# India Union Budget 2025-26

## Point of view

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**Public Finance**

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# Key announcements for the sector

- Expenditure
  - — The total expenditure in Budget Estimates (BE) for 2025-26 is estimated at INR 50.65 lakh crore, recording a growth of 7.4 per cent over Revised Estimates for 2024-25
  - — INR 15.48 lakh crore (31 per cent of total expenditure) is allocated towards effective capital expenditure (capital expenditure by Union Government and grants-in-aid given by Union government for creation of capital assets).
- Tax Revenue
  - — In BE 2025-26, gross tax revenue (GTR) is estimated at INR 42.70 lakh crore. It represents a growth of 10.8 per cent over RE 2024-25 with an implied tax buoyancy of 1.07 and Tax to GDP ratio of 12 per cent. Direct Taxes at INR 25.20 lakh crore are the major contributor to GTR (59.0 per cent of GTR). Indirect taxes are estimated at INR 17.40 lakh crore
  - — 87 per cent of Gross Tax Revenue is expected to come from three sources – a) Income Tax (34%); b) Corporation Tax (25%); c) Goods & Service Tax (28%).
- Fiscal Federalism
  - — Total Union transfers to States is estimated at INR 25.01 lakh crore, an increase of 13 per cent over RE 2024-25. Out of the total transfers, tax devolution to the States is estimated at INR 14.22 lakh crore (57 per cent of total union transfers to States). The grants to states based on recommendations of Finance Commission are estimated at INR 1.33 lakh crore
  - — The Special Assistance to States for Capital Investment (SASCI) scheme through which Union Government provides 50-year interest free loan to States for capital investments has been continued with allocation of INR 1.5 lakh crore
  - — Additional borrowing of 0.5 per cent of GSDP has been permitted to states that meet power sector reforms.
- Borrowings and Fiscal Consolidation
  - — Net borrowings are estimated at INR 15.66 lakh crore, an increase of 3.22 per cent over borrowings in RE 2024-25
  - — The 2025-26 budget targets a fiscal deficit of 4.4 per cent of GDP, (down from 4.8 per cent in RE 2024-25), a primary deficit of 0.8 per cent of GDP (down from 1.3 per cent in RE 2024-25), and a Revenue Deficit of 1.5 per cent of GDP (down from 1.9 per cent in RE 2024-25)

- Central Government debt is estimated at 56.1 per cent of GDP (down from 57.1 per cent in RE 2024-25)
- The Government endeavors to keep fiscal deficit in each year (from FY 2026-27 till FY 2030-31) such that the Central Government debt is on a declining path to attain a debt to GDP level of about 50±1 per cent by 31st March 2031 (the last year of the Sixteenth Finance Commission cycle).

# Implications for the sector

- Change in taxation
  - On account of proposed changes to direct and indirect taxation, Union Government is expected to forego revenue of INR 1 lakh crore in direct taxes and INR 2600 crore in indirect taxes.
- Quality of Expenditure
  - Effective Capital Expenditure is expected to witness a strong growth of 17.4 per cent over RE 2024-25. The gradual increase in proportion of capital expenditure (effective) to total expenditure and as proportion of GDP over last decade indicates continuous improvement in quality of expenditure. The surge in capital expenditure (effective), which has a high multiplier effect on the economic growth and employment creation, to 4.3 per cent of GDP (highest in last 10 years), will help provide much required boost to the economy, that is projected to report weakest annual growth in four years in this fiscal
  - Further, substantial increase in the ratio of Effective Capital Expenditure to Fiscal Deficit, that measures the extent to which borrowed resources are used for financing the capital expenditure or asset creation of the Government, to 98.7 per cent in BE 2025-26 as compared to 84.0 and 75.7 per cent in RE 2024-25 and FY 2023-24, respectively, indicates progressive improvement in the quality of public expenditure over the years.
- Tax Revenue
  - Tax to GDP ratio is estimated to be 12 per cent for BE 2025-26; highest in last 10 years. It however remains lower than a large number of Organisation for Economic Co-operation and Development (OECD) and a few Lower-Middle Income countries. Further simplifying tax compliance, helping taxpayers find value in integrating with formal economy, use of data analytics to identify evasions, strengthen trust amongst taxpayers on how taxes are being put to use by the Government by further strengthening delivery of public services amongst other initiatives can help the government further improve tax to GDP ratio. Several reforms undertaken for convenience of taxpayers and reaffirmation of Hon'ble Finance Minister on the commitment of the tax department to 'trust first, scrutinize later', would help further strengthen trust amongst taxpayers
  - Amongst the three largest contributors (Income Tax, Corporation Tax, GST) that together are estimated to contribute 87 per cent of Gross Tax Revenue of Union Government in BE 2025-26, the share of Income Tax has been gradually increasing. Receipts from income tax are estimated to grow at a significantly higher rate (17.3 per cent) than the other two major sources (Corporation Tax – 9.0 per cent; GST – 10.9 per cent) during the period FY24 to FY26 BE
  - The increasing share of income tax to Gross Tax Revenue together with surging corporate profits and lagging wage growth highlighted by Economic Survey 2024-25 warrants a review of changing composition of Gross Tax Revenue. While the absence of significant rate changes in Corporate Tax signals a stable corporate tax environment conducive to investment and business planning, a deeper data-based analysis on return (increased investments and business operations) on investment (corporate tax foregone through lower tax rates and incentives) by Union Government may be undertaken to inform target composition of direct taxes and future tax reforms in the medium to long term.

- Fiscal Federalism
  - A large majority (57 per cent) of total transfers to States is estimated to be contributed by states’ share in Union Taxes, determined based on recommendations of the Fifteenth Finance Commission. While transfers to states of this untied component is un-conditional, the transfers for grants recommended by Finance Commission and Centrally Sponsored Schemes would greatly depend upon compliance by the States to the requirements (e.g., Constitution of State Finance Commission and act upon their recommendations for Finance Commission grants for local bodies) and utilization of funds. FY 2025-26 also marks the last year under the award period of Fifteenth Finance Commission. For the period of next 5 years from FY 2026-27 to FY 2030-31, Union-State fiscal relationship would be governed by the recommendations to be made by the Sixteenth Finance Commission
  - The continuation of Special Assistance to States for Capital Investment (SASCI) scheme through which Union Government provides 50-year interest free loan to States for capital investments would be welcomed by the States. This scheme, introduced in FY 2020-21, has helped states significantly augment creation of capital assets. States have however found it difficult to obtain sanction and receive funds from Union Government in a timely manner especially for tied components of the scheme, resulting in low utilization. Union Government may review the current process, requirements for sanction and strengthen coordination between line ministries and States to expedite timely release of funds to the State, thereby enabling States to optimize the utilization of grants and achieve the intended objective of augmenting creation of capital assets
  - Proposals such as Urban Challenge Fund and plan to develop 50 tourist destination in partnership with states through a challenge mode would help further the spirit of competitive cooperative federalism.
- Fiscal Consolidation
  - The budget for 2025-26 reflects a commitment of the Government to fiscal prudence and macroeconomic stability. While the performance on fiscal deficit to GDP lags recommendations made by Fifteenth Finance Commission, there has been continuous improvements in all key deficit and debt indicators since FY 2020-21. The Government has been able to achieve this despite extending strong support to States for creation of capital assets. The roadmap for the next 6 years detailed out in the Fiscal Responsibility and Budget Management (FRBM) statement showcases Government’s commitment to fiscal prudence. This augurs well for the fiscal stability of the Union Government.

In summary, the Budget 2025-26 demonstrates a balanced approach to investments for cross-sectoral development and fiscal prudence with targeted investments in infrastructure, human capital, and sustainable development. The increased focus on capital expenditure is expected to provide much required boost to the economy.

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