

**PRESS RELEASE**  
**August 19, 2025**

**GDP growth projected at 6.7% in Q1 FY2026, supported by upfronted Government spending, exports to some geographies: ICRA**

ICRA has projected the year-on-year (YoY) GDP expansion to ease to 6.7% in Q1 FY2026 from 7.4% in Q4 FY2025, while outpacing the Monetary Policy Committee's (MPC's) recent forecast of 6.5%. Further, the rating agency projects the growth in the gross value added (GVA) to record a dip to 6.4% in Q1 FY2026 from 6.8% in Q4 FY2025. Lower expansion in the industrial sector (to +4.0% in Q1 FY2026 from +6.5% in Q4 FY2025), and agriculture (to +4.5% from +5.4%), is likely to outweigh a pick-up in the performance of the services sector (to an eight-quarter high +8.3% from +7.3%).

ICRA estimates a double digit growth in net indirect taxes (in nominal terms), albeit lower than 22.7% in Q4 FY2025. This is aided by the sharp uptick in the Government of India's (Gol's) indirect taxes (to +11.3% in Q1 FY2026 from -3.1% in Q4 FY2025), despite the narrower contraction in its subsidy outgo (-7.3% vs. -40.7%). Accordingly, the gap between the GDP and the GVA growth is expected to remain in the positive territory at ~30 bps in Q1 FY2026, while halving compared to the previous quarter (+62 bps).

**Aditi Nayar, Chief Economist, Head-Research & Outreach, ICRA** said: *"India's investment activity held up in Q1 FY2026, boosted by the front-loading of Government capex, although this admittedly came on a low base, amidst the heightened uncertainty owing to geopolitical tensions and tariff-related developments. Benefitting from robust Government capital as well as revenue spending, upfronted exports to some geographies and nascent signals of improved consumption, the pace of expansion in economic activity in Q1 FY2026 is estimated at 6.7%. Nevertheless, the GDP and the GVA growth is likely to moderate from the levels recorded in Q4 FY2025, even as the wedge between the two is set to narrow considerably relative to the previous quarter (to 30 bps from 62 bps)."*

*"Amidst continuing tariff-induced uncertainty for exports and private capex, we fear that growth will taper off in the subsequent quarters, which would limit the expansion in India's GDP to 6.0% in FY2026."*

Based on the CGA data, the Gol's gross capital expenditure spiked by 52.0% YoY to Rs. 2.8 trillion in Q1 FY2026 (+33.4% in Q4 FY2025; -35.0% in Q1 FY2025) on an election-curtailed base. Moreover, the aggregate capital outlay and net lending of 24 state governments\*, for which the CAG data is available, stood at 23.0% YoY (Rs. 1.1 trillion) in Q1 FY2026 (+27.0% in Q4 FY2025; -19.6% in Q1 FY2025). Further, the value of new project announcements nearly doubled to Rs. 5.8 trillion from Rs. 3.0 trillion in Q1 FY2025. Additionally, project completions touched a healthy Rs. 2.3 trillion in Q1 FY2026 (Rs. 0.7 trillion in Q1 FY2025), only slightly lower than Rs. 2.5 trillion in Q4 FY2025.

**EXHIBIT 1: Trends in gross capital expenditure of the Gol and capital outlay and net lending of 24 state governments**

	Rs. Trillion				YoY growth (%)	
	Q4 FY2024	Q1 FY2025	Q4 FY2025	Q1 FY2026	Q4 FY2025	Q1 FY2026
Gol	2.7	1.8	3.7	2.8	33.4	52.0
States*	2.9	0.9	3.6	1.1	27.0	23.0

*\*Data is compiled for 24 state governments excluding Arunachal Pradesh, Bihar, Manipur, and Goa; Source: CGA, CAG, ICRA Research*

ICRA estimates the YoY growth in the services GVA to increase to an eight-quarter high of 8.3% in Q1 FY2026 from 7.3% in Q4 FY2025, supporting the overall GVA expansion in that quarter. In particular, the combined non-interest revenue expenditure of these 24 state governments reported a double-digit YoY growth of 10.7% in Q1 FY2026, up from 7.2% in Q4 FY2025. Likewise, the Gol's non-interest revenue expenditure saw a turnaround, recording a YoY growth of 6.9% against a contraction of 6.1% in the previous quarter.

ICRA pegs the **industrial GVA growth** to decline to 4.0% in Q1 FY2026 from 6.5% in Q4 FY2025, with excess rainfall weighing upon the performance of the mining (to -2.0% from +2.5%) and electricity (to 0.0% from +5.4%) sectors, amid a strong base effect. While YoY growth in **manufacturing** volumes decelerated in Q1 FY2026 compared to Q4 FY2025, input costs reverted to the deflationary zone (-0.6% YoY in Q1 FY2026; +1.0% in Q4 FY2025), which may have supported the profitability of listed players in certain sectors. Overall ICRA projects the manufacturing GVA growth to moderate slightly to 4.0% in Q1 FY2026 from 4.8% in Q4 FY2025. Further, trends in **construction** inputs such as cement output and finished steel consumption, portend a moderation in the growth in construction activity to 6.5-7.0% in Q1 FY2026 (+10.1% in Q1 FY2025) from 10.8% in Q4 FY2025 (+8.7% in Q4 FY2024), amid a high base.

The growth in India's **non-oil merchandise** exports increased to 6.0% in Q1 FY2026 from 3.0% in Q4 FY2025. Within non-oil exports, electronic goods (+47.1%; partly led by an upfronting of purchases by the US) saw a sharp uptick in Q1 FY2026, followed by a relatively lower increase in agricultural products (+9.0%), textiles (+8.9%), drugs and pharmaceuticals (+5.2%) and engineering goods (+3.6%).

ICRA projects the pace of expansion in the **agriculture, forestry and fishing** GVA to moderate to ~4.5% in Q1 FY2026 (+1.5% in Q1 FY2025) from 5.4% in Q4 FY2025 (+0.9% in Q4 FY2024), while remaining robust, led by the healthy growth in output of most rabi and summer crops (in AY2024-25 as per 3rd Advance Estimates).

Rural sentiments, as reflected in the Current Situation Index (CSI) improved further in the July 2025 (100.6) round of the RBI's **Rural Consumer Confidence Survey**, reflecting favourable trends in farm output in the last two cropping seasons, and the upbeat outlook for the ongoing kharif season, and a considerable cooling in the rural CPI inflation (to a 78-month low +1.2% in July 2025 from +5.8% in December 2024) over the last seven months. The July 2025 round of the RBI's **Urban Consumer Confidence Survey**, which is conducted in 19 major cities, revealed that urban consumer sentiments improved further. The urban CSI rose to 96.5 in July 2025 from 95.4 in May 2025, aided by lower food inflation, 100-bps rate cuts by the MPC, as well as income tax relief announced in the Union Budget for 2025-26, while remaining in the negative territory and continuing to trail the rural CSI. Improved transmission of monetary easing and the recent announcement of forthcoming **GST rationalisation** may help to shore up urban consumption sentiments ahead of the festive season.

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