

PRESS RELEASE  
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## GDP growth to rise to 6.4% in Q3 FY2025, benefitting from Government spending: ICRA

- *Pace of expansion may remain below Q1 FY2025 levels, led by industry*
- *Rise in GDP to continue to trail GVA growth for the third quarter in a row*

ICRA has projected the year-on-year (YoY) expansion of the GDP to rise to 6.4% in Q3 FY2025 from the seven-quarter low of 5.4% in Q2 FY2025, benefitting from enhanced Government spending amid uneven consumption. Further, the growth in the gross value added (GVA) is estimated to record a relatively broad-based improvement to 6.6% in Q3 FY2025 from 5.6% in Q2 FY2025, driven by the industrial (to +6.2% from +3.6%), services (to +7.7% from +7.1%), and agricultural (to +4.0% from +3.5%) sectors. On a sombre note, the GDP and GVA growth in Q3 FY2025 is foreseen to continue to trail the NSO's initial growth estimates for Q1 FY2025 (+6.7% and +6.8%, respectively), which had seen some sectors affected by the Parliamentary elections, the Model Code of Conduct, and also the heat wave in some states.

ICRA estimates that the growth in net indirect taxes (in nominal terms) eased significantly to low single digits in the quarter from 7.9% in Q2 FY2025, owing to a sharp, albeit base effect-led rise in the YoY increase in subsidy disbursement by the Centre (to +31.1% in Q3 FY2025 from +4.3% in Q2 FY2025; -53.6% in Q3 FY2024; -7.6% in Q2 FY2024). As a result, the GDP expansion would continue to trail that in the GVA in Q3 FY2025 for the third quarter in a row, with a similar trend expected in the full year as well.

**Aditi Nayar, Chief Economist, Head-Research & Outreach, ICRA** said: *"India's economic performance in Q3 FY2025 benefitted from a sharp ramp-up in aggregate Government spending (Centre + state) on capital and revenue expenditure, high growth in services exports, a turnaround in merchandise exports, healthy output of major kharif crops etc., which would have buffered rural sentiment. Some consumer-focused sectors saw a pick-up during the festive season, even as urban consumer sentiment dipped slightly, and other sectors such as mining and electricity saw an improvement after weather-related challenges in the previous quarter. Overall, while we expect the pace of GDP and the GVA expansion to rise in Q3 FY2025 relative to the seven-quarter low prints for the previous quarter, marking an upturn, the performance may remain inferior to the NSO's initial estimates for Q1 FY2025."*

ICRA projects the industrial GVA growth to record a broad-based pick-up to 6.2% in Q3 FY2025 from 3.6% in Q2 FY2025, led by manufacturing (to +5.0% from +2.2%), construction (to +9.5% from +7.7%), electricity (to +5.0% from +3.3%), and mining and quarrying (to +2.5% from -0.1%), with the latter two sub-sectors partly benefitting from the easing in rainfall.

India's investment activity improved in Q3 FY2025, as reflected in the uptick in the YoY growth in several investment-related indicators vis-à-vis Q2. This includes capital and infrastructure goods' output, cement production, engineering goods' exports, and capital spending of the Centre and state governments. The YoY expansion in the Gol's capex surged to a six-quarter high of 47.7% in Q3 FY2025 from 10.3% in Q2 FY2025. Moreover, the YoY increase in the aggregate capital outlay and net lending of 24 state governments (excluding Arunachal Pradesh, Bihar, Goa, and Manipur), for which the CAG data is available, rose to 9.9% YoY in Q3 FY2025 from 7.0% in Q2 FY2025.

ICRA estimates the YoY growth in the services GVA to pick up to 7.7% in Q3 FY2025 from 7.1% in Q2 FY2025. Notably, the YoY increase in the combined non-interest revenue expenditure of the aforementioned 24 state governments improved sharply to 18.0% in Q3 FY2025 from 8.8% in Q2 FY2025. Similarly, the growth in the Gol's non-interest revenue expenditure accelerated to a healthy 14.1% from 6.7% between these quarters.

Further, the pace of YoY expansion of India's service exports rose further to a robust 17.5% in Q3 FY2025 from 12.2% in Q2 FY2025. Service exports touched an all-time high of \$36.9 billion in December 2024. Moreover, there was a turnaround in merchandise exports to a YoY rise of 3.3% in Q3 FY2025 from a contraction of 4.3% in Q2 FY2025.

Buoyed by the healthy increase in kharif foodgrain output as well as a muted base, the GVA growth of agriculture, forestry and fishing is expected to rise to a seven-quarter high of 4.0% in Q3 FY2025 (+0.4% in Q3 FY2024) from 3.5% in Q2 FY2025 (+1.7% in Q2 FY2024).

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