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Union Budget – 2025-26: Focus on Agriculture and Rural Prosperity

Frank Notes

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The Union Budget for the fiscal year 2025-26, presented by Hon'ble Finance Minister on 1 February 2025, introduces several measures for stimulating economic growth, enhancing middle-class welfare, and promoting sustainable development across various sectors. The budget encompasses 10 broad areas, including supporting SMEs, promoting exports, agri growth, rural prosperity, manufacturing & financial inclusion, focus on poor, youth, farmers, women, taxation, power sector and urban development. Several areas have been earmarked for development of agriculture and rural prosperity.

As per the first advance estimate published by the National Statistics Office, India's real and nominal GDP growth rates are projected to be 6.4% and 9.7%, respectively, in 2024-25. The nominal GDP is projected to grow by 10.1% in 2025-26 over the first advance estimates of 2024-25. Government plans to reduce the fiscal deficit to 4.4% of GDP in the fiscal year 2025-26 compared to estimates of 4.8% in 2024-25.

Agriculture and Allied sector has been the backbone of the Indian economy, playing a vital role in national income and employment. This sector contributes nearly 16 per cent to GDP of the country. Quite a large population directly or indirectly are engaged in the sector for their livelihood. Further, various agri-based industries depend on agriculture to meet their requirement of raw materials, supporting economic growth. The first advance estimates for the current fiscal year shows a growth of 3.8% in the agriculture and allied sector, compared to 1.4% during the previous year.

The Union Budget identifies agriculture as a key driver of development, introducing the 'Prime Minister Dhan-Dhaanya Krishi Yojana' to support 100 districts having low agricultural productivity and benefit approximately 1.7 crore farmers. This will be launched in partnership with the states. The basic objective of the scheme is to enhance agricultural productivity, adopt crop diversification and sustainable agriculture practices, augment post-harvest storage at the panchayat and block level, improve irrigation facilities, and facilitate the availability of long-term and short-term credit. Additionally, the six year 'Mission for Aatmanirbharta in Pulses' focuses on achieving self-sufficiency in pulses, particularly pigeon peas (tur), black gram (urad) and red lentils (masoor). Central agencies, including NAFED and NCCF, will procure these three pulses from farmers during the next four years.

Kisan Credit Card (KCC) enables the farmers to meet their short-term working capital requirements promptly and hassle-free. KCC has helped enhance the working capital flow to agriculture and allied sectors. In the budget, the short loan limit available through the KCC has been enhanced from Rs.3 lakh to Rs.5 lakh. Approximately 7.7 crore farmers, fishermen, and dairy farmers covered under KCC will get the benefit from this expansion.

To give fillip to improve productivity of cotton, 5-year mission to boost cotton productivity and cultivation of long-staple verities has been announced in the budget by the Finance Minister. The programme aims to increase farmers' income and ensure a steady supply of high-quality cotton for the traditional textile sector.

In addition to fertilizers and irrigation water, use of high yielding variety of seeds has played a vital role in improving crop productivity and farmers' income. Towards this, National Mission on High Yielding Seeds will be implemented to provide farmers with quality seeds, strengthening the agricultural research ecosystem. More than 100 seed varieties released since July 2024 will be made commercially available to the farmers through this programme.

The other initiative in the budget includes establishment of Makhana Board in Bihar to enhance the production, processing, and marketing of Makhana. The Board will offer guidance and training to Makhana farmers and facilitate access to government schemes. Further, launching of a comprehensive multi-sectoral Rural Prosperity and Resilience programme in partnership of the states will address under-employment in agriculture through skilling, investment, technology, and invigorating the rural economy.

The Budget maintains a substantial allocation of Rs.4.57 trillion for food, fertilizer, and rural employment subsidies, underscoring the government's commitment to rural welfare. The

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flagship rural employment programme, MGNREGA, continues with an allocation of Rs.860 billion, providing minimum-wage work for at least 100 days annually to bolster rural incomes.

Indian agriculture, while establishing new records of production, has become resource intensive over the years. Sustainable agriculture requires good soil health, optimum use of resources and minimum impact on environment. High yielding varieties of crops require high nutrient inputs through chemical fertilizers which have high concentration of plant nutrients.

Soil degradation, particularly the decline in organic carbon content, poses a significant challenge to Indian agriculture. Many soils in India are deficient in organic carbon, macronutrients, and essential secondary (sulphur) and micronutrients such as zinc, boron and iron. Deterioration of soil health adversely affects fertility, productivity, and overall agricultural sustainability. To achieve optimal crop yields, it is imperative to use fertilizers judiciously. In the interest of balanced fertilization, use of complex fertilizers needs to be encouraged. Use of micronutrients and organic manures will increase use efficiency of all nutrients and maximize yields. This in turn will reduce input cost to farmers, save on subsidy and most importantly reduce impact on environment. Additionally, use of drones and fertigation techniques are being implemented to optimize fertilizer applications. Programme for Restoration, Awareness Generation, Nourishment, and Amelioration of Mother Earth (PMPRANAM) initiative incentivises states to adopt alternative fertilizers such as Nano Urea, Nano DAP, and organic fertilizers. By promoting these sustainable options, the government aims to improve soil health, reduce environmental pollution, and boost agricultural productivity.

The fertilizer subsidy is set at Rs.167,887 crore for 2025-26 inclusive of Rs.11,600 crore under Oil Industry Development Fund. Budget for urea subsidy is Rs.118,860 crore which is lower by Rs.115 crore than the revised estimate for 2024-25. Similarly, subsidy allocated for P&K fertilizers at 49,000 crore, have also been reduced by Rs.3,310 crore. The reason behind this reduction compared to revised estimates for 2024-25 may be due to expectation of downward trend in international prices of fertilizer related commodities. However, adequacy of allocation will depend on trends on the international prices of energy, fertilizers and raw materials during the year. To improve soil heath, subsidy allocation on promotion of organic fertilizers for 2025-26 is Rs. 150 crore.

The consumption of total fertilizer products is about 65 million MT annually. Share of urea consumption is more than 50%. India is moving towards achieving self-sufficiency in urea production. In the recent years, three old urea plants at Barauni, Sindri and Gorakhpur having a capacity of 12.7 lakh MT each have been commissioned. One more plant at Talchar (Odisha) with the same capacity is likely to be commissioned in this year. The budget proposed establishment of a new urea plant with a capacity of 12.7 lakh MT in Namrup (Assam) to ensure a steady supply of urea in the country.

P&K sector is almost entirely dependent on import of raw materials due to lack of natural resources of phosphate and potash. However, the industry on its part, has continuously endeavoured to ensure timely availability of fertilizers through domestic production and imports even at times with negative margins. Department of Fertilizers (DoF) has been revising NBS rates for P&K fertilizers on half yearly basis. Any reduction in NBS rates for 2025-26 with regulated MRP will be detrimental to the P&K industry due to high cost inventory.

Union Budget 2025-26 proposed rationalisation of customs tariff structure for industrial goods by reducing seven tariff rates. There will be only eight tariff rates including 'zero' rate. Levy would be not more than one cess or surcharge. Therefore, Social Welfare Surcharge on 82 tariff lines that are subject to a cess, will be exempted.

The fertilizer industry had hoped for a reduction in tariffs on key raw materials and intermediates such as ammonia, fertilizer-grade phosphoric acid, rock phosphate, sulphur and sulphuric acid. However, there was no change in these tariffs. A reduction would have encouraged domestic manufacturers to increase the production of DAP and other NP/NPK complex fertilizers.

To summarize, the Budget 2025-26 focused on agricultural development by enhancing the purchasing power of farmers. It emphasized achieving self-sufficiency in urea production by reviving three previously closed units and announcing a new brownfield urea plant in the northeast. The adequacy of fertilizer subsidies for the urea and P&K sectors will depend on external factors, particularly the availability and prices of raw materials/ intermediates and finished products in the international market. ■