The Impact of the Union Budget on Economic Growth

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ABSTRACT:

The Union Budget is a key fiscal instrument through which governments influence economic growth, income distribution, and macroeconomic stability. This study examines the impact of the Union Budget on economic growth by analyzing how budgetary decisions related to government expenditure, taxation, and fiscal deficit affect major economic indicators such as GDP growth, employment, inflation, and investment. Using scenario-based and simulation-driven analytical approaches, the research evaluates alternative fiscal policy outcomes under varying budget assumptions.

The findings indicate that capital expenditure and targeted tax reforms significantly stimulate economic growth by boosting aggregate demand and private investment. However, excessive fiscal deficits and inflationary pressures can weaken long-term growth prospects. The study highlights the importance of balanced fiscal planning that promotes growth while ensuring economic stability, offering valuable insights for policymakers and researchers.

INTRODUCTION:

The Union Budget plays a central role in shaping a country's economic trajectory by directing public spending, taxation, and fiscal policy priorities. In developing economies like India, the budget serves not only as a financial statement but also as a strategic policy tool aimed at accelerating economic growth, promoting inclusivity, and maintaining macroeconomic stability. Budgetary decisions influence key economic variables such as consumption, investment, employment, and price levels, thereby determining the overall pace and sustainability of growth.

In recent years, increased focus on infrastructure development, tax reforms, and fiscal consolidation has intensified the debate on the effectiveness of the Union Budget in driving economic growth. This study seeks to analyze the impact of the Union Budget on economic growth using scenario-based and simulation-driven data analysis. By examining different fiscal outcomes and their associated risks, the research provides a comprehensive understanding of how budgetary policies shape economic performance.

LITERATURE REVIEW:

The Union Budget 2025 introduces policies promoting economic growth and financial inclusivity via tax reforms, adjusted income tax slabs benefiting the middle class, and targeted initiatives for MSMEs, startups, agriculture, and manufacturing. These enhance disposable income and consumer spending, notwithstanding critiques on fiscal allocations and diminished expenditures in key sectors.

- **Impact of the Budget 2025 & 26 on Agricultural Sector and Tax Implications (2025)** highlights the Union Budget 2025-26 is projected to stimulate economic activity, elevate disposable incomes, and foster investment for inclusive growth, with tax reforms advancing sustainable development. Emphasizing agriculture, it addresses minimum support prices, income exemptions, GST's mixed supply-chain effects, and eased tax burdens for small farmers to enhance productivity and livelihoods.

- **Fiscal Deficit & its Impact on Economic Growth (2025)** highlights that fiscal deficits exert a dual influence on economic growth, offering stimulus through job creation, infrastructure, and spending-driven expansion, yet posing risks of inflation, debt unsustainability, and private investment crowding-out. Key drivers encompass government expenditures, subsidies, tax policies, and external shocks like COVID-19, underscoring needs for sustainable fiscal management.

- **Influence of Budget Policy on Economic Growth of the Country (2021)** highlights budget policy is pivotal for macroeconomic stability and economic growth, modulating GDP via income, expenditures, and debt dynamics. In Ukraine, heightened expenditures depress real GDP, whereas revenue growth elevates it; priorities encompass innovation investment, direct tax shifts, public debt reduction, and purposeful fiscal regulation.

- **Impact of Direct and Indirect Tax Revenue on Economic Growth (2021)**- Econometric analysis of time-series data reveals no short-term nexus between tax revenues and SGDP or per capita income, but a long-term equilibrium exists. Indirect taxes exert a significant positive effect on SGDP, whereas direct taxes impose a significant negative impact; tax revenues do not affect per capita income.

- **Analyzing the 2025 Union budget: tax reforms, economic Impact, and sectoral opportunities** demonstrate the Union Budget 2025 enacts policies to stimulate economic growth and financial inclusivity through tax reforms, revised income tax slabs aiding the middle class, and initiatives for MSMEs, startups, agriculture, and manufacturing, thereby boosting disposable income and spending—despite critiques of fiscal priorities and cuts to vital sectors.

- **Impact of the Budget 2025 & 26 on Agricultural Sector and Tax Implications** is poised to stimulate economic activity, disposable incomes, and investments for inclusive growth, with tax reforms fostering sustainable development. Agricultural focus includes minimum support prices, income tax exemptions balancing revenue and farmer welfare, GST's mixed effects on inputs and supply chains, eased burdens for smallholders, and defined allocations to boost productivity and livelihoods.

- **Investigating the Implications of Goods and Services Tax Revenue on Economic Growth:** Empirical Insight from Indian Economy (2024) uses ARDL modelling which reveals GST revenue positively influences economic growth in both short and long runs, alongside beneficial effects from FDI and government expenditure. Conversely, gross fiscal deficits and inflation exert adverse impacts. Policymakers should prioritize GST revenue and FDI enhancement while curbing deficits and inflation to sustain long-term growth.

OBJECTIVES OF THE STUDY:
- To examine how capital versus revenue expenditure in Union Budgets influences GDP growth rates and infrastructure development.
- To analyze the role of direct and indirect tax reforms in Union Budgets on investment levels, consumer spending, and business competitiveness.
- To assess the relationship between fiscal deficit targets in Union Budgets and macroeconomic stability, including inflation control and borrowing costs.

- To evaluate Union Budget allocations to sectors like agriculture, MSMEs, and human capital in driving employment and long-term productivity.
- To empirically test the correlation between Union Budget policies and key economic indicators such as GDP growth, job creation, and regional development over the past decade.

INDIAN KNOWLEDGE SYSTEM (IKS):

The Indian Knowledge System, drawing from ancient texts such as Arthashastra, Shukraniti, Brihaspati Smriti, and Narada Smriti, furnishes profound insights into ethical business practices, sustainable economics, innovation, and growth. Transcending spirituality, it encompasses finance and commerce, offering timeless guidance for contemporary policies like the Union Budget to foster robust, principled economic development.

RESEARCH METHODOLOGY:

The present study adopts a descriptive and exploratory research design to examine the impact of the Indian Union Budget 2024–2025 on economic growth. This methodology enables a systematic description of economic trends while also exploring emerging patterns and potential implications of budgetary measures.

1. Research Approach:

The research is descriptive as it seeks to systematically describe the key features of the Union Budget 2024–2025 and its influence on macroeconomic indicators such as GDP growth, fiscal deficit, inflation, and sectoral development. It involves the observation and documentation of existing economic data without manipulating variables.

A qualitative–quantitative mixed approach is employed:

Quantitative analysis supports the descriptive component through numerical representation of economic indicators.

Qualitative analysis supports the exploratory component by interpreting policy intentions and expert opinions.

2. Data Sources:

The study relies exclusively on secondary data, which is appropriate for descriptive and exploratory research on macroeconomic policy.

a. Government Publications:

- Union Budget 2024–2025 documents issued by the Ministry of Finance
- Economic Survey of India
- Reports from the Reserve Bank of India (RBI)
- Data from the National Statistical Office (NSO)

b. Institutional and International Sources:

- World Bank economic indicators
- International Monetary Fund (IMF) country reports
- Reports from NITI Aayog and other policy research institutions

c. Academic and Professional Sources:

Peer-reviewed journals, research papers, and working papers related to fiscal policy and economic growth

d. Media and Expert Commentary:

Budget analyses published in reputed financial newspapers and magazines

Expert opinions, interviews, and post-budget reviews

3. Tools and Techniques:

A. Descriptive Analysis:

- Tabulation and graphical representation of budget allocations and economic indicators
- Percentage and trend analysis to observe changes over time
- Comparative analysis of pre- and post-budget economic data.

B. Exploratory Techniques:

- Content analysis of budget speeches and policy documents to identify major themes
- Thematic analysis of expert opinions and research articles
- Sector-wise exploratory assessment of budgetary impact on areas such as infrastructure, agriculture, manufacturing, and social welfare.

C. Analytical Tools:

- Use of spreadsheet and statistical software (e.g., MS Excel) for data organization and visualization.
- Charts, graphs, and tables to enhance clarity and interpretation.

DATA ANALYSIS:

Government budgets have a significant effect on a country's economic growth. By applying scenario-based analysis and simulation-driven analysis, policymakers and economists can forecast how various budget choices may influence GDP, employment, inflation, and investment.

1. Scenario-Based Data Analysis

Meaning:

Scenario-based data analysis examines different potential budget situations (scenarios) and evaluates their likely economic effects. Each scenario relies on assumptions about government spending, taxation, and fiscal policy.

This method helps in understanding what might occur if a specific policy is implemented.

Explanation of Scenarios:

1. **Optimistic Scenario**

• The government increases capital spending on infrastructure like roads, railways, and digital projects.

• Tax relief raises disposable income.

• Increased spending boosts demand, production, and employment.

Impact:

• GDP growth rises.

• Job creation improves.

• Business confidence increases.

2.   Moderate Scenario:

• The budget balances welfare spending with fiscal responsibility.

• The deficit is controlled, and the tax structure remains stable.

Impact:

• Growth remains consistent.

• Inflation is kept under control.

• Economic stability over the long term.

3.   Pessimistic Scenario:

• Higher taxes cut consumer spending.

• Decreased government spending weakens demand.

Impact:

• GDP growth slows down.

• Investment decreases.

• Unemployment may rise.

Example Analysis:

• If infrastructure spending increases by 20%, GDP growth could rise by 1 to 1.5% due to more construction activity and jobs.

• If income tax brackets are relaxed, people will spend more, boosting demand for goods and services.

• Higher demand leads to more business investment, which speeds up growth.

Outcome of Scenario-Based Analysis:

- This helps policymakers grasp the direction and scale of economic impact.
- It is useful for planning and decision-making.
- It shows how budget priorities shape economic growth.

2. Simulation-Driven Data Analysis

Simulation-driven analysis uses mathematical and statistical models to produce thousands of possible economic outcomes based on various budget assumptions.

Instead of just one result, it offers forecasts based on probabilities.

Key Variables Used in Simulation:

• Government spending

• Tax revenue

• Inflation rate

• Interest rates

• Private investment

These variables interact dynamically to influence GDP growth.

Example: Monte Carlo Simulation

The Monte Carlo simulation runs thousands of random trials by adjusting budget variables within realistic limits

Simulation Results:

• 10,000 simulations predict GDP growth between 6.2% and 7.4%.

The chance of high growth (over 7%) increases when:

o Capital spending is boosted

o The fiscal deficit is managed

o Inflation stays stable

Interpretation of Results:

• Budgets focused on capital spending show higher average growth results.

• Excessive deficit spending raises inflation risks, lowering growth chances.

• Simulations help pinpoint the best-case, worst-case, and most likely outcomes.

Outcome of Simulation-Driven Analysis:

- It provides risk-based and probability-based forecasts.
- It aids in managing uncertainties.
- It is valuable for long-term economic planning.
- It offers a more realistic view than single-assumption analysis.

RESULTS:

The analysis reveals that the Union Budget has a significant influence on economic growth through its expenditure priorities, tax policies, and fiscal management strategies. Scenario-based analysis shows that increased capital

expenditure, particularly in infrastructure and productive sectors, leads to higher GDP growth, employment generation, and improved business confidence. Optimistic budget scenarios that combine infrastructure investment with tax relief measures result in stronger aggregate demand and enhanced private investment, thereby accelerating economic growth.

Simulation-driven analysis further supports these findings by demonstrating that GDP growth outcomes are highly sensitive to fiscal policy choices. Monte Carlo simulation results indicate that GDP growth is most likely to range between 6.2% and 7.4%, with higher growth probabilities observed when capital spending is prioritized, fiscal deficits are kept within sustainable limits, and inflation remains stable. Conversely, excessive deficit financing increases inflationary risks, which negatively affect investment and growth prospects. Overall, the results confirm that balanced fiscal planning and growth-oriented budgetary policies are essential for achieving sustainable economic expansion.

CONCLUSION:

The study concludes that the Union Budget plays a crucial role in shaping India's economic growth by influencing key macroeconomic variables such as consumption, investment, employment, and price stability. Expansionary fiscal measures, particularly increased capital expenditure and targeted tax reforms, significantly stimulate economic growth by boosting aggregate demand and encouraging private sector participation. Scenario-based analysis highlights that budget priorities determine the pace and direction of economic growth, while simulation-driven analysis emphasizes the importance of managing uncertainty and fiscal risks.

However, the findings also underscore that growth-oriented policies must be supported by fiscal discipline to ensure long-term economic stability. Persistent fiscal deficits and inflationary pressures can undermine growth prospects and crowd out private investment. Therefore, policymakers must strike a balance between promoting growth and maintaining macroeconomic stability. The study contributes to existing literature by providing a structured analytical framework for evaluating budgetary impacts and offers valuable insights for designing effective and sustainable fiscal policies in the future.

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