1. Discuss various provisions in the Union Budget for promoting inclusive and sustainable growth. Analyse various shortcomings in the prioritization of allocations.

The Union Budget 2025-26, presented by Finance Minister Nirmala Sitharaman, outlines several provisions aimed at promoting inclusive and sustainable growth. These initiatives span various sectors, including taxation, agriculture, urban development, renewable energy, and social welfare.

Provisions for Promoting Inclusive and Sustainable Growth:

1. Tax Reforms:

- **Income Tax Relief:** Under the newly announced tax slabs under the new regime, no income tax will be payable on annual income of up to Rs 12,00,000. For salaried individuals opting for the new tax regime, income of up to Rs 12,75,000 will be tax-free. This measure aims to increase disposable income, stimulate consumption, and boost economic growth.

2. Agriculture and Rural Development:

- **Production Initiatives:** To enhance food security and support farmers, the government has launched missions to boost pulses and cotton output. For Example, PM-KISAN (farmer income support) and MGNREGA (rural employment).
- **Irrigation Projects:** Increased funding for irrigation aims to improve water accessibility for farming communities, promoting sustainable agricultural practices. For Example: the Polavaram Project.

3. Support for Micro, Small, and Medium Enterprises (MSMEs):

- **Credit Guarantees:** The budget introduces credit guarantee schemes to facilitate easier access to financing for MSMEs, fostering entrepreneurship and job creation. For Example Mudra Loans
- **Innovation Incentives:** Allocations are made to encourage innovation and competitiveness among small businesses, recognizing their role in economic diversification. For Example, Startup India.

4. Urban Development:

- **Increased Allocation:** Urban development receives a 17% increase in allocation compared to the previous year, focusing on improving infrastructure like the construction of Roads and better Sanitation and living standards in cities.
- **Metro and Real Estate Projects:** Significant investments are directed towards metro rail projects and the real estate sector, accounting for 36% of the urban development budget. For Example, Vijayawada and Vishakhapatnam metros.
- **Housing Initiatives:** The Pradhan Mantri Awas Yojana (PMAY) is allocated 24% of the urban development budget, aiming to provide affordable housing.

5. Renewable Energy and Sustainability:

- **Clean Energy Funding:** The Ministry of New and Renewable Energy receive a net budgetary allocation of ₹26,549 crore for 2025-26, up from ₹19,100 crore in the previous year, supporting clean tech manufacturing and sustainable practices. For Example; PM Surya Ghar
- **Nuclear Energy Mission:** A new initiative aims to achieve 100 GW of nuclear energy capacity by 2047, contributing to a diversified and sustainable energy mix.

6. Social Sector Welfare:

- **Healthcare Expansion:** Plans to establish 200 cancer care centres in district hospitals during the fiscal year aim to improve healthcare accessibility and outcomes.
- **Gender Budgeting:** The allocation for gender-related programs rises to 8.86% of the total budget, amounting to ₹4.49 lakh crore, a 37.25% increase from the previous year, focusing on the welfare of women and girls. Make separate headings for inclusive growth and sustainable growth

Shortcomings in Prioritization of Allocations:

1. Healthcare Funding:

- **Budgetary Constraints:** The healthcare budget remains at 1.89% of GDP, lower than the 2.5% recommended by the National Health Policy. Despite plans for expanding healthcare infrastructure, the overall allocation for the Ministry of Health and Family Welfare remains limited, potentially impacting the quality and reach of healthcare services.

2. Infrastructure Investment:

- **Capital Expenditure:** While there is an increase in capital spending, some analysts believe the allocation may not be sufficient to meet the ambitious infrastructure development goals, possibly hindering long-term economic growth. For instance, The capital expenditure target by 10.08% to record Rs. 11.21 lakh crore for the next fiscal year.

3. Climate Resilience Measures:

- **Adaptation Funding:** Although there is a focus on clean energy, funding for climate change adaptation strategies, such as disaster management and resilient infrastructure through various schemes like the National Solar Mission, National Mission for Sustainable Habitat, and National Water Mission, appears limited, potentially leaving vulnerabilities unaddressed.
- **For Instance:** There has been an increase of approximately ₹7,400 crore in budget allocation to the Ministry of New and Renewable Energy to implement various schemes including flagship schemes such as PM Surya Ghar and Green Hydrogen. This year's budget allocation is ₹26,549 crore while the budget allocation for last financial year was ₹19,100 crore.

4. Agricultural Structural Reforms:

- **Subsidy Focus:** The budget continues to emphasize short-term subsidies over long-term investments in agricultural technology, storage, and processing facilities, which are crucial for sustainable agricultural growth. The government should focus on providing subsidies to machinery and the construction of cold storage. For instance, In July 2024, the fertiliser subsidy was set at Rs 1,64,000 crore

Conclusion

The Union Budget 2025-26 introduces several initiatives aimed at fostering inclusive and sustainable growth across various sectors. However, certain areas, including healthcare, defence, infrastructure, climate resilience, and agricultural reforms, may require more balanced and enhanced allocations to Amrit Kaal, Sustainable Development Goals are comprehensively address the nation's development objectives.

2. "Examine the impact of GST on the revenue autonomy of states. How has the GST compensation mechanism affected the fiscal health of state governments?"

Introduction

The Goods and Services Tax (GST), implemented in India in 2017, has significantly impacted the revenue autonomy of states. While it aimed to create a unified national market and simplify the tax structure, it has also led to both benefits and challenges for state governments.

Impact on Revenue Autonomy of States

- **Reduced Fiscal Flexibility:** GST subsumed many indirect taxes previously levied by states, such as Value Added Tax (VAT), sales tax, and entertainment tax. This has reduced the state's ability to independently alter tax rates by adding Cess tax and generating revenue based on their specific needs and economic conditions.
- **Dependence on GST Council:** States now rely on the GST Council, a joint body of the central and state governments, to decide tax rates on most goods and services. While this fosters cooperative federalism, it also limits the states' control over taxation.
- **Loss of Revenue from Origin-Based Taxes:** Under the pre-GST regime, states with manufacturing hubs earned significant revenue from origin-based taxes. GST, being a destination-based tax, has shifted some of this revenue to consuming states. This has particularly affected manufacturing states like Maharashtra and Tamil Nadu.

Impact of GST Compensation Mechanism on the fiscal health of state governments

- **Guaranteeing Revenue Growth:** To address potential revenue losses, the central government initially guaranteed states a 14% annual growth in their GST revenue for the first five years (2017-2022). Any shortfall below this level was to be compensated by the Centre.
  For Example, while some states have seen an increase in their overall tax revenue post-GST, many have struggled to achieve the guaranteed 14% growth rate, especially in recent years.
- **Cess Collection:** The compensation was funded through a GST Compensation Cess levied on certain luxury and demerit goods like Pan Masala, Luxury motor vehicles and Tobacco products.
- **Fiscal Health Impact:**
  - **Initial Relief:** The compensation mechanism provided a safety net for states during the initial years of GST implementation, helping them adjust to the new tax regime.
  - **Delayed Payments:** However, delays in the release of compensation by the Centre in recent years have strained the fiscal health of some states, affecting their ability to meet expenditure commitments and invest in development projects.
  - **Dependence on the Centre:** The compensation mechanism has made states more dependent on the Centre for their revenue needs, raising concerns about fiscal autonomy in the long run.

Conclusion

A cooperative yet flexible GST framework is essential to balance national economic integration with state fiscal autonomy. By allowing states greater flexibility in taxation, ensuring predictable compensation mechanisms, and diversifying revenue sources, India can strengthen both federalism and fiscal sustainability. GST has undoubtedly changed the fiscal landscape for states in India. While it has streamlined tax collection and improved compliance, it has also raised concerns about state autonomy and financial health. The GST compensation mechanism, while initially helpful, has created a dependence on the Centre and has been subject to delays, impacting state finances.