BUDGET 25-26

RESPONSIVE AND RESPONSIBLE

It's high time India Inc started investing as the govt can't keep doing the heavy-lifting forever

FINANCE MINISTER NIRMALA Sitharaman's Budget for 2025-26 has taken a fiscally prudent path, even though she has given the economy a big consumption boost while envisaging a decent capex outlay. The ₹1 lakh crore tax giveaway through a revised personal income tax rate structure will give lower-income households a much-deserved break. Indeed, the relief is significant in that those earning up to ₹12 lakh per annum will pay no income tax. With this, the new tax regime should attract many more taxpayers, as is the government's objective.

The sharply lower fiscal deficit target of 4.4% of gross domestic product (GDP) in 2025-26 from 4.8% in the current fiscal — the absolute amount is flat at ₹15.69 lakh crore — is likely to impart a negative fiscal impulse to the economy. However, it is easy to call for countercyclical approaches to revive growth but one cannot blame Sitharaman, because it is important in today's difficult environment to keep India's fiscal risk premia low. Since the FM intends to ensure that the Centre's borrowings, as a share of the GDP, stay on a declining trend, injecting a fiscal impulse is difficult. The new target for central government debt is 50%+/-1% of GDP by FY31 from 57.1% in FY25. The central bank must support the government's efforts and stimulate demand for credit from businesses and individuals, and encourage private sector investments.

The FM has done a fair bit of chopping and pruning to keep the expenditure reined in; the increase in FY26 is just 7.3%. The fertiliser subsidy bill, for instance, has been pruned to ₹1.68 lakh crore from ₹1.71 lakh crore in the current fiscal. This is just as well because the tax revenue assumptions, especially the rise in income tax collections of 14.3%, are somewhat optimistic given the expected growth in nominal GDP is 10.1%. The assumed gross tax buoyancy of 1.1 is not unduly optimistic but given how the growth momentum has slowed and ₹1 lakh crore has been foregone, there could be a slight shortfall in tax revenues.

The increased consumer spending — in the wake of the tax breaks — could keep goods and services tax collections from slowing. The government is banking on a generous surplus transfer of about ₹2.56 lakh crore from the Reserve Bank of India (RBI) and other financial institutions though the proceeds from divestment of stakes are expected to be modest. This is one area where the government has consistently missed its targets.

> ONE HOPES THE GOVT IS SERIOUS WHEN IT SAYS IT WANTS TO MAKE LIFE EASIER FOR ENTREPRENEURS

The good news is that the allocation for capex is up 10% at ₹11.2 lakh crore, in line with the estimated GDP growth. The corporate sector may have wanted more but it is high time India Inc started committing capital to fresh capacities. It is unfair to expect the government to do the heavy-lifting forever. Indeed, despite a relative low rate of taxation of just 25% announced in 2019 (a rate that is lower than the personal tax rate for many individuals) and the strong cash flows that they have generated, India Inc's investments in the past few years have been smaller than anticipated. The ₹1.5 lakh crore of interest-free loans for the states for various projects should also boost capex. In fact, the government's net market borrowings for 2025-26 of ₹11.5 lakh crore are a shade smaller than the planned ₹11.6 lakh crore in the current year. That will ensure the private sector is not crowded out of the bond market. Although the planned gross borrowings for 2025-26 are bigger, the increase is just 6%.

While big bang policy changes are missing in the Budget, the raft of measures to boost the start-up ecosystem, manufacturing, real estate, tourism, and the agriculture sectors should boost employment. The rationalisation of customs duties, for example, will make imports of several intermediate goods cheaper, encouraging capacity addition in domestic manufacturing. The higher limits for investment and turnover for micro, small, and medium enterprises will encourage small businessmen as they can get benefits for longer including under priority sector lending. Farmers with Kisan Credit Cards will now have access to more credit thanks to the increase in loan limit to ₹5 lakh.

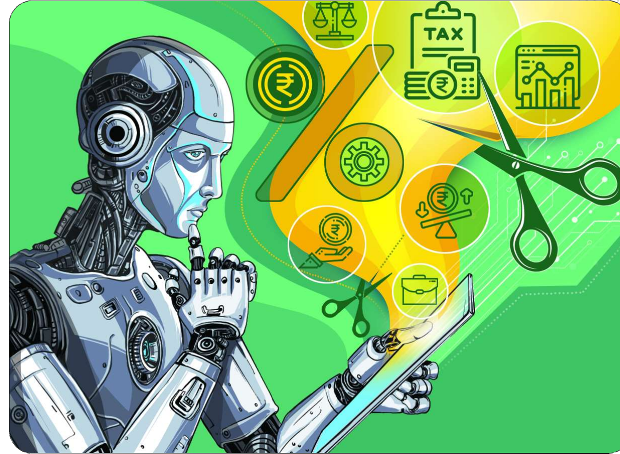
Employment opportunities should be created with the initiatives outlined for tourism, start-ups, and global capability centres in tier-II towns. For the economy to really come to life though, it should become easier to do business. One hopes the government is serious when it says it wants to make life easier for entrepreneurs because we have seen little sign of this so far. Committees may come up with good suggestions but bureaucrats have a way of killing them. The best gift that government can give industry is one that is not wrapped up in red tape.

GOVERNMENT EMPHASIS IN RECENT MONTHS RAISED EXPECTATIONS THAT THE BUDGET WOULD INCENTIVISE EMPLOYMENT-INTENSIVE SECTORS

Living up to expectations

SUDIPTO MUNDLE, CHAIRMAN, CENTRE FOR DEVELOPMENT STUDIES

THIS WAS FINANCE minister Nirmala Sitaraman's eighth Budget, but the first full Budget of the new government, or the first Budget of what economists call the political business cycle. Typically, a government can prepare fiscally prudent and reform-oriented Budgets during the first half of its tenure. The second half is taken over by electoral consideration. From this perspective, it was expected to be a hard, no-nonsense Budget. The Economic Survey also built expectations that the Budget would be reform-oriented. The government's emphasis in recent months on the importance of employment built expectations that the Budget would incentivise the growth of employment-intensive sectors. Remarks by the President and the Prime Minister also raised expectations that it would include measures for the middle class. It turns out that the Budget has indeed lived up to all these expectations, difficult as that may sound.



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Let's start with headline numbers on fiscal deficit (FD). Compared to the budget estimate of ₹48.2 lakh crore, total expenditure turns out to be ₹1 lakh crore less at ₹47.2 lakh crore in the revised estimate (RE), rounded to one decimal point. Revenues are also lower at ₹30.9 lakh crore (RE), leaving an FD of 4.8% of GDP. This overshoots the Budget target of 4.9%. For FY26, the Budget has set an FD target of 4.4%, again a shade lower than that of 4.5% by FY26 the FM had set earlier, reinforcing her reputation of strong fiscal prudence. She has also spelt out a six-year road map of gradually bringing down the central government debt-to-GDP ratio, which is the ultimate goal of deficit reduction.

Turning to the expenditure proposals, three themes stand out: the emphasis on employment, exports, and close cooperation with states on many schemes. There is also a focus on schemes for Bihar and the ones for ship-building and ship breaking are likely to primarily benefit Gujarat. The schemes are classified into groups as the four engines of growth — agriculture, micro, medium, and small enterprises (MSMEs), investment, and exports.

In agriculture, which accounts for the bulk of India's labour force, Sitharaman has introduced a programme to boost productivity in 100 low-productivity districts, implicitly recognising the difficulty of moving labour out of agriculture. There is a similar multi-sector rural development scheme for 100 districts, aimed at women and young, marginal, or landless farmers.

Other important schemes include ones for fruit and vegetables, a self-sufficiency programme for pulses, a national programme for pest-resistant and high-yielding variety seeds, a scheme for long staple cotton, and a fisheries programme, especially for the Andaman and Nicobar Islands and Lakshadweep. The use of a vast rural postal network to provide banking services in under-served areas, enhanced rural credit, and digitisation are other innovative schemes for the labour-intensive agricultural sector and rural economy.

The second plank for labour-intensive growth includes many schemes for MSMEs, which account for 45% of India's exports. The definition of MSME itself has been expanded to enable enterprises to grow and still qualify for schemes. These include liberalised credit limits, a special credit window for MSME exporters, and a new Fund of Funds scheme for start-ups. The sectors identified as employment-intensive exporters include footwear and leather, toys, and food processing. Oddly, garments, a labour-intensive and export-oriented sector, is not mentioned. A manufacturing mission has also been introduced for clean technologies in MSMEs.

A third plank for productive employment-intensive growth, hitherto neglected, is tourism services. Schemes have been announced on skilling and credit to support religious (Buddhist circuit) and medical tourism, as well as developing 50 leading tourist sites in cooperation with the states.

Under the third growth engine, investment, the FM has included a range of schemes from nutrition for women and children and Atal Tinkering Laboratories to the extension of broadband communications under BharatNet. These include schemes of capacity expansion in Indian Institutes of Technology, medical colleges and hospitals, and global capability centres, besides loans for vendors and day-care centres, welfare schemes for gig workers, etc. Conventional investment promotion schemes comprise incentives for public-private partnerships in all industries and an extension of the 50-year interest-free loan scheme for states by another year. Also included are schemes for ship-building and ship breaking, expansion of the Udan programme to 120 new destinations, and one for small modular nuclear power plants.

Several schemes, including some described above, are also under the exports growth engine.

Turning to taxation, tariffs have been eliminated for some products, while others have seen a reduction on the basic Customs duty, which is most welcome. However, the case-by-case specification of many rates remains. The FM has indicated this is a work in progress, and eventually, she will move to an eight-rate schedule.

For direct taxes, she has said a simplified Income Tax Bill will be introduced soon. The no-tax rate ceiling has been raised to ₹12 lakh. With a standard deduction of ₹75,000, no tax will be payable by a person earning up to ₹12.75 lakh a year. This is the big provision for the middle class. The highest marginal tax rate has been retained at 30%, but there are still too many tax slabs.

Reforms will supposedly fuel her four growth engines. The main area of reform is, in fact, taxation. Many offences have also been decriminalised. The new Bill is awaited for details. The other main area of reforms is the financial sector, including introduction of 100% ceiling for foreign direct investment (FDI) in select sectors, simplification of know-your-customer norms under a new scheme, bilateral treaties to make FDI more user-friendly, and reform of the regulatory framework.

All in all, it is a Budget that lives up to expectations.

Views are personal

A fillip to consumer demand

RC BHARGAVA, CHAIRMAN, MARUTI SUZUKI INDIA

Accelerating manufacturing growth and employment creation, which will undoubtedly be helped to an extent by the Budget, also needs a review of GST rates

Discussions on this year's Budget will largely be focused on the substantial income tax benefits to taxpayers. The benefits go to a large section of the more vocal segment of society. This will not only make it a very popular Budget but also give a fillip to sagging consumer demand and help increase production and employment. The FM rightly said that the Budget should lead to continuing focus on accelerating growth, making it more inclusive and giving importance to the middle classes. The tax relief, along with some other announcements, certainly helps achieve these three objectives.

The need to accelerate job creation and economic growth is accepted in all responsible circles. The Budget continues to prioritise developing infrastructure that would make manufacturing and other economic activities more competitive. We are already witnessing the benefits of high-class infrastructure built in recent years. The government's lead role in infrastructure development is so well accepted that the FM did not even mention it in her speech.

The fiscal deficit projected for this year at 4.8% and the target of 4.4% in 2025-26 is another big positive. It is important that inflation is kept in check so that the additional income with taxpayers from tax relief increases their ability to buy more goods and services. The prudent fiscal management by the government is very welcome.

To become more competitive, manufacturing also requires costs of setting up and operating factories to keep reducing. The Centre has made excellent progress in this area. Efforts to make doing business easier have to continue and implemented more vigorously. Regulations and processes of getting various approvals need to be revisited and made simpler so that the time and effort needed for compliance is reduced. Technology needs to be used in much greater measure to quicken decision-making. Since much of this lies in the domain of state governments, they have to realise that time is money and reducing costs for private entrepreneurs is in national interest.

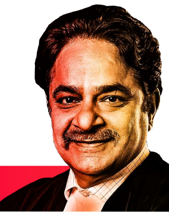
Along with more competitive manufacturing, consumer demand has to grow significantly for manufacturing growth and employment creation to reach desired levels. The income tax relief will put about ₹1 lakh crore in the pockets of consumers. Expenditure on infrastructure building, increasing agricultural productivity, promoting labour-intensive industries, and other budgetary measures will add to the demand for goods. It is important that state governments pay special attention to implementing programmes that boost the rural economy and promote agricultural productivity.

A positive step is the announcement to increase investment limits for micro, small and medium enterprises (MSMEs) by 2.5 times. MSMEs in manufacturing need to adopt technology that enhances quality, reliability, and reduce costs. They need to build engineering capabilities. Investment limits should not come in the way of doing so. MSMEs are mostly tier-II vendors and the supply chains cannot be of global standards unless each supplier reaches excellence.

The target of creating 100 gigawatt of nuclear power by 2047 is excellent. We need to expedite electricity generation from non-fossil sources, otherwise electric vehicles (EVs) would only transfer the place where carbon emissions are concentrated. We cannot attain carbon neutrality without much more clean electricity generation.

For the auto sector, the Budget has some good provisions on Customs duty and EVs. The Budget no longer deals with indirect taxes, now the domain of the goods and services tax (GST) council. The demand for small cars — a major component of the industry — has stagnated over the last five-six years, and the entry-level car market has shrunk by over 40%. Cost increases due to much higher regulatory standards is a major cause. Overall growth of car sales during the last two years has been 3-4% annually. Accelerating manufacturing growth and employment creation, which will undoubtedly be helped to an extent by the Budget, also needs a review of GST rates.

The FM continues to do an excellent job with Budgets. Her brevity is praiseworthy. She has kept her priorities clear and made provisions accordingly. It is now for the other wings of government, and states, to implement programmes equally efficiently.



Laying road map for resilience and reforms

MUKESH BUTANI, MANAGING PARTNER, BMR LEGAL ADVOCATES

A phased, reformatory approach has enlivened the possibility of a more equitable tax code

INDIA WAKES UP to Budget 2025, a decisive moment when policy meets potential, laying the road map for economic resilience and strategic reforms. Buoyed with the "*sabka vishwas, saath, prayas* and *vikas*" motto, it focuses on four key engines: agriculture, MSMEs, investment, and exports.

The Budget proposes to enhance the ease of doing business index while unlocking opportunities for foreign investment. In sync with the Economic Survey that vouched for strategic deregulation, it espouses financial and non-financial regulatory reforms. To fast-track, the FM has announced a panel to review all non-financial sector regulations, certifications, licences, and permissions. The Financial Stability and Development Council will separately evaluate the impact of current financial regulations.

In its pursuit of innovation, growth, building capacity and skill development, the Budget outlays significant allocations for deep tech start-ups, R&D initiatives, and ensures credit availability for MSMEs. Notable strides have been made to support MSMEs by widening the turnover classification and enhancing credit guarantee coverage for micro and small units.

The Budget also proposes to revamp the 2016 model of bilateral investment treaty (BIT), which didn't find favour with investors due to its contentious clauses. It also envisions a framework to promote global capability centres in tier-II cities, with focus on leveraging talent and building infra, to invest beyond IT hubs. Given the potential of global value chains (GVCs) and ability to create employment, the Budget proposes an audacious plan to position India as an electronic design and manufacturing hub.

Bridging digitalisation with the Export Promotion Mission, the government has promised to launch Bharat Trade Net as a centralised platform for trade documentation and financing solutions.

Direct tax reforms have focused greatly on the need to simplify and address compliance index including rationalising long-term capital gains tax rates, incentivising investments in international financial services centres, and a five-year extension of the sunset clause for eligible start-ups. The FM has also promised a simple income tax Bill, carrying forward a reformative stance.

The Budget has emphasised on a trust-based tax system, entailing reforms on certainty, litigation reduction, and voluntary compliance, including removing several penal provisions. Tax certainty package extends presumptive taxation for non-resident electronics service providers (with a presumptive profit rate of 25%) and exemption from Significant Economic Presence povisions for purchases from India. These changes shall catalyse GVCs engaged in large-scale electronics and semiconductor manufacturing. The Budget proposal aims to streamline the transfer pricing regime, including expansion of safe-harbour rules.

A host of Customs duty measures to boost domestic manufacturing and ameliorate value addition across key economic sectors has been mooted. Basic Customs Duty exemptions and concessional duties have been extended to life-saving medicine, critical minerals, shipping, and telecom industries. To address protracted litigation, the Budget has proposed to fix a time limit of two years for finalising provisional Customs duty assessment.

Taxation must endeavour to bridge systemic gaps between taxpayers and administration. In the wake of an ever-expansive multilateral order and possible tariff dissonances, the occasion was opportune for the Budget to herald a new dawn. A phased, reformatory approach has enlivened the possibility of a more equitable tax code. Economic synergies hinge on a verdant landscape of trade, investment, and cooperation between prominent member states. The next decade of tax transformations shall posit ebullience through these announcements.

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