

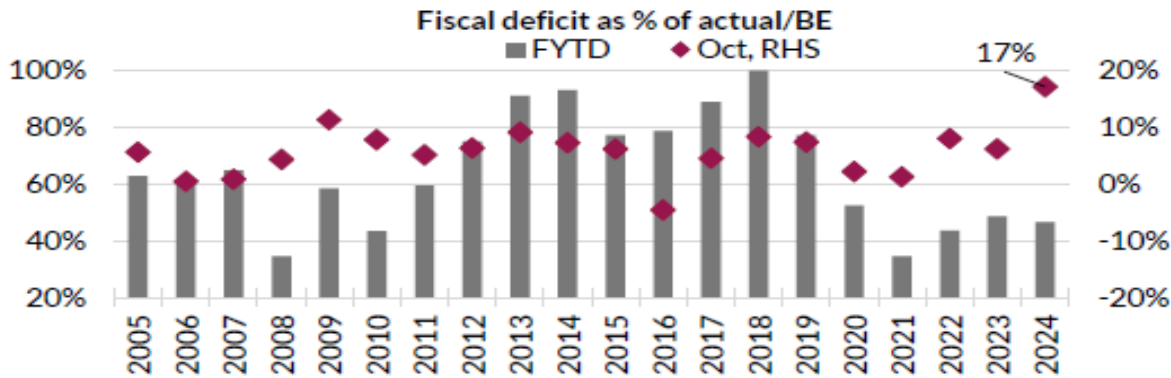
Capex still down YoY, fiscal impulse to improve strongly

In Oct 2024 central government deficit was 17% of FY25BE, vs. 6% median, taking the 7M fiscal deficit to 47% of FY25 budget vs. 63% normally (this gap of 16pp was 33pp in 1H). Net tax revenue growth was nil as the Centre disbursed double tax devolution to states in Oct to enable states to accelerate spending. Centre's revenue expenditure rose 42% YoY in Oct, but capex continued to disappoint (8% YoY decline) and is still down 15% YoY in 7MFY25. Government commentary and news reports suggest this is likely to improve strongly, helping provide a positive fiscal impulse to growth in 2H.

Exhibit: Rolling 12M fiscal deficit at 5.1% vs. 4.6% in Sep; capex to pick up likely

	% of GDP		% of FY		YoY%, YTD
	FY25 BE	Trailing 12M	FY25	20Y median	
Net tax revenue	7.9%	7.4%	50.5%	47.3%	0%
Income tax	3.64%	3.56%	52.8%	48.5%	20%
Corporate tax	3.13%	2.93%	47.8%	43.0%	1%
GST	3.25%	3.27%	57.3%	57.1%	12%
Non-tax revenue	1.91%	1.71%	73.2%	56.4%	50%
Expenditure					
Revenue	11.4%	11.7%	54.1%	53.4%	9%
Capital	3.4%	2.8%	42.0%	54.3%	-15%
Fiscal Deficit	4.9%	5.1%	46.5%	63.0%	

Oct deficit expansion fastest in 20Y: double tax devolution + higher revex (42%YoY)



Source: Axis Bank Business and Economic Research

Personal income tax collections strong though moderating

FYTD net receipts were the highest in two decades as % of FY budget at 52%. While the RBI dividend helped non-tax receipts, direct tax collections are tracking nominal growth (+11% YoY: FYTD) due to personal income tax collections (+20% YoY). Corporate tax collections have been weak (+1%) and indirect taxes (+12%) are above BE.

While revenue expenditure rose in Oct, capex continued to lag

Spending saw sequential improvement as FYTD expenditure rose 3% YoY vs. 0.4% decline till Sep, driven by rise in revenue expenditure (+9% YoY vs. +4% YoY till Sep). Capex continued to lag in October as well (fell 8% YoY in Oct and down 15% YoY on FYTD basis). With capex a higher share of overall spending than in the past, the overall impact on growth is larger. We expect this to improve in the remaining 5 months.

Oct deficit expansion fastest in two decades: Overall deficit target reachable

7M fiscal deficit stood at 46.5% of FY25 budget vs. 29.4% in 1H driven by the fastest deficit expansion in October. This makes the FY25 budgeted deficit achievable, and we expect the govt. spending to pick up strongly thus providing a boost to growth in 2H FY25.

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