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Jahnavi Prabhakar
Economist

GDP expectations for FY25

According to the recently released estimates, the Q2FY25 GDP growth has been at a 7-quarter low on the back of softness in manufacturing sector. Excessive rains which were not spatially distributed adversely impacted growth across the industry sectors, with tepid growth in mining, electricity, manufacturing and construction growth. However, a strong bounce back is expected in H2 driven by government spending, pick up in capex, strong investment and revival in consumption demand-both urban and rural. Agriculture growth expected to clock robust growth in the same period. The evolving global growth dynamics and any impact on global trade due to tariff imposition by US remains a downside risk to the projections. Based on the above, we expect the Indian economy to clock a growth rate of 6.6-6.8% in FY25.

FY25 GDP estimation

GDP growth is pegged at 6.6-6.8% in FY25 compared with 8.2% growth in FY24. A major rebound is expected in H2 supported by pick up in government spending, revival in investment and strong consumption demand. The main driving factors and risk associated with these estimates include the following:

Table 1: Factors driving the growth in FY25

Sectors (%)	Q2FY24	Q2FY25	Driving Factors	Risk Factors
Agriculture, forestry and fishing	1.7	3.5	▪ Favourable Monsoon ▪ Higher reservoir level ▪ Healthy Rabi sowing, also good for rural demand ▪ Higher farm income ▪ 57% chance of La Nina in Oct-Dec and persist through Jan-Mar: Milder winter (NOAA)	▪ Adverse weather conditions ▪ Extreme Cold climate will have significant bearing on crops
Mining and quarrying	1.1	(0.1)	▪ Recovery in corporate profit margin ▪ Revival in investment demand ▪ Crude oil prices are lower ▪ Pick up in private capex ▪ Higher capacity utilization	▪ Uncertainty due to ongoing conflict in Middle East ▪ Impact on global trade due to tariff imposition and growing US-Sino tensions ▪ Challenges in supply chain logistics and global commodity price movement
Manufacturing	14.3	2.2		
Electricity, gas, water supply and other utility services	10.5	3.3		
Construction	13.6	7.7	▪ Spurt in housing demand ▪ Construction of roads	▪ Extreme weather conditions, smog
Trade, hotels, transport, communication & services related to broadcasting	4.5	6.0	▪ Boost to urban consumption ▪ Higher spending during festival season ▪ Upcoming wedding season ▪ Rural spending up	▪ Elevated inflation
Financial, real estate & professional services	6.2	6.7	▪ Pick up likely in credit growth ▪ Government spending pushes up liquidity and deposits	▪ Slow credit and deposit growth. ▪ Tightening of liquidity conditions ▪ Weaker currency
Public administration and Defence	7.7	9.2	▪ Pick up in government spending in the coming 5-months	▪ Capex of around 60% of BE is a high target to be met between Nov-Mar.

			- Slow movement in state capex - Low Buoyancy in tax collections
GVA at basic prices	7.7	5.6	
GDP	8.1	5.4	

Source: CEIC, Bank of Baroda Research

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For further details about this publication, please contact:

Economics Research Department
Bank of Baroda
chief.economist@bankofbaroda.com