Will stick to 5.8% fiscal deficit target for FY24: Somanathan

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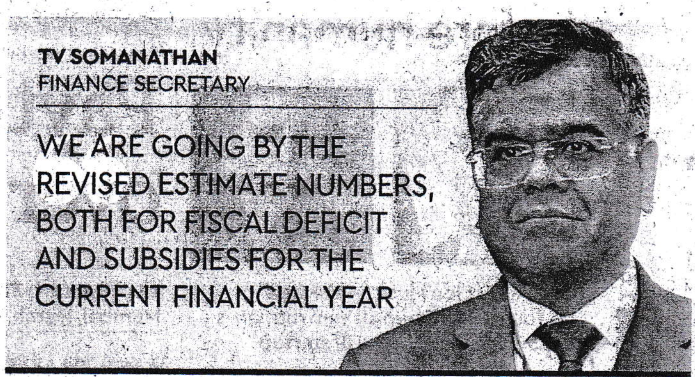

THE GOVERNMENT WILL stick to the fiscal deficit target (revised estimate) of 5.8% of the Gross Domestic Product (GDP) for this fiscal, finance secretary TV Somanathan said on Friday. This is despite the second advance estimate showing a lower nominal GDP than factored in the Budget.

As per the second advance estimate of nominal GDP released on Thursday, the fiscal deficit worked out to be 5.9% of GDP as against the revised estimate of 5.8% (from 5.9% in FY24BE). The fiscal ratios were pegged to nominal GDP in the first advance estimate of ₹2,96,57,745 crore, which has now been revised downward to ₹2,93,89,686 crore. As per the FY24 revised esitmate (RE), the fiscal deficit is estimated to be ₹17,34,773 crore.

Given the likely lower capex and higher tax revenues, the government could still contain fiscal deficit at the RE level of 5.8%, analysts said.

The Centre's fiscal deficit stood at ₹11 trillion in April-January FY24, lower than the ₹11.9 trillion recorded in April-January FY23.

Due to lower spending on subsidies, the revenue expenditure growth was a tepid 1.4% in the first 10 months of the current financial year compared with a required rate of 2.6% to meet the annual target of ₹35.4 trillion.

The Centre's capex fell steeply to ₹47,600 crore in January from nearly ₹80,000 crore in January 2023, kicking off Q4FY24 on a sour note. With ₹2.3 trillion left to be incurred in Feb-March 2024 to meet the full-year target for capex, substantially higher than the ₹1.7 trillion recorded in the same months of FY23, rating agency Icra expects capex to undershoot the FY24 RE by at least ₹0.5 trillion.

India's real economy grew by 8.4% in Q3FY24, higher than most estimates. The buoyancy in indirect tax mop-up (32% yoy growth ie ₹3.9 trillion) and lower subsidies widened the gap between GDP and Gross Value Added (GVA). The computation of GDP includes indirect taxes and excludes government subsidies. For the third quarter, GVA grew at 6.5%.

Spending on major subsidies at just ₹70,409 crore in the October-December quarter of FY24 compared with ₹1,51644 crore in the year-ago period, down 53.6%. In April-January of FY24, major subsidy spending declined 21% on year to ₹3,15,558 crore.

Somanathan said the government will likely rein in subsidy expenditure within the revised estimate for the current financial year as fertiliser prices have declined compared to the previous year. According to FY24RE, the government will spend ₹4.13 trillion on major subsidies—food, fertiliser and fuel.