



ECONOMIC OUTLOOK AND MACRO TRENDS

India's GDP growth projected at 6.7% in
Q1 FY2026, supported by upfronted
Government spending, exports to some
geographies

August 2025

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Abbreviations

AE: Advance Estimates
 ATF: Aviation Turbine Fuel
 AUM: Assets under Management
 BAI: Business Assessment Index
 BoP: Balance of Payments
 BU: Billing Unit
 CAD: Current Account Deficit
 CCS: Consumer Confidence Survey
 CGA: Controller General of Accounts
 CGST: Central Goods and Services Tax
 CIL: Coal India Limited
 CNY: Chinese Yuan
 CP: Commercial Paper
 CPD: Cut and Polished Diamond
 CPI: Consumer Price Index
 CSI: Current Situation Index
 CTD: Central Tax Devolution
 CV: Commercial Vehicle
 DAP: Di-ammonium phosphate
 DIPAM: Department of Investment and Public Asset Management
 ECB: External Commercial Borrowing
 FAO: Food and Agriculture Organization
 FCI: Food Corporation of India
 FCNR: Foreign Currency Non-Resident

FDI: Foreign Direct Investment
 FPI: Foreign Portfolio Investors
 FMCG: Fast Moving Consumer Goods
 FRL: Full Reservoir Level
 FRP: Financial, Real Estate and Professional Services
 GCC: Global Capability Centre
 GDP: Gross Domestic Product
 GFCE: Government Final Consumption Expenditure
 GFCF: Gross Fixed Capital Formation
 G-Sec: Government Securities
 GVA: Gross Value Added
 HFC: Housing Finance Companies
 HSD: High Speed Diesel
 IGST: Integrated Goods and Services Tax
 IIP: Index of Industrial Production
 IMD: Indian Meteorological Department
 IMF: International Monetary Fund
 IOS: Industrial Outlook Survey
 IPO: Initial Public Offering
 JPC: Joint Plant Committee
 LAF: Liquidity Adjustment Facility

LIC: Life Insurance Corporation
 LPA: Long Period Average
 LPG: Liquefied Petroleum Gas
 MGNREGS: Mahatma Gandhi National Rural Employment Guarantee Scheme
 MICE: Meetings, Incentives, Conferences, Exhibitions
 MoM: Month-on-month
 MoRTH: Ministry of Road Transport and Highways
 MoSPI: Ministry of Statistics and Program Implementation
 MPC: Monetary Policy Committee
 MSF: Marginal Standing Facility
 MSP: Minimum Support Price
 NBFC: Non-Banking Finance Companies
 NBS: Nutrient Based Subsidy
 NFSA: National food Security Act
 NHAI: National Highway Authority of India
 NR(E)RA: Non-Resident (External) Rupee Account
 NRI: Non-Resident Indians
 NRO: Non-Resident Ordinary

NSO: National Statistical Office
 OMC: Oil Marketing Companies
 OPEC: Organization of Petroleum Exporting Countries
 PADOS: Public Administration, Defence and Other Services
 PFCE: Private Final Consumption Expenditure
 PLF: Plant Load Factor
 PLI: Production Linked Incentive
 PPF: Public Provident Fund
 POL: Petroleum Oil and Lubricants
 PV: Passenger Vehicle
 REER: Real Effective Exchange Rate
 SDF: Standing Deposit Facility
 SDG: Supplementary Demand for Grants
 SDR: Special Drawing Rights
 SIOS: Services and Infrastructure Outlook Survey
 THTCS: Trade, Hotels, Transport, Communication and Services related to broadcasting
 VRR: Voluntary Retention Route
 WPI: Wholesale Price Index
 WTO: World Trade Organisation

OVERVIEW



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EXHIBIT: GDP growth trends

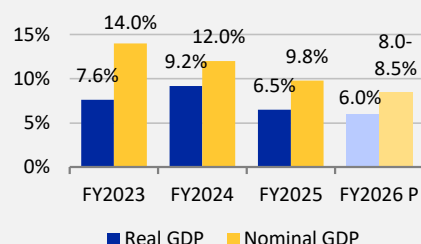
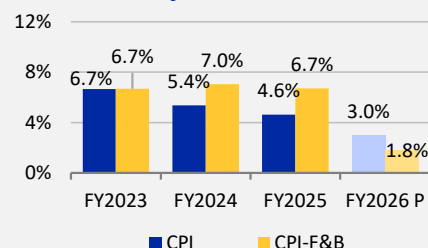


EXHIBIT: CPI inflation trends



P: Projected; F&B: Food and beverage; Source: NSO, ICRA Research

Amid heightened uncertainty owing to tariff-related developments and geopolitical tensions, India's economic activity in Q1 FY2026 was supported by a healthy growth in the Government's capital and revenue spending, upfronted exports to some geographies and nascent signals of improved private consumption. While ICRA projects the GDP growth at a healthy 6.7% in Q1 FY2026 (+7.4% in Q4 FY2025), it is likely to taper off in the subsequent quarters, owing to expectations of a moderation in exports to the US after the unpalatable tariff hikes, which may also delay private capex. Besides, after the surge in the GoI's capex in Q1, the budgeted target implicitly entails a contraction in remaining three quarters, which would also weigh on the GDP growth prints. However, the GoI's recent announcement on rationalising the GST structure is opportune to boost consumption during the festive season, amid the favourable setting of lower interest rates and income tax relief. At present, ICRA retained its FY2026 GDP growth forecast at 6.0%, and will revisit the same once the details regarding the GST rejig and developments on the India-US trade deal and tariffs becomes available. India's CPI inflation is anticipated to soften to 3.0% in FY2026 (+4.6% in FY2025), with a sizeable cooling in food inflation amid limited seasonal increase in vegetable prices and favourable prospects for farm output aided by the monsoon turnout. However, the gradual upward trajectory in CPI inflation to above-4% in Q4 FY2026 and Q1 FY2027 would limit the space for further rate cuts, unless GDP growth sharply undershoots the MPC's current forecasts. The CAD is expected to print at a comfortable 0.6% of GDP in FY2026, albeit with risks contingent on the severity of tariffs being finally imposed. On the fiscal front, ICRA estimates that the GoI has fiscal space of ~Rs. 0.5 trillion in FY2026, which could be used to push up capex beyond the FY2026 BE, provide a package to support exporters, or absorb shortfalls in direct or indirect taxes.

Macroeconomic Variables		FY2025	FY2026 ICRA Projections
	GDP Growth (at constant 2011-12 prices)	+6.5%	+6.0%
	GDP Growth (at current prices)	+9.8%	+8.0 to +8.5%
	CPI Inflation	+4.6%	+3.0%
	Current Account Balance	Deficit of \$23.3 billion; -0.6% of GDP	Deficit of \$27-30 billion; -0.6% of GDP
	GoI's Fiscal Deficit	4.8% of GDP	Likely to meet the budgeted 4.4% of GDP
	G-sec Yields	10-year G-sec yield (6.33% GS 2035) to range between 6.40-6.65% in the near term	
	Policy Repo Rate	Extended pause, unless GDP growth sharply undershoots MPC's estimates	
	INR	INR to trade between 86.5/\$ and 88.5/\$ in the near term	



EXECUTIVE SUMMARY



India's GDP growth estimated to ease to 6.7% in Q1 FY2026 from the high 7.4% seen in Q4 FY2025

- India's investment activity held up in Q1 FY2026, boosted by the front-loading of Government capex, albeit on an election-curtained low base, amidst the heightened uncertainty, owing to geopolitical tensions and tariff-related developments.
- Benefitting from robust Government capital as well as revenue spending, upfronting of exports to some geographies, and signs of an improvement in consumption, India's GDP and GVA growth is projected at 6.7% and 6.4%, respectively, in Q1 FY2026. Nevertheless, the pace of expansion is likely to moderate from the levels recorded in Q4 FY2025 (GDP: +7.4%; GVA: +6.8%).



GDP growth projected at 6.0% in FY2026, amid headwinds posed by uncertain trade policies and geopolitical scenario

- ICRA expects the GDP growth to taper off in the subsequent quarters, owing to the expected slowdown in India's exports to the US, likely moderation in the GoI's capex amid front-loading in the first four months of the fiscal, and a delay in private capex given heightened global uncertainty owing to trade policies and geopolitical tensions.
- Nevertheless, the proposed rationalisation of the GST structure is likely to aid household consumption in the second half of the fiscal. ICRA currently expects the GDP growth to print at 6.0% in FY2026 (+6.5% in FY2025).



CPI inflation expected to average at 3.0% in FY2026; upcoming GST rationalisation may trigger a softening bias

- ICRA projects the CPI inflation to print at 3.0% in FY2026 (MPC: +3.1%), likely to be led by a sharp dip in the food and beverages segment (ICRA's exp.: +1.8% in FY2026 vs. +6.7% in FY2025), even as core-CPI inflation is projected to average slightly above the 4.0%-mark. Moreover, the impending GST rate rationalisation would impart a softening relative to our CPI inflation estimate for the fiscal.
- Nevertheless, ICRA believes that the MPC's 4%-plus CPI inflation projections for Q4 FY2026 and Q1 FY2027 would limit the space for additional rate cuts, thereby signalling the onset of an extended pause.



India's CAD to remain stable at 0.6% of GDP in FY2026; tariff-related uncertainty pose key risks

- Amid intensifying uncertainty related to global trade and tariff policies, ICRA currently expects India's merchandise exports to rise by 1-2% in FY2026. However, merchandise imports are expected to grow by a slightly stronger 3-4%, likely led by healthy growth in the non-oil non-gold segment.
- India's CAD is projected to remain manageable at 0.6% of GDP in FY2026 (baseline), similar to FY2025, with the extent of downside being contingent on the severity of tariffs being finally imposed by the US. If the 50% tariff rate is imposed, it could lead to a ~50% YoY decline in exports to the US in the remaining period of the fiscal; India's total merchandise exports would then contract by ~4% YoY in FY2026, pushing up the CAD to 1.3% of GDP.



GoI's fiscal deficit likely to be contained at 4.4% of GDP in FY2026

- ICRA believes that the GoI has fiscal space of ~Rs. 0.5 trillion in FY2026 relative to the BE, to either push up capex beyond the FY2026 BE of Rs. 11.2 trillion, provide a package to support exporters, or absorb shortfalls in direct or indirect taxes. While this fiscal headroom could be cut short by the implications of the proposed GST changes on the revenue side in the second half of the fiscal, more clarity is awaited on the same.
- At present, the fiscal deficit/GDP ratio is likely to be contained at 4.4% in FY2026, in line with the BE.

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