

India's real growth rate and the forecast

The First Advance Estimates (FAE) of National Accounts for 2024-25 show a real GDP growth of 6.4% and a nominal GDP growth of 9.7%. These numbers have fallen short of the Reserve Bank of India's revised growth estimate of 6.6% for real GDP, as in its December 2024 monetary policy statement and 10.5% for nominal GDP growth as in the 2024-25 Union Budget presented in July 2024.

The annual growth of 6.4% can be seen as consisting of 6% growth in the first half and 6.7% growth in the second half. There is, thus, a clear improvement expected over the Q2 growth of 5.4%. The sharp fall in 2024-25 annual GDP growth from that of the previous year at 8.2% is seen only in the case of GDP. With respect to Gross Value Added (GVA), this difference, between 7.2% and 6.4%, is much less. On the GVA side, it was the manufacturing sector which suffered a sharp fall in sectoral growth from 9.9% in 2023-24 to 5.3% in 2024-25.

Growth prospects for 2025-26

The Gross Fixed Capital Formation rate at constant prices has ranged between 33.3% and 33.5% during 2021-22 to 2024-25. Thus, it appears to have stabilised around 33.4%. It is expected to continue at this level in 2025-26. The average Incremental Capital Output Ratio (ICOR) has been marginally higher than 5 in recent years. Assuming ICOR to be 5.1 in 2025-26, we may consider a 6.5% real GDP growth to be realistic.

There may not be much change in the global economy even though Donald Trump's assumption of office may create more uncertainty. India will have to largely depend on domestic demand.

In particular, the Government of India has to ensure that there is no relaxation in its investment expenditure. In fact, the slightly lower



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growth in 2024-25 is largely linked to the slowdown in the Government of India's investment growth which has remained negative at (-)12.3% even after eight months into the fiscal year.

With a lower nominal GDP growth in 2024-25 of 9.7% as compared to the budgeted nominal GDP growth of 10.5%, the budgeted Gross Tax Revenue (GTR) of ₹38.4 lakh crore may not be realised if the budgeted buoyancy of 1.03 is maintained. As per Controller General of Accounts (CGA) data, GTR growth for the first eight months was 10.7%. If this growth is maintained for the remaining months also, the realised buoyancy would be about 1.1, which is higher than the budgeted buoyancy. In such a case, tax revenue shortfall will be minimal. In other words, any revenue constraint or likely pressure on fiscal deficit would not constrain the government's ability to achieve its capital expenditure target of ₹11.1 lakh crore.

Reason for the dip

However, after the first eight months, the level of the Government of India's capital expenditure has remained limited to ₹5.14 lakh crore, that is 46.2% of the Budget target. In the remaining four months, the Government of India's capital expenditure may be accelerated. It may still fall well short of the target. This has been the main reason for the dip in overall real GDP growth in 2024-25.

Going forward in 2025-26, the Government of India will have to continue to rely on an accelerated capital expenditure growth which can be kept at least at 20% on the revised estimates for 2024-25. Sustained government capital expenditures can have a favourable effect on private investment. The size and the pattern of investment expenditure of the government

should be designed to accelerate private investment as well.

Medium- to long-term growth prospects

Over a period of next five years, the best that India may hope for is a steady real GDP growth rate of 6.5%. This is in line with the International Monetary Fund's real GDP growth projection for the Indian economy, as in its October 2024 release, which is at 6.5% over the period 2025-26 to 2029-30. This real GDP growth may be accompanied by an implicit price deflator (IPD)-based inflation of about 4% which can give a nominal GDP growth in the range of 10.5%-11%. In years in which global conditions improve and the contribution of net exports to GDP growth becomes significant, real GDP growth may touch even 7%. If a real growth of around 6.5% and a nominal growth in the range of 10.5%-11% are maintained over the long run with an average exchange rate depreciation of 2.5% per annum, India should be able to reach a per capita GDP level consistent with a developed country status in the next two and half decades. But the task is not going to be easy. It will be hard to grow at 6.5% as the base keeps on increasing. In fact, in the earlier years, the growth rate will have to be higher. But, at present, the potential rate of growth appears to be 6.5%. However, it can change.

In the light of a potential growth rate of 6.5%, the achievement of 6.4% in 2024-25 should not be considered as disappointing. In fact, the achievement of 8.2% in 2023-24 should be considered as a flash in the pan. The current year's growth rate of 6.4% as in the first advance estimates should be seen in the context of India's potential growth rate.