

First advance estimates indicate both GDP and GVA growth at 6.4%YY in FY25

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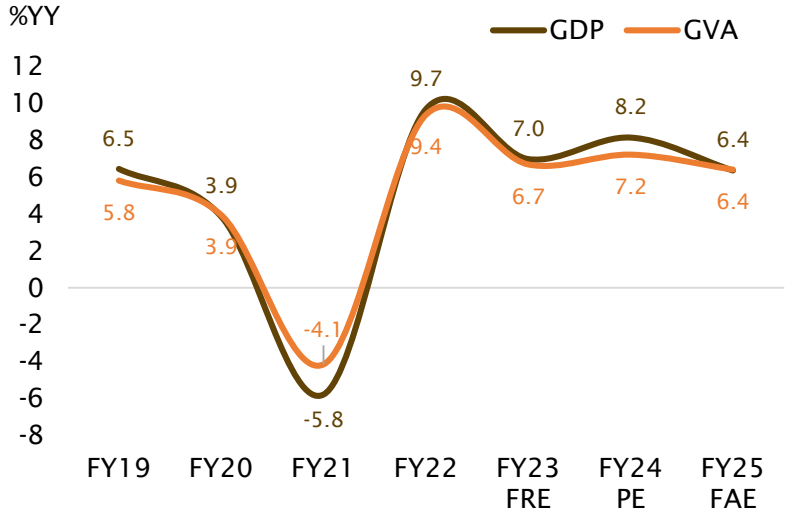
Key takeaways

- The first advance estimates by national statistical office project real GDP growth at a four-year low of 6.4%YY in FY25, following 8.2% increase in FY24. Real GVA growth is expected to ease to 6.4%YY from 7.2% in FY24.
  - Within GVA, the slowdown in industry is expected to be the main drag on growth, services growth is slated to ease mildly but remain above 7%, while agriculture growth is projected to improve.
  - The moderation in real GDP growth shows lower contribution from investment and a drag from discrepancies. Both private and government consumption are estimated to grow at faster rates, while investment growth is expected to ease. Exports are likely to increase at a faster pace, while imports are projected to decline with net exports likely to add to GDP growth in FY25 vis-à-vis deduction in FY24.
- The estimates for the entire fiscal year FY25 imply improvement in real GDP growth to 6.7%YY in H2-FY25 from 6.0% in H1, and real GVA growth to 6.6% from 6.2% in H1.
  - The reasons for a rebound in H2 include a pick-up in public capital expenditure, lagged impact of revenue spending in an election-bound year, and improved farm sector prospects due to above normal monsoon. However, recovery in growth remains sluggish, as suggested by some of the high frequency data. Policy tightening in the past continues to challenge urban consumption, inflation remains a risk in the revival of confidence, while the risk of potential trade wars is keeping external prospects subdued.
- Nominal GDP is forecasted to grow 9.7%YY in FY25, below 10.5% growth accounted for in the Union Budget for FY25. This has implications for fiscal deficit target of 4.9% of GDP for the current fiscal year to the tune of about 10bps. However, fiscal year-to-date data shows that the government is likely to miss spending targets set in the Budget, particularly in case of capital expenditure. This could provide room for the fiscal space lost on account of lower nominal GDP growth and enable the government to meet deficit targets set for the year.

GDP and GVA growth are expected to ease to 6.4% in FY25

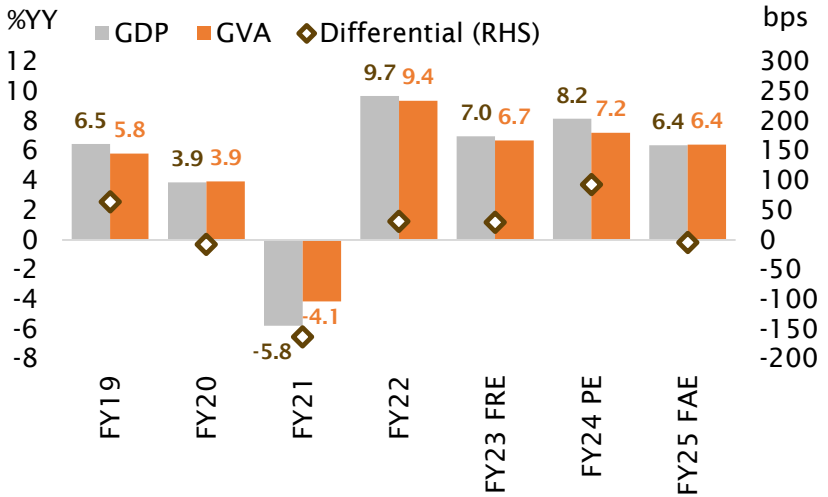


Note for chart: FRE: First Revised Estimates; PE: Provisional Estimates; FAE: First Advance Estimates

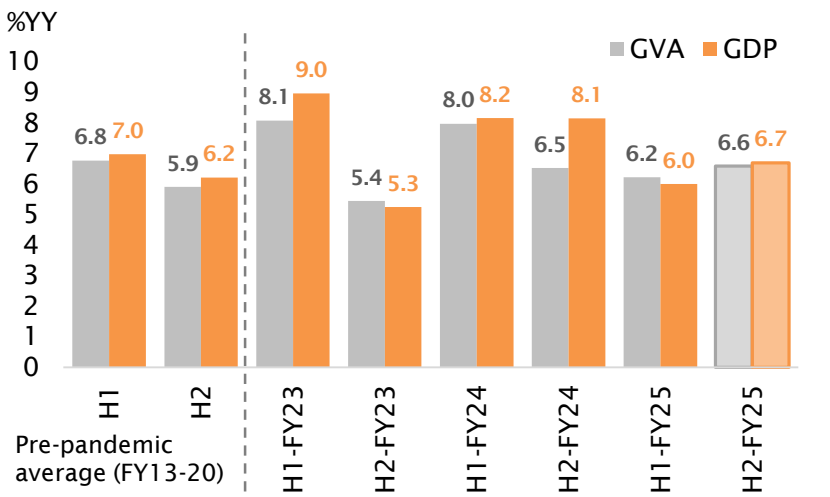
First advance estimates indicate GDP growth at 6.4%YY in FY25

- The initial estimates by national statistical office project real GDP growth at a four-year low of 6.4%YY in FY25, following 8.2% increase in FY24. Real GVA growth is expected to ease to 6.4%YY from 7.2% in FY24.
  - The difference between real GDP and GVA growth is slated to narrow, and in fact, mildly reverse with real GVA growth outstripping GDP growth by four basis points. In the previous three fiscal years, real GDP growth was higher due to a surge in net taxes that are added to GVA to arrive at GDP. In fact, for most of FY24, the wedge between the two measures remained in highlight and averaged 93 bps for the full year, compared to an average of around 30 bps in the previous two fiscal years.
- Historical trends show that on average, growth tends to be stronger in first half of the fiscal year, though there have been exceptions and the current fiscal is likely to be one. In H1-FY25, growth surprised on the downside due to a pause in government spending during the general elections, and an above normal monsoon that dragged down industrial activity. However, a pick-up in public capex in H2 and a revival in revenue spending in an election-bound year are likely to support investment and consumption, while improved farm sector prospects are expected to lift rural incomes. Risks remain though, as recovery in economy activity remains sluggish, with urban consumption continuing to reel under pressure due to past policy tightening, and inflation impinging on consumer and business confidence.
  - Real GDP growth is expected to improve to 6.7%YY in H2-FY25 from 6.0% in H1, while real GVA growth is slated to rise to 6.6% from 6.2% in H1.

Both real GDP and GVA growth likely at 6.4%YY in FY25



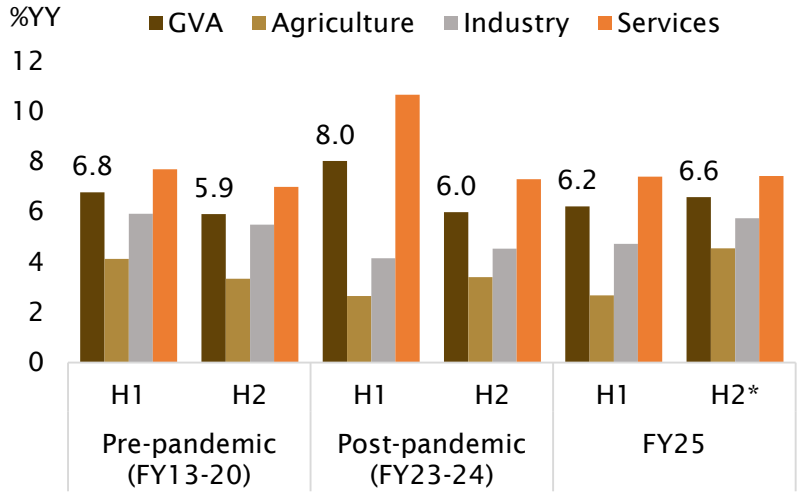
Growth expected to improve in H2 after a slump in H1



Industrial slowdown to be the main drag on GVA growth in FY25

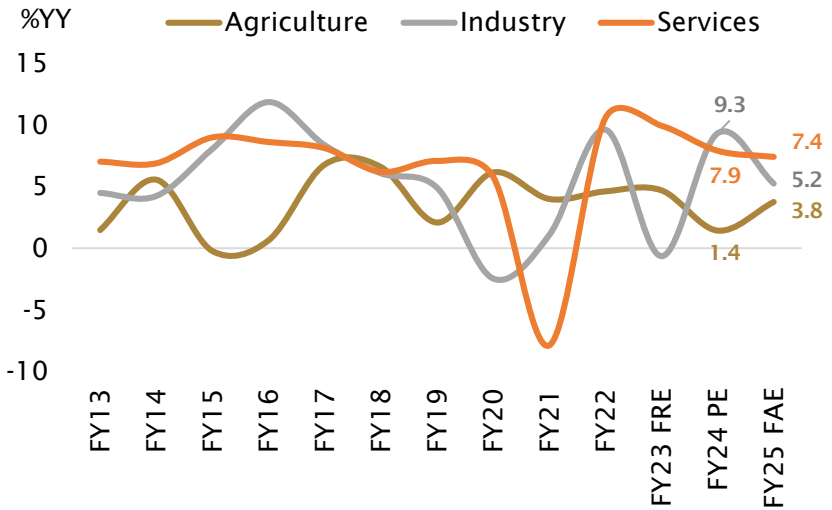
- Within GVA, industrial slowdown is expected to be the main drag on growth. Industry growth is estimated to ease to 5.2% in FY25 from 9.3% in FY24, with its contribution to GVA growth almost halving to 1.1 percentage points from 2pp in FY24. Services growth is slated to moderate mildly but remain above 7%, with the sector continuing to contribute the most to growth. Agriculture growth is projected to improve compared to FY24 due to an above normal monsoon, with the sector likely to add 0.5pp to growth versus 0.2pp in FY24.
- In H2-FY25, both agriculture and industry growth are expected to improve to 4.5%YY and 5.7%, respectively, from 2.7% and 4.7%, respectively in H1. Services growth is likely to remain broadly stable at 7.4%YY in H2, unchanged from H1.

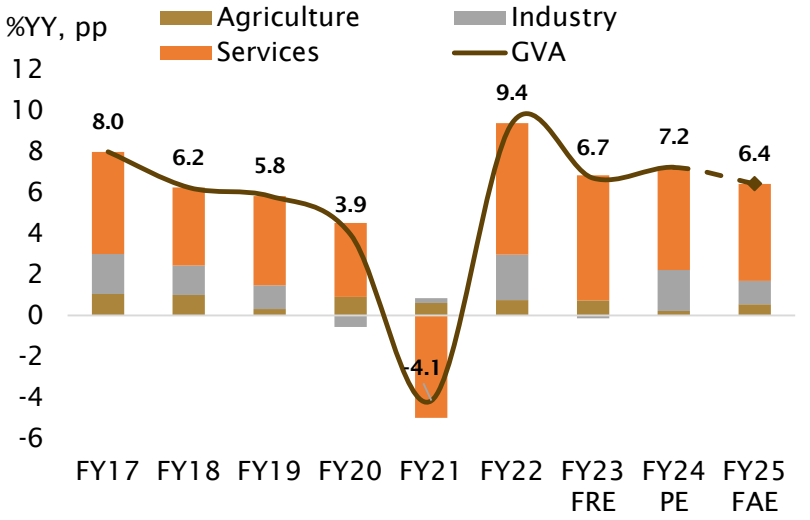
Both industrial and agriculture growth to improve in H2



*Note: H2 data based on FY25 first advance estimate

Industry to be the key drag on GVA growth in FY25; services to remain the mainstay amid improvement in agriculture

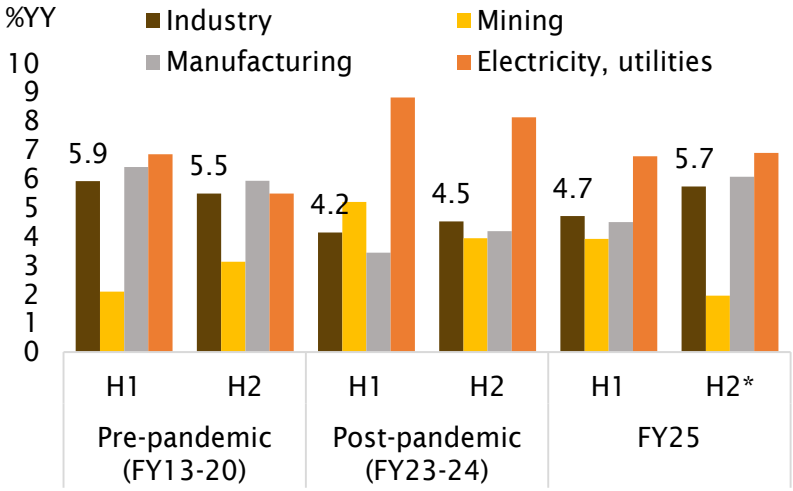




Manufacturing, utilities expected to aid industry rebound in H2-FY25

- The slowdown in industrial growth in FY25 is expected to be broad-based, with all major segments – mining, manufacturing, electricity and utilities – projected to grow at slower rates in FY25 compared to FY24.
- Despite moderation in year-on-year growth, manufacturing, with 80% share in industry (in real terms), is expected to contribute the most to GVA growth followed by electricity and mining.
- The improvement in industrial growth in H2-FY25 to 5.7%YY from 4.7% in H1 is expected to be driven by higher growth in manufacturing and electricity, while growth in mining is likely to be lower than in H1.

Manufacturing, electricity growth to improve in H2



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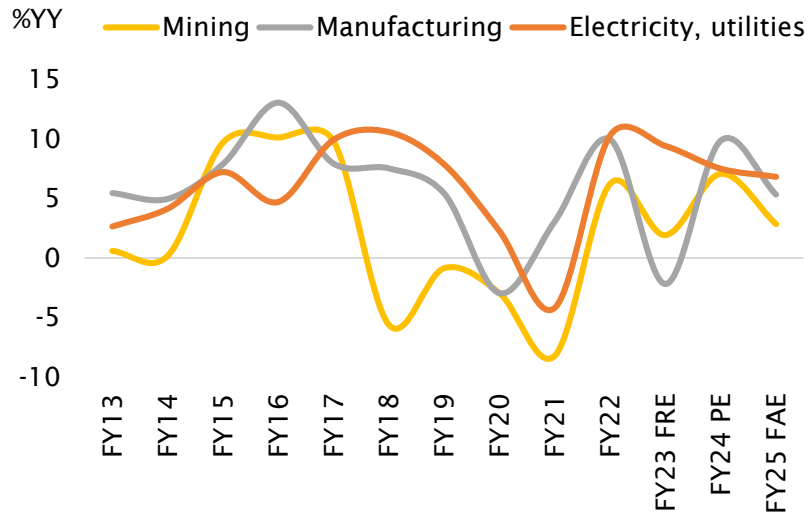
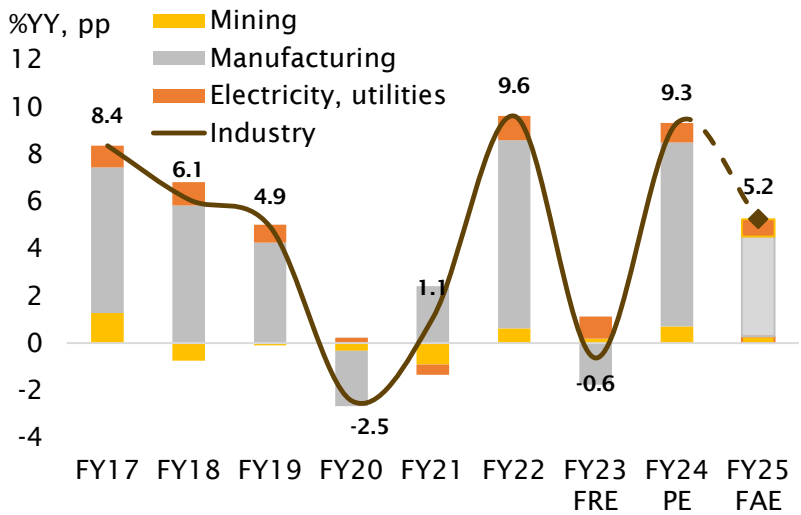
Manufacturing, with 80% share in industry, expected to contribute the most to growth followed by electricity, mining

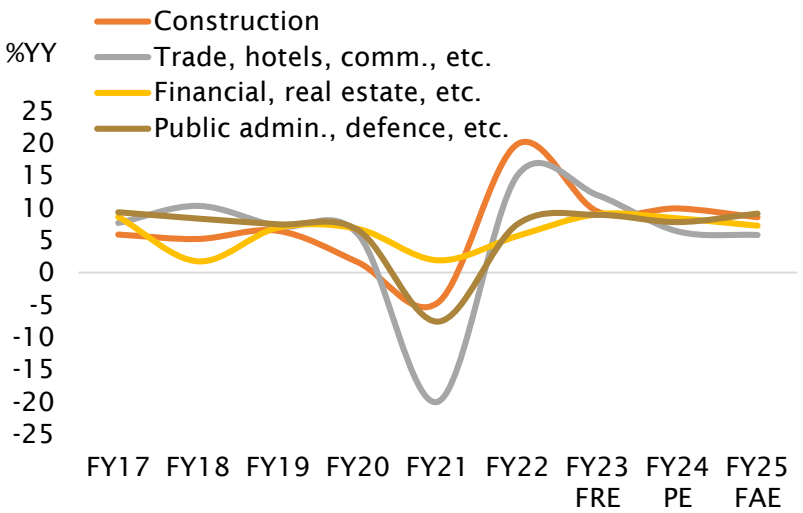


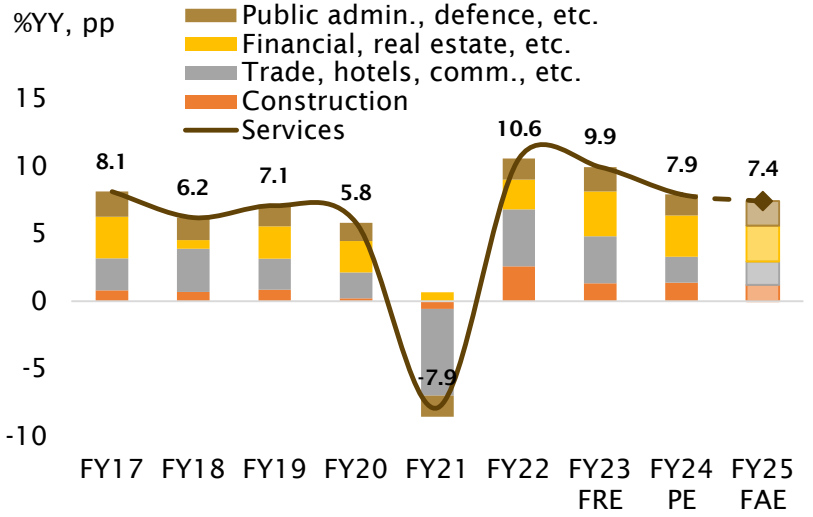


Public administration and other services to support growth in FY25

- The moderation in services sector growth expected in FY25 to 7.4%YY from 7.9% in FY24 is likely to be across sub-sectors, except public administration, defence and other services (PADO), where growth is projected to rise to an eight year high of 9.1%YY. Revenue spending in an election year is expected to have lent support to this segment.
- Despite likely moderation in FY25, growth in construction segment has improved post-pandemic amid the government's infrastructure push and revival in the real estate cycle. The contribution of construction to GVA growth has improved by around 0.5pp in the post- versus pre-pandemic period.
- Growth in financial, real estate, and professional services is slated ease but remain above 7%. Perhaps, a worrying trend is the projected easing of growth in trade, hotels, transport and communication (THTC) to a series low of sub-6% (excluding the pandemic year FY21 when all services segments contracted). After financial services that constitute around 35% share in services GVA (real terms); THTC comprise the second-largest portion, with these two groups having a combined share of around 65%.
- Though financial services growth is projected ease, it is expected to continue contributing the most due to its high share in services GVA. Except for the pandemic year, when the contact-intensive THTC segment witnessed a significant slump, the contribution of PADO to services GVA is slated to marginally exceed that of THTC segment for the first time since the series began in FY12.

Contribution of PADO to services GVA is slated to marginally exceed that of trade and transport segment in FY25

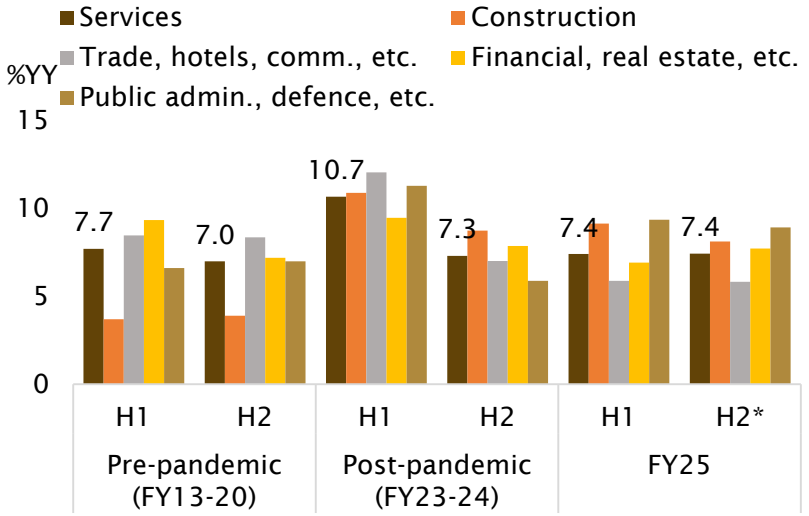




Services sector growth expected to remain stable in H2 at 7.4%YY

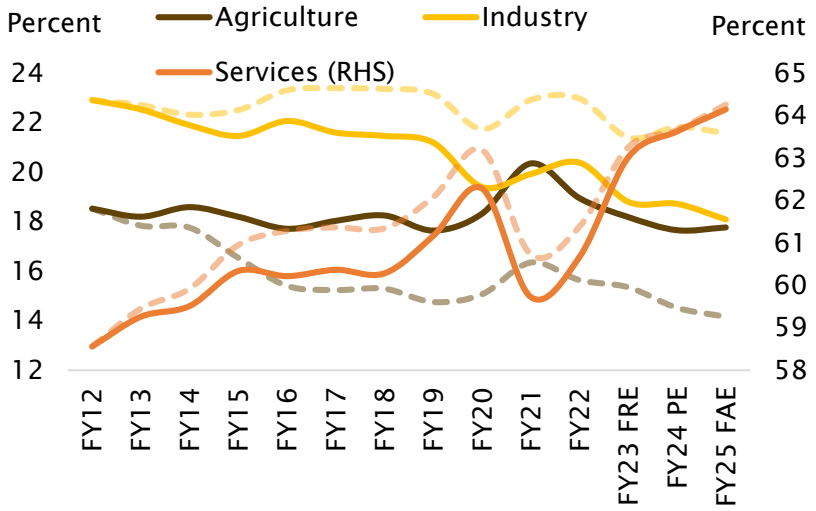
- In H2-FY25, services sector growth is expected to remain broadly stable and unchanged from H1 at 7.4%YY, as projected improvement in growth of financial, real estate, and professional services is likely to be offset by slight moderation in growth of remaining segments.
- In nominal terms, share of industry in GVA has eased from around 23% in FY12 to 18% projected in FY25. However, in real terms, the moderation in share has been modest from 23% in FY12 to 22% estimated for FY25.
- Excluding the pandemic years (FY21-22), the share of agriculture in nominal GVA has been largely stable at around 18% but in real terms, the deceleration in share of agriculture in real GVA is notable from 19% in FY12 to 14% projected for FY25.
- The share of services has been on an uptrend, rising from 59% in FY12 to 64% expected in FY25 in both real and nominal terms.

Services sector growth expected to remain stable in H2



*Note: H2 data based on FY25 first advance estimate

Share in nominal GVA

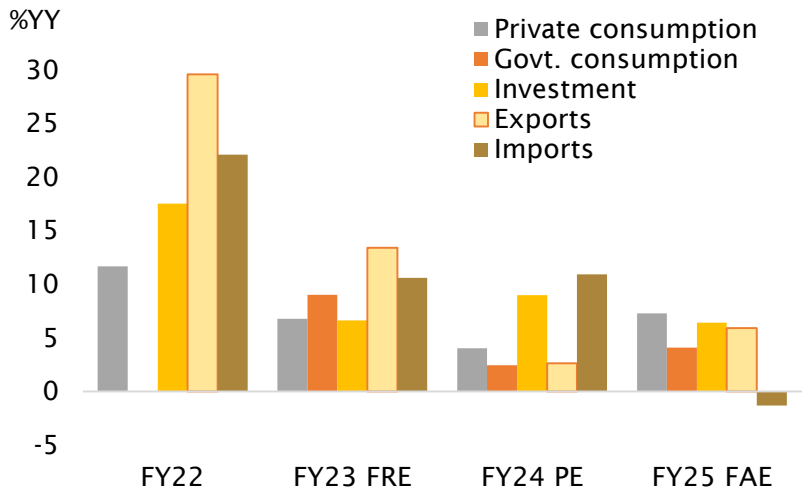


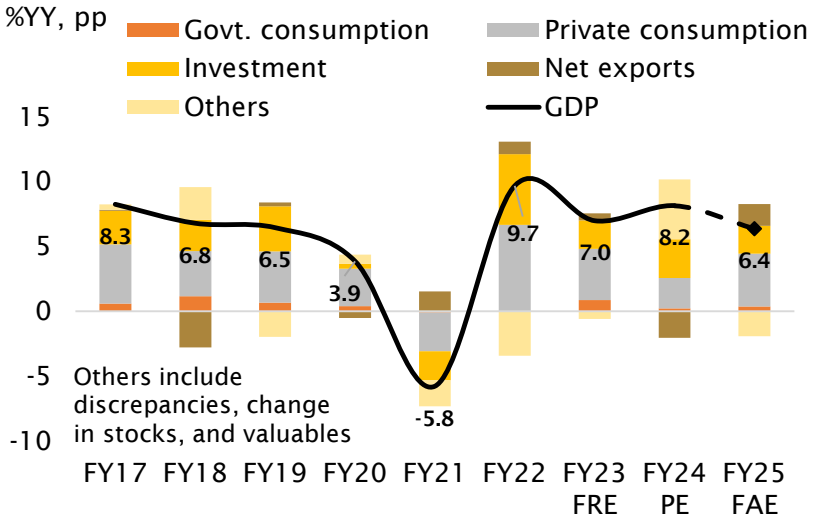
Note: Dotted lines show share in real GVA

Lower investment growth, discrepancies to drag down GDP growth

- The moderation in real GDP growth to 6.4%YY projected for FY25 from 8.2% in FY24 shows lower contribution from investment and a drag from discrepancies. Discrepancies measure the gap between GDP and GVA and capture the impact of indirect taxes and subsidies, and had added to GDP growth in FY24.
  - Both private and government consumption are slated to grow at faster rates compared to FY24, while investment growth is expected to ease. Private consumption is projected to increase 7.3%YY, up from 4% in FY24, with its contribution surpassing that of investment, which had added the most to growth in FY24. Investment growth estimate at 6.4%YY marks a moderation from 9.0% in FY24.
  - Exports are expected to increase at a faster pace, while imports are slated to decline after surging 10% in both FY23 and FY24. As a result, net exports are likely to add 1.7pp to GDP growth in FY25 vis-à-vis 2pp deduction in FY24.
  - Government consumption growth is also expected to improve to 4.1%YY from 2.5% in FY24, though its contribution to growth is likely to remain sub-0.5pp due to low share in GDP at around 10%.

The contribution of private consumption and net exports is expected to improve in FY25, investment is slated to ease

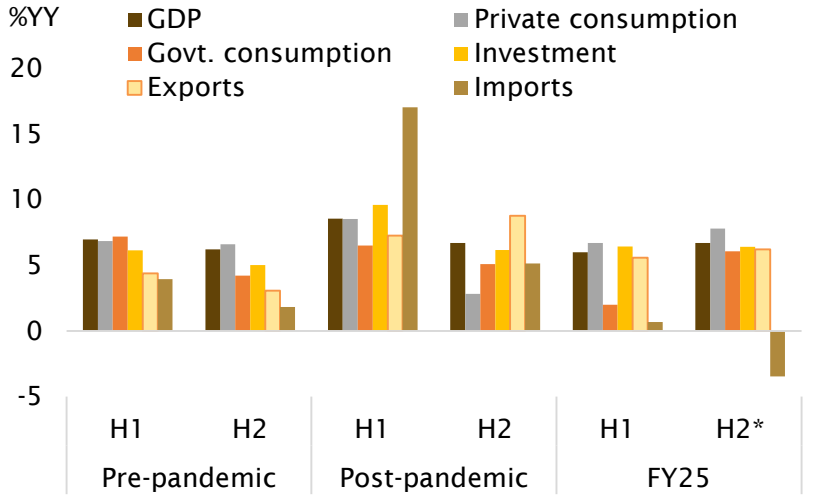




Consumption, net exports to support growth recovery in H2-FY25

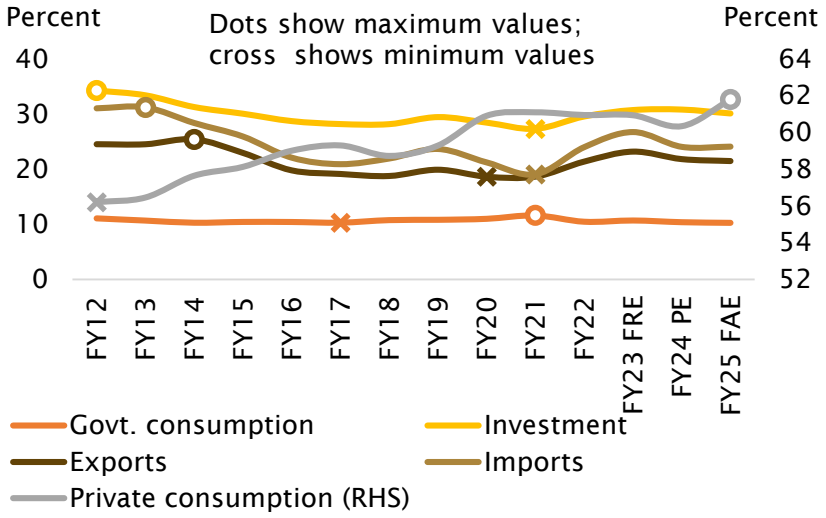
- Based on estimates for the full fiscal year, real GDP growth is expected to rise to 6.7%YY in H2-FY25 from 6.0% in H1. As per advance estimates, this improvement is likely to be driven by higher growth in private and government consumption, and contribution from net exports amid an increase in growth of exports and decline in imports. Investment growth is expected to remain stable.
  - However, there are downside risks to growth recovery in H2 amid a surge in imports in November and sluggish improvement in consumption, as per some of the high frequency indicators. Exports are also vulnerable to tariff wars post the US election outcome in 2024.
- The expected rebound in private consumption is estimated to lift its share in nominal GDP to a series high of around 62% in FY25. The share of investment is projected to moderate by around 70 basis points from FY24 to about 30%, while that of government consumption is likely to remain stable at around 10%.

Consumption growth expected to improve in H2



*Note: H2 data based on FY25 first advance estimate

Share in nominal GDP

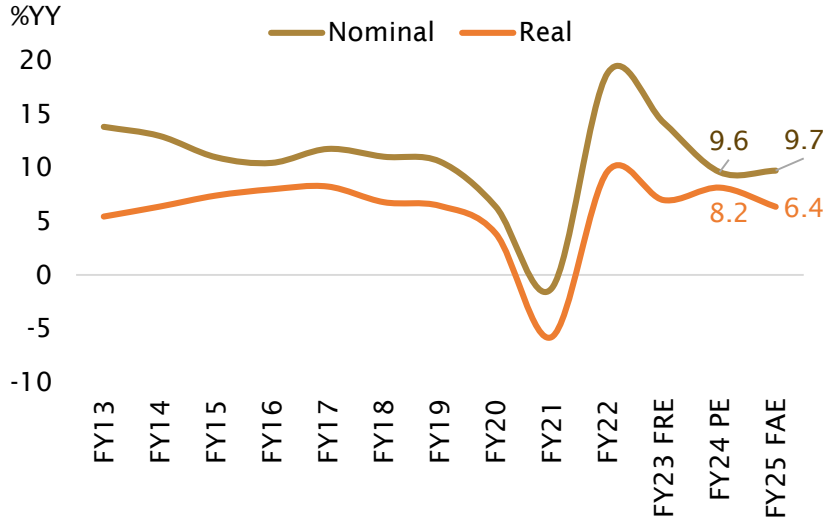


Less spending to enable meeting deficit target despite low nominal GDP

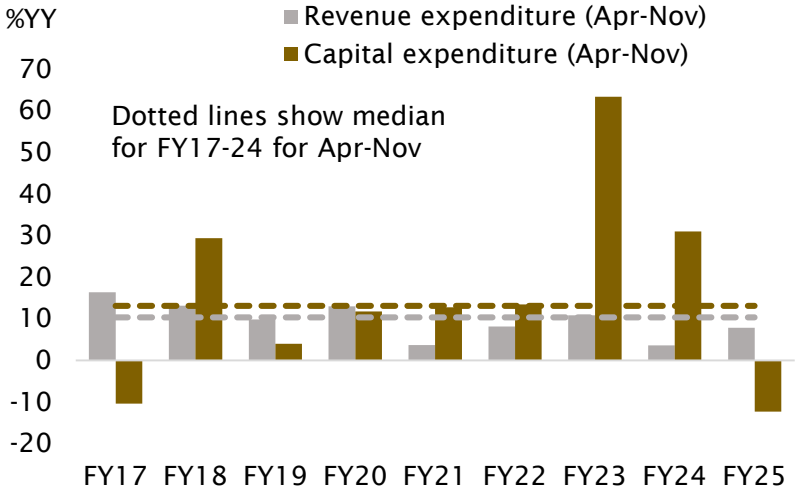
- The first advance estimates suggest nominal GDP growth of 9.7%YY in FY25, which is lower than 10.5% growth accounted for in the Union Budget for FY25. This has implications for fiscal deficit target of 4.9% of GDP for the current fiscal year to the tune of about 10bps.

- However, on fiscal year-to-date (FYTD) basis, both revenue and capital expenditure growth at the Centre remain below the median year-on-year growth rates for the corresponding period (April-November) of FY17-24. In fact, in case of capital expenditure, FYTD spending is below the level in April-November FY24. In terms of percent of budget estimates (BE), in FYTD-FY25, revenue spending is in line with the trend in FY24 at around 60% of BE, but capital expenditure at 46% of BE FYTD is lower than the spending of 59% of BE in April-November FY24. If spending falls short of BE for the full fiscal year FY25, it could provide room for the fiscal space lost on account of lower nominal GDP growth.

Nominal GDP estimate at 9.7% below 10.5% in Budget



Capex yet to recover; revenue spending below trend



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