**Authored by Nilaya Varma, Co-founder & CEO, Primus Partners**

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# Budget 2025 expectations in a protectionist world

***Budget 2025 is an opportunity to create concrete steps to help India build a more robust and self-reliant economic foundation, focusing on long-term resilience, efficiency, and competitiveness***

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Countries today are increasingly leaning towards protectionism to shield domestic industries. However, history shows isolation hinders long-term growth. Therefore, India's journey toward *Viksit Bharat* requires a strategy that adapts to these shifting dynamics.
As the nation prepares for Budget 2025, the focus must shift towards creating a resilient economy by addressing foundational challenges in resource optimisation, Micro, Small, and Medium Enterprises (MSME) empowerment, and procurement.
While the world looks inward, India must focus on creating an ecosystem that fosters productivity and competitiveness domestically without closing itself off to the world.

**Optimising Domestic Resource Potential**
India's direct tax base remains narrow despite a growing economy, which limits the government's ability to fund critical development priorities. In FY 2023-24, direct taxes contributed 51.5 percent of total tax revenue, while indirect taxes accounted for the rest. Tax contributions are

disproportionately low among high-income earners, with around 2,20,000 individuals reporting incomes above Rs1 crore. The solution lies in expanding the direct tax base through the simplified regime that offers clear advantages over the old system: lower tax rates in exchange for fewer exemptions, predictable long-term tax planning, and streamlined compliance requirements. These benefits can drive voluntary adoption of the new framework. To further strengthen direct tax collections, the government should consider presumptive income tax based on consumption and implement a minimum tax for individuals, similar to the concept of MAT for companies.

The country must also better leverage its savings at 30.2 percent of GDP. These savings remain in low-yield assets like gold and real estate instead of productive investments. By strengthening market infrastructure, introducing targeted financial instruments with competitive yields, and creating tax-efficient investment vehicles, policymakers can redirect these funds toward long-term growth sectors.

While foreign direct investment (FDI) remains an important source of capital, inflows declined to $44.4 billion in FY 2023-24 from $46 billion the previous year. This highlights the volatility of external funding. There is a need to build a self-sustaining investment ecosystem powered by domestic tax revenue and efficient capital allocation.

Equally important is ensuring that government expenditure on welfare spending is optimised for maximum impact. The government should allocate funds to strengthen Parivar Pehchan Patra (PPP) to achieve this. By tracking social and economic mobility at the family level, PPP enables data-driven policy decisions, reduces fiscal leakages, and ensures welfare schemes reach intended beneficiaries efficiently. With India spending over Rs20 lakh crore annually on social sector schemes, even a marginal improvement in targeting can lead to significant savings and better utilisation of public resources.

**Strengthening GDP Growth Engine of India**

MSMEs are crucial to India's economy, contributing 30 percent to GDP and employing over 110 million people. However, the full potential of MSMEs still remains untapped. In countries like Germany and Japan, SMEs represent a far more significant portion of the economy. Germany's Mittelstand, for instance, accounts for more than 55 percent of the GDP and generates half of the country's economic output, with 82 percent of apprentices trained in these businesses. Similarly, Japan's SMEs contribute 55 percent to Gross Value Added (GVA), representing 99 percent of all enterprises and providing 70 percent of private sector jobs.

In contrast, Indian MSMEs are much less in number and face a host of challenges. Rising input costs and limited access to structured finance hinder their growth. Technology adoption remains a significant roadblock, with 36 percent of MSME owners citing resistance to new technologies and 18 percent struggling with the high costs of implementation. As a result, many MSMEs lack basic digital infrastructure, leaving them disadvantaged in the global economy.

To address these disparities, a two-pronged approach is essential. First, the government must streamline the registration process and introduce clear incentives, such as preferential credit access and technology upgrade subsidies, to bring informal enterprises into the formal sector. Second, establishing digital transformation centres in MSME clusters. Initiatives like "Zero Defect, Zero Effect" must be revitalised, with pathways for informal enterprises to access such benefits.

**Procurement Reforms for Efficiency**

India's public procurement accounts for roughly 20-22 percent of the GDP. Efficient public procurement can enhance the effectiveness of government spending, churn greater economic activity, and support local businesses.

A key to this transformation is integrating systems like IFMS, eOffice, and Dak, as well as automating processes. A proven example is the Centralized Processing Centre (CPC) implemented in the Income Tax Department, dramatically improving governance and reducing complaints. This model can be adapted for procurement by introducing better transparency, reducing payment delays, and ensuring the timely execution of contracts.

**Conclusion**

The budget is an opportunity to implement these changes. These concrete steps can help India build a more robust and self-reliant economic foundation. Focusing on long-term resilience, efficiency, and competitiveness can create the necessary conditions for sustained growth.