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FY26 growth pegged at 7.4%

NSO has estimated that Indian economy is expected to clock a growth of 7.4% in FY26 growth compared with a growth of 6.5% in FY25. GVA growth is also estimated higher at 7.3% (previously 6.4%). Stronger growth is expected for manufacturing sector in FY25 at 7.0%, much higher than last year. Even as global economies continue witness turmoil, India remains insulated on the back of the key reforms and trade pacts. The economy is expected to continue with the upward momentum especially in Q3, with some moderation likely in Q4 on the back of base effect. The attention will now shift towards Union Budget, RBI policy and corporate performance for Q3 and Q4. For FY26, we retain our real GDP forecast of 7.4-7.6%. For FY27, we project a real GDP growth of 7-7.0%.

1st Advance Estimate of FY26 GDP

GDP growth for FY26 has been projected at 7.4% against an increase of 6.5% in FY25 on a YoY basis. This was in line with our expectation of 7.4-7.6% growth.

In nominal terms, government consumption (6.6% from 6.4%) is expected to register a strong growth and private consumption (8.2% from 12%) will grow at a steady pace. Investment demand is estimated to register a stronger growth of 8.3% in FY26 (from 7.9% in FY25). Furthermore, in a positive surprise, the export growth is likely to be higher at 9.5% (8.3% in FY25) while import growth would be tad lower at 9% against a growth of 9.5% in the previous year, given the evolving dynamics on the trade front.

GVA to accelerate

GVA growth is expected to advance to 7.3% in FY26 compared with a growth of 6.4% in FY25. Growth in manufacturing witnessed an uptrend with 7% growth against a growth of 4.5% in the previous year. Some moderation is likely across the following sectors, including agriculture (3.1% from 4.6%), electricity (2.1% from 5.9%) and construction (7% from 9.4%). Mining sector output is expected to contract by 0.7% in FY26 against a growth of 2.7% in the last year. Service sector components are expected to register a marked improvement in FY26. Trade, transport and hotel industry is likely to grow at a much faster pace at 7.5% against a growth of 6.1% in FY25 reflecting stronger demand in tourism and hospitality industry. Financial services sector is also expected to record robust growth of 9.9% in FY26 (7.2% in FY25), with higher growth expected in credit sector. In line with expectations, steady pick up will be seen in government spending. Frontloading of capex was noted in H1 and spending is likely to hold up even in H2. Therefore, higher growth will be registered for public admin with 9.9% (8.9% in FY25).

Outlook for FY26

Indian economy remains resilient on the back of the festive demand and steady improvement in economic activity. Strong festive sales along with GST rationalization 2.0 and income tax cuts are expected to boost the consumption sector. Even the post festive demand has been holding up. Uptick in demand has already been reflected by recent momentum from some of the high frequency indicators such as auto sales. Additionally, trade agreements with UK, Oman and New Zealand is expected to lift growth higher. However, some downside risk to these estimations emerge due to

global headwinds, especially the geopolitical risks and trade tariffs. Investment and Consumption continues to remain critical factors supporting the growth in the coming months. Focus would also move towards the Union Budget, corporate performance in Q3 and Q4 and RBI's rate decision, we expect another rate cut in the next meeting scheduled in Feb'26. A potential bilateral trade deal with US will boost investment and remains a key monitorable. For FY27, we expect the real GDP at 7-7.5% against our projection of 7.4-7.6% in FY26.

Table 1: GDP to grow by 7.4% in FY26

Sectors (%)	FY25	FY26AE
Agriculture, forestry and fishing	4.6	3.1
Mining and quarrying	2.7	-0.7
Manufacturing	4.5	7.0
Electricity, gas, water supply and other utility services	5.9	2.1
Construction	9.4	7.0
Trade, hotels, transport, communication & services related to broadcasting	6.1	7.5
Financial, real estate & professional services	7.2	9.9
Public administration and Defence	8.9	9.9
GVA at basic prices	6.4	7.3
GDP	6.5	7.4

Source: CEIC, Bank of Baroda Research Note: AE: Advance Estimates

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