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Economy

## Union Budget FY 2026-27: Strengthening Capital Goods Sector

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Key Takeaways

- **Government capital outlay rose 4.2×** from ₹2.63 lakh crore in FY18 to ₹11.21 lakh crore in FY26 (BE)
- **Union Budget FY 2026-27 announces public capital expenditure at ₹12.2 lakh crore**
- **Capital goods under IIP grew 8.1% YoY in December 2025**
- **₹10,000 crore Container Manufacturing Scheme and new CIE & Hi-Tech Tool Room initiatives announced**
- **Five-year tax exemptions** for toll and electronics manufacturing, along with **customs duty exemptions** for capital goods in various sectors

Introduction

**India's capital goods sector is a strategic cornerstone** in India's industrial policy, supported by government infrastructure investments and a strong manufacturing push. The sector is a critical driver of infrastructure expansion, industrial capacity creation, and technological advancement across the economy.

With a view to **building high-precision manufacturing capacity, promoting technologically advanced equipment, and creating globally competitive industrial ecosystems, the capital goods sector has remained a key focus of government policy.** Given its critical importance to the country's economic development, the sector's expansion has been consistently supported through targeted incentives and strengthened regulatory frameworks. **The Union Budget 2026-27 further reinforces this direction, emphasising the need to support a rapidly expanding economy characterised by rising trade volumes and increasing capital requirements.**

**Guided by the framework of three *kartavyas*,** the Union Budget identifies its first priority as accelerating and sustaining economic growth by proposing interventions in various key areas. **Capital goods development remains a key component of the strategy, with continued emphasis on sector-specific schemes and sustained capital expenditure** aimed at strengthening domestic manufacturing capabilities and infrastructure creation.

The proposed measures seek to boost investment, enhance domestic capacity, and support long-term economic growth in the **Capital Goods sector.**

### **Capital Goods**

**“Capital Goods” means any plant, machinery, equipment or accessories required for manufacture or production,** either directly or indirectly, of goods or for rendering services, including those required for replacement, modernisation, technological up-gradation or expansion.

Capital goods may be used in manufacturing, mining, agriculture, aquaculture, animal husbandry, floriculture, horticulture, pisciculture, poultry, sericulture and viticulture as well as for use in services sector.

### **Capital Goods Sector Strengthening India's Growth Engine**

The capital goods sector plays a vital role in India's economic strategy by supporting large-scale manufacturing and infrastructure projects. Driven by rapid urbanization, ongoing infrastructure investments, and strong policy support, the sector is set to foster long-term industrial growth and strengthen India's standing in the global economy.

**Capital goods are widely regarded as foundational to strengthening domestic manufacturing capacity. The sector also exerts a strong multiplier effect on the economy,** significantly influencing **growth and employment across user industries** by supplying **critical inputs such as machinery and equipment** to the entire manufacturing ecosystem, as well as to other related sectors.

## Role of Capital Goods in Industrial Growth



**India's industrial growth momentum in FY26 has become more broad-based**, with manufacturing emerging as a major driver and gaining further pace during the year. The Economic Survey 2025-26 notes that **manufacturing GVA growth accelerated in FY26, reaching 7.72% in Q1 and 9.13% in Q2**, supported largely by ongoing structural transformations within the sector.

Further, the **Index of Industrial Production (IIP) registered a growth of 7.8% in December 2025**, supported by broad-based expansion in manufacturing (8.1%) and continued growth in mining (6.8%). A key contributor to this performance was the **capital goods segment under the use-based classification, which recorded an 8.1% year-on-year increase** during the same period.

The **export performance of the capital goods** sector since FY22 has been closely linked to the **expansion of domestic production capacity and the strengthening of investment activity** within the economy. **Exports recorded steady growth**, increasing to ₹33,356 crore in FY25 from ₹31,621 crore in FY24. Similarly, **production also witnessed a notable rise**, reaching ₹2,05,194 crore in FY25 compared with ₹1,85,858 crore in the previous financial year. On the import front, **merchandise imports rose** by 6.3% year-on-year in FY25 to reach USD 721.2 billion, driven largely by **stronger demand for critical intermediate goods and capital equipment, reflecting resilient domestic demand**. Further, **capital goods imports expanded by 6.6% in Q1 FY26 and further accelerated to 9.2% in Q2 FY26**. The overall dual trends highlights **sustained domestic investment activity** as well as reliance on technologically advanced machinery sourced from abroad.

Also, High-frequency indicators suggest healthy investment activity in capital goods. The overall growth in the sector indicates rising industrial activity, reflecting improved performance and expanding economic momentum.

**High-frequency indicators signalling firming investment momentum (YoY growth, %)**

Indicators	Q1 FY26	Q2 FY26	Q3 FY26	Monthly Avg YoY Growth (FY16-FY20)
Capital Goods Imports	6.6	9.2	13.4	7.1
Capacity Utilisation (in %)	74.1	74.8	NA	72.9

Source: Economic Survey 2025-26

### What are Capital Goods Imports?

Capital goods imports are defined as the aggregate of imports of electric machinery and equipment; base metals excluding iron and steel; industrial machinery, including machinery for dairy and allied uses; machine tools; other construction machinery; project goods; and transport equipment.

### Government Capex has continued to rise steadily since FY22



**The Government's capital expenditure between FY19 and FY22 spending grew by about 92%, increasing from ₹3.07 lakh crore to ₹5.92 lakh crore.** This upward trajectory has continued in subsequent fiscal years, supporting the broader objective of expanding high-quality infrastructure nationwide.

**Additionally, the government's capital outlay has further increased by nearly 4.2 times, from ₹2.63 lakh crore in FY18 to a budgeted ₹11.21 lakh crore in FY26(BE), whereas effective public capital expenditure for FY26 (BE) stands at ₹15.48 lakh crore.**

### Sectoral Impact of Capital Goods Expansion

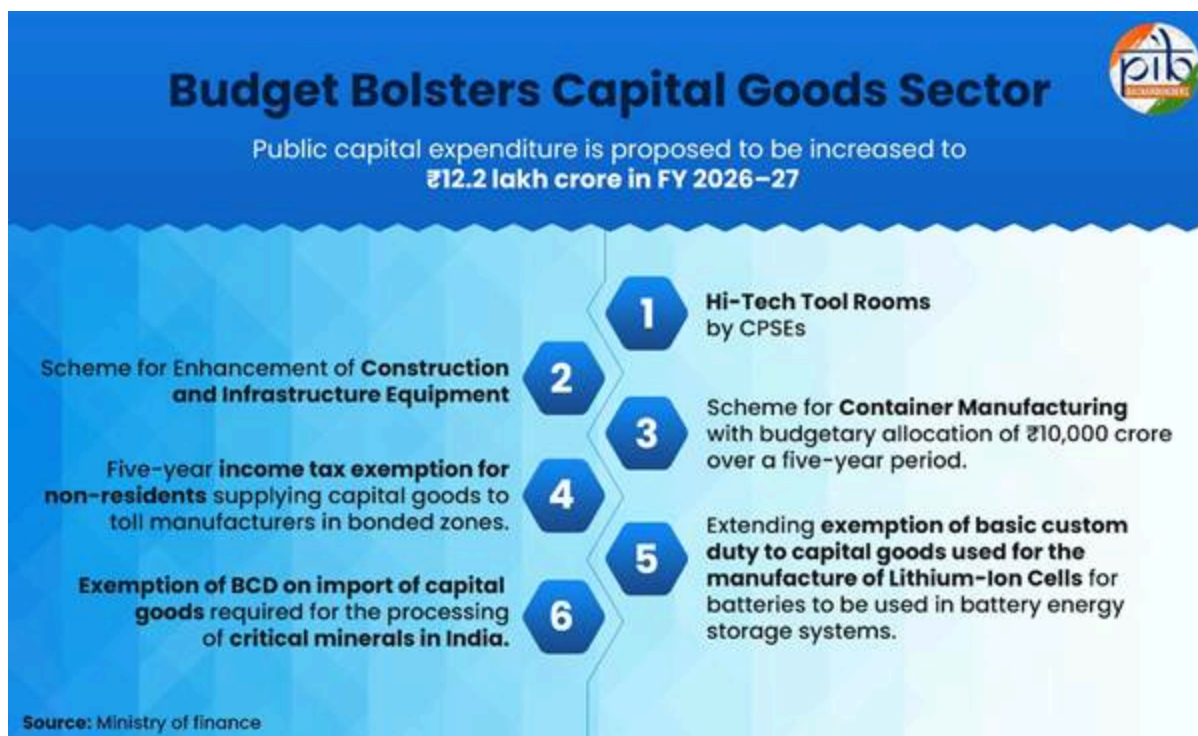
**India's expanding capital goods sector is supporting strong growth across several industrial segments.** It is experiencing significant attention because of its **pivotal role in advancing industrial activity and overall economic development.** The sector also

encompasses other industries such as, machinery, and construction, which are essential for the country's infrastructure development. For instance, the electrical equipment segment has consistently recorded double-digit output growth in power equipment, driven by strong demand in both domestic and export markets.

Together, these trends highlights that **India's capital goods sector is emerging as a central pillar of its investment-led growth strategy, reinforcing industrial capacity, accelerating infrastructure creation**, and sustaining the country's long-term economic momentum.

### **Budget Focus on Capital Goods: A Push for the Economy**

The **Union Budget 2026–27 underscores the capital goods sector as a key driver of India's growth and industrial transformation**. It prioritises expansion of manufacturing capacities in seven strategic and frontier sectors, supported by focused interventions for capital goods. The **Budget strengthens the sector's role across manufacturing, and the energy transition to enhance productivity and quality standards**. These measures aim to reinforce domestic capacity while supporting India's deeper integration with global markets.



### **Public Capital Expenditure: Infrastructure-led Growth**

Reinforcing the role of public investment as a key driver of economic growth, the Budget delivers a strong push to infrastructure development. **Public capital expenditure is proposed to be increased by ~9% from FY 2025-26 (Budget Estimates) to ₹12.2 lakh crore in FY 2026–27**. Public capex has increased manifold from ₹2 lakh crore in FY 2014-15. This underscores the continued emphasis on infrastructure-led growth, crowding-in of private investment and enhancement of productive capacity across the economy.

### **Strengthening Manufacturing through Capital Goods Development**

Recognising the strong capital goods capability underpins productivity and quality across industries, several targeted interventions have been proposed to build domestic capacity.

- To enhance high-precision manufacturing, **Hi-Tech Tool Rooms are proposed to be established by CPSEs (Central Public Service Enterprise) at two locations.** These facilities will function as digitally enabled, automated service bureaus, providing localised design, testing and manufacturing of high-precision components at lower cost.
- Further, a **Scheme for Enhancement of Construction and Infrastructure Equipment (CIE)** is proposed to strengthen domestic manufacturing of high-value and technologically advanced construction and infrastructure equipment. This includes a wide range of equipment, from lifts used in multi-storey buildings and fire-fighting equipment to tunnel-boring machinery for metro projects and high-altitude roads.
- To support logistics and trade infrastructure, the Budget also proposes a **Scheme for Container Manufacturing**, aimed at creating a globally competitive container manufacturing ecosystem. The scheme has a proposed **budgetary allocation of ₹10,000 crore over a five-year period.**

### **Support to Toll Manufacturing and Electronics Manufacturing**

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To provide a fillip to toll manufacturing in India, the Budget proposes an **income tax exemption for a period of five years** to any non-resident entity that provides capital goods, equipment or tooling to a toll manufacturer operating in a bonded zone.

In addition, specific support has been extended to toll manufacturing engaged in electronics manufacturing. Under the proposal, a **tax exemption is provided to any foreign company supplying capital goods, equipment or tooling to a toll manufacturer located in a bonded zone and engaged in manufacturing electronic goods.** The exemption is proposed for **five tax years beginning 1st April, 2026.**

The measure aims to reduce the capital investment burden on Indian contract manufacturers, thereby lowering production costs and promoting electronics manufacturing in India. The proposed amendment is applicable up to **tax year 2030–31.**

### **Energy Transition and Critical Minerals: Capital Goods Facilitation**

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In support of energy transition and energy security, the Budget proposes to **extend the basic customs duty exemption on capital goods** used for manufacturing Lithium-Ion cells for batteries to those used for manufacturing Lithium-Ion cells for **battery energy storage systems** as well.

Further, the **basic customs duty on the import of capital goods required for processing critical minerals in India is proposed to be exempted**, with a view to strengthening domestic value chains for critical minerals.

### **Recent Policy Support Strengthening Capital Goods Sector**

The Government's policy support for the capital goods sector has expanded significantly, with multiple schemes aimed at improving domestic capability and aligning with India's investment-led growth phase. Some of the recent policy support includes:

### **Production Linked Incentive (PLI) Schemes**

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The core objective of the PLI Scheme is to **attract investments in key sectors**, facilitate the **adoption of cutting-edge technologies**, enhance **operational efficiency**, and achieve **economies of size and scale**, thereby **strengthening the global competitiveness of Indian manufacturers**. The **Economic Survey 2025-26** highlights key sectoral gains such as:

- **PLI-Auto Scheme** promotes manufacturing of advanced automotive technology vehicles and components. It attracted **₹35,657 crore in investments** and **created 48,974 jobs till September 2025**.
- **PLI-Advanced Chemistry Cell (ACC) Scheme** aims at localising **battery manufacturing**, with 40 GWh capacity awarded thus, **strengthening India's EV ecosystem**.

#### **Rising Impact of PLI Schemes in Strengthening India's Manufacturing Sector**

According to the **Economic Survey 2025-2026**, an **actual investment of over ₹2.0 lakh crore has been realised till September 2025**, leading to **incremental production/sales of over ₹18.70 lakh crore** and **employment generation of over 12.60 lakhs (direct and indirect)**.

Additionally, **cumulative incentives of ₹23,946 crore have been disbursed across 12 sectors, with 806 applications approved** across all 14 sectors. The PLI Schemes have witnessed **exports surpassing ₹8.20 lakh crore**, driven by key sectors under the Scheme.

### **Scheme for Enhancement of Competitiveness in the Indian Capital Goods Sector**

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The Government is undertaking focused measures to strengthen the competitiveness of the capital goods sector through **Phase II of the Scheme on Enhancement of Competitiveness in the Indian Capital Goods Sector, introduced in 2022**. The scheme covers **six major components**, including technology identification through innovation portals, **setting up Advanced Centres of Excellence (CoEs)**, establishing **Common Engineering Facility Centres (CEFCs)**, upgrading testing and certification infrastructure, and implementing comprehensive skill development initiatives.

**As of November 2025, 29 projects have been approved under Phase II, involving a total project cost of ₹891.37 crore, with a government contribution of ₹714.64 crore.**

Technologies developed under the scheme have also captured markets in countries such as France, Belgium, and Qatar, demonstrating the sector's improving global competitiveness.

The **Scheme for Enhancement of Competitiveness in the Indian Capital Goods Sector** is a demand-driven scheme under which industry, in partnership with eminent academic and research institutions, proposes projects for government funding, with the objective of fostering long-term industry-academia collaboration for critical R&D.

## **Conclusion**

**Building on its *kartavya* and the government's resolve to drive comprehensive economic growth and development, the capital goods sector plays a significant role in advancing this agenda.** With existing policy support and new measures introduced in the Union Budget 2026-27, the sector is well positioned to make a strong contribution to India's economic development in the coming years.

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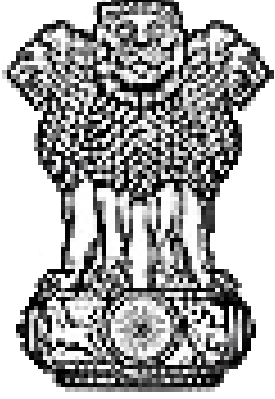


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