NSO RELEASES FIRST ADVANCE ESTIMATES

GDP may expand 7.4% in FY26

Nominal growth expected at 8%, slowest since FY21; fiscal deficit target likely to be met

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New Delhi, 7 January

India's economy is estimated to grow by 7.4 per cent in FY26, up from 6.5 per cent in FY25, according to the first advance estimates of gross domestic product (GDP) released by the National Statistics Office on Wednesday. The estimates indicate the economy's resilience despite persistent external headwinds.

The growth outlook, however, has been aided by a GDP deflator at a five-decade low of 0.5 per cent (FY1975-76: -1.6 per cent), with nominal GDP growth projected at 8 per cent in FY26 — the slowest since the Covid-impacted FY21. The 60 basis point gap between nominal and real GDP growth in the current financial year is the narrowest since 2011-12.

EDIT: IMPRESSIVE GROWTH 9

The estimated real GDP growth of 7.4 per cent in FY26, marginally above the Reserve Bank of India's (RBI's) revised projection of 7.3 per cent, assumes a deceleration in the second half of the financial year (October-March) to 6.9 per cent, from 8 per cent in the first half (April-September). This has been attributed to a high base effect and a likely moderation in the central government's spending growth.

The first advance estimates incorporate industrial production data for two additional months (October and November), along with select lead indicators for December. The figures remain subject to revision, with the new 2022-23 base year coming into effect in February and actual trends for the remainder of the financial year becoming available.

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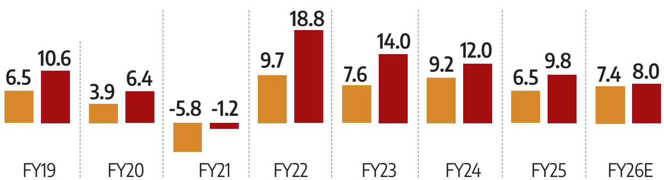
Healthy signs

All figures are Y-o-Y growth in %

Expect faster real but softer nominal growth



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Infra investment likely to climb, consumption growth may plateau

Supported by strong buoyancy in public sector capital expenditure, growth in infrastructure investment is expected to accelerate in 2025-26 (FY26) compared to 2024-25 (FY25).

■ DATANOMICS: Lower taxes a drag on Centre's finances

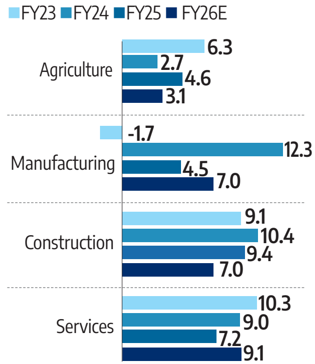
■ Fall in nominal GVA also pulls down real farm growth

Investment set to gather pace

	Private spending (PFCE)	Govt spending (GFCE)	Investment (GFCF)
FY23	7.5	4.3	8.4
FY24	5.6	8.1	8.8
FY25	7.2	2.3	7.1
FY26E	7	5.2	7.8

PFCE: Private final consumption expenditure
GFCE: Government final consumption expenditure
GFCF: Gross fixed capital formation

Manufacturing may shine



E: First GDP advance estimates for FY26 Source: Mospi

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GDP may expand 7.4% in FY26

Gross value added (GVA) is estimated to grow by 7.3 per cent in FY26, implying a marginally positive contribution from net indirect taxes.

While nominal GDP growth of 8 per cent is below the 10.1 per cent assumed in the FY26 Budget, the absolute level of nominal GDP is closer to the budgeted estimate, suggesting the government is unlikely to face difficulty in meeting the fiscal deficit target of 4.4 per cent of GDP. Reflecting softer inflation, nominal growth in the second half is estimated at 7.3 per cent, compared with 8.8 per cent in the first half.

Sakshi Gupta, principal economist at HDFC Bank, said she would await the release of the new GDP series on February 27 before drawing firm sectoral conclusions. "For now, these estimates matter because they form the basis for the upcoming Budget. The moderation in nominal GDP growth, alongside income tax and GST cuts, has affected tax collections, and we estimate a revenue shortfall of around ₹1.5-2 trillion. However, we expect some expenditure rationalisation and a higher RBI dividend transfer to help the central government meet its fiscal deficit target of 4.4 per cent for FY26," she said.

The sectoral profile suggests that the statistics ministry has assumed a broad-based slowdown in the second half relative to the first. Agricultural growth of 3.6 per cent in the first half translates into a full-year estimate of 3.1 per cent for FY26, with regional rainfall variations likely to influence outcomes.

Manufacturing, which expanded 8.4 per cent in the first half, aided by export front-loading to the US and lower input costs, is projected to grow 7 per cent for the full year. The labour-intensive construction sector, which grew 7.4 per cent in the first half, is also expected to expand by 7 per cent in FY26. Services growth is projected to ease marginally to 9.1 per cent, compared with 9.3 per cent in the first half.

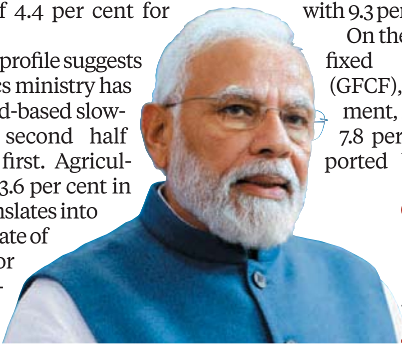
On the demand side, gross fixed capital formation (GFCF), a proxy for investment, is expected to rise by 7.8 per cent in FY26, supported by buoyant public sector capital expenditure and slightly above the 7.6 per cent recorded in the first half.

Private final consumption expenditure (PFCE) is projected to grow by 7 per cent, slower than the 7.5 per cent expansion in the first half. Government final consumption expenditure (GFCE) is estimated to increase by 5.2 per cent, significantly higher than 2.5 per cent in the first half, reflecting expectations of increased spending by state governments.

Exports are projected to grow by a steady 6.4 per cent in FY26, compared with 6.3 per cent in FY25, with strong services exports and stable goods shipments expected to cushion the impact of ongoing tariff-related uncertainties.

Dharmakirti Joshi, chief economist at Crisil, said that in the next financial year, nominal and real growth were likely to diverge in the opposite direction, with nominal growth rising towards its long-term average of 10.5-11 per cent and real growth easing to around 6.7 per cent. "We expect the government to maintain capital expenditure growth at a moderate pace in the forthcoming Budget," he said.

Paras Jasrai, associate director at India Ratings, said he expects real GDP growth of 6.9 per cent in FY27. "India Ratings believes the risks to FY27 growth are evenly balanced. A faster Indo-US trade deal and a favourable Indian Ocean Dipole could mitigate the impact of a likely El Niño pattern in mid-2026, pushing growth above estimates. However, if the revival in consumption and investment demand is weaker than expected, growth could undershoot," he said.



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Narendra Modi, Prime Minister