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GDP to expand by 7-7.2% in Q1FY27

Later this month, MOSPI is expected to announce provisional estimate for growth for Q1FY27. It is expected to come in at 7% (with an upside of 0.2% to 7.2%) compared with 6.8% growth in Q1FY26. This will be helped by pickup in growth in manufacturing, electricity and construction sectors which are projected to report higher growth in Q1FY27 vis-à-vis Q1FY26. Steady improvement in government capex along with healthy credit and deposit growth will push growth higher. However, delayed monsoon, aggravated heatwave conditions will pull agriculture growth lower in this quarter. Going ahead for FY27, growth is projected at 6.6-6.8%, as more clarity emerges on account of conflict resolution in the Middle East as well the final outcome of kharif harvest.

Q1FY27 GDP Estimates

India's GDP is estimated to grow by 7% in Q1FY27 against an increase of 6.8% in Q1FY26. Growth in Q1 is expected to be higher than last year on the back of certain sectors outperforming others.

- Agriculture sector is expected to register a growth of 3.5% compared with a growth of 4.4% in the corresponding period last year. The slower growth is on account of extreme heatwave conditions, prevalence of El Nino conditions, delayed onslaught of South-West monsoon, lower reservoir levels witnessed during this quarter. However, in the coming quarters, the sector is expected to perform much better than previous quarter.
- Industrial growth is expected to clock 6.8% growth in Q1FY27, mining sector to grow at 3% against 4.5% growth noted last year for the same period. Manufacturing sector is expected to grow at 7.8% compared with 10.4% growth in Q1FY26. Even though, the growth this year might be lower than last year, it continues to remain strong.
    - This is partly attributable to the IIP growth (manufacturing: 6.3% versus 4.1% last year) and has been further supported by the robust corporate earnings for sectors such as metals, power, infrastructure as they registered improvement in net sales and profit. This also reflected resilience of industries even as they were impacted by the West Asia crisis.
    - However, certain industries did face challenge such as crude oil and consumer goods, wherein the margins were impacted due to higher input costs.
    - On the other hand, both electricity and construction sector are estimated to grow at a much faster pace at 7% (from -2% in Q1FY26) and 6% (from 5.3% in Q1) respectively in Q1FY27 supported by stronger demand during this period. Moreover, sustained thrust on government capex at 23.6% in Q1 also bodes well for the sector.
- Services sector growth is expected at 8% in Q1FY27 with bulk of growth stemming from financial and public admin sector.
    - Led by strength in both credit and deposit growth, financial sector is expected to grow by 9.2% in Q1FY27.
    - Trade, hotels and transport sector is expected to register some deceleration at 7% during this period given the higher input costs and compressed margins.

- Public administration and defence will register higher growth supported by improvement in net revenue expenditure (excl interest payment) at 19.5% against 6.9% in Q1FY26.

Outlook for FY27

The ongoing West Asia crisis has resulted in price spikes and volatility across global commodities especially crude, fertilizers and natural gas. International crude and urea prices (World Bank pink sheet) surged by 44.7% (from -21.1% in Q1FY26) and 73.5% (from 27.4% in Q1FY26) respectively in Q1FY27. The ramifications of the same was witnessed in the domestic market too. Price increase of both commercial and domestic LPG as well as bulk diesel was announced in May'26 along with supply cuts across various commodities.

Based on the above, subsidy bill was elevated for Q1, with food (17.9% from -31.8%), fertilizer (57.6% from 47.4%) and petroleum (10.4% from -32.9%) subsidy higher in Q1FY27. The higher subsidy bill was offset by sharp uptick in taxes, pushing net taxes higher for Q1FY27. Based on the above, we expect GDP to clock 7% growth in Q1FY27 with risk titled to the upside of 0.2% on the back of manufacturing sector.

On domestic front, high frequency indicators for Jul'26 has signalled what is working well for domestic growth and have also pointed towards the pain points. On the rural front, agriculture growth is expected to perform much better in the coming quarters than was anticipated on the back of strong pickup noted in monsoon, reversal from deficient rain (40% below LPA) in Jun'26 to over 1% above LPA rains noted in Jul'26, even though the spread has been uneven. Currently, moderate El Nino conditions are prevailing, and they are expected to strengthen in the remaining period of monsoon. Thereby, this needs to be monitored as kharif sowing which continues to remain the focal point is currently tracking marginally lower than last year levels.

Manufacturing sector continues to exhibit resilience even as it faces uncertainty due to the ongoing West Asia crisis along with cost pressure. External sector is also projected to face headwinds due to the geopolitical tensions; however, the FTAs are expected to provide much needed support. Additionally, strong services exports, remittance inflows and export diversification also bode well for external demand.

Next, capex push by both government and private sector along with steady investment activity will drive growth higher. Given there was some movement regarding peace talks between US and Iran, commodity prices began to ease on a monthly basis with crude down by 2.3% and urea by 11.7% for Jul'26. However, since there has been no decisive end to the war, crude prices have once again already breached the US$ 90/bbl mark and since supply chains normalisation will take some time, this situation warrants careful monitoring.

For the year, economy is expected to expand by 6.6-6.8% as the growth becomes broad based with stable inflation and currency.

Table 1: GDP expected to grow by 7.0-7.2% in Q1FY27

Sectors (%)	Q1FY26	Q2FY26	Q3FY6	Q4FY26	Q1FY27
Agriculture, forestry and fishing	4.4	2.7	1.7	3.6	**3.5**
Mining and quarrying	4.5	6.1	4.7	5.4	**3**
Manufacturing	10.4	12.7	12.8	7.3	**7.8**
Electricity, gas, water supply and other utility services	-2.0	3.6	1.5	4.1	**7**
Construction	5.3	8.9	6.7	8.4	**6**
Trade, hotels, transport, communication & services related to broadcasting	9.7	10.5	11.2	12.5	**7**
Financial, real estate & professional services	9.2	10.3	11.6	10.4	**9.2**
Public administration and Defence	4.0	5.4	4.9	5.8	**6.6**
GVA at basic prices	7.1	8.6	8.0	7.9	**6.9-7.0**
GDP	6.8	8.3	8.0	7.8	**7.0 (+0.2)**

Source: CEIC, Bank of Baroda Research

+0.2% is the upside forecast in case some of the growth numbers move up for manufacturing

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