Govt may target 5.3% fiscal deficit for FY25

Most economists see govt meeting FY24 target despite risks from weaker than budgeted nominal GDP growth and disinvestment shortfall

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ILLUSTRATION: AJAY MOHANTY

DEFICIT DRIFT

Fiscal deficit projection for FY25

5.3%
- ICRA
- Elara Capital
- Barclays
- Goldman Sachs
- DBS Bank
- Bank of America
- India Ratings
- HDFC Bank

5.4%
- IDFC Bank
- Kotak Mahindra Bank

Source: BS Research

The fiscal deficit target for FY25 is likely to be pegged at 5.3 per cent of the gross domestic product (GDP) in the upcoming interim Budget, suggests an analysis of multiple projections made by economists and forecasting agencies.

Fiscal deficit is the difference between the total income of the government and the total expenditure incurred by it. Economists expect a moderation in growth in the capital expenditure (capex) from the highs seen in the last two financial years following the pandemic. Of the 10 research reports by forecasting agencies that *Business Standard* analysed, eight expect a fiscal deficit at 5.3 per cent of the GDP for FY25, while two agencies have pegged it at 5.4 per cent. In view of the upcoming general elections, Finance Minister Nirmala Sitharaman is scheduled to present a vote-on-account, or the next government presents an interim Budget on February 1 to meet the initial expenditure until a full Budget.

RUN-UP TO THE INTERIM BUDGET 2024-25

"We expect the central government to announce a fiscal deficit target in the range of 5.2-5.4 per cent of the GDP (with 5.3 per cent of GDP as our base case) in FY25, given their medium-term fiscal consolidation target of reaching 4.5 per cent of GDP by FY26," Goldman Sachs said.

Though the FY24 fiscal deficit target of 5.9 per cent of GDP faces risks from weaker than budgeted nominal GDP growth, the disinvestment shortfall and higher subsidy burden, most economists believe the target will be achieved through higher non-tax revenues and expenditure savings by key ministries.

Echoing similar sentiments, Barclays says that the higher tax and non-tax revenue collections are expected to more than offset any shortfall in disinvestment revenue and the central government is expected to comfortably achieve its fiscal deficit target of 5.9 per cent of GDP for the current financial year. "We expect the FY24-25 budget to set a deficit target of 5.3 per cent of the GDP. This would imply, in level terms, a deficit of ₹17.7 trillion in FY24-25, broadly similar to our forecast for FY23-24 (₹17.8 trillion)," it added. However, Upasna Bhardawaj, chief economist, Kotak Mahindra Bank says that over the medium term, the central government has to aim for a sharp fiscal consolidation, while improving spending quality amid large committed expenditures. "The FY25 interim budget could include few populist measures, while targeting slower capex growth, sharper-than-usual fiscal consolidation and keeping borrowings in check. We pencil in FY25E gross fiscal deficit to GDP at 5.4 per cent," she added.

Separately, on the capital expenditure front, the group of economists agree that since the upcoming budget will be a vote on account, it will majorly seek approvals for essential expenditure and only a broad assessment of the capital expenditure.

"The government has been prioritising capital spending, especially for roads, railways and defence. We expect this focus to continue, albeit at a moderate pace. We project FY25 capital expenditure to rise 20 per cent. We also do not rule out trimming of the budgeted allocation for the interest free 50-year loan to the states from the Centre by ₹300 billion," said Elara Capital Securities in a report.

"We expect the government to stick to its capex target of ₹10 trillion in FY24 and raise it further by ₹10 per cent to ₹11 trillion in FY 25," said Care Ratings. Aditi Nayar, the chief economist at Icra Ratings expects the interim budget to set the disinvestment target below ₹50,000 crore for FY25, instead of a higher aim as it may disrupt the budget math if there is a large shortfall in such receipts by the end of the fiscal, based on the past year trends. "For FY24, the Centre had set a disinvestment target of ₹51,000 crore but has only been able to meet around one-fifth (₹10,050 crore) of it so far. Strategic sales of a host of central public sector enterprises (CPSEs) are in the pipeline for completion in the current fiscal. Icra anticipates a shortfall of ₹₹36,000 crore in the disinvestment target of FY24," she added. On the expenditure front, some economists believe support measures to address near-term risks for rural/farming communities.

"Targeted support by way of transfers to make up for output losses due to weather, higher farm insurance outlays, boost to disbursements towards rural employment schemes, irrigation facilities, might be tapped," said Radhika Rao, senior economist, DBS Bank.