ICRA

ECONOMIC OUTLOOK AND MACRO TRENDS

India’s GDP growth set to ease to 6.5% in Q2 FY2025, doused by excess rains and weak margins; outlook for H2 FY2025 appears relatively bright

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Abbreviations

AE: Advance Estimates
ATF: Aviation Turbine Fuel
AUM: Assets under Management
BAI: Business Assessment Index
BoP: Balance of Payments
CAD: Current Account Deficit
CCS: Consumer Confidence Survey
CGA: Controller General of Accounts
CGST: Central Goods and Services Tax
CIL: Coal India Limited
CNY: Chinese Yuan
CP: Commercial Paper
CPD: Cut and Polished Diamond
CPI: Consumer Price Index
CSI: Current Situation Index
CTD: Central Tax Devolution
CV: Commercial Vehicle
DAP: Diammonium phosphate
DBT: Direct Benefit Transfer
DBTL: Direct Benefit Transfer for LPG subsidy
DIPAM: Department of Investment and Public Asset Management
ECB: External Commercial Borrowing
FAO: Food and Agriculture Organization
FCI: Food Corporation of India
FCNR: Foreign Currency Non-Resident
FDI: Foreign Direct Investment
FPI: Foreign Portfolio Investors
FMCG: Fast Moving Consumer Goods
FRL: Full Reservoir Level
FRP: Financial, Real Estate and Professional Services
GBI-EM: Government Bond Index-Emerging Market
GCC: Global Capability Centre
GDP: Gross Domestic Product
GFCE: Government Final Consumption Expenditure
GFCF: Gross Fixed Capital Formation
G-Sec: Government Securities
GoI: Government of India
GVA: Gross Value Added
HFC: Housing Finance Companies
HSD: High Speed Diesel
IGST: Integrated Goods and Services Tax
IIP: Index of Industrial Production
IMD: Indian Meteorological Department
IMF: International Monetary Fund
IOS: Industrial Outlook Survey
IPO: Initial Public Offering
JPC: Joint Plant Committee
LAF: Liquidity Adjustment Facility
LFPR: Labor Force Participation Rate
LPA: Long Period Average
LPG: Liquefied Petroleum Gas
MFI: Microfinance institutions
MGNREGS: Mahatma Gandhi National Rural Employment Guarantee Scheme
MICE: Meetings, Incentives, Conferences, Exhibitions
MIS: Monthly Income Scheme
MoRTH: Ministry of Road Transport and Highways
MoSPI: Ministry of Statistics and Program Implementation
MPC: Monetary Policy Committee
MSF: Marginal Standing Facility
MSME: Micro, Small and Medium Enterprises
MSP: Minimum Support Price
NBFC: Non-Banking Finance Companies
NBS: Nutrient Based Subsidy
NFSA: National food Security Act
NR(E)RA: Non-Resident (External) Rupee Account
NRI: Non-Resident Indians
NRO: Non-Resident Ordinary
NSO: National Statistical Office
PIT: Personal Income Tax
PPF: Public Provident Fund
OEM: Original Equipment Manufacturer
OPEC: Organization of Petroleum Exporting Countries
PA: Provisional Actuals
PADOS: Public Administration, Defence and Other Services
PFCE: Private Final Consumption Expenditure
PLI: Production Linked Incentive
PPF: Public Provident Fund
POL: Petroleum Oil and Lubricants
RDB: Rupee Denominated Bonds
RE: Revised Estimates
REER: Real Effective Exchange Rate
SCSS: Senior Citizen Savings Scheme
SDF: Standing Deposit Facility
SDG: Sustainable Development Goal
SDR: Special Drawing Rights
SIOS: Services and Infrastructure Outlook Survey
SME: Small and Medium-Sized Enterprises
SSAC: Sukanya Samriddhi Account Scheme
TDPS: Targeted Public Distribution System
THTCS: Trade, Hotels, Transport, Communication and Services related to broadcasting
TEU: Twenty-foot equivalent units
TTM: Trailing Twelve Months
VRR: Voluntary Retention Route
WMA: Ways and Means Advances
WPI: Wholesale Price Index
WPR: Worker Population Ratio
WTO: World Trade Organisation

OVERVIEW

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ICRA expects India's GDP growth to ease to 6.5% in Q2 FY2025 from 6.7% in Q1 FY2025, doused by excess rains and weak margins.

The outlook for H2 FY2025 appears healthy, with upbeat early estimates for kharif output to support rural consumption and a back-ended surge in Government's capex amid the large headroom available as per the budget.

However, slowing personal loan growth and potential fallout of geopolitical developments and tariff decisions on exports act as headwinds, and require monitoring.

ICRA continues to foresee the GDP and GVA expansion at 7.0% and 6.8%, respectively, in FY2025.

India's GDP and GVA growth is anticipated to dip to 6.5% and 6.6%, respectively, in Q2 FY2025 from 6.7% and 6.8%, respectively, in Q1 FY2025, with bountiful rains and weak margins offsetting the buoyancy injected by the turnaround in the Government's capital expenditure and healthy trends in kharif sowing. Several sectors faced headwinds on account of excess rainfall, that affected mining activity, electricity demand and retail footfalls, and the contraction in merchandise exports in Q2 FY2025. However, the outlook for H2 FY2025 is buoyant, with a likely improvement in rural demand owing to the robust kharif output and upbeat outlook for rabi crops amid replenished reservoir levels, as well as expectations of a back-ended pick up in GoI's capital spending amid the significant headroom to meet the budgeted target for FY2025. While economic activity displayed a strong growth in October 2024, boosted by the festive demand, ICRA remains watchful of the impact of a slowdown in personal loan growth on private consumption as well as geopolitical developments on commodity prices and external demand. On balance, ICRA expects the back-ended pick up in economic activity to boost the GDP and GVA growth in H2 FY2025, resulting in a full-year expansion of 7.0% and 6.8%, respectively. The CPI inflation is projected to ease to 4.7% in FY2025 from 5.4% in FY2024, albeit higher than the MPC's forecast of 4.5% for the fiscal. Besides, we foresee that the Committee will raise its H2 inflation forecasts after the higher-than-expected print for October 2024. This leads us to believe that the MPC is unlikely to vote for a rate cut in the December 2024 policy. We foresee the shallow rate cut cycle of 50 bps to commence in the February 2025 policy or later. While the fiscal deficit is expected to print in line with or trail the FY2025 RBE of 4.9% of GDP, amid a miss on capex target, India's CAD-to-GDP ratio is likely to rise to 1.0% in FY2025 from 0.7% in FY2024, albeit remaining manageable.

Macroeconomic Variables	FY2024	FY2025 ICRA Projections
GDP Growth (in real terms)	+8.2%	+7.0%
GVA Growth (in real terms)	+7.2%	+6.8%
CPI Inflation (average)	+5.4%	+4.7%
WPI Inflation (average)	-0.7%	+2.5%
Current Account Balance	Deficit of $26.0 billion; -0.7% of GDP	Deficit of $39-42 billion; -1.0% of GDP
GoI's Fiscal Deficit	Rs. 16.5 trillion (5.6% of GDP)	To print in line with or mildly undershoot the BE of Rs. 16.1 trillion (4.9% of GDP)
G-sec Yields	10-year G-sec yield (6.79% GS 2034) to range between 6.75-6.90% in the near term	
Repo Rate	Shallow rate cut cycle of 50 bps likely to commence in February 2025 or later	
INR	INR to trade between 84.0/$ and 85.0/$ in the near term	

EXECUTIVE SUMMARY

India's GDP and GVA growth to moderate to 6.5% and 6.6%, respectively, in Q2 FY2025

- Q2 FY2025 saw tailwinds in terms of a pick-up in capex after the Parliamentary Elections as well as healthy expansion in sowing of major kharif crops. However, this was partly offset by the impact of heavy rainfall on mining activity, electricity demand and retail footfalls, as well as the contraction in merchandise exports in that quarter. Moreover, margins appear to have weakened for corporates across a number of sectors.
- Overall, ICRA projects a slight dip in the GVA and GDP growth in Q2 FY2025 to 6.6% and 6.5%, respectively from 6.8% and 6.7%, respectively, in Q1 FY2025. The wedge between the growth in GDP and GVA will remain negative for the second consecutive quarter.

Back-ended pick up in economic activity to boost GDP and GVA growth in H2 FY2025

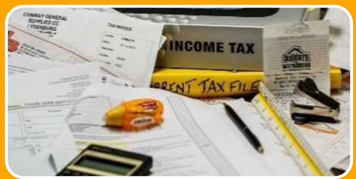
- The benefits of a healthy monsoon, upbeat kharif output and replenished reservoirs are likely to lead to an improvement in rural sentiment in H2 FY2025. In addition, there is substantial headroom for the GoI's capex, which needs to expand by ~52% YoY in H2 FY2025 to meet the FY2025 BE.
- However, we remain watchful of the impact of a slowdown in personal loan growth on private consumption as well as geopolitical developments and tariff considerations on commodity prices and external demand. Overall, ICRA expects the GDP and GVA growth to pick up in H2 FY2025, resulting in an expansion of 7.0% and 6.8%, respectively, in FY2025.

CPI inflation print for Q3 FY2025 to exceed MPC's estimate; Committee unlikely to cut rates before Q4 FY2025

- Given the October 2024 print (+6.2%) and ICRA's estimates for November 2024 (5.5-5.7%), the CPI inflation is set to exceed the MPC's estimate for Q3 FY2025 by at least 60-70 bps. Overall, we project the CPI inflation to average at 4.7% in FY2025.
- With the Q3 FY2025 CPI inflation print expected to overshoot the MPC's projection, the Committee is likely to remain vigilant and keep the repo rate unchanged at 6.50% in the December 2024 policy, even as the Q2 FY2025 GDP growth may undershoot the MPC's forecast of 7.0%. ICRA believes that the rate cut cycle is likely to be fairly shallow, limited to 50 bps, which is expected to commence in February 2025 or later.

CAD to remain manageable at 1.0% of GDP in FY2025, with mild upside risks stemming from volatility in crude oil prices

- India's merchandise imports (5-7%) are expected to grow at a sharper pace than such exports (1-3%) in FY2025, amid expectations of a relatively healthier domestic demand vis-a-vis external demand, leading to a widening in merchandise trade deficit. Consequently, the CAD is projected to rise to $39-42 billion (-1.0% of GDP) in FY2025 from $26.0 billion (-0.7% of GDP) in FY2024, while remaining manageable as a proportion of GDP.
- While a sharp rise in oil prices in the remaining part of the fiscal would pose an upside risk to ICRA's CAD forecast for FY2025, this is unlikely to be material. ICRA expects the INR to range between 84.0-85.0/$ in the near term.



GoI's fiscal deficit unlikely to surpass the FY2025 target of Rs. 16.1 trillion or 4.9% of GDP

- The GoI's fiscal deficit declined sharply to Rs. 4.7 trillion in H1 FY2025 from Rs. 7.0 trillion in H1 FY2024, owing to the rise in revenue receipts on account of the record RBI dividend pay-out and robust growth in personal income tax collections, along with a compression in capital spending.
- While the GoI's gross tax revenues are expected to surpass the FY2025 BE, disinvestment proceeds are likely to undershoot the full-year target. However, this will be offset by the miss in the capex target by atleast Rs. 0.7 trillion in FY2025. Accordingly, ICRA expects the fiscal deficit to print in line with or undershoot the FY2025 RBE of Rs. 16.1 trillion or 4.9% of GDP, at the current juncture.

ICRA

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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