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GDP expectations for FY25

According to the recently released estimates, the NSO has pegged the economy to clock a growth of 7.6% in FY24. Given the strong macro-economic fundamentals, consumption and investment are expected to maintain if not drive growth higher in FY25. With gradual improvement in global economic outlook, exports are expected to register stronger growth. GVA growth is expected at 7.2% form 6.7% in FY24 led by broad based improvement across sectors. Revival in agriculture sector on the back of normal monsoon is an assumption here. Based on the above, we expect the Indian economy to clock a growth rate of 7.8% in FY25.

FY25 GDP estimation

GDP growth at 7.8% in FY25, is marginally higher than the estimated increase of 7.6% in FY24 on a YoY basis. The main driving factors would be:

- Private consumption is likely to register stronger growth of 6.5% in FY25 compared with 3% in FY24. This is based on the pickup in consumption demand especially FMCG goods. In the coming year, inflation is expected to moderate and will provide support to consumption. It is also projected that in addition to the FMCG sector, automobiles will also record higher growth with record number of sales across segments including passenger cars. Lower input cost, absence of supply bottlenecks and moderation in commodity prices will make it attractive for consumers and could push up the demand for entry-level cars. The foray of electric vehicles is also expected to add to the strength of this sector.

- Government consumption will register growth at 6.6% for the same period.

- Gross fixed capital formation (GFCF) is to grow by 9.3% in FY25. In addition to the continued growth in government capex, a pickup in private capex is expected that will be broader based. This will result more in in the second half of the year as higher consumption leads to improvement in capacity utilization.

- Global economic outlook is looking up gradually as has been evident from the recent projection by IMF which expects global growth at 3.2% in CY25 (3.1% in CY24). This goes along with easing of inflation. Lowering of policy rates by global central banks will provide further impetus to growth story. Against this, exports will register improvement even as there is some uncertainty related to Middle East.

GVA to swing higher in FY25

GVA growth is expected to climb up by 7.2% in FY25 after registering an increase of 6.9% in FY24. This is attributable to broad based improvement across sectors.

- Led by base effect and likelihood of a normal monsoon, agriculture sector is expected to rebound and register a growth of 4% compared with a growth of 0.7% in FY24. The recent forecast of NOAA (National Oceanic and Atmospheric Administration) has pinned that the current EL Nino conditions are weakening, with a 79% forecast of El Nino occurring in Apr-Jun'24 and the odds are increasing (55% chance) of La Nina in Jun-Aug'24. The South West Monsoon in India lasts from Jun-Sep period and it is also the season for Kharif sowing. Hence, this a big positive for the agriculture sector.

- Industrial sector is seen to be grown at a much steady pace, lifted by growth in mining (7%), manufacturing (8.3%) and electricity sector (7.3%) in FY25. The Budget has recently hiked the allocation in the manufacturing sector for FY25 which could further reinforce the domestic manufacturing recovery.
- Supported by spurt in housing demand and construction of roads, the construction sector will continue to register higher growth in FY25. Moreover, lowering of rates in the latter half of FY25 would also help the process.
- Likewise, services sector will continue to grow at a solid pace. Led by strong credit growth, financial services sector will continue to advance in FY25. Trade, hotels and transport sector as well as public admin is expected to register an improvement at 7.3% and 7.2% respectively in FY25.

Table 1: GDP to soar by 7.8% in FY25

Sectors	FY24 (%)	FY25 (%)
Agriculture, forestry and fishing	0.7	4.0
Mining and quarrying	8.1	7.0
Manufacturing	8.5	8.3
Electricity, gas, water supply and other utility services	7.5	7.6
Construction	10.7	8.3
Trade, hotels, transport, communication & services related to broadcasting	6.5	7.3
Financial, real estate & professional services	8.2	7.8
Public administration and Defence	7.7	7.5
GVA at basic prices	6.9	7.2
GDP	7.6	7.8

Source: CEIC, Bank of Baroda Research

Table 2: Consumption sector to shine

Sectors (%)	FY25 (%)
PFCE	6.5
GFCE	6.6
GFCF	9.3
GDP	7.8

Source: CEIC, Bank of Baroda Research

What could be the roadblocks?

1. Monsoon turns out to be less satisfactory which will affect output as well as rural demand.
2. Inflation continues to be high and the 4.5% expected average number does not fructify. This will impact demand.
3. If (1) and (2) happen, then overall consumption will be impacted which will have a negative impact on private investment.
4. Government tax collections do not show equivalent level of buoyancy in FY25 as in FY24.
5. Subsidy bill crosses the budgeted amounts. (4) and (5) will impact the growth of net indirect taxes.

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