Govt may target FY26 fiscal deficit at 4.4% of GDP

ILLUSTRATION: BINAY SINHA

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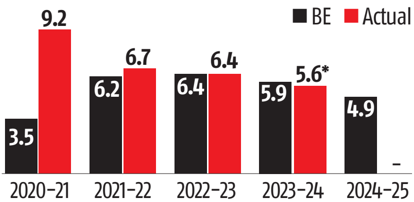
The Centre's fiscal deficit (as % of GDP)



BE: Budget estimates; *Provisional

Source: Budget documents

Net direct tax kitty up 16.45% to ₹15.8 trn

India's net direct tax collections grew 16.45 per cent to ₹15.82 trillion between April 1 and December 17 of FY25, according to latest data released by the Income Tax department on Wednesday. Out of this, non-corporate tax 22.5 per cent year-on-year to ₹7.97 trillion.

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Looks to ensure enough financial headroom amid global headwinds

ASIT RANJAN MISHRA

New Delhi, 18 December

Concerned that aggressive fiscal consolidation could hinder growth momentum while private capital expenditure remains sluggish, the government is expected to set the fiscal deficit target at 4.4 per cent of gross domestic product (GDP) for FY26 in the upcoming Budget.

"Given rising geopolitical headwinds that may impact external demand and sluggish private capex growth, aggressive fiscal tightening next year may not be the right thing to do. We have to retain some fiscal headroom without compromising on the promised fiscal consolidation roadmap," said a government official.

While the Indian economy slowed to a seven-quarter low of 5.4 per cent in the July-September period, merchandise exports dipped 4.9 per cent in November, pointing to rising global headwinds for demand for Indian goods.

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The government has set a fiscal deficit target of 4.9 per cent of GDP for FY25 and has committed to bringing it down below 4.5 per cent of GDP in FY26.

"The fiscal consolidation path announced by me in 2021 has served our economy very well, and we aim to reach a deficit below 4.5 per cent next year. The government is committed to staying the course. From 2026-27 onwards, our endeavour will be to keep the fiscal deficit each year such that the central government debt will be on a declining path as a percentage of GDP," said Finance Minister in her FY25 Budget speech.

Analysts believe the government is likely to undershoot the fiscal deficit target for FY25 as the Center's capex has been sluggish so far. According to Controller General of Accounts data, the central government spent only 42 per cent of its ₹11.1 trillion capex target for FY25 in the first seven months (April-October) of FY25.

India Ratings & Research expects the fiscal deficit to ease to 4.8 per cent of GDP in FY25 and 4.5 per cent of GDP in FY26.

"While we await official data post October, it appears that government spending is coming back, albeit still not close to budgeted levels, which is understandable, as divestment proceeds are again set to disappoint, thus containing capex can be seen as one of the ways to meet the fiscal deficit target," Barclays said in a research note.

Director General of the Confederation of Indian Industry (CII), Chandrajit Banerjee, earlier this month said the industry body has suggested the government stick to the fiscal deficit target of 4.9 per cent of GDP for FY25 and a target of 4.5 per cent for FY26, cautioning that overly aggressive targets beyond the ones mentioned could adversely affect growth. "CII has also welcomed the announcement in the Union Budget 2024-25 to keep the fiscal deficit at levels that help reduce the debt-to-GDP ratio. In preparation for this, the forthcoming budget could lay out a glide path to bring the central government's debt to below 50 per cent of GDP in the medium term (by 2030-31) and below 40 percent of GDP in the long term," he added.