

NOMINAL GROWTH SEEN AT 8%; NO THREAT TO FISCAL TARGET

GDP pegged to grow at a faster clip of 7.4% in FY26

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INDIA'S GROSS DOMESTIC product (GDP) is set to grow at 7.4% in the current financial year, in line with independent consensus estimate, the National Statistics Office (NSO) indicated on Wednesday, even as it projected economic expansion at 6.9% in the second half, slowing down from 8% in the first half. The economy had grown at 6.5% in FY25.

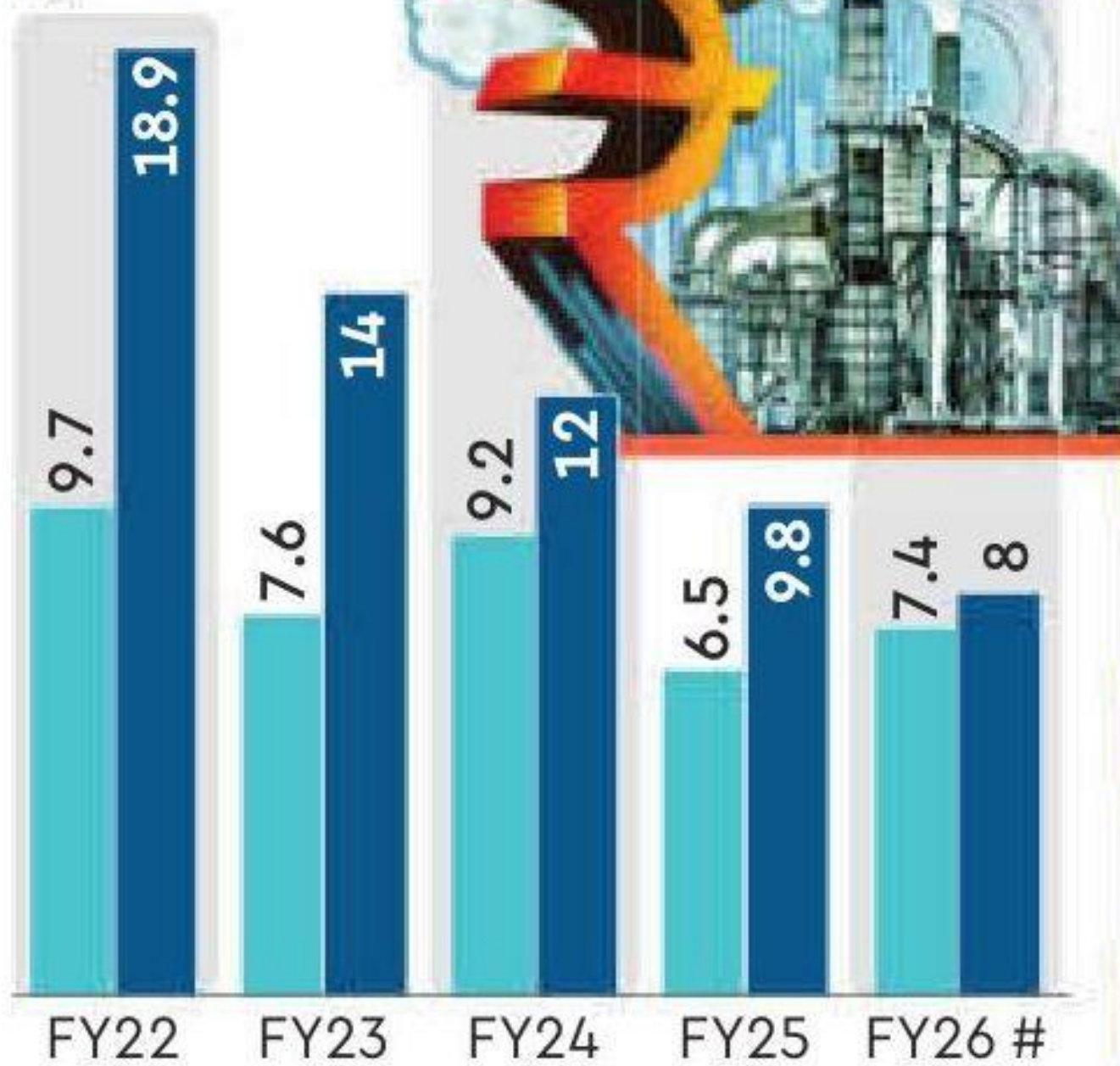
Economists called it resilient growth, given the global headwinds including the Trump tariffs, but statistically favourable deflator effects played a significant role in lifting growth.

Among the sectors that are expected to slow down from H1 to H2 on annual terms are agriculture (3.9% to 2.7%), manufacturing (8.4% to 5.7%), and construction (7.4% to 6.7%). Among services, "financial, real estate, etc," and public adminis-

FIRST ADVANCE ESTIMATES

Key numbers (% chg, y-o-y)

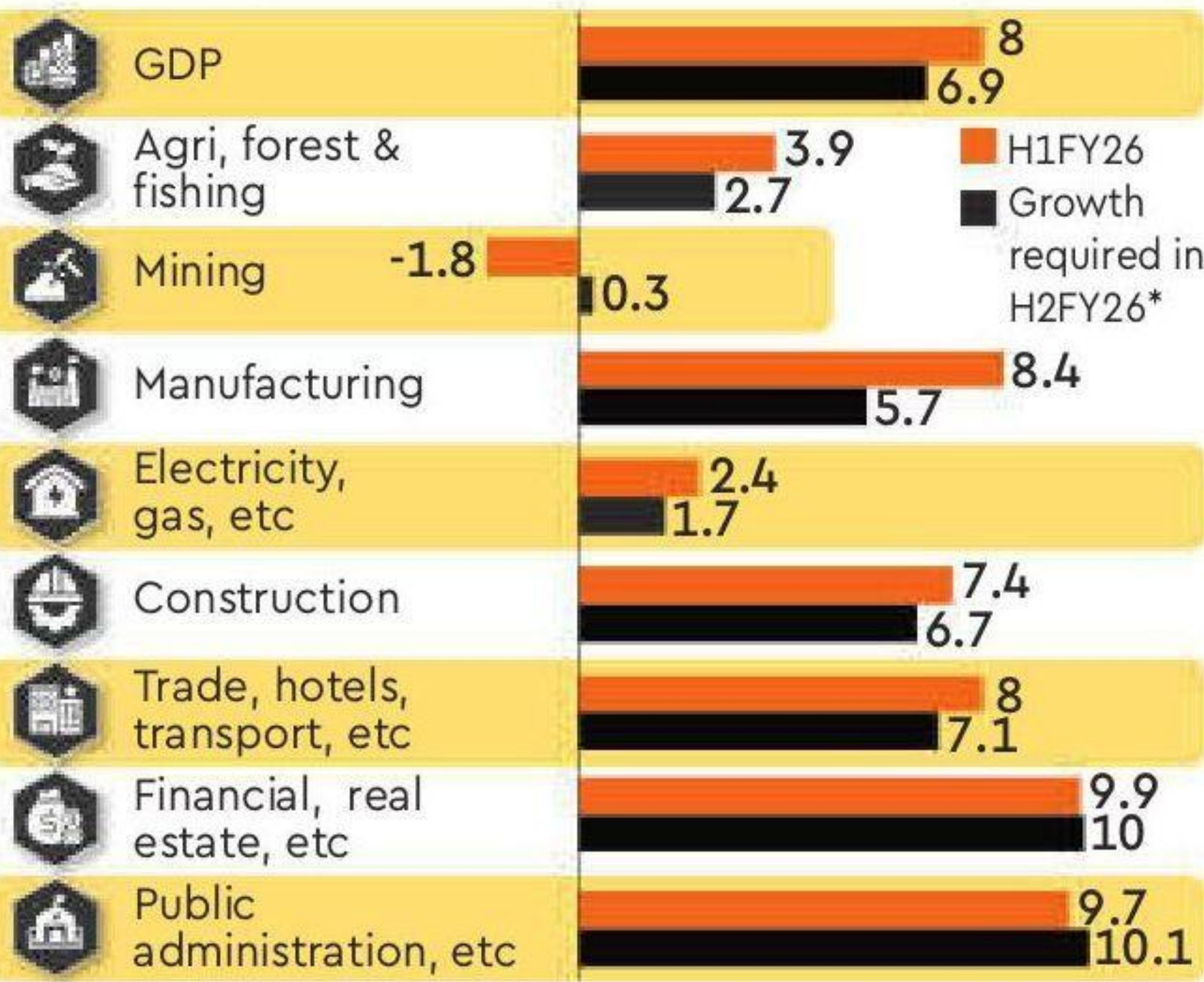
Real GDP
Nominal GDP



First advance estimates

Growth dynamics

At constant prices, (% chg, y-o-y)



* To meet the first advance estimates

Source: MoSPI

tration are seen recording higher annual growth in H2 compared with H1.

The NSO, in its first advance estimates (FAE), projected the nominal GDP in the current

year to be ₹357.14 lakh crore, marginally higher than ₹356.97 lakh crore estimated in the Budget FY26.

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GDP to grow at 7.4% in FY26: NSO

THE GROWTH IN nominal GDP is seen at just 8%, marking one of the smallest differential with the real GDP expansion in several years. With H1 nominal GDP growth of 8.75%, the second-half growth is implicitly estimated to be lower at 7.25%, one of the weakest in many years, barring the Covid-induced trough (FY21).

Though there could be pressure on the fiscal deficit to GDP ratio from lower than expected tax collections, the denominator will not be a pain point. With higher non-tax revenues and significant savings in revenue spending, no fiscal slippage is expected over the targeted 4.4% of GDP.

However, subdued nominal GDP could lead to a weakening of tax buoyancy, requiring revenue estimates for the next financial year to be conservative, and the FY27 Budget size economical.

The February Budget had assumed a 10.1% growth in

nominal GDP over revised estimates of FY25. However, the base was revised 2% upwards in May.

“A real GDP growth of 7.4% reflects strong underlying momentum, led by investment and capex, but the low nominal GDP growth of 8% signals a sharp disinflationary phase. This narrows fiscal headroom as tax buoyancy weakens,” said Rajesh Shukla, managing director & CEO, PRICE. The key policy challenge in FY26 will be to sustain fiscal consolidation without compromising on the investment cycle in a low nominal growth environment, he added.

What could come in handy for the Budget managers is adoption of debt as the principal anchor of fiscal policy, which allows a greater degree of flexibility in deficit target for any year, in so far as it is on a declining path.

The Centre’s fiscal deficit widened to 62.3% of the annual target in the April-



November period, compared with 52.5% of the respective target a year ago, due to a surge in capital expenditure growth and net tax revenue contraction of 3.4%.

On the expenditure side of the economy, NSO estimates private final consumption expenditure to grow at 7% in FY26, lower than 7.2% in FY25. Gross fixed capital formation, that mirrors investment activity, is estimated to grow 7.8% in FY26 compared with 7.1% in FY25.

The gross value added (GVA), which is a closer gauge of economic activity, as per the FAE, could be 7.3% in FY26 versus 6.4% in FY25. Among sectors, FAE for manufacturing growth is a robust

7% against just 4.5% in FY25, while the construction sector is estimated to expand by 7% in the current fiscal, compared with 9.4% in FY25.

NR Bhanumurthy, director at Madras School of Economics, said the NSO’s growth projections for H2 could turn out to be an under-estimation. “With good and less volatile monsoon and based on other leading indicators, agriculture growth should be higher than last year’s,” he said. On the private consumption side, substantial lowering of GST rates as well as a 125-basis point reduction in repo rate is likely to have led to larger consumption growth than last year, not less, he added.

Rahul Agrawal, senior economist at Icra, also expects growth in the industrial and agricultural sectors to fare somewhat better than the NSO’s implicit estimates for H2, while services growth is seen trailing the same.

According to MC Singhi, an economist formerly associ-

ated with the government, the low GDP deflators or implicit inflation “maybe a pressure of generation of tax resources”.

While the Centre may still meet its fiscal targets because of higher non-tax revenue, because of higher dependency, most states would feel fiscal stress, he warned. Singhi added that low inflation is also indicative of reduced pricing power of corporates and other producers. “This will affect capital formation and new investment. We may continue to see the investment GDP ratio to remain sticky,” he said.

Lower inflation also signals wages are not increasing. The lack of income effect, whether illusory or real, would dampen expectations and may moderate future consumption, said an economist on condition of anonymity. While lower inflation is usually good, a persistent sub-par inflation erodes the optimism, the person added.