



ECONOMIC OUTLOOK AND MACRO TRENDS

India's GDP growth projected to ease to 7.0% in Q2 FY2026, while remaining robust

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Abbreviations

AE: Advance Estimates	FDI: Foreign Direct Investment	LAF: Liquidity Adjustment Facility	NRO: Non-Resident Ordinary
ATF: Aviation Turbine Fuel	FMCG: Fast Moving Consumer Goods	LIC: Life Insurance Corporation	NSO: National Statistical Office
AUM: Assets under Management	FOMC: Federal Open Market Committee	LPA: Long Period Average	OMC: Oil Marketing Companies
BAI: Business Assessment Index	FPI: Foreign Portfolio Investors	LPG: Liquefied Petroleum Gas	PADOS: Public Administration, Defence and Other Services
BoP: Balance of Payments	FRL: Full Reservoir Level	M&HCV: Medium and Heavy Commercial Vehicle	PFCE: Private Final Consumption Expenditure
BU: Billing Unit	FRP: Financial, Real Estate and Professional Services	MGNREGS: Mahatma Gandhi National Rural Employment Guarantee Scheme	PLF: Plant Load Factor
CAD: Current Account Deficit	GCC: Global Capability Centre	MICE: Meetings, Incentives, Conferences, Exhibitions	PLI: Production Linked Incentive
CCS: Consumer Confidence Survey	GDP: Gross Domestic Product	MoM: Month-on-month	PPF: Public Provident Fund
CGA: Contoller General of Accounts	GFCE: Government Final Consumption Expenditure	MoRTH: Ministry of Road Transport and Highways	POL: Petroleum Oil and Lubricants
CGST: Central Goods and Services Tax	GFCF: Gross Fixed Capital Formation	MoSPI: Ministry of Statistics and Program Implementation	PV: Passenger Vehicle
CIL: Coal India Limited	G-Sec: Government Securities	MPC: Monetary Policy Committee	REER: Real Effective Exchange Rate
CNY: Chinese Yuan	GVA: Gross Value Added	MSF: Marginal Standing Facility	SDF: Standing Deposit Facility
CP: Commercial Paper	HFC: Housing Finance Companies	MSP: Minimum Support Price	SDR: Special Drawing Rights
CPD: Cut and Polished Diamond	HSD: High Speed Diesel	MTD: Merchandise Trade Deficit	SIOS: Services and Infrastructure Outlook Survey
CPI: Consumer Price Index	IGST: Integrated Goods and Services Tax	NBFC: Non-Banking Finance Companies	THTCS: Trade, Hotels, Transport, Communication and Services related to broadcasting
CSI: Current Situation Index	IIP: Index of Industrial Production	NBS: Nutrient Based Subsidy	UPI: Unified Payments Interface
CTD: Central Tax Devolution	IMD: Indian Meteorological Department	NHAI: National Highway Authority of India	VRR: Voluntary Retention Route
CV: Commercial Vehicle	IMF: International Monetary Fund	NR(E)RA: Non-Resident (External) Rupee Account	WPI: Wholesale Price Index
DAP: Di-ammonium phosphate	IOS: Industrial Outlook Survey	NRI: Non-Resident Indians	WTO: World Trade Organisation
DIPAM: Department of Investment and Public Asset Management	IPO: Initial Public Offering		
ECB: External Commercial Borrowing	JPC: Joint Plant Committee		
F&B: Food and Beverages	KMS: Kharif Marketing Season		
FAO: Food and Agriculture Organization			
FAR: Fully Accessible Route			
FCI: Food Corporation of India			
FCNR: Foreign Currency Non-Resident			

OVERVIEW



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EXHIBIT: GDP growth trends

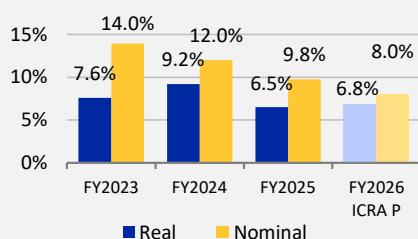
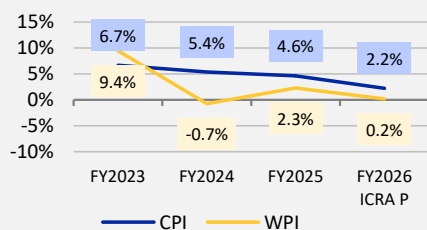









EXHIBIT: CPI inflation trends



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

Initial estimates of the NSO had pegged India’s GDP growth for Q1 FY2026 at 7.8%, materially exceeding expectations. When Q2 FY2026 had commenced, it seemed as if a large deceleration was on the anvil, with a slowdown in growth of Government capex and uncertainty related to US tariffs. However, the benefits of the GST rationalisation pushed up volumes in September 2025, and we now project GDP growth for that quarter at 7.0%. Looking ahead, unless the Gol’s capex allocation is enhanced and tariff-related uncertainties ebb, the GDP growth appears set to ease below 7.0% in H2 FY2026, resulting in a full-year expansion of 6.8%. While the well-timed GST rationalisation may result in a steady boost in volumes of consumer non-durables, consumer durables may see a trend of premiumisation instead of a sustenance of the spike in volumes that was seen during the festive season.

Additionally, the CPI inflation is projected to average at a benign ~2.2% in FY2026 (+4.6% in FY2025), led by a sharp dip in food inflation, along with the positive impact of GST rate cuts on the H2 readings, even as core-CPI inflation is likely to print above the 4.0%-mark in the fiscal. ICRA believes that the dovish tone of the October 2025 MPC document and a paring of inflation projections would support a 25-bps rate cut in the December 2025 policy, unless Q2 FY2026 GDP growth surprises on the upside. India’s CAD is expected to widen to 1.2% of GDP in FY2026 from 0.6% of GDP in FY2025, owing to the adverse impact of the US tariffs and penalties, as well as the recent surge in imports of gold. On the fiscal front, the estimated shortfall in net tax revenues and potential additional allocation for fertiliser subsidy, etc. is likely to be offset by the upside to the non-tax revenues as well as expenditure savings, which would prevent the fiscal deficit from exceeding the budgeted 4.4% of GDP in FY2026.

Macroeconomic Variables	FY2025	FY2026 ICRA Projections
 GDP Growth (at constant 2011-12 prices)	+6.5%	+6.8%
 GDP Growth (at current prices)	+9.8%	+8.0%
 CPI Inflation	+4.6%	+2.2%
 Current Account Balance	Deficit of \$23.3 billion; -0.6% of GDP	Deficit of ~\$49-51 billion; -1.2% of GDP
 Gol’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 6.40-6.55% in the near term	
 Policy Repo Rate	Close call, slightly tilted towards a final rate cut of 25 bps in December 2025	



EXECUTIVE SUMMARY



India's GDP growth to ease to 7.0% in Q2 FY2026 from 7.8% in Q1, while remaining healthy, aided by GST rate rejig

- While a lower YoY rise in Government spending is likely to weigh on the pace of the GDP and GVA growth in Q2 FY2026, inventory stocking related to the early onset of the festive season, enhanced by the GST rate cuts, and upfronting of exports to the US ahead of the tariffs, are expected to boost the performance of the manufacturing sector, and help industrial GVA growth outpace that of the services sector.
- The GVA growth is expected to ease to 7.1% in Q2 FY2026 from 7.6% in Q1. Additionally, with net indirect taxes estimated to contract in Q2, the GDP-GVA growth wedge is expected to turn negative. Consequently, the GDP growth is projected to ease to 7.0% in Q2 FY2026 from 7.8% in Q1.



GDP growth projected at 6.8% in FY2026, amid headwinds posed by uncertain trade policies and slowdown in Gol capex

- Unless the Gol's capex allocation is enhanced and the tariff-related uncertainties ebb, the GDP growth appears set to ease below 7.0% in H2 FY2026. 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.
- At present, ICRA forecasts GDP growth to print at 6.8% in FY2026 (+6.5% in FY2025), up from our earlier estimate of 6.5% for the fiscal, in light of the GST cut-led boost across some sectors.



CPI inflation expected to average at 2.2% in FY2026, dampened by GST rate rationalisation, low food prices

- After touching a series-low of 0.3% in October 2025, the CPI inflation is expected to rise thereafter, likely crossing 4% in Q1 FY2027, as the base turns adverse. Overall, we expect the CPI inflation to average at ~2.2% in FY2026, against our earlier projection of 2.4%, likely led by a sharp dip in the food and beverages segment, along with the positive impact of the GST rate cuts, even as core-CPI inflation is likely to average slightly above the 4.0%-mark.
- ICRA believes that the dovish tone of the October 2025 MPC document and the expectation of a downward revision in the MPC's CPI inflation projection from the current 2.6%, would support a 25-bps rate cut in the December 2025 policy review, unless Q2 FY2026 GDP growth surprises on the upside.



India's CAD to enlarge to 1.2% of GDP in FY2026; tariff and visa-related policy changes pose key risks

- Amid persisting uncertainty related to global trade and tariff policies, ICRA currently expects India's merchandise exports in FY2026 to print largely at par with FY2025, with risks tilted to the downside. However, merchandise imports are expected to grow by 5-6% in FY2026, given the surge in gold imports. Based on this, the merchandise trade deficit is expected to widen to ~\$330 billion in FY2026, from \$287 billion in FY2025.
- India's CAD is projected to nearly double to 1.2% of GDP in FY2026 from 0.6% of GDP in FY2025. Nevertheless, any negative developments on the tariff deal front and/or policy changes around H-1B visas and HIRE Act further pose a key downside risk to the outlook.



Gol to meet its fiscal deficit target of 4.4% of GDP in FY2026

- ICRA currently expects that the higher-than-budgeted non-tax revenues (+Rs. 0.5 trillion over FY2026 BE) would absorb a significant part of the shortfall on the taxes front (-Rs. 0.6-0.8 trillion in net tax revenues). On the expenditure side, while there could be some additional allocation towards the fertiliser subsidy, and any supplementary demand for grants, if announced, this would be offset by the expenditure savings of various ministries/departments, in line with the typical trend seen during the fiscal.
- Overall, we expect the Gol's FY2026 fiscal deficit target of 4.4% of GDP to be achieved.

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.

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