

A Budget that is mostly good but with one wrong move

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The Union Budget has got many things right. Its projection of nominal GDP growth for 2025-26, at 10.1%, is reasonable and acceptable. The Economic Survey 2024-25 had indicated a real GDP growth in the range of 6.3%-6.8% for 2025-26. This provides some buffer if growth picks up more. The increase in the capital expenditure of the government in 2025-26 over the revised estimates of 2024-25 is estimated at ₹1.03 lakh crore. But the capital expenditures in 2025-26, at ₹11.2 lakh crore, are nearly the same as was indicated in the Budget of 2024-25 at ₹11.1 lakh crore.

The overarching aim of the Budget was to accelerate growth and push India towards a developed country status. The required rate of real growth to achieve this is estimated differently including a rate of 8% in the Economic Survey for 2024-25. In any case, the country needs a definite pickup in growth rate. The various measures indicated in the Budget are welcome. In fact, some of these could have been implemented even earlier. The concession given to the 'middle-class' in terms of income-tax is welcome as a relief. But its impact on demand depends on the marginal propensity to consume of the households who are expected to largely benefit from these concessions and their consumption basket.

Gross tax revenues

Growth in the Government of India's gross tax revenues (GTR) have trended downwards in recent years. The buoyancy of GTR has fallen for three successive years from 1.4 in 2023-24 to 1.15 in 2024-25 (RE) and then to 1.07 in 2025-26 (BE). As a result, growth in the Government of India's GTR has kept falling from 13.5% in 2023-24 to 11.2% in 2024-25 (RE), and to 10.8% in 2025-26 (BE). Within the government's tax revenues, the growth rate of Goods and Services Tax (GST) has also fallen from 12.7% in 2023-24 to 10.9% in 2025-26 (BE).

In fact, the structure of the government's taxation has moved away from indirect to direct taxes. The share of direct taxes in the government's GTR has increased from 52% in



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Some of the measures indicated in the Budget could have been implemented even earlier; moving away from 'fiscal deficit' as an indicator is an incorrect step

2021-22 to 59% in 2025-26 (BE) which is a welcome development. Within direct taxes, however, it is personal income-tax which has performed better than corporate income-tax in terms of growth and buoyancy.

However, even in the case of personal income-tax there has been a fall in growth from 25.4% in 2023-24 to 20.3% in 2024-25 (RE) and 14.4% in 2025-26 (BE). This fall in growth in 2025-26 (BE) is partly due to the announced income-tax concessions. In the case of corporate income-tax, the growth in 2024-25 (RE) is quite low at 7.6%. This growth has been raised to 10.4% in 2025-26 (BE). On the whole, assumptions regarding the government's tax revenue growth in 2025-26 (BE) appear to be realistic.

In the case of non-tax revenues, the main contribution has been in the form of dividends from the Reserve Bank of India and public sector companies, which together accounted for about ₹3.25 lakh crore in 2025-26 – an increase of ₹35,715 crore over the revised estimates. Thus, the non-tax revenues have been raised from ₹5.3 lakh crore (RE) to ₹5.8 lakh crore in 2025-26 (BE).

Level of government expenditure

Tax and non-tax revenues, non-debt capital receipts and fiscal deficit together determine the size of government expenditure. As discussed, a gross tax revenue growth at a lower level of 10.8% appears to be realistic. Given the commitment to fiscal consolidation, the size of government expenditure as a percentage of GDP had to be reduced from 14.6% in 2024-25 (RE) to 14.2% in 2025-26 (BE). Growth in total expenditure, at 7.6% in 2025-26 (BE), is lower than the budgeted nominal GDP growth at 10.1%.

In fact, this was so even in 2024-25 (RE), when the government's total expenditure growth was 6.1% as against the nominal GDP growth of 9.7% as per the first advanced estimates. However, there has been a steady improvement in the quality of government expenditure as the share of capital expenditure in total expenditure has been improving. In fact, this share has improved by 10% points over the period from 2020-21 to 2025-26 (BE). Given the contemporary context, the Government of India has to build up

large-scale Artificial Intelligence (AI) infrastructure in order to facilitate the adoption of emerging technologies. In this context, China has taken a clear lead. The United States has recently announced an investment of \$500 billion for AI infrastructure. In the field of AI, India's technology companies have failed to anticipate developments. India should have done what China did. Perhaps, India should push these companies for research and development, by offering some tax concessions, if necessary.

A less transparent fiscal health indicator

One wrong measure introduced in the Budget is to move away from fiscal deficit as an indicator of fiscal prudence. Contrary to what is stated in the Budget document, we are moving from a transparent to a less transparent indicator. As per the glide path given in the Medium-Term Fiscal Policy Cum Fiscal Policy Strategy Statement of the 2024-25 Budget, the fiscal deficit was to be brought down to below 4.5% by 2025-26.

However, in the 2025-26 Budget, the practice of giving a glide path in terms of fiscal deficit is being discontinued. It has been stated that from now on, the focus will be on reducing the debt-GDP ratio annually. In the annexure statement titled 'Statements of Fiscal Policy as required under the Fiscal Responsibility and Budget Management (FRBM) Act, 2003', alternative paths of the debt-GDP ratio with nominal GDP growth assumptions of 10.0%, 10.5% and 11.0% are given.

The glide paths are indicated in terms of alternative growth assumptions and alternative assumptions regarding mild, moderate, and high degrees of fiscal consolidation. This makes the whole exercise vague and non-transparent. It is better for fiscal discipline to indicate specific fiscal deficit target for different years and the corresponding debt-GDP ratios for those years. It should clearly be shown by what year the FRBM Act targets are to be achieved. A larger claim on the available investible resources by the government will make it difficult for private investment to pick up.