



# ASIA Research Analysis

## **INDIA: Budget 2025-26 strikes balance between growth and fiscal prudence**

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**SIGNIFICANCE:** Finance Minister Nirmala Sitharaman's Budget 2025-26 aims to keep fiscal consolidation on track while giving a push to social spending and strategic sectors. The budget reveals New Delhi's commitment to infrastructure development and technological innovation, but questions arise regarding the capacity for implementation.

### **ANALYSIS**

The budget reflects three main priorities:

- Fiscal consolidation amidst global economic uncertainties
- Enhanced social welfare spending targeting key demographics
- Technology and infrastructure investment strategy

# Economic Framework

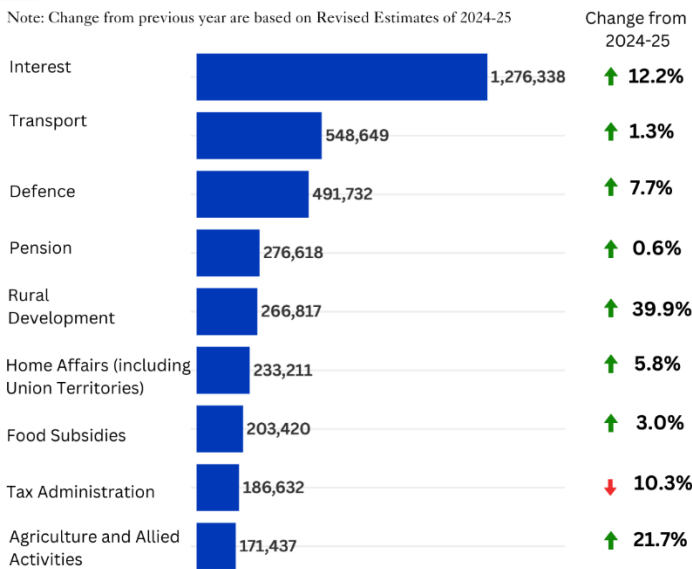
The government estimates 10.1% nominal GDP growth for 2025-26. The GDP is expected to be 356.97 lakh crore rupees. The fiscal deficit target of 4.4% of GDP, down from 4.8%, suggests that the government remains committed to fiscal discipline. However, achieving this while maintaining planned expenditure growth of 7% may prove challenging.

Significant concern has been that household saving as a proportion of GDP in FY24 decreased to 5.1% from 7.2% in FY20. This might well constrain private investment if it continues. The reduction in Gross Fixed Capital Formation at 32.9% in FY24 raises long-term sustainability concerns of investment also.

## Major Allocations

### Budget 2025-26

Largest Expenditure Items (Budget Estimates in Rs. Crore)



Source: indiabudget.gov.in

## Strategic Shifts in Foreign Policy

The sharp reduction of foreign government loans from ₹869.70 crores to ₹375.00 crores appears to be the strategic shift to avoid regional exposure to debt liabilities, which the recent crises experienced by neighboring economies may have recently influenced.

During this time, India is recalibrating technical cooperation and the development of its infrastructure to take on Chinese dominance in South Asia.

## Technology and Innovation Push

The establishment of a ₹20,000 crore DeepTech Fund and the ₹1 lakh crore Anusandhan R&D Fund represents significant commitments for technological advancement.

However, the R&D expenditure still stands at 0.65% of the GDP, which remains way below the global average of 1.93%, indicating additional private sector participation will be the key to innovation goals.

## Social Welfare and Healthcare

The Saksham Aanganwadi initiative focuses on maternal health and nutrition, which have been persistent challenges, such as anemia among women aged 15-49 years, at 53%.

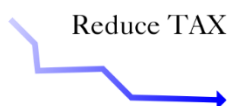
The health budget has increased by 13%, but historical underfunding of critical programs suggests that implementation may face resource constraints.

## Tax Reform Impact

The raising of the tax-free income threshold from ₹12 lakh is a landmark middle-class relief measure. Closely following that, other reforms include foreign companies' significantly reduced corporate taxes, from 40% down to 35%, in support of domestic consumption and foreign investments.

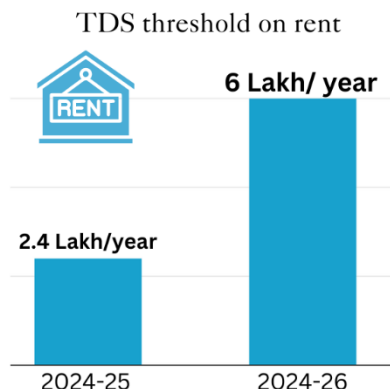
Budget 2025-26

Relief for Middle-Class Taxpayers



No income tax for individuals earning up to **Rs 12 lakh** annually

TDS on rent now applies only if annual rent exceeds Rs 6 lakh (up from Rs 2.4 lakh), reducing compliance for tenants and benefiting small landlords.



Source: [indiabudget.gov.in](http://indiabudget.gov.in)

## Manufacturing and Trade

Customs duty reforms, particularly in electronics and critical minerals, align with broader goals of reducing dependence on Chinese imports while strengthening domestic manufacturing. The expansion of Production-Linked Incentive schemes signals continued push for industrial self-reliance.

Budget 2025-26

Tourism & Infrastructure in India



- Top 50 tourism destination sites will be developed in partnership with states.
- States will provide land for the development of tourist sites.
- Mudra loans will be extended to homestay businesses.
- Under the 'Heal in India' initiative, the government will collaborate with private sector players to promote medical tourism.

Source: [indiabudget.gov.in](http://indiabudget.gov.in)

## OUTLOOK

### Near-term (3-6 months)

- Immediate boost to consumer spending from tax relief
- Gradual implementation of new welfare schemes
- Initial response from foreign investors to tax incentives

### Medium-term (6-18 months)

- Progress on fiscal consolidation targets
- Commissioning of technology and R&D grant
- Changes in regional diplomacy ties post-aid cut

### Long Term (18+ months)

- Impact of innovation packages in industrial competitiveness
- Effectiveness of welfare programs in countering structural problems
- Sustainability of manufacturing sector reforms in trade dependency reduction

### **Risk Factors**

- Economic uncertainties in world economies impacting growth assumptions
- Welfare scheme implementation issues
- Resistivity or opposition towards regulatory reform changes
- Trade relationship uncertainty in region due to local security tensions on borders

### **CONCLUSION**

The 2025-26 Budget is a delicate balancing act between fiscal prudence and developmental aspirations. While the focus on technology, innovation, and social welfare is commendable, success will depend heavily on implementation efficiency and global economic conditions. Reduction in foreign aid and strategic focus on domestic manufacturing capability suggest a more inward-looking economic strategy, though this may face challenges in an increasingly interconnected global economy.

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