ICRA

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

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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

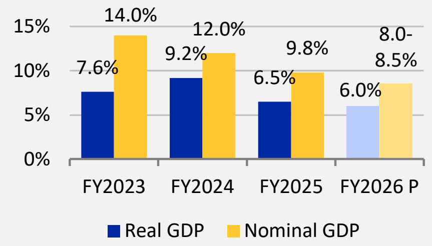
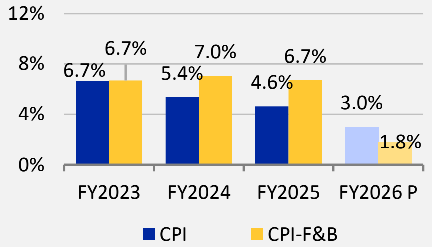


EXHIBIT: CPI inflation trends



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 implicity 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-curtailed 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 geopolictical tensions.
- Nevertheless, the proposed rationlisation 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 uncertainity 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.

ICRA

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

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The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

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- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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