



As the countdown to **Union Budget 2026** begins, the Indian financial ecosystem is at a crossroads of immense potential. Amidst a global landscape defined by trade shifts and domestic credit resilience, the upcoming budget is increasingly seen as the definitive roadmap for India's "Viksit Bharat" vision. The industry's focus is clear: to re-engineer the plumbing of Indian credit by placing the **Non-Banking Financial Company (NBFC)** and **Micro, Small, and Medium Enterprises (MSME)** sectors at the very epicentre of the fiscal strategy.

With MSMEs contributing over **30% to India's manufacturing output** and nearly **46% of exports**, their health depends on the government's willingness to strengthen the liquidity and recovery frameworks of the NBFCs that serve them. Stakeholders are hopeful that Budget 2026 will address this "symbiotic engine" through three visionary pillars: structural liquidity, de-risked lending, and digital formalisation.

A. NBFC Liquidity: The Hope for Structural Stability

For years, mid-sized and small NBFCs have navigated a precarious "liquidity tightrope." The upcoming budget offers a historic opportunity to move from a system of bank-dependence to a future of institutional stability.

1. The Call for an NHB-Style Refinance Facility

The top priority for industry bodies like the FIDC is the hope that the government will announce a dedicated **Refinance Window for NBFCs**, mirroring the National Housing Bank (NHB) model.

- **The Vision:** A sovereign-backed, low-cost funding source would diversify the sector's funding base.
- **The Goal:** By earmarking these funds for MSME and priority sectors, the government could ensure that liquidity reaches the last mile without being choked by market volatility.
- **The Outcome:** Experts believe this could reduce the cost of funds for NBFCs by **50–75 basis points**, a benefit that would trickle down to the smallest entrepreneurs in the form of lower interest rates.

2. Lowering the SARFAESI Threshold: A Recovery Vision

While the **GNPA of NBFCs** stood at a healthy **3.08%** in mid-2025, maintaining this quality requires sharper tools. There is high optimism that Budget 2026 will finally lower the **SARFAESI Act threshold**.



- **The Expectation:** Reducing the eligibility limit from **₹20 lakh to ₹1 lakh**.
- **The Impact:** This would empower NBFCs to manage risk more aggressively on micro-loans, reducing the "risk premium" currently charged to micro-borrowers.
- **Impact:** Empowers NBFCs to manage risk aggressively on small-ticket loans, significantly reducing the "risk premium" they charge to micro-borrowers.

Feature	Legacy System	The Budget 2026 Vision
Funding Source	Primarily Bank Credit/Commercial Paper	Dedicated Sovereign-Backed Refinance
Recovery Power	SARFAESI applicable > ₹20 Lakh	Applicable > ₹1 Lakh
Lending Focus	General Retail/Corporate	Earmarked for MSMEs & Green Assets

B. MSME Lending: De-risking the "Backbone" of India

The estimated **₹25 lakh crore credit gap** for MSMEs remains a challenge. Budget 2026 is expected to be the moment when the government scales up sovereign guarantees to unlock the sector's full potential.

1. CGTMSE Expansion: The Goal for ₹1.5 Lakh Crore

Stakeholders are looking to the **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)** for a significant boost in its mandate.

- **The Target:** Unlocking **₹1.5 lakh crore** in additional credit over the next five years.
- **Startup Hope:** Industry leaders expect the guarantee cover for startups to double from **₹10 crore to ₹20 crore**.
- **Exporter Support:** There is a strong call for a new guarantee scheme for exporter MSMEs, allowing term loans up to **₹20 crore** to help them navigate global trade disruptions.



2. Digital Credit & The "ME-Card"

The upcoming budget is expected to accelerate digital formalisation through the rollout of the **Customised Credit Card for Micro Enterprises (ME-Card)**.

- **First-Year Vision:** A target of issuing **10 lakh cards** to Udyam-registered firms.
- **The Limit:** A proposed **₹5 lakh limit** designed to bridge the everyday working capital gap.
- **UPI Integration:** Integrating these with UPI-first credit products could provide real-time liquidity for daily business operations.

3. Sustainable Growth: Green Finance and Tax Parity

Beyond liquidity, the industry hopes for a budget that recognises that growth must also be inclusive and sustainable.

- **Tax Parity (Section 194A):** There is a persistent demand to remove the **10% TDS on NBFC interest income**, which would streamline bank-NBFC co-lending.
- **Education Loan Parity (Section 80E):** Extending tax benefits to education loans issued by NBFCs is a key wishlist item to level the playing field.
- **Green Asset Refinance:** Since NBFCs finance over **60%** of India's Electric Vehicles (EVs), there is high hope for preferential refinance rates for "Green Portfolios."

C. Conclusion: The Strategic Road to Viksit Bharat

The Union Budget 2026 has the potential to be a watershed moment for the NBFC-MSME axis. If the government chooses to shift its focus from "emergency liquidity" to "structural stability," it will lay the groundwork for a more resilient, de-risked, and digitally-driven financial ecosystem.

The creation of a dedicated refinance window and the aggressive expansion of the CGTMSE framework would not just be fiscal adjustments; they would be a statement of intent. They would signal that the "second engine" of India's growth is no longer flying on a wing and a prayer, but on a robust, institutionalised support system. As the nation watches on February 1st, the hope is for a budget that finally aligns policy timelines with the reality of building a **USD 5 trillion economy**.



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