

Economy

Public Finance

August 01, 2024

Government spending picks up pace in June

The central government's fiscal deficit in 1QFY25 remained low at 8.4% of FY2025BE, aided by strong direct tax collection growth and a slow spending pace. Income tax growth was strong at 50% in 1QFY25. While the pace of spending picked up in June after a slow pace during the election, the pace of capex remains slow. We expect the government to achieve its FY2025BE GFD/GDP target of 4.9%.

Tax collections buoyed by direct taxes in 1QFY25

Central government's total receipts were at 26% of FY2025BE in 1QFY25, 39% higher than 1QFY24, led by direct taxes and RBI surplus transfer (Exhibit 1). Gross tax revenue was 22% of FY2025BE (24% higher than 1QFY24), driven mainly by income tax collections at 25% of FY2025BE (50% higher than 1QFY24). Corporate tax collection in 1QFY25 was 17% of FY2025BE (26% lower than 1QFY24).

Indirect tax growth was relatively tepid at 5.5%. Customs duty collection growth was (-)4.3% and excise duty collection growth was (-)0.9%. GST collection growth was 9.1%. Non-tax revenue was 51% of FY2025BE.

Pace of expenditure slow in 1QFY25; picks up in June

Center's expenditure in 1QFY25 was 20% of FY2025BE (7.7% lower than 1QFY24). However, the pace picked up in June, with expenditure increasing 73% mom on the back of revenue expenditure at 99% mom. Revenue expenditure was 21% of FY2025BE (2.2% higher than 1QFY24).

Capital expenditure in 1QFY25 at 16% of FY2025BE (35% lower) has been slow due to the elections, but remained sluggish at 16% lower mom in June too. The slow pace of capex was visible across (1) roads at 22% of FY2025BE (40% lower), (2) railways at 26% of FY2025BE (15% lower), (3) defense at 8% of FY2025BE (25% lower) and (4) loans to states for capex at 12% of FY2025BE (Exhibit 1).

Government will keep FY2025 GFD/GDP within 4.9%

Center's fiscal deficit in 1QFY25 remained low at 8.4% of FY2025BE. We expect revenue collections to largely be in line with the FY2025 budget targets. Corporate tax growth will likely pick up from August, a trend seen in FY2024 too. Income tax growth should remain strong and could surprise on the upside, possibly offsetting shortfalls in divestment or customs duty collections. On the expenditure side, the government has some buffers to modulate spending. This provides some flexibility in keeping GFD/GDP within the 4.9% target (Exhibit 2). We do not pencil in any changes to the borrowings for now.

Summary of key macro metrics for India

	2023	2024	2025E	2026E
Real economy				
Real GDP growth (%)	7.0	8.2	6.9	6.7
Nominal GDP growth (%)	14.2	9.6	11.3	11.2
CPI Inflation (avg., %)	6.7	5.4	4.5	4.2
Public finance				
Center's GFD/GDP (%)	6.4	5.6	4.9	4.5
Monetary policy				
Repo Rate (% eop)	6.50	6.50	6.00	5.50
SDF Rate (% eop)	6.25	6.25	5.75	5.25
CRR (% eop)	4.5	4.5	4.5	4.5
External sector				
Current Account Balance (% of GDP)	(2.0)	(0.7)	(1.1)	(1.2)
Brent crude oil price (avg., USD/bbl)	95.4	82.9	85.0	80.0
USD/INR (avg.)	80.3	82.8	83.4	84.3

Source: CEIC, Bloomberg, RBI, Kotak Economics Research estimates

Quick Numbers

1QFY25 GFD at 8.4% of FY2025BE; receipts at 26% of FY2025BE; expenditure at 20%

Direct tax growth at 42% in 1QFY25; indirect tax growth at 5.5%; net tax revenue growth at 27%

Expenditure growth at (-)7.7%; revenue expenditure growth at 2.2%; capital expenditure growth at (-)35%

Government will keep FY2025 GFD/GDP within 4.9%

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Fiscal deficit at 8% of FY2025BE in 1QFY25
Exhibit 1: Monthly fiscal details of the central government, March fiscal year-ends (Rs bn)

Date				Chg. (%)		FYTD (Apr-Jun)		Chg. (%)	FY2025BE		FY2025	
	Jun-24	Jun-23	May-24	yoy	mom	2025	2024	2025/ 2024	Rs bn	(% of BE)	Current run rate	Required run rate
Gross tax revenues	3,712	2,749	2,046	35	81	8,308	6,719	24	38,402	22	2,769	3,344
Direct taxes	2,417	1,481	947	63	155	4,756	3,351	42	22,214	21	1,585	1,940
Corporation tax	1,295	820	91	58	1,319	1,748	1,385	26	10,200	17	583	939
Income tax + other taxes	1,122	661	856	70	31	3,008	1,966	53	12,014	25	1,003	1,001
Indirect taxes	1,292	1,265	1,096	2.2	18	3,543	3,359	5.5	16,187	22	1,181	1,405
Customs duty	190	221	141	(14)	34	471	492	(4.3)	2,377	20	157	212
Excise duty	270	260	242	4.0	12	514	518	(0.9)	3,190	16	171	297
Service tax	0	1	0	(40)	390	(0)	3	(112)	1	(38)	(0)	0
GST	831	782	712	6.3	17	2,559	2,346	9.1	10,619	24	853	896
CGST	695	648	677	7.2	2.7	2,283	2,064	11	9,109	25	761	758
IGST	7	16	(82)	(56)	(109)	(102)	(67)	51	—	—	(34)	—
Compensation cess	129	118	118	9	10	378	349	8.1	1,510	25	126	126
Net tax revenues	2,306	1,556	1,340	48	72	5,496	4,336	27	25,835	21	1,832	2,260
Non-tax revenues	283	203	2,244	39	(87)	2,800	1,550	81	5,457	51	933	295
Non-debt capital receipts	24	77	10	(68)	133	45	107	(58)	780	5.8	15	82
Total receipts	2,614	1,836	3,595	42	(27)	8,342	5,993	39	32,072	26	2,781	2,637
Total expenditure	3,464	4,247	2,000	(18)	73	9,699	10,507	(7.7)	48,205	20	3,233	4,278
Revenue expenditure	3,090	3,140	1,556	(2)	99	7,889	7,722	2.2	37,094	21	2,630	3,245
- Interest payments	1,402	1,330	(45)	5.4	(3,249)	2,641	2,437	8.3	11,629	23	880	999
- Subsidies	355	317	353	12	0.6	902	870	3.6	3,812	24	301	323
- Transfer to states (Min. of Fin.)	74	60	35	25	115	186	351	(47)	1,604	12	62	158
- Rural development	88	199	167	(56)	(48)	388	389	(0.4)	1,776	22	129	154
- Others	1,171	1,234	1,046	(5.1)	12	3,772	3,675	2.7	18,273	21	1,257	1,611
Capital expenditure	374	1,107	444	(66)	(16)	1,811	2,785	(35)	11,111	16	604	1,033
- Defence	67	133	55	(50)	21	144	193	(25)	1,822	7.9	48	186
- Railways	172	236	196	(27)	(12)	667	787	(15)	2,520	26	222	206
- Roads and highways	23	423	20	(95)	15	602	996	(40)	2,722	22	201	236
- Loan to states for capex	102	250	73	(59)	40	184	300	(39)	1,500	12	61	146
- Others	11	66	100	(84)	(89)	214	509	(58)	2,546	8.4	71	259
Fiscal deficit	(1,595)	767	2,101	(308)	(176)	1,357	4,514	(70)	16,133	8.4	452	1,642
Revenue deficit	(1,551)	140	819	(1,211)	(289)	(408)	1,836	(122)	5,802	(7.0)	(136)	690
Primary deficit	(2,029)	(103)	1,119	1,871	(281)	(1,283)	2,077	(162)	4,504	(28)	(428)	643

Source: CEIC, Kotak Economics Research

Government budgets FY2025 GFD/GDP at 4.9%

Exhibit 2: Major central government budgetary items, March fiscal year-ends, 2019-25E (Rs bn)

	2019	2020	2021	2022	2023	2024RE	2024P	2025BE	Change (%)			
									2023/2022	2024RE/2023	2025BE/2024RE	2025BE/2024P
Receipts												
1. Revenue receipts (2d + 3)	15,529	16,841	16,339	21,699	23,832	26,997	27,284	31,292	10	13	16	15
2. Gross tax revenues (a + b)	20,805	20,101	20,271	27,093	30,542	34,372	34,648	38,402	13	13	12	11
2.a. Direct taxes	11,431	10,554	9,523	14,158	16,723	19,578	19,689	22,214	18	17	13	13
2.a.1. Corporation tax	6,636	5,569	4,577	7,120	8,258	9,227	9,111	10,200	16	12	11	12
2.a.2. Income tax (incl. other taxes)	4,796	4,985	4,946	7,038	8,464	10,352	10,579	12,014	20	22	16	14
2.b. Indirect taxes	9,373	9,547	10,748	12,935	13,819	14,794	14,959	16,187	7	7	9	8
2.b.1. Goods and Services Tax	5,816	5,988	5,488	6,981	8,491	9,566	9,570	10,619	22	13	11	11
2.b.1.1. CGST	4,575	4,941	4,563	5,912	7,185	8,116	8,206	9,109	22	13	12	11
2.b.1.2. IGST	289	91	73	21	47	-	(50)	-	124			
2.b.1.3. Compensation cess	951	956	852	1,048	1,259	1,450	1,414	1,510	20	15	4	7
2.b.2. Customs duty	1,178	1,093	1,348	1,997	2,134	2,187	2,331	2,377	7	2	9	2
2.b.2.1. Basic duties	1,048	906	1,065	1,460	1,676	1,670	1,779	1,869	15	(0)	12	5
2.b.2.2. Others	130	187	282	537	457	517	551	508	(15)	13	(2)	(8)
2.b.3. Excise duty	2,310	2,406	3,897	3,946	3,190	3,036	3,053	3,190	(19)	(5)	5	4
2.b.4. Service tax	69	60	16	10	4	5	4	1	(57)	16	(80)	(76)
2.c Transfers to states, UTs, etc.	7,633	6,532	6,008	9,045	9,564	11,133	11,383	12,567	6	16	13	10
2.d Net tax revenues (2 - 2.c)	13,172	13,569	14,263	18,048	20,978	23,239	23,265	25,835	16	11	11	11
3. Non-tax revenues	2,357	3,272	2,076	3,651	2,854	3,758	4,019	5,457	(22)	32	45	36
3.a. RBI's transfer of surplus	680	1,476	600	991	303	874	874	2,104	(69)	188	141	141
3.b. Telecommunications	408	698	455	858	648	935	935	1,203	(24)	44	29	29
3.c. Others	1,269	1,097	1,021	1,802	1,903	1,949	2,209	2,150	6	2	10	(3)
4. Non-debt capital receipts (a + b)	1,128	686	576	394	722	560	605	780	83	(22)	39	29
4.a Recovery of loans	181	183	197	247	262	260	273	280	6	(1)	8	2
4.b Other receipts (incl. disinvestments)	947	503	379	146	460	300	331	500	214	(35)	67	51
5. Total receipts (1 + 4)	16,657	17,527	16,915	22,093	24,554	27,557	27,889	32,072	11	12	16	15
Expenditure												
6. Revenue expenditure	20,074	23,506	30,835	32,009	34,531	35,402	34,940	37,094	8	3	5	6
6.a. Interest payments	5,826	6,121	6,799	8,055	9,285	10,554	10,639	11,629	15	14	10	9
6.b. Subsidies	1,968	2,283	7,077	4,461	5,310	4,135	4,135	3,812	19	(22)	(8)	(8)
6.b.1. Food	1,013	1,087	5,413	2,890	2,728	2,123	2,118	2,053	(6)	(22)	(3)	(3)
6.b.2. Fertilizer	706	811	1,279	1,538	2,513	1,889	1,895	1,640	63	(25)	(13)	(13)
6.b.3. Oil	248	385	385	34	68	122	122	119	99	80	(3)	(3)
6.c. Pay, allowances and pensions	4,957	5,366	6,711	5,899	6,564	6,876	6,876	7,171	11	5	4	4
6.c.1.a. Pay and allowances	3,291	3,526	4,626	3,910	4,148	4,495	4,495	4,738	6	8	5	5
6.c.1.b. Pensions	1,666	1,840	2,085	1,989	2,416	2,380	2,380	2,433	21	(1)	2	2
6.d. Agriculture and farmers' welfare	461	942	1,083	1,145	999	1,167	1,083	1,224	(13)	17	5	13
6.e. Education	781	873	840	803	972	1,297	1,234	1,206	21	33	(7)	(2)
6.f. Health and family welfare	506	607	740	787	703	749	783	840	(11)	7	12	7
6.g. Rural development	1,118	1,221	1,964	1,604	1,768	1,711	1,619	1,776	10	(3)	4	10
6.h. Others	4,457	6,092	5,622	9,255	8,931	8,914	8,572	9,436	(3)	(0)	6	10
7. Capital expenditure	3,077	3,357	4,263	5,929	7,400	9,502	9,485	11,111	25	28	17	17
7.a. Defence	998	1,160	1,399	1,448	1,509	1,678	1,646	1,822	4	11	9	11
7.b. Railways	528	678	1,093	1,173	1,593	2,400	2,426	2,520	36	51	5	4
7.c. Roads and highways	676	684	892	1,133	2,060	2,645	2,639	2,722	82	28	3	3
7.d. Loans for capex to states	-	-	118	142	812	1,056	1,129	1,500	472	30	42	33
7.e. Housing and urban affairs	158	193	103	259	269	265	264	285	4	(1)	7	8
7.f. Others	717	642	657	1,774	1,158	1,459	1,381	2,261	(35)	26	55	64
8. Total expenditure (6 + 7)	23,151	26,863	35,098	37,938	41,932	44,905	44,425	48,205	11	7	7	9
Deficit												
Primary deficit (PD)	668	3,216	11,384	7,790	8,092	6,793	5,898	4,504	4	(16)	(34)	(24)
Revenue deficit (RD)	4,545	6,665	14,496	10,310	10,699	8,405	7,656	5,802	4	(21)	(31)	(24)
Gross fiscal deficit (GFD)	6,494	9,337	18,183	15,845	17,378	17,348	16,537	16,133	10	(0)	(7)	(2)
Gross market borrowing (dated securities)	5,715	7,041	12,601	9,684	14,210	15,430	15,430	14,010	47	9	(9)	(9)
Net market borrowing (dated securities)	4,233	4,681	10,329	7,041	11,083	11,805	12,193	11,632	57	7	(1)	(5)
Short-term borrowing (T-bills/WMA)	69	1,560	2,032	774	1,148	13	(4)	(500)				
Nominal GDP	188,997	201,036	198,541	235,974	269,496	295,357	295,357	326,369	14.2	9.6	10.5	10.5
PD/GDP (%)	0.4	1.6	5.7	3.3	3.0	2.3	2.0	1.4				
RD/GDP (%)	2.4	3.3	7.3	4.4	4.0	2.8	2.6	1.8				
GFD/GDP (%)	3.4	4.6	9.2	6.7	6.4	5.9	5.6	4.9				

Source: Union Budgets, Kotak Economics Research estimates

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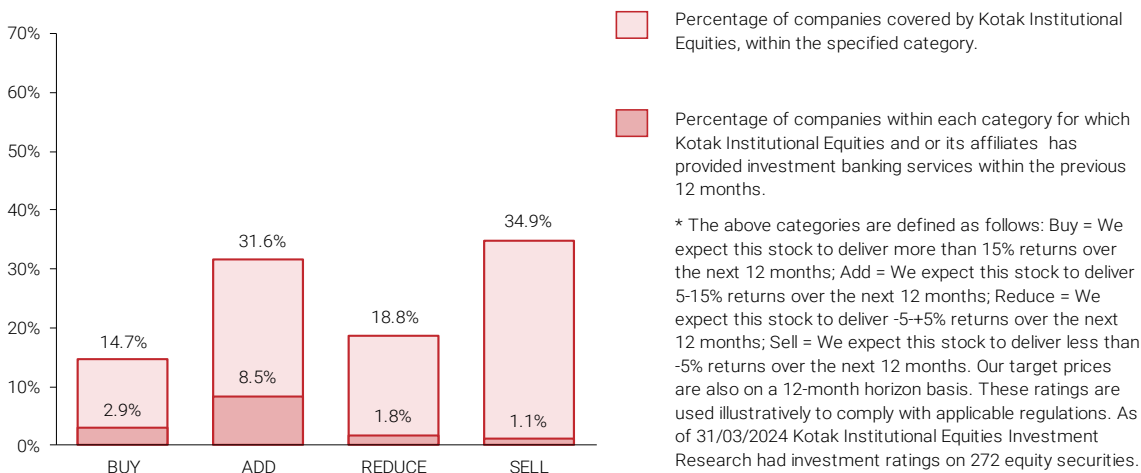
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Corporate Office

Kotak Securities Ltd.
27 BKC, Plot No. C-27, "G Block" Bandra Kurla
Complex, Bandra (E) Mumbai 400 051, India
Tel: +91-22-43360000

Overseas Affiliates

Kotak Mahindra (UK) Ltd
8th Floor, Portsocken House
155-157 Minories, London EC3N 1LS
Tel: +44-20-7977-6900

Kotak Mahindra Inc
PENN 1,1 Pennsylvania Plaza,
Suite 1720, New York, NY 10119, USA
Tel: +1-212-600-8858

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Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +22 67132430. Website: www.kotak.com / www.kotaksecurities.com. Correspondence Address: Infinity IT Park, Bldg. No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856825. SEBI Registration No: INZ000200137(Member of NSE, BSE, MSE, MCX & NCDEX), AMFI ARN 0164, PMS INP000000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-629-2021. Compliance Officer Details: Mr. Hiren Thakkar. Call: 022 - 4285 8484, or Email: ks.compliance@kotak.com

Details of	Contact Person	Address	Contact No.	Email ID
Customer Care/ Complaints	Mr. Ritesh Shah	Kotak Towers, 8th Floor, Building No.21, Infinity Park, Off Western Express Highway, Malad (East), Mumbai, Maharashtra - 400097	18002099393	ks.escalation@kotak.com
Head of Customer Care	Mr. Tabrez Anwar		022-42858208	ks.servicehead@kotak.com
Compliance Officer	Mr. Hiren Thakkar		022-42858484	ks.compliance@kotak.com
CEO	Mr. Shripal Shah		022-42858301	ceo.ks@kotak.com

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