

# Framework for India's growth architecture

Homi P. Ranina



**FORUM**  
OF FREE ENTERPRISE


*“Free Enterprise was born with man and shall survive as long as man survives”.*

**- A. D. Shroff**  
(1899-1965)  
Founder-President  
Forum of Free Enterprise



## **SHAILESH KAPADIA**

(24-12-1949 – 19-10-1988)



Late Mr. Shailesh Kapadia, FCA, was a Chartered Accountant by profession and was a partner of M/s G.M. Kapadia & Co. and M/s Kapadia Associates, Chartered Accountants, Mumbai.



Shailesh qualified as a Chartered Accountant in 1974 after completing his Articles with M/s Dalal & Shah and M/s G.M. Kapadia & Co., Chartered Accountants, Mumbai. Shailesh had done his schooling at Scindia School, Gwalior and he graduated in Commerce from the Sydenham College of Commerce & Economics, Mumbai, in 1970.

Shailesh enjoyed the confidence of clients, colleagues and friends. He had a charming personality and was able to achieve almost every task allotted to him. In his short but dynamic professional career, spanning over fourteen years, Shailesh held important positions in various professional and public institutions.

Shailesh's leadership qualities came to the fore when he was the President of the Bombay Chartered Accountants' Society in the year 1982-83. During his tenure he successfully organized the Third Regional Conference at Mumbai.

Shailesh was member, Institute of Fiscal Studies, U.K.; member of the Law Committee and Vice-Chairman of the Direct Taxation Committee, Indian Merchants' Chamber. He was also a Director of several public companies in India and Trustee of various public Charitable Trusts.

He regularly contributed papers on diverse subjects of professional interest at refresher courses, seminars and conferences organised by professional bodies.



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This booklet is based on his talk at a webinar arranged on 3rd February 2026.

## **The organizations involved were:**

- Borivli Sanskrutik Kendra
- Federation of Indian Export Organizations
- Forum of Free Enterprise
- Maharashtra National Law University, Aurangabad
- NALSAR, National University of Law
- Nani A. Palkhivala Memorial Trust
- Sydenham Institute of Management Studies, Research & Entrepreneurship Education (SIMSREE)
- The A. D. Shroff Memorial Trust
- World Trade Center, Bengaluru, Chennai and Kochi



## **Framework for India's growth architecture**

**T**he Finance Minister should be commended for her Budget proposals which secure long term growth while making the Indian economy more competitive, inclusive and future ready. In her ninth Budget, she has stayed firmly on the fiscal consolidation path. In an era of volatility the most valuable currency is stability with consistency.

The vision of the Government to make India the manufacturing hub of the world finds its imprint in the budget proposals by encouraging the spirit of enterprise among millions of Indians through training programmes to hone the skills of young entrepreneurs. A road map has been laid out for enhancing investments in key sectors and passing on the benefit of the growth process to the common man

### **Fiscal Consolidation**

Global rating agencies have appreciated the Government's commitment to adhere to the fiscal consolidation path. The estimated fiscal deficit of the financial year 2025-26 of 4.4% of the GDP

has been brought down to 4.3% of the GDP for the financial year 2026-27. This has been done without compromising on the budgeted capital expenditure of Rs.12.2 trillion. The fiscal deficit for financial year 2026-27 of Rs.16.96 trillion has been arrived at based on the budgeted total expenditure of Rs. 53.47 trillion and revenue of Rs. 36.51 trillion. The GDP for the financial year 2026-27 is estimated at Rs. 393 trillion, around US\$ 4.3 trillion.

Turning to the budget arithmetic, the gross tax revenue for the financial year 2026-27 is projected at Rs. 44.04 trillion. Personal income tax will account for Rs.14.66 trillion, corporate tax Rs.12.31 trillion, Goods & Services Tax Rs. 20.38 trillion, excise duties Rs. 3.89 trillion, and customs duties Rs. 2.71 trillion. As per recommendations of the Finance Commission, the gross tax revenue of 41% will be shared with State Governments to the extent of Rs.15.26 trillion. On the non-revenue side, the receipts, including dividend from Reserve Bank of India, are estimated at Rs. 6.66 trillion.

In a path breaking move, the Finance Minister has announced that from 2026-27 the Government will endeavour to keep the Central Government debt on a declining path as a percentage of GDP. Therefore, there is a significant transition from using fiscal deficit as a measure of fiscal health

to debt-to-GDP ratio being the anchor of fiscal management in the coming years. The debt-to-GDP ratio is estimated to be 55.6% of GDP in 2026-27, compared to 56.1% of GDP in 2025-26. The decline in the debt-to-GDP ratio will make resources available for expenditure in the priority sector and reduce the outgo on interest payments.

This will help in reducing the annual burden of interest which has been rising in the past. In the financial year 2026-27, interest will account for a whopping amount of Rs.14.04 trillion. Establishment expenditure has been estimated at Rs.8.24 trillion while defence expenditure has been budgeted at Rs.5.96 trillion. Cost of subsidies for fertilizer, food and petroleum is projected at Rs.4.11 trillion which is lower than Rs. 4.30 trillion in the preceding financial year 2025-26.

### **Agriculture and rural development**

Emphasis has been placed on the agricultural sector on which more than 55% of the population is dependent. The primary focus is on increasing productivity, diversify agricultural outputs, enhance farmers' income and create new employment opportunities. Targeted efforts have been made through productivity enhancement with special focus on small and marginal farmers who will be trained and provided with high quality assistive devices.

Those who are involved in animal husbandry will be eligible for a credit-linked subsidy programme, modernisation of livestock enterprises, and creation of dairy and poultry-focused integrated value chains. To promote fisheries, initiatives are being taken for integrated development of 500 reservoirs. Further, the fisheries value chain is being strengthened in coastal areas which will be market-linked.

In order to encourage farmers to diversify into high value crops such as coconut, cocoa, cashew nuts and sandalwood, a new promotion scheme has been announced whereby new saplings, plants and varieties will be provided. To rejuvenate old, low-yielding orchards and expand high density cultivation of walnuts, almonds and pine nuts, a dedicated programme has been announced. A multilingual AI tool has been devised which would integrate agricultural practices with AI systems so as to enhance farm productivity and reduce risks by providing customised advisory support.

### **Kick starting manufacturing in strategic sectors**

The Government has sharply increased its focus on electronics manufacturing, semi-conductors and complex engineering equipment in this year's budget proposals. This will help strengthen domestic supply chains, boost

exports, and create high quality employment. The India Semi-Conductor Mission 2.0 will strengthen the ecosystem by focusing on manufacturing equipment, materials and design. Six major systems are proposed to be designed, including RF, compute, networking and power management systems. At the Davos meeting held recently, the global semi-conductor industry expressed a strong desire to work with Indian companies which is evidenced from the fact that Japan, Taiwan and South Korea are committed to invest aggressively.

The electronics manufacturing sector has grown by six times in the last decade and exports have increased eightfold. The allocation in this year's budget for the electronics component manufacturing scheme has been increased from Rs.230 billion to Rs.400 billion. It is expected that the electronics component manufacturing scheme will add 2.5 million jobs to the current employment of around 2.4 million engineers. This would be in addition to the present level of employment in the services sector which is around 5.5 million and in Global Capability Centres about 1.5 million.

Public sector enterprises are to establish hi-tech tool rooms as digitally enabled automated service bureaus that design, test and manufacture

high precision components. Construction and infrastructure equipment will be domestically manufactured, including tunnel boring equipment, which will give a boost to both road and rail construction. To enhance domestic chemical production, three dedicated chemical parks are proposed to be established on a cluster-based plug-and-play model.

Abiopharma manufacturing hub is to be established to build the ecosystem for domestic production in biologics and biosimilars. Apart from upgrading seven existing national institutes of pharmaceutical education and research, three new ones are to be set up which will create a network of over one thousand India clinical trials sites.

Foreign direct investment in data centres alone will bring in U.S. \$ 200 billion in the next five years. The Government has announced a tax holiday for AI data centres. Total investment in this sector is expected to exceed U.S. \$ 200 billion. The tax holiday announced for data centres is likely to help attract hyper scale investments, anchoring onshore digital infrastructure, and strengthening India's competitiveness against established data centre markets in the Asia Pacific region and Europe. Further, the proposal to have a safe harbour rule of charging 15% of the gross revenue as taxable profits for related party data

centre services will simplify compliance for global players and bring about certainty by eliminating litigation. The announcement of a tax holiday till 2047 for foreign cloud service providers will accelerate data centre growth in India.

### **Infrastructure projects to power growth momentum**

Infrastructure projects are powerful macro enablers. Capital expenditure of Rs 12.2 trillion for the fiscal year 2026-27 is fifteen per cent higher than the preceding year and will be 4.4% of the GDP, the highest in the last ten years. The elevated Government capital expenditure will have a high multiplier effect and will offset the slow growth in private sector investments. Roads and railways will account for nearly 50% of the outlay. An Infrastructure Risk Guarantee Fund will provide lenders with a risk mitigation tool which will lower the cost of capital and help to channel investments in long gestation projects. It is bound to strengthen the confidence of private developers during the development and construction phase.

In order to strengthen domestic manufacturing of high value and technologically advanced machinery, a new scheme has been announced to give a boost to manufacture, construction and infrastructure equipment. There are large

emerging opportunities in urban infrastructure, specially relating to industrial housing and renewable energy generation. It is therefore expected that private capital will flow into these sectors and not be confined to airports, seaports and logistics.

The budget proposals are based on the economic power of urban agglomeration and cities have been positioned as engines of growth. The proposals seek to shift towards regional economic development through the creation of City Economic Regions. Each CER will integrate multiple urban centres spanning Tier 2 and Tier 3 cities and their surrounding hinterlands into unified economic ecosystems. Investments in regional connectivity through high speed rail corridors, freight networks and improved waterways will increase access to emerging cities, supporting local employment. The focus on tourism-led infrastructure covering heritage and adventure circuits is likely to create sustained demand for hospitality and real estate in several non-metro locations.

The seven high speed passenger rail corridors announced will link city clusters, including Mumbai, Pune, Hyderabad, Bengaluru, Chennai, Delhi, Varanasi and Siliguri. Another structural measure is the Government's plan to recycle public sector land through special purpose REITs

with the object of unlocking capital from under-utilised assets. Dedicated REITs will accelerate capital recycling and expand access to high quality, income-generating assets which will throw up investment opportunities and strengthen the infrastructure financing ecosystem. It is therefore estimated by the National Investment & Infrastructure Fund authorities that the commercially attractive equity investment opportunities will be in the region of \$175 billion over the next seven years.

### **Incentives for technology sectors**

One of the remarkable features of the budget proposals is the Government's focus on incentives to frontier sectors which are strategic and have long term implications for the economy. Notable among them are Artificial Intelligence, semi-conductor ecosystem, data centres and Global Capability Centres. GCCs are a driver of services exports, job creation and advanced skills development in artificial intelligence and emerging technologies. Boosting investment across these sectors is expected to have a strong trickle-down effect on India's micro, small and medium enterprises.

For global investors and international technology firms these measures signal that India is serious about becoming a hub for AI technology, making it

an attractive destination for long term investments and cloud-led growth. In fact, by lowering the cost of AI-grade infrastructure, the proposals democratize access to advanced technology ensuring that India will be at the forefront of innovation-led growth. India's strength lies in building frugal, low-cost engineering solutions that work at scale and will be shared as global public goods based on solutions which have been tested on security and other parameters.

Bringing AI's benefits to more people means broadening access, adoption and agency. Access is critical because, without it, people and institutions cannot participate fully in the AI era. Adoption is putting AI to work in classrooms, offices, factories and public services. Agency is what turns access and adoption into impact by giving people the ability and confidence to use AI to learn faster, build more and make better decisions.

The Indian Government's AI Mission is designed to expand the country's compute capacity, support start-ups and accelerate multilingual applications that improve public service delivery, especially in the fields of healthcare and education. The UAE is committed to establish an AI supercomputer in India with 8 exaflops of computing capacity marking a new phase in

advanced AI development. Once operational, this supercomputer will be part of the ecosystem which would be accessible by institutions, start-ups, small and medium enterprises and government services.

To help Indians unlock AI's transformative power, a bouquet of sovereign models were launched at the AI Impact Summit held in February 2026. On many parameters, these models which have been developed on frugal resources are considered to be better than Open AI, Gemini Pro and Deep Seek. Global technology leaders have announced at this summit big-ticket investments spanning the entire AI stack including data infrastructure, cloud, models and applications. Google is fast implementing its investment of \$15 billion for developing an AI hub and setting up new subsea cable routes which will boost AI connectivity between the US and India. This company will support global researchers to achieve scientific breakthroughs, from quantum computing to extreme weather predictions.

The expansion of the India Semi-Conductor Mission will encourage private investment across fabrication, design and equipment manufacturing which will help to build a full stack ecosystem. The proposal to set up dedicated rare earth corridors will help India to develop strategic

supply chains. Carbon Capture Utilization and Storage technologies are ready for end-use applications across five industrial sectors, power, steel, cement, refineries and chemicals.

India is a global leader in software development services, information technology enabled services, knowledge process outsourcing services, and research and development in software. All these services are proposed to be pooled under a single category of Information Technology Services with a common safe harbour margin of 15.5% which will be applicable to all. This means that there will be tax certainty and little room for litigation. The threshold of availing this safe harbour benefit has been enhanced from Rs.3 billion to Rs.20 billion. To encourage the vast pool of foreign technicians to work in India, it is proposed to provide exemption of global income earned by a non-resident expert for a period of five years.

The budget demonstrates strategic foresight in addressing India's dependence on critical minerals and rare earths necessary for the technology driven sectors. A dedicated rare earth corridor is to be established to promote mining, processing, research and manufacturing in the mineral rich States of India. Customs duty exemption for capital goods required for

processing them, along with tax incentives for exploration, will attract global investments and result in capacity creation.

## **Free Trade Agreements**

By strengthening India's integration into global value chains, the budget proposals complement efforts to deepen trade partnerships, particularly with the European Union, Britain, the UAE and Oman with which Free Trade Agreements have been signed. The lowering of the tariff rate under the proposed US agreement will specially help the labour intensive sector. In order to promote growth in the textile, leather, gems and jewellery sectors, higher funds are being allocated in the Budget for 2026-27 and more credit is being provided. This will spur exports as 45% of international trade is generated through medium and small scale enterprises.

The reduction in U.S. tariffs on Indian goods is expected to expand the scope of solar equipment exports, improve the competitiveness of solar modules and cells. The U.S. is expanding its power production capacity given the increasing electricity demand of data centres. This in turn will give an opportunity to Indian exporters who manufacture components such as inverters, transformers and other power electronics. Indian auto component industry is set for a significant

boost in view of preferential tariff treatment for Indian auto parts, including zero-duty on some critical components.

The agreement with the European Union will not only lead to higher trade which would rise to U.S. \$ 250 billion by 2032 but will give a fillip to small and medium size businesses engaged in manufacturing chemicals, plastics, engineering and electronic components. This agreement has the potential to create one of the world's biggest economic corridors between Western Europe and India. This agreement will have transformative implications especially in scientific research.

India will join the Horizon Europe Platform, the world's largest research programme which will enable Indian researchers to be on an equal footing with European scientists in collaborative projects, the main co-operation being in the fields of AI, semi-conductors, material sciences, clean technologies, health and sanitation. The agreement also establishes a cohesive security and defence partnership which will help to secure our oceans, enhance operational co-operation, build maritime security and strengthen the freedom of navigation.

India has formally joined *Pax Silica* which is the US flagship AI and supply chain security initiative that will define 21st century economic

and technical order. This partnership signals a new era in which the world's oldest and largest democracies are aligned for the pursuit of prosperity and harmony for their citizens. India's deep tech sector spanning robotics, humanoids and other emerging technologies is at an inflection point and is projected to grow to \$ 33 billion by 2030.

### **Supporting MSMEs**

Recognizing MSMEs as engines of growth, the Government is to set up a dedicated SME Growth Fund which will incentivize small enterprises. For many such enterprises, the constraint is the absence of long term capital which is necessary to sustain such ventures. Working capital availability is also addressed by the adoption of the Trade Receivables Discounting System (TReDS) platform which will improve cash flow and reduce reliance on informal lending and high cost credit. A credit guarantee support mechanism has been announced for invoice discounting which will ease working capital stress and reinforce the shift towards market based financing.

Special measures are taken for women entrepreneurs which will help them to expand market access as well as bank finance at low rates. Production-linked incentive programmes

will enable small enterprises to integrate with organized supply chains which will reward efficiency and scale. Revitalizing legacy industrial clusters should reinforce the MSME ecosystem by providing access to logistics, infrastructure and finance. Para-professionals who are to be trained by The Institute of Chartered Accountants of India, Institute of Company Secretaries of India and others will provide services to the small scale sector and help them to meet compliance requirements at affordable costs.

### **Streamlining the tax regime**

While the new Income Tax Act, 2025 will come into force from 1st April, 2026, several measures have been announced which will be notified in the Income Tax Rules to make it easier for tax payers to comply with the law. Time limits for filing revised returns have been extended to enable tax payers to comply by paying a fee without attracting interest on late payment. Those who did not disclose their overseas income or assets will now be given a new window of opportunity to do so by paying a flat rate of tax of 30%. Many of the penalty and prosecution proceedings have been done away with and replaced with fines.

The capital gains exemption on Sovereign Gold Bonds is now proposed to be restricted to tax payers who subscribe to these bonds when they

are issued and retain them for the full tenure of the bonds. In short, those who buy the bonds in the secondary market or sell them before the maturity date will not be eligible for this exemption.

The increase in the rate of Securities Transaction Tax on futures and options which rattled the stock market on the day the budget was announced, is a step in the right direction because it will help to curtail speculative transactions. In fact, it has been found that almost 90% of market players who enter into F&O transactions have suffered losses and their invested funds have been wiped out.

The budget proposals seek to reset transfer pricing framework applicable to multinational companies and Global Capability Centres with a view to mitigate litigation, improve tax certainty and make India a more attractive destination for overseas investors. Reforms have been announced pertaining to safe harbour rules and Advance Pricing Agreements. This replaces multiple higher margins and will address long standing disputes around classification and profitability. The tax authorities will now accept a foreign company's transfer pricing margin without scrutiny so long as it is within the ambit of the rules.

## **India's technology driven economy is getting future-ready**

The reform agenda which started in 2014 has continued to gather momentum and is pursued with vigour in this year's budget proposals. In a global landscape characterized by reactive responses, the Finance Minister has delivered a document heavy on structural intent. At a time when economic uncertainty remains elevated, the budget resists the temptation for fiscal adventurism and reinforces policy credibility, disciplined public finances and targeted investments in new-age technologies.

India has entered this decade with a unique advantage. A young population, a vibrant entrepreneurial base, accelerating reforms to set up world class infrastructure, a strong digital public platform and an expanding reform based growth engine. Technology lies at the core of this transformation. India is at the centre of the global AI map and it is not only adopting AI at scale but shaping its trajectory.

Artificial intelligence, data driven systems and digital connectivity are redefining how people work and govern. These are just not incremental improvements but structural shifts. According to a recent report published by the Japan International Cooperation Agency, India has emerged as a

shining beacon among Global South nations on AI. Countries that embrace innovation with speed, responsibility and purpose, will shape the global order in the years to come.

The budget proposals provide a prudent and credible roadmap for ensuring that the high rate of growth of 7.3% and more is sustainable over the next five years.

India's industrial landscape is undergoing significant transformation. Sectors like electronics, automobiles, biopharma, AI based data centres and semi-conductors are gaining excellence, reflecting a shift towards a more advanced, technology-driven economy. In a world roiled by uncertainties, geopolitical tensions and tariff wars, India stands tall as a nation which provides stability, disciplined macro-economic management and an inclusive ecosystem for growth and technological innovations.

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*The views expressed in this booklet are not necessarily those of the Forum of Free Enterprise.*



*“People must come to accept private enterprise not as a necessary evil, but as an affirmative good”.*

**- Eugene Black**  
Former President,  
World Bank  
(1949-1962)

# FORUM

## OF FREE ENTERPRISE

The Forum of Free Enterprise is a non-political and non-partisan organisation started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems through booklets, meetings, and other means as befit a democratic society.

In recent years the Forum has also been focusing on the youth with a view to developing good and well-informed citizenship. A number of youth activities including elocution contests and leadership training camps are organised every year towards this goal.

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