A Comprehensive Economic Critique of the Indian Union Budget 2025-26: Macroeconomic Stability, Sectoral Structuralism, and the Path to Viksit Bharat

The Union Budget for the fiscal year 2025-26, presented against a backdrop of global geopolitical fragmentation and a cautious medium-term outlook for the international economy, represents a pivotal strategic document in India's pursuit of becoming a developed nation by 2047.[1] With a total estimated expenditure of $₹50,65,345$ crore, the budget attempts to navigate the precarious balance between aggressive fiscal consolidation and the necessity for targeted capital investments.[4] While the government outlines a roadmap focused on four "engines" of growth—Agriculture, MSMEs, Investment, and Exports—a deeper analysis suggests that the fiscal framework may be grappling with significant structural inertia, regional imbalances, and a widening deficit in human capital investment.[1]

Macroeconomic Framework and Fiscal Consolidation

The budgetary math for 2025-26 is anchored by a nominal GDP growth projection of 10.1%, bringing the total size of the Indian economy to an estimated $₹357.1$ lakh crore.[2] This growth is primarily driven by domestic private consumption, which accounts for approximately 61.5% of the GDP, and robust investment activity contributing 30.0%.[2]

Fiscal Aggregates and Deficit Targets

The government has reaffirmed its commitment to the fiscal consolidation path established in 2021, targeting a fiscal deficit of 4.4% of GDP for FY26, down from the revised estimate of 4.8% in FY25.[4] This trajectory aims to reach a debt-to-GDP ratio of approximately 50% by the year 2031.[4]

Indicator	FY 2024-25 (Revised Estimates) (₹ Cr)	FY 2025-26 (Budget Estimates) (₹ Cr)	Percentage Change
Total Receipts	31,46,960	34,96,409	11.1%

(Excl. Borrowings)			
Total Expenditure	47,16,487	50,65,345	7.4%
Revenue Receipts	30,87,960	34,20,409	10.8%
Net Tax Revenue to Centre	25,56,960	28,37,409	11.0%
Capital Expenditure (Capex)	10,18,000	11,21,000	10.1%
Fiscal Deficit	15,69,527	15,68,936	-0.04%
Fiscal Deficit (% of GDP)	4.8%	4.4%	-

Source: [4]

The reduction in the revenue deficit to 1.5% of GDP reflects a structural shift toward capital formation rather than consumption.[4] However, the fiscal space remains constrained by non-discretionary spending. Interest payments alone account for 25% of the total expenditure and a staggering 37% of revenue receipts.[4] This high debt-servicing burden limits the resources available for transformative social interventions, creating a situation where fiscal stability is achieved at the potential cost of social equity.

The Paradox of Growth and Revenue Mobilization

While the economy is the fastest-growing among major global peers, the government faces persistent challenges in increasing the tax-to-GDP ratio.[9] Despite efforts to widen the tax base, total tax revenue as a share of GDP has seen only marginal improvements, rising from 11.5% in 2021-22 to a budgeted 12.0% in 2025-26.[9] Experts suggest that revenue mobilization may fall short of targets by as much as $₹3$ trillion due to sharp cuts in personal income tax and rationalization of GST rates.[9] This shortfall creates a "revenue-expenditure gap" that necessitates significant market borrowings, estimated at $₹14.82$ lakh crore for the coming fiscal year.[4]

Agriculture: The First Engine and the Subsidy

Conundrum

The budget identifies agriculture as the "1st Engine" of the economy, aiming to spur growth and productivity through programs like the Prime Minister Dhan-Dhaanya Krishi Yojana.[1] This program targets 100 districts with low productivity and below-average credit parameters, intending to benefit 1.7 crore farmers through crop diversification and improved irrigation.[1]

Structural Realities vs. Budgetary Outlays

Agriculture continues to employ 46.1% of the workforce but contributes only 17.7% to the national GDP.[5] Despite its critical role, the broader sector receives only 2.9% of the total budget when allied departments like fisheries and animal husbandry are included.[13]

Agricultural Subsidies and Outlays	FY 2024-25 (RE) (₹ Cr)	FY 2025-26 (BE) (₹ Cr)	Change (%)
Food Subsidy	1,97,000	2,03,000	+3.0%
Fertiliser Subsidy	1,83,000	1,56,000	-14.8%
Ministry of Agriculture & FW (Total)	1,27,000 (Approx)	1,49,000 (Incl. Allied)	-

Source: [13]

A primary critique of the 2025-26 budget is its failure to address the "subsidy trap".[12] The fertilizer subsidy alone exceeds the entire allocation for the Ministry of Agriculture and Farmers' Welfare.[13] This creates an imbalance where public funds are directed toward input-based subsidies that often lead to soil degradation and environmental imbalances rather than long-term investments in agricultural R&D, cold-chain infrastructure, and value addition.[13] Experts argue that a missed opportunity exists to "repurpose" these subsidies into income support or technological innovation to drive sustainable growth.[12]

Missions for Self-Sufficiency and Regional Interests

The budget introduces several specific missions:

1. **Mission for Aatmanirbharta in Pulses:** A six-year program focusing on Tur, Urad, and Masoor, involving procurement agreements with central agencies like NAFED.[1]
2. **Mission for Cotton Productivity:** A five-year initiative focused on extra-long staple

cotton and science-led improvements in farming practices.[1]
3. **Makhana Board in Bihar:** A strategic move to organize foxnut farmers into FPOs and improve processing and marketing.[1]

While these missions are steps in the right direction, critics point out that they are incremental and lack the transformative vision required to move the agricultural sector away from its dependency on government support toward becoming a market-driven global "food basket".[12]

MSMEs and Manufacturing: Navigating the Job Crisis

The budget positions MSMEs as the "2nd Engine," recognizing their role in manufacturing 36% of products and contributing 45% of exports.[1] The flagship announcement in this sector is the revision of classification criteria, increasing investment limits by 2.5 times and turnover thresholds by 2 times.[1]

MSME Classification Revisions and Implications

Category	New Investment Limit (₹ Cr)	New Turnover Limit (₹ Cr)
Micro	2.5	10
Small	25	100
Medium	125	500

Source: [1]

This move is designed to address the "graduation penalty," where small firms were hesitant to scale for fear of losing government benefits.[18] By raising these limits, the government enables an estimated million additional businesses to access priority sector lending.[18] However, a fundamental challenge remains: only about 16% of MSMEs currently have access to formal credit.[16]

Employment Stagnation and the Youth Dividend

The most severe critique of the budget relates to its impact on employment.[5] While corporate profits have reached a 15-year high, job growth in the formal sector remains sluggish at 1.5%.[19] Data suggests a concerning trend of "informalization," where workers are being pushed out of manufacturing and services back into agriculture.[5] Between 2018-19 and 2023-24, the share of the workforce in agriculture increased from 42.5% to 46.1%, indicating a lack of high-productivity job opportunities in industrial sectors.[5]

Graduate unemployment stands at 29.1%, and youth unemployment has reportedly reached 45.4% in some periods.[5] The budget's focus on capital-intensive manufacturing missions may not be sufficient to absorb the large surplus of labor entering the market annually. Critics argue that the government has missed an opportunity to provide a massive stimulus for labor-intensive sectors like textiles, footwear, and toys, which could have addressed the stagnant wage problem and boosted domestic demand.[5]

Social Sector Critique: The Human Capital Deficit

Perhaps the most contentious aspect of the Union Budget 2025-26 is the perceived neglect of social infrastructure, specifically education and health. When compared to historical trends, the share of total expenditure dedicated to these sectors has seen a steady decline.[5]

Education and Health Spending Trends

Sector	2013-14 / 2019-20 Budget Share (%)	2025-26 Budget Share (%)
School Education	3.16% (2013-14)	1.55%
Higher Education	1.6% (2013-14)	0.99%
Healthcare	2.31% (2019-20)	1.90%

Source: [5]

This decline in funding for human capital is viewed as a significant "missed opportunity" to secure India's demographic dividend.[5] In the education sector, while initiatives like the 50,000 Atal Tinkering Labs and the ₹500 crore AI Center of Excellence are welcomed for promoting innovation, they do not address the systemic issues of school quality and teacher training.[1] Similarly, in healthcare, while the goal of adding 75,000 medical seats over five years is ambitious, the immediate reality is a healthcare budget that is one of the lowest among major economies.[4]

Reproductive Health and Social Security

The Population Foundation highlights a concerning shortfall in reproductive health investments.[20] The budget for family welfare schemes increased by a negligible 0.2%, from ₹619 crore to ₹620 crore.[20] This stagnant funding makes it nearly impossible to expand new contraceptive technologies nationwide, potentially undermining long-term development goals.[20] Furthermore, social security pensions for the elderly and widows have remained unchanged since 2007 and 2012, respectively, despite a decade of inflation and rising living costs.[19] This "misplaced priority" leaves millions of vulnerable citizens in economic distress.[19]

Infrastructure and Energy: The Dual Path of Progress and Risk

The "3rd Engine," Investment, is primarily focused on the National Infrastructure Pipeline (NIP) and the energy transition.[1] The budget allocates ₹1.5 lakh crore in 50-year interest-free loans to states for capital expenditure, emphasizing a "Public-Private Partnership" (PPP) model for large-scale projects.[1]

The Nuclear Energy Mission: Ambition vs. Safety

A significant pillar of the energy strategy is the Nuclear Energy Mission, which targets 100 GW of capacity by 2047.[1] The budget allocates ₹20,000 crore for the development of Small Modular Reactors (SMRs) and proposes amendments to the Atomic Energy Act and the Civil Liability for Nuclear Damage Act.[1]

The shift toward privatization in the nuclear sector, intended to attract $26 billion in investment, has raised serious safety and legal concerns.[23] Experts argue that introducing private players, who are motivated by profit maximization, could lead to a culture of cost-cutting that compromises safety protocols.[23] Furthermore, the proposed changes to liability laws, aimed at shielding equipment suppliers from "no-fault" liability to attract foreign technology, are viewed by critics as a dilution of national safeguards.[23]

Urban Development and Housing

The budget introduces a ₹1 lakh crore Urban Challenge Fund to transform "Cities as Growth Hubs" and addresses the stressed housing sector through SWAMIH Fund 2.[1] While these measures focus on supply-side constraints, they overlook the "urban livelihood" crisis. The socio-economic upliftment of urban workers requires more than just infrastructure; it demands a comprehensive strategy for job security and affordable urban services for the migrant population.[1]

PESTEL Analysis: The Broader Impacts of the Budget

An examination of the Political, Economic, Social, Technological, Environmental, and Legal factors reveals the complex web of causes and effects that determine the budget's ultimate success.

Political Factors: Federalism and the "Purvodaya" Bias

The budget has been criticized for being "Bihar-centric," with substantial allocations for road projects (₹26,000 crore), flood management (₹11,500 crore), and educational institutions aimed at Bihar and Andhra Pradesh.[5] While the government frames this as a "balanced growth" strategy under the Purvodaya initiative, it has led to perceptions of regional favoritism at the expense of other states.[5]

States like Telangana have reported a shrinking "divisible pool" of revenue.[28] The center's strategy of increasing non-devolvable cesses and surcharges—which rose from ₹5,638 crore in 2015-16 to ₹3.63 lakh crore in 2023-24—directly reduces the financial autonomy of state governments.[28] This centralization of fiscal power strains the fabric of "cooperative federalism," forcing states to increase their own borrowings to meet developmental needs.[28]

Economic and Social Factors: Inequality and the Consumption Gap

The 2025-26 budget offers sweeping tax cuts for the middle class, effectively eliminating tax liability for incomes up to ₹12 lakh in the new regime.[1] While this boosts urban consumption and elevates household sentiment for about 2% of the population, it does little to address the "wealth gap".[19] The wealthiest 1% earn 22.6% of the national income, while the bottom 50% hold only 15%.[5] By relying on regressive indirect taxes like GST, the government continues to place a disproportionate burden on the poor.[19]

Technological and Environmental Factors: Digital Missions and Green Transitions

The budget's emphasis on "Digital-first compliance" and missions like BharatTradeNet aims to move India toward a more efficient, paperless economy.[30] However, the "digital divide" remains a persistent environmental and social hurdle.[20] Rapid industrialization in mineral-rich regions, as proposed under the Purvodaya plan, also raises significant environmental concerns, including deforestation and pollution, for which there is no comprehensive mitigation framework in the budget.[27]

Legal Factors: Decriminalization and Trust-Based Governance

The Jan Vishwas Bill 2.0 and the introduction of a new Income Tax Bill are legal milestones intended to enhance the "Ease of Doing Business".[1] By decriminalizing minor technical lapses and converting them into civil penalties, the government aims to reduce the "fear of the inspector" among entrepreneurs.[30] However, the legal efficacy of these reforms depends on the robustness of the new adjudication mechanisms. Without a clear framework to prevent arbitrary penalty increases (such as the proposed 10% hike every three years), the reforms may merely replace one form of administrative burden with another.[30]

Synthesis and Causal Framework: From Policy to Impact

To understand the broader implications for stakeholders, the critique can be structured into a logical framework of cause and effect.

1. Fiscal Consolidation vs. Social Investment

- **Cause:** A strict adherence to the 4.4% fiscal deficit target and the debt-to-GDP anchor of 50%.[4]
- **Effect:** Compression of revenue expenditure, leading to the lowest relative spending on health and education in a decade.[5]
- **Outcome:** A potential long-term erosion of labor productivity and a missed opportunity to fully capitalize on the demographic dividend.[5]

2. Capital Expenditure Focus vs. Job Growth

- **Cause:** Record high capex of ₹11.21 lakh crore aimed at physical infrastructure.[10]
- **Effect:** Multiplier effects in construction and heavy industry, but a continued lag in manufacturing job creation.[5]
- **Outcome:** Persistent youth unemployment and a reversal of structural labor migration, as workers return to low-productivity agriculture.[5]

3. Tax Simplification vs. Savings Culture

- **Cause:** Making the new tax regime the default and offering a ₹12 lakh rebate.[29]
- **Effect:** Higher take-home pay for the urban middle class but a removal of the "nudge" to invest in traditional savings like PPF or life insurance (formerly under 80C).[34]
- **Outcome:** A potential decline in disciplined long-term household savings, which historically funded national development projects.[34]

Conclusion: Strategic Recommendations for Betterment

The Union Budget 2025-26 demonstrates a clear commitment to macroeconomic stability and infrastructure-led development. However, for this fiscal strategy to achieve the vision of a "Viksit Bharat," significant course corrections are necessary.

Actionable Strategies for Policymakers

- **Repurposing Agricultural Subsidies:** The government should transition away from excessive fertilizer subsidies toward a model that prioritizes agricultural R&D, digital agriculture, and climate-resilient farming techniques. This would shift the sector from a "survival mode" to a "scaling mode".[13]

- **Stimulating Labor-Intensive Manufacturing:** A massive incentive package, similar to the PLI scheme but tailored for labor-intensive sectors (garments, toys, footwear), is essential to address the youth unemployment crisis and provide alternatives to informal agricultural labor.[5]
- **Reviving Human Capital Spending:** The declining share of expenditure on education and health must be reversed. Reaching the goal of "100% quality school education" requires substantial foundational investment in teacher training and rural health infrastructure, not just technological missions.[1]
- **Strengthening Fiscal Federalism:** The reliance on non-devolvable cesses should be reviewed to ensure that states have the financial autonomy required to be "equal partners" in growth. A fair distribution of resources across all states, beyond those with political significance, is vital for national stability.[27]
- **Balancing Nuclear Privatization with Safety:** Any amendment to the Atomic Energy Act must be accompanied by the establishment of an independent, transparent regulatory authority that prioritizes national safeguards and environmental integrity over private sector returns.[23]

In conclusion, while the budget successfully provides a stable macroeconomic anchor, it falls short of addressing the deep-seated structural and social inequalities that threaten to derail India's growth frontier. A holistic approach that integrates human development with physical infrastructure is the only path toward a resilient and developed Indian economy.[2]

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