

Low spend, especially capex, kept Centre's fiscal deficit in check at 29% of FY25BE in H1, below 39% of BE in H1-FY24

November 6, 2024

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Low spend, especially capex, kept fiscal deficit in check in Apr-Sep

- In H1-FY25 (Apr-Sep), the center's fiscal deficit stood at Rs.4.7tn, accounting for 29% of FY25BE, and lower than the deficit of Rs.7.0tn in H1-FY24 that amounted to 39% of FY24BE. Both expenditure and receipts were lower than in H1-FY24 in terms of share in budget estimates on fiscal year-to-date basis. The growth in total receipts moderated to 16%YY in H1-FY25 from 18% in H1-FY24, with share easing to 51% of FY25BE from 52% of FY24BE, respectively. The drag from poll-induced slowdown continued to reflect in total expenditure that remained in contraction FYTD at (-)0.4%YY (44% of FY25BE). This compared with 16%YY growth in H1-FY24 (47% of FY24BE).
- The revenue account had posted surplus in May and June on FYTD basis due to the tailwind from dividend receipts from RBI and other public institutions that was accounted for in May data. The revenue account slipped into deficit thereafter, but the gap remains relatively muted compared to the same period a year ago. In H1-FY25, revenue deficit amounted to Rs.742bn (13% of FY25BE), less than Rs.2.3tn in H1-FY24 (27% of FY24BE).
- In FY25, the primary account, which excludes interest costs, has largely been in surplus on FYTD basis, except for the month of August when it had slipped into deficit. In H1-FY25, primary account surplus stood at Rs.405bn versus deficit of Rs.2.2tn in H1-FY24.

	(Rs. bn)	Percent change		FYTD (Rs. bn)		FYTD - %YY		FY25BE		FY24BE		FY25BE	
	Sep-24	%YY	%MM	Sep-24	Sep-23	Sep-24	Sep-23	Rs. bn	(% of BE)	Rs. bn	(% of BE)	Current run rate	Required run rate
Revenue receipts	**4,141**	**8**	**116**	**16,224**	**13,971**	**16**	**19**	**31,292**	**52**	**26,323**	**53**	**2,704**	**2,511**
Gross tax revenue	**4,811**	**12**	**94**	**18,138**	**16,193**	**12**	**16**	**38,402**	**47**	**33,609**	**48**	**3,023**	**3,377**
Net tax revenue	**3,913**	**10**	**147**	**12,652**	**11,603**	**9**	**15**	**25,835**	**49**	**23,306**	**50**	**2,109**	**2,197**
Direct taxes	**3,542**	**15**	**243**	**10,560**	**9,202**	**15**	**25**	**22,070**	**48**	**18,233**	**50**	**1,760**	**1,918**
Indirect taxes	**1,266**	**3**	**(13)**	**7,562**	**6,974**	**8**	**6**	**16,237**	**47**	**15,292**	**46**	**1,260**	**1,446**
Taxes on UT	3	70	(4)	16	17	(3)	21	94	17	84	20	3	13
Transfer to NDRF	7	(2)	(8)	39	35	11	(7)	95	41	88	40	6	9
Assignment to states	891	22	(0)	5,448	4,554	20	21	12,472	44	10,214	45	908	**1,171**
Non-tax revenues	**227**	**(16)**	**(30)**	**3,572**	**2,368**	**51**	**50**	**5,457**	**65**	**3,017**	**78**	**595**	**314**
Non-debt capital receipts	**57**	**20**	**131**	**146**	**202**	**(28)**	**(41)**	**780**	**19**	**840**	**24**	**24**	**106**
Recovery of loans	34	(1)	103	114	132	(13)	38	280	41	230	57	19	28
Disinvestment	23.5	74	188	32	70	(54)	(72)	500	6	610	11	5	78
Total receipts	**4,198**	**8**	**117**	**16,370**	**14,173**	**16**	**18**	**32,072**	**51**	**27,125**	**52**	**2,728**	**2,617**
Total expenditure	**4,591**	**3**	**30**	**21,115**	**21,191**	**(0)**	**16**	**48,205**	**44**	**45,031**	**47**	**3,519**	**4,515**
Revenue expenditure	**3,452**	**4**	**11**	**16,965**	**16,285**	**4**	**10**	**37,094**	**46**	**35,001**	**47**	**2,828**	**3,355**
Capital expenditure	**1,140**	**(2)**	**187**	**4,150**	**4,906**	**(15)**	**43**	**11,111**	**37**	**10,010**	**49**	**692**	**1,160**
Fiscal deficit	**393**	**(33)**	**(75)**	**4,745**	**7,019**	**(32)**	**13**	**16,133**	**29**	**17,868**	**39**	**791**	**1,898**
Primary deficit	**(755)**	**31**	**(188)**	**(405)**	**2,175**	**(119)**	**19**	**4,504**	**(9)**	**7,068**	**31**	**(67)**	**818**
Revenue deficit	**(689)**	**30**	**(157)**	**742**	**2,314**	**(68)**	**(26)**	**5,802**	**13**	**8,699**	**27**	**124**	**843**
FD/GDP (%)								4.9		5.9			

Buoyed by RBI dividend, revenue receipts on track to meet FY25BE

- In H1-FY25, revenue receipts amounted to Rs.16.2tn or 52% of FY25BE, almost in line with 53% of BE in H1-FY24. This marked an increase of 16%YY FYTD, compared to 19% growth a year ago. The lower run rate in case of revenue receipts required in H2 vis-à-vis H1 is primarily on account of non-tax revenues, while both gross and net tax revenues need to grow at faster rates to meet FY25BE. However, in terms of share in budget estimates, gross and net tax revenues, and transfer to States, were only marginally lower compared to H1-FY24.
- In H1-FY25, non-tax revenues amounted to 65% of FY25BE, compared to 78% of FY24BE in H1-FY24. However, this needs to be read in the context of more than 80%YY growth penciled in for FY25BE vis-à-vis FY24BE, mainly due to the larger-than-expected dividend from the RBI that was accounted for in May data for the year FY25. The year-on-year growth in non-tax revenues was almost the same at around 50% in H1 of both FY24 and FY25. However, the amalgamation of these factors indicates a lower run rate for non-tax revenues in H2 to meet FY25BE.

	Rs. bn	Percent change		FYTD (Rs. bn)		FYTD - %YY		FY25BE		FY24BE		FY25BE	
	Sep-24	%YY	%MM	Sep-24	Sep-23	Sep-24	Sep-23	Rs. bn	(% of BE)	Rs. bn	(% of BE)	Current run rate	Required run rate
Revenue receipts	**4,141**	**8**	**116**	**16,224**	**13,971**	**16**	**19**	**31,292**	**52**	**26,323**	**53**	**2,704**	**2,511**
Net tax revenue	**3,913**	**10**	**147**	**12,652**	**11,603**	**9**	**15**	**25,835**	**49**	**23,306**	**50**	**2,109**	**2,197**
Direct taxes	**3,542**	**15**	**243**	**10,560**	**9,202**	**15**	**25**	**22,070**	**48**	**18,233**	**50**	**1,760**	**1,918**
Corporation tax	2,369	12	491	4,615	4,513	2	20	10,200	45	9,227	49	769	931
Income tax	1,122	23	94	5,645	4,516	25	31	11,870	48	9,006	50	941	1,037
Other taxes	51	33	(8)	300	173	73	12						
Indirect taxes	**1,266**	**3**	**(13)**	**7,562**	**6,974**	**8**	**6**	**16,237**	**47**	**15,292**	**46**	**1,260**	**1,446**
Customs duty	186	(18)	(31)	1,130	1,062	6	23	2,377	48	2,331	46	188	208
Excise duty	245	(2)	(10)	1,285	1,248	3	(11)	3,240	40	3,390	37	214	326
Service tax	1	35	226	1	5	(80)	137	1	94	5	95	0	0
GST	**835**	**12**	**(8)**	**5,147**	**4,660**	**10**	**9**	**10,619**	**48**	**9,566**	**49**	**858**	**912**
CGST	700	13	(1)	4,412	3,981	11	17	9,109	48	8,116	49	735	783
IGST	16	(5)	(81)	(8)	(12)							(1)	1
Compensation cess	119	4	(0)	743	691	8	12	1,510	49	1,450	48	124	128
Taxes on UT	3	70	(4)	16	17	(3)	21	94	17	84	20	3	13
Gross tax revenue	**4,811**	**12**	**94**	**18,138**	**16,193**	**12**	**16**	**38,402**	**47**	**33,609**	**48**	**3,023**	**3,377**
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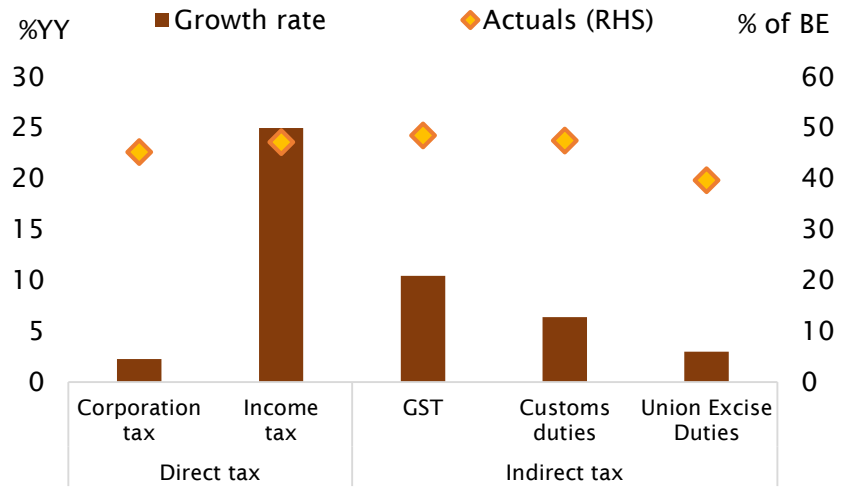
Interest receipts	28	4	(23)	204	173	18	39	382	53	248	70	34	30
Dividends and Profits	109	(22)	1	2,506	1,207	108	127	2,891	87	910	133	418	64
Non-Tax Revenue of U.T.s	2	14	9	14	18	(23)	51	29	47	23	77	2	3
External grant	0.2	1,022		0.5	1	(61)	(81)	10	5	21	6	0	2
Other Non-Tax Revenue	87	(15)	(51)	848	969	(12)	7	2,144	40	1,814	53	141	216

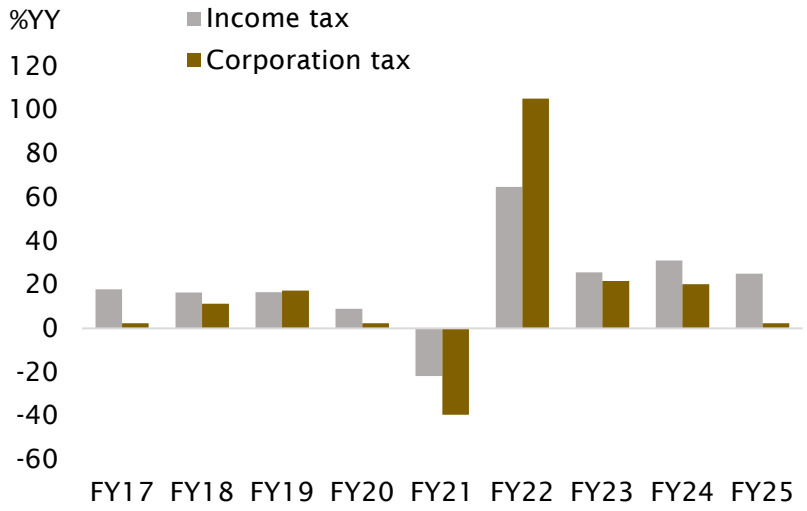
Tax revenues need to grow at faster rates in H2 to meet FY25BE

- In H1-FY25, direct tax collections stood at 48% of BE, slightly below 50% of BE in H1-FY24. Direct tax collections rose 15%YY, lower than 25% growth in H1-FY24. In terms of share in BE, income and corporate tax collections were lower at 48% and 45%, respectively in H1-FY25, compared to 50% and 49%, respectively in H1-FY24. However, lower income tax revenues need to be assessed in the context of 32%YY growth budgeted in FY25. Also, though year-on-year growth in income tax collections eased, it held up well at 25%YY versus 31% in H1-FY24. The wider gap in case of corporate taxes in terms of share in BE was marked by muted increase of 2%YY versus 20% growth in H1-FY24. Both income and corporate taxes need to grow at faster rates in H2 to match FY25BE.
- In H1-FY25, indirect tax collections stood at 47% of FY25BE, mildly above 46% of FY24BE in H1-FY24. The slight improvement in terms of share in BE was driven by higher customs and excise duty collections at 48% and 40%, respectively in H1-FY25, from 46% and 37%, respectively in H1-FY24. Customs duty collections were aided by the rationalization in rates announced in the final Union Budget for FY25. The Budget penciled in 2%YY growth in custom duty collections for entire FY25, with H1-FY25 actual increase at 6%. Excise duty collections are slated to decline 4%YY as per FY24BE, though H1 marked actual growth of 3%YY.
- GST collections were slightly lower at 48% of FY25BE in H1-FY25, compared to 49% of FY24BE in H1-FY24. But this also needs to be interpreted in the context of 11%YY growth budgeted for entire FY25 and 10%YY actual increase in H1-FY25, up from 9% in H1-FY24. All indirect taxes also need to grow to faster rates in H2 to meet FY25BE.

Tax collections (H1-FY25, fiscal year-to-date Apr-Sep)



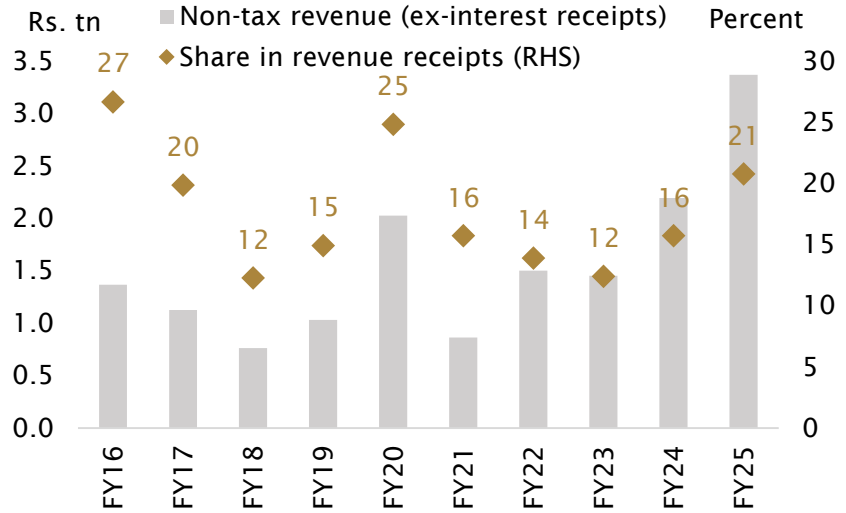
Tax collections (H1, fiscal year-to-date Apr-Sep)



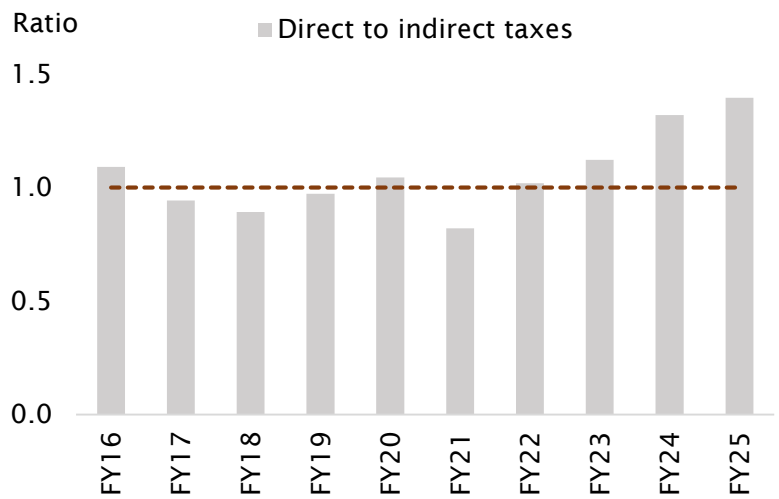
Buoyancy in tax revenues aided by direct tax, particularly income

- The higher-than-expected dividend from RBI and other public entities in FY24 that was accounted for in May data for entire FY25 increased the share of non-tax revenues in revenue receipts in H1-FY25 to 21% from 16% in H1-FY24. Tax revenues continued to account for the major portion of total revenue receipts.
- In the past three fiscal years, the buoyancy in tax revenues has been increasingly driven by direct taxes.
- Comparison with pre-pandemic data shows that there has been a notable increase in the share of income tax in gross tax revenues from around 22-23% in H1-FY19 to above 30% in H1-FY25.

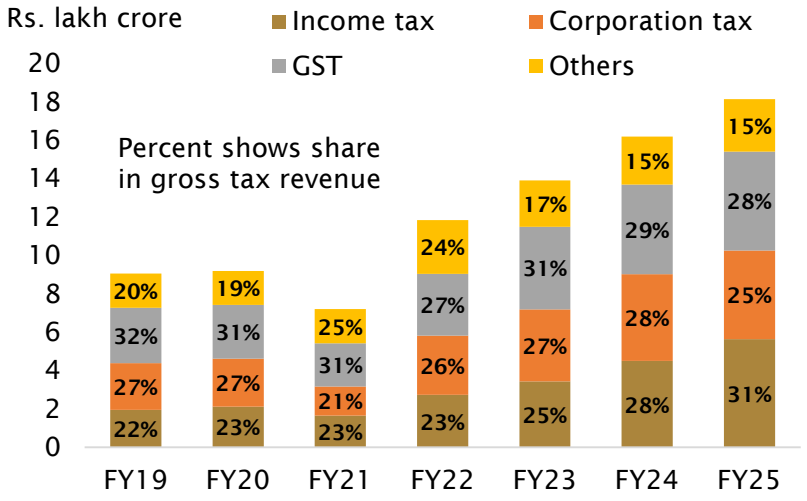
Non-tax revenues (H1, Apr-Sep), cumulative FTYD



Tax revenues (H1, Apr-Sep), cumulative FTYD



Tax revenues by type (H1, Apr-Sep), cumulative FTYD



Capex remained in contraction in H1 amid signs of pick up in Q2

- In H1-FY25, capital expenditure remained in contraction vis-à-vis H1-FY24, reflecting lingering impact of the pause in public spending during the model code of conduct ahead of general elections in Q1. In H1, capex fell 15%YY, amounting to 37% of FY25BE amid declines across major segments. On the contrary, capex was up 43%YY in H1-FY24 and accounted for 49% of FY24BE. In an encouraging sign though, there have been signs of a pick up in Q2-FY25, with spending rebounding and posting growth of 10%YY, led by roads and railways.
- Revenue expenditure, accounting for more than 75% of total spending, rose 4%YY in H1-FY25 and accounted for 46% of FY25BE. In H1-FY24, revenue spending was up 10%YY, amounting to 47% of FY24BE. There were increases across segments in H1-FY25, except for transfer to States under finance commission grants, which is anyways budgeted to decline 20%YY in entire FY25 over FY24BE. Interest payments continued to account for 30% of revenue expenditure in H1 of both FY24 and FY25, translating to around 44-45% of BE for the full fiscal years.

	(Rs. bn)	Percent change		FYTD (Rs. bn)		FYTD - %YY		FY25BE		FY24BE		FY25BE	
	Sep-24	%YY	%MM	Sep-24	Sep-23	Sep-24	Sep-23	Rs. bn	(% of BE)	Rs. bn	(% of BE)	Current run rate	Required run rate
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Non-debt capital receipts	**57**	**20**	**131**	**146**	**202**	**(28)**	**(41)**	**780**	**19**	**840**	**24**	**24**	**106**
Recovery of loans	34	(1)	103	114	132	(13)	38	280	41	230	57	19	28
Disinvestment	23			32	70			500		610	11	5	78
Total receipts	**4,198**	**8**	**117**	**16,370**	**14,173**	**16**	**18**	**32,072**	**51**	**27,125**	**52**	**2,728**	**2,617**
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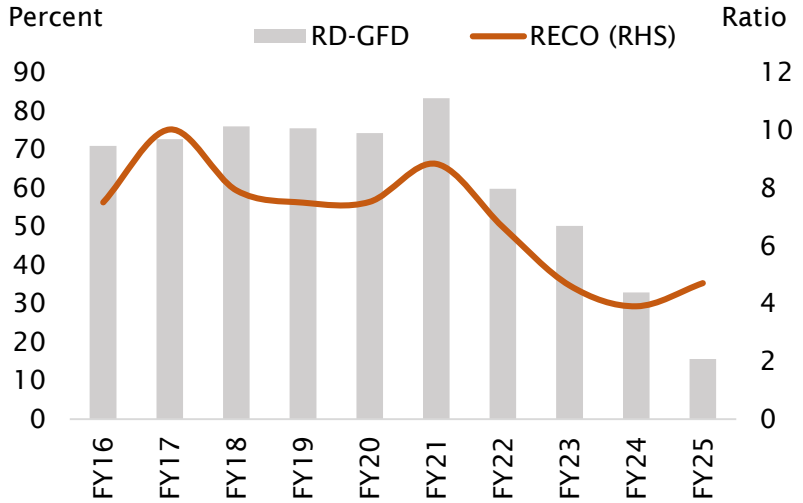
Revenue expenditure	**3,452**	**4**	**11**	**16,965**	**16,285**	**4**	**10**	**37,094**	**46**	**35,001**	**47**	**2,828**	**3,355**
Interest payments	1,149	(2)	59	5,150	4,843	6	11	11,629	44	10,800	45	858	1,080
Subsidies	360	40	(32)	2,147	2,064	4	4	4,284	50	4,031	51	358	356
Transfer to states	122	4	(15)	537	728	(26)	(2)	1,324	41	1,655	44	89	131
Rural development	206	89	25	857	758	13	(0)	1,776	48	1,575	48	143	153
Others	1,615	(2)	3	8,275	7,892	5	13	18,081	46	16,941	47	1,379	1,634
Capital expenditure	**1,140**	**(2)**	**187**	**4,150**	**4,906**	**(15)**	**43**	**11,111**	**37**	**10,010**	**49**	**692**	**1,160**
Defence	233	20	156	579	674	(14)	5	1,822	32	1,714	39	97	207
Railways	329	10	90	1,357	1,426	(5)	61	2,520	54	2,400	59	226	194
Roads and highways	349	(25)	161	1,406	1,564	(10)	28	2,722	52	2,586	60	234	219
Loan to states for capex	90	(52)	(1)	379	600	(37)	925	1,500	25	1,300	46	63	187
Others	139	478	(251)	429	642	(33)	301	2,546	17	2,010	32	71	353
Fiscal deficit	**393**	**(33)**	**(75)**	**4,745**	**7,019**	**(32)**	**13**	**16,133**	**29**	**17,868**	**39**	**791**	**1,898**
Primary deficit	**(755)**	**31**	**(188)**	**(405)**	**2,175**	**(119)**	**19**	**4,504**	**(9)**	**7,068**	**31**	**(67)**	**818**
Revenue deficit	**(689)**	**30**	**(157)**	**742**	**2,314**	**(68)**	**(26)**	**5,802**	**13**	**8,699**	**27**	**124**	**843**
FD/GDP (%)								**4.9**		**5.9**			
PD/GDP (%)								1.4		2.4			
RD/GDP (%)								1.8		2.9			

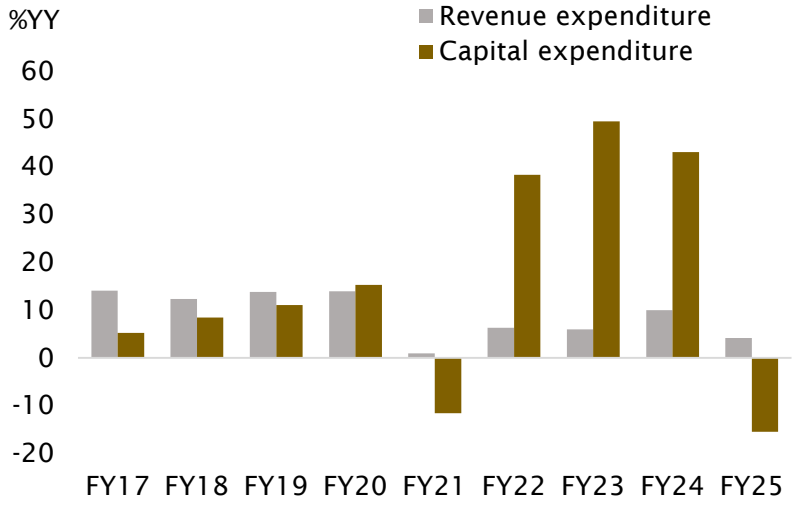
Slight weakening in expenditure quality, scope to improve in H2

- In the last three fiscal years, capex posted an average year-on-year growth of over 40% in H1 (Apr-Sep) on cumulative fiscal year-to-date basis. As noted earlier, capex fell 15%YY in H1-FY25 due to the poll-induced slowdown in spending, but is slated to grow 11%YY in the current fiscal year as per budget estimates for FY25 and FY24. Amid nascent signs of recovery in Q2-FY25, there is scope for capex to accelerate in H2.
- Revenue spending rose 4%YY in H1-FY25, the lowest growth in H1 of the last four fiscal years, and is budgeted to grow 6%YY in the entire fiscal year FY25.
- Amid higher revenue spend and fall in capital outlay, the quality of expenditure slightly weakened in H1-FY25. But continued moderation in revenue deficit relative to gross fiscal deficit in the post-pandemic years bodes well in terms of value add from deficit.

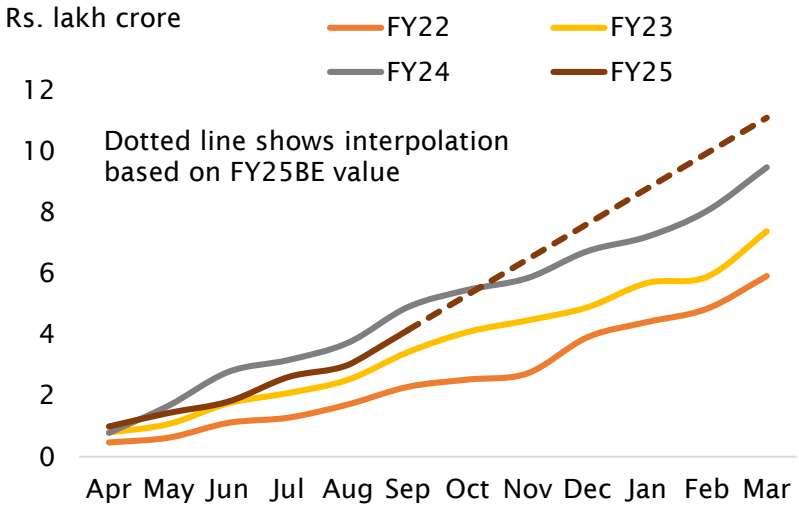
Measures of expenditure quality (H1, April-Sep)



Expenditure growth (H1, Apr-Sep), cumulative FTYD



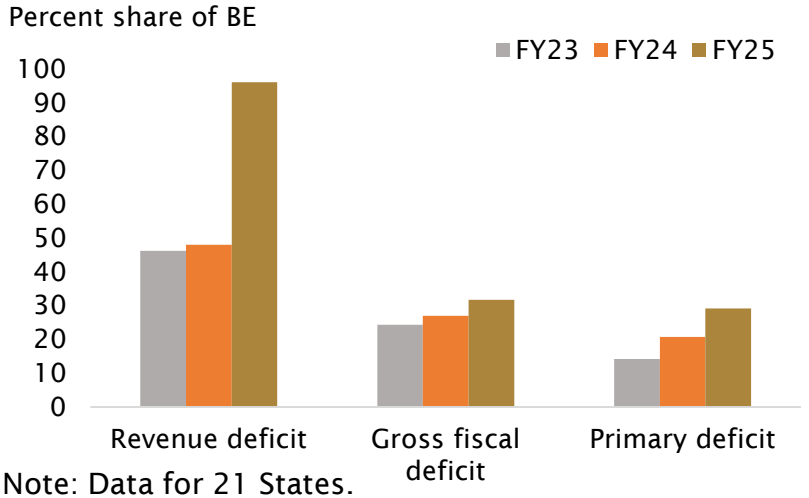
Capital expenditure, cumulative fiscal year-to-date



States' revenue deficit rose sharply in April-August FY25

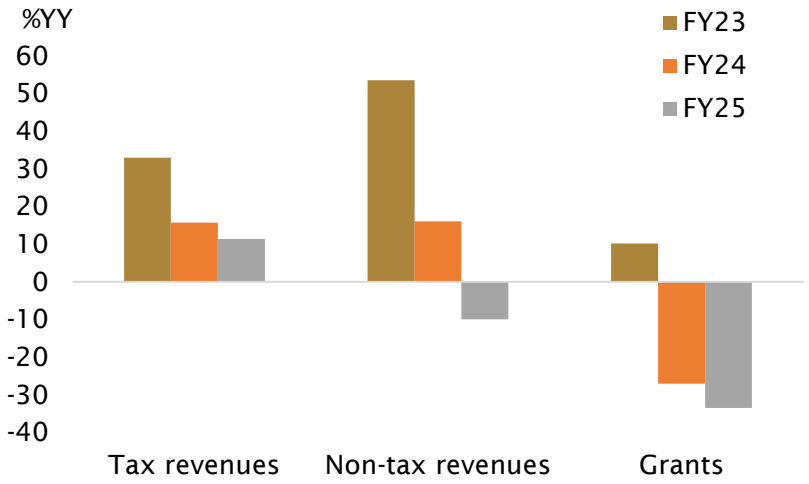
- Analysis from the RBI's 'state of the economy' article in its latest monthly bulletin published in October 2024 shows that in April-August 2024, states' gross fiscal deficit increased to 31.7% of BE from 27% in the previous year, as per provisional data.
- The year-on-year growth in revenue receipts eased due to lower tax revenue growth and declines in non-tax revenue and grants from the Centre.
- On the expenditure side, revenue spending rose at a faster pace, while capex fell. Going forward, capex is expected to pick up due to the Centre's special aid of Rs.1.5 lakh crore long term interest free loans.
- Due to moderation in year-on-year growth of revenue receipts and faster rate of increase in spending, revenue deficit hit 96.2% of BE in April-August, double the share of 48% of BE in the same period of FY24.

States' fiscal indicators (April-August)

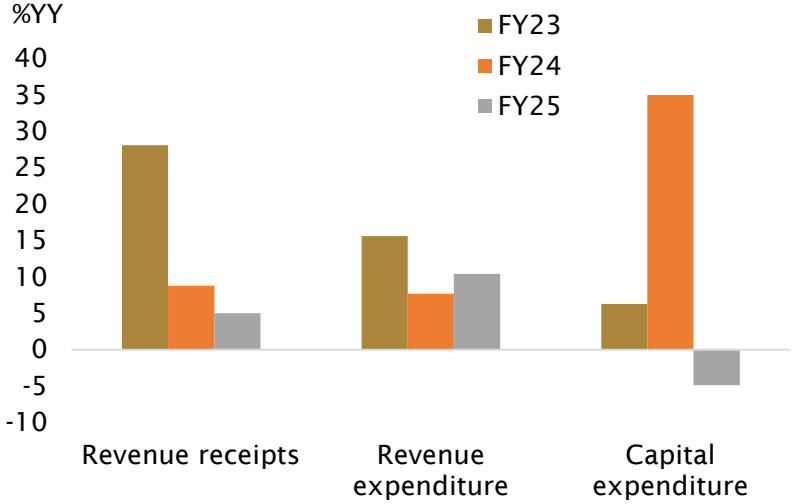


Note: Data for 21 States.
Source: RBI Bulletin, October 2024

States' revenue receipts (April-August)



States' key fiscal indicators (April-August)



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