

Budget likely to set nominal GDP growth at 10.5%

Govt may finalise FY25 Interim Budget assumption this week

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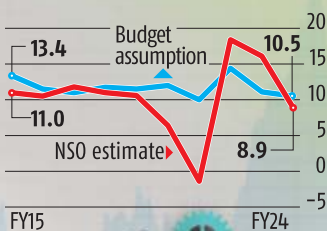
The Interim Budget for 2024-25 (FY25) to be presented on February 1 is likely to assume 10-10.5 per cent nominal gross domestic product (GDP) growth against 8.9 per cent estimated for FY24 by the National Statistical Office (NSO).

“We were waiting for the First Advance Estimates GDP numbers for FY24. We will finalise the nominal GDP growth assumption for FY25 Interim Budget in a couple of days. Back of the envelope calculation suggests nominal GDP growth could be in the range of 10-10.5 per cent for FY25,” a government official said, requesting anonymity.

Nominal GDP, calculated at current market prices, factors in the effect of inflation and is used as the base to calculate crucial macroeconomic indicators, such as fiscal deficit, revenue deficit, and the debt-to-GDP ratio.

MARK THE DIFFERENCE

Nominal GDP growth (Y-o-Y in %)



Source: Budget documents, NSO

A higher nominal GDP assumption makes it easier for the finance minister to show a narrower fiscal deficit print and vice versa. A *Business Standard* analysis shows in the past 10 years, the Budget has overestimated nominal GDP growth seven times and underestimated it only thrice. “10.5 per cent nominal GDP growth will not be ambitious for FY25 as wholesale price-index (WPI)-based inflation has turned positive, and 10.5 per cent has been the trend growth in the recent past,” said D K Joshi, chief economist at CRISIL.

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RUN-UP TO THE



INTERIM BUDGET 2024-25



hand, slipped to eighth position from seventh with a group mcap of ₹3.95 trillion, up 31.7 per cent from the ₹3 trillion a year ago.

Most of the incremental gains to the Tatas in CY23 came from a rally in Tata Motors, Trent, Tata Power, Tata Consumer and Titan Company, besides the IPO and listing of Tata Technologies, which added around ₹47,700 crore to the group mcap. In comparison, Tata Consultancy Services, the group's biggest company in market capitalisation, was a laggard with a 16.4 per cent rise.

The retail major Trent was the top performer with a 126.3 per cent rise in market capitalisation to ₹1.09 trillion at the end December 2023 from ₹48,000 crore a year ago.

It was followed by Tata Motors, whose market capitalisation (including differential voting rights) more than doubled to ₹3.12 trillion in CY23 from around ₹1.5 trillion at the end of CY22.

GDP...

Due to the cooling of international oil and commodity prices, WPI-based inflation was in deflationary territory for seven consecutive months till October 2022. In November, WPI-based inflation turned positive at 0.26 per cent, mainly due to rising vegetable prices.

Real GDP is calculated by subtracting GDP deflator from nominal GDP. The GDP deflator is a weighted average of inflation rates based on the WPI and consumer price index (CPI) with higher weight for WPI. Though CPI-based inflation remained high in FY24, lower WPI-based inflation is expected to pull

down nominal GDP growth to 8.9 per cent in FY24 from 10.5 per cent assumed in the Budget.

Madan Sabnavis, chief economist at Bank of Baroda, said he expects the nominal GDP growth for next year to be targeted at around 10 per cent. "In FY24, low deflators have caused anomalies, resulting in low growth. Normalisation and base effects would justify this number when formalizing the Budget. We expect GDP growth in real terms to be 6.75-

6.8 per cent in FY25," he said.

The International Monetary Fund in its latest Article 4 consultation report projected India's nominal GDP growth at 10.6 per cent with 6.3 per cent real GDP growth for FY25.

Aditi Nayar, chief economist at ICRA, said she expects the CPI-based inflation to moderate next year but the WPI-based inflation to revert to inflation from deflation. "This will result in a pickup in the nominal GDP growth in FY25 to 9.5 per cent," she said.

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