

## FY2025 GDP OUTLOOK

GDP growth projected at 6.5% in FY2025, dampened by subdued H1, amid narrowing of GDP-GVA growth wedge

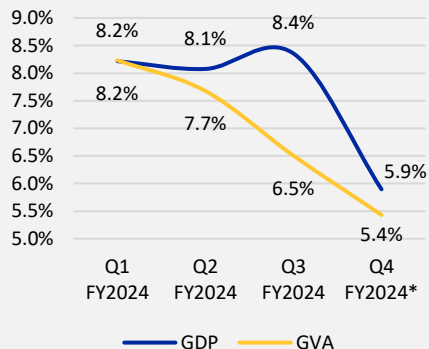
MARCH 2024





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**EXHIBIT: GDP and GVA growth (at constant 2011-12 prices)**



\*Based on NSO's SAE for FY2024 and data for 9M FY2024; Source: NSO; ICRA Research



- **Background:** India's GDP growth rose to a six-quarter high of 8.4% in Q3 FY2024 from 8.1% in Q2, even as GVA growth eased to 6.5% from 7.7%, respectively. This divergence was led by a six-quarter high 32% surge in net indirect taxes, amid substantially lower subsidy outgo in that quarter across the Government of India (GoI) and state governments.



- Looking ahead, the National Statistical Office (NSO) has implicitly pegged the growth of GDP and GVA to slide to 5.9% and 5.4%, respectively, in Q4 FY2024, with the wedge between them to fall to 46 bps. Based on the data published by Controller General of Accounts (CGA) for 9M FY2024 and the FY2024 RE, the contraction in the GoI's subsidy outgo is estimated to narrow in Q4 FY2024, while the growth in its indirect taxes is set to improve. This supports the forecast of a smaller wedge between the GDP and GVA growth in that quarter.



- Further, in the GoI's Interim Budget for FY2025, indirect tax growth is indicated to rise slightly, while the YoY contraction in subsidy outlay is budgeted to narrow quite sharply, leading to a likely slowdown in net indirect tax growth in the fiscal, compared to FY2024. This is expected to result in a compression of the wedge between the GDP and GVA growth in FY2025 vis-à-vis FY2024.

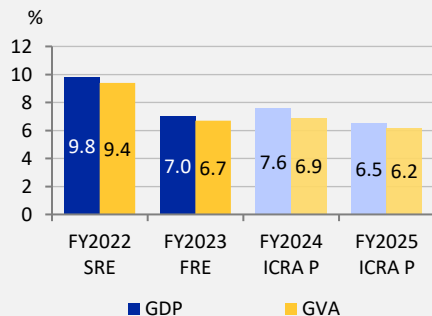


- The NSO's estimate of a contraction in the agri GVA in H2 FY2024 is somewhat surprising, despite the unfavourable base and estimates of decline in rabi output, given that the non-crop segments have typically grown at a much faster pace historically. ICRA believes that the upward revision in kharif output estimates may lead to an upside in quarterly agri GVA in subsequent data releases.



- ICRA estimates the GVA growth of agriculture, forestry and fishing to rise by ~3.4% in FY2025 (+0.7% in FY2024 SAE), assuming a normal monsoon. Nevertheless, the ongoing weakness in rural demand is likely to spill over into the first half of FY2025, until there is some visibility around the farm cash flows from rabi procurement and outcomes for the next kharif crop.

**EXHIBIT: Annual growth trends of GDP and GVA (at constant 2011-12 prices)**



*FRE/SRE: First/Second Revised Estimates; P: Projected; Source: NSO; ICRA Research*



- Urban consumption has been resilient in FY2024 and the outlook for FY2025 remains upbeat, with improvement in one-year ahead sentiments and an expected fall in inflation, although the tightening of norms for personal loans and credit cards may weigh on discretionary spending.



- While the growth in the Govt's revenue expenditure is expected to remain low at ~3.1% YoY in Q4 FY2024, ICRA estimates the capex to contract by ~9.4% in the quarter, based on our estimate of a shortfall vis-à-vis the FY2024 RE, which would weigh on GDP growth in the quarter.



- For FY2025, the on-budget capex growth for Centre and 18 major states is pegged at 16.9% and 11.9%, respectively, over the FY2024 RE levels, while the revex growth has been budgeted at modest 3.2% and 7.8%, respectively. ICRA believes that capex is likely to pick up in a back-ended manner in FY2025, post the announcement of the full Budget and the end of the monsoon period, leading to varied growth outcomes in H1 and H2 FY2025.



- Amid a subdued outlook for global growth, ICRA has pencilled in continued tepidness in India's exports in H1 FY2025, followed by some improvement in H2, aided by a likely pick up in global demand after the rate cut cycle begins in major economies in mid-CY2024. Overall, ICRA believes that merchandise exports are unlikely to contribute significantly to GDP growth in FY2025.



- After the NSO's sub-6% growth estimated for Q4 FY2024, which is broadly in line with our forecast, ICRA projects GDP growth to remain subdued at 5.5-5.9% during H1 FY2025, followed by a pick up to 7.1-7.2% in H2 FY2025. We estimate the GVA growth at 6.2% in FY2025 (+6.9% for FY2024), and the wedge between GDP-GVA growth to shrink to a tentative 30 bps, from 68 bps in FY2024 SAE. Therefore, ICRA projects the GDP growth at 6.5% for FY2025 (+7.6% in FY2024), dampened by expected subdued growth outcomes in H1 FY2025 on account of transient factors such as the lingering impact of El Nino and slower economic activity during the Election months.



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