Important Issues of the Day

Budget 2026: Three Big Macro Worries for India

Why Eco Survey raised India's Potential Growth Rate?

Menstrual Health is Part of Fundamental Right to Life

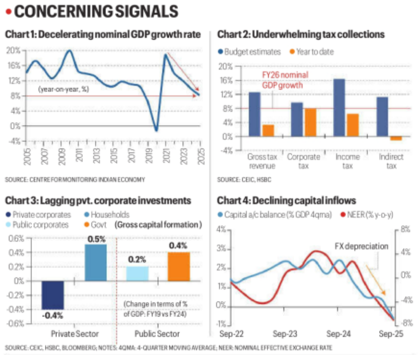
Budget 2026: Three Big Macro Worries for India

- Finance Minister Nirmala Sitharaman will present the Union Budget for FY 2026-27.
- Government has **limited room for major changes** because most spending (salaries, pensions) is **already committed**.
- The budget's success depends on **three major macroeconomic challenges**.

Budget 2026: The 3 big macro worries for India

Ahead of the Budget presentation on Sunday, a look at the key macro issues: Nominal GDP growth, tax collections and private investment

UDIT MISRA



ON SUNDAY, Finance Minister Nirmala Sitharaman will present the Budget for the next financial year that spans from April 2026 to March 2027.

A Budget has limited space — both monetary and policy — to fundamentally alter things. For one, while all past Budgets were annual financial statements, in each one of them, the government has a lot of committed expenditures. For instance, salaries of its employees cannot be changed from one year to another, nor can the tax rates be tweaked every year. Moreover, often what the FM can and cannot do or what she should or should not do is affected by the state of the government finances in the year that is ending — that is, the current financial year, which started in April last year and will end in March 2026.

For instance, if in the current financial year, a section of the Indian economy is affected — for instance, Indian exports after the steep US tariffs — it may set the stage for the FM to address that issue in the next Budget. So, often enough, looking back at the year gone by can provide good clues as to the main concerns that the FM may attempt to address in the next year's Budget.

What does the data from the current year tell us?

There are many issues one can point to, but at the macroeconomic level, there are three main concerns:

1. WEAK GDP GROWTH

This may sound odd since all stories about India's economic growth (measured by Gross Domestic Product or GDP) have been resoundingly upbeat. However, most reports that present India as the fastest-growing major economy are talking about "real" GDP growth. When it comes to the making of the Union Budget, what matters more is "nominal" GDP and its growth rate.

To be sure, what we count first is the nominal GDP — that is, the total value of all goods and services in today's prices. To arrive at "real" GDP, we take away the effect of inflation so that we get to know how we "really" grew — how many more apples, trucks and shirts we produced this year as against the last.

There is a reason nominal GDP matters more: It is the observed value and forms the starting point for all Budget calculations. For instance, if a government wants to know how much it will earn in tax revenues in the next financial year, it has to know the size of the nominal GDP before it can apply a tax rate and arrive at its tax revenues.

If the nominal GDP doesn't grow as fast as the government anticipated, it can upset all its calculations. Here's how.

Suppose the government assumes that the nominal GDP of India will grow by Rs 100, and as a result, with a tax rate 15%, it will get an additional Rs 15 in the coming year to spend. But if, for some reason, the nominal GDP grows only by Rs 50, then the total additional money in the government's hands will be Rs 7.50.

That will either force the government to borrow an additional Rs 7.50 from the market — which, in turn, would mean less funds for you to borrow for buying your car or home, and as a result, lead to higher interest rates for everyone in the economy. Or, if the government chooses not to borrow more, it will have to cut its expenditure; this cut could be in the shape of lower R&D funding in India's defence or lower subsidies for the poor.

The point is, when it comes to the making of the Budget, it is the nominal GDP and its growth rate — not the real GDP growth rate you typically hear about — that matters.

India's nominal GDP growth rate has been decelerating for years. *Chart 1* shows the scale of this challenge.

Nominal GDP

When it comes to the Budget, it's the nominal GDP growth that counts.

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India's nominal GDP growth rate has been decelerating for years.

In the current year, the nominal GDP is expected to grow by just 8%, but as can be seen from the chart, this level is quite low when one compares it with the record of the past 20 years; it is witnessing a secular deceleration in the recent past.

Last February, the FM expected India's nominal GDP to grow by 10.1%. This was already lower than the past levels. Now, the First Advance Estimates released by the Ministry of Statistics peg the nominal GDP growth at 8%. The first main concern for the FM, then, would be to figure out a strategy to boost the nominal GDP in the coming financial year.

2. WEAK TAX BUOYANCY

In the example above, where at a 15% tax rate, the government expected an additional Rs 15, the assumed tax buoyancy is 1. A tax buoyancy of 1 would mean that if the GDP goes up by 10%, then the tax collections also go up by 10%. But what if this assumption does not come through? What if, apart from nominal GDP going up by only Rs 50 and not Rs 100, the tax buoyancy was also not 1 but 0.5? In such a scenario, the total additional tax revenues with the government will be only Rs 3.75. That is a sharp drop from the original estimate of Rs 15.

Something similar is happening to government finances in the current financial year. As *chart 2* shows, none of the tax collections are keeping pace with the rate at which the government assumed at the start of the year. The black bars are the rate at which the government had assumed a particular tax collection would grow, and the red bars alongside show the rate at which they have actually grown year-to-date (YTD).

There is one more detail in *chart 2*, sourced from a recent research report by HSBC's Chief India Economist, Pranjul Bhandari. The growth rate of gross tax revenues of the government is far below even the weak nominal GDP growth rate (*shown as a red line at 8% level*). What this means is that tax buoyancy has gone for a toss. As against an assumed tax buoyancy of 1.1 at the start of the financial year — that is to say that if nominal GDP grows by 1%, then tax revenues will grow by 1.1% — the actual tax buoyancy is half that rate (0.6).

3. WEAK PVT CORPORATE INVESTMENTS

If there is one consistent policy goal of the incumbent government, then it is to boost the private sector's involvement in the economy. It follows from PM Modi's view of "minimum government" where the role of the government should be curtailed and efforts should be made to incentivise the private sector to take the primary role of producing goods and services and, in the process, creating jobs and prosperity.

This policy push has been particularly clear since 2019, when FM Sitharaman introduced a sharp cut in corporate tax rates to incentivise private firms to increase their investments in the economy. This was backed up by a historic increase in the government's capital expenditure — that is, spending targeted towards building physical infrastructure like roads, bridges and ports. The idea was to bring down the costs of doing business for the private sector. This was followed by direct subsidies to private firms in the form of the PLI scheme.

When none of this worked as expected, the government started cutting the tax burden on consumers — first by repeatedly raising income tax exemption levels and later by cutting the GST rates — to incentivise demand and create a business case for the private sector to invest in the economy.

Despite, these changes and the high growth rates of the economy, data (*chart 4*) shows that private corporate investment has fallen from the pre-pandemic period (2019). Indian firms are just not selling enough to perhaps make a case for widespread fresh investments. Read the latest GDP column to know more.

What is also worrying is that over the past year or so, global investors have started shunning India (*chart 4*). This has hit the rupee's exchange rate, and created an economic and a political headache for the FM.

Slowdown in Nominal GDP Growth

What is Nominal GDP?

- It is the **total value of all goods** and **services** produced **at current market prices** (including inflation).

Why it matters:

- The government calculates its **tax revenue** based on **Nominal GDP, not Real GDP.**

The Problem:

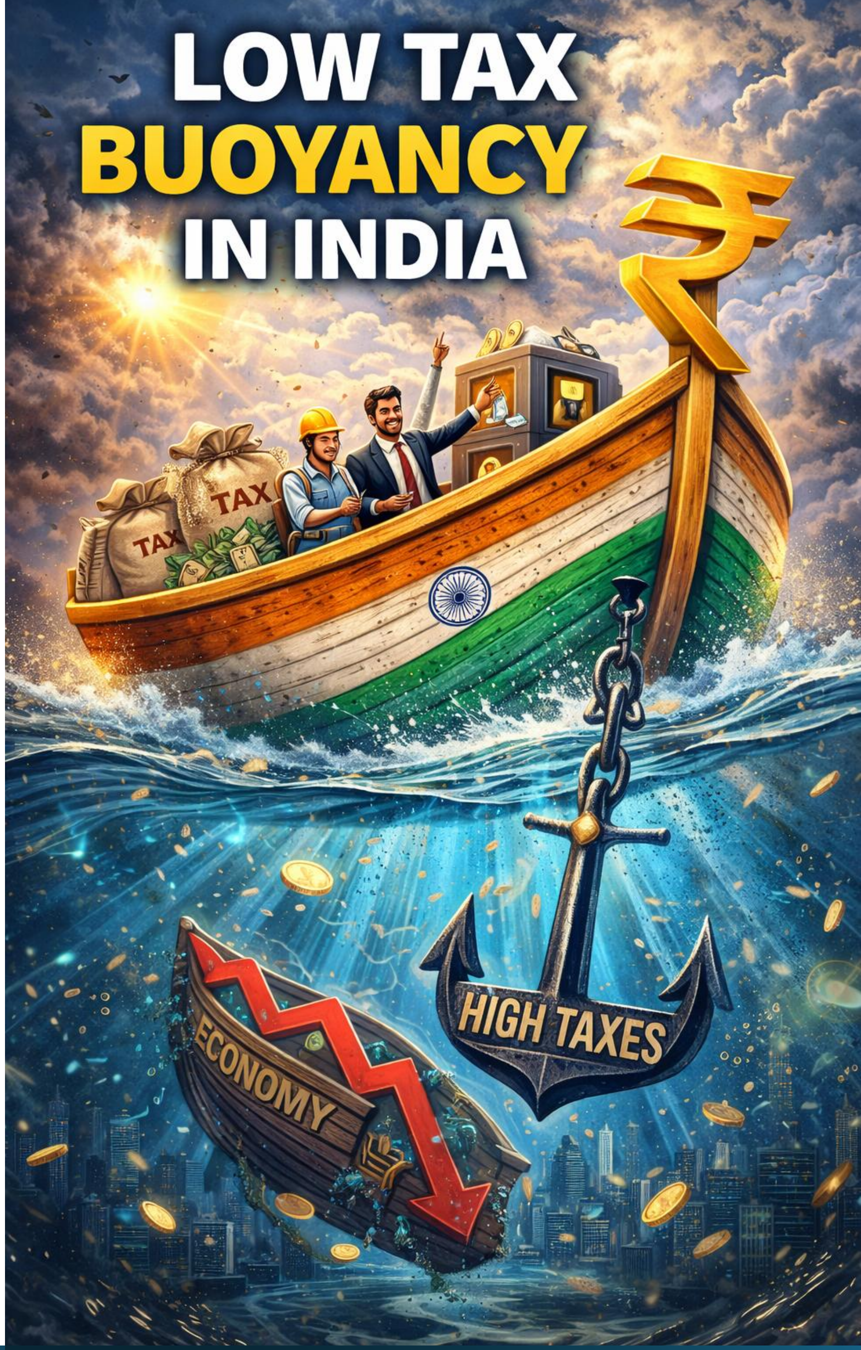
- India's **nominal GDP growth is decelerating**. For the current year, it is pegged at **only 8%.**

The Impact:

- If the economy doesn't grow fast enough, the government gets **less tax money**. This leads to:
- **Higher borrowing** (which increases interest rates for everyone).
- Or **cuts in essential spending** (like defense, subsidies, and R&D).

Weak Tax Buoyancy

Definition:	The Problem:	The Data:	Consequence:
• Tax Buoyancy is the relationship between **GDP growth** and **tax revenue growth**. For example, if **GDP grows by 1%, tax revenue** should ideally **grow by more than 1%.**	• The government assumed a tax buoyancy **of 1.1**, but the actual figure is **only 0.6**.	• **Actual tax collections** (Corporate tax, Income tax, and Indirect tax) are **significantly lower than the Budget Estimates.**	• Even with **some growth**, the government is **failing to collect as much tax** as it **planned, creating a "revenue gap."**



Stagnant Private Investment

The Goal:

- Since 2019, the government has tried to make the **private sector the main driver of the economy.**

Steps Taken:

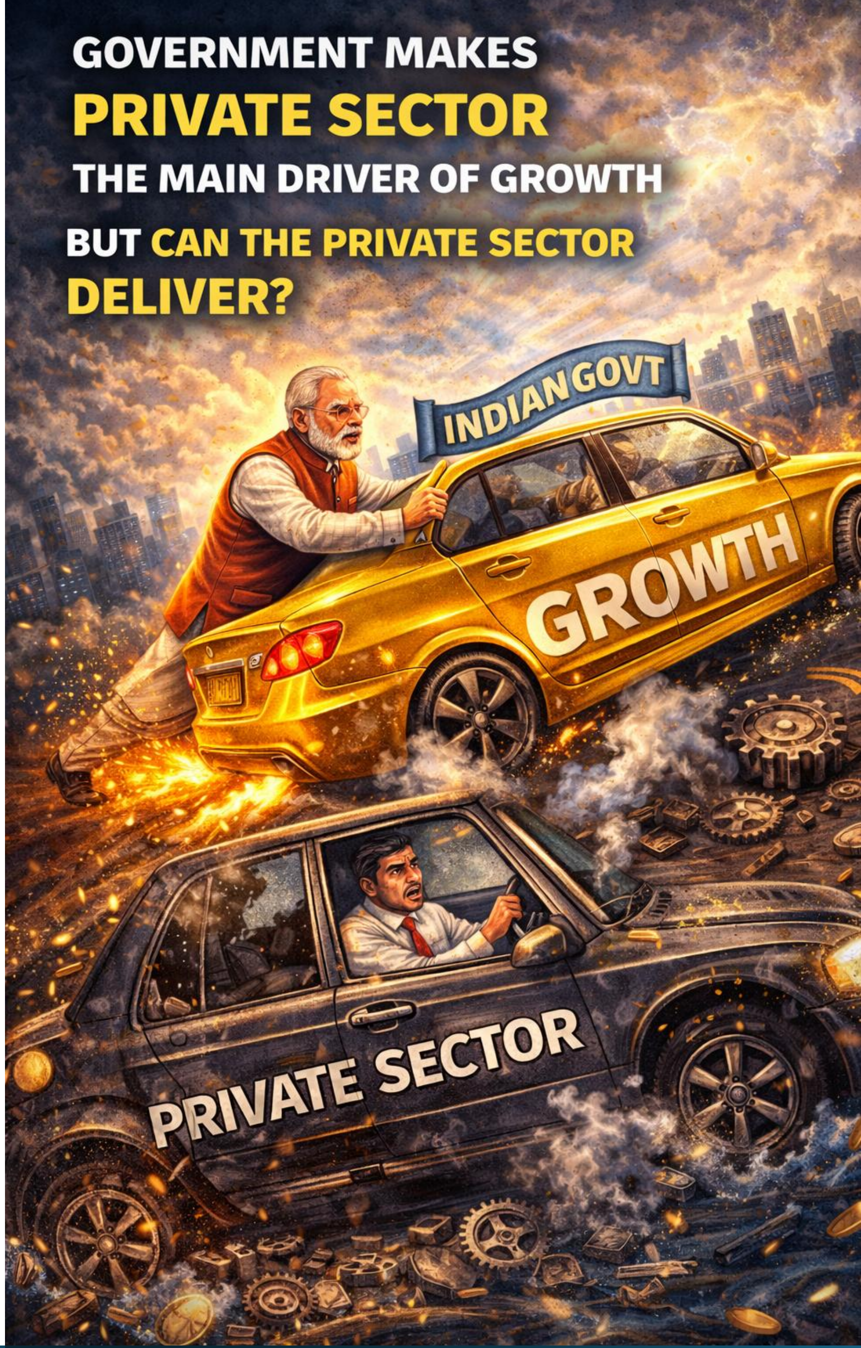
- The government **cut corporate taxes**, **increased infrastructure spending**, and **introduced Production Linked Incentive** (PLI) schemes.

The Result:

- Despite these efforts, **private investment remains lower** than pre-pandemic (2019) levels.

Global Factor:

- **Foreign investors** are also **pulling back** (capital outflows). This has weakened the **Indian Rupee and** created a "**political headache**" for the **government**.



Q1. Consider the following statements regarding the Indian Economy and the Union Budget:

1. Nominal GDP is the starting point for all Budget calculations because it reflects the current market value of goods and services, inclusive of inflation.
2. Tax Buoyancy is considered "high" or "efficient" when the ratio of the growth in tax revenue to the growth in Nominal GDP is less than 1.
3. A deceleration in Nominal GDP growth, even if Real GDP remains stable, can force the government to either increase market borrowing or cut essential capital expenditure.
4. The Production Linked Incentive (PLI) scheme was primarily designed as a "demand-side" measure to increase consumer spending by reducing income tax burdens.
5. Persistent capital outflows usually lead to the appreciation of the Nominal Effective Exchange Rate (NEER).

How many of the statements given above are correct?

A) Only two B) Only three C) Only four D) All five

Q2. With reference to the Laffer Curve in Macroeconomics, consider the following statements:

1. The curve suggests that a reduction in tax rates will consistently result in higher total tax revenue.
2. In the context of this theory, the 'Arithmetic Effect' refers to the positive behavioral impact that lower tax rates have on the incentives for individuals to work and invest.
3. The theory posits that the optimal tax rate for revenue maximization is a mathematically fixed and universal constant (e.g., 40%) for all global economies.

How many of the statements given above are correct?

A) Only one B) Only two C) All three D) None

Why Eco Survey raised India's Potential Growth Rate?

- **The Change:** The latest Economic Survey has raised India's "potential" GDP growth rate from **6.5% to 7%**.
- **The Authority:** This reassessment was led by the Chief Economic Advisor (CEA), V. Anantha Nageswaran.

Why Economic Survey has raised India's potential growth rate

Udit Misra
New Delhi, January 30

AT A time when India's economic growth rate (measured in terms of GDP) is being hotly debated, the latest Economic Survey led by Chief Economic Advisor V Anantha Nageswaran has "reassessed" and raised the "potential" economic growth rate from 6.5% to 7%.

A country's potential economic growth rate is different from the better-known annual growth rate. While the GDP growth rate is the rate at which an economy grows in a particular year, the "potential" GDP growth rate tells how fast that economy can grow without triggering unwanted levels of inflation.

Typically, if demand for goods and services expands too fast — what a GDP growth rate essentially is — it results in prices rising too fast, where supply cannot keep up with demand. Think of potential growth rate as the growth rate that a country should be achieving under normal circumstances: A higher pace comes with the risk of inflation, and a slower pace than the potential rate implies that the country is not fully optimising its resources.

It follows that to raise a country's GDP growth rate in a sustainable manner, the government must attempt to raise the potential growth rate. The potential growth rate depends on three main factors (*see table*).

- **One,** the capital stock in the economy. This refers to all the physical assets in the country — roads, bridges and machinery, etc — that can generate growth.
- **Two,** the labour input. This refers not just to the number of people but also their capacity, their skills.
- **Three,** total factor productivity (TFP). This refers to the efficiency with which labour and capital are used in an economy.

The RBI's research shows that India's potential growth rate had been falling over the years. In the 2003-2008 phase, which was India's highest growth period ever, the potential growth rate was 8%. Between 2009 and 2015, it fell to 7%. By 2023, even the CEA acknowledged that around the time the Covid-19 pandemic hit India, the potential growth rate had fallen to 6.5%.

In the latest survey, however, the CEA notes that "cumulative impact of policy reforms", specifically over the last three years, "appears to have lifted the economy's medium-term growth potential closer to 7 per cent". These include manufacturing-oriented initiatives — such as the Production-Linked Incentive (PLI) schemes, FDI liberalisation, and logistics reforms — that have helped boost India's ability to produce more (read supply).

On the labour front, the survey finds that "labour law consolidation, reduced regulatory compliance and State-level regulatory reforms have begun to lower frictions in the labour market. At the same time, sustained investments in education, skilling and the apprenticeship ecosystem are strengthening workforce quality and employability."

The survey points out that international experience shows that such "step-ups in potential growth are most credible when reforms are persistent rather than episodic, and when macroeconomic stability is maintained." While domestically, "India fulfils both these conditions", the survey does end with the caveat that geopolitical conflicts and their ill-effects can hold India back from achieving its potential.

Factors of potential GDP growth rate

COMPONENTS OF ECONOMIC GROWTH	FY13-FY20	FY23	FY24	FY25*	FY26-FY30*
Growth in capital stock	7.60%	6.10%	6.90%	7.10%	7.60%
Growth in labour input	2.30%	5.70%	5.50%	4%	2.60%
Growth in total factor productivity	1.90%	1.70%	1.70%	1.70%	1.90%

*ESTIMATES

Growth revival

- RBI research shows India's potential growth rate was falling for years. The Survey, however, sees green shoots

Defining "Potential" Growth

Definition:	The Balance:	The Goal:
• It is the **maximum rate** at which **an economy can grow without** triggering **high inflation.**	• If an economy **grows faster than its potential, prices rise too quickly**. If it **grows slower,** it is **not using its resources** (like people and machines) fully.	• To **raise this rate sustainably** so the country can grow **faster without economic instability**.

Three Pillars of Potential Growth

- **Capital Stock:** Physical assets like roads, bridges, factories, and machinery.
- **Labour Input:** Not just the number of workers, but **also their skills** and capacity.
- **Total Factor Productivity (TFP):** The **efficiency** with which **labour** and **capital are used together**.

Why the Upgrade?

- The CEA believes recent policy reforms have lifted India's potential. Key reasons include:

Supply-Side Reforms:

- Initiatives like the **PLI (Production-Linked Incentive) schemes**, FDI liberalization, and logistics reforms have **boosted the ability to produce more.**

Labour Market Improvements:

- **Consolidation of labour laws** and **reduced regulatory burdens** have made the market **more flexible**.

Human Capital:

- Investments in **education, skilling**, and **apprenticeship** programs are making the **workforce more employable**.

Historical Context

2003–2008: India’s potential growth was at its peak of **8%**.

2009–2015: It fell to **7%**.

Pre-Pandemic: By the time Covid-19 hit, it had dropped to **6.5%**.

Current: It has now bounced back to **7%** due to the cumulative impact of recent reforms

Conditions and Risks

- **Consistency:** For this growth to last, reforms must be persistent rather than **one-off events**.
- **Macro-Stability:** India must maintain a stable economy (low inflation and fiscal discipline).
- **The Threat:** The Survey warns that **geopolitical conflicts** (global wars or tensions) **remain the biggest risk** that could hold India back from **achieving this 7% potential**.

Q3. With reference to the "Potential GDP Growth Rate" mentioned in the recent Economic Survey, consider the following statements:

1. It is the highest growth rate an economy can achieve without triggering unwanted levels of inflation.
2. Total Factor Productivity (TFP), one of its core components, measures the efficiency with which labour and capital are utilized.
3. The Survey attributes the rise in India's potential growth to demand-side interventions like increased government subsidies and direct cash transfers.
4. Geopolitical conflicts are identified as a significant external risk that could prevent India from reaching its potential growth.

How many of the statements given above are correct?

A) Only one B) Only two C) Only three D) Only Four

Menstrual Health is Part of Fundamental Right to Life

- **Fundamental Right:** The SC ruled that the **right to menstrual health** is an inseparable part of the **Right to Life** under **Article 21**.
- **Dignity and Equality:** The court stated that **dignity cannot be an abstract ideal**; it must include **conditions** where individuals **live without humiliation** or **exclusion**.
- **Addressing Stigma:** Lack of Menstrual Hygiene Management (MHM) subjects girl children to **stigma**, **stereotyping**, and **suffering**.

SC: Menstrual health is a part of fundamental right to life

Orders free sanitary pads, separate toilets in all govt and private schools

Ananthakrishnan G
New Delhi, January 30

STATING THAT the right to menstrual health is a part of the right to life, a fundamental right under Article 21 of the Constitution, the Supreme Court on Friday directed all States and Union Territories to put in place Menstrual Hygiene Management (MHM) measures, including gender-segregated toilets and free sanitary napkins, in all government as well as private schools.

Issuing a slew of directions, the bench of Justices J B Pardiwala and R Mahadevan asked the Centre, States and UTs to ensure compliance within three months. Citing provisions of the Right to Education Act, the court also warned of stringent consequences for non-compliance, including the de-recognition of private schools and holding state governments directly accountable for failures in public institutions.

"In our considered view,

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Impact on the Right to Education (RTE)

- **Barriers to Learning:**
  - Inaccessibility to MHM measures acts as an "impediment" to the right to education.
- **The Dropout Cycle:**
  - Lack of facilities leads to **recurrent absenteeism**, which results in learning gaps and **lower academic performance**.
- **Long-term Effect:**
  - Frequent absenteeism eventually leads to girl students **dropping out** of school entirely.

Key Directives for Schools

Sanitary Napkins:

- Schools must provide free, **oxo-biodegradable sanitary napkins**.

Physical Infrastructure:

- Every school must have functional, **gender-segregated toilets** with usable water connectivity.

MHM Corners:

- Schools should establish "**MHM Corners**" equipped with spare uniforms, innerwear, and **disposable bags for emergencies**.

Disposal Systems:

- Implementation of **safe, hygienic, and environmentally** compliant mechanisms for **disposing of used napkins**.

Holistic Reforms: Curriculum and Awareness

Educational Integration:

- The SC asked **NCERT** and **SCERTs** to include **gender-responsive curricula** on **menstruation** and **puberty**.

Health Concerns:

- The curriculum should **address related health issues** like **PCOS and PCOD** to break the **taboos associated with menstrual hygiene**.

Accountability and Monitoring

Deadline:

- The Centre, States, and UTs must ensure compliance within **three months**.

Monitoring Bodies:

- The **NCPCR** (National Commission for Protection of Child Rights) and state-level counterparts (**SCPCR**) are tasked with overseeing the implementation.

Strict Consequences:

- Private schools may face **de-recognition** for non-compliance, and **state governments will be held directly accountable** for failures in public schools.

Q4. With reference to the recent Supreme Court judgment on menstrual health and hygiene, consider the following statements:

1. The Supreme Court has expanded the scope of Article 21 to include the right to menstrual health as an essential component of the right to live with dignity.
2. The Court observed that the lack of Menstrual Hygiene Management (MHM) measures in schools constitutes a "barrier" to the Fundamental Right to Education.
3. As per the directives, only government-run schools are mandated to provide free sanitary napkins and gender-segregated toilets.
4. The judgment emphasizes that menstrual health awareness should be integrated into the school curriculum to address health issues like PCOS and PCOD.

How many of the statements given above is/are correct?

A) Only One

B) Only Two

C) Only Three

D) None

Q5. In the context of the Indian Constitution, which of the following best describes the "Right to Life" as interpreted in the recent Supreme Court judgment on menstrual health?

a) It is a negative right that primarily prevents the State from taking away an individual’s life except according to legal procedure.

b) It is a positive right that imposes an obligation on the State to ensure physical and social conditions necessary for a life with dignity.

c) It is a restrictive right limited only to the preservation of physical existence and the prevention of bodily harm.

d) It is a conditional right that applies only to those citizens who are currently enrolled in public educational institutions.