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DOING THE MATH: IT'S TAX BUOYANCY THAT SHRANK THE DEFICIT

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Against the backdrop of geopolitical uncertainties and war, the finance minister has strictly adhered to the macroeconomic stabilization function of the government in the interim budget 2024, with fiscal deficit-to-Gross Domestic Product (GDP) ratio pegged at 5.1% in FY25. She announced that the revised estimate of fiscal deficit-GDP ratio is at 5.8% for FY24. However, the quality of fiscal consolidation may suffer if this deficit target is achieved through fiscal austerity measures.

A quick glance at the fiscal arithmetic reveals that there is no severe fiscal austerity proposed in the budget. Given nominal GDP growth of 10.5% and aggregate tax revenue growth of 11.5%, the government has met its fiscal deficit target through tax buoyancy, and not through severe public expenditure reduction. The fiscal space is affected due to the lack of fiscal marksmanship relating to disinvestment proceeds. As against a 2023-24 Budget Estimate (BE) of ₹61,000 crore, the realized disinvestment proceeds were only ₹30,000 crore in 2023-24 Revised Estimate (RE). However, the BE for the 2024-2025 is ₹50,000 crore, which is seemingly a realistic target. The size of the government can be affected by polycrisis—the debt crisis, war, global supply chain disruptions, energy crisis and the climate crisis. There can be an inverse relationship between polycrisis and the size of the government. However, there is a conscious attempt by the government to enhance the total spending by 6%, within which the capital spending is increased by 11.11% in FY25.

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The capex is pegged at 3.4% of GDP in FY25. In the post pandemic fiscal strategy, high deficits and debts in India have been substantiated by linking it to high capital formation for supporting economic growth, especially when the central bank has been keeping the interest rates in hawkish mode.

There is no disturbing narrative that pubic debt-to-GDP has increased to over 80% under the Modi regime just because of the perceived multiplier effects of increased capex investment, which in turn "crowds in" private investment. The continued support of ₹1.3 trillion in long-term capex and interest free loans to States for capex infrastructure is indeed welcome, as States are doing the heavy lifting in terms of capital spending. What is contentious is the non-transparent off- budget borrowings for the capex spending by the States.

A recalibration of fiscal rules with revised thresholds for fiscal deficit and debt had been expected in the budget, against the backdrop of Centre-State financial relations. The 16th Finance Commission might take up the re-articulation of the fiscal rules and "escape clauses". However the budget refrained from the clauses related to any amendments to the existing Fiscal Responsibility and Budget Management (FRBM) Act, 2003. In the FRBM Amendment, 2018, India has done away with the "golden rule" of maintaining a zero revenue deficit. The revenue deficit-to-GDP ratio in India is still high, pegged at 2% in FY25. However, increased tax buoyancy and subtle revenue expenditure repriotization have helped the reduction in revenue deficit-to-GDP ratio from 2.8% in 2023-24 (RE) to 2% in 2024-25 (BE).

A non-zero revenue deficit in times of polycrisis is welcome, to support social infrastructure in education and health, social security measures, food security and employment generation programmes. Containment of revenue deficit is detrimental as a post-pandemic fiscal strategy.