ECONOMIC LAWS PRACTICE
ADVOCATES & SOLICITORS

BUDGET BUZZ

Banking and Financial Sector

BUDGET PROPOSAL

The Union Budget 2026–27 marks a clear transition from balance-sheet repair to second-generation banking and financial sector reforms. The finance minister highlighted strong balance sheets, record profitability, improved asset quality and near-universal financial inclusion. The policy focus is now on future-proofing the banking system to support India's next phase of growth.

Key proposals include the constitution of a High-Level Committee on Banking for Viksit Bharat, restructuring of select public sector NBFCs, credit and guarantee initiatives for MSMEs, deepening of the corporate bond market, infrastructure risk guarantees for lenders, and a review of FEMA (Non-Debt Instruments) Rules.

KEY BANKING & FINANCIAL SECTOR MEASURES

- High-level Committee on Banking for Viksit Bharat to review banking laws, governance, stability, inclusion and consumer protection.
- Restructuring of Power Finance Corporation and Rural Electrification Corporation to improve scale and efficiency of PSU NBFCs.
- Credit guarantee support through CGTMSE for MSME invoice discounting on the TReDS platform.
- Mandatory use of TReDS by CPSEs for MSME procurement and securitisation of TReDS receivables.
- Creation of an Infrastructure Risk Guarantee Fund providing partial credit guarantees to lenders during construction phase.
- Introduction of market-making framework, derivatives and total return swaps for corporate bonds.
- Incentives for large municipal bond issuances and continued support for smaller cities.
- Proposed comprehensive review of FEMA (Non-Debt Instruments) Rules.

IMPACT

These measures are expected to improve risk-adjusted credit growth, deepen bond markets, and reduce over-reliance on bank balance sheets. Credit guarantees and platform-based financing are likely to lower MSME working capital stress and reduce insolvency triggers. Infrastructure guarantees are expected to improve project bankability and revive long-tenor lending.

ELP's INSIGHTS

From a legal and creditor perspective, the Budget signals a decisive shift from NPA resolution to structural reform. The proposed High-Level Committee may lead to substantive changes in the Banking Regulation Act, PSB governance norms, and interaction between prudential regulation and the IBC. CGTMSE-backed TReDS financing represents a structural move towards receivable-based MSME lending, reducing enforcement and litigation risk. Partial credit guarantees for infrastructure address a long-standing lender concern, though clarity on invocation and dispute resolution will be critical. A modernized FEMA framework is expected to ease cross-border structuring but will require careful navigation of transition and grandfathering issues.

Overall, Budget 2026–27 lays the foundation for second-generation banking and financial sector reforms, with meaningful implications for lending, restructuring, enforcement and capital markets.