Tax relief move has reduced demand uncertainty: CEA

Nageswaran says Budget gave a nudge to pvt sector investments

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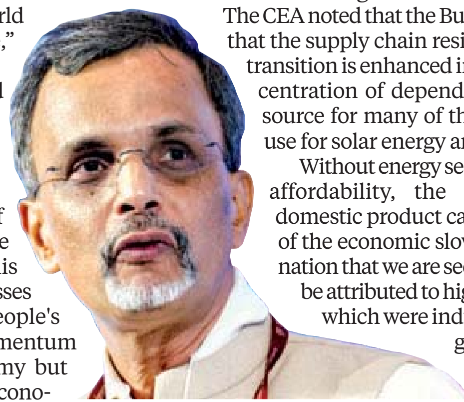
The tax relief announced in the Union Budget has reduced the demand uncertainty in the domestic economy and given a nudge to the private sector capital formation, Chief Economic Advisor (CEA) V Anantha Nageswaran said on Monday.

In a major move to ease the tax burden on the middle class, Finance Minister Nirmala Sitharaman, in her Budget speech on Saturday, announced a major overhaul of the tax regime, introducing a zero-income tax slab for taxpayers earning up to ₹12 lakh annually under the new tax regime.

"It is quite clear that the current state of the world in terms of geopolitical and geo-economic uncertainties is very much the driving force behind many of the proposals you see in the Budget, including the widely discussed tax cut and the revision of tax slabs given to various income individual income taxpayers," Nageswaran said at a post-Budget discussion organised by the Confederation of Indian Industry (CII).

The CEA said the boost to disposable income would be a positive for the Indian economy, regardless of whether it goes into consumption or savings, as the former will bolster the aggregate demand and encourage the private sector to undertake capital formation. "The private sector has indeed been investing. Maybe the pace is not as much as one would have liked to see because the benchmarks that we use pertain to the first decade of the millennium when the world was a different place," Nageswaran said.



He highlighted that the growth in public capital expenditure might not naturally maintain the same pace of growth as the base becomes larger. "This Budget not only addresses the questions in people's minds about the momentum in the Indian economy but also sets the Indian economy on a stronger path to medium-term growth by addressing issues such as capital formation in the private sector, energy security, employment, and skilling," he said.

The Union Budget FY26 has pegged capex at ₹11.2 trillion — growth of around 10 per cent over the previous year's revised estimates of ₹10.18 trillion. Nageswaran, however, said taking into consideration the capex undertaken by the Centre in public sector enterprises and the grants in aid, the capital formation in FY26 is budgeted to be ₹19.8 trillion against ₹18.7 trillion in FY25. The CEA noted that the Budget had ensured that the supply chain resilience for energy transition is enhanced in view of the concentration of dependence on a single source for many of the inputs that we use for solar energy and e-mobility.

Without energy security and energy affordability, the potential gross domestic product cannot rise. "Many of the economic slowdown and stagnation that we are seeing can arguably be attributed to higher energy costs, which were induced by the energy transition efforts," he said.