

Fig 1: Fiscal consolidation glide path to continue, targeting 4.5% in FY26

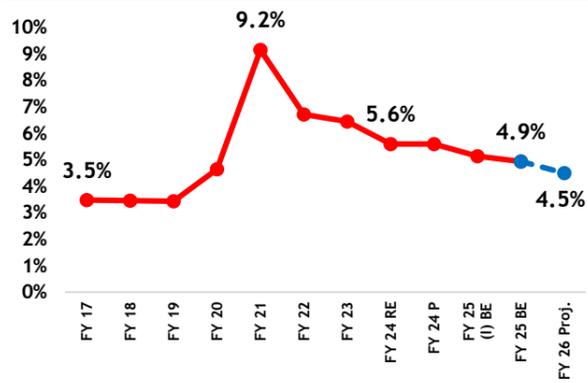


Fig 2: Q1 FY25 fiscal deficit as % of budgeted slipped to multi-year lows

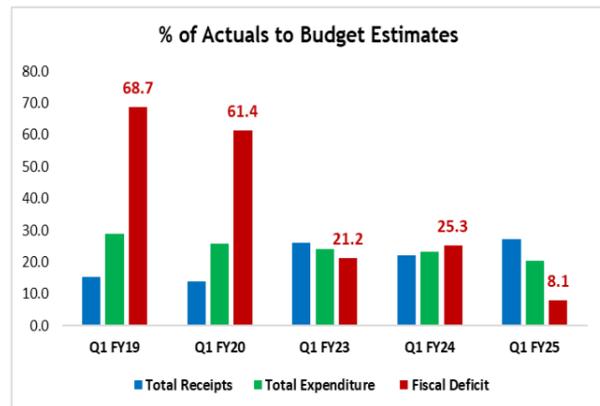
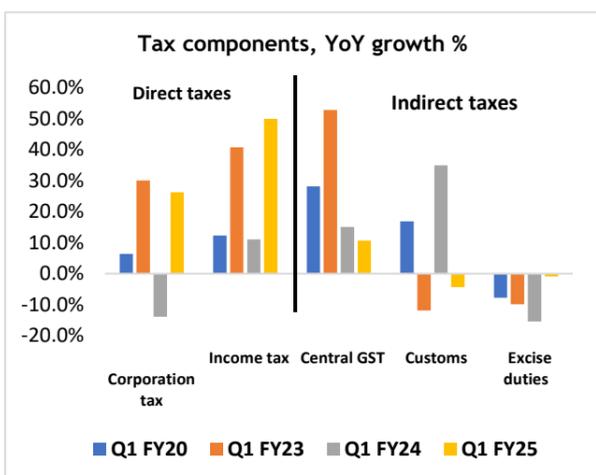


Fig 3: Tax buoyancy in direct taxes far stronger vis-à-vis indirect taxes in Q1 FY25



Source: CGA; Budget documents; UBI

Fiscal deficit in Q1FY25 drops to a multi-year low level of 8.1%

- India's fiscal deficit for Q1FY25 improved to 8.1% of FY25 Budget Estimates (BE). It was way lower than 25.3% same period last year and more than 60% seen in pre-Covid period (Fig 2).
- This was led by a combination of strong revenues and lower spending in an election year.
- The fiscal bounty from the RBI to the tune of Rs 2.1 lakh crores vis-a-vis close to Rs 88,000 crore budgeted drove revenues. (Fig 4)
- Another factor was the rise in tax buoyancy seen in Q1FY25. The key driver within taxes was direct taxes. In specific, income tax showed a growth of c.49.9% YoY in Q1FY25. Meanwhile growth in indirect taxes like GST were lagging at 10.6%. (Fig 3 & 5)
- The sharp slowdown in spending during an election quarter also helped with capex showing a contraction of 35%. Moreover, revenue spending was also muted at 2.2% which also contributed to lowering of fiscal deficit.

Quality of spending suffered in an election quarter, yet trend likely to switch post elections

- As noted above, the compulsive revenue expenditure saw muted trends with capex clocking a contraction of c.35% YoY.
- However, going forward the trend is likely to shift in line with the intention shown in the Budget of continued improvement in quality of fiscal spending.
- Capex 3.4% of GDP vs 1.7% pre-covid and revex despite higher allocation kept at 11.4% of GDP with a muted growth of only 6.2% YoY.

Sharp cash build up despite smaller market borrowings and higher cash balances.

- FY24 saw a sharper than estimated cash build-up on the back of sharp focus on fiscal consolidation. As per CGA data, cash balance saw a build up from Rs 1.7 lakh cr March end to Rs 2.9 lakh cr by June. This trend is also likely to reverse as the government has budgeted for drawdown in cash balance to the tune of Rs. 1.40 lakh cr in FY25.
- This was despite market borrowings being nearly one third in Q1 FY25 at Rs 1.4 lakh cr vis-à-vis Rs 4.3 lakh cr same period last year. This partly included the reduction in T-bill borrowings calendar in Q1 FY25 by Rs 60,000 cr. (Fig 6)
- Further, small savings flows also suffered (down by c.33.8% YoY). This is probably attributed to the hike in deposit rates by banks which is already weighing on collections partly attributable to steep deposit rate hikes by bank and hence the trend is likely to persist in the rest of fiscal.

FY25 fiscal deficit budgeted to consolidate to 4.9% of GDP amid sustained focus on capex

- The headline FY25 fiscal deficit number of 4.9% of GDP was in line with our expectations which was below market consensus at large. The FY25 Budget saw a "fine balance", with the Finance Minister staying committed to the goals of fiscal consolidation and capex while also addressing competing policy priorities of boosting consumption and job creation (Watch: [Post Budget Fincast](#))
- Finance Minister chose to address financing of lower fiscal deficit (vs 5.1% in Interim Budget) via T-bills reduction rather than dated securities probably on expectations of strong demand from FPIs post global EM bond index inclusion.
- This choice of reduction in T-Bills borrowing by Rs.1 lakh crore vs FY24 and draw down of government cash balance to the tune of Rs.1.40 lakh crore provided a strong boost to the shorter end of yield curve.

By:

Kanika Pasricha
Kanika.pasricha@unionbankofindia.bank

Jovana Luke George
jovana.george@unionbankofindia.bank

Fig 4: Lower fiscal deficit in Q1FY25 led by lower expenditure, particularly Capex

Fiscal Numbers (Rs lakh crore)									
Parameter	FY23	% of GDP	FY24 (Prov)	% of GDP	FY25 (BE)	% of GDP	Q1 FY25 (BE)	YoY growth %	% of Actuals to FY25 BE
Revenue Receipts	23.8	8.8%	27.3	9.2%	31.3	9.6%	8.3	41.0%	26.5%
Net Tax Revenue	21.0	7.8%	23.3	7.9%	25.8	7.9%	5.5	26.8%	21.3%
Non Tax Revenue	2.9	1.1%	4.0	1.4%	5.5	1.7%	2.8	80.7%	51.3%
Non Debt capital receipts	0.7	0.3%	0.6	0.2%	0.8	0.2%	0.0	-57.8%	5.8%
Total Receipts	24.6	9.1%	27.9	9.4%	32.1	9.8%	8.3	39.2%	26.0%
Revenue expenditure	34.5	12.8%	34.9	11.8%	37.1	11.4%	7.9	2.2%	21.3%
Capex	7.4	2.7%	9.5	3.2%	11.1	3.4%	1.8	-35.0%	16.3%
Total Expenditure	41.9	15.6%	44.4	15.0%	48.2	14.8%	9.7	-7.7%	20.1%
Fiscal Deficit	17.4	6.4%	16.5	5.6%	16.1	4.9%	1.4		8.4%

Fig 5: Lower Q1FY25 fiscal deficit driven by strong direct tax revenue growth

Tax components	Q1 FY20	YoY growth %	Q1 FY21	YoY growth %	Q1 FY22	YoY growth %	Q1 FY23	YoY growth %	Q1 FY24	YoY growth %	Q1 FY25	YoY growth %	FY25 BE	% of Actuals to FY25 BE
Direct														
Corporation tax	70640	6.3%	54,212	-23.3%	1,23,689	128.2%	1,60,822	30.0%	1,38,503	-13.9%	1,74,774	26.2%	10,20,000	17.1%
Income tax	96927	12.3%	62,123	-35.9%	1,22,692	97.5%	1,72,661	40.7%	1,91,735	11.0%	2,87,336	49.9%	11,87,000	24.2%
Indirect														
Central GST	116805	28.2%	55,047	-52.9%	1,17,446	113.4%	1,79,392	52.7%	2,06,379	15.0%	2,28,328	10.6%	9,10,890	25.1%
Customs	39480	16.9%	15,416	-61.0%	41,356	168.3%	36,467	-11.8%	49,201	34.9%	47,065	-4.3%	2,37,745	19.8%
Excise duties	36951	-7.7%	35,347	-4.3%	67,907	92.1%	61,228	-9.8%	51,813	-15.4%	51,357	-0.9%	3,19,000	16.1%
Gross Tax Revenue	400421	1.4%	2,69,686	-32.6%	5,31,606	97.1%	6,50,489	22.4%	6,71,883	3.3%	8,30,797	23.7%	38,40,170	21.6%

Fig 6: Market borrowings in Q1FY25 were almost one third vs Q1 FY24 on Tbill borrowings cut

Sources of Financing the Deficit (Rs Cr)							
Parameter	Q1 FY19	Q1 FY20	Q1 FY21	Q1 FY22	Q1 FY23	Q1 FY24	Q1 FY25
Domestic Financing	4,25,105	4,25,110	6,32,860	2,76,024	3,41,427	4,47,464	1,35,667
Market borrowings	1,62,014	2,54,082	5,50,641	3,46,991	4,77,007	4,03,159	1,44,202
State provident funds	2,271	2,230	8,478	2,455	-3,974	422	-1,956
Special deposits	-71	-105	-387	-25	-115	-589	-122
Small savings	43,843	52,957	62,109	90,647	98,485	1,36,555	90,462
Others (Public account)	-1,887	-38,176	-18,477	-7,414	70,306	1,45,855	21,581
Cash Balance	944	4,899	4,900	4,990	4,989	4,899	4,496
Investment(-) / Redemption (+) of Surplus cash)	1,62,555	1,22,692	25,597	-1,61,620	-3,05,271	-1,94,160	-1,22,996
Ways & means advances	55,435	26,531	0	0	0	-48,677	
Total Financing	4,29,033	4,32,055	6,62,363	2,74,245	3,51,871	4,51,370	1,35,712

BE: Budget estimates; Source: CGA; Budget documents; UBI Research

Banking Research Team	
Kanika Pasricha Chief Economic Advisor	kanika.pasricha@unionbankofindia.bank
Suneesh K	suneeshk@unionbankofindia.bank
R Gunaseelan	gunaseelan@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Amit Srivastava	asrivastava@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank
S. Jaya Laxmi	s.jayalakshmi@unionbankofindia.bank
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank
Akash Deb	akash510@unionbankofindia.bank
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank

Disclaimer:

The views expressed in this report are personal views of the author(s) and do not necessarily reflect the views of Union Bank of India. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Union Bank of India and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability regarding the same.