Real GDP growth surprised on the upside in 2025, but weaker nominal growth, trade uncertainty, and soft demand signal a bumpier road ahead

# The economy sailed through, but the waters are uncertain

#### INDIVIAL DHASMANA

New Delhi, 26 December

The Indian economy has weathered the onslaught of adverse external developments, such as US President Donald Trump's tariffs, this year, but the immediate future could be bumpy.

Few would have expected the economy to grow in the 7.4–8.2 per cent range in the first nine months of calendar 2025, especially at the upper end in the July-September quarter, when the additional 50 per cent tariff imposed by the US administration came into full force. And yet it did, shining at a time when other top economies struggled to accelerate growth, barring the US in July-September quarter.

In fact, the latest 38 per cent growth in merchandise exports in November seemingly shows that India has tackled Trump's tariffs quite well through market

2@25
NEW RULES
NEW WORLD

diversification.

"We are not affected much in the short run by the tariffs imposed by Trump," says Pronab Sen, India's first chief statistician.

The devil, however, is in the details. Even as India's real economic growth (at constant prices) surprised experts, nominal expansion is nothing to boast about. For two consecutive quarters (April-June, July-September) in the current financial year, nominal gross domestic product (GDP) growth decelerated to below double digits. The first half of 2025-26 (April-

## India leads the pack

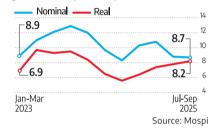
Real GDP growth rate in national currency in 2025 (% Y-o-Y)

	Jan-Mar	Apr-Jun	Jul-Sep
US	-0.6	3.8	4.3
China	5.4	5.2	4.8
Germany	0.3	0.3	0.3
Japan	0.3	2.1	-2.3
India	7.4	7.8	8.2

Sources: Trading Economics, Bureau of Economic Analysis, Mospi

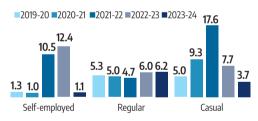
## Nominal economic growth softens

Quarterly real GDP and nominal GDP growth rates (% Y-o-Y)



Self-employed earnings growth turns muted

Growth in nominal earnings (% Y-o-Y)



Note: Average monthly earnings are considered for self-employed, and regular employees are considered, average daily earnings for casual employees are also considered

Source: PLFS reports. BS calculations

September) delivered only 8.8 per cent nominal economic growth, against the Budget assumption of 10.1 per cent for the entire year (April 2025-March 2026).

For those who argue that real GDP growth matters more than nominal GDP growth, it should be noted that GDP numbers are first calculated at current prices. The real numbers are derived later by deflating the nominal figures using price indices — a combination of wholesale and retail price changes across segments.

Besides, nominal GDP, or the size of the economy, determines tax

collections as well as key ratios such as the fiscal deficit.

The Centre's tax revenues, post devolution to states, stood at Rs 12.7 trillion in the first seven months of the current financial year (FY26), down 2.3 per cent from the corresponding period last year. Cuts in goods and services tax (GST) rates and the increase in the exemption threshold under the new income tax regime could further impact revenues if demand does not pick up.

Even if the government succeeds in reining in the fiscal deficit at its



#### POLITICS@2025: LOOKING BACK Fault lines &

turning points

From terror and unrest to diplomacy, power shifts and ideological milestones, the moments that shaped India this year PAGE 16

.....

#### **PAGE 18**

### A year of highs and headwinds for travel

From the Maha Kumbh to Coldplay, experience-led travel took centre stage. It also exposed gaps in flights, rooms, and infrastructure

#### PAGE 2

■ Domestic tourism, corporate travel to boost room rates up to 6% in 2026

absolute value of ₹15.69 trillion in FY26, lower nominal GDP would make it slightly harder to keep the deficit at the budgeted 4.4 per cent of GDP.

## The economy sailed through, but the waters are uncertain

On the external front, while the current account deficit remains low — at 1.3 per cent of GDP in July-September 2025 — and is expected to stay modest in the current quarter as well, capital outflows are putting additional pressure on the rupee, which closed at 89.85 per dollar on December 26.

As for exports not facing pressure from Trump's tariffs so far, Sen attributes this to pre-booked export orders and market diversification. He is, however, not confident this trend will continue, as losses in the US market may not be fully offset by new export destinations amid a global slowdown.

"Trump's tariffs will start affecting (India) now," Sen says.

Anil K Sood, co-founder of the Institute for Advanced Studies in Complex Choices, points out that some of the impact of the delay in the India-US trade deal has been cushioned by front-loading of exports before the new tariffs came into effect.

"We will therefore need to assess the impact over the next couple of quarters, if the trade deal is not signed soon," he says.

The tariffs are already beginning to hurt. Tamil Nadu Chief Minister MK Stalin has written to Prime Minister Narendra Modi about an escalating crisis in the state's export-driven industries. He has urged the Centre to urgently pursue a bilateral resolution, warning of severe economic and

social consequences if the issue remains unresolved.

Exporters in Tiruppur alone have seen confirmed orders worth ₹15,000 crore wiped out, along with production cuts of up to 30 per cent, Stalin wrote. He estimated a combined daily revenue loss of nearly Rs 60 crore across major clusters in western Tamil Nadu, including Coimbatore, Tiruppur, Erode, and Karur.

If the trend continues, the impact could spill over to wages, particularly for those associated with external trade. Even nominal wages rose by just 3.7 per cent for casual labour during 2023-24 (July-June).

Sen believes that stagnant real wages or low real wage growth could affect consumption, despite low inflation, thereby hindering economic expansion.

Inflation has been on a decline. Retail inflation fell below 3 per cent in November, while wholesale prices recorded deflation during the same month.

"Is this disinflation arising from a decline in commodity prices, a significant improvement in productivity, or a lack of demand? If it is driven by lower food prices, we must assess the impact of reduced costs for urban households net of lower earnings for farmers," says Sood.

At this stage, he says, the Indian economy appears to be going through a difficult phase, marked by relatively low demand growth.