FY27 fiscal deficit may overshoot target to touch 4.6%: BMI

RUCHIKA CHITRAVANSHI
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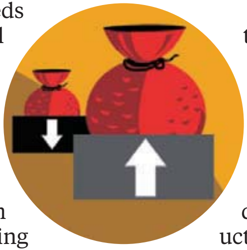
The government's fiscal deficit could reach 4.6 per cent in 2026-27 (FY27) against its target of 4.3 per cent expected to be announced in the upcoming Union Budget, amid fresh spending needs and lower tax receipts, a report by BMI, a unit of Fitch Solutions, said on Thursday.

BMI said fresh spending needs would not necessarily entail greater public deficits if the government could generate more revenue, but income tax and goods and services tax (GST) reforms in 2025 are likely to hurt tax revenue in FY27.



The report said that Custom duties rationalisation in the coming Union Budget will probably further lower tax receipts.

The report added that India's more dangerous external environment also presents new spending needs even though defence spending as a share of central government expenditure has stagnated, after falling significantly during 2018-2020.

"China's elevated defence spending levels, along with Pakistan's recent decision to increase its defence budget, mean New Delhi must consider spending more on security in FY27," the report said.

It said the government would have to budget a target of 4.3 per cent in FY27 in order to meet its medium-term debt target while minimising disturbances to economic activity. In the FY26 Budget, Union Finance Minister Nirmala Sitharaman had announced a shift to the debt-to-GDP (gross domestic product) ratio as the primary fiscal anchor, moving away from the practice of using the fiscal deficit as the operational target. Under the new glide path, the Centre aims to bring down the debt-to-GDP ratio to 50 per cent by FY31, with a permitted deviation of one percentage point on either side.

The vision of Viksit Bharat, BMI said, would require public investments in infrastructure, and support for small to medium-sized enterprises. "Unfortunately, a side effect of past fiscal consolidation efforts was to reduce capital expenditure vis-à-vis GDP," the report said. It noted that measures to arrest the slide of public capital expenditure would raise the deficit.

Latest data by the Controller General of Accounts (CGA) showed that fiscal deficit for the first eight months of FY26 increased by 15 per cent compared to the corresponding period of FY25, even though the total fiscal deficit target this year is lower by 2.75 per cent at ₹15.7 trillion.

In proportion to the Budget estimates (BE), the government's fiscal deficit for April-November of FY26 widened to ₹9.77 trillion or 62.3 per cent, compared to 52.5 per cent for the corresponding period of FY25.