



## 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                                       | FPI: Foreign Portfolio Investors                               | LIC: Life Insurance Corporation                                    | PADOS: Public Administration, Defence and Other Services                            |
| ATF: Aviation Turbine Fuel                                  | FMCG: Fast Moving Consumer Goods                               | LPA: Long Period Average                                           | PFCE: Private Final Consumption Expenditure                                         |
| AUM: Assets under Management                                | FRL: Full Reservoir Level                                      | LPG: Liquefied Petroleum Gas                                       | PLI: Production Linked Incentive                                                    |
| BE: Budget Estimates                                        | FRP: Financial, Real Estate and Professional Services          | MICE: Meetings, Incentives, Conferences, Exhibitions               | PPF: Public Provident Fund                                                          |
| BoP: Balance of Payments                                    | FTA: Foreign Trade Agreement                                   | MGNREGS: Mahatma Gandhi National Rural Employment Guarantee Scheme | POL: Petroleum Oil and Lubricants                                                   |
| CAD: Current Account Deficit                                | GDP: Gross Domestic Product                                    | MoRTH: Ministry of Road Transport and Highways                     | RD: Recurring Deposit                                                               |
| CAGR: Compound Annual Growth Rate                           | GFCE: Government Final Consumption Expenditure                 | MoSPI: Ministry of Statistics and Program Implementation           | RDB: Rupee Denominated Bonds                                                        |
| CCS: Consumer Confidence Survey                             | GFCE: Government Final Consumption Expenditure                 | MPC: Monetary Policy Committee                                     | RE: Revised Estimates                                                               |
| CGA: Controller General of Accounts                         | GFCF: Gross Fixed Capital Formation                            | MSF: Marginal Standing Facility                                    | REER: Real Effective Exchange Rate                                                  |
| CGST: Central Goods and Services Tax                        | G-Sec: Government Securities                                   | MSME: Micro, Small and Medium Enterprises                          | SCSS: Senior Citizen Saving Scheme                                                  |
| CIL: Coal India Limited                                     | Gol: Government of India                                       | MSP: Minimum Support Price                                         | SDF: Standing Deposit Facility                                                      |
| CNY: Chinese Yuan                                           | GVA: Gross Value Added                                         | MTFP: Medium-term Fiscal Policy                                    | SDR: Special Drawing Rights                                                         |
| CP: Commercial Paper                                        | HAL: Hindustan Aeronautics Limited                             | NBFC: Non-Banking Finance Companies                                | SGB: Sovereign Gold Bonds                                                           |
| CPD: Cut and Polished Diamond                               | HFC: Housing Finance Companies                                 | NDTL: Net Time and Deposit Liabilities                             | SIOS: Services and Infrastructure Outlook Survey                                    |
| CPI: Consumer Price Index                                   | HSD: High Speed Diesel                                         | NHAI: National Highway Authority of India                          | TD: Time Deposit                                                                    |
| CRR: Cash Reserve Ratio                                     | ICRR: Incremental Cash Reserve Ratio                           | NR(E)RA: Non-Resident (External) Rupee Account                     | TDPS: Targeted Public Distribution System                                           |
| CSI: Current Situation Index                                | IGST: Integrated Goods and Services Tax                        | NSC: National Savings Certificate                                  | TDS: Tax Deducted at Source                                                         |
| CTD: Central Tax Devolution                                 | IIP: Index of Industrial Production                            | NRI: Non-Resident Indians                                          | THTCS: Trade, Hotels, Transport, Communication and Services related to broadcasting |
| CV: Commercial Vehicle                                      | IMD: Indian Meteorological Department                          | NRO: Non-Resident Ordinary                                         | TEU: Twenty-foot equivalent units                                                   |
| DBTL: Direct Benefit Transfer for LPG subsidy               | IMF: International Monetary Fund                               | NSO: National Statistical Office                                   | VRR: Voluntary Retention Route                                                      |
| DIPAM: Department of Investment and Public Asset Management | IOD: Indian Ocean Dipole                                       | OFS: Offer for Sale                                                | WMA: Ways and Means Advances                                                        |
| ECB: External Commercial Borrowing                          | IOS: Industrial Outlook Survey                                 | OPEC: Organization of Petroleum Exporting Countries                | WMO: World Meteorological Organization                                              |
| EPC: Emerging, Procurement, Construction                    | IPO: Initial Public Offering                                   |                                                                    | WPI: Wholesale Price Index                                                          |
| FAO: Food and Agriculture Organization                      | IRDAI: Insurance Regulatory and Development Authority of India |                                                                    | WTO: World Trade Organisation                                                       |
| FCI: Food Corporation of India                              | JPC: Joint Plant Committee                                     |                                                                    |                                                                                     |
| FCNR: Foreign Currency Non-Resident                         | KVP: Kisan Vikas Patra                                         |                                                                    |                                                                                     |
| FDI: Foreign Direct Investment                              | LAF: Liquidity Adjustment Facility                             |                                                                    |                                                                                     |

## 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 Gol'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 Gol 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 |
|  | Gol'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 Govt'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.
- Thereafter, 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. Thereafter, 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.



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

- The Govt revised its fiscal deficit 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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- Provide information and guidance to institutional and individual investors/creditors;
- Enhance the ability of borrowers/issuers to access the money market and the capital market for tapping a larger volume of resources from a wider range of the investing public;
- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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