GDP growth slows to 5-quarter low of 6.7%

BUT GROSS VALUE ADDED GROWTH PICKS UP PACE IN Q1

RAINS, LOWER INFLATION MAY HELP IN CONSUMPTION RECOVERY

ASIT RANJAN MISHRA
New Delhi, 30 August

India's growth in the June quarter — 6.7 per cent — came down to a five-quarter low due to a lower increase in net indirect taxes during the three-month period.

Growth in gross domestic product (GDP) has been lower than what the Reserve Bank of India (RBI) predicted — at 7.1 per cent — and what a poll of 52 economists by *Reuters* had said — 6.9 per cent.

The data, released by the National Statistical Office, however, showed growth in gross value added (GVA) picked up sequentially in the June quarter at 6.8 per cent compared to 6.3 per cent in the March quarter of FY24 due to lower "net taxes on products", which is arrived at by subtracting subsidies from indirect taxes. GDP is arrived at by adding net indirect taxes to GVA.

"Usually, real GDP growth exceeds GVA growth due to a positive contribution of indirect taxes net of subsidies. However, central government subsidies show a low growth rate of 3.6 per cent in the first quarter and a negative growth of (-) 10.9 per cent in the first four months of FY25. This implies that even going forward, the growth rates of GVA and GDP may remain close together," said D K Srivastava, chief policy advisor at EY India.

Aditi Nayar, chief economist at ICRA, said the slowdown was not cause for alarm because it was led by normalisation in growth in net indirect taxes. The divergent trend between GDP and GVA, which averaged 160 basis points in the previous two quarters, had led to higher GDP growth and lower GVA growth.

During the June quarter, agricultural growth (2.7 per cent) continued to be adversely affected by last year's poor monsoon and heatwaves, which caused reservoirs in many states to dry up. However, this was offset by double-digit growth in labour-intensive construction (10.5 per cent), and electricity, gas, and water supply (10.4 per cent).

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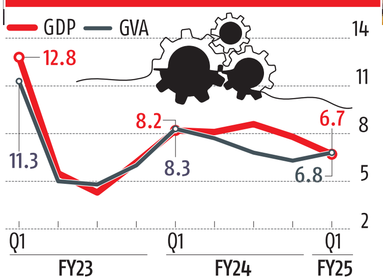
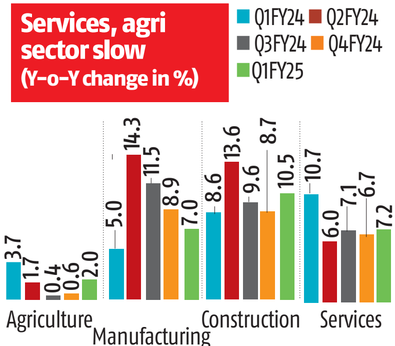
Quarterly GDP growth (Y-o-Y change in %)

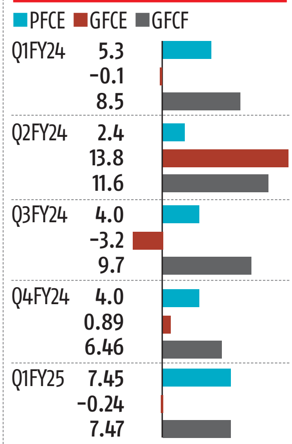


Services, agri sector slow (Y-o-Y change in %)



Source: MoSPI

Govt consumption hit (Y-o-Y change in %)



PFCE: Private final consumption expenditure
GFCE: Government final consumption expenditure
GFCF: Gross fixed capital formation

Economy could grow 7% in medium term: CEA

Chief Economic Advisor (CEA) V Anantha Nageswaran said the economy in the medium term could grow at 7 per cent on a sustained basis. 4 ▸

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▸ INVESTMENT, CONSUMPTION GROWTH PICKS UP PACE

▸ FISCAL DEFICIT IN APR-JUL AT 17.2% OF FULL-YEAR TARGET

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Manufacturing sector growth at 4-qtr low

Manufacturing slowed sequentially to a four-quarter low at 7 per cent, reflecting the moderation seen in the industrial production data and corporate profitability while services picked up sequentially to grow at 7.2 per cent.

Private spending, as represented by private final consumption expenditure, accelerated to a six-quarter high at 7.45 per cent while government final consumption expenditure contracted marginally (-0.24 per cent) during the quarter.

However, growth in investment demand, as represented by gross fixed capital formation (GFCF), picked up sequentially to 7.47 per cent despite a contraction in the Centre's capital expenditure during the election quarter.

Dharmakirti Joshi, chief economist, CRISIL, said although private consumption showed mixed trends in the first quarter, initial signs of a pickup in rural consumption were visible.

"We expect private consumption demand to improve this year over an anaemic growth rate of 4 per cent in FY24. Higher agricultural growth will augment income and lower food inflation will improve discretionary spending," he added.

After net exports showed negative contribution to GDP in FY24, its contribution turned positive at 0.7 percentage points in the June quarter of FY25 due to strong export growth, including that of both goods and services.

Rajani Sinha, chief economist at CareEdge Ratings, anticipates GDP growth in FY25 to be 7 per cent, below the RBI's projection of 7.2 per cent. "In the subsequent quarters, the agricultural sector is expected to see improved growth due to a good monsoon, despite challenges pertaining to its distribution. An increase in the government's capital expenditure in the upcoming quarters and a pickup in private capex will support growth. Moreover, agricultural-sector recovery and lower inflation will boost consumption in the coming quarters," she added.