India's Real GDP Growth for FY25 Exceeds Expectations, but Loses Momentum Sharply Compared to FY24

- India's real GDP growth for FY25 came in at 6.5% YoY, modestly exceeding our expectation of 6.3%, driven by a stronger-than-expected Q4 print and an upward revision in Q3 data. However, this still marks a four-year low and a sharp slowdown from 9.2% growth in FY24.
- Real GDP growth in Q4-FY25 rose to a four-quarter high of 7.4% YoY, up from 6.4% in Q3 and exceeding our forecast of 6.9%. The upside was driven by temporary factors, notably a sharp rise in net indirect taxes, along with robust government capital expenditure (CAPEX) and a stronger net export contribution.
- Real private consumption remains on a weaker footing, with growth slowing to a five-quarter low of 6.0% in Q4 from 8.1% in Q3. We expect consumption growth to pick up in FY26, led by rural demand and a moderate recovery in urban demand.
- The government's consumption expenditure slowed sharply in Q4. However, the government's capital expenditure remained strong, boosting overall Gross Capital Formation growth.
- The private investment outlook remains subdued due to high global uncertainty. We expect public infrastructure spending and government capex to continue driving investment momentum in FY26.
- Net exports contributed positively to overall real GDP growth, as imports declined significantly, offsetting the weaker momentum in exports; however, this dynamic is unlikely to be sustained. External demand is expected to face headwinds in FY26, amid high uncertainty and volatility in US trade policies.
- On the supply side, real GVA growth climbed to a four-quarter high of 6.8% in Q4, up from 6.5% in Q3, driven by pick-up in industrial activity, a resilient services sector, and solid growth in agricultural output.
- While the higher-than-expected Q4 GDP is positive, we note that some of the boost reflects temporary factors, such as a statistical factor (higher net indirect taxes), activity related to the Maha Kumbh, a sharp decline in imports, and the government's strong CAPEX, which are not sustainable.
- Moreover, private consumption remains on a weaker footing, and the outlook for private investment continues to face headwinds from elevated global uncertainty.
- Accordingly, there is a continued need for policy support, given that downside risks to growth persist, while inflationary pressures are likely to remain contained. We maintain our expectation of a 25-bps policy repo rate cut in the upcoming RBI policy meeting in June.

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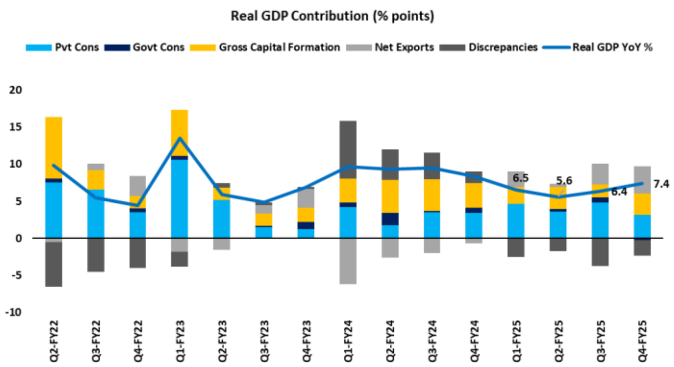
Economic Growth Came in Better than Expected in Q4, Partly due to Temporary Factors

India's real GDP growth for FY25 came in at 6.5%, modestly exceeding our expectation of 6.3%, driven by a stronger-than-expected Q4 print and an upward revision in Q3 data. Real GDP growth in Q4-FY25 rose to a four-quarter high of 7.4% YoY, up from 6.4% (revised up from 6.2%) in Q3 and better than our expectation of 6.9%. The upside was partly attributed to statistical factors (notably a sharp 12.7% YoY increase in net indirect taxes), as well as the government's strong CAPEX, and a greater contribution from net exports. Despite a positive surprise in Q4, real GDP growth slowed sharply to a four-year low of 6.5% in FY25 from 9.2% in FY24, driven by a sharp slowdown in government consumption, and investment, partly offset by moderate private consumption recovery and a stronger net export growth.

Contribution to Real GDP Growth



Source: MOSPI, CMIE

Real private consumption remains on a weaker footing, with growth slowing to a five-quarter low of 6.0% in Q4, down from 8.1% in Q3. This moderation occurred despite likely robust growth in rural demand, suggesting that urban demand may have remained sluggish during the quarter. We expect private consumption growth to pick up in FY26, led by rural demand and a moderate recovery in urban demand. Rural consumption is expected to remain strong, buoyed by expectations of a healthy agricultural output, supported by a normal monsoon forecast. Urban demand is anticipated to improve moderately, aided by lower inflation, income tax relief, and monetary policy easing.

Government consumption slowed sharply, contracting by 1.8% in Q4 after expanding 9.3% in Q3, as the government missed its revenue expenditure target. On the other hand, continued strong government CAPEX has boosted overall Gross Capital Formation (GCF) growth to 7.8% in Q4, up from 4.9% in the prior quarter. However, the private investment outlook remains subdued due to high global uncertainty, as reflected in weak project announcements and muted capital expenditure plans for FY26 by the private sector. We expect public infrastructure spending and government CAPEX to continue driving investment momentum in FY26.

The contribution of net exports to real GDP growth rose sharply in Q4, as imports declined significantly, offsetting the weaker momentum in exports. While this mechanically lifts headline real GDP growth, it does not reflect underlying strength in domestic or external demand. The sharp fall in imports highlights demand-side weakness, raising questions about the sustainability of this support in FY26. We expect subdued growth in merchandise trade in FY26, although an early US-India trade deal could provide a lift in the second half of the year. Services exports are likely to remain robust, although some segments could face headwinds from a potential US economic slowdown and shifts in US trade policies.

India's GDP Estimates at a Constant Price

(GDP Constant Prices)	% YoY									
	FY24	Q1-FY24	Q2-FY24	Q3-FY24	Q4-FY24	Q1-FY25	Q2-FY25	Q3-FY25	Q4-FY25	FY25
Private Consumption	**5.6**	**7.4**	**3.0**	**5.7**	**6.2**	**8.3**	**6.4**	**8.1**	**6.0**	**7.2**
Government Consumption	**8.1**	**5.3**	**20.1**	**2.3**	**6.6**	**-0.3**	**4.3**	**9.3**	**-1.8**	**2.3**
Gross Capital Formation	**10.5**	**8.9**	**11.9**	**12.4**	**9.1**	**6.2**	**7.7**	**4.9**	**7.8**	**6.7**
Gross Fixed Capital Formation	8.8	8.4	11.7	9.3	6.0	6.7	6.7	5.2	9.4	7.1
Exports	2.2	-7.0	4.6	3.0	7.7	8.3	3.0	10.8	3.9	6.3
Less Imports	13.8	18.0	14.3	11.3	11.4	-1.6	1.0	-2.1	-12.7	-3.7
Real GDP	**9.2**	**9.7**	**9.3**	**9.5**	**8.4**	**6.5**	**5.6**	**6.4**	**7.4**	**6.5**
Real GDP Excluding Govt Exp	**9.3**	**10.2**	**8.4**	**10.2**	**8.6**	**7.3**	**5.7**	**6.1**	**8.5**	**6.9**

Source: MOSPI, CMIE

Real GVA Growth Rose to a Four-Quarter High in Q4

On the supply side, real GVA growth climbed to a four-quarter high of 6.8% in Q4, up from 6.5% in Q3 (revised from 6.2%). Agricultural output growth remained solid, albeit slightly moderated. The services sector remained resilient, while industrial activity strengthened, driven by robust construction and a recovery in manufacturing. In FY25, real GVA growth declined to a four-year low of 6.4%, down from 8.6% in FY24, due to a sharp slowdown in industrial activity and softer growth in services, partly offset by robust agricultural performance.

India's GVA Estimates at a Constant Price

(GVA Constant Prices)	% YoY									
	FY24	Q1-FY24	Q2-FY24	Q3-FY24	Q4-FY24	Q1-FY25	Q2-FY25	Q3-FY25	Q4-FY25	FY25
Agriculture, Forestry & Fishing	**2.7**	**5.7**	**3.7**	**1.5**	**0.9**	**1.5**	**4.1**	**6.6**	**5.4**	**4.6**
Industry	**10.8**	**7.3**	**15.1**	**11.8**	**9.5**	**8.5**	**3.8**	**4.8**	**6.5**	**5.9**
Mining & Quarrying	3.2	4.1	4.1	4.7	0.8	6.6	-0.4	1.3	2.5	2.7
Manufacturing	12.3	7.3	17.0	14.0	11.3	7.6	2.2	3.6	4.8	4.5
Electricity and Other Utility Services	8.6	4.1	11.7	10.1	8.8	10.2	3.0	5.1	5.4	5.9
Construction	10.4	9.2	14.6	10.0	8.7	10.1	8.4	7.9	10.8	9.4
Services	**9.0**	**12.5**	**7.5**	**8.3**	**7.8**	**6.8**	**7.2**	**7.4**	**7.3**	**7.2**
Trade, Hotels, Transport, Communication etc	7.5	11.0	5.4	8.0	6.2	5.4	6.1	6.7	6.0	6.1
Financial, Real Estate & Professional Services	10.3	15.0	8.3	8.4	9.0	6.6	7.2	7.1	7.8	7.2
Public Administration, Defence and Other Services	8.8	9.3	8.9	8.4	8.7	9.0	8.9	8.9	8.7	8.9
Gross Value Added (at Basic Price)	**8.6**	**9.9**	**9.2**	**8.0**	**7.3**	**6.5**	**5.8**	**6.5**	**6.8**	**6.4**
Core GVA	**9.8**	**10.9**	**10.2**	**9.7**	**8.4**	**7.1**	**5.6**	**6.0**	**6.7**	**6.4**

Source: CMIE; Note – Core GVA is headline GVA excluding agriculture, forestry & fishing and public administration, defence, and other services.

As expected, the agriculture sector has been a bright spot for the economy in FY25. It grew robustly by 5.4% in Q4, though slowing from a very strong reading of 6.6% in Q3.

The forecast of a normal monsoon, combined with its early arrival, bodes favourably for the upcoming kharif season in FY26.

Industrial activity showed a recovery in Q4, led by continued robust construction activity and a moderate recovery in manufacturing, mining, as well as electricity, gas, water supply, and other utilities. The outlook for construction in FY26 remains positive, aided by government infrastructure spending. However, the manufacturing sector is likely to face headwinds, amidst uneven urban demand, a weaker merchandise exports outlook and persistent high global uncertainty related to US tariffs. Overall, we expect industrial activity to improve moderately in FY26, though performance will likely remain uneven due to global uncertainties.

As anticipated, the services sector remained resilient in Q4, growing by 7.3% in Q4 compared to 7.4% in Q3. Strong growth momentum in the Financial, Real Estate, and Professional Services sectors offset a slower pace in the Trade, Hotel, Transport, and Communication segment, as well as a slight moderation in the Public Administration, Defence, and Other Services segment. We expect the services sector to remain resilient in FY26.

Policy outlook: Considering the Q4 GDP surprise, we rule out the need for a front-loaded 50-bps rate cut in June. However, given the easing inflation trajectory and downside risks to growth in FY26, we maintain our expectation of a 25-bps policy repo rate cut in the upcoming policy meeting in June.

While the strong Q4 GDP data may reduce the likelihood of an additional 75-bps rate cut in FY26, we believe an additional 50-bps rate cut is still almost certain, while another 25-bps cut (to take total additional cuts to 75-bps) remains possible, though the timing of the final 25-bps cut—presently expected by October—could be pushed out depending on evolving economic conditions. We note that some of the Q4 boost reflects temporary factors, such as higher net indirect taxes, activity related to the Maha Kumbh, a stronger net exports growth, and the government's robust capital CAPEX, which are not sustainable. Moreover, private consumption remains on a weaker footing, and the outlook for private investment continues to face headwinds from elevated global uncertainty. Hence, there remains a continued need for policy support, with ongoing downside risks to growth, while inflationary pressures are likely to remain contained.

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