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Health of central government finances

Centre's fiscal deficit has reached Rs 11.7 lakh crore as of Jan'25 (FYTD basis) which is 74.5% of the revised budget estimate, compared with 63.6% of the target achieved last year during the same period. As % of GDP (12MMA basis) it is currently running at 5.3% versus targeted 4.8%. The deficit ratio has remained higher than RE since Oct'24 as government aims to fulfil is expenditure targets, following a slow start at the beginning of the year due to general elections. In Jan'25 (FYTD basis), centre's expenditure growth improved notably, while receipt growth witnessed some easing compared with Dec'24. Amongst the receipts, corporate tax collections were the major drag, while income tax collections held ground and indirect tax collections improved (mainly customs and CGST). On the spending front, government has achieved 75.7% of its revised estimate, higher than 74.7% last year (as of Jan'24). Major ministries which have spent more than last year (as % of RE) include, ministries of railway, consumer affairs, rural development, defence, home affairs, education and health. We can expect the pace to moderate in the coming months as ministries have moved closer to their revised targets. As a result we continue to believe that centre will meet its fiscal deficit target of 4.8% in FY25.

Fiscal deficit ratio on track: Centre's fiscal deficit by Jan'25 has reached 74.5% of the revised estimate (RE) for FY25 and is at Rs 11.7 lakh crore versus estimated Rs 15.7 lakh crore. In terms of % of GDP, the 12MMA ratio is currently at 5.3% (Jan'25) compared with 4.9% as of Dec'24, due to higher expenditure growth. Despite increase in spending momentum, continued improvement in receipt growth, will help pave way for centre to meet is deficit target of 4.8% by Mar'25.

Broadly steady receipt growth: Centre's revenue receipts have currently (Apr'24-Jan'25) reached 76.8% of the budgeted target for FY25, slightly lower than 82.2% target achieved during the same period last year. Net tax revenue receipts have reached 74.4% of RE versus 80.9% last year. On YoY basis, gross tax revenue receipt growth has seen slight easing in Jan'25 (FYTD basis) as it moderated to 10.1% from 10.8% recorded as of Dec'24.

This is on account of slowdown in direct tax collections, while indirect tax collections improved. Within direct taxes, corporate tax collection growth declined by (-) 0.6% as of Jan'25 versus 2.7% increase as of Dec'24, while income tax collections remained healthy (22% versus 22.2%). Indirect tax receipt growth improved to 9.4% from 9% as of Dec'24, on account of pickup in customs (8.6% versus 7.6%) and CGST collections (22.2% increase as of Jan'25). As a result, growth in centre's net tax revenue receipts has also eased to 6.9% from 12.2% as of Dec'24.

Spending gathering momentum: In FYTD25 so far (Apr'24-Jan'25), centre has achieved 75.7% (Rs 35.7 lakh crore) of its targeted expenditure estimate, slightly higher than 74.7% achieved last year during the same period. Within this, while capex is broadly at the same level (74.4%) as last year (75.9%), revenue expenditure is slightly higher so far at 76.1% (Rs 28.1 lakh crore) versus 74.4% last year. In terms of YoY growth (Apr'24-Jan'25), overall expenditure growth has risen to 6.4% as of Jan'25, up from 5.8% as of Dec’24. Here, capital expenditure growth jumped sharply (5% versus 1.7%) and revenue expenditure growth remained broadly steady at 6.8% from 7% as of Dec’24.

Amongst major ministries, ministry of consumer affairs (87% as of Jan’25 versus 69% as of Jan’24), defence (80% versus 79%), education (68% versus 54%), health (82% versus 76%), home affairs (86% versus 82%), railways (91% in both periods), and rural development (71% versus 66%), have spent more (as % of their respective REs) compared with last year during the same period, pushing the overall spending growth higher. These ministries account of nearly Rs 17 lakh crore of the revised budgeted expenditure (~36% of total). In terms of YoY growth, on FYTD basis, ministries of consumer affairs, home affairs, rural development, and health have pushed the overall growth numbers higher. We expect slight slowdown in pace of spending in the coming months as ministries near their budgeted targets.

Outlook for FY25: We believe that government remains on track to meet its fiscal deficit target of 4.8% for FY25. This will be mainly due to: one, nominal GDP growth rate is expected to be higher (9.9%) than what has been taken into account in the budget (9.7%). Two, given that expenditure growth was off to a slower start at the beginning of the fiscal year, due to general elections, much of the making up was to be done in H2. Latest numbers are indicative of the same and show no deviation. Three, steady momentum in revenue receipts will also ensure that the deficit target is met.

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