

Fiscal Accounts

Schism in direct and indirect tax collections

India

Oct Fiscal Position

December 1, 2023

The government's fiscal accounts for October-23 show that **45% of the FY24BE fiscal deficit target was met, given healthy revenue and slowing expenditure growth. There is a split in tax collections, with healthy direct tax collections and weak indirect tax revenue. On the expenditure front, revenue expenditure growth stayed steady, while capex frontloading continued. We expect no material miss in FY24 capex vs BE, implying 2% average growth for the rest of the year over last year, after heavy frontloading in 7MFY24. Strong direct tax collections, robust PSU+RBI dividend, and better-than-expected nominal GDP growth will offset slippages in indirect taxes, divestment and food & fertilizer subsidy payments, implying that the 5.9% FY24BE GFD/GDP target is likely to be met.**

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Healthy direct tax collections driving overall growth amid anemic indirect taxes

The Centre's tax collections slowed down, albeit staying healthy in Oct-23, with gross tax collections rising 14% YoY to ~Rs18.3trn in Apr-Oct '23, faster than the budgeted growth of 10%. Direct tax collections have driven this increase, rising to Rs10.0trn (24% YoY vs 10% budgeted growth) as both, corporate taxes (Rs4.8trn; 17% YoY vs 11% budgeted) and income taxes (Rs5.2trn; 31% YoY vs 11% budgeted), maintained their healthy growth. Indirect tax collections continue to lag budgeted growth (Rs8.1trn, 3% YoY vs 10% budgeted), with GST (Rs5.3trn; 8% YoY, 12% budgeted), customs duty (Rs1.2trn; 1% YoY) and excise duty (Rs1.5trn; -9% YoY) collections all proving to be a drag on growth. Indirect taxes need to increase by ~19% during Nov-23 to Mar-24 over the same period last year, to meet FY24BE which looks unlikely given the moderating inflation and growth environment. Net tax revenue rose 16% YoY to Rs11.4trn.

Revenue expenditure growth stays steady...

Revenue expenditure (RevEx) growth stayed higher than budgeted. Total RevEx rose to ~Rs18.5trn in Apr-Oct '23 (7% YoY vs 1% budgeted), with interest payments rising 13% YoY to ~Rs4.8trn (vs 17% budgeted), while major subsidy payments stayed lower than last year (Rs2.3trn; -3% YoY vs -28% budgeted). The high run-rate, so far, implies that revenue expenditure can actually decline ~4% during Nov-23 to Mar-24 over the same period last year and still meet the FY24BE target.

...and capex frontloading continues

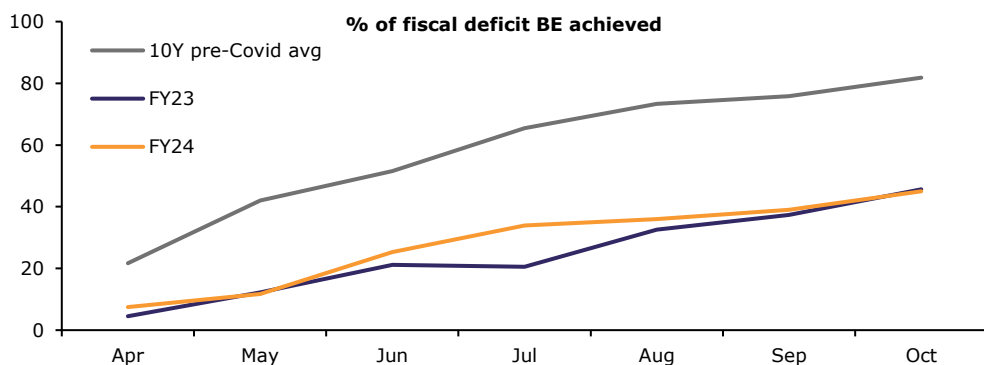
Capex for 7MFY24 was Rs5.5trn (34% YoY vs 37% budgeted) as the Centre continues to frontload capex ahead of the upcoming Parliamentary elections, despite slowing a tad since Sep-23. Capex has been led by Railways (Rs1.6trn; 53% YoY vs 51% budgeted), while spending on Roads & highways (Rs1.7trn; 17% YoY vs 25% budgeted) and Defence (Rs747bn; 8% YoY vs 8% budgeted) has seen only a modest rise. Transfers to states have dropped off since Sep-23, but remain higher than budgeted (Rs655bn; 93% YoY vs 71% budgeted). Capex frontloading in 7MFY24 means that only a modest increase of 2% during Nov-23 to Mar-24 over the same period last year will be enough to meet the FY24BE of Rs10.0trn, and we do not expect any slippage on this front.

Fiscal deficit under control, and seems to be on track

The fiscal position remains under control due to healthy revenue and slower expenditure growth. The Centre's fiscal deficit for Apr-Oct '23 was Rs8.0trn, coming 6% higher than last year (vs 2% budgeted), and meeting 45% of the FY24BE fiscal deficit target vs 44% in the same period last year. The revenue deficit of Rs2.8trn is 27% lower than last year's, indicating that the higher overall deficit so far is mainly due to capex frontloading, with lower revenue expenditure. Higher direct tax collections, RBI/PSU dividends and better-than-expected nominal GDP growth will offset slippages from indirect taxes, divestment and food & fertilizer subsidy payments, implying that the 5.9% FY24BE GFD/GDP target will be met.

Key highlights:

- **FYTD gross tax revenue up 14% YoY**
- **RevEx up 8%, capex higher by 34%**
- **45% of the budgeted FD target achieved; 5.9% FY24BE GFD/GDP target to be met**

Exhibit 1: 7MFY24 fiscal deficit is tracking last year's trend, and is much lower than the pre-Covid average

Source: CGA, Emkay Research

Exhibit 2: Monthly receipts of the Indian central government (Rs bn)

| | Oct-23 | Oct-22 | Sep-23 | Chg. (%) | | FYTD (Apr-Oct) | | Chg. (%) yoy | FY24 BE /FY23 RE | FY24 % of BE | FY23 % of P |
|---------------------------|--------------|--------------|--------------|-------------|-------------|----------------|---------------|-----------------|---------------------|-----------------|----------------|
| | | | | yoy | mom | 2024 | 2023 | | | | |
| Gross tax revenues | 2,152 | 2,178 | 4,301 | (1) | (50) | 18,345 | 16,096 | 14 | 10 | 55 | 53 |
| Direct taxes | 1,003 | 883 | 3,036 | 14 | (67) | 10,032 | 8,082 | 24 | 10 | 55 | 49 |
| Corporate tax | 307 | 353 | 2,123 | (13) | (86) | 4,820 | 4,106 | 17 | 11 | 52 | 50 |
| Income tax | 696 | 531 | 912 | 31 | (24) | 5,212 | 3,976 | 31 | 11 | 58 | 49 |
| Indirect taxes | 1,113 | 1,262 | 1,226 | (12) | (9) | 8,071 | 7,804 | 3 | 10 | 53 | 56 |
| Customs duty | 182 | 367 | 227 | (50) | (20) | 1,244 | 1,229 | 1 | 11 | 53 | 58 |
| Excise duty | 255 | 258 | 250 | (1) | 2 | 1,502 | 1,657 | (9) | 6 | 44 | 52 |
| GST | 676 | 637 | 750 | 6 | (10) | 5,325 | 4,919 | 8 | 12 | 56 | 58 |
| CGST | 716 | 728 | 619 | (2) | 16 | 4,686 | 4,136 | 13 | 12 | 58 | 58 |
| IGST | (159) | (194) | 17 | (18) | (1,042) | (171) | 61 | (380) | | | |
| Com cess | 119 | 103 | 114 | 16 | 5 | 810 | 722 | 12 | 12 | 56 | 57 |
| Other taxes | 37 | 32 | 38 | 15 | (2) | 201 | 159 | 27 | 4 | 239 | 47 |
| Net tax revenues | 1,416 | 1,591 | 3,564 | (11) | (60) | 11,431 | 9,865 | 16 | 7 | 51 | 57 |
| Non-tax revenues | 290 | 212 | 272 | 37 | 7 | 2,548 | 1,668 | 53 | 15 | 84 | 58 |
| Non-debt capital receipts | 28 | 15 | 48 | 88 | (41) | 223 | 322 | (31) | 1 | 27 | 45 |

Source: CGA, Emkay Research

Exhibit 3: Direct taxes are in line to overshoot FY24BE targets, while indirect taxes need a significant pick up over last year

| | FY24 Budgeted growth (%) | Apr-Oct growth (%) | Monthly run- rate (Apr-Oct, INR bn) | Reqd monthly run- rate (Nov- Mar, INR bn) | Growth needed over last year (%) |
|---------------------------|--------------------------------|--------------------------|---|--|---|
| Gross tax revenues | 10 | 14 | 2,621 | 3,053 | 6 |
| Direct taxes | 10 | 24 | 1,433 | 1,657 | 0 |
| Corporate tax | 11 | 17 | 689 | 881 | 6 |
| Income tax | 11 | 31 | 745 | 759 | (8) |
| Indirect taxes | 10 | 3 | 1,153 | 1,443 | 19 |
| Customs duty | 11 | 1 | 178 | 217 | 20 |
| Excise duty | 6 | (9) | 215 | 378 | 23 |
| GST | 12 | 8 | 761 | 848 | 17 |

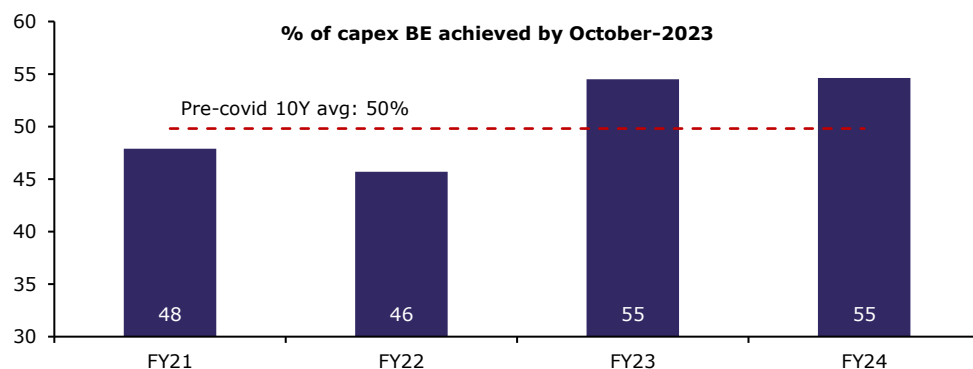
Source: CGA, Emkay Research

Exhibit 4: Monthly fiscal aggregates of the Indian central government (Rs bn)

| | Oct-23 | Oct-22 | Sep-23 | Chg. (%) | | FYTD (Apr-Oct) | | FYTD Chg. (%) | | FY24 BE / | | FY24 % of BE | FY23P % of P |
|----------------------------------|--------------|--------------|--------------|-------------|-------------|----------------|---------------|---------------|-----------|---------------|-----------|--------------|--------------|
| | | | | (yoy) | (mom) | 2024 | 2023 | yoy | FY23 RE | FY24BE | | | |
| Total receipts | 1,734 | 1,818 | 3,883 | (5) | (55) | 15,907 | 13,856 | 15 | 10 | 27,163 | 59 | 56 | |
| Total expenditure | 2,753 | 3,201 | 4,474 | (14) | (38) | 23,944 | 21,437 | 12 | 8 | 45,031 | 53 | 51 | |
| Revenue expenditure | 2,190 | 2,540 | 3,306 | (14) | (34) | 18,475 | 17,347 | 7 | 1 | 35,021 | 53 | 50 | |
| Interest payments | 608 | 445 | 1,168 | 37 | (48) | 5,451 | 4,812 | 13 | 15 | 10,800 | 50 | 52 | |
| Major subsidies | 253 | 400 | 257 | (37) | (1) | 2,317 | 2,389 | (3) | (28) | 3,747 | 62 | 45 | |
| Food | 157 | 189 | 122 | (17) | 29 | 1,109 | 1,351 | (18) | (31) | 1,974 | 56 | 50 | |
| Fertilizer | 96 | 210 | 130 | (54) | (27) | 1,197 | 1,027 | 17 | (22) | 1,751 | 68 | 41 | |
| Oil | - | 2 | 4 | (100) | (100) | 11 | 11 | 1 | (75) | 23 | 50 | 16 | |
| Agriculture and farmers' welfare | 6 | 8 | 13 | (28) | (53) | 62 | 75 | (17) | 5 | 1,250 | 5 | 65 | |
| Education | 74 | 3 | 111 | 2,038 | (33) | 387 | 195 | 99 | 13 | 1,129 | 34 | 33 | |
| Health and family welfare | 1 | 2 | 3 | (37) | (51) | 0 | 0 | 41 | 11 | 839 | 0 | 33 | |
| Rural development | 1 | 0 | 0 | 77 | 236 | 7 | 6 | 16 | (12) | 1,600 | 0 | 60 | |
| Capital expenditure | 563 | 661 | 1,168 | (15) | (52) | 5,469 | 4,090 | 34 | 37 | 10,010 | 55 | 56 | |
| Defence | 73 | 51 | 195 | 44 | (62) | 747 | 692 | 8 | 8 | 1,714 | 44 | 46 | |
| Railways | 141 | 138 | 299 | 2 | (53) | 1,567 | 1,023 | 53 | 51 | 2,400 | 65 | 64 | |
| Roads and highways | 152 | 243 | 462 | (37) | (67) | 1,716 | 1,461 | 17 | 25 | 2,586 | 66 | 71 | |
| Housing and urban affairs | 2 | 14 | 52 | (83) | (95) | 123 | 105 | 17 | 10 | 260 | 47 | 44 | |
| Transfers to states | 55 | 282 | 188 | (80) | (71) | 655 | 340 | 93 | 71 | 1,300 | 50 | 37 | |
| Others | 139 | (66) | (28) | (311) | (600) | 661 | 468 | 41 | 66 | 1,750 | 38 | 45 | |
| Fiscal deficit | 1,018 | 1,383 | 590 | (26) | 73 | 8,037 | 7,581 | 6 | 2 | 17,868 | 45 | 44 | |
| Revenue deficit | 484 | 737 | (530) | (34) | 191 | 2,798 | 3,848 | (27) | (22) | 8,699 | 32 | 36 | |
| Primary deficit | 411 | 938 | (578) | (56) | 171 | 2,586 | 2,770 | (7) | (13) | 7,068 | 37 | 34 | |

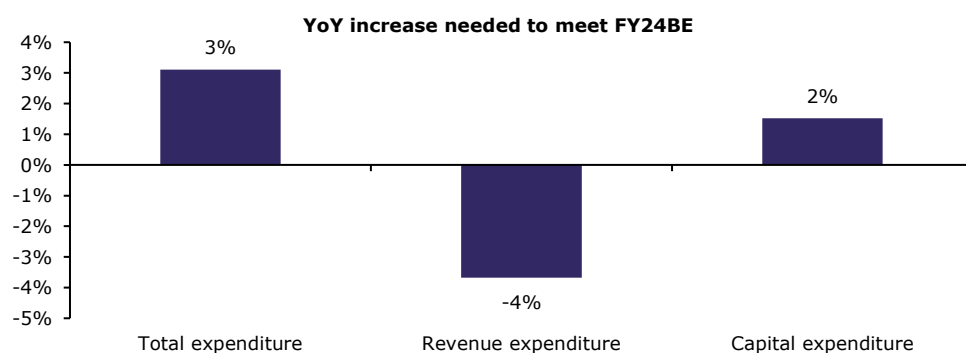
Source: CGA, Emkay Research

Exhibit 5: FY24 capex achievement remains high by historical standards



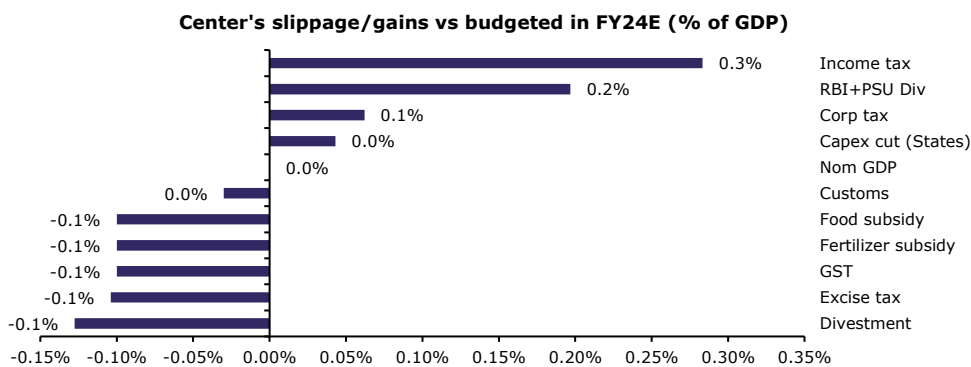
Source: CGA, Emkay Research

Exhibit 6: Expenditure needs to increase marginally in remaining FY24, to meet the BE target



Source: CGA, Emkay Research

Exhibit 7: Direct-tax overshoot to be offset by higher RevEx and lower indirect tax



Source: Emkay Research estimates

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