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CONTENTS

1. FISCAL DOMINANCE AND THE FRAGILE LINE OF MONETARY INDEPENDENCE IN INDIA
2. CLIMATE COMMITMENTS, GREEN FINANCE & REGULATORY ENFORCEMENT
3. CAPITAL EXPENDITURE, INFRASTRUCTURE PUSH & PUBLIC ACCOUNTABILITY
4. INDIA'S FISCAL CONSOLIDATION: DEBT SUSTAINABILITY, EQUITY, AND INSTITUTIONAL ACCOUNTABILITY
5. THE GROWTH MIRAGE: HOW ROSY ECONOMIC PROJECTIONS LIMIT THE FISCAL FUTURE OF INDIA
6. WELFARE SCHEMES, SOCIAL SECTOR SPENDING, AND THE JUSTICIABILITY OF SOCIO-ECONOMIC RIGHTS
7. HOW BUDGET 2026 DEEPENS INDIA'S DIGITAL GOVERNANCE



FISCAL DOMINANCE AND THE FRAGILE LINE OF MONETARY INDEPENDENCE IN INDIA

By Himadri Adhikari

INTRODUCTION

The Indian economy in February 2026 finds itself in a peculiar, almost paradoxical sweet spot. We have robust growth projected at over 7%, and headline inflation has dipped to historic lows. The macro-fundamentals look sturdier than they have in a decade. Yet, beneath this calm surface lies a subtle, philosophical tug-of-war. The Economic Survey 2025-26 champions stability, prudence and fierce inflation control. In contrast, the Union Budget 2026-27 implicitly bets on easy credit conditions to fuel its ambitious growth engines.

This article aims to dissect this divergence in high-level policy thinking. We will also explore whether the government's aggressive push for credit growth risks overshadowing the Reserve Bank of India's ('RBI') primary mandate. The intent is to understand if "fiscal dominance" is quietly eroding monetary independence in India's new economic era. We need to see if the institution aimed at guarding the value of the rupee is being nudged to fund the government's dreams.

DEFINING THE CORE TENSION

Monetary-fiscal coordination refers to how the government and the central bank

align their respective policies. Ideally, they move in tandem like two wheels of a bicycle. The government uses fiscal policy, taxes and spending, to manage aggregate demand, while the central bank uses monetary policy, interest rates and money supply, to manage price stability.

However, a conflict arises when their goals diverge. This usually happens when the government wants low interest rates to fund its deficit cheaply and simultaneously, the central bank wants high rates to kill inflation or stabilize the currency. This friction is known as "fiscal dominance." In this scenario, fiscal deficits dictate monetary policy outcomes. In 2026, the Budget's reliance on "accommodative credit conditions", which means easy availability of loans, clashes with the Survey's call for macroeconomic prudence.

THE CONTEXT: THEN, NOW AND TOMMORROW

To understand 2026, we must look back at the post-pandemic years. During 2020-2022, fiscal and monetary policies were perfectly synced. The government spent heavily, and the RBI slashed rates to save the economy. It was a necessary coordination during a crisis.

But by 2024-25, the paths began to diverge significantly. Inflation remained sticky, hovering above the RBI's comfort zone. The RBI had to pivot and keep rates higher for longer, the government, however, continued high capex spending on infrastructure. This created a friction where fiscal expansion fought against monetary contraction. The government was stepping on gas while the RBI was tapping the brakes.

Fast forward to today, the Budget 2026-27 targets a fiscal deficit of 4.3% of GDP. This is a commendable reduction from the pandemic highs, and it signals a desire for consolidation. However, the method of growth has shifted as the Budget introduces a massive ₹10,000 crore SME Growth Fund and expanded credit guarantees.

These measures depend heavily on banks' lending aggressively to the private sector. The government is essentially outsourcing stimulus to the banking channel. Meanwhile, the RBI in its February 2026 Monetary Policy Statement, kept the repo rate unchanged at 5.25%. It maintained a "neutral" stance which signals that the central bank is not yet ready to flood the market with the cheap money that the Budget seems to anticipate.

If this divergence continues, we face two possibilities. One, the credit push succeeds, demand surges and inflation roars back.

This would force the RBI to hike rates, killing the growth story. Two, the RBI holds its ground, keeps liquidity tight and the Budget's credit targets fail to materialize. Both scenarios involve friction. The hope is for a "soft landing" where credit grows without spiking prices but hope is not a policy strategy.

STATUTORY BOUNDARIES AND INSTITUTIONAL AUTONOMY

To understand this conflict, we must look at the law. The legal framework is the fence that separates the government's yard from the central bank's. The Reserve Bank of India Act, 1934, is the primary source of the RBI's power. Specifically, the Preamble mandates the RBI to maintain "monetary stability."

The most controversial boundary is Section 7 of the RBI Act. It empowers the Central Government to give directions to the RBI in the "public interest." While rarely invoked, its existence casts a long shadow. It implies that the government is the ultimate sovereign. If fiscal needs, like funding a war or a massive deficit become desperate enough, the government can theoretically override the RBI's autonomy. This section is the "nuclear button" of monetary-fiscal relations.

The amendment in 2016 created the Monetary Policy Committee ('MPC'). This was meant to insulate rate-setting from

political whims. The MPC has a specific target: 4% inflation (+/- 2%). This statutory target gives the RBI a shield. It can say "no" to the government by pointing to the law. However, the government appoints three of the six MPC members. This structural design leaves a door open for subtle influence, even if the RBI Governor has the casting vote.

The Fiscal Responsibility and Budget Management ('FRBM') Act, 2003 was meant to limit government borrowing. It acts as a check on fiscal dominance. However, the Economic Survey 2025-26 notes that the government has shifted its debt-to-GDP target timeline to 2031. This relaxation gives the government more room to borrow. This sustained borrowing pressure forces the RBI to manage liquidity carefully. It often has to conduct Open Market Operations ('OMO') to prevent bond yields from spiking. This is a form of indirect pressure on monetary policy.

THE RISK OF INDIRECT EROSION

The danger in 2026 is not a direct confrontation, as we are unlikely to see a public spat between the Finance Minister and the Governor. The risk is subtler as it lies in the mechanics of the banking system. The Budget uses state-owned banks and credit guarantee schemes to push money into the economy. This is "quasi-fiscal" stimulus.

When the government guarantees loans for MSMEs, banks feel safer lending, they lend even if the RBI keeps interest rates relatively high. This dilutes the impact of the RBI's tight policy. The central bank tries to brake the economy to control prices, but the government keeps pressing the accelerator through credit schemes. This makes the transmission of monetary policy inefficient. The RBI raises rates but credit keeps flowing because the government is underwriting the risk.

Furthermore, the banking sector is now flush with liquidity. The Banking Laws (Amendment) Act, 2025 has streamlined governance which makes banks more agile and competitive. If these banks aggressively lend to meet Budget targets, they could overheat the economy. The RBI would then be forced to mop up this excess liquidity.

Doing so effectively tightens conditions for everyone, including prudent borrowers. This cycle shows how fiscal decisions can back the monetary authority into a corner. The RBI loses the ability to fine-tune the economy because the fiscal tap is stuck in the "open" position.

There is also the classic debate of "crowding out." Huge government borrowing usually soaks up available bank funds which leaves less for the private sector. The Budget argues that its spending "crowds in" private investment

by building roads and ports. The Survey, however, worries that high government debt keeps interest rates permanently elevated. If the RBI tries to lower rates to help the government borrow, it abandons its inflation fight. If it keeps rates high, it hurts the private sector that the Budget claims to support.

CONCLUSION

The 2026 economic narrative is a tale of two distinct philosophies. The Economic Survey prioritizes the stability of the vessel as it fears the storms of inflation and global volatility. The Budget prioritizes the speed of the voyage as it fears stagnation and missed opportunities for development.

While the RBI has successfully anchored inflation at 1.7%, the fiscal pressure to expand credit tests the limits of its autonomy. The constitutional boundaries remain intact on paper. Section 7 has not been invoked and the MPC still meets. Yet, the functional autonomy of the central bank is under stress. It is being squeezed by the government's expansive credit agenda and relaxed debt targets.

A failure to balance these forces could have serious consequences, it could reignite inflation, devalue the currency and undo the hard-won stability of the last few years. The RBI must remain the goalkeeper, even if the government wants to play with an extra striker.

WAY FORWARD

To navigate this delicate path, we need structural changes, not just temporary fixes. The government and RBI should institutionalize "fiscal-monetary coordination_committee" meetings. These should happen well before the Budget is presented to align targets. The government must strictly adhere to the new 2031 debt trajectory with no further extensions to be allowed. This builds market credibility and lowers long-term interest rates.

It is time to operationalize an independent Public Debt Management Agency ('PDMA'). This would separate the government's borrowing needs from the RBI's regulatory role. It removes the conflict of interest where the RBI sets rates and also manages the government's loan book. Credit guarantees should be highly targeted to distressed sectors only. Broad-based guarantees blunt the signals of monetary policy and should be avoided.



CLIMATE COMMITMENTS, GREEN FINANCE & REGULATORY ENFORCEMENT

By Sriyya Jain

INTRODUCTION

India has always highlighted climate change as an economic and developmental challenge; this can also be seen in the chapter on environment and climate change and the budget discussions being conducted on sustainable investments. India being a signatory of Paris Agreement has to articulate its climate commitments, these commitments when combined with new financing frameworks, signal a transition toward green growth. But the main question that arises is “are these commitments backed by enforceable regulatory frameworks or not?”

INDIA'S CLIMATE COMMITMENTS IN POLICY AND PRACTICE

India's climate strategy focuses on long term goals like achieving net zero greenhouse gas emissions by 2070 and achieving enhanced mitigation targets by 2030. Some of these targets include reducing the emissions intensity of GDP by 45% in 2005 levels and achieving at least 50% non-fossil fuel installed power capacity by 2030. The long term low carbon development strategy submitted to the united nations framework convention on climate change, elaborates this net zero pathway and supports India's policy

signalling. Nevertheless, these stated objectives, even though legal, are not binding. The climate targets in India are formulated as policy goals, as opposed to statutory requirements, and have definite regulatory punishment features in case of non-realization. On an international level, although the Parties to the Paris Agreement are obligated to periodically review and pursue their Nationally Determined Contributions, the treaty itself does not provide sanctions in case of failures to meet national targets, which is substituted by transparency and a process of a global stocktake to provoke collective action.

GREEN FINANCE: GREEN POLICY SIGNALS AND THE REGULATORY TEETH

The increment towards climate finance in India has taken momentum with the innovation like addition of sovereign green bonds and draft climate finance taxonomy which aim to redirect capital to low-carbon operations. The Department of Economic Affairs released the Draft Climate Finance Taxonomy, aimed at offering a systematic way of defining climate-oriented investments and mitigate greenwashing, within recent years.

Reserved bank of India and Securities and Exchange Board of India are also institutional players that have begun stumbling with the climate risk in financial regulation, such as draft disclosure frameworks on financial risks related to climate. However, recent news of concrete enforcement apparatus, including obligatory climate risk disclosure of banks, has been put off or deferred, which procrastinates the introduction of binding compliance in financial markets.

In this way, the green finance structure in India still is primarily based on incentive-oriented approach that is based on the voluntary compliance or on the prospective rulemaking, but not on the basis of the legal obligation. This is unlike the jurisdictions where the processes of climate-related risks disclosure and allocation of capital are already mandatory by law.

AVAILABLE REGULATORY STRUCTURES AND IMPLEMENTATION STRENGTH

In the domestic legislation, there are various climate-indirectly relevant environmental laws in India, such as the Environmental Protection Act, 1986, the Air (Prevention and Control of Pollution) Act, 1981, and industry-specific rules, managed by organizations like the

Central Pollution Control Board. These tools offer ways of managing pollution and implementing environmental regulations.

National Green Tribunal Act, 2010 provides a specialized National Green Tribunal ('NGT') to hear the environment-related disputes and enforce environmental law. Although this tribunal increazses the enforcement ability of environmental governance, its jurisdiction is not closely connected to any national climate-specific obligations, including emission levels or climate financing requirements, which are not included in the conventional focus of these laws.

Notably, experts and policy analysts have identified weaknesses within the climate specific legal framework of India, with questions about whether the current state on environmental law adequately entrenches the concept of climate responsibility or whether a climate specific law could be necessary to entrench enforceable obligations.

ENFORCEMENT, COMPLIANCE AND THE DIFFERENCE BETWEEN ASPIRATIONS AND ACTION

Although the policy has been advanced in India, there are still gaps in enforcement. Regulatory bodies frequently are ogistically constrained,

have overlapping jurisdiction and have little or no climate-related jurisdiction; the sanctions of non-compliance are usually linked to conventional pollution standards, but not to climate-wide performance. The delay of the implementation of mandatory climate risk disclosure policies on financial institutions can be viewed as the ambition of the policy and its execution at the regulatory level.

In addition, climate goals within the Nationally Determined Contribution [NDC] of India are not directly applicable to the domestic statute; they are maintained by periodical reporting and international pressure of peers instead of penalties. This form of governance tends to water down the accountability aspect and climate goals can remain as an aspirational goal, instead of being enforced as a requirement.

CONCLUSION

The climate pledges and the green finance policies of India point to the obvious intention to make its economy be in the line with the low-carbon directions and the international climate agenda. Nevertheless, the existing regulatory system can be considered as policy aspiration rather than having stringent enforcement mechanisms. And to seal this divide, India would also enjoy a framework that links climate goals with legal conformity, explicit reporting mandates, as well as lawful punishment of non-conformity. In the absence of these binding mechanisms, green finance and climate commitments will be no more than a pipe-dream with an aura of voluntary compliance and market incentives, as opposed to a mandatory regulatory responsibility.



CAPITAL EXPENDITURE, INFRASTRUCTURE PUSH & PUBLIC ACCOUNTABILITY

By Shreya Mathur

“Public capex has increased manifold from clearances and audit oversight by ₹2 lakh crore in FY2014-15 to an allocation of ₹11.2 lakh crore in BE 2025-26. In FY2026-27, I propose to increase it to ₹12.2 lakh crore to continue the momentum.” -

Budget 2026-2027, Speech of Nirmala Sitharaman, Minister of Finance

INTRODUCTION

The Union Budget, announced on February 1st 2026, sees an increase in the public capital expenditure (‘Public Capex’) to ₹12.2 lakh crore from the ₹11.2 lakh crore allocated last Financial year. In line with the first of the three major kartavyas proposed, the government is aiming to push forward with infrastructure development to accelerate the country’s growth, having proposed major connectivity and urbanisation projects.

With an aim to connect all major cities and further develop tier 2 and tier 3 cities, the Union Budget has made its priorities clear. But with more capital expenditure, we need more transparency. This article focuses on the proposals made, while visiting the legal and institutional mechanisms for accountability, including procurement transparency, environmental

PROPOSED INFRASTRUCTURE EXPENDITURE

Public capex refers to the capital spent by the government on acquiring, developing or upgrading long-term assets. In line with the analysis and conclusions of the economic survey, the government has increased its focus on public capex led growth and proposed the following projects.

Major connectivity projects have been announced including, establishment of new dedicated freight corridors connecting Dakuni in the East to Surat in the West, operationalisation of 20 new national waterways, setting up of a ship repair ecosystem for inland waterways etc. In their furtherance, the government shall also be setting up an infrastructure risk guarantee fund to provide partial credit guarantees to lenders. This shall provide a cushion to private developers and aims to give a boost to their risk-taking during infrastructure development and construction phase. In addition, the government plans to map out city economic regions (‘CER’) in certain cities,

Government has allocated a transparency, environmental clearances and audit oversight budget of ₹ 5000 crore per CER over 5 years to develop them. Development of high-speed rail corridors across seven major hubs has also been proposed. Not forgetting the environment, carbon capture utilization and storage ('CCUS') technologies are set to be installed across five industrial sectors, including power, steel, cement, refineries and chemicals over the next five years, for which an outlay of ₹20,000 crore has been proposed.

Public Accountability

The budget tells us where the money is proposed to go, but how do we find out where the money actually goes? And with the growing climate instability and climate change now becoming a huge factor in our lives, will the infrastructure development better or skew this balance? Major infrastructure projects with large spending require greater scrutiny. Therefore, we have certain legal and institutional mechanisms in place to keep them in check.

Legislative Scrutiny

led by Comptroller and Auditor General ('CAG').

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LEGISLATIVE SCRUTINY

Post presentation of the budget, the members of parliament scrutinize and approve the union budget through a series of general discussions and debates in both houses of the parliament. This discussion is held alongside the dissection of the previous financial year's audit reports. Standing committees vet the demand for grants and record their recommendations in their reports. Discussion and voting on the budget then ensue, and then the budget for the financial year is finalized.

PROCUREMENT

Procurement tenders for government infrastructure projects can be accessed at the Government e-marketplace - Central Public Procurement Portal. The site lists out all the current tenders in place, the bids made and the final contracts awarded.

ENVIRONMENTAL IMPACT

Environment Impact Assessment Notification, 2006, issued under the Environment (Protection) Act, 1986 dictate the environmental clearances for 39 notified projects in India, including infrastructure projects. These clearances can be applied for and looked into by the public at the Parivesh website, handled by the Ministry of Environment, Forest and Climate Change.

PROJECT INFORMATION

Information about public projects can be accessed through the exercise of the Right to Information Act, 2005 as well. This enables citizens to access procurement and project information by way of application.

Comptroller and Auditor General audit The financial year ends with an audit of the income and expenditure accounts of the government by the CAG, which is tabled in the parliament. The Public Accounts Committee examines the findings of the CAG reports and scrutinizes the government spending. They then produce Action Taken Reports which are tabled in the parliament.

These channels aim to increase transparency and decrease information asymmetry as well as ensure no mismanagement of funds takes place.

CONCLUSION

The Union Budget is set to maximise on infrastructure-led growth as its efforts yield results. These projects become a key stepping stone as we proceed toward our aim of Viksit Bharat 2047. The big spending allocations promise better infrastructure and connectivity, but we cannot forget the question of transparency.

The constitution and government have put in place certain legal and institutional mechanisms in place for ex ante and post fact scrutiny to ensure the same. These clubbed with their digital access, provide for easy access to records at every stage of the projects undertaken by the government, thus promoting public accountability.



INDIA'S FISCAL CONSOLIDATION: DEBT SUSTAINABILITY, EQUITY, AND INSTITUTIONAL ACCOUNTABILITY

By Rahul Agarwal

Fiscal Deficits is a showcase of excess of the dynamics between interest rates and expenditure over the net owned funds of growth. This also points to the trajectory of the country. A tool used to measure of the debt to GDP ratio. The ratio, as per economic progress and growth the latest findings, would decline to about stabilization. However, persistence of 55.6% of the GDP in Financial year 2025-26, with the goal of reducing it to about deficit structurally rather than cyclically 50% by the end of the decade. would lead to grave concerns about sustainability, fairness, and institutional accountability. Therefore, it is imperative to examine the fiscal consolidation path adopted in the latest union budget for the Economic Survey's debt sustainability framework.

The Union Budget 2026-27 continues the fiscal consolidation, with the target of deficit being at about 4.3% of the Gross Domestic Product ('GDP') for Financial year 2026-27. This target is however, slightly lower than the estimated 4.4% for Financial year 2025-26 after revised estimates. Signaling to the tightening of the budget gap at the same time maintenance of robust capital expenditure for infrastructure and growth enhancing sectors. The public capital expenditure was raised to 12.2 lakh crore, highlighting prioritization of productive investment of the funds.

Economic survey of 2025-26 framework underscores that debt sustainability is proportional to the size of deficits and

Drawbacks

However, this framework is dependent on continuous growth and favorable GDP dynamics. A global downturn, or slower revenue could counter this balance. Reduction of consumption rather than creation of assets could lead to erosion of debt sustainability. While capital expenditure is improving, revenue expenditure still constitutes a bigger share of the budget, indirectly putting a cap on the former.

Continuous reliance on funding through debt channels would increase the burden across generations to come. Financing of current consumption through debt undermines public confidence creating an illusion of ever witnessing a debt free situation. Central borrowing and deficit targets also mend the fiscal space on the member states. Tightening of ceilings on the latter could provide a protentional excuse and declination of accountability of the institutions.

Way forward

A realistic plan for consolidating finances needs to move beyond just deficit reduction targets and ensure a high level of quality and institutional accountability in the borrowed funds. There is a need to prioritize structural consolidation to ensure that the funds borrowed will be used for asset creation rather than just consumption expenditures. Investing in infrastructural development, healthcare, and education will bring returns in the future. Also, in alignment with the plan of creating revenue-generating assets.

Secondly, there is a need to strengthen revenue mobilisation. Sustainable revenues would translate to reducing the burden of the costs of transfers in the days to come. Thirdly, reforms have to focus on consolidating fiscal discipline. A system must be designed to guarantee that consolidation is guided by the rule, not the politics. Fourthly, the focus of reforms has to be on using the opportunity of the crisis.

Finally, Parliamentary oversight should be minimal. Medium-term fiscal policy statements, debt management reports, and public debt sustainability analyses should be regularly debated.

Conclusion

The gradual fiscal consolidation of the Union Budget, facilitated by growth-oriented investment, closely follows the debt sustainability rules outlined in the Economic Survey. However, debt sustainability cannot entirely depend on growth assumptions or budgetary deficit reduction. Continuing with the practice of borrowing structurally is highly questionable in economic, constitutional, and ethical terms.

Ultimately, responsible public finance requires not only macroeconomic prudence but also normative commitments to fairness and accountability. A consolidation path that combines productive expenditure, transparent debt management, robust institutions, and cooperative federalism. This would reconcile developmental imperatives with fiscal responsibility. Only then can deficit serve as a tool for shared prosperity rather than a burden shifted onto future generations.



THE GROWTH MIRAGE: HOW ROSY ECONOMIC PROJECTIONS LIMIT THE FISCAL FUTURE OF INDIA

By Pratibha Jatav

Introduction

The Economic Survey of India 2025-26 is an account of resilience and momentum. The existing forecasts of GDP growth in FY 26 and FY 27, are 7.4% and 6.8-7.2% respectively. The 10% assumed growth of nominal GDP in the Union Budget 2026-27 will be setting up an all-encompassing fiscal framework on these pillars. Nevertheless, there is a tendency of creating a fiscal straitjacket, i.e., a self-imposed restriction on future flexibility, through policies based on overly optimistic growth assumptions which truncates future freedom and shields the policy makers from social responsibility when the truth turns darker.

On the other hand, the budget itself capitalizes on this optimism by increasing Gross Tax Revenue by 8% in FY27. The implication of this figure is a decline in buoyancy to 0.8. Its operation under supposedly favourable conditions is only in the event when the denominator that is the nominal GDP increases vigorously at the set 10% threshold. In sharp contrast with this, however, the survey itself confides that FY27 will be a year of adjustment and the external environment is not yet conducive. After built-in high growth expectations have been established into the budget arithmetic, any form of negative revision would mean extreme exposure to the fiscal expectations.

The optimism embedded in numbers

It is noted in the current economic survey that India has been once again described as the -fastest growing major economy- in the fourth year in a row. It can be said that this plays a two-fold role, in that on the one hand, this sends a message of confidence to the markets and justifies the current policy decisions and on the

For example, "direct tax growth budgeted at 11.4% in FY27 is infirmed by underlying assumptions such as sustainability of consumption strength and corporate profitability." However, the Survey accepts this itself by admitting that "the rise in the share of private consumption to 61.5% of GDP in FY26 owes to low inflation, stable employment conditions, and rising real

purchasing power which is a factor not necessarily linked to an uncertain global environment." If growth is low, the entire revenue projection collapses, but the commitment to expenditure in the form of "Rs. 12.2 lakh crore of capital expenditure" is sticky and irreversible.

The accountability vacuum

In situations where the optimistic growth trends are not actually achieved, a mechanism needs to be in place as an attempt to keep the policymakers on their toes and accountable. In situations where revised estimates for FY26 inevitably differ from actual estimates, any operational differences are quietly slipped away through technical adjustments. It is not essential for the Finance Minister to clarify and justify why growth estimates were not achieved, and there are no checks and balances on assumptions related to growth estimates, together with zero and no consequences for systematic overestimation.

The fiscal deficit, which the Budget has set for FY27 at 4.3% of the GDP, is another instance in point, which seems reasonable, following the continued consolidation from the 4.4% FY26 level, but if the nominal growth comes in lower than the 10%, say, closer to 8%, the same level of fiscal deficit would verrun the percentage level, jeopardizing the attainment of the 50% \pm 1% debt-GDP ratio by FY31.

Constraining future flexibility

The most pernicious impact of growth-dependent fiscal planning is that it limits the scope of our future policy choices. The Budget allocates ₹10,000 crore for the Biopharma SHAKTI program, ₹40,000 crore for the Electronics Component Manufacturing program, and ₹20,000 crore for Carbon Capture technology, all spread over five years. These are essentially long-term allocations, limiting our room in responding to unanticipated events.

If a recession occurs during the FY28 budget period, or if trade tensions grow beyond assumed levels, the government would be caught with past commitments and no scope for countercyclical spending. The Survey recognizes that risks arise from "heightened tariffs imposed by the United States" and "global trade uncertainty" as well, although the budget appropriation does not set aside enough for these situations to be handled.

Furthermore, the reduction in Minimum Alternate Tax from 15% to 14%, various changes in the taxation of buybacks, and customs duty measures are structural revenue concessions that assume growth to fill the gap. Accordingly, economic growth slowing down leads to revenue losses in the future, as the picture is seen to be permanent.

The political economy of Conclusion

projection

What is at work is the deeper reality of the underlying political economy. The reality is that, for a democratic system with five-year electoral cycles, the temptation to provide a measure of 'front-loading' of benefits (spending announcements, etc.), while attempting 'back-loading' of the cost (through the assumption of economic growth rates), is ultimately too great to resist. The 'resilience' and 'momentum' thrust of the Economic Survey serves to provide cover for what might otherwise be a fiscally stressed Budget.

Perhaps most interesting is the Survey's projection of potential growth rates: "The cumulative effect of reforms has lifted the country's potential growth rates closer to 7 per cent." In other words, by redefining this as a new normal and not as a target to be achieved, there is now permission to engage in more fiscal spending. It's simple logic really: if we can achieve sustainable growth rates of 7%, why not indeed splurge on some infrastructure?

This cycle needs institutional transformation in order to break it. What India requires is a free fiscal council that will be tasked with the obligation of publicly analysing the realism of Budget assumptions and the cost of variances with projections. Probabilistic ranges and risk scenarios should be given as growth forecasts. What is however more important is the fact that it must describe and explain large forecast errors. Until then the tango of optimistic Economic Surveys and Budget arithmetic will continue its dance in serving the needs of political expediency without any public announcement of its constriction of the fiscal space and the democratic accountability of the country into the future. The real cost of this delay has little to do with per centage points in GDP growth forgone and much to do with opportunities lost and credibility thrown away in the habit of always overshooting the numbers.

WELFARE SCHEMES, SOCIAL SECTOR SPENDING, AND THE JUSTICIABILITY OF SOCIO-ECONOMIC RIGHTS

By Priyadarshani Sahoo

Introduction

The 2026-27 Economic Survey and Union Budget emphasized inclusive growth and support for vulnerable populations. The theme of this year's is "Yuva Shakti-driven" with a focus on the poor, underprivileged and disadvantaged. India's Economic Survey similarly highlights expansion of education, health and rural programmes, noting social-sector spending has risen (about 7.9% of GDP in FY26) to broaden inclusion. The Budget numbers reflect these priorities: total expenditure rises 7.7%, with capital spending up 11.5% over 2025-26. Education outlays jump 14.2% and Health & Family Welfare by 10.0%. Allocations targeting women and children swell by -25%.

Dipa Sinha (economist) notes health, education and social security have been historically underfunded, and 2026-27 shows only "marginal increases". Indeed, many Revised Estimates for 2025-26 were below original targets and Committed spending now absorbs -65% of revenue receipts, limiting fiscal space. The fiscal policy maintains a deficit of 4.3% of GDP, coupled with falling debt ratios, though again, this prudent policy also limits welfare spending. In conclusion, while the Budget maintains its broad policy of inclusive growth, it is argued that

spending on health and education shows only marginal improvements.

Welfare Schemes and Legal Entitlements

The Union Budget 2026-27 has raised allocations for rural employment, housing, and social protection, reaffirming the State's commitment to growth. (PRS Budget Analysis 2026-27). However, whether this expansion translates into rights that can be legally enforced is dependent upon the legal framework rather than the funding.

The rural employment guarantee programme, which is operational under the framework of 'Viksit Bharat Gram Rozgar,' continues to see significant allocations under the 2026-27 budget. Being a statutory-backed initiative, the 'Right to Employment' and 'Right to Wages' can be considered legally cognisable. Any lack of implementation or delay in payments can potentially be subject to judicial review, especially under an expanded interpretation of Article 21, as was established in *Olga Tellis v. BMC* (1985), wherein a livelihood was considered integral to the 'Right to Life.'

In contrast, schemes like Pradhan Mantri Awas Yojana (PMAY) and Ayushman Bharat are considered executive policies, subject to annual budgetary allocations. The judiciary has shown restraint in mandating macro-level allocations, even when recognising minimum allocations, as was established in *Paschim Banga Khet Mazdoor Samity v. West Bengal* (1996) and *PUCL v. Union of India* (2001). Here, it is imperative to note a significant distinction in Budget 2026-27: fiscal priorities can be beneficial from a welfare state's policy standpoint, but justiciability remains subject to statutory and constitutional interpretation.

For example, the Supreme Court in *Paschim Banga Khet Mazdoor Samity v. West Bengal* held that the State must provide life-saving emergency care "irrespective of constraints in financial resources". Yet the same Court has acknowledged that "state resources are not unlimited". Welfare expenditure is also underspent; this creates a conflict. The expansive nature of constitutional obligations will come into conflict with a restrictive fiscal policy. In practice, judicial mandates for expanded services may be difficult to implement fully under the 2026-27 fiscal framework.

Fiscal Constraints and Judicial Mandates Conclusion & Recommendations

In the context of the 2026-27 Union Budget, it is evident that the fiscal consolidation drive is being prioritized, as the fiscal deficit is set to be 4.3% of the GDP, with mandatory expenditure constraining the scope for discretionary expenditure. It has also been pointed out that interest expenditure is set to be around one-fourth of the total expenditure. Moreover, social sector expenditure is a mere 18% of the total expenditure ($\approx 2.5\%$ of GDP), the lowest share in over a decade. In other words, the majority of the new expenditure will go to capital and debt repayment rather than social welfare. This tight budget envelope directly pressures court-ordered socio-economic mandates.

The 2026-27 Budget and Economic Survey demonstrate India's pursuit of inclusive growth with notable increases in housing, employment and basic services. However, the translation of social spending into rights remains uneven. Statutory schemes like the rural job guarantee and food security law create enforceable entitlements, but many flagship programs still depend on discretionary spending. The judiciary has expanded Article 21 to protect life's essentials yet it cannot compel the State to fund every welfare promise beyond what law provides. To strengthen accountability, social schemes could be codified into law with clear beneficiary entitlements and grievance redressal mechanisms.

Budgetary provisions should be ringfenced and audited. Transparency can be enhanced by publishing implementation data and instituting independent ombudsmen or social-audit bodies. Courts should continue to enforce minimum standards and to treat socio-economic rights as intrinsic to dignity, respecting democratic budgeting. Finally, a long-term approach may involve policy innovation to convert directive principles into actionable rights. In the words of the SC, “whatever is necessary” for providing basic services “has to be done”. Close partnership among the legislature, executive and judiciary can ensure that India’s welfare commitments are not just on paper, but realizable rights for every citizen.



HOW BUDGET 2026 DEEPENS INDIA'S DIGITAL GOVERNANCE

By Ananya Kreeti

Introduction

In the last decade, India has increasingly shifted key government functions onto digital platforms such as Aadhaar, UPI and DigiLocker, a transformation highlighted in the Economic Survey as a model of efficient governance. The Budget 2026-27 builds on this shift by supporting digital infrastructure, including tax incentives for data centres and the expansion of the SVAMITVA scheme. While these measures promise efficiency and improved service delivery, they also expand the State's control over citizen data, raising concerns about privacy and consent.

The other project that is suggested under the Budget is the National Destination Digital Knowledge Grid. The main focus of its work is to map and report digital records of cultural, spiritual and heritage sites in India. At the facade this appears like a conservation and tourism marketing initiative. In close view, however, it is a grandiose attempt by the State to gather, standardize and regulate information.

Budget 2026 and the Institutionalization of Digital Public Infrastructure

Budget 2026-27 is structured around three "kartavyas" (core duties) of the State: promoting economic growth, building long-term capacity, and ensuring inclusive development. The Budget places the digital public infrastructure at the centre of all three goals. One such initiative is Bharat-VISTAAR, a multilingual AI system that aims to bring together AgriStack platforms and ICAR datasets to give advisory support to farmers.

Traditional processes that relied on physical checks and the judgment of officers are being redesigned based on automated processes. This demonstrates that digital public infrastructure ceased to be an enabling platform operating in the background; it has become the fundamental frame in which the government operates.

Data Protection and Algorithmic Governance in a Digital Welfare State

The strengthening of digital public infrastructure puts pressure on India's data protection framework. The Digital Personal Data Protection Act, 2023 recognises the State as a data fiduciary.

It also allows broad exemptions for data processing for the sake of “public interest” and “sovereignty. In theory, citizens have rights over their personal data. But in welfare schemes, these rights often become weak. When benefits like food, healthcare or cash transfers require

Aadhaar linking or sharing phone numbers, refusing data collection can mean losing support. Consent becomes a formality rather than a real choice.

At the same time, Budget 2026 encourages greater use of artificial intelligence to improve targeting and compliance. However, Indian law does not clearly require transparency or human oversight

in such decisions. People often do not know what data is used or why a decision is made. If someone is declared ineligible or flagged as high risk, it can be hard to understand or challenge that decision. Errors in code, biased datasets or flawed model design can therefore have real and serious impacts on people’s lives, but the safeguards to protect due process and natural justice in this new environment remain underdeveloped.

Interoperability, Surveillance, and the Expanding Role of the State

One of the key aspects of the Indian digital systems is that they are interconnected. Due to that, individuals are able to receive one-window services and do not need to provide the same information repeatedly. This is time saving and government services are made more accessible to both the citizens and the businesses. Nonetheless, with the connection of these systems, data located in various locations can also be merged and traced with minimal effort. In the long run, digital monitoring can be normalized as a feature of governance. The State can then become not only a regulator but also the owner of digital platforms and the one to determine access to most services. The greater the number of data that are united by a single system, the more the control the State has over digital spaces. It can limit the level of control users exercise over their personal data and can impact on their privacy and control.

Conclusion

Digital governance in India has ensured that government activities are quicker and more streamlined. It has assisted in providing benefits to the people at a faster rate and services have become more accessible. Simultaneously, the influence of the State over digital systems is growing as well as the amount of data gathered and put in use.

Making it paramount to ensure that that robust legal protections, privacy controls, and constitutional principles are not undermined. Digital systems must facilitate human life and not override their rights, dignity, and authority over their personal data.



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