

After robust H1, economists upgrade full-yr FY26 growth forecast to 7.5%

ASIT RANJAN MISHRA

New Delhi, 30 November

With the first half (H1) gross domestic product (GDP) growth clocking 8 per cent, most economists have now upgraded their full-year 2025-2026 (FY26) growth forecast to 7.5 per cent, or above.

Group Chief Economic Adviser at State Bank of India Soumya Kanti Ghosh said, assuming 7.5-7.7 per cent growth in Q3

EDIT (October-December) and 7 per cent in Q4 (January-March), the overall growth for FY26 would be approximately 7.6 per cent.

Citing high frequency indicators, SBI in a research note said, credit growth of scheduled commercial banks (SCBs) is slowly picking up in the current financial year and grew

FY26 growth projections

(in %)

	Earlier	Now
Crisil	6.5	7.0
QuantEco Research	6.6	7.2
Emkay	6.5	7.3
HDFC Bank	6.8	7.3
CareEdge Ratings	6.9	7.5
Motilal Oswal	7.0	7.5

	Earlier	Now
Elara Capital	7.0	7.5
Canara Bank	7.0	7.5
SBI Research	6.3	7.6
IDFC First Bank	6.8	7.6
Bank of Baroda	7-7.1	7.4-7.6
Kotak Mahindra Bank	6.5	7.8

Source: BS research

by 11.3 per cent for the fortnight ended October 31, compared to 11.8 per cent during the same period. Deposits grew 9.7 per cent from last year's 11.7 per cent during the same fortnight. "There is a one-way causal relationship between GDP and ASCB (all SCB) credit, with increase in credit leading to higher GDP," it added.



Chief Economist at CareEdge Ratings Rajani Sinha said she expected the GDP growth to moderate to around 7 per cent in H2 (October-March) of FY26 as the impact of front loading of exports fades and consumption demand moderates after the festival season.

Turn to Page 15 ►

MPC likely to hold steady on rate, keep neutral stance

"Looking ahead, the real challenge for monetary policy is to ensure the banking system is able to support credit growth of 11-12 per cent, when deposit growth remains below 10 per cent. The credit-to-deposit ratio remains near its historical high at 80 per cent," she said, pointing to the need for deposit growth to strengthen.

With deposits forming nearly 78 per cent of banks' liabilities and the system-wide credit-deposit ratio hovering around 80 per cent, banks are running with tight liquidity buffers and rely heavily on household deposits to fund credit. In such conditions, lowering deposit rates is not a viable option, as it risks discouraging household savings, which account for about 35 per cent of total deposits. Many banks have instead raised rates on special-term deposits to attract funds. The structural tightness suggests that even if the RBI opts for easing, policy transmission may remain weak. "Growth is strong and both fiscal and monetary stimulus have been front-loaded. Also, rupee liquidity injection is a bigger priority than rate cuts," said Anubhuti Sahay, head of India economics research at Standard Chartered Bank. Most economists expect the MPC to signal a neutral stance with dovish tilt, combined with liquidity-support measures such as an open market operation (OMO) calendar. "It will continue to usher in a plentiful

liquidity regime, even if it means continuing with a neutral stance," said SBI's Ghosh, adding that liquidity measures including OMOs, operation twist and clearer communication are expected. Operation twist refers to the central bank buying longer-tenure bonds while selling shorter-term ones to bring down long-term interest rates and support growth.

The banking system is likely to require liquidity support in the final quarter of the financial year, as the RBI has intervened aggressively in the foreign exchange market to contain rupee volatility, with its short positions in forwards, including NDFs, likely exceeding \$70 billion.

A majority of economists see the terminal rate for the current rate-cut cycle between 5.25 per cent and 5.5 per cent. "Do not expect the next rate cut before April, although February is a possibility. April is safer, as the US rate cut could warm up better by then," said Anitha Rangan, chief economist at RBL Bank.

India's real GDP expanded by 8.2 per cent in the second quarter (July-September) of FY26, taking first-half growth to 8 per cent. The robust performance was driven by strong momentum in manufacturing, construction and services. Notably, this growth has come despite external pressures, including US tariffs on Indian exports, underscoring the economy's resilience.

However, for the full-year FY26, we estimate the GDP growth number to remain strong at 7.5 per cent. Even with the trade-related uncertainties lingering, we expect GDP growth at around 7 per cent in FY27," she added.

India's economy expanded at its fastest pace in six quarters, growing 8.2 per cent during the July-September period of FY26, outstripping both official and private forecasts by a significant margin, data released on Friday by the statistics ministry showed. Most economists had expected Q2 GDP expansion to fall within the 7-7.5 per cent range; the Reserve Bank of India (RBI) had projected 7 per cent growth.

Chief Economist at IDFC First Bank Gaura Sen Gupta said incorporating stronger than expected Q2 print, full-year FY26 real GDP growth is revised-up to 7.6 per cent from 6.8 per cent previously. "The estimate also incorporates upward revision in Q3FY26 GDP to 7.4 per cent, with high frequency indicators showing pick-up in consumption supported by GST cuts. The key drag on growth in H2FY26 is expected to be from elevated tariffs and lower support from government expenditure," Sen Gupta said. However, she

added that in case India seals a trade deal with the US by December 2025, this would result in upward revision in Q4 growth. "Full-year GDP growth would be closer to 8 per cent in such a scenario," she added.

Motilal Oswal, in a research note, revised its real GDP growth forecast for FY26 to a base case of 7.5 per cent from 7 per cent earlier. "What remains to be seen is if the consumption-led pickup witnessed during October-November fizzles out in Q4. The global tariff situation also remains a key monitorable," it added.

After the strong Q2 growth and assuming a favourable trade deal announcement with the US before the end of 2025, Sakshi Gupta, principal economist at HDFC Bank, said she has upgraded her FY26 growth forecast to 7.3 per cent from 6.8 per cent earlier.

"Going forward, we expect H2 GDP growth to average close to 6.6 per cent as the favourable base effect fades, government spending momentum moderates (after frontloading in H1), and drag from US tariffs (in absence of a trade deal) and slowdown in global growth – that is yet to play out fully – weighs on exports," she added.

Bills to replace GST compensation cess may be tabled today

For instance, the levy on cigarettes amounts to 50-60 per cent of the retail price at present. Abhishek Jain, head (indirect tax) & partner, KPMG, said: "In line with the announcement of the GST Council, the government may be doing away with GST compensation cess on tobacco products, and the proposed Bill on excise and the Health Security Cess National Security Cess Bill may be in lieu of that." The GST Council in its meeting in September had done away with the compensation cess on most products except on tobacco products. On

other luxury items, the compensation cess ended on September 22, when rationalisation in GST rates was effected with just two slabs of 5 and 18 per cent. A 40 per cent rate was fixed for ultra-luxury goods and aerated drinks.

The cess, originally meant to be in place for five years since the GST regime's launch on July 1, 2017, to compensate states for revenue losses, was extended beyond 2022 owing to the pandemic shock on revenues, which compelled the Centre to borrow in order to pay the states' dues.

After robust H1, economists upgrade full-year FY26 GDP forecast to 7.5%

"By the fourth quarter of FY26, and deflator will also increase from the current low levels, the low base effect will wane,

