

## **Balanced and Priority-Driven Fiscal Strategy: An Analysis of India's Union Budget 2025–26**

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### **Abstract**

*The Union Budget is one of the most important policy instruments through which the Government of India steers macroeconomic stability, fiscal discipline, and sectoral development. The Union Budget 2025–26 reflects the government's attempt to balance growth impulses with fiscal consolidation while responding to global economic uncertainties. This paper presents a policy-oriented analysis of the Union Budget 2025–26 with emphasis on macroeconomic projections, fiscal strategy, taxation reforms, infrastructure investment, and sectoral development. Using secondary data from official budget documents, institutional reports, and economic databases, the study evaluates the implications of fiscal policy for economic growth, investment, and sustainability. The analysis suggests that the budget represents a balanced and priority-driven fiscal strategy, where fiscal consolidation is pursued alongside targeted public investment in infrastructure, manufacturing, rural development, and green energy transition. Capital expenditure-led growth remains the central driver of economic expansion while tax reforms aim to stimulate domestic consumption. The effectiveness of these measures will depend on efficient policy implementation, revival of private investment, and coordination between fiscal and monetary policies.*

**Keywords:** Union Budget, Fiscal Policy, Balanced Budget Strategy, Infrastructure Investment, Economic Growth, India

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### **I. Introduction And Literature Review**

Fiscal policy plays a crucial role in shaping economic growth, investment patterns and income distribution in developing economies. In India, the Union Budget functions as the central fiscal policy document outlining government priorities for revenue mobilisation and public expenditure. Over the past decade, India's fiscal strategy has increasingly emphasised infrastructure development, fiscal consolidation and structural reforms designed to improve productivity and long-term economic competitiveness.

The Union Budget 2025–26 was presented in a challenging global economic environment characterized by geopolitical tensions, supply chain disruptions and slower global growth. Despite these uncertainties, Domestically, India continues to experience moderate economic growth while attempting to maintain fiscal discipline after the pandemic-induced expansion of public spending.

Several studies emphasize the role of fiscal policy in economic development. Musgrave and Musgrave (1989) highlight three primary functions of fiscal policy: allocation of resources, redistribution of income and stabilization of economic activity. Public investment in infrastructure has been widely recognized as a critical driver of economic growth.

Mohan (2021) argues that infrastructure investment generates strong multiplier effects that stimulate private investment, employment generation and regional development. Similarly, Bhaduri (2019) emphasizes the importance of fiscal policy as a counter-cyclical instrument capable of stabilizing economic fluctuations.

Recent studies have also examined India's post-pandemic fiscal strategy. According to the Economic Survey (Government of India, 2024), capital expenditure-led growth has become a major pillar of India's fiscal strategy. Increased public investment improves productive capacity and enhances long-term economic resilience.

However, fiscal expansion must be balanced with fiscal sustainability. According to the International Monetary Fund (2024), high public debt may reduce policy flexibility and increase macroeconomic vulnerability. A key challenge for policymakers is balancing growth-oriented spending with fiscal prudence. Excessive fiscal deficits may lead to macroeconomic instability, higher borrowing costs, and inflationary pressures. Conversely, insufficient public investment may slow economic growth and hinder development

outcomes. Therefore, the Union Budget 2025–26 attempts to strike a balance between supporting economic expansion and maintaining fiscal sustainability.

This research paper examines the major policy directions of the Union Budget 2025–26 and evaluates its implications for India's economic development.

## II. Research Objectives

The study aims to analyse the major fiscal policy directions introduced in the Union Budget 2025–26.

The specific objectives are:

1. To analyse the macroeconomic outlook underlying the Union Budget 2025–26.
2. To examine fiscal consolidation strategies and deficit management.
3. To evaluate taxation reforms introduced in the budget.
4. To assess sectoral expenditure allocations and growth implications.
5. To identify policy implications for sustainable economic development.

## III. Research Methodology

This study adopts a qualitative policy analysis approach based on secondary data sources. The research relies on official government publications and institutional reports to evaluate fiscal policies and economic implications of the Union Budget.

Data sources include:

1. Union Budget 2025–26 documents (Ministry of Finance)
2. Economic Survey of India
3. Reserve Bank of India reports
4. CRISIL economic research reports
5. International Monetary Fund publications

Descriptive analysis and comparative data tables are used to examine fiscal indicators and sectoral allocations.

## IV. Macroeconomic Framework

India's macroeconomic outlook remains relatively stable despite global uncertainties.

**Table 1: Key Macroeconomic Indicators (FY2024–FY2026)**

Indicator	FY2024	FY2025(RE)	FY2026(BE)
<b>GDP Growth (%)</b>	8.2	6.4	6.5
<b>CPI Inflation (%)</b>	5.4	4.7	4.4
<b>Fiscal Deficit (% GDP)</b>	5.6	4.8	4.4
<b>Current Account Deficit (% of GDP)</b>	-0.7	-1.0	-1.3

Source: Ministry of Finance (2025). CRISIL (2025)

The projections indicate moderate but stable economic growth supported by domestic demand and infrastructure investment. The moderate growth forecast reflects the expectation of stronger consumption and gradual recovery in investment. Lower inflation and potential monetary easing are expected to support domestic demand.

However, external risks remain significant. Rising protectionism and global trade tensions may affect export growth. Therefore, domestic demand and infrastructure investment will remain key drivers of economic expansion.

## V. Fiscal Policy And Deficit Management

Fiscal consolidation remains one of the central policy priorities of the Union Budget 2025–26. The government has set a fiscal deficit target of 4.4 percent of GDP. Fiscal consolidation remains one of the central policy priorities of the Union Budget 2025–26. The government has set a fiscal deficit target of 4.4 percent of GDP for FY2026, continuing its gradual consolidation strategy.

Fiscal deficit reduction is achieved through a combination of revenue mobilisation and expenditure rationalisation. While revenue expenditure growth is moderated, capital expenditure continues to receive priority.

**Table 2: Fiscal Deficit and Sources of Government Borrowing**

Year	Fiscal Deficit (%GDP)	Government Securities (%)	Small Savings (%)
2024–25	4.8	72.1	22.3
2025–26	4.4	73.5	21.9

Source: Ministry of Finance (2025); Reserve Bank of India (2025); Economic Survey (2025).

Government securities remain the primary source of deficit financing. Market borrowing through G-securities ensures transparency and integration with the financial markets.

The government has also introduced a new fiscal framework focusing on reducing the debt-to-GDP ratio rather than strictly targeting annual fiscal deficit levels. This approach provides greater policy flexibility during economic shocks.

## VI. Taxation Reforms

The Union Budget introduced revisions in the personal income tax regime to increase disposable income and stimulate consumption. Tax reforms are another important component of the Union Budget 2025–26. The government has revised personal income tax slabs under the new tax regime to increase disposable income and stimulate consumption.

**Table 3: Revised Personal Income Tax Slabs under the New Tax Regime**

Income Slab	Tax Rate
0–4 lakh	0%
4–8 lakh	5%
8–12 lakh	10%
12–16 lakh	15%

Source: Ministry of Finance (2025)

These changes are expected to increase household disposable income and boost consumption demand. In addition, improved tax compliance through digitalisation and data integration has strengthened tax buoyancy.

## VII. Sectoral Expenditure Priorities

### Agriculture and Rural Development

Agriculture remains central to India's rural economy and food security. The budget introduces several initiatives to improve agricultural productivity, irrigation infrastructure, and rural housing. Key initiatives include, Prime Minister Dhan-Dhaanya Krishi Yojana, National Mission on High-Yielding Seeds and Increased allocation for PMAY-Gramin and PMGSY these measures aim to enhance farm productivity, increase rural incomes, and improve rural infrastructure.

### Infrastructure Development

Infrastructure development remains the cornerstone of India's growth strategy. Capital expenditure has been maintained at approximately 3.1 percent of GDP, signalling the government's continued emphasis on infrastructure-led economic growth. Large-scale investments in transportation, logistics, and urban infrastructure are expected to reduce transaction costs and improve productivity across sectors.

**Table 4: Major Sectoral Budget Allocations in Union Budget 2025–26**

Sector	Allocation (₹ lakh crore)	Policy Objective
Railways	2.65	Improve logistics efficiency and freight capacity
Roads & Highways	2.81	Expand national highway network and reduce transport costs
Housing and Urban Affairs	1.45	Strengthen urban infrastructure and housing
Rural Development	1.55	Enhance rural connectivity and housing
Power and Renewable Energy	1.03	Support energy transition and power infrastructure

Source: Ministry of Finance (2025); CRISIL (2025).

Infrastructure investment continues to remain the cornerstone of India's growth strategy. These allocations indicate that transport infrastructure continues to receive the largest share of capital expenditure. Improved infrastructure enhances supply chain efficiency and promotes regional economic integration. The government has also encouraged public–private partnerships (PPPs) to mobilise private capital for infrastructure development. Large-scale infrastructure investment reduces logistics costs and improves economic competitiveness.

### Manufacturing and Industrial Policy

The Production Linked Incentive (PLI) scheme continues to play a significant role in strengthening domestic manufacturing. Increased allocation to PLI schemes aims to promote investment in electronics, pharmaceuticals, and clean technology sectors. Manufacturing expansion is essential for employment generation and export competitiveness.

### Financial Sector and Capital Markets

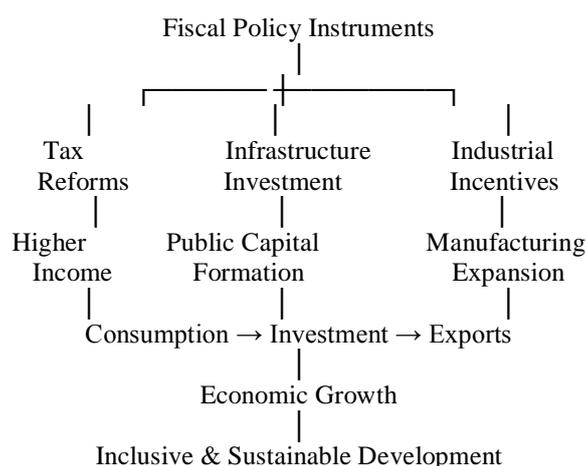
The financial sector plays a vital role in supporting investment and economic growth. The budget encourages deeper capital markets and improved credit access for small and medium enterprises. Expected monetary easing by the Reserve Bank of India may further support investment activity by reducing borrowing costs.

### Sustainability and Energy Transition

India's energy transition strategy is reflected in increased allocations for renewable energy and green technologies. Key initiatives include, Promotion of electric vehicle manufacturing, Green hydrogen mission and expansion of renewable energy infrastructure. These policies aim to reduce carbon emissions while supporting industrial development.

### CONCEPTUAL FRAMEWORK OF FISCAL GROWTH DRIVERS

To better interpret the policy direction of the Union Budget 2025–26, a conceptual framework is proposed that links fiscal policy instruments to macroeconomic outcomes. The framework highlights how taxation reforms, infrastructure expenditure, manufacturing incentives and sustainability investments function as growth transmission channels in the economy.



## VIII. Results And Discussion

### Balanced and Priority-Based Fiscal Strategy

The Union Budget 2025–26 reflects both a balanced budget orientation and a priority-based fiscal strategy. In public finance theory, a balanced budget refers to a fiscal framework in which government expenditure is aligned with revenue generation and fiscal deficits are maintained within sustainable limits. Although modern governments may not operate with perfectly balanced budgets, maintaining fiscal discipline remains essential for macroeconomic stability.

The Union Budget 2025–26 demonstrates this principle through its gradual fiscal consolidation strategy. The government has targeted a fiscal deficit of approximately 4.4 percent of GDP, continuing its post-pandemic path toward fiscal sustainability. By moderating revenue expenditure growth while maintaining strong capital expenditure, the government seeks to balance fiscal prudence with development-oriented spending.

At the same time, the budget reflects a priority-driven allocation of public resources. Instead of distributing fiscal resources uniformly across sectors, the government has concentrated spending in strategic areas such as infrastructure development, manufacturing expansion, rural development, and green energy transition.

The analysis of the Union Budget 2025–26 indicates that the fiscal strategy adopted by the Government of India attempts to strike a balance between economic growth and fiscal consolidation. Unlike expansionary budgets that significantly increase public expenditure, the present budget emphasizes prudent fiscal management while continuing to support growth-oriented investments.

One of the most significant findings of the analysis is the continued emphasis on infrastructure-led development. Capital expenditure remains one of the largest components of government spending. Investments in roads, railways, logistics infrastructure and urban development are expected to generate multiplier effects throughout the economy. Infrastructure development reduces logistics costs, enhances connectivity and improves productivity across sectors, thereby contributing to long-term economic growth.

Another important dimension of the budget is the effort to stimulate domestic consumption through taxation reforms. The revision of personal income tax slabs under the new tax regime is expected to increase disposable income among middle-income households. Higher disposable income can lead to increased consumer spending, which in turn stimulates demand in sectors such as consumer goods, housing and services.

The budget also emphasizes industrial development through the continuation of Production Linked Incentive (PLI) schemes. These initiatives aim to strengthen domestic manufacturing capabilities in sectors such as electronics, pharmaceuticals and renewable energy technologies. Manufacturing expansion is essential for job creation, export competitiveness and reduction of import dependence.

Rural development remains another important pillar of the budget. Increased allocations for rural infrastructure, agricultural modernization and rural housing schemes aim to raise agricultural productivity and improve rural incomes. This contributes to inclusive growth by reducing regional disparities and strengthening rural consumption demand.

The Union Budget 2025–26 also incorporates sustainability considerations into fiscal policy. Investments in renewable energy infrastructure, green hydrogen initiatives and electric mobility demonstrate the government's commitment to energy transition and climate-friendly development. Such policies not only reduce carbon emissions but also create new industrial opportunities in emerging green sectors.

Overall, the findings suggest that the Union Budget 2025–26 represents a balanced budget strategy that combines fiscal prudence with targeted growth initiatives. The government has attempted to maintain macroeconomic stability while promoting long-term development through infrastructure investment, manufacturing incentives and sustainability initiatives.

However, the effectiveness of these policy measures will depend on efficient project implementation, coordination between central and state governments and revival of private sector investment. Without complementary private investment, the multiplier effects of public expenditure may remain limited.

Therefore, while the Union Budget 2025–26 provides a strong policy framework for economic growth, sustained institutional reforms and investment climate improvements will be necessary to fully realise the intended outcomes.

## IX. Conclusion

The Union Budget 2025–26 reflects a balanced and priority-driven fiscal framework in which fiscal consolidation is pursued alongside targeted public investment in infrastructure, manufacturing, rural development and sustainable energy. This balanced budget approach ensures that fiscal discipline is maintained while directing public resources toward sectors capable of generating long-term economic growth.

The Union Budget 2025–26 reflects a balanced fiscal strategy aimed at promoting economic growth while maintaining fiscal discipline. Continued emphasis on infrastructure investment, manufacturing expansion, and rural development is expected to support long-term economic growth.

The study highlights three major policy implications. First, capital expenditure remains the most important driver of public investment-led growth in India. Second, tax reforms designed to increase disposable income can stimulate domestic consumption. Third, policy initiatives supporting renewable energy and industrial incentives contribute to long-term structural transformation of the economy.

Nevertheless, the effectiveness of these measures will depend on implementation efficiency, private sector participation, and the global economic environment. Sustained fiscal discipline and institutional capacity building will be essential for achieving India's long-term development objectives.

### Growth Drivers Framework

To better understand how fiscal policy measures translate into macroeconomic outcomes, a conceptual growth driver's framework is proposed. The framework identifies the main fiscal policy levers used in the Union Budget and their expected economic impact.

**Figure 1 Growth Drivers Framework in Union Budget 2025–26**

Policy Driver	Fiscal Instrument	Economic Transmission Channel	Expected Outcome
Consumption Growth	Income tax relief	Higher disposable income	Increase in household demand
Investment Growth	Infrastructure capital expenditure	Multiplier effect and crowd-in private investment	Higher GDP growth
Industrial Expansion	Production Linked Incentive schemes	Manufacturing investment and technology adoption	Export competitiveness
Rural Development	Agriculture and rural housing schemes	Increased rural income	Inclusive growth
Green Transition	Renewable energy investments	Clean technology adoption	Sustainable development

Source: Author's framework based on Government of India (2025), CRISIL (2025), and RBI (2025).

This framework illustrates how fiscal policy interventions can stimulate both short-term demand and long-term productive capacity. Consumption-oriented measures provide immediate demand support, while infrastructure and manufacturing investments contribute to long-term growth.

### Policy Implication Model

Based on the analysis of the Union Budget 2025–26, a policy implication framework can be proposed to illustrate how fiscal policy instruments translate into economic outcomes. The model highlights the link between fiscal policy measures, transmission channels, and macroeconomic outcomes.

**Figure 2: Policy Implication Model of Union Budget 2025–26**

Fiscal Policy Instrument	Transmission Channel	Expected Economic Outcome
Income tax reduction	Increase in disposable income	Higher household consumption
Capital expenditure on infrastructure	Multiplier effect and crowd-in private investment	Higher GDP growth and employment
Manufacturing incentives (PLI schemes)	Industrial investment and technology adoption	Export competitiveness and job creation
Rural development spending	Agricultural productivity and rural income growth	Reduction in rural poverty and higher consumption
Renewable energy investments	Energy transition and green industrial policy	Sustainable economic development

Source: Author's conceptual framework based on Ministry of Finance (2025), CRISIL (2025), and RBI (2025).

The model suggests that fiscal policy interventions operate through multiple economic transmission channels. Tax relief policies stimulate short-term consumption, while infrastructure and manufacturing investments create long-term productive capacity. Rural development spending supports inclusive growth by raising agricultural productivity and rural incomes. At the same time, investments in renewable energy align economic development with environmental sustainability. The effectiveness of these policy measures depends on institutional capacity, coordination between central and state governments, and private sector participation in investment activities.

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