Economy unshaken by global risks: CEA

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Notwithstanding the uncertain global outlook, India's economic momentum is expected to sustain, driven by strong rural demand and a revival in urban consumption, according to Chief Economic Advisor (CEA) V Anantha Nageswaran. He also expressed optimism about India's medium-term economic prospects, citing recent income-tax cuts for the middle class.

The CEA noted that urban demand has strengthened while inflation is on a downward trend. "Inflation is stabilising, though some distortions were caused by specific items like food and gold," he said. He also emphasised that the Maha Kumbh will likely contribute to India's gross domestic product (GDP) from the expenditure side.

"Robust kharif production and better rabi sowing, along with higher reservoir levels and seasonal winter correction in vegetable prices, bode well for food inflation going forward," Nageswaran observed. He reiterated that urban demand has strengthened while inflation is trending downward. However, he pointed out that certain items, such as food and gold, had caused some distortions.

The near-term global economic outlook is shaped by the trade policies of major economies amid slowing disinflation. These policies may fuel inflation, tighten financial conditions, and increase market volatility, he said.

"Developments such as the US dollar's strength and rising Japanese interest rates could exacerbate capital outflows from emerging markets, raise risk premiums, and heighten external risks," he said. The revisions to nominal GDP growth rates are crucial as they provide perspective on tax revenue buoyancy. In previous years, tax buoyancy appeared unusually high, but these revisions suggest that the buoyancy rates were actually reasonable, according to Nageswaran.

The growth rate for 2022-23 (FY23), initially estimated at 7 per cent, has been revised to 7.6 per cent. Similarly, for 2023-24 (FY24), the Second Advance Estimate of 8.2 per cent has now been revised to 9.2 per cent. India's nominal GDP growth in 2021-22 was about 18.9 per cent, reaching nearly 20 per cent. It stood at 14 per cent in FY23, 12 per cent in FY24, and is estimated at 9.9 per cent for 2024-25 (FY25).

"The earlier GDP growth figures had underestimated actual growth, and the revisions provide a clearer picture of the correlation between GDP, tax revenues, corporate earnings, and asset market performance. Now, there is better alignment between these key economic indicators," Nageswaran added.

He said that the revised nominal GDP estimate for FY25 stands at roughly ₹331 trillion. Based on the average exchange rate of the rupee per US dollar (as of February 27), this translates into nearly $3.924 trillion, bringing India very close to the $4 trillion GDP mark. The final number will depend on exchange rate movements in the coming months.

"Regarding GDP composition, the primary sector (largely agriculture) performed well in FY25, as reflected in the Ministry of Statistics' press release. However, the slowdown in nominal GDP growth from 12 per cent in FY24 to 9.9 per cent in FY25 has primarily affected the secondary sector, while the tertiary sector (services) has held steady, even increasing its share of GDP. Growth in the secondary sector has declined sharply, while the primary sector has improved from 2.7 per cent, and the services sector has remained resilient," he said. The CEA noted that real GDP growth rebound in both the first and second quarters (Q1 and Q2) of FY25, with slight upward revisions. For the third quarter (Q3), the Ministry of Statistics estimated growth at 6.2 per cent. To achieve the projected 6.5 per cent annual growth for FY25, the fourth quarter (Q4) would need to grow at almost 7.6 per cent Y-o-Y.

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