

Q2 GDP surprises at 8.2% growth, rate cut unlikely

The number exceeds both the RBI's projection and the estimate from a *Mint* poll

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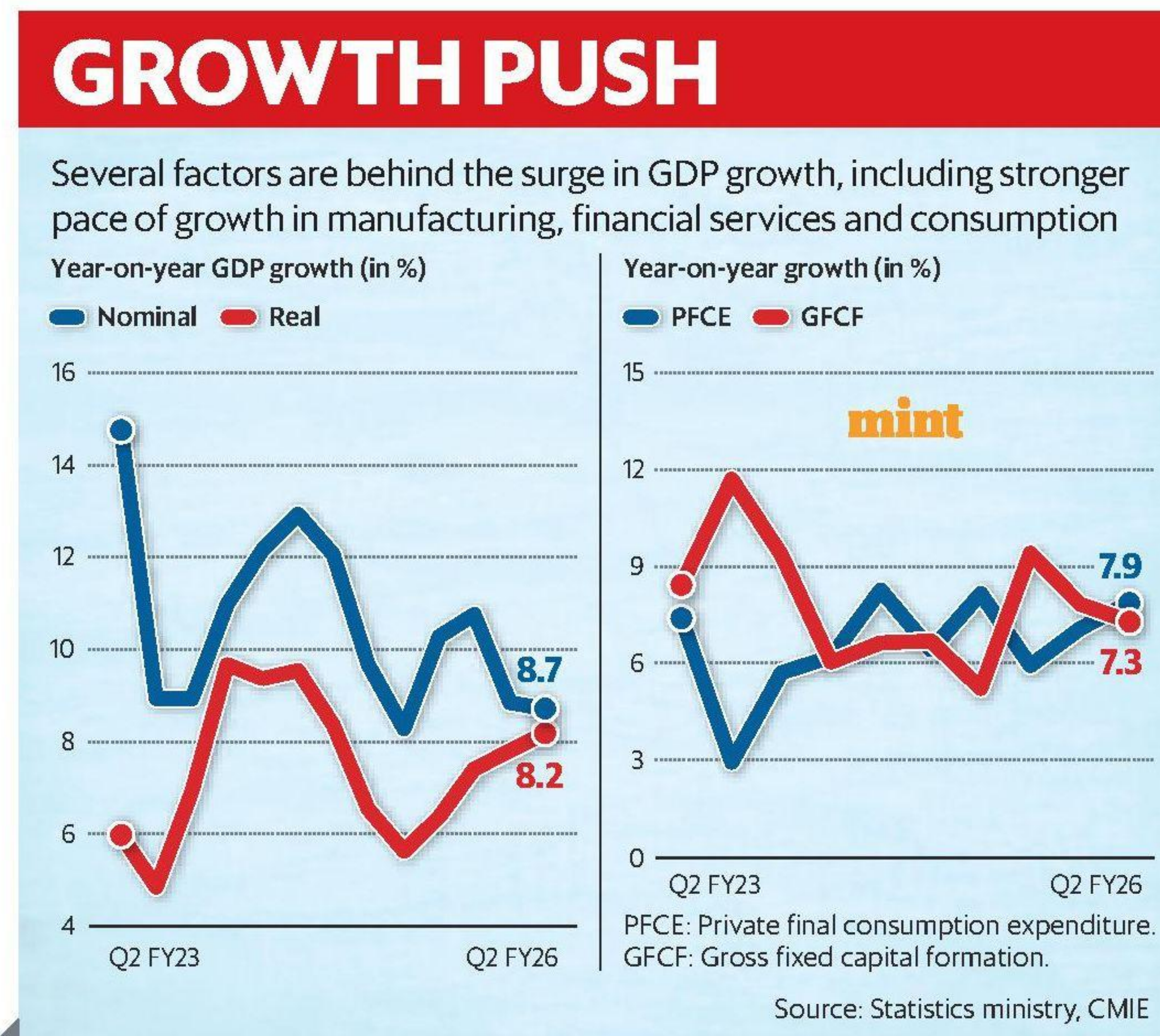
The Indian economy posted a surprising six-quarter high growth rate of 8.2% in the July-September quarter, according to data released on Friday by the ministry of statistics and programme implementation—significantly higher than the Reserve Bank of India's 7% projection and the 7.2% median estimate in a *Mint* poll of 15 economists.

Even as economists pointed to record low inflation in recent months contributing to the surge in real GDP growth, the high number significantly dims any expectation of a policy rate cut by the RBI in December.

The bond markets appeared to acknowledge the possibility, with the benchmark 10-year yield moving up to end at 6.5463% on Friday, from 6.5082% in the previous session, *Reuters* reported. Bond yields move inversely to prices.

The 8.2% figure is much higher than the 5.6% recorded in the same quarter last year, and 7.8% in Q1 of this fiscal year.

Acknowledging that the 8.2% figure "is outside the range of most optimistic estimates", chief eco-



ECONOMY SURGES

BOND market yields rose on Friday, as no rate cut is likely

GROWTH in gross fixed capital formation was strong

GROWTH in PFCE rose to 7.9% from 7.1% the previous quarter

SATISH KUMAR/MINT

nomic advisor V. Anantha Nageswaran said full-year GDP growth will be at least 7%, if not higher, aided by a strong 8% growth in the first half of the year and the cumulative effect of structural reforms. This February, the Economic Survey had projected full-year real GDP growth of 6.3-6.8%.

"Overall, the confluence of stable inflation, sustained public capex, and reform momentum positions the economy to withstand risks," Nageswaran said, adding that these risks include the euphoric global stock markets, which need to be watched out for. Meanwhile, gross value added

or GVA — which means GDP less taxes plus subsidies — came in at 8.1% in the second quarter. Significantly, the gap between GDP and GVA growth rates was practically flat in Q2 compared to Q2 of FY25.

Several factors are behind the surge in GDP growth, including stronger pace of growth in manufacturing, financial services and consumption, as well as heavy statistical effects of both low base and low inflation. Manufacturing GVA grew 9.1% in Q2, much higher than the 7.7% growth recorded in the previous quarter, on the back of inventory build-up in anticipation of the festival season.

On the expenditure side, growth in private final consumption expenditure (PFCE)—a proxy for consumption in India—rose to 7.9% in Q2 from 7.1% in Q1.

On the other hand, growth in gross fixed capital formation (GFCF)—a proxy for investments—remained strong, but declined to 7.3% from the previous quarter's 7.8%, as the effect of the low base faded. The Centre's capital expenditure had grown 31% during the quarter, as opposed to 52% in the preceding quarter.

"With the Q2 GDP growth exceeding 8%, the probability of a rate cut in the December MPC

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review has certainly eased, notwithstanding the series-low CPI inflation print for October 2025,” said Aditi Nayar, chief economist at Icra.

To be sure, the RBI has already delivered a cumulative 100-basis-point rate cut between February and June before going on a pause from August. One hundred basis points equals 1%.

Radhika Rao, senior economist at DBS Bank, said the RBI’s monetary policy committee (MPC) faces a challenge at the next rate review, with the mix of a strong growth print and record low inflation. “We expect an emphasis on forward-looking growth guidance and a high real rate buffer due to weak inflation, to justify a move to lower rates further,” Rao added.

With the latest print, growth in the first half of the year averages 8%. This implies that unless growth slows to 5.7% in the second half of the year, the full-year growth will breach the 6.8% projection given by the RBI.

As such, economists expect the RBI to revise its forecast upwards even if it retains 6.4% growth for Q3 and 6.2% for Q4 at the next MPC meeting on 3-5 December.

Economists are backing the CEA’s assertion of a 7%-plus real growth for the full year, boosted by increased consumption in Q3 due to festivals and the impact of landmark cuts in goods and services tax.

“I don’t see any reason why



Construction continued to record strong growth of 7.2%.

we can’t easily expect an above-7% print, even if the US situation doesn’t improve for us,” said Radhika Piplani, chief economist at Motilal Oswal Financial Services.

Strong manufacturing growth, sharp gains in electricity, gas and other utility activities, pushed industry growth up 7.7% in Q2 from 6.3% in Q1. Construction continued to record strong growth of 7.2%, albeit slightly lower from 7.6% the previous quarter.

The services sector printed another strong print of 9.2%, albeit slightly lower than 9.3% in the previous quarter. While services sector growth was boosted by financial services, real estate, etc (10.2% in Q2 vs 9.5% in Q1), trade, and hotels segments proved to be a drag (7.4% Q2 vs 8.6% Q1).

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