



Economic indicators

- GDP grew 8.0 percent in H1 FY26, with the full-year growth estimate at 7.4 percent, driven by strong domestic consumption and investments. Estimates suggest that growth would be between 6.8 percent and 7.2 percent in FY27.*
- The fiscal deficit is estimated at 4.4 percent of GDP in FY26, down from 4.8 percent in FY25. It is expected to fall to 4.3 percent in FY27.
- The Consumer Price Index (CPI) softened from 4.6 percent in FY25 to 1.7 percent from April to December FY26, well below the RBI's 4 percent target, due to deflationary trends in food prices. Core prices remained slightly elevated at 4.3 percent during April to December FY26, primarily due to elevated gold and silver prices.
- The RBI has reduced policy rates cumulatively by 125 basis points in 2025 from 6.5 percent to 5.25 percent while maintaining a neutral stance in December 2025. The Cash Reserve Ratio (CRR) was reduced by 100 basis points over the year to inject about US\$27 billion in liquidity. In addition, the RBI eased system liquidity through a combination of open-market bond purchases, a foreign-exchange swap and variable-rate repo operations.

**Growth is measured on a year-over-year basis on real values*

- India's merchandise trade in FY26 (April–December 2025) reflected a moderate expansion, with exports rising 2.4 percent to US\$330.2 billion and imports increasing 5.9 percent to US\$578.8 billion, widening the trade deficit to US\$248.4 billion. The widening of the deficit was due to subdued exports amid geopolitical challenges and trade restrictions.
- India's services trade in FY26 (April–December 2025) recorded an 8.7 percent rise in exports to US\$304 billion, lifting the surplus to US\$151.7 billion. Growth was driven by Global Capability Centres (GCCs) moving up the value chain and rising exports of IT and business services, with services continuing to act as a key buffer for the external account.
- The Current Account Deficit (CAD) eased to US\$15 billion (0.8 percent of GDP) in H1 FY26, compared with US\$25.3 billion (1.3 percent of GDP) in H1 FY25, reflecting a notable improvement in India's external balance. This reduction was supported by strong services exports and robust remittance inflows of US\$135.4 billion, which helped cushion the impact of the wider merchandise trade deficit and kept the current account position comfortable.
- Gross FDI inflows to India strengthened to US\$64.7 billion during April–November 2025, up from US\$55.8 billion in the same period of the previous year. This points to sustained investor confidence, anchored in India's macro stability, economic scale and long-term growth potential.
- India's external buffers strengthened through FY25–26, supported by a steady accumulation of foreign exchange reserves and a stable external debt profile. Forex reserves rose to about US\$709.4 billion by 23 January 2026, providing roughly 11 months of import cover.
- The Indian rupee (INR) depreciated 5.7 percent against the US\$ between April 2025 and January 2026. The rupee weakened amid subdued capital inflows and sustained dollar demand from the trade deficit, with portfolio outflows adding to depreciation pressures.



Policy announcements

Driven by three *Kartavyas*—sustaining economic growth and productivity, building human capacity, and promoting inclusive development—the Budget 2026 presents the following policy highlights to boost India's *reform express*:

- **Creating industrial strategy 2.0:**
 - Boosting India's manufacturing through Biopharma SHAKTI; India Semiconductor Mission 2.0 with full-stack Indian intellectual property equipment
 - Dedicated infrastructure for rare earth corridors in four states; three dedicated chemical parks; revival of 200 legacy industrial clusters; city economic regions
- **Strengthening capital goods:**

Scheme to strengthen the manufacturing of Construction and Infrastructure Equipment (CIE) and containers
- **Championing Micro, Small, and Medium Enterprises (MSMEs):**
 - Growth fund announced to create champion small and medium enterprises
 - Role of Trade Receivables Discounting System (TReDS) enhanced by (i) mandating usage for central public sector enterprises, (ii) introduction of credit guarantee support for invoice discounting, (iii) linkage with government e-marketplace for sharing government purchase information and (iv) securitisation of receivables
 - "Corporate Mitras" announced for MSMEs in tier II/III industrial clusters

- **Scaling infrastructure:**
 - Infrastructure risk guarantee fund announced
 - Announcements on new freight corridors, 20 national waterways, coastal cargo scheme, ship repair ecosystem, seaplane funding scheme and seven high-speed rail corridors
- **Foreign investment boost:** Limit on investment by a person residing outside India enhanced from five to 10 percent and overall from 10 to 24 percent
- **Boosting services and employment:**
 - High-powered education to employment and enterprise standing committee announced
 - Enhanced training for allied health professionals and caregivers; establishment of AYUSH institutes
 - Animation, Visual Effects, Gaming and Comics (AVGC) labs to be set up in colleges
 - National Destination Digital Knowledge Grid to be set up for the tourism sector with an integrated East Coast Industrial Corridor
- **Strengthening the economic backbone:** Focused initiatives for coconut, cocoa, cashew, sandalwood, nuts, fisheries and livestock value chains



Direct Tax highlights

- **New Income Tax Act, 2025:** To come into force from 1 April 2026. Rules and forms to be notified shortly. **Headline tax rates remain unchanged.**
- **MAT:** Rate rationalised from 15 percent to 14 percent. Set-off of brought-forward MAT credit allowed only for companies opting for the new tax regime, capped at 25 percent of the tax liability. MAT credit accumulated up to 31 March 2026 only remains eligible for set-off.
- **Buy-back taxation:** To be taxed as capital gains at an effective rate of 22 percent for corporate promoters and 30 percent for non-corporate promoters.
- **Incentives: Data centres** - Tax holiday up to 2047 introduced for foreign companies providing data centre services, subject to conditions. **IFSC units and OBUs** - Exemption has been extended from 10 consecutive years to 20 consecutive years.
- **Five-year tax exemption** for foreign companies supplying **capital goods/equipment/tooling** to a contract manufacturer of electronic goods in a **specified zone**, subject to conditions.
- **DIN clarified:** Assessments will not be invalidated for DIN-related defects where the computer-generated DIN is referenced in any manner, effective retrospectively from 1 October 2019.
- **DRP and TP audit:** Clarified that the limitation period for the issuance of the assessment order is only for the draft assessment order and does not cover the issuance of a final assessment order post DRP directions.

- **APA:** Proposed to fast-track Unilateral APAs for IT services, to conclude within two years. Post APA conclusion, the facility of modified returns is proposed to be made available to the associated entities whose income and tax liability in India are correspondingly modified.
- **Decriminalisation:** Decriminalisation measures are expanded, allowing courts to substitute imprisonment with monetary fines for minor and technical offences.
- **Assessment and penalty proceedings integrated** into a single common order. **Jurisdiction of Reassessment is** also clarified to be undertaken only by the jurisdictional Assessing Officer, and not by NaFAC.
- **No interest deduction:** Interest expense will not be allowed as a deduction against dividend or mutual fund income from 1 April 2026 onwards.
- **Expansion of safe harbour coverage:** Safe Harbour rationalisation to consolidate IT services into one category with a **15.5 percent safe harbour margin** and an increase in the eligibility threshold to INR20 billion. Further, extension of the regime to data centre services with a **15 percent safe harbour margin** and electronic component warehousing with a **2 percent of invoice value profit margin**.
- **Disclosure scheme for foreign assets: The Foreign Assets of Small Taxpayers Disclosure Scheme, 2026 (FAST-DS-2026)** is proposed for the declaration of unreported foreign assets and undisclosed foreign-sourced income. While tax and penalty would be payable, immunity from penalty and prosecution under the Black Money Act may be available.



Indirect Tax highlights

Key highlights under the GST law

- Intermediary services: Omission of specific supplier-based place of supply provision to make it recipient-based, aligning with the concept of destination-based consumption.
- Elimination of the requirement of pre-existing agreements and invoice-level linkage for post supply discounts, permitting the provision of such discounts through credit notes with corresponding input tax credit reversal.
- Enabling provisional sanction of 90 percent of refund claims arising from the inverted duty structure, akin to the mechanism applicable to zero-rated supplies.
- Provision for a temporary arrangement for hearing appeals by any existing authority (including the tribunal) as would be notified, until the National Appellate Authority for Advance Rulings is formally set up.

Key highlights under the SEZ laws

- A special one-time measure is proposed, permitting eligible manufacturing units in SEZs to sell goods, limited to a prescribed proportion of exports, into the Domestic Tariff Area at concessional rates of duty.

Key highlights under Customs

- Inter-government agency approvals for cargo clearance will be processed through a single and interconnected digital window by the end of FY27. Priority given to clearance of food, drugs, plant and animal products, which will be operational by April 2026.
- Customs Integrated System (CIS) to be rolled out in two years as a single, integrated and scalable platform for customs processes.
- Customs warehousing framework to be transformed from an officer-dependent system into a warehouse operator-centric system with self-declarations, electronic tracking and risk-based audit.
- Duty deferral period for tier 2 and tier 3 Authorised Economic Operator (AEOs) extended from 15 days to 30 days. This facility is to be made available to “eligible manufacturer importers up to 31 March 2028”.
- Customs duty exemption extended to the import of capital goods for the manufacture of lithium-ion cells for battery energy storage systems. Parts and components (including engines) for the manufacture of aircraft and aircraft parts are exempted from customs duty.