'Govt may manage to rein in FY25 fiscal deficit at 4.8% of GDP on lower capex'

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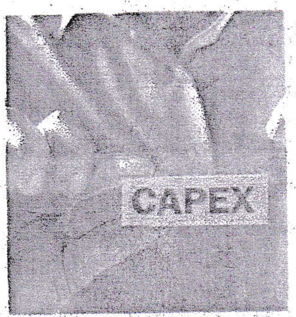
Ahead of Budget 2025-26, foreign banks, brokerages and consultancies anticipate that the government will likely exceed its FY25 fiscal consolidation target, ending the year at 4.8 per cent of GDP compared to 4.9 per cent budgeted for the current fiscal.

The primary reason for the outperformance could be weaker-than-budgeted public capex due to slower approvals in an election year, said economists from foreign banks.

FISCAL OUTLOOK

Pranjul Bhandari, Chief Economist, India and Indonesia, HSBC Global Research, said, "Led by lower capex, the government will likely overachieve on its fiscal consolidation target in FY25 (at 4.8 per cent of GDP)."



Bhandari highlighted that elections also impacted the States and that State government cards slowed alongside central capex, given the close coordination required for large infrastructure projects.

"The State fiscal deficit is likely to inch lower in FY25, rise again in FY26, lower than 7.6 per cent in FY25, but higher than the pre-pandemic level of 5.9 per cent, keeping public debt elevated," Bhandari said in a research note titled "India Budget Preview: Mission Impossible".

HSBC Global Research expects two rate cuts of 25 basis points each in the first half of 2025, taking the repo rate to 6 per cent. External volatility and a lower BoP surplus may make this a shallow rate-easing cycle, though easier liquidity will help.

Anubhuti Sahay, Head of India Economic Research, Standard Chartered Bank India, expects the FY25 fiscal deficit to come in at 4.8 per cent versus the targeted 4.9 per cent.

"We expect the FY25 fiscal deficit to be better than the targeted 4.9 per cent of GDP. We estimate it at 4.8 per cent as capital expenditure is expected to be lower than budgeted, more than offsetting a small shortfall in revenue receipts. For FY26, we expect the fiscal deficit to be set at 4.5 per cent, in line with the stated path," Sahay said in a research note.

Standard Chartered Global Research sees limited room for a large consumption boost in the upcoming Budget due to limited fiscal space even as growth moderates and the external environment remains uncertain.

The combined fiscal deficit (Centre + States) for FY26 is likely to narrow to 7.2 per cent of the GDP from 7.45 per cent in FY25, driven by the Centre's fiscal consolidation, Sahay added.

SUSTAINABLE GROWTH

Rumki Majumdar, Economist, Deloitte India, said "We believe India will stick to its target over the next few years as fiscal prudence is the only path forward to secure the investment required for sustainable growth."

She highlighted that maintaining fiscal deficit within the target is important as it serves as a critical benchmark for global investors assessing a country's reliability as an investment destination.