

'Expect 7% growth in FY26 amidst global uncertainty' says Axis Bank 2025 Outlook Report, 'as drivers remain local'

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Mumbai, December 11, 2024: *Pegging growth at an above-consensus 7% in FY26, Axis Bank's Chief Economist Neelkanth Mishra finds support for the domestic economy in capital formation boosted by a capex cycle reboot, and tailwinds from back-ended fiscal spending in FY25, and the CRR cut and likely further macro-prudential easing helping revive credit growth. In the bank's **India Economic and Market Outlook 2025** report, Mishra and co-authors Prateek Ancha, Tanay Dalal, Pulkit Kapoor and Smriti Mehra highlight heightened global uncertainty in trade, elevated interest rates, slowing growth and deflation risks in China, and currency volatility. However, they believe the major drivers of India's economy getting back to its trend growth rate of 7% remain local.*

Report Highlights

- Current global growth forecasts show stability, but uncertainty about US policy after 20-Jan clouds visibility. Uncertainty in global trade and financial markets likely to remain elevated; higher global rates and USDINR volatility likely.
- 1HFY25 slowdown was driven by unintended fiscal and credit tightening: fiscal spending is already rising, and the CRR cut should ease growth headwinds arising from a shortage of money.
- The tailwinds from back-ended fiscal spending in FY25, and better credit growth, supported by expected further macro-prudential easing should help the economy reach its potential growth rate of 7% in FY2026.

Uncertain global economic environment; window of opportunity for reforms in India

- Global growth in CY25E is currently projected to be unchanged from CY24 at 3.2%, with the trend growth ~30-40 bps below pre-Covid levels.
- Under the new US President, who has won a mandate to course-correct or disrupt trade, taxes, regulations, immigration and energy among others, policy pronouncements after 20-Jan-25 are key. Even if their contours and likely impact are uncertain.
- Trade tariffs may be ineffective in isolation (fiscal deficits, exchange rates and industrial policy matter too), but can indeed disrupt global trade growth. Global trade growth since 2016 has been driven primarily by the US (imports) and China (exports) post 2016.
- In India, a nearly empty state-election calendar provides a window to push reforms.

Financial uncertainty, higher rates, USDINR volatility

- Neutral rates have risen by more than 1 percent point across developed economies and may remain well above those seen last decade.
- In India, we do not see inflation easing quickly: over the long term, core and food price indices move together. Though food relative to core, and vegetables relative to food, are both at cyclical highs, the supply response may lag the demand boost from income-transfer schemes.

- Better demand-supply for government bonds though should help reduce yields. We expect USDINR volatility to rise, though it would be unwise to expect USD strength to last the year.

Cyclical rebound to push growth back to trend

- 1H FY24 loss in momentum for the Indian economy is cyclical, and due to unintended fiscal and monetary tightening; the latter due to a focus on macro stability risks which hurt credit growth.
- Fiscal spending is already rising and the CRR cut should ease growth headwinds.
- We forecast above-consensus 7% growth in FY26, with capital formation boosted by the restart of the capex cycle and tailwinds from back-ended fiscal spending in FY25, supported by further macro-prudential easing to help re-accelerate credit growth.

'India Economic and Market Outlook 2025: Turbulence globally, while drivers remain local' - Neelkanth Mishra, Prateek Ancha; Tanay Dalal, Pulkit Kapoor, Smriti Mehra. December 10, 2024, Axis Bank Ltd.

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