



## Union Budget 2025-26 This budget should be a dream budget for Middle Class and MSMEs

**Dr S P Sharma,**  
Chief Economist, PHDCCI

**Tax reforms for middle class and MSMEs along with reduced costs of doing business would go a long way to foster strong foundations for a Viksit Bharat.**

India is poised for an exciting economic journey in the coming years, with substantial growth prospects and opportunities for transformation towards Viksit Bharat @ 2047. As we approach the Union Budget for 2025-26, it is essential to focus on areas that can propel the India's economic growth while ensuring equitable progress. With a projected GDP growth rate of more than 6.8% for FY 2024-25, India is firmly positioned as a leading economic powerhouse globally. With ongoing reforms and initiatives, the government is driving India's emergence as a hub for investments and innovation.

As the government strives to implement reforms that enhance the country's infrastructure, boost competitiveness with a vibrant ecosystem for businesses and create employment opportunities for growing young population, forthcoming Union Budget 2025-26 is expected to further strengthen India's economic fundamentals.

### **India's economic resilience**

The global economy has shown remarkable resilience, with growth projections for 2024 and 2025 holding steady at 3.2%, supported by a moderation in inflation. India's economy, meanwhile, is positioned to outperform global expectations, with its GDP growth forecasted at an impressive more than 6.8% for 2024-25. These positive indicators are underpinned by structural reforms, a growing young population, and a conducive environment for foreign direct investment (FDI).

India has become one of the most attractive destinations for investments, driven by the government's continuous efforts to improve the ease of doing business. Initiatives such as the Goods and Services Tax (GST) implementation, insolvency reforms, and labour code changes are designed to create a more business-friendly environment.

However, to enhance India's competitiveness on the global stage, reducing the costs of doing business remains crucial. This includes addressing issues such as high capital costs, energy costs, logistics inefficiencies, land acquisition challenges, and complex regulatory compliance. In sectors where India has the capability to be self-sufficient, reducing dependence on imports will further boost the economic growth and employment creation.

### **Focus of the Budget must be for Middle Class and MSMEs**

The theme of the last Union Budget 2024-25, "GYAN," emphasizes fortifying the foundations of a Viksit Bharat (Developed India). This theme underscores the government's commitment to addressing critical sectors such as poverty alleviation, youth empowerment, agricultural growth, and women's workforce participation. As India advances towards becoming a developed economy, it is crucial that these four pillars remain central to policy decisions and budget allocations until India achieves the status of Viksit Bharat. Moreover, in the forthcoming budget, prioritizing more the Middle Class and MSMEs to stimulate consumption demand and job creation will further strengthen the economic foundation for a Viksit Bharat. This approach will drive industrial growth through increased

production capacity in factories, while also fostering job creation by deploying more workforce to meet the rising demand and enhanced production levels.

### **Desired tax reforms for the middle class**

India's middle class is a significant driver of consumption and economic growth. However, the current tax structure, with a peak tax rate of 30% for individuals earning Rs. 15 lakhs and above, puts considerable strain on disposable income. To ensure that the middle class remains a driving force for economic growth, the budget should focus on providing relief in high taxation.

The peak tax rate must be revised to apply only to incomes above Rs. 25 lakhs, and the rate itself should not exceed 25%. This would allow middle-income earners to retain a larger portion of their income, fostering savings and consumption, which in turn would stimulate demand across sectors. Further tax reforms aimed at simplifying the tax structure and incentivizing savings will also be key to ensuring that India's middle class strengthens economic foundations towards viksit bharaat.

### **Boosting employment through MSMEs**

Small businesses and Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in India's economic growth, offering significant employment opportunities and contributing to the country's GDP. As India's young population continues to grow, it is essential to create jobs and foster entrepreneurship. The government has already launched several initiatives to support MSMEs, including loans, skill training, and digital empowerment programs. However, to further promote job creation, MSMEs need more targeted support.

Medium and small businesses are often structured as partnership firms or LLPs, but these entities face a high tax rate of 30% plus surcharge, compared to the lower corporate tax rates of 15% and 25%. This tax burden is especially challenging for MSMEs in the services sector, many of which operate as partnership firms due to the regulations set by their governing professional bodies, such as those for Chartered Accountants and Lawyers. Given these circumstances, reducing the top tax slab to 25% would not only improve tax compliance and buoyancy but also provide significant relief to the middle class.

The other measures could involve revising the classification norms for Non-Performing Assets (NPAs) for MSMEs, extending the overdue classification period from 90 days to 180 days. This would give small businesses a longer window to recover before facing penalties. Additionally, MSME Facilitation Councils should be expanded to include medium-sized enterprises, which will help address delayed payments from larger buyers.

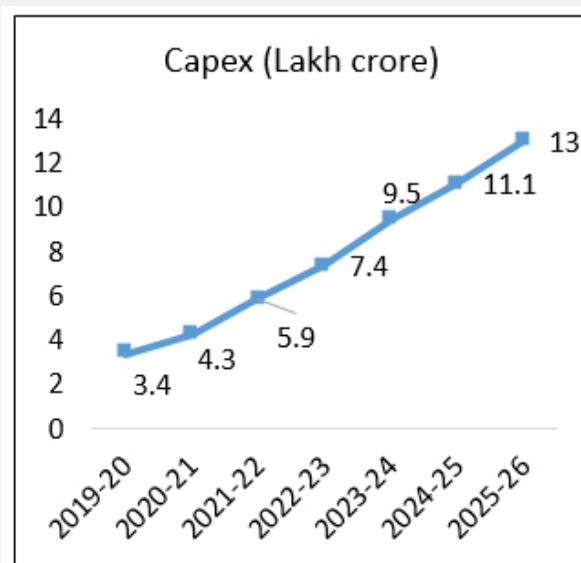
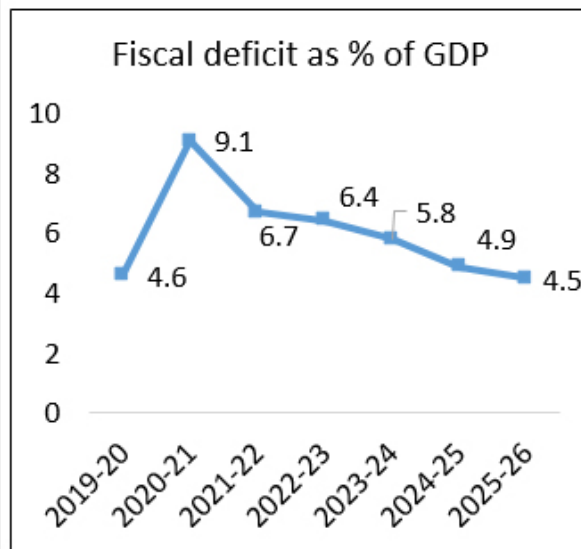
### **Strengthen manufacturing competitiveness**

India's manufacturing sector also requires attention. With manufacturing contributing to 16% of GDP, the government must set a target to increase this share to 25% by 2030. This could be achieved by expanding the Production Linked Incentive (PLI) scheme to include new sectors such as medicinal plants, handicrafts, leather, footwear, and the space industry. Furthermore, the implementation of the new labor codes across states will enhance labor market flexibility, reduce regulatory burdens, and improve the overall competitiveness of India's manufacturing sector.

### **Budget Size and Fiscal Discipline**

For FY 2025-26, the size of the Union Budget is expected to more than Rs. 51 lakh crore, an increase from Rs. 48.2 lakh crore in 2024-25. Despite global economic challenges, India has displayed remarkable fiscal discipline over the last few years, with the budget growing significantly from Rs. 26.8 lakh crore in 2019-20. The government's commitment to fiscal consolidation is evident, with an expected fiscal deficit of 4.5% for 2025-26, following a decline from 9.1% in 2020-21 due to the pandemic.

## Fiscal consolidation trajectory



This disciplined fiscal approach is essential for maintaining macroeconomic stability while facilitating public investments in infrastructure, social welfare, and other critical areas. The government's focus on reducing the fiscal deficit while expanding capital expenditure demonstrates its commitment to long-term economic growth.

### Boosting Infrastructure Development

Infrastructure development is key to supporting economic growth, and the government has made considerable progress in this area. The budget for capital expenditure has seen a remarkable rise from Rs. 3.4 lakh crore in 2019-20 to Rs. 11.1 lakh crore in 2024-25, with expectations of it reaching Rs. 13 lakh crore for FY 2025-26. Infrastructure investments, especially in tier-2 and tier-3 cities, will help create jobs and enhance regional economic development. Developing smart villages with modern public utilities will help promote inclusive growth.

Digital infrastructure must also be prioritized to drive India's digital economy. Expanding internet connectivity, enhancing digital literacy, and investing in cybersecurity will support the growth of the services sector, particularly in fintech, e-commerce, and digital payments.

### Agriculture and Rural Development

India's agriculture sector, which employs a large proportion of the population, must continue to receive strong government support. Increased public investments in agricultural infrastructure, such as cold chain facilities, will strengthen supply chains and reduce wastage. Improving storage and transportation facilities will enhance the

income of farmers and improve access to markets. Additionally, accelerated reforms in food processing and agribusiness will create higher employment opportunities.

### Empowering Women and Ensuring Inclusive Growth

Women represent a huge untapped resource for India's economic growth. Female labor force participation (FLFP) currently stands at 32%, and there is enormous potential for growth in this area. The government must introduce targeted policies to increase women's participation in the workforce, focusing on creating a supportive work environment and access to finance.

### A Vision for a Developed India

The Union Budget for 2025-26 will be pivotal in shaping India's economic future, focusing on inclusive growth, consumption demand, job creation, infrastructure development, and fiscal discipline. By empowering the youth, strengthening small businesses, fostering innovation, and investing in sectors like agriculture, manufacturing, and infrastructure, the government is expected to further unlock India's full potential and ensure sustainable, equitable growth. With a strong commitment to fiscal consolidation and strategic investments, India is on track to become the world's third-largest economy by 2027. Through continued reforms and a focus on inclusivity, the budget has the potential to propel India towards global leadership, prepared to meet future challenges.

*(Dr. S.P. Sharma is Chief Economist & Director of Research • PHDCCI (PHD Chamber of Commerce and industry, India)*

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