ICRA

# ECONOMIC OUTLOOK AND MACRO TRENDS

**After a likely 6.9% YoY rise in Q4 FY2025, India's GDP growth projected at 6.2% in FY2026 amid unpredictable global trade policies**

## May 2025


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# Table of Contents

# Table of EXHIBIT

# Abbreviations

AE: Advance Estimates
ATF: Aviation Turbine Fuel
AUM: Assets under Management
BAI: Business Assessment Index
BoP: Balance of Payments
CAD: Current Account Deficit
CCS: Consumer Confidence Survey
CGA: Controller General of Accounts
CGST: Central Goods and Services Tax
CIL: Coal India Limited
CNY: Chinese Yuan
CP: Commercial Paper
CPD: Cut and Polished Diamond
CPI: Consumer Price Index
CSI: Current Situation Index
CTD: Central Tax Devolution
CV: Commercial Vehicle
DAP: Di-ammonium phosphate
DBT: Direct Benefit Transfer
DIPAM: Department of Investment and Public Asset Management
ECB: External Commercial Borrowing
FAO: Food and Agriculture Organization
FCI: Food Corporation of India
FCNR: Foreign Currency Non-Resident
FDI: Foreign Direct Investment
FPI: Foreign Portfolio Investors
FMCG: Fast Moving Consumer Goods
FRL: Full Reservoir Level
FRP: Financial, Real Estate and Professional Services
GBI-EM: Government Bond Index-Emerging Market
GCC: Global Capability Centre
GDP: Gross Domestic Product
GFCE: Government Final Consumption Expenditure
GFCF: Gross Fixed Capital Formation
GIC: General Insurance Corporation of India
G-Sec: Government Securities
GVA: Gross Value Added
HFC: Housing Finance Companies
HSD: High Speed Diesel
HZL: Hindustan Zinc Limited
IGST: Integrated Goods and Services Tax
IIP: Index of Industrial Production
IMD: Indian Meteorological Department
IMF: International Monetary Fund
IOS: Industrial Outlook Survey
IPO: Initial Public Offering
JPC: Joint Plant Committee
LAF: Liquidity Adjustment Facility
LFPR: Labor Force Participation Rate
LPA: Long Period Average
LPG: Liquefied Petroleum Gas
MFI: Microfinance institutions
MGNREGS: Mahatma Gandhi National Rural Employment Guarantee Scheme
MICE: Meetings, Incentives, Conferences, Exhibitions
MoRTH: Ministry of Road Transport and Highways
MoSPI: Ministry of Statistics and Program Implementation
MPC: Monetary Policy Committee
MSF: Marginal Standing Facility
MSME: Micro, Small and Medium Enterprises
NBFC: Non-Banking Finance Companies
NBS: Nutrient Based Subsidy
NFSA: National food Security Act
NR(E)RA: Non-Resident (External) Rupee Account
NRI: Non-Resident Indians
NRO: Non-Resident Ordinary
NSO: National Statistical Office
PPF: Public Provident Fund
OEM: Original Equipment Manufacturer
OPEC: Organization of Petroleum Exporting Countries
PADOS: Public Administration, Defence and Other Services
PFCE: Private Final Consumption Expenditure
PLI: Production Linked Incentive
PPF: Public Provident Fund
POL: Petroleum Oil and Lubricants
RDB: Rupee Denominated Bonds
REER: Real Effective Exchange Rate
SDF: Standing Deposit Facility
SDG: Supplementary Demand for Grants
SDR: Special Drawing Rights
SIOS: Services and Infrastructure Outlook Survey
SME: Small and Medium-Sized Enterprises
SSAC: Sukanya Samriddhi Account Scheme
TDPS: Targeted Public Distribution System
THTCS: Trade, Hotels, Transport, Communication and Services related to broadcasting
TEU: Twenty-foot equivalent units
TTM: Trailing Twelve Months
VRR: Voluntary Retention Route
WMA: Ways and Means Advances
WPI: Wholesale Price Index
WPR: Worker Population Ratio
WTO: World Trade Organisation

# OVERVIEW

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India's GDP growth is projected to improve to 6.9% in Q4 FY2025 from 6.2% in Q3 FY2025, considering the surge in net indirect tax growth amid compressed subsidy outgo, compared to Q3 FY2025, even as the GVA growth is expected to only see a marginal uptick to 6.3% from 6.2% between these quarters. Consequently, the FY2025 GDP expansion is pegged at 6.3%, lower than the NSO's forecast of 6.5% for the fiscal, while also entailing a sharp dip from 9.2% in FY2024. 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, given the personal income tax cuts, monetary easing, and the healthy growth in budgeted capex. The outlook 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 6.3% estimated for FY2025. Additionally, the CPI inflation is projected to cool to a 7-year low of 3.5% in FY2026 from 4.6% in FY2025, amid the benign outlook for food inflation owing to healthy crop output in the last two seasons, and an above-normal monsoon forecast for 2025. This would provide space for additional rate cuts of 75 bps, spread over the June, August and October 2025 policies, aided by a relatively higher focus by the MPC on growth over inflation, amid limited risks to the latter. India's CAD may rise slightly to 1.1% of GDP in FY2026 from 0.9% estimated for FY2025, amid widening in non-oil non-gold goods' deficit, while remaining benign, although adverse tariff outcomes pose a key risk to our forecast. While the GoI's FY2025 fiscal deficit target of 4.8% of GDP may have been met, the RBI's dividend pay-out of Rs. 2.7 trillion would provide some buffer against a miss in receipts or higher expenditure in FY2026 and support the fiscal deficit target of 4.4% of GDP.

***EXHIBIT: Annual GDP growth trends***

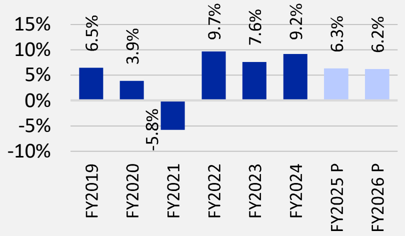
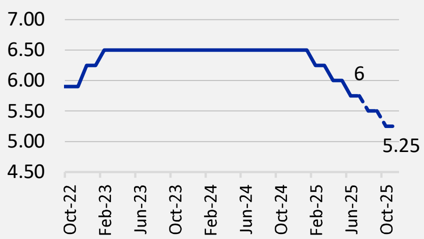



***EXHIBIT: Trends in policy repo rate***




*Source: NSO, RBI, ICRA Research*

| Macroeconomic Variables | | FY2025 ICRA Estimates | FY2026 ICRA Projections |
|---|---|---|---|
| | **GDP Growth (in real terms)** | +6.3% | +6.2% |
| | **GVA Growth (in real terms)** | +6.2% | +6.0% |
| | **CPI Inflation** | +4.6% | +3.5% |
| | **Current Account Balance** | Deficit of $35.0 billion; -0.9% of GDP | Deficit of $45.0 billion; -1.1% of GDP |
| | **GoI's Fiscal Deficit** | 4.8% of GDP | FY2026 BE: 4.4% of GDP |
| | **G-sec Yields** | 10-year G-sec yield (6.79% GS 2034) to range between 6.0-6.4% in CY2025 | |
| | **Repo Rate** | Additional rate cuts of 75 bps in CY2025, including 25 bps cut in June 2025 policy | |
| ₹ | **INR** | INR to trade between 85.0/$ and 87.0/$ in remaining part of CY2025 | |

# EXECUTIVE SUMMARY

## India's GDP growth projected to print at 6.9% in Q4 FY2025, limiting FY2025 expansion to 6.3%

- In a quarter characterised by enhanced global uncertainty, ICRA estimates India's GDP growth to have risen to 6.9% in Q4 FY2025 from 6.2% in Q3 FY2025. This is likely to have been led by YoY surge in net indirect taxes amid a mild uptick in GVA growth (to +6.3% from +6.2%).
- While the robust increase in the output of most rabi crops is likely to have supported the agri-GVA growth in Q4 FY2025, the tepid pace of expansion in industrial volumes as well as the deterioration in the performance of several service-sector indicators is expected to have weighed on the GVA growth of these segments.

## Domestic demand drivers remain intact, amid looming tariff uncertainity; FY2026 GDP growth forecast at 6.2%

- The FY2026 outlook for domestic consumption and Government investment remains largely resilient. While rural demand appears healthy, prospects for urban consumption have improved amid income tax cut, lower borrowing costs and benign outlook for food inflation.
- Given the heightened uncertainty around trade policies and the associated disruption in trade and sentiment, the outlook for merchandise, as well as IT exports and private capex, especially in export-oriented sectors, appears muted. The relative tariff scenario is going to continue to evolve as the year progresses. At present, ICRA forecasts GDP growth to dip slightly to 6.2% in FY2026 from 6.3% estimated for FY2025.

## CPI inflation estimated at 7-year low 3.5% in FY2026, amid benign outlook for food inflation

- ICRA projects food and beverage inflation to cool down significantly to ~3.0-3.5% in FY2026 from 6.7% in FY2025, supported by ample (kharif+rabi) agri output in the recent cropping seasons, and IMD's outlook for above normal monsoon season in 2025. Our average inflation forecasts for Q1 (3.3%) and Q2-Q3 FY2025 (3.0-3.5%) are lower than MPC's estimates, published in the April 2025 policy, to the tune of 30 bps and 30-80 bps, respectively.
- ICRA estimates additional repo rate cuts of 75 bps, spread equally between June, August and October 2025 policies.

## India's CAD to rise to 1.1% of GDP in FY2026; adverse tariff hikes pose a risk to forecast

- Amid intensifying uncertainity related to global trade and tariff policies, ICRA currently expects merchandise exports of India to decline by 1-2% YoY in FY2026. While merchandise imports are expected to rise, the growth may be constrained at ~2-3%, stemming from lower oil and gold imports, even as non-oil non-gold segment would be supported by domestic demand, high import dependency for certain items, and potential round-tripping of goods via India in early-FY2026. We expect the CAD to rise mildly to 1.1% of GDP in FY2026 from 0.9% of GDP in FY2025 (estimate), albeit remain at manageable levels, aided by healthy growth assumption for service trade surplus.


## GoI may have met FY2025 fiscal deficit target of 4.8% of GDP; record RBI dividend brightens FY2026 outlook

- ICRA believes that the upside to non-tax revenues over the FY2025 RE is likely to compensate for shortfall in disinvestment receipts, while subsidy outgo may exceed the RE, after factoring in 2nd SDG. Nevertheless, higher-than-estimated nominal GDP creates fiscal space to the tune of Rs. 300 billion over the FY2025 RE of Rs. 15.7 trillion, without breaching the target of 4.8% of GDP.
- While the personal income tax target appears optimistic after considering the tax cut, dividend of Rs. 2.7 trillion by the RBI would provide some buffer against a miss in receipts or higher expenditure in FY2026 and support the fiscal deficit target 4.4% of GDP.

# ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

## Alliance with Moody's Investors Service

The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

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- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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