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An Analytical Review of the 2025 Union Budget of India

Dr. Shubhangi Gore[1] and Mr. Amol Gore[2]
Assistant Professor, Dr. Ambedkar Institute of Management Studies and Research, Nagpur, India[1]
Senior Project Head, Persistent System Limited, Nagpur, India[2]
shubh1507@gmail.com and goreamol@gmail.com

Abstract: *The 2025 Union Budget of India, presented by Finance Minister Nirmala Sitharaman on February 1, 2025, marks a significant shift in the nation's fiscal policy. This paper provides a comprehensive analysis of the budget's key components, including taxation reforms, sectoral allocations, and projected economic impacts. The study employs a qualitative methodology, utilizing official budget documents and secondary data sources to assess the potential implications of the proposed measures on India's economic landscape. The findings suggest that while the budget introduces progressive tax reforms and increased allocations in critical sectors, challenges related to fiscal deficit and effective implementation persist.*

Keywords: 2025 Union Budget

I. INTRODUCTION

The Union Budget serves as a financial blueprint for India's economic strategy, outlining the government's revenue and expenditure plans for the forthcoming fiscal year. The 2025 budget is particularly noteworthy, being the first full financial year budget of Prime Minister Narendra Modi's third term. This paper aims to dissect the budget's provisions, evaluating their alignment with the government's economic objectives and their potential impact on various stakeholders.

Research Methodology

This study adopts a qualitative research approach, analyzing data from official government publications, reputable news outlets, and economic analyses. Primary sources include the Annual Financial Statement and the Finance Bill, 2025, supplemented by secondary sources such as reports from The Hindu and The Economic Times. The analysis focuses on key areas such as taxation, sectoral allocations, and fiscal projections to provide a holistic understanding of the budget's implications.

Literature Review on the 2025 Union Budget:

The Union Budget is a crucial instrument of economic policy that shapes the fiscal landscape of a country. Several scholars and institutions have analyzed past budgets to assess their impact on economic growth, fiscal stability, and social development. This section reviews key literature relevant to the 2025 Union Budget, focusing on taxation, sectoral allocations, and fiscal management.

Taxation and Economic Growth: Tax reforms have long been a subject of extensive research. According to Musgrave & Musgrave (1989), a well-structured tax system promotes economic efficiency and equity. Studies by Rao (2018) highlight that income tax relief boosts disposable income, which in turn stimulates consumption and demand. The 2025 Union Budget aligns with these findings by increasing income tax exemptions and modifying tax slabs to benefit middle-income groups.

Research by Chattopadhyay & Das-Gupta (2019) emphasizes that simplification of tax structures enhances compliance and revenue collection. The shift in tax brackets in Budget 2025 is expected to encourage voluntary tax compliance, aligning with these theoretical frameworks. However, some scholars argue that excessive tax relief without corresponding revenue growth can widen fiscal deficits (Burgess & Stern, 1993).

Sectoral Allocations and Economic Development The role of public expenditure in fostering economic growth has been studied extensively. Keynesian economics suggests that increased government spending can stimulate economic activity, particularly in infrastructure and agriculture (Keynes, 1936). The 2025 budget's heavy investment in R&D and agriculture aligns with this approach. Research by Chand & Srivastava (2020) highlights that government support in agriculture, particularly through credit schemes and subsidies, enhances productivity and food security. The **Prime Minister Dhan-Dhaanya Krishi Yojana** aligns with these recommendations by prioritizing self-sufficiency in pulse production.In the field of technological investment, studies by Lundvall (2007) emphasize the role of innovation in driving long-term economic competitiveness. The ₹20,000 crore allocation for R&D in the 2025 budget follows this line of reasoning, potentially boosting private-sector-led innovation.

Fiscal Deficit and Debt Management Government borrowing and fiscal deficits have been central to macroeconomic debates. Barro's (1974) **Ricardian Equivalence Hypothesis** argues that deficit financing leads to future tax burdens, impacting long-term economic stability. In contrast, Keynesian economists advocate for deficit spending during economic slowdowns to drive growth.India's fiscal deficit, projected at 4.4% of GDP in 2025, falls within acceptable global standards but remains a point of concern. Research by Rangarajan & Srivastava (2017) suggests that high government debt (India's debt stands at 56.1% of GDP) can crowd out private investment, potentially slowing economic growth. Effective deficit management strategies, including improved tax compliance and divestment, will be critical to sustaining fiscal stability.

Conclusion

Existing literature provides mixed perspectives on the 2025 Union Budget's strategies. While tax relief and sectoral investments align with economic theories promoting growth, concerns regarding fiscal deficit and implementation persist. Future research should focus on the long-term impact of these budgetary measures, particularly on revenue generation and public debt management.

II. DISCUSSION

Taxation Reforms

The 2025 Union Budget introduces significant changes to personal income tax, aiming to provide relief to the middle class and boost consumption. The new tax regime exempts incomes up to ₹12 lakh, with a standard deduction of ₹75,000, effectively making earnings up to ₹12.75 lakh tax-free. The revised tax slabs lower rates for middle-income groups, while maintaining a peak rate of 30% for incomes above ₹24 lakh. These measures are expected to enhance disposable income and stimulate demand in key sectors like real estate and consumer goods.On the corporate tax front, no major changes have been introduced, ensuring policy stability for businesses. However, the government has reinforced its commitment to tax compliance by tightening tax deduction provisions and rationalizing exemptions.

Sectoral Allocations

The budget prioritizes key growth areas, including agriculture, technology, and infrastructure. Under the Prime Minister Dhan-Dhaanya Krishi Yojana, the government has announced increased credit facilities to ensure self-sufficiency in pulses production. This initiative aims to reduce dependency on imports and enhance food security.

In the science and technology sector, a major allocation of ₹20,000 crore has been earmarked for private-sector-led research and development. Additionally, the government has proposed the establishment of a second Gene Bank to enhance food and nutritional security. These measures highlight the budget's emphasis on innovation-driven growth.Infrastructure development remains a key focus, with enhanced outlays for roads, railways, and smart city projects. The government aims to boost domestic manufacturing through its "Make in India" initiative, promoting investment in semiconductor and renewable energy sectors.

Fiscal Outlook and Economic Impact

The total expenditure for the financial year is ₹50.65 lakh crore, with the Ministry of Finance and the Ministry of Defence receiving the largest allocations. The fiscal deficit is projected at 4.4% of GDP, reflecting the government's cautious approach to fiscal consolidation. While this marks an improvement from previous years, concerns persist over

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rising public debt, estimated at 56.1% of GDP.To finance its spending, the government plans to increase non-tax revenues through disinvestment and improved tax compliance.

However, global economic uncertainties and inflationary pressures could impact revenue projections. Effective fiscal management will be crucial to ensuring macroeconomic stability and sustained growth.The budget also introduces measures to promote financial inclusion, digital payments, and ease of doing business.

The expansion of digital infrastructure and continued emphasis on startups signal the government's push toward a modern, technology-driven economy.

Conclusion: The 2025 Union Budget of India introduces progressive measures aimed at tax simplification and sectoral development. However, the projected fiscal deficit and the effectiveness of implementation strategies pose challenges. Continuous monitoring and adaptive policy measures will be essential to ensure that the budget's objectives translate into tangible economic benefits.

III. CONCLUSION

The 2025 Union Budget presents a balanced approach, combining tax relief, growth-oriented spending, and fiscal prudence. However, challenges remain in containing the fiscal deficit, improving tax compliance, and ensuring effective implementation of policy measures. The success of this budget will depend on sustained economic growth, investment inflows, and efficient policy execution.

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