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High prices boost FY22 nominal GDP growth, give government 30 bps fiscal room

Speculation has been rife about whether the central government will either undershoot, meet, or exceed its fiscal deficit target of 6.8 percent of the gross domestic product (GDP) for FY22. But even as observers weigh the Centre's likely extra expenditure and revenue, it has received a hefty leg up from the denominator – GDP.

As per the first advance estimate of India's GDP for FY22 released by the Ministry of Statistics and Programme Implementation on January 7, India's real GDP is estimated to increase 9.2 percent in FY22 in real terms. While this is 30 basis points lower than what has been forecast by the Reserve Bank of India, nominal GDP growth has been pegged at 17.6 percent – 320 basis points higher than that assumed in the [Union Budget](#) for FY22.

"Against the budgeted growth of 14.4 percent, this upside gives the Government a fiscal headroom of nearly Rs 65,000 crores," QuantEco Research said in a note on January 7.

The Budget assumed a nominal GDP of Rs 222.87 lakh crore for FY22, while the first advance estimate pegged it at Rs 232.15 lakh crore.

As such, should the Centre match its fiscal deficit target of Rs 15.07 lakh crore, a higher denominator itself would bring down the fiscal deficit to 6.5 percent of GDP.

Of course, the central government is expected to exceed its budgeted total expenditure of Rs 34.83 lakh crore. But its coffers are also expected to be fuller than expected, with total receipts in April-November 2021 66.0 percent higher than the corresponding period for FY21.

The extra fiscal headroom from the faster-than-expected nominal growth has, however, come at a price.

"The high growth here is reflective of the price pressures across the various goods and services in the economy this year," CareEdge said in a report last week.

While Consumer Price Index inflation has averaged 5.2 percent in April-November 2021, down from 6.2 percent in FY21, Wholesale Price Index (WPI) inflation has averaged 12.2 percent.

In FY21, WPI inflation averaged 1.3 percent.

The WPI is used extensively in India's national income aggregates to deflate nominal price estimates and arrive at real price estimates.