Will meet the fiscal deficit target of 4.5% by FY26: FM

UPBEAT. 'Lower borrowing will facilitate better availability of credit for private sector'

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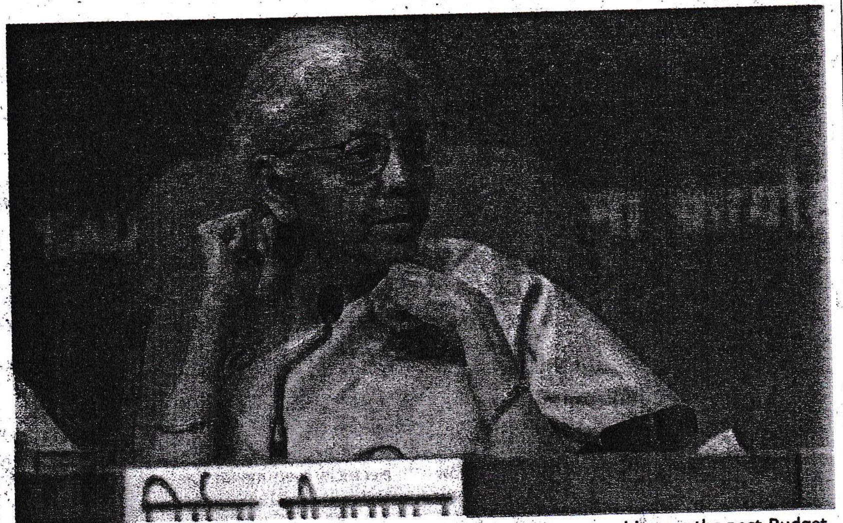

SOLID TRACK RECORD. Union Finance Minister Nirmala Sitharaman addresses the post-Budget press conference, in New Delhi, on Thursday PTI

Finance Minister Nirmala Sitharaman expressed confidence on Thursday in meeting the fiscal deficit target of 4.5 per cent or even less by FY26. For the next fiscal, she surprised the markets by keeping the deficit target at 5.1 per cent, which also means lower borrowing.

Fiscal deficit for the current fiscal has been revised to 5.8 per cent, against 5.9 per cent announced in the Budget last year.

"The gross and net market borrowings through dated securities during FY25 are estimated at ₹14.13-lakh crore and ₹11.75-lakh crore, respectively. Both will be less than that of FY24," said Sitharaman while presenting interim Budget for FY25.

Further, she hoped that lower borrowing by the Central government will facilitate better availability of credit for the private sector. This will support private investments, which are now are happening at scale.

FY24 borrowing was pegged at ₹15.43-lakh crore, the highest ever. The lower borrowing estimate for FY25 is on account of growing tax revenue and the government's resolve to meet its fiscal consolidation roadmap. About net borrowing estimate, Sitharaman said it would be ₹11.75-lakh crore in the next financial year. As a result, the government will make repayment of ₹2.38-lakh crore during the year.

GST COLLECTION

Budget documents showed the government expects to get ₹1.23-lakh crore from the GST compensation fund in FY25, which will be used to fund some of the upcoming bond redemptions. It may be noted that when the government introduced GST in 2017, it promised to pay compensation to States in lieu of taxes subsumed by the new indirect tax system until July 2022, which was extended to March 2026, to repay the loans taken during the Covid period.

Talking about fiscal deficit, Sitharaman explained that even moderation in nominal GDP for FY24, strong revenue growth helped lower deficit. "We continue on the path of fiscal consolidation, as announced in my Budget Speech for FY22, to reduce fiscal deficit below 4.5 per cent by FY26. Fiscal deficit in FY25 is estimated to be 5.1 per cent of GDP adhering to that path," she said. DK Srivastava, Chief Policy Advisor, EY India, said the Interim Budget for FY25 accords the highest priority to restoring fiscal consolidation. "The Budget shows the reduction in the fiscal deficit to GDP ratio by 60, 70, and 60 basis points in three consecutive years to reach 4.5 per cent of GDP by FY26," he said.

Accordingly, the reduction in the Centre's debt-GDP ratio from 60.8 per cent in FY21, which was at its peak in the Covid year to 56 per cent in FY25 (BE), is 4.8 per cent points.

"This will have a positive impact on the ratio of interest payments to revenue receipts. In terms of the FRBM debt-GDP benchmark of 40 per cent, the GoI still has some distance to cover," he said. Christian de Guzman, Senior Vice-President at Moody's Investors, said: "Given the challenging global environment and the potential for climate-related shocks, emerging spending needs not currently included in the Budget could restrict the government's ability to meet its deficit target. Furthermore, the envisaged fiscal consolidation will not alleviate pressures on debt affordability amid high current interest rates, as the Budget projects debt servicing costs to account for an increasingly large portion of revenue," he said.

"We expect the final Budget, to be released after the elections, to provide more definitive indications of India's fiscal consolidation trajectory over the medium term," he said.