

GROSS DOMESTIC PRODUCT

Despite stronger-than-expected 7.4% print in Q4 FY2025, GDP growth slowed to 4-year low 6.5% in FY2025

MAY 2025





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YoY GDP growth printed at 7.4% in Q4 FY2025, higher than ICRA's forecast.

Net indirect tax growth surged to 12.7% in Q4 FY2025, even as uptick in GVA growth was quite modest (to +6.8% in Q4 from +6.5% in Q3).

Amid upward revision in Q3 print, GDP growth is estimated at 6.5% for FY2025, in line with NSO's forecast.

Given looming trade uncertainty, GDP growth projected to ease to 6.2% in FY2026.

India's year-on-year (YoY) GDP growth rose to a healthy 7.4% in Q4 FY2025 from 6.4% in Q3 FY2025, higher than ICRA's forecast of 6.9%. This was partly driven by the expected surge in net indirect tax growth (at 4-quarter high 12.7%), given the acceleration in GVA growth was relatively contained (to 6.8% from 6.5%, respectively). Nevertheless, manufacturing (at +4.8%), construction (at +10.8%), financial real estate and professional services (FRP: at +7.8%), and public administration, defence and other services (PADOS: at +8.7%) logged a higher pace of growth, relative to our projections. Amid an upward revision in the Q3 print, GDP growth has been placed at 6.5% for FY2025, in line with the National Statistical Office's (NSO's) second advance estimate. Going ahead, amid an unpredictable global environment, some domestic growth drivers appear resilient, which would aid in containing the slowdown in GDP growth to 6.2% in FY2026 from 6.5% in FY2025.

- **Q4 FY2025 GDP growth rose to better-than-expected 7.4%:** India's YoY real GDP growth accelerated to 7.4% in Q4 FY2025, higher than ICRA's forecast of 6.9%, while also exceeding the GVA growth of 6.8% in the quarter. After three quarters, the wedge between the two expectedly reverted to positive territory, widening to (+)62 bps in Q4 FY2024 from (-)13 bps in Q3 FY2025, given the surge in net indirect tax growth (to +12.7% in Q4 from +5.0% in Q3).
- **Industry on production side, while GFCF and net exports on expenditure side pushed up growth in Q4 over Q3:** The uptick in GVA growth to 6.8% in Q4 FY2025 from 6.5% in Q3 was primarily driven by GVA expansion for industry (to +6.5% in Q4 FY2025 from +4.8% in Q3 FY2025), even as that for agriculture, forestry and fishing (to +5.4% from +6.6%) and services (to +7.3% from +7.4%) eased in Q4 FY2025, compared to Q3. On the expenditure, side, gross fixed capital formation (GFCF; to +9.4% from +5.2%) and a larger surplus from net exports (to +3.7% of GDP from 0.1% of GDP) supported the acceleration in GDP growth to 7.4% from 6.4% in Q3 FY2025.
- **GDP growth to slow to 6.2% in FY2026:** While FY2026 has begun with heightened uncertainty around global trade policies, the outlook for domestic drivers of growth, including private consumption and Government investment appears largely resilient. However, that for merchandise and IT exports, and private capex, especially in export-oriented sectors, appears muted, although the relative tariff scenario will evolve as the year progresses. At present, ICRA forecasts GDP growth to dip slightly to 6.2% in FY2026 from 6.5% in FY2025.

1 Quarterly Analysis: Production Approach



2 Quarterly Analysis: Expenditure Approach



3 Quarterly Growth Revisions and Annual Trends



4 Outlook

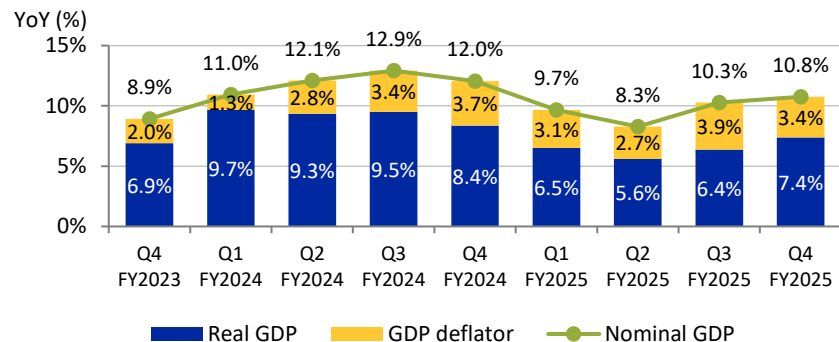


5 Annexure



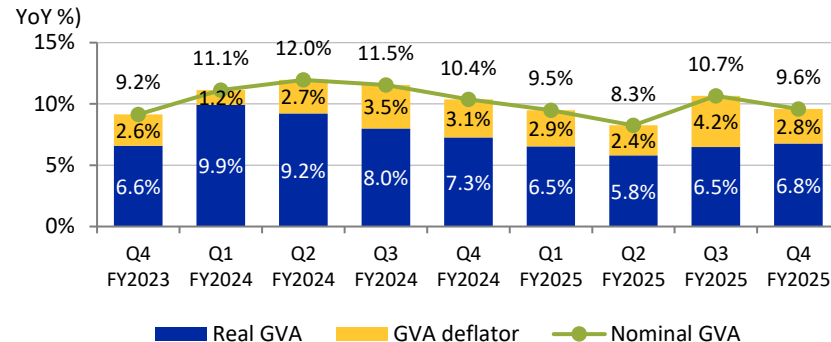
GDP growth pegged at stronger-than-expected 7.4% in Q4 FY2025

EXHIBIT: Quarterly trends in real & nominal GDP & deflator



Source: NSO; CEIC; ICRA Research

EXHIBIT: Quarterly trends in real & nominal GVA & deflator

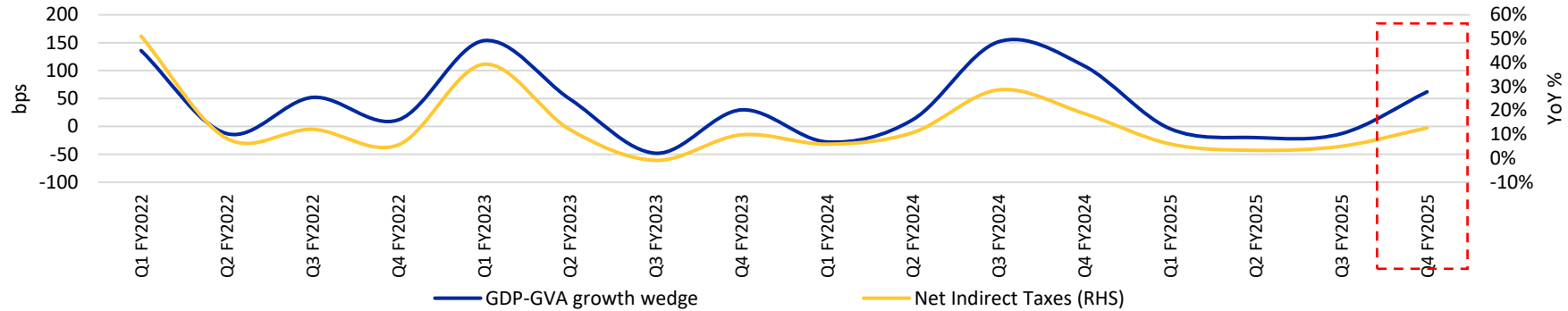


Source: NSO; CEIC; ICRA Research

- The data published by the NSO revealed that India's Q4 FY2025 YoY GDP growth rose to an enviable 7.4%, higher than ICRA's above-consensus forecast of 6.9%, while also exceeding the real GVA growth of 6.8% in the quarter. Consequently, the wedge between the two expectedly reverted to positive territory, widening to (+)62 bps in Q4 FY2024 from (-)13 bps in Q3 FY2025, owing to a sharp acceleration in the growth of net indirect taxes (NIT; to a four-quarter high +12.7% in Q4 from +5.0% in Q3, amid a compression in subsidy payments).
- In Q4 FY2025, manufacturing (at +4.8%), construction (at +10.8%), financial real estate and professional services (at +7.8%), and public administration, defense, and other services, etc. (at +8.7%) logged a healthier pace of growth, relative to our projections.
- In nominal terms, the YoY growth in GDP accelerated to a four-quarter high of 10.8% in Q4 FY2025 from 10.3% in Q3 FY2025, while that in GVA moderated to 9.6% from 10.7% between these quarters. The growth in the deflator for both GDP (to +3.4% from +3.9%) and GVA (to +2.8% from +4.2%) witnessed a moderation, although the pace of the same in the latter was higher than the former. This can be attributed to the softening in the CPI inflation (to +3.7% in Q4 FY2025 from +5.6% in Q3 FY2025) and the WPI inflation (to +2.3% from +2.5%) in Q4 FY2025 compared to Q3.

GDP-GVA growth wedge rose to +62 bps in Q4 FY2025, reverting to positive territory after a gap of three quarters

EXHIBIT: Wedge between GDP and GVA growth, and the growth in net indirect taxes (in real terms)



Net indirect taxes = taxes – subsidies; Source: CGA; CEIC; ICRA Research

- The wedge between the GDP and GVA growth reverted to the positive territory in Q4 FY2025 after a gap of three quarters, printing at (+)62 bps in Q4 FY2025 from (-)13 bps in Q3 FY2025.
- This is primarily on account of the sharp uptick in the growth of net indirect taxes (to +12.7% in Q4 FY2025 from +5.0% in Q3 FY2025; in real terms) aided by sharp contraction in the subsidy payments by the GoI in Q4 FY2025 (-40.7% vs. +31.1% in Q3 FY2025). In nominal terms, the growth in net indirect taxes on products rose quite sharply (+22.7% in Q4 FY2025 vs. +6.5% in Q3 FY2025) between these quarters.
- In aggregate, the GDP and GVA growth have been estimated at 6.5% and 6.4%, respectively, in FY2025, implying a wedge of just 8 bps which is much lower than the levels seen in the prior three fiscal years (FY2024: +63 bps; FY2023: +39 bps and FY2022: +31 bps).

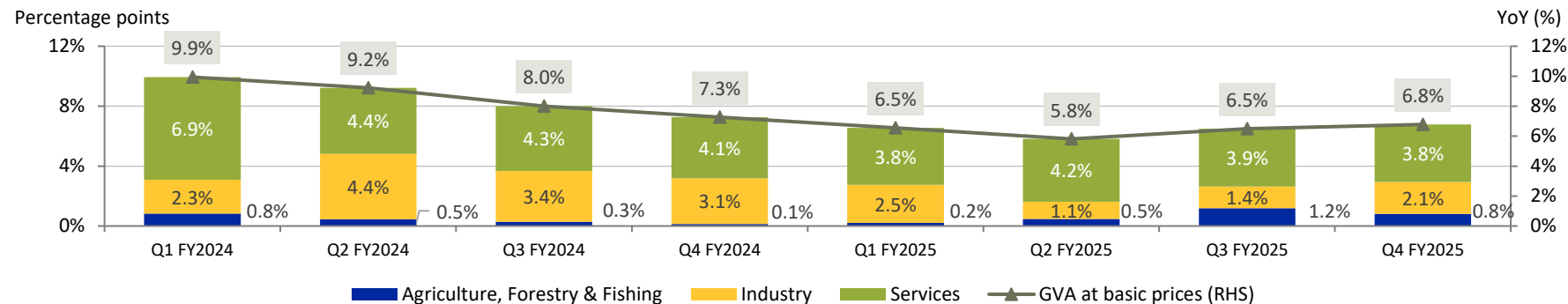


Quarterly Analysis - Production Approach

GVA growth rose modestly to 6.8% in Q4 FY2025 from 6.5% in Q3, led by industrial sector

Uptick in GVA growth to 6.8% in Q4 FY2025 from 6.5% in Q3 FY2025 was led by the industrial segment

EXHIBIT: Contribution of GVA components

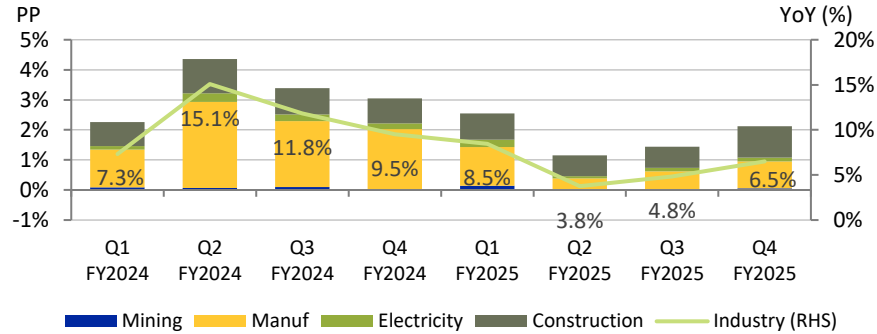


Source: NSO; CEIC; ICRA Research

- Surpassing ICRA's forecast (+6.3%), the YoY growth in GVA at basic prices increased to a four-quarter high of 6.8% in Q4 FY2025 from 6.5% in Q3 FY2025. This was primarily driven by the uptick in GVA expansion for industry (to +6.5% in Q4 FY2025 from +4.8% in Q3 FY2025), even as that for agriculture, forestry and fishing (to +5.4% from +6.6%) and services (to +7.3% from +7.4%) eased in Q4 FY2025, compared to the prior quarter.
- In terms of contribution, services accounted for 3.8 percentage points (pp) of the 6.8% GVA growth in Q4 FY2025, followed by 2.1 pp stemming from industry, while agriculture, forestry and fishing contributed a modest 0.8 pp to the GVA growth.
- Excluding agriculture, the GVA growth stood at a stronger 7.0% in Q4 FY2025 (vs. +6.5% in Q3 FY2025).

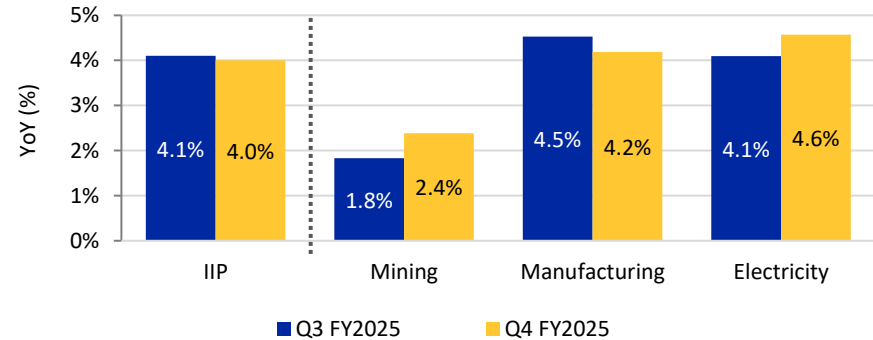
Industrial GVA growth at a 3-quarter high 6.5% in Q4 FY2025, amid strong performance of construction and manufacturing

EXHIBIT: Contribution of components of Industry



Mining: Mining & Quarrying; Manuf: Manufacturing; Electricity: Electricity, gas, water supply & other utility services; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of the IIP and its components

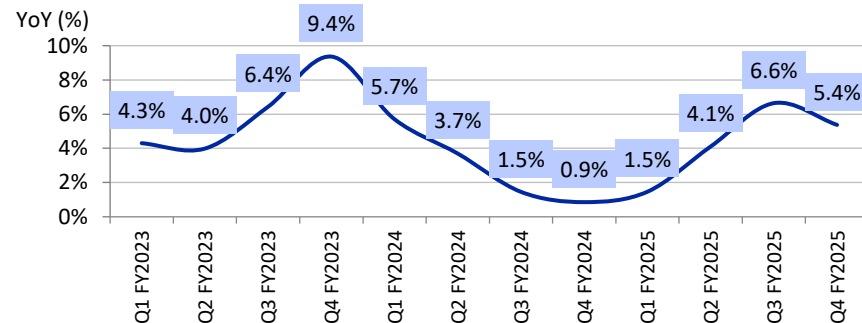


Source: NSO; CEIC; ICRA Research

- Industrial GVA growth reported a stronger-than-expected acceleration to 6.5% in Q4 FY2025 (+9.5% in Q4 FY2024) from 4.8% in Q3 FY2025 (+11.8% in Q3 FY2024), partly supported by a favorable base. On disaggregated basis, the trend was broad-based across the four sub-sectors, including construction (to a 6-quarter high +10.8% from +7.9%, supported by the strong uptick in Government capex growth), manufacturing (to +4.8% from +3.6%), mining and quarrying (to +2.5% from +1.3%), and electricity, gas, water supply and other utility services (to +5.4% from +5.1%) to a mild extent.
- The uptick in manufacturing GVA growth reflects an improvement in the profitability of listed players in Q4 FY2025 compared to Q3, even as there was a slight dip in manufacturing output growth as measured by the IIP (+4.2% in Q4 vs. +4.5% in Q3).
- Industry accounted for 2.1 pp of the GVA growth in Q4 FY2025, mainly driven by construction (+1.1 pp) and manufacturing (+0.9 pp), followed by a marginal contribution from mining (+0.1 pp) and electricity (+0.1 pp).

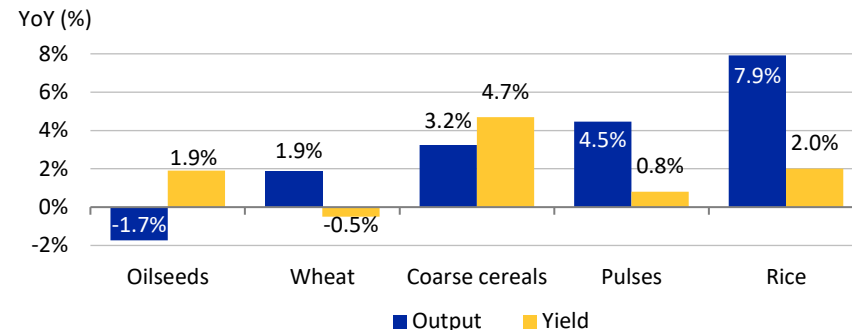
Agri-GVA growth remained healthy at 5.4% in Q4 FY2025, albeit slower than 6.6% seen in Q3 FY2025

EXHIBIT: Growth in Agriculture, Forestry and Fishing (constant 2011-12 prices)



Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY trends in output and yield of rabi crops as per 2nd advance estimates 2024-25 (over final estimates of 2023-24)

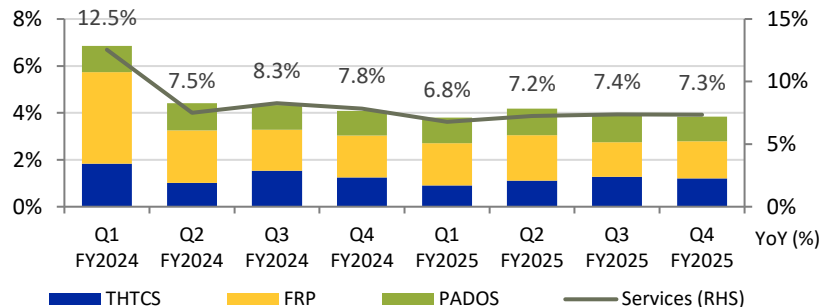


Source: Ministry of Agriculture and Farmers' Welfare; ICRA Research

- The GVA of agriculture, forestry and fishing reported a healthy growth of 5.4% in Q4 FY2025 (+0.9% in Q4 FY2024), aided by a muted base, while reflecting the robust increase in the output of most rabi crops.
- As per the second advance estimates of crop production released by the Ministry of Agriculture and Farmers' Welfare, the output of rabi wheat (+1.9%), coarse cereals (+3.2%), pulses (+4.5%) and rice (+7.9%) is estimated to have risen in 2024-25, compared to the final estimates for 2023-24, while oilseeds' production is projected to have moderated by 1.7%.
- As anticipated, the agri-GVA growth for Q3 FY2025 has undergone a sharp upward revision to 6.6% from the initial estimate of 5.6%, likely on the back of better-than-expected turnout of kharif crop output (in 2nd AE over the 1st AE for 2024-25).

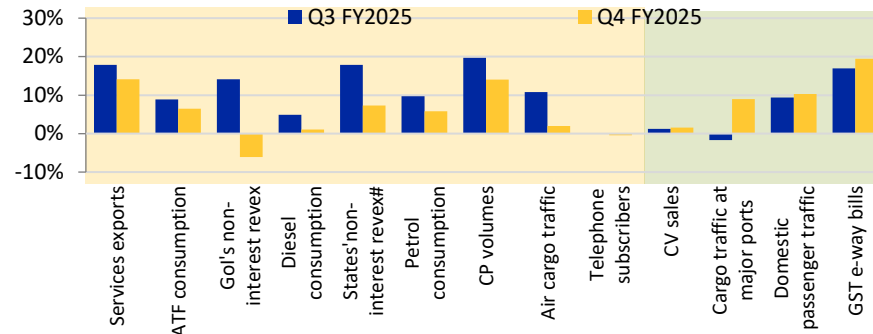
Service GVA growth sustained above 7% mark for third straight quarter in Q4 FY2025, despite a marginal dip from Q3 FY2025

EXHIBIT: Contribution of components of Services



THTCS: Trade, hotels, transport, communication & services related to broadcasting; FRP: Financial, real estate & professional services; PADOS: Public administration, defence & other service; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of service sector indicators in Q3-Q4 FY2025



#26 states excluding Bihar and Goa; Source: RBI; TRAI; PPAC; CGA; CAG; AAI; CEIC; DGCA; GSTN; IPA; CMIE; CEIC; ICRA Research

- The performance of the services sector was resilient through FY2025, printing above the 7% mark for the third straight quarter in Q4 FY2025. However, the growth edged lower to 7.3% in Q4 FY2025 from 7.4% in Q3 FY2025, driven by the THTCS and PADOS segments, even as the FRP growth improved to a 4-quarter high.
 - **THTCS (to +6.0% in Q4 from +6.7% in Q3):** While several indicators pertaining to the trade, transport and telecom segments deteriorated in Q4 FY2025, compared to Q3, the performance of hotels sector saw an improvement (pan-India premium hotel occupancy at 75-76% in Q4 FY2025 vs. 73-75% in Q3 FY2025).
 - **PADOS (to +8.7% from +8.9%):** The pace of easing is much milder than the sharp moderation in growth of combined non-interest revex of 26 state governments, for which data is available (to +7.3% from +17.9%) and the contraction in Gol's non-interest revenue spending (-6.1% vs. +14.1%) in Q4 FY2025.
 - **FRP (to +7.8% from +7.1%):** The YoY growth in deposits picked up (to +10.3% from +9.8%) in Q4 FY2025 compared to Q3, while that in non-food bank credit was largely unchanged at ~11% between these quarters. Nevertheless, the uptick in FRP growth stood at odds with the performance of the real estate sector, with a continued contraction in the area sold in the top seven cities (to -11.7% in Q4 FY2025 from -10.2% in Q3 FY2025), and the deceleration in services exports (to +14.1% from +17.9%).

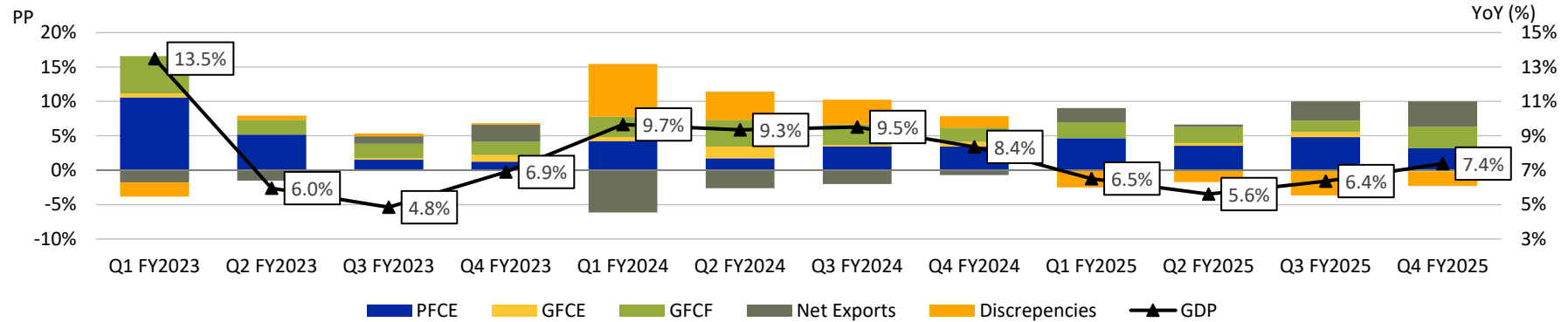


Quarterly Analysis: Expenditure Approach

Uptick in GDP growth in Q4 FY2025 relative to Q3 was led by GFCF and net exports

GDP growth accelerated to 7.4% in Q4 vs. 6.4% in Q3 FY2025, led by GFCF and net exports, even as PFCE growth eased and GFCE contracted

EXHIBIT: Contribution of GDP components

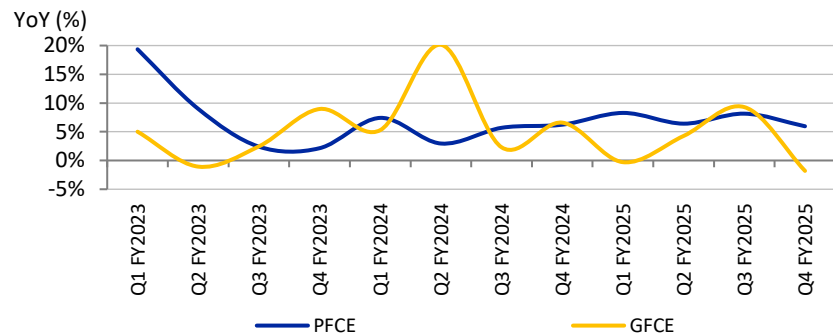


PFCE: Private Final Consumption Expenditure; GFCE: Government Final Consumption Expenditure; GFCF: Gross Fixed Capital Formation; Source: NSO; CEIC; ICRA Research

- Exceeding ICRA's expectations (+6.9%), the YoY GDP growth rose to 7.4% in Q4 FY2025 from the upwardly revised print of 6.4% recorded in Q3 FY2025, largely led by GFCF (to a six-quarter high +9.4% in Q4 FY2025 from +5.2% in Q3 FY2025), and a larger surplus for net exports (to Rs. 1.9 trillion from Rs. 0.03 trillion; in real terms). However, the growth in PFCE eased (to +6.0% from +8.1%), GFCE contracted after a gap of two quarters (to -1.8% from +9.3%) in Q4 FY2025 vis-à-vis Q3 FY2025.
- Curiously, net exports accounted for 3.7 pp to the 7.4% GDP growth in Q4 FY2025, followed by PFCE (3.2 pp) and GFCF (3.1 pp).
- Discrepancies refer to the residual that remains after disaggregating GDP into its expenditure components, such as PFCE, GFCE, GFCF and net exports. The discrepancies in the GDP data for Q4 FY2025 widened to (-) Rs. 1.6 trillion (at 2011-12 prices) from (-) Rs. 1.4 trillion in Q3 FY2025, while remaining significantly higher than the (-) Rs. 595 billion seen in Q4 FY2024. Accordingly, the growth of some of the components of GDP may be revised substantially.

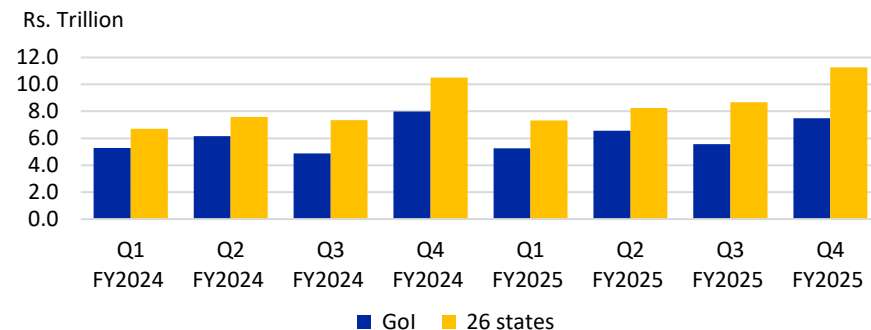
PFCE growth eased to 6.0% in Q4 FY2025, while GFCE contracted led by slowdown in Government revex

EXHIBIT: Growth in PFCE and GFCE (Constant 2011-12 Prices)



PFCE: Private Final Consumption Expenditure; GFCE: Government Final Consumption Expenditure;
Source: NSO; CEIC; ICRA Research

EXHIBIT: Trends in non-interest revenue expenditure of Centre and 26 states*

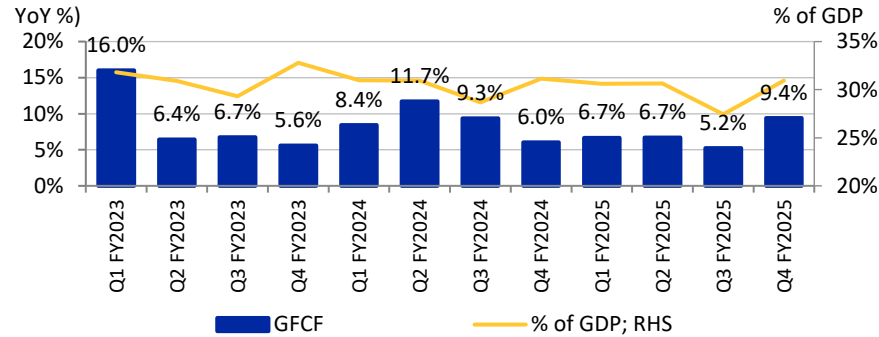


*26 states excluding Bihar, and Goa; Source: CGA; CAG; CEIC; ICRA Research

- The YoY growth in PFCE eased to a five-quarter low of 6.0% in Q4 FY2025 (+6.2% in Q4 FY2024) from 8.1% in Q3 FY2025 (+5.7% in Q3 FY2024), amid unevenness in consumption demand. This reflects the deterioration in the growth performance of the consumer non-durables (to +5.9% in Q4 FY2025 from +9.0% in Q3 FY2025) and durables output (to -2.0% -1.6%), as well as the marginal slowdown in services GVA growth between these quarters.
- In contrast, the GFCE contracted by 1.8% in Q4 FY2025 (+6.6% in Q4 FY2024) after having risen by 9.3% in Q3 FY2025 (+2.3% in Q3 FY2024), partly weighed down by an unfavourable base. This was in line with the slowdown in the YoY growth of the combined revenue expenditure of 26 state governments* (to +7.3% from +17.9%) in Q4 FY2025, relative to Q3 FY2025 as well as Gol's non-interest revenue expenditure (to -6.1% in Q4 FY2025 from 14.1% in Q3 FY2025).

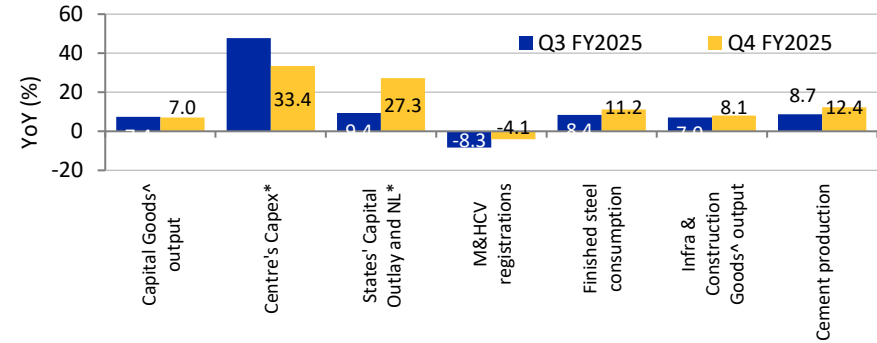
GFCF growth rose to a 6-quarter high of 9.4% in Q4 FY2025 from 5.2% in Q3, owing to improvement in construction-related indicators and a low base

EXHIBIT: GFCF - YoY in real terms and % of GDP in nominal terms



GFCF: Gross Fixed Capital Formation; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of investment related indicators

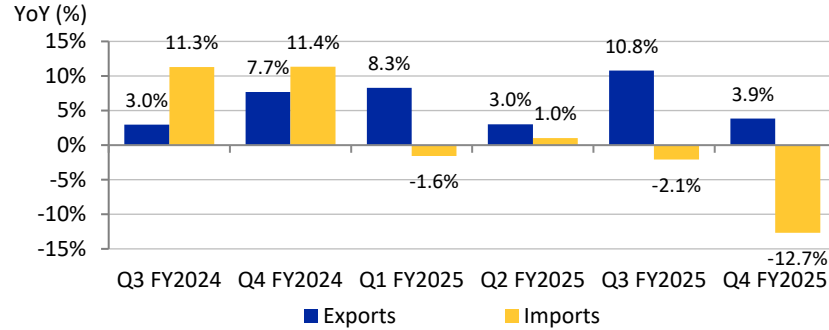


*26 states excluding Bihar, and, Goa [^]As per IIP data; Source: CGA; NSO; CEIC; ICRA Research

- The YoY growth in GFCF surged to 9.4% in Q4 FY2025 (+6.0% in Q4 FY2024) from 5.2% in Q3 FY2025 (+9.3% in Q3 FY2024), partly supported by a favorable base.
- The growth in most construction-related indicators improved, including infrastructure/construction goods' output (to +8.1% from 7.0%), cement production (to +12.4% from +8.7%), finished steel consumption (to +11.2% from +8.2%), and M&HCV registrations-truck segment (to -4.1% from -8.3%) in Q4 vs. Q3 FY2025. Additionally, the growth in aggregate capital outlay and net lending of 26 state governments* (to +27.3% from +9.4%) rose during the period.
- While the Gol's gross capital expenditure recorded a slower expansion (+33.4% in Q4 FY2025 vs. +47.7% in Q3 FY2025) between these quarters, the growth remained quite strong in Q4. Besides, the YoY growth in capital goods' output (to +7.0% from +7.4%), engineering goods' exports (to -2.9% from +20.1%) and imports (to +3.0% from +3.6%) also moderated between these quarters.
- The share of nominal GFCF in GDP rose to 31.0% in Q4 FY2025 from 27.4% in Q3 FY2025, while printing similar to the 31.1% seen in Q4 FY2024.

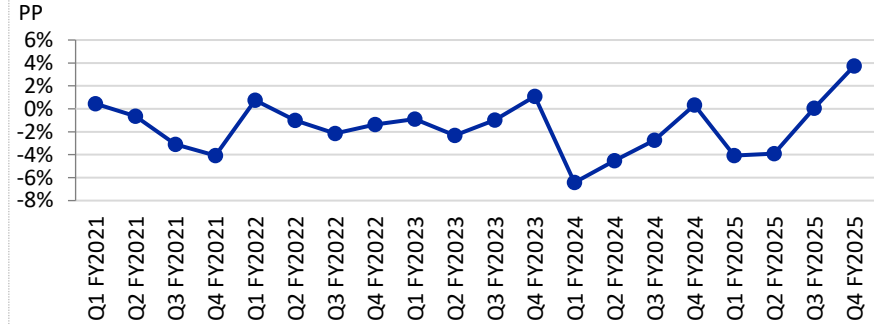
Surplus in net exports widened in Q4 FY2025 vis-à-vis Q3, supporting the GDP expansion

EXHIBIT: YoY Growth of Exports and Imports (Constant 2011-12 Prices)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Net exports as % of GDP (Constant 2011-12 prices)



Source: NSO; CEIC; ICRA Research

- The YoY growth in exports (at constant prices) narrowed to 3.9% in Q4 FY2025 from 10.8% in Q3 FY2025, while the contraction in imports widened sharply to 12.7% from 2.1% between these quarters. As a result, the net exports surplus expanded to Rs. 1.9 trillion (+3.7% of GDP) from Rs. 0.03 trillion (+0.1% of GDP) in Q3 FY2025, thereby supporting the GDP expansion in the quarter.
- In nominal terms, export growth witnessed a moderation to 8.0% in Q4 FY2025 from 11.3% in Q3 FY2025, in line with the trend seen in services exports (to +14.1% in Q4 FY2025 from +17.9% in Q3 FY2025; as per RBI data) and merchandise exports (to -4.2% from +3.0%; as per the data released by the Ministry of Commerce). Likewise, imports also slowed down to 6.3% in Q4 FY2025, from 10.7% in Q3 FY2025, tracking the moderation in the growth in merchandise imports (to +1.2% from +6.5%; as per the Commerce Ministry), and services imports (to +4.3% from +22.2%; as per RBI data) between these quarters.

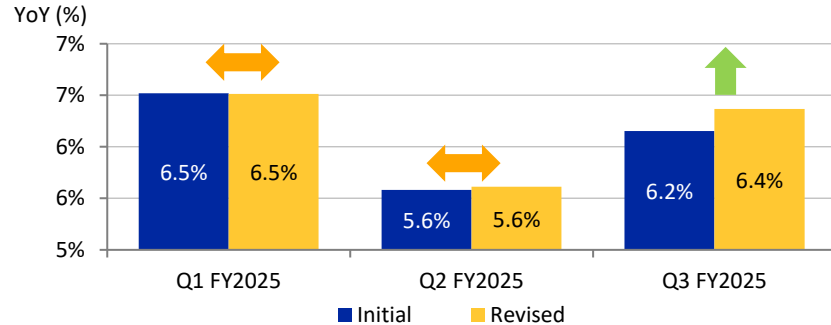


Quarterly Growth Revisions and Annual Trends

Q3 FY2025 GDP growth raised to 6.4% from initial 6.2%, taking FY2025 growth estimate to 6.5%, in line with NSO's second forecast

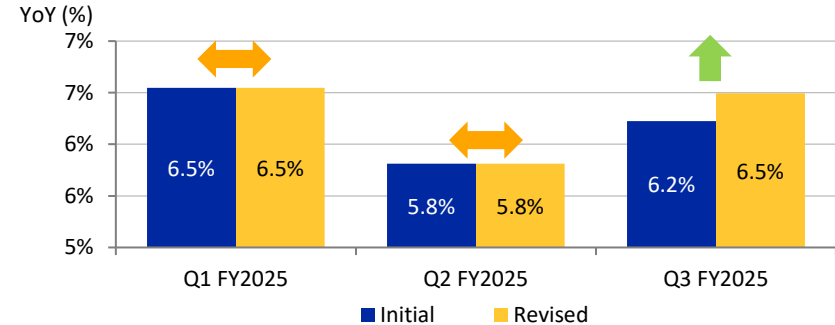
GDP and GVA growth for Q3 FY2025 revised upwards to 6.4% and 6.5%, 21-27 bps higher than initial estimates

EXHIBIT: Quarterly revisions in GDP at Basic Prices (Constant 2011-12 Prices)



Source: NSO; CEIC; ICRA Research

EXHIBIT: Quarterly revisions in GVA at Basic Prices (Constant 2011-12 Prices)

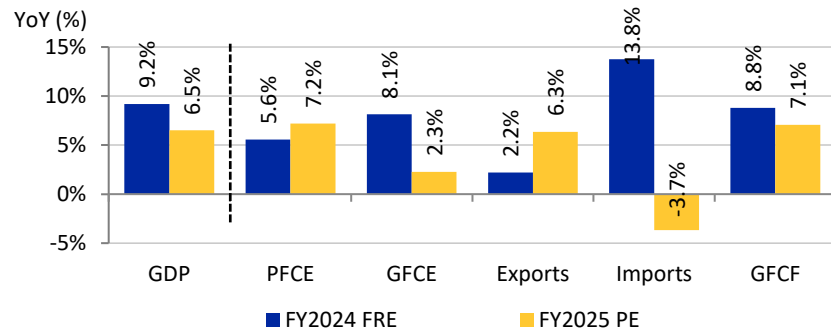


Source: NSO; CEIC; ICRA Research

- The GDP growth rates for Q1-Q2 FY2025 were kept unchanged at their previous estimates, while that for Q3 FY2025 was revised up by 21 bps to 6.4% from the initial print of 6.2%. The latter was accompanied by the upward revision in growth rates for PFCE (to +8.1% from initial +6.9%) and GFCE (to +9.3% from initial +8.3%), outweighing the paring in growth estimate for GFCF (to +5.2% from initial +5.7%).
- On the production side, the GVA growth was revised upwards to 6.5% in Q3 FY2025 from the initial print of 6.2%, while the growth rates for Q1-Q2 FY2025 were kept unchanged at 6.5%/5.8%. The upward revision in Q3 FY2025 was mainly attributed to agriculture, forestry and fishing, which recorded a YoY growth of 6.6%, much stronger than initial print of 5.6%, owing to better-than-estimated kharif output turnout. Besides, construction GVA growth also underwent an upward revision in Q3 FY2025, by 90 bps to 7.9% from the 7.0% initially estimated in February 2025.

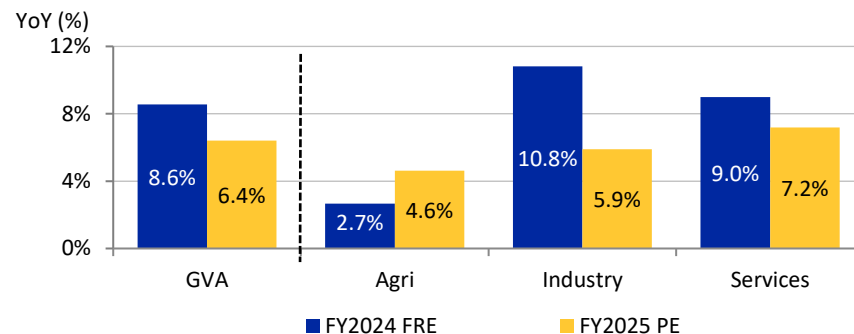
GDP/GVA growth slowed to 4-year low of 6.5%/6.4% in FY2025 PE

EXHIBIT: Annual trends in Real GDP and its components



FRE: First Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

EXHIBIT: Annual trends in real GVA and its components

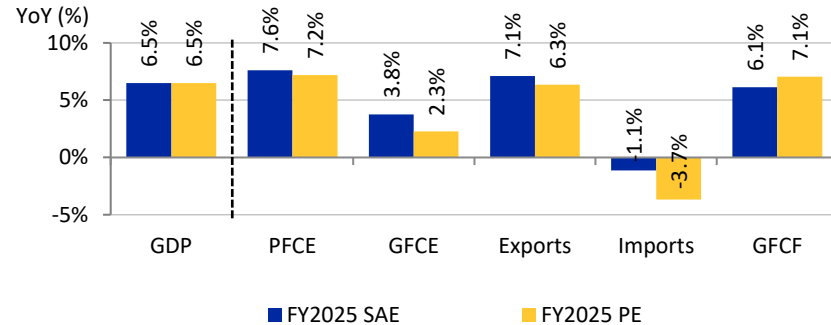


Agri: Agriculture, Forestry and Fishing; Source: NSO; CEIC; ICRA Research

- The NSO has pegged the YoY growth in GDP and GVA at 6.5% and 6.4%, respectively, in its provisional estimates (PE) for FY2025. These are much lower than the 9.2% and 8.6% expansion seen in FY2024, respectively.
- The slump in the GVA growth print to a four-year low of 6.4% in FY2025 from 8.6% in FY2024 was fairly broad based, with all sub-sectors, barring agriculture and PADOS segments, witnessing a slowdown between these years. Notably, the growth in the manufacturing sector witnessed a significant deceleration to 4.5% in FY2025 from a striking 12.3% in FY2024, which had been boosted by a low base.
- On the expenditure side, the 270-bps moderation in GDP growth in FY2025 vis-à-vis FY2024 was led by GFCE and GFCF, 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.

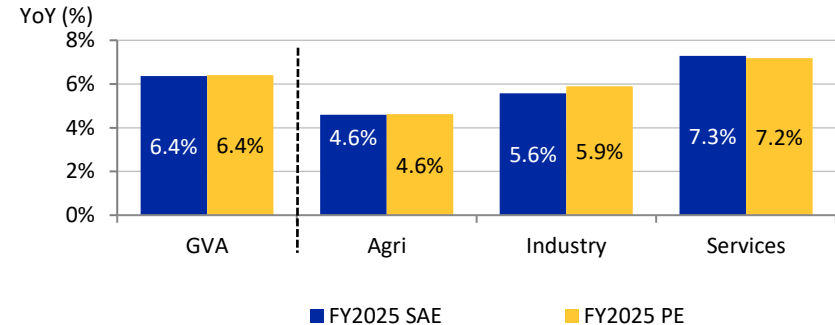
YoY growth in GDP and GVA remained unchanged in FY2025 PE vs. SAE

EXHIBIT: YoY (%) trends in GDP in FY2025 SAE vs. PE



SAE: Second Advance Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY (%) trends in GVA in FY2025 SAE vs. PE

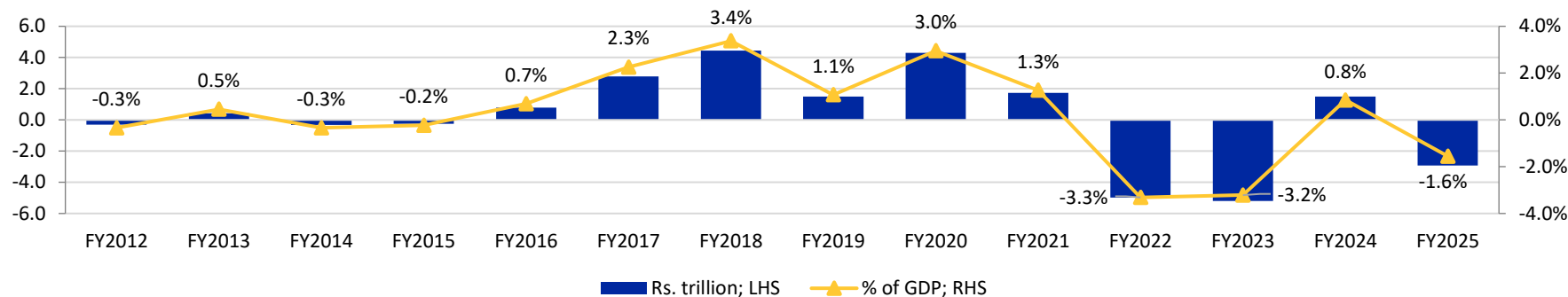


SAE: Second Advance Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

- The NSO has maintained the YoY GDP growth unchanged at 6.5% in the FY2025 PE, relative to the SAE released in February 2025. However, there are revisions in the sub-components, with greater support from net exports owing to sizeable downward revision in the imports (-3.7 vs. -1.1% in SAE) vis-à-vis exports (+6.3% vs. +7.1%) and upward revision in GFCF (+7.1% vs. +6.1%). This was offset by the downward revision in the estimated growth of GFCE (+2.3% vs. +3.8%) and PFCF (+7.2% vs. +7.6%) during the period.
- Likewise, the GVA growth was kept unchanged at 6.4% in FY2025 PE vis-à-vis SAE, with an upward revision in industry (to +5.9% in PE vs. 5.6% in SAE; stemming from +72 bps upward revision in construction) followed by a downward revision in services (+7.2% vs. +7.3%; driven by THTCS segment).

Discrepancy reversed signs in FY2025, widening to (-)1.6% of GDP from (+)0.8% in FY2024

EXHIBIT: Discrepancy (Rs. trillion and as % of GDP) at constant 2011-12 prices



Discrepancies refer to the residual that remains after disaggregating GDP into its expenditure components, such as PFCE, GFCE, GFCF and net exports; Source: NSO, ICRA Research

- In real terms, discrepancies have turned quite volatile since FY2017, after remaining within controlled levels of sub- +/- Rs. 1.0 trillion during FY2012-2016. The magnitude worsened during FY2022-2023, partly led by disruptions related to Covid-19 pandemic and possible irregularities in the data compilation. Thereafter, discrepancy has risen from (-)Rs. 5.2 trillion in FY2023 to (+) Rs. 1.5 trillion in FY2024 and reversed again to (-)Rs. 2.9 trillion in FY2025.
- As a % of GDP, discrepancy reversed and more than doubled to (-)1.6% of GDP in FY2025 from (+)0.8% of GDP in FY2024.



OUTLOOK FOR FY2026

ICRA expects GDP growth to ease to 6.2% in FY2026

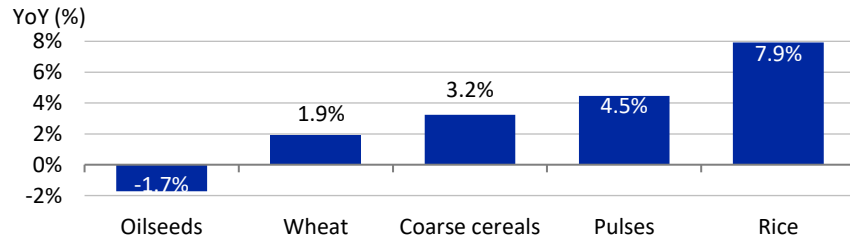
Outlook for private consumption appears upbeat in FY2026

EXHIBIT: Sizeable income tax relief in FY2026 (with a revenue foregone of ~Rs. 1.0 trillion as per the GoI) is set to increase discretionary income of households and spur demand for auto, services, etc.

Tax slabs (%)	Previous (Rs.)	Revised (Rs.)
Nil	0 to 3 lakhs	0 to 4 lakhs
5%	3-7 lakhs	4-8 lakhs
10%	7-10 lakhs	8-12 lakhs
15%	10-12 lakhs	12-16 lakhs
20%	12-15 lakhs	16-20 lakhs
25%	-	20-24 lakhs
30%	Above 15 lakhs	Above 24 lakhs

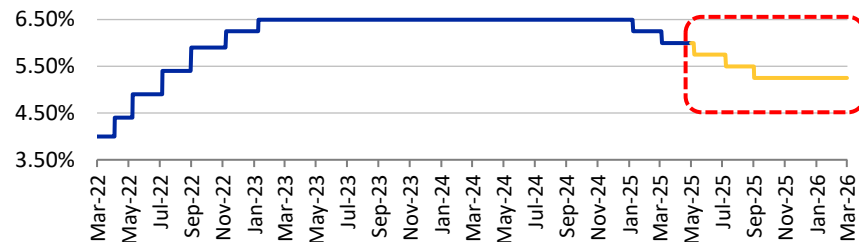
Source: Union Budget; ICRA Research

EXHIBIT: The output of most major rabi crops is expected to grow in YoY terms as per SAE of 2024-25, which is likely to keep rural demand upbeat aided by cash flows on account of the rabi harvest



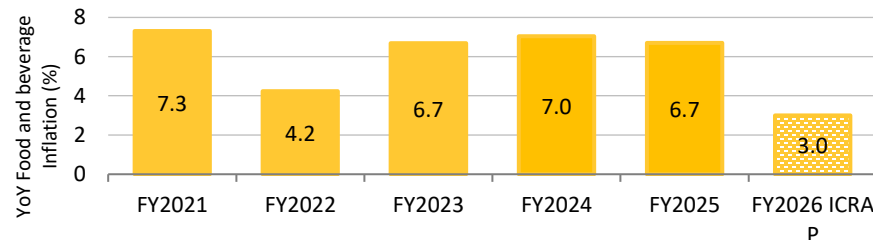
Source: Ministry of Agriculture and Farmers' Welfare; ICRA Research

EXHIBIT: Following the policy repo rate cut of 50 bps during Feb-April 2025, another 75 bps cuts are expected in CY2025 spread over the next three meetings, which would help reduce borrowing costs, push up spending



Yellow line depicts ICRA projections; Source: RBI; ICRA Research

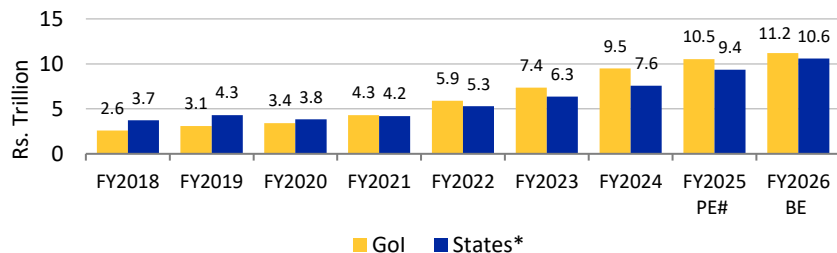
EXHIBIT: The IMD's outlook of an above-normal monsoon in 2025 would support the timely kick-off of kharif sowing and reduce food inflation, auguring well for the budgets of low- and middle-income households



P: Projected; Source: NSO; CEIC; ICRA Research

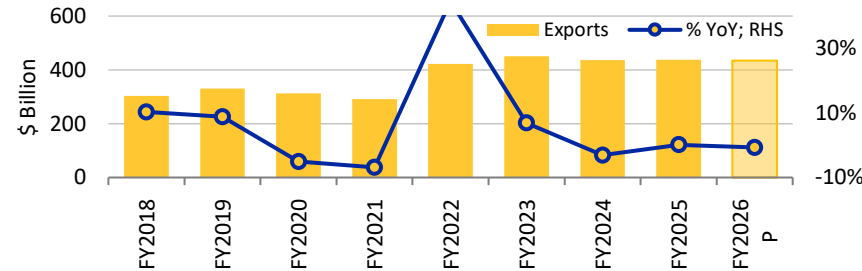
GDP to grow by 6.2% in FY2026 with downside risks stemming from trade policies

EXHIBIT: Centre's capex needs to rise by 6.5% to meet the FY2026 BE following the overshooting in FY2025; state capex to record double-digit growth, which should support investment demand in the fiscal



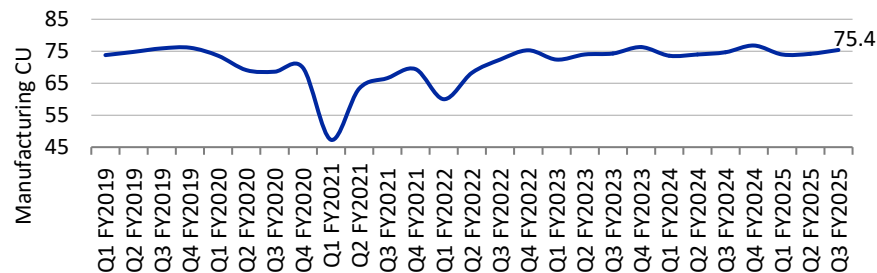
PE: Provisional estimates; BE: Budget Estimates; *Sample comprises of 26 states excluding Manipur and Mizoram; # FY2025 RE for states as PE not yet available; Source: Gol Budget Documents; CGA; Ministry of Finance, Gol; ICRA Research

EXHIBIT: The outlook for merchandise exports (ICRA P: 1-2% YoY decline) for FY2026 remains clouded by tariff wars and redirection of trade flows and could pose downside risks to India's growth outlook



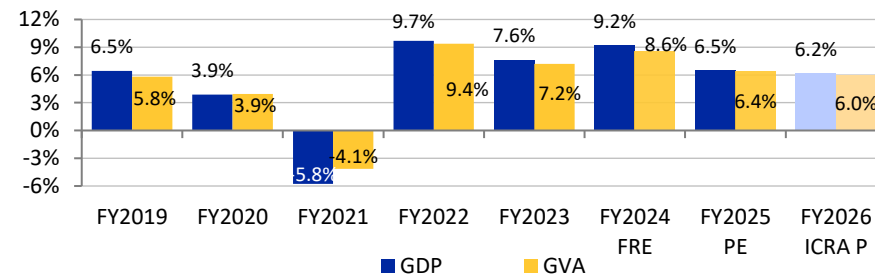
P: Projected; Source: Ministry of Commerce; ICRA Research

EXHIBIT: Weak external demand and elevated policy uncertainty may delay broad basing of private capex cycle in FY2026, in spite of elevated capacity utilisation levels and healthy balance sheets



Source: RBI; ICRA Research

EXHIBIT: ICRA estimates real GDP and GVA growth to ease to 6.2% and 6.0%, respectively, in FY2026



FRE: First Revised Estimates; PE: Provisional Estimates; P: Projected; Source: NSO; CEIC; ICRA Research



Annexure

EXHIBIT: GVA at Basic Prices and its Components (YoY Growth, Constant 2011-12 Prices)

	Q3 FY2024	Q4 FY2024	Q1 FY2025	Q2 FY2025	Q3 FY2025	Q4 FY2025	FY2023 SRE	FY2024 FRE	FY2025 PE
GVA at Basic Prices	8.0%	7.3%	6.5%	5.8%	6.5%	6.8%	7.2%	8.6%	6.4%
Agriculture, Forestry & Fishing	1.5%	0.9%	1.5%	4.1%	6.6%	5.4%	6.3%	2.7%	4.6%
Industry	11.8%	9.5%	8.5%	3.8%	4.8%	6.5%	2.5%	10.8%	5.9%
Mining & Quarrying	4.7%	0.8%	6.6%	-0.4%	1.3%	2.5%	3.4%	3.2%	2.7%
Manufacturing	14.0%	11.3%	7.6%	2.2%	3.6%	4.8%	-1.7%	12.3%	4.5%
Electricity, gas, water supply & other utilities	10.1%	8.8%	10.2%	3.0%	5.1%	5.4%	10.8%	8.6%	5.9%
Construction	10.0%	8.7%	10.1%	8.4%	7.9%	10.8%	9.1%	10.4%	9.4%
Services	8.3%	7.8%	6.8%	7.2%	7.4%	7.3%	10.3%	9.0%	7.2%
Trade, Hotels, Transport, Communication & Services related to Broadcasting	8.0%	6.2%	5.4%	6.1%	6.7%	6.0%	12.3%	7.5%	6.1%
Financial, Real Estate & Professional Services	8.4%	9.0%	6.6%	7.2%	7.1%	7.8%	10.8%	10.3%	7.2%
Public Administration, Defence and Other Services	8.4%	8.7%	9.0%	8.9%	8.9%	8.7%	6.7%	8.8%	8.9%

SRE: Second Revised Estimates; FRE: First Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

EXHIBIT: GDP and Final Expenditures (YoY Growth, Constant 2011-12 Prices)

	Q3 FY2024	Q4 FY2024	Q1 FY2025	Q2 FY2025	Q3 FY2025	Q4 FY2025	FY2023 SRE	FY2024 FRE	FY2025 PE
GDP	9.5%	8.4%	6.5%	5.6%	6.4%	7.4%	7.6%	9.2%	6.5%
PFCE	5.7%	6.2%	8.3%	6.4%	8.1%	6.0%	7.5%	5.6%	7.2%
GFCE	2.3%	6.6%	-0.3%	4.3%	9.3%	-1.8%	4.3%	8.1%	2.3%
Exports	3.0%	7.7%	8.3%	3.0%	10.8%	3.9%	10.3%	2.2%	6.3%
Imports	11.3%	11.4%	-1.6%	1.0%	-2.1%	-12.7%	8.9%	13.8%	-3.7%
Gross Capital Formation	12.4%	9.1%	6.2%	7.7%	4.9%	7.8%	7.6%	10.5%	6.7%
GFCF	9.3%	6.0%	6.7%	6.7%	5.2%	9.4%	8.4%	8.8%	7.1%
Change in Stocks	55.8%	52.0%	7.5%	2.1%	3.5%	4.8%	24.3%	53.4%	4.5%
Valuables	54.7%	63.1%	-23.1%	25.8%	-0.5%	-29.8%	-16.9%	14.4%	0.6%

SRE: Second Revised Estimates; FRE: First Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

EXHIBIT: Composition of GVA at Basic Prices (at Current Prices)

	Q3 FY2024	Q4 FY2024	Q1 FY2025	Q2 FY2025	Q3 FY2025	Q4 FY2025	FY2023 SRE	FY2024 FRE	FY2025 PE
GVA at Basic Prices	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<i>Agriculture, Forestry & Fishing</i>	<i>21.7%</i>	<i>18.1%</i>	<i>16.2%</i>	<i>14.5%</i>	<i>22.7%</i>	<i>18.0%</i>	<i>18.1%</i>	<i>17.8%</i>	<i>17.9%</i>
<i>Industry</i>	<i>26.5%</i>	<i>29.7%</i>	<i>27.4%</i>	<i>26.4%</i>	<i>25.3%</i>	<i>29.3%</i>	<i>27.7%</i>	<i>27.8%</i>	<i>27.1%</i>
Mining & Quarrying	1.9%	2.2%	2.1%	1.5%	1.6%	2.0%	2.1%	1.9%	1.8%
Manufacturing	13.3%	15.1%	13.8%	14.1%	12.7%	14.9%	14.3%	14.3%	13.9%
Electricity, gas, water supply & other utilities	2.7%	2.8%	2.8%	2.7%	2.6%	2.7%	2.5%	2.8%	2.7%
Construction	8.6%	9.6%	8.8%	8.1%	8.3%	9.7%	8.8%	8.8%	8.8%
<i>Services</i>	<i>51.7%</i>	<i>52.2%</i>	<i>56.4%</i>	<i>59.1%</i>	<i>52.0%</i>	<i>52.8%</i>	<i>54.3%</i>	<i>54.4%</i>	<i>54.9%</i>
Trade, Hotels, Transport, Communication & Services related to Broadcasting	17.9%	19.1%	15.6%	17.5%	17.8%	19.0%	17.9%	17.6%	17.5%
Financial, Real Estate & Professional Services	20.1%	19.8%	25.9%	26.2%	20.0%	20.0%	22.7%	22.8%	22.9%
Public Administration, Defence and Other Services	13.8%	13.3%	14.9%	15.3%	14.2%	13.8%	13.6%	14.0%	14.5%

SRE: Second Revised Estimates; FRE: First Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

EXHIBIT: Composition of GDP and Final Expenditures (at Current Prices)

	Q3 FY2024	Q4 FY2024	Q1 FY2025	Q2 FY2025	Q3 FY2025	Q4 FY2025	FY2023 SRE	FY2024 FRE	FY2025 PE
GDP	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
PFCE	63.2%	58.2%	60.1%	62.2%	65.1%	58.3%	61.5%	60.2%	61.4%
GFCE	8.4%	12.2%	10.0%	10.0%	8.7%	11.1%	10.3%	10.3%	10.0%
Exports	20.9%	21.9%	21.0%	21.1%	21.1%	21.4%	23.3%	21.4%	21.2%
Imports	23.7%	22.8%	23.4%	25.2%	23.7%	21.8%	26.8%	23.5%	23.5%
Gross Capital Formation	31.6%	34.1%	32.6%	35.2%	30.4%	33.6%	33.6%	33.4%	32.9%
GFCF	28.7%	31.1%	30.6%	30.7%	27.4%	31.0%	31.2%	30.4%	29.9%
Change in Stocks	1.4%	1.6%	1.5%	1.5%	1.4%	1.6%	1.1%	1.5%	1.5%
Valuables	1.5%	1.3%	0.5%	3.0%	1.6%	1.0%	1.3%	1.4%	1.5%

SRE: Second Revised Estimates; FRE: First Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research



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