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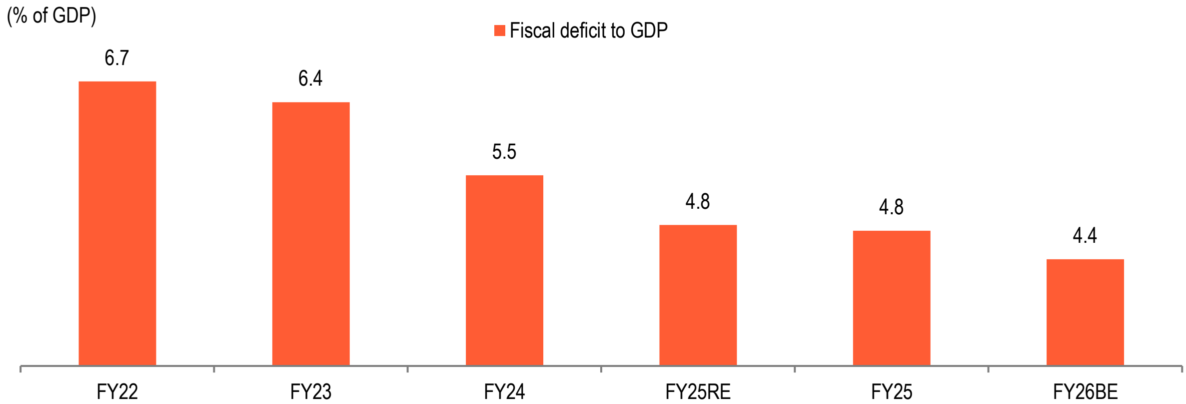
Fiscal deficit for FY25 meets target

Centre's fiscal deficit was at 4.8% in FY25, in line with government's revised projections for FY25. Better than expected growth in nominal GDP (9.8% as per provisional estimate versus 7.6% as per FY25RE), and some trimming in expenditure helped government achieve this target. Revenue growth noted some moderation, mainly led by revenue receipts. Within revenue receipts, income tax and GST collections registered some shortfall. Corporate tax collections and non-tax revenue growth outperformed FY25RE targets. On the spending front, while capital expenditure surpassed its revised budgetary FY25 target, revenue expenditure witnessed some shortfall. This was not on account of subsidies, as both food and fertilizer subsidies fell in line with budgeted projections. Major ministries which registered higher than budgeted spending included: consumer and food affair, road & transport, rural development, home affairs and renewable energy. For FY26, given that both revenue collection and capital expenditure, is off to a good start (Apr'25 data), we believe that government is likely to meet is revenue, expenditure and fiscal deficit (4.4%) targets this year.

Fiscal Deficit at 4.8% in FY25: Centre's fiscal deficit came in line with the revised estimates at 4.8% of GDP in FY25. In absolute terms, fiscal deficit was broadly stable compared to last year at Rs 15.8 lakh crore (Rs 15.7 lakh crore in FY24). Despite slight moderation in total receipts, the fiscal deficit ratio got support from higher than expected nominal GDP growth and trimmed expenses. Nominal GDP rose by 9.8% in FY25, versus projected 7.6%, giving headroom of ~Rs 6.6 lakh crore over the revised estimate. Centre's total receipts came in at Rs 30.8 lakh versus RE of Rs 31.5 lakh crore, and total expenditure was lower by a similar amount (Rs 46.6 lakh crore versus RE of Rs 47.2 lakh crore).

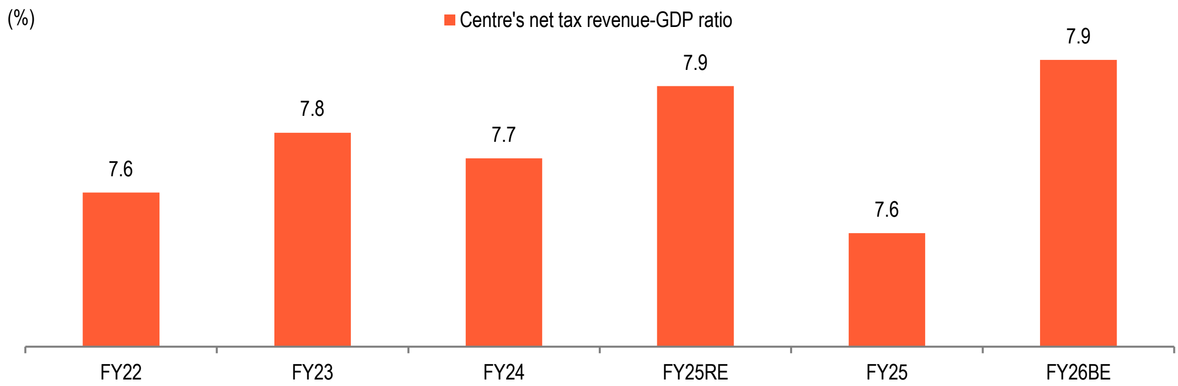
Figure 1: Fiscal deficit meets target in FY25; remains on track for FY26



Source: CEIC, Bank of Baroda Research

Receipt growth: Centre's overall receipts (excluding debt receipts) came in at Rs 30.8 lakh crore in FY25 versus RE of Rs 31.5 lakh crore, thus implying small shortfall of Rs ~Rs 68,000 crore. Compared with last year, overall receipts are still 12.8% higher, easing slightly from 14.4% growth noted in FY24. Within this, net revenue receipts came in at Rs 30.4 lakh crore (11.3% YoY), slightly down from Rs 30.9 lakh crore estimated as per RE. Amongst revenue receipts, direct tax collections fell short by ~Rs 37,000 crore, totaling to Rs 21.7 lakh crore (Rs 22.4 lakh crore in FY25RE). Out of this, while corporate tax collections (at Rs 9.9 lakh crore) surpassed the revised budget estimates, income tax collections (at Rs 11.8 lakh crore) fell short of target. Indirect tax collections also came in lower at Rs 15.6 lakh crore versus RE of Rs 16 lakh crore, due to ~Rs 30,000 miss in GST collections (at Rs 10.3 lakh crore).

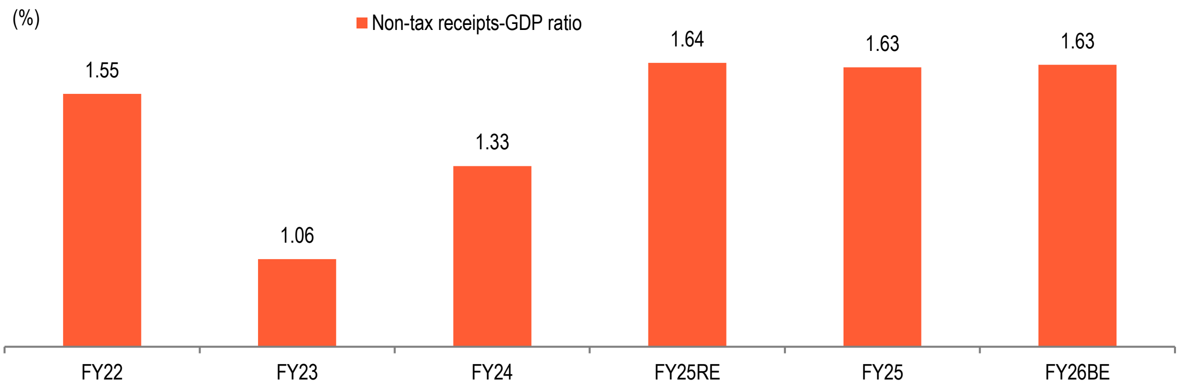
Figure 2: Centre's net tax revenue remains above 7.5% for 4th consecutive year in FY25



Source: CEIC, Bank of Baroda Research

Higher non tax receipts: Non tax receipts of the government surpassed the budget's revised estimate of Rs 5.31 lakh crore to come in at Rs 5.38 lakh crore in FY25, thus registering 33.8% YoY growth, versus expected 32.2% growth. This was mainly on account on ~Rs 19,000 crore excess revenue under dividend and profits and ~Rs 7,000 crore excess recorded as interest receipts. This helped meet shortfall of ~Rs 18,000 crore in 'other non-tax' revenue segment.

Figure 3: Centre's non tax revenue receipts remain steady



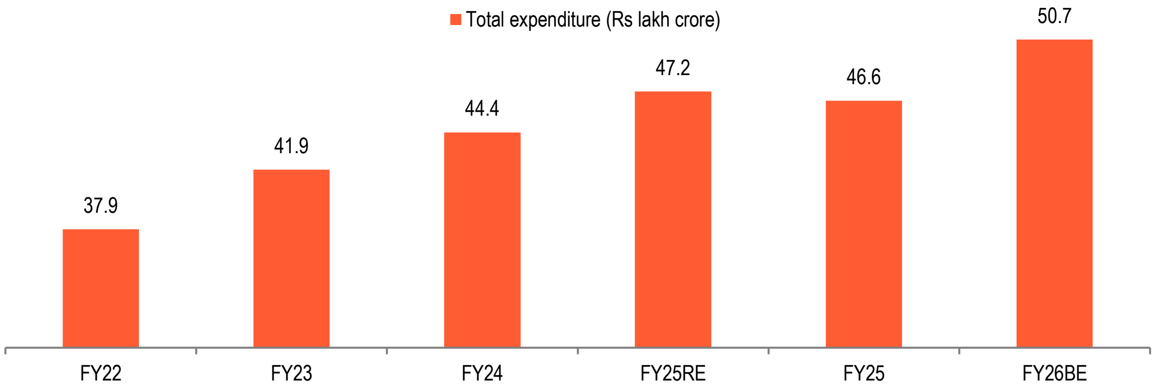
Source: CEIC, Bank of Baroda Research

Expenditure sees impact of election year: Due to general elections falling in Q1 of FY25, spending effectively started from Q2 onwards. In FY25, government spent Rs 46.6 lakh crore versus RE of Rs 47.2 lakh crore, thus implying shortfall of Rs ~Rs 61,000 crore. As a result, overall spending was up by 4.8% in FY25 versus 6% in FY24. Within this, revenue expenditure drove the moderation, as it was down by ~95,000 crore to Rs 36 lakh crore versus Rs 37 lakh crore as per FY25RE. Thus it noted 3.1% YoY growth in FY25 (5.8% as per RE), which still higher than 1.2% recorded in FY24. This easing was not on account of subsidies, as they came broadly in line (Rs 3.88 lakh crore) with the budget's revised numbers (Rs 3.83 lakh crore). The slight increase was on account of food and fertilizer subsidies.

On the capex front, government maintained its focus on improving the quality of spending, as capex surpassed the FY25RE of Rs 10.2 lakh crore to reach Rs 10.5 lakh crore in actual, thus registering 10.8%

growth versus 7.3% projected in the budget, and despite coming off a high base of 28.3% growth in FY24.

Figure 4: Centre's total expenditure in FY25 slightly lower than RE



Source: CEIC, Bank of Baroda Research

Amongst major ministries, those which spent more than the revised budget estimates included: ministry of consumer affairs, external affairs, health and family welfare, road transport, rural development, home affairs and renewable energy. Those which spent less than estimated included: ministry of railways, corporate affair, HRD, development of north-east, electronics & IT, environment &forest, animal husbandry & fisheries, and heavy industries.

Table 1: Ministry-wise expenditure

Ministries (%YoY)	FY25RE	FY25
Ministry of Railways	5.0	3.9
Ministry of Defence	5.2	4.3
Ministry of Consumer Affairs, Food and Public Distribution	(8.5)	(7.5)
Ministry of Rural Development	7.5	9.6
Ministry of Home Affairs	11.9	14.1
Ministry of Human Resource Development	(7.5)	(10.2)
Ministry of Road Transport and Highways	1.6	8.6
Ministry of Chemicals and Fertilisers	(2.4)	(2.5)
Ministry of Petroleum and Natural Gas	21.2	18.4
Ministry of Agriculture	19.6	18.3
Ministry of Health and Family Welfare	8.2	9.8

Source: CEIC, Bank of Baroda Research

Outlook for FY26: For the current fiscal year, government has budgeted a fiscal deficit of 4.4% (% of GDP), assuming 10.1% growth in nominal GDP. We expect this growth to be ~11%, as we believe real GDP will range between 6.4-6.6% this year. Assuming this as base case scenario, government is expected to have some additional headroom to meet unforeseen expenditure on account of defense. Given that government is off to a speedy start in FY26, with Apr'25 data showing that revenue receipts are already at 7.5% of the budgeted target versus at 6.8% of target achieved last year during the same period, we expect government to meet its revenue targets this year. Income tax cut will also give a boost to consumption, which in turn will support indirect tax receipts. On the spending front, keeping up with past trends, government has begun front loading of expenditure from Q1 itself, with capex in Apr'25 already at 14.3% of FY26BE versus 8.9% last year during the same period. Despite this, fiscal deficit still only at 11.9% of FY26BE versus 13% last year. We thus believe, government will be able to meet its fiscal deficit target this year.

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