

FY26 growth outlook raised to 7.6% after GDP series reset

> Economy expands 7.8% in Q3; manufacturing shines bright

> Full-yr nominal GDP estimate drops, but growth projection ticks up

ASIT RANJAN MISHRA
New Delhi, 27 February

India's new national accounts series, rebased to 2022-23, has lifted the economy's estimated real growth for FY26 to at least a three-year high of 7.6 per cent, even as it unexpectedly lowered the nominal gross domestic product (GDP) base that underpins the Union Budget. The second advance estimates, released on Friday, also pointed to a stronger-than-assessed manufacturing sector and a firm third-quarter print of 7.8 per cent.

The first advance estimates under the 2011-12 base year had pegged real GDP growth for the second quarter and for the full year FY26 at 8.2 per cent and 7.4 per cent respectively.

The revised series incorporates new segments and administrative datasets, including GST transaction data, alongside methodological changes such as double deflation in manufacturing.

Briefing reporters after the data release, V Anantha Nageswaran, chief economic adviser (CEA), said the anticipated growth rate for the fourth quarter (January-March) would need to be 7.3 per cent or more to achieve the full-year GDP growth rate of 7.6 per cent. "The momentum in the economy is good enough to deliver us a 7.3 per cent growth rate in the fourth quarter," he added.

However, the new series has delivered a lower nominal GDP estimate than the first advance estimates on which the FY27 Budget relied. While the Budget factored in FY26 nominal GDP at ₹357.13 trillion, the new series now places it at ₹345.47 trillion. Nominal GDP growth projection, however, has been revised upward to 8.6 per cent for FY26, against 8 per cent estimated earlier.

The lower nominal GDP pegs the fiscal deficit at 4.5 per cent of GDP for FY26, compared with the revised estimate of 4.4 per cent pencilled into the Budget.

"This was against the expectation that the nominal GDP base was more likely to be revised higher, but the downward revision will push the fiscal deficit and debt estimates modestly higher," Bank of America said in a research note.

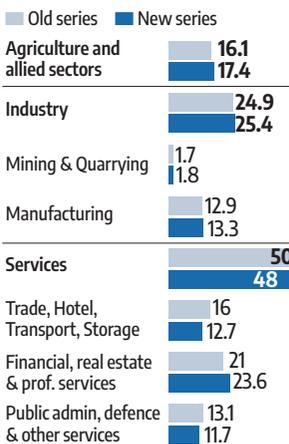
The new growth report

All figures in % Y-o-Y



Services loses weight

Average share in GDP in % (current prices; for FY23-26)

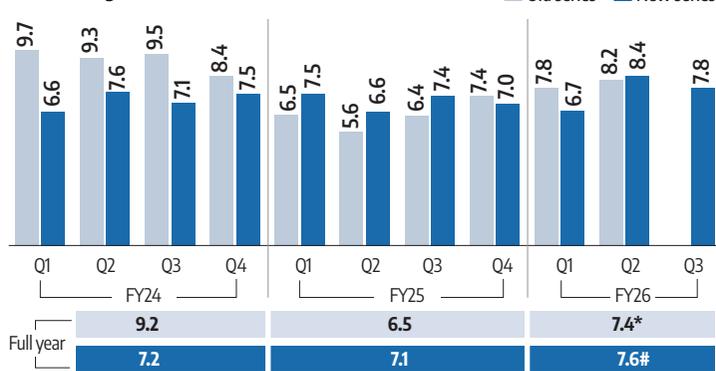


The CEA, however, said fiscal consolidation remains on track. "The GDP revisions do not alter the fiscal trajectory of the Union government at this point," he added.

The new series also signals a shift in sectoral composition, with a higher share for agriculture and allied activities and manufacturing, while the share of services is estimated to decline compared with the 2011-12 series. According to estimates by the CEA, the average GDP share for FY23-FY26 for agriculture rose from 16.1 per cent in the old series to 17.4 per cent in the new one. Manufacturing's share increased from 12.9 per cent to 13.3 per cent, while services slipped from 50 per cent to 48 per cent.

Real growth stays strong

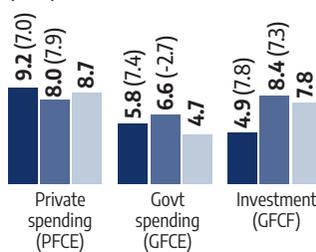
Real GDP growth



*First Advance Estimate; # Projection under new series; Private expenditure picks up pace

Private expenditure picks up pace

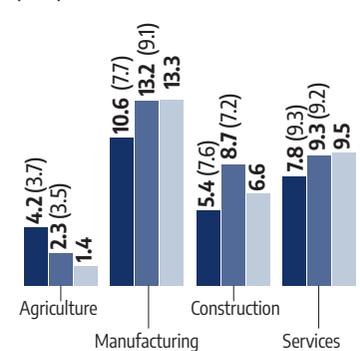
(FY26) ■ Q1 ■ Q2 ■ Q3



PFCE: Private final consumption expenditure; GFCE: Government final consumption expenditure; GFCF: Gross fixed capital formation
In brackets: Old series figures

Agriculture in slow lane

(FY26) ■ Q1 ■ Q2 ■ Q3



In brackets: Old series figures
Source: MoSPI

The robust real GDP growth in the third quarter was driven by a sequential pick-up in manufacturing, as double deflation improved real manufacturing estimates. The sector has recorded double-digit growth for five consecutive quarters, a reversal from the trend in the old series, where manufacturing growth averaged 6.3 per cent over the previous four quarters.

"While stronger manufacturing growth was expected given the robust IIP performance during the quarter, the revised GDP series suggests that the sector has been performing even better than previously estimated. This indicates that manufacturing momentum over the course of the year has been stronger than earlier assessments suggested," said Rumki Ma-

jundar, economist at Deloitte India.

Growth in the services sector edged up to 9.5 per cent in the third quarter. Within services, trade, hotels, transport, communication and broadcasting, along with financial, real estate and professional services, improved sequentially and posted double-digit growth. As anticipated, growth in construction and public administration moderated, reflecting a sharp contraction in government capital expenditure in Q3, while revenue expenditure remained subdued.

Growth in agriculture and allied sectors eased to 1.4 per cent in the third quarter despite a good monsoon.

FY26 growth outlook raised to 7.6% after GDP series reset

On the demand side, growth in private spending, as measured by private final consumption expenditure (PFCE), remained the principal driver, accelerating sequentially to 8.7 per cent in Q3. Government spending, or government final consumption expenditure, lost momentum, rising 4.7 per cent over the same period. Investment demand, represented by gross fixed capital formation (GFCF), eased to 7.8 per cent but remained resilient despite a contraction in the Centre's capital expenditure.

Exports growth, combining goods and services, almost halved to 5.6 per cent in Q3, weighed down by punitive tariffs imposed by Washington and as the benefits of earlier frontloading of

US imports faded.

“For the next financial year, we expect real GDP growth to remain healthy, with support from private consumption and investments, and likely steady global growth. That said, risks to global growth are tilted to the downside due to heightened uncertainties,” said Dharmakirti Joshi, chief economist at Crisil.

Bank of America said the GDP print would serve as an important signpost for the Reserve Bank of India (RBI) in shaping future policy.

“Given the strength in the print coupled with normalizing inflation, we expect RBI to maintain a long pause on rates while supporting liquidity conditions to ensure adequate credit intermediation,” it added.