OPINION | Five fiscal reforms for Budget 2026-27

We need to revert to a fiscal rule anchored on deficit reduction to provide clarity to the market and also create space to use public investment as a growth enabler which, among other things, will enhance debt sustainability

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Finance minister Nirmala Sithraman should consider going back to fiscal glide paths anchored on reduction of relative deficits

As India approaches the Union Budget for 2026-27, the fiscal landscape is poised at a critical juncture. With the economy recovering from global disruptions and aiming for sustained high growth, the budget presents an opportunity to recalibrate policy frameworks in line with developmental imperatives.

Drawing from my research on public finance and macroeconomic policy, I outline my key budget 2026-27 expectations- for reforms in fiscal rules, artificial intelligence governance, climate financing, gender budgeting with care economy infrastructure and deepening of crypto and CBDC ecosystems.

These proposals are grounded in the need for fiscal prudence, technological innovation, and environmental sustainability, aligning with India’s aspirations to become a developed economy (Viksit Bharat) by 2047.

Current economic context

The current economic context is marked by robust growth projections, with GDP expected to expand at 6.5-7% in the coming fiscal year, supported by strong domestic demand and infrastructure investments. However, challenges persist with elevated public debt levels, geopolitical uncertainties affecting commodity prices, US Fed monetary policies influencing capital flows and interest rates, and the imperative to address climate risks.

Five targeted fiscal reforms

The forthcoming budget must balance fiscal consolidation with investments in human capital, technology, and green transitions. In this vein, five targeted fiscal reforms could enhance transparency, efficiency and resilience in India’s fiscal architecture.

 # Reforming Fiscal Rules: Shifting from Debt to Deficit Targets

One of the most pressing issues in India’s fiscal policy is the ambiguity surrounding the debt-GDP threshold-based rule under the Fiscal Responsibility and Budget Management (FRBM) Act. The current framework, which emphasizes a glide path for debt reduction, has led to market confusion due to unclear trajectories. For the first time, the announcement of the fiscal deficit target in the Union Budget might seem insignificant if markets remain sceptical about the underlying debt dynamics. This opacity undermines investor confidence and complicates monetary-fiscal coordination.

I do advocate for a pragmatic shift: adopting a fiscal rule anchored on the fiscal deficit rather than debt levels. Specifically, I propose a fiscal deficit target of 4.3% of GDP for FY 2026-27, with a glide path to 3% by 2030-31.

This approach allows for moderated fiscal consolidation while prioritizing capital expenditure (capex). India's capex-led growth strategy has been instrumental in crowding in private investments, with public capex reaching record highs in recent years. Retaining a non-phasing revenue deficit is pragmatic, as eliminating it entirely—the so-called 'golden rule'—remains implausible in a developing economy like India, where social spending including health and education is essential.

The rationale is twofold. First, a deficit-based rule provides clearer signals to markets, reducing volatility in bond yields and borrowing costs. The fiscal deficit targets correlate more strongly with fiscal credibility than debt thresholds, especially in high-growth contexts where debt sustainability improves through denominator effects (i.e., GDP growth outpacing interest rates). Second, this framework supports ongoing capex focus.

For instance, allocating 3-3.5% of GDP to capex in the upcoming budget could sustain infrastructure momentum, targeting sectors like railways, roads, and urban development. Additionally, emphasis must be placed on the debt maturity structure.

Elongating maturities toward long-term instruments is crucial for mitigating refinancing risks and envisioning India on a robust growth path. Currently, a segment of short-term debt constitutes a significant portion of India’s liabilities, exposing the economy to interest rate shocks. The budget should outline measures to issue more ultra-long bonds and develop a deeper market for government securities. This could be complemented by reforms in public debt management, potentially through an independent public debt office, to enhance efficiency. This fiscal reform would foster fiscal discipline without stifling economic growth, ensuring that India’s fiscal policy remains adaptive to growth.

Building a Cohesive AI Framework for Financial Stability

Artificial Intelligence (AI) and Machine Learning (ML) are revolutionising the global financial sector, from predictive analytics to automated decision-making. AI simulates human intelligence, while ML algorithms refine predictions through data patterns.

Globally, central banks are leveraging Generative AI (GenAI) and Large Language Models (LLMs) for inflation forecasting, anomaly detection, sentiment analysis, regulatory compliance, anti-money laundering (AML), tokenization, and central bank digital currency (CBDC) pilots. However, challenges like data privacy, algorithmic bias, and skill gaps necessitate strong governance.

In India, the Reserve Bank of India (RBI) has introduced the FREE-AI framework, which promotes Fairness, Reliability, Explainability, Ethics, and Accountability in AI usage by financial entities. This principles-based approach strikes a ‘middle ground’ between the innovation-driven stance of the United States and the precautionary model of the European Union. Meanwhile, NITI Aayog and the Ministry of Electronics and Information Technology (MeitY) have outlined high-level AI principles, but the ecosystem remains fragmented across institutions.

For the Union Budget 2026-27, I urge the establishment of a cohesive AI framework to harmonise these efforts. This could involve creating an inter-ministerial task force or a dedicated AI regulator to integrate guidelines, ensuring congruence in standards for data handling, bias mitigation, and ethical deployment. Budgetary allocations should support AI skilling programs, targeting 1-2% of GDP for digital infrastructure and R&D in fintech. For example, funding for AI centres of excellence in collaboration with IITs and private sector could address skill shortages. Such a framework would bolster financial stability by enabling better risk monitoring—e.g., using ML for real-time fraud detection in UPI transactions—and foster innovation in areas like Central Bank Digital Currency (CBDC).

However, without cohesion, regulatory arbitrage could emerge, undermining trust. This reform aligns with global trends, where AI is projected to add $15.7 trillion to the global economy by 2030, with India poised to capture a significant share through responsible adoption.

 # Introducing a Climate Financing Statement for Transparency

India’s commitment to net-zero emissions by 2070 demands a fiscal pivot toward green transitions. The draft Framework of India’s Climate Finance Taxonomy (May 2025), developed by the Ministry of Finance, classifies activities under Adaptation, Mitigation, and hard-to-abate sectors. This provides a foundation for tracking green expenditures. A key expectation for the 2026-27 budget is the inclusion of a comprehensive Climate Financing Statement, analogous to the Gender Budgeting Statement (Parts 1, 2, and 3). This would detail allocations across Demands for Grants, categorised by the taxonomy, enhancing transparency and accountability. It prevents ‘greenwashing’ by verifying that funds are genuinely directed toward climate goals, such as renewable energy, afforestation, and resilient infrastructure.

The Ministry of Finance, in coordination with the National Institute of Public Finance and Policy (NIPFP), can prepare analytical matrices to collect green fiscal data. NIPFP could develop templates for ministries to report climate-linked expenditures, integrating them into the budget process. Initial estimates suggest that India’s green financing needs could exceed $10 trillion by 2070; the statement would help mobilize domestic and international resources, including through green bonds. By embedding climate considerations in fiscal planning, India can align economic growth with environmental sustainability, attracting ESG investments and mitigating risks from climate events.

 # Enhancing Gender Budgeting and Care Economy Infrastructure

Gender budgeting has been a cornerstone of India’s fiscal policy since 2005, with dedicated statements tracking women-specific allocations. However, to address persistent gender disparities in labour force participation—currently around 37% for women—the budget should deepen this framework by integrating care economy infrastructure. The care economy encompasses unpaid and paid work in childcare, eldercare, and healthcare, which disproportionately burdens women and limits economic empowerment. The care economy needs of informal sector is also huge. For FY 2026-27, I urge expanding the Gender Budgeting Statement to include a dedicated section on care economy infrastructure, with allocations of at least 1% of GDP. Moreover, fiscal incentives—such as tax credits for employers providing onsite care economy infrastructure for child care—could crowd in private investments.

The tax exemptions can also be extended to the spending on elderly care, child care and compassionate care for treating chronically ill close relatives borne by the employees. This reform aligns with SDG 5 on gender equality and supports demographic dividends by unlocking women's productivity. I hope Pay Commission will recommend apt care economy measures for using child care leave (unutilised days) for elderly care to support ageing parents. Demographic transition is real and elderly learned to live alone, and there is a compelling role of State to support elderly.

 # Deepening Crypto and CBDC Ecosystems

The rise of cryptocurrencies and CBDCs represents a frontier in financial innovation. While crypto assets offer decentralised finance opportunities, they pose risks like volatility and illicit use. India's 2022 crypto tax regime (30% flat rate plus 1% TDS) has generated revenue but taxation policies don't make the crypto asset legitimate. Regulatory framework is crucial for crypto ecosystem to pre-empt "phishing" on bad coins.

Meanwhile, the RBI's e-Rupee CBDC pilot, launched in 2022, has expanded to wholesale and retail segments, with over 5 million users by 2025. For the 2026-27 budget, deepening these ecosystems is crucial. I advocate for a progressive crypto framework to encourage long-term investments.

Regulatory clarity through a dedicated Crypto Bill, harmonised with SEBI and RBI, would foster innovation while curbing risks. On CBDC, allocations for scaling e-Rupee could enhance financial inclusion. Pilots for cross-border payments, leveraging AI for security, would position India in global fintech.

Budget support for blockchain R&D could mitigate challenges like privacy and energy consumption. This would balance innovation with stability, potentially enhancing the digital economy by 2030.

Conclusion

To conclude, the Union Budget 2026-27 offers a canvas to paint bold reforms that address fiscal ambiguities, harness AI's potential, mainstream climate action, empower women through care investments, and advance digital finance. These measures, if adopted, could propel India toward inclusive, sustainable growth, reinforcing its global stature. As policymakers deliberate, the focus should remain on evidence-based reforms that balance short-term imperatives with long-term vision.

The budget is not merely an annual accounting exercise but a blueprint for India's developmental trajectory of Viksit Bharat 2047.

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