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Economic Slowdown: India's GDP Growth Rate Estimates Slashed to 6.4% For FY25; Expect Rebound in H2FY25



Brickwork Research

Economy Update

India's Economic Momentum Dips from 8.2% to 6.4% in FY25 amid Economic Headwinds; Expects Rebound in Economic Growth in H2FY2025

- **GDP Growth Rate:** India's Gross Domestic Product (GDP) is projected to grow by 6.4% for the financial year 2024-25, according to the First Advance Estimates released by the National Statistics Office (NSO). This marks a significant decrease from the 8.2% growth recorded in 2023-24 and marking the lowest rate since FY21, when the economy contracted due to the pandemic
- This GDP growth estimates stands lower than both the Reserve Bank of India's estimate of 6.6% and the government's forecast of 6.5-7% for FY25, impacted primarily due to manufacturing declines and weak investment
- **Nominal GDP:** The nominal GDP is expected to rise to ₹324.11 lakh crore, reflecting a growth rate of 9.7%
- **Decline in Real Gross Value Added (GVA):** The NSO report indicates a decline in economic output, with real Gross Value Added expected to increase only 6.4% in FY25, down from 7.2% in the previous fiscal year, highlighting challenges faced by various sectors
- **Per Capita Gross National Income (GNI):** Per capita GNI is projected to rise by 5.3% in FY 2024-25, indicating modest improvement in individual income amidst a challenging economic environment
- **Per Capita Net National Income:** With lower GDP growth forecast, per capita net national income is also expected to rise by 5.3% in FY25, reaching approximately ₹1,12,358, indicating a gradual recovery in income levels despite lower overall GDP growth. The modest increase in per capita income may limit the economic benefits typically associated with higher GDP growth
- **Weak Investment Climate:** NSO's estimates highlights that the sluggish investment climate has worsened the economic slowdown across sectors, affecting overall growth projections
- Advance estimates show a significant slowdown in primary and secondary sectors, with agriculture supporting growth. Despite a consumption rebound in second-half FY25, challenges like weak private sector capital expenditure and monetary tightening persist
- The Reserve Bank of India's growth rate, previously projected at 6.6%, is below expectations due to decreased investment and weaker manufacturing performance
- This has raised concerns about potential downward revisions due to mixed economic indicators, particularly in consumption and industrial activity during late 2024
- The projected GDP slowdown for FY25 is attributed to weak manufacturing performance, declining investments, cyclical economic patterns, tight monetary policies, and external pressures
- The government's preparation for the upcoming budget presentation requires addressing these challenges to ensure a more resilient economic environment
- The NSO predicts a slowdown in primary and secondary sectors, but robust growth in agriculture is expected to support rural consumption and improve overall economic performance
- The projection indicates a cyclical slowdown in the Indian economy, influenced by weak private sector capital expenditure and monetary tightening, affecting growth expectations
- While, the NSO's projection for economic growth stands lower, some economists predicting slight improvements in the coming years due to rural consumption and government investments

BWR VIEW

These estimates indicate a decline in economic momentum in the first half of FY 2024-25 due to decreased investment and weaker manufacturing performance

A rebound in India's economic growth is expected in the second half of FY25, driven by improved agricultural and industrial activity and increased government spending

The second half of FY25 is expected to see improved performance in agriculture and manufacturing, with an anticipated 6.7% growth rate

Monetary policy adjustments are expected by the Reserve Bank to stimulate demand and counteract the economic downturn

Lower GDP growth due to weak manufacturing output and sluggish investment could hinder short-term investments, consumer spending, job creation, and disposable incomes, influenced by broader economic challenges and reduced investment

The NSO's lower economic growth estimates highlight the need for strategic interventions to boost investment and improve manufacturing productivity to counteract the economic slowdown and promote sustainable growth in India

Sector Performance

1. The **agriculture sector** is expected to grow by 3.8% in FY 2024-25, a significant increase from the 1.4% growth recorded in the previous year
 - a. The agriculture, forestry, and fishing sector is expected to experience stable growth at 3.5%, largely driven by favorable weather conditions, increased irrigation coverage, and government support through minimum support prices
2. The **construction sector** is expected to experience an 8.6% growth rate, while the services sector is projected to grow by 7.2%
3. The **industrial** growth is estimated to grow at 5.7% growth rate, primarily driven by strong performance in manufacturing, mining, and construction, with the construction sector benefiting from infrastructure projects and urban housing demand
4. The **services sector** is predicted to experience an 8.1% growth rate, primarily driven by IT and financial services, bolstered by robust recovery in tourism and hospitality post-pandemic
5. **Public Administration, Defense, and Other Services:** The Public Administration, Defense, and Other Services segment is anticipated to experience moderate growth due to increased government spending on social welfare schemes and public services
6. In contrast, the **manufacturing sector** is anticipated to witness slowdown to 5.3% in FY2024-25, down from 9.9% in FY24

Significant slowdown in primary and secondary sectors

7. The **primary sector**, comprising agriculture, livestock, forestry, fishing, mining, and quarrying, is projected to experience a 3.6% growth rate, indicating a recovery in agricultural activities from the previous year
8. The **secondary sector**, encompassing manufacturing, electricity, gas, water supply, and construction, is projected to grow at 6.5% in FY25, down from 9.7% in FY24
9. The **tertiary sector** is projected to experience a slowdown in growth to 7.2% in FY25 from 7.6% last fiscal, with sectors like financial services and trade experiencing a deceleration

Consumption and Investment

- **Private Final Consumption Expenditure (PFCE):** The private final consumption expenditure is expected to grow by 7.3% in FY 2024-25 as compared to a growth of 4% in FY2023-24, indicating strong rural demand and government spending
 - Private consumption, a significant contributor to India's GDP, is expected to remain robust due to rising disposable incomes, increased rural demand due to monsoons, and an increase in urban spending
- **Private Investment:** Private investment is projected to increase by 6.4%, a decrease from the 9% growth observed last year
- **Government Spending:** The government is projected to increase spending by 4.1%, a significant increase from the 2.5% increase in the previous fiscal year
 - Government spending on infrastructure and social welfare programs significantly drives economic activity, with capital expenditure on roads, railways, and urban infrastructure boosting employment and demand
- However, the overall investment trend is expected to be slow, with gross fixed capital formation projected to grow at a modest rate of 6.4%

Comparative Perspectives

- **Reserve Bank of India (RBI):** The Reserve Bank of India (RBI) has revised its growth forecast for FY 2024-25 to 6.6%, down from 7.2%, due to a significant economic slowdown
- **World Bank:** The World Bank predicts India to remain the fastest-growing economy globally, with a GDP growth forecast of 6.6% for FY 2024-25 despite a slowdown

Implications for Policy and Future Outlook

- The slowdown in GDP growth highlights the necessity for targeted policy measures to boost economic activity. The government's FY 2024-25 budget aims to stimulate economic activity by focusing on job creation, rural development, and infrastructure investment
- The projected 6.4% GDP growth for FY 2024-25 indicates a slowdown, but it remains robust in comparison to global economic context. However, focus should be on strategic policy measures to boost manufacturing output, private investment, and inflation control

Economic Context

- The growth rate is the lowest since pre-COVID-19, indicating broader economic challenges such as reduced manufacturing activity and weak investments
- The Reserve Bank of India (RBI) has revised its earlier forecast of 6.6% growth due to recent economic performance indicators

Outlook

- The estimates are crucial as they come ahead of the Union Budget for FY25, emphasizing the need for sustained investments in infrastructure and agriculture to boost economic growth amid global uncertainties
- India's projected growth comes amid global economic uncertainties, geopolitical tensions, and domestic structural reforms, demonstrating its resilience as one of the fastest-growing major economies globally
- India's projected growth demonstrates its resilience as one of the world's fastest-growing major economies
- The country's robust domestic demand, thriving services sector, and structural reforms offer a solid foundation for sustained growth, with continued investment, innovation, and inclusivity crucial for long-term economic stability
- The Reserve Bank of India (RBI) has also revised its growth estimates lower from 7.2% to 6.6%, citing similar concerns
- However, despite challenges, optimism for a rebound in the third and fourth quarter of the current fiscal year is high, with expectations of improved economic performance bolstered by increased agricultural output and sustained government spending
- The outlook remains cautious due to potential downward pressures, such as global economic uncertainties and domestic inflationary trends

Weaker Manufacturing and Reduced Corporate Investments Weighed on Economic Growth

First Advance Estimates of Annual GDP for FY 2024-25 and its Expenditure Components (at 2011-12 Prices)						
	Item	2022-23 (FRE)	2023-24 (PE)	2024-25 (FAE)	Percentage Change Over Previous Year	
					2023-24	2024-25
	Domestic Product					
1	GVA at Basic Prices	1,48,04,901	1,58,73,751	1,68,91,195	7.2	6.4
2	Net Taxes on Products	12,66,528	15,07,971	15,97,186	19.1	5.9
3	Gross Domestic Product (GDP)	1,60,71,429	1,73,81,722	1,84,88,381	8.2	6.4
4	Net Domestic Product (NDP)	1,39,86,798	1,51,46,589	1,61,09,985	8.3	6.4
	Expenditure Components					
5	Private Final Consumption Expenditure (PFCE)	93,23,825	96,99,214	1,04,05,038	4.0	7.3
6	Government Final Consumption Expenditure (GFCE)	16,13,726	16,53,333	17,21,192	2.5	4.1
7	Gross Fixed Capital Formation (GFCF)	53,46,423	58,26,880	62,01,183	9.0	6.4
8	Changes in Stocks (CIS)	1,83,464	1,94,349	2,03,101	5.9	4.5
9	Valuables	2,29,167	2,77,857	2,80,787	21.2	1.1
10	Exports	38,47,742	39,48,947	41,82,169	2.6	5.9
11	Imports	39,19,021	43,47,870	42,90,924	10.9	-1.3
12	Discrepancies	-5,53,897	1,29,012	-2,14,164	0.7	-1.2

Source: Ministry of Statistics and Programme Implementation, Government of India

Per capita income expected to rise; Reflects nominal growth despite economic slowdown

Per Capita Income, Product and Final Consumption	FY 2022-23 (1 st RE)	FY 2023-24 (PE)	FY 2024-25 (FAE)	Percentage Change Over Previous Year	
				2023-24	2024-25
Per Capita GDP (₹)	1,16,216	1,24,600	1,31,310	7.2	5.4
Per Capita Gross National Income (GNI) (₹)	1,14,478	1,22,766	1,29,250	7.2	5.3
Per Capita Net National Income (NNI) (₹)	99,404	1,06,744	1,12,358	7.4	5.3
Per Capita PFCE (₹)	67,423	69,528	73,899	3.1	6.3

Source: Ministry of Statistics and Programme Implementation, Government of India

*RE: Revised Estimates

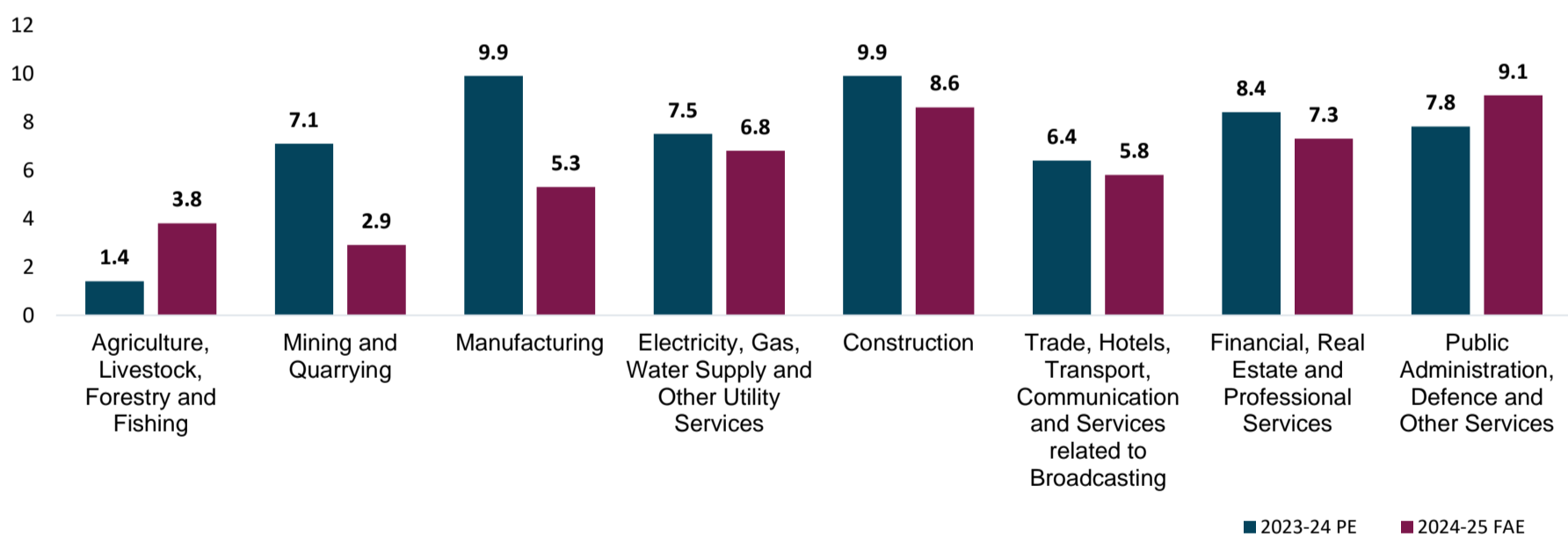
*FAE: First Advance Estimates

Manufacturing Sector Decline: Agricultural Sector Support

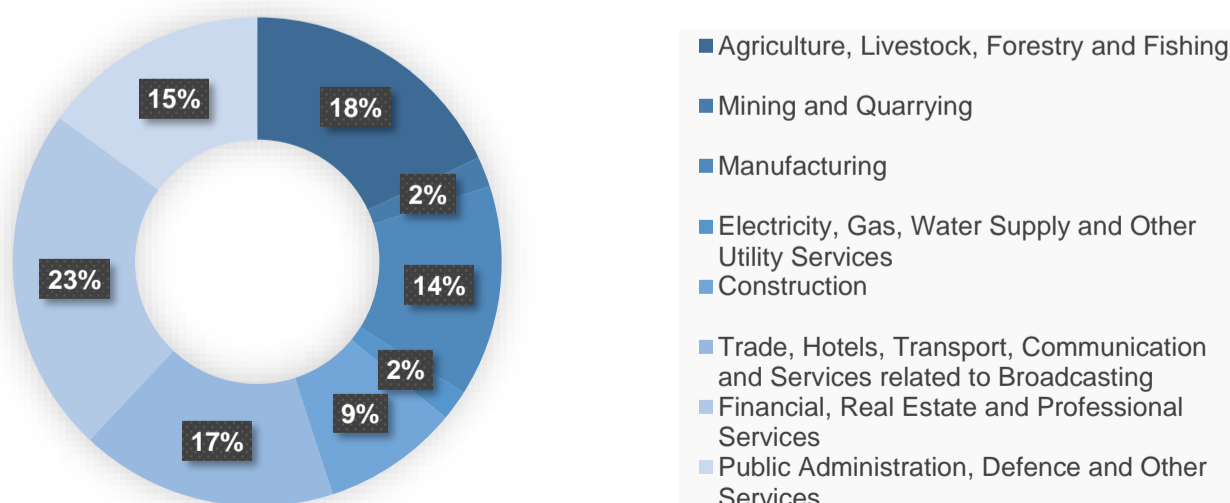
Advance estimates show a significant slowdown in secondary sectors, with agriculture expected to support overall growth

GVA growth estimates at Basic Prices for FY 2024-25 (at 2011- 12 Prices)			Percentage Change Over Previous Year	
Industry		2023-24	2024-25	
1	Primary Sector	2.1	3.6	
1.1	Agriculture, Livestock, Forestry and Fishing	1.4	3.8	
1.2	Mining and Quarrying	7.1	2.9	
2	Secondary Sector	9.7	6.5	
2.1	Manufacturing	9.9	5.3	
2.2	Electricity, Gas, Water Supply and Other Utility Services	7.5	6.8	
2.3	Construction	9.9	8.6	
3	Tertiary Sector	7.6	7.2	
3.1	Trade, Hotels, Transport, Communication and Services related to Broadcasting	6.4	5.8	
3.2	Financial, Real Estate and Professional Services	8.4	7.3	
3.3	Public Administration, Defence and Other Services	7.8	9.1	
GVA at Basic Prices		7.2	6.4	

Sector-wise Growth Rates (%) of Real GVA



Sectoral Composition of Nominal GVA in FY 2024-25



Contributing Factors to GDP Slowdown

- **Weak Manufacturing and Investment:** The industrial sector's slow performance, particularly in manufacturing, has significantly impacted economic growth, leading to a decline in investment levels across the economy
- **Cyclical Economic Slowdown:** India is experiencing a cyclical economic slowdown, with reduced growth rates following periods of rapid expansion, as noted by analysts over the past three quarters
- **Base Effect:** The previous year's high growth rate can create a strong base effect, making current growth appear weaker, potentially distorting economic health perceptions when comparing year-on-year rates
- **Tight Monetary Policy:** The Reserve Bank of India's (RBI) cautious monetary policy, aimed at controlling inflation, has led to higher borrowing costs, potentially affecting investment and consumer spending
- **External Economic Conditions:** Global uncertainties, geopolitical tensions, and potential economic slowdowns pose challenges for Indian exports and foreign investment, while external inflationary pressures exacerbate domestic economic issues
- **Weak Private Sector Capital Expenditure:** The private sector is experiencing a significant lack of robust investment, hindering economic growth, largely due to factors like household balance sheet stress and slowing nominal income growth

Domestic Economic Challenges

1. Sluggish Private Consumption Growth

Private consumption, a significant contributor to India's GDP, is showing moderate growth, despite accounting for nearly 60% of the economy

Consumption growth has been constrained due to:

- **Rising Interest Rates:** The RBI's tight monetary policy has led to increased borrowing costs for households, affecting sectors like real estate, consumer durables, and automobiles
- **Uneven recovery in Income Levels:** Post-pandemic income recovery has been uneven, with rural areas experiencing slower growth due to subdued agricultural output and wage stagnation
- **Weak Sentiment in Urban Markets:** Urban consumption has partially recovered, but discretionary spending remains cautious due to inflationary pressures and global uncertainties

2. Decline in Investment Momentum:

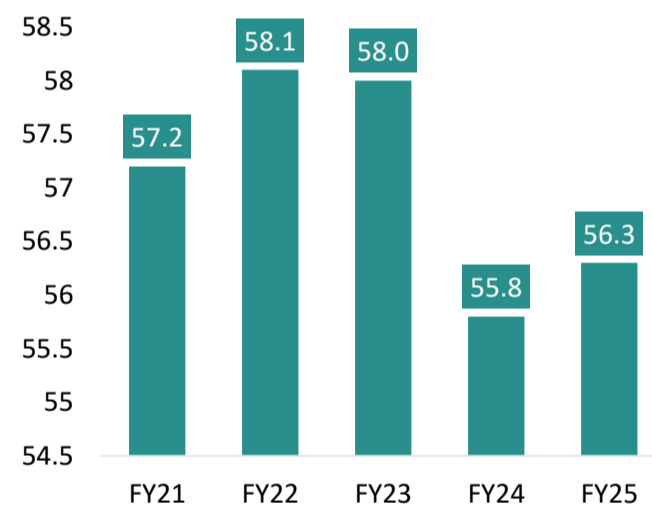
Private sector capital expenditure (capex) has not experienced the expected robust growth, largely due to various factors

- **High Cost of Capital:** The high cost of capital due to rising interest rates and tightening liquidity conditions has negatively impacted business sentiment and investment plans
- **Policy Uncertainty:** The government has announced several infrastructure projects, but delays in implementation and bureaucratic hurdles persist, causing policy uncertainty
- **Global Spillovers:** The decrease in global demand and tighter financial conditions have led to businesses being cautious about aggressive expansion

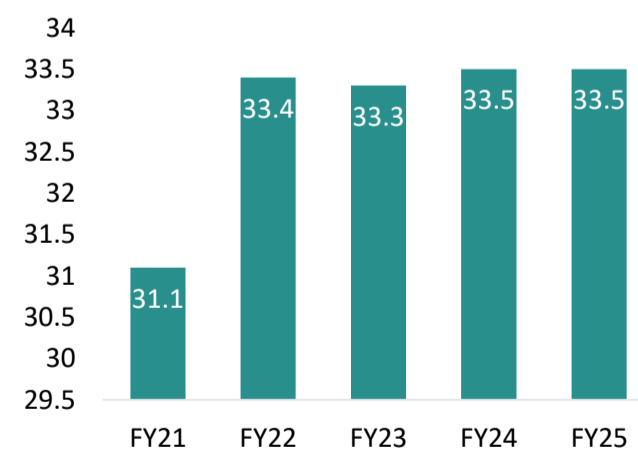
3. Inflationary Pressures

Although, Inflation has moderated, but persistently high food and energy prices have eroded household purchasing power and increased business input costs, while core inflation remains elevated due to structural challenges

Share of Private Consumption as % of GDP



Share of Fixed Capital Investment as % of GDP



4. Weakness in Rural Economy

The rural economy has been under stress due to:

- **Subdued Agricultural Output:** Erratic monsoons and climate-related disruptions have significantly reduced agricultural output
- **Low Real Wages:** Rural areas are experiencing low real wages due to stagnant wage growth, which has led to reduced consumption and savings
- **Decline in Rural Employment:** The lack of substantial non-farm employment opportunities has significantly reduced rural demand

Global Economic Headwinds

1. Slowing Global Growth:

Global economic growth has slowed significantly, driven by:

- **Recessionary Trends in Advanced Economies:** Key markets like the US and Europe are facing recessionary trends due to slowing growth, high inflation, and monetary tightening
- **China's Economic Uncertainty:** China's post-pandemic recovery has caused economic uncertainty, impacting global trade and commodity markets
- **Geopolitical Tensions:** The Russia-Ukraine conflict has significantly disrupted global supply chains and heightened economic uncertainty

2. Weakening Export Demand:

India's export sector has faced significant headwinds due to:

- **Decline in Global Trade Volumes:** Merchandise exports witnessed a decline, especially in sectors like textiles, gems and jewellery, and engineering goods, primarily due to reduced demand from advanced economies
- **Pressure on IT Services Exports:** The Indian IT sector, a significant contributor to GDP, is experiencing reduced growth due to reduced discretionary spending and IT budgets by global corporations
- **Rising Protectionism:** The rise in protectionism, particularly in key export markets, has exacerbated growth by increasing trade barriers and tariffs

3. Financial Market Volatility

Global financial markets are experiencing increased volatility due to higher interest rates, geopolitical risks, and economic uncertainty

- **Capital Outflows:** Emerging markets like India have experienced capital outflows as investors seek safer assets
- **Exchange Rate Depreciation:** The Indian rupee's weakening against the US dollar has led to increased import costs and contributed to the depreciation of the currency

Sector Specific Trends

1. Manufacturing Sector Challenges

The manufacturing sector has not fully recovered from pre-pandemic conditions, posing numerous challenges

- **High Input Costs:** The persistent inflation in raw materials and energy prices has resulted in high input costs and reduced profit margins
- **Subdued Domestic and Export Demand:** The global trade slowdown and weak consumer sentiment have led to a decrease in domestic and export demand
- **Supply Chain Disruptions:** Geopolitical tensions and climate events have significantly disrupted supply chains, causing production disruptions

2. Agriculture Sector Vulnerabilities

Agriculture, despite being a smaller GDP contributor compared to services and manufacturing, is crucial for rural livelihoods, but faces challenges such as:

- **Erratic Weather Patterns:** The unpredictable monsoons and extreme weather events have led to a decrease in crop yields
- **Low MSP Increases:** Limited increases in minimum support prices (MSPs) have not adequately safeguarded farmers' incomes from rising expenses
- **Insufficient Investment in Agritech:** Structural issues, including limited access to technology and credit, have hindered productivity improvements in agritech sectors

3. Services Sector Moderation

The services sector, a key growth driver, has also demonstrated signs of moderation.

- **Tourism and Hospitality:** Post-pandemic, tourism and hospitality have experienced recovery, but high inflation and global uncertainties have hindered growth
- **Financial Services:** Rising interest rates have risen the cost of borrowing, reducing the demand for loans and other financial products in the financial services sector
- **IT and Outsourcing:** The slow growth in IT services exports has negatively impacted the overall performance of the sector

Policy and Structural Issues

- **Impact of Monetary Tightening:** The RBI's monetary tightening has stabilized inflation expectations but also slowed growth by decreasing financial system liquidity and increasing borrowing costs for businesses and consumers
- **Fiscal Constraints:** The government's fiscal space is limited by high expenditure commitments, including subsidies and social welfare programs, hindering its capacity to boost growth through increased public spending
- **Delayed Structural Reforms:** The government's reforms, including labor market improvements, infrastructure project expedition, and faster resolution of stressed assets in the banking sector, have been delayed due to implementation delays

External Shocks and Emerging Risks

- **Geopolitical Uncertainty:** The Russia-Ukraine conflict and global tensions continue to create geopolitical uncertainty, affecting trade, energy prices, and investor sentiment
- **Climate Change and Environmental Risks:** India faces increasing risks from climate change, including extreme weather events impacting agriculture and infrastructure, and rising energy costs due to transitions to greener alternatives
- **Risks of Global Monetary Policy Divergence:** Diverging global monetary policies has led to instability in currency markets and cross-border capital flows, posing economic uncertainties for emerging markets like India

* Views are personal

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