FinMin stands by 6.5% GDP growth estimate for FY24

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Holding that economic activities in July-September (Q2) are shaping up well, the finance ministry has kept its estimate for the country's real gross domestic product (GDP) growth in 2023-24 (FY24) unchanged at 6.5 per cent.

However, it has cautioned that the monsoon deficit in August could affect both kharif and rabi crops and said rising crude oil prices needed to be watched.

In its Monthly Economic Review, the finance ministry said the risks were offset by bright spots in corporate profitability, private-sector capital formation, bank credit growth, and activities in the construction sector.

"India's economic outlook for FY24 remains bright. Economic activity maintained its momentum. HFIs (high-frequency indicators) suggest that the second quarter of FY24 is shaping up well too. In sum, we remain comfortable with our 6.5 per cent real GDP growth estimate for FY24 with symmetric risks," the review said.

After robust 7.8 per cent growth in the April-June quarter (Q1), many economic forecasters have upped their growth projections for the Indian economy to about 6.5 per cent.

The review notes strong domestic demand for consumption and investment drove up the GDP growth rate in the June quarter. "A steady decline in the urban unemployment rate has contributed to keeping private consumption strong in the economy. As strengthening consumption led to a rise in demand for goods and services, both the manufacturing and the services sectors saw robust output and value-added growth in Q1 of FY24."

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THE OUTLOOK

Key risks: Monsoon deficit in August, climbing crude oil prices, and stock market correction

Bright spots: Corporate profitability, private sector capital formation, bank credit growth, and activity in the construction sector

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The review said the monsoon deficit of August had been partially made good in September and the prices of some food items that drove the inflation rate above 7 per cent in July were easing.

Advance tax payments for Q2 confirm that the private sector is in good health, and investing, the finance ministry said. The restructuring of the balance sheet has placed the companies in a sound position to expand their investment and become more resilient to economic shocks, the review said. "The healthy performance of the corporate sector has vindicated investors and strengthened their confidence in the Indian growth story."

A stock market correction, in the wake of an overdue global stock market correction, is an ever present risk, the ministry said.

"The recent run-up in oil prices is an emerging concern. But no alarms yet. The US 10-year bond yield has crossed 4.3 per cent, and the S&P 500 index is not too far from its all-time high," the monthly review added.

The ministry is confident that the impact of these developments on underlying economic activity in India will be relatively contained.

As regards the banking sector, the report said a variety of indicators — declining non-performing assets, improving capital-to-risk weighted-asset ratio, rising return on asset and return on equity — suggested increasing resilience of the sector. "As of March 2023, data for non-banking financial companies indicated improvements in their profitability and risk-taking behaviour. Further, according to the Reserve Bank of India's July 2023 estimates, there has been consistent and broad-based growth in the non-food bank credit of scheduled commercial banks since April 2022," it added.

Govt hints at breather; no date for curbs

The government has said the "import management system" will have enough wiggle room to review the norms in case there is a sudden supply-chain disruption or there is a high and unanticipated requirement of these products.

Secondly, the government has made it clear that it is looking at companies to diversify their imports of these products from various regions and states rather than risk domination by one country.

Stakeholders say that the next step is to work on the details of what information companies will have to provide for registration.

The ministry said the DGFT website will be available for players to test out soon.

Many IT hardware players, however, say they might be in different phases of domestic production. Therefore, their ability to assemble locally is different and this should be considered while formulating the 'import management system'.

These players argue that, under the 2.0 PLI for IT hardware (in which over 48 companies have shown an interest), they can choose the first year of the scheme either in FY24 or even FY25.

The government has reassured individual companies who face any issue because of this factor that