Mr. Vipin Malik
(Chairman, Infomerics Ratings)

Mr. Sankhanath Bandyopadhyay
(Economist)

THE FY26 UNION BUDGET: STRIKING THE RIGHT NOTES

03 February 2025

India's Union Budget for FY26 was presented on February 1, 2025, and is focused on "Sabka Vikas," highlighting inclusive growth across multiple sectors of the economy. A distinguishing feature of this Budget is a special thrust on India's middle-income class, where it is stressed that enhancing spending power of India's rising middle class is a crucial objective of this Budget.

The Budget, while advancing inclusive growth, also remain cautious amid the volatile global scenario, especially after the post-election results of US, as Donal Trump is on a war-footing regarding tariff threats on products of many economies, including Mexico, India and Canada among others.

Against this backdrop, India is expected to grow at 6.4% this year (FY25), and likely to grow by 6.3-6.8% by next year (FY26). The GDP for FY 2025-26 is estimated at ₹ 356,97,923 crore, which is 10.1% over the Revised Estimates for FY 2024-25 of ₹ 324,11,406 crore released by NSO. India's real and nominal GDP are expected to grow at 6.4% and 9.7% respectively in FY25 as per 1st Advanced Estimates (AEs), whereas nominal GDP is projected to grow by 10.1% in FY26.

Earlier, India's GDP growth slowed to 5.4% in the July-Sept'24 quarter. This was a seven-quarter low dragged down by low manufacturing growth.

In this context, it may be highlighted that the FY26 Union Budget announced the setting up of a "National Manufacturing Mission" (NMM) covering small, medium, and large industries for furthering "Make in India" by providing policy support, execution roadmaps, governance and monitoring framework for central ministries and states.

The government aims to reduce the fiscal deficit to 4.4% of GDP in FY 26, whereas for FY25, the Revised Estimate (RE) remains at 4.8%. The fiscal consolidation path and maintaining range-bound public debt are crucial for India's sovereign rating aspect.

It is praiseworthy that from a fiscal deficit as high as 9.2% in the Covid period in FY21, it is steadily moving to fiscal prudence. For instance, it brought down from 6.7% in FY22 to 6.4% in FY23 and further at 5.6% in FY24. The range-bound sovereign yield would also help in reasonably lower spread in domestic bonds helping corporates raising funds in easier terms. Effectively, there would be a 'crowding-in' instead of 'crowding-out' impact.

On the other hand, the debt reduction strategy is more evolved way of fiscal consolidation, whereas according to media reports the government plans to reduce by 2031 at least in the range of 49%-51%.[1] This path would be conditioned by both India's economic performance and devoid of any severe external shock. The gross market borrowings (GMB) are estimated at Rs 14.82 lakh crore, whereas the net market borrowings from dated securities are estimated at Rs 11.54 lakh crore.

The trends in borrowing would have an impact on sovereign yield. In the forthcoming RBI monetary policy with a rate cut expectations (though there is also a possibility of maintaining a status quo due to the recent liquidity injection measures by the RBI), the yield is likely stabilising at 6.70~6.75.

India's capital expenditure is set at ₹11.21 lakh crore for FY2025-26, compared to ₹11.11 lakh crore in the budget estimates for FY2024-25. Nonetheless, the actual capex is likely to fall short of its budgeted capex target for FY25 by ₹93,000 crore (US$ 10.67 billion), with the revised estimate at ₹11,11,000 crore (US$ 127.45 billion).

The thrust in the Budget remains more on rejuvenating the aggregate demand by focusing more on middle-class rather than exclusive focus on capex. The declaration of setting up the "Special Window for Affordable and Mid Income Housing (SWAMIH) Fund 2" is also a move in this direction.

The Budget has continued its focus for MSME, where the credit guarantee provision for MSME is enhanced. There is announcement of setting up of an "Export Promotion Mission", with sectoral and ministerial targets, driven jointly by the Ministries of Commerce, MSME, and Finance, which will facilitate easy access to export credit,

[1] In other words, it is (50+-1%)

cross-border factoring support, and support to MSMEs to tackle non-tariff measures in overseas markets.

The Budget also focuses on 'Digital, FDI, Infrastructure' whereas digital public infrastructure, 'BharatTradeNet' (BTN) for international trade will be set-up as a unified platform for trade documentation and financing solutions. Further, the FDI limit for the insurance sector will be raised from 74% to 100%, which will be available for those companies which invest the entire premium in India.

The National Bank for Financing Infrastructure and Development (NaBFID), which is a financial institution in India that supports the country's infrastructure sector, will set up a 'Partial Credit Enhancement Facility' for corporate bonds for infrastructure, thus facilitating financing for infrastructure projects.

The Budget also aims at rationalisation of '*Customs Tariff Structure*' for Industrial Goods by removing various tariff rates; for instance, the basic custom duties (BCDs) have been reduced and rationalised for critical minerals, electronic goods and textiles, keeping in mind the domestic needs as well as the sensitive external environment after the US election results.

The FY26 Budget has tried focusing more on incentivising the middle-class by providing reduced slabs with an aim to boost household consumption and investments. However, to what extent this would be effective is yet to be seen since many middle-income households are struggling in repaying loans and possible many are caught up in the so-called 'debt trap.' While this policy ideally was expected in the previous budget, it is contextually relevant and welcome at the present juncture. There could have been some rebalancing towards the bottom pyramid, though.

Overall, this is a well thought out rational Budget that aimed at promoting broad-based development amid volatile global environment.