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YOJANA MAGAZINE ANALYSIS

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(Part 1/4)

TOPICS TO BE COVERED

PART 1/4

- FISCAL FEDERALISM IN INDIA
- ROADMAP FOR VIKSIT BHARAT @ 2047

PART 2/4

- INVESTMENT AS AN ENGINE OF GROWTH
- AGRICULTURE: ENGINE FOR INDIA'S DEVELOPMENT

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- GENDER BUDGETING: A ROADMAP TOWARDS INCLUSIVITY GREEN BUDGETING IN INDIA: A STEP TOWARDS
- SUSTAINABLE DEVELOPMENT

PART 4/4

- BUDGET 2025-26: TOWARDS TAX REFORMS
- BUDGET 2025-26: CHARTING INDIA'S NEXT INFRASTRUCTURE FRONTIER

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FISCAL FEDERALISM IN INDIA

Introduction:

- Fiscal federalism refers to the **financial relationship between different levels of government in a federal system,** ensuring that resources are distributed equitably and efficiently.
- In India, it plays a vital role in economic governance by allocating financial resources and responsibilities between the Union and State governments.
- The **Union Budget 2025-26** highlights the importance of fiscal federalism in realizing the vision of **"Viksit Bharat"** (Developed India) and outlines a roadmap for economic growth through enhanced devolution of financial resources, capital investment, grants-in-aid, and borrowing provisions for states.

FISCAL FEDERALISM IN INDIA

- **7th Schedule**:
  - **Union List**: Subjects on which only the Centre can legislate and levy taxes (e.g., defense, foreign affairs, income tax).

- **State List**: Subjects on which States have exclusive powers (e.g., police, public health, agriculture).
- **Concurrent List**: Subjects on which both the Centre and States can legislate, but in case of conflict, central laws prevail (e.g., education, environmental protection).

- **Finance Commission (Article 280)**:
  - The Finance Commission determines how taxes collected by the Union are shared with the States.
  - The 14th Finance Commission increased the share of States from 32% to 42%, which was later reduced to 41% by the 15th Finance Commission due to the Jammu & Kashmir reorganization.
- **Revenue Distribution Mechanisms**:
  - **Tax Devolution**: Direct transfer of tax revenue to states.
  - **Grants-in-Aid**: For specific purposes like disaster relief and social sector schemes.
  - **Loans and Borrowings**: To help States finance development projects.

STRENGTHENING FISCAL FEDERALISM

Over the past decade, financial transfers from the Centre to the States have risen substantially, ensuring that States have adequate resources to drive development.

Key Trends in Fiscal Federalism (2013-2025):

Year	Gross Transfers from Centre to States (Rs. Lakh Crore)
2013-14	5.35
2024-25	21.12
2025-26	25.59

This fourfold increase highlights the Union Government's commitment to cooperative federalism and balanced regional development.

UNION BUDGET 2025-26: FOUR PILLARS OF FISCAL FEDERALISM

The Union Budget 2025-26 introduces a four-pillar model to strengthen fiscal federalism and empower States:

- **Higher Devolution of Central Taxes and Duties**:
    - Tax devolution follows the recommendations of the Finance Commission (Article 280).

  - The 14th Finance Commission raised States' share from 31% to 42%, and the 15th Finance Commission maintained 41%.
  - Budget 2025-26 increases total transfers of taxes and duties to Rs. 14.22 lakh crore (a 14.01% increase from Rs. 12.47 lakh crore in 2024-25).
- **Special Assistance to States for Capital Investment**:
  - **Capital expenditure** fosters economic productivity and long-term growth.
  - The Budget allocates Rs. 1.5 lakh crore for the Special Assistance Scheme, offering:
    - 50-year interest-free loans to States.
    - Untied funds for flexibility in capital investment.
    - Incentives for urban planning, land record modernization, farmers' registry, and vehicle scrappage programs.
- **Strengthening State Finances through Enhanced Borrowing**:
  - States are granted an additional borrowing limit of 0.5% of Gross State Domestic Product (GSDP).
  - This unlocks Rs. 2 lakh crore for State governments, linked to power sector reforms and ensuring DISCOMs' financial sustainability.

- **Increased Grant-in-Aid for Centrally Sponsored Schemes (CSS)**:
    - The Centre allocates Rs. 5.41 lakh crore for joint implementation of schemes by States.
    - Key initiatives under CSS include:
        - **Agriculture Sector**: PM Dhan-Dhaanya Krishi Yojana, Atma Nirbharta in Pulses, Comprehensive Vegetables & Fruits Program, and Mission for Cotton Productivity.
        - **Rural Development**: Rural Prosperity & Resilience Program, Jal Jeevan Mission Extension.
        - **Urban Development**: PM SVANidhi, Urban Challenge Fund (Rs. 1 lakh crore), Social Security for Gig Workers.
        - **Education Sector**: Atal Tinkering Labs, BharatNet broadband connectivity, Centre of Excellence in AI for Education.

BOOSTING GROWTH THROUGH CENTRAL SECTOR SCHEMES

The Union Budget 2025-26 emphasizes strategic investments in key sectors, with allocations increasing from Rs. 63,614 crore (2024-25) to Rs. 76,758 crore (2025-26).

Key Initiatives:

- **Technology & Innovation**: Rs. 20,000 crore fund for private-sector R&D.
- **Deep Tech Fund of Funds**: To support next-generation startups.
- **Regional Connectivity Scheme (RCS) – Udaan 2.0**: Adding 120 new airports, benefiting 4 crore passengers over 10 years.
- **Maritime Development Fund**: Boosting shipbuilding and port infrastructure.

CONCLUSION

The Union Budget 2025-26 strengthens fiscal federalism, ensuring that both the Centre and States work together to achieve balanced growth. By significantly increasing tax devolution, capital assistance, grants-in-aid, and borrowing capacity, the budget fosters cooperative and competitive federalism. This robust fiscal framework supports the vision of "Viksit Bharat," promoting an inclusive, self-reliant economy, where regional development is equally prioritized.

ROADMAP FOR VIKSIT BHARAT @ 2047

Introduction:

- The **Viksit Bharat@2047** vision outlines India's journey toward becoming a developed nation by the centenary of its independence. Driven by **economic resilience**, **innovation**, **sustainability**, and **inclusivity**.
- This vision builds on the **1991 economic reforms**, which set the stage for India's rapid growth by dismantling protectionist policies and integrating the nation into global markets.
- However, India now faces a **shifting global economic landscape** due to **protectionism, geopolitical tensions, and supply chain realignments.**
- To sustain high growth, generate employment, and build a strong industrial and technological ecosystem, India must recalibrate its economic strategies while addressing challenges like climate change and energy transition.

KEY PILLARS FOR VIKSIT BHARAT @ 2047

Achieving the **Viksit Bharat** vision requires a self-reliant growth model focusing on four core priorities:

1. **Broad-based deregulation**

2. **Building a robust manufacturing base**
3. **Sustainable and pragmatic energy transition**
4. **A tripartite compact between the government, private sector, and academia**

These priorities will help India capitalize on its strengths and navigate challenges in a shifting global order.

PILLAR 1: DEREGULATION FOR GROWTH

- **Importance of Deregulation**:
  - **1991 Reforms Impact**: The removal of the License Raj and trade liberalization set the foundation for rapid economic growth.
  - **Recent Deregulation Efforts**: Since 2014, the government has simplified regulations to enhance ease of doing business:
    - Rationalized over 20,000 compliances and simplified more than 300 laws.
    - Introduced **GST** and the **Insolvency and Bankruptcy Code (IBC)** to streamline tax structure and corporate restructuring.
    - Implemented **Real Estate Regulation Act (RERA)** to clean up real estate markets.

        - Created **India Stack (UID, UPI, DBT)** to improve digital governance and reduce inefficiencies.

- **The Need for Continuous Deregulation**:
    - **Economic Survey 2024-25 Insights**:
        - Rigid building codes lead to loss of industrial plot space.
        - Labor laws prevent flexible working hours, affecting business operations.
        - Bottlenecks in the education sector hinder dynamic curriculum updates.
- **Way Forward**:
    - **State-Level Deregulation**: States with better ease of doing business scores experience higher industrial activity.
    - **Reforming Investment Policies**:
        - Simplify the **Income Tax Act** and improve investor-friendly bilateral treaties.
        - Establish a **High-Level Committee for Regulatory Reforms** to assess non-financial regulations.
    - **Global Competitiveness**: Regulatory flexibility will attract foreign investment, strengthen domestic industries, and ensure job creation.

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PILLAR 2: MANUFACTURING AS A FORCE MULTIPLIER

- **Historical Significance of Manufacturing**:
  - **Global Lessons**:
    - The **Industrial Revolution (UK, 19th century)** created large-scale employment.
    - The **East Asian Miracle (1970s-2000s)** saw countries like **China** and **South Korea** use manufacturing to lift millions out of poverty.
  - **China's Manufacturing Dominance**:
    - 2000: 6% share in global manufacturing.
    - 2024: 45% share, surpassing the US and its allies.
- **India's Manufacturing Strategy**:
  - **Employment Creation**: India needs to generate 8 million non-farm jobs annually until 2036.
  - **Key Manufacturing Drivers**:
    - **Production-Linked Incentive (PLI) Schemes**:
      - **White Goods**: Developed a self-sufficient air conditioner value chain.

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- **Telecom Sector**: Achieved 60% import substitution.
- **Green Energy Manufacturing**: Focus on solar, battery storage, and electric vehicles (EVs).

  - **MSME Strengthening**:
    - **Trade Receivables Discounting System (TReDS)** facilitated ₹1.38 lakh crore in financing.
    - **Mutual Credit Guarantee Scheme**: 60% credit guarantee for MSMEs purchasing machinery.

- **Balancing Labor & Technology-Intensive Growth**:
  - **Labor-Intensive Growth**: Essential for mass employment.
  - **Technology-Intensive Growth**: Necessary for long-term productivity.
  - **Outcome**: A balanced approach maximizes India's demographic dividend and ensures global competitiveness.

PILLAR 3: ENERGY TRANSITION FOR ECONOMIC STABILITY

- **Global Energy Transition Challenges**:
  - **Western Nations' Missteps**:
    - Over-reliance on renewable energy subsidies led to rising energy costs and deindustrialization.

  - Europe's energy crisis highlighted the risks of premature fossil fuel phase-outs.

- **Ensuring a Pragmatic Transition**:
  - **Avoiding Hasty Fossil Fuel Phase-Out**: Gradual shift to renewables without disrupting energy security.
  - **Investment in Green Infrastructure**: Scaling up energy-efficient public transport and circular economy models.
- **India's Unique Energy Needs**:
  - **Energy Security & Growth**: India's industrialization needs cost-effective and abundant energy.
  - **Current Energy Transition Goals**:
    - **Net-zero by 2070** with phased decarbonization.
    - **Nuclear Energy Expansion**: Targeting 100 GW capacity by 2047.
    - **Renewables Expansion**: Focus on solar, wind, and green hydrogen.
  - **Government Initiatives**:
    - **Private sector participation** in nuclear energy.
    - Amendments to nuclear laws for **foreign technology partnerships**.

        - **LiFE (Lifestyle for Environment)** movement promoting sustainable consumption.

PILLAR 4: A TRIPARTITE COMPACT FOR INNOVATION & GROWTH

Pillar 4: A Tripartite Compact for Innovation & Growth

- **Importance of Government-Industry-Academia Collaboration**:
    - A sustainable growth model requires a strong partnership between the **government**, **private sector**, and **academia** to drive:
        - **Policy Innovation**: Regulatory agility and business-friendly policies.
        - **Skill Development**: Industry-oriented educational reforms.
        - **R&D Investments**: Technology and AI-driven industrial expansion.
- **Global Models & India's Pathway**:
    - **South Korea's Innovation Ecosystem**: Strong government-industry ties in tech development.
    - **Germany's Vocational Training Model**: Focus on industry-driven education.
    - **India's Approach**:
        - **Startup India** & **Atal Innovation Mission** fostering entrepreneurship.

- Strengthening the **National Research Foundation (NRF)** to boost R&D.
- Promoting **collaborative university-industry research projects**.

CONCLUSION

India's roadmap to **Viksit Bharat@2047** is grounded in **economic resilience**, **manufacturing strength**, **strategic energy transition**, and **innovation-led growth**. To achieve this, India must reinvent its economic strategies, strengthen domestic industries, and adapt to global transformations. The four-pronged approach—**deregulation**, **manufacturing expansion**, **pragmatic energy policies**, and **tripartite collaboration**—will ensure India's transition into a developed, self-reliant, and globally competitive economy.