Fiscal deficit touches 45% of annual target in April-Oct

Non-tax receipts robust, spending curbed in October

PRASANTA SAHU
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THE CENTRE'S FISCAL deficit came in at 45% of the Budget Estimate (BE) in the first seven months of the current financial year compared with 45.6% of the respective target in the year-ago period, largely due to a 15% decline in capital and revenue expenditure in October.

In October 2023, capex declined by 15% year-on-year while revenue spending fell by 14% year-on-year.

The moderation in capex is an indication that the Centre's FY24 capex may miss the ₹10 trillion target by around ₹0.5 trillion.

Assembly elections and upcoming general elections may have slowed the tempo in capex after H1.

In H1FY24, capex grew by 43% but moderated to 34% in April-October as against a required rate of 36% to meet the Budget Estimate.

While net tax revenues rose by 11.2% year-on-year in April-October 2023 meeting the required growth rate of 11% to achieve the Budget Estimate, non-tax revenues expanded by 49% (required rate 5%) on the back of the robust RBI dividend.

In the first seven months of FY24, revenue expenditure growth moderated to 6.5% from 10% in H1, but continued to be on the higher side than the budgeted growth rate of 1.5%.

"After considering the additional economic cost towards the extension of free foodgrains under the NFSA for January-March 2024, the higher subsidy on LPG, the Nutrient Based Subsidy rates on P&K fertilisers for the ongoing rabi season, and the additional amount likely to be required for MGNREGS, we estimate spending to exceed the FY2024 BE by ₹0.8-1.0 trillion," Icra chief economist Aditi Nayar said.

"However, this sum could be matched by expenditure savings, which have ranged between an estimated ₹1.1-2.3 trillion in recent years.

As a result, we foresee a low risk of the fiscal deficit target of 5.9% of GDP being breached."

Icra's baseline expectation is that direct taxes will surpass the FY24 Budget Estimate by ₹0.85 trillion, a portion of which will be absorbed by lower-than-budgeted union excise duty collections, leaving a gross upside of around ₹0.5 trillion.

"Setting aside the additional devolution to the states, we estimate that net tax revenues will exceed the FY24 BE by a modest ₹0.3 trillion.

"However, this will be offset by a similar shortfall in disinvestment proceeds," she said.

IN LINE WITH ESTIMATES