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## Instant Insight: India's Union Budget 2025-26

On February 1, 2025, India's Minister of Finance Nirmala Sitharaman delivered the Union Budget Presentation. This year's Budget comes as the Narendra Modi government contends with narrower economic growth projections driven by fluctuating global economic conditions, with Minister Sitharaman estimating India's GDP growth at 6.3-6.8 percent for FY 2025-2026. Accordingly, the Budget showcases the Indian government's efforts to drive consumption-led and inclusive growth, with a particular focus on four key engines: agriculture, Micro, Small, and Medium Enterprises (MSME), investment, and exports.



### Top-Line Takeaways

**Budget's Announcements Showcases a Confident Government:** The Budget's ambitious reforms underscore the Bharatiya Janata Party (BJP)-led National Democratic Alliance (NDA) government's steady commitment to economic growth. This is evidenced by the strong focus on infrastructure spending, manufacturing, and investor-friendly reforms. The recent state election victories in Maharashtra and



Jharkhand also indicate public confidence in the government's economic and political agenda, signaling continued support for its policies.

**Focus on Domestic Politics and Responsiveness to Coalition Dynamics:** The Budget's inclusion of a range of state-level initiatives, especially for the state of Bihar, demonstrates the NDA government's coalition dynamics and its desire to sustain popularity in high-priority states. Minister Sitharaman announced an array of projects for Bihar, including capacity enhancement at IIT-Patna, the establishment of greenfield and brownfield airports, and the creation of a food technology institute. This assumes significance as Bihar is set to hold elections in November 2025 and as the state's Chief Minister Nitish Kumar's Janata Dal party continues to play a crucial role as a BJP ally.

**Signals to the Trump Administration:** Several announcements in this year's Budget indicate the Indian government's strategic response to the Trump administration's priorities on trade and New Delhi's intent to manage potential U.S. tariff pressures. The government's decision to reduce or eliminate customs duties on motorcycles and marine products, for example, is aligned with U.S. trade interests. Furthermore, the government's intent to reform India's nuclear liability laws demonstrates a push to operationalize the U.S.-India Civil Nuclear Agreement 2005, which shortly follows the United States' announcement to remove export controls on Indian nuclear entities. This effort also aligns with the Indian government's intent to enable private sector participation in the nuclear power sector, with an aim to establish five small modular reactors (SMR) by 2033 and produce at least 100 gigawatts of nuclear power by 2047.

## Key Highlights for Businesses

### MANUFACTURING, EXPORTS, AND GLOBAL TRADE

- **Measures to Boost Made in India Toy Manufacturing:** The Budget featured a notable focus on creating a local manufacturing ecosystem for Made in India toys and positioning India as a global hub for toy production. Minister Sitharaman announced a new scheme to develop manufacturing clusters, enhance skill development, and create a sustainable ecosystem for toys. This comes even as the Indian government's efforts to finalize the Production-Linked Incentive (PLI) scheme for toys remain stalled. While the exact contours of the Budget's proposal to create toy manufacturing hubs remain to be seen, it could nonetheless create opportunities for companies engaged in the manufacturing and sourcing of Made in India toys.



- **Several Relaxations to Customs Duties May Boost Manufacturing and Exports:** The Budget introduced a host of relaxations to basic customs duties (BCD) across several sectors, seeking to boost manufacturing and exports. Notably for companies, key sectors in focus for BCD reductions and exemptions – such as motorcycles and marine products – are aligned with U.S. trade interests. This is significant as India prepares to navigate potential tariff pressures from the Trump administration.
- **Cancer and Other Lifesaving Drugs:** The Budget exempts 36 cancer drugs and other life-saving medicines from BCDs, aiming to reduce the cost of critical healthcare products. Additionally, 6 medicines are now subject to a concessional BCD of 5 percent. The full exemption and concessional duty will also apply to bulk drugs used in the manufacture of these medicines. This measure is in line with feedback following recent elections, which highlighted concerns around the growing cost of healthcare for India's middle class.
- **Critical Minerals:** The Budget extends BCD exemptions to 12 critical minerals – including lithium-ion battery scraps and cobalt powder – to enable stable domestic supplies and support manufacturing. This builds on the National Critical Minerals Mission announced by the Indian government on January 29 to promote the domestic and offshore exploration of critical minerals. The latest round of exemptions could support manufacturing in the electric vehicles, clean energy, and electronics sectors, as well as enable greater bilateral collaboration in the critical minerals sector with key partners such as Australia.
- **Motorcycles, ICT, and Battery Components:** The Budget introduced BCD exemptions to 35 capital goods used in EV battery manufacturing and 28 capital goods related to mobile phone battery manufacturing. Additionally, BCD reductions on motorcycles have also been announced in a move that aligns with U.S. trade interests. For firms, these reductions could present opportunities to lower input costs, improve supply chain resilience, and enhance the viability of expanding manufacturing operations in India.
- **Handicrafts, Textiles, and Marine Products:** The Budget included BCD exemptions and reductions for certain leather and marine products – potentially benefitting companies seeking to expand export and sourcing operations in these sectors. Furthermore, Minister Sitharaman extended the export time limit for handicrafts from six months to one year, while eliminating duties for nine other handicraft items. Of note, the United States is a key export market for Indian seafood and marine products.



- **Reforms to the Bilateral Investment Treaty:** The Budget proposed to revamp the model for the Bilateral Investment Treaty (BIT) – a key measure that could help attract investment and address roadblocks in India’s trade negotiations. The revised BIT framework aims to provide greater legal certainty, enhance protections for foreign investors, and promote long-term investment commitments in key sectors. An improved BIT is a key watchpoint for companies as it could help accelerate India’s ongoing and future Free Trade Agreement (FTA) negotiations, including with Oman, and ensure stronger implementation of existing deals, such as with the European Free Trade Association.

## STARTUP AND SMALL BUSINESS GROWTH

- **Fund for Startups May Ease Access to Capital:** Minister Sitharaman announced a new “Fund of Funds” of USD 1.2 billion (INR 10,000 crore) for startups, which could provide much needed respite for Indian startups that have witnessed a dip in funding. This new fund seeks to support deep technology and innovation-driven enterprises, as well as venture capital and alternative investment funds. This initiative also grants startups improved access to credit with loan options between USD 1.2-1.4 million (INR 10-20 crores) at a reduced guaranteed fee of one percent, allowing ease of working capital financing for startups.
- **Scheme for Women Entrepreneurs:** The Budget places special focus on enhancing funding for women-led startups through a new scheme designed to provide loans of up to USD 250,000 (INR 2 crore) to 500,000 first-time women entrepreneurs from Scheduled Caste and Scheduled Tribe backgrounds. This indicates the government’s strong focus on enabling underrepresented groups to access formal credit, which aligns with its overall goal of boosting women’s overall labor force participation to 70 percent. This initiative, and the government’s broader focus on inclusive growth, could provide opportunities for companies seeking to implement targeted programs for women entrepreneurs in India.
- **Boosting Credit Access for Small Businesses:** The Budget expanded the credit guarantee cover for from USD 602,000 (INR 5 crore) to USD 1.2 million (INR 10 crore) for micro and small enterprises, and from USD 1.2 million (INR 10 crore) to USD 2.4 million (INR 20 crore) for startups. This measure is expected to unlock an additional USD 18 billion (INR 1.5 lakh crore) in credit over the next five years, making it easier for MSMEs to secure loans without collateral. Furthermore, the budget featured a strong focus on boosting women’s participation in the workforce through specialized skilling programs and enhanced market access for women-led enterprises. As part of this effort, the government will provide skilling loans of up to USD 8,960 (INR 7.5 lakh) for



eligible employees. While the specific contours of these schemes have yet to be clarified, they represent the government's sharp focus on job creation.

## TECHNOLOGY

- **Crypto-Assets and VDAs:** In line with earlier expectations, the Budget lacked any substantial changes in the tax structure for Virtual Digital Assets (VDA). That said, the Finance Bill, 2025 introduced amendments that provide greater regulatory clarity to the crypto industry, while pushing for stronger compliance and enforcement. Most notably, the Finance Bill expands the definition of VDAs to explicitly include crypto-assets or any digital asset that utilizes cryptographically secured distributed ledger technology, enhancing regulatory oversight. Additionally, in a move to strengthen tax compliance requirements for VDAs, the Finance Bill now includes VDAs as assets that can be considered as "undisclosed income" during a search and seizure, aligning them with physical assets such as gold and cash.
- **AI Remains a Strong Focus:** The Budget introduced several initiatives aimed at ensuring India's global competitiveness in the artificial intelligence (AI) sector. Most notably, Minister Sitharaman approved funding of USD 231 million (INR 2,000 crore) for the IndiaAI Mission for the FY2025-2026 period, accounting for almost one-fifth of the total USD 1.2 billion (INR 10,370 crore) budget allocated for the scheme. This will be utilized to establish 20 AI curation units within ministries, set up 80 IndiaAI labs countrywide, support 25 deep-tech startups, and fund 3 industry-driven projects. The budgetary allocation also shortly follows recent initiatives to boost India's AI capabilities. This includes the government's selection of 10 companies to supply 19,000 graphics processing units (GPU) for AI data centers, efforts to develop foundational AI models akin to China's DeepSeek's R1 and OpenAI's ChatGPT, and the establishment of an AI Centre of Excellence.
- **Allocations for India's Data Protection Board:** As the government seeks to operationalize the Digital Personal Data Protection Act, 2023 (DPDP Act), the government has allocated USD 578,000 (INR 5 crores) for the Data Protection Board (DPB) for FY2025-2026. This is largely a procedural measure and aligns with the draft DPDP Rules released for consultations on January 3, which prioritizes implementation of the DPB. The total allocation will be used towards creating a digital portal, revenue expenditure, and salaries for the members of the DPB.



## FINANCIAL SECTOR REFORMS

- **Budget Raises the FDI Limit in Insurance to 100 Percent:** In a major reform, the government has increased the Foreign Direct Investment (FDI) limit in the insurance sector from 74 percent to 100 percent, paving the way for substantial foreign investments. This is a long-standing demand from foreign players operating in India's insurance sector and demonstrates the government's recognition of the need for the greater penetration of insurance services in India. The revised FDI guidelines is a step towards enabling foreign insurers to exercise greater autonomy to operate in India.
- **Simplification of KYC Norms to Promote Ease of Doing Business:** The government will implement a revamped Central Know Your Customer (KYC) Registry in 2025 to streamline KYC processes. This measure is expected to reduce compliance burdens and promote the ease of doing business – including for fintech, payments, banking, and other companies. The new system will allow for digital KYC verification, minimizing paperwork and enhancing the efficiency of onboarding customers in the financial system.
- **Committee for Regulatory Reforms to Promote Trust-Based Governance:** The Budget proposes to create a High-Level Committee for Regulatory Reforms that will review all non-financial sector regulations, certifications, licenses, and permissions. This is a welcome measure that would help strengthen trust-based governance. The committee will notably work with state governments to identify measures to improve ease of doing business – which is significant as several regulatory bottlenecks are concentrated at the state and local levels. Along similar lines, a new mechanism under the Financial Stability and Development Council will be established to evaluate the impact of financial regulations and improve their responsiveness to market developments. This initiative aims to strengthen regulatory coordination across financial sector regulators, including the Reserve Bank of India, the Securities and Exchange Board of India, the Insurance Regulatory and Development Authority of India, and the Pension Fund Regulatory and Development Authority, while enhancing dialogue and collaboration between the government, regulators, and industry.

## NUCLEAR ENERGY

- **Reforms to Nuclear Liability Laws:** In her speech, Minister Sitharaman announced the government's intent to amend the existing Atomic Energy Act, 1962 and the Civil Liability for Nuclear Damage Act, 2010 to remove long-standing barriers to foreign and private investment in the sector and ease liability concerns. This comes ahead of Prime Minister Modi's visit to the United States, signaling a renewed push to implement the U.S.-India Civil Nuclear



Agreement 2005 that aimed to allow U.S. companies to sell nuclear fuel, technology, and reactors to India. With India's nuclear liability laws being a longstanding complication in operationalizing this deal, India's reform could help promote high-tech energy collaboration and enhance U.S. strategic investments in India's energy sector.

## TAXATION

- **Simplified Personal Income Tax Regime Aims to Encourage Consumption:** The Budget introduced a simplified personal income tax regime, featuring revised tax slabs with lower rates to boost consumption. Most notably, Minister Sitharaman announced income tax relief by raising the tax rebate level to an annual income of approximately USD 14,400 (INR 12,00,000) from USD 8,400 (INR 7,00,000). The government is set to introduce a new Income Tax Bill in Parliament next week, replacing the 1961 Act, aiming to simplify tax administration, reduce litigation, and reflect a "trust first, scrutinize later" approach.
- **Tax Certainty for AIFs:** Addressing a long-standing concern for venture capitalists and private equity firms, the Budget introduced tax relief for Alternative Investment Funds (AIF) in categories I and II (infrastructure and high-growth sectors), reclassifying securities as capital assets and bringing AIFs at par with Foreign Portfolio Investors. This aims to reduce the compliance burden, enhancing the competitiveness of India's private capital industry and attracting foreign capital.

*TAG will continue to closely monitor emerging development regarding the Budget and provide additional updates.*