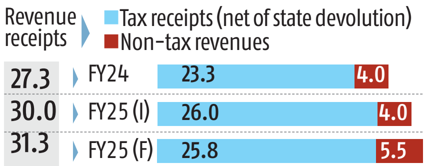
BUOYED BY RECORD RBI DIVIDEND

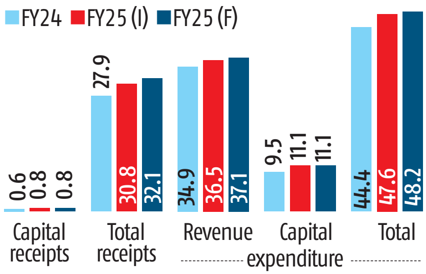
Walking the talk on fiscal consolidation

INDIVJAL DHASMANA
New Delhi, 23 July

SETTING A CLEAR PATH

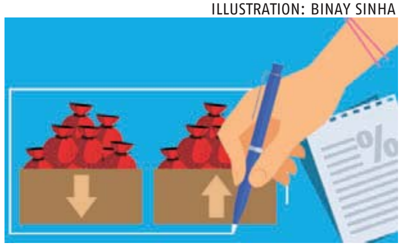
Figures in ₹ trillion

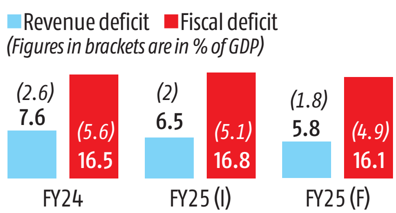




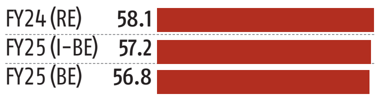
I: Interim Budget, F: Full Budget

ILLUSTRATION: BINAY SINHA





DEBT AS % OF GDP



RE: Revised Estimates, I: Interim Budget, BE: Budget Estimates
Source: Budget documents

Finance Minister Nirmala Sitharaman expedited fiscal consolidation, projecting it at 4.9 per cent of gross domestic product (GDP) for 2024-25, down from the Interim Budget estimate of 5.1 per cent. This was despite an increased spending on employment generation schemes, financial packages for Bihar and Andhra Pradesh, and relief under the new personal income tax regime.

Sitharaman also committed to reducing the Centre's fiscal deficit below 4.5 per cent of GDP in FY26 and further lowering it so that the debt would decline in proportion to GDP. This may help the Centre and the states to control their fiscsal deficit at below 7 per cent structurally, which may prompt a sovereign rating upgrade by Standard and Poor's from the current lowest investment grade. The states' fiscal deficit limit stands at 3.5-4 per cent of their respective gross state domestic product.

The minister was able to project a lower fiscal deficit for FY25, compared to the Interim Budget, because of a record surplus transfer from the Reserve Bank of India of ₹1.09 trillion and dividends from state-owned banks totalling ₹13,440 crore. This helped the government project a non-tax revenue (NTR) kitty higher by ₹1.5 trillion for FY25 than what was pegged by the Interim Budget. This was much higher than ₹20,000 crore less revenue that the FM projected from taxes, post-devolution to the states, for FY25 vis-a-vis the pre-election Budget.

Booming NTR also helped the government raise its revenue expenditures by ₹60,000 crore for FY25 against Interim Budget estimates by launching various employment-linked schemes and financial assistance to Bihar, Andhra Pradesh, and a few other states.

Capex was kept intact, even as the FM announced viability gap funding and a market-based financing framework for infrastructure. Despite increased revenue expenditure, the revenue deficit is projected to fall to 1.8 per cent of GDP for FY25 from the Interim Budget's 2 per cent.

Both fiscal and revenue deficits are projected to fall compared to the Interim Budget, despite nominal GDP growth pegged at 10.5 per cent for FY25. Nominal GDP is projected at ₹326.4 trillion for FY25, lower than the Interim Budget estimate of ₹327.7 trillion.

Sitharaman initially projected the fiscal deficit at 5.9 per cent of GDP for FY24, revised it to 5.8 per cent, and further improved it to 5.6 per cent. However, there are critics of the government's "overemphasis" on fiscal consolidation even as the ministry talked against fixation to lowering fiscal deficit to 3 per cent as enshrined in the original fiscal responsibility and Budget management Act. Anil K Sood, co-founder of The Institute for Advanced Studies in Complex Choices, said fiscal consolidation was here to stay even though it was the least appropriate policy choice given the state of the economy. "The government seems committed to fiscal consolidation as revenue expenditure was only increasing by 6.2 per cent year-on-year in FY25, while tax revenue is expected to rise by 11 per cent," he said.