

Economy resilient, grows 7.8% in December quarter

● NSO sees GDP expansion for FY26 at 7.6%

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INDIA'S ECONOMY EXPANDED a robust 7.8% in the October-December quarter, thanks to double-digit growth in manufacturing upon a base nearly as strong, steady momentum in key services, and a jump in consumption caused by tax cuts and festive-season, the National Statistics Office (NSO) said on Friday. This still represented a sequential decline in growth from an upwardly revised 8.4% estimated for the July-September quarter.

The NSO revised the GDP growth projection for FY26 to 7.6% in the second advance estimates (SAE), compared with 7.4% forecast earlier.

The new GDP series with the base year 2022-23 revised the growth figures for FY24 and FY25 to 7.2% and 7.1% respectively from 9.2% and 6.5% registered in the old series (2011-12 base year). The revised series, with improved deflation methods and significant change in sectoral weightings, underscored the economy's resilience even amid extraordinary external headwinds like the hefty US tariffs on Indian merchandise.

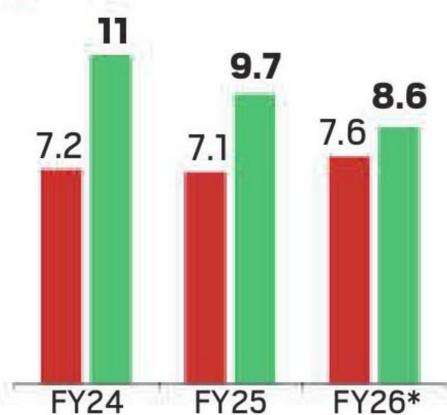
According to SAE, private final consumption expenditure (PFCE) could grow 7.7% in FY26 compared with 5.8% each in FY24 and FY25. In Q3FY26, PFCE grew 8.7% compared with 6% in the year ago quarter and 8% in Q2FY26.

STEADY MOVE

GDP

New series 2022-23 (% chg, y-o-y)

■ Real ■ Nominal



*Second advance estimates

Source: MoSPI



GVA

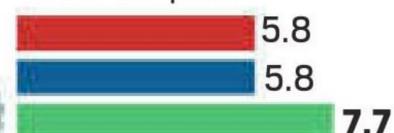
At constant prices; new series 2022-23 (% chg, y-o-y)



New series 2022-23
At constant prices; % chg, y-o-y

■ FY24 ■ FY25 ■ FY26*

Pvt consumption



Govt consumption



Fixed investment



Double-digit rise in manufacturing, robust consumption key drivers



Improved price deflator scales up real GDP levels for four years through FY26

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GROSS FIXED CAPITAL formation (GFCF), the proxy of investments, grew 7.8% in Q3, compared with 6.3% in the year ago quarter. At 30.7%, GFCF still had a lower share in GDP in the December quarter compared with 33.4% in the year ago quarter. While this showed the continued sluggishness of investments, economists have noted the inconsistency of the (higher) growth figures and the investment rate that is hovering around 30%.

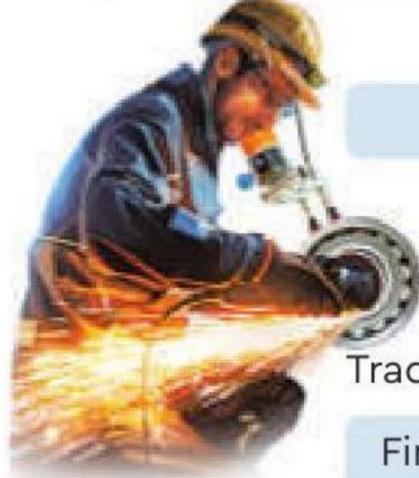
Nominal GDP growth for FY26 is now projected at 8.6% compared with 8% in the first advance estimate based on the old series. For FY25, the nominal GDP expanded by 9.7% compared with 9.8% in the old series. On an absolute basis, nominal GDP in the current fiscal year is projected at ₹345.5 lakh crore, lower than the first advance estimate of ₹357.1 lakh crore.

Significantly, the absolute levels of GDP at constant prices in FY23, FY24, FY25 and FY26 (SEA) have been markedly higher in the new series – by around a third. For instance, the real GDP in FY25 is now estimated at ₹299.9 lakh crore, up ₹111.9 lakh crore from the old-series estimate. The chief reason for this is the revised price weightings. Economists and statisticians feel such large revisions could also have resulted from structural changes in the economy, which have been captured via new data sources, as well as new improved estimation methodologies. It also revealed the inadequacies that existed in the old series as well as the earlier GDP deflator method.

The revised nominal GDP estimate for FY26 could ceteris paribus raise the Union government's fiscal deficit-GDP ratio for FY26 from 4.36% to 4.51%. For FY27, the nominal GDP requires to grow 13.7% to reach the level on which Budget numbers are based, compared with 10% estimated in the Budget presented in Parliament on Feb-

GROWTH STORY

Sectoral GVA FY26*; % chg, y-o-y



* Second advance estimates



ruary 1. On the production side, secondary and tertiary sectors recorded a growth of 10.1% and 9.5% respectively in Q3, while the primary sector grew 1.7%.

Manufacturing sector recorded a growth of 13.3%, “financial, real estate, ownership of dwellings” grew 11.2% and “trade, hotels, transport etc.” expanded 11%, and the construction sector grew 6.6%.

The secondary and tertiary sectors are seen to boost the performance of the economy in FY26, registering above-9% growth. The agriculture, livestock, forestry and fishing is expected to grow 2.4% in FY26 against 4.2% growth in FY25. The mining and quarrying growth is estimated to slow down to 4.1% from 11.7% growth in FY25. The manufacturing growth is expected to increase to 11.5% in FY26 from 9.3% in FY25. On the expenditure side, private final consumption expenditure is expected to record a growth of 7.7% in FY26 against 5.8% in FY25. Government fixed capital formation is expected to grow at 7.1%. The Ministry of Statistics and Programme Implementation stated that the manufacturing sector has been the major driver in contributing to the resilient performance of the economy in three consecutive financial years after re-basing. The sector attained double digit growth in FY24 and FY26.

According to Radhika Rao, executive director & senior economist at DBS Bank, service sector performance signals a strong lift, especially in the labour-intensive segments for FY26, besides the double-digit growth in manufacturing activity. “As it stands, the October-December quarter had also benefited from indirect tax rationalisation and festive demand, in addition to a better-faring rural farm sector.”

Adivi Nayar, chief economist at Icria, noted that given the trends in the first nine months of the current fiscal year, the GDP growth is implicitly pegged to decelerate to a 3-quarter low of 7.3% in Q4, which is “nonetheless quite healthy.” “Notably, the size of the Indian economy is estimated to be somewhat smaller than that as per the 2011-12 base... This implies that the fiscal deficit-to-GDP ratio would be ~15-20 bps higher on an average during these years as compared to the previous estimates. More importantly, this would also imply a fiscal deficit target of 4.46% of GDP for FY27, as against the 4.3% assumed in the Budget, assuming a nominal GDP growth of ~10% in the fiscal.” CareEdge Ratings Senior Economist Sarbratho Mukherjee said that contrary to expectations, the GDP deflator rose in Q3, possibly reflecting the double deflation observed in the manufacturing sector.