FY25 may be another year of robust growth

Risks remain from factors like commodity prices, geopolitical issues

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India may be set for another year of robust growth in the financial year beginning April 1 (2024-25, or FY25), with inflation projected to ease closer to the Reserve Bank of India's comfort zone, which may allow it to start the rate-cut cycle.

However, risks may stem from global factors such as slower-than-expected global growth, higher commodity prices, and geopolitical turbulence, which may adversely impact growth and macro-stability, research agencies and economists said.

After robust economic growth of 7.6 per cent in 2023-24 (FY24), most macroeconomic forecasters have pegged growth in gross domestic product (GDP) for FY25 between 6.8 per cent and 7 per cent, with growth expected to slow in the April-June quarter (Q1) of FY25 due to the quinquennial general elections starting April 19, which may slow down the government's capital expenditure (capex) cycle.

"The anatomy of the slowdown is likely to manifest via both industry and services sectors on the supply side, and consumption on the demand side. Strength in agriculture and investment growth is likely to keep a lid on growth downside. Q1FY25 could witness lower economic activity during election months," research agency QuantEco said in a research note.

S&P Global Ratings has said that restrictive interest rates are likely to weigh on demand in FY25, while regulatory actions to tame unsecured lending are expected to affect credit growth.

However, domestic economic activity continued to remain resilient well into the January-March quarter of FY24, as validated by high-frequency indicators such as Purchasing Managers' Index, goods and services tax collections, automobile sales, and cargo traffic, among others.

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POSITIVE SIGNS

GDP forecast for FY25

Agency	(Y-o-Y %)
SBI	8
RBI	7
Fitch	7
Citi	6.8
QuantEco	6.8
Bank of Baroda	6.75-6.8
CRISIL	6.8
S&P	6.8
Morgan Stanley	6.8
Moody's	6.8*

* For calendar year 2024

Source: BS Research

Morgan Stanley, which raised its growth forecast by 30 basis points to 6.8 per cent for FY25, said it expects growth to be broad-based and the gaps between rural-urban consumption and private-public capex to narrow in FY25.

"The cycle will have more years of steady expansion driven by improvement in productivity growth, which will ensure macro-stability remains benign," it added.

One of the key worries of economists has been the tepid growth in private final consumption expenditure at 3.5 per cent in FY24, while the economy grew at 7.6 per cent.

Morgan Stanley expects private consumption growth to recover further as it narrows the gap between rural and urban demand and between goods and services, supported by moderation in inflation, especially core inflation, which improves purchasing power and terms of trade for the rural sector.

Pointing out the 10.6 per cent growth in gross fixed capital formation in the October-December quarter (Q3), Finance Minister Nirmala Sitharaman at Business Standard Manthan said the high capex growth needs to be maintained to meet growth targets.

Capex-to-GDP has recovered from the trough of 26.5 per cent in December 2020 to roughly 31 per cent as of December 2023, led by the government's thrust on capital spending.

Morgan Stanley said private capex is also showing signs of recovery as the government's push for infrastructure spending is improving the business environment and crowding in private investments.

India's exports have shown surprising resilience in the face of adverse geopolitical events, led by services robust exports.

"With the global economy displaying greater resilience than envisaged at the beginning of the year, net exports are likely to be less of a drag on growth (assuming commodity prices remain range-bound). Tensions in the Red Sea region and geopolitics remain on watch," QuantEco said in its research note.