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Centre may lower deficit target for FY23

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Robust direct and indirect tax collections are expected to give enough headroom to the Centre to lower the fiscal deficit target for FY23.

Accordingly, industry watchers have estimated the FY23 fiscal deficit target to range from 5.8-6.4 per cent.

The FY22 deficit has been pegged at Rs 15.06 lakh crore.

“The Budget this year will be watched out for the pace of fiscal consolidation. The balancing factor for higher spending would be next year’s divestment target, which could still be kept robust even as BPCL (and possibly even mega LIC IPO) may get pushed to next fiscal,” said Madhavi Arora, Lead Economist, Emkay Global.

“The revenue expenditure pressure may continue in FY23 with the year being a heavy election calendar in key states of Uttar Pradesh, Punjab and Gujarat, and early signs of easing consumption momentum, led by the rural areas.”

Recent data furnished by the Controller General of Accounts (CGA) showed that the fiscal deficit -- the difference between revenue and expenditure -- for the April-November 2021-22 period stood at Rs 695,614 crore, or 46.2 per cent of the Budget estimates (BE).

“The GoI’s FY23 fiscal deficit is expected to moderate to Rs 15.2 trillion or 5.8 per cent of the GDP from Rs 16.6 trillion or 7.1 per cent of the GDP in FY2022,” said Aditi Nayar, Chief Economist, ICRA.

“We estimate the GoI’s gross tax revenues in FY2023 at Rs 27 trillion, a YoY expansion of 9.3 per cent relative to our projected level for FY2022. The estimated growth in gross tax revenues for FY2023 is similar to our real GDP growth forecast of 9 per cent for that fiscal, given the impact of the recent duty relief on indirect tax collections.”

In the April-November 2021-22 period, gross tax revenues displayed a robust growth of 50.3 per cent.

“We estimate that higher tax and non-tax revenue collections this fiscal are expected to more than offset the shortfall in disinvestment revenue, leading to the fiscal deficit coming in at 6.6 per cent of GDP in FY22, 20 BP lower than budgeted,” said India Ratings and Research’s Principal Economist, Sunil Kumar Sinha.

Besides, another factor aiding the FY23 fiscal consolidation is a reasonable likelihood that the process of the IPO for LIC will get completed in the next fiscal year, substantially augmenting the disinvestment receipts.

“As regards the fiscal projections for FY23, we believe that the focus will remain on growth stimulation and include higher revenue and capital expenditure outlay. Therefore, we don’t foresee any major reduction in the budgeted fiscal deficit for next year,” said Suman Chowdhury, Chief Analytical Officer, Acuite Ratings & Research.

“The key for meeting the fiscal deficit targets in not only FY22 but over the next few years will depend on the ability of the government to generate non tax revenues particularly from disinvestment and asset monetisation.”

According to M. Govinda Rao, Chief Economic Advisor, Brickwork Ratings: “With the spill-over of disinvestment proceeds, progress in asset monetisation and continued buoyancy in tax revenues, we expect the fiscal deficit targeted at 6.3 per cent to 6.5 per cent, in the FY23 Budget.”

“Hopefully, the Budget will see a substantial increase in capital expenditure also while conforming to the fiscal consolidation path to reach the target of 4.5 per cent fiscal deficit by 2025-26 as stated by the finance minister last year.”