GDP growth in Q1 likely eased after Mar-qtr high

Indicators give mixed signals ahead of 50% Trump tariffs

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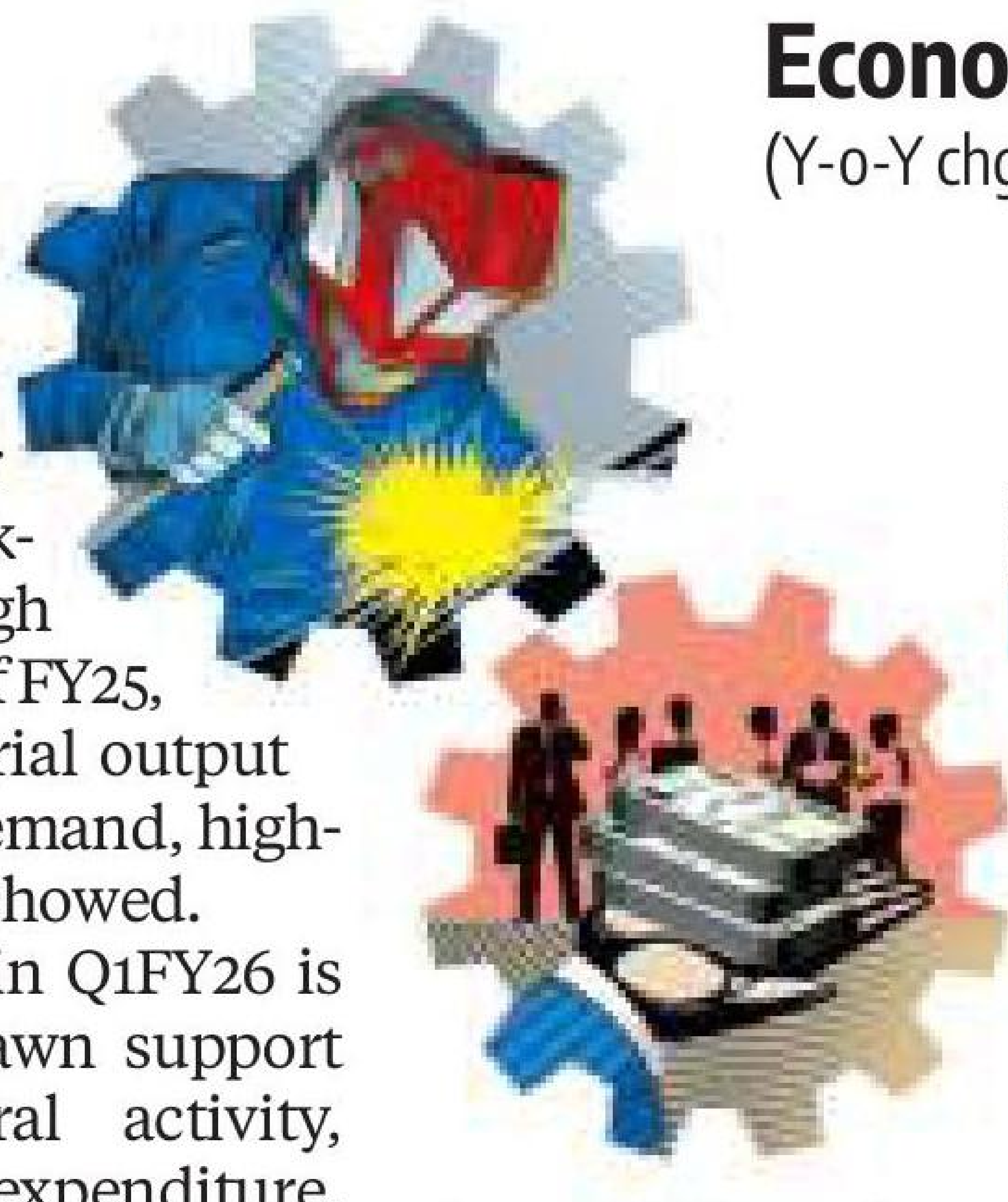
New Delhi, 22 August



India's economic growth likely eased sequentially in the April-June quarter (Q1) of FY26 after clocking a four-quarter high in the March quarter of FY25, due to muted industrial output and sluggish urban demand, high-frequency indicators showed.

However, growth in Q1FY26 is expected to have drawn support from improved rural activity, healthy government expenditure, and front-loading of exports to the US before the punitive tariffs imposed by the Donald Trump administration kicked in.

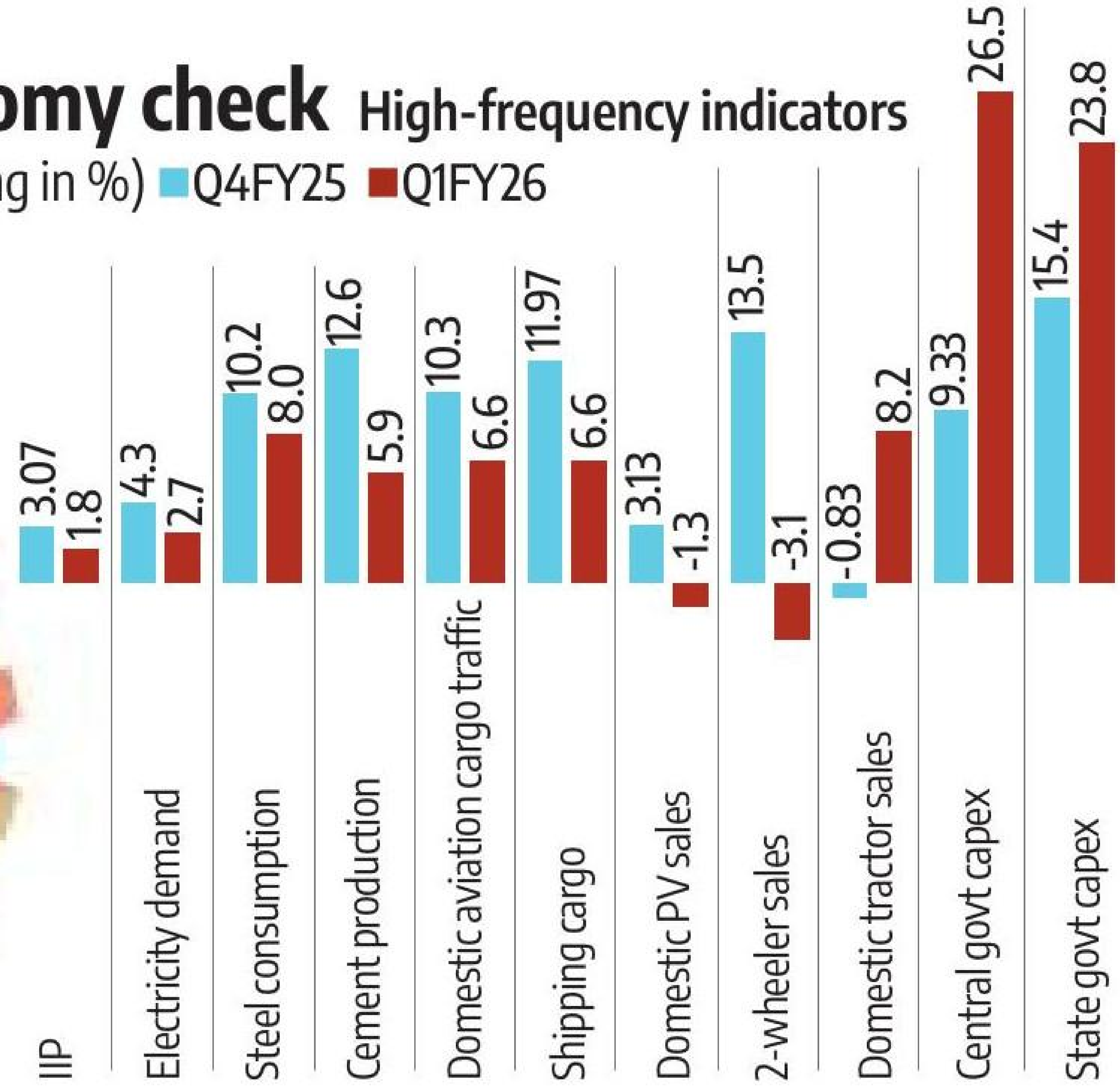
Projections for Q1 gross domestic product (GDP) growth by economists varied widely, between 6.3 per cent and 7 per cent. In the March quarter of FY25, GDP grew 7.4 per cent, while in the June quarter of FY25, the economy expanded 6.5 per cent. In its bi-monthly monetary policy review on August 6, the Reserve Bank of India (RBI) projected the Q1FY26 growth rate at 6.5 per cent. The National Statistics Office (NSO) is scheduled to release the provisional GDP estimates for Q1FY26 on August 29.

Meanwhile, agriculture is likely to have performed well, leading to an uptick in rural wages and consumption, with government capex also picking up during the quarter on the back of a low base due to the general elections a year ago.

High-frequency indicators such as the index of industrial production (1.8 per cent), manufacturing purchasing managers' index (58.2), electricity demand (2.7 per cent), and industry credit (5.43 per cent), which can serve as proxies for industrial growth, showed a sequential downtick in Q1FY26. Turn to Page 6 ▶

Economy check High-frequency indicators

(Y-o-Y chg in %) Q4FY25 Q1FY26



Source: BS Research

GDP forecasts

(Y-o-Y chg in %)

Agency	Q1FY26	Agency	Q1FY26
SBI	6.8-7	Bank of Baroda	6.4
IDFC First	6.9	Kotak Mahindra Bank	6.4
HDFC Bank	6.9	India Ratings	6.4
Icra	6.7		
DBS Bank	6.5		

Source: BS Research

■ Non-trade issues making FTAs more complex: Commerce secy

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Around 4,300 listed entities of India Inc reported Ebitda (Earnings before interest, taxes, depreciation, and amortisation) growth of about 6.7 per cent in Q1FY26, compared with 11 per cent in the previous quarter (Q4FY25) and around 12 per cent in Q1 FY25, according to an SBI Research report.

However, central and state government capex rose by 26.5 per cent and 23.8 per cent, respectively, during the June quarter.

Radhika Rao, senior economist at DBS Bank, said that while industrial output moderated during this period, much of the growth in Q1 would be led by a strong pick-up in government spending after the election-related slowdown in the previous year, along with steady services output, project completions, rural demand in anticipation of a good monsoon, and better farm production.

"We expect growth at the start of FY26 (June quarter) to register a firm 6.5 per cent but moderate from the quarter before. Deceleration in inflation was likely supportive of real purchasing power, though weaker growth in personal loans, delayed transmission to borrowing costs, and industry-specific soft spots point to only a modest pick-up in urban demand," Rao added.

Analysing a slew of high-frequency activity data across sectors, Upasna Bhardwaj, chief economist at Kotak Mahindra Bank, said the indicators overall point to a slowdown in the June quarter, though some green shoots are visible. "We remain cautious on the outlook for the Indian economy and await the festival season to track a revival in activity. We estimate Q1FY26 real GDP growth at 6.4 per cent and retain our full-year FY26 GDP growth estimate at 6.2 per cent (RBI: 6.5 per cent)," she added.

IDFC First Bank Chief Economist Gaura Sengupta estimated GDP growth at 6.9 per cent in Q1 while retaining her full-year FY26 forecast at 6.3 per cent, holding that GDP growth is expected to slow in coming quarters due to the tariff impact on exports and a likely moderation in government capital expenditure.

"The estimate faces downside risk if 50 per cent bilateral tariffs persist till March 2026. Meanwhile, the proposed reduction in GST (goods and services tax) rates ahead of the festival season is expected to support durable consumption in H2FY26," she said.

While the 25 per cent reciprocal tariff on India came into force on August 7, the additional 25 per cent tariff linked to Russian oil purchases is set to take effect from August 27.

Besides, analysts expect Q1FY26 to be characterised by a more pronounced slowdown in nominal GDP growth due to softer retail and wholesale inflation, even as real GDP growth holds up. This has reignited the debate on whether nominal GDP is a better metric for gauging growth, an issue also alluded to by the finance ministry in its latest monthly economic review.