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GDP: Quarterly growth rises, annual expansion falls

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The latest growth data from the NSO revealed that gross value added (GVA) growth rose to 6.8% in Q4 FY2025 from the upward revised 6.5% in Q3 FY2025. The pace of acceleration in the GDP growth was much sharper between these quarters, with the same printing at 7.4% vis-à-vis 6.4%. However, in annual terms the GVA and GDP growth both slowed down materially by 215-270 bps in FY2025, to 6.4% and 6.5%, respectively, from as much as 8.6% and 9.2%, respectively, in the previous year.

While an improvement in growth was anticipated in Q4 FY2025 vis-à-vis Q3, the extent of the acceleration exceeded our expectations. The sizeable 102 bps acceleration in the GDP growth print between these quarters was largely led by net indirect taxes, which in turn was possibly impacted by the unevenness in the trends in quarterly subsidy pay-outs. Consequently, this 7.4% GDP growth reading for Q4 FY2025 should be interpreted with some caution.

The modest 27 bps acceleration in the GVA growth print between these quarters was mainly led by the industrial sub-sectors, particularly manufacturing and construction, which also outperformed ICRA’s expectations. The growth in the services eased to 7.3% from 7.4% in Q3 FY2025, led by the trade, hotels, transport and communication and services related to broadcasting, as well as public administration, Defence and other services segments, remaining above the 7.0% mark for the third straight quarter. Besides, the agri-GVA growth slowed to 5.4% from 6.6%, between these quarters, while remaining rather healthy, supported by a low base as well as robust growth in the output of most rabi crops.

On the expenditure side, gross fixed capital formation (GFCF) was the only major component to have witnessed an acceleration in Q4 FY2025 compared to Q3, with the growth touching a six-quarter high of 9.4%. This was supported by strong expansion in capex of both the Centre and the state governments. Moreover, net exports (in real terms) aided in bumping up the GDP numbers, amid an expansion in the surplus in Q4 compared to Q3, led by the sharp contraction in real imports during the quarter.

The growth in final consumption weakened between these quarters, led by a slowdown in private final consumption expenditure (PFCE) and a contraction in Government final consumption expenditure (GFCE), with the latter charting an uneven trend through the fiscal.

The dip in the GVA growth print to a four-year low of 6.4% in FY2025 from 8.6% in FY2024 was broad-based, with all sub-sectors, barring agriculture and public administration, Defence and other services segments, witnessing a slowdown between these years. Notably, the growth in the manufacturing sector saw a significant deceleration to 4.5% in FY2025 from the striking 12.3% in FY2024, which had been boosted by a low base.

On the expenditure side, the 270-bps dip in GDP growth in FY2025 vis-à-vis FY2024 was led by Government consumption and investment activity, even as PFCE growth accelerated to 7.2% from 5.6%, and a lower drag was witnessed on account of net exports (in real terms) between these years. The 7.0%-plus growth in PFCE in FY2025 is quite at odds with the general commentary around the weakness in urban consumption activity.

Looking ahead, ICRA expects the global uncertainties to modestly weigh upon growth, even as domestic drivers remain resilient. We foresee a small dip in the GDP growth to 6.2% in FY2026 from 6.5% in FY2025.

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