GDP growth seen at 4-year low of 6.4% on weak manufacturing and investment

In second half FY25, consumption will likely accelerate, but investment may remain flat.

Written by Aanchal Magazine
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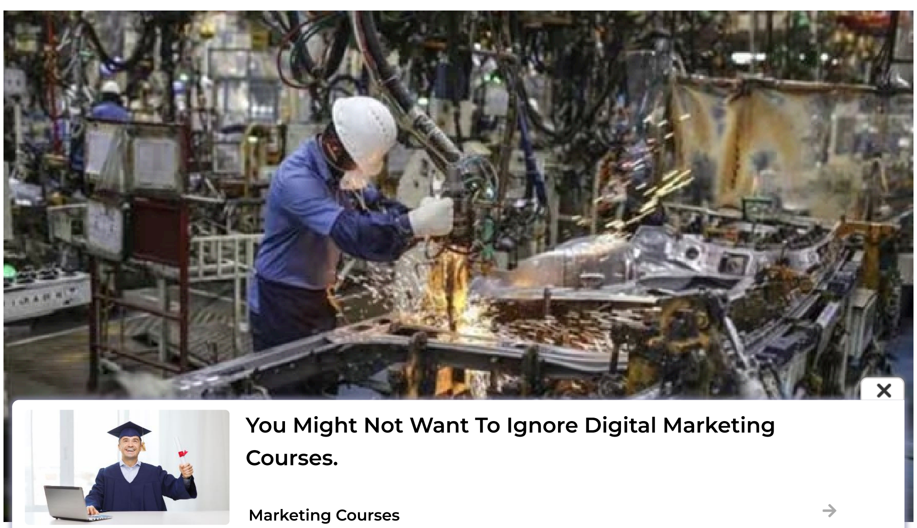

The previous GDP data release on November 29, 2024 had shown GDP growth slipping to a seven-quarter low of 5.4 per cent in July-September 2024, mainly due to sluggish growth in manufacturing and a deceleration in mining and quarrying. (File photo)

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India's Real Gross Domestic Product (GDP) is seen growing at a four-year low of 6.4 per cent in the current financial year 2024-25, primarily due to weak industrial and investment growth, the first advance estimates for FY25 released by the National the government (6.5-7 per cent growth in the Economic Survey 2023-24).

The first advance estimates of GDP, obtained by extrapolation of data of the first seven-eight months of the ongoing financial year (FY25), are released early to help officers in the Union Ministry of Finance and other departments in framing the broad contours of Union Budget for the next financial year, which is to be presented in Parliament on February 1.

Even as GDP growth is estimated to have picked pace in the second half of the financial year, the slump from the first half is seen weighing on the full year's growth estimate of 6.4 per cent. Back-of-the-envelope calculations based on the first advance estimates suggest that the Indian economy is estimated to grow 6.7 per cent in H2 (October-March). It had grown by 6.0 per cent in H1 (April-September).

The previous GDP data release on November 29, 2024, had shown GDP growth slipping to a seven-quarter low of 5.4 per cent in July-September 2024, mainly due to sluggish growth in manufacturing and a deceleration in mining and quarrying. The growth rate was 6.7 per cent in the April-June quarter.

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country will participate in the International Kite Festival- 2025. The festival will be organised by Gujarat Tourism Department from January 11 to 14. Additionally, 417 kite flyers from 11...

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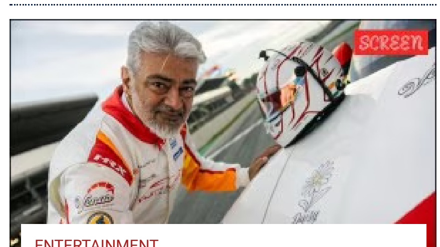

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and secondary sectors of the economy, barring agriculture. Economists said that the slowdown in growth is a result of the Indian economy entering the phase of cyclical slowdown. "The lower GDP growth for FY25 has been the result of a cyclical slowdown in the Indian economy in the past three quarters. Apart from that, some of the factors affecting growth were 1) strong base effect, 2) general elections, 3) weak private sector capex and 4) monetary and fiscal tightening," Paras Jasrai, Senior Economic Analyst, India Ratings and Research said.

Manufacturing Gross Value Added (GVA) growth is estimated to slow to 5.3 per cent in 2024-25 from 9.9 per cent in 2023-24, while mining and quarrying growth is seen at 2.9 per cent in FY25, much lower than 7.1 per cent in the previous year.

'Electricity, gas, water supply & other utility services' are seen growing at 6.8 per cent in FY25 as against 7.5 per cent growth in the previous year. Construction is seen growing at 8.6 per cent in FY25, lower than 9.9 per cent growth registered in the previous year.

EXPLAINED

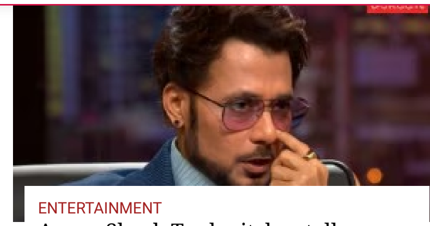
Why growth is down

While consumption demand is set to grow at 7.3 per cent this year (4 per cent last year), investment (particularly, corporate) has not quite picked pace. This year, it is seen growing at 6.4 per cent compared with 9 per cent in FY24.

Real GVA growth of agriculture and allied sector, however, is seen rising to 3.8 per cent in FY25 from 1.4 per cent growth in FY24.

Services sector is seen performing better, with growth estimated at 7.2 per cent in FY25 compared with 7.6 per cent in FY24. The growth in services is primarily led by 'Public administration, defence & other services' that is seen growing at 9.1 per cent in FY25 as against 7.8 per cent in FY24.

Other services are seen growing at a slower pace, with 'Trade, hotels, transport, communication & broadcasting services' seen growing at 5.8 per cent in 2024-25 as against 6.4 per cent growth in 2023-24, while 'Financial, real estate & professional services' are seen growing at 7.3 per cent as against 8.4 per cent in the previous year.



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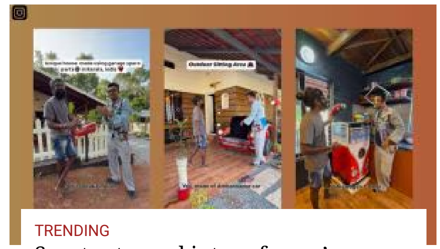

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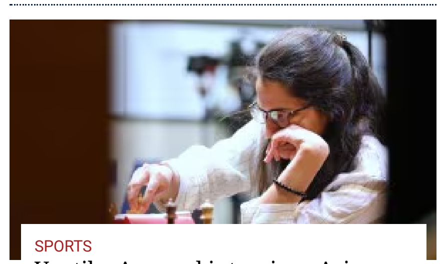

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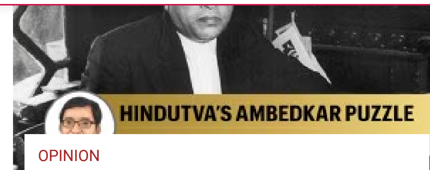
demand — is seen growing at 7.3 per cent in FY25 compared with 4.0 per cent growth in the previous financial year. Investments — as reflected in Gross Fixed Capital Formation (GFCF) — are expected to grow by 6.4 per cent in FY25 as against 9.0 per cent in FY24, reflecting a moderation in capex by both states and Centre as well as private investment.

The overall economic growth has also gained support from higher government expenditure. Government Final Consumption Expenditure (GFCE) is seen growing at 4.1 per cent compared with just 2.5 per cent growth in the previous financial year.

Going ahead, while private consumption is expected to pick up in H2, investment is seen around the same level as H1, economists said. "The data is not showing a pick up, with investment growth in H2 estimated to remain around the same as H1. This means private investment is also not picking up meaningfully…consumption growth is estimated to accelerate in H2 compared to H1," Rajan Sinha, Chief Economist, CareEdge Ratings said.

The pick-up in private consumption is likely to be led by rural demand with strong crop output, Gaura Sen Gupta, Chief Economist, IDFC FIRST Bank said. Urban demand, which was on a strong footing last year, has lost some momentum in FY25 with slowdown in urban wage growth, she said.

Growth in GVA (gross value added) terms, which reflects national income from the output side, is seen at 6.4 per cent in FY25 as against 7.2 per cent in FY24. GDP is GVA plus net taxes on products (taxes less subsidies). Per capita net national income is seen rising 5.3 per cent to Rs 1,12,358 in FY25. Nominal GDP, which also takes into account the inflation estimate, is estimated to grow 9.7 per cent in FY25 as against 9.6 per cent in FY24. The nominal GDP growth estimate is lower than 10.5 per cent growth estimated in the Budget 2024-25, but it is unlikely to impact the government's fiscal math as it is anyway expected to undershoot the fiscal deficit target.



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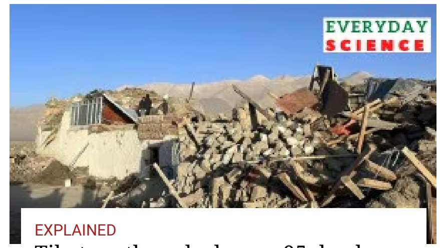

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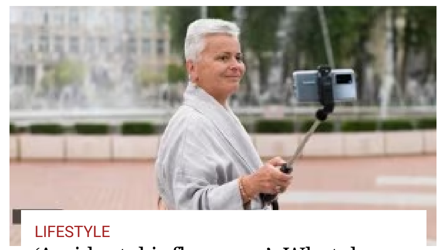
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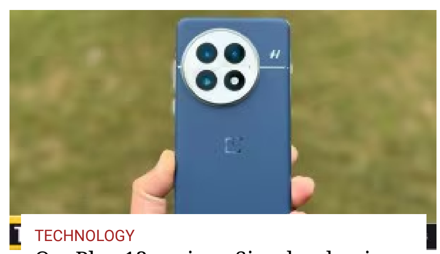
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"This does not change the fiscal calculations materially (an increase of 4 bps in the fiscal deficit to GDP ratio from 4.94 per cent to 4.98 per cent if the fiscal deficit level is kept unchanged). We estimate that the government is in fact likely to achieve a lower fiscal deficit as a % of GDP of 4.65 per cent in FY25 compared to the budgeted target of 4.9 per cent. This is likely to be driven by higher than budgeted gross tax collections combined with lower than budgeted capital expenditure," HDFC Bank's Principal Economist Sakshi Gupta and Senior Economist Mayank Kumar Jha said in a note.

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Aanchal Magazine is Senior Assistant Editor with The Indian Express and reports on the macro economy and fiscal policy, with a special focus on economic science, lai ***... Read More***

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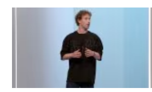

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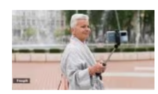

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