₹19,769.03 crore), followed by the Navy (₹9,036.43 crore) and the Air Force (₹8,394.54 crore), reflecting the scale of secure communications, aviation and maritime network requirements essential for network-centric operations.

17. **Pensions.** Taking into account expenditure under Defence Pensions, including the impact of OROP revisions, an amount of ₹1,71,338.22 crore has been provided in BE FY 2026-27, an increase of 6.56% over BE FY 2025-26 (₹1,60,795 crore). Over the period 2013-14 to 2026-27, defence pensions have continued to grow at a rate higher than the overall defence budget, reinforcing the sustained pressure of pension liabilities on the revex. In BE FY 2026-27, defence pensions continue to constitute a substantial share of total defence expenditure, highlighting the structural challenge of balancing commitments with modernisation.



Various Union Budgets

18. Pension bill for the services is showing mixed trend. The implications of Agnipath scheme vis a vis service specific pension expenditure needs to be critically looked at. Army's average increase in pension expenditure is 9% on higher base while that of Navy and Air Force is 11% and 12% respectively since 2021 to 2026. Therefore, Army's pension expenditure is increasing at slower pace than other two sister services.



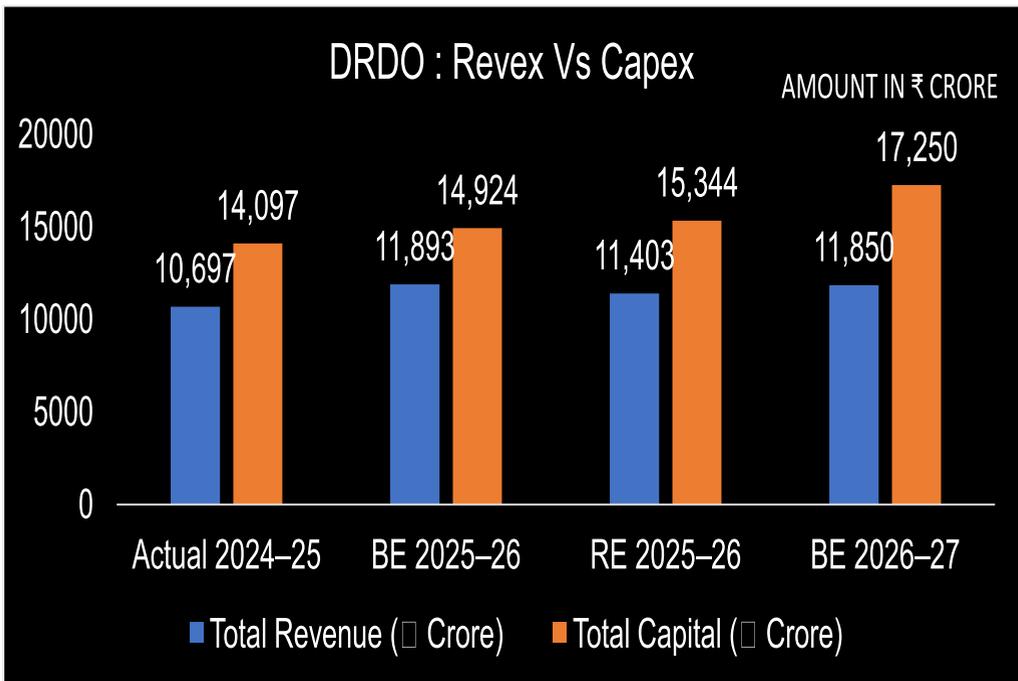
**Based on Various Budgets**

19. **DRDO.** The budgetary allocation to Defence Research and Development Organisation (DRDO) has been increased to ₹29,100.25 crore in FY 2026-27 from ₹26,816.82 crore in FY 2025-26. Out of this allocation, **a major share of Rs. 17,250.25 crore is allocated for capital expenditure.** In addition, the central government has implemented a range of measures to promote R&D in defence manufacturing. In addition, about 25% of the Defence R&D budget has been opened to industry, start-ups and academia based on Budget 2022-23 announcements. 15 new DRDO–Industry–Academia Centres of Excellence have been established, covering 82 identified research verticals. DRDO has built a network of around 2,000 industries to manufacture equipment, with technologies transferred at zero Transfer of Technology fee to Indian partners to empower



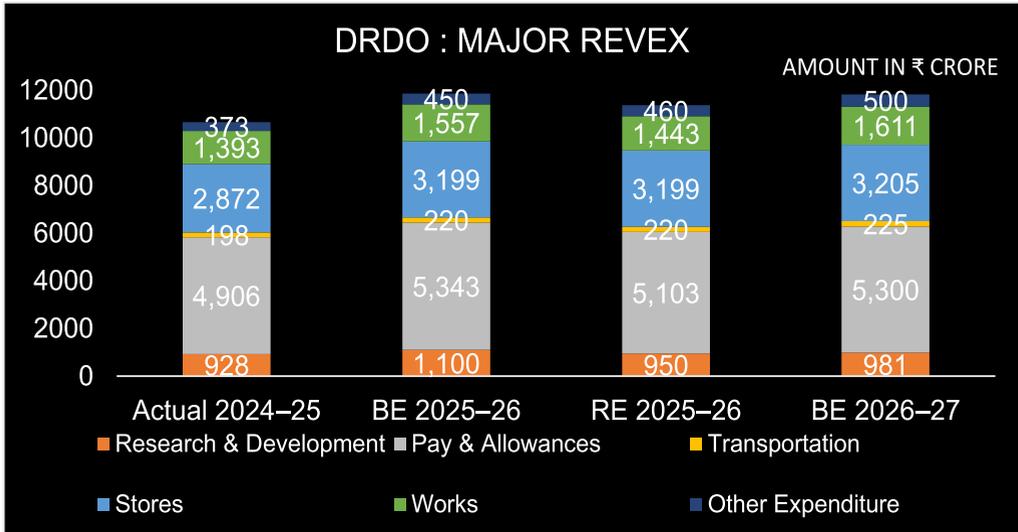
innovation. During 2022–23 to 2024–25, a cumulative actual of ₹68,210.22 crore was incurred on Defence R&D, with an additional ₹26,816.82 crore provided under Budget Estimates for FY 2025–26. 148 new R&D projects have been sanctioned by DRDO during 2022–23 to 2024–25. A steady rise of 15% in defence R&D budget to bolster indigenous defence technology development, a cornerstone of the Atmanirbhar Bharat initiative. In line with previous announcements, 25% of the R&D allocation (INR4,312 crore) shall be earmarked for industry, startups and academia

**20. Revex Vs Capex.** DRDO's expenditure pattern reflects a clear strategic reorientation towards capability creation. Between BE 2025–26 and BE 2026–27, revenue expenditure remains largely flat (–0.4%), indicating stable commitments towards salaries and routine operations, while capital expenditure rises sharply by about 15.6%. This divergence underscores a deliberate policy shift from manpower sustenance to long-term investment in advanced R&D infrastructure, test facilities and technology maturation, strengthening DRDO's role in enabling indigenous defence capability development.





21. **Revex.** DRDO's revenue expenditure is predominantly driven by Pay & Allowances, which account for nearly half of total revenue in BE 2026–27. In comparison, allocations for core research activities, stores and project execution remain relatively modest, indicating that revenue spending is focused more on sustaining human capital than on expanding operational research or material-intensive experimentation.



## 22. Major Projects being executed by DPSUs for the Armed Forces and timelines.

22.1 **Hindustan Aeronautics Limited (HAL).** HAL is presently executing major products worth a total of ₹ 92,775 Cr with a timeline for delivery **by March 2033**, which include Light Combat Aircraft (LCA) MK1A, Hindustan Turbo Trainer (HTT-40), and Dornier (Do-228).

22.2 **Bharat Electronics Limited (BEL).** BEL is presently executing major products worth a total of ₹ **42,366 Cr** with a timeline for delivery in **Dec 2033**, which includes Long Range Surface to Air Missile (LRSAM) System; Weapon Locating Radar-Plains; Air Defence Control & Reporting System; and Akash Weapon System.

22.3 **Bharat Dynamics Limited (BDL).** BDL is presently executing major products worth a total of ₹ **14,853 Cr** with a timeline for delivery **May 2029**, which includes Konkurs-M, Akash, Astra Mk-I, and Milan 2T.



22.4 **BEML Limited.** BEML is presently executing major products worth a total of ₹ **2,271 Cr** with a timeline for delivery **Dec 2027**, which include Pinaka 5th to 10th Regt, Command Post Vehicle, BEML HMV 8X8 for Sanjay BSS, and 50 Ton trailer.

22.5 **Garden Reach Shipbuilders & Engineers Ltd (GRSE).** GRSE is presently executing major products worth a total of ₹ **27,731 Cr**, with a timeline for delivery **May 2028**, which includes P-17A Frigate, Survey Vessel Large (SVL), Anti-Submarine Warfare Shallow Water Craft (ASW-SWC) and Next Generation Offshore Patrol Vessel (NGOPV).

22.6 **Goa Shipyard Ltd (GSL).** GSL is presently executing major products worth a total of ₹ **21,140 Cr** with a timeline for delivery **Sep 2029**, which includes P11356 Frigate; Next Generation Offshore Patrol Vessels; and Pollution Control Vessels.

22.7 **Hindustan Shipyard Ltd (HSL).** HSL is presently executing a major product worth a total of ₹ 21,936 Cr with a timeline for delivery in March 2030, which includes Diving Support Vessel, Semi-submersible pontoon, and Fleet Support Ships.

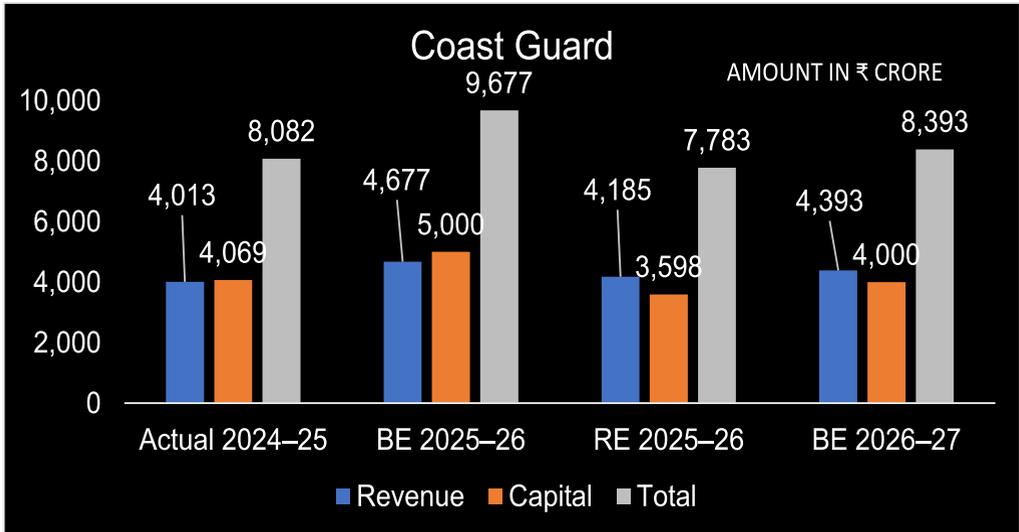
Sl. No	DPSUs	Order Book for current FY 2024-25	Order book expected in the next five years (FY 2025-26 to FY 2029-30)
1	HAL	1,25,388	13,04,975
2	BEL	74,500	3,00,000
3	BEML	15,296	1,20,000
4	BDL	18,754	95,000
5	MIDHANI	2,015	11,000
6	MDL	39,871	7,90,000
7	GRSE	24,221	2,40,000
8	GSL	18,562	1,40,000
9	HSL	19,000	79,000

**Source: SCoD Report**



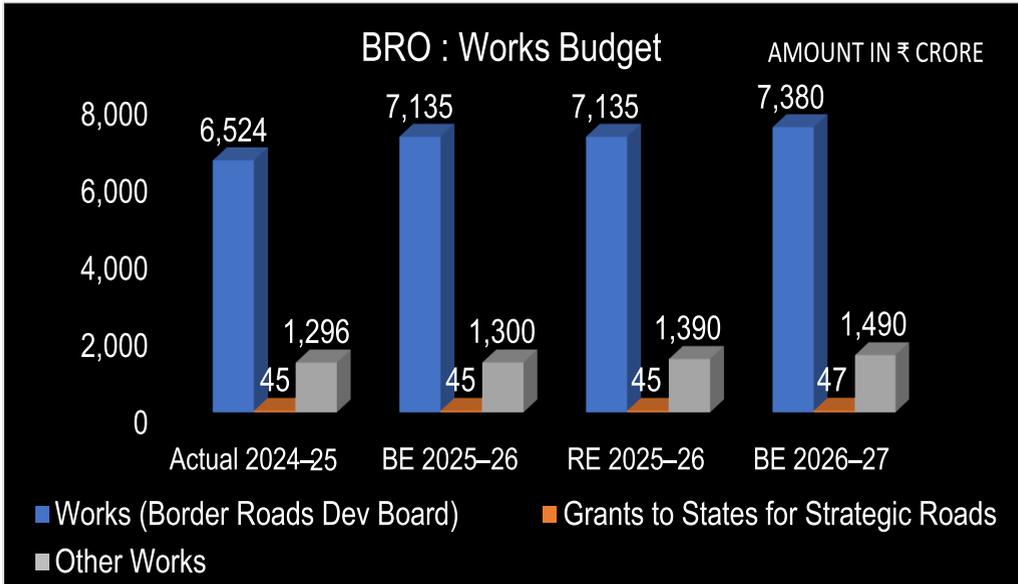
23. Analysis of order book, past execution performance and Capex allocated to the DPSUs suggests underfunding and inability to execute the projects. DPSUs have been allocated as Internal & Extra Budgetary Resources (IEBR) ₹ 4,279 crore and ₹ 1,540 crore to erstwhile OFBs in BE 2026-27 as against ₹ 3,780 crore and ₹ 1,580 crore as per RE of 2025-26, respectively. **There is a need for enhancement in capex, capacity and capability building of the DPSUs to execute the projects promptly.**

24. **Coast Guard.** The Coast Guard Organisation allocation shows a moderate increase in BE 2026-27 to ₹8,392.85 crore from ₹7,783.00 crore in RE 2025-26, indicating a return to planned expenditure levels after a year of rationalisation. The reduction in RE 2025-26, particularly under capital, reflects procurement phasing and execution delays, while the renewed capital provision in BE 2026-27 signals continued emphasis on maritime surveillance, fleet augmentation and coastal security capabilities.



Union Budget 2026-27

25. **BRO.** The Border Roads Development Board (BRDB) outlay shows steady and sustained growth, with allocations rising by over 13% between Actual 2024-25 and BE 2026-27, reflecting consistent prioritisation of strategic road infrastructure. The stability between BE and RE 2025-26 indicates high budget credibility and strong execution capacity, while the increase in BE 2026-27 supports accelerated project completion.



**Union Budget 2026-27**

26. **ECHS.** The Government has significantly enhanced support for veterans by allocating ₹12,100 crore to ECHS in FY 2026-27, a 45.49% increase over BE 2025-26, to meet rising medical treatment costs. The said allocation will fund the Medical Treatment Related Expenditure (MTRE) of veterans. The allocation to ECHS has been increased by more than 300% in the last five years vis-à-vis the allocation made at BE stage for FY 2021-22.



27. **National Cadet Corps (NCC).** The NCC allocation rose from ₹2,900 crore in BE 2025-26 to ₹3,037.11 crore in BE 2026-27, an increase of around 4.7%. This supports incremental expansion of youth training, camps and institutional capacity.

## 28. Tax Proposals and its implication on Defence.

28.1 **Extension in tax holiday period** for units in IFSC (International Financial Services Centre) **engaged in leasing of aircrafts and ships.** Currently, a 100% tax deduction is available to IFSC units engaged in leasing of aircrafts and ships for a period of 10 consecutive years out of a block of 15 years. Now, the tax holiday period has been proposed to be extended to 20 consecutive years out of a block of 25 years for such units. Eligible income of these IFSC units will now be taxed at 15% instead of the 22%/30% rate, applicable to income earned outside the tax holiday period. This is applicable from tax year 2026-27. **These provisions would facilitate development of lease market for aircrafts and ships within the country.**

28.2 The term “work” under withholding tax provisions (payment to contractor) has been amended to clarify that payment for supply of manpower would qualify as payment for “work” and consequently be subject to deduction of tax at the rate of 1% is paid to an individual or HUF and 2% in other case. This amendment is effective from 1 April 2026.

28.3 Currently, employees' contribution to specified funds such as provident fund and Employees' State Insurance is allowed as a deduction **only if deposited within the statutory due date prescribed under the respective laws.** It is now proposed to **allow deduction** of employee's contribution if such contribution is deposited on or before the due date for filing the return of income, even where payment is not made within the statutory due date. Firms with outsourcing contracts would benefit from the provision.

28.4 Basic Custom Duty (BCD) exemption has been provided on import of certain goods, effective from 02 Feb 2026 such a raw materials for **manufacture of parts of aircraft for MRO of aircraft or components or parts of aircraft,** provided that the goods are imported by Defence PSUs,



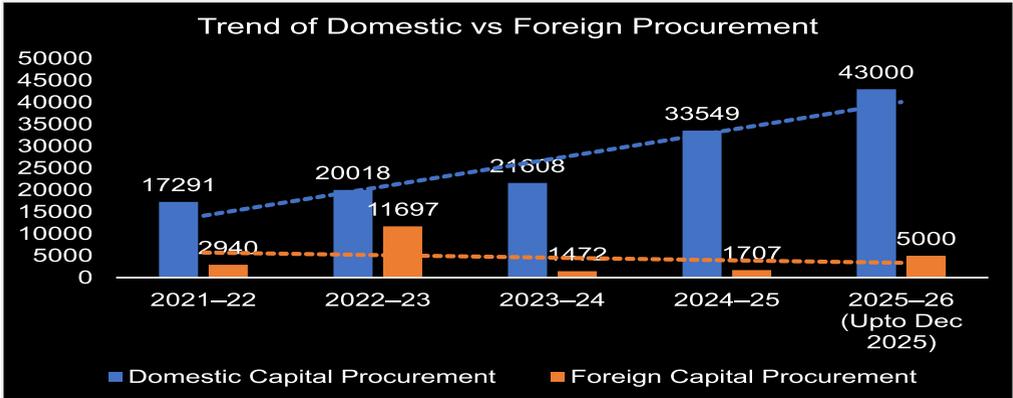
components or parts, including engines, of aircraft, for the manufacture of aircraft and parts thereof. This will provide impetus to DPSUs like HAL and MRO industry in the country by cheaper imports and services shall benefit from reduced budget outflows due to BCD exemption.

28.5 BCD exemption on import of the certain goods has been extended till 31 Mar 2028 such as parts, tools, tool-kits for MRO of aircraft, components or parts of aircraft, subject to approval of DGCA. Components or parts for manufacture of aircraft and parts of such aircraft imported by Defence PSUs. Further, validity of Customs Advance Rulings has been proposed to be extended from three years to five years, unless there is a change in law or facts.

28.6 Deferred Payment of Import Duty Rules, 2016 proposed to be amended to allow monthly duty payment in place of existing 15 days for all eligible importers. Benefit of deferred duty payment also proposed to be extended to 'manufacturer importer' till 31 Ma 2028. Benefit would also accrue to defence importers.

28.7 With TReDS, more than ₹7 lakh crore has been made available to MSMEs. It is now mandated to TReDS as the transaction settlement platform for all purchases from MSMEs by CPSEs and link GeM with TReDS for sharing information with financiers about government purchases from MSMEs, encouraging cheaper and quicker financing. In addition, the introduction of TReDS as receivables asset-backed securities helps develop a secondary market, enhancing liquidity and settlement of transactions. These measures would facilitate MSMEs in obtaining working capital and ease of doing business.

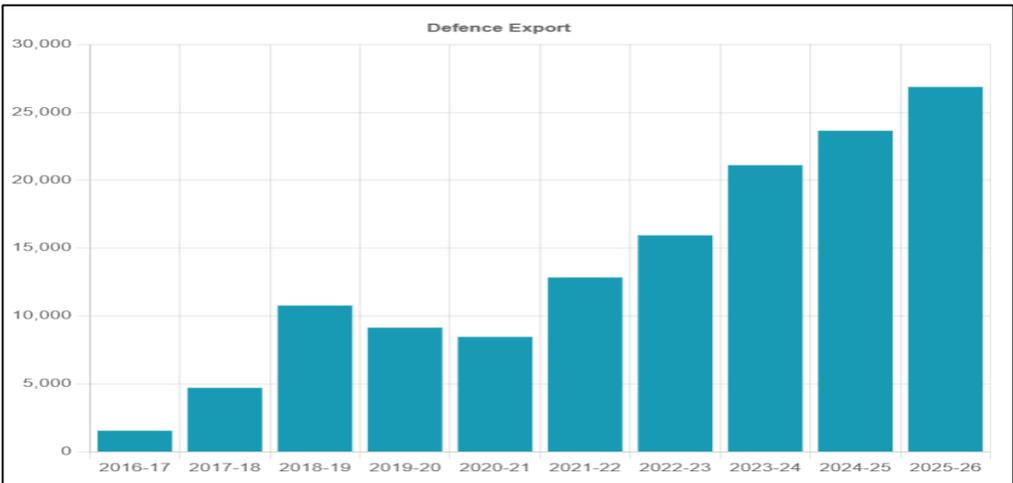
29. **Trend of Domestic and Foreign Procurement.** Domestic procurement has risen steadily from ₹17,291 crore in 2021-22 to about ₹43,000 crore in 2025-26 (up to Dec 2025), reflecting sustained policy focus under DAP-2020, Make in India and Aatmanirbhar Bharat. In contrast, foreign capital procurement shows a declining and volatile trend, peaking in 2022-23 due to legacy and one-time high-value imports and then dropping sharply to ₹1,472 crore in 2023-24 and ₹1,707 crore in 2024-25. Even in 2025-26, foreign procurement remains limited and largely selective and capability-bridging, rather than system-defining.



Based on SCOD Report

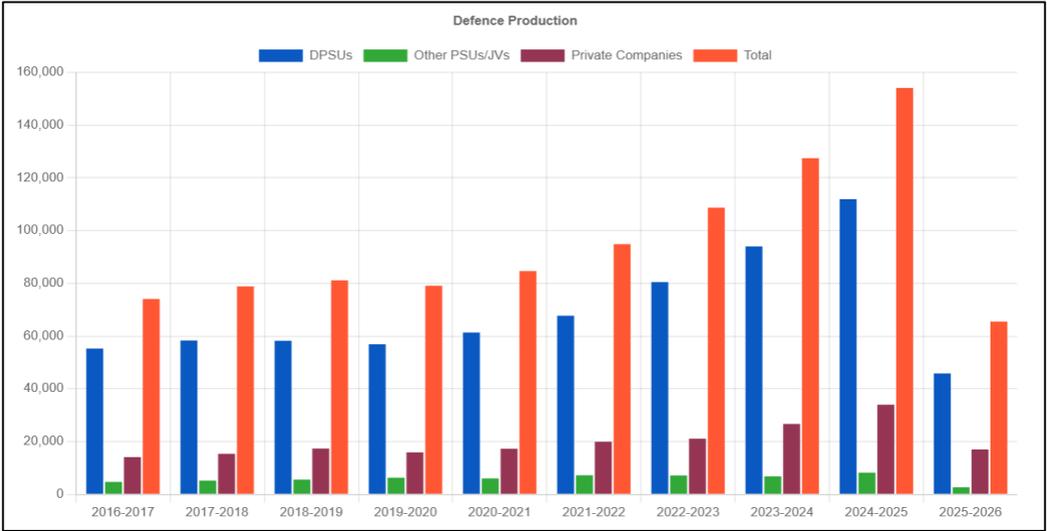
30. A decisive push towards indigenisation is reflected in earmarking ₹1.39 lakh crore (75% of capital acquisition) for domestic procurement in FY 2026–27. This reinforces confidence in Indian industry, promotes indigenous design and manufacturing and positions defence modernisation as a driver of long-term industrial growth and strategic autonomy.

31. **Defence Exports.** Defence exports also touched a new peak of ₹23,622 crore in FY 2024–25, registering a 12% growth over FY 2023–24. The private sector led exports with ₹15,233 crore, complemented by ₹8,389 crore from DPSUs, underscoring the growing competitiveness of India's defence industry. The export target has been set at ₹50,000 crore by 2029, signalling sustained outward orientation of the sector.



Based On DDP Website

**32. Defence Production.** India's defence production reached a historic high of ₹1.51 lakh crore in FY 2024–25, marking an 18% increase over the previous year and nearly doubling since FY 2019–20. DPSUs and other PSUs contributed about 77%, while the private sector's share rose to 23%, reflecting its expanding role. The Government has set an ambitious target of ₹3 lakh crore in defence manufacturing by 2029.



**DDP Website**

**MISSION RAKSHA GYAN SHAKTI**

IPR Filed- 6,953  
IPR Granted-3,272  
Upto March 2026 Target : 7,467

As on : 31/01/2026  
Updated On :02/02/2026

M

[More](#)

**MAKE PROJECTS**

Make-I: 40  
As per SHQs - Make-II: 104  
Make-III: 4

By DPSUs- 2,517  
Upto 2025 Make I Target : 200SHQs  
Upto 2025 Make II Target : 4,000 DPSUs

As on :31/01/2026  
Updated On :03/02/2026

M

**INNOVATIONS FOR DEFENCE EXCELLENCE**

Startups/MSME/Individual Innovators Engaged - 673  
Contracts Signed - 520

As on :31/12/2025  
Updated On :02/01/2026

Q

**UTTAR PRADESH DEFENCE CORRIDOR**

Already Attracted Investment-Rs. 38,176Cr  
Amount Invested so far-Rs. 4,304Cr  
2025-26 Investment Target-Rs.10,000Cr

As on :31/12/2025  
Updated On :02/01/2026

M

**TAMILNADU DEFENCE CORRIDOR**

Already Attracted Investment-Rs.30,649Cr  
Amount Invested so far-Rs. 4,871 Cr  
2025-26 Investment Target-Rs.10,000Cr

As on :31/12/2025  
Updated On :02/01/2026

M

**AI IN DEFENCE**

Planned upto Mar 2026 - 129  
Projects Completed-98

As on :31/01/2026  
Updated On :02/02/2026

M

**DDP Dashboard**

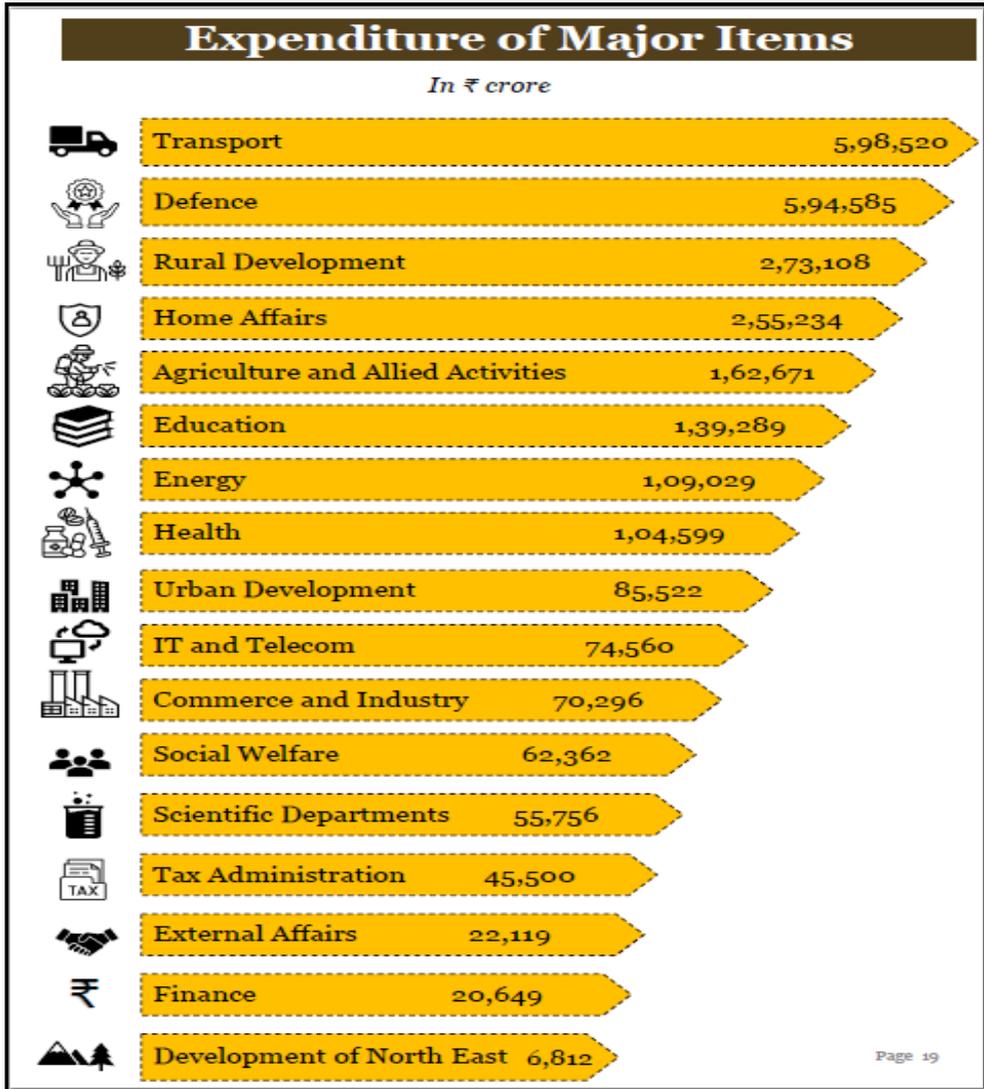


**33. Major Reforms, Focus Areas and Capability Enhancements.** MoD undertook far-reaching reforms in 2025, marked by the review of DAP 2020, release of the Defence Procurement Manual 2025 and streamlined acquisition processes to accelerate modernisation and improve operational responsiveness. A strong thrust on indigenous programmes and acquisitions is evident through prioritisation of Buy (Indian-IDDMM) and Buy (Indian) categories, substantial earmarking of capital budgets for domestic procurement and accelerated execution of flagship platforms such as LCA Mk1A, LCH Prachand, AMCA, indigenous missile systems, radars and electronic warfare suites. Capability enhancement was reinforced through large DAC approvals, emergency procurement powers and technology infusion across land, air, maritime, space, cyber and drone domains. Simultaneously, emphasis on jointness, infrastructure development, border preparedness and defence diplomacy strengthened India's overall military readiness and strategic autonomy.

### Key Takeaways

- ✓ ₹7.84 lakh crore allocated to the Ministry of Defence for FY 2026–27 is the highest-ever defence budget, marking a 15% increase over BE 2025–26 and about 2% of estimated GDP.
- ✓ Capital outlay at ₹2.19 lakh crore, reflecting a quantum jump of 22% over BE 2025–26, with Capital Acquisition alone rising 24%, underscoring strong thrust on modernisation.
- ✓ ₹1.39 lakh crore (75% of Capital Acquisition) earmarked for procurement from domestic industry, including private players, a decisive push towards Aatmanirbharta and Make in India.
- ✓ Army's average increase in pension expenditure is 9% on higher base while that of Navy and Air Force is 11% and 12% respectively since 2021 to 2026.
- ✓ The Agnipath Scheme witnessed a sharp increase from ₹11,039.51 crore in BE 2025–26 to ₹17,396.18 crore in BE 2026–27, a substantial rise of about 52%.
- ✓ Revenue expenditure provisioned at ₹3.65 lakh crore, up 17% over BE 2025–26, to sustain operational readiness, maintenance of platforms, spares and day-to-day requirements.

- ✓ Direct and indirect tax proposals will have positive impact on defence industry and reduced defence expenditure over long term.
- ✓ Overall, Budget 2026-27 reinforces the shift from sustenance-heavy spending to capability-driven modernisation, while embedding indigenisation, private-sector participation and long-term strategic preparedness as core pillars.





CHAPTER 5

PERSONAL FINANCE

1. While there are no proposed changes in the income tax slabs under the old and new regimes during the budget, there are certain changes proposed in the Finance Bill that will reduce outflows. The **most significant change brought out by the budget is the implementation of the New Income Tax Act 2025 from 01 Apr 26**. The simplified Income Tax Rules and Forms will be notified shortly. The basic difference between the old and new regimes of income tax as applicable to 2026-27 is highlighted below

Particulars	New regime	Old Regime
Basic Exemption Limit	₹ 4 lakhs	₹ 2.5 lakhs
Maximum tax rate	30% (exceeding ₹ 24 lakhs)	30% (exceeding ₹ 10 lakhs)
Rebate	₹ 60,000	₹ 12,500
Zero Tax Salary	₹ 12.75 lakh	₹ 5.5 lakh
Zero Tax Income	₹ 12 lakh	₹ 5 lakh

Based on Budget Provisions

2. The key differences between the new regime and the old regime are predominantly related to deductions and rebates. Individuals with gross income upto ₹ 5 lakhs, both regimes are beneficial. For taxpayers with limited tax-saving deductions and middle-class income earners, the new regime is the most beneficial.



Particulars	New regime	Old Regime
Deductions	Allowed (80C, HRA, etc.)	Mostly not allowed
Tax Planning Needed?	Yes	Yes but not extensive
Rebate	People with investments and deductions	Salaried and middle-income earners
Default Option	No	Yes
Standard Deduction	Rs. 50,000	Rs. 75,000
Tax Rebate	Up to Rs. 12,500	Up to Rs. 60,000

**Based on Budget Provisions**

3. The break-even deduction for different income levels for the old regime is beneficial is as shown below. Otherwise, the new regime will be the most desirable choice.

Gross Income ₹	Break-Even Deductions ₹
Up to 5 lakhs	Both regimes are beneficial
7 lakhs	1,50,000
10 lakhs	4,50,000
11 lakhs	5,50,000
12 lakhs	6,50,000
13 lakhs	6,87,500
14 lakhs	5,18,750
15 lakhs	5,43,750
16 lakhs	5,68,750
17 lakhs	6,08,330
18 lakhs	6,41,670
19 lakhs	6,75,000
20 lakhs	7,08,330
22 lakhs	7,54,170
24 lakhs	7,87,500
25 lakhs	8 lakh

**Based on Budget Provisions**



4. **Tax Collection at Source (TCS).** TCS rate on the sale of overseas tour program packages is proposed to be reduced from the current 5 per cent (up to ₹ 10 lakhs) and 20 per cent (above ₹ 10 lakhs) to 2 per cent without any stipulation of amount. Similarly, the TCS rate for pursuing education and for medical purposes under the Liberalised Remittance Scheme (LRS) reduced from 5 per cent to 2 per cent.

5. **Tax Deducted at Source.** TDS on the sale of immovable property by a non-resident is proposed to be deducted and deposited through the resident buyer's PAN-based challan instead of requiring TAN.

6. **Ease of Living.** The Finance Minister declared several measures for ease of doing business with the Income Tax Department. A few are highlighted include:-

6.1 A scheme for small taxpayers wherein a rule-based automated process will **enable obtaining a lower or nil deduction certificate** instead of filing an application with the assessing officer is proposed. .

6.2 **Extended time would be available for revising returns from 31st December to up to 31st March**, with the payment of a nominal fee from next year onwards. Presently revised return can be filed up to 31st December following the tax year. Return filing period extends upto 31 October for persons engaged in international transactions under section 92E. In this regard, it is proposed to allow extending the time of filing a revised return up to 31st March following the tax year. This revised return can be an original return or a belated return. A nominal fee of ₹ 1000 or 5000 is also proposed where the revision of the original or belated return is made after 31st December, depending upon whether the income is up to or more than Rs. 5 lakh.

6.3 It is proposed to integrate assessment & penalty proceedings by way of a common order for both. There will be no interest liability on the taxpayer on the penalty amount for the period of appeal before the first appellate authority, irrespective of the outcome of the appeal process. **Presently, there is a special tax rate on certain incomes, such as cash credits, unexplained investments, etc. The tax rate is 60%, and the penalty is 10% of the tax. It is**



proposed to rationalise the tax rate to 30% on these incomes. Penalty on such amount would be merged with the penalty for underreporting of income in consequence of misreporting of income, which is 200% of the tax amount. Further, the quantum of pre-payment is being reduced from 20 per cent to 10 per cent and will continue to be calculated only on the core tax demand. These measures would ease out compliances besides reduce costs for individual taxpayers.

6.4 It is proposed to **allow taxpayers to update their returns even after reassessment proceedings have been initiated, at an additional 10 per cent tax rate over and above the rate applicable** for the relevant year. The assessing officer will then use only this updated return in his proceedings. There is a facility for updating tax returns where the taxpayer wants to show any additional income. This facility is available for a period of 4 years for an additional tax liability of 25%, 50%, 60%, 70% from the first to the fourth year after the relevant tax year when the return of income is required to be filed for the first time. To provide additional measures for reducing litigation, it is proposed to allow the taxpayer to update the return even after reassessment proceedings have been initiated. The updation is proposed to be enabled at an additional 10% tax rate over and above the rate applicable for the relevant year.

## 7. Increased Outflows due to Tax.

7.1 It is proposed to **tax buyback for all types of shareholders as Capital Gains**. For individual taxpayers, the effective tax will be 30 per cent. Higher tax out for now for participation in the share buyback.

7.2 **The Securities Transaction Tax (STT) on Futures increased to 0.05 per cent** from the present 0.02 per cent. STT on options premium and exercise of options are both proposed to be raised to 0.15 per cent from the present rate of 0.1 per cent and 0.125 percent respectively. The government intends to encourage long-term investments instead of trading/short term investment.



**7.3 The exemption from capital gains tax in respect of Sovereign Gold Bonds (SGBs) will now be available only where such bonds are subscribed to by an individual at the time of original issue** and are held continuously until redemption on maturity. SGBs through the secondary market held till maturity are now taxable.

**7.4** It is proposed to provide that **no deduction in respect of any interest expenditure incurred in relation to dividend income or income from units of mutual funds**. Any loan taken for investment and income earned thereon is no longer deductible.

**7.5** It is proposed to provide a specific **exemption for disability pension granted to members of the Armed Forces** including paramilitary personnel, covering both the service element and the disability element, where the individual has been **invalided out of service** on account of a bodily disability attributable to, or aggravated by, military, naval or air force service, and **to exclude cases of retirement on superannuation or otherwise**. Earlier, disability element of pension was exempted from tax for all and now only for those invalidated out of service.

**8. Extended ITR Revision Window.** The deadline to revise your income tax return has been extended from December 31 to March 31, giving you three extra months to correct errors or update details, with only a nominal fee.

**9. Staggered Filing Deadlines.** Different taxpayer categories now have separate filing timelines to reduce peak-time server congestion and give taxpayers more breathing room throughout the filing season.

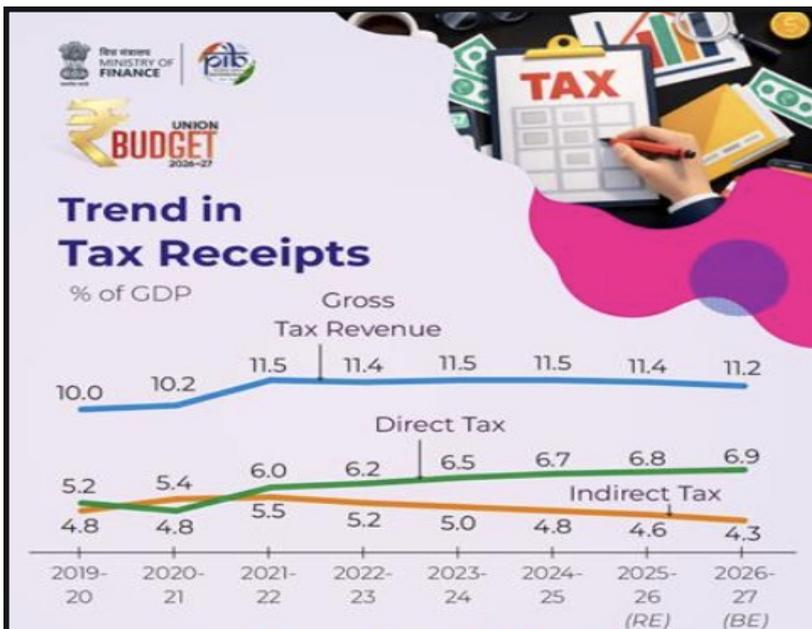
**10. Simplified TDS on Property.** Property transactions involving non-residents can now be done using PAN-based challans, replacing the need for TAN. Additionally, automated lower or nil deduction certificates will be available for small taxpayers through the rule-based system.

**11. Decriminalization and Penalty Relief.** Non-production of documents and other minor tax violations are no longer criminal offences. If you discover errors after filing, you can now correct it even during reassessment by paying an additional 10% tax, without facing penalties, even if reassessment has already begun.

**12. Foreign Asset Disclosure Window.** The government is offering a six month amnesty window for taxpayers to voluntarily declare overseas income or foreign assets, with no legal action for past non-disclosure of assets below 20 lakh. Budget 2026 may not change how much tax you pay, but it definitely changes how clearly you understand it. As tax rules get simpler, managing your money should too. With South Indian Bank's digital banking tools, staying organised and tax-ready can become part of your everyday financial planning.

### Key Takeaways

- ✓ **Implementation of the New Income Tax Act 2025 from 01 Apr 26.**
- ✓ **No Change in tax rate under old and new regimes.**
- ✓ **TCS rate on the sale of overseas tour program packages is proposed to be reduced to 2 per cent.**
- ✓ **The exemption from capital gains tax in respect of Sovereign Gold Bonds (SGBs) will now be available only where such bonds are subscribed to by an individual at the time of original issue.**
- ✓ **Exemption on disability element of pension withdrawn for all except those invalidated out of service.**



# MANAGEMENT DEVELOPMENT PROGRAMMES

## BY CDM - 2026-27

### **STRATEGIC MGT**

01 Jun - 06 Jun 26

30 VACANCIES

### **BIG DATA ANALYTICS**

29 Jun - 04 Jul 26

30 VACANCIES

### **PROJECT MGT**

24 Aug - 29 Aug 26

32 VACANCIES

### **ORG BEHAVIOUR**

07 Sep - 12 Sep 26

27 VACANCIES

### **DEFENCE ACQ MGT**

21 Sep - 03 Oct 26

25 VACANCIES

### **RESEARCH**

#### **METHODOLOGY**

26 Oct - 31 Oct 26

30 VACANCIES

### **JT RESOURCE MGT**

04 Jan - 16 Jan 27

30 VACANCIES

### **ORSA**

01 Feb - 13 Feb 27

32 VACANCIES



नैपुण्यात् विजयो ध्रुवम्  
*Victory Through Excellence*



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