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GDP growth pegged at 6.5% for FY25

India's GDP growth softened to 6.2% in Q3FY25, following 9.5% growth in Q3FY24. Unfavorable base and lower sectoral growth in manufacturing and mining sector lowered growth rate. For full year, growth is estimated at 6.5% given robust growth in agriculture sector. Growth is expected to advance in Q4 further as has been evident from the high frequency indicators. This will be supported by strong boost to consumption spending along with revival in investment and more rate cuts by RBI, bodes well for the growth outlook. Uncertainty to global trade due to tariff war remains a key downside risk to this outlook.

Q3FY25 GDP slows

GDP growth in Q3FY25 moderates to 6.2% from 9.5% in Q3FY24 on a YoY basis. This was lower than our expectation of 6.6%. Slower pace of growth was partially on account of unfavourable base. Weakness was noted in investment in Q3 with GFCF growth registering a growth of 5.7% against 9.3% last year. Imports growth contracted by (-) 1.1% in Q3FY25 compared with a 11.3% growth in Q3FY24. On the other hand, despite the moderation, private consumption recorded stupendous growth of 6.9% in Q3FY25 from 5.7% in Q3FY24. Furthermore, growth in government spending expanded to 6-quarter high to 8.3% in Q3 against a growth of 2.3% last year. In a surprise move, exports registered a double digit growth of 10.4% for Q3 compared with a dismal growth of 3% noted in Q3FY24.

GVA moderates

GVA registered a growth 6.2% in Q3FY25 in line with our expectation compared with a growth of 8.0% in Q3FY24. Tepid growth was noted in manufacturing (3.5% from 14%), mining (1.4% against 4.7%) which was expected given only gradual improvement in corporate profits. Sluggish pace of growth was noted for power, gas and supplies as it decelerated to 5.1% in Q3 (10.1% in Q3FY24). Growth in construction sector eased down to 7% in Q3 compared with 10% growth in the same quarter of last year. Growth in trade, hotels (6.7% from 8%) and financial sector (7.2% from 8.4% in Q3FY24) also softened in Q3FY25. However, agriculture sector turned out to be bright spot registering a robust growth of 5.6% in Q3 compared with a growth of 1.5% in the same quarter last year supported by improvement in kharif output and higher rabi sowing than last year. Furthermore, in line with expectation, public admin registered a strong growth of 8.8% against a growth of 8.4% in Q3FY24.

Outlook for FY25

- India's GDP growth is expected to clock a 6.5% growth in FY25 against a growth of 9.2% in FY24 and in terms of nominal growth it stands at 9.9%.
- The real GDP growth for FY25 looks achievable at 6.5% on the back of remarkable growth in agriculture sector.
- In nominal terms, durable growth in PFCE at 12.3% (9.7% in FY24) along with robust growth in both exports (8.5% from 3.3%) and imports (9.7% from -1.7%) holds ground for solid growth in FY25.
- This will be further supported by sharper growth in Q4 given the sustained pickup in government spending, capex, especially investment along with improved outlook for rabi sowing as well as buoyancy in consumption demand. High frequency data points (PMI-both

manufacturing and services, auto sales, robust GST collections) are already showing signs of uptick so far.

- There has been reasonable traction in consumption demand amidst the spending during the Maha-Kumbh and the ongoing wedding season. A recovery in urban consumption bodes well for the growth outlook.
- Anticipation of more rate cuts by RBI is positive for growth.
- Notably, escalated concerns due to ongoing tariff war and geopolitical tension remains a downside risk to this outlook with adverse impact on the external sector.

Table 1: Q3FY25 GDP growth improves

Sectors (%)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Agriculture, forestry and fishing	1.5	0.6	1.7	4.1	5.6
Mining and quarrying	4.7	4.3	6.8	-0.3	1.4
Manufacturing	14.0	8.9	7.5	2.1	3.5
Electricity, gas, water supply and other utility services	10.1	7.7	10.2	3.0	5.1
Construction	10.0	8.7	10.1	8.7	7.0
Trade, hotels, transport, communication & services related to broadcasting	8.0	5.1	5.4	6.1	6.7
Financial, real estate & professional services	8.4	7.6	6.6	7.2	7.2
Public administration and Defence	8.4	7.8	9.0	8.8	8.8
GVA at basic prices	8.0	6.3	6.5	5.8	6.2
GDP	9.5	7.8	6.5	5.6	6.2

Source: CEIC, Bank of Baroda Research

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