

## FISCAL DEFICIT: ECONOMY

**NEWS:** Govt. meets 4.8% fiscal deficit target for 2024-25

### WHAT'S IN THE NEWS?

India successfully met its FY25 fiscal deficit target of 4.8% of GDP, driven by strong tax collections and disciplined expenditure, though disinvestment receipts fell short.

The achievement reflects fiscal prudence, aligning with long-term goals such as those recommended by the NK Singh Committee for sustainable debt and deficit control.

### Context

- As per **provisional data released by the Controller General of Accounts (CGA)**, the **Government of India has successfully met its fiscal deficit target** for the financial year **2024–25**.
- The actual **fiscal deficit stood at 4.8% of GDP**, aligning with the **Revised Estimates (RE)** announced earlier in the Union Budget.

### Key Fiscal Highlights of FY 2024–25

- **Fiscal Deficit:**
  - Stood at **₹15.77 lakh crore**, equating to **4.8% of the GDP**.
  - The target set under the Revised Estimates was also **4.8%, hence fully met**.
- **Total Government Revenue:**
  - Recorded at **₹30.78 lakh crore**.
- **Net Tax Revenue:**
  - Totaled **₹24.99 lakh crore**.
  - This constitutes **97.7% of the government's target**, showing strong tax collection performance.
- **Disinvestment Receipts:**
  - Government earned **₹10,131 crore** through disinvestment of Public Sector Undertakings (PSUs).
  - However, this figure is **significantly below the budgeted target**, contributing to **miscellaneous capital receipts**.
- **Total Expenditure:**
  - Stood at **₹46.55 lakh crore**, which is **97.8% of the revised estimate**.
- **Capital Expenditure:**

- Capital expenditure (CapEx) reached **₹10.52 lakh crore**, used for infrastructure and asset creation.
- **Revenue Expenditure:**
  - Revenue expenditure, which includes salaries, pensions, subsidies, and interest payments, stood at **₹36.03 lakh crore**.

## What is Fiscal Deficit?

- **Definition:**
  - Fiscal Deficit is the **gap between the government's total expenditure (revenue + capital) and its total non-borrowed receipts (revenue receipts + non-debt capital receipts)** in a financial year.
- **Formula:**
  - **Fiscal Deficit = Total Expenditure – (Revenue Receipts + Non-Debt Capital Receipts)**

## Implications of a High Fiscal Deficit

- **Inflationary Pressure:**
  - If the government borrows from the central bank (monetization), it increases money supply and leads to **inflation**.
- **Crowding-Out Effect:**
  - Government borrowing from markets can **reduce the availability of credit** for private sector businesses, raising interest rates and **discouraging private investment**.
- **Reduced Fiscal Space:**
  - High fiscal deficit limits the government's **flexibility to increase spending during economic downturns or crises**.
- **Higher Borrowing Costs:**
  - Persistent deficits lead to **reduced investor confidence**, compelling the government to offer **higher interest rates** to sell bonds.

## Benefits of Maintaining a Lower Fiscal Deficit

- **Improved Sovereign Credit Ratings:**
  - Credit agencies view **fiscal prudence positively**, enhancing India's creditworthiness and lowering external borrowing costs.
- **Lower Debt Servicing Costs:**

- With less debt accumulation, the government spends less on **interest payments**, allowing **higher development spending**.
- **Improved Balance of Payments (BoP):**
  - Reduced need for external debt **stabilizes the rupee** and **strengthens current account health**.
- **Boosted Investor Confidence:**
  - A lower fiscal deficit signals **macroeconomic stability**, attracting both **foreign direct investment (FDI)** and **domestic investment**.

#### **NK Singh Committee Recommendations (FRBM Review Committee, 2016)**

- **Debt-to-GDP Ratio Targets:**
  - Suggested an overall **60% debt-to-GDP ratio** for the general government:
    - **40% for the Centre**
    - **20% for the States**
  - To be achieved by **FY 2022–23**.
- **Fiscal Deficit Target:**
  - Recommended limiting the Centre's **fiscal deficit to 2.5% of GDP** by **FY23**.
- **Establishment of an Independent Fiscal Council:**
  - Proposed creation of a **three-member autonomous body** to provide non-partisan advice and oversight.
  - Key functions:
    - **Prepare multi-year fiscal forecasts**
    - **Advise on adjustments to fiscal policy targets**
    - **Enhance fiscal data quality and transparency**
    - **Assess justifications for deviations from fiscal targets**
- **Deviation Guidelines:**
  - Recommended that **grounds for fiscal slippage** be **pre-specified**, e.g., natural disasters, war, or economic crises.
  - The government **should not have discretion** to declare arbitrary conditions for fiscal deviation.

#### **Conclusion**

- The Government of India achieving its **fiscal deficit target in FY25** reflects a commitment to **fiscal prudence and responsible budgeting**, despite challenges like underperformance in disinvestment.
- However, meeting **medium-term fiscal consolidation goals**, as proposed by the **NK Singh Committee**, requires sustained improvement in **revenue mobilization**, **expenditure efficiency**, and **transparency through fiscal institutions**.
- Strategic fiscal management remains **vital for macroeconomic stability**, **development financing**, and **global investor confidence** in the Indian economy.

Source: <https://www.thehindu.com/incoming/govt-meets-48-fiscal-deficit-target-for-2024-25/article69638354.ece#:~:text=meets%204.8%25%20fiscal%20deficit%20target%20for%202024-2>