

## Govt to meet fiscal deficit target for FY16: Deutsche Bank

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New Delhi, Feb 7:

The government is likely to meet its fiscal deficit target of 3.9 per cent for the current financial year and is expected to set it at 3.8 per cent of the GDP for the next fiscal, says a Deutsche Bank report.

According to the global financial services major, the government's fiscal deficit target of 3.9 per cent in FY16, was broadly incorporated on realistic revenue and expenditure growth assumptions, which made the fiscal arithmetic credible.

"Overall, we think the government should meet its fiscal deficit target for FY16, without having to compromise much on capital expenditure, breaking from the trend of the last three years," it said in a research note.

The report further noted that the Indian economy is likely to stick to the path of fiscal consolidation, but at a slower pace than anticipated earlier.

"Given the various constraints and competing considerations, we expect the government to set a 3.8 per cent fiscal deficit target for FY17, which will mark a slight improvement over this year's likely out-turn of 3.9 per cent of GDP," the report noted.

The government's medium-term goal of bringing the fiscal deficit down to 3 per cent of GDP is unlikely to be abandoned, but most likely to be pushed back by one more year (to financial year 2018-19).

According to the revised fiscal consolidation roadmap, the government proposes to bring down the fiscal deficit from 3.9 per cent in the current fiscal to 3.5 per cent in 2016-17.

Reflecting the improvement in government finances, fiscal deficit — the gap between the government's expenditure and revenue — in the nine months of 2015-16 worked out to 88 per cent of the annual target as against 100.2 per cent in the same period last fiscal, according to official figures.

The improvement is mainly on account of buoyancy in tax collections, which have kept the revenue deficit in check.

On the RBI's policy stance, the report said since it expects the government to stick to its fiscal consolidation agenda by targeting a lower fiscal deficit for the next fiscal year, there is a likelihood of a 25 bps rate cut in March or April, post the announcement of the Budget in end-February.

"We expect a 25 bps rate cut in March or April; more room could however open up in the second half of 2016, if growth-inflation continues to surprise on the downside," it said.

Meanwhile, RBI Governor Raghuram Rajan on February 2 left the key interest rate unchanged citing inflation risks and growth concerns, while pegging further easing of monetary policy on the government's budget proposals.

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