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Budget 2026 reassures on economic growth, but tempers market enthusiasm

Manufacturing stands out as one of the biggest beneficiaries of Budget FY27. Higher allocations, new schemes and the removal of import duties on several critical inputs point to a strong policy thrust towards domestic value creation.

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The Union Budget FY27 marks a clear continuation of the government's strategy of prioritising macroeconomic stability and medium-term growth, even at the cost of some near-term discomfort for financial markets. It is a Budget that reinforces confidence in the economy's direction, while leaving markets to weigh the impact of tighter liquidity conditions and higher transaction costs.

At the macro level, Budget FY27 signals discipline and continuity. The government has pegged nominal GDP growth at 10% and set the fiscal deficit target at 4.3% of GDP, marginally lower than the previous year's revised estimate. More importantly, the debt-to-GDP ratio is projected to decline further. These numbers underline a commitment to fiscal consolidation without abruptly withdrawing growth support. For the economy, this combination of stability and predictability is a strong positive, especially in an uncertain global environment.

A major growth lever remains public capital expenditure. Central government capex has been raised to around ?12.2 trillion, representing a healthy year-on-year increase. The focus continues to be on infrastructure, transport, logistics, railways and defence. This sustained capex push is clearly positive for infrastructure and construction companies, EPC players, capital goods manufacturers and defence-related industries. Over the medium term, higher public investment is expected to crowd in private capex, improve productivity and strengthen supply-side capacity across sectors.

Manufacturing stands out as one of the biggest beneficiaries of Budget FY27. Higher allocations, new schemes and the removal of import duties on several critical inputs point to a strong policy thrust towards domestic value creation. Sectors such as electronics manufacturing, semiconductors, energy storage, defence manufacturing, aviation and critical minerals are likely to gain over the long term. Support for MSMEs through equity funding, improved access to liquidity and stronger supply-chain integration further strengthens the manufacturing ecosystem and employment potential.

Services also receive meaningful policy support. The Budget improves tax certainty for IT services by simplifying compliance and reducing disputes, which is a clear positive for the sector. A long-term push to position India as a global data-centre and cloud-services hub, backed by tax incentives linked to domestic infrastructure usage, supports data centres, digital infrastructure, power transmission and allied segments. Tourism-related initiatives, including better connectivity and skill development, are aimed at long-term capacity building rather than immediate demand stimulus, but remain positive for hotels and travel over time.

While the economic narrative is largely constructive, the market reaction is more nuanced. One of the key concerns is higher-than-expected gross market borrowings. Increased borrowing can put upward pressure on bond yields, which is negative for financial stocks. Banks, particularly public sector banks that rely significantly on treasury income, could see pressure on profitability if yields harden further. NBFCs may also face higher costs of funds, leading to margin compression. As a result, the BFSI sector emerges as one of the relative laggards from a market perspective.

Another market dampener is the increase in securities transaction tax on futures and options. Higher transaction costs could reduce trading volumes and liquidity, especially in derivatives. This is unfavourable for stock exchanges, retail brokerages and other market intermediaries that derive a substantial share of revenues from F&O activity. In an already volatile equity market environment, this measure adds to near-term sentiment pressure.

There are, however, some offsets. The rationalisation of buyback taxation improves flexibility in corporate cash distribution. By taxing buybacks as capital gains rather than as deemed dividends, the Budget makes buybacks more attractive for companies, which could support shareholder returns and valuations at the margin.

In conclusion, Budget FY27 is clearly good for the economy. It strengthens macro stability, sustains the public investment cycle and provides targeted support to manufacturing and services. For markets, however, the picture is mixed. Financials and market-linked sectors face near-term headwinds from higher borrowings and transaction taxes, even as structural positives remain intact. This balance explains why the Budget reassures on growth, but tempers market enthusiasm.

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