The Union Budget 2025-26: Expectations

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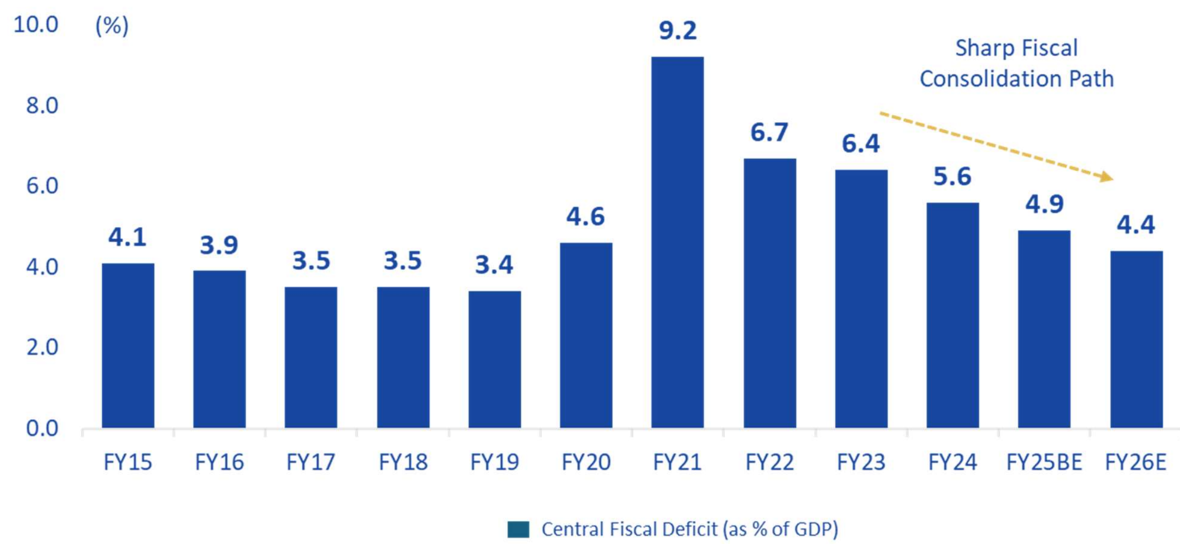
The Union Budget 2025-26 will be the first after the elections, positioning it as the foundation for India's future growth and the realization of the "Viksit Bharat by 2047" vision outlined in the interim budget of FY2024-25. Anchored by the principles of "Sabka Saath, Sabka Vikas, Sabka Vishwas," this budget is expected to carry forward the government's long-term strategy for inclusive development.

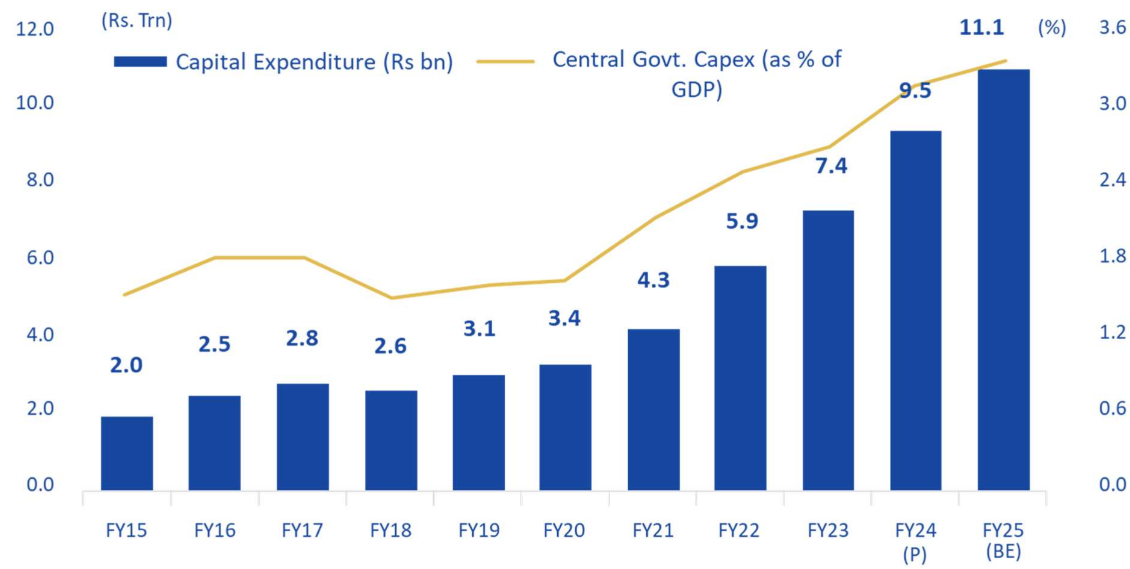
Fiscal Consolidation and Growth Focus: The 2025-26 budget is likely to emphasize fiscal prudence, aiming to bring the fiscal deficit below 4.5% of GDP by FY26. This comes as the RBI has revised its inflation forecast for FY25 to 4.8% from 4.5%, reflecting challenges such as mixed domestic demand, struggling urban pockets, global turmoil, INR depreciation, and weak exports. To address these challenges, the budget is expected to adopt a balanced approach to fiscal consolidation, focusing on enhancing tax revenues and controlling expenditure. Capital expenditure is anticipated to remain a key driver of economic growth, with higher allocations for infrastructure development, including roads, railways, ports, and digital infrastructure. Public investments, known for their multiplier effect, will continue to play a pivotal role in creating long- term productive assets and stimulating economic activity.

Fig: Central Government Fiscal Deficit To GDP Trend



Source: Jefferies Research

Fig: Central Government Capital Expenditure



Source: Jefferies Research

Budgetary Allocation and Key Ministries: For the past five years, nine key ministries have consistently received approximately 44% of the total budget allocation, underlining their strategic importance. These include Defence, Road Transport and Highways, Railways, Rural Development, and Communication, among others. For FY25-26, the total budget outlay is expected to rise by 10%, from INR47.66 lakh crore in FY24-25 to INR52.42 lakh crore. Approximately 45% of this allocation will likely be directed toward these critical ministries, reinforcing their role in achieving the "Viksit Bharat" vision.

Fig: Focused Ministry's In Budget

Focused Minsitry's In Budget					In Lakh Cr.
	FY20-21	FY21-22	FY22-23	FY23-24	FY24-25
Defence	4.71	4.78	5.25	5.94	6.2
Consumer Affairs, Food, and Public Distribution	1.25	2.57	2.18	2.06	2.13
Road Transport and Highways	0.92	1.18	1.99	2.7	2.78
Home Affairs	1.67	1.67	1.86	1.96	2.03
Railways	0.72	1.10	1.41	2.41	2.55
Rural Development	1.22	1.34	1.38	1.6	1.77
Chemical & Fertilisers	0.72	0.81	1.08	1.78	1.68
Communications	0.82	0.75	1.05	1.23	1.37
Agriculture & Farmers Welfare	1.43	1.32	1.33	1.25	1.27

Source: Budget Document, Note*: One lakh crore means One Trillion

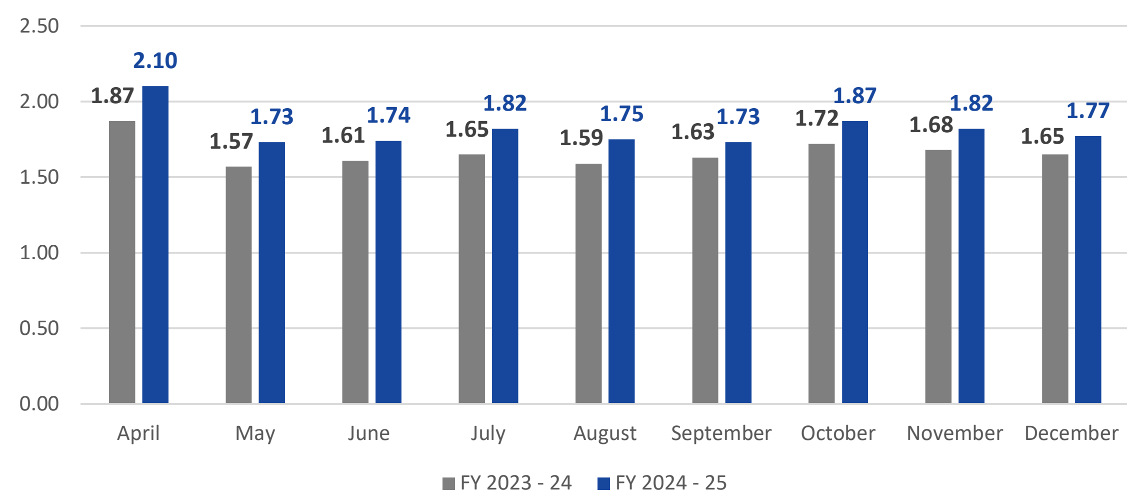
Revenue Sources and Tax Reforms: India's primary revenue sources include GST, corporate tax, income tax, union excise duty, non-tax revenues, and borrowings. GST collections have shown robust growth, driven by advancements in digital infrastructure and the success of UPI. By December FY25-26, net direct tax collections stood at INR16.89 lakh crore, a 15.88% increase from the previous year. This reflects significant growth in both corporate and income tax collections. The government's focus on the simplified tax regime (tax slab-2) has encouraged higher spending, thereby contributing to economic growth. Further amendments to the Income Tax Act, 1961, maybe expected, likely favoring the simplified regime to enhance consumption and economic activity.

Fig: Budget At Glance

Rupees Comes From	FY20-21	FY21-22	FY22-23	FY23-24	FY24-25
GST	18%	15%	16%	17%	18%
Corporate Tax	18%	13%	15%	15%	17%
Union Excise Duty	7%	8%	7%	7%	5%
Income Tax	17%	14%	15%	15%	19%
Non Debt Capital Reciept	6%	5%	2%	2%	1%
Borrowing and Liabilities	20%	36%	35%	34%	28%
Non Tax Revenue	10%	6%	5%	6%	7%
Customs	4%	3%	5%	4%	4%

Source: Budget Document

Fig: GST Collection Trend (In INR Trillion)



Source: Government of India, EquiPoise Capital Research

Infrastructure and Renewable Energy Investments: Capital investments in renewable energy, particularly solar power and green hydrogen, are anticipated to gain momentum. The government is likely to introduce additional schemes such as the Solar Park initiative and the PM- KUSUM Yojana to bolster the solar industry. As part of the G-20 nations, India is committed to energy transition and climate action, with renewable energy investments playing a central role in this strategy. Not expecting anything for the electric vehicle (EV) and battery segment as President Trump's clear emphasis on promoting oil exploration and production. In his inaugural speech, he reiterated the 2008 Republican campaign slogan, "Drill, baby, drill," signaling a policy shift toward traditional energy sources. This stance likely suggests a potential slowdown in policy support and incentives for the EV and battery sectors, which could impact their growth trajectory in the short to medium term.

Global Trends and Sectoral Focus: Global economic dynamics, including the “China+1” strategy and rising domestic demand in the U.S., present significant opportunities for India’s textile sector. To capitalize on this, the government is expected to extend Product Linked Incentives (PLI) to the textile industry, enhancing production capacity to meet global demand. Simultaneously, investments in digital infrastructure, fintech, and MSME support through revamped credit guarantee schemes and financial assistance will likely be key priorities.

Artificial Intelligence and Technology: Positioning India as a global AI hub will be a defining element of this budget. The government’s emphasis on a national AI policy, backed by initiatives such as the Reserve Bank of India’s AI committee and skill development programs, underscores a commitment to fostering innovation. The declaration of 2025 as the ‘Year of Artificial Intelligence’ by the All India Council for Technical Education (AICTE) and the National Skill Development Corporation’s (NSDC) target to upskill 100,000 youth in AI, drones, and cloud computing reflect this vision. Additionally, dedicated funds and grants for AI startups are expected to accelerate innovation and strengthen India’s role in the global AI ecosystem.

A regulatory framework for responsible AI development is also likely to be introduced, ensuring ethical, safe, and transparent AI deployment. Drawing inspiration from international models like the EU’s AI Act, the framework aims to address risks associated with AI, including biases and misuse, while fostering trust and accountability.

Social Welfare and Skill Development: The government’s focus on inclusive growth will remain steadfast, with programs such as the PM GatiShakti National Master Plan and PM Garib Kalyan Anna Yojana expected to receive continued support. Skill development initiatives aligned with industry needs, enhancements in higher education, and vocational training programs may be prioritized to equip the workforce with future-ready skills.

Conclusion

The 2025-26 Union Budget is poised to be a transformative moment, laying the groundwork for a technology-driven, inclusive, and sustainable economy. By addressing critical areas such as infrastructure, renewable energy, technology, and social welfare, this budget will aim to position India as a global leader while ensuring balanced and equitable growth for all.

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