

Initial estimates show real growth above 7% in FY26 amid implied slowdown in H2 from ~8% growth in H1

9 January, 2026

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Data Highlights

Headline Growth

- First advance estimates by the NSO indicate real GDP growth to rise to 7.4%YY in FY26 from 6.5% in FY25. Real GVA growth is pegged at 7.3%YY, also up from 6.4% in FY25. These estimates imply that real GDP growth is expected to ease to 6.9%YY in H2-FY26 from 8.0% in H1, and real GVA growth to 6.8% from 7.9% in H1-FY26.

GDP

- Within GDP, private consumption and investment are expected to print at or above 7%, marking a moderation from FY25 for consumption but higher growth for investment. Government consumption is expected to print above average growth of 4.5% for the current series. Net exports is projected to drag growth by ~2pp, which is slated to be more than offset by 2.3pp contribution from discrepancies. Private consumption is expected to remain the mainstay of growth, adding 4pp, followed by investment and government consumption that are expected to contribute more than their series average.

- In H2, the implied slowdown in real GDP growth is expected to come from lower growth in private consumption and larger drag from net exports. Despite higher growth, the contribution of investment is slated to be stable. Government consumption growth is projected to pick up.

GVA

- Real GVA forecasts show higher growth for industry and services than in FY25 but slowdown in agriculture. With more than 60% share in GVA, services is expected to contribute the most to growth, followed by industry and agriculture. Within industry, manufacturing is expected to lift activity, even as electricity growth moderates and mining output falls for the first time in the post-pandemic period. Within services, growth is projected to improve across sub-sectors except construction, where despite moderation, activity is slated to increase at above average rate for the current series. Financial services, and trade and communication-related services are expected to contribute the most to growth.

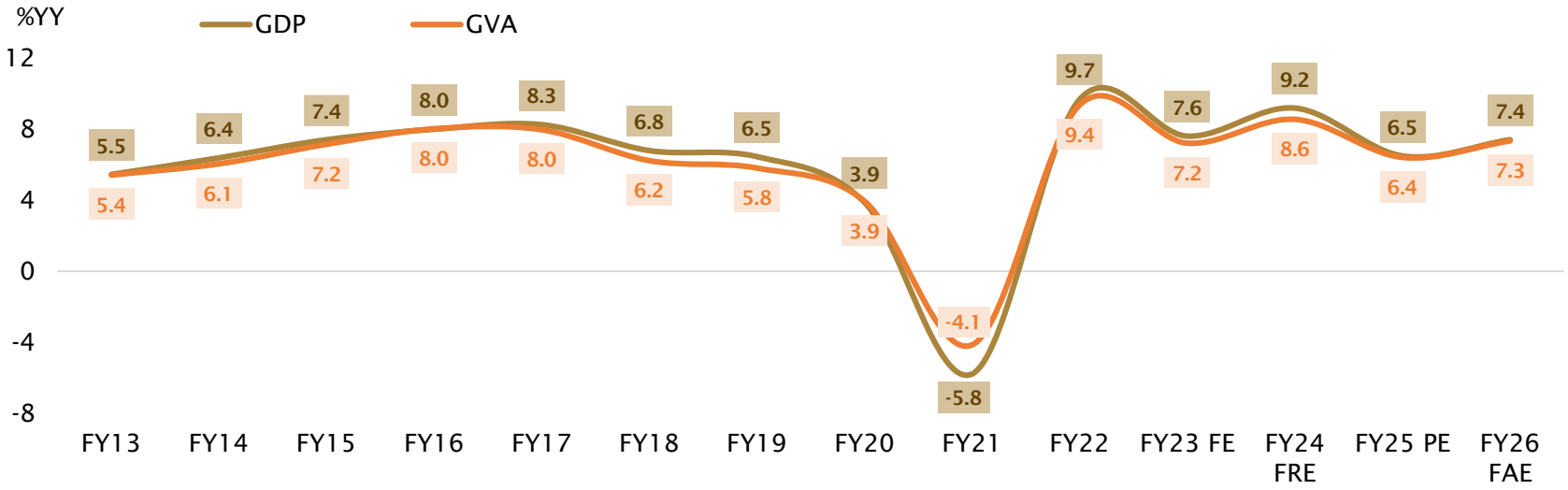
- In H2-FY26, year-on-year growth is slated to moderate across key sectors of agriculture, industry, and services. But within industry, mining output is expected to post a mild increase from the slump in H1. Within services, improvement in growth of financial services; and public administration, defence and other services (PADO) to ~10% is likely to be more than offset by moderation in growth of construction and trade-related segments.

Additional Insights and Policy Implication

- **Real GDP-GVA gap:** The gap between the two measures was a key highlight in FY24 but has remained narrow and steady thereafter (at less than 10bp), including FY26 FAE. The gap is mainly explained by net indirect taxes that get added to GDP and had surged in FY24, particularly in nominal terms. Latest estimates show lower net indirect tax growth in nominal terms for FY26 vis-à-vis FY25 and an improvement in real terms.
- **Deflators:** The GDP deflator is projected to slip to the lowest in almost five decades at 0.5%YY in FY26. Most of the segments show low deflators and even negative prints for some GVA sectors. Going forward, the tailwind from these deflators could partly fade, as the GDP series methodology gets revised.
- **Impact on fiscal math:** Initial estimates indicate nominal GDP growth of 8.0%YY in FY26, down from 9.8% in FY25. While this is less than the growth implied by estimates in the Union Budget for FY26, in absolute terms the print matches the BE of ~Rs.357 lakh crore. This should allay concerns about low nominal growth posing risk to the fiscal math.
- **Growth drivers :** In H1-FY26, domestic activity was supported by factors such as income tax relief announced in the Union Budget for FY26, RBI policy rate cuts and easing inflation, above normal monsoon, frontloading of exports ahead of US tariffs deadline in end-August, and healthy pace of government's capex. In H2, factors such as GST rate rationalization, lagged impact of monetary easing, and continued momentum in services exports are expected to keep growth strong. But headwinds from prolonged negotiations over US-India trade deal and uptick in deflators from current low rates could weigh on growth. There are factors, though, that indicate that certain segments could surprise on the upside. For instance, the FAE indicate that private consumption is expected to ease in H2 but the fiscal, monetary, and regulatory easing could enable stronger growth. Also, high frequency indicators suggest strong rebound in activity in Q3. This, in itself, could lift consumption growth higher than penciled in the FAE, and more so if the momentum sustains in Q4.
- **Implications for monetary policy:** In the latest monetary policy meeting held in December, the RBI MPC raised its forecast for real GDP growth for FY26 by 50bps to 7.3%YY, which is close to the NSO's FAE at 7.4%. With growth and inflation dynamics evolving as per its expectations, the committee is likely to hold status quo on policy at its upcoming decision on 6-Feb. It could take cues from the Union Budget for FY27 to be announced early in the month but could lean towards keeping policy unchanged, also because some of the key economic indicators, including the GDP, CPI and IIP are undergoing revisions to their methodology and base years. This exercise could make some of the recent data prints redundant when the NSO starts releasing data with new series from as early as end-February, even as the overall direction is expected to remain consistent with the current series. For GDP, data with new series is slated for release on 27-Feb that will include the second advance estimates for FY26, along with estimates for Q3-FY26.

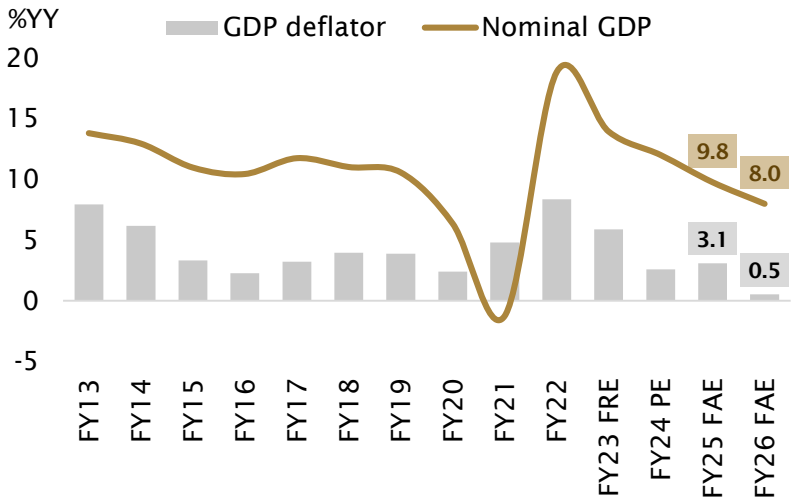
First advance estimates indicate real GDP growth at 7.4%YY in FY26 and GVA growth at 7.3%

Both real GDP and GVA growth are expected to be above 7%YY in FY26 after moderating to ~6.5% in FY25

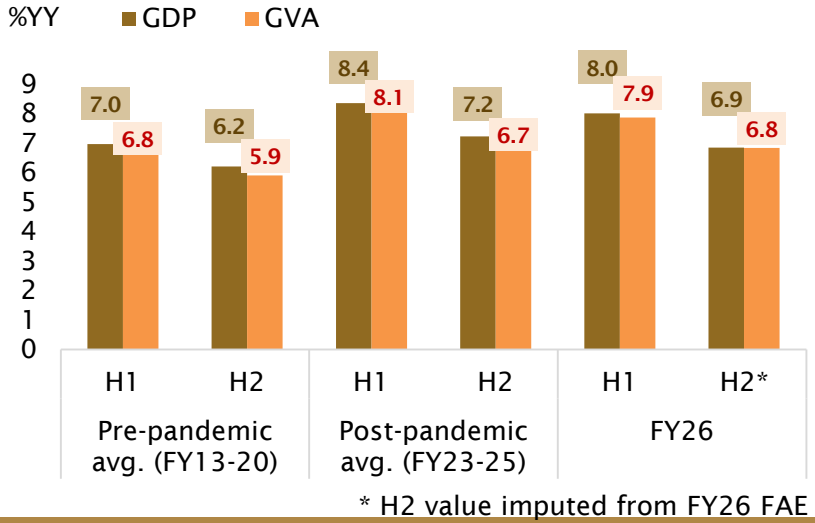


Note: FE: Final Estimates; FRE: First Revised Estimates; PE: Provisional Estimates; FAE: First Advance Estimates

Nominal GDP growth estimated at 8.0% in FY26



Moderation in H2 growth in line with historical trends

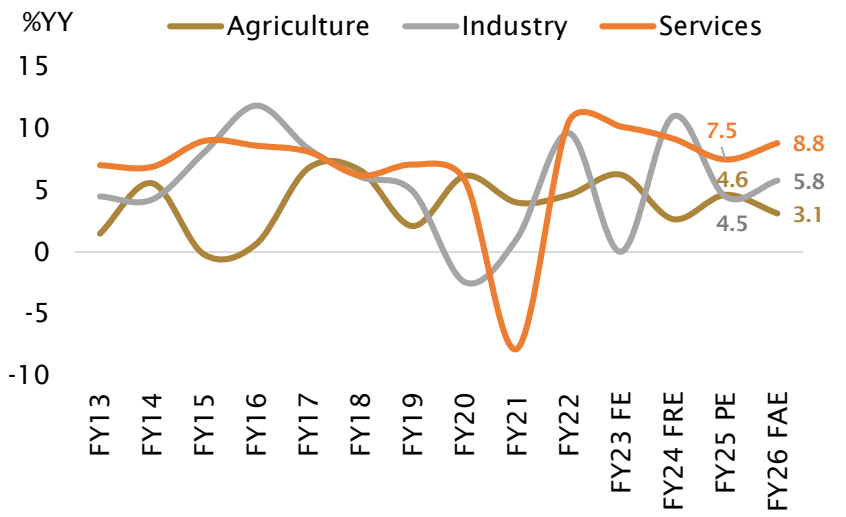


* H2 value imputed from FY26 FAE

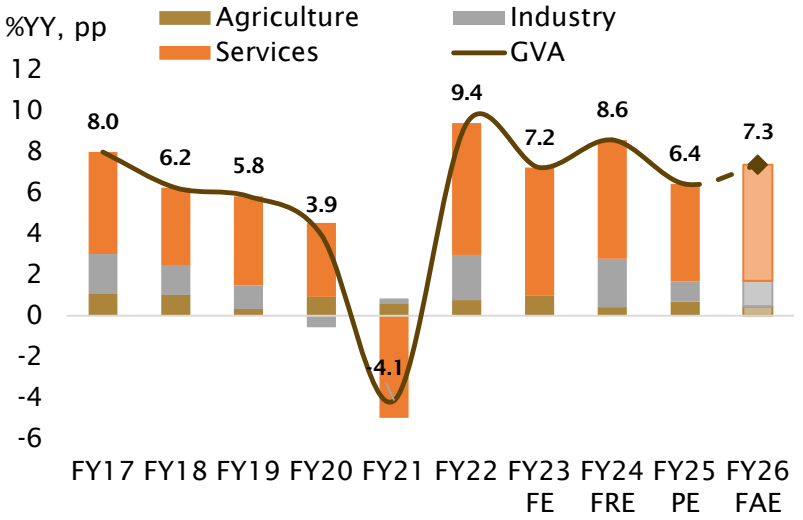
Services, industry growth to print higher than in FY25; contribution of agriculture to slip below long term average

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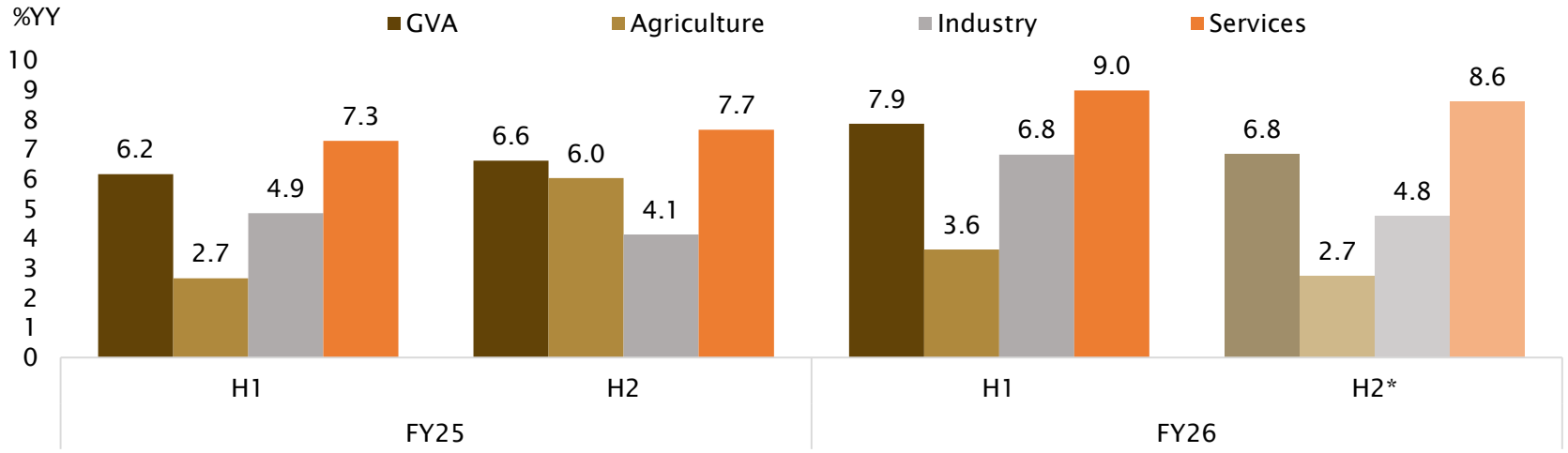
Industry, services to drive GVA growth higher in FY26



Services to remain the mainstay of GVA growth in FY26



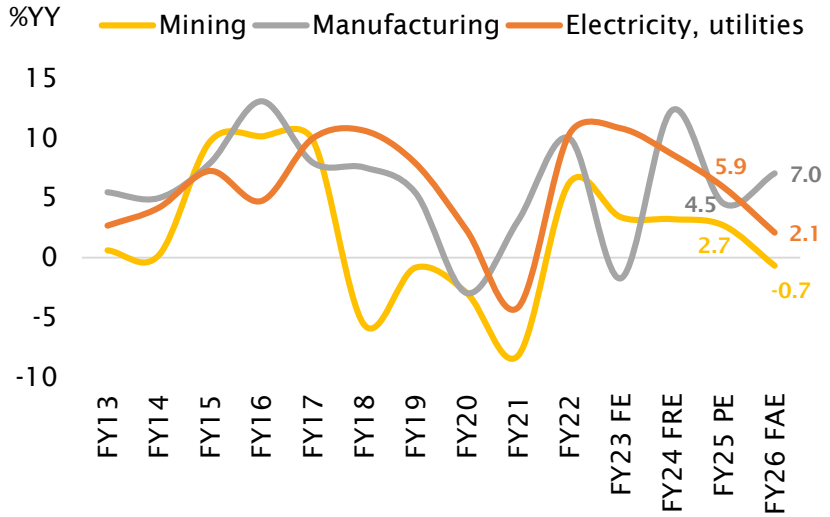
Real GVA growth to be led by services sector in H2 but y-o-y activity expected to moderate across sectors vis-à-vis H1

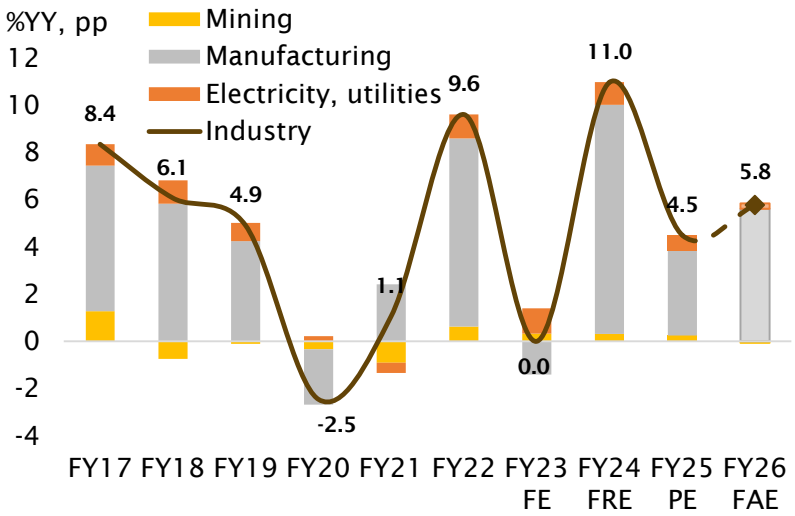


* H2-FY26 values imputed from FY26 FAE

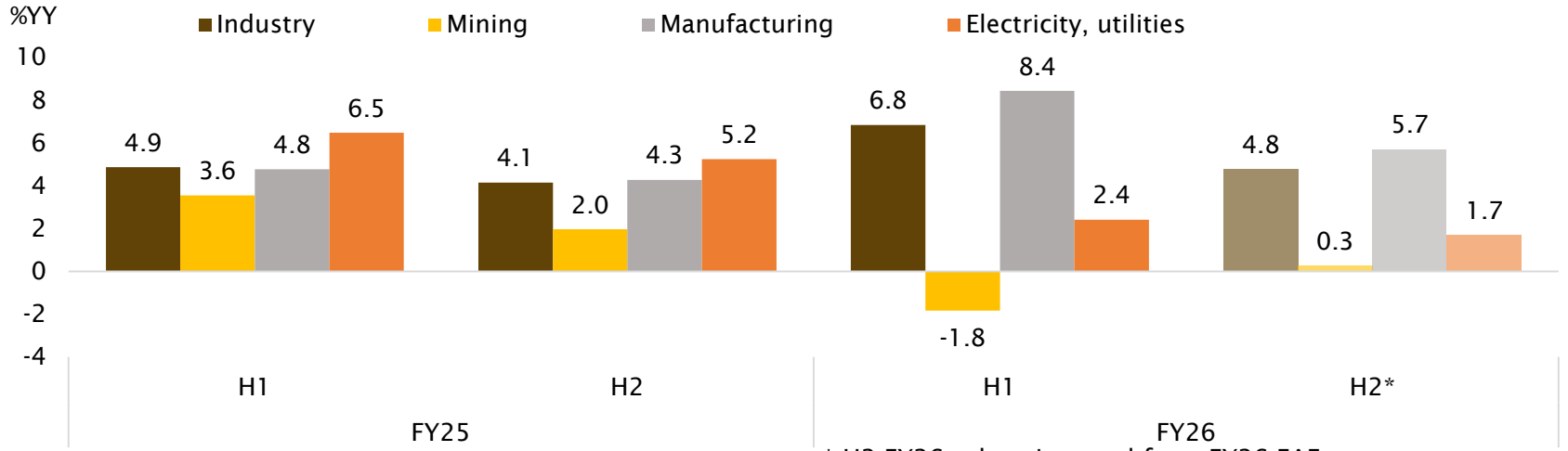
Industrial growth expected to improve in FY26 above the current series average of 5.5%

Rebound in manufacturing to lift industrial growth; mining to contract for the first time in post-pandemic period





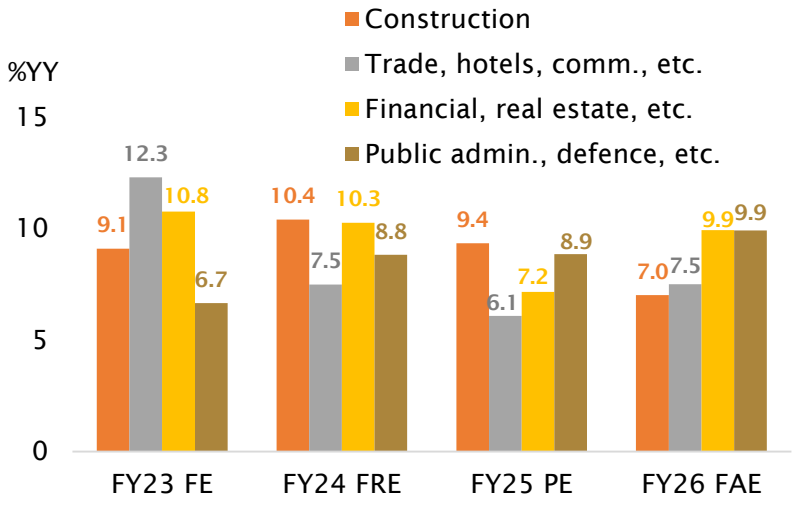
Within industry, mining output likely to improve in H2; year-on-year growth in other segments expected to moderate

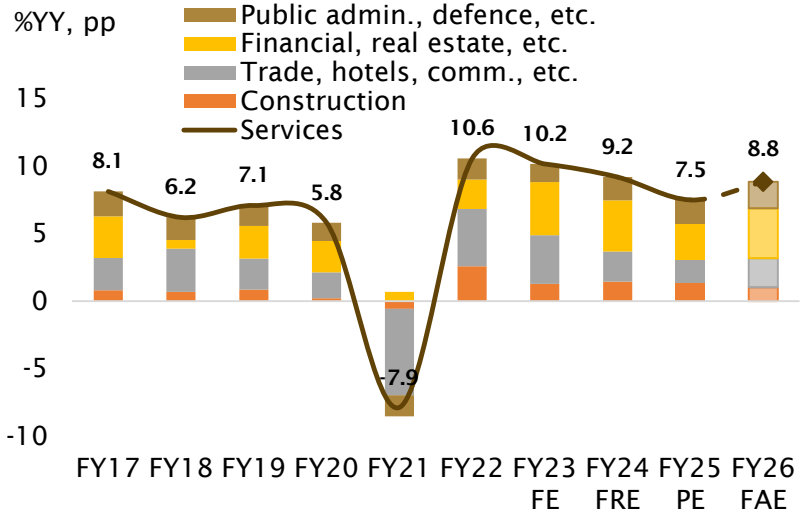


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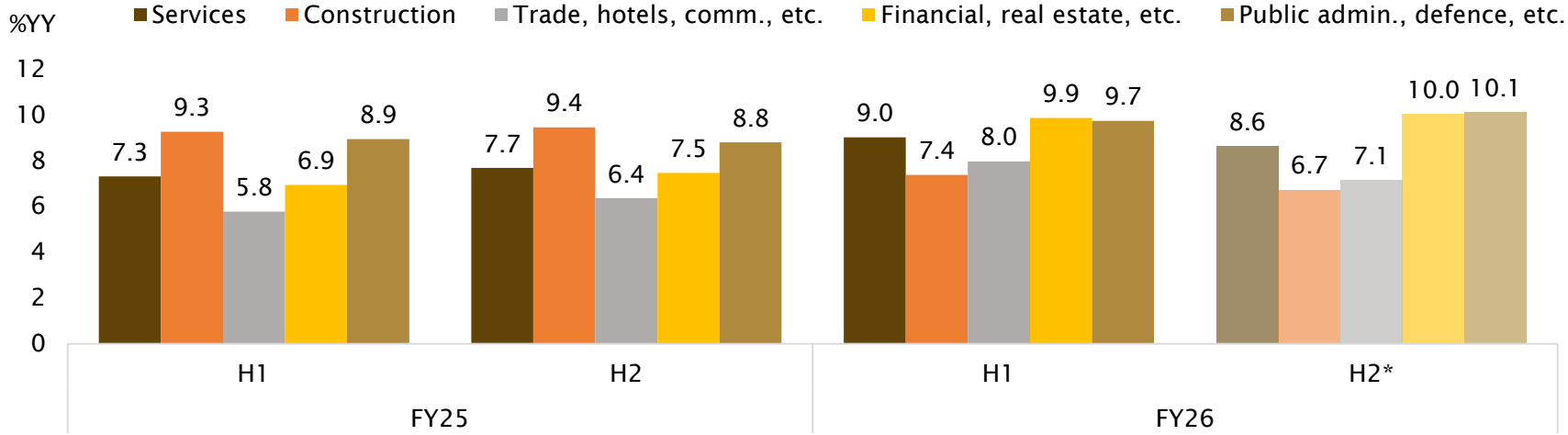
Except construction, all other segments of services sector expected to post higher growth in FY26

Despite easing, construction activity to remain above historical trend and be offset by higher growth in other segments





Construction, trade to push growth lower in H2 than H1; partly offsetting ~10% growth in both financial services, PADO

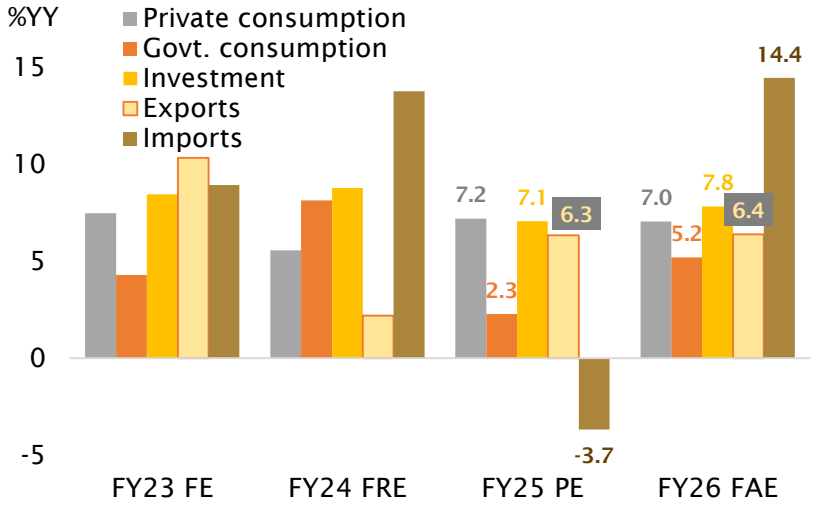


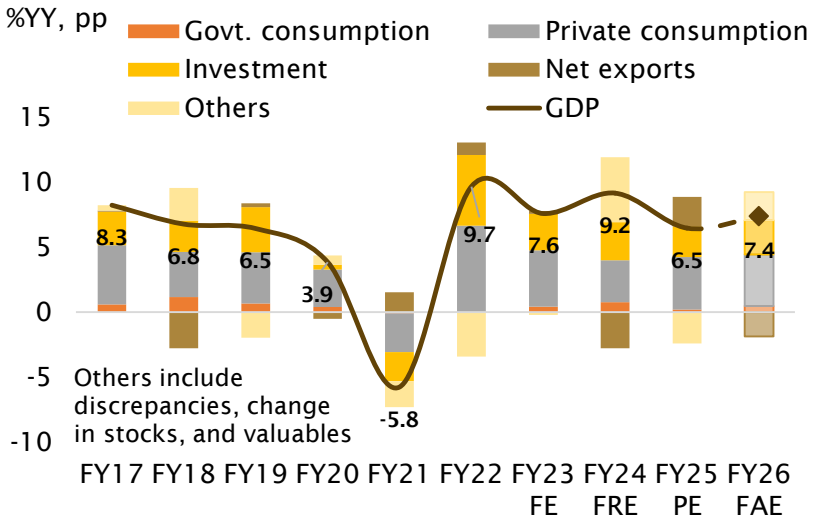
* H2-FY26 values imputed from FY26 FAE

Net exports to be a drag on growth in FY26, private consumption growth to ease mildly; other components to grow at faster rates

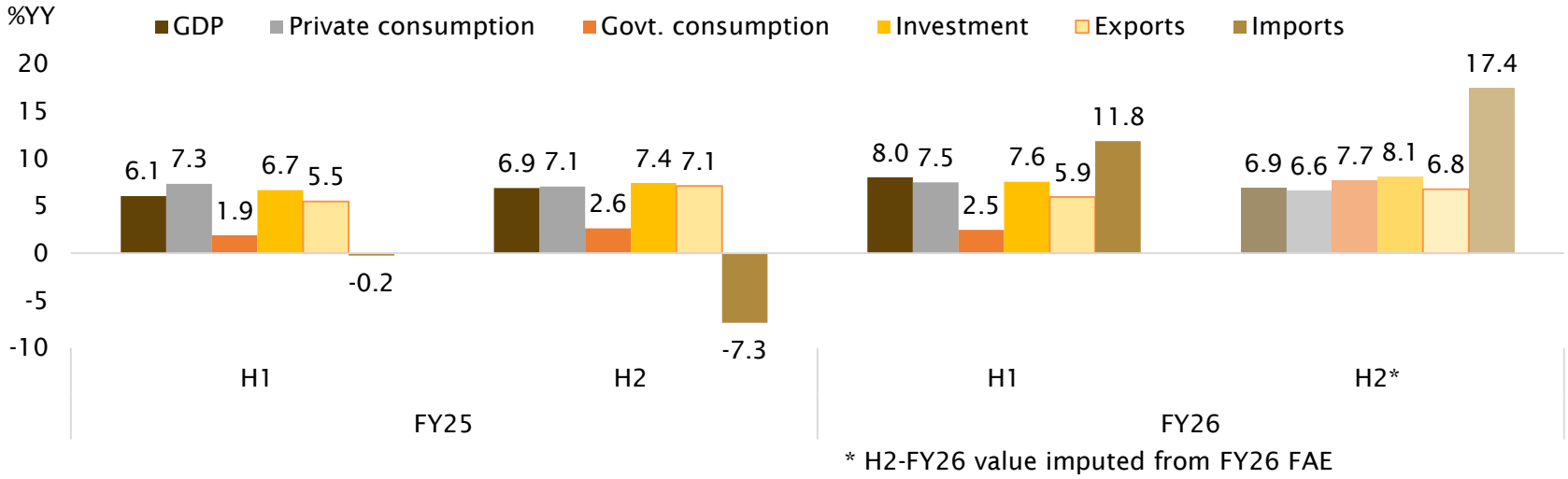
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Net exports to be a drag in FY26; private consumption to ease; investment, govt. consumption growth to improve





Imports to surge in H2; govt. consumption to rise markedly; private consumption to ease despite policy impetus

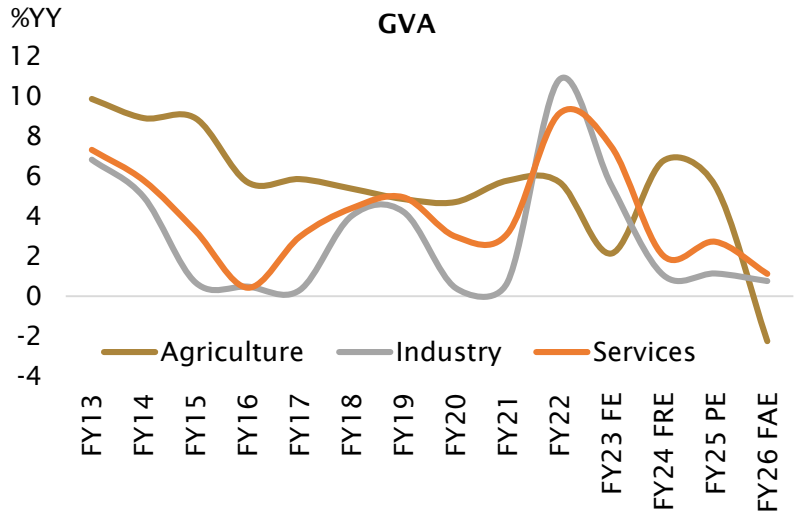


* H2-FY26 value imputed from FY26 FAE

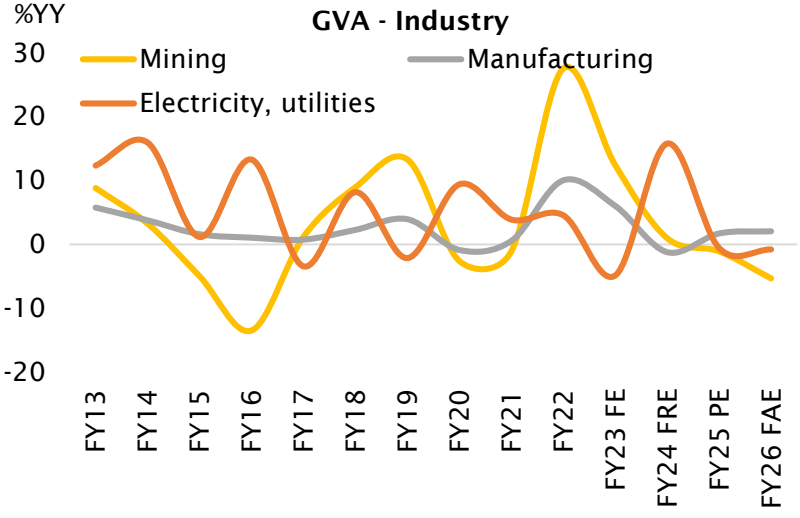
Deflators to remain subdued across most components of both GDP and GVA, and in fact, negative for certain segments

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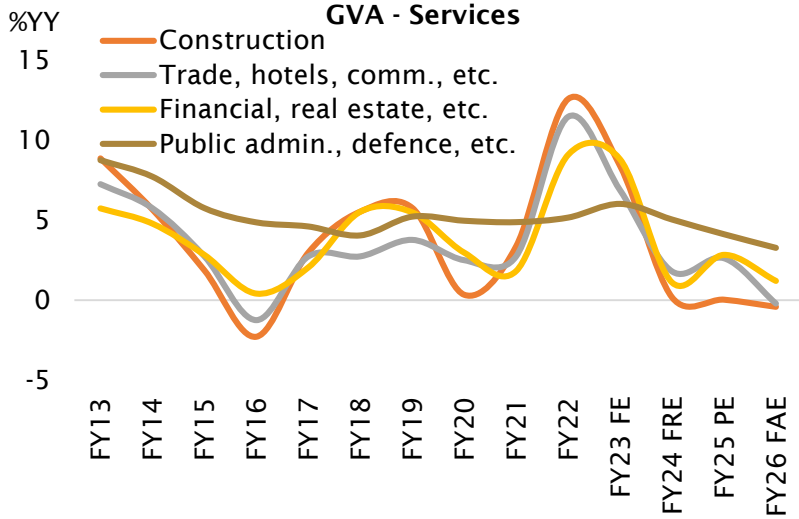
Deflators to ease across sectors; negative print for farm



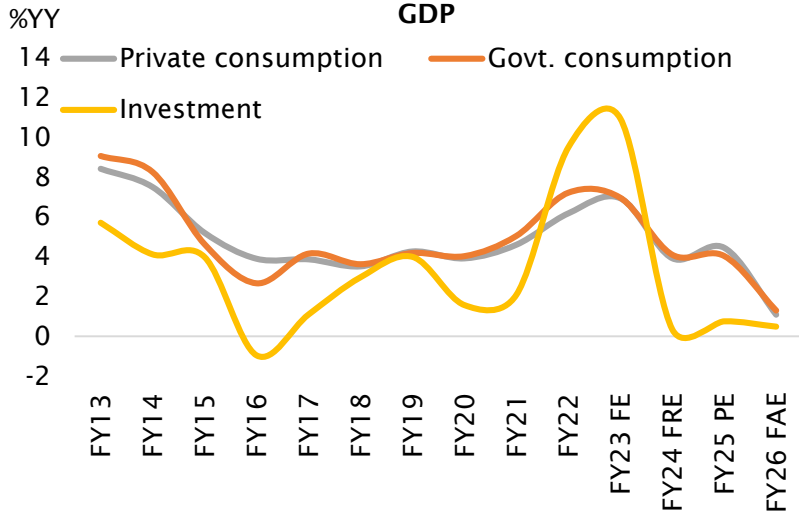
Negative deflators for mining, utilities for second year



In services, negative deflators for trade, construction

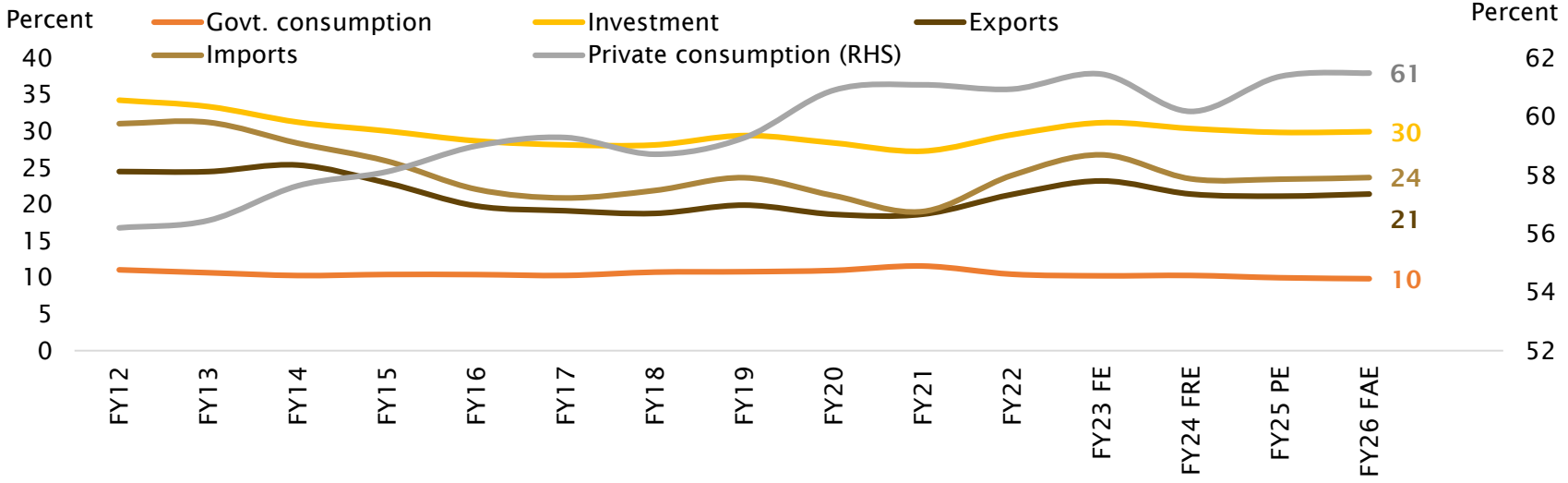


Low deflators to support real GDP growth in FY26

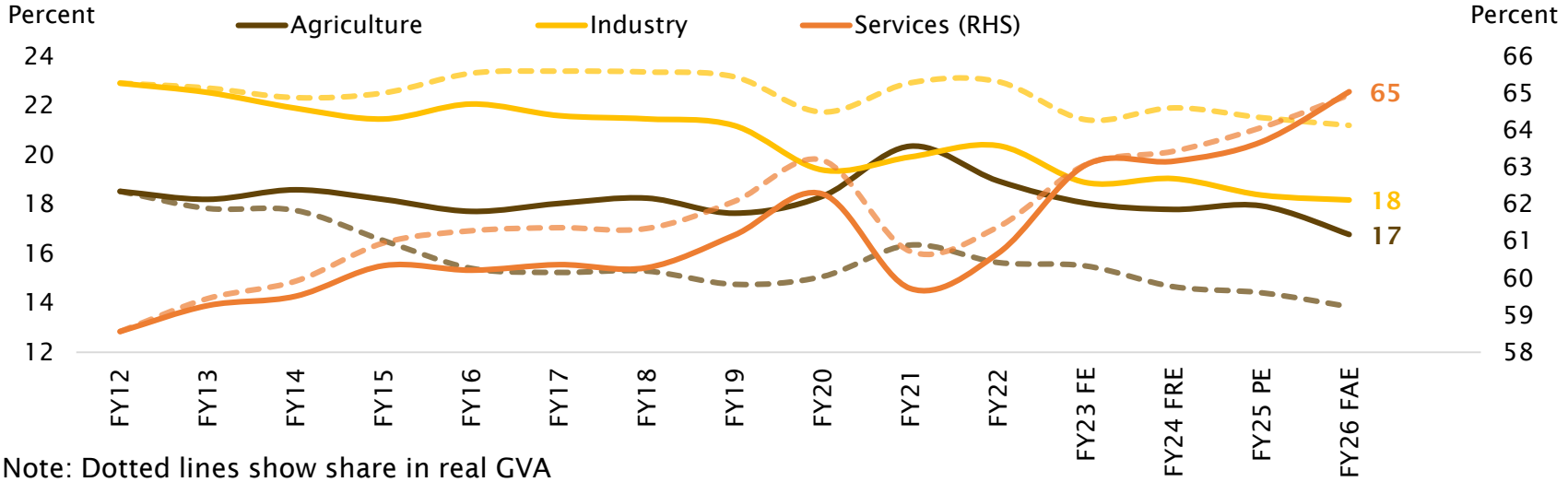


Private consumption and services to continue to account for more than 60% share in nominal GDP and GVA, respectively

Share of investment in nominal GDP to be stable vis-à-vis FY25 and current series average of ~30%



Share of industry in nominal GVA to be largely stable at around 18% but below current series average of ~21%



Note: Dotted lines show share in real GVA

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