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GDP growth pegged at 6.5% for FY26

India's GDP growth surprised positively as it accelerated by 7.8% in Q1FY26, following 6.5% growth in Q1FY25. Manufacturing, agriculture and services sector aided in providing a solid growth. There has been reasonable traction in consumption demand. Additionally, spending during the festive season will boost the consumption sector further. A recovery in urban consumption bodes well for the growth outlook. Anticipation of another rate cut by RBI and a possibility of fiscal support will be positive for growth. We expect the economy to expand by around 6.5% in FY26. Notably, escalated concerns due to ongoing negotiations on tariff front remains a downside risk to this outlook with adverse impact on the external sector.

Q1FY26 GDP expands

GDP growth in Q1FY26 surged to 7.8% from 6.5% in Q1FY25 on a YoY basis. This was higher than our expectation of 6.5%. Sharp acceleration was noted in government spending as it registered a growth of 7.4% against a contraction of (-) 0.3% in the previous year of the same quarter, largely on account of election. Additionally, strength was also noted in the investment in Q1 as GFCF clocked a growth of 7.8% against 6.7% in the Q1FY25. Imports registered growth as it expanded by double digit to 10.9% in Q1FY26 (-1.6% earlier). Growth in private consumption grew by 7% compared with 8.3% growth last year. Some weakness was noted in exports with a lower growth of 6.3% against 8.3% in Q1FY25.

In nominal terms, GDP growth has expanded at a tad slower pace of 8.8% from 9.7% in Q1FY25. Private consumption spending has slowed down to 9.2% from 13.1% in the previous year. Even exports (8.1% from 9.2%) and imports (5.9% from 9.6%) growth have also been lower in Q1FY26. However, government spending has grown at a robust pace of 9.7% from 4% while investment growth has remained stable during this period at 8.3%.

GVA moderates

GVA registered a growth 7.6% in Q1FY26 compared with a growth of 6.5% in Q1FY25. Strong growth was noted across a range of sectors. Agriculture sector continue to shine brightly as it registered a healthy growth of 3.7% in Q1 compared with 1.5% in the same quarter of last year, supported by higher kharif sowing than last year. Manufacturing growth has inched up by 7.7% from 7.6% in the previous year. Services sector sprinted ahead with a growth of 9.3% from 6.8% in Q1FY25. Within services sector, strong growth was noted in trade, transport (8.6% from 5.4%), financial services (9.5% from 6.6%) and public admin (9.8% from 9%) sector in Q1FY26. In contrast, tepid growth was noted for mining sector as it registered a contraction at (-) 3.1% compared with 6.6% growth in Q1FY25. Furthermore, sluggish pace of growth was noted in electricity and construction sector at 0.5% (from 10.5%) and 7.6% (from 10.1%) respectively during the same period.

Outlook for FY26

India's GDP growth is expected to clock growth in range of 6.5% in FY26, in line with RBI's forecast. Supported by good monsoon, consumption sector is expected pick up. High frequency data points (PMI-both manufacturing and services, robust GST collections) are already showing signs of uptick so far. Moreover, GST reforms through rationalisation of tax slabs, along with upcoming festive demand

is expected to turn consumption sector buoyant. However, these gains might be offset by losses on account of tariff. Even though, there is still some uncertainty with respect to the impact of 50% tariffs. The losses could possibly be seen in the form of lower exports, job losses in certain sectors and possibly curtailed capex. Uncertainty to global trade due to high tariff remains a key downside risk to the outlook.

Table 1: Q1FY26 GDP growth improves

Sectors (%)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Agriculture, forestry and fishing	1.5	4.1	6.6	5.4	3.7
Mining and quarrying	6.6	(0.4)	1.3	2.5	(3.1)
Manufacturing	7.6	2.2	3.6	4.8	7.7
Electricity, gas, water supply and other utility services	10.2	3.0	5.1	5.4	0.5
Construction	10.1	8.4	7.9	10.8	7.6
Trade, hotels, transport, communication & services related to broadcasting	5.4	6.1	6.7	6.0	8.6
Financial, real estate & professional services	6.6	7.2	7.1	7.8	9.5
Public administration and Defence	9.0	8.9	8.9	8.7	9.8
GVA at basic prices	6.5	5.8	6.5	6.8	7.6
GDP	6.5	5.6	6.4	7.4	7.8

Source: CEIC, Bank of Baroda Research

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