ICRA

Gross Domestic Product

GDP growth moderated to 6.7% in Q1 FY2025; projected at 7.0% in FY2025, amid tailwinds in H2

AUGUST 2024

Highlights

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YoY GDP growth eased sharply to 6.7% in Q1 FY2025 from 7.8% in Q4, while GVA growth displayed a surprising uptick

Construction, PADOS and agri growth in Q1 FY2025 came in higher than our forecast

ICRA raises forecasts for GDP/GVA growth by 20 bps each to 7.0%/6.7% for FY2025; this entails a print above 7% in H2 on the back of Government capex and pent-up rural demand during festive season

India's year-on-year (YoY) GDP growth expectedly moderated to a five-quarter low of 6.7% in Q1 FY2025 from 7.8% in Q4 FY2024, while the growth in GVA surprisingly accelerated, on the back of better-than-expected prints for construction, public administration, defence, and other services (PADOS), and agriculture segments. The divergent trend between GDP and GVA growth was driven by a normalisation in net indirect tax growth. ICRA expects the GDP growth to rise above the 7% mark in H2 FY2025, on the back of a strong growth in Government capex and pent-up rural demand during the festive season. Overall, ICRA projects GDP/GVA growth at 7.0%/6.7% in FY2025, 20 bps higher than our earlier forecast, after the better-than-expected Q1 data (ICRA's exp: GVA: +5.7%, GDP: +6.0%).

- **GDP growth decelerated to 6.7% YoY in Q1 FY2025:** India's GDP growth expectedly slowed down in Q1 FY2025 relative to Q4 FY2024 (to a five-quarter low of +6.7% from +7.8%), even as the GVA growth surprisingly accelerated between these quarters (to +6.8% from +6.3%). This divergent trend was led by the normalisation of the growth in net indirect taxes (to +4.1% from +22.2%), and the dip in GDP growth is not a cause for alarm, in ICRA's view.
- **Construction, PADOS and agri growth surprised on higher side in Q1 FY2025:** The higher-than-expected growth in the GVA in Q1 FY2025, and the acceleration in the same vis-à-vis Q4 FY2024 was led by construction (to +10.5% in Q1 FY2025 from +8.7% in Q4 FY2024 despite slower growth in cement output, and the steep decline in Government capex), PADOS (to +9.5% from +7.8%), and agriculture (to +2.0% from +0.6%) segments.
- **PFCE and GFCF growth surprisingly picked up, while net exports exerted a drag on GDP growth:** The net exports have exerted a drag of 4.7% of GDP in Q1 FY2025, while Government final consumption expenditure (GFCE) slipped into a contraction of 0.2% (+0.9% in Q4). The accelerated growth in private final consumption expenditure (PFCE: to +7.4% from +4.0%) in Q1 FY2025 and gross fixed capital formation (GFCF; to +7.5% from +6.5%) is at odds with the high frequency data such as sales of passenger vehicles, hotel occupancy, and the Government and private capex.
- **GDP growth forecast at 7.0% in FY2025, with above 7% print for H2:** The GDP growth is expected to exceed 7% in H2 FY2025, on the back of pick up in Government capex and a pent-up demand from the rural economy during the festive months. After the higher-than-expected Q1 data (ICRA's exp: GVA: +5.7%, GDP: +6.0%), ICRA now forecasts the GDP and GVA growth for FY2025 at 7.0% and 6.7%, respectively, 20 bps higher than our earlier forecast.

Agenda

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1 Quarterly Analysis: Production Approach

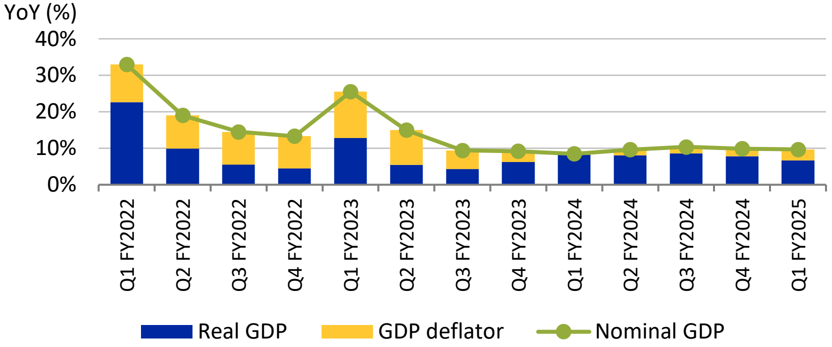
2 Quarterly Analysis: Expenditure Approach

3 Outlook

4 Annexure

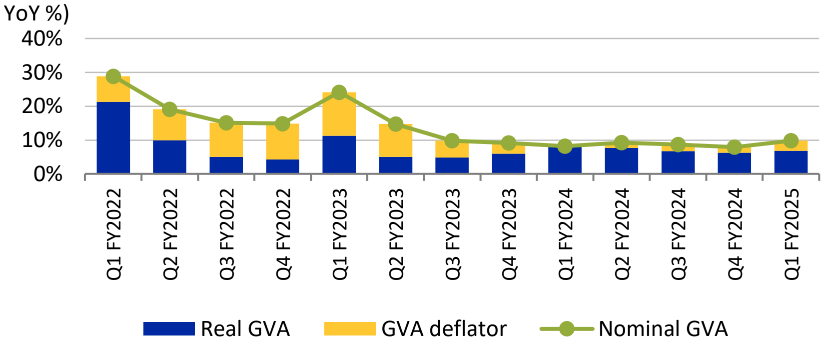
While YoY GDP growth expectedly slowed down in Q1 FY2025, vis-à-vis Q4 FY2024, that for GVA recorded a surprising uptick

EXHIBIT: Quarterly trends in real and nominal GDP, and deflator



Source: NSO; CEIC; ICRA Research

EXHIBIT: Quarterly trends in real and nominal GVA, and deflator

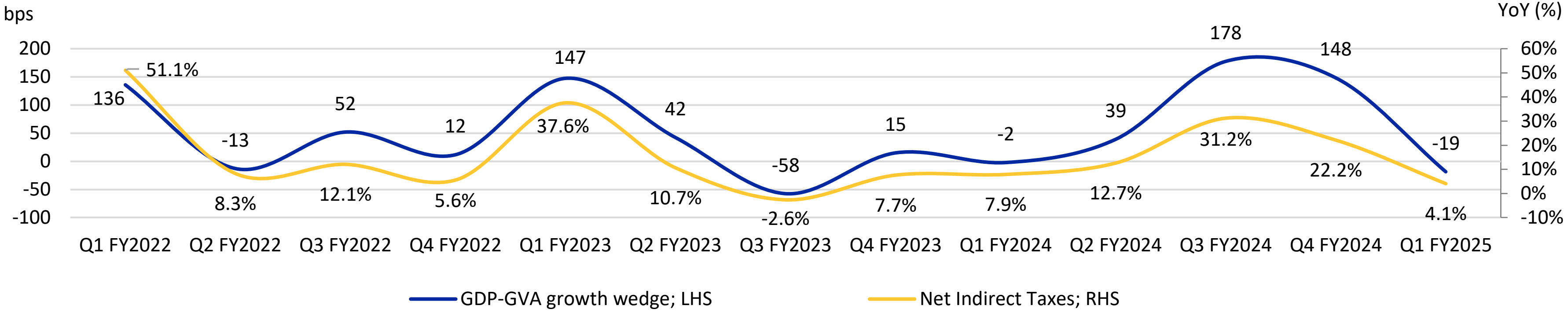


Source: NSO; CEIC; ICRA Research

- As per the data released by the NSO, India's GDP growth expectedly weakened to a five-quarter low of 6.7% in Q1 FY2025 from 7.8% in Q4 FY2024, even as the GVA growth surprisingly saw an acceleration (to +6.8% from +6.3%). However, both exceeded ICRA's expectations (GDP/GVA: +6.0%/+5.7%) for that quarter.
- The higher-than-expected GVA growth in Q1 FY2025, as well as the acceleration in the same vis-à-vis Q4 FY2024 was largely led by the surprising uptick in construction, PADOS, and agriculture, forestry and fishing segments. Additionally, on the expenditure side, the improvement in PFCE in Q1 FY2025, relative to Q4 FY2024 was also unexpected given the moderation in urban consumer sentiments and the impact of heatwave in parts of Q1 FY2025 which affected footfalls in certain retail-focused sectors such as sales of passenger vehicles, hotel occupancy rates, etc.
- In nominal terms, the YoY GDP growth dipped to 9.7% in Q1 FY2025 from 9.9% in Q4 FY2024, while the GVA growth rose to 9.8% from 8.0%, respectively. Moreover, the GDP and GVA deflator widened to 3.0% each in Q1 FY2025 from 2.1% and 1.7%, respectively, in Q4 FY2024, amid a sharp rise in the WPI inflation (to +2.4% in Q1 FY2025 from +0.3% in Q4 FY2024), even as the CPI inflation (to +4.9% from +5.0%) softened marginally between these quarters.

Wedge between GDP and GVA growth narrowed sharply in Q1 FY2025, amid normalisation of growth in net indirect taxes

EXHIBIT: Quarterly trends in wedge between GDP and GVA growth and growth in net indirect taxes (in real terms)



Net indirect taxes = taxes – subsidies; major subsidies includes food, fertilisers and petroleum; Source: NSO; CEIC; ICRA Research

- The wedge between the GDP and GVA YoY growth narrowed sharply to a six-quarter low of (-) 19 bps in Q1 FY2025 from 178 bps in Q3 FY2024 and 148 bps in Q4 FY2024, with the growth in GVA marginally exceeding that for GDP after a gap of three quarters.
- This was driven by the lower expansion in net indirect taxes (to a six-quarter low +4.1% in Q1 FY2025 from +22.2% in Q4 FY2024), based on the growth seen in the GoI's indirect taxes (to +7.9% in Q1 FY2025 from +19.5% in Q4 FY2024) and subsidy outgo (to +3.6% from -24.2%), as per the provisional data released by the Controller General of Accounts (CGA).

Quarterly Analysis: Production Approach

The improvement in GVA growth in Q1 FY2025, relative to Q4 FY2024 was largely driven by uptick in agriculture and services sectors; industrial GVA growth eased slightly

While GVA growth of industry eased marginally, that for the services and agri segments improved in Q1 FY2025 vis-à-vis Q4 FY2024

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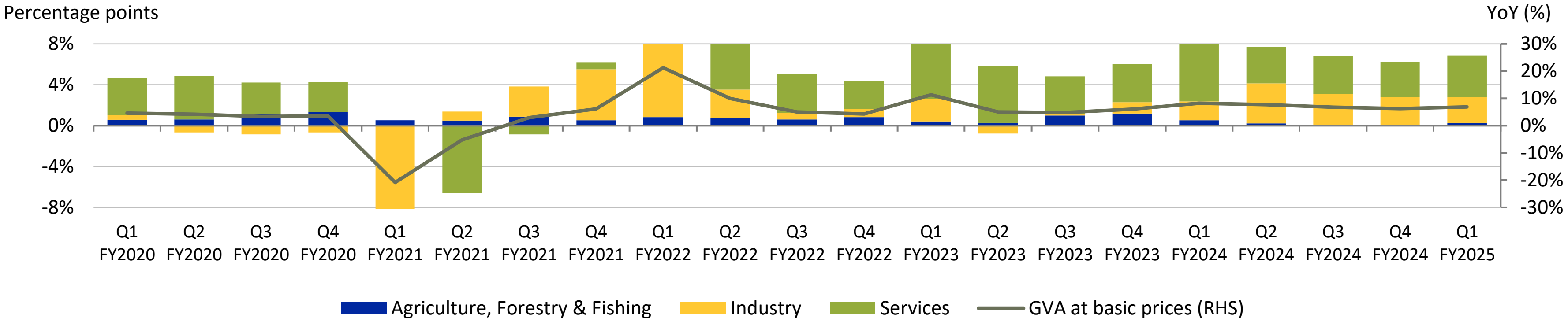
EXHIBIT: Contribution of GVA components

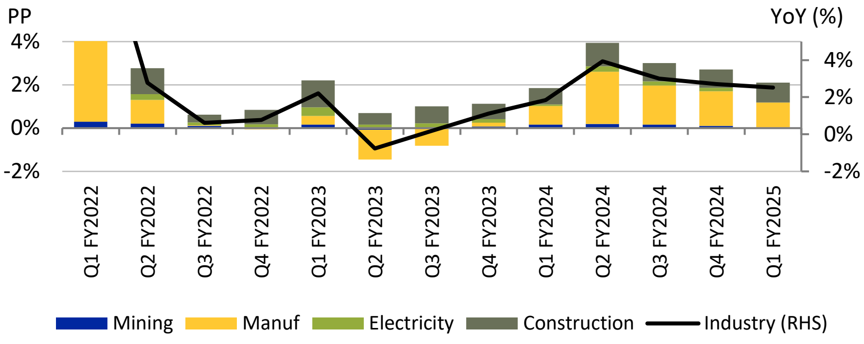


Source: NSO; CEIC; ICRA Research

- Contrary to ICRA's expectations (+5.7%), the YoY growth in GVA at basic prices accelerated to 6.8% in Q1 FY2025 from 6.3% in Q4 FY2024. While the YoY GVA expansion for industry (to +8.3% in Q1 FY2025 from +8.4% in Q4 FY2024) weakened marginally, that for services (to +7.2% from +6.7%) and agriculture, forestry and fishing (to +2.0% from +0.6%) improved to a four-quarter high each in Q1 FY2025, relative to Q4 FY2024.
- In terms of contribution, services accounted for 4.0 percentage points (pp) of the 6.8% GVA growth in Q1 FY2025, followed by 2.5 pp stemming from industry, while agriculture, forestry and fishing contributed a muted 0.3 pp to the GVA growth.
- Excluding agriculture, the GVA growth stood at a higher 7.6% in Q1 FY2025, while also exceeding the 7.3% growth seen in Q4 FY2024.

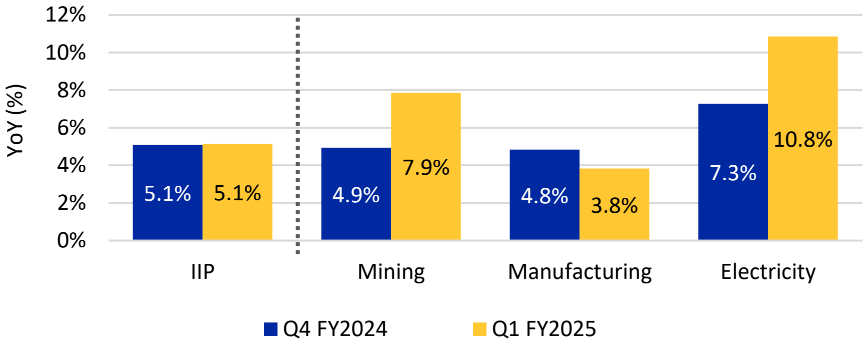
Industrial GVA growth eased to 8.3% in Q1 FY2025, even as the extent of moderation was limited by the surprising uptick in construction GVA

EXHIBIT: Contribution of components of Industry



Mining: Mining & Quarrying; Manuf: Manufacturing; Electricity: Electricity, gas , water supply & other utility services; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of the IIP and its components



Source: NSO; CEIC; ICRA Research

- The industrial GVA growth moderated to a four-quarter low of 8.3% in Q1 FY2025 (+6.0% in Q1 FY2024) from 8.4% in Q4 FY2024 (+3.4% in Q4 FY2023), partly owing to the dissipation of a favourable base, even as the industrial volume growth remained steady at 5.1% in Q1 FY2025, in line with Q4 FY2024 (as per the IIP data).
- The moderation in the industrial GVA growth was entirely driven by the expected deterioration in the manufacturing sector (to a four-quarter low +7.0% from +8.9%) in Q1 FY2025, vis-à-vis Q4 FY2024, owing to the impact of higher global commodity prices on the profit margins of this sector, as well as the slower growth in volumes.
- However, the extent of moderation in the industrial GVA growth in Q1 FY2025 was limited by the unexpected improvement in the construction GVA growth (to +10.5% from +8.7%), despite a transient slowdown in construction activity seen during that quarter, owing to Parliamentary Elections. Additionally, the GVA expansion for electricity, gas, water supply and other utility services (to +10.4% from +7.7%) and mining and quarrying (to +7.2% from +4.3%) also improved expectedly during this period, partly aided by the elevated power demand amid heatwaves during April-May 2024 as well as deficient rainfall in the last month of the quarter.
- Industry accounted for 2.5 pp of the GVA growth in Q1 FY2025, mainly driven by manufacturing (+1.2 pp) and construction (+0.9 pp), followed by a marginal contribution from mining (+0.2 pp) and electricity (+0.3 pp).

GVA growth of manufacturing eased in Q1 FY2025 vs. Q4 FY2024, amid uptick in commodity prices, while remaining sub-sectors saw an improvement

Mining

In line with the uptick in the growth for mining output (as per IIP: +7.9% in Q1 FY2025 vs. +4.9% in Q4 FY2024), the GVA expansion of mining and quarrying rose to 7.2% in Q1 FY2025 from 4.3% in Q4 FY2024.

Manufacturing

Manufacturing GVA growth eased to a four-quarter low of 7.0% in Q1 FY2025 from 8.9% in Q4 FY2024, led by lower volume growth (as per IIP: six-quarter low +3.8% in Q1 FY2025 vs. +4.8% in Q4 FY2024) and impact of narrower deflation in input prices on the profit margins of this sector.

Electricity

The GVA growth of electricity, gas, water supply and other utility sectors improved to a three-quarter high of 10.4% in Q1 FY2025 from 7.7% in Q4 FY2024, amid elevated power demand during April-May 2024.

Construction

Construction GVA growth rose unexpectedly to a three-quarter high of 10.5% in Q1 FY2025, despite a contraction in GoI's capex (-35.0%) and weaker expansion in the output of steel (to +7.7% in Q1 FY2025 from +8.7% in Q4 FY2024), cement (to +0.5% from +7.5%), and infra/construction goods (to +6.2% from +7.1%).

Pace of expansion in services GVA improved to a four-quarter high of 7.2% in Q1 FY2025 from 6.7% in Q4 FY2024

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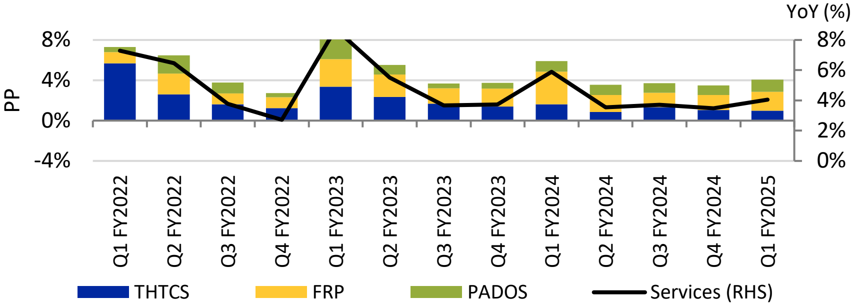
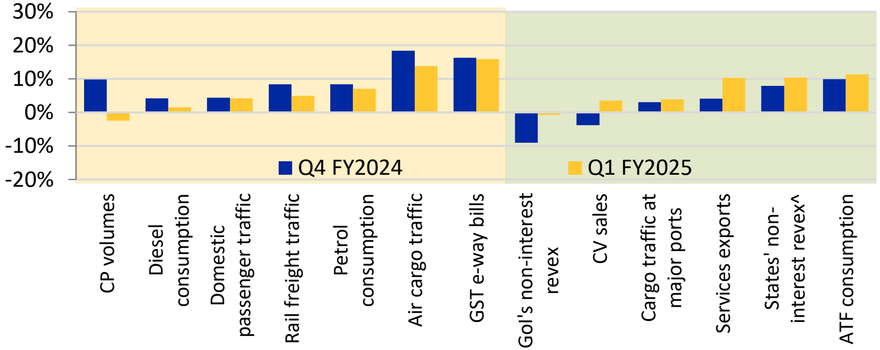
EXHIBIT: Contribution of components of Services



THTCS: Trade, hotels, transport, communication & services related to broadcasting: FRP: Financial, real estate & professional services; PADOS: Public administration, defence & other service; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of service sector indicators in Q4 FY2024 and Q1 FY2025



^Data available for 22 states excluding Arunachal Pradesh, Assam, Gujarat, Goa, Manipur, and Sikkim; Source: CMIE; RBI; GSTN; Indian Railways; IPA; PPAC; DGCA; CEIC; ICRA Research

- The YoY expansion in services GVA rose to a four-quarter high of 7.2% in Q1 FY2025 from 6.7% in Q4 FY2024, contrary to ICRA's expectation (+6.5%). This was driven by a surprising uptick in the YoY growth for PADOS (to an eight-quarter high +9.5% from +7.8%; despite high base) as well as an expected improvement in THTCS (to +5.7% from +5.1%) in Q1 FY2025, relative to Q4 FY2024. However, the GVA expansion for FRP (to +7.1% from +7.6%) eased between these two quarters.
  - **FRP:** The YoY performance of non-food bank credit (to +13.9% at end-June 2024 from +16.3% at end-March 2024) and CP volumes (to -2.5% from +9.9%), and home sales in top seven cities (to a 15-quarter low +6.7% from +13.2%) deteriorated in Q1 FY2025 vs. Q4 FY2024.
  - **THTCS:** While the indicators pertaining to hotels and mobility weakened in Q1 FY2025, the performance of transport related indicators witnessed a mixed trend, with the deterioration in some of these indicators attributed to heatwave conditions in some parts of the country. However, some indicators related to trade such as cargo traffic at major ports and service sector exports improved in Q1 FY2025, compared to the prior quarter.
  - **PADOS:** The combined non-interest revenue expenditure of 22 state governments rose by 10.4% YoY in Q1 FY2025, higher than the 7.9% growth seen in Q4 FY2024. Similarly, the pace of contraction in GoI's non-interest revenue expenditure narrowed to just 0.7% from 9.0% during this period.

Agri GVA saw a stronger-than-expected growth of 2.0% in Q1 FY2025, despite the decline in output of most rabi and summer crops in AY2023-24

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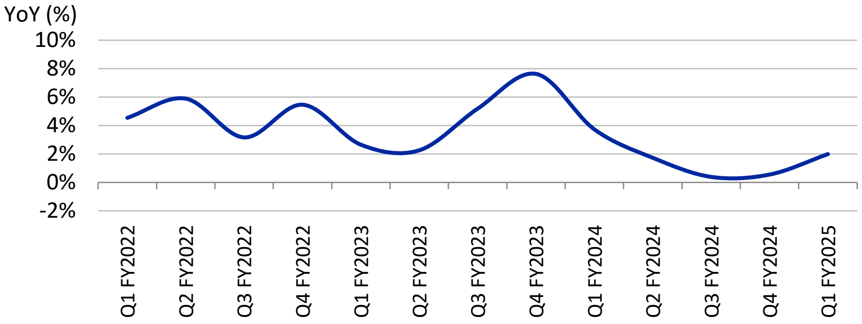
EXHIBIT: Growth in Agriculture, Forestry and Fishing



At constant 2011-12 prices; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY trends in production of summer and rabi crops as per Third Advance Estimates for 2023-24

	Rabi Production		Summer Production
YoY (%)	3rd AE 2023-24 vs. Final Estimate 2022-23	3rd AE 2023-24 vs. 2nd AE 2023-24	3rd AE 2023-24 vs. Final Estimate 2022-23
Wheat	2.1%	0.8%	NA
Rice	-11.0%	8.1%	-12.4%
Coarse Cereals	-1.9%	8.0%	-4.1%
Pulses	-3.7%	-3.5%	-9.3%
Oilseeds	1.0%	3.9%	12.2%

NA: Not Available; Source: Ministry of Agriculture and Farmers' Welfare, GoI; CEIC; ICRA Research

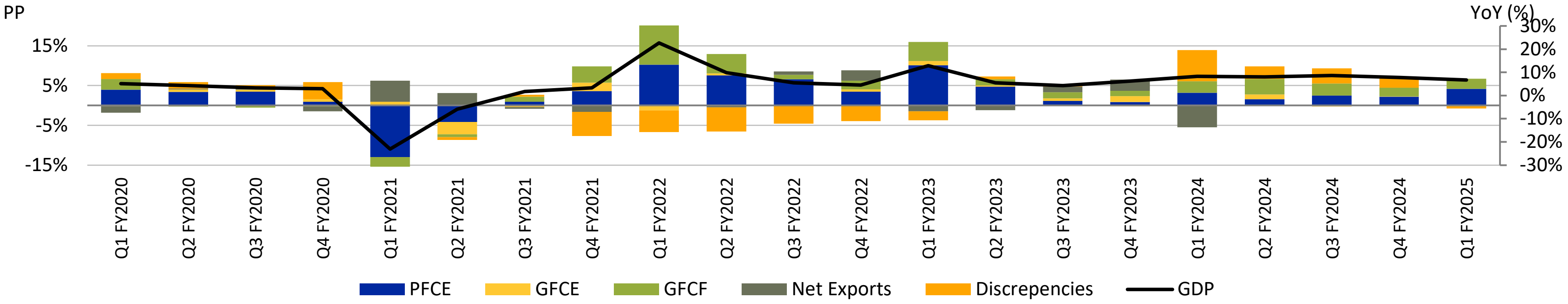
- The YoY growth in GVA of agriculture, forestry and fishing saw a higher-than-expected uptick to a four-quarter high of 2.0% in Q1 FY2025 from 0.6% in Q4 FY2024, despite the decline in the output of most rabi and summer crops in AY2023-24 (Agricultural Year: July to June).
- As per the third advance estimates (AE) for 2023-24 released by the Ministry of Agriculture and Farmers' Welfare, the output of most summer crops including rice (-12.4%; led by a 6.5% and 6.3% contraction in acreage and yields, respectively), pulses (-9.3%; led by the 10.9% fall in acreage) and coarse cereals (-4.1%; led by the 4.6% decline in yields) was projected to record a YoY decline. In contrast, oilseeds' output is estimated to rise by a robust 12.2% owing to the rise in both acreage (+8.2%) and yields (+3.7%).
- Additionally, while the output of most rabi crops (barring pulses) has seen an upward revision in the third AE vis-à-vis the second AE, several crops are projected to contract over the final estimate for 2022-23, such as rice (-11.0%), coarse cereals (-1.9%), and pulses (-3.7%).

Quarterly Analysis: Expenditure Approach

Contraction in GFCE, sharp dip in net indirect tax growth and drag from net exports compressed GDP expansion to a five-quarter low 6.7% in Q1 FY2025

Deceleration in GDP growth during Q1 FY2025, compared to Q4 FY2024 mainly stemmed from GFCE, net indirect taxes and drag from net exports

EXHIBIT: Contribution of GDP components

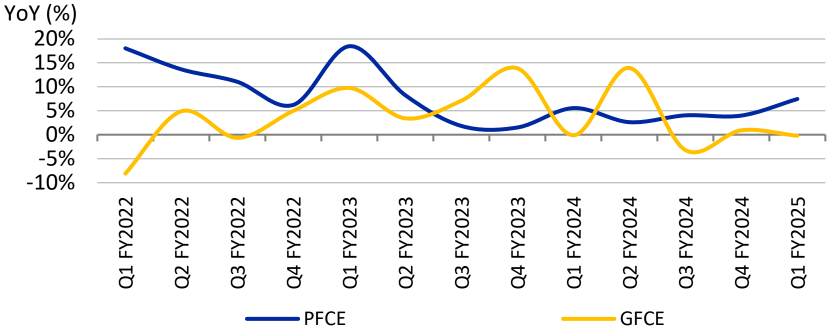


PFCE: Private Final Consumption Expenditure; GFCE: Government Final Consumption Expenditure; GFCF: Gross Fixed Capital Formation; Source: NSO; CEIC; ICRA Research

- The YoY expansion in the GDP expectedly moderated to 6.7% in Q1 FY2025 from 7.8% in Q4 FY2024, while printing higher than ICRA's forecast of 6.0%. The deceleration was led by a turnaround in GFCE to a YoY decline of 0.2% in Q1 FY2025 after rising by 0.9% in Q4 FY2024, while net exports exerted a drag of (-) Rs. 2.0 trillion (-4.7% of GDP) on the GDP growth in Q1 FY2025 (vs. +1.4% of GDP in Q4 FY2024). Besides, net indirect taxes on products displayed a sharp albeit anticipated slowdown in growth (to a six-quarter low +4.1% from +22.2%), which had a bearing on GDP growth. However, the growth in PFCE (to +7.4% from +4.0%) and GFCF (to +7.5% from +6.5%) accelerated in Q1 FY2025, compared to the prior quarter, which is surprising given the trends in the high frequency data, which is explained in subsequent slides.
- PFCE (4.2 pp) and GFCF (2.6 pp) were the key contributors to the 6.7% GDP growth in Q1 FY2025.
- Discrepancies refer to the residual that remains after disaggregating GDP into its expenditure components, such as PFCE, GFCE, GFCF and net exports. The discrepancies in the GDP data for Q1 FY2025 widened to (+) Rs. 1.0 trillion (at 2011-12 prices) from (-) Rs. 401.5 billion in Q4 FY2024, while remaining lower than the (+) Rs. 1.3 trillion seen in Q1 FY2024. Accordingly, ICRA expects the growth of some of the GDP components to display substantial changes once the revised data is available.

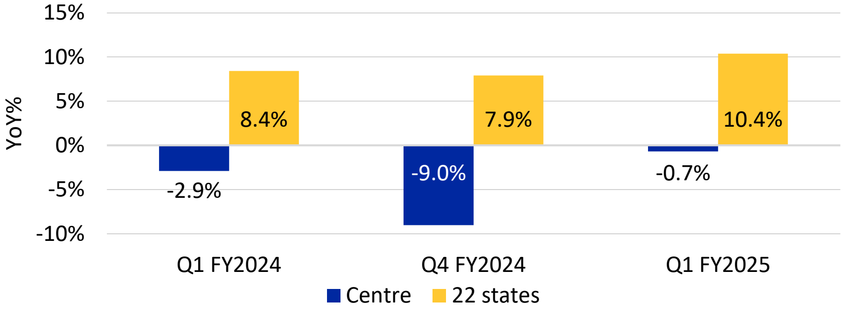
PFCE growth unexpectedly rose to a seven-quarter high 7.4% in Q1 FY2025, while GFCE witnessed a marginal decline despite a favourable base

EXHIBIT: Growth in PFCE and GFCE (Constant 2011-12 Prices)



PFCE: Private Final Consumption Expenditure; GFCE: Government Final Consumption Expenditure; Source: NSO; CEIC; ICRA Research

EXHIBIT: Non-interest revenue expenditure of GoI and 22 state governments



** 22 states excluding Arunachal Pradesh, Assam, Gujarat, Goa, Manipur, and Sikkim; Source: CGA; GoI: ICRA Research*

- Surprisingly, the YoY growth in PFCE rose to a seven-quarter high of 7.4% in Q1 FY2025 from 4.0% in Q4 FY2024, in contrast with the mild moderation in the YoY growth in the output of consumer goods (durable + non-durable; to +4.2% in Q1 FY2025 from +5.1% in Q4 FY2024; as per IIP data), as well as a slight downtick in the urban consumer confidence, as visible in the current situation index of the RBI’s CCS (to 97.1 in May 2024 from 98.5 in March 2024). Moreover, the impact of heatwave in parts of Q1 was visible in the footfalls of certain retail-focused sectors such as sales of passenger vehicles, hotel occupancy rates, etc. Notwithstanding some green shoots, rural demand is also expected to have remained uneven in the quarter, amidst the spillovers of the impact of the poor monsoon in the preceding year.
- Despite a low base, GFCE experienced a contraction of 0.2% in Q1 FY2025 (-0.1% in Q1 FY2024) after recording 0.9% growth in Q4 FY2024 (+13.9% in Q4 FY2023). This stood in contrast with the surge in PADOS growth between these quarters. Moreover, the combined non-interest revenue expenditure of 22 state governments, for which data is available, increased by 10.4% on a YoY basis in Q1 FY2025, higher than 7.9% growth seen in Q4 FY2024. Similarly, although the GoI’s non-interest revenue expenditure contracted for the third consecutive quarter in Q1 FY2025, the pace of the same narrowed to just 0.7%, from 9.0% in Q4 FY2024.

GFCF growth improved to 7.5% in Q1 FY2025 from 6.5% in Q4, in contrast with high frequency data that revealed slowdown in Government and private capex

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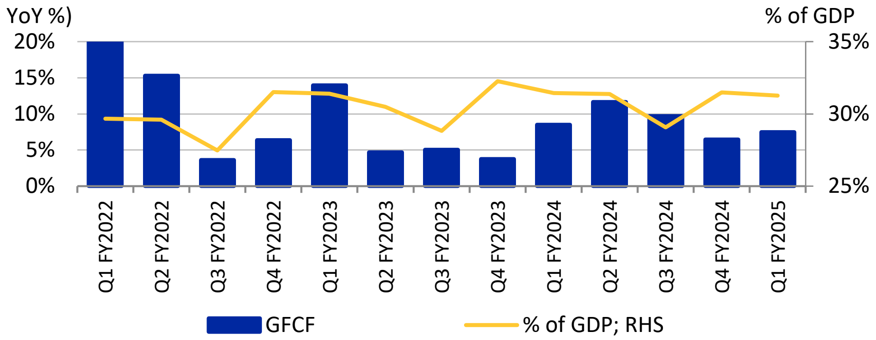
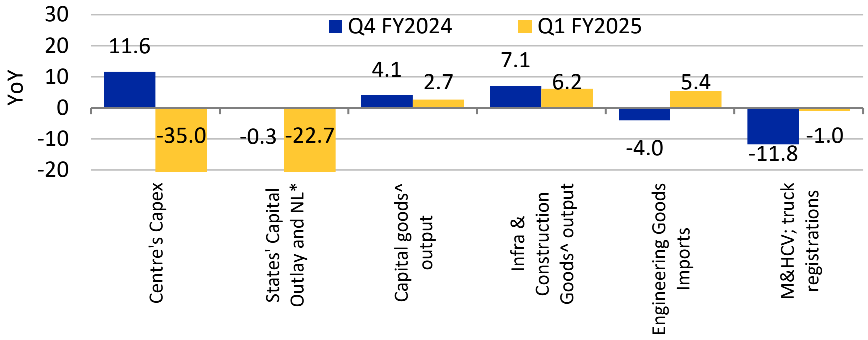
EXHIBIT: GFCF - YoY in real terms and % of GDP in nominal terms



GFCF: Gross Fixed Capital Formation; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of investment related indicators

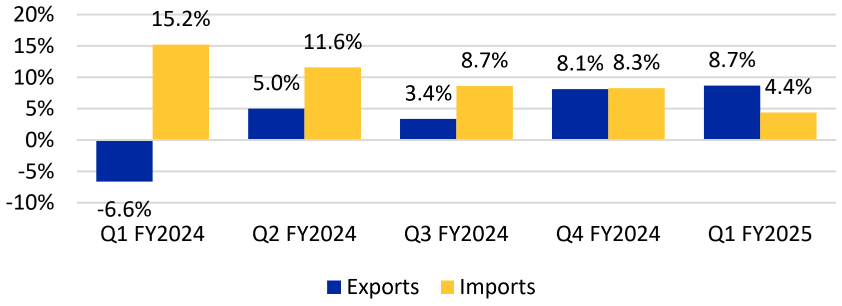


**22 states excluding Arunachal Pradesh, Assam, Gujarat, Goa, Manipur, and Sikkim; ^As per IIP data; Source: CGA; NSO; Vahan; Ministry of Commerce and Industry, GoI; CEIC; ICRA Research*

- The YoY growth in GFCF accelerated to 7.5% in Q1 FY2025 (+8.5% in Q1 FY2024) from 6.5% in Q4 FY2024 (+3.8% in Q4 FY2023), in contrast with the trends seen in the high frequency data which depict a slowdown in investment activity between these quarters. For instance, there was a YoY contraction in the Centre's gross capex (to -35.0% from +11.6%) and aggregate capital outlay and net lending of 22 states (to -22.7% from -0.3%) in Q1 FY2025, partly owing to the Parliamentary Elections. Moreover, project announcements (at Rs. 1.2 trillion) and completions (at Rs. 0.5 trillion) slid to multi-year lows in Q1 FY2025. Besides, the YoY growth in infra/construction goods' output (to +6.2% from +7.1%), and capital goods' production (to +2.7% from +4.1%) also eased between these quarters.
- In contrast, only few high frequency indicators such as engineering goods' imports (to +5.4% in Q1 FY2025 from -4.0% in Q4 FY2024) and M&HCV truck registrations (to -1.0% from -11.8%) saw an uptick in their YoY performances in Q1 FY2025, compared to the prior quarter, although the latter was supported by the favourable base.
- In nominal terms, the share of GFCF in GDP eased slightly to 31.3% in Q1 FY2025 from 31.4% in Q1 FY2024.

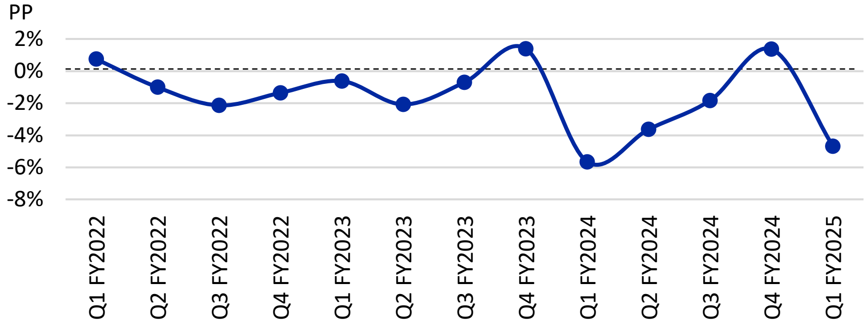
Net exports exerted a drag of 4.7% on GDP growth in Q1 FY2025

EXHIBIT: YoY Growth of Exports and Imports (Constant 2011-12 Prices)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Net exports as % of GDP (Constant 2011-12 prices)



Source: NSO; CEIC; ICRA Research

- The YoY growth in exports rose to a five-quarter high of 8.7% in Q1 FY2025 (-6.6% in Q1 FY2024) from 8.1% in Q4 FY2024 (+12.4% in Q4 FY2023), on the back of a low base. In addition, the growth in imports halved to 4.4% from 8.3%, respectively, also reflecting the base effect. Net exports expectedly turned negative at Rs. 2.0 trillion (-4.7% of GDP) in Q1 FY2025, after witnessing a favourable trend in Q4 FY2024 at (+) Rs. 644.7 billion (+1.4% of GDP) but trailed the drag of (-) Rs. 2.3 trillion (-5.7% of GDP) seen in Q1 FY2024.
- In nominal terms, export growth witnessed an uptick to 9.5% in Q1 FY2025 from 5.6% in Q4 FY2024, in line with the trend seen in merchandise exports as per the data released by the Ministry of Commerce (to +6.0% in Q1 FY2025 from +4.9% in Q4 FY2024) as well as service exports (to +10.4% from +4.1%). Likewise, imports rose by 9.1% in Q1 FY2025, much higher than the 2.9% growth seen in Q4 FY2024, tracking the improvement in services imports (to +6.5% from -0.2%; as per RBI data) and merchandise imports (to +8.4% from +2.0%; as per the Commerce Ministry).

OUTLOOK FOR FY2025

GDP growth forecast raised by 20 bps to 7.0% in FY2025; Government capex, pent-up rural demand during festive season to boost growth beyond 7% in H2

Rural demand to improve in H2 on the back of bright agri output prospects, good monsoon; urban consumption to remain healthy, albeit uneven

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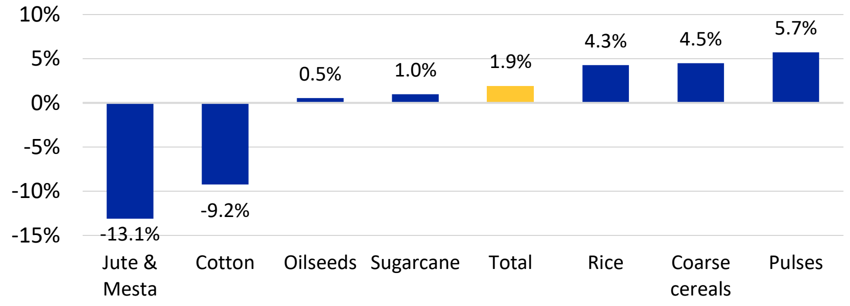
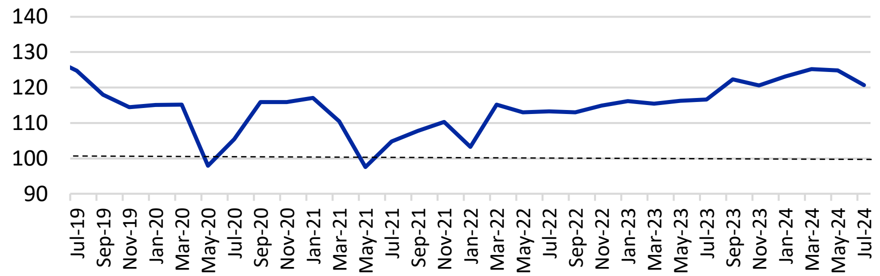
EXHIBIT: YoY change in kharif area sown as on August 27, 2024



Source: Ministry of Agriculture and Farmers Welfare; ICRA Research

EXHIBIT: Trends in future expectation index of Consumer Confidence Survey

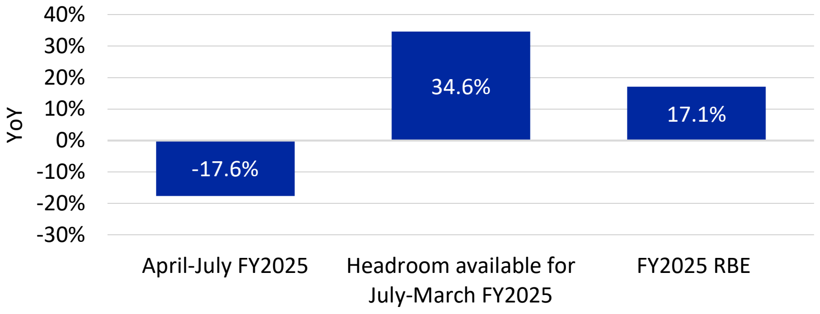


Consumer confidence survey is conducted across 19 major cities; Source: RBI; CEIC; ICRA Research

- In the ongoing Southwest Monsoon season, India has received above normal rainfall, at 107% of the long period average (LPA), up to August 28, 2024. As against the IMD's normal rainfall forecast (94-106% of LPA) for August 2024, the rainfall has amounted to 116% of LPA during August 1-28, 2024, amid excess downpour in Northwest and Central India. Benefitting from surplus rains since July 2024, cumulative kharif sowing has risen by 1.9% up to August 27, 2024, covering ~96% of the last year's final acreage, with a YoY rise in sowing for pulses, rice, coarse cereals and oilseeds. **Based on bright prospects for kharif output and the likely favourable impact of elevated reservoir levels on the rabi crop, ICRA anticipates GVA growth for agriculture, forestry and fishing to rise to ~3.2% in FY2025 from 1.4% in FY2024, although heavy rainfall/flooding in some states poses a risk to crop output. A healthy kharif harvest should support rural demand and provide thrust to consumption growth especially during the festive and marriage seasons.**
- As per the RBI's CCS, the future expectations index fell to a four-round low of 120.7 in July 2024 from 124.8 in May 2024, amid lower optimism across all parameters (apart from spending), including the general economic situation, employment conditions, inflation, and incomes. This is likely to have been led by transient factors including heatwave in parts of Q1 (which affected footfalls in certain retail-focused sectors) followed by excess rainfall in early-July as well as elevated food prices. This could also have been led by the transient impact of lower Government capital spending on employment in certain sectors. **ICRA remains cautiously optimistic that the urban demand will remain healthy (albeit uneven) going forward, even as the RBI's measures to tighten some personal loans may weigh on discretionary consumption of urban HHs to some extent.**

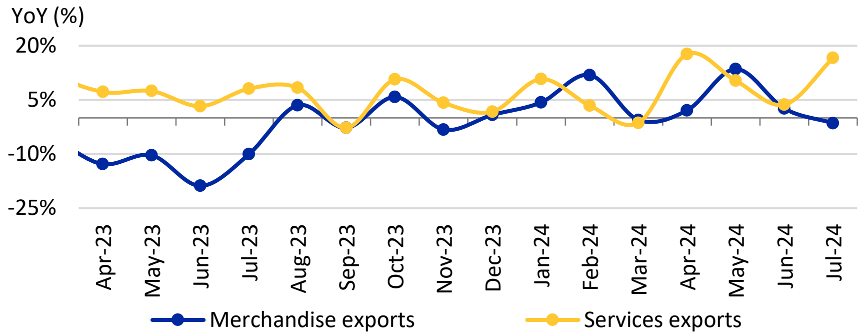
Large headroom available for GoI capex to boost growth momentum in H2 FY2025; exports to remain sluggish through ongoing fiscal

EXHIBIT: Trends in capital expenditure of Centre in April-July, and growth required in remaining period to meet FY2025 RBE target



Source: Union Budget; ICRA Research

EXHIBIT: YoY trends in India's merchandise and services exports

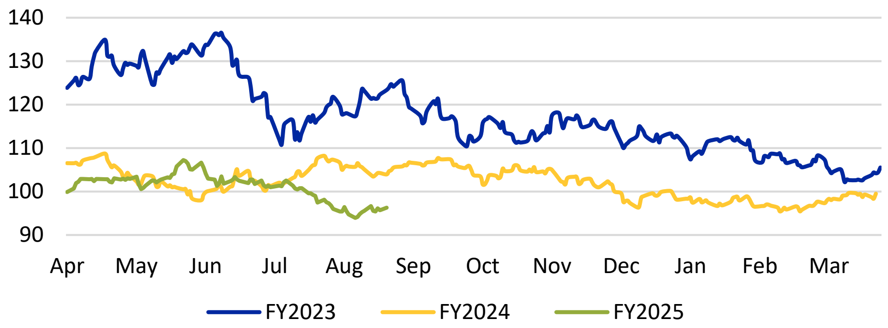


Source: Ministry of Commerce and Industry, GoI; RBI; CEIC; ICRA Research

- **Following the YoY contraction of 17.6% in April-July FY2025, the Centre needs to incur a capex of Rs. 8.5 trillion in the remaining eight months of the fiscal to meet the FY2025 RBE of Rs. 11.1 trillion, implying a required YoY growth of ~35% during this period. This is likely to provide a fillip to construction activity and aid in supporting the allied input sectors like cement, steel, etc.** However, the weak progress in releases of interest free capex loan to states, and uncertainty regarding the absorption of entire budgeted amount (Rs. 1.5 trillion) with seven months left in the fiscal, could pose a constraint. **On the private capex front, the sustenance of domestic demand amid global headwinds would impact capacity utilisation levels over the next few quarters and influence the pace of incremental capacity addition announcements through FY2025.**
- The IMF expects world output growth to dip marginally to 3.2% in CY2024 from 3.3% in CY2023, before reverting to 3.3% in CY2025, as per its World Economic Outlook released in July 2024. **With global growth unlikely to pick up meaningfully in 2024-2025, India's merchandise exports are likely to witness a muted growth in the ongoing fiscal. However, rate cuts in advanced economies could boost such exports towards the end of the fiscal. On the services front, exports of IT services may remain tepid in FY2025, owing to persistent uncertainty in the key markets of the US and Europe. However, the export performance of non-IT services (including GCCs) may continue to remain healthy in FY2025, as was the case in the previous fiscal.**

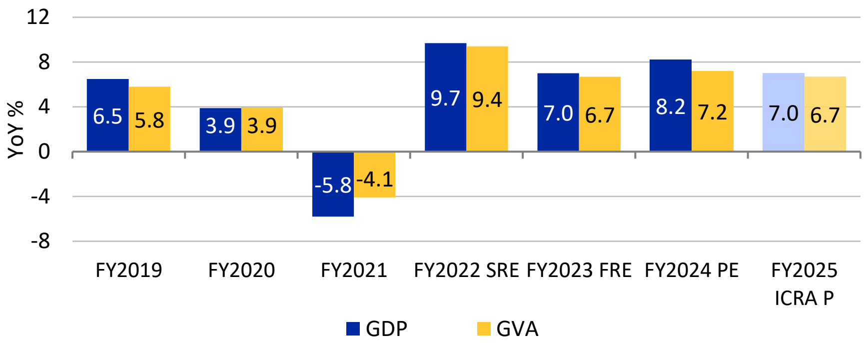
GDP/GVA growth forecast raised by 20 bps to 7.0%/6.7% for FY2025 post Q1 data; Government capex and pent-up rural demand to boost growth in H2 FY2025

EXHIBIT: Trends in Bloomberg Commodity Price Index



Data for FY2025 is up to August 28, 2024; Source: Bloomberg; ICRA Research

EXHIBIT: Annual GDP and GVA YoY growth trends (at constant 2011-12 prices)



P: Projected; Source: NSO; ICRA Research

- Global commodity prices have softened in August 2024 (up to August 28), with the Bloomberg commodity index trending 3.4% lower on a sequential basis, as fears related to slowdown in the US have outweighed supply side issues. In Q2 FY2025 so far, the index has moderated by 7.1% YoY which may augur well for corporate margins in the quarter.
- **ICRA expects the GDP growth to rebound above the 7% mark in H2 FY2025 after the intermittent slowdown in H1, as capital spending by the Government picks up pace and rural demand improves on the back of a robust agricultural output and the favourable monsoon, which would bolster consumption growth during festive and marriage seasons. Additionally, the sustenance of urban consumption remains key to support growth in FY2025. Besides, the benefit of monetary easing in major economies could also boost India's export performance towards the end of the fiscal, which will coincide with seasonal uptick in exports, although uncertainty emanating from geopolitical conflict, as well as global political and economic developments is set to persist.**
- Overall, **ICRA now projects India's GDP and GVA growth forecast at 7.0% and 6.7%, respectively for FY2025 (+8.2% and +7.2% in FY2024), 20 bps higher than our earlier projections, amid better-than-expected turnout for Q1. Additionally, the wedge between the two is estimated to narrow in FY2025, on account of a normalisation in growth of net indirect taxes on products (similar to CAGR of 10.4% between FY2012 and FY2019).**

Annexure

Annexure A.1

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EXHIBIT: GVA at Basic Prices and its Components (YoY Growth, Constant 2011-12 Prices)

	Q1 FY2024	Q2 FY2024	Q3 FY2024	Q4 FY2024	Q1 FY2025	FY2022 SRE	FY2023 FRE	FY2024 PE
GVA at Basic Prices	**8.3%**	**7.7%**	**6.8%**	**6.3%**	**6.8%**	**9.4%**	**6.7%**	**7.2%**
Agriculture, Forestry & Fishing	**3.7%**	**1.7%**	**0.4%**	**0.6%**	**2.0%**	***4.6%***	***4.7%***	***1.4%***
Industry	**6.0%**	**13.6%**	**10.5%**	**8.4%**	**8.3%**	***12.2%***	***2.1%***	***9.5%***
Mining & Quarrying	7.0%	11.1%	7.5%	4.3%	7.2%	6.3%	1.9%	7.1%
Manufacturing	5.0%	14.3%	11.5%	8.9%	7.0%	10.0%	-2.2%	9.9%
Electricity, gas, water supply & other utilities	3.2%	10.5%	9.0%	7.7%	10.4%	10.3%	9.4%	7.5%
Construction	8.6%	13.6%	9.6%	8.7%	10.5%	19.9%	9.4%	9.9%
Services	**10.7%**	**6.0%**	**7.1%**	**6.7%**	**7.2%**	***9.2%***	***10.0%***	***7.6%***
Trade, Hotels, Transport, Communication & Services related to Broadcasting	9.7%	4.5%	6.9%	5.1%	5.7%	15.2%	12.0%	6.4%
Financial, Real Estate & Professional Services	12.6%	6.2%	7.0%	7.6%	7.1%	5.7%	9.1%	8.4%
Public Administration, Defence and Other Services	8.3%	7.7%	7.5%	7.8%	9.5%	7.5%	8.9%	7.8%

SRE: Second Revised Estimates; FRE: First Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

Annexure A.2

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EXHIBIT: GDP and Final Expenditures (YoY Growth, Constant 2011-12 Prices)

	Q1 FY2024	Q2 FY2024	Q3 FY2024	Q4 FY2024	Q1 FY2025	FY2022 SRE	FY2033 FRE	FY2024 PE
GDP	**8.2%**	**8.1%**	**8.6%**	**7.8%**	**6.7%**	**9.7%**	**7.0%**	**8.2%**
PFCE	5.5%	2.6%	4.0%	4.0%	7.4%	11.7%	6.8%	4.0%
GFCE	-0.1%	14.0%	-3.2%	0.9%	-0.2%	0.0%	9.0%	2.5%
Exports	-6.6%	5.0%	3.4%	8.1%	8.7%	29.6%	13.4%	2.6%
Imports	15.2%	11.6%	8.7%	8.3%	4.4%	22.1%	10.6%	10.9%
Gross Capital Formation	7.5%	10.7%	11.5%	8.0%	7.1%	21.1%	5.5%	9.4%
GFCF	8.5%	11.6%	9.7%	6.5%	7.5%	17.5%	6.6%	9.0%
Change in Stocks	1.2%	10.2%	7.5%	5.0%	5.6%	525.4%	14.5%	5.9%
Valuables	-21.0%	-0.9%	63.9%	72.8%	-11.4%	32.5%	-19.1%	21.2%

SRE: Second Revised Estimates; FRE: First Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

Annexure B.1

EXHIBIT: Composition of GVA at Basic Prices (at Current Prices)

	Q1 FY2024	Q2 FY2024	Q3 FY2024	Q4 FY2024	Q1 FY2025	FY2022 SRE	FY2023 FRE	FY2024 PE
GVA at Basic Prices	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Agriculture, Forestry & Fishing	**16.2%**	**14.3%**	**21.6%**	**18.1%**	**16.0%**	**18.9%**	**18.2%**	**17.7%**
Industry	**27.3%**	**27.3%**	**26.3%**	**29.5%**	**27.2%**	**28.9%**	**27.6%**	**27.6%**
Mining & Quarrying	2.1%	1.7%	1.9%	2.2%	2.1%	2.0%	2.0%	2.0%
Manufacturing	13.9%	14.8%	13.3%	15.0%	13.7%	15.7%	14.3%	14.3%
Electricity, gas, water supply & other utilities	2.5%	2.5%	2.4%	2.5%	2.5%	2.7%	2.5%	2.5%
Construction	8.8%	8.2%	8.7%	9.8%	8.9%	8.5%	8.8%	8.9%
Services	**56.4%**	**58.4%**	**52.1%**	**52.4%**	**56.8%**	**52.2%**	**54.2%**	**54.7%**
Trade, Hotels, Transport, Communication & Services related to Broadcasting	15.8%	17.5%	17.7%	18.8%	15.5%	17.0%	17.9%	17.5%
Financial, Real Estate & Professional Services	25.7%	25.7%	20.0%	19.7%	25.8%	21.5%	22.4%	22.7%
Public Administration, Defence and Other Services	14.9%	15.2%	14.3%	13.8%	15.5%	13.7%	13.9%	14.6%

SRE: Second Revised Estimates; FRE: First Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

Annexure B.2

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EXHIBIT: Composition of GDP and Final Expenditures (at Current Prices)

	Q1 FY2024	Q2 FY2024	Q3 FY2024	Q4 FY2024	Q1 FY2025	FY2022 SRE	FY2023 FRE	FY2024 PE
GDP	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
PFCE	58.9%	61.1%	63.5%	57.9%	60.4%	61.0%	60.9%	60.3%
GFCE	10.7%	10.1%	8.5%	12.2%	10.2%	10.5%	10.7%	10.4%
Exports	21.5%	22.2%	21.3%	22.3%	21.5%	21.4%	23.2%	21.8%
Imports	24.0%	25.1%	24.2%	23.1%	23.9%	24.0%	26.8%	24.1%
Gross Capital Formation	33.0%	34.8%	31.6%	33.9%	32.8%	32.1%	33.0%	33.3%
GFCF	31.4%	31.4%	29.1%	31.5%	31.3%	29.6%	30.7%	30.8%
Change in Stocks	1.0%	1.0%	0.9%	1.1%	1.0%	0.9%	1.0%	1.0%
Valuables	0.6%	2.4%	1.6%	1.4%	0.6%	1.6%	1.2%	1.5%

SRE: Second Revised Estimates; FRE: First Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

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Thank You!