ICRA

ECONOMIC OUTLOOK AND MACRO TRENDS

India's GDP growth to dip to 6.0% in Q3 FY2024; to print at 6.6% in FY2024 and 6.2% in FY2025, amid several headwinds

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Abbreviations

AE: Advance Estimates
ATF: Aviation Turbine Fuel
AUM: Assets under Management
BE: Budget Estimates
BoP: Balance of Payments
CAD: Current Account Deficit
CAGR: Compound Annual Growth Rate
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
CRR: Cash Reserve Ratio
CSI: Current Situation Index
CTD: Central Tax Devolution
CV: Commercial Vehicle
DBTL: Direct Benefit Transfer for LPG subsidy
DIPAM: Department of Investment and Public Asset Management
ECB: External Commercial Borrowing
EPC: Emerging, Procurement, Construction
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
FTA: Foreign Trade Agreement
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
HAL: Hindustan Aeronautics Limited
HFC: Housing Finance Companies
HSD: High Speed Diesel
ICRR: Incremental Cash Reserve Ratio
IGST: Integrated Goods and Services Tax
IIP: Index of Industrial Production
IMD: Indian Meteorological Department
IMF: International Monetary Fund
IOD: Indian Ocean Dipole
IOS: Industrial Outlook Survey
IPO: Initial Public Offering
IRDAI: Insurance Regulatory and Development Authority of India
JPC: Joint Plant Committee
KVP: Kisan Vikas Patra
LAF: Liquidity Adjustment Facility
LIC: Life Insurance Corporation
LPA: Long Period Average
LPG: Liquefied Petroleum Gas
MICE: Meetings, Incentives, Conferences, Exhibitions
MGNREGS: Mahatma Gandhi National Rural Employment Guarantee 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
MTFP: Medium-term Fiscal Policy
NBFC: Non-Banking Finance Companies
NDTL: Net Time and Deposit Liabilities
NHAI: National Highway Authority of India
NR(E)RA: Non-Resident (External) Rupee Account
NSC: National Savings Certificate
NRI: Non-Resident Indians
NRO: Non-Resident Ordinary
NSO: National Statistical Office
OFS: Offer for Sale
OPEC: Organization of Petroleum Exporting Countries
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
RD: Recurring Deposit
RDB: Rupee Denominated Bonds
RE: Revised Estimates
REER: Real Effective Exchange Rate
SCSS: Senior Citizen Saving Scheme
SDF: Standing Deposit Facility
SDR: Special Drawing Rights
SGB: Sovereign Gold Bonds
SIOS: Services and Infrastructure Outlook Survey
TD: Time Deposit
TDPS: Targeted Public Distribution System
TDS: Tax Deducted at Source
THTCS: Trade, Hotels, Transport, Communication and Services related to broadcasting
TEU: Twenty-foot equivalent units
VRR: Voluntary Retention Route
WMA: Ways and Means Advances
WMO: World Meteorological Organization
WPI: Wholesale Price Index
WTO: World Trade Organisation

OVERVIEW

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India's GDP growth is projected to have dipped sharply to 6.0% in Q3 FY2024 from 7.6% in Q2 FY2024

Spillover of tepid rural demand in early-FY2025, a likely slowdown in the GoI's capex during General Elections and monsoon season and weakness in export growth pose risks to GDP growth in H1 FY2025

The pre-requisites for private capex take off are in place, although we expect a measured cycle rather than an exuberant one

ICRA foresees GDP expansion at 6.2% in FY2025, after an expected 6.6% print for FY2024

The growth in India's economic activity is anticipated to ease to 6.0% in Q3 FY2024 from 7.6% in Q2 FY2024, owing to lower industrial volume growth, flagging momentum in investment activity, a sharp slowdown in Government spending growth, and the impact of an uneven monsoon on agri output. Going forward, headwinds owing to the spillover of the ongoing tepid rural demand into early-FY2025, a slowdown in Government capex and project execution during Parliamentary Elections and the monsoon period, and persistent weakness in export growth are likely to weigh on economic growth in H1 FY2025. Encouragingly, the pre-requisites for the take off of a private capex are in place, which offers hope for supporting investment demand in H2 FY2025. At present, ICRA projects the GDP expansion at 6.2% in FY2025, after an expected 6.6% growth for FY2024. The CPI inflation is expected to soften to 4.6% in FY2025 from 5.3% in FY2024, assuming a normal monsoon turnout in 2024, and expectations of core inflation to remain benign in the first half of the next fiscal. We expect a shallow rate cut cycle of 50-75 bps to begin from the August 2024 policy, with a change in stance in the preceding policy, if the outlook for the monsoon appears favourable. Additionally, the GoI is likely to meet its revised target of 5.8% of GDP for fiscal deficit in FY2024, and most of the tax and expenditure assumptions seems credible for FY2025. Moreover, while India's CAD/GDP ratio is expected to rise to 1.6% in FY2025 from 1.2% in FY2024, it would remain at manageable levels.

Macroeconomic Variables	FY2024 ICRA Projections	FY2025 ICRA Projections
GDP Growth (in real terms)	+6.6%	+6.2%
GVA Growth (in real terms)	+6.6%	+6.1%
CPI Inflation (average)	+5.3%	+4.6%
WPI Inflation (average)	-0.7%	+2 to +4%
Current Account Balance	Deficit of $41-43 billion; 1.2% of GDP	Deficit of $59-62 billion; 1.6% of GDP
GoI's Fiscal Deficit	Rs. 17.3 trillion (5.8% of GDP)	Rs. 16.9 trillion (5.1% of GDP)
G-sec Yields	10-year G-sec yield expected to trade between 7.00-7.20% over the next few months	
Repo Rate	Earliest rate cut foreseen in Q2 FY2025, amidst shallow rate cut cycle of 50-75 bps, with a stance change in the preceding meeting	
INR	USD/INR pair to trade between 82.5/$ and 83.5/$ in the near term	

EXECUTIVE SUMMARY

GDP growth to ease to 6.0% in Q3 FY2024 from 7.6% in Q2 FY2024, led by agriculture and industrial sectors

- In addition to the dip in yields of kharif crops, ICRA remains apprehensive around the prospects for rabi yields and output. We expect the agri GVA growth to witness a marginal 0.5% rise in Q3 FY2024, following the 1.2% growth seen in Q2 FY2024, on an elevated base.
- The industrial GVA expansion is estimated to dip to 8.8% in Q3 FY2024 from 13.2% in Q2 FY2024, partly reflecting the dissipation of a favourable base, amid a broad-based easing in growth across sectors. Services GVA, on the other hand, is expected to witness an uptick to 6.5% in the quarter from 5.8% in Q2 FY2024, led by the THTCS segment. Overall, GDP growth is projected to ease to 6.0% in Q3 FY2024 from 7.6% in Q2.

GDP growth expected to ease to 6.2% in FY2025 from 6.6% in FY2024 amid continued headwinds

- ICRA expects the GDP growth to ease to 5.3% in Q4 FY2024 from the expected 6.0% in Q3 FY2024. This translates to a full-year growth of 6.6% in FY2024 (+7.2% in FY2023), marginally higher than our earlier estimate of 6.5% stemming from better-than-anticipated prospects for the Q3 print.
- Headwinds owing to the spillover of the ongoing weakness in rural demand in early-FY2025, a slowdown in GoI's capex and construction activity during the first half of the fiscal and a continued weakness in export growth, are expected to weigh on the growth in economic activity in FY2025. At the current juncture, we estimate the YoY expansion in real GDP at ~6.2% in FY2025.

CPI inflation to average at 5.3% in FY2024, ease to 4.5% in FY2025; shallow rate cut cycle likely to start in Aug 2024

- The CPI inflation witnessed a broad-based moderation to 5.4% in Q3 FY2024 from 6.4% in Q2 FY2024, before easing to 5.1% in January 2024. It is expected to soften further to sub-5.0% each in February-March 2024, resulting in an average inflation of 5.3% for FY2024.
- Therafter, ICRA expects the CPI inflation to ease to 4.6% in FY2025 based on the assumption of a normal monsoon in 2024. We foresee a rate cut cycle of 50-75 bps to commence in the August 2024 policy meeting, with a stance change in the preceding review, after there is some visibility around the monsoon turnout.

CAD to narrow to 1.2% of GDP in FY2024 before rising to 1.6% in FY2025, while remaining at comfortable levels

- An increase in the services trade surplus along with the decline in the merchandise trade deficit is expected to lead to a dip in the CAD to $41-43 billion (1.2% of GDP) in FY2024 from $67 billion (2.0% of GDP) in FY2023. Therafter, a widening in the merchandise trade deficit on the back of a stronger growth in domestic vis-a-vis external demand, is expected to lead to an increase in the CAD to $59-62 billion (1.6% of GDP) in FY2025.
- While the USD/INR pair will be influenced by trends in the DXY and any untoward depreciation in EM currencies in the event of an escalation in geopolitical conflicts, the extent of volatility in the pair is likely to be contained. ICRA expects the INR to trade at 82.5-83.5/$ in the near term.

GoI's fiscal deficit revised to 5.8% of GDP in FY2024; budgeted to ease further to 5.1% in FY2025

- The GoI revised its fiscal deficit target target for FY2024 to Rs. 17.3 trillion (5.8% of GDP) from Rs. 17.9 trillion (5.9% of GDP), amid a lower revenue deficit and a cut in the budgeted capex.
- Thereafter, the fiscal deficit is budgeted to ease mildly to Rs. 16.9 trillion in the FY2025 BE, with the sharp compression in the revenue deficit partly offset by a sharp ~17% expansion in capex. Relative to GDP, the fiscal deficit is pegged at 5.1% in the Interim Budget for FY2025, midway through the print of 5.8% in FY2024 and the medium-term target of sub-4.5% for FY2026.

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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