ICRA

FY2026 GDP OUTLOOK

GDP projected to grow by 6.5% in FY2026, with recovery in domestic consumption and investment even as goods exports face challenges

MARCH 2025

What's Inside?

ICRA

1 Growth trends in H2 FY2025

2 FY2026 outlook on private consumption

3 Government final consumption expenditure

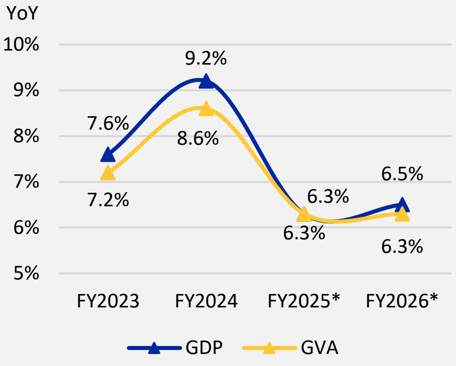
4 Household, corporate and government investments

5 Exports

Highlights - I

Click to see full report

EXHIBIT: GDP and GVA growth (at constant 2011-12 prices)



*ICRA projections; Source: NSO; ICRA Research

- India's GDP and GVA growth improved to 6.2% each in Q3 FY2025 from 5.6% and 5.8%, respectively, in Q2 FY2025. Moreover, the National Statistical Office (NSO) has implicitly pegged the GDP and GVA growth to rise to 7.6% and 6.8%, respectively, in Q4 FY2025, based on the FY2025 second advance estimates (SAE) and the 9M FY2025 data.

- The NSO expects the wedge between GDP-GVA growth to turn positive to (+) 72 bps in Q4 FY2025 from (-) 7 bps in Q3, amid an uptick in the growth for net indirect taxes (to +13.8% in Q4 from +5.4% in Q3). This is line with the sharp contraction likely in the Government of India's (GoI's) subsidy outgo in Q4 (-43.6% vs. +31.1% in Q3) and a slower rise for indirect taxes (+6.7% vs. +7.0%), implying a jump in nominal net indirect taxes' growth (+27.2% vs. +1.1%) in Q4 FY2025.

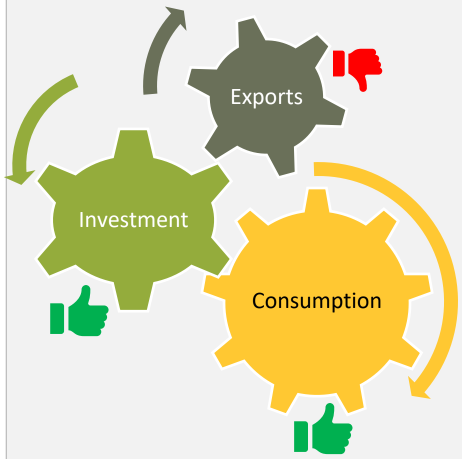
- Rural demand is expected to remain upbeat in FY2026, aided by farm cash flows from the rabi harvest and above-normal reservoir levels which would provide some insurance against a delayed start or inadequate rainfall in the early part of the monsoon season. Overall, ICRA expects the agri GVA growth at 3.5-4.0% in FY2026 after a 4.6% rise included in FY2025 SAE. A well-distributed and normal monsoon remains key to support farm sentiments and incomes beyond H1 CY2025.

- While urban consumption remained muted in FY2025, the combination of income tax relief announced in the Union Budget FY2026, rate cuts leading to lower EMIs, and an expected moderation in food inflation is likely to boost household disposable incomes and discretionary consumption in FY2026, auguring well for sectors like automobiles, consumer goods and services.

- The slowdown in the YoY growth of the GoI's non-interest non-subsidy revex (to +5.0% in FY2026 BE from +7.9% in FY2025 RE) and revex of 11 state governments (to +9.7% from +18.8%) in FY2026 budget estimate (BE) vs. FY2025 revised estimate (RE), is expected to weigh on the government expenditure (GFCE) growth on the expenditure side and the public administration, defence, and other services (PADOS) growth on the production side in FY2026.

Highlights - II

EXHIBIT: Outlook for FY2026



Source: ICRA Research

- The GoI's growth target of 10.1% for gross capex in FY2026 BE is likely to support investment activity in the fiscal. Moreover, the ~17% YoY uptick in the GoI's effective capex in FY2026 BE and uptick in the outlay towards the 50Y interest-free capex loan to state governments is likely to augur well for construction activity and GDP growth, even as early execution remains key. Additionally, the budgets of 11 states released so far have indicated a healthy growth of 21% in their combined capital expenditure to Rs. 6.0 trillion in FY2026 (+25% in FY2025 RE).
- Further, the outlook for residential real estate appears healthier for FY2026, amid the onset of the rate cut cycle, income tax relief in the Union Budget FY2026, and sustained demand. ICRA expects the home sales in the top 7 cities to grow by ~4.5% in FY2026 (-5.0% expected in FY2025).
- The eventual transmission of the monetary easing cycle would help cool borrowing costs, thereby complementing the existing conditions such as cleaner balance sheets for an uptick in the corporate sector capex. While the domestic macroeconomic environment remains conducive for an improvement in investment activity in FY2026, the private capex cycle would remain non-exuberant, owing to external headwinds arising from protectionist trade policies as well as exchange rate volatility.
- ICRA expects external demand to remain subdued in FY2026, owing to the risks of potential trade wars, redirection of trade flows, disruption of supply chains, as well as weakness in the USD/INR pair. This is likely to adversely impact India's merchandise exports in FY2026.
- Overall, ICRA estimates India's GDP to grow by 6.5% in FY2026 (vs. +6.3% expected in FY2025) and GVA at basic prices by 6.3% (+6.3% in FY2025). Nevertheless, the impact of sustained exchange rate depreciation on profitability of some corporates and headwinds related to tighter trade policies pose key downside risks to the outlook. ICRA projects the wedge between the GDP and GVA growth to reverse to being positive in FY2026.

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	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	022 – 6114 3445

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
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 – Corporate Sector - West & East	vinita.baid@icraindia.com	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

Thank You!