Macroeconomics | First cut

Brighter picture

March 2025

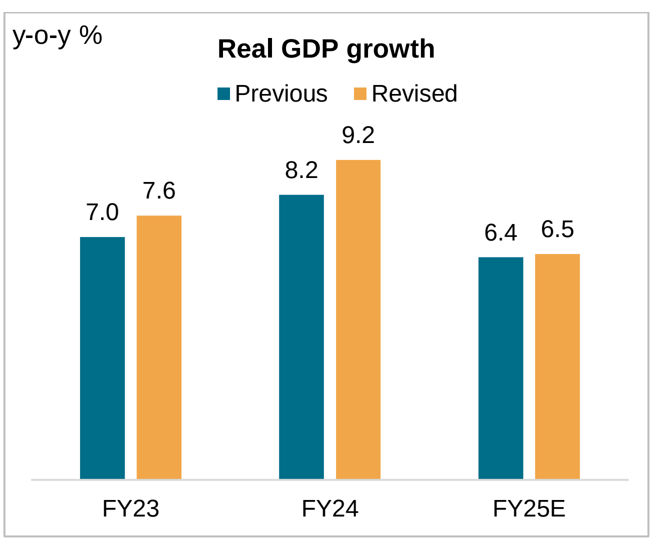
Growth estimates revised up for the current and past two fiscals

- **India expected to grow 6.5% in the current fiscal:** The National Statistics Office's (NSO) second advance estimate (SAE) projects real gross domestic product (GDP) growth at 6.5% for the current fiscal, 10 basis points (bps) higher than first advance estimate (FAE) in January

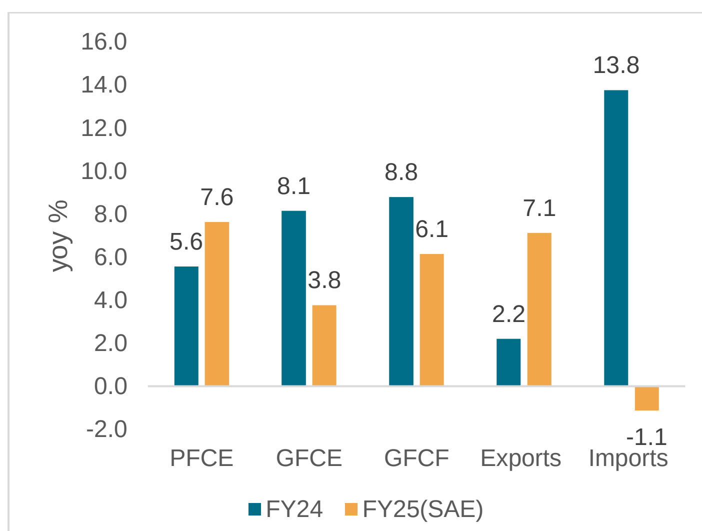
  According to the NSO, third-quarter GDP growth improved to 6.2% on-year from 5.6% previous quarter

- **Past two fiscals see larger revisions**: GDP growth was revised higher 100 bps to 9.2% for fiscal 2024 and 60 bps up to 7.6% for fiscal 2023
- **Consumption fared better than expected**: Private consumption was the driver of the upward revisions. In the current fiscal, private consumption is estimated to grow 7.6%, stronger than the overall GDP growth
- **Investments losing steam**: Growth in fixed investments is estimated to be slower at 6.1% this fiscal, compared with 8.8% in the previous fiscal. Disaggregated data released until the previous fiscal showed a decline in private and household investment in fiscal 2024. Government capital expenditure (capex), which rose sharply in the previous fiscal, has declined in the current fiscal so far

GDP growth revised up for FY23-25



Growth of key GDP components in the current fiscal



Source: National Statistical Office (NSO), CEIC, CRISIL

Takeaways from annual growth movements

- GDP growth for this fiscal is estimated at 6.5%, slower than 9.2% in the previous fiscal. However, growth remains close to the pre-pandemic decadal average of 6.6% between fiscals 2011 and 2020 and will allow India to retain its tag of fastest growing large economy.
- The slowdown was driven by fixed investment (6.1% in fiscal 2025 versus 8.8% in fiscal 2024). However, growth improved in consumption (7.6% versus 5.6%) and exports (7.1% versus 2.2%), even as imports contracted (-1.1% vs 13.8%) in real terms.
- On the supply side, gross value added (GVA) is estimated to grow 6.4% in the current fiscal, compared with 8.6% in the previous fiscal, driven by slowing growth in industry (5.6% versus 10.8%). Despite slowing (7.3% vs 9%), services grew faster than overall GDP). However, agriculture is improving (4.6% from 2.7%)
- Nominal GDP for the current fiscal was revised higher to 9.9% from 9.7%, according to the FAE. However, this is still slower versus the previous fiscal's 12.0%
- In addition, disaggregated data on savings and investments has also been released until the previous fiscal:
    - The share of private corporate investment in GDP declined to 10.1% in fiscal 2024 from 11.3% in fiscal 2023, indicating that the private sector capex has not risen sufficiently. This is worrisome, because fiscal consolidation will require some restraint in government capex growth
    - Growth in gross domestic savings remained broadly steady in the previous fiscal at 12.3%, versus 12.0% in fiscal 2023. Within the savings, household savings growth accelerated to 9.0% from 5.7% in fiscal 2023

Understanding recent quarterly trends

- Real GDP grew 6.2% on-year in the third quarter of this fiscal, higher than 5.6% in the second quarter, but lower than 8.0% in the year-ago third quarter
- Gross value added (GVA) picked up to 6.2% in the third quarter from 5.8% in the previous quarter

  Demand side:

    - Private final consumption expenditure (PFCE) accelerated to 6.9% in the third quarter from 5.9% in the previous quarter. The festive and wedding season likely provided an impetus to demand this quarter. However, elevated inflation and interest rates capped further gains
    - Government final consumption expennditure (GFCE) accelerated to 8.3% from 3.8%
    - Fixed investment, as measured by gross fixed capital formation (GFCF), moderated to 5.7% from 5.8%. Though government capex revived in the third quarter, both Central and state government capex have been less than the budgeted targets for this fiscal until December
    - Exports picked up sharply to 10.4% from 2.5%, while imports continued to contract (-1.1% versus -2.5%). Services primarily drove higher export growth this quarter

- GDP is expected to pick up to 7.6% in the fourth quarter to deliver full fiscal year growth of 6.5%.

Supply-side

- Growth in industry accelerated (4.5% versus 3.8%), driven by a broad-based pick-up across manufacturing (3.5% versus 2.1%), mining (1.4% versus -0.3%), electricity (5.1% versus 3.0%), while construction growth remained healthy (7.0% versus 8.7%)
    - The acceleration in manufacturing in the third quarter has, in turn, been broad-based, with the Index of Industrial Production (IIP) data showing that both infrastructure and construction goods as well as consumer-oriented sectors performed better in the third quarter compared with the previous quarter. Growth in merchandise exports has also revived after contracting in the previous quarter. That said, remain a laggard in the third quarter as it trailed the overall GDP growth.
    - Mining output contracted in the second quarter due to weather-related disruptions, while easing in the disruptions later resulted in a pick-up in the third quarter
- Growth in agriculture picked up due to sustained momentum from a normal monsoon (5.6% versus 4.1% in the previous quarter)
- Growth in services held up broadly (7.4% versus 7.2%), driven by a pick-up in THTC[1] services (6.7% versus 6.1%), while financial and public administration services were steady at 7.2% and 8.8%, respectively

Outlook

We forecast India's GDP growth to be steady at 6.5% in fiscal 2026. We assume the upcoming monsoon season to be normal and commodity prices to remain soft. Private consumption is expected to recover further, while investment growth hinges on private capex. The pickup in growth will be mild because of overall lower fiscal impulse. Emerging global risks from potential US tariff hikes are a downside risk for domestic growth.

Private consumption is expected improve further, on expectations of healthy agricultural production and cooling food inflation. Softer food inflation should create space in household budgets for discretionary spending. Secondly, the tax benefits announced in Union Budget 2025-2026 and increased allocations towards key asset- and employment-generating schemes are expected to support consumption.

Thirdly, easing monetary policy by the Reserve Bank of India (RBI) is expected to support discretionary consumption. We expect the RBI's Monetary Policy Committee (MPC) to cut the repo rate by 50-75 bps in fiscal 2026. The central bank's recent liquidity-easing measures and easier regulations for non-banking financial companies are expected to transmit the benefits from an easier monetary policy to the broader economy.

That said, investment growth hinges on a sustained pick-up in private corporate investment, as the government normalises capex to meet its fiscal deficit target for the next year.

[1] *THTC: Trade, hotels, transport and communication, related to broadcasting; Financial services: Financial, real estate, and professional services.; Public administration services: Public administration, defence, and other services*

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Risks to the growth outlook are tilted to the downside, given the elevated uncertainty because of the US-led tariff war. With domestic private consumption expected to hold up, imports are expected to remain healthy in fiscal 2026, while exports growth could be subdued because of potential reciprocal tariffs imposed by the US.

The escalating global trade uncertainty could also lead to increased imports from China as a result of trade redirection. Net exports are likely to be a drag for growth in fiscal 2026.

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