# India's Real GDP Grows 8.2% defying expectations

Against expectations of 7.5% India's real GDP grew by 8.2% YoY in Q2 FY26, a sharp acceleration from 5.6% in Q2 FY25, indicating strong momentum in economic activity. These growth numbers are attributable to a low base and strong fundamentals. High frequency indicators available on a monthly basis had made it very clear that Q2 growth numbers would be close to Q1 in any case.

Nominal GDP rose by 8.7% in Q2 FY26, reflecting subdued inflation despite strong demand pick up. CPI was muted due to a favourable base while wholesale price pressures too stayed low due to absence of input cost pressures. Real Gross Value Added (GVA) which indicates actual value addition net of subsidies and taxes, expanded by 8.1% YoY.

For the full half year (April–September) GDP growth averages 8.0%, significantly higher than 6.1% in H1 FY25. These data points also indicate that we are now closer to the potential rate of growth though a substantial section of Indian economy remains outside the formal fold.

US tariffs have not impacted growth because 50% of exports to US, which constitutes mobile phones, semi-conductors and pharmaceuticals, have been kept out of tariffs. Moreover, India has front loaded shipments to the US and expanded exports to other destinations including China, Vietnam and Indonesia. Finally, India is not heavily export dependent and much of the export slack due to tariffs would have been absorbed by domestic consumption which is also a reason for private consumption growing at a robust pace of 7.9%.

## Key highlights

Agriculture & allied activities grew 3.5%, moderating from 4.8% last year due to base effect but follows its trend rate of growth supported by favourable monsoon and steady rural demand. Mining & quarrying witnessed negative growth (-0.04%) reflecting weak global commodity demand and production constraints.

Manufacturing sector showed a robust growth rate of 9.1%, indicating revival in industrial output. There is a gradual pick up in capacity utilisation in certain sectors from 70% to 80% which has facilitated steady industrial growth. However, manufacturing growth of 9.1% is attributable largely to a low base and average growth in this sector for Q2 of FY25 and FY26 is 5.6%, which is just the historical trend rate of growth. Construction and electricity segments maintained the usual growth print.

Services sector with a growth rate of 9.2%continues to be the largest contributor to GDP growth. Financial, real estate & professional services segment grew 10.2%, reflecting strong credit growth, financial intermediation and professional activity. Trade, hotels, transport & communication growth of 7.4% reflects better mobility, tourism and logistics activity. Public administration, defence & other services growth of 9.7% indicates increased government spending on defence and public administration.

## Expenditure-Side

Private consumption grew 7.9, higher than 6.4% in Q2 FY25, indicating improving household demand. The 100-bps repo rate cut is a major factor that facilitated this consumption boom though income tax relief would have played a smaller role. The impact of GST cut will be reflected in the Q3 numbers.

The ratio of consumption to nominal GDP (At current price) surged beyond 62% and this could be maintained in Q3 due to the impact of GST relief. Private Investment as indicated by gross fixed capital formation (GFCF) was more than 30% but lags the ideal rate of 35% to achieve sustained and consistent growth rate of 8% in real terms.

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## Real GVA

In Rs Lakh Crore

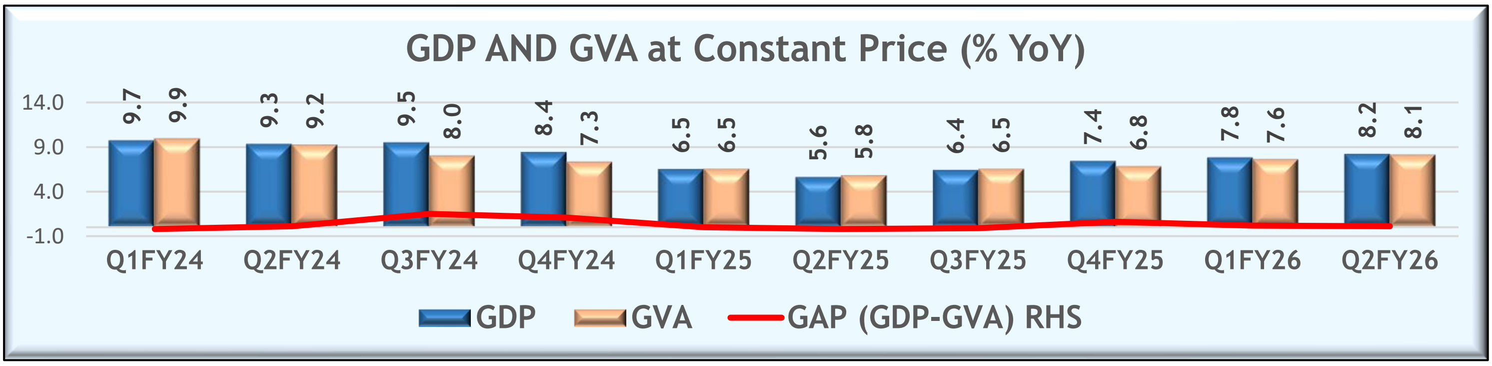
| Industry | Q2 2023-24 | Q2 2024-25 | Q2 2025-26 | Y-o-Y Q2FY26 |
|---|---|---|---|---|
| Agriculture, Livestock, Forestry & Fishing | 4.57 | 4.76 | 4.93 | 3.5 |
| Industry | 11.92 | 12.36 | 13.32 | 7.7 |
| Mining & Quarrying | 0.65 | 0.65 | 0.65 | -0.04 |
| Manufacturing | 7.05 | 7.20 | 7.86 | 9.1 |
| Electricity, Gas, Water Supply & Other Utility Services | 1.00 | 1.03 | 1.08 | 4.4 |
| Construction | 3.22 | 3.49 | 3.74 | 7.2 |
| Services | 22.63 | 24.27 | 26.50 | 9.2 |
| Trade, Hotels, Transport, Communication & Services related to Broadcasting | 7.14 | 7.57 | 8.13 | 7.4 |
| Financial, Real Estate& Professional Services | 10.47 | 11.22 | 12.37 | 10.2 |
| Public Administration, Defence & Other Services* | 5.03 | 5.47 | 6.00 | 9.7 |
| GVA at Basic Prices | 39.12 | 41.39 | 44.75 | 8.1 |
| Net Taxes | 3.42 | 3.53 | 3.86 | 9.50 |
| GDP | 42.54 | 44.93 | 48.63 | 8.20 |

## Expenditure components of GDP (At Constant Prices)

In Rs Lakh Crore

| Expenditure Components | Q2 2023-24 | Q2 2024-25 | Q2 2025-26 | Percentage Change Over Previous Year Q2 2025-26 | Ratio to GDP |
|---|---|---|---|---|---|
| Private Expenditure | 23.67 | 25.18 | 27.18 | 7.9 | 55.9% |
| Government Expenditure | 3.87 | 4.04 | 3.93 | -2.7 | 8.1% |
| Gross Fixed Capital Formation (GFCF) | 14.60 | 15.58 | 16.72 | 7.3 | 34.4% |
| Changes in Stocks (CIS) | 0.76 | 0.78 | 0.84 | 7.4 | 1.7% |
| Valuables | 1.05 | 1.32 | 1.02 | -22.7 | 2.1% |
| Exports | 9.62 | 9.92 | 10.47 | 5.6 | 21.5% |
| Imports | 11.54 | 11.67 | 13.15 | 12.8 | 27.0% |
| Discrepancies | 0.52 | -0.21 | 1.63 | 3.3 | 3.3% |
| GDP | 42.55 | 44.94 | 48.63 | 8.2 | |

## GDP and GVA




| Sector wise GVA Deflator | | | |
|---|---|---|---|
| Sectors | Q2 2023-24 | Q2 2024-25 | Q2 2025-26 |
| Agriculture | 2.11 | 2.18 | 2.14 |
| Industry | 1.52 | 1.53 | 1.54 |
| Mining & Quarrying | 1.66 | 1.64 | 1.57 |
| Manufacturing | 1.39 | 1.40 | 1.43 |
| Electricity, gas, water supply & Other Utility Services | 1.87 | 1.87 | 1.85 |
| Construction | 1.67 | 1.66 | 1.66 |
| Services | 1.69 | 1.74 | 1.76 |
| Trade, hotels, transport, communication & services related to broad casting | 1.62 | 1.66 | 1.65 |
| Financial, real estate & Professional Services | 1.63 | 1.67 | 1.69 |
| Public administration, defence and other Services | 1.92 | 1.99 | 2.06 |
| Total GVA at Basic Price | 1.69 | 1.73 | 1.74 |

| GDP Deflator on expenditure components | | | |
|---|---|---|---|
| Expenditure Component | Q2 2023-24 | Q2 2024-25 | Q2 2025-26 |
| Private Final Consumption Expenditure (PFCE) | 1.87 | 1.94 | 1.96 |
| Government Final Consumption Expenditure (GFCE) | 1.87 | 1.94 | 1.97 |
| Gross Fixed Capital Formation (GFCF) | 1.53 | 1.54 | 1.56 |
| Changes in Stocks (CIS) | 1.50 | 1.55 | 1.54 |
| Valuables | 1.54 | 1.80 | 2.34 |
| Exports | 1.64 | 1.67 | 1.76 |
| Imports | 1.53 | 1.69 | 1.63 |
| Discrepancies | -4.57 | 12.35 | -1.51 |
| GDP | 1.70 | 1.74 | 1.75 |

## Implications and Outlook:

1. Growth outlook strengthened: The strong 8.2% GDP growth in Q2 FY26, following robust Q1 performance, significantly improves India's growth trajectory for FY26. Full-year GDP growth is now likely to remain comfortably above earlier conservative estimates. We are likely to end the full fiscal year with a growth rate close to 7.5%.

2. Monetary Policy Committee (MPC) is expected to revise GDP growth outlook for FY26 to 7% from its earlier estimate of 6.6%. Optimism on better growth outlook is likely to result in a boom in equity markets which could encourage FIIs to bring more capital notwithstanding higher valuations vs. peers like China.

3. Inflation-growth trade-off favours monetary easing: Despite strong real growth, nominal GDP growth remains contained at 8.7%, indicating muted price pressures. This creates policy space for monetary accommodation without risking inflation.

4. As nominal GDP growth for the full fiscal is expected at 9% (based on estimated real GDP growth of 7.5%) there would not be any impact on the fiscal deficit target of 4.4%.

**To conclude, the Q2 growth has made it clear that tariffs have not had any impact on our growth so far. In fact, a combination of a likely trade in the rest of the fiscal coupled with a consumption boom due to GST tweaks will facilitate achievement of 7.5% growth rate in FY26 without much challenge. A further 25 bps rate cut will be an added booster through the consumption channel.**

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