



NAMAN SHARMA
IAS ACADEMY

Daily **CURRENT AFFAIRS**

 February 2nd, 2026



 **Offline Centre Location:**
SCO 173-174, Sector 17C, Chandigarh

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1. Capex scale-up

Why in the News?

India's Union Budget 2026–27 has announced a major scale-up in capital expenditure (Capex) to ₹12.2 lakh crore, signalling a continued public investment-led growth strategy. The Finance Minister emphasised deeper integration with global markets, export competitiveness, infrastructure expansion, and structural reforms to sustain long-term growth momentum in line with the Viksit Bharat 2047 vision.



Background

Capital expenditure has emerged as the central pillar of India's fiscal strategy since the post-pandemic recovery phase. Unlike revenue expenditure, Capex creates durable assets - roads, railways, ports, logistics, energy systems -that raise long-term productivity.

- India adopted a counter-cyclical fiscal strategy after COVID-19, prioritising infrastructure-led recovery.
- Capex rose sharply from ~₹4.5 lakh crore (2019–20) to ₹11+ lakh crore by 2025–26.
- Public Capex has been used to crowd in private investment.
- Infrastructure bottlenecks historically constrained manufacturing competitiveness.
- India aims to position itself as a global supply-chain alternative.

The 2026 Budget continues this trajectory, raising Capex despite global uncertainty and fiscal pressures.

Features

Infrastructure Push

- ₹12.2 lakh crore Capex target - highest ever.
- New national waterways (Odisha focus).
- Integrated East Coast Industrial Corridor.
- Dedicated freight corridor (Dankuni–Surat).
- Logistics connectivity to ports and industrial clusters.
- Focus on city-economic regions.

Manufacturing and Industrial Strategy

- Scaling up 7 strategic and frontier sectors.
- Champion MSME framework.
- Rejuvenation of legacy industries.
- Rare earth corridors in mineral-rich states.
- Export competitiveness in marine, leather, and textile.
- Customs duty rationalisation.

Energy and Global Integration

- Energy transition acceleration.
- Long-term energy security emphasis.
- Export-led growth orientation.
- Attracting stable long-term global investment.
- Trade integration strategy.

Human Capital & Services Economy

- Skilling in healthcare, medical tourism, AVGC, and design.
- Workforce training ecosystem.
- Support for farmers through productivity.
- Livelihood opportunities for vulnerable groups.
- Mental health & assistive access.

Challenges

Despite ambition, several risks remain:

Fiscal Constraints

- Rising Capex may strain fiscal deficit targets.
- Debt sustainability concerns in a volatile global environment.

Execution Bottlenecks

- Land acquisition delays.
- Environmental clearances.
- State-level administrative capacity gaps.

Crowding-In Uncertainty

- Private sector investment recovery remains uneven.
- Global slowdown may dampen exports.

Infrastructure Quality vs Quantity

- Asset maintenance is often neglected.
- Risk of politically driven project selection.

Regional Inequality

- Capex concentration in select corridors.
- Lagging states may fall further behind.

Global Vulnerabilities

- Supply-chain disruptions.
- Commodity price shocks.
- Geopolitical trade tensions.

Way Forward

Strengthen Public Investment Efficiency

- Independent infrastructure audit mechanisms.
- Outcome-based project evaluation.
- Lifecycle asset maintenance planning.

Deepen Private Sector Participation

- Expand PPP models with risk-sharing frameworks.
- Stable regulatory environment.
- Faster dispute resolution systems.

Fiscal Prudence with Growth

- Improve tax buoyancy.
- Rationalise subsidies without hurting the poor.
- Medium-term fiscal consolidation roadmap.

State-Centre Coordination

- Capacity-building for state infrastructure agencies.
- Performance-linked Capex incentives.
- Urban governance reforms.

Export and Supply-Chain Strategy

- Integrate industrial corridors with ports.
- Trade facilitation reforms.
- Logistics cost reduction.

Inclusive Infrastructure

- Balanced regional investment.
- Rural connectivity.
- Social infrastructure alongside economic assets.

Conclusion

The ₹12.2 lakh crore Capex push marks a decisive commitment to investment-led structural transformation. If executed efficiently, it can crowd in private investment, enhance productivity, and place India firmly within global value chains. However, success will depend less on spending levels and more on governance quality, fiscal discipline, and implementation capacity.

2. Centre aiming for a 4.3% fiscal deficit for 2026-27

Why in the News?

The Union Budget 2026–27 has set the Centre's fiscal deficit target at 4.3% of GDP, a marginal improvement from the 4.4% revised estimate for 2025–26. While the government remains committed to fiscal consolidation and debt reduction, experts note a moderation in the pace of consolidation, largely due to a decline in the gross tax-to-GDP ratio. The Budget also reiterates the government's medium-term commitment to bring the debt-to-GDP ratio to around 50% by 2031, with 2026–27 debt estimated at 55.6% of GDP.

Background

What is fiscal deficit?

Fiscal deficit represents the gap between total government expenditure and total non-debt receipts. It indicates the amount the government must borrow to finance its spending. India has followed a fiscal consolidation path under the Fiscal Responsibility and Budget Management (FRBM) framework, aiming to ensure macroeconomic stability by controlling deficits and debt.

Recent trajectory:

- FY25: 4.8% of GDP
- FY26 (RE): 4.4% of GDP
- FY27 (BE): 4.3% of GDP



The Finance Minister has fulfilled her earlier commitment of bringing the deficit below 4.5% by FY26. However, the glide path now emphasises debt consolidation rather than aggressive deficit compression.

Shift to debt anchor

- Since Budget 2025, the government has adopted a debt-to-GDP anchor instead of focusing solely on annual fiscal deficit numbers.

The target is:

- Debt-to-GDP \approx 50% (\pm 1%) by March 2031
- This approach aligns with global best practices where public debt sustainability is prioritised over short-term deficit targets.

Features

Moderated fiscal consolidation

The reduction in deficit is only 10 basis points, compared to a sharper 40 bps cut last year. This reflects:

- A fall in the gross tax-to-GDP ratio
- Slower growth in non-debt receipts
- Need to sustain capital expenditure

Declining tax buoyancy

Gross tax-to-GDP ratio:

- FY25: 11.5%
- FY26 (RE): 11.4%
- FY27 (BE): 11.2%

This indicates weakening tax buoyancy relative to GDP growth.

Strong capital expenditure push

Capital expenditure:

- ₹12.2 lakh crore in FY27
- Growth of 11.5% over FY26 (RE)
- ~4.4% of GDP — highest in a decade

This signals a continued focus on infrastructure-led growth.

Stable tax regime

- No major tax cuts for salaried or corporate
- Corporate tax revenue: +11%
- Income tax revenue: +11.7%

The government is prioritising revenue stability over populist tax relief.

Debt reduction path

Debt-to-GDP:

- FY26 (RE): 56.1%
- FY27 (BE): 55.6%

Gradual decline reduces interest burden and creates fiscal space.

Challenges

Weak tax-to-GDP ratio

A falling tax ratio limits fiscal space. Structural issues include:

- Narrow tax base
- Informal economy dominance
- GST compliance gaps

- Slower corporate profitability in some sectors

High interest burden

Large public debt leads to:

- Rising interest payments
- Crowding out of social sector spending
- Reduced fiscal flexibility

Balancing growth vs consolidation

Too rapid deficit reduction may:

- Hurt public investment
- Slow economic growth
- Reduce employment generation

Way Forward

Broaden the tax base

- Improve GST compliance using AI-based analytics
- Rationalise exemptions
- Expand the direct tax net
- Formalise MSME sector

Improve expenditure quality

- Shift from subsidies to productive investment
- Outcome-based budgeting
- Sunset clauses for inefficient schemes

Strengthen debt management

- Develop deeper bond markets
- Lengthen the maturity profile
- Reduce rollover risks

Enhance revenue buoyancy

- Promote high-growth sectors
- Encourage manufacturing and exports
- Support digital economy taxation

Conclusion

The 4.3% fiscal deficit target for FY27 reflects a careful balancing act: sustaining capital-led growth while staying committed to long-term fiscal prudence. The moderation in consolidation highlights structural revenue constraints rather than fiscal indiscipline.

India's fiscal strategy is gradually shifting from annual deficit optics to debt sustainability and expenditure quality.

3. Tax holiday for data centres enthruses IT business leaders

Why in the News?

The Union Budget 2026–27 has announced a long-term tax holiday for foreign firms establishing data centres in India, alongside expanded safe harbour provisions for IT and Global Capability Centres (GCCs). Industry leaders have described the move as a major fiscal incentive aimed at positioning India as a global hub for data infrastructure, cloud computing, and innovation.



The proposal includes:

- Tax holiday till 2027 for foreign companies setting up data centres
- Safe harbour margin of 15–15.5% for IT/data services
- Higher eligibility threshold of ₹2,000 crore
- Automated approval mechanism

This has generated strong optimism among IT, cloud, and digital infrastructure players.

Background

Rise of the data economy

Data has emerged as a strategic asset in the 21st century. Countries are competing to attract:

- Hyperscale data centres
- Cloud infrastructure
- AI computing hubs
- Global digital operations

India is already a major IT services exporter and hosts over 1,500 Global Capability Centres serving multinational corporations. However, much of the high-value data ownership and domiciliation remains outside India.

Need for fiscal incentives

Challenges faced by India's data infrastructure sector:

- High capital costs
- Energy-intensive operations
- Regulatory uncertainty
- Cross-border tax complications
- Transfer pricing disputes

The Budget attempts to reduce friction and offer long-term predictability to global investors.

Features

Long-term tax holiday for foreign data centres

- Foreign firms using Indian data centres get:

- Tax exemption until 2047
- Encouragement for hyperscale investments
- Incentive to localise data infrastructure

This is designed to attract global cloud giants and AI infrastructure providers.

Expanded safe harbour framework

- A safe harbour reduces litigation and tax uncertainty.

Key reforms:

- Common 15–15.5% margin for IT/data services
- Threshold increased from ₹300 crore to ₹2,000 crore
- Automated rule-based approvals
- Coverage expanded to data and digital services

This provides regulatory clarity and reduces transfer pricing disputes.

Boost to Global Capability Centres (GCCs)

GCCs act as offshore innovation hubs for multinational firms. The reforms:

- Lower compliance friction
- Improve fiscal predictability
- Encourage high-value R&D and AI work in India
- Promote innovation ecosystems

Strategic positioning

- The policy reframes India as:
- A secure global sanctuary for digital operations
- In a volatile geopolitical environment, firms prefer stable jurisdictions for data and cloud infrastructure.

Challenges

Power infrastructure constraints

Data centres are energy-intensive:

- Massive electricity demand
- Need for uninterrupted supply
- Cooling infrastructure requirements

Without power grid upgrades, incentives alone may not deliver scale.

Environmental concerns

- **Large data centres raise:**
- Carbon footprint issues
- Water consumption concerns
- Heat emissions

Balancing sustainability with expansion is critical.

Land and urban planning

Hyperscale facilities require:

- Strategic land allocation
- Urban zoning reforms

- Proximity to fibre networks

Way Forward

Green data centre policy

- Renewable-powered data parks
- Incentives for energy efficiency
- Carbon-neutral infrastructure

Dedicated data centre zones

- Plug-and-play infrastructure
- Fast-track approvals
- Integrated fibre and power grids

Strengthen digital governance

- Robust data protection enforcement
- Cybersecurity standards
- Cross-border data frameworks

Power sector reforms

- Reliable industrial power supply
- Special tariffs for digital infrastructure
- Grid modernisation

Conclusion

The tax holiday for data centres marks a strategic pivot from India being merely a back-office IT hub to becoming a global digital infrastructure powerhouse. By lowering regulatory barriers and offering long-term fiscal certainty, the government is betting on data as the new engine of growth.

4. New rural jobs scheme gets over ₹95,000 crore

Why in the News?

The Union Budget 2026–27 has announced a major restructuring of rural employment policy with the launch of a new scheme under the **Viksit Bharat-Guarantee for Rozgar and Ajeevika Mission (Gramin) Act, 2025 (VB-G RAM G)**. The scheme receives over ₹95,000 crore, alongside ₹30,000 crore allocated to the continuing Mahatma Gandhi National Rural Employment Guarantee Act, 2005 (MGNREGA). While the total allocation of ₹1.25 lakh crore marks a 43% increase over last year, activists argue it is far below what is required to deliver the government's stated commitment of 125 days of employment to all eligible workers.

Background

Evolution of India's rural employment guarantee

MGNREGA (2005) established a legal right to work, guaranteeing:

- 100 days of wage employment
- Demand-driven work
- Social audits and transparency
- Focus on rural asset creation

It became the world's largest public works programme and a key rural safety net, especially during crises like COVID-19.

The new VB-G RAM G Act seeks to:

- Expand employment guarantees
- Integrate livelihoods and skilling
- Align with the "Viksit Bharat" vision
- Shift toward structured rural productivity



Features of the Budget Announcement

- New flagship rural employment scheme
- ₹95,692 crore allocation
- Replaces the MGNREGA framework
- Focus on employment + livelihoods
- Expected to guarantee up to 125 days of work

Transitional support for MGNREGS

- ₹30,000 crore allocated
- Meant to clear liabilities
- Covers ongoing works during transition

Massive scale of beneficiaries

- 8.65 crore active job card holders
- Demand-driven participation

- Largest rural workforce safety net globally

Panchayat empowerment

- ₹55,900+ crore to local bodies
- Direct fiscal devolution
- Strengthens decentralised governance

Challenges

Funding gap

- Experts estimate:
- Required allocation: ₹2.3 lakh crore (Centre share)
- Current allocation: ~₹1.25 lakh crore (Centre + MGNREGS)

This creates a serious fiscal shortfall if 125 days of work are to be honoured.

Demand vs supply mismatch

- Employment schemes are demand-driven. If funds run out:
- Wage delays increase
- Work demand is suppressed
- Legal guarantees weaken

Transition uncertainty

- Replacing MGNREGA risks:
- Administrative confusion
- State readiness gaps
- Implementation delays
- Worker awareness challenges

- **Wage adequacy**
- **Average wage: ₹355/day**

Concerns:

- Below the living wage in many States
- Inflation erosion
- Rural distress persists

Centre–State fiscal burden

- 60:40 sharing model:
- States are already fiscally stressed
- Risk of uneven implementation

Way Forward

Align allocation with legal guarantees

- Increase mid-year supplementary grants
- Link funding to actual demand

- Protect the right-to-work framework

Strengthen transparency

- Real-time public dashboards
- Mandatory social audits
- Payment tracking systems

Integrate livelihoods

- Skill development modules
- Agriculture-linked assets
- Rural enterprise support

Improve wage structure

- Index wages to inflation
- State-specific living wage benchmarks
- Faster payment systems

Smooth transition strategy

- Parallel running of old and new systems
- Worker awareness campaigns
- Capacity building for panchayats

Climate-resilient rural assets

- Water conservation
- Soil restoration
- Renewable energy infrastructure
- Drought-proofing projects

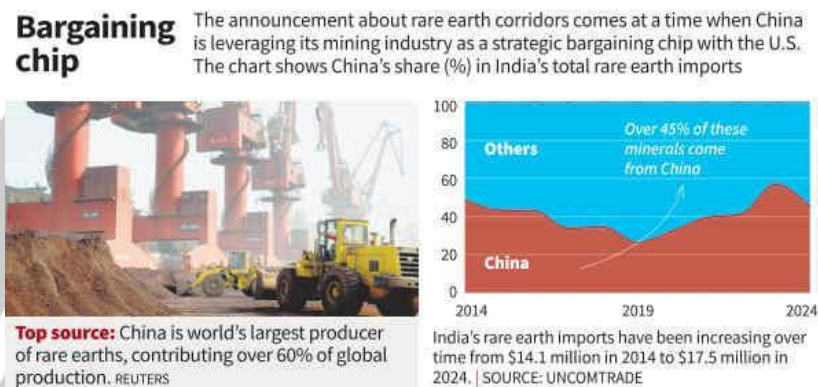
Conclusion

The new rural jobs framework signals an ambitious attempt to move beyond relief toward livelihood security and rural productivity. However, the credibility of any employment guarantee depends not on announcements, but on adequate funding and timely implementation. If allocations remain below required levels, the scheme risks repeating past cycles of arrears and unmet demand. A fully funded, transparent, and decentralised rural employment architecture is essential not just for poverty reduction, but for stabilising India's rural economy in an era of climate and economic uncertainty.

5. Rare earth corridors to cut China imports

Why in the News?

The Union Budget 2026–27 announced the creation of rare earth corridors in mineral-rich States - Odisha, Kerala, Andhra Pradesh, and Tamil Nadu - to strengthen India's mining, processing, and manufacturing ecosystem for critical minerals. The move is aimed at reducing India's heavy dependence on Chinese rare earth imports and securing supply chains for clean energy, defence, and high-tech industries.



Background

What are rare earth elements (REEs)?

Rare earth elements are a group of 17 metals used in advanced technologies. Despite the name, they are not rare in quantity but are difficult and expensive to extract and refine.

They are broadly classified into:

- Light rare earths (LREEs) - lanthanum, cerium, neodymium, etc.
- Heavy rare earths (HREEs) - dysprosium, terbium, yttrium, etc.

They are critical for:

- Electric vehicles
- Wind turbines
- Defence electronics
- Smartphones and semiconductors
- Aerospace systems

Global geopolitics of rare earths

- China dominates the global rare earth value chain:
- ~60% of global production
- ~92% of global refining capacity
- ~30% of global exports

International Energy Agency notes that China's strength lies not only in reserves, but in decades of investment in mining technology, refining, and research.

India imports over 45% of its rare earth needs from China, creating strategic vulnerability.

Features

State-based mineral clusters

The government will support corridor development in:

- Odisha
- Kerala
- Andhra Pradesh
- Tamil Nadu

These corridors aim to integrate:

- Exploration
- Mining
- Processing
- Research
- Manufacturing

Full value-chain development

Unlike earlier mining-only approaches, the focus is on:

- Domestic refining capacity
- Advanced materials manufacturing
- Research and innovation hubs
- Industry-academia collaboration

This reduces dependence on foreign refining.

Strategic supply security

- Rare earth corridors support:
- Clean energy transition
- Defence indigenisation
- Semiconductor ecosystem
- Electric mobility mission

They are part of India's broader critical minerals strategy.

Challenges

- Technological gap
- China leads in:
- Extraction efficiency
- Refining technology
- Material science R&D

India must catch up in high-end processing.

Environmental concerns

- Rare earth mining causes:
- Radioactive waste
- Soil and water contamination
- Coastal ecosystem damage

Strong environmental safeguards are essential.

Capital intensity

- Rare earth processing plants require:

- Heavy upfront investment
- Long gestation periods
- Price volatility protection

Private sector participation may be cautious.

Global competition

- Other countries (the US, Australia, the EU, and Japan) are also:
- Diversifying supply chains
- Building strategic reserves
- Investing in alternatives

Way Forward

- National Rare Earth Mission
- Dedicated funding
- Long-term policy roadmap
- Strategic stockpiles

Technology partnerships

- Collaboration with Japan, Australia, EU
- Joint research centres
- Licensing advanced refining technologies

Green mining framework

- Strict environmental compliance
- Waste recycling
- Sustainable extraction methods

Conclusion

Rare earth corridors mark a decisive step toward resource sovereignty and technological self-reliance. In a world where minerals are geopolitical weapons, India's move is both economic and strategic. However, mining alone will not break China's dominance. Success depends on mastering refining, materials science, and high-end manufacturing.

6. Budget 2026 bets big on industrial growth

Why in the News?

Budget 2026–27 has been framed as a decisive pivot toward industrial-led growth, with a record capital expenditure push, expanded support for frontier manufacturing sectors, and renewed emphasis on fiscal prudence. At a time when India has become the world's fourth-largest economy and is experiencing high growth with relatively contained inflation, the Budget attempts to balance long-term industrial strategy with macroeconomic stability.

Background

India is currently in what economists describe as a “Goldilocks phase”:

- High real GDP growth (~7%)
- Moderate inflation (~4%)
- Strong public capex momentum
- Stable fiscal glide path

Yet, structural vulnerabilities persist:

- Weak private investment revival
- Global geopolitical tensions
- Tariff wars and supply chain disruptions
- Volatile currency movements
- Uneven employment generation
- The Budget is positioned as a bridge between optimism and realism — sustaining growth without fiscal excess.



Features

Record capital expenditure

- Capex: ₹12.2 lakh crore
- Up from ₹11.2 lakh crore
- Infrastructure-led growth model continues
- Multiplier effect expected on private investment
- The state remains the primary engine of investment.

Fiscal discipline maintained

- Fiscal deficit target: 4.3% of GDP
- Debt-to-GDP: 55.6% (glide path toward 50%)
- Large borrowing but within prudential limits
- Nominal GDP growth assumed above 10%

The message: growth without fiscal recklessness.

Manufacturing at the centre

A major shift in emphasis:

- Expansion beyond PLI schemes
- Focus on strategic sectors:
 - Semiconductors
 - Electronics components
 - Biopharma
 - Chemicals
 - Capital goods
 - Textiles

India Semiconductor Mission 2.0 deepens chip manufacturing and reduces supply chain dependence.

Electronics Component Manufacturing Scheme outlay: ₹40,000 crore.

Export and logistics strengthening

- ₹10,000 crore container manufacturing scheme
- Freight corridor expansion
- Export support for textiles, leather, and seafood
- Strategic response to U.S.–China tariff disruptions
- This positions India as an alternative manufacturing hub.

MSME financing reforms

- ₹10,000 crore SME Growth Fund
- Equity support for scalable enterprises
- Complements traditional bank credit
- Signals structural strengthening, not temporary relief.

Big-ticket digital infrastructure bet

- Zero tax till 2047 for global cloud services using Indian data centres:
- Encourages tech giants to domicile operations in India
- Positions India as a data hub
- One of the longest tax concessions ever offered

Challenges and Gaps

- Lack of a comprehensive industrial policy
- Announcements risk becoming fragmented without:
 - A unified industrial roadmap
 - Sectoral coordination
 - Clear implementation architecture

Demand-side weakness

- Industrial expansion requires:
 - Strong domestic consumption
 - Employment growth
 - Income stability

The Budget is heavy on supply-side measures but light on demand stimulation.

Capex execution gap

- Budgeted vs actual capex shortfalls reduce multiplier impact:

- Weakens growth transmission
- Slows demand creation

Employment paradox

- Services sector growth is assumed to generate jobs despite:
- AI-driven automation
- Low employment elasticity

Energy mismatch

- Data centre expansion requires:
- Massive power supply
- Grid upgrades

Currency volatility ignored

- A strong economy coexists with a volatile rupee:
- Affects trade competitiveness
- Capital flows
- Investor confidence

Budget silence on this is notable.

- Disinvestment credibility
- Past targets missed significantly:
- Target: ₹47,000 crore
- Realised: ₹8,768 crore

Future expectations appear optimistic.

Way Forward

Integrated industrial policy

- Clear sectoral roadmaps
- Long-term incentives
- Technology upgrading strategy

Demand revival strategy

- Rural income support
- Urban employment growth
- Consumption stimulus

Capex execution reform

- Faster project approvals
- Monitoring frameworks
- State-level coordination

Employment-linked manufacturing

- Labour-intensive sector focus
- Skill development pipelines



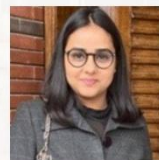
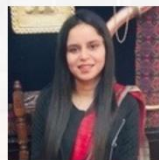
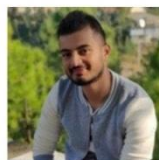
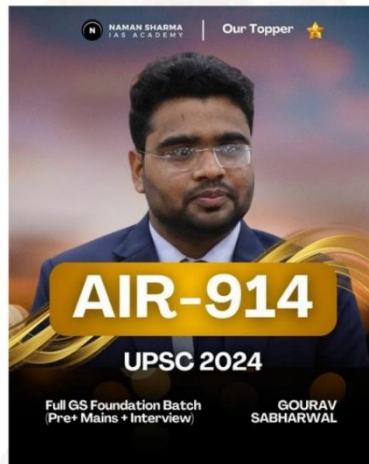
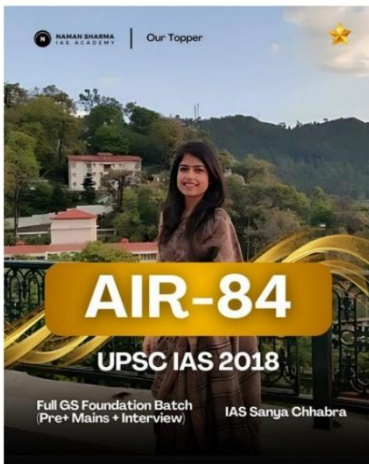
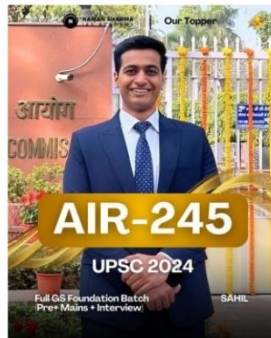
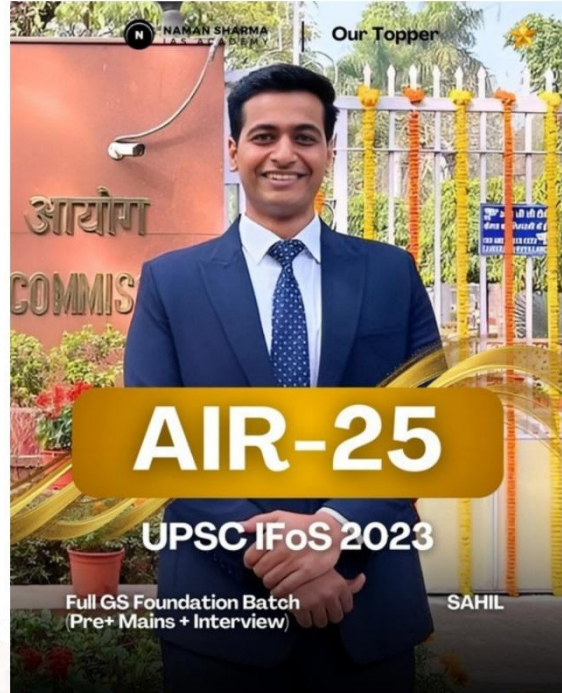
- SME-led job ecosystems

Conclusion

Budget 2026–27 places a bold bet on industrial transformation as the engine of India's next growth phase. It preserves fiscal discipline while expanding capital investment and targeting frontier sectors - a rare balancing act. Yet growth cannot rest on infrastructure and incentives alone. Without sustained domestic demand, employment expansion, and institutional industrial policy, the momentum may weaken.



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