Budget likely to target 10-11% nominal GDP growth in FY24

FinMin expects moderation in retail inflation

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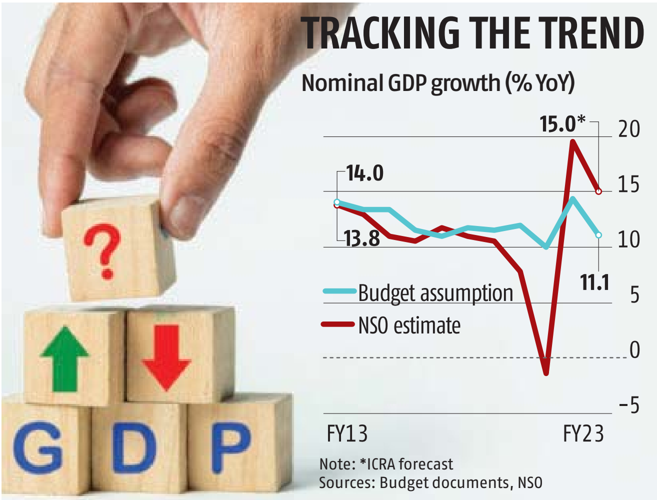
The finance ministry may set a "realistic" target of around 10-11 per cent nominal GDP growth for FY24 in the upcoming Budget, as it expects a high base and softening commodity prices to moderate inflation in the next fiscal year.

RUN-UP TO THE BUDGET 2023-24

"We expect inflation to soften substantially next year. Nominal GDP growth next year may be assumed to be around 10-11 per cent, which will make it realistic, rather than conservative like in last Budget," a government official said.

Nominal GDP (GDP that is calculated at current market prices) factors in the effect of inflation, and is used as the base to calculate crucial macroeconomic indicators, such as fiscal deficit, revenue deficit, and the debt-to-GDP ratio.

A higher nominal GDP assumption makes it easier for the finance minister to show a narrower fiscal deficit print and vice versa. An analysis by *Business Standard* shows in the past 10 years, the Budget has overestimated nominal GDP growth eight times and underestimated it only twice, excluding FY23.



But, the official said a conservative nominal GDP estimate in the FY23 Budget has served the economy well, as it allowed the government to spend more without sacrificing fiscal discipline. For FY23, the Budget assumed 11.1 per cent nominal GDP growth. Analysts expect nominal GDP growth to be at least 15 per cent this fiscal year, data for which will be released by the National Statistical Office on Wednesday.

"The pace of fiscal consolidation in FY24 will depend much on how the real GDP performs next year," the official added.

Madan Sabnavis, chief economist at Bank of Baroda, said for FY24, nominal GDP growth would be 12-13 per cent, assuming real GDP growth of 6-6.5 per cent. "In FY24, CPI-based inflation would continue to be in the region of 5.5-6 per cent, while the deflator would be similar to CPI," he added.

Aditi Nayar, chief economist at ICRA Ratings, said she expects the nominal GDP growth rate to moderate from 15 per cent in FY23 to 9-10 per cent in FY24. "While domestic consumption may consolidate and capex may strengthen, an uncertain yet gloomy outlook for the external sector poses a downside risk to real economic activity in FY24," she said.

ICRA assumes real GDP to grow at 6.2 per cent in FY24.

Sabnavis said GDP growth would slow down gradually in FY24, more due to global influences than domestic factors. "Therefore, (we're) not seeing much of a slide in GDP growth in real terms currently. Sectors like agriculture would be driven by monsoon conditions, while industry would do better than this year with base effects providing support," he said.

Morgan Stanley in a research note released earlier this month said India's inflation is expected to moderate in FY24 as the effect of higher commodity prices wears off and supply chains continue to normalise. "Further, as we expect a rise in capex in FY24, we expect this higher capacity to help cap a further rise in core inflation pressure in FY25. We thus expect CPI-based inflation to moderate to 5.4 per cent in FY24 and to 4.8 per cent in FY25 from 6.6 per cent in FY23," it added.

However, Morgan Stanley cautioned that the combined impact of Opec+'s crude oil production cut and the EU embargo on Russia's production could lead to oil prices averaging $105 per barrel in FY24, notwithstanding demand concerns.