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A Balancing Act

FR. JOHN FELIX RAJ
& SOVIK MUKHERJEE

With growth slowing and fiscal pressures mounting, India's latest budget aims for stability, but does it deliver on reforms, investment, and inflation control?

India is poised to solidify its position as a global economic leader, with the World Bank's January 2025 Global Economic Prospects (GEP) report predicting it will remain the fastest-growing large economy for the next two fiscal years. The report forecasts a steady growth rate of 6.7% in FY26, outpacing global and regional averages. However, despite this optimistic outlook, concerns persist. India's economic growth slowed to 5.4% in the July-September quarter, marking a seven-quarter low. This decline has sparked worries and heightened the significance of Budget 2025. In response, the RBI revised its growth projection for 2024-25 downward from 7.2% to 6.6%.

The First Question

Against the backdrop of a slowing economy, Finance Minister Nirmala Sitharaman presented her eighth consecutive Budget, striking a delicate balance between multiple challenges facing the Indian economy. With the government prioritizing fiscal consolidation to enhance macroeconomic stability and promote sustainable growth, all eyes were on India's fiscal deficit position. Budget 2025-26 was crafted with a focus on key economic goals, including consumption, investment, inflation, and interest rates. This year, consumption and capital expenditure (capex) took centre stage.

The fiscal deficit calculations for FY25 are noteworthy, as the economy is forecast to expand by 9.6% in nominal terms, lower than the 10.5% growth estimated in the previous budget. However, misguided austerity measures, stemming from the government's fixation on reducing the budget deficit, may compromise economic growth plans. Instead of increasing income or rationalizing non-essential spending, capital expenditures are being reduced to meet the fiscal deficit target of 4.4% of GDP. This raises the first question: Can India maintain its fiscal deficit target in FY26?

The Second Question

One of the highlights of this year's Budget has been the revision of income tax slabs. The decision to raise the tax-free



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income level from INR 7 lakh to INR 12 lakh under the new tax system is expected to boost consumption and improve demand and manufacturing growth. This relief comes at a crucial time, as economic growth is projected to slow to 6.4% in 2024-25 - its lowest rate in four years. Persistent inflation has further eroded purchasing power, while global uncertainties, including geopolitical tensions, trade disruptions, and rising commodity prices, have complicated the fiscal landscape. Given these challenges, the income tax revision is a step in the right direction.

However, public reaction to the tax relief has been mixed. Many citizens pointed out that they do not earn enough to fall within the taxable slabs, diminishing the impact of the reform. Some analysts argue that the nil taxation for low-income earners is more of a political gesture, offering short-term appeal without fundamentally addressing structural income disparities. The second question is whether the revision in the tax rates and the taxable slabs is effective.

The Third Question

India's Budget 2025-26 has received mixed reviews, with many experts feeling that it missed the mark on implementing bold structural reforms. Despite some progressive reforms in agriculture, support for MSMEs, and initiatives for clean energy, the Budget fell short in key areas. The

lack of significant investments in railway modernization, electrification, and new routes is a notable example. The allocation of INR 2.55 lakh crore for FY26 is lower than the previous year's allocation. Additionally, infrastructure projects were underfunded, with no extra funding allocated for capital projects specific to each state. Many economists have been advocating for long-overdue reforms in land, labour, agriculture, and administrative systems, which have constrained productivity and economic growth. The Budget's failure to provide necessary incentives for private-sector investment and its limited direct benefits for large industries and multinational corporations are also concerns.

While the introduction of the Jan Vishwas Bill 2.0 and the Investment-Friendly Index of States are positive steps, they may not be enough to kick-start the structural reforms India needs. As World Bank Chief Economist Indermit Gill noted, India needs to accelerate its structural reforms to achieve high-income status and overcome obstacles to growth. In essence, the third question lingers: did India miss an opportunity to kick-start structural reforms? The answer, unfortunately, seems to be yes.

The Fourth Question

India's lack of a clear plan to tackle inflation is a pressing concern. Despite the Economic Survey's prediction that inflationary pressures would

ease, the Budget failed to provide specific steps to address the underlying causes of price increases. This omission is particularly worrisome for the middle class, which continues to feel the squeeze of inflation. The stagnation of real wages in recent years has caused widespread distress among the middle class. While the government has taken measures to lower the fiscal deficit, and the Reserve Bank has cut interest rates to boost growth, there is a noticeable absence of direct fiscal response from the government. For inflation to be effectively tackled, both fiscal and monetary policies must work in tandem.

Experts emphasize that reducing the fiscal deficit can help alleviate inflationary pressures. Moreover, the Reserve Bank's decision to cut interest rates is seen as a positive step, but its effectiveness depends on the government's fiscal policy support. Given these factors, it's clear that India still has a long way to go in addressing inflationary pressures. The fourth question, therefore, remains a critical concern: is India doing enough to tackle inflation?

The Fifth Question

India's Union Budget 2025-26 has prioritized education, allocating INR 78,572 crore for school education and INR 50,077.95 crore for higher education. However, the healthcare sector tells a different story. India allocates a mere 3.3% of its GDP to healthcare, significantly lower than Chi-

na's 5.4% and the USA's 16%. This disparity is concerning, especially considering the healthcare budget's share has decreased from 2.31% in 2019-20 to 1.9% in 2025-2026. The lack of substantial investment in healthcare is surprising, given the ongoing global health uncertainties.

In contrast, the previous budget (2024-25) showed some promise, with increased allocations for healthcare initiatives, such as the Pradhan Mantri Ayushman Bharat Health Infrastructure Mission (PMABHIM) and the National Health Mission. However, the current budget's lack of emphasis on healthcare raises concerns. The fifth question remains: why hasn't healthcare received the same priority as education in the Union Budget?

External Factors

India's Budget 2025-26 has been deemed cautious but lacking in ambition, with the stock market reacting mutedly. As fiscal policy has been largely decided, attention now shifts to the Reserve Bank of India (RBI) and its control over interest rates, which will play a crucial role in shaping India's economic future. Several external factors will significantly impact India's economy: The value of the rupee falling, equity markets under stress, and rising oil prices will continue to pose challenges. The ongoing wars in Europe and the Middle East, as well as the potential for a tariff war sparked by Donald Trump's return to power, will add to the economic uncertainty. Additionally, sluggish urban demand and a slump in the growth rate in the second quarter of FY25 need to be addressed.

In this context, the RBI's decisions on interest rates will be critical in determining India's economic trajectory. The next 12 months will be crucial in shaping the country's economic future.

Fr. John Felix Raj is the Vice Chancellor,

Sovik Mukherjee is an Assistant Professor of Economics in the Faculty of Commerce and Management, both at St. Xavier's University, Kolkata. Views expressed are personal

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