By increasing access to agricultural credit and improving storage capacities, the PM Dhan Dhanya Krishi Yojana seeks to address key challenges in the farming sector and contribute to food security. REUTERS

Preparing the ground for next generation of reforms against global headwinds

While acknowledging the impact of global headwinds on economic growth, finance minister (FM) Nirmala Sitharaman laid emphasis on the fact that India remains one of the fastest-growing economies in the world. The FY26 Union Budget shows the government is now aiming to accelerate growth by catalysing private-sector investments and strengthening the middle class. The budget's stated focus is on key population segments — the poor, youth, farmers, and women — and three sectors (agriculture, MSMEs, and exports) that have been dubbed the primary drivers of India's economic expansion.

The government has launched the Pradhan Mantri Dhan Dhanya Krishi Yojana to boost agricultural productivity, promote crop diversification, and improve storage facilities at the panchayat and block levels. This initiative aims to expand irrigation infrastructure and enhance both short- and long-term credit availability for farmers. By increasing access to agricultural credit and improving storage capacities, this scheme seeks to address key challenges in the farming sector and contribute to food security. At the same time, the question is whether the budget allocation towards this will prove adequate.

Pinaki Chakraborty

Social security for online platform workers or gig workers is a significant step in the right direction. Given that the nature of work is changing rapidly due to the advancement of technology and artificial intelligence, the nature of informal work and that of the informal sector, by extension, has also changed. Providing workers in these sectors with much-needed social security and health protection, if successful, would help improve their livelihood.

A major fiscal policy announcement in the budget is the restructuring of income tax slabs to increase disposable income for lower and middle-income groups. This restructuring of the tax slab should help in increasing the disposable income of households, especially at the lower end of the distribution of income tax. The new income tax Bill, with expected simplification, should help improve tax compliance. Fiscal expansion through lower taxation in a slowing economy is a welcome step.

The intent to spur the revival of private-sector investment — in no small measure, through the further deregulation at the Union and the state level — could help create a virtuous cycle of growth and development if it fructifies meaningfully. This should happen even in a situation where we don't see major changes in the global environment. Given geopolitical headwinds will continue to remain a challenge as we move to the next fiscal year, the true test of success will be insulating the Indian economy to the best possible extent.

If we consider both the Economic Survey and FM's budget speech, the importance of second-generation reforms appears as an important agenda of the Union government. The budget speech highlighted electricity distribution reforms and augmentation of intra-state transmission capacity as a priority on the road to improving financial health and capacity of discoms. For this, an additional borrowing of 0.5% of the gross state domestic product (GSDP) will be allowed to the states contingent on reforms. Power sector finances continue to remain a major financial risk, and a fiscal risk that is outside the budget and, thereby, non-transparent.

Additional borrowing to the states to incentivise power-sector reforms was initiated by the 15th Finance Commission. The absorption of this at the state level in the past was not significant. For the overall fiscal health of the general government (Centre plus states), a comprehensive and irreversible positive reform in the power sector is necessary to reduce losses and lower the subsidy burden the state governments take on. Given the issue of power sector reform is extremely political, it is no surprise that the political economy approach to reforms here remains "still evolving" and a "work in progress" while the power sector, especially distribution, continues to bleed.

Finally, the size of India's general government expenditure, measured as a percentage of its GDP, stands at around 24%. Whether the fiscal measures and the redistributive measures proposed in the budget will boost consumption, and raise income and household savings, would depend on several factors including rising macroeconomic uncertainties.

Pinaki Chakraborty is visiting distinguished professor, National Institute of Public Finance and Policy.

The views expressed are personal