

Fiscal condition to constrain credit growth in 2025, says Moody's

RUCHIKA CHITRAVANSHI

New Delhi, 15 January

India's fiscal conditions will continue to constrain its credit strength in 2025 but it may benefit from a shift in trade and investment flows from China, Moody's Ratings said on Wednesday in its Asia-Pacific 2025 outlook.

"We expect only gradual fiscal consolidation, and debt to remain significantly higher than the Baa-rated peer median of around 57 per cent," Moody's Ratings said. It added that proposed trade restrictions by the US would weaken economic output across the region.

ICRA, in a report on Budget expectations, said fiscal deficit target for financial year 2026 (FY26) is estimated to be set at 4.5 per cent of GDP, entailing a reduction of 25-30 bps over the projected 4.8 per cent of GDP in FY25. Government has set the fiscal deficit target for FY2025 at 4.9 per cent of GDP.

ICRA said, "Government's target for non-tax revenues, particularly the RBI dividend could be a game changer for the FY26 Budget math and a sharp swing on this account, vis-à-vis ICRA's projections could alter the fiscal deficit and/or create space for additional capex."

Centre's commitment to funding job creation and enhancing social welfare programs, Moody's said, can help tackle critical social issues such as high youth unemployment, but it would slow fiscal consolidation.