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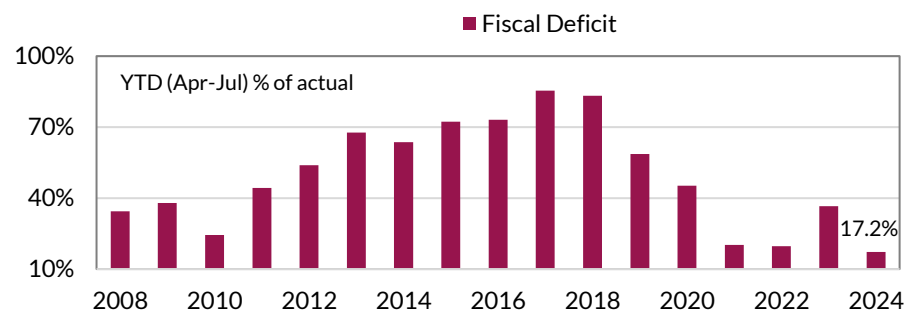
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India's Apr-Jul fiscal deficit stood at 17% of FY25 budget, the lowest in two decades. 4M receipts as % of FY were the highest, and expenditure the lowest. The RBI dividend has helped, but the 53% growth in personal income taxes has been a positive surprise. While July saw some catch-up, capex is still down 18% YoY. This rapid fiscal contraction has been a drag on growth; a pick-up in spending would be important for the economy.

Exhibit 1: Decline in deficit ratio in 4MFY25 driven by higher receipts, lower capex

	FY25 BE	Trailing 12M	% of full year		YoY%, YTD
	(as % of GDP)		FY25	20Y median	
Net tax revenue	7.9%	8.0%	27.7%	19.5%	23%
Income tax	3.64%	3.76%	33.2%	24.1%	53%
Corporate tax	3.13%	3.01%	18.1%	15.4%	21%
GST	3.25%	3.24%	33.0%	32.6%	9%
Non-tax revenue	1.91%	1.72%	55.3%	17.4%	69%
Expenditure					
Revenue	11.4%	11.3%	28.0%	30.3%	-2%
Capital	3.4%	2.9%	23.5%	29.8%	-18%
Fiscal Deficit	4.9%	4.3%	17.2%	56.3%	

At 17.2% of BE, 4M fiscal deficit lowest in two decades



Source: CGA, Axis Bank Research

Direct taxes continue to see strong gains driven by personal income tax

Apr-Jul 2024 receipts were the highest in two decades as % of FY budget at 33% (Fig 1). While the RBI dividend helped non-tax receipts, direct tax collections were strong too (+34% YoY), with personal income tax (+53% YoY) reaching new highs as % of GDP (Fig 5). Corporate (+21%) and indirect taxes (+10%; affected by weak excise on fuel) saw slower but steady growth and are broadly in line with budget estimates.

Expenditure yet to catch up: capex continues to lag

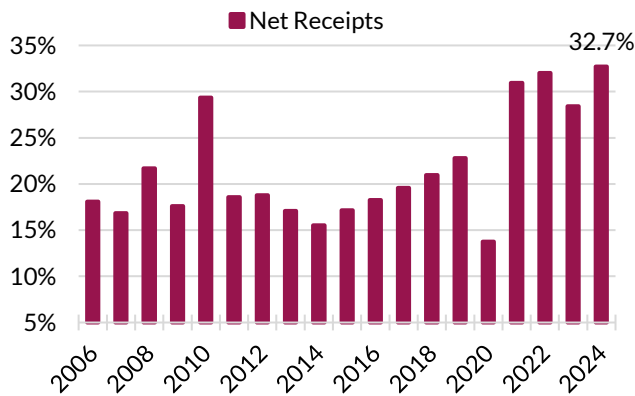
4M spending at 27% of FY budgets was among the lowest in the last 20 years (Fig 3), falling 6% YoY. While revenue expenditure declined 2% YoY, capex fell 18% YoY, and at 23.5% of BE in 4MFY25, it is the second lowest in 15 years (Fig 7). There was some catch-up in July, but the slow start to the fiscal year is still showing. With capex a higher share of overall spending than in the past, the overall impact on growth is larger.

4M deficit as % of FY25 target lowest in two decades; market borrowing weak

With receipts high and spending low, the 4M fiscal deficit at 17% of BE (vs. 34% last year, Fig 4) is the lowest in two decades. While this makes the FY25 budgeted deficit achievable, it means a significant drag on growth. YTD market borrowings being at 15% of BE vs. 45% last year was also due to better than budgeted flow from other borrowings.

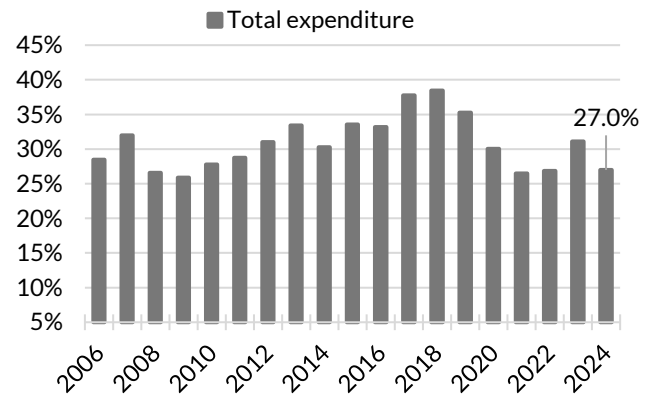
A look at Receipts and expenditure in 4MFY25

Exhibit 2: Net receipts as % of FY Budget strongest in 20Y
YTD (Apr-Jul) % of actual



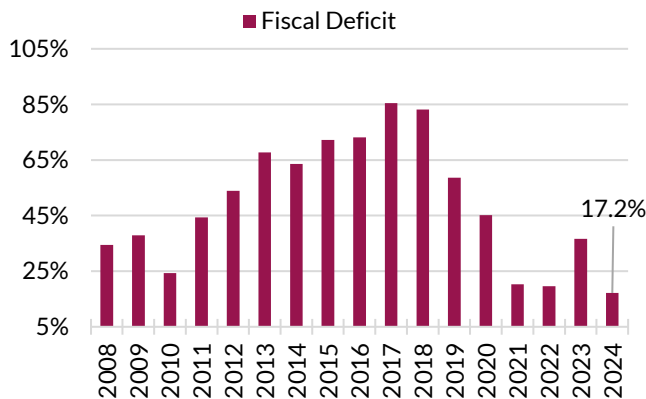
Source CGA, Axis Bank Research

Exhibit 3: Total expenditure growth among the weakest
YTD (Apr-Jul) % of actual



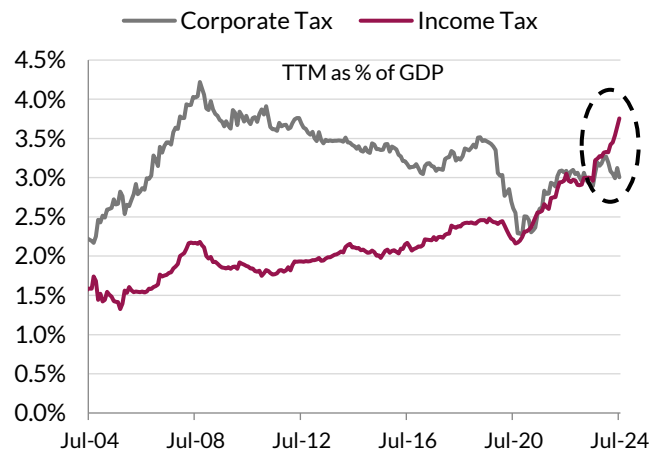
Source: CGA, Axis Bank Research

Exhibit 4: Fiscal deficit as % of FY lowest in two decades
YTD (Apr-Jul) % of actual



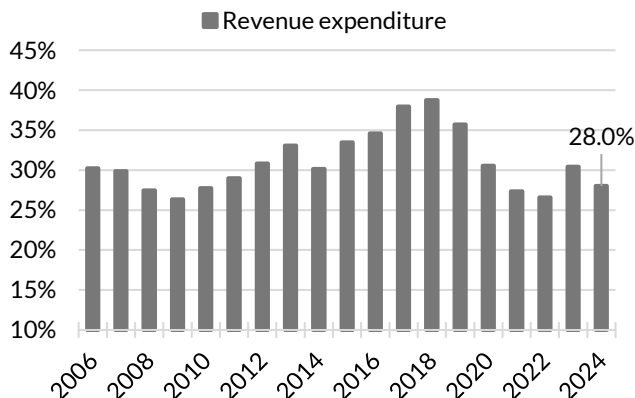
Source: CGA, Axis Bank Research

Exhibit 5: Income tax collections seeing a structural shift?



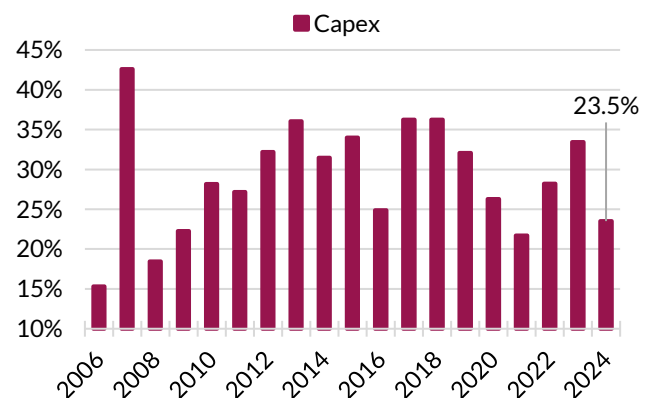
Source: CGA, Axis Bank Research

Exhibit 6: Revenue expenditure growth slowed in July
YTD (Apr-Jul) % of actual



Source: CGA, Axis Bank Research

Exhibit 7: and capital expenditure continues to lag, -18%YoY
YTD (Apr-Jul) % of actual



Source: CGA, Axis Bank Research

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