

Why Inflation Will Be a Key Concern in 2025: India's Economic Outlook

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Why in News?

2024 has been a bittersweet year for India's economy, with strong growth in the first half that surprised many, including the government.

However, the latter half proved challenging, with growth slowing, inflation remaining high, and ongoing tensions between the RBI and Finance Ministry over policy responses.

Clamour for a Rate Cut

- Top government officials have been advocating for an RBI rate cut since November, urging it to prioritize growth and investments over volatile food prices.
- This push intensified after Q2 GDP growth slowed to a 7-quarter low of 5.4%, with weak urban demand and disappointing corporate results affecting market sentiment.

Economic Outlook: A Year Ago

- This time last year, India's stock markets were at record highs, and GDP growth was 7.7% in the first half of 2023-24.
- The Finance Ministry expected growth to exceed 6.5% for the full year and anticipated an interest rate cut cycle by the RBI, which had projected inflation to average 4% through Q2 2024.

Economic Performance in 2023-24

- Despite challenges, India's economy performed better than expected in 2023-24, with the NSO growth estimates revised upwards.
- The first half saw 8.1% growth, followed by a strong 8.6% in Q3.
- The year ended with a remarkable 8.2% growth, boosted by election-related activities and political continuity post-elections.

Post-Poll Budget: Focus on Employment and Consumption

- In the 2024-25 Union Budget, Finance Minister emphasized employment, middle-class welfare, and schemes to boost skilling and job creation, along with some token income tax cuts.
- The government aimed to boost consumption to stimulate private investments while acknowledging the need for continued public infrastructure spending, with an ₹11.11 lakh crore capex plan to support growth.

Early Signs of Growth Slowdown

- The first GDP data for 2024-25 showed a 6.7% rise, marking a five-quarter low, due to the extended election period affecting capital spending.
- While the mood remained positive initially, growth concerns grew as high interest rates affected urban demand. Growth projections were revised down to around 6.5%, signaling potential cyclical slowdown.

Inflation and Rate Cut Hopes

- Although consumer inflation remained below 6% for most of the year, it spiked in September due to rising food prices, halting rate cut expectations.
- The RBI did not lower rates despite initial hopes, revising its 2024-25 growth forecast down to 6.6%.

- The ongoing inflationary pressures and high interest rates continue to strain consumption and investment.

The Road Ahead: Growth vs. Inflation

- With slowing growth and persistent inflation, the government faces challenges in balancing the two.
 - While interest rate cuts could help boost demand and investments, inflation remains a barrier.
 - The RBI and Finance Ministry's differing views on how to handle this growth-inflation flux will be crucial in shaping economic policy for 2025.
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Q.1. Why is inflation a major concern for India in 2025?

Inflation remains high due to volatile food prices, affecting consumption and investment. Despite government push for rate cuts to boost growth, inflationary pressures continue to challenge economic stability and policy decisions in 2025.

Q.2. What role does the RBI play in India's economic policy for 2025?

The RBI's decisions on interest rates will be crucial in managing inflation and stimulating growth. However, its stance on controlling inflation, amidst economic slowdown, will significantly impact India's growth trajectory in 2025.

Source: [Why inflation will matter more in 2025: Explained](#)

Source: <https://vajiramandravi.com/current-affairs/why-inflation-will-be-a-key-concern-in-2025-indias-economic-outlook/>

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