3 February, 2025

Budget FY26 goes big on consumption stimulus while staying on course for fiscal consolidation

- The Union budget FY26 shifts focus from government-led CAPEX to boosting private consumption through income tax rationalization and increased TDS/TCS limits.
- These measures are expected to boost disposable income and stimulate private consumption; however, the effectiveness in significantly driving consumption remains uncertain due to the limited taxpayer base.
- The fiscal space for tax relief has been created through a slower pace of expenditure growth, reliance on optimistic tax collection assumptions, and an extraordinary RBI dividend.
- In addition, the budget also aims to spur private investment and employment generation through targeted measures for MSMEs (including labour-intensive industries), rural sectors, exports, and incentivizing investment.
- From the government-led CAPEX focus of previous years, the emphasis has now shifted to creating incentives that boost private investment by addressing weak demand conditions and implementing incremental sectoral reforms.
- In line with expectations, the government has revised the FY25 fiscal deficit downwards to 4.8% from the budgeted target of 4.9%, aided by lower CAPEX.
- The budget targets a fiscal deficit of 4.4% for FY26, indicating a 40-bps consolidation compared to 80-bps in FY25. This is driven by expenditure rationalization, with total expenditure estimated to fall to 14.2% of GDP in FY26 from 14.6% in FY25 revised estimate (RE).
- Tax revenue assumptions appear somewhat optimistic, particularly considering revenue forgone due to income tax measures. There's also a high reliance on the RBI's dividend to aid non-tax revenue.
- In FY26, gross and net market borrowings by the central government through dated securities are budgeted at Rs 14.8 lakh crore and Rs 11.5 lakh crore, respectively, compared to Rs 14.0 lakh crore and Rs 10.7 lakh crore (after accounting for buybacks) in FY25 RE.
- Going forward, the government plans to shift to a debt-driven fiscal framework, targeting a reduction in Central Government debt to 50±1% of GDP by March 2031 from 57.1% in FY25, with fiscal consolidation remaining a priority to meet this goal.
- Overall, the budget's focus on boosting consumption through tax cuts and job creation should have positive implications for demand and economic growth. In its February meeting, we expect the RBI to complement these measures with a 25-bps policy rate cut and additional steps to support liquidity.

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Government shifts focus to boost consumption while maintaining its commitment to fiscal consolidation

In line with expectations, the budget represents a clear shift from the focus on government CAPEX to measures aimed at boosting private consumption. The government has rationalized income tax slabs and raised the thresholds for select TDS and TCS limits to increase households' disposable income. A slower pace of expenditure growth, reliance on optimistic tax collection assumptions, and an extraordinary RBI dividend have created fiscal space for tax relief. Despite these measures, the government has maintained a commitment to fiscal consolidation, although the pace has slowed to 40-bps in FY26 down from 80-bps in FY25, allowing for flexibility in providing tax relief.

This policy shift is much-needed as the government's push for CAPEX in previous years has not resulted in a significant crowding-in of private investment. While corporates have successfully deleveraged their balance sheets, aided by corporate tax cuts, they have been hesitant to commit to capacity creation due to soft domestic demand conditions and an uncertain global trade environment. The weak domestic consumption demand stems from moderate real wage/salary growth, increased tax burdens, and reduced credit growth. Given the continued global trade uncertainties, boosting domestic demand was imperative.

The announced rationalization of income tax slabs and changes in TDS/TCS limits are expected to increase disposable income, thereby supporting private consumption. The government hopes these measures will create a virtuous cycle of economic growth by incentivizing private investment, creating jobs, and further boosting consumption. However, the efficacy of these measures in significantly increasing private consumption remains uncertain, given only 2% of the population pays income tax. Nonetheless, a boost in urban demand is expected in FY26. The budget also places focus on the labour-intensive MSMEs, exports, and rural sectors, which should help generate employment and further stimulate consumption. The anticipated policy rate cut in the upcoming RBI meeting could provide additional support to demand conditions. These coupled with a positive rural demand outlook driven by favourable agricultural projections are expected to result in a pick-up in private consumption and contribute to a broader economic recovery in FY26.

On fiscal consolidation, the budget deficit target of 4.4% of GDP for FY26 aligns with the government's stated goal of bringing it below 4.5% of GDP by next FY. Going forward, the government plans to shift towards a debt-driven fiscal framework, moving away from one primarily anchored on the fiscal deficit. ***Under the medium-term framework, the government aims to reduce Central Government debt to about 50±1% of GDP by March 2031, down from 57.1% in FY25.*** To achieve this, fiscal consolidation will remain a priority, with the expenditure mix and pace of economic growth also playing critical roles in meeting the debt target.

Fiscal deficit better than target in FY25 at 4.8%, due to lower CAPEX

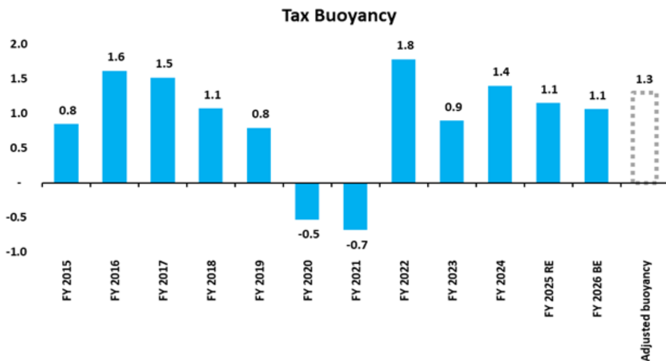
In line with our expectations, the government has revised the FY25 fiscal deficit downwards to 4.8% of GDP, compared to the budgeted target of 4.9%. This better-than-budgeted outcome is primarily due to lower capital spending. In FY25, government total expenditure is now estimated at 14.6% of GDP, down from the 14.8% projected in the Budget Estimate (BE). This reduction is largely attributed to lower capital expenditure, which is now projected to grow by 7.3% over the previous year, compared to the 17% growth originally budgeted. Meanwhile, revenue expenditure is estimated to decline due to lower interest payments, while subsidy expenditure is broadly in line with the BE. However, with 83% of the revised food subsidy already spent in FYTD25, there is a risk of fiscal slippage from the subsidy bill. On the receipts side, total non-debt capital receipts in FY25 are revised to grow by 12.8%, lower than the budgeted 15.0% growth (over FY24 actuals). The shortfall in receipts is spread across net tax revenue, non-tax revenue, and divestments.

FY26 Fiscal deficit budgeted at 4.4% while focusing on consumption through income tax reliefs

Aligning with its commitment to reduce the fiscal deficit target to below 4.5% of GDP by FY26, the budget has set a target of 4.4% for the next fiscal year. The fiscal space for this has primarily been created through expenditure rationalization, which is projected at 14.2% of GDP in FY26, down from 14.6% in FY25 RE. This reduction in expenditure has been driven by both slower CAPEX and revenue expenditure growth. Tax revenue assumptions appear somewhat optimistic, considering the revenue forgone due to income tax measures. There's also a high reliance on the RBI's dividend to aid non-tax revenue.

The government projects revenue receipts at Rs. 34.2 lakh crore for FY26, marking an increase of 10.8% from FY25 RE. Within the revenue receipts, gross tax collections are estimated to grow by 10.8%, slightly lower than the 11.2% in FY25. This implies a tax buoyancy of 1.07 in FY26, which is broadly in line with historical trends (using the budgeted nominal GDP growth of 10.1%). However, when accounting for revenue forgone of ~Rs 1 lakh crore due to tax cuts, the implied tax buoyancy rises to ~1.3, which seems optimistic.

Adjusted tax buoyancy is higher in FY26



Source: Union Budget Documents, DMI calculations

The moderation in gross tax collection growth is primarily due to slower growth in direct taxes, which are estimated to increase by 12.7% in FY26, potentially reflecting the revenue foregone from the income tax relief measures. Personal income tax is estimated to grow by 14%, down from 20% in FY25 RE. ***As per the revised tax rates and slabs, there will be no tax on income up to Rs. 12 lakhs, and slabs have been revised to reduce taxes for across income slabs, resulting in significant savings for taxpayers across various income levels.*** The government also rationalized TDS and TCS thresholds, such as doubling the senior citizens' interest limit from Rs. 50,000 to Rs. 1 lakh and raising the TDS threshold for rent from Rs. 2.4 lakh to Rs. 6 lakhs. Furthermore, the TCS threshold on remittances under the Liberalized Remittance Scheme (LRS) has been increased from Rs. 7 lakhs to Rs. 10 lakhs, and TCS on education-related remittances funded by loans has been removed, which is expected to benefit small and middle-income households. The government will also introduce a new income tax bill next week, which is likely to aim at simplifying the tax rules. These measures collectively will help boost disposable income and provide a boost to consumption demand.

Personal Income tax slabs have been rationalised across income levels

Income Tax Rates			
Income Slabs	**Old Rates**	**Income Slabs**	**New Rates**
0-3 lakh rupees	Nil	0-4 lakh rupees	Nil
3-7 lakh rupees	5%	4-8 lakh rupees	5%
7-10 lakh rupees	10%	8-12 lakh rupees	10%
10-12 lakh rupees	15%	12-16 lakh rupees	15%
12-15 lakh rupees	20%	16-20 lakh rupees	20%
Above 15 lakh rupees	30%	20-24 lakh rupees	25%
		Above 24 lakh rupees	30%

Source: Union Budget Documents

Corporate income tax is estimated to grow at a faster rate of 10.4%, compared to 7.6% in FY25. This growth in corporate tax will critically depend on a revival in domestic demand conditions and improved global trade. Meanwhile, indirect taxes are projected to grow at 8.3% in FY26, driven by higher customs and excise duties. This is despite the announced rationalisation of custom duties, reducing basic custom duty on 40 items to boost domestic manufacturing. This will cost the government ~ Rs. 2.6K crore in indirect taxes. Growth in GST collections is expected to be similar to FY25 at 10.9%. However, this implies a monthly run rate of Rs. 1.9 lakh crore, compared to the current run rate of Rs. 1.8 lakh crore (April-Dec), which seems optimistic. With slower growth in the states' share of revenue, net tax revenue growth is projected at 11.0% vs. 9.9% in FY25.

Non-tax revenue in FY26 is projected to grow by 9.8%, down from 32.2% in FY25. The sharp slowdown is due to a high base effect, as FY25 non-tax revenue saw a boost from large dividend transfers from the RBI. In absolute terms, the dividend from RBI and nationalized banks is targeted at Rs. 2.6 lakh crore (vs. Rs. 2.3 lakh crore in FY25), which appears realistic, given expectations of higher earnings of RBI from FX interventions. The government has set a

Fiscal Metrics	INR Lakh Crores				% of GDP				% YoY				
	FY24 A	FY25 BE	FY25 RE	FY26 BE	FY24 A	FY25 BE	FY25 RE	FY26 BE	FY24 A	FY25 BE over FY24 A	FY25 RE over FY24 A	FY26 BE over FY25 BE	FY26 BE over FY25 RE
Revenue Receipts	27.3	31.3	30.9	34.2	9.2	9.6	9.5	9.6	14.5	14.7	13.2	9.3	10.8
Net Tax Revenues	23.3	25.8	25.6	28.4	7.9	7.9	7.9	7.9	10.9	11.0	9.9	9.8	11.0
Gross Tax Revenues	34.7	38.4	38.5	42.7	11.7	11.8	11.9	12.0	13.5	10.8	11.2	11.2	10.8
Direct Tax	19.6	22.1	22.4	25.2	6.6	6.8	6.9	7.1	17.9	12.8	14.4	14.2	12.7
Corporate Tax	9.1	10.2	9.8	10.8	3.1	3.1	3.0	3.0	10.3	12.0	7.6	6.1	10.4
Income Tax	10.4	11.9	12.6	14.4	3.5	3.6	3.9	4.0	25.4	13.6	20.3	21.1	14.4
Indirect Tax	15.1	16.3	16.2	17.5	5.1	5.0	5.0	4.9	8.2	8.2	7.1	7.2	8.3
Customs	2.3	2.4	2.4	2.4	0.8	0.7	0.7	0.7	9.3	2.0	0.8	0.9	2.1
Union Excise Duty	3.1	3.2	3.1	3.2	1.0	1.0	0.9	0.9	-4.3	4.5	-0.1	-0.6	3.9
GST	9.6	10.6	10.6	11.8	3.2	3.3	3.3	3.3	12.7	10.9	10.9	10.9	10.9
Less States Share	11.3	12.5	12.9	14.2	3.8	3.8	4.0	4.0	19.1	10.4	13.9	14.0	10.5
Non-Tax Revenues	4.0	5.5	5.3	5.8	1.4	1.7	1.6	1.6	40.8	35.8	32.2	6.8	9.8
Dividend from PSE	0.7	0.6	0.6	0.7	0.2	0.2	0.2	0.2	9.1	-14.0	-15.9	22.6	25.5
Dividend from RBI & PSU	1.1	2.3	2.3	2.6	0.4	0.7	0.7	0.7	164.0	120.7	122.1	9.9	9.3
Non-Debt Capital Receipts	0.6	0.8	0.6	0.8	0.2	0.2	0.2	0.2	-17.2	30.5	-1.3	-2.6	28.8
Disinvestments & Others	0.3	0.5	0.3	0.5	0.1	0.2	0.1	0.1	-28.1	51.0	-0.4	-6.0	42.4
Total Receipts	27.9	32.1	31.5	35.0	9.4	9.8	9.7	9.8	13.6	15.0	12.8	9.0	11.1
Total Expenditure	44.4	48.2	47.2	50.7	15.0	14.8	14.6	14.2	6.0	8.5	6.1	5.1	7.4
Revenue Expenditure	34.9	37.1	37.0	39.4	11.8	11.4	11.4	11.0	1.2	6.2	5.8	6.3	6.7
Interest Payments	10.6	11.6	11.4	12.8	3.6	3.6	3.5	3.6	14.6	9.3	7.0	9.8	12.2
Subsidy	4.3	4.3	4.3	4.3	1.5	1.3	1.3	1.2	5.2	-1.5	-1.6	-0.5	-0.4
Capital Expenditure	9.5	11.1	10.2	11.2	3.2	3.4	3.1	3.1	28.3	17.1	7.3	0.9	10.1
Fiscal Deficit	16.5	16.1	15.7	15.7	5.6	4.9	4.8	4.4					
Nominal GDP	295.4	326.4	324.1	357.0									
Nominal GDP YoY %	9.6	10.5	9.7	10.1									

Source: CMIE, Union Budget Documents, BE - Budget Estimates, RE - Revised Estimates A - Actuals.

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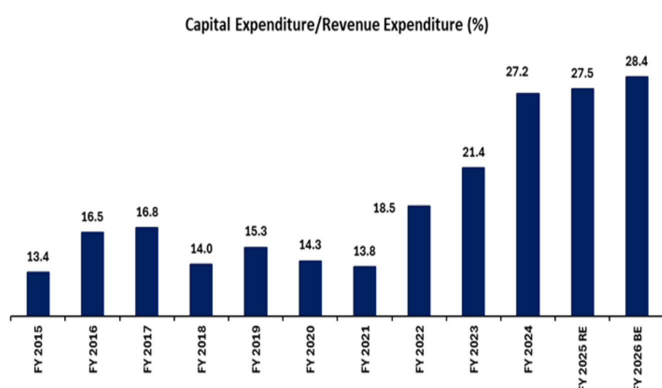
divestment target of Rs. 47,000 crores for FY26, up from Rs. 33,000 crores in FY25 but lower than the Rs. 50,000 crore target in FY25 BE. This target seems achievable, especially with the IDBI sale likely being pushed out to next year.

Focus on expenditure quality remains despite rationalisation

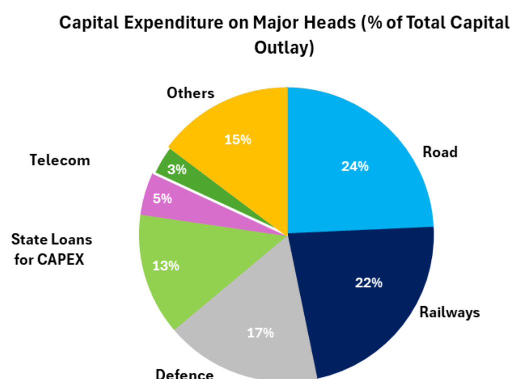
CAPEX growth for FY26 is projected at 10.1%, which is relatively modest, especially given that the base from FY25 RE is low (growth compared to FY25 BE is less than 1%). While this increase may seem modest, it implies CAPEX spending of 3.1% of GDP, similar to that of the previous year. Slower growth in CAPEX appears more realistic given the institutional capacity constraints the government encountered in FY25. Additionally, the allocation of interest-free loans to state governments for capital expenditure remains unchanged at Rs. 1.5 lakh crore. The ministry-wise breakdown of CAPEX in FY26 indicates that roads will account for 24% of the total expenditure, followed by railways at 22%, defence at 17%, and transfers to states for capex loans at 13%. The government continues to prioritize improving the quality of expenditure, as reflected in the increased share of CAPEX relative to revenue expenditure, which is expected to reach a multi-decade high of 28.4% in FY26.

Quality of expenditure estimated to improve further



Sources: Union Budget Documents

Major Heads for Capital Expenditure



Sources: Union Budget Documents

On the revenue expenditure front, the government has pegged expenditure at Rs. 39.4 lakh crore, an increase of 6.7% over FY25 RE (higher than the 5.8% growth in FY25). However, as a percentage of GDP, revenue expenditure is projected to decrease to 11.0% in FY26, down from 11.4% in FY25. Within revenue expenditure, subsidies are expected to decline, driven by lower fertilizer and petroleum subsidies, while interest payments are projected to rise due to the government's elevated borrowing in previous years. On the other hand, revenue expenditure excluding subsidies and interest payments is estimated to grow by 5.1% in FY26, down from 6.9% in FY25, despite a sharp rise in expenditure for the rural drinking water mission.

Sources of Financing Fiscal Deficit

The government’s market borrowing plans are broadly in line with expectations. For FY25, the lower-than-budgeted fiscal deficit led to a reduction in short-term market borrowings, while borrowings via dated securities remained largely unchanged. However, when accounting for the buyback of securities (worth Rs 88,000 crores) in FY25 RE, the government reduced the net borrowings to Rs 10.7 lakh crore, financing 68% of the fiscal deficit.

For FY26, gross borrowings are projected to rise to Rs 14.8 lakh crore, while net borrowings are estimated at Rs. 11.54 lakh crore. At the same time, the government's reliance on small savings schemes for financing is expected to decrease in FY26. With slightly higher gross borrowings, the 10-year yield may inch up, but it is anticipated to decline in the near term due to a potential rate cut by the RBI. As anticipated, the RBI announced several measures to ease liquidity pressures in January, including OMO purchases, 56-day VRR auctions, and USD/INR Buy/Sell swaps, injecting ~Rs 1.5 trillion into the banking system. We maintain our view that the RBI will cut the policy repo rate by 25 bps in the upcoming February monetary policy meeting. Moreover, measures to further boost liquidity and deferral of the proposed changes in LCR rules (slated to come into effect from 1st April 2025) by 9-12 months could also be considered.

Financing of Fiscal Deficit

INR Lakh Crores	FY24	FY25 BE	FY25 RE	FY26 BE
Fiscal Deficit (A)	**16.9**	**16.1**	**15.7**	**15.7**
Fiscal Deficit (% of GDP)	**5.1**	**4.9**	**4.8**	**4.4**
Sources of Funding	FY24	FY25 BE	FY25 RE	FY26 BE
Net Short Term Borrowings	0.5	-0.5	-1.2	0.0
External Finance	0.6	0.2	0.3	0.2
Securities Issued Against Small Savings	4.5	4.2	4.1	3.4
State Provident Fund (Net)	0.1	0.1	0.1	0.1
Other Receipts (Net)	-0.9	-0.8	0.3	0.4
Drawdown of Cash Balances	0.0	1.4	0.5	0.0
Net G-sec Borrowing (B)	11.8	11.6	11.6	11.5
Redemption + Net Switching of Securities (D)	3.7	2.4	2.4	3.3
Gross Borrowing (B+D)	**15.4**	**14.0**	**14.0**	**14.8**
Net Borrowing as % of Fiscal Deficit	**69.9**	**72.1**	**74.1**	**73.5**

Sources: Union Budget Documents; Note: Market borrowings do not include the buyback of securities in FY25 RE

The government also introduced several measures focusing on Agriculture, MSMEs, Investment, and Exports, while continuing with reforms to improve ease of doing business. These initiatives are designed to foster skill development, capacity building, productivity improvements, enhanced credit flow, and targeted financial support to select sectors to incentivize private investment and boost job creation. The budget could have also leveraged the opportunity to introduce more sweeping reforms, for a more profound impact on structural issues. Instead, the approach seems focused on incremental changes across various sectors, which will take time to yield results. Some key areas, like deregulation, are still undefined, and it's unclear how those will materialize. *Further details are provided in the subsequent sections and appendix.*

Agriculture and Rural Development

The Budget outlines several initiatives aimed at strengthening agriculture and rural development. A new 'Prime Minister Dhan-Dhaanya Krishi Yojana' will focus on 100 districts to improve productivity, promote crop diversification, enhance irrigation, and increase credit access. Additionally, the government has launched a six-year "Mission for Aatmanirbharta in Pulses," targeting key crops like Tur, Urad, and Masoor to reduce import dependence. To address underemployment and promote rural prosperity, the government plans a comprehensive program focused on skills, investment, and technology. Other initiatives include a program for vegetables and fruits, a National Mission on High Yielding Seeds, a five-year Mission for Cotton Productivity, the creation of a Makhana Board in Bihar, and strengthening cooperative sector lending through NCDC. Loan limits for Kisan Credit Cards have been raised from Rs. 3 lakhs to Rs. 5 lakhs under the modified interest subvention scheme. To support the rural economy further, India Post and India Post Payment Bank will be restructured to offer expanded services, including rural community hubs, direct benefit transfers, cash-out services, credit for micro-enterprises, and insurance. India Post will also be transformed into a logistics organization to cater to entrepreneurs, self-help groups, and MSMEs. These measures are designed to bolster agriculture potential and foster job creation, thereby stimulating the rural economy and overall consumption.

Micro, Small and Medium Enterprises

The finance minister highlighted the critical role of MSMEs, which account for 45% of India's exports, in the economy. To support MSMEs' growth, the budget proposes raising investment and turnover limits for MSMEs by 2.5 and 2 times, respectively. Additionally, the government will introduce customized Credit Cards with a Rs 5 lakh limit for micro-enterprises registered on the Udyam portal, aiming to issue 10 lakh cards in the first year. A new scheme will also offer term loans up to Rs 2 crore to 5 lakh first-time women, SC, and ST entrepreneurs over the next five years. A National Manufacturing Mission will be created to support industries, both small and large, under the "Make in India" initiative. This will also focus on Clean Tech manufacturing, aiming to enhance domestic value addition and build an ecosystem for solar PV cells, EV batteries, motors, electrolyzers, wind turbines, and other high-tech equipment. The government will also establish a Fund of Funds with Rs 10,000 crore to support startup growth, building on the success of a previous initiative. Additionally, the government has announced measures to support labour-intensive sectors, including footwear and leather industries, toys, and food processing. These measures should improve credit flow to MSMEs, boost their investment, and aid job creation, which will further drive economic development.

MSME Classification	INR Crore			
	Investment		Turnover	
	Current	Revised	Current	Revised
Micro Enterprises	1	2.5	5	10
Small Enterprises	10	25	50	100
Medium Enterprises	50	125	250	500

Sources: Union Budget Documents

Investment in People, Innovation, and the Economy

After leading the investment for the past several years, the government is now shifting its focus towards incentivizing private investment through a three-pronged approach: investing in People, Innovation, and the Economy. Together, these initiatives aim to foster private investment, enhance human capital, and stimulate innovation, creating a more dynamic economy that supports sustained job creation, higher productivity, and long-term growth.

In terms of "Investment in People," several key initiatives are aimed at enhancing human capital, such as the establishment of National Centres of Excellence for skilling, expanding IITs, creating 10,000 additional medical education seats, and setting up an AI Centre of Excellence, thereby improving the quality of India's workforce, and fostering innovation and productivity. By supporting street vendors and gig workers through schemes like PM SVANidhi and UPI-linked credit cards, along with expanding healthcare coverage under PM Jan Arogya Yojana, the government aims to create an inclusive environment, which will support demand and economic growth in the long term.

With a focus on "Investment in the Economy", the FM introduced multi-sectoral reforms to stimulate investment and infrastructure development across the economy. The key reforms include Public Private Partnerships (PPPs),

mining sector reforms, and support for domestic manufacturing, and are designed to spur private sector involvement in infrastructure development. The Rs 1.5 lakh crore interest-free loans to states for CAPEX and the second phase of Asset Monetisation, with a target of Rs 10 lakh crore, will create investment opportunities and infrastructure assets, fuelling long-term growth. The allocation for infrastructure projects, including the expansion of critical minerals and manufacturing capacity, will directly boost jobs in construction, mining, and related sectors.

To support “Investment in Innovation” the government allocated Rs 20,000 crore for Research and Development and the creation of a Deep Tech Fund of Funds aims to drive India’s innovation ecosystem forward, particularly supporting next-generation startups. By fostering innovation and entrepreneurship, these measures are expected to generate high-value jobs and create new growth avenues across the tech and manufacturing sectors.

Exports Promotion

The government’s initiatives to boost exports aim to strengthen India's global trade position and create long-term economic growth. The creation of a new Export Promotion Mission focusing on export credit, cross-border factoring, and overcoming non-tariff barriers for MSMEs will enhance the competitiveness of Indian businesses in global markets, especially for smaller firms that may face challenges accessing financing and navigating international trade rules. The introduction of a National Framework for Global Capability Centres (GCC) aims to facilitate the growth of high-value service and technology sectors in tier 2 cities, expanding job opportunities, improving talent availability, and fostering industry collaboration. This initiative could attract foreign investment, enhance skill development, and contribute to balanced regional growth. The upgrade of the air cargo infrastructure, particularly targeting high-value perishable goods, will help India tap into the lucrative export markets for fresh produce, pharmaceuticals, and other perishable items, contributing to both the agricultural and manufacturing sectors. Streamlining cargo screening and customs processes aims to reduce delays, making India a more efficient and competitive player in global supply chains. Together, these initiatives are designed to enhance India’s export capacity, create job opportunities, and integrate the economy more effectively into global supply chains, all of which should support broader economic growth and stability.

Continued focus on Reforms

The government's proposals aim to improve business conditions, stimulate investment, and foster economic growth. Raising the FDI limit for the insurance sector from 74% to 100% will likely attract foreign capital, enhance industry competitiveness, and drive innovation within the sector while simplifying foreign investment regulations will further ease market entry and expansion. The introduction of a Partial Credit Enhancement Facility by NaBFID for infrastructure-related corporate bonds intends to provide much-needed liquidity to the infrastructure sector. Meanwhile, for credit flow to rural areas, public sector banks will develop a Grameen Credit Score framework to address the credit needs of rural areas, supporting rural entrepreneurship, agricultural growth, and overall inclusive development. The Investment Friendliness Index will create a competitive environment among states, encouraging them to streamline processes and attract more investments. The Jan Vishwas Bill 2.0, by decriminalizing over 100 provisions, will reduce regulatory burdens on businesses and create a more conducive environment for growth. Under the Financial Stability and Development Council, a mechanism will be established to evaluate and improve financial regulations. Together, these measures are aimed at creating a more business-friendly environment, driving investment in critical sectors like insurance, infrastructure, and rural credit, and ultimately boosting job creation and overall economic growth. *Please refer to the appendix for other key initiatives.*

ANNEXURE: **The budget for FY26 outlines four engines of growth and reforms –**

Agriculture as the first engine of Development

- A framework will be introduced for sustainable fisheries development, with a special focus on the Andaman & Nicobar and Lakshadweep Islands.
- The loan limit under the Kisan Credit Card scheme has been raised from 3 lakh to 5 lakh under the Modified Interest Subvention Scheme.
- A new urea plant with an annual capacity of 12.7 lakh metric tons will be established in Assam, to support self-sufficiency.
- India Post will be repositioned as a catalyst for rural economic growth, leveraging its network of rural post offices and Dak Sevaks, and transforming into a public logistics organization to serve large businesses, MSMEs and new entrepreneurs etc.
- The government will provide support to the National Cooperative Development Corporation for its lending operations to strengthen the cooperative sector.

MSMEs as the second engine of Development

- The investment and turnover limits for MSME classification will be enhanced to 2.5 and 2 times respectively, to help them scale up, adopt technology, and create more employment opportunities.
- Enhancement of Credit Availability with Guarantee Cover:
  - The credit guarantee cover for micro and small enterprises will increase from Rs 5 crore to Rs 10 crore.
  - For startups, the credit limit will increase from Rs 10 crore to Rs 20 crore, with the guaranteed fee being moderated to 1% for loans in 27 focus sectors.
  - Well-run exporter MSMEs will also have access to term loans up to Rs 20 crore.
- Customized credit cards with a Rs 5 lakh limit will be issued to micro-enterprises registered on the Udyam portal, with 10 lakh cards to be distributed in the first year.
- A new Fund of Funds will be set up with a Rs 10,000 crore contribution to support startup growth.
- Measures for Labour-Intensive Sectors:
  - Focus Product Scheme for Footwear & Leather Sectors: The scheme aims to enhance productivity and competitiveness in India's footwear and leather sector and is projected to generate employment for 22 lakh people.
  - Measures for the Toy Sector: A scheme to be launched to make India a global hub for toys, focusing on developing manufacturing clusters, skills, and an ecosystem for high-quality, sustainable toys under the 'Made in India' brand.
  - Support for Food Processing: The government will establish a National Institute of Food Technology, Entrepreneurship, and Management in Bihar to promote food processing, creating value-added opportunities for farmers and employment for youth in the Eastern region.
- This mission will also aim to improve domestic value addition and build the ecosystem for solar PV cells, EV batteries, motors and controllers, electrolysers, wind turbines, very high voltage transmission equipment and grid scale batteries.

Investment as the third engine of Development

Investing in people

- Saksham Anganwadi & Poshan 2.0 to support nutrition for children, pregnant and lactating mothers, and adolescent girls in aspirational districts & the Northeast.
- 50,000 Atal Tinkering Labs to be set up in government schools in the next 5 years to foster a scientific temper among young minds.
- Broadband connectivity is to be provided to all government secondary schools and primary health centres in rural areas.
- The government is to set up Day Care Cancer Centres in all district hospitals in the next 3 years, with 200 centres in 2025-26.
- Five National Centres of Excellence for Skilling will be set up in partnership with global experts to equip youth with skills for manufacturing under the "Make for India, Make for the World" initiative.
- The government to arrange for Gig worker's identity cards and registration on the e-Shram portal. They will be provided healthcare under PM Jan Arogya Yojana.

Investing in the Economy

- The government will incentivize electricity distribution reforms and enhance intra-state transmission capacity. States will be allowed to borrow an additional 0.5% of their GSDP, contingent on implementing related reforms.
- The government will establish an Urban Challenge Fund of Rs 1 lakh crore to support initiatives like 'Cities as Growth Hubs' and 'Creative Redevelopment of Cities.' For 2025-26, Rs 10,000 crore is allocated.
- The government aims to develop 100 GW of nuclear energy by 2047. It will encourage private sector involvement through amendments to relevant laws.
- The UDAN scheme will be expanded with an aim to connect 120 new destinations and carry 4 crore passengers over the next 10 years, with a focus on regional connectivity and small airports.
- Mining sector reforms, including a State Mining Index and policy for recovering critical minerals from tailings, will be introduced.
- SWAMIH Fund 2 of Rs. 15,000 crore will be set up as a blended finance facility with contributions from the government, banks and private investors, for the completion of 1 lakh affordable housing units in stressed housing projects.
- Private sector project planning will be supported with access to relevant data and maps from the PM Gati Shakti portal.

Investing in Innovation

- 10,000 fellowships for technological research in IITs and IISc will be provided under the PM Research Fellowship scheme.
- A second Gene Bank will be set up to conserve 10 lakh germplasm lines for future food and nutritional security.
- A National Geospatial Mission will be launched to modernize land records, urban planning, and infrastructure projects using PM Gati Shakti data.
- A mission for the survey, documentation, and conservation of over 1 crore Indian manuscripts will be undertaken, alongside setting up a National Digital Repository for knowledge sharing.

Exports as the fourth engine of Development

- BharatTradeNet will be established as a unified platform for trade documentation and financing solutions.
- Support will be provided to develop domestic manufacturing capacities for integration with global supply chains, with facilitation groups for select products and supply chains.
- Infrastructure and warehousing for air cargo, including high-value perishable goods, will be upgraded and cargo screening and customs protocols streamlined.

Reforms as Fuel: Financial Sector Reforms and Development

- A forum for regulatory coordination and development of pension products will be established.
- To implement simplifying the KYC process, the revamped Central KYC Registry will be rolled out in 2025.
- The process for company mergers will be streamlined, with procedures for fast-track approvals.
- Bilateral Investment Treaties (BITs) will be revamped to be more investor-friendly, encouraging sustained foreign investment.

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