What the recent GDP data revisions reveal

Hindu, March 13, 2025

C. Rangarajan

is former Chairman, Prime Minister's Economic Advisory Council and Former Governor, Reserve Bank of India

D.K. Srivastava

is Honorary Professor, Madras School of Economics and Member, Advisory Council to the Sixteenth Finance Commission

National accounts data released on February 28, 2025 by the National Statistical Office (NSO) provide two sets of information pertaining to, first, revised annual Gross Domestic Product (GDP)/Gross Value Added (GVA) estimates for 2022-23, 2023-24 and 2024-25 and, second, Q3 2024-25 GDP/GVA estimates accompanied by the second advance estimates for 2024-25.

Third quarter growth, sectoral performance

The third quarter growth of 6.2% is a clear improvement over the second quarter growth of 5.6%. In terms of sectoral performance, agriculture has shown a robust growth of 5.6% in this quarter. Manufacturing, however, continues to languish with a growth of 3.5%, although there is a marginal improvement from the previous quarter when its growth was only 2.1%. In the services sector, the trade sector, hospitality/hotels, *et al.* have also shown an improved growth of 6.7% as compared to 6.1% in Q2.

Looking at the four quarterly real GDP growth rates of 2024-25 at 6.5%, 5.6%, 6.2%, and 7.6%, respectively, two questions are of interest. First, what led to a sharp fall in the second quarter growth to 5.6%? Second, is the implied fourth quarter growth of 7.6% feasible? To examine this, we look at the contribution to growth of different expenditure segments as measured by the share of the segment concerned multiplied by its growth in the relevant quarter.

The contribution of private final consumption expenditure (PFCE) to overall GDP growth in the four quarters of 2024-25 is estimated at 4.3, 3.3, 4.1 and 5.3 percentage points, respectively. The fall in real GDP growth in the second quarter, from 6.5% to 5.6%, is explained by the fall in the contribution of PFCE growth from 4.3 to 3.3 percentage points. Further, the required growth in PFCE is estimated at 9.9% for the implied fourth quarter GDP growth of 7.6%. This seems difficult as such a high growth in PFCE has not been experienced in the recent past. The contribution of investment to growth can also be similarly measured. This is estimated at 2.3, 2.0, 1.8 and 2.1 percentage points for the four quarters of 2024-25, respectively. Thus, the relatively lower GDP growth of 6.2% in the third quarter is partly attributable to the fall in contribution of investment to GDP growth at 1.8 percentage points.

However, the required contribution of 2.1 percentage points in the fourth quarter would depend largely on government investment growth. As per the Controller General of Accounts (CGA) data, the Government of India has incurred ₹7.57 lakh crore of capital expenditure up to January 2025. To reach the revised estimate level of ₹10.18 lakh crore, an additional ₹2.61 lakh crore needs to be spent in the remaining two months of the financial year. Average expenditure in February and March in the period 2021-22 to 2023-24 has only been ₹1.81 lakh crore. If the Government of India's investment expenditure falls short of the revised estimates – which were themselves significantly lower than the Budget estimates of ₹11.1 lakh crore – then the implied fourth quarter GDP growth of 7.6% may not be realised. Accordingly, the full year growth of 6.5% as per the second advance estimates may have to be revised downwards.

Real and nominal growth rates have been revised upwards, which should shape medium-term potential growth and long-term strategy

Annual data revisions

According to the revised annual numbers, the real as well as nominal growth rates have been revised upwards. Real GDP growth rates for 2022-23 to 2024-25, are now estimated at 7.6, 9.2 and 6.5%, respectively. In 2023-24, the revision in GDP growth was from 8.2% to 9.2%, and correspondingly in GVA growth from 7.2% to 8.6%.

Sectorally, the maximum upward revision in growth happened in manufacturing and in financial, real estate, *et al.* services by margins of 2.4 and 1.9 percentage points, respectively. Further, comparing 2024-25 growth with that of 2023-24, real GDP growth shows a sharp fall of 2.7 percentage points. This fall is largely explained by the lower growth in gross capital formation, which fell from 10.5% in 2023-24 to 5.8% in 2024-25.

The revision in real GDP growth also implies a revision in the Incremental Capital-Output Ratio (ICOR). In fact, for the three years for which data have been revised, the ICOR is estimated at 4.8, 4.0 and 5.5 in 2022-23, 2023-24 and 2024-25, respectively. It may be observed that the ICOR had fallen considerably in 2023-24. However, this number may be revised again, as in this year, the contribution of discrepancies has remained very large. The average ICOR for 2022-23 and 2024-25 is 5.1. It must be noted that such sharp revisions make policy advice and policy making difficult.

Prospects for 2025-26, medium-term growth

The nominal growth rates have also been revised upwards, showing higher growth rates of 14%, 12% and 9.9% in 2022-23, 2023-24 and 2024-25, respectively. Given these trends, even the nominal GDP growth in 2025-26 may be higher than the Budget 2025-26 assumption of 10.1%. With respect to real GDP growth, the Economic Survey has given a range of 6.3%-6.8% with a mid-point of 6.55%. A 6.5% growth appears feasible for 2025-26 provided government investment shows healthy growth in the context of continued global uncertainty and some more time is required for private investment to pick up. As of now, the medium-term potential growth appears to be 6.5%. It is argued sometimes that the PFCE to GDP ratio should rise so that growth will increase because of increased consumption demand. But this overlooks the fact that, correspondingly, the investment demand will fall.

In 2023-24, the overall nominal saving rate is estimated at 30.7%, which is below the pre-COVID-19 period average of 31.2% during 2015-16 to 2019-20. The medium-term growth strategy should focus on increasing saving and investment rates. As noted by observers earlier, the real investment rate tends to be higher than the nominal investment rate because of differential price deflators of investment goods *vis-à-vis* consumption goods. In 2024-25, the real investment rate measured by gross fixed capital formation (GFCF) to GDP ratio, is estimated at 33.4%. With an ICOR of 5.1, this yields a potential growth rate of 6.5%. As of now, investment-led growth as a long-term strategy holds good.

The views expressed are personal