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DECELERATING FY25 GDP GROWTH CAUSES CONCERN

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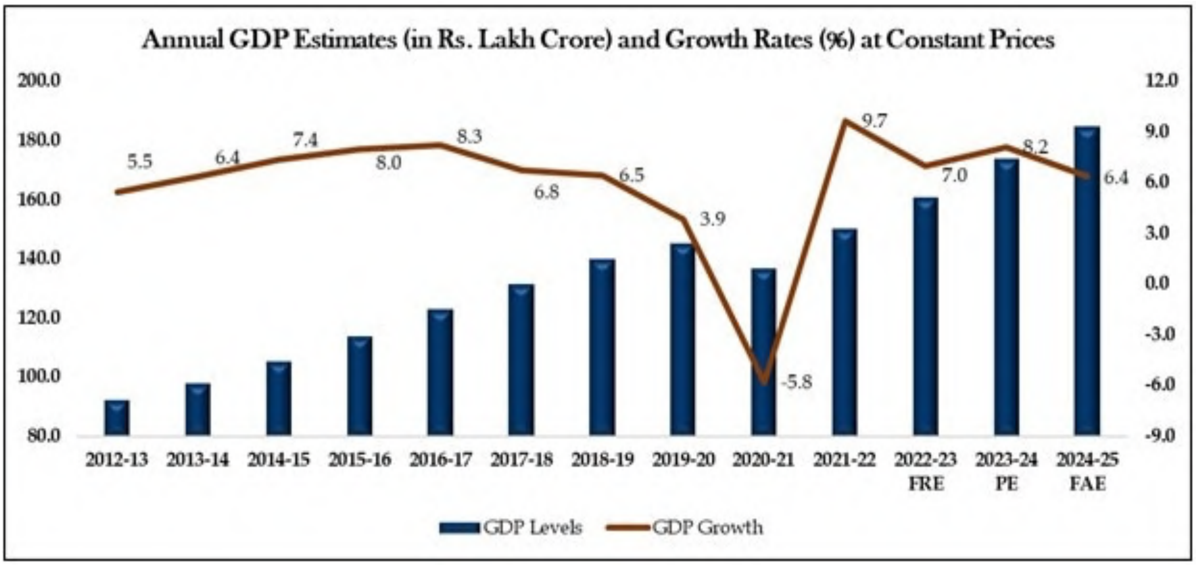
In conformity with our 6.5 per cent real gross domestic product (GDP) growth expectation, India's GDP is expected to grow by 6.4 per cent in FY 25 over 7.2 per cent growth in FY 24. The Ministry of Statistics and Programme Implementation (MoSPI) said in its official release "*Real GDP has been estimated to grow by 6.4 per cent in FY 2024-25 as compared to the growth rate of 8.2 per cent in Provisional Estimate (PE) of GDP for FY 2023-24. Nominal GDP has witnessed a growth rate of 9.7 per cent in FY 2024-25 over the growth rate of 9.6 per cent in FY 2023-24*".

This slowest growth rate since the pandemic manifests moderation across key sectors and occurred in the wake of higher interest rates amid elevated inflation, particularly of food commodities. This deceleration marked a significant decline from 8.2 per cent growth in FY24. Incidentally, the RBI had lowered its growth projection for the current financial year to 6.6 per cent from 7.2 per cent in its December 2024 Policy. The RBI has kept the repo rate steady for nearly 18 months after raising it by 250 basis points to 6.5 per cent between May 2022 and February 2023.

While agriculture is set to perceptibly rise by 3.8 per cent (1.4 per cent last year), most sectors face lower growth. Mining is projected to slow to 2.9 per cent from 7.1 per cent, while manufacturing growth is forecast at 5.3 per cent, down from 9.9 per cent.

Electricity growth is estimated at 6.8 per cent, lower than last year's 7.5 per cent, and construction is expected to grow at 8.6 per cent, down from 9.9 per cent.

The top three contributors to GDP — manufacturing, trade & hotels, and financial services & real estate — are also estimated to slow in FY25, while public administration is expected to rise. Urban consumption has been hit because of the ravages of sticky inflation eroding the purchasing power of the urban poor. There were also factors, such as, rising economic uncertainties, the base effect, and heightened geopolitical risks driving down the growth rate. This can be substantiated by the fact that the IMF's *World Economic Outlook* (October 22, 2024) reported stable still, underwhelming global growth, with the balance of risks tilted to the downside due to geopolitics, the potential for disruptive policy changes, financial market vulnerabilities, and a widening chasm between geographies and economies.



Nominal GDP is expected to growth by 9.7 per cent in 2024-25 over 9.6 per cent growth in 2023-24.

In terms of expenditure patterns, Private Final Consumption Expenditure (PFCE) at constant prices experienced a growth of 7.3 per cent in FY25, a significant increase compared to the 4 per cent growth in the previous year. PFCE is a key indicator of domestic consumption, reflecting the spending behavior of households, and this growth highlights an improvement in consumer confidence, spending power, and overall economic recovery.

Similarly, government final consumption expenditure (GFCE), which refers to government spending on goods and services, has rebounded strongly with a growth rate of 4.1 per cent in FY25, up from 2.5 per cent in the previous financial year. Decelerating GDP growth together with persistent inflation would make the RBI's task of adroitly managing the growth-inflation trade-off odious.