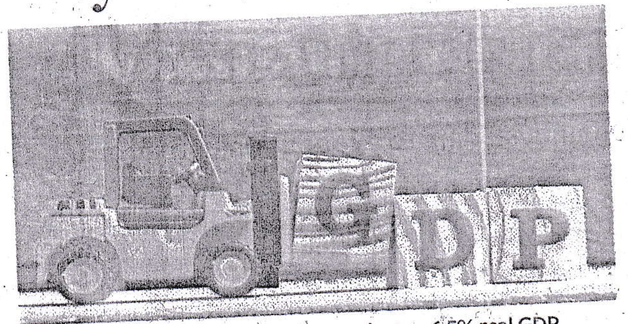
Growth likely to slow down to 6.3-6.6% in FY25

Shishir Sinha
New Delhi

The economy is expected to grow between 6.5 per cent and 6.8 per cent during 2024-25. If the growth rate estimate is close to projections, it would be the first time in four years (2021-22 to 2024-25) that it would go below 7 per cent.

The economy's growth based on changes in the Gross Domestic Product (GDP) was 8.2 per cent in 2023-24. The government will come out with the first advance estimates on Tuesday. The advance estimate is used for Budget calculations.

The first advance estimate is critical, especially after the July-September quarter shocker of 5.4 per cent. This pushed the RBI to cut its growth forecast for the current fiscal to 6.6 per cent from the earlier 7.2 per cent. Still, Finance Minister Nirmala Sitharaman has been hopeful about growth picking up. "It (Q2 growth number) is not a systemic slowdown. It is more of an absence of activity on public expenditure and capital expenditure. I expect Q3 to make up for all this. India has opportunities as much as its share of challenges. I still think India, not just this year but in the next year and the year after, will remain the fastest-growing economy," she said last month.



GLOOMY OUTLOOK. The MER projects a 6.5% real GDP growth in FY25, below the RBI's estimate, with inflation being a key factor behind the lower growth.

RURAL VS URBAN DEMAND

The recent Monthly Economic Review (MER) prepared by the Economic Affairs Department said rural demand is resilient, as highlighted by the 23.2 per cent and 9.8 per cent growth in two- and three-wheeler sales and domestic tractor sales respectively in October-November 2024. Urban demand is also picking up, with passenger vehicle sales registering y-o-y growth of 13.4 per cent in October-November 2024, and domestic air passenger traffic witnessing robust growth.

"Consequently, we expect the economy to grow at around 6.5 per cent in real terms in FY25," the MER said. This is lower than the RBI's projection. One of the key reasons for lower growth is inflation.

RBI Deputy Governor Michael Patra said in terms of demand, the main problem is investment. On the supply side, the main problem is manufacturing and the two are intertwined. In manufacturing, the biggest issue is the slump in sales growth, which reflects the impact of inflation on urban consumers. "When sales growth is down, companies do not want to invest in new assets because they see demand as moderate, and it can be met from existing capacity. Since they don't want to engage in new capacity creation, investment is down. So, the underlying slowdown in growth is because of inflation," he said.

Meanwhile, foreign firm Nomura predicted inflation to be lower but predicts growth during the current fiscal to be lower. In its outlook for 2025, Nomura's economics team predicted India's GDP growth to slow to 6 per cent in FY25 and to remain stable at 5.9 per cent in FY26. However, the team also predicted CPI inflation to decelerate to 4.9 per cent in FY25, from 5.4 per cent in FY24, and fall further to 4.3 per cent in FY26.