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GDP growth pegged at 7.6% for FY26

India's GDP growth clocked 7.8% in Q3FY26, following 7.4% growth in Q3FY25. For full year, growth is estimated at 7.6% given robust growth in manufacturing sector. These estimates have been revised upwards from previous estimate of 7.4% to align with the new base year (2022-23). With respect to the revision, major change that has been incorporated include, double deflation in agriculture and manufacturing in order to capture price issue appropriately. Going forward, growth is expected to advance in Q4 further as has been evident from the high frequency indicators. This will be supported by strong boost to consumption spending along with revival in investment, as well as accommodative monetary conditions and benign inflation, these bodes well for the growth outlook. Given the rebasing of the GDP series, we do not expect much bearing on fiscal ratios. Overall, we stick with our estimate of GDP growth of 7-7.5% for FY27.

Q3FY26 GDP improves

GDP growth in Q3FY26 accelerates to 7.8% from 7.4% in Q3FY25 on a YoY basis. On expenditure side, higher pace of growth was driven by PFCE with a growth of 8.7% in Q3FY26 against 6% in Q3FY25. Strength was also noted in investment with GFCE growth of 7.8% compared with 6.3% growth in Q3FY25. Imports growth rose to 8.6% growth in Q3FY26 from 2.9% growth clocked in the previous year of the same quarter. On the other hand, moderation was noted in government spending with 4.7% growth against 7.6% growth previously. Moreover, given the uncertainty on the tariff front during the same period, exports growth eased to 5.6% from 10.5% growth noted in Q3FY25.

On the nominal side, barring imports and investment, broad-based moderation was noted across all the components. Private and government spending was marginally down with 8.9% (from 10.8%) and 9% (from 12.6%) growth in Q3FY26 respectively. Exports growth continue to clock double digit growth albeit at a tad slower pace of 10.3% against 11.3% in Q3FY25. On the brighter side, investment growth with over 30% share inched up by 9% in Q3 compared with 8.8% growth in Q3FY25. Imports growth an increase of 13.4% growth against 9.9% growth for the same period of last year.

GVA maintains momentum

GVA registered a growth of 7.8% in Q3FY26, up from Q3FY25 (7.4%) as per the new series. Amongst the sectors, major momentum was delivered by both services and manufacturing. Within services, growth was broad based, with trade, hotels noting a growth of 11% in Q3FY26 versus 6.7% in Q3FY25. Public admin and defence (4.5% versus 4.4%) and financial sector growth continue to rise at steady pace (11.2% versus 11.1%). On the industrial side, manufacturing sector showed resilience as it registered 13.3% growth compared with 10.8% last year during the same period, helped by improvement in corporate profitability. Growth in utilities segment was up by 1.5% from 0.6%, and construction sector recorded 6.6% increase versus 6.4% in Q3FY25. In contrast, agriculture (1.4% versus 5.8%) and mining (4.7% versus 13.1%) sector growth noted moderation.

Outlook for FY26

India's GDP growth has been revised upwards from the previous estimate of 7.4% for FY26, based on the old series. It is now expected to clock a 7.6% growth in FY26 against a growth of 7.1% in FY25 as per the new base year of 2022-23. In terms of nominal growth it stands at 8.6%. The real GDP growth for FY26 looks achievable at 7.6% and is in line with our expectation. This will be on the back of remarkable double digit growth expected in manufacturing sector (11.5% from 9.3%) which has expanded in the last 3-years. Additionally, stupendous growth is expected in trade, hospitality and tourism sector with 10.1% growth in FY26 from 6.6% in the previous year. In nominal terms, strong growth in exports (9.6% from 8.3%) along with steady growth in PFCE at 8.9% will hold ground for solid growth in FY26. This will be further supported by sharper growth in Q4 given the sustained pickup in government spending, capex, especially investment along with improved outlook for rabi sowing as well as buoyancy in consumption demand. High frequency data points (PMI-both manufacturing and services, auto sales, strong GST collections, port cargo) are already showing signs of uptick so far. There has been reasonable traction in consumption demand amidst the recent rationalisation of GST rates. A recovery in urban consumption bodes well for the growth outlook. Notably, some uncertainty pertains on the tariff front specially US, given the recent changes. However the new trade deals with other countries might offset any such negative impact. Overall, we foresee limited impact of the change in the new series, with no durable bearing on fiscal ratio. With this, we continue with our forecast of 7-7.5% growth for FY27.

Table 1: Q3FY26 GDP growth improves from last year

Sectors (%)	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26
Agriculture, forestry and fishing	5.8	3.8	4.2	2.3	1.4
Mining and quarrying	13.1	12.9	4.5	6.1	4.7
Manufacturing	10.8	11.8	10.6	13.2	13.3
Electricity, gas, water supply and other utility services	0.6	2.1	(1.9)	3.9	1.5
Construction	6.4	8.0	5.4	8.7	6.6
Trade, hotels, transport, communication & services related to broadcasting	6.7	6.3	9.4	10.4	11.0
Financial, real estate & professional services	11.1	8.8	8.8	9.9	11.2
Public administration and Defence	4.4	3.2	4.3	6.9	4.5
GVA at basic prices	7.8	7.1	7.0	8.6	7.8
GDP	7.4	7.0	6.7	8.4	7.8

Source: PIB, Bank of Baroda Research

Table 2: FY26 GDP growth strongest in 3 years

Sectors (%)	FY24	FY25	FY26
Agriculture, forestry and fishing	2.6	4.2	2.4
Mining and quarrying	2.4	11.7	4.1
Manufacturing	12.7	9.3	11.5
Electricity, gas, water supply and other utility services	10.7	2.9	1.5
Construction	9.9	7.3	7.1
Trade, hotels, transport, communication & services related to broadcasting	10.1	6.6	10.1
Financial, real estate & professional services	5.5	10.0	9.9
Public administration and Defence	6.8	5.0	5.8
GVA at basic prices	7.2	7.3	7.7
GDP	7.2	7.1	7.6

Source: PIB, Bank of Baroda Research

Table 3: Shares remain broadly steady

Expenditure Approach (share as % of GDP)	FY23		FY24		FY25	
	Old	New	Old	New	Old	New
Private final consumption expenditure (PFCE)	61.5	57.1	60.2	56.5	61.4	56.5
Government Final Consumption expenditure (GFCE)	10.3	11.1	10.3	10.6	10.0	10.7
Gross fixed capital formation (GFCF)	31.2	32.4	30.4	31.9	29.9	31.6
CIS	1.1	0.7	1.5	1.3	1.5	1.2
Valuables	1.3	1.4	1.4	1.3	1.5	1.5
Exports	23.3	24.0	21.4	22.4	21.2	22.1
Imports	26.8	26.7	23.5	24.0	23.5	23.9
Discrepancies	(1.8)	0	(1.8)	0	(2.0)	0.3
GDP	100	100	100	100	100	100

Source: PIB, Bank of Baroda Research

Annexure**Table 4: Changes in old vs new series**

Major Heads	Old series (2011-12)	New Series (2022-23)
Segregation of activity	For Multi activity enterprise, entire GVA was allocated to the industry as per major share criterion	Activity wise revenue share for a company available in the MGT data is being used to segregate economic activities
Multipliers at disaggregated level	Based on Paid-up Capital (PUC)	Multipliers at disaggregated level used for accounting the differences in capital intensity
General Government Sector	Output valued by the sum of Compensation of employees (CE), Intermediate consumption and Consumption of fixed capital (CFC)	Adjustment for pension entitlements Coverage of autonomous institutes and local bodies has also been expanded Re-classification of institutional units in various institutional Sectors has been done Imputation of accommodation provided by government in lieu of HRA has been done
Household Sector	Effective Labour Input Method (ELI Method) using the benchmark-indicator procedure	Estimation of household sector has been improved through use of Annual Survey of Unincorporated Sector Enterprises and Periodic Labour Force Survey on annual basis understanding significance of this sector
Incorporation of new data		GST data for Quarterly National Accounts Usage of Public Financial Management System data for updated estimates of Government sector Usage of e-vahan data for land transport services
Nuanced estimation of PFCE	Commodity flow is being followed i.e. production is adjusted for intermediate Consumption, net Imports, change in Stock, consumption on government account and Gross Fixed Capital Formation	Enhanced use of Household Consumer Expenditure Survey Direct estimation based on production and other data sources Commodity flow approach.
Quarterly National Accounts (QNA)	Pro-rata method was used for benchmarking	Latest relevant standard i.e. COICOP 2018 has also been adopted in compilation of PFCE Denton-proportional Benchmarking Method is used to eliminate artificial discontinuities

Source: MOSPI, Bank of Baroda Research

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