

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

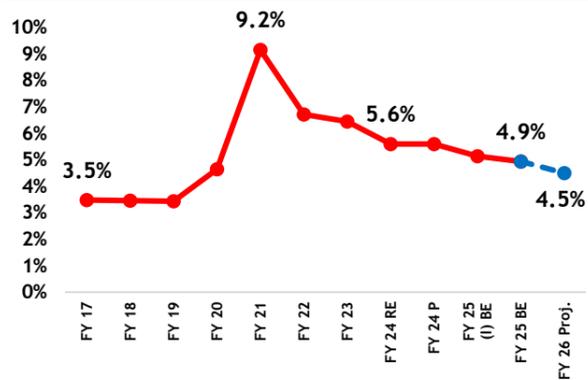
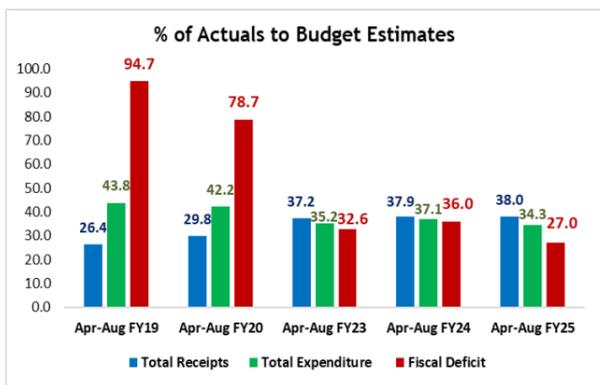


Fig 2: Apr-Aug'24 fiscal deficit as % of BE at a meagre 27% shows weak fiscal impulse



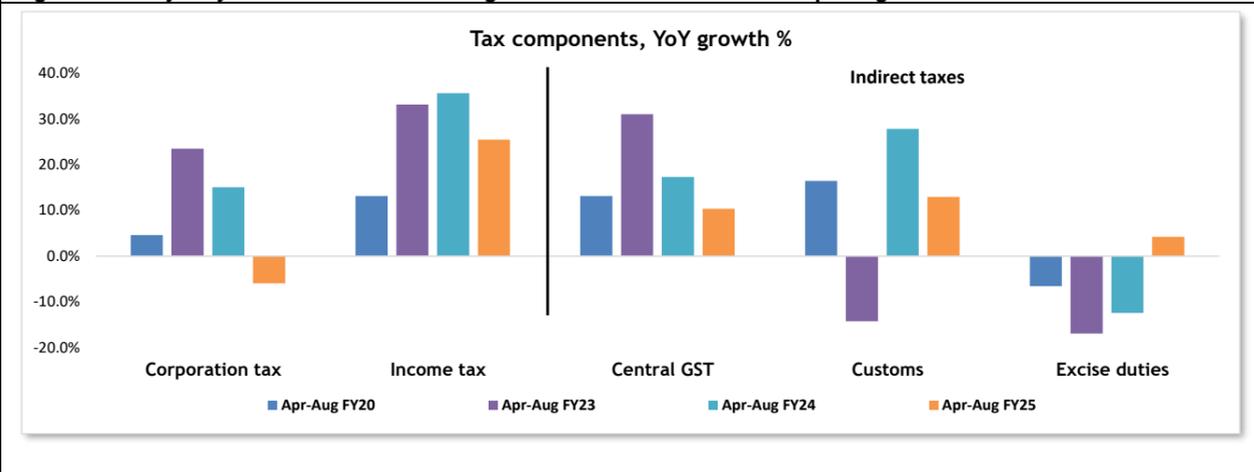
Fiscal deficit in Apr-Aug'24 limited to 27% of budgeted estimates (BE)

- India's fiscal deficit for Apr-Aug FY25 came in at Rs 4.35 lakh crore (27.0% of BE) vis a vis Rs 6.43 lakh crore (36.0% of BE) in corresponding period last year. It was way lower than over 78.7% seen in pre-Covid period (Fig 2) and is also at a multi-year low. However, in comparison to Apr-Jul, where we saw fiscal deficit at 17.2% of BE, it widened somewhat in Apr-Aug period.
- This was led by a combination of strong tax buoyancy particularly direct taxes, robust dividend from RBI and other PSUs along with lagging spending in an election year.
- While total spending contracted by 1.2% YoY during Apr-Aug'24, however, the negative momentum seems to have reversed in August with 4.1% pick up seen in revex. More importantly, capex is down by 19.5% with a pickup awaited in the coming months to achieve the elevated Rs 11.11 lakh crore budgeted target for the fiscal. Hence, the govt. has seven months left to spend the remaining three-fourth of the full year capex budget.
- That said, spending pace has gained momentum post elections.
 - Revenue expenditure in July-Aug averaged Rs 2.8 lakh crore vs Rs 2.3 lakh crore in May-Jun'24.
 - As regards capex, the pace of spending seems to have picked up in Jul-Aug to average Rs 0.60 lakh crore vs Rs 0.41 lakh crore in May-June.
- Within revenue spending, subsidies have contracted by 1.2% YoY. Although major subsidies as % of BE has reduced to 47% in Apr-Aug'24 from 48% in Apr-Aug'23, the similar number for food subsidies rose to 55% from 42% during the same period last year.
- With respect to fiscal revenues, the momentum remained supported led by both tax and non-tax receipts. The key driver within taxes was direct taxes. In specific, income tax showed a growth of c.25.5% YoY during Apr-Aug FY25. However, corporation tax collections were down 6.0% YoY with some reversal likely in Sep'24 from strong advance tax collections (Fig 3). Meanwhile growth in indirect taxes like GST and customs were lagging at 10.4% and 12.9%, respectively. This is a key cause for concern as it is way lower than above 20% growth clocked in GST and custom duties during Apr-Aug'23.
- As per Finance Ministry, during FY25 (up to 17th Sep), refunds totalling Rs 2.05 lakh crore have been issued, reflecting 56.5% increase compared to the refunds issued during the corresponding period in the previous year. Advance tax collection has increased by 22.6% YoY to Rs 4.36 lakh crore. Despite the rise in refunds, income tax collections have showed robust growth in the current year.
- Non-tax revenues growth was 59.6% YoY during Apr-Aug FY25, largely contributed by dividends and profits from PSUs (Rs 2.29 lakh crore), which was nearly double the amount compared to last year. The RBI dividend bounty of Rs 2.1 lakh crore forms the major portion of non-tax revenue growth.
- Within revenues, the key cause for concern is lagging non-debt capital receipts, which were down by 42.4% YoY during Apr-Aug'24 due to fall in net recoveries of loans and lagging PSU divestments.

Govt Cash Balance buildup seen during FYTD25 despite consistent drawdown in last 3 months

- 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 in Mar'24 to Rs 2.16 lakh cr by Aug'24 after spiking to Rs 4.08 lakh cr in May'24 post receipt of RBI dividend. This is part of the government budgeting for drawdown in cash balance to the tune of Rs. 1.40 lakh cr in FY25.
- The market borrowings till Aug FY25 has been Rs.2.4 lakh cr vis-à-vis Rs. 6.4 lakh cr in the same period last year. There is contraction in T-bills to the tune of c.Rs.1.5 lakh cr during first 5 months of fiscal.
- Lastly, the fiscal financing through small savings have declined on YoY basis from Rs 1.36 lakh cr in Apr-Aug'23 to Rs 0.63 lakh cr in Apr-Aug'24. This was acknowledged by the govt. in the Budget as well, with reduction in small savings estimates for fiscal financing, as retail investors look for alternate investment avenues including high yielding fixed deposits. Yesterday, the government noted no change in small savings rates during Oct-Dec'24 quarter which may drive further slowdown in collections in the coming months.

Fig 3: Tax buoyancy in direct taxes far stronger vis-à-vis indirect taxes in Apr-Aug'24



Source: CEIC; CGA; Budget documents; UBI Research

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Fig 4: Lower fiscal deficit in Apr-Aug FY25 led by lower expenditure, particularly Capex

Fiscal Numbers (Rs. In Crore)							
Parameter	Apr-Aug'19	Apr-Aug'22	Apr-Aug'23	Apr-Aug'24	YoY Growth %	FY25 BE	% of Actuals to FY25 BE
Revenue Receipts	6,03,201	8,16,898	10,13,526	12,08,312	19.2%	31,29,200	38.6%
- Net Tax Revenue	4,04,580	7,00,094	8,03,944	8,73,845	8.7%	25,83,499	33.8%
- Non-tax Revenue	1,98,621	1,16,804	2,09,582	3,34,467	59.6%	5,45,701	61.3%
Non Debt Capital Receipts	18,260	31,527	15,405	8,866	-42.4%	78,000	11.4%
Total Receipts	6,21,461	8,48,425	10,28,931	12,17,178	18.3%	32,07,200	38.0%
Revenue Expenditure	10,39,125	11,37,698	12,97,958	13,51,367	4.1%	37,09,401	36.4%
Capital Expenditure	1,36,176	2,52,328	3,73,799	3,00,987	-19.5%	11,11,111	27.1%
Total Expenditure	11,75,301	13,90,026	16,71,757	16,52,354	-1.2%	48,20,512	34.3%
Fiscal Deficit	5,53,840	5,41,601	6,42,826	4,35,176	-32.3%	16,13,312	27.0%

Fig 5: Market borrowings dropped in Apr-Aug FY25 as absolute fiscal deficit slips to multi-year lows

Sources of Financing the Deficit (Rs Cr)					
Parameter	Apr-Aug'19	Apr-Aug'20	Apr-Aug'22	Apr-Aug'23	Apr-Aug'24
Domestic Financing	5,46,191	8,30,275	5,29,720	6,32,651	4,15,582
Market borrowings	4,04,292	9,74,389	6,56,633	6,35,391	2,43,457
Securities against small savings	46,216	34,219	14,080	64,007	73,764
State provident funds	1,603	9,657	-5,497	-3,616	-3,212
Special deposits	-194	-533	8,921	2,743	-990
National small saving fund	53,126	56,805	1,33,689	1,36,136	63,029
Others (Public account)	-46,761	-1,24,792	-27,997	-11,765	79,432
Cash Balance	4,989	4,989	4,989	4,989	4,496
Investment(-) / Redemption (+) of Surplus cash)	82,918	-1,24,460	-2,55,099	-1,46,557	-44,395
Ways & means advances	0	0	0	-48,677	0
Total Financing	5,53,840	8,70,347	5,41,601	6,42,826	4,35,176

Fig 6: Tax collections primarily led by strong growth in income tax collections during Apr-Aug FY25

Tax components	Apr-Aug FY20	YoY growth %	Apr-Aug FY23	YoY growth %	Apr-Aug FY24	Apr-Aug FY25	YoY growth %	FY25 BE	% of Actuals to FY25 BE
Direct									
Corporation tax	11,11,660	4.6%	20,76,350	23.6%	23,89,480	22,46,390	-6.0%	1,02,00,000	22.0%
Income tax	16,55,000	13.2%	26,55,990	33.2%	36,03,810	45,22,860	25.5%	1,18,70,000	38.1%
Indirect									
Central GST	20,94,450	13.2%	28,66,600	31.1%	33,63,330	37,12,220	10.4%	91,08,900	40.8%
Customs	6,20,310	16.5%	6,53,250	-14.3%	8,35,180	9,43,290	12.9%	23,77,450	39.7%
Excise duties	7,60,320	-6.6%	11,39,630	-17.0%	9,97,760	10,40,060	4.2%	31,90,000	32.6%
Gross Tax Revenue	66,07,740	4.2%	1,02,05,890	18.7%	1,18,91,800	1,33,27,220	12.1%	3,84,01,700	34.7%

BE: Budget Estimates; Prov.: Provisional

Source: CEIC; CGA; Budget documents; UBI Research

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