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Government finances in Q1 FY25

Centre's fiscal deficit remained contained at Rs. 1.4 lakh crores in Q1 FY25 which is only 8.1% of the budget estimate, compared with 25.3% of the target achieved last year. This can be attributed to muted capital expenditure due to general elections, as well as buoyant receipts growth led by a sharp increase in income tax. With the elections now over, the government's capital expenditure is expected to pick up. We expect the government to meet its revised fiscal deficit target of 4.9% of GDP in FY25, led by prudent expenditure management and supported by robust tax collections.

Receipt growth buoyant: Centre's revenue receipts in Q1 FY25 stood at Rs. 8.3 lakh crores, registering a 41% increase over the same period last year. As a percentage of budget estimates (BE), centre's net revenue receipts stand at 27.6% of FY25 BE, higher compared with 22.4% in the same period last year. Centre's gross tax revenue rose by 23.7% on a YoY basis led by a sharp pickup in direct taxes. Direct tax revenue increased by 39.9% to Rs. 4.6 lakh crores in Q1 FY25. Within this, income tax collections picked up sharply by 49.9% to Rs. 2.9 lakh crores. Corporate tax collections also rose at a buoyant pace of 26.2% to Rs. 1.7 lakh crores.

Indirect tax collections increased by 7.9% to Rs. 3.7 lakh crores. Within this, GST collections increased by 10.6% to Rs. 2.3 lakh crores. On the other hand, customs and union excise duties declined by 4.3% and 0.9% respectively.

Spending momentum slowing: After remaining subdued in the first two months of FY25, Centre's spending momentum has picked up pace. In Q1FY25, centre has achieved 20.4% (Rs 9.7 lakh crores) of its targeted expenditure estimate, only marginally lower than 23.3% achieved last year during the same period. Within this, capital expenditure continued to remain muted at 16.3% of BE compared with 27.8% of BE in the same period last year. On the other hand, revenue expenditure has maintained a steady pace and is roughly at the same level as last year (~22%). Government's subsidies in Q1FY25 stand at 24% of BE which is only marginally higher than 23% of BE last year. Within subsidies, disbursements under food subsidy stand at 30% of FY25 BE, much higher than 21% of BE last year. On the other hand, petroleum subsidy has been significantly lower at 3% of BE versus 17% of BE in Q1FY24. In terms of YoY growth, overall expenditure growth has declined by 7.7% in Q1FY25, compared with an increase of 10.8% in Q1 FY24. This has been led by a sharp 35% decline in capital expenditure in Q1 FY25.

Fiscal deficit: In Q1FY25, the centre's fiscal deficit stood at Rs. 1.36 lakh crores, or just 8.1% of the total Budgeted for FY25. This is significantly lower compared with Q1FY24, for which the fiscal deficit stood at 25.3% of the total budgeted for the year. The lower fiscal deficit can be attributed to buoyant growth in revenue receipts. Apart from this, while revenue expenditure growth has been broadly steady, growth in capex has been subdued so far this year (due to the general elections), also leading to a lower deficit. However, we expect capital spending to pick up pace in the coming months.

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