



## EDITORIAL: THE HINDU

**GENERAL STUDIES 3: ECONOMY**

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**TOPIC: BUDGET**

### **Fiscal Consolidation: Challenging Targets and Uncertainty**

- The Union Budget 2025-26 sets an ambitious fiscal consolidation target, aiming to reduce the fiscal deficit to 4.4% of GDP by FY26. However, this target appears overly optimistic, relying on unrealistic revenue projections—an 11.2% increase in total tax revenues and a 14.4% rise in income tax revenues—despite prevailing economic challenges such as declining domestic consumption and weakening external demand.
- Moreover, the underperformance of the previous asset monetization program raises doubts about the feasibility of the new ₹11.54 lakh crore in net market borrowings, which could potentially crowd out private investments during a period of subdued credit demand.

### **Tax Revisions: Relief with Long-Term Costs**

- The Budget introduces significant revisions to personal income tax rates under the new tax regime, benefiting middle-income taxpayers by offering exemptions for incomes up to ₹12 lakh. While this move aims to boost disposable income and stimulate consumer spending, it comes at a substantial cost—₹1 lakh crore in foregone direct tax revenue.
- This loss could limit the government's ability to fund essential development programs, particularly in infrastructure and social welfare. Furthermore, with household savings declining to 18.4% of GDP, concerns about the sustainability of this tax relief in the long run remain.

### **Manufacturing Sector: Positive Steps, but Structural Gaps**

- The Budget reinforces India's ambition to become a global manufacturing hub, but the sector's current performance, contributing only 17% of GDP, remains suboptimal. While production-linked incentives (PLIs) have had some success, their scalability and long-term impact are uncertain.
- Positive initiatives such as enhanced credit facilities for MSMEs and the National Manufacturing Mission are welcome, but the sector still grapples with deeper issues, including regulatory inefficiencies, infrastructure deficits, and a lack of investment in industrial research and innovation. India's industrial R&D investment is low, at just 0.64% of GDP, signaling the need for further investment in infrastructure and regulatory reforms to realize the full potential of the manufacturing sector.

### **Agriculture: Strategic Shifts, but Systemic Gaps Persist**



- Recognizing the importance of agriculture, the Budget announces initiatives like the Prime Minister Dhan-Dhaanya Krishi Yojana and the National Mission on High-Yielding Seeds to boost productivity and climate resilience. The increase in Kisan Credit Card (KCC) loan limits and targeted interventions in low-productivity districts reflect a more precise approach to agricultural support. However, the Budget does not address systemic inefficiencies in agricultural markets, such as price volatility and poor market access.
- Moreover, the Budget misses the opportunity to promote agricultural exports, especially in emerging sectors like millets and organic farming, which could have positioned India as a global leader.

## External Sector: Limited Initiatives to Tackle Global Challenges

- Despite challenges like growing trade deficits and currency depreciation, India's external sector policies receive limited attention in the Budget. While services exports, particularly in IT and BPO, continue to thrive, there is little effort to diversify the export portfolio. Initiatives like Bharat Trade Net (BTN) and export credit support for MSMEs are positive but lack the scale required to address persistent trade imbalances.
- Furthermore, the Budget does not include a comprehensive export strategy for high-value sectors such as pharmaceuticals, renewable energy, and advanced electronics, sectors that could drive India's integration into global supply chains.

## Climate Commitments: Incremental Action with Limited Financial Support

- The Budget indicates a commitment to climate action but presents only incremental measures. Key steps include incentives for lithium-ion battery recycling, duty exemptions on critical minerals, and support for domestic solar and battery manufacturing.
- While these measures aim to reduce import dependence and strengthen supply-chain resilience, they fall short of the bold investments needed in grid modernization, energy storage, and industrial decarbonization. A more substantial push, with increased funding for renewable infrastructure and carbon capture technologies, would have propelled India's transition to a low-carbon economy.

## Conclusion: Positive Intent, but Execution is Key

- The Union Budget 2025-26 presents a roadmap for economic growth, fiscal discipline, and structural reforms but faces significant challenges in execution. While the measures, such as tax cuts, MSME support, agricultural reforms, and climate initiatives, reflect positive intent, there are concerns regarding their sustainability and effectiveness.
- The fiscal consolidation target is ambitious, and the reliance on optimistic revenue projections raises questions about its feasibility. The success of the Budget will largely depend on the government's ability to implement its policies effectively while maintaining economic stability.



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Source: <https://www.thehindu.com/opinion/lead/beyond-tax-cuts-a-closer-read-of-the-union-budget/article69173394.ece>



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