

Fig 1: Govt targeting consolidation in fiscal deficit to 4.5% of GDP by FY26 (% of GDP)

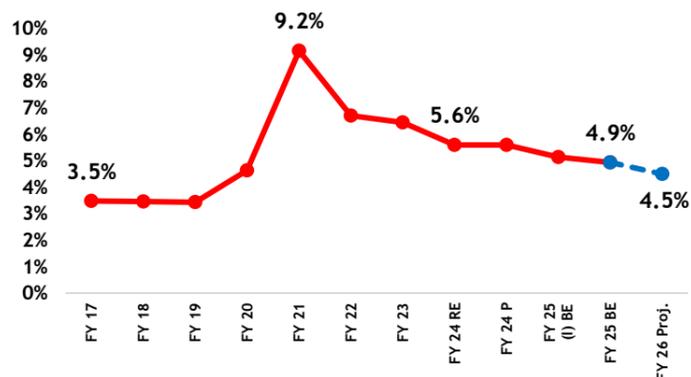
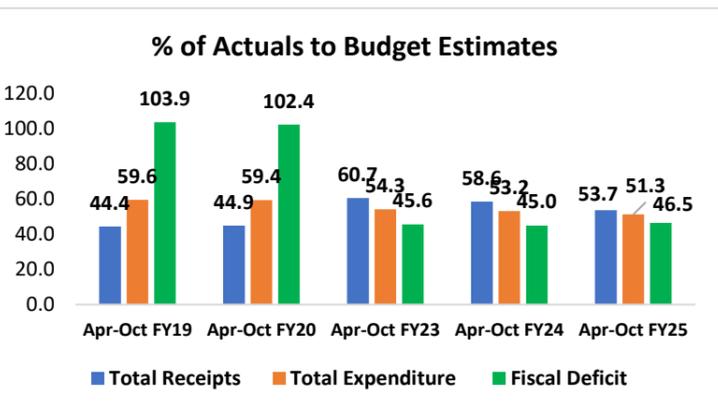


Fig 2: Fiscal impulse improves slightly in Oct'24



Source: CEIC; CGA; Budget documents; UBI Research

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Fiscal deficit in Apr-Oct'24 rises to 46.5% of budgeted estimates (BE)

- India's fiscal deficit for Apr-Oct FY25 came in at Rs 7.51 lakh crore (46.5% of BE) vis a vis Rs 8.04 lakh crore (45.0% of BE) in corresponding period last year. It was way lower than over 102.4% seen in pre-Covid period (Fig 2). However, after lagging historical trends till Sep'24, we have seen an improvement in fiscal dynamics in Oct'24 indicating a strength in fiscal impulse.
- We expect the trend to continue given the focus of the government on boosting growth is likely to gain impetus with Q2 FY25 GDP growth shockingly slipping to 5.4% (lowest in 7 quarters).
- This was led by a combination of rise in revenue expenditure and fall in revenue receipts particularly net tax revenue.
- While total expenditure growth was negative by 0.4% YoY during H1FY25, it rose by 31.7% in Oct'24, contributing to widening of fiscal deficit.
- The negative momentum seen in first half seems to have reversed in October with 41.9% pick up seen in revex. More importantly, while capex is down by 14.7%, the extend of negativity has lessened in Oct'24 (negative by 15.7% during H1FY25), with a further pickup expected in the coming months. However, revenue expenditure remaining high shows that quality of spending is a cause for concern. **However, it would be a daunting task for the govt. to achieve the Rs 11.11 lakh crore budgeted target for the fiscal as the govt. has only five months left to spend the remaining 58% of the full year capex budget.** In fact, as per recent media reports, the central government is likely to undershoot the FY25 capex target by 5% to align closely with last year's spending.
- That said, spending pace has gained momentum post elections.
  - Revenue expenditure in Aug-Oct'24 averaged Rs 3.2 lakh crore vs Rs 2.4 lakh crore in May-Jul'24.
  - As regards capex, the pace of spending seems to have picked up in Aug-Oct'24 to average Rs 0.68 lakh crore vs Rs 0.54 lakh crore in May-July'24.
- Within revenue spending, subsidies have risen by 7.3% YoY (vis-à-vis (-)3% clocked during Apr-Oct FY24). Major subsidies as % of BE has risen to 65% in Apr-Oct'24 from 62% in Apr-Oct'23, the similar number for food subsidies rose to 68% from 56% during the same period last year.
- With respect to fiscal revenues, the momentum was mainly supported non-tax receipts. Within taxes, the key driver was direct taxes. In specific, income tax showed a growth of c.20.2% YoY during Apr-Oct FY25. However, both corporation tax and income tax were down compared to previous year where it grew YoY at 17.4% and 31.1%, respectively. Some reversal is likely in the second half of FY25 from likely revival in economic growth on government spending pickup and recovery in rural demand (Fig 6). Meanwhile growth in indirect taxes like GST and customs were lagging at 11.3% and 6.2%, respectively. This is a key cause for concern.
- Non-tax revenues growth was 50.2% YoY during Apr-Oct FY25, largely contributed by RBI dividend bounty of Rs 2.1 lakh crore and profits from PSUs (Rs 2.64 lakh crore), which was nearly double the amount compared to last year.
- Within revenues, the key cause for concern is lagging non-debt capital receipts, which were down by 18.2% YoY during Apr-Oct'24 due to fall in net recoveries of loans and lagging PSU divestments. This is likely to be a laggard in terms of fiscal revenues, similar to last year when achievement was almost 50% of budgeted levels. However, the slippage in this revenue source may be more than offset by the likely undershooting of capex target thereby limiting the fiscal impact.

Drawdown of govt. cash balance seen during H2 FY25 driving fiscal financing

- 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 3.03 lakh cr by Sep'24 while we saw a reversal in Oct'24 and cash balance has come down to Rs. 1.40 lakh cr on the back of a pickup in spending. The government has budgeted to end the fiscal year with a cash balance of Rs 30,000 crore implying that further fiscal impulse is likely in rest of fiscal.
- The market borrowings till Oct FY25 has been Rs 3.68 lakh cr vis-à-vis Rs. 8.38 lakh cr in the same period last year. There is contraction in T-bills to the tune of c.Rs.3.2 lakh cr during first 7 months of fiscal.
- The fiscal financing through small savings have declined on YoY basis from Rs 1.22 lakh cr in Apr-Oct'23 to Rs 0.98 lakh cr in Apr-Oct'24. This was acknowledged by the government 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.
- Lastly, the net redemption budgeted for in "other receipts" at Rs 81.282 cr has seen a net inflow FYTD of Rs 1.24 lakh cr which is a positive yet trends need close watch.

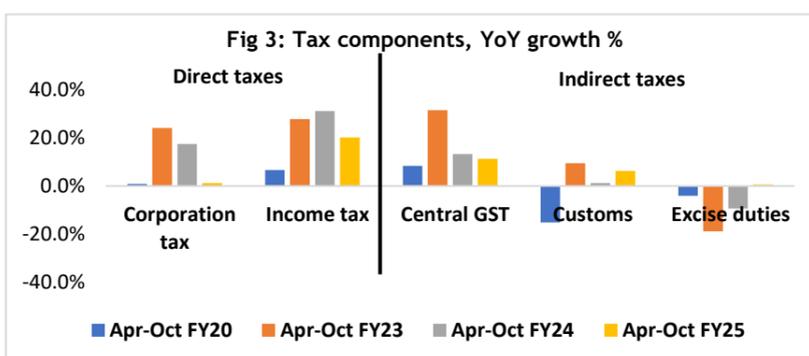


Fig 4: Fiscal deficit in Apr-Oct FY25 widened on higher revenue expenditure

Fiscal Numbers (Rs crore)								
Parameter	Apr-Oct FY20	Apr-Oct FY23	Apr-Oct FY24	Apr-Oct FY25	Oct'24/Oct'23 (YoY growth %)	Apr-Oct FY25/ Apr-Oct FY24 (YoY growth %)	FY25 (BE)	% of Actuals to FY25 BE
Revenue Receipts	9,07,634	1349882	1567722	17,04,267	-52.0%	8.7%	31,29,200	54.5%
Net Tax Revenue	6,83,486	11,71,103	13,01,957	13,04,973	-71.9%	0.2%	25,83,499	50.5%
Non Tax Revenue	2,24,148	1,78,779	2,65,765	3,99,294	45.1%	50.2%	5,45,701	73.2%
Non Debt capital receipts	26,826	35,692	22,990	18,807	48.9%	-18.2%	78,000	24.1%
Total Receipts	9,34,460	13,85,574	15,90,712	17,23,074	-50.4%	8.3%	32,07,200	53.7%
Revenue expenditure	14,53,632	17,34,697	18,47,488	20,07,353	41.9%	8.7%	37,09,401	54.1%
Capex	2,01,273	4,09,014	5,46,924	4,66,545	-8.4%	-14.7%	11,11,111	42.0%
Total Expenditure	16,54,905	21,43,711	23,94,412	24,73,898	31.7%	3.3%	48,20,512	51.3%
Fiscal Deficit	7,20,445	7,58,137	8,03,700	7,50,824	171.3%	-6.6%	16,13,312	46.5%

Fig 5: Cash balance drawdown a key driver of fiscal financing

Sources of Financing the Deficit (Rs Cr)					
Parameter	Apr-Oct FY20	Apr-Oct FY21	Apr-Oct FY23	Apr-Oct FY24	Apr-Oct FY25
Domestic Financing	7,14,266	9,13,645	7,43,682	7,93,833	7,32,997
Market borrowings	4,99,856	11,53,800	7,52,779	8,38,107	3,67,644
Securities against small savings	79,292	75,469	1,11,526	1,67,699	1,21,921
State provident funds	2,699	9,804	-4,008	-3,822	-4,781
Special deposits	-210	-626	-19,309	-3,048	-11,597
National small saving fund	44,243	76,895	1,13,599	1,21,979	98,220
Others (Public account)	-77,321	-1,82,206	7,811	1,05,880	1,23,666
Cash Balance	4,989	4,990	4,989	4,989	4,495
Investment(-) / Redemption (+) of Surplus cash)	1,22,692	-2,24,481	-2,23,706	-3,89,274	33,428
Ways & means advances	38,026	0	0	-48,677	0
Total Financing	7,20,445	9,53,154	7,58,137	8,03,700	7,50,824

Fig 6: Tax collections primarily led by strong growth in income tax collections during Apr-Oct FY25 (Rs Cr)

Tax components	Apr-Oct FY20	YoY growth %	Apr-Oct FY23	YoY growth %	Apr-Oct FY24	YoY growth %	Oct'24/Oct'23	Apr-Oct FY25	YoY growth %	FY25 BE	% of Actuals to FY25 BE
<b>Direct</b>											
Corporation tax	272756	0.9%	410587	24.1%	4,81,969	17.4%	-14.1%	4,87,862	1.2%	10,20,000	47.8%
Income tax	244394	6.7%	397605	27.7%	5,21,211	31.1%	-11.0%	6,26,454	20.2%	11,87,000	52.8%
<b>Indirect</b>											
Central GST	2,84,712	8.3%	4,13,568	31.5%	4,68,574	13.3%	14.0%	5,21,599	11.3%	9,10,890	57.3%
Customs	64,459	-15.1%	1,22,926	9.5%	1,24,384	1.2%	5.2%	1,32,112	6.2%	2,37,745	55.6%
Excise duties	1,13,951	-4.0%	1,65,652	-18.8%	1,50,215	-9.3%	-10.7%	1,51,190	0.6%	3,19,000	47.4%
Gross Tax Revenue	10,51,804	1.2%	16,09,605	18.0%	18,34,518	14.0%	1.6%	20,32,634	10.8%	38,40,170	52.9%

BE: Budget Estimates; Prov.: Provisional

Source: CEIC; CGA; Budget documents; UBI Research

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