

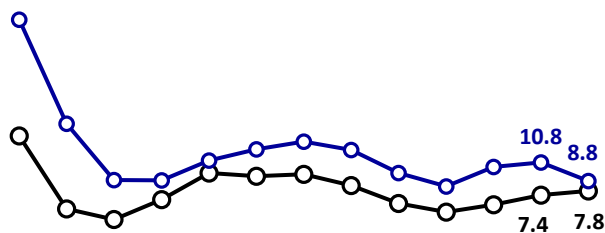
Real GDP growth at five-quarter high in 1QFY26

Rate cut looks unlikely in FY26

- India's real GDP growth surprised positively as it accelerated to 7.8% YoY in 1QFY26 (highest in five quarters), up from 6.5% in 1QFY25 and well above our expectations of 6.5% (Exhibit 1). The expansion was broad-based, with manufacturing, agriculture, and services all contributing meaningfully to the strong performance. Additionally, consumption demand showed reasonable traction, providing further support to overall growth momentum.
- The upside surprise was driven by a sharp rebound in government spending, which grew 7.4% in 1QFY26 compared to a contraction of 0.3% in the same quarter last year. Investment activity also remained strong, with gross fixed capital formation (GFCF) expanding 7.8% (vs. 6.7% in 1QFY25), underscoring steady momentum in capital spending. On the external front, imports surged 10.9%, reversing a 1.6% decline in the year-ago period, while export growth moderated to 6.3% from 8.3%. Private consumption grew by 7%, lower than the 8.3% growth recorded last year, indicating some softening in household demand despite easing inflation. Overall, the growth print reflects a robust investment-led expansion supported by government spending, even as external demand and private consumption showed signs of moderation (Exhibits 2, 3, 4).
- In nominal terms, GDP growth expanded at a tad slower pace of 8.8% vs. 9.7% in 1QFY25 (Exhibit 1). Private consumption spending slowed down to 9.2% from 13.1% in the previous year. Growth was also lower in exports (8.1% from 9.2%) and imports (5.9% from 9.6%) in 1QFY26. However, government spending grew at a robust pace of 9.7% (vs. 4% YoY), while investment growth remained stable at 8.3%.
- India's investment rate stood at 32.3% of GDP in 1QFY26, similar to 32.6% of GDP in 1QFY25, but lower than 33.6% of GDP in 4QFY25. India's net imports came in lower at 1.9% of GDP in 1QFY26 vs. 2.4% in 1QFY25 (Exhibit 8). Consequently, implied gross domestic savings (GDS) stood at 30.4% of GDP in 1QFY26, similar to 30.2% of GDP in 1QFY25.
- India's real GVA growth stood at 7.6% in 1QFY26, higher than 6.5% in 1QFY25, with broad-based strength across sectors. The agriculture sector delivered a healthy 3.7% growth (vs. 1.5% last year), aided by higher kharif sowing. Manufacturing growth remained steady at 7.7% (7.6% last year), while the services sector surged to 9.3% (vs. 6.8%), led by strong expansion in trade & transport (8.6% vs. 5.4%), financial services (9.5% vs. 6.6%), and public administration (9.8% vs. 9%). (Exhibits 5, 6, 7).
- On the downside, mining contracted 3.1%, reversing 6.6% growth in 1QFY25. Growth also moderated in electricity (0.5% vs. 10.5%) and construction (7.6% vs. 10.1%), reflecting sector-specific drags. Overall, the data highlights a strong services-led momentum, supported by robust agriculture and resilient manufacturing, even as select industrial sectors underperformed (Exhibits 5, 6, 7).
- India's GDP growth is projected to expand by around 6.4% in FY26, broadly in line with the RBI's forecast. A favorable monsoon is expected to support rural demand, while the consumption sector is likely to gain further momentum, aided by festive demand and the positive impact of GST reforms through tax slab rationalization. High-frequency indicators such as strong PMIs (manufacturing and services) and robust GST collections already point to a healthy uptick in economic activity. With such a positive surprise in real GDP numbers, we believe that a rate cut is unlikely in FY26.
- However, these gains could be partly offset by the adverse impact of tariff hikes. The uncertainty around the recently imposed 50% tariffs creates downside risks, potentially weighing on exports, leading to job losses in vulnerable sectors, and dampening private capex. With global trade conditions clouded by tariff-related disruptions, external headwinds remain a key risk to the growth outlook.

Exhibit 1: Real GDP growth at five-quarter high of 7.8% YoY in 1QFY26...

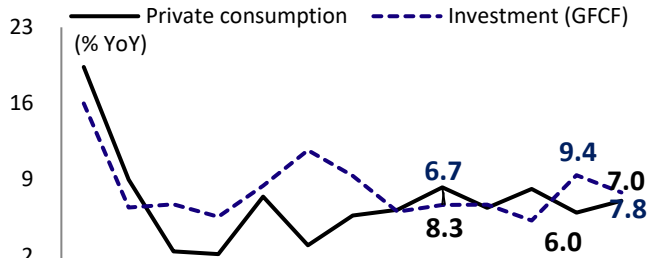
— Real GDP growth (% YoY) — Nominal GDP growth (% YoY)



1QFY23 3QFY23 1QFY24 3QFY24 1QFY25 3QFY25 1QFY26

Exhibit 3: Investment remained strong, private consumption picked up too

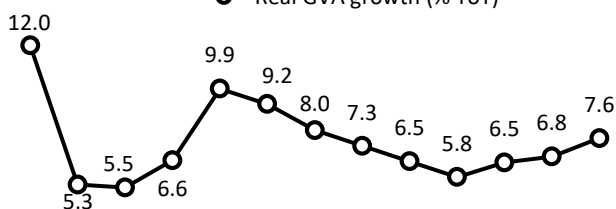
— Private consumption (% YoY) - - - Investment (GFCF) (% YoY)



1QFY23 3QFY23 1QFY24 3QFY24 1QFY25 3QFY25 1QFY26

Exhibit 5: Real GVA growth at 7.6% YoY in 1QFY26...

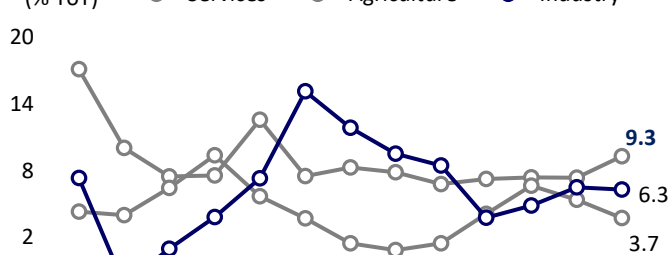
— Real GVA growth (% YoY)



1QFY23 3QFY23 1QFY24 3QFY24 1QFY25 3QFY25 1QFY26

Exhibit 7: Services growth remained strong, while industry and agriculture growth decelerated

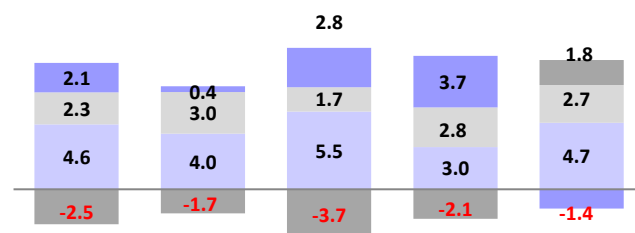
(% YoY) — Services — Agriculture — Industry



1QFY23 3QFY23 1QFY24 3QFY24 1QFY25 3QFY25 1QFY26

Exhibit 2: ...led by higher contribution from consumption and real investments

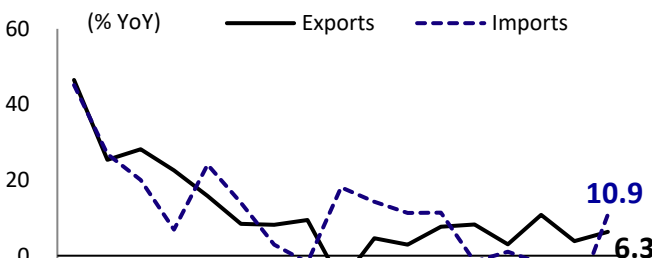
■ Consumption* ■ Investments ■ Net exports ■ Discrepancy (pp)



1QFY25 2QFY25 3QFY25 4QFY25 1QFY26

Exhibit 4: Imports increased sharply, exports saw steady growth, leading to negative contribution of net exports

(% YoY) — Exports — Imports



1QFY22 1QFY23 1QFY24 1QFY25 1QFY26

Exhibit 6: ...mainly led by services sector

(pp) ■ Agriculture ■ Industry* ■ Services

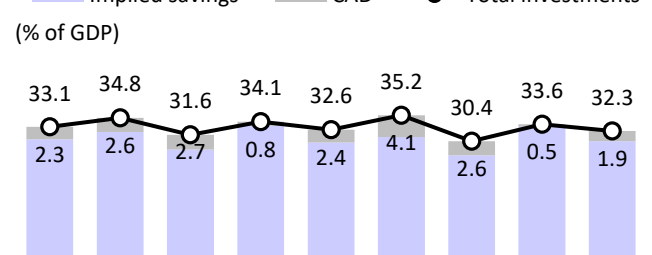


1QFY25 2QFY25 3QFY25 4QFY25 1QFY26

* Including construction sector

Exhibit 8: Domestic savings at 30.44% of GDP in 1QFY26 vs. 30.2% in 1QFY25

■ Implied savings ■ CAD — Total investments (% of GDP)



1QFY24 3QFY24 1QFY25 3QFY25 1QFY26

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