

Union Budget 2026-27 And Public Debt Management In India: Evidence From Fiscal Consolidation And Growth Strategy

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Abstract

Public debt sustainability has become a renewed policy concern for India in the post-pandemic period. Within this context, fiscal consolidation and public debt management are guided by the Fiscal Responsibility and Budget Management (FRBM) (2003) Framework. This study examines whether India's fiscal consolidation strategy under Union budget 2026-27 supports sustainable public debt management through a growth-led adjustment approach. The analysis is based on secondary data drawn from Union budget 2026-27 documents. Fiscal consolidation is evaluated through movements in fiscal, revenue and primary deficits, while growth orientation is assessed through the relative expansion of capital and effective capital expenditure. The findings reveal a gradual and credible consolidation path with a notable improvement in the primary deficit and a reorientation of expenditure towards growth-enhancing capital investment. The study concludes that Union Budget 2026-27 adopts a growth-led fiscal consolidation strategy that supports sustainable public debt management within the FRBM framework.

Keywords: *Public Debt Sustainability, FRBM Act, Union Budget, Fiscal Deficit, Capital Expenditure, Fiscal Consolidation*

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I. Introduction

Public debt sustainability has reemerged as a central concern in macroeconomic policy particularly for emerging economies navigating post-pandemic fiscal pressures. In India fiscal consolidation and public debt management are institutionally anchored in the Fiscal Responsibility and Budget Management (FRBM) framework, which mandates deficit reduction and medium-term debt sustainability as core principles of fiscal governance. The FRBM Act(2003) provides a rule-based mechanism for containing fiscal imbalances, improving transparency and enhancing fiscal credibility (Rangarajan & Srivastava, 2005) (Government of India, 2018). Complementing this framework, Finance Commission recommendations play a critical role in operationalising debt targets, defining fiscal correction paths and strengthening Centre-State fiscal coordination.

In the post-COVID-19 context, elevated fiscal deficits and a rising interest obligations have intensified concerns over public debt sustainability in India. While fiscal consolidation remains essential to stabilise debt dynamics, excessive expenditure compression can adversely affect economic growth and weaken long-term fiscal outcomes. Consequently, growth-led fiscal consolidation achieved through improved expenditure quality, enhanced capital formation and strengthened revenue mobilisation has emerged as a more sustainable approach to public debt management. Against this backdrop, India's Union budget 2026-27 represents an important phase in India's medium-term strategy. The budget outlines a gradual reduction in deficit indicators, a reorientation of expenditure towards capital investment, enhanced non-debt capital receipts and a clearly articulated medium-term debt target. These measures signal a shift away from short-term austerity towards a consolidation path anchored in economic growth and fiscal credibility.

II. Review Of Literature

Kanzal & Niranjana (2022) analyzed the Indian government's expenditure on various development activities and compared Indian governments budgetary expenditure and revenue with the previous year. They found that some measures introduced in the budget would make good news to Indian investors, companies and common man. Finally, the study concludes that Union budget 2022-23 made no change to the living income duty structure, leaving the common man and other sections dissatisfied.

Mittal et.al (2025) analyzes the principle features, sectoral effects and policy suggestions for the budget 2025-26. Critical budgetary allocations, tax reforms and fiscal policies are examined comprehensively. They found that budget emphasizes infrastructure development and job creation but there are challenges like

fiscal imbalance economic concern remain. They concluded with strategic policy design to promote long-term economic sustainability and social welfare.

Gupta A. S. et.al (2024) examined the key highlights, priorities and strategic initiatives introduced in Budget 2024. The paper evaluates the potential impacts of budgetary allocation and policy measures on different sectors of the economy. They also discussed the broader implications for economic stability and growth, aligning with the fiscal strategies with India’s long-term development goals.

Roy & Bhattacharya (2024) , analyzes the Union budget for the financial year 2024-25 , the budget aims to promote economic growth, reduce poverty and enhance the quality of citizens. The study highlights the importance of fiscal discipline, infrastructure development and social sector investment in achieving sustainable economic growth. The findings of the study can inform policymakers and social sector investment in achieving sustainable economic growth.

Nagaraj et.al (2022), found that the budget 2022-23 has created great effort in public-investment led growth. The widely discussed concerns of the unemployment crisis, fall in the share of private consumption in GDP and a rising economic inequality caused by pandemic and lockdown . Instead, the budget pins its hope on investment to boost employment, as derived demand for labour. Without fully committed funds for capital investment, the success of the ambitious effort remain questionable.

The literature on fiscal consolidation and public debt sustainability highlights the importance of deficit reduction and primary balance adjustment in stabilizing debt-GDP ratios. Studies emphasize that sustained improvements in primary balance play a crucial role in controlling debt accumulation, particularly in high-debt environments. However, abrupt or contractionary consolidation measures are often associated with adverse growth effects, which can weaken fiscal outcomes in the medium-term. Recent research advocates growth-led fiscal adjustment , wherein consolidation is achieved through expenditure restructuring rather than across-the-board-compression. Capital expenditure owing to its higher fiscal multipliers is found to support output expansion, improve revenue mobilization and enhance debt servicing capacity. In contrast, excessive reliance on revenue expenditure financed through borrowings tend to exacerbate debt sustainability concerns.

Indian studies on fiscal policy in the post-FRBM framework and post-pandemic underscore the need for a credible fiscal anchor combined with investment-led growth. The emphasis on medium debt targets, improved expenditure quality and gradual consolidation has gained prominence in recent policy-oriented literature. However, limited studies have examined budget-specific consolidation strategies as instruments of growth-led public debt management. This study contributes to the literature by providing an empirical assessment of Union Budget 2026-27 in the context of fiscal consolidation and debt sustainability.

The existing literature highlights the importance of fiscal discipline, primary balance adjustment and capital-led growth in ensuring debt sustainability. However, most studies focus either on broad fiscal trends or on individual Union budgets without explicitly analyzing how budget-level fiscal consolidation strategies contribute to public debt management through growth-led adjustment. Therefore the present study addresses this gap by examining the India’s fiscal consolidation strategy under Union budget 2026-27 supports sustainable public debt management through growth-led adjustment.

III. Objectives

The primary objective of the study is to examine whether India’s fiscal consolidation strategy in the Indian Union budget 2026-27 supports sustainable public debt management through growth-led adjustment.

IV. Data And Methodology

The study is based on secondary data obtained from Union Budget 2026-27 documents, Budget at a glance statements and reports published by PRS Legislative Research. A Descriptive and analytical method is adopted. Fiscal consolidation is evaluated using trends in fiscal deficit, revenue deficit and primary deficit. Growth orientation is assessed through the composition and growth of revenue expenditure, capital expenditure and effective capital expenditure. Public debt management is analysed using data on receipts excluding borrowings, non-debt capital receipts, borrowings, outstanding liabilities and the medium-term debt roadmap. The study focuses on whether fiscal improvement is achieved alongside growth-supportive expenditure restructuring indicating a growth-led approach to debt management.

Variable Description

Variable	Definition
Revenue Receipts	Revenue receipts consist of tax revenue and non-tax revenue of the Central Government. These receipts do not create liabilities or reduce government assets and are used to meet revenue expenditure.
Capital Receipts	Capital receipts include receipts that either create a liability or lead to a reduction in financial assets of the Government. They comprise borrowings and non-debt capital receipts
Total Receipts	Total receipts represent the sum of revenue receipts and capital receipts of the Government of India during a financial year.

Revenue Expenditure	Revenue expenditure is expenditure incurred for the normal running of government departments and provision of public services. It includes interest payments, subsidies, salaries, pensions, and grants and does not result in asset creation.
Capital Expenditure	Capital expenditure refers to expenditure incurred for the creation of physical or financial assets or for reducing liabilities.
Capital Outlay	Capital outlay is a component of capital expenditure that relates to direct expenditure on creation of physical assets such as infrastructure, transport, irrigation, and other development projects.
Total Expenditure	Total expenditure refers to the aggregate expenditure of the Government of India consisting of revenue expenditure and capital expenditure.
Effective Capital Expenditure	Effective capital expenditure is defined as capital expenditure plus grants for creation of capital assets and reflects the actual investment spending of the Government of India
Fiscal deficit	Fiscal deficit is the excess of total expenditure over total receipts excluding borrowings and indicates the total borrowing requirement of the Government
Revenue Deficit	Revenue deficit is the excess of revenue expenditure over revenue receipts, indicating the extent to which borrowed funds are used to finance current consumption
Effective Revenue Deficit	Effective revenue deficit is the revenue deficit minus grants for creation of capital assets and reflects the actual dissaving of the Government of India
Primary deficit	Primary deficit is defined as fiscal deficit minus interest payments and measures the Government's fiscal position excluding past debt obligations
Non-debt Capital Receipts	Non-debt capital receipts are capital receipts other than borrowings. They include disinvestment proceeds, asset monetisation receipts, and recovery of loans and advances and do not add to public debt.
Borrowings	Borrowings represent funds raised by the Government of India through market loans, treasury bills, small savings, and external assistance to finance the fiscal deficit.
Outstanding liabilities	Outstanding liabilities represent the total liabilities of the Central Government at the end of a financial year, including internal debt, external debt, and other liabilities, usually expressed as a percentage of GDP.
Debt-to-GDP ratio	Debt-GDP ratio refers to the ratio of outstanding liabilities to Gross Domestic Product and is used as a key indicator of public debt sustainability.

Methodological Justification

This study adopts a descriptive and analytical research design to evaluate whether India's fiscal consolidation strategy under Union Budget 2026-27 supports public debt management. The choice of the methodology is guided by the policy-oriented nature of the research objective which focuses on assessing fiscal strategy, institutional credibility and budgetary intent rather than estimating causal relationships. Union budget documents represents the primary policy instrument through which fiscal consolidation and debt management strategies are articulated and operationalised. Consequently, analyzing budget estimates, revised estimates and fiscal indicators provides direct insight into the government's consolidation path, expenditure priorities and debt management framework. The use of secondary data from Budget at a Glance statements and PRS Legislative Research ensures data reliability, transparency and policy relevance. Fiscal consolidation is examined through movements in fiscal deficit, revenue deficit and primary deficit as these indicators are central to debt dynamics under the FRBM framework. In particular, the primary deficit serve as a critical measure for assessing whether debt accumulation is being controlled after account for interest obligations. Growth orientation is evaluated through changes in capital expenditure, effective capital expenditure and expenditure composition reflecting the quality of fiscal adjustment rather than mere expenditure compression. Public debt management is analysed by examining receipts excluding borrowings, non-debt capital receipts, borrowings, outstanding liabilities and the medium-term debt target. This approach allows for an integrated assessment of whether fiscal consolidation is achieved along with growth-supportive expenditure restructuring and improved financial quality.

Given that the study evaluates a specific budget year within a clearly defined institutional framework (FRBM Act and medium-term debt glide path) a descriptive analytical approach is methodologically appropriate.

Fiscal Consolidation and Growth Orientation: A Descriptive Assessment

In line with the stated objectives and methodology, the following section empirically examines fiscal consolidation and growth orientation under Union Budget 2026-27 using key deficit indicators, expenditure composition, receipts, and debt metrics.

Table 1: Trends in Deficit Indicators (% of GDP)

Indicators	2024-25(actuals)	2025-26 (BE)	2025-26(RE)	2026-27(BE)
Fiscal deficit(% of GDP)	4.8	4.4	4.4	4.3
Revenue deficit(% of GDP)	1.7	1.5	1.5	1.5
Primary deficit (% of GDP)	1.4	0.8	0.8	0.7

Source: Budget at a Glance, Union Budget 2026-27; PRS Legislative Research

The trends presented in Table 1 indicate a gradual and credible path of fiscal consolidation under the Union Budget 2026–27. The fiscal deficit declines steadily from 4.8 per cent of GDP in 2024–25 to a budgeted 4.3 per cent in 2026–27, reflecting adherence to a medium-term fiscal framework rather than short-term fiscal tightening. The revenue deficit remains broadly stable at around 1.5 per cent of GDP over the period, indicating that fiscal consolidation is being maintained without a deterioration in the quality of expenditure.

The improvement in the primary deficit is particularly significant from a public debt management perspective. The primary deficit is projected to decline from 1.4 per cent of GDP in 2024-25 to 0.7 per cent of GDP in 2026-27(Budget estimates) indicating improving debt dynamics.

Importantly, this fiscal adjustment is achieved without abrupt compression of expenditure, indicating that consolidation is being pursued through improved fiscal discipline and expenditure restructuring rather than contractionary measures. Such a growth-led approach to fiscal consolidation strengthens future revenue generation and enhances debt-servicing capacity, and thereby supporting sustainable public debt management in line with the objectives of the FRBM framework

Table 2: Composition of Central Government Expenditure (2024–25 to 2026–27) (₹ Crore)

Indicators	2024-25(actuals)	2025-26(RE)	2026-27(BE)	% Change (2025–26 RE to 2026–27 BE)
Revenue expenditure	3600914	3869087	4125494	6.6
Capital expenditure	1051953	1095755	1221821	11.5
Capital outlay	855244	887364	943042	6.3
Total expenditure	4652867	4964842	5347315	7.7

Source: Budget at a Glance, Union Budget 2026–27; PRS Legislative Research

Table 2 presents the composition and growth of central government expenditure from 2024–25 to 2026–27. The data reveal a distinct reorientation of expenditure priorities under Union Budget 2026–27, with a stronger emphasis on capital spending relative to revenue expenditure.

Revenue expenditure increased from ₹38,69,087 crore in the revised estimates of 2025–26 to ₹41,25,494 crore in the budget estimates of 2026–27, registering a growth of 6.6 per cent. Although revenue expenditure continues to indicate for a significant share of total expenditure, its relatively moderate growth suggests efforts towards expenditure restructuring and containment of consumption-oriented spending. From a public debt perspective, this is important as excessive revenue expenditure typically necessitates higher borrowings without generating future income streams.

In contrast, capital expenditure recorded a higher growth of 11.5 per cent during the same period, increasing from ₹10,95,755 crore to ₹12,21,821 crore. The faster expansion of capital expenditure indicates a deliberate shift towards investment-led fiscal policy. Capital outlay, which represents expenditure on asset creation, also increased by 6.3 per cent in 2026–27. Such expenditure have higher fiscal multipliers and contributes to the creation of productive assets, which can enhance economic growth and strengthen future revenue mobilization.

Total expenditure increased by 7.7 per cent between 2025–26 (RE) and 2026–27 (BE), reflecting a balanced expansion of government spending. The differential growth between capital and revenue expenditure suggests an improvement in the quality of fiscal adjustment rather than reliance on expenditure compression.

Overall, the expenditure pattern highlighted in Table 2 indicates that fiscal consolidation under Union Budget 2026–27 is pursued through a strategic restructuring of expenditure in favour of growth-enhancing capital spending. This approach supports long-term public debt sustainability by strengthening the government’s capacity to service debt through higher growth and improved fiscal outcomes.

Table 3: Receipts (Excluding Borrowings) (₹ Crore)

Indicators	2024-25(actuals)	2025-26(RE)	2026-27(BE)	% Change (2025–26 RE to 2026–27 BE)
Total Receipts(excl.borrowings)	3078436	3406350	3651547	7.2
Capital Receipts (Non-debt)	41818	64027	118397	84.9
Borrowings	1574431	1558492	1695768	8.8

Source: Budget at a Glance, Union Budget 2026–27; PRS Legislative Research

Table 3 presents the trends in government receipts excluding borrowings and the extent of borrowings during the period 2024–25 to 2026–27. The table highlights important changes in the composition of fiscal financing under Union Budget 2026–27, with direct implications for public debt management.

The table presents the actual performance for 2024–25, the revised fiscal targets (RE), and the budgeted targets (BE) for 2026–27, highlighting the government’s intended changes in the composition of receipts.

Total receipts excluding borrowings are targeted to increase from ₹34,06,350 crore (RE) to ₹36,51,547 crore (BE), reflecting a targeted growth of 7.2 per cent. This indicates that the government’s intention to

strengthen non-borrowed sources of revenue in the forthcoming financial year, thereby reducing excessive reliance on debt financing.

Capital receipts (non-debt) are projected to increase sharply by 84.9 per cent, from ₹ 64,027 crore (RE) to ₹ 1,18,397 crore (BE) . This reflects a strengthened mobilization strategy through disinvestment, asset monetization and recovery of loans, indicating a policy effort to finance expenditure through non-debt capital sources.

Borrowings are targeted to increase moderately by 8.8 per cent, from ₹15,58,492 crore (RE) to ₹16,95,768 crore (BE). While borrowings remain substantial, the relatively controlled growth compared to non-debt capital receipts indicates an attempt to balance growth-oriented expenditure with debt sustainability concerns.

Table 4: Outstanding Liabilities and Debt Strategy

Indicators	2025-26 (RE)	2026-27(BE)
Outstanding liabilities (% of GDP)	56.0	55.6
Target Debt-GDP Ratio (2031)	-	50

Source: Budget at a Glance, Union Budget 2026–27; PRS Legislative Research

Based on the Union Budget 2026–27, the outstanding liabilities of the Central Government are projected to decline from 56.0 per cent of GDP in 2025–26 (Revised Estimates) to 55.6 per cent of GDP in 2026–27 (Budget Estimates). The long-term objective is to reduce the debt-to-GDP ratio to approximately 50 per cent by March 2031.

The fiscal policy strategy for Financial year, 2026-27 will continue to be guided by the debt glide path indicated in Budget 2025-26. The medium term aim to reach a Debt to GDP ratio of 50 ± per cent by FY2030-31, with fiscal deficit acting as the operational target. This explicit debt target provides a credible fiscal anchor and aligns with the broader framework of Fiscal Responsibility and Budget Management (FRBM) Act. The presence of a clearly articulated debt roadmap strengthens policy credibility and investors confidence.

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 continued prosperity of the country in its journey towards Viksit Bharat 2047.

Table 5: Fiscal Position of the Central Government: Receipts, Expenditure and Deficits (2024–25 to 2026–27) (₹ Crore)

Components	2024-25(actuals)	2025-26(BE)	2025-26(RE)	2026-27 (BE)
Revenue Receipts	3033619	3420409	3342323	3533150
Capital Receipts	1616249	1644936	1622519	1814165
Total Receipts	4652867	5065345	4964842	5347315
Total expenditure	4652867	5065345	4964842	5347315
Effective capital expenditure	1324609	1548282	1403906	1714523
Revenue Deficit	564296	523846	526764	592344
Effective Revenue Deficit	291640	96654	218613	99642
Fiscal Deficit	1574431	1568936	1558492	1695768
Primary deficit	458856	292598	284154	291796

Source: Budget at a Glance, Union Budget 2026–27; PRS Legislative Research

The table presents the fiscal position of the Central government from 2024-25 (actual) to 2026-27 (Budget estimates), capturing the evolution of receipts, expenditure and deficit indicators.

Receipts and Expenditure

In 2024–25 (Actuals), total receipts exactly matched total expenditure at ₹ 4652867 crore, reflecting the realized fiscal position of the government. For 2025–26, total receipts were initially projected at ₹5065345 crore in the Budget Estimates (BE) but were revised downward to ₹4964842 crore in the Revised Estimates (RE), indicating lower-than-expected revenue realization during the year. For 2026–27 (Budget estimates) total receipts are projected to rise to ₹ 5347315 crore, suggesting an optimistic outlook based on expected economic growth and improved revenue mobilization. The total expenditure in the Budget estimates (BE) 2026-27 is estimated at ₹ 5347315 crore of which capital expenditure amounts to ₹ 1221821 crore and effective capital expenditure amounts to ₹ 1714523 crore.

Revenue and Capital Receipts

Revenue receipts increased from ₹ 3033619 crore in 2024–25 (Actuals) to a revised ₹3342323 crore in 2025–26 (RE), though they remained below the initial budget target. The 2026–27 (BE) projects further growth to ₹3533150 crore, indicating reliance on tax and non-tax revenue expansion rather than excessive borrowing.

Capital receipts show a marginal shortfall in 2025–26 (RE) compared to BE, followed by a sharp increase in 2026–27 (BE). This reflects greater planned borrowings and non-debt capital receipts to finance capital expenditure.

Effective Capital Expenditure

Effective capital expenditure rose from ₹13,24,609 crore in 2024–25 (Actuals) to ₹14,03,906 crore in 2025–26 (RE) and is projected to increase substantially to ₹17,14,523 crore in 2026–27 (BE). This indicates a clear policy emphasis on growth-enhancing capital investment.

Revenue and Effective Revenue Deficit

The revenue deficit declined from ₹5,64,296 crore in 2024–25 (Actuals) to ₹5,26,764 crore in 2025–26 (RE), reflecting improved fiscal discipline. However, it is projected to rise to ₹5,92,344 crore in 2026–27 (BE). Although the revenue deficit is projected to increase in absolute terms in 2026-27 it remains broadly stable as percentage of GDP highlighting the need for continued rationalization of subsidies and improved targeting of welfare expenditure.

The effective revenue deficit improved notably, declining from ₹2,91,640 crore in 2024–25 (Actuals) to ₹2,18,613 crore in 2025–26 (RE) and further projected to fall to ₹99,642 crore in 2026–27 (BE). This suggests that borrowings are increasingly directed toward asset creation rather than revenue consumption.

Fiscal and Primary Deficit

The fiscal deficit moderated from ₹15,74,431 crore in 2024–25 (Actuals) to ₹15,58,492 crore in 2025–26 (RE), indicating fiscal consolidation. It is projected to rise to ₹16,95,768 crore in 2026–27 (BE), mainly due to increased capital expenditure. The primary deficit declined sharply from ₹4,58,856 crore in 2024–25 (Actuals) to ₹2,84,154 crore in 2025–26 (RE), reflecting better control over non-interest expenditure. The marginal increase to ₹2,91,796 crore in 2026–27 (BE) indicates continued borrowing for growth-supportive purposes.

V. Findings

- The Union budget 2026-27 follows a steady approach to fiscal consolidation path with fiscal deficit declining from 4.8 percent of GDP in 2024-25 to a budgeted in 2026-27.
- The stability in revenue deficit and steady reduction in primary deficit enhances fiscal credibility.
- The sharp reduction in primary deficit from 1.4 percent of GDP in 2024-25 to 0.8 percent in 2025-26. This improvements implies that debt dynamics are becoming more sustainable even after accounting for interest obligations.
- Capital expenditure growth (11.5%) significantly outpaces revenue expenditure growth (6.6%) in 2026-27 (Budget estimates) . This reorientation reflects a growth-led consolidation strategy where expenditure restructuring rather than compression supports long-term fiscal sustainability.
- The substantial increase in non-debt capital receipts (84.9%) indicates greater reliance on asset monetization and disinvestment to finance expenditure.
- Outstanding liabilities are projected to decline from 56.0 percent of GDP in 2025-26 (Revised Estimates) to 55.6 percent in 2026-27 (Budget Estimates) supported by an explicit medium-target of reducing the debt-GDP ratio to around 50 percent by 2031.

How New Measures in Union Budget 2026–27 Will Control Public Debt in India

The findings of the study indicate that Union Budget 2026–27 incorporates a set of mutually reinforcing fiscal measures that contribute to improved public debt management through a growth-led consolidation strategy.

First, the gradual reduction in fiscal deficit combined with a sharp improvement in the primary deficit, directly strengthens debt dynamics. The decline in primary deficit implies that the government’s reliance on fresh borrowings is reducing even after accounting for interest payments, thereby slowing the pace of debt accumulation.

Second, the reorientation of expenditure towards capital and effective capital expenditure plays a critical role in debt control. Capital expenditure grows significantly faster than revenue expenditure indicating an improvement in the quality of public spending. By prioritizing asset creation and infrastructure investment the budget enhances economic growth potential which in-turn improves future revenue mobilization and debt-servicing capacity.

Third, the strengthening of non-debt capital receipts particularly through asset monetization and disinvestment, reduces excessive dependence on borrowings for financing government expenditure.

Fourth, the moderation in outstanding liabilities and the articulation of a clear medium-term debt target provides a credible fiscal framework. The projected decline in the debt-GDP ratio along with the explicit commitment to reduce debt to GDP ratio around 50 percent of GDP by 2031, enhances fiscal credibility and aligns fiscal policy with FRBM framework.

Finally, the significant reduction in the effective revenue deficit indicates that borrowings are increasingly directed towards capital formation rather than revenue expenditure. This shift ensures that debt accumulation is linked to productive investment rather than consumption, improving the sustainability of public debt over the medium term.

Overall, the new measures introduced in Union Budget 2026-27 demonstrate a coherent approach to public debt control by combining gradual deficit reduction, growth-enhancing expenditure restructuring, improved financing quality and a credible institutional debt framework. These measures collectively support sustainable public debt management in India without resorting to contractionary fiscal tightening.

Policy Debate and Critical Perspectives on Union Budget 2026-27

While the fiscal indicators of Union budget 2026-27 suggest a gradual and growth-oriented strategy, the budget has also been subject to critical scrutiny within the parliamentary debates. During the discussion on the budget, former Finance Minister P. Chidambaram raised concerns regarding the pace and effectiveness of fiscal consolidation, arguing that the numerical adjustment in key deficit indicators remain modest.

A central aspect of the criticism relates to the marginal reduction in fiscal deficit which is projected to decline only from 4.4 per cent of GDP to 4.3 per cent in 2026–27, while the revenue deficit remains unchanged at 1.5 per cent of GDP. From this perspective, it was argued that the current pace of consolidation may be insufficient to achieve the Fiscal Responsibility and Budget Management (FRBM) targets within a reasonable time horizon. The critique further suggests that deficit containment in recent years has been influenced partly by expenditure rationalization and one-time non-tax revenue sources rather than sustained improvements in revenue buoyancy.

Concerns were also expressed regarding investment dynamics in the economy. The criticism highlighted that private investment and foreign direct investment have remained relatively subdued, and that any moderation in public capital expenditure could potentially weaken the growth impulse required for durable fiscal consolidation. In this context, it was argued that insufficient momentum in aggregate investment could limit the growth-enhancing effects of fiscal policy and, by extension, slow improvements in debt sustainability.

From an analytical standpoint, these critiques emphasize the pace of fiscal adjustment rather than the composition of consolidation. While the criticism focuses on the slow numerical reduction in deficit indicators, the present study emphasizes the quality of fiscal adjustment, particularly the improvement in the primary deficit, the reorientation of expenditure towards capital and effective capital expenditure, and the strengthening of non-debt capital receipts. These elements are critical for enhancing growth potential and improving long-term debt dynamics, even when headline deficit reduction is gradual.

Thus, the policy debate reflects a broader tension between rapid fiscal correction and growth-supportive consolidation. In the post-pandemic macroeconomic environment, a gradual adjustment anchored in expenditure restructuring and investment-led growth may offer a more sustainable pathway for public debt management than aggressive short-term consolidation.

VI. Suggestions:

- The medium-term debt target should be reinforced through periodic reviews under the FRBM Framework
- The quality of capital expenditure must be enhanced by project execution and outcome based monitoring.
- Sustained efforts are required to strengthen tax compliance, rationalize exemptions and expand non-tax revenue to ensure that fiscal consolidation remains durable without constraining growth.
- The projected rise in Revenue deficit (Budgeted Estimates) in 2026-27 highlights the need for continued rationalization of subsidies and improved targeting of welfare spending.
- Align central consolidation efforts with state-level fiscal discipline as guided by Finance Commission recommendations which will be critical for achieving overall public debt sustainability.

VII. Conclusion

India's fiscal consolidation strategy under Union Budget 2026-27 is broadly consistent with sustainable public debt management through a growth-led adjustment approach. Rather than relying on contractionary fiscal tightening the budget emphasizes gradual deficit reduction, improvement in the primary balance and a strategic shift towards capital-led expenditure. The strengthening of non-debt capital receipts, moderation in outstanding liabilities and the presence of a clear medium-term debt target collectively enhances fiscal credibility. By prioritizing expenditure quality, maintaining a credible debt framework and supporting economic growth the Union budget 2026-27 reflects a balanced fiscal framework that reconciles short-term

consolidation with long-term sustainability. However, sustaining this will depend on effective implementation, revenue mobilization reforms and coordinated fiscal efforts across levels of government. Overall, the budget marks a significant step towards growth-oriented fiscal consolidation as a cornerstone of India's public debt management strategy.

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