Govt estimates of GDP growth reveal several pain points. Budget 2025 should prioritise consumption

Estimated growth for the fiscal has come in at 6.4%, less than RBI's projection of 6.6%. Agriculture sector & consumption are expected to grow, but manufacturing & investment may struggle.

Radhika Pandey and Rachna Sharma 10 January, 2025 09:10 am IST

Illustration: Shruti Naithani | ThePrint

The first advance estimates peg India's GDP (Gross Domestic Product) growth at 6.4 percent in FY 2024-25, compared to 8.2 percent growth recorded in FY 2023-24. The Gross Value Added is also estimated to grow at 6.4 percent, while nominal GDP growth is estimated at 9.7 percent.

These estimates are crucial as they form the basis for budget calculations, including the projections for the nominal GDP growth for the next financial year.

With growth coming in at less than the RBI's projection of 6.6 percent, the trade-off between growth and inflation will intensify, complicating the conduct of monetary policy in the coming months.

Supply side: Strong growth in agriculture, sharp slide in manufacturing

Agricultural growth is projected to rebound to 3.8 percent in the current year from 1.4 percent in the previous year. With rainfall at 8 percent above the long period average, and healthy reservoir levels leading to record Kharif output and strong Rabi sowing, agriculture was expected to perform better.

However, the manufacturing sector is estimated to slow down sharply from 9.9 percent in the previous year to 5.3 percent in the current year. Subdued exports, uneven consumer demand and dumping of cheap imports from China adversely impacted the sales and profitability of the manufacturing sector. A case in point is the sharp surge in imports of steel, which are causing serious damage to India's steel industry.

The slump in China's manufacturing sector could worsen with the recent uptick in HMPV cases. This could impact India's manufacturing by reducing demand for its exports. Particularly, the exports of raw materials, like iron ore, could suffer with a prolonged slowdown in China.

YEAR-ON-YEAR CHANGE IN GROSS VALUE ADDED

Industry	GVA at constant prices (Y-o-Y change)			
	2021-22	2022-23 (1st RE)	2023-24 (PE)	2024-25 (FAE)
Production side:				
GVA	**9.4**	**6.7**	**7.2**	**6.4**
Agriculture, forestry and fishing	**4.6**	**4.7**	**1.4**	**3.8**
Industry	**12.2**	**2.1**	**9.5**	**6.2**
Mining and quarrying	6.3	1.9	7.1	2.9
Manufacturing	10.0	-2.2	9.9	5.3
Electricity, gas, water supply and other utility services	10.3	9.4	7.5	6.8
Construction	19.9	9.4	9.9	8.6
Services	**9.2**	**10.0**	**7.6**	**7.2**
Trade, hotels, transport, communication and broadcasting services	15.2	12.0	6.4	5.8
Financial services, real estate and professional services	5.7	9.1	8.4	7.3
Public administration, defence and other services	7.5	8.9	7.8	9.1

Source: National StatisticsOffice, Ministry of Statistics and Programme Implementation

ThePrint

Infographic: Manali Ghosh | ThePrint

Manufacturing growth slowed down to 4.5 percent in the first half of the current fiscal year. The full year estimates suggest that the sector is expected to grow by 6.1 percent in the second half. While a modest recovery in demand in the second half could help, the China factor would be crucial in shaping the trajectory of the manufacturing sector over the next few quarters.

Growth in the construction sector is also expected to moderate from 9.9 percent to 8.6 percent in the current year. The slowdown in government capex, particularly in roads, could have impacted the performance of the sector.

Mining, and electricity and utility services, are also expected to register a weaker growth this year, primarily due to the weather shocks and subdued mining. Monthly indicators for the mining sector, viz. IIP Mining, production of crude oil and natural gas, have reported tepid growth in the first seven-eight months of the current year.

Overall, services sector growth is expected at 7.2 percent, slightly lower than last year’s 7.6 percent. The growth in services is led by public administration, defence and other services, while trade, hotels, transport, communication and broadcasting, and financial, real estate and professional services, are seen growing at a slower pace than last year.

Sluggish investment, pick-up in consumption

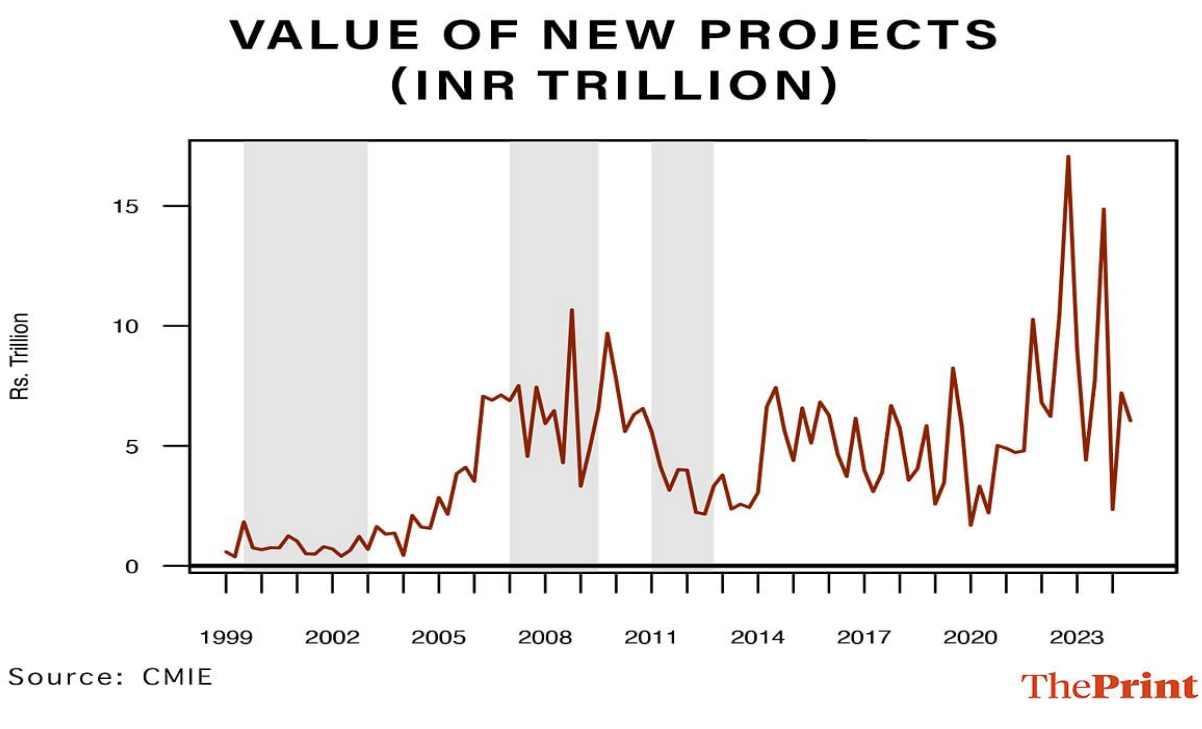
Driven by a slowdown in government capital expenditure and muted private investment, overall investment, proxied by Gross Fixed Capital Formation (GFCF), is expected to moderate to 6.4 percent from 9 percent in the previous year.

With the election-related disruption out of the way, government capex was expected to pick up in subsequent quarters. But that did not happen. In the April-November period, the government’s capital expenditure was 12 percent lower than in the same period last year. In particular, capex on construction of roads, which accounts for 24.5

percent of the budgeted capex, declined by 16 percent in April-November.

Private investment has not picked up in a sustained manner, though there is traction in sectors like renewables and roads.

The growth in new projects unveiled has been uneven in the current year. Data from the Centre for Monitoring Indian Economy (CMIE) reveals that new projects were down 22 percent in the December quarter, reversing the trend in the September quarter, when they had reported a 63 percent increase. The total value of new projects announced in the December quarter was Rs 6 lakh crore, much smaller than the Rs 7.7 lakh crore worth of project investments announced in December quarter of last year.



Infographic: Manali Ghosh | ThePrint

Private consumption, which contributes more than 60 percent to the GDP, is projected to grow at 7.3 percent this year, a visible improvement from the 4 percent growth seen last year. On a disaggregated basis, private consumption grew 6.7 percent in the first half and is projected to grow at 7.8 percent in the second half of the current year.

Multiple indicators, including the findings of the latest Household Consumption Expenditure Survey, signal a pick-up in rural consumption, which has risen faster than urban consumption in 2023-24 over the previous year.

The urban-rural consumption expenditure gap, though still substantial at 70 percent, has narrowed from 84 percent in 2011-12. This is also in part explained by a slew of income support programmes initiated by governments to woo rural households.

MONTHLY PER CAPITA CONSUMPTION EXPENDITURE OF RURAL & URBAN HOUSEHOLDS

	MPCE (Rs.)			2022-23	2023-24
	2011-12	2022-23	2023-24	CAGR	Y-o-Y
Rural	1430	3773	4122	9.22	9.25
Urban	2630	6459	6996	8.51	8.31
All India	4060	10232	11118	8.77	8.66
Gap (%)	83.9	71.2	69.7		
Gap (Rs.)	1200	2686	2874		

Source: Household Consumption Expenditure

ThePrint

Infographic: Manali Ghosh | ThePrint

Traditional indicators of rural demand, such as two-wheeler sales and tractor sales, have recorded strong growth in the eight months of the current year.

Urban consumption, on the other hand, is showing mixed signals. High food inflation and curbs on retail lending may have squeezed discretionary spending by households. Consumer sentiment has taken a hit. According to a recent survey, only one in five Indians expect their incomes to rise in 2025. The imputed 7.8 percent growth in consumption in the second half of the current year appears optimistic.

Perhaps the upcoming budget should shift policy focus towards urban middle class to spur consumption and boost sentiments.

Lower nominal GDP unlikely to hinder fiscal consolidation

The nominal GDP growth is estimated at 9.7 percent, lower than the Union Budget's projection of 10.5 percent.

This is unlikely to be a challenge in achieving the fiscal deficit target of 4.9 percent of GDP due to the slower pace of capex spending.

However the slower growth in tax revenue collections could lead to minor deviations from the budgeted fiscal deficit.

Radhika Pandey is an associate professor and Rachna Sharma is a Fellow at the National Institute of Public Finance and Policy (NIPFP).