EcoSphere

EXPLORING INDIAN AND GLOBAL ECONOMIES & CLIMATE CHANGE WITH InsPIRE

Special Issue

UNION BUDGET 2025-26

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Special Issue – Union Budget 2025-26

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Chairman's Reflections

The Union Budget 2025-26: A Strategic Roadmap for Economic Growth

The Union Budget 2025-26, presented by Finance Minister Nirmala Sitharaman, outlines a forward-looking strategy to steer India's economic growth amidst global uncertainties. With a clear emphasis on fostering inclusive growth, bolstering private sector investments, and reinforcing key economic sectors, this budget serves as a catalyst for India's ambition of achieving 'Viksit Bharat' by 2047.

At its core, the budget is structured around four pivotal economic engines—Agriculture, MSMEs, Investment, and Exports—each driven by comprehensive policy reforms and a vision of sustainable and equitable development.

One of the most impactful announcements in the budget is the revision of personal income tax slabs, offering significant relief to middle-class taxpayers. The tax-free income threshold has been increased from ₹7 lakh to ₹12 lakh, with a standard deduction of ₹75,000 for salaried individuals. This reform is expected to enhance disposable income, stimulate consumer spending, and encourage savings—factors that are integral to sustaining economic momentum.

In the realm of agriculture, the government has reinforced its commitment to rural prosperity with the introduction of the *Prime Minister Dhan-Dhaanya Krishi Yojana*, targeting 100 districts and benefiting 1.7 crore farmers. Complementing this initiative is the expansion of the Kisan Credit Card (KCC) scheme, raising the loan limit to ₹5 lakh for farmers, fishermen, and dairy farmers. The launch of a six-year *Mission for Aatmanirbharta in Pulses* focusing on key crops such as tur, urad, and masoor aims to boost domestic production and reduce import dependency. Additionally, the *National Mission on High Yielding Seeds* is set to drive agricultural innovation through research on climate-resilient and high-yielding seed varieties, ensuring sustainable growth in the sector.

Recognizing the transformative role of innovation, the government has allocated ₹20,000 crore to research and development, with a strong focus on private sector-driven technological advancements. The *PM Research Fellowship* programme will support 10,000 students pursuing advanced studies in premier institutions like IITs and IISc. To safeguard India's agricultural biodiversity and food security, a second Gene Bank for Crop Germplasm will be established, preserving 10 lakh germplasm lines. These initiatives position India as a global leader in cutting-edge technology and scientific research.

To enhance India's global trade competitiveness, the budget introduces BharatTradeNet, a digital public infrastructure designed to streamline trade documentation and financing. Duty exemptions have been extended to critical sectors, including open cells for LED/LCD TVs and capital goods for lithium-ion battery manufacturing. The maintenance, repair, and overhaul (MRO) sector stands to benefit from a 10-year customs duty exemption for shipbuilding and shipbreaking, alongside extended time limits for exporting repaired railway goods. These measures align with India's 'Make in India' and 'Atmanirbhar Bharat' strategies, reinforcing the country's position as a manufacturing and export hub.

Despite an estimated fiscal deficit of 4.4% of GDP, the budget maintains a prudent fiscal stance while ensuring significant capital expenditure. The government has announced ₹1.5 lakh crore in interest-free loans to states for infrastructure projects, extending the Jal Jeevan Mission to 2028 to achieve universal potable tap water coverage in rural areas. Furthermore, an Urban Challenge Fund of ₹1 lakh crore has been established to transform cities into engines of economic growth, while states are encouraged to harness public-private partnerships (PPP) to accelerate infrastructure development. These strategic investments underline the government's commitment to long-term economic resilience and sustainability.

The Union Budget 2025-26 represents a judicious blend of fiscal responsibility and bold policy initiatives. By prioritizing tax reforms, fostering innovation, enhancing exports, and scaling up infrastructure development, the budget lays a robust foundation for India’s economic trajectory. As the nation navigates evolving global challenges, this budget provides a well-defined roadmap for sustained growth, job creation, and enhanced economic prosperity. The effectiveness of these policies will unfold in the coming years, but the direction set forth is undeniably ambitious and transformative, setting the stage for India's rise as a global economic powerhouse.

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BUDGET 2025-26: A ROADMAP FOR PROSPERITY

Introduction

The Union Budget 2025-26, presented by Finance Minister Nirmala Sitharaman, marks a crucial step in India's economic transformation amidst a shifting global landscape. As the government advances towards the goal of *'Viksit Bharat'* (a developed India) by 2047, this budget serves as a catalyst for inclusive growth, capital investment, and structural reforms. Anchored in four key economic engines—Agriculture, MSMEs, Investment, and Exports—this budget lays the groundwork for sustained progress. By addressing multiple economic dimensions, the government aims to bolster India's resilience, increase employment, and enhance its global competitiveness. The budget is designed to be both pragmatic and visionary, ensuring fiscal prudence while stimulating economic activity.

Agriculture: The First Engine of Growth

Agriculture remains at the heart of India's growth strategy, with several initiatives introduced to bolster productivity, resilience, and farmer income. The Union Budget 2025-26 introduces a series of initiatives aimed at bolstering agricultural productivity and enhancing rural development. These measures are designed to build rural prosperity and resilience, promote self-sufficiency in key crops, and strengthen the rural economy.

PM Dhan-Dhaanya Yojana

The ***PM Dhan-Dhaanya Yojana*** is a transformative initiative introduced in the Union Budget 2025-26 to strengthen agricultural productivity and food security in India. Targeting 100 districts with historically low productivity, the scheme aims to uplift 1.7 crore farmers through a combination of financial support, technology-driven solutions, and infrastructure development.

The programme focuses on three key areas: (i) irrigation enhancement; (ii) high-yield seed distribution; and (iii) soil health management. By providing subsidies for micro-irrigation systems and improving water conservation methods, the scheme seeks to optimize water usage in agriculture. The government will also support farmers with improved seed varieties that ensure higher yields and climate resilience. Additionally, soil health cards will be distributed widely to guide farmers in using fertilizers efficiently and sustainably.

To ensure better market access, the scheme includes a dedicated funding mechanism for setting up modern storage facilities, cold chains, and value addition units, helping farmers reduce post-harvest losses and increase their incomes. The scheme also integrates digital technology by leveraging AI-powered advisory services, real-time weather updates, and mobile-based support platforms for farmers.

The *PM Dhan Dhaanya Yojana* is expected to play a critical role in enhancing agricultural resilience, improving food security, and supporting farmers in transitioning toward sustainable and profitable farming practices.

Building Rural Prosperity and Resilience

The budget emphasizes the revitalization of agriculture as a primary engine for rural prosperity. Reforms focus on improving credit access, expanding crop insurance, and strengthening agricultural value chains. The government has increased the subsidized farm loan limit, providing farmers with greater financial support to invest in modern farming techniques and technologies.

A comprehensive, multi-sectoral ‘Rural Prosperity and Resilience’ programme will be launched in collaboration with states to tackle under-employment in agriculture. This initiative will leverage skilling, investment, and technology to invigorate the rural economy, ensuring that migration remains an option rather than a necessity. The programme will specifically target rural women, young farmers, rural youth, marginal and small farmers, and landless families. Incorporating both global and domestic best practices, it will seek technical and financial support from multilateral development banks.

The first phase of the programme will cover 100 developing agri-districts, with a strong focus on:

1. Empowering rural women through enterprise development, employment generation, and financial independence.

2. Expanding employment and business opportunities for young farmers and rural youth.

3. Enhancing agricultural productivity and modernizing warehousing infrastructure, particularly for marginal and small farmers.

4. Diversifying livelihood options for landless families, providing them with sustainable economic alternatives.

Atmanirbharta in Pulses

The launch of a six-year ***Mission for Aatmanirbharta in Pulses*** is aimed at reducing dependence on imports and achieving self-sufficiency in key pulses such as tur, urad, and masoor. This initiative focuses on increasing domestic production by providing state agencies with the mandate to procure pulses at guaranteed prices. This ensures stable income for farmers while incentivizing them to cultivate these essential crops.

The Mission is designed to achieve long-term sustainability through:

1. Advancing the development and commercial availability of climate-resilient seed varieties that can withstand environmental stressors.
2. Enhancing the protein content of pulses to meet nutritional needs and improve dietary quality.
3. Boosting overall productivity through modern agricultural practices, better irrigation techniques, and efficient resource utilization.
4. Strengthening post-harvest storage and management infrastructure to minimize losses and improve supply chain efficiency.

Ensuring farmers receive remunerative prices, thereby promoting financial stability and sustained engagement in pulse cultivation.

Comprehensive Programme for Vegetables and Fruits

The budget introduces a comprehensive program aimed at enhancing the production and quality of vegetables and fruits. This initiative includes support for the adoption of high-yielding varieties, improved irrigation facilities, and the establishment of cold storage infrastructure. These measures are expected to reduce post-harvest losses, increase farmers' incomes, and ensure the availability of nutritious produce to consumers.

Makhana Board in Bihar

Recognizing the unique agricultural produce of different regions, the government has announced the establishment of a Makhana Board in Bihar. This board will focus on the development and promotion of Makhana (fox nuts), a specialty of the state. The initiative aims to improve production techniques, enhance market access, and increase the income of Makhana farmers in Bihar.

National Mission on High Yielding Seeds

To address challenges arising from shrinking farmlands and erratic weather patterns, the government has launched a National Mission on High Yielding Seeds. This mission focuses on developing and promoting seed varieties that offer higher yields and are resilient to climate variations. The initiative aims to ensure food security and enhance the profitability of farming by providing farmers with access to superior seed technologies.

Fisheries

The budget places a significant emphasis on the fisheries sector, recognizing its potential to enhance rural incomes and nutrition. Initiatives include the expansion of aquaculture, modernization of fishing infrastructure, and the promotion of sustainable fishing practices. These measures aim to increase fish production, improve the livelihoods of fishing communities, and contribute to the overall development of the rural economy.

Mission for Cotton Productivity

In response to declining cotton yields and increasing import dependence, the government has unveiled a mission to boost cotton productivity. The focus is on research and development to produce high-yielding and pest-resistant cotton varieties, particularly extra-long staple cotton. This initiative aims to make India self-reliant in cotton production and enhance the competitiveness of its textile industry.

Enhanced Credit through Kisan Credit Card (KCC)

To provide financial security and stability to farmers, the government has expanded the Kisan Credit Card (KCC) scheme. The loan limits have been raised to ₹5 lakh for farmers, fishermen, and dairy farmers. This move is expected to improve liquidity in the agricultural sector, enabling small and marginal farmers to invest in better seeds, fertilizers, and technology, thereby enhancing productivity and income.

Urea Plant in Assam

Addressing the need for adequate crop nutrients, the government has announced the establishment of a new urea plant in Assam. This facility aims to ensure a steady supply of urea to farmers in the northeastern region, reducing transportation costs and promoting balanced fertilizer use. The initiative is expected to boost agricultural productivity and support the region's agrarian economy.

India Post as a Catalyst for the Rural Economy

Leveraging its extensive network, India Post is set to play a pivotal role in the rural economy. The budget outlines plans for India Post to facilitate financial inclusion by providing banking and insurance services in remote areas. Additionally, it will assist in the distribution of agricultural inputs and the marketing of rural products, thereby enhancing market access for rural producers and contributing to economic development.

These comprehensive measures reflect the government's commitment to strengthening the agricultural sector and fostering sustainable rural development. By focusing on self-reliance, technological advancement, and infrastructure development, the budget aims to build a resilient and prosperous rural economy.

MSMEs: The Second Engine of Growth in India's Economic Transformation

Micro, Small, and Medium Enterprises (MSMEs) form the backbone of India's economy, significantly contributing to employment generation, industrial output, and exports. Recognizing their critical role, the Union Budget 2025-26 has introduced targeted measures to empower and expand the MSME sector, ensuring it continues to drive economic growth, innovation, and resilience. By fostering credit accessibility, encouraging digital transformation, and enhancing global competitiveness, the government aims to make MSMEs a powerful engine propelling India toward its long-term economic aspirations.

Strengthening Credit Access and Financial Support

One of the primary challenges MSMEs face is access to affordable and timely credit. The budget has taken a decisive step by increasing the corpus of the Credit Guarantee Fund for MSMEs, enabling more businesses to secure collateral-free loans. This initiative reduces financial bottlenecks, allowing enterprises to invest in capacity expansion, technology adoption, and working capital.

In addition to enhanced credit guarantees, the Emergency Credit Line Guarantee Scheme (ECLGS) has been extended, providing liquidity support to businesses affected by economic disruptions. The government has also announced interest subvention programs and incentives for MSMEs adopting green and sustainable business practices, further strengthening their financial resilience.

Encouraging Digital Transformation and Ease of Doing Business

The digital revolution is transforming MSMEs by providing them with new growth opportunities. The Unified Digital Platform for MSMEs introduced in the budget integrates financial services, compliance support, and market linkages under a single interface, reducing bureaucratic delays and improving efficiency.

Simplified GST compliance, automated tax filing, and digital invoicing mechanisms will enhance transparency and ease the financial burden on small businesses. The government is also promoting the adoption of cloud computing, artificial intelligence (AI), and blockchain solutions among MSMEs to improve operational efficiency and competitiveness in global markets.

Enhancing Market Access and Global Competitiveness

To integrate MSMEs into global value chains, the budget has prioritized export promotion schemes such as the expansion of the Remission of Duties and Taxes on Exported Products (RoDTEP) scheme for MSMEs. This will provide cost competitiveness to exporters by reimbursing embedded taxes and duties.

The government has also expanded the Production-Linked Incentive (PLI) Schemes for MSMEs in key sectors such as electronics, pharmaceuticals, and textiles. Special Economic Zones (SEZs) are being revamped to encourage small businesses to set up export-oriented manufacturing units. Additionally, the creation of MSME-specific trade facilitation centres and improved logistics infrastructure will reduce costs and enhance market outreach.

Driving Innovation and Sustainability

Recognizing the need for innovation-driven growth, the budget has allocated funds for the MSME Growth Accelerator Scheme, which will provide financial grants and technical support to high-potential startups and enterprises in emerging industries such as renewable energy, biotechnology, and deep-tech manufacturing.

The government is also incentivizing MSMEs to transition towards sustainable production models by offering low-interest loans for energy-efficient machinery and green technology adoption. These initiatives align with India’s broader commitment to environmental sustainability while ensuring that MSMEs remain competitive in a rapidly evolving business landscape.

Skilling and Workforce Development

To enhance productivity and equip workers with future-ready skills, the MSME Skill Development Mission has been expanded. This initiative focuses on technical training in advanced manufacturing, digital literacy, and financial management, ensuring that MSMEs have access to a highly skilled workforce.

Additionally, collaborative partnerships between MSMEs, industry leaders, and academic institutions will foster innovation and knowledge exchange, promoting industry-driven research and development.

The Union Budget 2025-26 underscores the pivotal role of MSMEs as the second engine of economic growth by providing them with the necessary financial, technological, and policy support. By fostering an environment of credit accessibility, digital transformation, market expansion, and innovation-driven growth, the government aims to propel MSMEs to new heights. As these enterprises thrive, they will not only generate employment and enhance productivity but also contribute significantly to India's ambition of becoming a global economic powerhouse.

Investment: The Third Engine of Growth in India’s Economic Transformation

Investment is a critical pillar of economic growth, driving infrastructure development, industrial expansion, employment generation, and technological progress. Recognizing this, the Union Budget 2025-26 has laid out a comprehensive strategy to boost public and private investment. By focusing on three core dimensions—**Investing in People, Investing in the Economy, and Investing in Innovation**—the government aims to create a robust and sustainable investment ecosystem that will propel India toward its long-term development goals.

Investing in People: Human Capital Development

A nation’s growth is inherently tied to the skills and productivity of its workforce. The budget prioritizes human capital development through increased investments in education, healthcare, and skill development.

The Skill India Mission 2.0 has been expanded to equip millions of youth with industry-relevant skills, particularly in emerging fields such as artificial intelligence (AI), robotics, renewable energy, and advanced manufacturing. New vocational training centres will be established to bridge the skill gap and ensure greater employability.

In healthcare, the budget allocates substantial resources for expanding Ayushman Bharat, strengthening primary healthcare centres, and improving medical research capabilities. Special emphasis has been placed on rural healthcare, ensuring quality medical services reach underserved populations. By improving both education and healthcare infrastructure, the government is creating a workforce that is skilled, healthy, and capable of driving long-term economic productivity.

Investing in the Economy: Infrastructure and Industrial Growth

Public and private investments in infrastructure form the backbone of sustained economic growth. The budget earmarks a record capital expenditure allocation for large-scale infrastructure projects, including roadways, railways, ports, and energy grids.

To attract private sector participation, the government is promoting Public-Private Partnerships (PPPs) and Infrastructure Investment Trusts (InvITs). The expansion of the National Infrastructure Pipeline (NIP) will further ensure that projects receive consistent funding and execution support.

The PLI Schemes have been extended to additional sectors, fostering large-scale investments in electronics, pharmaceuticals, green energy, and semiconductor manufacturing. Additionally, regulatory reforms have simplified land acquisition and labour laws, creating a business-friendly environment that encourages both domestic and foreign investments.

The government is also prioritizing investments in the digital economy, ensuring that rural and urban areas have access to high-speed internet, digital banking, and fintech innovations. This will boost economic participation across all demographics and ensure seamless financial transactions.

Investing in Innovation: Technology and R&D Advancement

Innovation is the cornerstone of a competitive and future-ready economy. The budget significantly boosts Research and Development (R&D) funding through the establishment of National Innovation Hubs and grants for deep-tech startups.

Special incentives have been introduced for semiconductor manufacturing, quantum computing, biotechnology, and renewable energy research. These initiatives are designed to position India as a leader in cutting-edge technology and scientific advancements.

The ***Green Investment Fund*** will promote financing for solar, wind, and hydrogen-based energy projects, ensuring that India remains at the forefront of global sustainability efforts. Furthermore, tax incentives for industries adopting clean energy solutions encourage businesses to transition towards sustainable production models.

The Union Budget 2025-26 firmly establishes investment as the third engine of economic growth, recognizing its pivotal role in national development. By strategically investing in people, infrastructure, and innovation, the government is laying the foundation for sustainable economic progress. These investment-led reforms will not only accelerate GDP growth but also ensure India's long-term resilience and global competitiveness. With a focus on inclusive development, digital transformation, and environmental sustainability, India is poised to become a global economic powerhouse in the coming decades.

Exports: The Fourth Engine of Growth in India's Economic Transformation

Exports serve as a critical driver of economic growth, contributing to foreign exchange reserves, employment generation, and industrial expansion. A strong export sector enhances India's global economic footprint and strengthens domestic industries by integrating them into international value chains. Recognizing this, the Union Budget 2025-26 has introduced a series of policy measures aimed at enhancing export competitiveness, improving trade facilitation, and strengthening global market linkages. By fostering manufacturing excellence, trade-friendly infrastructure, and international partnerships, India seeks to position itself as a dominant player in global trade.

Strengthening Export Competitiveness

The government has placed a renewed focus on export-oriented manufacturing by expanding the PLI schemes to cover key sectors such as electronics, textiles, pharmaceuticals, and automobiles. These schemes offer financial incentives to companies that boost domestic production while ensuring high-quality standards to compete in international markets.

The budget also provides tax exemptions and duty reliefs on raw materials used in export-driven industries, reducing the cost of production for Indian manufacturers. By addressing input costs, the government is ensuring that Indian exports remain price-competitive on the global stage.

Further, export financing mechanisms have been strengthened, with increased allocations to the Export Credit Guarantee Corporation (ECGC) and preferential credit lines for exporters. These measures aim to mitigate financial risks for exporters, enabling them to expand their global reach without liquidity constraints.

Expanding Trade Facilitation and Logistics Infrastructure

To improve trade efficiency, the government has launched ***BharatTradeNet***, a national digital trade infrastructure designed to simplify customs clearance, documentation, and real-time tracking of shipments. This initiative is expected to significantly reduce transaction costs and minimize bureaucratic delays, making Indian exports more competitive.

Investment in port modernization, high-speed freight corridors, and multimodal logistics parks has been prioritized to enhance the movement of goods across domestic and international markets. By streamlining logistics, the government aims to reduce turnaround times for exports and improve supply chain reliability.

The budget also strengthens India’s participation in Free Trade Agreements (FTAs), aiming to secure preferential market access for Indian goods and services. Strengthening bilateral and multilateral trade ties with key economies will unlock new opportunities for Indian exporters.

Promoting Services and Digital Exports

Apart from traditional goods exports, India is a global leader in IT services, digital solutions, and knowledge-based industries. The budget introduces incentives for IT-enabled services (ITES), fintech, healthcare, and education exports, ensuring that India remains a top player in the digital economy.

The ***Start-up Export Promotion Initiative*** has been launched to encourage Indian tech start-ups to expand into global markets. Through funding support, mentorship programs, and international networking opportunities, the government is fostering a thriving digital export ecosystem.

Sustainability and Green Trade Initiatives

With global trade shifting towards sustainable practices, the budget includes Green Export Incentives for industries producing eco-friendly products such as solar panels, electric vehicles, and sustainable textiles. The government is also introducing carbon footprint certification mechanisms to help exporters comply with international environmental standards, ensuring access to markets with strict sustainability regulations.

Additionally, export incentives for organic agricultural products and handicrafts aim to boost rural livelihoods while expanding India's footprint in niche global markets.

The Union Budget 2025-26 positions exports as the fourth engine of economic growth, recognizing their role in strengthening India’s global economic influence. By focusing on manufacturing excellence, trade facilitation, digital expansion, and sustainable trade practices, the government is laying a solid foundation for long-term export growth. With strategic investments in infrastructure, policy support for global market integration, and incentives for high-value exports, India is set to emerge as a major global trade powerhouse in the years ahead.

Reforms: The Fuel for Growth in India's Economic Transformation

Economic reforms are the foundation of sustained growth, enabling businesses, industries, and individuals to thrive in a dynamic global landscape. Recognizing this, the Union Budget 2025-26 outlines a transformative reform agenda aimed at improving taxation, financial sector efficiency, regulatory frameworks, and ease of doing business. These reforms serve as the essential fuel that powers the four key engines of economic growth—Agriculture, MSMEs, Investment, and Exports—ensuring India's long-term economic resilience and global competitiveness.

Tax Reforms: Simplification and Compliance Enhancement

A well-structured tax system is fundamental to economic stability. The budget introduces a simplified corporate tax structure, reducing compliance burdens on businesses, particularly MSMEs. Rationalization of Goods and Services Tax (GST) slabs and automation of tax processes ensure better compliance while minimizing disputes.

The faceless tax assessment mechanism continues to enhance transparency, eliminating bureaucratic inefficiencies and corruption. Additionally, tax incentives for startups, digital businesses, and green industries foster entrepreneurship and encourage investments in high-growth sectors.

Financial Sector Reforms and Development

A robust financial sector is critical for efficient capital allocation and economic stability. The budget prioritizes banking sector reforms, including capital infusion into public sector banks and policies to strengthen Non-Banking Financial Companies (NBFCs). The introduction of digital banking expansion programs will accelerate financial inclusion, bringing banking services to underserved populations.

The establishment of the Development Finance Institution (DFI) receives fresh funding to support long-term infrastructure financing. Additionally, new governance frameworks for fintech regulation and digital lending ensure responsible financial innovation while protecting consumer interests.

Regulatory Reforms: Strengthening the Business Ecosystem

The ease of doing business remains a top priority, with the introduction of a Unified Business Identification Number (UBIN) to streamline regulatory clearances and reduce compliance costs. The National Single Window System (NSWS) is being expanded to integrate multiple business approvals under one platform, expediting investment approvals.

Further, liberalization of Foreign Direct Investment (FDI) norms in key sectors such as defence, retail, and renewable energy is expected to attract greater global capital inflows. Structural reforms in labour laws and land acquisition policies are also being implemented to enhance industrial efficiency and job creation.

Digital and Governance Reforms

The push for digital governance and e-governance solutions aims to reduce bureaucratic delays and improve service delivery. The government is investing in AI-driven public service platforms, blockchain-enabled supply chain tracking, and big-data analytics to enhance policy implementation and economic decision-making.

Initiatives such as the India Stack expansion, digital land record modernization, and e-courts aim to increase efficiency in governance while fostering trust and transparency in the system.

The Union Budget 2025-26 positions reforms as the essential fuel driving economic growth, ensuring that India remains an attractive destination for investment and entrepreneurship. By focusing on taxation, financial stability, regulatory ease, and digital governance, the government is laying the foundation for a modern, efficient, and globally competitive economy. These reforms not only strengthen the four key engines of growth but also enhance India’s potential as a resilient and progressive economic powerhouse.

Fiscal Policy Reforms and Tax Proposals in the Union Budget 2025-26

The Union Budget 2025-26 is a pivotal document that provides insight into India's macroeconomic vision for the year ahead. With a heavy focus on fiscal policy and taxation, the budget aims to support growth, employment, and equity. This analysis will delve deeper into the fiscal policy reforms and tax proposals presented, exploring their expected impact on the economy, various sectors, and individuals.

Capital Expenditure (Capex) Focus: A Long-Term Growth Strategy

Capital expenditure is at the heart of the fiscal policy strategy outlined in the 2025-26 budget. By significantly increasing its allocation for infrastructure, the government intends to fuel long-term economic growth and productivity.

Increased Allocation for Infrastructure Projects: The budget projects capital expenditure to account for 4.4% of GDP in FY 2026. This increase reflects the government's recognition of the need for improved physical and social infrastructure to ensure sustainable economic development. The focus on infrastructure—ranging from highways and railways to digital infrastructure and urbanization—provides immediate opportunities for job creation while enhancing future productivity.

Sector-Specific Impacts: Infrastructure spending is likely to benefit construction, real estate, transportation, and utilities sectors the most. These investments will generate employment, reduce logistic costs, and provide businesses with the infrastructure they need to operate more efficiently. Additionally, sectors like information technology and e-commerce are expected to benefit from improved digital infrastructure, including data centres, broadband expansion, and smart city initiatives.

Private Sector Participation: Another strategic aspect of the capital expenditure push is the emphasis on attracting private sector investment through public-private partnerships (PPPs). By improving the ease of doing business and ensuring transparent bidding processes, the government seeks to mobilize private capital for infrastructure projects, reducing the fiscal burden on the exchequer.

Taxation Reforms: Relieving the Middle Class and Stimulating Growth

The tax proposals in the 2025-26 budget are designed to enhance disposable incomes, stimulate demand, and ensure that tax compliance remains streamlined.

Revised Income Tax Slabs: The income tax slab revision is a key measure aimed at providing relief to the middle class. By introducing a tax exemption for individuals earning up to ₹12 lakh and reducing the tax burden for those in the ₹12 lakh to ₹20 lakh bracket, the government has demonstrated a clear focus on increasing disposable incomes. The adjustment of tax rates from 30% to 25% in this income range signals the government's effort to make the tax regime more progressive, allowing higher consumption levels.

- ✓ **Implications for Consumption:** With more disposable income in hand, individuals are likely to increase consumption, particularly in sectors such as consumer goods, retail, and services. The increased demand can spur economic activity, particularly in urban areas, while also benefiting businesses by driving sales growth.

Tax Deduction at Source (TDS) and Tax Collection at Source (TCS): Simplification and Relief

Increased TDS Thresholds: The revision of TDS limits, particularly the increase for senior citizens from ₹50,000 to ₹1 lakh, and for rent payments from ₹2.4 lakh to ₹6 lakh, will significantly ease the compliance burden for a large number of taxpayers. By reducing the number of small transactions subject to TDS, the government ensures that individuals can keep more of their income without the added complexity of filing numerous TDS-related documents.

Broadening the Scope of Exemptions: The government has also extended tax exemptions for savings and investments. Withdrawals from the National Savings Scheme (NSS) will be exempt from tax when made after August 29, 2024. This move is expected to boost the attractiveness of formal savings instruments, encouraging higher participation in the savings ecosystem.

Corporate Tax Reforms: Strengthening India's Competitive Edge

Corporate Tax Relief: The budget has introduced measures to make India's corporate tax structure more competitive in the global arena. While some corporate tax exemptions have been removed, the overall corporate tax structure remains one of the lowest in the world. This change is designed to attract foreign direct investment (FDI), improve domestic business confidence, and encourage the repatriation of funds from abroad.

Corporate Investment Incentives: Several fiscal measures have been announced to incentivize companies to increase capital expenditure, particularly in technology and manufacturing sectors. The focus on green investments, digital infrastructure, and export promotion will enhance India's competitiveness in the global market and attract multinational corporations looking for low-cost, high-return investment opportunities.

Green and Digital Economy Tax Provisions: A Future-Oriented Vision

Tax Incentives for Electric Vehicles (EVs) and Renewable Energy: The government is increasingly focused on fostering the green economy by providing tax incentives to businesses in the electric vehicle (EV) sector. These incentives, combined with rebates on battery storage systems, are designed to reduce the cost of manufacturing EVs and accelerate their adoption in India.

Tax Relief for the Digital Economy: The budget introduces provisions to support India's digital economy, with measures aimed at reducing the tax burden on tech startups, providing exemptions on research and development expenditure, and streamlining compliance for tech companies. These measures will create a favourable environment for innovation, technological advancements, and the growth of India's digital infrastructure.

Building Resilience Through Strategic Fiscal Policy and Tax Reforms

The Union Budget 2025-26 strikes a fine balance between fiscal prudence and growth-focused policies. Through its robust fiscal expenditure on infrastructure and agriculture, along with tax proposals that stimulate both consumer spending and corporate investment, the budget lays a solid foundation for India's economic recovery and long-term prosperity.

Conclusion

By addressing structural challenges in key sectors such as agriculture, digital infrastructure, and green energy, the government aims to ensure that growth is both inclusive and sustainable. The proposed tax reforms, while offering immediate relief to individuals and businesses, also position India as a competitive global player. These comprehensive fiscal and tax reforms are set to drive India’s economy forward, ensuring that it remains resilient in the face of global uncertainties and continues to grow at a steady pace in the coming fiscal year.

UNION BUDGET 2025-26: A DELICATE BALANCE BETWEEN FISCAL PRUDENCE AND GROWTH

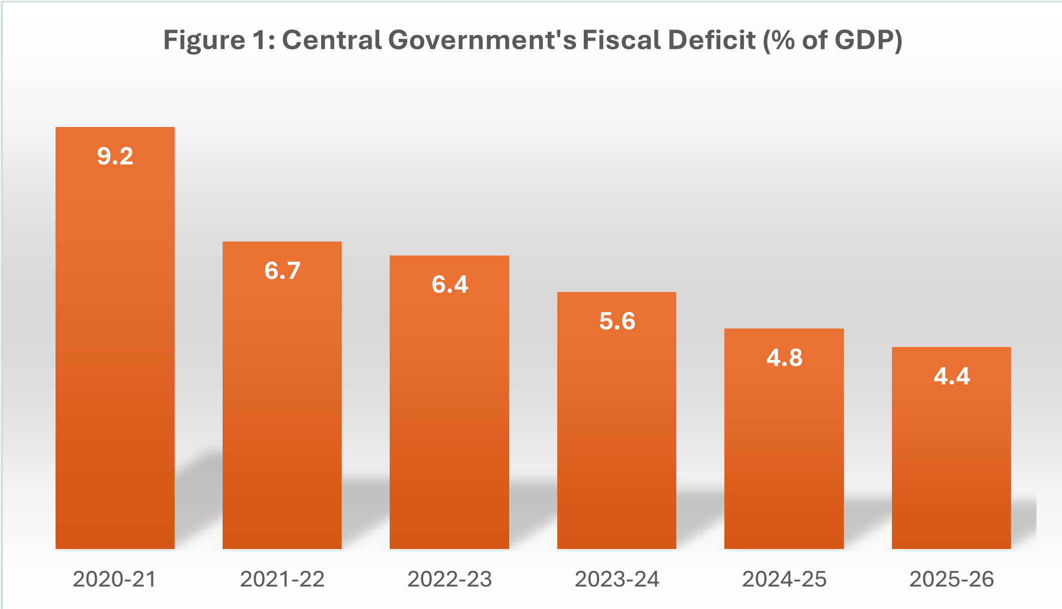
Introduction

The Union Budget 2025-26, presented amid global economic uncertainty, inflationary pressures, and geopolitical tensions, underscores the Indian government's commitment to fiscal consolidation while striving to sustain economic growth. The budget sets a targeted fiscal deficit of 4.4% of GDP, reflecting the government's disciplined approach toward financial management. While this budget emphasizes infrastructure investment, tax relief for individuals, and policy incentives to drive consumption and industrial expansion, there are concerns regarding the limited increase in allocations for key rural and social welfare programs, which could impact inclusive development.

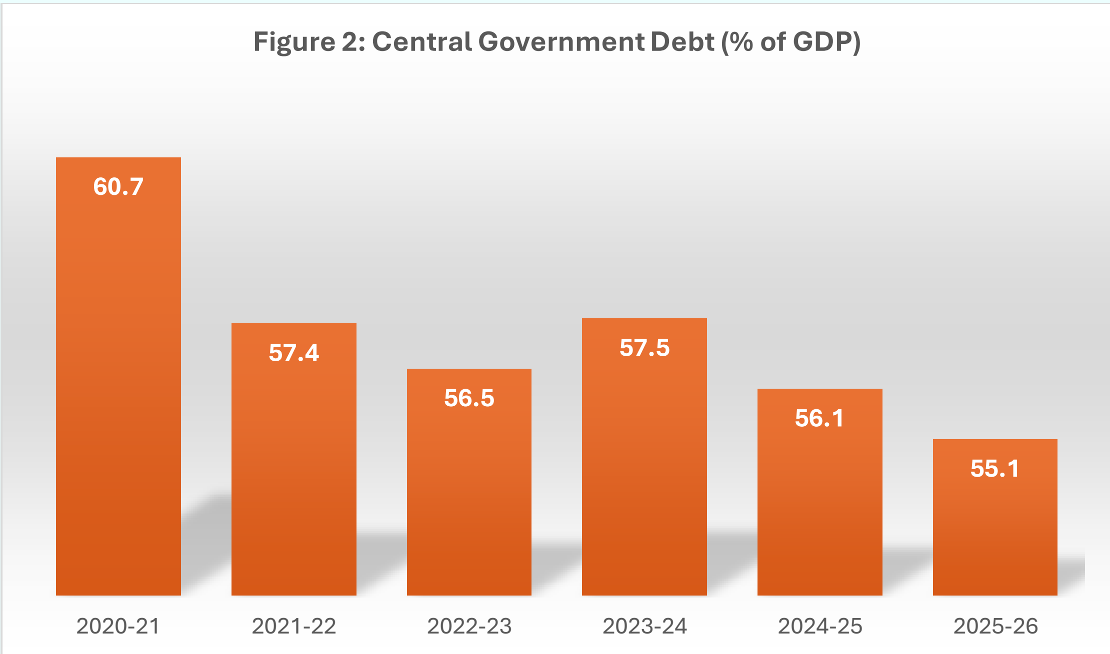
By maintaining a delicate balance between economic stimulus and fiscal prudence, the budget aims to ensure long-term macroeconomic stability while continuing investment in critical sectors. This article provides an analysis of the fiscal roadmap, taxation reforms, revenue trends, capital expenditure, and sectoral allocations in the Union Budget 2025-26.

Fiscal Consolidation: Staying the Course Amidst Challenges

One of the most defining aspects of the budget is its adherence to the fiscal consolidation roadmap, as evidenced by the gradual reduction in the fiscal deficit from a high of 9.2% of GDP in 2020-21 to the targeted 4.4% in 2025-26 (Figure 1). Simultaneously, public debt as a percentage of GDP is expected to decline from 60.7% in 2020-21 to 55.1% in 2025-26 (Figure 2), demonstrating the government's commitment to financial discipline. This reduction in debt and deficit is critical for maintaining India's sovereign credit ratings, reducing the risk of inflationary pressures, and preserving fiscal space for future contingencies.



Source: Union Budget documents



Source: Union Budget documents

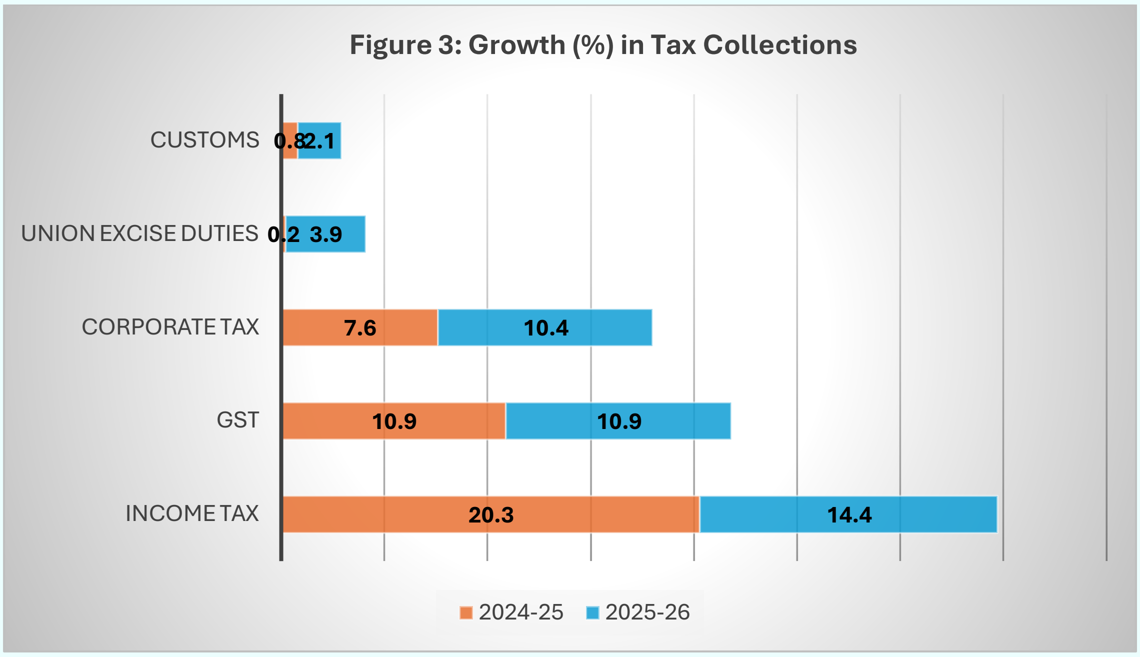
Despite this disciplined approach, the challenge remains in ensuring that economic growth does not suffer due to fiscal tightening. The government's ability to sustain public investment while managing expenditure efficiently will be crucial in maintaining economic momentum.

Taxation Reforms: Boosting Consumption and Savings

A key highlight of the Union Budget 2025-26 is the significant relief provided to taxpayers through changes in personal income tax slabs. The government has increased the tax exemption threshold from ₹7 lakh to ₹12 lakh, providing relief to millions of middle-class earners. Additionally, the government has introduced lower tax rates for higher-income brackets, which is expected to increase disposable income, enhance household savings, and stimulate domestic consumption across sectors such as automobiles, real estate, and consumer goods.

The tax relief measures, however, come at a cost. The government is expected to forego approximately ₹1 trillion in revenue annually due to these tax cuts. Therefore, the growth of income tax is expected to decline to 14.4% in 2025-26 from 20.3% in 2024-25 (Figure 3). To balance this shortfall, the government is relying on stable growth in indirect tax collections, particularly from the Goods and Services Tax (GST), along with improved compliance measures.

On the corporate taxation front, the government has projected an increase in corporate tax collections by 10.4% in 2025-26, compared to 7.6% in the previous year. This signals a revival in business profitability and economic expansion. At the same time, GST collections are expected to remain steady at a growth rate of 10.9%, indicating a continued reliance on indirect taxes as a key revenue source. The stability of these revenue streams will be critical for funding government programmes and maintaining fiscal discipline.



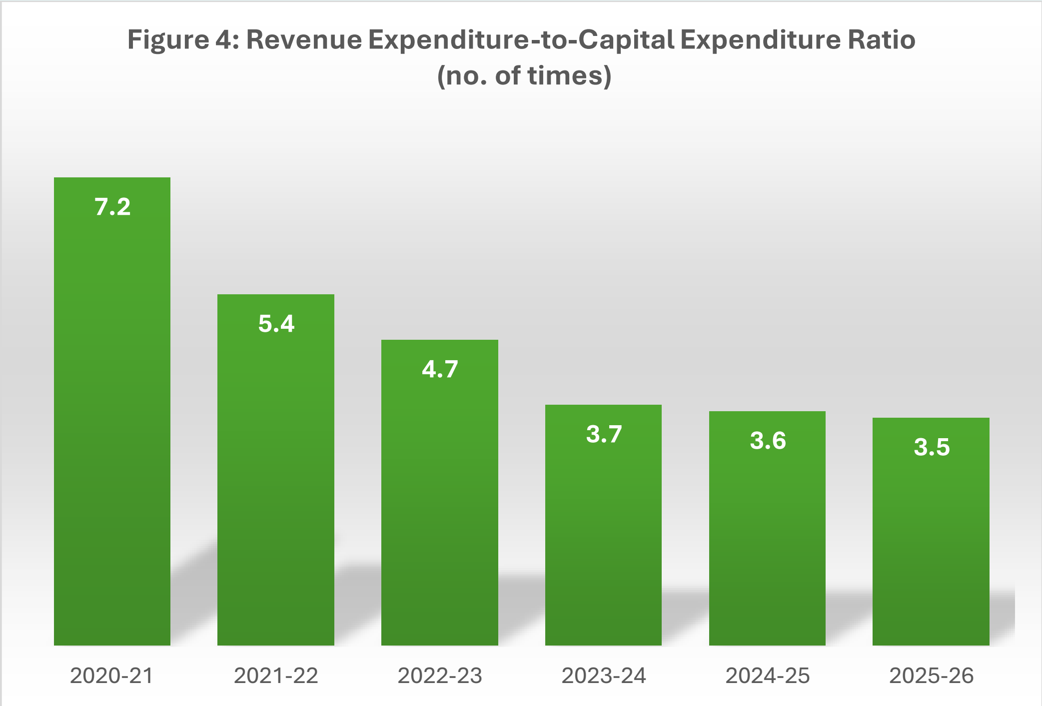
Source: Calculations based on Union Budget documents

Capital Expenditure: Sustaining Growth Momentum

The budget continues to emphasize infrastructure-led growth, as seen in the increase in capital expenditure to ₹11.21 trillion in 2025-26 from ₹10.18 trillion in 2024-25. The government is prioritizing investments in transportation infrastructure, including railways, highways, and metro projects, to enhance connectivity and reduce logistics costs. Additionally, substantial allocations have been made for the modernization of the energy sector, particularly in renewable energy and power transmission networks, to ensure a sustainable and resilient energy future for India.

Furthermore, the government is investing in urban infrastructure through its Smart Cities Mission, with a focus on sustainable urban development and improved public amenities. However, despite these positive developments, the rate of increase in capital expenditure has slowed down compared to previous years, indicating budgetary constraints in expanding infrastructure investments at a faster pace.

The ratio of revenue expenditure to capital expenditure has declined from 7.2 times in 2020-21 to 3.5 times in 2025-26 (Figure 4). This shift suggests an improvement in the quality of government spending, as more funds are being directed towards infrastructure and asset creation rather than routine administrative costs. However, the pace of this improvement has slowed compared to earlier years.



Source: Union Budget documents

Dividend and Profit Transfers: A Key Revenue Source

The Centre expects a windfall from dividend and profit transfers, with revenues increasing from ₹2.9 trillion in 2024-25 to ₹3.3 trillion in 2025-26 (Figure 5). This continued reliance on non-tax revenue sources, including surplus transfers from the Reserve Bank of India (RBI) and state-owned enterprises, has helped the government manage its fiscal deficit without aggressive tax hikes.

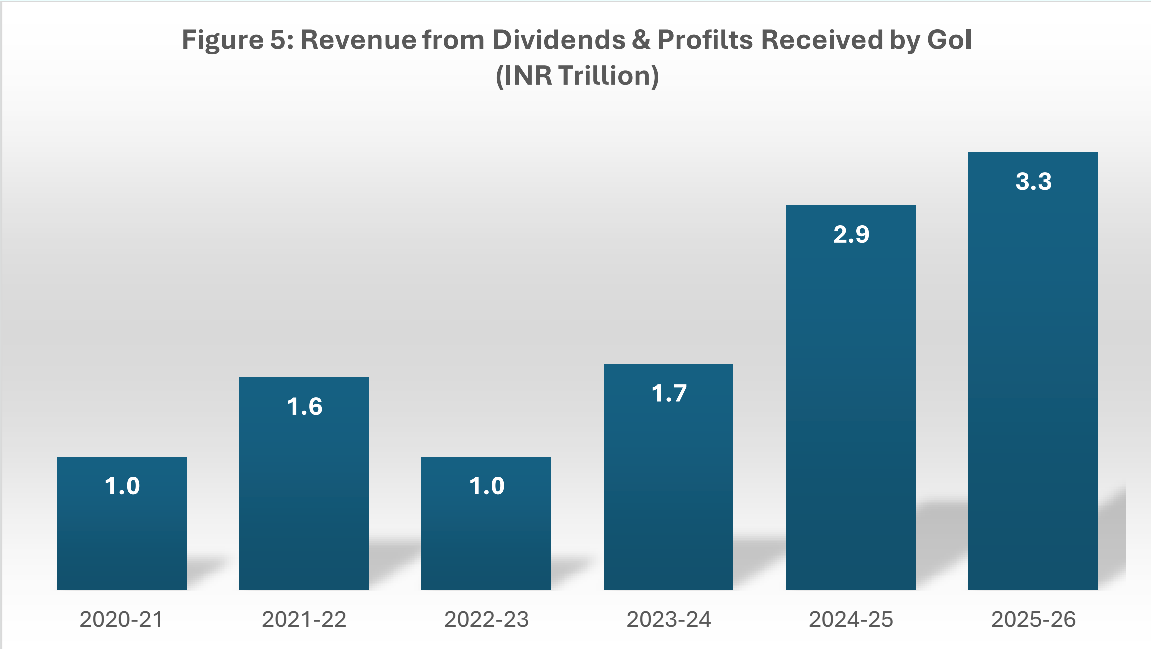
The revenue from dividends and profits received by the Government of India has shown a significant upward trend over the years, reflecting increased contributions from public sector enterprises, the RBI, and other state-owned financial institutions. In 2020-21, this revenue stood at ₹1.0 trillion, rising to ₹1.6 trillion in 2021-22 as public sector entities recovered from the pandemic. After a slight dip to ₹1.0 trillion in 2022-23, it rebounded to ₹1.7 trillion in 2023-24. A notable surge occurred in 2024-

25, with revenues reaching ₹2.9 trillion, followed by an even higher estimate of ₹3.3 trillion for 2025-26.

The sharp increase in dividend and profit revenue in 2024-25 and 2025-26 suggests a combination of higher surplus transfers from the RBI and improved profitability of public sector enterprises. The RBI has been transferring larger surpluses to the government, largely due to strong forex gains and higher interest earnings on foreign assets. Additionally, many public sector enterprises, particularly in the banking, oil, and energy sectors, have reported strong financial results, leading to increased dividend payouts. The government's focus on strategic disinvestment, privatization, and asset monetization has also contributed to this rise in non-tax revenue.

The growing share of dividends and profits in government revenue plays a crucial role in reducing dependence on borrowing and supporting fiscal consolidation. This increase provides a buffer to manage the fiscal deficit, which is projected to decline to 4.4% of GDP in 2025-26. However, the sustainability of such high non-tax revenues remains uncertain, as it depends on factors such as the RBI's earnings, global economic conditions, and the profitability of public sector enterprises.

The sharp rise in revenue from dividends and profits highlights the increasing significance of non-tax revenues in India's fiscal framework. While this trend aids fiscal consolidation efforts, the government must ensure continued efficiency in public sector undertakings, prudent management of RBI surpluses, and a balanced revenue mix to maintain long-term financial stability.



Source: Union Budget documents

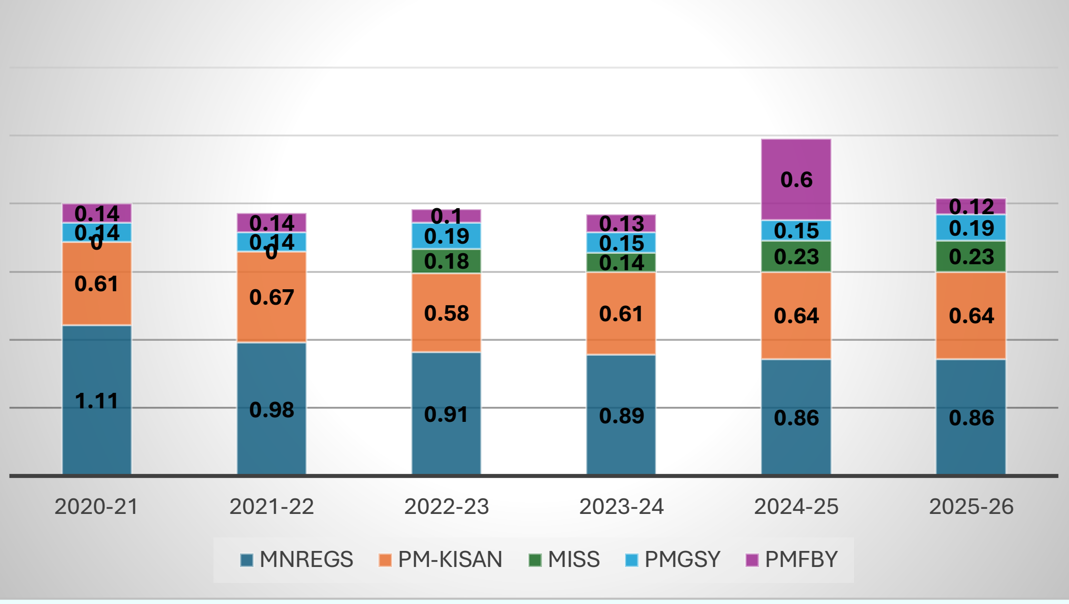
Sectoral Priorities: Agriculture, Manufacturing, and Financial Reforms

Agriculture and Rural Development: A Mixed Picture

In an effort to enhance agricultural productivity and rural incomes, the government has introduced the Prime Minister Dhan-Dhaanya Krishi Yojana, a new initiative aimed at improving farm output and ensuring better access to resources for farmers. Additionally, the government has raised the credit limit under the Kisan Credit Card (KCC) scheme to ₹5 lakh, making it easier for farmers to obtain low-interest loans for agricultural investments.

However, despite these initiatives, allocations to major rural welfare schemes such as PM-KISAN and MNREGS have remained largely unchanged (Figure 6), raising concerns about the government's commitment to improving rural livelihoods. The stagnation in funding for these schemes may impact rural employment generation and income support for farmers, potentially slowing down overall rural economic growth. However, it is important to note that the allocation for a scheme like MNREGS is demand-driven, meaning that any rise in demand leads to a corresponding increase in budgetary allocation.

Figure 6: Spending/ Allocation to Key Agriculture & Rural Schemes (INR Trillion)



Source: Union Budget documents

Manufacturing and Industrial Growth: Strengthening 'Make in India'

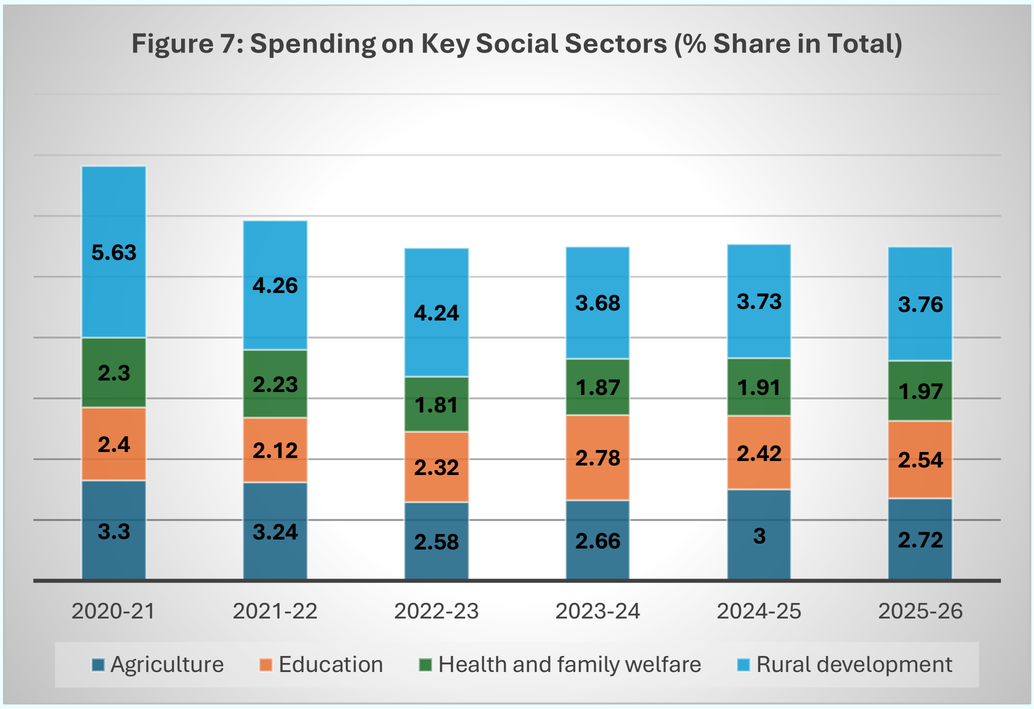
To promote domestic manufacturing and reduce import dependence, the budget has introduced tax exemptions on components used in electric vehicles (EVs) and semiconductor chips, providing incentives for companies to invest in these high-growth sectors. These measures align with the government's broader 'Make in India' and 'Atmanirbhar Bharat' initiatives, which aim to boost self-reliance and increase India's share in global supply chains. Additionally, the budget provides financial support for Micro, Small, and Medium Enterprises (MSMEs) and startups, recognizing their role in driving employment and innovation in the economy.

Financial Sector Reforms: Encouraging Foreign Investment

One of the significant policy decisions in this budget is the increase in the foreign direct investment (FDI) cap in the insurance sector from 74% to 100%. This move is expected to attract more foreign capital, enhance competition, and improve insurance penetration across the country, providing better financial security for citizens.

Social Sector Spending: Areas of Concern

Despite the focus on fiscal consolidation and growth, allocations to key social sectors such as education, healthcare, and rural development remain subdued. The budget has increased education spending marginally from 2.42% to 2.54% of the total budget (Figure 7), which may not be sufficient to address challenges in higher education access and digital infrastructure in schools. Similarly, healthcare spending has risen only slightly from 1.91% to 1.97%, which remains inadequate given India's need to strengthen public healthcare infrastructure and preparedness for future health crises.



Source: Union Budget documents

The limited increase in rural development spending also indicates that the government is prioritizing fiscal discipline over expansive social welfare initiatives. While this strategy may benefit the economy in the long run, it risks widening inequalities if rural and marginalized communities do not receive adequate support.

Conclusion

The Union Budget 2025-26 represents a well-calibrated strategy that prioritizes fiscal discipline while supporting economic expansion through targeted investments and tax reforms. The reduction in fiscal deficit and public debt strengthens India's macroeconomic fundamentals, while increased capital expenditure aims to sustain growth momentum. However, the stagnation in social sector and rural spending raises concerns about the inclusiveness of economic growth.

Going forward, the government must ensure that economic gains are equitably distributed across all sections of society. While the budget lays a strong foundation for long-term stability and growth, ensuring social welfare and rural development remain integral to India's economic transformation will be crucial.

UNION BUDGET 2025-26: SUMMARY OF OPINION ARTICLES

AN INCREMENTAL APPROACH

The Union Budget for FY26 aims to enhance climate resilience and improve productivity and incomes for farmers and farm labourers through several new initiatives. These include a focus on 100 districts for boosting agri-productivity, promoting sustainable farming, increasing Kisan Credit Card limits, launching a Pulses Mission for self-reliance in key crops, and establishing a makhana board in Bihar. However, the effectiveness of these measures remains uncertain. The budget allocation for agriculture and allied sectors is ₹1.49 lakh crore, marking a modest 4% increase from the previous year. Given inflation projections of 4-5%, this increase may not translate into real growth. The PM-Kisan scheme remains stagnant at ₹60,000 crore since 2019, losing value in real terms, while much-needed fertilizer subsidy reforms remain unaddressed.

Agriculture's share in GDP has declined to around 17.7%, yet its workforce share has unexpectedly risen from 42.5% in 2018-19 to 46.1% in FY24, reversing a long-term decline. This shift has depressed farm wages, with 55% of agricultural employment being farm labourers. The Economic Survey underscores the need for labour-intensive sector growth and skill enhancement, but manufacturing continues to Favor capital-intensive approaches. MSME deregulation could be a key step in employment generation beyond agriculture.

The budget's emphasis on releasing 109 climate-resilient crop varieties is a positive move, but insufficient investment in R&D—still below 0.5% of agri-GDP—hinders long-term productivity gains. The fragmented value chain continues to limit farmers' earnings, with only 30% of the consumer rupee reaching them in the fruit and vegetable sector. The Mission for Vegetables and Fruits, allocated ₹500 crore, seeks to strengthen supply chains and boost processing, but its scale is inadequate compared to the transformative impact of past initiatives like Operation Flood. Strengthening the

National Agriculture Market and integrating it with digital platforms could improve price discovery and market access, yet logistical bottlenecks persist.

Structural issues such as import dependence on pulses, oilseeds, and key raw materials remain unaddressed. Expanding pulse cultivation in rice-fallow regions and incentivizing private investment in oilseed production could help, but the dominance of rice and wheat procurement under the minimum support price system discourages diversification. A shift to a crop-neutral incentive structure is necessary for sustainable agricultural transformation.

Post-harvest losses, estimated at ₹1.53 lakh crore annually, remain a major concern, with 8.1% of fruits and 7.3% of vegetables lost due to inadequate cold storage and processing facilities. The Agriculture Infrastructure Fund's budget has increased from ₹600 crore to ₹900 crore, which could aid value chain improvements, but larger investments are needed.

Overall, the FY26 Budget takes incremental steps but lacks transformative reforms. Moving away from subsidy-heavy interventions toward investment-driven growth, private sector participation, and technology-led efficiency is crucial for making Indian agriculture resilient and globally competitive. A bold shift in subsidy rationalization, infrastructure expansion, and market linkages is necessary for India to achieve its vision of becoming an agricultural powerhouse by 2047.

This is a summary of the article by Ashok Gulati and Raya Das, Financial Express, 03 February 2025. The full article is available at: https://shorturl.at/HUQnq

SETTING NEW BENCHMARK FOR INCLUSIVE DEVELOPMENT

The Union Budget 2025 reaffirms India's commitment to global economic leadership while maintaining fiscal discipline. Amid rising protectionism, the finance minister has balanced various demands, from tax reductions to strengthening domestic manufacturing and refining the GST framework, creating a positive outlook for both individuals and businesses. The Budget continues India's trajectory toward Viksit Bharat by 2047, targeting a $30 trillion economy through a robust business ecosystem. Recognizing the importance of MSMEs in economic growth, the government has proposed enhancing their investment and turnover limits to facilitate scale, technology adoption, and capital access. A high-level committee will review non-financial sector regulations to improve the business environment.

The revised tax slabs increase the tax-free income threshold to ₹12 lakh per annum, aiming to boost consumer spending in line with the "Sabka Vikas" vision. No major corporate tax changes were announced, as the new Direct Tax Bill is set to be presented soon, promising clarity and certainty for businesses. GIFT City's role as a global financial hub has been strengthened with tax incentives, including exemptions on deemed dividend provisions and life insurance premiums for non-residents, while extending key benefits until 2030 to encourage long-term investment.

The Budget continues to push the 'Make in India' initiative, offering incentives for sectors like toy manufacturing, footwear, and clean technology. Measures supporting electronics system design and manufacturing include a presumptive tax on non-resident service providers and customs exemptions to promote local value addition. The government has also exempted certain parts used in cell phone manufacturing, further supporting domestic production.

Overall, the Budget balances short-term economic needs with long-term strategic goals, aiming to stimulate consumption, ensure economic stability, and position India as a leader in inclusive and sustainable development.

This is a summary of the article by Sameer Gupta, Financial Express, 03 February 2025. The full article is available at: https://shorturl.at/63213

BUDGET's CONSUMPTION BET: TAX CUTS BOOST DEMAND, CAPEX LAG POSES RISKS

The Union Budget 2025-26 provides crucial personal income tax relief to stimulate private consumption while maintaining fiscal discipline, a move that supports macroeconomic stability and enhances fiscal-monetary policy coordination at a time when the economy is slowing. The gross fiscal deficit target for 2025-26 has been set at 4.4 percent, slightly better than the previously set 4.5 percent target, with a notable shift towards using the debt-to-GDP ratio as a fiscal anchor. The government aims to bring the debt-to-GDP ratio to 50 percent (±1) by March 2031, ensuring fiscal consolidation to create space for managing potential future economic shocks. However, the effectiveness of this strategy depends on stable interest rates, as any sharp rise could disrupt the projected debt trajectory.

The Budget's relief in personal income tax is timely, given global uncertainty and a sluggish private capex cycle. However, this comes at the cost of central government capital expenditure, which fell short of expectations in 2024-25. Despite an increase in capital expenditure to ₹11.2 trillion in 2025-26 from ₹10.2 trillion in 2024-25 (RE), it remains nearly unchanged from the ₹11.1 trillion in 2024-25 (BE). This could explain the muted stock market reaction despite significant tax relief. Additionally, corporate tax collections have continued to decline, with their share in total revenue receipts falling from 42.7 percent in 2018-19 to 31.6 percent in 2025-26. The tax cuts implemented in September 2019 have not yielded the expected benefits and hopes now rest on private sector investment picking up to support economic growth. If the private sector fails to increase capital expenditure, macroeconomic challenges could intensify.

A significant policy move in the Budget is the launch of a six-year self-reliance mission for pulses, focusing on tur, urad, and masoor. Given that pulses are among the most volatile food basket components and that India depends on limited import options, achieving self-sufficiency in pulses could be crucial for managing food inflation in the medium term.

The Budget also increases allocations for centrally sponsored schemes (CSSs) by 30.5 percent in 2025-26 (BE), though the increase is more modest at 7.6 percent on a BE-to-BE basis. However, the rising share of tied transfers under Article 282 compared to untied transfers under Article 270 is a concern, as it limits states' fiscal autonomy and reverses the declining trend of the past four years.

Overall, the Budget takes a balanced approach by addressing the pressing challenge of weak household consumption while maintaining fiscal prudence, ensuring macroeconomic stability in the long run.

This is a summary of the article by Janak Raj, Business Standard, 06 February 2025. The full article is available at: https://shorturl.at/N0rfy

BUDGET 2025-26: FOCUS ON DOMESTIC CONSUMPTION AMID GLOBAL UNCERTAINTIES

The Budget 2025-26 aligns with expectations by emphasizing fiscal consolidation, maintaining capital expenditure, and stimulating consumption through tax cuts. It includes various sector-specific measures, tariff adjustments, and simplifications in import processes. While the government has rationalized tariff structures and addressed some duty inversion issues, customs duty rates on primary goods such as steel and basic chemicals remain unchanged. Import duties on critical items like drugs and pharmaceuticals, critical minerals, textile machinery, electronic components, lithium-ion batteries, and inputs for shipbuilding and telecommunications have been lowered. Despite these reductions, customs revenue is projected to increase from ₹2.35 trillion to ₹2.40 trillion, likely due to a weakening rupee. Additionally, the number of customs duty rates for industrial goods is being streamlined to seven.

The Budget includes facilitation measures to support exporters of handicrafts, leather goods, and marine products. Proposed amendments aim to establish time limits for finalizing provisional assessments, transfer powers of the Settlement Commission to an interim board, extend deadlines for importers in certain activities, and promote voluntary compliance post-clearance. Notably, transactions involving goods warehoused in a Special Economic Zone (SEZ) or a free trade warehousing zone before export or domestic clearance will neither be classified as a supply of goods nor services.

Exporters had hoped for an extension of the RodTEP (Remission of Duties and Taxes on Exported Products) scheme beyond December 31, 2024, for physical exports fulfilling export obligations under advance authorizations, as well as for exports from EOUs and SEZs. However, this expectation was not met, nor was an extension of the Interest Equalization Scheme. While the finance minister positioned export promotion as a key developmental measure, some funding allocations suggest otherwise. The duty drawback allocation is set to decline by 29.55 percent, from ₹258.20 crore to ₹181.90 crore in 2025-26, while the Market Access Initiative Scheme and Interest Equalization Scheme allocations have been completely withdrawn. Although the RodTEP scheme allocation sees a slight 1.56 percent increase, overall export promotion funding is set to drop by 17.24 percent.

Sector-specific measures in the Budget target agriculture, micro, small, and medium enterprises (MSMEs), and industries such as footwear, leather, toys, food processing, and clean tech manufacturing. The shipbuilding industry is set to benefit from a financial assistance policy, shipbuilding cluster facilitations, and a ₹25,000 crore maritime development fund. A major announcement includes the establishment of a Centre of Excellence in Artificial Intelligence for education, with an outlay of ₹500 crore. Given global trade uncertainties, the government's primary focus appears to be on strengthening domestic consumption.

This is a summary of the article by TNC Rajagopalan, Business Standard, 03 February 2025. The full article is available at: https://shorturl.at/wQ3i8

INDIA'S TAXATION CRISIS: CAN 1% BEAR SUCH A LARGE COUNTRY's BURDEN?

India's taxation system faces a critical challenge—not of high rates, but of a narrow tax base. With just 1% of Indians expected to contribute nearly a third of the government's gross tax revenue in 2025-26, the burden on a small group of taxpayers is immense. The Union Budget's decision to raise the income tax threshold to ₹12 lakh under the new regime may boost middle-class consumption, but it further shrinks the tax base. An estimated 10-12 million taxpayers will be responsible for generating over ₹14 trillion in direct taxes, accounting for nearly half of the Centre's net tax collections. As fewer individuals shoulder the tax burden, resentment could grow, raising uncomfortable questions about fairness.

While tax filings have increased by 82% over nine years to 104 million in 2023-24, most contributors pay little or no tax, leaving only 20 million actual taxpayers, a figure expected to halve by 2025-26. Meanwhile, the number of individuals earning over ₹1 crore has increased fivefold to 230,000, but they remain a tiny fraction of India's vast working-age population of 960 million. The root of the problem is political, with successive governments shielding agriculture from taxation under the outdated notion that all farmers require tax exemptions. While small and marginal farmers once needed protection, today, large agricultural estates generate massive untaxed income. In contrast, workers and small business owners who pay indirect taxes receive no such privilege.

Despite high tax collection from a select few, India's urban infrastructure remains in disrepair, with crumbling roads, overstretched transit systems, and inefficient public services. The imbalance in taxation is deepened by loopholes, patronage, and political reluctance to expand the tax net. Without reform, the government risks alienating an already overtaxed segment of the population. The solution lies in a broad-based, low-rate taxation system, as advocated by Nobel laureate James Mirrlees. His principles emphasize efficiency, equity, and economic incentives while discouraging over-reliance on a small group of taxpayers. India must eliminate unnecessary exemptions, ensure progressive taxation across all high-income groups, and enforce better compliance through AI-driven monitoring and GST integration.

A more inclusive tax system must also be accompanied by improvements in public services to strengthen trust in governance. If taxpayers see their contributions translating into better infrastructure and social services, compliance will improve. This requires not just central government action, but also accountability at the state and local levels. Without these changes, public discontent with India's taxation system will only deepen.

This is a summary of the article by Srinath Sridharan, Mint, 07 February 2025. The full article is available at: https://shorturl.at/BXYgT

DOES UNION BUDGET 2025-26 DO ENOUGH TO ADDRESS CLIMATE CHANGE? BOOST FOR RENEWABLES, BUT CLIMATE ADAPTATION GETS A BACKSEAT

Finance Minister Nirmala Sitharaman, while presenting the Budget for 2025–26, outlined the government's commitment to clean energy and climate change mitigation. She announced initiatives to boost domestic manufacturing of solar PV cells, EV batteries, and wind turbines while exempting basic customs duty on critical minerals like cobalt powder, waste lithium-ion battery scrap, and lead to aid MSME processing. These measures, particularly the removal of duties on cobalt and battery scrap, are expected to support lithium-ion battery production and EV battery recycling, though experts argue that infrastructure for recycling and transportation must be strengthened alongside these policy shifts.

The Budget also introduced a significant expansion of nuclear energy, with a target of 100 GW by 2047 under the Nuclear Energy Mission. This includes proposed amendments to the Atomic Energy Act and the Civil Liability for Nuclear Damage Act to encourage private sector participation, as well as a ₹20,000 crore allocation for research into small modular reactors by 2033. However, this ambition contrasts with a ₹402 crore reduction in the overall budget estimate for the Department of Atomic Energy, raising concerns about adequate funding for these initiatives.

While the Budget emphasizes climate change mitigation through clean energy transition, it falls short in addressing climate adaptation. Key adaptation programs, including the National Adaptation Fund and the Climate Change Action Plan, have been reclassified as non-scheme expenditures without clear budget estimates. This reclassification comes despite the Economic Survey released on January 31 stressing the importance of climate adaptation. Although the government has demonstrated a strong push toward clean energy, the lack of detailed funding for adaptation raises questions about India's preparedness for the adverse impacts of climate change.

This is a summary of an article published in Down To Earth, 06 February 2025. The full article is available at: https://shorturl.at/dctMs

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