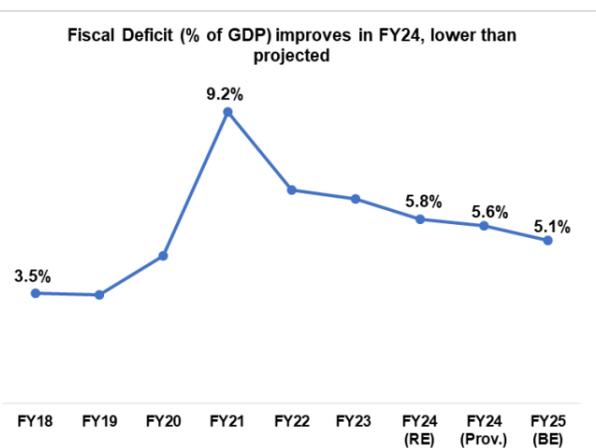


Fig 1: Positive fiscal surprise in FY24; % of GDP



Fiscal deficit consolidates further to 5.6% in FY24, lower than RE of 5.8%

India’s fiscal deficit for FY24 improved to 5.6% of GDP, down from the Revised Estimates (RE) of 5.8% (Fig 1). This is primarily led by higher non-tax revenues vis-à-vis FY24 RE and lower revenue spending (Fig 2). The net tax collection was at Rs 23.26 lakh crore in FY24, while the expenditure stood at Rs 44.42 lakh crore. While tax revenue trends were in line with RE, the key driver within taxes was direct taxes. In specific, income tax showed a growth of c.25% in FY24 as against c.20% in FY23.

Focus remained on quality of spending

Expenditure was on the lower side in FY24 totalling 98.9% of the budget estimate worth Rs 44.90 lakh crore, providing an additional fiscal comfort of Rs 48,000 crore. While revenue spending was sharply lower than RE, there was only a marginal miss in capex.

FY24 saw a sharper than estimated cash build-up on fiscal consolidation

The FY24 fiscal accounts showed a cash build-up of c.Rs 1.72 lakh crore vis-à-vis Rs 26,651 crore, on the back of higher collections vis-à-vis RE from external finance, market borrowings and Public account sources. Hence, improved fiscal prospects saw the central government ending FY24 in a much favourable fiscal position.

FY25 fiscal deficit may slip lower than estimated 5.1%

In the Interim Budget, the government has budgeted FY25 fiscal deficit to consolidate to 5.1% of GDP. As highlighted in our recent report, [India: June a key month in focus](#), the RBI has announced a surplus transfer worth Rs 2.10 trn to the government, a 140% y/y jump from Rs 874 bn in FY24 while it was budgeted to remain at similar levels. This is a fiscal boost of 0.4% of GDP in FY25 and has led to expectations of a sharper fiscal consolidation (i.e. below 5.1% of GDP) and hence cut in borrowings for dated G-secs in the Final budget for FY25. Meanwhile, our bias remains towards greater allocation of the improved fiscal space to capex.

More importantly, last week, S&P Global Ratings revised its outlook on India to positive from stable for the first time since 2006. Notably, this upgrade is irrespective of the 2024 election outcome. In their view, the prospects of a rating upgrade in next 1-2 years are contingent on reduction in net change in government debt to GDP to below 7%.

April fiscal accounts show sharper deterioration vis-à-vis historical trends

The fiscal deficit for April 2024 has spiked to 12.5% of BE on account of a surge in revenue spending. However, going forward, higher-than-budgeted dividend from the RBI is likely to reduce the fiscal deficit in May 2024. With India’s nominal GDP growth poised to return to double digits in FY25, tax collections would continue to be buoyant, going forward. Hence, overall fiscal situation remains favourable in FY25.

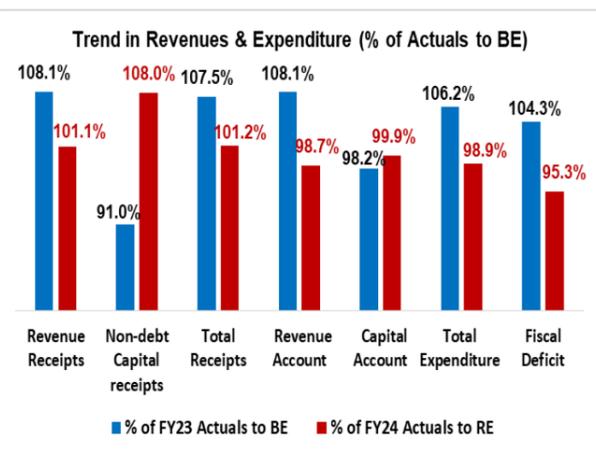
Fig 4: Fiscal dynamics show sharper consolidation in FY24

| Fiscal Numbers (Rs lakh crore) | | | | | |
|--------------------------------|-----------------|-------|-----------|--------------|-----------|
| Parameter | FY18-FY22 (Avg) | FY23 | FY24 (RE) | FY24 (Prov.) | FY25 (BE) |
| Revenue Receipts | 17.0 | 23.8 | 27.0 | 27.3 | 30.0 |
| % of GDP | 8.5% | 8.8% | 9.1% | 9.2% | 9.2% |
| Net Tax Revenue | 14.3 | 21.0 | 23.2 | 23.3 | 26.0 |
| % of GDP | 7.2% | 7.8% | 7.8% | 7.9% | 7.9% |
| Non Tax Revenue | 2.6 | 2.9 | 3.8 | 4.0 | 4.0 |
| % of GDP | 1.3% | 1.1% | 1.3% | 1.4% | 1.2% |
| Non-debt Capital receipts | 0.8 | 0.7 | 0.6 | 0.6 | 0.8 |
| % of GDP | 0.4% | 0.3% | 0.2% | 0.2% | 0.2% |
| Total Receipts | 17.7 | 24.6 | 27.6 | 27.9 | 30.8 |
| % of GDP | 8.9% | 9.1% | 9.3% | 9.4% | 9.4% |
| Total Expenditure | 28.9 | 41.9 | 44.9 | 44.4 | 47.7 |
| % of GDP | 14.5% | 15.5% | 15.1% | 15.0% | 14.5% |
| Revenue Account | 25.0 | 34.5 | 35.4 | 34.9 | 36.5 |
| % of GDP | 12.6% | 12.8% | 11.9% | 11.8% | 11.2% |
| Capital Account | 3.8 | 7.4 | 9.5 | 9.5 | 11.1 |
| % of GDP | 1.9% | 2.7% | 3.2% | 3.2% | 3.4% |
| Fiscal Deficit | 11.2 | 17.3 | 17.3 | 16.5 | 16.9 |
| Nominal GDP | 199.0 | 269.5 | 296.6 | 295.4 | 327.7 |
| Fiscal Deficit (% of GDP) | 5.6% | 6.4% | 5.8% | 5.6% | 5.1% |

Fig 2: Non-tax revenue and revex drove FY24 fiscal deficit lower vis-à-vis RE

| Source of decline in Fiscal deficit for FY24 | | | |
|--|-----------|--------------|----------------|
| Parameter | FY24 (RE) | FY24 (Prov.) | Fiscal savings |
| Net Tax Revenue | 2,323,918 | 2,326,524 | 2,606 |
| Non Tax Revenue | 375,795 | 401,888 | 26,093 |
| Non-Debt Capital receipts | 56,000 | 60,460 | 4,460 |
| Revex | 3,540,931 | 3,494,036 | -46,895 |
| Capex | 949,555 | 948,506 | -1,049 |
| Fiscal Deficit | 1,734,773 | 1,653,670 | -81,103 |

Fig 3: Focus remained on quality of spending



Source: CGA; Budget documents; UBI Research

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Fig 5: Tax revenue growth in FY24 led by income taxes

| Trends in Tax Revenue | | | | | | | |
|-----------------------|-----------|-----------|--------------|-----------|--------------|-----------|--------------|
| Tax components | FY21 | FY22 | YoY growth % | FY23 | YoY growth % | FY24 | YoY growth % |
| Corporation tax | 4,57,719 | 7,12,037 | 55.6% | 8,25,834 | 16.0% | 9,11,055 | 10.3% |
| Income tax | 4,70,633 | 6,73,414 | 43.1% | 8,08,221 | 20.0% | 10,10,948 | 25.1% |
| Central GST | 4,56,334 | 5,91,226 | 29.6% | 7,18,522 | 21.5% | 8,20,622 | 14.2% |
| Customs | 1,34,750 | 1,99,728 | 48.2% | 2,13,371 | 6.8% | 2,33,067 | 9.2% |
| Excise duties | 3,89,667 | 3,90,808 | 0.3% | 3,19,000 | -18.4% | 3,05,330 | -4.3% |
| Gross Tax Revenue | 20,27,104 | 27,09,315 | 33.7% | 30,54,191 | 12.7% | 34,64,792 | 13.4% |

Fig 6: Government cash balance build up spikes by c.Rs 1.72 lakh crore in FY24

| Sources of Financing the Deficit (Rs Crore) | | | | | |
|---|-----------------|-----------|-----------|--------------|-----------|
| Parameter | FY18-FY22 (Avg) | FY23 | FY24 (RE) | FY24 (Prov.) | FY25 (BE) |
| External Financing | 25,848 | 36,971 | 24,832 | 55,121 | 15,952 |
| Domestic Financing | 1,090,285 | 1,696,160 | 1,709,941 | 1,598,549 | 1,669,542 |
| Market borrowings | 718,731 | 1,161,840 | 1,181,779 | 1,267,636 | 1,225,182 |
| Small savings | 297,798 | 369,169 | 478,929 | 463,842 | 466,201 |
| State provident funds | 14,776 | 5,020 | 5,200 | 5,070 | 5,200 |
| Special deposits | 295 | -28,867 | 0 | -23,646 | 0 |
| Others (Public account) | 40,675 | 115,170 | 70,685 | 114,013 | -30,591 |
| Drawdown of cash bal | 18,010 | 25,152 | -26,651 | -179,689 | 3,549 |
| Ways & means advances | 0 | 48,677 | | -48,677 | |
| Total Financing | 1,116,133 | 1,733,131 | 1,734,773 | 1,653,670 | 1,685,494 |

Fig 7: April 2024 saw sharper deterioration vis-à-vis historical trends

| April 2024 Fiscal Numbers (% of Actuals to BE) | | | | |
|--|--------|--------|--------|--------|
| Parameter | Apr'21 | Apr'22 | Apr'23 | Apr'24 |
| Revenue Receipts | 8.3% | 8.9% | 6.5% | 7.1% |
| Net Tax Revenue | 8.5% | 9.5% | 6.8% | 7.1% |
| Non Tax Revenue | 6.9% | 4.4% | 3.6% | 6.8% |
| Non-debt Capital receipts | 0.2% | 4.4% | 0.8% | 1.3% |
| Total Receipts | 7.5% | 8.8% | 6.3% | 6.9% |
| Total Expenditure | 6.5% | 7.0% | 6.8% | 8.9% |
| Revenue Account | 6.1% | 6.1% | 6.4% | 8.9% |
| Capital Account | 8.5% | 10.5% | 7.8% | 8.9% |
| Fiscal Deficit | 5.2% | 4.5% | 7.5% | 12.5% |

RE: Revised Estimates; BE: Budget Estimates; Prov.: Provisional

Source: CGA; Budget documents; UBI Research

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