Fiscal deficit likely to be lower by 19 bps than Budget Estimates, says India Ratings

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The Centre's fiscal deficit, the difference between the expenditure and the income, is likely to be 19 basis points lower than the Budget Estimates during the current fiscal, India Ratings & Research (Ind-Ra) has said.

Finance Minister Nirmala Sitharaman, while presenting the full Budget in July this year, had pegged the deficit at 4.9 per cent of GDP. She had said: "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."

"Further, 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," she added.

According to the report by Ind-Ra, at the time of presentation of the Budget, it had opined that the fiscal arithmetic of the Budget was realistic. The high frequency

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indicators point towards some slowdown in economic activity in H1FY25 led, among other reasons, by slower government spending. The Centre is committed to achieving the fiscal deficit target of 4.5 per cent in FY26.

FISCAL OUTLOOK

It noted that the government's fiscal outlook for FY25 looks promising with the tax/GDP ratio likely to be higher than FY25 (BE). The government is expected to improve its fiscal position from FY25 and be on track to achieve its FY26 fiscal deficit target of 4.5 per cent of GDP. Despite some slippage on subsidies from FY25 levels, the capex is expected to be around ₹62000 crore lower than the FY25 (BE) of ₹11.11 lakh crore. "Even with this slippage, the capex in FY25 is estimated to have grown 10.6 per cent as against BE of 17.6 per cent," says Devendra Kumar Pant, Chief Economist and Head Public Finance, Ind-Ra.

The agency expects the FY25 gross and net tax revenue to be over 12 per cent and 8 per cent of GDP respectively, which is a 17-year high. The gross tax revenue in FY25 is forecasted to be 28 bps of GDP higher than FY25 (BE). Income tax and corporate tax are estimated to contribute around 81 per cent and over 10.5 per cent respectively to the additional gross tax revenue.

Based on the growth rate during April-September period, corporate tax collection growth in October-March period (H2 of FY25) appears to be optimistic. However, corporate tax and income tax collection in FY25 (till November 10, 2024) grew 11.2 per cent y-o-y and 22.6 per cent y-o-y, respectively.