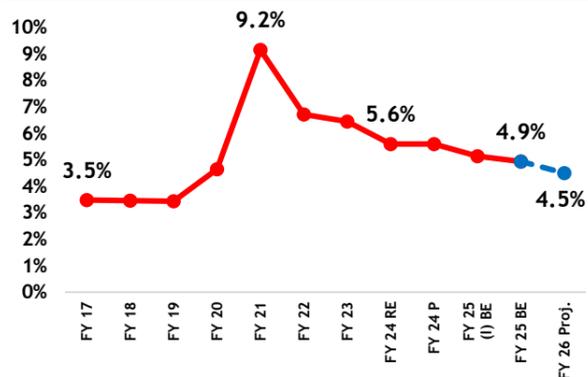
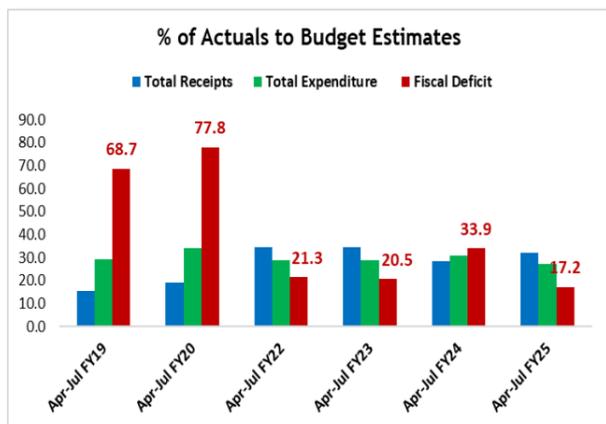


**Fig 1: Fiscal consolidation glide path to continue, targeting 4.5% in FY26**



**Fig 2: Apr-Jul'24 fiscal deficit as % of BE touched 17.2%**



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Source: CEIC; CGA; Budget documents; UBI Research

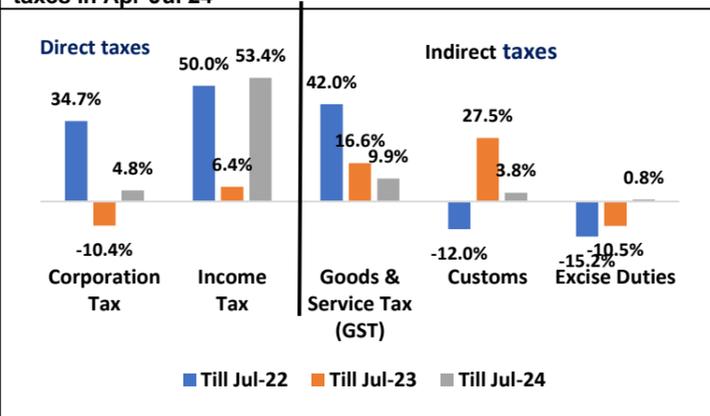
**Fiscal deficit in Apr-Jul'24 limited to 17.2% of budgeted estimates (BE)**

- India's fiscal deficit for April-July FY25 came in at Rs 2.77 lakh crore (17.2% of BE) vis a vis Rs 6.06 lakh crore (33.9% of BE) in corresponding period last year. It was also way lower than over 77% seen in pre-Covid period (Fig 2). More importantly in comparison to Q1, where we saw fiscal deficit at 8.1% of BE, widened in July.
- This was led by a combination of strong tax revenues, robust dividend from PSUs and lower capital expenditure during an election quarter.
- Total spending contracted by 5.8% during April-July'24, which also contributed to halving of fiscal deficit to Rs 2.8 lakh crore in Apr-Jul FY25 from Rs 6.1 lakh crore in the year ago period. However, the negative momentum seems to have reversed in July.
- More importantly, focus remained on quality of spending. This was evident from the fact that while revenue expenditure momentum was maintained, capex also picked up in July. Revenue expenditure in July month was to the tune of Rs 2.5 lakh crore vs average of Rs 2.3 lakh crore in May-June.
- As regards capex, the pace of spending seems to have picked up in July post-elections, with Rs 0.8 lakh crore spending vs average of Rs 0.41 lakh crore in May-June.
- The govt. has eight months left to spend the remaining three-fourth of the capex earmarked for FY25. Going forward, rise in capex growth is expected in line with the intention shown in the Budget.
- Although major subsidies as % of BE has reduced to 33% in July'24 from 38% in Jul'23, the share of food subsidies rose to 38% from 35% previous year. Interestingly, subsidies were down by 30% YoY in July'24 from +21% in Q1 FY25. If this momentum continues, the growth in net indirect taxes (indirect taxes minus subsidies) may show pickup in Q2 FY25, thereby buoying the GDP growth in this quarter.
- Meanwhile, revenue momentum remained supported led by both tax and non-tax revenues. The key driver within taxes was direct taxes. In specific, income tax showed a growth of c.53.4% YoY during Apr-Jul FY25. However, corporation tax growth was lower at 4.8% (Fig 3), in line with the weak earnings results posted by listed corporates during Q1 FY25, with operating profit slipping to 2% from 28% in FY24. Meanwhile growth in indirect taxes like GST and customs were lagging at 9.9% and 3.8%, respectively. This is a key cause for concern as run rate same period last year was way higher at 11.8%.
- As per Finance Ministry, during FY25 (up to 17th June), refunds totalling Rs 0.53 lakh crore have been issued, reflecting 33.7% increase compared to the refunds issued during the corresponding period in the previous year. Despite the rise in refunds, income tax collections have showed robust growth in the current year.
- Non-tax revenues growth was 68.8% during Apr-Jul 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 53.4% YoY during April-July'24 due to fall in net recoveries of loans.

**High cash build up despite lower market borrowings.**

- 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 2.5 lakh cr by July. 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.
- The market borrowings till July FY25 has been Rs.1.6 lakh cr vis-à-vis Rs. 5.6 lakh cr in the same period last year. There is contraction in T-bills to the tune of Rs.1 lakh cr during the 4 months.
- It is not astonishing to note that only 17% (Rs.2.77 lakh cr) of deficit financing has been done of the total FY25 budgeted value of Rs.16.13 lakh cr. This is in sharp contrast to 34% (Rs.6.06 lakh cr) of deficit financing in the same period last year.
- Lastly, the fiscal financing through small savings have declined on YoY basis from Rs.1.64 lakh cr in Apr-Jul'23 to Rs.1.10 lakh cr in Apr-Jul'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.

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



**Fig 4: Capex is the torch bearer for the government expenditure in July'24**

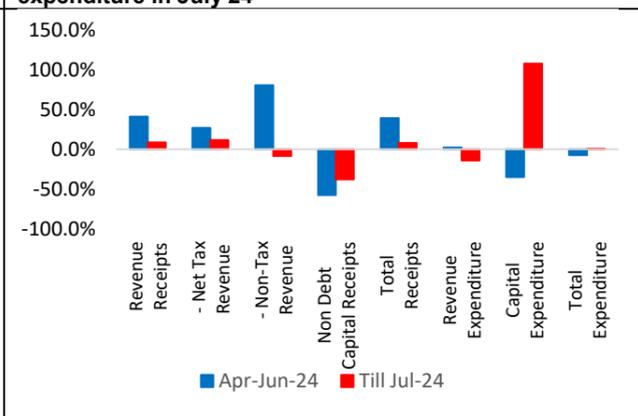


Fig 5: Lower fiscal deficit in Apr-Jul FY25 led by lower expenditure, particularly Capex

Fiscal Numbers (Rs. In Lakh Crore)											
Parameter	Till Jul-21	% of GDP	Till Jul-22	% of GDP	Till Jul-23	% of GDP	FY25 BE	% of GDP	Till Jul-24	YoY Growth %	% of Actuals to FY25 BE
Revenue Receipts	6.69	2.8%	7.56	2.8%	7.61	2.6%	31.29	9.6%	10.17	33.6%	32.5%
- Net Tax Revenue	5.31	2.2%	6.68	2.5%	5.85	2.0%	25.83	7.9%	7.18	22.7%	27.8%
- Non-tax Revenue	1.40	0.6%	0.90	0.3%	1.79	0.6%	5.46	1.7%	3.02	68.8%	55.3%
Non Debt Capital Receipts	0.14	0.1%	0.30	0.1%	0.14	0.0%	0.78	0.2%	0.06	-53.4%	8.2%
Total Receipts	6.83	2.9%	7.86	2.9%	7.75	2.6%	32.07	9.8%	10.23	32.0%	31.9%
Revenue Expenditure	8.76	3.7%	9.18	3.4%	10.64	3.6%	37.09	11.4%	10.39	-2.3%	28.0%
Capital Expenditure	1.28	0.5%	2.09	0.8%	3.17	1.1%	11.11	3.4%	2.61	-17.6%	23.5%
Total Expenditure	10.04	4.3%	11.27	4.2%	13.81	4.7%	48.21	14.8%	13.00	-5.8%	27.0%
Fiscal Deficit	3.21	1.4%	3.41	1.3%	6.06	2.1%	16.13	4.9%	2.77		17.2%

Fig 6: Market borrowings maintain momentum in Apr-Jul FY25

Sources of Financing (Rs. In Lakh Crore)				
Parameter	Till Jul-21	Till Jul-22	Till Jul-23	Till Jul-24
Domestic Financing	3.22	3.31	5.98	2.72
Market Borrowings	3.56	5.39	5.58	1.65
State Provident Funds	0.01	-0.05	-0.01	-0.02
Special Deposits	-0.00	0.06	0.01	-0.00
Small Savings	1.15	1.22	1.64	1.10
Others (Public Accounts)	-0.16	-0.40	1.18	0.75
Cash Balance	0.05	0.05	0.05	0.04
Investment/Redemption of Surplus Cash	-1.39	-2.97	-1.98	-0.80
Ways & Means Advances	-	-	-0.49	-
<b>Total Financing</b>	<b>3.21</b>	<b>3.41</b>	<b>6.06</b>	<b>2.77</b>

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

Source: CEIC; CGA; Budget documents; UBI Research

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