

India GDP at 8.2%: BFSI, Realty, & Consumption lead growth

A spectacular 8.2% YoY real GDP growth in 2QFY26; nominal GDP came in at 8.7% YoY vs. 8.8% in 1QFY26.

Higher-than-expected growth was attributed to the low GDP deflator (0.5% YoY), similar to 1QFY26 (deflator at 0.9%YoY).

However, key 2Q growth drivers suggest that the economy is picking up through the correct channels.

- Sector-wise the highest growth of 10.2% YoY was led by 'Financial, Real Estate & Professional Services' (PSU banks, capital markets, fintech, large private banks, insurance companies). The second-best sector was manufacturing with 9.1% YoY growth. Notably, the government modified the classification of sectors into primary, secondary and tertiary, similar to that adopted globally. As per this sectoral classification, the tertiary or the services sector led with 9.2% growth, followed by the secondary or manufacturing sector. The primary sector lags due to weak mining activity during the quarter (rains). Agri posted slower growth QoQ and YoY possibly due to heavy rainfall-led crop destruction, early rains, and delayed pullback.
- On the expenditure side of the equation, private consumption strengthened its share to 62.5%, a 2pp gain QoQ, albeit with some support of GST rate cuts, which came into effect on 22nd Sep. The main positive impact of the rate cut on consumption would be felt in 3QFY26.
- Government spending moderated to 9.1% YoY, led primarily by lower state government spending.
- Private investment continued to post growth above 7%, although a tad lower than the pickup seen in 1Q.
- On the external front, net exports were a big negative due to strong gold-led import growth of 12.8%, whereas exports moderated to 5.6% YoY, amid tariff noise.
- Despite the adverse impact of US tariffs on India's manufacturing sector, domestic demand has so far managed to hold the growth strong. The GST cut-led pickup in consumption in 2Q and the increase in government spending in 3Q should provide the necessary fill-up to offset weak exports.

Outlook:

- Given real GDP growth of 8% in 1HFY26 (1HFY25: 6.1%), we expect FY26 growth to pick up to 7.5% (base case), up from our earlier expectation of 7%.
- With a strong GDP growth print in 2Q, the possibility of a rate cut looks limited. But what remains to be seen is if the consumption-led pickup witnessed during Oct-Nov fizzles out in 4Q. The global tariff situation also remains a key monitorable.
- That said, technically, inflation would be way lower than the RBI's forecast of 2.6%. The possibility of headline inflation below 2% for FY26 remains quite high. This implies, there is policy space for the last insurance rate cut.
- In my view, the RBI should utilize the policy space and close the final loop. If the US-led tariff uncertainty lingers for longer than anticipated, the adverse impact would be far greater.

Exhibit 1: Trend in quarterly GVA numbers

GVA Growth (% YoY)

	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26
Agriculture	4.1	6.6	5.4	3.7	3.5
Industry	3.8	4.8	6.5	6.3	7.7
Mining	-0.4	1.3	2.5	-3.1	0
Manufacturing	2.2	3.6	4.8	7.7	9.1
Electricity	3	5.1	5.4	0.5	4.4
Construction	8.4	7.9	10.8	7.6	7.2
Services	7.2	7.4	7.3	9.3	9.2
Trade, etc.	6.1	6.7	6	8.6	7.4
Finance, etc.	7.2	7.1	7.8	9.5	10.2
Public Administration	8.9	8.9	8.7	9.8	9.7
GVA	5.8	6.5	6.8	7.6	8.1

Source: MOSPI, CEIC, MOFSL

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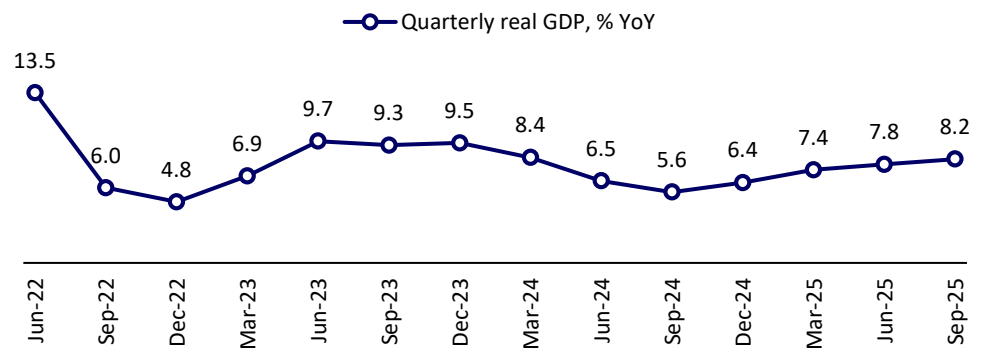
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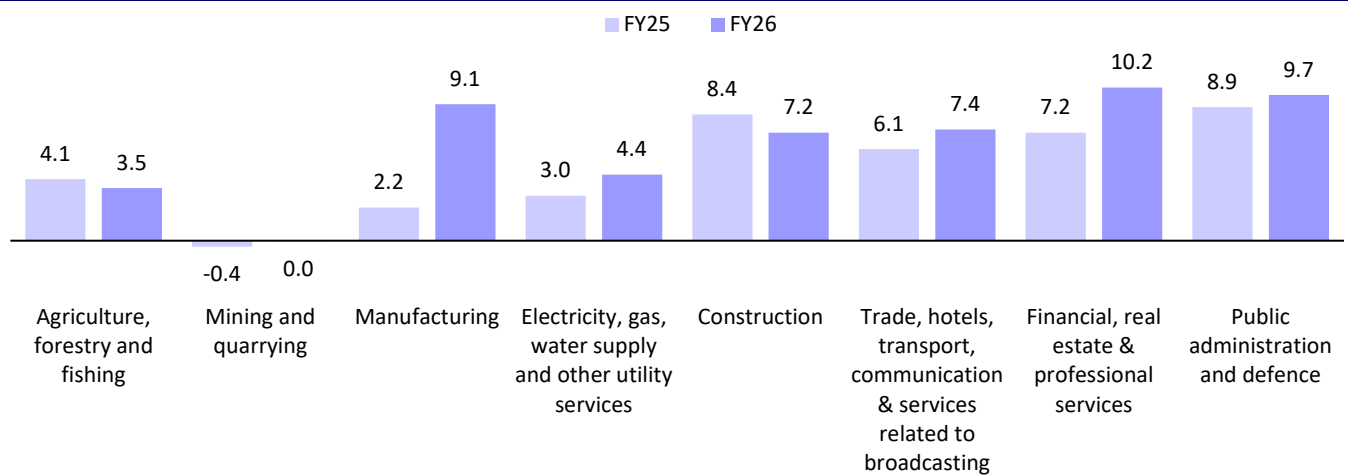


Exhibit 2: Real GDP growth picks up pace



Source: MOSPI, CEIC, MOFSL

Exhibit 3: Sector-wise growth rates (%) of real GVA in 2Q of FY25 and FY26



Source: MOSPI, CEIC, MOFSL

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