

Current Issue

Union Budget 2026-2027

Question 01

Examine the rationale behind the government's preference for debt-to-GDP ratio over traditional deficit targets as a primary fiscal anchor in Budget 2026-27. Evaluate the potential benefits and risks of this framework for India's macroeconomic stability.

Question Understanding - Finding Information

- **Precise Syllabus Mapping:** Government Budgeting. (GS Paper – III)
- **Marks and words limit:**
 - The marks-oriented approach to answering (10-mark, 150-word) questions in the question is to use **Bullet Points** (one idea per bullet point), **Brainstorming**, or a combination of both.
 - The way to score good marks in questions worth (15 marks. 250 words) is to use the **Heading and Subheading** method while writing your answers.
- **Directive words:**
 - Examine → Explain the reasoning with economic logic
 - Evaluate → Balanced assessment (pros + risks)
- **Focal points of the questions:**
 - Fiscal policy
 - Fiscal anchors
 - Debt-to-GDP vs fiscal deficit
 - Macro-economic stability
 - Medium-term fiscal sustainability

Answer Writing Structure (Outline)

Introduction Paragraph

- Budget context
- Shift in fiscal thinking
- Macro stability linkage

Body Paragraph

A. Rationale for Preferring Debt-to-GDP Ratio

- Captures overall public debt burden, not annual flow alone
- Better indicator of inter-generational equity
- Aligns with global best practices (IMF, OECD frameworks)
- Allows counter-cyclical fiscal policy during shocks
- Reflects medium-term fiscal credibility rather than year-to-year compression

➤ Organise under economic logic, not chronology.

B. Limitations of Traditional Deficit Targets

- Encourages short-term expenditure cuts
- Ignores stock of accumulated liabilities
- Can be pro-cyclical during downturns
- Less reflective of long-term solvency

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C. Potential Benefits for Macroeconomic Stability

- Enhances fiscal credibility and investor confidence
- Supports stable interest rates over the medium term
- Facilitates growth-oriented capital expenditure
- Improves coordination with monetary policy
- Reduces risk of sovereign rating pressures

➤ Evaluate only positive side

D. Risks and Challenges of Debt-Based Fiscal Anchor

- Risk of fiscal complacency if debt stabilisation is delayed
- Vulnerability to growth shocks affecting denominator (GDP)
- Rising interest burden crowding out social spending
- Requires strong institutional discipline and transparency
- Off-budget borrowings may dilute effectiveness

E. Way Forward (Value Addition)

- Clear debt glide path
- Independent fiscal council
- Improved fiscal transparency
- Complementary deficit monitoring

Conclusion (max. 40 Words)

- End with conditional optimism, not assertion.

Dos & Don'ts

• Do for Maximum Marks

- ✓ Use macroeconomic terms: fiscal sustainability, counter-cyclical policy
- ✓ Maintain balanced tone
- ✓ Clearly separate rationale, benefits, risks
- ✓ Link fiscal anchor to growth-inflation-stability triangle

• Don't do these Common Mistakes

- ✗ Don't write a Budget summary
- ✗ Don't overload with statistics
- ✗ Don't treat debt-to-GDP as automatically superior
- ✗ Don't ignore institutional capacity issues

Notes Oriented Content for Writing Answer

In the Union Budget 2026–27, the Government of India formally transitioned its primary fiscal anchor from annual fiscal deficit targeting to a medium-term Debt-to-GDP ratio framework. This structural reform marks a maturation of India's fiscal policy architecture, moving away from rigid annual targets toward a model focused on long-term solvency and overall fiscal sustainability.

Rationale Behind the Preference for Debt-to-GDP

The government's shift to a debt-centric anchor is driven by several strategic factors:

- **Completion of the Previous Glide Path:** The government successfully fulfilled its 2021–22 commitment to reduce the fiscal deficit below 4.5% of GDP by FY 2025–26, reaching 4.4% in the Revised Estimates.
- **Comprehensive Measure of Fiscal Health:** Unlike the fiscal deficit, which only captures one year's borrowing, the debt-to-GDP ratio provides a more reliable and comprehensive gauge of fiscal performance by capturing the cumulative effects of past and present fiscal decisions.
- **Alignment with Global Best Practices:** Shifting to debt anchoring aligns India's fiscal management with international standards used by global rating agencies and institutions.
- **Flexibility and Resilience:** The new framework moves away from rigid annual targets, providing greater operational flexibility to respond to external economic shocks and geopolitical volatility.
- **Fiscal Transparency:** It aligns with sustained efforts to promote transparency by providing a clearer picture of total government liabilities, including previous disclosures of off-budget borrowings.

Potential Benefits for Macroeconomic Stability

The adoption of this new framework offers several advantages for India's medium-term stability:

- **Resource Mobilisation for Priority Sectors:** A declining debt-to-GDP ratio reduces the outgo on interest payments, which currently account for roughly 26% of total expenditure and 40% of revenue receipts in BE 2026–27. This gradually frees up resources for development-enhancing expenditures.

- **Focus on High Multiplier Capex:** The framework allows the government to maintain high levels of public capital expenditure (budgeted at ₹12.2 lakh crore or 4.4% of GDP for FY27) to drive growth without compromising long-term solvency.
- **Sovereign Rating Upgrades:** Prioritising long-term debt sustainability signals a mature fiscal framework that may improve India's creditworthiness in the eyes of international rating agencies.
- **Intergenerational Equity:** By ensuring the debt is on a declining path, the framework prevents current generations from over-burdening future ones with excessive repayment liabilities.

Potential Risks and Challenges

While the framework promotes stability, it is not without significant risks:

- **Reliance on Nominal GDP Growth:** The success of the debt consolidation strategy depends heavily on robust nominal GDP growth (projected at 10% for FY 2026–27). If growth slows significantly, the debt ratio could stagnate or rise even if deficit targets are met.
- **State-Level Debt Pressures:** General government debt includes both Centre and state debt. While the Centre is consolidating, high debt in some states remains a concern; for example, state debt peaked at 31% in 2021 and requires active participation through cooperative fiscal federalism to manage.
- **Revenue Headwinds:** Recent reductions in income tax and GST may weigh on revenue receipts, potentially making it harder to reach debt targets without further expenditure rationalisation.
- **Slower Consolidation Pace:** Critics have noted that the pace of fiscal deficit reduction has moderated, with only a 10 basis point drop from 4.4% (FY26 RE) to 4.3% (FY27 BE), which is the smallest reduction since the pandemic.

Key Projections: Budget 2026–27

Indicator	FY 2025–26 (Revised Estimate)	FY 2026–27 (Budget Estimate)
Central Government Debt-to-GDP	56.1%	55.6%
Fiscal Deficit (Operational Target)	4.4%	4.3%
Primary Deficit	0.8%	0.7%
Medium-Term Debt Target	—	50% ($\pm 1\%$) by March 2031

The transition to a debt-to-GDP ratio as India's primary fiscal anchor in Budget 2026–27 marks a shift from annual flow-based targeting to long-term stock-based sustainability. By targeting a central debt ratio of 50% ($\pm 1\%$) by March 2031, the government seeks to align with global sovereign standards, lowering the cost of capital and creating fiscal room for high-multiplier capital expenditure. While this framework provides counter-cyclical flexibility and signals stability to international markets, its success remains vulnerable to interest rate volatility and the requirement for sustained nominal GDP growth of $\sim 10\%$.



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Question 02

The Budget 2026 introduces 'Champion SMEs' and the 'SME Growth Fund.' Evaluate the role of MSMEs in achieving the 'Viksit Bharat' vision and the significance of integrating TReDS with GeM for liquidity.

Question Understanding - Finding Information

- **Precise Syllabus Mapping:** Government Budgeting (**GS Paper III**) and Changes in industrial policy and their effects on industrial growth (**GS Paper III**)
- **Marks and words limit:**
 - The marks-oriented approach to answering (**10-mark, 150-word**) questions in the question is to use **Bullet Points** (one idea per bullet point), **Brainstorming**, or a combination of both.
 - The way to score good marks in questions worth (**15 marks. 250 words**) is to use the **Heading and Subheading** method while writing your answers.
- **Directive words:**
 - Evaluate → Balanced assessment (role + limits + significance)
- **Focal points of the questions:**
 - MSMEs in Viksit Bharat vision
 - New initiatives: Champion SMEs, SME Growth Fund
 - TReDS–GeM integration
 - Liquidity and working-capital constraints

Answer Writing Structure (Outline)

Introduction Paragraph

- Budget reference
- Development vision linkage

Body Paragraph

A. Role of MSMEs in Achieving 'Viksit Bharat'

- Employment generation and labour absorption
- Regional balance and decentralised industrialisation
- Export diversification and value-chain integration
- Innovation, entrepreneurship and grassroots growth
- Contribution to manufacturing and services resilience

➤ Link Champion SMEs to scale, competitiveness and productivity.

B. Significance of 'SME Growth Fund'

- Patient capital for scaling MSMEs
- Addressing equity financing gap
- Supporting formalisation and global competitiveness
- Reducing over-dependence on debt

C. Importance of Integrating TReDS with GeM for Liquidity

- Faster invoice discounting for MSMEs supplying to government
- Reduced payment delays and working-capital stress
- Enhanced trust, transparency and digital traceability
- Lower cost of credit and improved cash-flow cycles

➤ Explicitly link to ease of doing business.

D. Critical Evaluation / Challenges

- Limited MSME awareness and digital readiness
- Risk of elite capture among "Champion" firms
- Need for credit discipline and monitoring
- Structural issues beyond liquidity (technology, skills)

Conclusion (max. 40 Words)

- End with balanced optimism.

Dos & Don'ts

• Do for Maximum Marks

- ✓ Explicitly mention Budget 2026 initiatives
- ✓ Link MSMEs to growth + inclusion
- ✓ Explain TReDS–GeM integration clearly
- ✓ Maintain evaluation balance

• Don't do these Common Mistakes

- ✗ Don't list schemes without analysis
- ✗ Don't ignore liquidity dimension
- ✗ Don't write generic MSME answers
- ✗ Don't overuse statistics

Notes Oriented Content for Writing Answer

In the Union Budget 2026, Micro, Small, and Medium Enterprises (MSMEs) are positioned as the "Growth Champions" essential for achieving the Viksit Bharat @2047 vision. The budget shifts from mere welfare support to structural empowerment through dedicated equity funding and advanced liquidity mechanisms.

Role of MSMEs in the 'Viksit Bharat' Vision

MSMEs are the cornerstone of India's transformation into a developed nation, acting as engines of inclusive and sustainable growth.

- **Economic Contribution:** They contribute approximately 30.1% to India's GDP and roughly 45.5% of total exports. Achieving Viksit Bharat requires raising their export share beyond 60%.
- **Employment & Inclusivity:** With over 63 million units, they provide direct employment to nearly 320 million people, including significant representation from women and rural populations. This ensures growth is decentralized and "Sabka Vikas" is realized.
- **Global Competitiveness:** The "Champion SMEs" initiative aims to scale high-potential firms into global players. By providing ₹10,000 crore in the SME Growth Fund, the government is incentivizing productivity and export readiness.
- **Industrial Resilience:** MSMEs are vital suppliers in strategic sectors like semiconductors, textiles, and electronics, reinforcing India's domestic supply chain and reducing import dependence.

Key Budget 2026 MSME Allocations

- **SME Growth Fund:** ₹10,000 crore dedicated to providing equity and quasi-equity capital for scaling capacity and technology.
- **Self-Reliant India (SRI) Fund:** Top-up of ₹2,000 crore to continue risk capital support for micro-enterprises.
- **Corporate Mitras:** A new network of trained professionals to provide affordable compliance and regulatory support, especially in Tier-II and Tier-III cities.
- **Legacy Cluster Revival:** A scheme to modernise 200 legacy industrial clusters to improve cost competitiveness.

Significance of Integrating TReDS with GeM for Liquidity

The integration of the Trade Receivables Discounting System (TReDS) with the Government e-Marketplace (GeM) is a transformative reform designed to solve the chronic "delayed payments" crisis for MSMEs.

Feature	Significance for MSME Liquidity
Data Sharing	Integration allows GeM-approved invoices to be routed directly to TReDS, providing financiers with verified data on government purchases.
Lower Financing Costs	Real-time information sharing encourages multiple financiers to bid on invoices, leading to cheaper and quicker financing for MSME suppliers.
Mandatory Adoption	The budget mandates all Central Public Sector Enterprises (CPSEs) to use TReDS for MSME settlements, setting a benchmark for private corporate discipline.
De-risking Credit	New credit guarantees through CGTMSE for invoice discounting on TReDS further encourage banks to provide liquidity without traditional collateral.
Asset-Backed Securities	Treating TReDS receivables as Asset-Backed Securities (ABS) helps develop a secondary market, allowing banks to recycle capital and deepen market liquidity.

The MSME initiatives in Budget 2026 serve as a critical catalyst for the "Viksit Bharat" vision by transforming small-scale industries into high-growth "champions" capable of competing in global markets. By integrating TReDS with GeM, the government has built a robust "financial plumbing" system that converts government receivables into immediate liquidity, effectively tackling the chronic issue of delayed payments. Together, these measures ensure that MSMEs the backbone of India's employment and exports are no longer just growth contributors but are central drivers of a developed, self-reliant nation by 2047.

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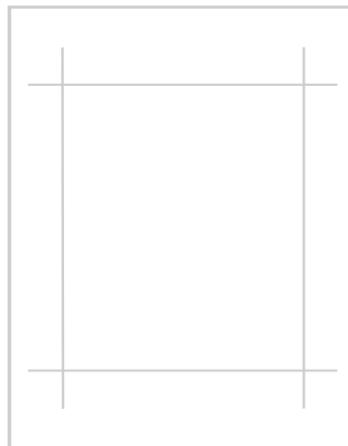
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