सत्यमेव जयते

GOVERNMENT OF INDIA

Statements of Fiscal Policy as required under the Fiscal Responsibility and Budget Management Act, 2003

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February, 2025

MINISTRY OF FINANCE
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PREFACE

The Fiscal Responsibility and Budget Management Act, 2003, was enacted with a view to provide a legislative framework for reduction of deficit and thereby debt, of the Central Government to a sustainable level over a medium term so as to ensure inter-generational equity in fiscal management and long term macro-economic stability. The Fiscal Responsibility and Budget Management Act, 2003 and the Fiscal Responsibility and Budget Management Rules, 2004 made under Section 8 of the Act came into force from 5th July 2004.

The FRBM framework mandates the Central Government to limit the Fiscal Deficit upto three per cent of Gross Domestic Product by 31st March, 2021. It further provides that the Central Government shall endeavour to limit the General Government Debt to 60 per cent of GDP and the Central Government Debt to 40 per cent of GDP, by 31st March, 2025.

As on date, the Fiscal Deficit is the only operational target for fiscal consolidation. In RE 2024-25, the Government has revised its Fiscal Deficit target to 4.8 per cent of GDP. Further, in line with the commitment made in the Budget Speech for FY 2021-22, the fiscal deficit to GDP in the FY 2025-26 is projected at 4.4 per cent.

This document contains the Macroeconomic Framework Statement and Medium-term Fiscal Policy cum Fiscal Policy Strategy Statement. They provide an assessment of the growth prospects of the economy and strategies of the Government in the forthcoming financial year relating to taxation, expenditure, market borrowings and other liabilities. A Statement of deviation explaining the reasons for deviation from the fiscal targets mentioned in Section 4 and compliance obligations under Section 7(3)(b) of the FRBM Act, 2003 on the Central Government, has also been included. The FRBM policy statements are hereby laid before both the Houses of the Parliament.

1. MACRO-ECONOMIC FRAMEWORK STATEMENT

MACRO-ECONOMIC FRAMEWORK STATEMENT 2024-25

Global Economy

1. In the World Economic Outlook of January 2025, the International Monetary Fund (IMF) projects the global economy to grow at 3.3 per cent in calendar year 2025 and 2026. This projected growth is below its average of the first two decades of this century (2000-2019). While the global headline inflation is expected to decline, it is likely to be more in the advanced economies than in emerging markets and developing economies. The risks to medium term growth prospects still abound and tilt the baseline scenario to the downside amid elevated levels of policy uncertainty.

2. Going forward, while divergent paths of monetary policies across countries could generate significant fluctuations in exchange rates and capital flows, emerging protectionism can fragment global trade flows. Therefore, rebuilding of fiscal buffers by countries is seen as a pre-requisite to be able to respond to unforeseen adverse events.

Indian Economy

Economic Growth

3. As per the first advance estimates published by the National Statistics Office, India's real and nominal GDP growth rates have been pegged at 6.4 per cent and 9.7 per cent, respectively, in FY 2024-25.

4. Private final consumption expenditure is expected to grow by 7.3 per cent in FY 2024-25. The real growth of gross fixed capital formation is estimated at 6.4 per cent in FY 2024-25. From the aggregate supply angle, real Gross Value Added (GVA) is estimated to grow by 6.4 per cent.

5. In FY 2024-25, while the agriculture sector is expected to rebound with an estimated growth of 3.8 per cent due to better Kharif crop output and good Rabi crop prospects, the industrial sector is likely to register a growth of 6.2 per cent. Continued global uncertainty has affected the manufacturing exports. However, growth in the services sector is projected at 7.2 per cent.

Inflation

6. Inflationary pressures have moderated in FY 2024-25, with average retail inflation easing to 4.9 per cent (April-December) compared to 5.4 per cent in 2023-24. This decline was driven by benign core (non-food, non-fuel) inflation trends. The overall retail inflation remained within inflation-band of 4±2 per cent in FY 2024-25 (April-December). Supply-side measures from the Government - strengthening the buffer stock of essential food items, periodic open market releases, subsidised retail sale of items like rice, wheat flour, pulses and onion in specified outlets, easing of import restrictions on essential food items, etc. have helped contain food inflation.

External Sector

7. India's merchandise exports grew at 1.6 per cent (YoY basis) in April-December 2024. During the same period, non-petroleum exports recorded a growth of 7.1 per cent. Further, the non-petroleum and non-gems and jewellery exports rose by 9.1 per cent. Merchandise imports grew by 5.2 per cent during April-December 2024. This was largely due to rise in non-oil, non-gold imports. The merchandise trade deficit in April-December 2024 is pegged at USD 210.8 billion.

8. India's services exports recorded a healthy growth of 11.6 per cent in April-December 2024. It contributed to net services receipts of USD 131.3 billion in April-December 2024.

9. India's current account deficit (CAD) moderated to 1.2 per cent of GDP in Q2 of FY 2024-25 against 1.3 per cent of GDP in Q2 of FY 2023-24.

10. Foreign Direct Investment (FDI) flows recorded a revival in FY 2024-25. While the gross FDI inflows increased from USD 42.1 billion (in April-October of FY 2023-24) to USD 48.6 billion (in the same period of FY 2024-25), net FDI inflows are pegged at USD 14.5 billion in April-October of the current FY.

11. India's foreign exchange reserves are estimated at USD 640.3 billion at the end of December 2024. It is sufficient to cover about 90 per cent of the country's external debt. The import cover - a crucial indicator of external sector stability - is 11 months as of November 2024. Further, the ratio of short-term debt to foreign exchange reserves decreased from 20.3 per cent at the end of June 2024 to 18.9 per cent at the end of September 2024.

Developments in Capital Markets

12. Total resource mobilisation from primary markets (equity and debt) stands at ₹11.1 lakh crore during April-December 2024, recording a growth 5 per cent over FY 2023-24. Number of Demat accounts has grown by 33 per cent to 18.5 crore as of December 2024 on a YoY basis. In the equity cash segment, individual investor share turnover was about 35.6 per cent from April to December 2024. There were 11.5 crore unique investors with Demat accounts and 5.6 crore unique investors in mutual funds at the end of December 2024.

Monetary and liquidity conditions

13. During April-December 2024, the Monetary Policy Committee (MPC) of the RBI, in its various meetings, decided to keep the policy repo rate unchanged at 6.5 per cent. Until its August 2024 meeting, the Committee retained its stance of 'withdrawal of accommodation' to ensure that inflation aligns with the target while supporting growth. The MPC, in its October 2024 meeting, changed the monetary policy stance from 'withdrawal of accommodation' to 'neutral'. In its December 2024 meeting, a reduction in Cash Reserve Ratio (CRR) to 4.0 per cent of the net demand and time liabilities (NDTL), from 4.5 per cent, was announced.

14. Gross non-performing assets (GNPA) ratio of scheduled commercial banks (SCBs) has declined from its peak in FY 2017-18 to a 12-year low of 2.6 per cent at the end of September 2024. Lower GNPAs and higher provisions accumulated in recent years contributed to a decline in net NPAs to around 0.6 per cent at the end of September 2024. The restructured standard advances (RSA) ratio (share of RSA in total gross loans and advances of SCBs) declined from 1.8 per cent at the end of March 2022 to 0.7 per cent at the end of September 2024. All major bank groups have reported a decrease in this ratio.

15. As transmission was faster for lending rates relative to deposit rates and the overall yield on assets has remained broadly stable during the last year, the net interest margin (NIM) has declined slightly across all bank groups. Despite a contraction in NIM, return on equity and return on assets ratios improved in September 2024.

Central Government Finances

16. Public finances of the Union Government have continued to build on the improvements seen in the preceding years. As of December 2024, the fiscal deficit of the Union Government was 56.7 per cent of the budget estimate for FY 2024-25. This is in line with the target for the full year.

17. During April-December 2024, gross tax revenues increased by 10.8 per cent over the corresponding period of the previous year. On the whole, revenue receipts of the Union Government improved by 12.2 per cent in April-December 2024 compared to April-December 2023.

18. Total expenditure of the Union Government increased by 5.8 per cent (YoY) during April - December 2024. After passage of the Union Budget (Regular) for FY 2024-25 in August 2024, the pace of capital expenditure increased by 27.6 per cent (YoY) during July-December 2024. The overall fiscal situation in the current financial year is stable.

Growth Outlook

19. Global macro-economic challenges and domestic developments will influence the growth outlook for the Indian economy in FY 2025-26. While the Government's continued public capital investment push and decline in inflation could positively impact growth, continued geo-political tensions and emerging protectionism pose risks.

20. The first advance estimates published by the National Statistics Office pegs India's real and nominal GDP growth rates at 6.4 per cent and 9.7 per cent, respectively, in FY 2024-25. Inflation is expected to decline in FY 2025-26. The RBI has projected inflation at 4.6 per cent and 4.0 per cent in Q1 and Q2 of FY 2025-26, respectively. Even though the outlook for commodity prices remains benign, geopolitical triggers may aggravate price pressures.

Macroeconomic Framework Statement (Economic Performance at a Glance)					
S. No.	**Item**	**Absolute value**		**Percentage change**	
		April-December		**April-December**	
		2023-24	**2024-25**	**2023-24**	**2024-25**
Real Sector					
1	**GDP at Market Prices (₹ Crore)@**				
(a)	At current prices	29535667	32411406	9.6	9.7
(b)	At 2011-12 prices	17381722	18488381	8.2	6.4
2	Index of Industrial Production@@	143.4	149.3	6.5	4.1
3	Wholesale Price Index (2011-12=100)	151.5	154.8	-1.1	2.2
4	Consumer Price Index: Combined (2012=100)	183.6	192.6	5.5	4.9
5	Money Supply (M3) (₹ thousand crore)$	24256	26512.5	11.0	9.3
6	**Imports at current prices***				
(a)	In Crore	4189495	4467342	-4.2	6.6
(b)	In USD Million	506392	532482	-7.6	5.2
7	**Exports at current prices***				
(a)	In Crore	2619157	2698637	-2.2	3.0
(b)	In USD Million	316650	321709	-5.7	1.6
8	Trade Balance (USD Million)*	-189742	-210773	-10.6	11.1
9	**Foreign Exchange Assets**				
(a)	In Crore$	5185784	5476869	11.4	5.6
(b)	In USD Million$	623200	640279	10.7	2.7
10	Current Account Balance (USD Billion) ##	-20.2	-21.4	-	-
Government Finances (₹ crore)**					
1	Revenue Receipts	2042289	2290710	15.4	12.2
2	Gross tax revenue	2482499	2750428	14.4	10.8
3	Tax Revenue (net to Centre)	1729931	1843053	11.2	6.5
4	Non-Tax Revenue	312358	447657	45.8	43.3
5	Capital receipts	1011928	941384	-3.4	-7.0
	of which				
6	Recovery of loans	19597	18301	19.2	-6.6
7	Other Receipts	10053	8994	-74.0	-10.5
8	Other borrowings and liabilities	982278	914089	-1.1	-6.9
9	Total Expenditure	3054217	3232094	8.4	5.8
10	Revenue Expenditure	2380587	2546757	2.3	7.0
11	Capital Expenditure	673630	685337	37.5	1.7
12	Revenue Deficit	338298	256047	-39.4	-24.3
13	Fiscal Deficit	982278	914089	-1.1	-6.9
14	Primary Deficit	234071	105776	-25.0	-54.8

@: GDP for 2024-25 is the First Advance Estimate and 2023-24 is a Provisional Estimate (both for full fiscal years).
@@: April – November
**: On a Customs basis.*
$: Outstanding as of 27th December 2024, and percentage change year-on-year.
##: April-September
***: April-December figures for 2023-24 and 2024-25 are Provisional Estimates as reported by the Controller General of Accounts.*

2. MEDIUM TERM FISCAL POLICY CUM FISCAL POLICY STRATEGY STATEMENT

1. The Union Budget for FY 2025-26 unveils a futuristic grid that aims at transforming India into a developed economy and prosperous society by 2047. Its key elements, inter-alia, include measures to:

- Foster and sustain economic growth that is equitable and inclusive, through cross-sectoral reforms,
- Deepen productive employment intensity of the economy and boost domestic demand,
- Enhance investments for the development of human capital,
- Adopt 'saturation approach' to social welfare and development along with strengthened social safety net, and
- Ensure sustainability of public finances through prudent and transparent fiscal management.

2. Major fiscal indicators of the Union Government in the Revised Estimates (RE) of FY 2024-25 and the Budget Estimates (BE) of FY 2025-26 as a per cent of GDP, are summarized in the table below.

Fiscal Indicators - Rolling Targets as a Percentage of GDP

	Revised Estimates	**Budget Estimates**
	2024-25	**2025-26**
1. Fiscal Deficit	4.8	4.4
2. Revenue Deficit	1.9	1.5
3. Primary Deficit	1.3	0.8
4. Tax Revenue (Gross)	11.9	12.0
5. Non-Tax Revenue	1.6	1.6
6. Central Government Debt	57.1	56.1

Notes:

1. *"GDP" is the Gross Domestic Product at Current Market Price.*
2. *Central Government Debt includes external public debt valued at current exchange rates, total outstanding liabilities on Public Account including investment in Special Securities of States under NSSF and EBR liabilities, etc.*
3. *Liabilities on account of investment in Special Securities of States, under NSSF, are 0.9 per cent and 0.7 per cent of GDP in RE 2024-25 and BE 2025-26, respectively. The Central Government Debt net of these liabilities comes at 56.2 per cent and 55.4 per cent of GDP in RE 2024-25 and BE 2025-26, respectively.*

3. The nimble fiscal policy strategy adopted by the Union Government in the post CoVID-19 pandemic years, has generated desired fiscal policy results while providing for the country's development needs. In line with the commitment made in the Budget for FY 2021-22, the country is well on track to attain a fiscal deficit to GDP ratio below 4.5 per cent in FY 2025-26. Continuing on this path, the Union Government in Budget Speech of FY 2024-25 (Regular Budget) has outlined a medium term fiscal policy stance. It seeks to keep the Central Government fiscal deficit to GDP ratio such that the debt to GDP ratio is on a declining path (For details, see Annex I).

4. Given continuance of global uncertainty and visible benefits of retaining flexibility in conducting fiscal policy operations, rolling targets for next two years have not been provided. A Statement explaining the reasons thereof for deviation from the fiscal commitments / obligations mentioned in Section 4 and compliance obligations under Section 7(3)(b) of the FRBM Act, 2003, is provided at the end of this Statement.

Fiscal Outlook and Fiscal Policy Strategy for FY 2024-25

5. The Central Government's total expenditure during April - December 2024 was ₹32.32 lakh crore. Within the total expenditure, capital expenditure stood at ₹6.85 lakh crore. Effective capital expenditure (defined as capital expenditure plus Grant-in-Aid for creation of capital assets) was at ₹8.85 lakh crore.

6. Receipts of the Central Government during April-December 2024 have been healthy. Gross Tax Revenue (GTR) recorded YoY growth of about 10.8 per cent in first nine months of 2024 over the same period in 2023. Revenue Receipts (Tax Net to Centre plus Non-Tax Revenue) of the Centre were at ₹22.91 lakh crore. This was about 73.2 per cent of budget estimates of FY 2024-25 and is also in line with last five years' moving average of 73.4 per cent of BE.

7. During the first nine months of FY 2024-25, Direct and Indirect tax receipts were ₹16.19 lakh crore and ₹ 11.31 lakh crore, respectively. It represents a YoY growth of around 13.3 per cent and 7.4 per cent, respectively.

8. Non-Tax Revenues (NTR) of the Union Government in the first nine months of FY 2024-25 were ₹4.48 lakh crore. It was 82.0 per cent of BE of FY 2024-25 and higher than the five years' moving average of 80.0 per cent of BE.

9. Fiscal Deficit at the end of December 2024, is estimated at ₹9.14 lakh crore (or 56.7 per cent of the Budget Estimate of FY 2024-25). Fiscal Assessment vis-à-vis mid-year benchmarks, as required under Rule 7 of FRBM Rules, 2004, has been carried out for H1 of FY 2024-25. There is no deviation in the three mid-year benchmarks prescribed under the FRBM Rules.

10. Given the above, the total expenditure in Revised Estimates (RE) 2024-25 is estimated at ₹47.16 lakh crore. This translates into a growth of 6.1 per cent over actuals of FY 2023-24. The Revenue Expenditure and Capital Expenditure are estimated at ₹36.98 lakh crore and ₹10.18 lakh crore, respectively, in RE 2024-25. The revenue receipts and non-debt capital receipts of the Central Government are projected at ₹30.88 lakh crore and ₹0.59 lakh crore, respectively.

11. Fiscal Deficit in RE 2024-25 is estimated at 4.8 per cent of GDP, which is lower than BE 2024-25. The Revenue Deficit and Primary Deficit are projected at 1.9 and 1.3 per cent of GDP, respectively, in RE 2024-25.

12. The projected fiscal deficit of ₹15.70 lakh crore in RE 2024-25 is planned to be financed through various means including market borrowing, NSSF, etc. The Gross and Net borrowings through dated securities (G-Sec) were planned at ₹14.01 lakh crore and ₹11.63 lakh crore in BE 2024-25, respectively. Up to January 27, 2025, the Government has completed Gross and Net borrowings of ₹12.44 lakh crore and ₹10.06 lakh crore, respectively, without any disruption with a weightage average yield of about 6.97 per cent and weightage average maturity of about 20.65 years.

13. Central Government debt, based on FRBM definition, is estimated to be at 57.1 per cent of GDP in RE 2024-25. It also includes the liabilities on account of investment in Special Securities of the States, under the NSSF, which are expected to be 0.9 per cent of GDP in RE 2024-25. The Central Government debt net of these liabilities is about 56.2 per cent of GDP in RE 2024-25.

14. The FRBM Act, 2003, mandates the Central government to specify the annual target for assuming contingent liabilities in the form of guarantees. Accordingly, Section 4(1)(c) of the FRBM Act prescribes a ceiling of 0.5 per cent of GDP for assuming incremental guarantees in a financial year. The Guarantees given by the Union Government were about ₹3.31 lakh crore at the end of FY 2023-24 (or 1.1 per cent of GDP). It has declined from a level of 3.3 per cent of GDP in FY 2004-05. During FY 2023-24, net accretion to the stock of guarantees was ₹41,062 crore (or 0.14 per cent of GDP). This is well within the limit of 0.5 per cent set under the FRBM Act. A disclosure statement on outstanding guarantees is appended in Part B of the Receipt Budget 2025-26.

Fiscal Outlook for FY 2025-26

15. In the Budget for FY 2025-26, the nominal GDP is projected to grow by 10.1 per cent over the first Advance Estimates of FY 2024-25.

16. The fiscal year 2025-26 is important in two respects. It is the last year of the 15th Finance Commission cycle as well as the terminal year of the glide path for fiscal consolidation announced in the

Budget Speech of FY 2021-22. As committed in FY 2021-22, the fiscal deficit to GDP is below 4.5 per cent of GDP in BE 2025-26. The Union Government has also announced a new glide path with debt to GDP ratio as the fiscal anchor. [Details at Annex -1].

17. The Fiscal Deficit in BE 2025-26 is projected at ₹15.69 lakh crore, slightly lower than the Fiscal Deficit of ₹15.70 lakh crore in RE 2024-25. This translates into fiscal deficit to GDP ratio of 4.4 per cent in FY 2025-26 as against 4.8 per cent in RE 2024-25. Similarly, the Revenue Deficit is estimated at 1.5 per cent of GDP in BE 2025-26 against 1.9 per cent of GDP in RE 2024-25.

Revenue Receipts (Tax and Non-tax)

18. In BE 2025-26, gross tax revenue (GTR) is estimated at ₹42.70 lakh crore. It represents a growth of 10.8 per cent over RE 2024-25 with an implied tax buoyancy of 1.07. Direct Taxes at ₹25.20 lakh crore are the major contributor to GTR (59.0 per cent of GTR). Indirect taxes are estimated at ₹ 17.40 lakh crore.

19. In BE 2025-26, the GTR to GDP ratio is estimated at 12.0 per cent, which is 0.1 percentage point higher than the RE of 2024-25. After accounting for tax devolution to States, the Tax Revenues (Net to Centre) are projected at ₹28.37 lakh crore.

20. In BE 2025-26, Revenue Receipts of the Union Government [comprising Tax Revenues (Net to Centre) and Non-Tax Revenues (NTR)], are estimated at ₹34.20 lakh crore. Revenue Receipt estimates assume a growth of 10.8 per cent over RE 2024-25. NTR of the Central Government is projected at ₹5.83 lakh crore.

Non-Debt Capital Receipts

21. In BE 2025-26, the Non-Debt Capital Receipts (comprising of recovery of loans & advances and other miscellaneous capital receipts) are estimated at ₹76,000 crore. However, the actual realisation of other miscellaneous capital receipts depends on the prevailing market conditions during the year.

Expenditure

22. The total expenditure of the Central Government in BE 2025-26 is pegged at ₹50.65 lakh crore (14.2 per cent of GDP) recording a growth of 7.4 per cent over ₹47.16 lakh crore provided in RE 2024-25.

Effective Capital Expenditure

23. Effective Capital Expenditure of the Union Government includes budgeted capital expenditure and Grants-in-aid for creation of capital assets. Together, they constitute investments that enhance and upgrade productive capacity of the economy.

24. The Budget for FY 2025-26 allocates ₹11.21 lakh crore (3.1 per cent of GDP) towards capital expenditure. It includes capital support to States through interest free long-term loans with an outlay of ₹1.50 lakh crore. The budgeted capital outlay is almost 3.3 times of the outlay in FY 2019-20. In BE 2025-26, the allocation under Grants-in-aid for creation of capital assets is projected at ₹4.27 lakh crore (or 1.2 per cent of GDP). Thus, the effective capital expenditure in FY 2025-26 is estimated at ₹15.48 lakh crore (or 4.3 per cent of GDP).

Revenue Expenditure

25. The Revenue Expenditure for BE 2025-26 has been estimated at ₹39.44 lakh crore. This translates into 11.0 per cent of GDP in BE 2025-26, compared to 11.4 per cent in RE 2024-25. Select items under the revenue expenditure head are discussed briefly in the following paragraphs.

(i) Interest Payments

26. In BE 2025-26, the Interest payments are estimated at ₹12.76 lakh crore against ₹11.63 lakh crore in BE 2024-25. The estimates of interest payment depend on the prevailing domestic and international interest rates.

(ii) Major Subsidies

27. Major subsidies, which include food (₹2.03 lakh crore), fertiliser (₹1.68 lakh crore), and petroleum (₹0.12 lakh crore), are estimated at ₹3.83 lakh crore in BE 2025-26. Major subsidies at 1.1 per cent of GDP form roughly 9.7 per cent of Revenue Expenditure in BE 2025-26.

(iii) Pensions

28. Pension commitment of the Union Government (for both civilian and defence together) is estimated at ₹2.77 lakh crore in BE 2025-26 (or 0.8 per cent of GDP) compared to ₹2.75 lakh crore in RE 2024-25 (0.8 per cent of GDP). The Pension payments are spread across the four Government of India Demands for Grants viz, Defence (Pensions), Civil (Pensions), Telecommunications and Department of Health & Family Welfare.

(iv) Tax devolution to the States

29. Based on recommendations of the Finance Commission (FC), the Union Government devolves taxes to States during the FC cycle. FY 2025-26 is the last year of the 15th FC cycle. In BE 2025-26, tax devolution to the States is estimated at ₹14.22 lakh crore compared to ₹12.87 lakh crore in RE 2024-25. It includes an additional amount of ₹12,764 crore on account of dues payable by the Union Government to States under devolution from the previous years. Tax devolution to the States in BE 2025-26 is 4.0 per cent of GDP and ₹1.36 lakh crore more than tax devolution of RE 2024-25 (including past arrears).

(v) Finance Commission Grants

30. In addition to Tax Devolution, the Central Government also provides Finance Commission grants to States under Article 275(1) of the Constitution. In BE 2025-26, the Finance Commission grants are estimated at ₹1.33 lakh crore. Within the Finance Commission grants, the Revenue Deficit Grants to the States, Grants for Urban and Rural Local Bodies are estimated at ₹0.14 lakh crore, ₹0.26 lakh crore and ₹0.49 lakh crore, respectively. Thus, total resources shared, tax devolution and FC Grants, with States through the Finance Commission route are estimated at ₹ 15.55 lakh crore in BE 2025-26.

Borrowings- Public debt and other liabilities

31. The Union Government finances its fiscal deficit through various instruments. They include dated securities (G-Sec), NSSF, external assistance, etc. In BE 2025-26, the Central Government has estimated the gross and net borrowings through dated securities (G-Sec) at ₹14.82 lakh crore (or 4.2 per cent of GDP) and ₹11.54 lakh crore (or 3.2 per cent of GDP), respectively. The gross borrowing in FY 2025-26 includes repayment of CoVID-19 related loans which will become due during the financial year. In BE 2024-25, the gross and net borrowings were projected at ₹14.01 lakh crore (4.3 per cent of GDP) and ₹11.63 lakh crore (3.6 per cent of GDP), respectively. Thus, the Gross and Net Borrowings as per cent of GDP in BE 2025-26 are lower than the country's nominal GDP growth projection of 10.1 per cent, and are estimated to decline with the pace of fiscal consolidation.

32. Other sources of financing the Fiscal Deficit are NSSF investments in Special securities of the Central Government, net external assistance and the Public Account balances, etc. For financing the Fiscal Deficit in BE 2025-26, borrowing from NSSF is estimated at about ₹3.43 lakh crore; whereas those from external sources and State Provident Funds are estimated at ₹23,490 crore and ₹5,000 crore (on net basis), respectively.

33. In accordance with the definition of 'Central Government debt' as prescribed in the FRBM Act, Central Government debt is estimated at 56.1 per cent of GDP in BE 2025-26 (which is lower than 57.1 per cent of GDP in RE 2024-25). The liabilities of the Central Government are mostly domestic in nature with a small portion (3.4 per cent of total liabilities at book value) sourced from external sector. Also, within the external sector, most of liabilities have been contracted through multilateral agencies.

34. A portion of outstanding liabilities on Public Account of India is on account of NSSF investment in the State Government special securities (which are de facto liabilities of the State Governments) and would be repaid by the States at the time of maturity. If such investments are excluded, the adjusted Central Government debt is estimated at 55.4 per cent of GDP at the end of FY 2025-26.

Assessment of sustainability relating to

(i) The balance between Revenue receipts and Revenue expenditure

35. In BE 2025-26, the revenue expenditure and revenue receipts of the Union Government are estimated at ₹39.44 lakh crore (11.0 per cent of GDP) and ₹34.20 lakh crore (9.6 per cent of GDP), respectively. The gap between the revenue expenditure and receipts is the Revenue Deficit, which is estimated at 1.5 per cent of GDP in BE 2025-26. The ratio of revenue receipts to revenue expenditure is projected at 86.7 per cent in BE 2025-26. This marks an improvement when compared to 83.5 per cent in RE 2024-25. Further, if adjustments on account of Grants-in-aid for creation of capital assets - these are capital in nature but accounted for as revenue expenditure - is considered, the ratio of revenue receipts to revenue expenditure is about 97.3 per cent in BE 2025-26.

(ii) The use of capital receipts including market borrowings for generating productive assets

36. Ratio of Capital Expenditure to Fiscal Deficit measures the extent to which borrowed resources are used for financing the capital expenditure or asset creation of the Government. In BE 2025-26, this ratio is estimated at 71.5 per cent which higher than 64.9 per cent in RE 2024-25 and 57.4 per cent in FY 2023-24. Further, the ratio of Effective Capital Expenditure to Fiscal Deficit is estimated at 98.7 per cent in BE 2025-26 as compared to 84.0 and 75.7 per cent in RE 2024-25 and FY 2023-24, respectively. This indicates progressive improvement in the quality of public expenditure over the years.

Fiscal Policy Strategy for 2025-26

37. The fiscal policy stance for FY 2025-26, inter-alia, includes cross-sectoral reforms to augment the economy's growth potential and its employment intensity, boosting domestic demand, continued focus on effective capital expenditure, creating new capacities in cutting edge new technologies, investments in the development of human capital, 'saturation approach' to social welfare and strengthening the social safety net. Its objectives are to invigorate and sustain inclusive and equitable economic growth, enhance resilience to mitigate risks, protect the vulnerable sections of the society, and bolster the country's overall macro-economic fundamentals.

Tax Policy

38. Taxation reform efforts of the Government are guided by four principles - 'Equity', 'Certainty', 'Ease' and 'Economy'. The taxation system has to be citizen centric, characterized by simplified tax codes with moderate rates, limited exemptions/ loopholes, strict but fair enforcement, and reduced litigations. These measures would encourage voluntary compliance by tax payers. Several measures have been taken in this direction over the past years and in the Budget for FY 2025-26.

39. In the aforesaid context, the GTR has been estimated at 12.0 per cent of GDP in BE 2025-26. In BE 2025-26, Corporation Tax is estimated at ₹10.82 lakh crore (indicating a growth of 10.4 per cent over RE 2024-25). Taxes on Income (excluding Securities transaction tax) are estimated at ₹13.60 lakh crore in BE 2025-26 (recording a growth of 13.1 per cent over RE 2024-25) with an implied buoyancy of 1.30. The implied buoyancy is lower than the average buoyancy of 1.74 obtained in last five years (ending in FY 2023-24).

40. Some important reform measures, initiated under direct taxes in recent years include the following:

a) Equalisation Levy at the rate of 2 per cent of consideration received for e-commerce supply of goods or services has been removed w.e.f 1st August, 2024.

b) Prosecution in respect of TDS payments under section 276B of the Act has been decriminalised up to the due date of filing of quarterly TDS Statements.

c) PAN is now being leveraged to become Business Identification Number (BIN) for providing registration to a number of government departments and services. During the year, upto 30.11.2024, 3.66 crore PANs have been allotted. Further, another 11.87 crore taxpayers have linked their PAN with Aadhaar online on the e-filing portal during the same period.

d) An Integrated e-Filing and Centralised Processing Center 2.0 (CPC 2.0) project was launched with a view to providing better e-filing experience, ease of compliance, more accurate and faster processing of ITRs. During the year, upto 30.11.2024, over 8.54 crore ITRs and 1.86 crore statutory forms have been e-filed. During the same period, over 7.87 crore ITRs have been processed and more than 3.46 crore refunds have already been issued.

41. In Indirect taxes, several measures to augment receipts under Goods and Services Tax (GST) have been taken. These, inter-alia, include:

a) CBIC has issued directions to reduce litigation by fixing monetary limits for filing appeals by the department before GST Appellate Tribunal, High Court, and Supreme Court.

b) Due date for filing of return in form GSTR-4 for composition taxpayers has been changed from 30th April to 30th June, following the end of the financial year to allow more time to the taxpayers to furnish their returns.

c) The Union Government has notified the rolling out of the biometric-based Aadhaar authentication of registration applicants on pan India basis in a phased manner to strengthen the registration process under GST and will help combat irregular tax credit (ITC) claims.

42. The GST regime is progressively stabilising as is seen from the widening and deepening of tax base. In BE 2025-26, GST receipts, including GST Compensation Cess, and IGST, are estimated at ₹11.78 lakh crore, registering a growth of 10.9 per cent (implied buoyancy of 1.08) over RE 2024-25.

43. Basic Customs Duty (BCD) rates have been reduced to NIL on 25 critical minerals such as Antimony, Bismuth, Beryllium, Cobalt and others. BCD has been reduced to 2.5% on minerals like Graphite, Silicon, Quartz and Silicon Dioxide.

44. The time limit for re-import of goods for repairs under warranty after export has been extended from 3 to 5 years. Further, the time period for export of goods of foreign origin - ships and aircrafts, imported for repairs has been extended from 6 months to one year. This will also promote domestic aviation and ship MRO.

Expenditure Policy

45. The Union Government continues to leverage technology as a significant tool for public financial management. The Treasury Single Account (TSA), Single Nodal Agency (SNA) and Central Nodal Agency (CNA) guidelines have ensured transparency and helped in better cash management.

46. SNA SPARSH aims at enabling "Just-in-time" fund flow from the Consolidated Fund of India and Consolidated Funds of States. Pilot rollout had been notified and, as of now, 32 Centrally Sponsored Schemes across 23 States have been onboarded.

Government Borrowings, Lending and Investments

47. Efforts of the Union Government to foster debt sustainability stands on three pillars - reduction in borrowing costs, risk mitigation and market development.

48. In BE 2025-26, Gross and Net Market borrowings by the Government of India (GoI) through dated securities are budgeted at ₹14.82 lakh crore and ₹11.54 lakh crore, respectively, compared to ₹14.01 lakh crore and ₹11.63 lakh crore in BE 2024-25.

49. As on January 27, 2025, gross market borrowings through dated securities during FY 2024-25 stands at 88.8% (₹12.44 lakh crore) as against BE 2024-25. Further, as on January 27, 2025, net market borrowings through dated securities during FY 2024-25 stands at 86.5% (₹10.06 lakh crore) as against BE 2024-25. Notwithstanding the impact of global financial conditions on the Indian G-sec market, the market borrowing programme in FY 2024-25 has been conducted in a non-disruptive manner.

50. Further, to improve debt maturity profile and better manage redemption pressures, an active debt management strategy through switching of securities has been adopted. Switching of securities of about ₹1.47 lakh crore has been completed till date. These measures have helped improve the Union Government's risk profile. Also, rollover risks in the Government debt portfolio is low. The Weighted Average Maturity (WAM) of primary issuances of dated securities in FY 2024-25 (up to January 27, 2025) has increased to 20.65 years vis-à-vis 18.09 years in FY 2023-24 and 16.05 years in FY 2022-23. Similarly, the Weighted Average Yield (WAY) of primary issuance of dated securities in FY 2024-25 (up to January 27, 2025) moderated to 6.97% from 7.24% in FY 2023-24 and 7.32% in FY 2022-23.

51. The T-Bills issuances have been tapered in line with revenue flows during FY 2024-25. As on January 27, 2025, net issuance of T-Bills stands at ₹ (-)1.21 lakh crore, which has helped in sizeable reduction in short-term liabilities.

52. The Union Government actively opted for buyback of dated securities (G-Sec) as part of its fiscal consolidation efforts. During FY 2024-25, buy-back operations of dated securities maturing in FY 2025-26 amounting to ₹88,164 crore were conducted. This strategy has not only helped in saving interest costs but eased the liquidity conditions in the banking system apart from moderating the yields.

Strategic priorities for FY 2025-26:

53. The fiscal strategy of the Union Government for FY 2025-26 has already been explained in detail in the foregoing paragraphs. Its broad goals, inter-alia, include fostering equitable and sustained growth through enhancement in employment intensity and growth potential of the economy, increased public capital spending, adoption of 'saturation approach' to social welfare and development, building productive capacities in research and development for critical technologies, strengthening development capacity of the Union Government and States, and unflinching commitment to fiscal responsibility and transparency.

Conclusion and Policy Evaluation

Statement explaining the reasons for deviation from the fiscal targets mentioned in Section 4 and compliance obligations under Section 7(3)(b) of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003.

54. Section 4(1)(a) of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 mandates the Central Government to take appropriate measures to limit the Fiscal Deficit to three per cent of Gross Domestic Product (GDP) by 31st March, 2021. In continuation to this, Section 4(1)(b)(ii) requires that the Central Government shall endeavour to ensure that the Central Government debt does not exceed forty per cent of GDP by the end of FY 2024-25. Further, Section 4(1)(d) of the FRBM Act, 2003, also requires the Central Government to endeavour that the aforementioned fiscal targets are not exceeded after the stipulated dates. According to Section 7(3)(b)(i) of the FRBM Act, 2003, the Minister of Finance is required to make a statement in both Houses of Parliament explaining the deviation in meeting the obligations cast on the Central Government under this Act.

55. In the post CoVID-19 pandemic years, the glide path of fiscal consolidation (with focus on prudence and flexibility) has produced the desired results. However, the global economy remains far away from its potential. It is operating at a suboptimal level with forces - those contributing to a further slowdown and those seeking stability - pitted against each other.

56. Persistent and continued uncertainty in international macro-economy impairs early stabilization. As one of the fastest growing economies, the global spotlight has shifted onto India to restore order in an increasingly disorderly global financial system. While seeking to steer its own way out of the maze of challenges confronting nations, India would work towards creating an international economic order that is just, fair, inclusive and equitable for all.

57. Against this backdrop, the Union Government would continue to balance its development priorities with imperatives of fiscal prudence. The focus will be on generating broad-based and inclusive economic growth. The fiscal policy would be grounded in reforms, resilience and readiness. This approach should not only invigorate the growth momentum, but also create necessary fiscal buffers to enable the Government to effectively respond to emergent global and domestic challenges.

Annex 1: PATH FOR FISCAL CONSOLIDATION - FY 2026-27 TO FY 2030-31

The Context

India embarked on rules-based fiscal regime with the enactment of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003. It enshrined deficit targets such as revenue deficit, and fiscal deficit as a per cent of GDP, as measures for prudent fiscal management. Effective revenue deficit was added to the list of fiscal targets by amending the FRBM Act in 2012. The FRBM Act, 2003, was again amended in 2018 to incorporate both fiscal deficit and debt targets with an end date. The fiscal deficit of 3 per cent of GDP was set as the target which was to be achieved by FY 2020-21. The Central Government debt target of 40 per cent of GDP was set as the target to be attained by FY 2024-25. In addition to these targets, the amendment stipulated debt target for the General Government (Centre and States put together) at 60 per cent of GDP.

CoVID-19 Pandemic and Aftermath

The CoVID-19 pandemic subjected the Union Government public finances to unprecedented strain. A sizable stimulus package - comprising fiscal and monetary measures - was unveiled to restore the country's growth momentum. It also included several policy actions aimed at protecting lives and livelihood of people. Though the FRBM Act, 2003 (as amended), provided for requisite 'escape clause' (maximum of 0.5 per cent of GDP) to cater to unforeseen contingencies, it was found to be inadequate for managing the disruption caused as the fiscal deficit scaled to an extraordinary high of 9.2 per cent of GDP in FY 2020-21.

To tackle the CoVID-19 pandemic-induced fiscal crisis, the Union Finance Minister announced the following in the Budget 2021-22:

"…We plan to continue with our path of fiscal consolidation, and intend to reach a fiscal deficit level below 4.5% of GDP by 2025-26 with a fairly steady decline over the period…" (Para 141)

This was for the first time that a fiscal consolidation path - with an end target but without intermediate targets - was unveiled. The aim was to equip the Government with requisite operational flexibility so as to respond to exigencies arising at a time of high uncertainty.

This approach was in line with the views expressed in the 18th Report of the Standing Committee on Finance (2001), which stated that "numerical ceilings and the time frame set for attaining the said levels induce excessive rigidity into the decision making, depriving the Government of the flexibility needed to respond to the exigencies in an appropriate manner."

The glide path for fiscal consolidation announced in the Budget for 2021-22 was a conscious policy choice. It aimed at moving away from a regime characterized by rigid fiscal rules towards flexible fiscal standards[1]. It broadly aligned with the fiscal consensus of Blanchard et al, and is anchored in international best practices. It was also informed by India's past experience of working under fixed-target-based fiscal regime through FRBM Act, 2003, where attainment of stipulated annual targets were missed in most financial years.

Glide Path to Fiscal Consolidation by FY 2025-26

Since FY 2021-22, adoption of an operationally flexible fiscal consolidation path has served the country well. India is now set to attain the goal outlined in the Budget for FY 2021-22 and reach fiscal deficit level below 4.5 per cent of GDP in FY 2025-26.

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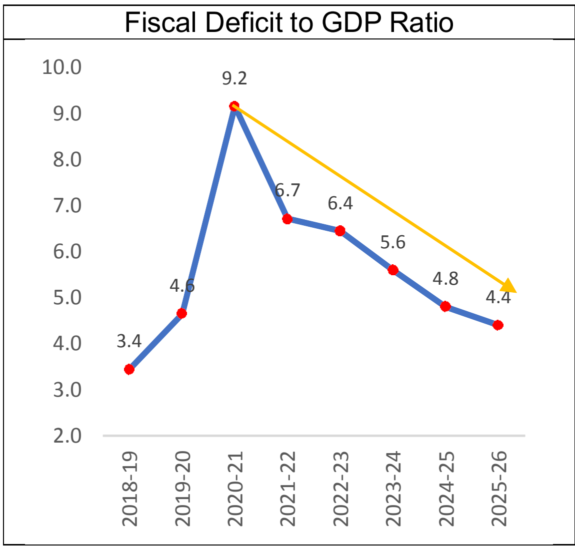
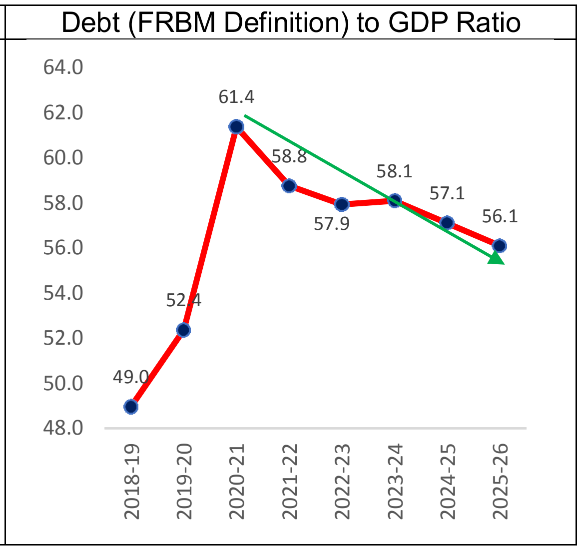
[1] Fiscal rules are prescriptive and focus on achievement of numerical targets, fiscal standards are in the nature of general objectives that have to be followed.





Fiscal Consolidation Path: FY 2026-27 to FY 2030-31

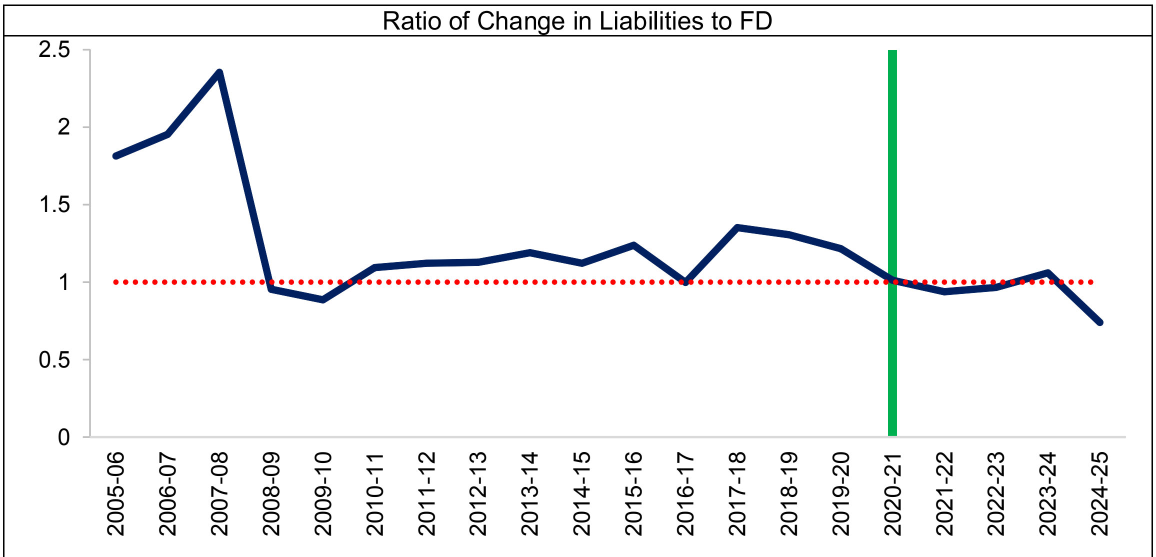
The Budget Speech for the FY 2024-25 (Regular) stated the following:

> *"The fiscal consolidation path announced by me in 2021 has served our economy very well, … …. 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 percentage of GDP." (Para 114)*

The choice of debt to GDP ratio as the fiscal anchor is in line with current global thinking. It encourages shift from rigid annual fiscal targets towards more transparent and operationally flexible fiscal standards. It is also recognized as a more reliable measure of fiscal performance as it captures the cumulative effects of past and current fiscal decisions. It is expected that the debt to GDP based fiscal consolidation strategy would help rebuild buffers and provide requisite space for growth-enhancing expenditures.

The choice of fiscal anchor aligns well in the context of sustained efforts of the Government to promote fiscal transparency through proper disclosure of off-budget borrowings. As can be seen from the chart below, actual change in liabilities (at book value) has almost been at par with the fiscal deficit posted in the years since FY 2019-20.

For the period FY 2026-27 to FY 2030-31, it is possible to compute several fiscal scenarios based

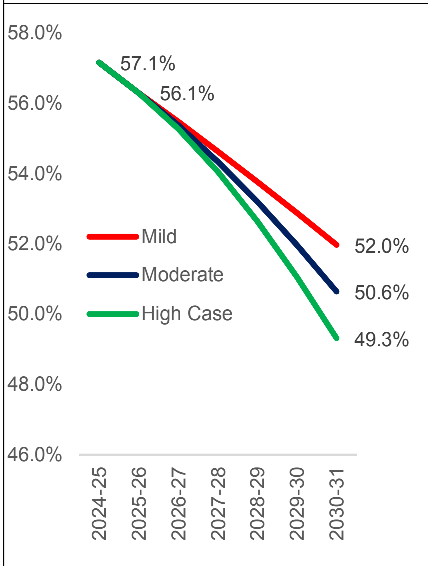


Note: In FY 2023-24, change in the ratio is mainly on account of excess deposits by the States in 14 days T-Bills.

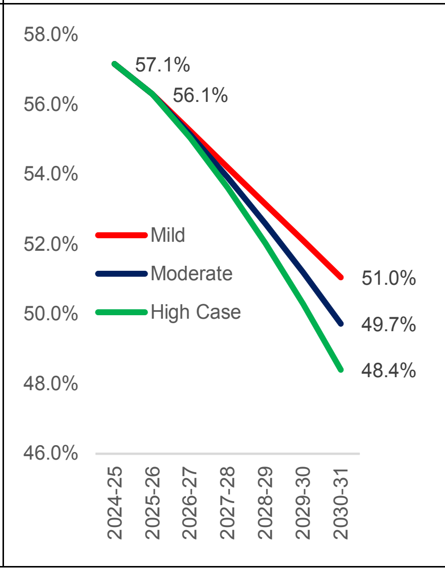
on GDP growth trends and varying degrees of fiscal calibrations (charts below):

Sans any major macro-economic disruptive exogenous shock(s), and while keeping in mind potential growth trends and emergent development needs, the Government would endeavour to keep fiscal deficit in each year (from FY 2026-27 till FY 2030-31) such that the Central Government debt is on declining path to attain a debt to GDP level of about 50±1 per cent by 31st March 2031 (the last year of the 16th Finance Commission cycle).

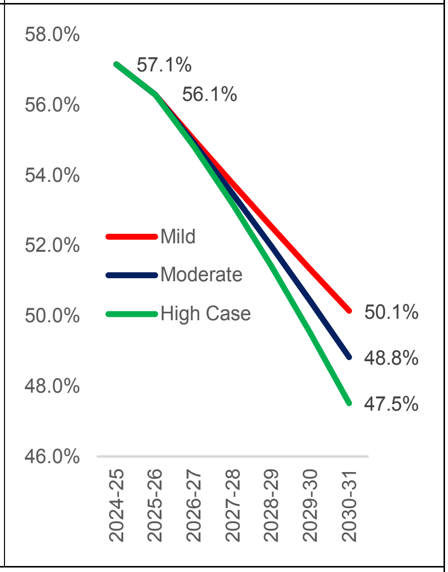
Nominal Growth @ 10%



Nominal Growth @ 10.5%



Nominal Growth @ 11%



Note: Mild/Moderate/High case refer to degrees of fiscal consolidaton.

This approach would provide requisite operational flexibility to the Government to respond to unforeseen developments. At the same time, it is expected to put Central Government debt on sustainable trajectory in a transparent manner.

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