# ECONOMIC OUTLOOK AND MACRO TRENDS

## India’s GDP growth expected to improve to 6.4% in Q3 FY2025 from 5.4% in Q2, bolstered by Government spending

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Aditi Nayar
+91 124 4545 385
aditin@icraindia.com

Rahul Agrawal
+91 22 6114 3425
rahul.agrawal@icraindia.com

Aarzoo Pahwa
+91 124 4545 835
aarzoo.pahwa@icraindia.com

Tiasha Chakraborty
+91 124 4545 848
tiasha.chakraborty@icraindia.com

Isha Sinha
+91 22 6114 3445
isha.sinha@icraindia.com

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# Abbreviations

AE: Advance Estimates
ATF: Aviation Turbine Fuel
BAI: Business Assessment Index
BE: Budget Estimates
BFSI: Banking, financial services and insurance
BoP: Balance of Payments
CAD: Current Account Deficit
CCS: Consumer Confidence Survey
CGA: Controller General of Accounts
CGST: Central Goods and Services Tax
CIL: Coal India Limited
CNY: Chinese Yuan
CP: Commercial Paper
CPD: Cut and Polished Diamond
CPI: Consumer Price Index
CPSEs: Central Public Sector Enterprises
CSI: Current Situation Index
CTD: Central Tax Devolution
CV: Commercial Vehicle
DAP: Diammonium phosphate
DIPAM: Department of Investment and Public Asset Management
ECB: External Commercial Borrowing
FAE: First Advance Estimates
FAO: Food and Agriculture Organization
FC: Finance Commission
FCI: Food Corporation of India
FCNR (B): Foreign Currency Non-Resident Bank
FDI: Foreign Direct Investment
FPI: Foreign Portfolio Investors
FMCG: Fast Moving Consumer Goods
FRL: Full Reservoir Level
FRP: Financial, Real Estate and Professional Services
GBI-EM: Government Bond Index-Emerging Market
GCC: Global Capability Centre
GDP: Gross Domestic Product
GFCE: Government Final Consumption Expenditure
GFCF: Gross Fixed Capital Formation
G-Sec: Government Securities
GoI: Government of India
GVA: Gross Value Added
HSD: High Speed Diesel
IGST: Integrated Goods and Services Tax
IIP: Index of Industrial Production
IMD: Indian Meteorological Department
IMF: International Monetary Fund
IOS: Industrial Outlook Survey
IPO: Initial Public Offering
JPC: Joint Plant Committee
LAF: Liquidity Adjustment Facility
LPA: Long Period Average
LPG: Liquefied Petroleum Gas
MGNREGS: Mahatma Gandhi National Rural Employment Guarantee Scheme
MICE: Meetings, Incentives, Conferences, Exhibitions
MoRTH: Ministry of Road Transport and Highways
MPC: Monetary Policy Committee
MS: Motor Spirit or Petrol
MSF: Marginal Standing Facility
MSP: Minimum Support Price
NBFC: Non-Banking Finance Companies
NBS: Nutrient Based Subsidy
NONG: Non-Oil & Non-Gold
NR(E)RA: Non-Resident (External) Rupee Account
NRI: Non-Resident Indians
NRO: Non-Resident Ordinary
NSO: National Statistical Office
PIT: Personal Income Tax
PPF: Public Provident Fund
PA: Provisional Actuals
PADOS: Public Administration, Defence and Other Services
PFCE: Private Final Consumption Expenditure
PLI: Production Linked Incentive
PPF: Public Provident Fund
POL: Petroleum Oil and Lubricants
RE: Revised Estimates
REER: Real Effective Exchange Rate
SDF: Standing Deposit Facility
SDG: Sustainable Development Goal
SDR: Special Drawing Rights
SIOS: Services and Infrastructure Outlook Survey
SME: Small and Medium-Sized Enterprises
THTCS: Trade, Hotels, Transport, Communication and Services related to broadcasting
TEU: Twenty-foot equivalent units
TTM: Trailing Twelve Months
VRR: Voluntary Retention Route
WMA: Ways and Means Advances
WPI: Wholesale Price Index
WTO: World Trade Organisation

## OVERVIEW

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*India's GDP growth is assessed to have improved to 6.4% in Q3 FY2025 from seven-quarter low of 5.4% in Q2, bolstered by Government spending.*

*Our baseline growth estimate for GDP/GVA growth for FY2026 is placed at 6.5%/6.3%, underpinned by uptick in domestic consumption and investment, even as outlook for external trade is clouded by heightened global uncertainty around protectionist trade policies.*

**India's economic activity improved in Q3 FY2025, with the seasonal pick-up in some consumer-led sectors during the festive period, healthy trends in kharif output aiding rural consumption demand, as well as some recovery in mining and electricity sectors after the withdrawal of monsoons. ICRA estimates GDP growth to rise to 6.4% in Q3 FY2025 from the seven-quarter low of 5.4% in Q2, while printing below the 6.7% expansion seen in Q1 FY2025. Based on these initial estimates, GDP growth is projected at 6.4% in FY2025, entailing a further acceleration in Q4 FY2025 underpinned by hopes of ramping up of Government spending and project execution, and seasonally healthy exports, amid sustained rural consumption. For FY2026, ICRA has placed the baseline assumption for GDP and GVA growth at 6.5% and 6.3%, respectively, amid a likely uptick in domestic consumption and investment, aided by favourable announcements in Union Budget for FY2026. However, India's exports remain susceptible to global uncertainty around protectionist trade policies and shift in trade flows, which along with exchange rate volatility will pose headwinds to our growth estimates. These factors can also lead to adverse outcomes for current account deficit (CAD), which we peg at 1.0% of GDP in the base case, assuming a modest widening in the merchandise trade deficit. While upbeat rabi crop prospects limit upside risks to food inflation in the near term, high edible oil inflation poses a challenge. Considering a normal, evenly balanced monsoon, the CPI inflation is expected to come down to 4.2% in FY2026 from an estimated 4.8% in FY2025. Aided by a likely softening in the February 2025 CPI print, ICRA expects another rate cut of 25 bps in the April 2025 MPC review. In addition, the GoI's revised target of fiscal deficit of 4.8% of GDP appears likely to be achieved, although optimistic tax assumptions for FY2026 could pose a challenge to meet the fiscal deficit target of 4.4% of GDP.**

| Macroeconomic Variables | FY2025 ICRA estimates | FY2026 ICRA Projections |
|---|---|---|
| **GDP Growth (in real terms)** | +6.4% | +6.5% |
| **GVA Growth (in real terms)** | +6.5% | +6.3% |
| **CPI Inflation (average)** | +4.8% | +4.2% |
| **WPI Inflation (average)** | +2.4% | +3.0% |
| **Current Account Balance** | Deficit of $33-36 billion; -0.9% of GDP | Deficit of $39-42 billion; -1.0% of GDP |
| **GoI's Fiscal Deficit** | Rs. 15.7 trillion (4.8% of GDP) | BE: 4.4% of GDP; Budget math seems credible, barring a tad optimistic tax revenue target |
| **G-sec Yields** | 10-year G-sec yield (6.79% GS 2034) to range between 6.50-6.80% in the near term | |
| **Repo Rate** | High likelihood of another rate cut of 25 bps in April 2025 policy | |
| **INR** | INR to trade between 86.5/$ and 88.0/$ in the immediate term | |

# EXECUTIVE SUMMARY

## India's GDP growth to rebound to 6.4% in Q3 FY2025 from 5.4% in Q2 FY2025, bolstered by Government spending

- Q3 FY2025 witnessed a sharp ramp-up in aggregate Government spending (Centre + state) on both capital and revenue accounts, high growth in services exports, a turnaround in merchandise exports and healthy output of major kharif crops which would have buffered the rural sentiment.
- Some consumer-focussed sectors saw a pick-up during the festive season, even as urban sentiment dipped slightly, and other sectors such as mining and electricity saw an improvement in Q3 FY2025, after weather-related challenges in Q2. These trends are likely to have aided a revival in GDP and GVA growth to 6.4% and 6.6%, respectively, in Q3 FY2025, from seven-quarter low of 5.4% and 5.6%, reported in Q2 FY2025.

## FY2026 GDP growth forecast at 6.5%, although global uncertainity around protectionist trade policy acts as a headwind

- ICRA remains hopeful of a pick-up in project execution and Government spending in Q4 FY2025, which combined with seasonal increase in exports and sustained rural consumption is likely to boost the GDP growth further; we currently foresee FY2025 growth at 6.4%.
- Our baseline projection suggests GDP and GVA growth at 6.5% and 6.3% in FY2026, with a normal monsoon. The GoI has provided an equivalent thrust towards capital spending and consumption (via the income tax relief) in the FY2026 Union Budget. However, global uncertainty remains high, especially related to tariffs and trade policies, which poses a downside risk to our baseline estimates for India's GDP growth.

## CPI inflation to recede to 4.2% in FY2026; expect another rate cut of 25 bps in April 2025 policy

- While the favourable rabi crop prospects limit upside risks to food inflation in the near term, the persistent hardening in edible oil inflation poses a challenge. In addition, a normal, evenly distributed monsoon remains key for inflation outcomes beyond H1 FY2026.
- At present, ICRA expects the CPI inflation to soften to ~4.2% in FY2026 from an estimated 4.8% in FY2025. With February 2025 CPI inflation projected to ease to 4.0% (MPC's medium term target), the odds for another rate cut of 25 bps in April 2025 policy have risen. Nevertheless, incoming data on growth and inflation, global developments, and the USD/INR trends would also play a role in the timing of the rate action.

## India's CAD set to inch up to 1.0% of GDP in FY2026; redirection of global trade flows poses downside risks

- Global output growth in 2025 is likely to remain vulnerable to protectionist trade policies and shift in trade flows, as well as potential supply chain issues. While these policies can favour India's export capabilities from a medium term standpoint, the short-term impact is uncertain.
- In our base case, the expected recovery in domestic consumption and investment is likely to support the growth in merchandise imports, even as such exports may remain sluggish amid uncertainity around global growth outlook. With a widening in merchandise trade deficit in conjuction with resilience in service exports, India's CAD/GDP is likely to rise to 1.0% in FY2026 from 0.9% in FY2025, albeit remain manageable.

## GoI's FY2025 fiscal deficit target of 4.8% of GDP seems achievable; tax assumptions a tad optimistic in FY2026 Budget


- The FY2025 revised target for GoI's fiscal deficit of Rs. 15.7 trillion or 4.8% of GDP appears achievable, given limited upside risks to expenditure over the RE, a modest miss in disinvestment target, and realistic implicit assumptions for tax revenues for Q4 FY2025.
- The FY2026 Budget placed reasonable assumptions for expenditure and disinvestment receipts, although the target for revenue receipts appear slightly optimistic, considering the tax revenue foregone is estimated at over Rs. 1.0 trillion. While the debt/GDP ratio is confirmed as a new fiscal anchor for the next five years, impending recommendations by the 8th Pay Commission and 16th FC need to be taken into consideration.

ICRA

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ICRA

## Business Contacts


**L Shivakumar**
Chief Business Officer
E-mail: shivakumar@icraindia.com
022-61693304

**Neha Agarwal**
Head – Research Sales
E-mail: neha.agarwal@icraindia.com
022-61693338

**Rohit Gupta**
Head Business Development – Infrastructure Sector
E-mail: rohitg@icraindia.com
0124-4545340

**Vivek Bhalla**
Head Business Development – Financial Sector
E-mail: vivek.bhalla@icraindia.com
022-61693372

**Vinita Baid**
Head Business Development – Corporate Sector - West & East
E-mail: vinita.baid@icraindia.com
033-71501131

**Shivam Bhatia**
Head Business Development
Corporate Sector – North & South
E-mail: shivam.bhatia@icraindia.com
0124-4545803


## Media and Public Relations


**Naznin Prodhani**
Head - Group Corporate Communications & Media Relations, ICRA Ltd
E-mail: communications@icraindia.com
0124-4545860


## Registered Office

B-710, Statesman House 148,
Barakhamba Road
New Delhi-110001
Tel: +91 11 23357940-45

## Corporate Office

Building No. 8, 2nd Floor,
Tower A, DLF Cyber City, Phase II,
Gurgaon - 122 002
Tel: +91-124-4545300

## Ahmedabad

1809-1811, Shapath V,
Opp: Karnavati Club,
S.G.Highway, Ahmedabad - 380015
Tel: +91 79 4027 1500/501

## Bengaluru 1

'The Millenia', Tower B Unit No. 1004,
10th Floor, 1 & 2 Murphy Road,
Bengaluru - 560 008
Tel: +91 80 4332 6400

## Bengaluru 2

2nd Floor, Vayudooth Chamber
15-16, Trinity Circle, M.G. Road,
Bengaluru - 560 001
Tel: +91 80 4922 5500

## Chennai

5th Floor, Karumuttu Centre
634, Anna Salai, Nandanam
Chennai - 600 035
Tel: +91 44 4596 4300

## Hyderabad

Unit No 1006, 10th Floor, Gowra
Fountain Head, Patrika Nagar,
Madhapur, High-Tech City,
Hyderabad, Telangana – 500081
Tel: +91 040-69396464

## Kolkata

Siddha Esplanade, 3rd Floor,
6 Jawaharlal Nehru Road,
Esplanade, Kolkata,
West Bengal - 700013
Tel: +91 33 6521 6800

## Mumbai

3rd Floor, Electric Mansion
Appasaheb Marathe Marg,
Prabhadevi,
Mumbai - 400 025
Tel: +91 22 6169 3300

## Pune

5A, 5th Floor, Symphony, S. No. 210
CTS 3202 Range Hills Road,
Shivajinagar, Pune - 411 020
Tel: +91 20 2556 1194

**Email:** Info@icraindia.com
**Helpdesk:** 9354738909
**Website:** www.icra.in/ www.Icraresearch.in