PRESS RELEASE

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GDP growth forecast to moderate to 7.0% in Q4 2025-26 owing to nascent impact of West Asia crisis: ICRA

Rating agency ICRA projects the year-on-year (YoY) GDP growth to have eased to a three-quarter low of 7.0% in Q4 2025-26 from 7.8% in Q3 2025-26. A slower expansion across the industrial (+7.3% in Q4 2025-26 against +9.7% in Q3 2025-26) and the services (+8.5% in Q4 2025-26 against +9.5% in Q3 2025-26) sectors is expected to have moderated the GDP growth between these quarters, even as the performance of the agriculture sector (+2.1% in Q4 2025-26 against +1.4% in Q3 2025-26) is likely to have improved slightly. ICRA estimates the GDP growth to be pegged at 7.5% in 2025-26, marginally lower than the National Statistical Office's (NSO) Second Advance Estimate (SAE) of 7.6% for the fiscal. Further, it has pared its baseline forecast for FY2027 GDP growth (at constant 2022-23 prices) to 6.2% from the 6.5% expected earlier.

Aditi Nayar, Chief Economist, Head-Research & Outreach, ICRA said**:** "*The YoY growth in several indicators pertaining to the services sector, mining and electricity improved in Q4 2025-26 compared to Q3 2025-26. However, a slower rise in manufacturing volumes, contraction in exports, and nascent signs of margin pressure amid the West Asia fallout, may have weighed on the industrial gross value added (GVA) growth performance in the quarter. Consequently, we expect the GDP growth to have slowed to a three-quarter low of 7.0% in Q4 2025-26, below the NSO's implicit estimate of 7.3% for the quarter, while remaining quite robust.*"

ICRA estimates the industrial GVA rise to have dipped to 7.3% in Q4 2025-26 from 9.7% in Q3 2025-26, on the back of a slower growth in manufacturing GVA. As per India's Index of Industrial Production (IIP) data, the YoY growth in manufacturing output eased to 5.1% in Q4 2025-26 from 6.3% in Q3 2025-26. The quarterly financial results of manufacturing companies revealed that the growth in operating profits eased in Q4 2025-26, amid pressure from rising raw materials costs.

Slowing global growth and shipping disruptions triggered by the West Asia conflict weighed on India's merchandise exports in Q4 2025-26, which fell by 2.8% on a YoY basis, after a modest 1.4% rise in Q3 2025-26. Shipments of textiles, pharmaceuticals and gems and jewellery contracted in Q4 2025-26. Based on available trends, ICRA projects the manufacturing GVA growth to ease to 8-9% in Q4 2025-26 (+13.3% in Q3 2025-26), falling to a single digit after a gap of five quarters.

Among the other industrial sub-segments, the pace of YoY growth in mining output increased to 4.3% in Q4 2025-26 from 3.8% in Q3 2025-26. Besides, electricity generation rose by 2.7% in the quarter after contracting by ~1% in Q3 2025-26. Further, construction-related indicators such as infrastructure/construction goods (+10.7% in Q4 2025-26 against +11.0% in Q3 2025-26) posted a healthy expansion in output in the quarter, although intense competition and surge in some commodity prices in March 2026 may have compressed the margins. Consequently, growth in the GVA of these segments is expected to have accelerated or remained steady at healthy levels in Q4 2025-26 compared to Q3 2025-26.

ICRA estimates the YoY growth in the services GVA to moderate to 8.5% in Q4 2025-26 from 9.5% in Q3 2025-26, while remaining strong. The performance of most trade and transport-related indicators such as ports cargo traffic, domestic air passenger and freight traffic, and GST e-way bill generation eased in Q4 2025-26 vis-a-vis Q3 2025-26, partly owing to the disruptions caused by the West Asia crisis. Among the financial sector indicators, the YoY growth in outstanding deposits and non-food bank credit of Scheduled Commercial Banks (SCB) rose at end-March 2026 against end-December 2025. However, the banks' profitability was impacted in Q4 2025-26 on account of mark-tomarket losses on the back of spike in bond yields, following the onset of the West Asia conflict. Notably, the 10-year G-Sec yield surged to 7.04% at end-March 2026 from 6.59% at end-December 2025.

The Government of India's (GoI) non-interest revenue expenditure contracted by 5.6% to Rs. 3.7 trillion during January-February 2025-26, after declining by 3.5% in Q3 2025-26 (Rs. 5.4 trillion). Subsequently, items included in the 2nd Supplementary Demand for Grants would have increased revenue expenditure of the GoI, including Rs. 1.0 trillion to be transferred to the Economic Stabilisation Fund. In contrast, the combined non-interest revenue expenditure of 26 state governments (excluding Goa and Manipur) rose by a robust 18.2% to Rs. 7.2 trillion during January-February 2025-26, against 2.6% growth recorded in the previous quarter (Rs. 9.4 trillion).

While the rabi crop output seems quite healthy in 2025-2026, unseasonal weather conditions like rains/hailstorms, as well as intermittent heatwaves are likely to impact crop yields and damage output, which may not have been fully captured in the SAE. ICRA estimates the GVA growth of agriculture, forestry and fishing at ~2.1% in Q4 2025-26 (in line with the implicit estimate of the NSO) against 1.4% in Q3 2025-26.

"ICRA now assumes crude oil prices to average at ~$95/bbl in FY2027, against our prior estimate of $85/bbl, given the ongoing stickiness in prices amid the stalemate in West Asia. Consequently, we have pared our baseline forecast for the FY2027 GDP growth (at constant 2022-23 prices) to 6.2% from the 6.5% expected earlier," **Nayar** added.

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