

Downside risks to growth linger for FY25 amid upward revisions to FY23 and FY24 numbers

10 March, 2025

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Key takeaways

- The improvement in both real GDP and GVA growth to 6.2%YY in Q3-FY25 was in line with market expectations (Reuters poll for real GDP growth: 6.3%YY). In Q2, growth in both metrics had eased to seven quarter low of 5.6%YY (initial estimate: 5.4%), and 5.8% (initial estimate: 5.6%), respectively.
- The second advance estimate (SAE) for the full year FY25 for real GDP growth was revised mildly higher to 6.5%YY from 6.4% in the first advance estimates (FAE), while it was retained at 6.4% for real GVA growth. Based on these estimates, implied real GDP growth for Q4 stands at 7.6%YY and real GVA growth at 6.8%.
- In Q3-FY25, agriculture grew at the sharpest pace in six quarters at 5.6%YY. Industry growth improved to 3.5%YY from 2.0% in Q2 but remained dismal relative to historical trends due to weakness in manufacturing. The year-on-year growth in services held above 7%, though it eased mildly to 7.3%YY from 7.4% in Q2.
- On the expenditure side, private consumption growth improved to 6.9%YY from 5.9% in Q2. Government consumption surged 8.3%YY, compared to 3.8% growth in Q2 and a poll-induced decline in Q1. Investment growth eased mildly to 5.7%YY from 5.8% in the previous quarter, marking a seven-quarter low. The contribution of net exports to year-on-year GDP growth improved to 40% from 22% in Q2.

- There were upward revisions to growth rates for both FY23 and FY24. Real GDP growth was raised by 60bps to 7.6% for FY23 and by over 100bps to 9.2%YY for FY24. Revisions to real GVA growth were to the tune of 50bps and 130bps, respectively for FY23 and FY24. There were upgrades to nominal GDP for FY25 and FY26, implying downward bias to fiscal deficit as percent of GDP.
- Post the slump in Q2-FY25, the rebound in economic activity remains uneven and sluggish. Amid easing domestic inflation and rising external risks in the form of tariff wars, the RBI MPC is likely to deliver an additional 25bp rate cut at its meeting in April to support domestic growth. Additional liquidity easing measures announced this month, along with easing of some of the macro prudential norms are likely to aid transmission of policy easing to the economy.

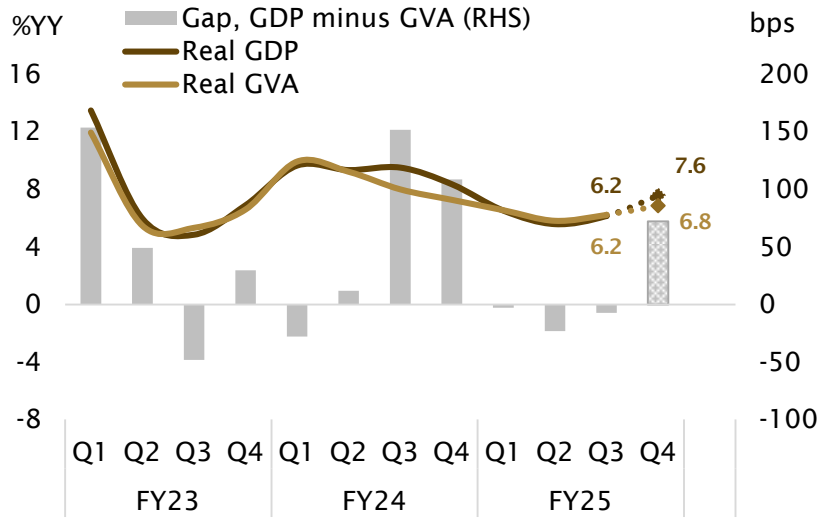
Real growth at 6.2%YY was in line with market expectations



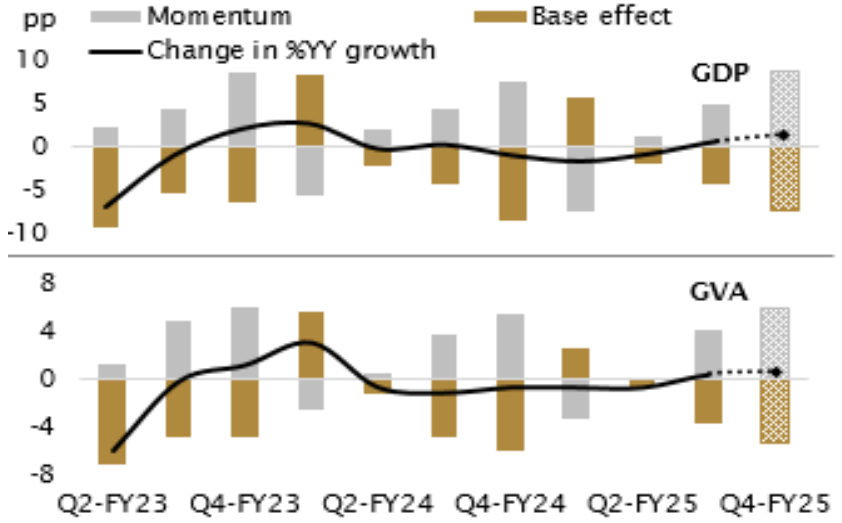
Both GDP and GVA growth improved to 6.2%YY in Q3-FY25

- Both real GDP and GVA growth improved to 6.2%YY in Q3-FY25. In Q2, growth in both metrics had eased to seven quarter low of 5.6%YY (initial estimate: 5.4%), and 5.8% (initial estimate: 5.6%), respectively. The second advance estimates (SAE) for the full year FY25 indicate higher growth in both GDP and GVA in Q4.
  - The gap between real GDP and GVA growth remained negative in Q3 for the third straight quarter, with GVA growth exceeding that of GDP, albeit by a small margin. This differential is slated to reverse in Q4, with implied numbers suggesting GDP growth to surpass GVA.
  - The SAE for real GDP growth was revised mildly higher to 6.5%YY from 6.4% in the first advance estimates (FAE), while it was retained at 6.4% for real GVA growth. Based on these estimates, implied real GDP growth for Q4 stands at 7.6%YY and real GVA growth at 6.8%.
- In sequential terms, real GDP grew 5.0%QQ, higher than pre-COVID average of 4.3% for Q3 (FY12-20), which lifted year-on-year growth despite an unfavorable base. Base effect is expected to worsen in Q4, but the quarterly momentum tends to be strong in Q4, which could offset the impact from negative base.
- Real GVA rose 4.2%QQ, mildly above the average growth of 4.0% for Q3 (FY12-20). This offset an unfavorable base, and drove higher year-on-year growth. Base effect is slated to worsen in Q4, and based on historical trends, momentum is set to ease, indicating some downside risk for GVA growth in Q4 in statistical terms.

Both GDP and GVA grew 6.2%YY in Q3-FY25



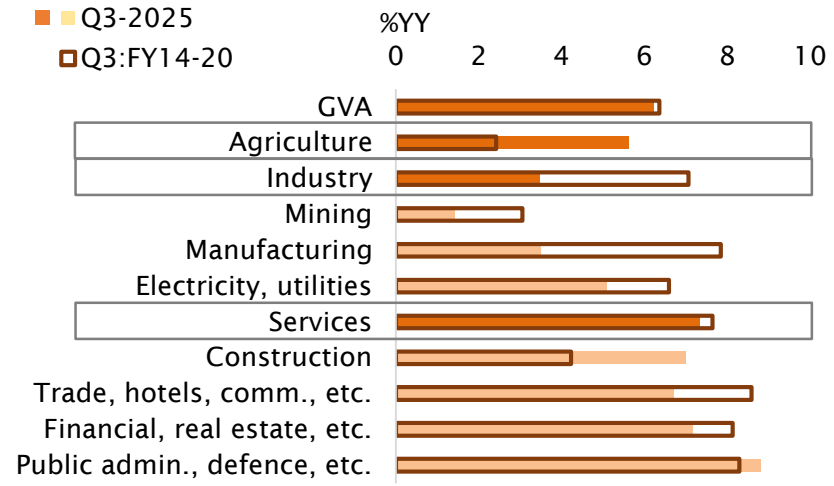
Base effects slated to remain unfavorable in Q4

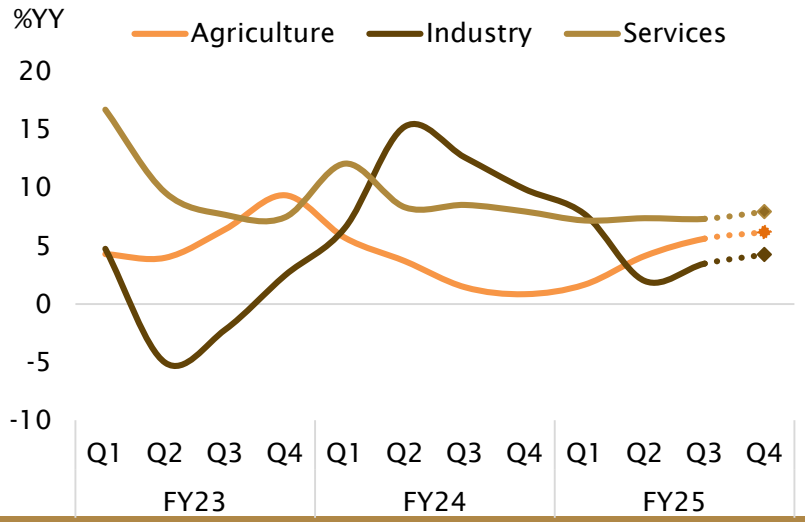


Farm sector continued to outperform industry; services held firm

- In Q3-FY25, agriculture grew at the sharpest pace in six quarters at 5.6%YY. The quarterly momentum tends to be strong in Q3, as Kharif output hits the market, offsetting any negative base effects.
  - Farm output added 1pp to GVA growth, up from 0.5pp in Q2, and exceeding the pre-pandemic average (0.6pp). Implied data for Q4 shows that this contribution is likely to be around 0.9pp in Q4.
- Industry growth improved to 3.5%YY from 2.0% in Q2 but remained dismal relative to historical trends due to weakness in manufacturing that constitutes 80% share in industry. There was improvement in year-on-year growth of both mining and utilities, though it remained below pre-pandemic averages. In Q2-FY25, mining output had contracted due to heavy monsoon.
  - The contribution of industry to real GVA growth rose to 0.7pp from 0.4pp in Q2 but stayed below the pre-pandemic average for Q3 at 1.2pp.
- The year-on-year growth in services held above 7%, though it eased mildly to 7.3%YY from 7.4% in Q2. However, its contribution to growth at 4.5pp was higher than the pre-pandemic average of 4.2pp for Q3.
  - The contribution of sub-sectors was in line with their share in services GVA. Financial services added the most (1.5pp), followed by trade (1.3pp), PADO* (1.1pp) and construction (0.6pp). The year-on-year growth in financial services and PADO* was stable vis-à-vis Q2 but higher in trade. Though construction growth eased, contribution improved relative to pre-pandemic average (0.3pp) for Q3.

Agriculture growth outpaced industry for the second straight quarter in Q3; services growth held firm at over 7%



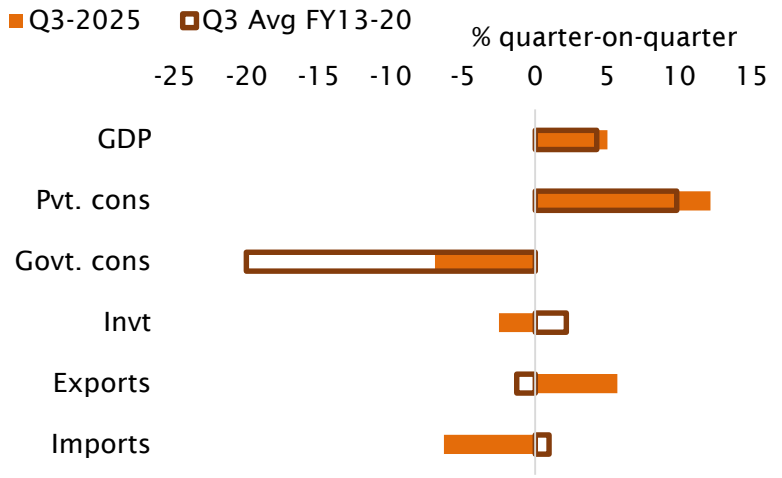


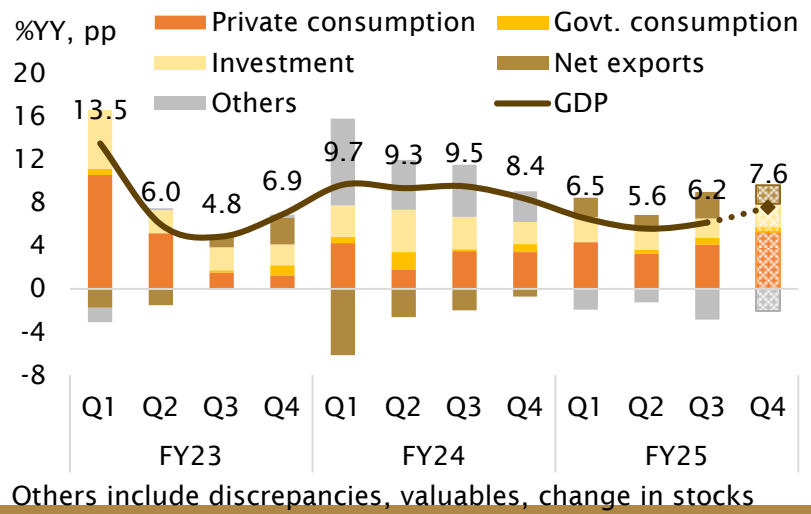
*Note: PADO stands for public administration, defence and other services

Private consumption, net exports added strongly to growth in Q3

- The sequential GDP growth in Q3 at 5.0%QQ was above the pre-pandemic average for the quarter at 4.3%, supported by growth in private consumption and exports. In terms of contribution to year-on-year growth, private consumption added 66%, followed by net exports, investment, and public consumption.
  - The 'others' component comprising valuables, discrepancies and changes in stocks deducted from growth, and excluding this component, real GDP growth hit a ten-quarter high of 9%YY, indicating strong underlying fundamentals. In FY24, the 'others' component had added strongly to growth.
- Private consumption grew 6.9%YY, up from 5.9% in Q2, and was in line with the pre-pandemic average for Q3. The improvement in growth was driven by sequential momentum that offset unfavorable base effects.
- Government consumption surged 8.3%YY, compared to 3.8% growth in Q2 and a poll-induced decline in Q1. However, growth in both Q2 and Q3 was due to favorable base effects, as government consumption remained in sequential contraction for the third successive quarter.
- Investment growth eased mildly to 5.7%YY from 5.8% in Q2, marking a seven-quarter low. The moderation in growth was due to negative sequential momentum that offset favorable base effect. However, growth was above the pre-pandemic average for the quarter.
- The contribution of net exports to year-on-year GDP growth improved to 40% from 22% in Q2. Both base effects and quarter-on-quarter change drove exports growth to ten-quarter high of above 10%YY, while imports remained in contraction for the third straight quarter.

Q-o-q GDP growth in Q3 above pre-COVID average; ex-others, real GDP growth of 9%YY in Q3 marked 10-quarter high





Others include discrepancies, valuables, change in stocks

Real GDP, GVA growth numbers for FY23, FY24 were revised higher

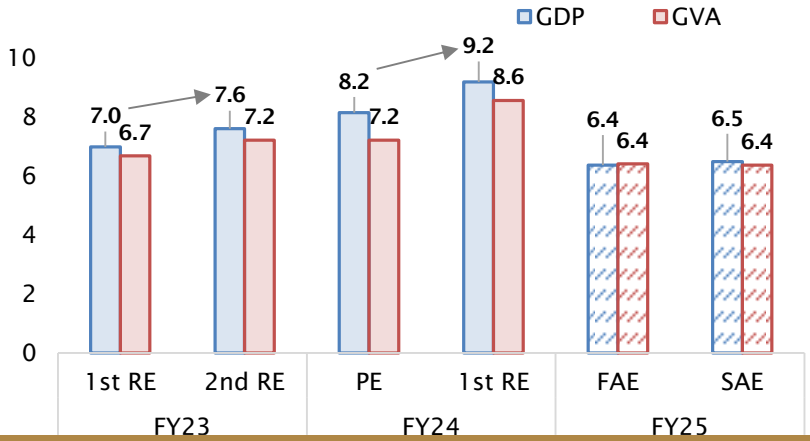
- The second advance estimates (SAE) for FY25 released by the statistics office were unchanged from the first advance estimate (FAE) for real GVA growth at 6.4%YY and revised mildly higher for GDP growth to 6.5%YY from 6.4% penciled in the FAE. The positive surprise sprung from upward revisions to growth rates for both FY23 and FY24. Real GDP growth was raised by 60bps to 7.6% for FY23 and by over 100bps to 9.2%YY for FY24. Revisions to real GVA growth were to the tune of 50bps and 130bps, respectively for FY23 and FY24.
- The fractional improvement in GDP growth estimate for FY25 was amid upward revisions to private consumption, exports and net taxes that offset downward revisions to government consumption and investment. Also, though real GVA growth forecast was kept unchanged, there were upgrades to agriculture and services growth (particularly, construction; and trade, hotels, etc.) that offset across-the-board (mining, manufacturing, electricity) trimming of estimates for industry.
- For quarterly data, both real GDP and GVA estimates were cut for Q1-FY25 but raised by an equivalent amount for Q2, so that the Q1-Q2 average remained stable.

%YY	FY23		FY24		FY25	
	1st RE	2nd RE	PE	1st RE	FAE	SAE
GVA	6.7	7.2	7.2	8.6	6.4	6.4
Agriculture	4.7	6.3	1.4	2.7	3.8	4.6
Industry	-0.6	0.0	9.3	11.0	5.2	4.3
Mining	1.9	3.4	7.1	3.2	2.9	2.8
Manufacturing	-2.2	-1.7	9.9	12.3	5.3	4.3
Electricity	9.4	10.8	7.5	8.6	6.8	6.0
Services	9.9	10.2	7.9	9.2	7.4	7.5
Construction	9.4	9.1	9.9	10.4	8.6	8.6
Trade, hotels, comm., etc.	12.0	12.3	6.4	7.5	5.8	6.4
Financial, real estate, etc.	9.1	10.8	8.4	10.3	7.3	7.2
Public admin., defence, etc.	8.9	6.7	7.8	8.8	9.1	8.8
GDP	7.0	7.6	8.2	9.2	6.4	6.5
GFCE	9.0	4.3	2.5	8.1	4.1	3.8
PFCE	6.8	7.5	4.0	5.6	7.3	7.6
GFCF	6.6	8.4	9.0	8.8	6.4	6.1
Exports	13.4	10.3	2.6	2.2	5.9	7.1
Imports	10.6	8.9	10.9	13.8	-1.3	-1.1
Net taxes	10.6	12.4	19.1	16.5	5.9	7.7

RE: Revised estimate (est.); PE: Provisional est.;
FAE: First advance est.; SAE: Second advance est.

%YY	GDP		GVA	
	Revised	Old	Revised	Old
Q1-FY24	9.7	8.2	9.9	8.3
Q2-FY24	9.3	8.1	9.2	7.7
Q3-FY24	9.5	8.6	8.0	6.8
Q4-FY24	8.4	7.8	7.3	6.3
Q1-FY25	6.5	6.7	6.5	6.8
Q2-FY25	5.6	5.4	5.8	5.6
Q3-FY25	6.2		6.2	

%YY Data revisions to headline GDP and GVA



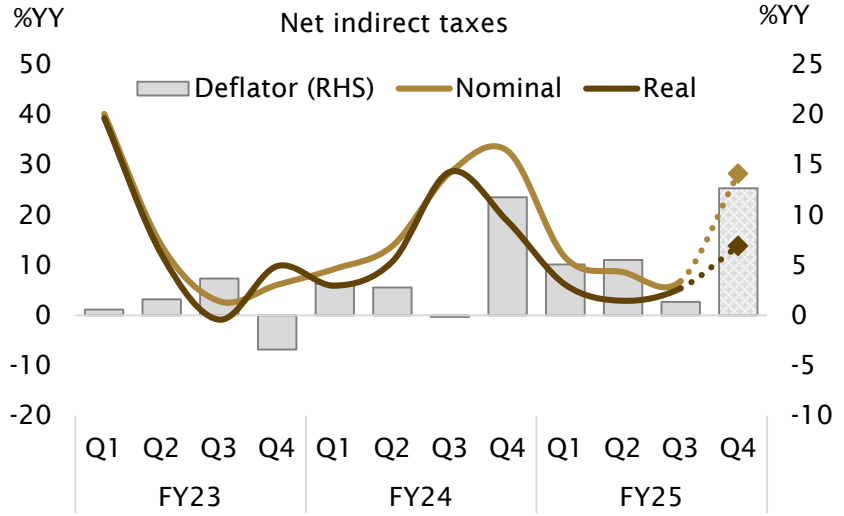
GDP-GVA growth gap to reverse in Q4, as GDP growth to exceed GVA

- **The growth gap:** Net indirect taxes (NIT or indirect taxes minus subsidies) that are included in GDP are expected to grow by double digits year-on-year in Q4-FY25 in both nominal and real terms. In Q3, the y-o-y growth in nominal NIT eased, while it improved in real terms. For the full fiscal year FY25, estimates indicate slower growth compared to FY24 in both real and nominal NIT.

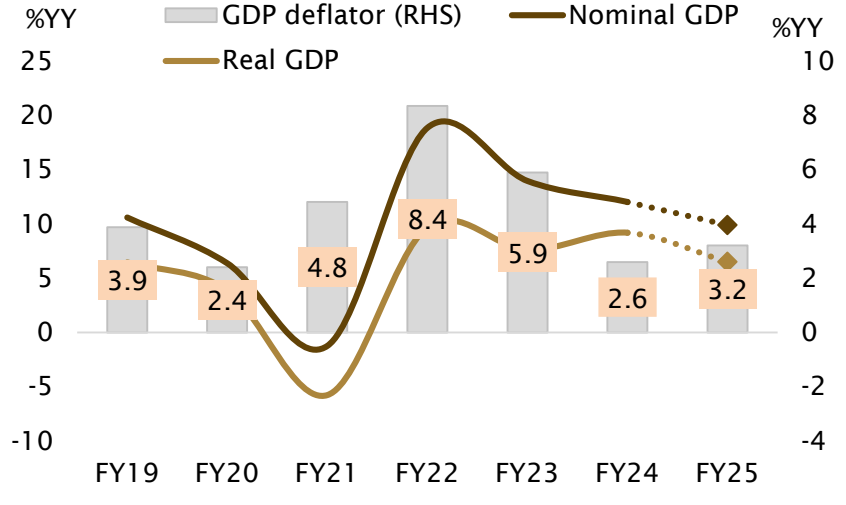
- **The GDP deflator:** Nominal GDP growth improved to 9.9%YY from 8.3% in Q2, and the deflator rose to an eight quarter high of 3.5% from 2.5% in Q2. Based on full year estimates for FY25, the deflator expected to increase further in Q4 but remain sub-4%. For FY25, the deflator is expected to be higher than in FY24 but below the annual series average of 5.4%. .

- **Revisions to annual nominal growth data:** In addition to revisions to real GDP and GVA data for FY23 and FY24, there were also changes to nominal data, resulting in marginally lower growth rates for FY23 but sharp upward revisions to FY24 data. Both nominal GDP and GVA growth rates were upgraded by more than 200bps. There were upward revisions to FY25 growth estimates as well but to a lesser extent of sub-20bps. These upgrades to nominal GDP for FY25 and FY26 imply downward bias to fiscal deficit as percent of GDP.

Net indirect taxes growth expected to improve in Q4



GDP deflator estimated to be higher in FY25



Factors supporting growth and risks to outlook – I

The latest estimates for FY25 imply real GDP growth of 7.6% in Q4, and GVA growth of 6.8%, up from 6.2% for both in Q3. Though high frequency data shows improvement in economic activity in recent months, the pace of recovery from the slump in Q2 remains uneven. The rise in external uncertainties due to tariff wars suggest downside risks. The below points explore factors that could support growth in coming quarters, along with the headwinds.

- **Domestic consumption:** The latest FMCG sales data for Q3 shows higher volume growth in rural and urban areas, with rural growth sustaining above its urban counterpart for the fourth quarter. The income tax relief announced in the latest Union Budget is expected to boost consumption, particularly in urban areas that have been constrained by tight monetary and regulatory policies. The ongoing disinflation is also likely to further support consumption. The stellar performance of agriculture in FY25 is slated to keep rural demand strong.

- **Government spending:** After lagging for most of the fiscal year, the Centre's capital expenditure has caught up to the run rate of the previous fiscal year at 74% of FY25BE in Apr-Jan vs 76% in FYTD-FY24. These numbers were reversed for revenue spending. The back ended capital expenditure in FY25 and the continued thrust on capex in the latest Union Budget are likely to keep the contribution from government to growth firm in coming quarters. Despite continued fiscal consolidation in FY26, the pace is slated to ease. At the States' level, the trends are mixed. As per 'state of the economy' article in the RBI's latest bulletin, data for 23 states showed that capex remained in year-on-year contraction in Apr-Dec FYTD, while revenue spend rose at a faster clip.

- **Crop, reservoir, and weather situation:** As on February 27, the summer sowing of crops exceeded levels in the same period of previous year across most major food grains and crops, except for a fractional slip in case oilseeds. As on March 6, reservoir levels in the overall country were above normal and last year's levels, except for the north and east regions where they were deficient vis-à-vis both normal and last year's levels. In its update for the hot weather season (March to May), the IMD has forecasted above-normal number of heat wave days over most parts of the country, with certain exceptions in northeast, extreme north, southwestern and southern parts. This warrants caution on outlook for Rabi crop harvest and spill overs to food inflation.

- **Monetary and liquidity easing:** After lowering the CRR rate in December, and adopting a slew of measures in January to enhance system liquidity, the RBI MPC delivered a 25bp repo rate cut at its meeting in February. To enhance durable liquidity, the RBI, later in the month, announced USD/INR swap auction of USD10bn for a tenor of three years that was held on February 28. This was followed by more steps in March, including OMO

Factors supporting growth and risks to outlook – II

purchases totaling Rs.1 lakh crore in two equal tranches to be held on March 12 and March 18, and another USD/INR swap auction of USD10bn for a tenor of three years to be held on March 24. Banking system liquidity has eased from the recent peak deficit of over Rs.3 lakh crore in end-January, though both core and system liquidity continued to remain deficient in end-February, validating the need for steps announced this month.

- **Macro prudential measures:** The RBI dialed back the increase in risk weights on bank loans to NBFCs, and microfinance loans given as consumer credit that were announced in November 2023. Other risk weights were kept unchanged. This partial unwinding of macro prudential tightening is expected to boost credit flow, and thereby support economic activity. However, concerns remain over the balance sheet of the RBI and tepid growth in reserve money that could be impinging on credit and deposit flow in the economy.

- **Services exports:** Amid rising uncertainties to global trade due to tariff wars, India's services exports remain a bright spot, with its value (USD39bn) exceeding goods exports (USD36bn) in January 2025. In addition to high remittances, services exports could continue to cushion our external balance to some extent.

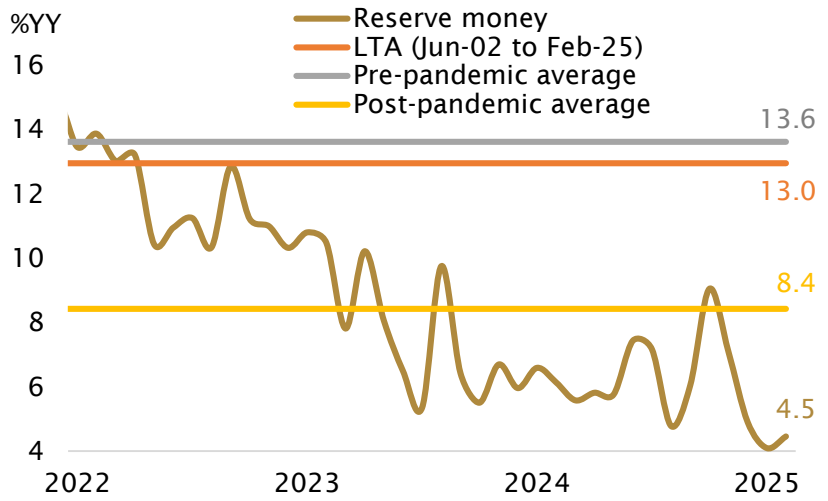
- **External uncertainties:** Global commodity prices remain a wildcard and vulnerable to geopolitical woes and tariff wars. Overall trends are mixed. Crude oil prices have been subdued, gains in other energy and industrial metal prices have been modest and recent rise in the headline Bloomberg commodity is mainly driven by precious metals on safe haven demand. The recent pressure on USDINR amid FII outflows needs to be watched out for in terms of impact on domestic growth and inflation.

- **High frequency indicators:** Post the slump in Q2-FY25, the rebound in economic activity remains uneven and sluggish. Vehicle registrations fell year-on-year across segments in February (2-wheeler, 3-wheeler, passenger vehicles, tractor, and commercial vehicles). PMI manufacturing slowed to 14-month low, though it continued to remain in expansion, while PMI services improved from the previous month. The year-on-year growth in GST e-way bills eased from 15-month high reached in January, though it continued to remain in double digits.

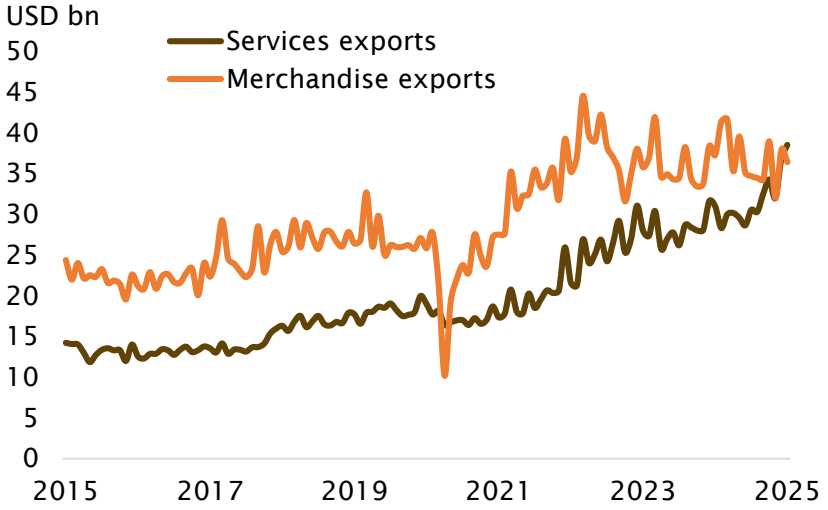
- **Policy implication:** In Q3-FY25, real GDP growth of 6.2%YY was in line with expectations (Reuters poll: 6.3%) but recovery in economic activity remains mixed, as indicated by latest high frequency data that underscore downside risks to full year growth estimate of 6.5%. Amid easing domestic inflation and rising external risks, the RBI MPC is likely to deliver an additional 25bp rate cut at its meeting in April to support domestic growth.

Appendix I

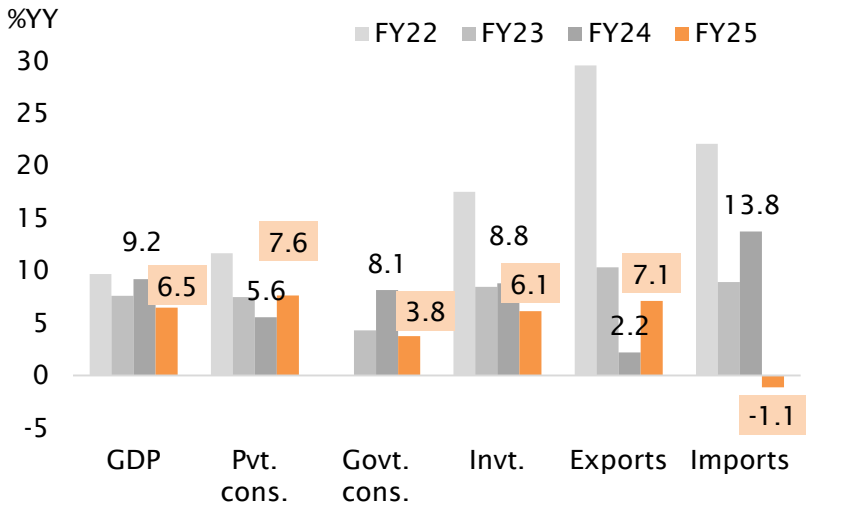
Reserve money growth has been tepid in recent years



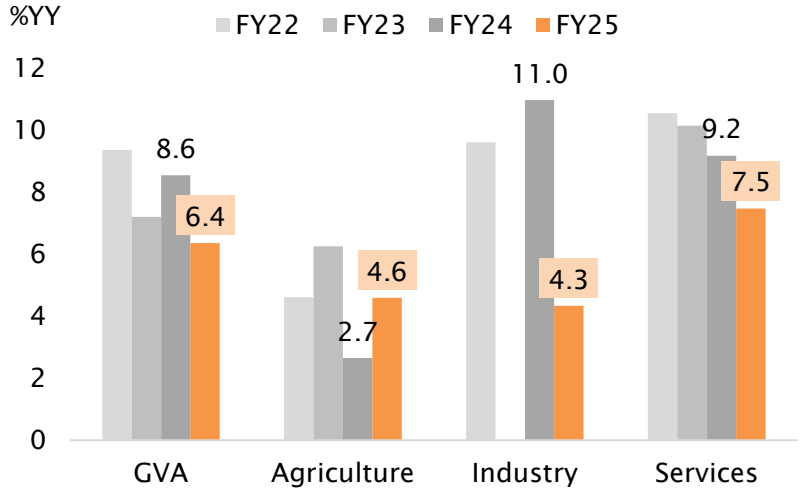
Services exports value exceeded goods in Jan-2025



Investment, govt. consumption growth to ease in FY25



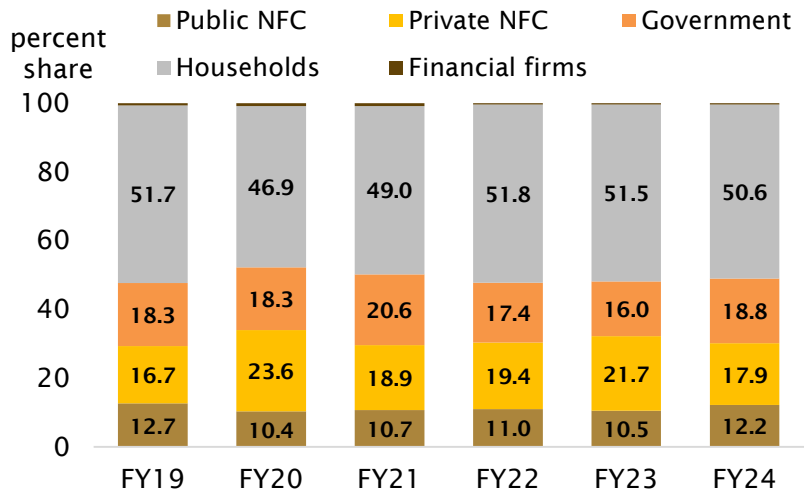
Farm output to improve in FY25; industry, services to ease



Appendix II – Insights on investment trends

- Despite moderation in growth in the past two years, the share of dwellings, buildings, and structures in gross fixed capital formation (GFCF) stayed above 58% between FY22-24, up from 54% in FY21. The share of machinery and equipment has eased from over 33% in FY21 to around 31% between FY22-24. Similarly, the share of IPP has eased to ~10% after rising between FY19-21 to ~11-13%. Within dwellings, the share of households remained the highest in FY24 at over 50% amid easing in the past two years. However, government overtook private NFC in FY24, and the share of public NFC increased.
- By sectors, the largest shares in nominal GFCF in FY24 were accounted for by real estate (19%), manufacturing (16%), transport (12%), trade and hotels (10%), and PADO (10%). In addition to transport and PADO, high growth was posted by mining, utilities, and financial services.

Investment in dwellings, structures by institution



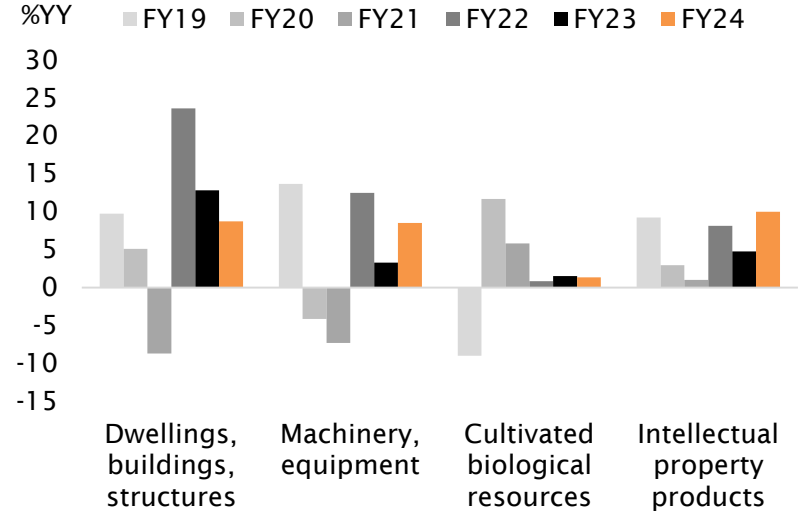
Note: NFC stands for non-financial corporations

Real gross capital formation by sectors

(%YY)	FY13-20*	FY22	FY23	FY24
Agriculture	2.0	8.4	17.6	8.8
Mining	10.1	13.4	1.8	35.9
Manufacturing	4.0	33.5	-4.1	4.8
Utilities	-1.5	18.5	-5.1	31.8
Construction	9.9	-7.3	16.0	5.0
Trade, hotels, etc.	8.2	56.5	45.4	-18.2
Transport, comm., etc.	12.2	50.0	12.1	39.5
Financial services	3.0	-6.0	12.0	37.9
Real estate	4.7	11.9	8.5	3.3
PADO**	7.9	2.1	0.1	25.3
Other services	13.6	34.2	0.1	19.2

Note: * median values; PADO: Public admin., defence, etc.

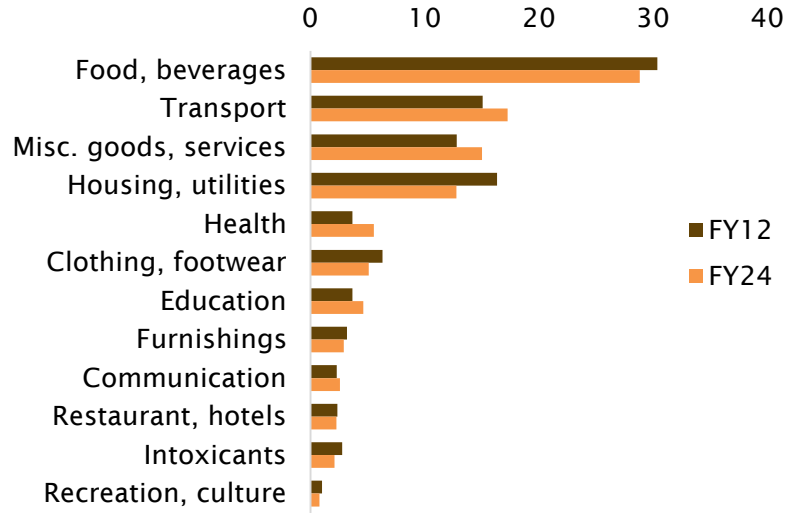
Real gross capital formation by asset



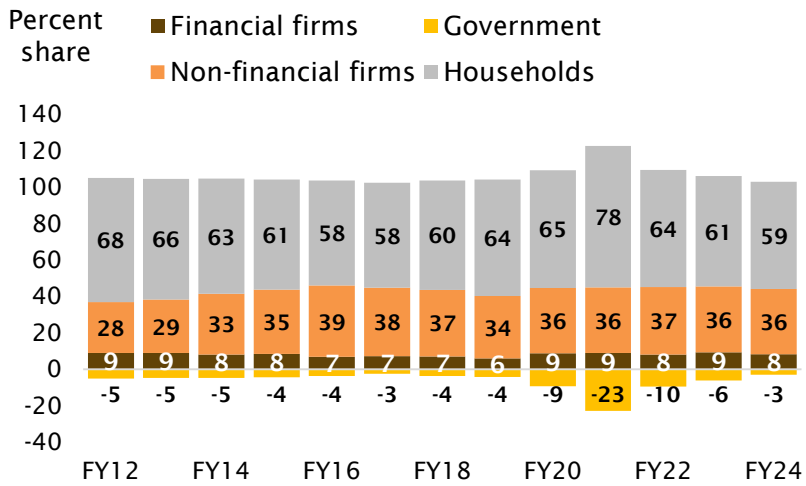
Appendix III – Insights on consumption and savings trends

- The surge in household savings during the pandemic has dwindled in recent years. There has been an increase in households' financial liabilities, along with a corresponding rise in savings in physical assets.
- Compared to FY12, the share of housing and utilities in nominal private final consumption expenditure (PFCE) has eased the most, followed by food, clothing, and intoxicants. Share of transport, miscellaneous goods and services, health, and education has increased. The highest share at 29% in FY24 continues to accrue to food.
- In FY24, real PFCE growth eased to 5.6%YY from 7.5% in FY23. Transport added the most to growth in FY24 (29%), followed by miscellaneous items (26%), and health (16%). The contribution of food to PFCE growth eased sharply to 2.5% from 19% in FY23. Clothing is the only category that deducted from growth in both FY23 and FY24.

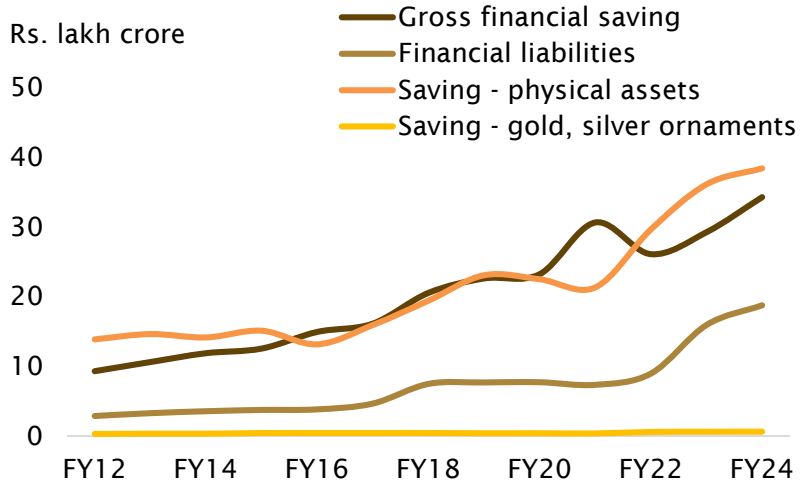
Percent share in private final consumption expenditure



Share in gross savings



Household gross savings



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1101, Naman Centre, Bandra Kurla Complex, Bandra (E), Mumbai -400 051, Maharashtra.

Ph: +91 22 4084 5000 • Fax: +91 22 4084 5052 • www.trustgroup.co.in