ICRA

Gross Domestic Product

GDP growth jumped to 8.2% in Q2 FY2026, led by higher-than-expected growth in services; FY2026 forecast now pegged at 7.4%

NOVEMBER 2025

Highlights

ICRA

Click to Provide Feedback

GDP growth climbed to 8.2% in Q2 FY2026, the highest in last six quarters.

Sharper-than-expected growth stemmed from PADOS and FRP segments of services.

Given an adverse base, potential continuation of steep US tariffs and limited headroom for GoI capex, India's GDP growth may ease in H2 from 8% in H1 FY2026; nevertheless, full-year growth appears set to print at 7.4% (+6.5% in FY2025).

India's year-on-year (YoY) GDP growth unexpectedly rose to a six-quarter high of 8.2% in Q2 FY2026 from 7.8% in Q1 FY2026, in contrast with the expectation of a slowdown (ICRA P: +7.0%). The upside surprise was largely driven by the services sector (+9.2%), amid higher-than-anticipated prints for the public administration, defence and other services (PADOS; +9.7%; likely led by health, education, recreation and other personal services) and financial, real estate and professional services (FRP; +10.2%) segments, even as growth in the industrial and agricultural segments was in line with expectations. On the expenditure side, private final consumption expenditure (PFCE; 7.9%) was the only component that saw an acceleration in growth in Q2 vis-à-vis Q1; besides, all components grew at a slower pace than GDP, while discrepancies reported a turnaround compared to the year ago levels. Looking ahead, an adverse base, the potential negative impact of US tariffs and limited headroom for capital spending by the Government of India (GoI; vs. the FY2026 Budget Estimates) may dampen the pace of growth from the robust 8.0% seen in H1 FY2026. Nevertheless, the FY2026 real GDP expansion now appears set to print at ~7.4%.

- **GDP accelerated by 8.2% YoY in Q2 FY2026:** India's YoY GDP expansion improved to a higher-than-expected 8.2% in Q2 FY2026 from 7.8% in Q1. This was led by an acceleration in the PFCE growth (to +7.9% from +7.0%), even as government final consumption expenditure (GFCE; to -2.7% from +7.4%) contracted and growth in gross fixed capital formation (GFCF; to +7.3% from +7.8%) eased. Moreover, there was a turnaround in discrepancies* (to +3.3% of GDP in Q2 FY2026 from -0.5% of GDP in Q2 FY2025) in Q2 FY2026 compared to the year ago levels.
- **Services led to higher-than-expected GVA growth:** The YoY growth in GVA surged to 8.1% in Q2 FY2026 from 7.6% in Q1 FY2026, entirely led by industrial sector (to +7.7% from +6.3%, led by manufacturing), even as growth eased marginally in services (to +9.2% in Q2 FY2026 from +9.3% in Q1) and agriculture, forestry and fishing (to +3.5% from +3.7%). Nevertheless, services GVA growth for Q2 surpassed expectations, led by the FRP and PADOS segments.
- **GDP growth to print at ~7.4% in FY2026:** Headwinds on account of an adverse base, the potential negative impact of US tariffs and limited headroom for capital spending by the GoI (vs. FY2026 Budget Estimates) would moderate the pace of GDP growth from 8.0% seen in H1 FY2026. Nevertheless, the FY2026 real GDP expansion now appears set to print at ~7.4% (+6.5% in FY2025), given the sharper-than-expected growth print seen in Q2 FY2026.

**Discrepancies refer to the residual that remains after disaggregating GDP into its expenditure components.*

Agenda

1 Quarterly Analysis: Production Approach

2 Quarterly Analysis: Expenditure Approach

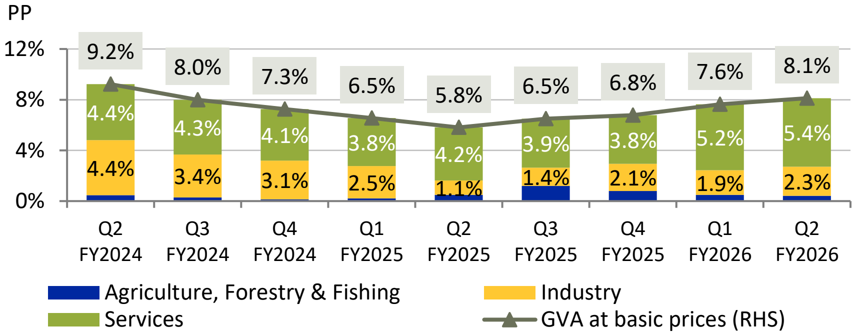
3 Outlook

4 Annexure

GDP growth spiked to a 6-quarter high 8.2% in Q2 FY2026, belying expectations

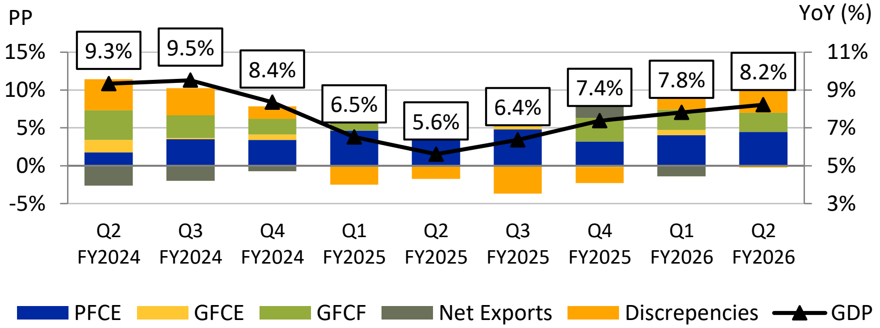
ICRA

EXHIBIT: Contribution of GVA components



Source: NSO; CEIC; ICRA Research

EXHIBIT: Contribution of GDP components

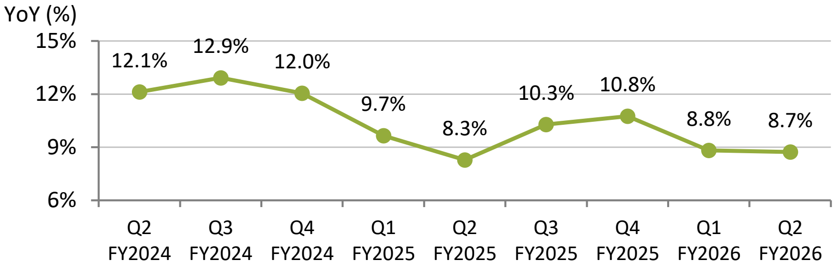


PFCE: Private Final Consumption Expenditure; GFCE: Government Final Consumption Expenditure; GFCF: Gross Fixed Capital Formation; Source: NSO; CEIC; ICRA Research

- The YoY growth in GVA at basic prices unexpectedly surged to an eight-quarter high of 8.1% in Q2 FY2026 from 7.6% in Q1 FY2026, belying expectations of a sequential slowdown (ICRA exp: +7.1%) based on the available high frequency indicators. This was entirely led by the services sector (at +9.2% in Q2 FY2026), with the PADOS (+9.7%) and FRP (nine-quarter high +10.2%) segments witnessing significantly higher-than-expected growth prints in Q2 FY2026. The pace of expansion in the GVA of agriculture, forestry and fishing (+3.5%) and industry (+7.7%) was largely along expected lines. In terms of contribution, services accounted for a sizeable 5.4 percentage points (pp) of the 8.1% GVA growth in Q2 FY2026, followed by 2.3 pp and 0.4 pp from industry and agriculture, respectively.
- The YoY GDP expansion was pegged at a six-quarter high of 8.2% in Q2 FY2026, up from 7.8% in Q1 FY2026, and sharply exceeding ICRA's expectations (+7.0%). Notably, PFCE (to +7.9% from +7.0%) was the only component on the expenditure side that witnessed an acceleration in growth in Q2 FY2026 vs. Q1. In contrast, the YoY performance of GFCE (to -2.7% from +7.4%) and GFCF (to +7.3% from +7.8%) deteriorated between these quarters. Besides, the discrepancy figure saw a turnaround (to +3.3% of GDP in Q2 from +2.3% of GDP in Q1 and -0.5% of GDP in Q2 FY2025) suggesting subsequent revisions. Overall, PFCE contributed 4.5 pp to the 8.2% GDP growth in Q2 FY2026, followed by GFCF (2.5 pp) and exports (1.2 pp), while GFCE exerted a drag of 0.2 pp.

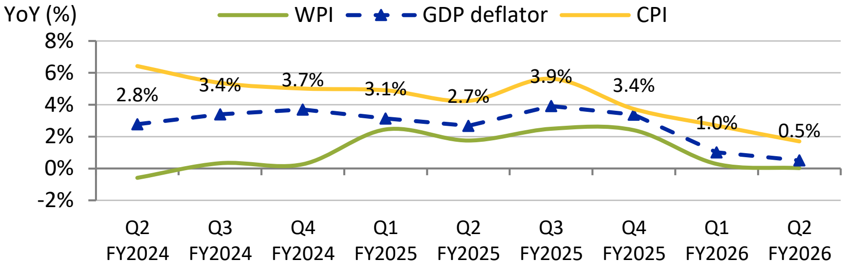
Unlike the trend in real GDP, YoY expansion in nominal GDP moderated to 8.7% in Q2 FY2026, lowest in last four quarters

EXHIBIT: Expansion in nominal GDP slowed to a four-quarter low of 8.7% in Q2 FY2026 from 8.8% in Q1 FY2026



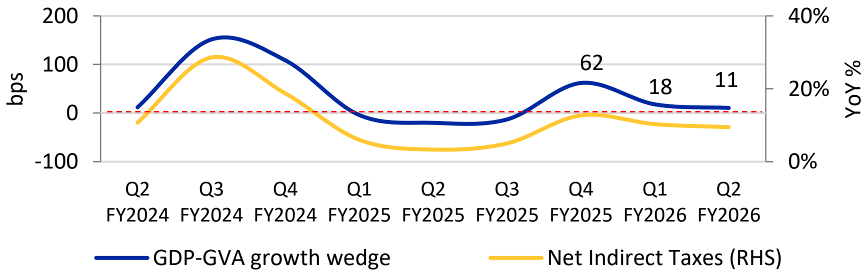
Source: NSO; CEIC; ICRA Research

EXHIBIT: The growth in GDP deflator dipped to a 24-quarter low of 0.5% in Q2 FY2026 from 1.0% in Q1 FY2026, echoing the moderation in the CPI (to +1.7% from +2.7%) and WPI (to +0.02% from +0.3%) inflation



Source: NSO; CEIC; ICRA Research

EXHIBIT: The GDP-GVA growth wedge eased to 11 bps in Q2 FY2026 from 18 bps seen in Q1 FY2026

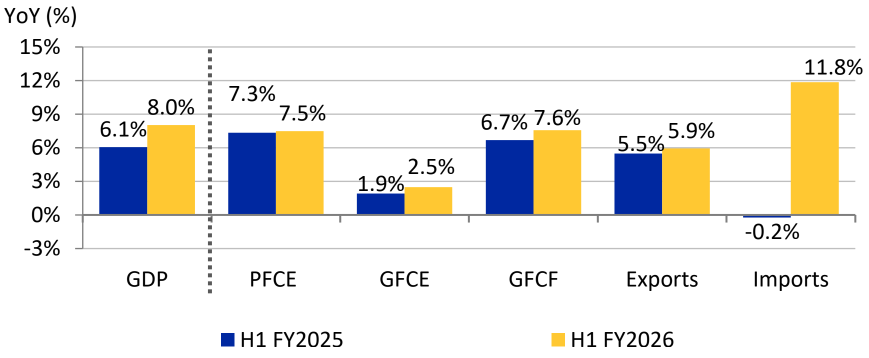


Net indirect taxes = taxes – subsidies; Source: CGA; CEIC; ICRA Research

- The wedge between the GDP and GVA growth remained in the positive territory for the third consecutive quarter, printing at (+) 11 bps in Q2 FY2026, compared to (+) 18 bps in Q1 FY2026, reflecting the slowdown in net indirect tax growth (to +9.5% from +10.3%).
- In nominal terms, the growth in net indirect taxes on products dipped to 8.6% in Q2 FY2026 from 9.5% in Q1. This was driven by the narrowing in the contraction in Centre's subsidy outgo (-4.6% in Q2 FY2026 vs. -7.3% in Q1 FY2026) as well as the decline in the GoI's indirect taxes (to -5.2% from +11.3%).

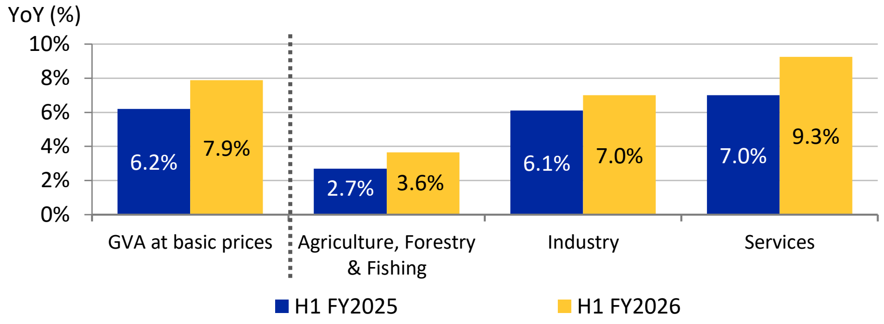
Real GDP expanded by a robust 8.0% in H1 FY2026, led by broad based acceleration across all segments

EXHBIT: YoY performance of GVA and its components in H1 FY2025-26



Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of GDP and its components in H1 FY2025-26



Source: NSO; CEIC; ICRA Research

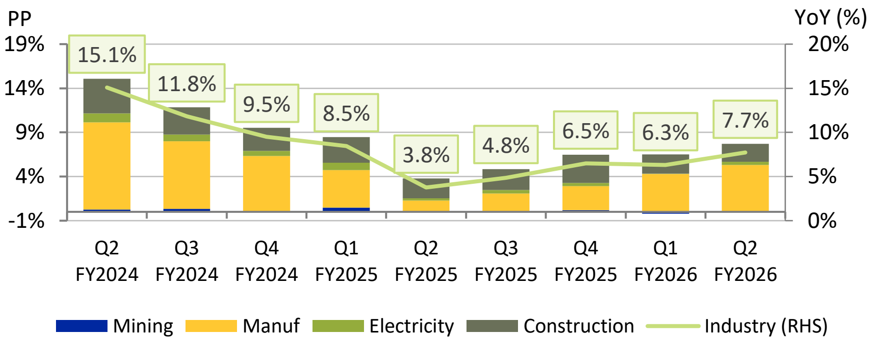
- India's GDP and GVA at basic prices recorded a robust growth of 8.0% and 7.9%, respectively, in H1 FY2026, significantly higher than the growth seen in H1 FY2025 (+6.1% and +6.2%, respectively).
- The uptick in the YoY GDP growth in H1 FY2026 was broad based across all major components, including GFCE (to +2.5% in H1 FY2026 from +1.9% in H1 FY2025), GFCF (to +7.6% from +6.7%), PFCE (to +7.5% from +7.3%), and exports (to +5.9% from +5.5%).
- Additionally, the improvement in the GVA growth in H1 FY2026 was also led by a broad-based acceleration in industry (to +7.0% from +6.1%, entirely driven by a sharp pickup in manufacturing growth), services (to +9.3% from +7.0%), and agriculture, forestry and fishing (to +3.6% from +2.7%).

Quarterly Analysis: Production Approach

GVA growth surged in Q2 FY2026, relative to Q1 boosted by sharper-than-expected growth in the services sector

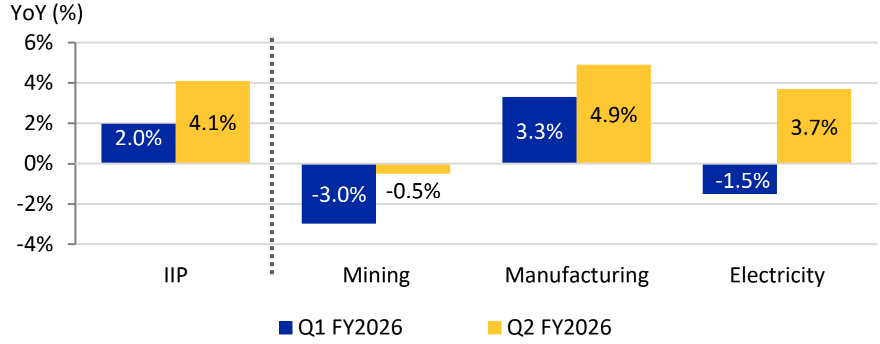
Industrial GVA growth expectedly accelerated to 7.7% in Q2 FY2026, boosted by the manufacturing sector

EXHIBIT: Contribution of components to Industrial GVA growth



Mining: Mining & Quarrying; Manuf: Manufacturing; Electricity: Electricity, gas , water supply & other utility services; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of the IIP and its components



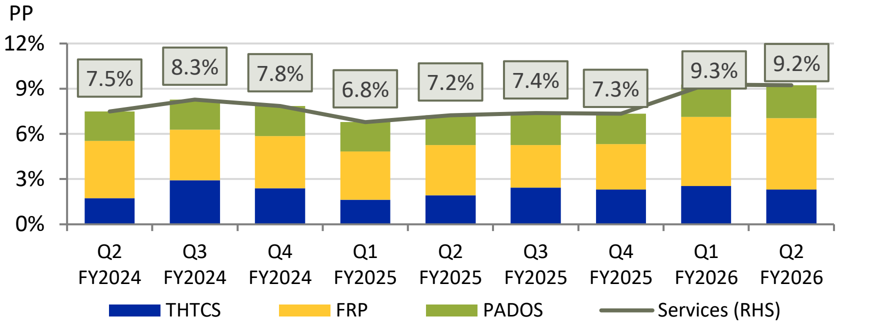
Source: NSO; CEIC; ICRA Research

- The industrial GVA growth improved to a five-quarter high of 7.7% in Q2 FY2026 (+3.8% in Q2 FY2025) from 6.3% in Q1 FY2026 (+8.5% in Q1 FY2025), partly aided by a low base as well as inventory stocking ahead of the GST rate cut and festive season. Moreover, this was in line with the uptick in the industrial volume growth to a four-quarter high of 4.1% in Q2 FY2026 from 2.0% in Q1 (as per the IIP data).
- The manufacturing GVA growth jumped to a six-quarter high of 9.1% in Q2 FY2026 (+2.2% in Q2 FY2025) from 7.7% in Q1 FY2026 (+7.6% in Q1 FY2025), which stood in line with the improvement in such volumes (to a seven-quarter high +4.9% from +3.3%; led by consumer durables segment, as per the IIP data).
- While the above-normal rainfall seen during the Southwest Monsoon season curtailed the YoY performance of the mining and quarrying (to -0.04% in Q2 FY2026 from -3.1% in Q1 FY2026, in line with the IIP data) and electricity (to +4.4% from +0.5%) segments, this was much better than that seen in Q1, aided by a low base, as witnessed in the IIP volume trends. In contrast, the YoY growth in the construction GVA dipped to 7.2% from 7.6% between these quarters, while printing above the 7.0% mark for the 12th consecutive quarter.

Services GVA growth printed at a stronger-than-expected 9.2% in Q2 FY2026, led by PADOS and FRP segments

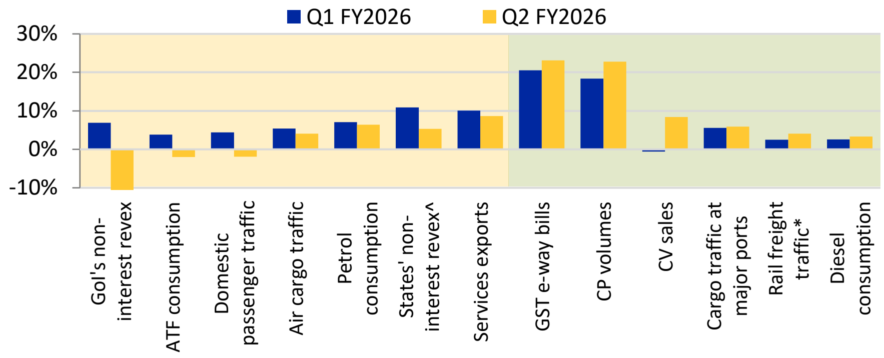
ICRA

EXHIBIT: Contribution of components of Services



THTCS: Trade, hotels, transport, communication & services related to broadcasting: FRP: Financial, real estate & professional services; PADOS: Public administration, defence & other service; Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY performance of service sector indicators

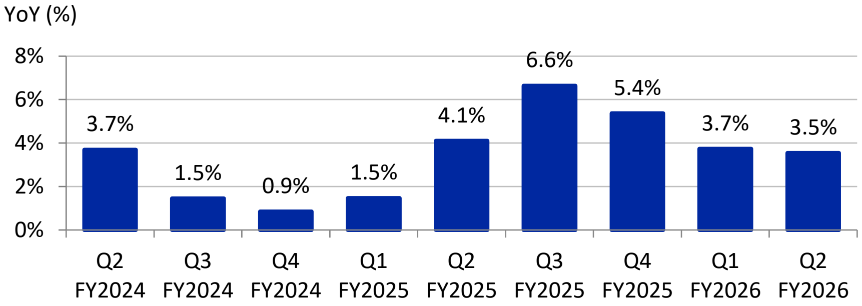


**Data for Q2 FY2026 is for July-August 2025; ^Data for 22 states excluding Arunachal Pradesh, Bihar, Himachal Pradesh, Nagaland, Manipur, and Goa; Source: CMIE; RBI; GSTN; Indian Railways; IPA; PPAC; DGCA; CEIC; ICRA Research*

- The YoY expansion in services GVA moderated marginally to 9.2% in Q2 FY2026 from 9.3% in Q1 FY2026, while exceeding ICRA's expectations. While the YoY growth for PADOS (to an unexpectedly strong +9.7% from +9.8%) and THTCS (to +7.4% from +8.6%) slowed in Q2 FY2026, relative to Q1 FY2026, that for FRP (to a sharper-than-expected +10.2% from +9.5%) saw an improvement to a nine-quarter high in Q2 FY2026, relative to Q1.
  - **FRP:** While the YoY growth in non-food bank credit (to +11.2% as on October 3, 2025 from +9.3% at end-June 2025) rose in Q2 FY2026 vs. Q1, that for bank deposits (to +9.9% from +10.1%) deteriorated during this period. Moreover, after contracting in each of the previous four quarters, the area sold in the top seven cities saw a healthy YoY growth of 5.3% in the quarter (vs. -2.2% YoY in Q1 FY2026), rising to 154.7 msf, partly aided by a favourable base.
  - **THTCS:** Indicators pertaining to transport and mobility saw a mixed performance in Q2 FY2026, vis-à-vis Q1; while rail freight traffic, diesel consumption, and cargo traffic at major ports saw a better performance in Q2 vs. Q1, that for services exports, air cargo traffic, and petrol consumption deteriorated during this period.
  - **PADOS:** The combined non-interest revenue expenditure of 22 state governments^ rose by 5.3% in Q2 FY2026, lower than the 10.9% growth seen in Q1. Moreover, the GoI's non-interest revenue expenditure slipped into a YoY contraction of 11.2% in Q2 FY2025, as against an expansion of 6.9% seen in the previous quarter.

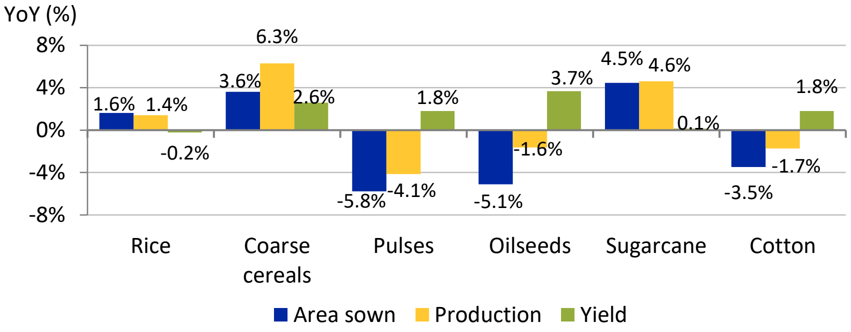
Agri GVA growth eased to 3.5% in Q2 FY2026, in line with forecast

EXHIBIT: Growth in Agriculture, Forestry and Fishing (at constant 2011-12 prices)



Source: NSO; CEIC; ICRA Research

EXHIBIT: YoY growth in the area sown, yields and output of kharif crops in First Advance Estimate for AY2025-26 as per vs. Final Estimate for AY2024-25



AY: Agricultural Year; Source: Ministry of Agriculture and Farmers' Welfare, GoI; CEIC; ICRA Research

- The YoY growth in GVA of agriculture, forestry and fishing eased mildly to a five-quarter low of 3.5% in Q2 FY2026 (+4.1% in Q2 FY2025) from 3.7% in Q1 FY2026 (+1.5% in Q1 FY2025), at par with ICRA's forecast (+3.5%). This was mainly attributed to an unfavourable base, even as kharif foodgrain production is estimated to grow by 2.3% in agricultural year (AY) 2025-26 on a YoY basis.
- As per the first advance estimates (AE) for kharif crops for AY2025-26, the output of rice (+1.4%), coarse cereals (+6.3%) and sugarcane (+4.6%) is set to increase, compared to the final estimates for 2024-25, led by a surge in their acreage levels. Notably, the output of pulses (-4.1%), oilseeds (-1.6%) and cotton (-1.7%) declined on a YoY basis, entirely led by a dip in the area sown, even as the yields of these crops are expected to have improved.

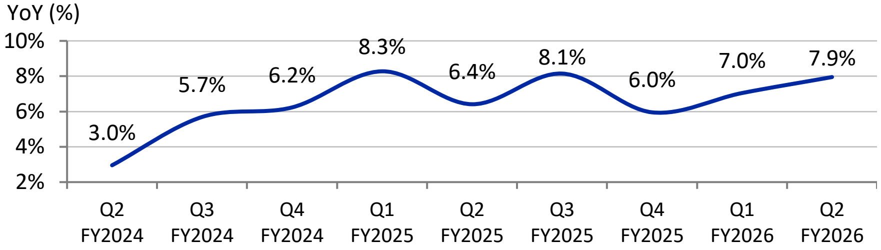
Quarterly Analysis: Expenditure Approach

PFCE drove the acceleration in GDP expansion to 8.2% in Q2 FY2026 from 7.8% in Q1 FY2026

PFCE growth improved, while GFCE slipped into a YoY contraction in Q2 FY2026

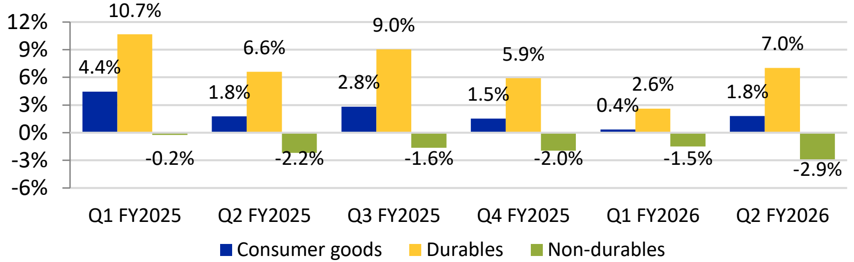
ICRA

EXHIBIT: PFCE growth accelerated to a 3-quarter high of 7.9% in Q2 FY2026 from 7.0% in Q1, partly aided by a favourable base, GST rationalisation, early festive onset, sustained rural demand and some recovery in urban demand



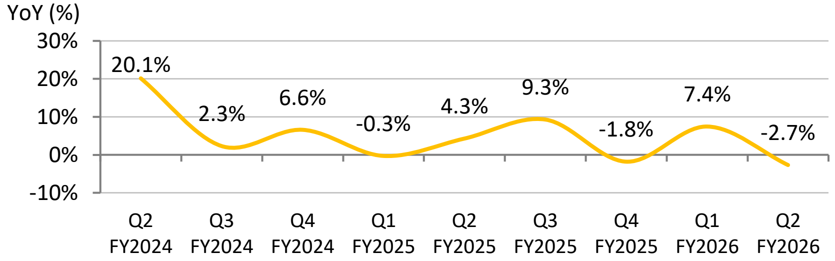
Source: NSO; CEIC; ICRA Research

EXHIBIT: Consumer goods' output (as measured by the IIP) rose by 1.8% YoY in Q2 FY2026 vs. 0.4% in Q1, amid a sharp improvement in durables growth, aided by the GST rate rationalisation as well as a favourable base



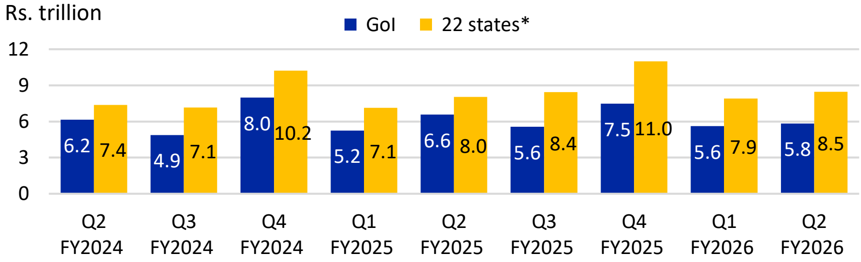
Source: NSO; CEIC; ICRA Research

EXHIBIT: As expected, GFCE contracted by 2.7% YoY in Q2 FY2026 after witnessing the strong expansion of 7.4% in Q1, reflecting the weak trends in Government revex



Source: NSO; CEIC; ICRA Research

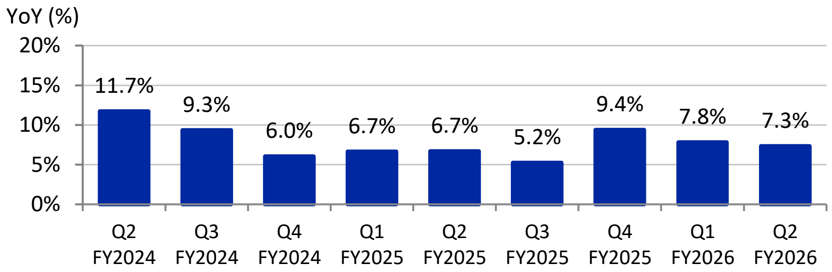
EXHIBIT: While the GoI's non-interest revex contracted (-11.2% vs. +6.9% in Q1 FY2026), the pace of growth in the same for 22 state governments (+5.3% vs. +10.9%) halved in Q2 FY2026, weighing on GFCE growth in the quarter



**22 states excluding Arunachal Pradesh, Bihar, Himachal Pradesh, Nagaland, Manipur, and Goa; CGA; CAG; CEIC; ICRA Research*

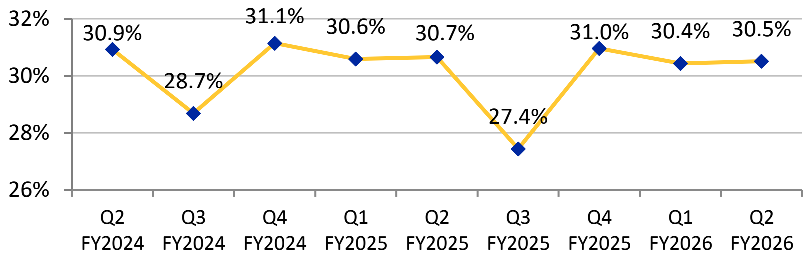
GFCF grew by a healthy 7.3% in Q2 FY2026 supported by Government capex, albeit lower than the 7.8% growth seen in Q1

EXHIBIT: The YoY growth in GFCF moderated to 7.3% in Q2 FY2026 from 7.8% in Q1 FY2026, while remaining healthy, and above the Q2 FY2025 print



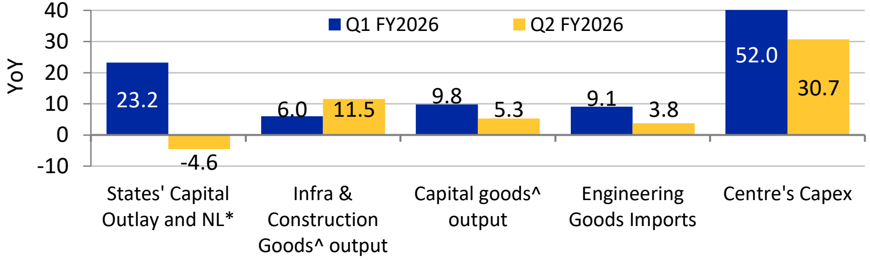
Source: NSO; CEIC; ICRA Research

EXHIBIT: However, the investment rate* inched up marginally to 30.5% in Q2 FY2026 from 30.4% in Q1 FY2026, albeit lower than 30.7% in Q2 FY2025



**GFCF as % of nominal GDP; Source: NSO; CEIC; ICRA Research*

EXHIBIT: The YoY growth in most indicators pertaining to investment activity slowed in Q2 FY2026 vis-à-vis Q1, partly owing to weather-related disruptions

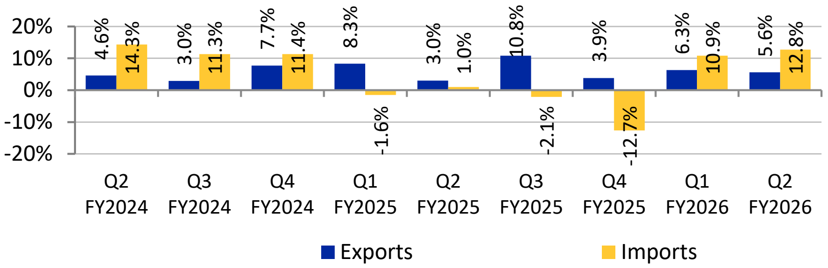


Source: CGA; CAG; JPC; NSO, CEIC; CMIE; Vahan portal; ICRA Research

- Most of the construction-related indicators reported a deceleration in Q2 FY2026, compared to Q1, including a deeper contraction in M&HCV registrations-truck segment, as well as a lower expansion in the output of capital goods, and engineering goods' imports.
- Additionally, the states' capital outlay and net lending slipped into a YoY contraction of 4.6% in Q2 FY2026 (+23.2% in Q1 FY2026), while the growth in GoI's capex moderated to 30.7% from 52.0%.
- Encouragingly, the output of infrastructure/construction goods' output (doubled to +11.5% from +6.0%) and finished steel consumption (to +8.8% from +7.9%) improved on a YoY basis in Q2 FY2026, against Q1 FY2026.

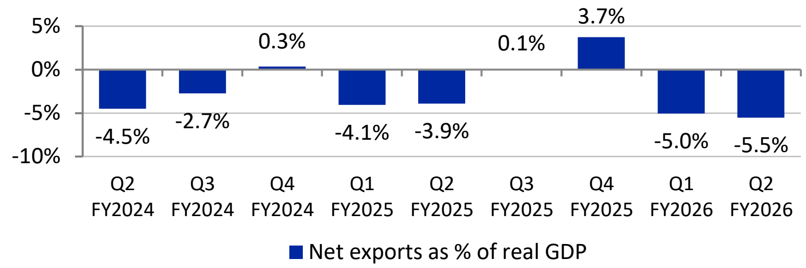
Drag from net exports widened slightly in Q2 FY2026; discrepancies recorded a turnaround

EXHIBIT: Growth in imports accelerated, while that in exports slowed in Q2 FY2026 (in real terms) over Q1, reflecting healthy domestic demand amidst external headwinds



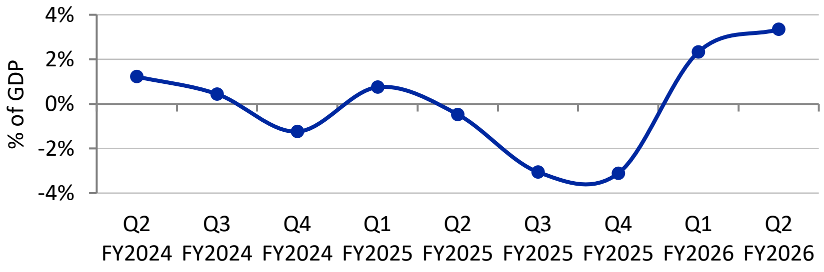
Source: NSO; CEIC; ICRA Research

EXHIBIT: Consequently, drag from net exports on GDP growth widened to 5.5% in Q2 FY2026 from 5.0% in Q1 FY2026, and 3.9% in Q2 FY2025



Source: NSO; CEIC; ICRA Research

EXHIBIT: Notably, discrepancies rose significantly to (+) 3.3% of GDP in Q2 FY2026 from (+) 2.3% of GDP in Q1 FY2026, as against (-) 0.5% in Q2 FY2025, suggesting that the Q2 FY2026 data may undergo material revisions



Discrepancies refer to the residual that remains after disaggregating GDP into its expenditure components, such as PFCE, GFCE, GFCF and net exports; Source: NSO; CEIC; ICRA Research

- In nominal terms, export growth rose to 11% in Q2 FY2026 from 8.1% in Q1, in line with the trend seen in merchandise exports (to +8.7% in Q2 FY2026 from -2.2% in Q1 FY2026; as per the data released by the Ministry of Commerce), even as the growth in service exports moderated (to +8.7% from +10.1%; as per RBI data) between these quarters.
- Likewise, imports accelerated to 8.4% from Q2 from 5.9% in Q1 FY2026, tracking the trend in services imports (to +3.6% from +1.5%), while growth in merchandise imports (to +4.3% from +4.7%) decelerated.
- The QoQ widening in drag from net exports in Q2 FY2026 is in line with the larger balance of merchandise and services trade deficit (to -$35.5 bn in Q2 FY2026 from -$20.9 bn in Q1 FY2026).

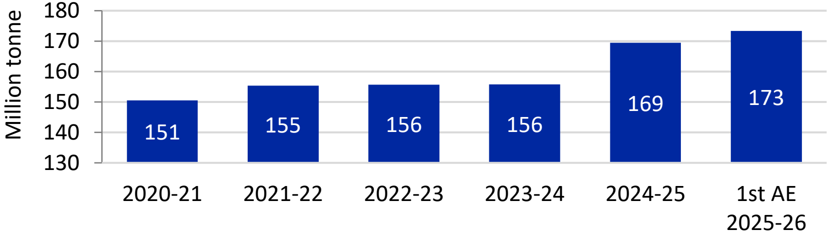
OUTLOOK FOR FY2026

GDP growth appears set to print at ~7.4% in FY2026

Outlook for rural consumption remains upbeat supported by healthy agri output, elevated reservoir levels, GST rate cut-led demand boost

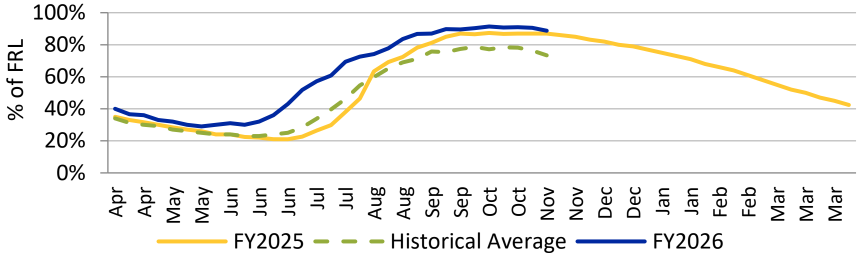
ICRA

EXHIBIT: The total kharif foodgrain output is estimated to rise by 2.3% YoY to a record-high of 173 MT as per the 1st AE for 2025-26, largely led by rice and coarse cereals, despite the impact of excess rainfall



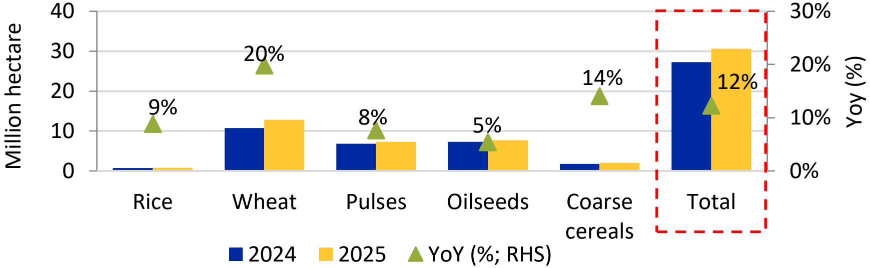
Final Estimates for 2020-21 to 2024-25; Source: Ministry of Agriculture and Farmers' Welfare; ICRA Research

EXHIBIT: All-India reservoir storage remained elevated at 89% of the live capacity at FRL as on Nov 20, 2025, exceeding the year-ago (83% of FRL) and historical (73% of FRL) levels



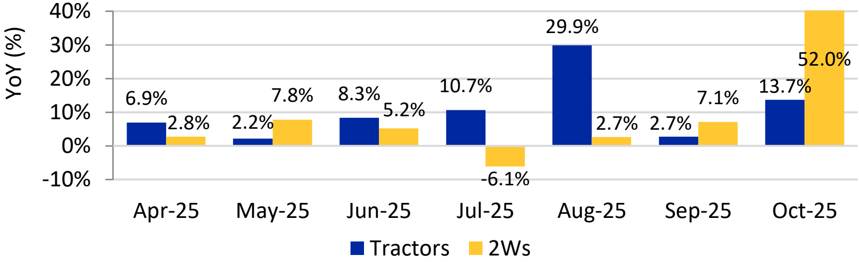
Source: Central Water Commission; ICRA Research

EXHIBIT: Aided by healthy reservoir levels and timely onset, rabi sowing rose by a healthy 12.3% YoY to 30.6 million hectares as on Nov 21, 2025 (48% of normal area sown); this was led by higher sowing for all major crops



**As on November 21, 2025; Source: Ministry of Agriculture and Farmers' Welfare; ICRA Research*

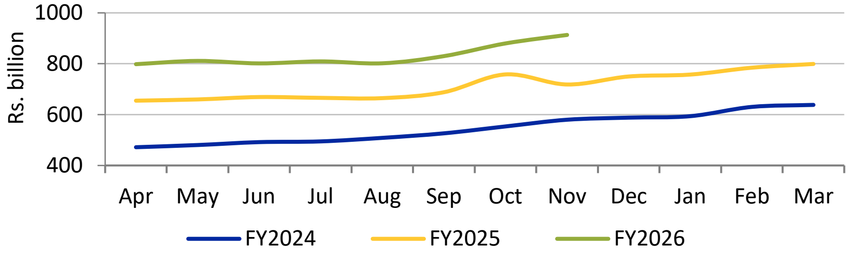
EXHIBIT: On the demand side, domestic tractor (+13.7%) and 2Ws (+52.0%) retail volumes saw a robust YoY growth in October 2025, boosted by the GST rate cuts as well as festive season demand



Source: Vahan portal, MoRTH; CEIC; ICRA Research

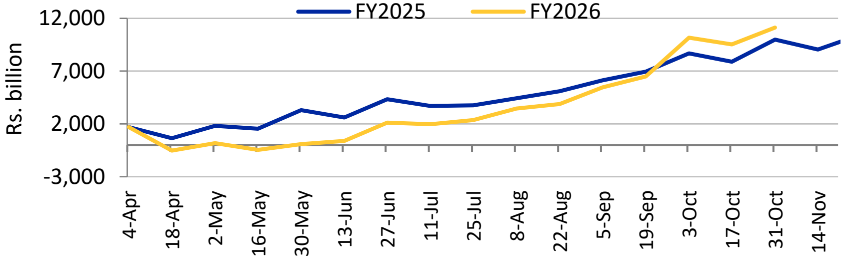
GST rate rationalisation, low food inflation, rate cuts to augur well for urban consumption; sustenance of demand for big-ticket items remains to be seen

EXHIBIT: Average daily UPI transactions rose to Rs. 913 billion/day in Nov 2025 (till Nov 18) from Rs. 880 billion/day in Oct 2025, led by the GST rate cuts as well as festive/year-end discounts across most e-commerce platforms



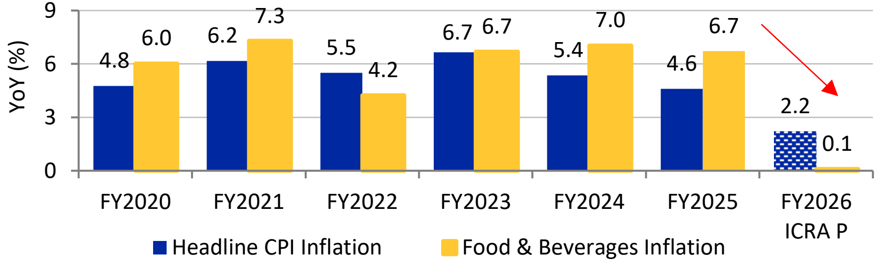
Data for November 2025 is till November 18, 2025; Source: NPCI; ICRA Research

EXHIBIT: Incremental non-food bank credit stood at a robust Rs. 11.1 trillion as on Oct 31, 2025 (Rs. 9.8 trillion as on Nov 1, 2024); GST cut led-boost in economic activity likely spurred demand for retail loans leading to this surge



Source: RBI; ICRA Research

EXHIBIT: CPI inflation is expected to slump to 2.2% in FY2026, led by a sharp dip in food inflation; this along with the rate cuts by the MPC would support urban consumption



Source: NSO; ICRA Research

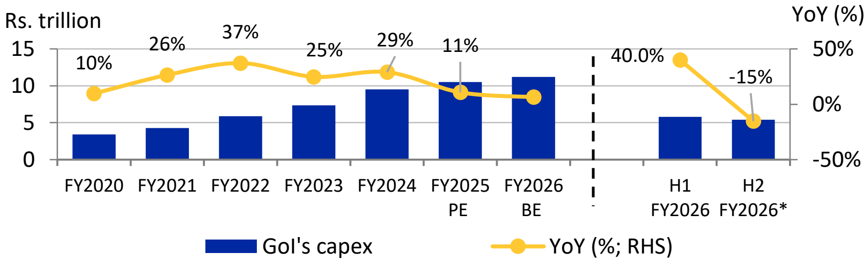
EXHIBIT: The GST rate rationalisation along with the festive season supported demand for consumer durables; while it is positive for most sectors, the sustenance of buoyancy in demand for big-ticket items remains to be seen

Sector	GST rate change impact
2Ws, Passenger Vehicles, Tractors, Commercial Vehicles	↑
Fashion retail	↔
General and Life insurance	↑
Room Air Conditioner (RAC)	↑*
Hotels – Budget	↑

**A good part of the GST rate cut benefit is going to be neutralised by the star labelling requirements from Jan 2026; Source: ICRA Research*

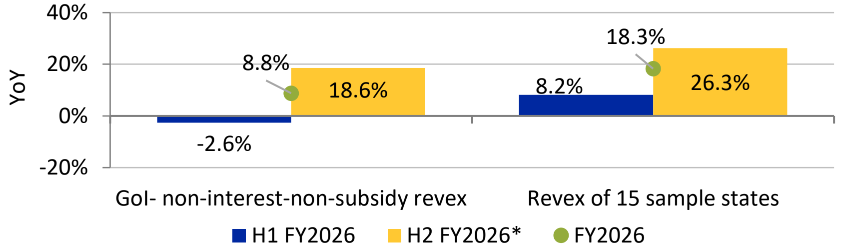
Unless GoI capex allocation is raised or tariffs are revised lower, GDP growth may ease below 7% in H2 FY2026

EXHIBIT: After the YoY surge of 40% in H1 FY2026, GoI's capex is implicitly set to contract by 15% in H2 to meet the target (unless the allocation is enhanced), which would weigh on GDP growth in the second half of the fiscal



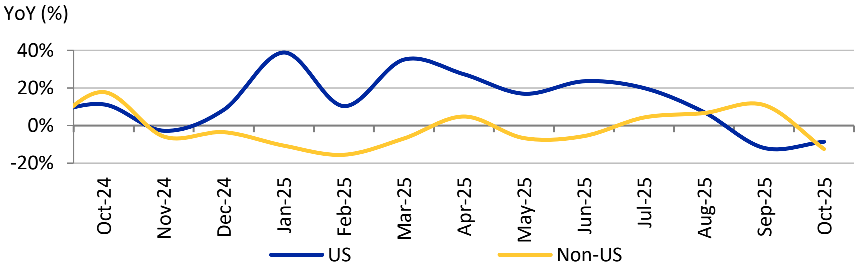
**required to meet the FY2026 BE; PE: Provisional estimates; BE: Budget Estimates; Source: GoI Budget Documents; CGA; Ministry of Finance, GoI; ICRA Research*

EXHIBIT: The GoI's balance revex is set to grow by ~19% in H2 FY2026, while states' revex would expand by 26%, if budgetary allocation is entirely used; however, revex tends to be lower than budgeted numbers due to savings



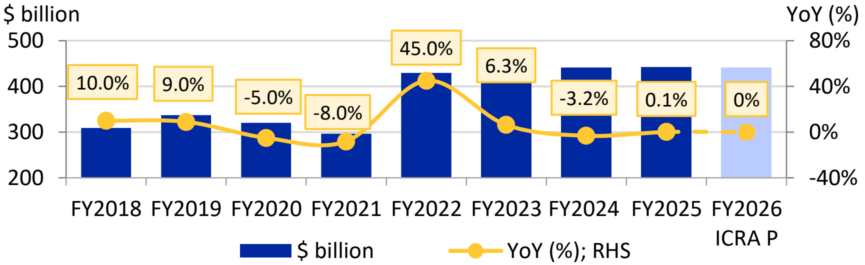
**required to meet the FY2026 BE; Source: Union Budget, CGA, Ministry of Finance, GoI; CAG; ICRA Research*

EXHIBIT: While exports to the US declined by 8.6% in Oct 2025 (-12% in Sep 2025), those to other regions fell by a sharper 12.5%, reflecting the high base; unless tariffs are revised lower, exports would weigh on growth



Source: Ministry of Commerce and Industry, GoI; ICRA Research

EXHIBIT: ICRA expects merchandise exports to print at $440-442 billion in FY2026, largely at par with $441.8 billion in FY2025 (BoP basis), with risks tilted to the downside, unless a trade with the US materialises soon

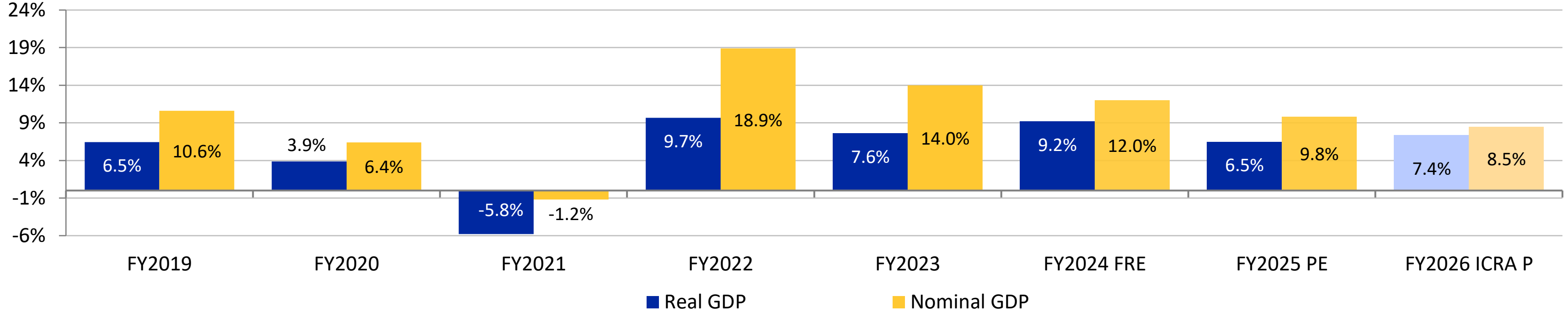


P: Projected; Source: Ministry of Commerce and Industry, GoI; ICRA Research

FY2026 GDP growth now projected at ~7.4%, after unexpectedly strong H1 print

ICRA

EXHIBIT: Annual GDP YoY trends



P: Projected; Source: NSO; ICRA Research

- While Q3 FY2026 would entail the festive season boost in consumption volumes of goods and services as well as the manufacturing volume growth, mining and construction activity as well as electricity demand are set to witness a seasonal pick up in the coming months, after the easing of rainfall-related disruptions. Nevertheless, the drag from slowdown in exports is likely to intensify as compared to H1 FY2026, unless a trade deal with the US materialises, and thus weigh on economic activity.
- The service sector prospects for H2 look bright, as the demand during the festive and wedding periods, as well as leisure travel picks up, that would support the sectors like aviation, hotels, etc. Business travel, however, may see some moderation in the upcoming months, especially in sectors vulnerable to higher US tariffs.
- **Unless the GoI's capex allocation is enhanced and the tariff-related uncertainties ebb, the GDP growth appears set to ease below 7.0% in H2 FY2026 (+6.9% in H2 FY2025) from 8.0% in H1 FY2026 (+6.1% in H1 FY2025), as the unfavourable base kicks in. While the well-timed GST rationalisation may result in a steady boost in volumes of consumer non-durables going ahead, consumer durables may see a trend of premiumisation instead of a sustenance of the spike in volumes that was seen during the festive season. Nevertheless, the FY2026 GDP growth now appears set to print at ~7.4% in FY2026, up from 6.5% in FY2025.**
- **The nominal GDP growth is set to ease to ~8.5% in FY2026 from 9.8% in FY2025, reflecting the impact of the material softening in the inflation prints on the GDP deflator.**

Annexure

Annexure A.1

EXHIBIT: GVA at Basic Prices and its Components (YoY Growth, Constant 2011-12 Prices)

	Q1 FY2025	Q2 FY2025	Q3 FY2025	Q4 FY2025	Q1 FY2026	Q2 FY2026	FY2023 SRE	FY2024 FRE	FY2025 PE
GVA at Basic Prices	**6.5%**	**5.8%**	**6.5%**	**6.8%**	**7.6%**	***8.1%***	**7.2%**	**8.6%**	**6.4%**
Agriculture, Forestry & Fishing	***1.5%***	***4.1%***	***6.6%***	***5.4%***	***3.7%***	***3.5%***	***6.3%***	***2.7%***	***4.6%***
Industry	***8.5%***	***3.8%***	***4.8%***	***6.5%***	***6.3%***	***7.7%***	***2.5%***	***10.8%***	***5.9%***
Mining & Quarrying	6.6%	-0.4%	1.3%	2.5%	-3.1%	-0.04%	3.4%	3.2%	2.7%
Manufacturing	7.6%	2.2%	3.6%	4.8%	7.7%	9.1%	-1.7%	12.3%	4.5%
Electricity, gas, water supply & other utilities	10.2%	3.0%	5.1%	5.4%	0.5%	4.4%	10.8%	8.6%	5.9%
Construction	10.1%	8.4%	7.9%	10.8%	7.6%	7.2%	9.1%	10.4%	9.4%
Services	***6.8%***	***7.2%***	***7.4%***	***7.3%***	***9.3%***	***9.2%***	***10.3%***	***9.0%***	***7.2%***
Trade, Hotels, Transport, Communication & Services related to Broadcasting	5.4%	6.1%	6.7%	6.0%	8.6%	7.4%	12.3%	7.5%	6.1%
Financial, Real Estate & Professional Services	6.6%	7.2%	7.1%	7.8%	9.5%	10.2%	10.8%	10.3%	7.2%
Public Administration, Defence and Other Services	9.0%	8.9%	8.9%	8.7%	9.8%	9.7%	6.7%	8.8%	8.9%

SRE: Second Revised Estimates; FRE: First Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

Annexure A.2

EXHIBIT: GDP and Final Expenditures (YoY Growth, Constant 2011-12 Prices)

	Q1 FY2025	Q2 FY2025	Q3 FY2025	Q4 FY2025	Q1 FY2026	Q2 FY2026	FY2023 SRE	FY2024 FRE	FY2025 PE
GDP	**6.5%**	**5.6%**	**6.4%**	**7.4%**	**7.8%**	**8.2%**	**7.6%**	**9.2%**	**6.5%**
PFCE	8.3%	6.4%	8.1%	6.0%	7.0%	7.9%	7.5%	5.6%	7.2%
GFCE	-0.3%	4.3%	9.3%	-1.8%	7.4%	-2.7%	4.3%	8.1%	2.3%
Exports	8.3%	3.0%	10.8%	3.9%	6.3%	5.6%	10.3%	2.2%	6.3%
Imports	-1.6%	1.0%	-2.1%	-12.7%	10.9%	12.8%	8.9%	13.8%	-3.7%
Gross Capital Formation	6.2%	7.7%	4.9%	7.8%	7.3%	5.1%	7.6%	10.5%	6.7%
GFCF	6.7%	6.7%	5.2%	9.4%	7.8%	7.3%	8.4%	8.8%	7.1%
Change in Stocks	7.5%	2.1%	3.5%	4.8%	5.9%	7.4%	24.3%	53.4%	4.5%
Valuables	-23.1%	25.8%	-0.5%	-29.8%	-22.5%	-22.7%	-16.9%	14.4%	0.6%

SRE: Second Revised Estimates; FRE: First Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

Annexure B.1

EXHIBIT: Composition of GVA at Basic Prices (at Current Prices)

	Q1 FY2025	Q2 FY2025	Q3 FY2025	Q4 FY2025	Q1 FY2026	Q2 FY2026	FY2023 SRE	FY2024 FRE	FY2025 PE
GVA at Basic Prices	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Agriculture, Forestry & Fishing	***16.2%***	***14.5%***	***22.7%***	***18.0%***	***15.3%***	***13.6%***	***18.1%***	***17.8%***	***17.9%***
Industry	***27.4%***	***26.4%***	***25.3%***	***29.3%***	***27.0%***	***26.4%***	***27.7%***	***27.8%***	***27.1%***
Mining & Quarrying	2.1%	1.5%	1.6%	2.0%	1.7%	1.3%	2.1%	1.9%	1.8%
Manufacturing	13.8%	14.1%	12.7%	14.9%	14.0%	14.5%	14.3%	14.3%	13.9%
Electricity, gas, water supply & other utilities	2.8%	2.7%	2.6%	2.7%	2.6%	2.6%	2.5%	2.8%	2.7%
Construction	8.8%	8.1%	8.3%	9.7%	8.7%	8.0%	8.8%	8.8%	8.8%
Services	***56.4%***	***59.1%***	***52.0%***	***52.8%***	***57.7%***	***60.0%***	***54.3%***	***54.4%***	***54.9%***
Trade, Hotels, Transport, Communication & Services related to Broadcasting	15.6%	17.5%	17.8%	19.0%	15.7%	17.2%	17.9%	17.6%	17.5%
Financial, Real Estate & Professional Services	25.9%	26.2%	20.0%	20.0%	26.5%	26.9%	22.7%	22.8%	22.9%
Public Administration, Defence and Other Services	14.9%	15.3%	14.2%	13.8%	15.6%	15.9%	13.6%	14.0%	14.5%

SRE: Second Revised Estimates; FRE: First Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

Annexure B.2

EXHIBIT: Composition of GDP and Final Expenditures (at Current Prices)

	Q1 FY2025	Q2 FY2025	Q3 FY2025	Q4 FY2025	Q1 FY2026	Q2 FY2026	FY2023 SRE	FY2024 FRE	FY2025 PE
GDP	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
PFCE	60.1%	62.2%	65.1%	58.3%	60.3%	62.5%	61.5%	60.2%	61.4%
GFCE	10.0%	10.0%	8.7%	11.1%	10.1%	9.1%	10.3%	10.3%	10.0%
Exports	21.0%	21.1%	21.1%	21.4%	20.9%	21.6%	23.3%	21.4%	21.2%
Imports	23.4%	25.2%	23.7%	21.8%	22.8%	25.1%	26.8%	23.5%	23.5%
Gross Capital Formation	32.6%	35.2%	30.4%	33.6%	32.3%	34.8%	33.6%	33.4%	32.9%
GFCF	30.6%	30.7%	27.4%	31.0%	30.4%	30.5%	31.2%	30.4%	29.9%
Change in Stocks	1.5%	1.5%	1.4%	1.6%	1.4%	1.5%	1.1%	1.5%	1.5%
Valuables	0.5%	3.0%	1.6%	1.0%	0.4%	2.8%	1.3%	1.4%	1.5%

SRE: Second Revised Estimates; FRE: First Revised Estimates; PE: Provisional Estimates; Source: NSO; CEIC; ICRA Research

Click to Provide Feedback

Analytical Contact Details

Name	Designation	Email	Contact Number
Aditi Nayar	Chief Economist, and Head-Research and Outreach	aditin@icraindia.com	0124 - 4545 385
Rahul Agrawal	Senior Economist	rahul.agrawal@icraindia.com	022 – 6114 3425
Aarzoo Pahwa	Deputy Senior Economist	aarzoo.pahwa@icraindia.com	0124 – 4545 835
Tiasha Chakraborty	Economist	tiasha.chakraborty@icraindia.com	0124 - 4545 848
Isha Sinha	Associate Economist	isha.sinha@icraindia.com	0124 - 4545 377

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Sai Krishna	Head - Research Sales and Investor Connect	sai.krishna1@icraindia.com	9840774883
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – East	vinita.baid@icraindia.com	033-65216801
Shivam Bhatia	Head Business Development – Corporate Sector – North & South	shivam.bhatia@icraindia.com	0124-4545803
Sanket Kulkarni	Head Business Development – Corporate Sector – West	sanket.kulkarni@icraindia.com	022-6169 3365
Naznin Prodhani	Head - Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

ICRA

ICRA

Thank You!