Fiscal deficit target in reach despite lower GDP estimate

RUCHIKA CHITRAVANSHI
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TAKING STOCK

	FY25 BE	FY25 First Advance Estimate
Nominal GDP (₹trn)	326.4	324.11
Fiscal deficit (₹trn)*	16.13	15.88
Centre's fiscal deficit as % of GDP **	**4.9**	**5**

*in order to be contained at 4.9% of GDP; **in case it is retained at BE level in absolute terms; BE is Budget Estimates

Source: MoSPI

The fiscal deficit for 2024-25 (FY25) may remain within the target, despite a lower-than-budgeted nominal gross domestic product (GDP) growth of 9.7 per cent, as indicated in the first advance estimates released on Tuesday by the National Statistics Office (NSO).

Experts said the expected miss in reaching the capital expenditure (capex) target set in the Budget Estimates (BE) is likely to make it easier for the government to manage the fiscal deficit at ₹16.13 trillion, or 4.9 per cent of GDP in FY25. The capex target of ₹11.1 trillion for FY25 is likely to be missed by a margin of at least ₹1–1.5 trillion, according to experts.

The Budget had assumed nominal GDP growth of 10.5 per cent for FY25. According to NSO's latest projection, nominal GDP or GDP at current prices is estimated to reach a level of ₹324.11 trillion in FY25, compared to ₹295.36 trillion in 2023-24.

"Given the expectations of a large miss in the capex target, we expect the fiscal deficit to trail the FY25 BE, which would largely offset the lower-than-budgeted nominal GDP print. Consequently, we expect the fiscal deficit to GDP ratio to only marginally trail the BE of 4.9 per cent for the financial year," said Aditi Nayar, chief economist, ICRA.

Latest data from the Controller General of Accounts (CGA) showed that the central government had exhausted ₹8.5 trillion, or 52.5 per cent, of the fiscal deficit target until April–November FY25, which was 6.6 per cent lower than the ₹9.1 trillion recorded in April–November FY2024.

The capex for April–November FY25 declined by 12.3 per cent year-on-year. The government utilised 46.2 per cent of the capex target in April–November FY25, compared to 58.5 per cent in the corresponding period last year, CGA data revealed.

On the revenue side, CGA data showed that the government reached 56 per cent of the net tax revenue BE for April–November FY25, compared to 62 per cent in the corresponding period last year.

Income-tax collections expanded by 24 per cent year-on-year in April–November FY25, while corporate tax collections fell by 1 per cent.

"The absolute level of GDP is estimated at ₹324.11 trillion, as against ₹326.37 trillion in the BE. However, this is unlikely to have any major impact on fiscal consolidation in FY25 due to the current revenue and expenditure pattern of the Union government," said India Ratings and Research Chief Economist Devendra K Pant.