Budget may retain FY25 fisc deficit target of 5.1%

Record RBI dividend may guide likely focus on capex, special package

SHRIMI CHOUDHARY & RUCHIKA CHITRAVANSHI
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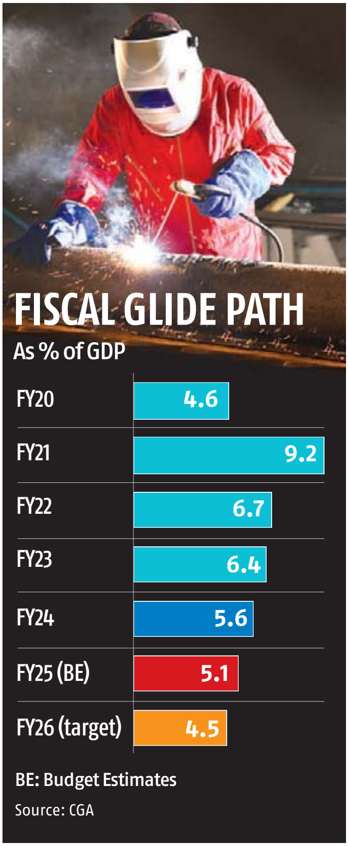
Union Finance Minister Nirmala Sitharaman could stick to the fiscal deficit target of 5.1 per cent of gross domestic product (GDP) for 2024-25 (FY25), same as the Interim Budget, when she presents the full Budget in the middle of next month, according to three officials who are part of the policymaking team involved in the initial discussions of the Budget-making exercise.

This is amid the considerations of the coalition government that assumed power at the Centre this month, and a likely thrust on higher capital expenditure (capex). There are also expectations of special financial packages from coalition partners like the Telugu Desam Party and Rashtriya Janata Dal (United) of the ruling National Democratic Alliance for Andhra Pradesh and Bihar, respectively.

RUN-UP TO THE BUDGET 2024-25

"The fiscal glide path for FY25 may not differ from the one presented in the Interim Budget. However, any finality in such matters requires political views. We will review it closer to the full Budget," one of the three officials said.

What will come to the finance minister's aid is the record dividend payout of ₹2.11 trillion by the Reserve Bank of India, providing government additional cushioning to fuel growth.



The government had set the FY25 fiscal deficit target at 5.1 per cent of the GDP or ₹16.85 trillion and revised the FY24 target to 5.8 per cent from the earlier projection of 5.9 per cent. The fiscal deficit has further narrowed to 5.6 per cent in FY24 with the provisional figures released by the Controller General of Accounts.

Keeping the needs of the growing economy in mind, experts feel the government would do well to stick to the current fiscal glide path. The industry representatives have asked the government to push the pedal further on capex, raising it by 25 per cent over the Revised Estimates for FY24.

In a recent interview to Business Standard, President of Confederation of Indian Industry Sanjiv Puri said that rating upgrade should happen on its own merits. "Reform process should continue and the fiscal glide path should be adhered to. We have to look at the priorities and, therefore, the resource requirements. India does need to invest for growth. We should stay with the current glide path," Puri said.

S&P Global Ratings has said it would closely observe India's fiscal consolidation path for the next two years and could give a ratings upgrade if the government stays committed to the path. A senior government official, however, said policies were made keeping in mind the requirements of the country and not the global rating agencies.

The government has set a target of bringing down the fiscal deficit target to 4.5 per cent of GDP by FY26.

"Given continued sluggishness in global growth and delayed pickup of private investment in India, the Centre's highest priority would be to ensure continued support to growth through infrastructure expansion," said D K Srivastava, chief policy advisor at EY India.

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Record RBI dividend may guide likely focus on capex, special package. Srivastava said there was ample fiscal space to provide for adequate capex growth even as some additional growth in revenue expenditures may be called for to accommodate higher allocation for the Mahatma Gandhi National Rural Employment Guarantee Act and enhanced subsidy provisions as compared to the interim budget to give relief to rural and informal sectors of the economy.

"The higher than estimated tax collections in FY24 suggest an upside relative to the interim estimates for FY25. A generous dividend payout provides a revenue upside, a portion of which could be used to pare the deficit below the target," said Aditi Nayar, chief economist at ICRA.