

FY25 growth pegged at 6.4%

*NSO has estimated that Indian economy is expected to clock a growth of 6.4% in FY25 growth compared with a growth of 8.2% in FY24. GVA growth is also estimated lower at 6.4% (previously 7.2%). Softer growth is expected across the industry sector in FY25 with manufacturing and mining sector to grow at 5.3% and 2.9% in FY25, much slower than last year. Agriculture sector is expected to record robust growth supported by recovery in rural demand and improvement in rabi sowing. Given the ongoing geopolitical conflict and threats of tariff war, the global headwinds signal weakness in global economy. On the other hand, India's economy is expected to perform much better in H2FY25. The attention will now shift towards Union Budget and corporate performance for Q3 and Q4. **For FY26, we expect the nominal GDP growth at 10.5% and real GDP growth at 6.8%.***

1st Advance Estimate of FY25 GDP

GDP growth for FY25 has been estimated at 6.4% against an increase of 8.2% in FY24 on a YoY basis. This moderation is led by expectation of slower pace of growth in investment demand at 6.4% against a growth of 9% in FY24. Moreover, contraction in import (-1.3% versus 10.9% in FY24) growth is likely given the weakness in global economy. However, on the bright side both private and government consumption is expected to register strong growth of 7.3% (4% in FY24) and 4.1% (2.5% in FY24) respectively in FY25. Furthermore, in a positive surprise, the export growth is likely to register a strong growth of 5.9% against a growth of 2.6% in FY24.

GVA to moderate

GVA growth is expected to moderate to 6.4% in FY25 compared with a growth of 7.2% in FY24. This was lower than our expectation of 6.6%. Tepid growth across manufacturing (5.3% from 9.9% in FY24), mining (2.9% against 7.1% in FY24) and electricity sector (6.8% from 7.5% in FY24) is expected in FY25 and the same has been reflected by YTD estimates of industrial production data. Growth in construction sector is expected to moderate down to 8.6% from 9.9% growth registered in FY24. Within services, trade, transport and hotel industry is likely to grow at a slower pace at 5.8% against a growth of 6.4% in FY24 reflecting slower demand in tourism and hospitality industry. Financial services sector is also expected to record marginally slower growth of 7.3% in FY25 (8.4% in FY24). On the other hand, in line with expectation of a steady pickup in government spending in H2, higher growth is expected for public admin at 9.1% (7.8% in FY24). Even agriculture growth is expected to register robust growth at 3.8% in FY25 (1.4% in FY24) supported by higher rabi sowing.

Outlook for FY25

A range of economic and strategic risk prevails post the imposition of the tariff polices by the incoming US President Mr Trump. This could be far reaching impact on global trade, with any retaliatory measures pushing towards the possibility of a tariff war. This remains as a global risk and will adversely impact the global economies. Indian economy remains resilient on the back of the strong festive demand and steady improvement in economic activity. The same has already been reflected by some of the high frequency indicators witnessing an uptick in Q3, these include air passenger traffic, services PMI and a jump in GST collections. Additionally, higher rabi sowing bodes well for agriculture growth.

However, some downside risk to these estimations emerge due to global headwinds, especially the threat of tariff war. Investment and Consumption continues to remain critical factors supporting the growth in the coming months. Focus would also move towards the Union Budget, corporate performance in Q3 and Q4 and RBI's rate decision, we expect the rate cut action in the next meeting scheduled in Feb'25. For FY26, we expect the nominal GDP at 10.5% and real GDP at 6.8%.

Table 1: GDP to grow by 6.4% in FY25

Sectors (%)	FY24	FY25AE
Agriculture, forestry and fishing	1.4	3.8
Mining and quarrying	7.1	2.9
Manufacturing	9.9	5.3
Electricity, gas, water supply and other utility services	7.5	6.8
Construction	9.9	8.6
Trade, hotels, transport, communication & services related to broadcasting	6.4	5.8
Financial, real estate & professional services	8.4	7.3
Public administration and Defence	7.8	9.1
GVA at basic prices	7.2	6.4
GDP	8.2	6.4

Source: CEIC, Bank of Baroda Research Note: AE: Advance Estimates

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