

PRESS RELEASE

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GDP growth projected at a robust 7.2% in Q3 2025-26, albeit lower than H1 print: ICRA

Rating agency ICRA has projected the year-on-year (YoY) **GDP expansion** to ease to 7.2% in Q3 2025-26 from 8.2% in Q2 2025-26. Lower expansion in the services (+7.8% in Q3 2025-26 against +9.2% in Q2 2025-26) and agriculture (+3.0% in Q3 2025-26 against +3.5% in Q2 2025-26) sectors is likely to outweigh a pick-up in the performance of the industrial sector (six-quarter high of +8.3% in Q3 2025-26 against +7.7% in Q2 2025-26).

Aditi Nayar, Chief Economist, Head-Research & Outreach, ICRA said: *"An estimation of GDP growth as per the new base year is challenging at present. We have anchored the outlook for Q3 to the existing GDP dataset across the sectors of the economy, based on which we project the GDP growth to have eased to 7.2% in Q3 2025-26 from 8.0% in the first half of the fiscal. The reasons for the estimated sequential slowdown include an unfavourable base effect, contraction in Government capital spending, subdued state government revenue expenditure, and weak merchandise exports. Nevertheless, healthy demand during the festive season, boosted by GST rationalisation, likely kept the pace of growth above 7% in the said quarter."*

ICRA estimates the YoY growth in the services gross value added (GVA) to moderate to 7.8% in Q3 2025-26 from 9.2% in Q2 2025-26, dampened by lower expansion in Government spending and services exports. After the frontloading seen in H1 2025-26 (+40.0% YoY), the Government of India's (GoI's) gross capital expenditure contracted by 23.4% in Q3 2025-26 (+47.7% in Q3 2024-25), albeit on a high base. In absolute terms, capex dipped to Rs. 2.1 trillion in Q3 2025-26 from Rs. 3.1 trillion in Q2 2025-26. In contrast, the available data for 24 state governments* reveals that their aggregate capital outlay and net lending expanded by a robust 21.9% in Q3 2025-26 after having contracted by 1.1% in Q2 2025-26. The absolute capex for these states rose to Rs. 2.1 trillion in Q3 2025-26 from Rs. 1.8 trillion in Q2 2025-26, similar to the GoI's capex level. Taken together, the Central and state capex declined by 5.7% to Rs. 4.2 trillion in Q3 2025-26 from Rs. 4.4 trillion in Q3 2024-25, against the 16.7% growth recorded in Q2 2025-26.

Further, the YoY contraction in the GoI's non-interest revex narrowed to 3.5% on a YoY basis in Q3 2025-26 from 11.2% in Q2 2025-26. However, the YoY growth in the combined non-interest revex of the aforementioned 24 state governments eased to 2.7% in Q3 2025-26 from 7.3% in Q2 2025-26. Taken together, the Central and state non-interest revenue spending inched up marginally by 0.3% on a YoY basis in Q3 2025-26, as opposed to the 0.6% decline seen in Q2 2025-26.

EXHIBIT: Trends in expenditure of the GoI and 24 state governments

	Rs. Trillion			YoY (%)		
	Q2 2024-25	Q3 2024-25	Q2 2025-26	Q3 2025-26	Q2 2025-26	Q3 2025-26
Non-interest revenue expenditure						
GoI	6.6	5.6	5.8	5.4	-11.2%	-3.5%
States*	8.7	9.1	9.3	9.3	7.3%	2.7%
Total	15.2	14.6	15.1	14.7	-0.6%	0.3%
Capital expenditure						
GoI	2.3	2.7	3.1	2.1	30.7%	-23.4%
States*	1.8	1.7	1.8	2.1	-1.1%	21.9%
Total	4.1	4.4	4.9	4.2	16.7%	-5.7%

**Available data has been compiled for 24 state governments excluding Arunachal Pradesh, Manipur, Nagaland, and Goa; There is some overlap in the spending of the GoI and the States and hence the aggregate numbers should be interpreted with caution; Source: Controller General of Accounts (CGA), Comptroller and Auditor General of India (CAG), GoI, ICRA Research*

The YoY expansion in India's services exports eased slightly to a seven-quarter low of 7.5% in Q3 2025-26 (\$111.2 billion) from 8.7% in Q2 2025-26 (\$101.6 billion), mainly due to an unfavourable base.

Notwithstanding a broadly favourable trend in kharif output, the GVA growth of agriculture, forestry and fishing may moderate in Q3 2025-26 (+6.6% in Q3 2024-25) relative to 3.5% recorded in Q2 2025-26 (+4.1% in Q2 2024-25), particularly on account of the high base (this may undergo a change in the new series).

ICRA pegs the industrial GVA growth to record a broad-based improvement to a six-quarter high of 8.3% in Q3 2025-26 from 7.7% in Q2 2025-26, supporting the overall expansion in the said quarter. As per India's Index of Industrial Production (IIP) data, the YoY growth in manufacturing output rose to a nine-quarter high of 6.2% in Q3 2025-26 from 5.1% in Q2 2025-26, reflecting the bump-up in production to cater to festive season demand, which was aided by reduction in GST rate, and re-stocking post the festive season, even though exports of some tariff-impacted sectors weighed on production. The quarterly financial results of manufacturing companies revealed that the operating profit margin of the manufacturing sector remained healthy in Q3 2025-26, albeit slightly lower than Q2, given the pressure from raw materials costs and wage bill (likely stemming from the enforcement of the new Labour Codes – 2025 from mid-November 2025).

India's merchandise exports increased by a modest 1.7% on a YoY basis to ~\$111 billion in Q3 2025-26, after a base effect surge in Q2 2025-26 (+8.3%; \$108 billion). While petroleum shipments were down 5.9% on a YoY basis owing to softening in crude oil prices, non-oil exports rose by 2.7% in the quarter. Exports of electronic goods (+24.9%), drugs and pharmaceuticals (+6.3%), and engineering goods (+1.2%) expanded in Q3 2025-26 compared to Q3 2024-25, whereas those for gems and jewellery (-5.8%), chemicals (-3.2%), rice (-25.9%), and cotton yarn/fabric (-4.9%) shipments contracted on a YoY basis, partly impacted by the steep 50% US tariffs that were in place during the quarter. Based on available trends, ICRA projects the manufacturing GVA to record a high-single digit growth in Q3 2025-26 (+9.1% in Q2 2025-26).

Among the other industrial sub-segments, mining output witnessed a YoY expansion of 3.8% in Q3 2025-26 after two consecutive quarters of contraction, partly reflecting the easing of disruptions caused by monsoons and unseasonal rainfall. Besides, construction-related indicators such as infrastructure/construction goods (+10.7% in Q3 2025-26 against +11.6% in Q2 2025-26) also posted a healthy rise in output, suggesting that construction GVA growth likely remained robust in the quarter (+7.2% in Q2 2025-26).

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For further information, please contact:

Media Contacts:

Naznin Prodhani

Vice President Group - Head Media & Communications
ICRA Ltd.
Tel: + (91 124) 4545300,
Dir – 4545 860
Email: communications@icraindia.com

Saheb Singh Chadda

Manager - Media & Communications
ICRA Ltd.
Mob: +91- 9833669052
Email: communications@icraindia.com

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