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Q2 GDP growth surpasses expectations

India's GDP growth rose at a stellar pace of 8.2% in Q2 FY26 compared with 5.6% in Q2 FY25. This followed a growth of 7.8% in Q1 FY26, bringing the H1 growth to an impressive 8%. In Q2, boost to growth came from a rebound in manufacturing sector. At the same time, services sector continued to show momentum. Private consumption too expanded at a healthy pace, even as government expenditure contracted. In H2, the economy is likely to be supported by robust consumption demand due to GST rate cuts and festive demand. Manufacturing production has recovered, while agriculture and services sector have continued on a steady growth path. However, higher US tariffs can have some negative impact on growth, in case the trade deal is delayed further. Some of this is likely to be offset by the resilience in services exports. Taking all this into account, we are revising our growth forecast upwards to 7.4%-7.6% for FY26. Given the buoyancy in economy, the possibility of a rate cut in Dec'25 looks limited.

Q2 FY26 GDP expands

GDP growth in Q2 FY26 surged to 8.2% from 5.6% in Q2 FY25 on a YoY basis. This was significantly higher than our expectations of 7.1%-7.3%. Private consumption growth rebounded sharply in Q2. In real terms, PFCE expanded by 7.9% in Q2 FY26 compared with 6.4% in Q2 FY25. In nominal terms, GDP growth in Q2 was higher at 8.7% compared with 8.3% in the same period last year. The revival in private consumption is even more stark at 9.3% this year (current prices). Exports too witnessed a considerable pickup due to possible frontloading to the US before the tariff deadline. In nominal terms, exports expanded by 11% in Q2 FY26 compared with 2.5% in the same period last year. On the other hand, government consumption contracted this year after a strong run last year. Growth in GFCF was 8.2% in Q2 FY26.

GVA moderates

GVA growth also witnessed a substantial improvement to 8.1% in Q2 FY26 versus 5.8% in the same period last year. Within this, manufacturing sector saw a notable pickup with growth at 9.1% compared with 2.2% in Q2 FY25. Services sector too continued to show momentum, registering a growth of 9.2% in Q2 FY26 compared with 7.2% growth last year. Within services sector, financial services registered a higher growth of 10.2% in Q2 FY26, compared with 7.2% in the same period last year. Strong demand pushed growth in trade, hotels and transport sector to 7.4% in this quarter, compared with 6.1% growth last year. On the other hand, agricultural output was marginally lower at 3.5% compared with 4.1% in Q2 last year. Electricity and construction sector too witnessed some moderation, while mining output continued to contract.

Outlook for FY26

At 8% in H1 FY26, India's growth remains on a strong footing. The outlook for H2 remains promising.

- Early indicators suggest that consumption demand received a significant boost from the GST rationalisation, which also coincided with the festive period. This is likely to be reflected in Q3.
- Auto sales showed significant traction in the festive period, with both passenger vehicles as well as two-wheelers sales registering record highs. Tractor sales also rebounded sharply,

indicating a continued buoyancy in rural demand. Urban demand is also showing signs of recovery with an improvement in non-oil-non-gold imports.

- Centre's capex growth has continued to maintain momentum in Q3FY26 as well and risen by 32.4% between Apr-Oct'25, following (-) 14.7% decline noted in the same period last year.
- Credit growth too is showing signs of recovery, signalling early signs of pickup in private investment.
- Other indicators such as e-way bill generation, port cargo activity, petrol and diesel demand also signal that the economy remains on a strong footing.
- Rabi sowing has also progressed well, supported by healthy reservoir storage which augurs well for agriculture sector.
- Manufacturing PMI rose in Oct'25, signalling some revival on the production front. At the same time, services sector has continued to see steady demand.

Overall, while growth indicators remain largely on track, challenges remain due to the adverse external environment. Exports to the US are showing signs of deceleration after the tariff took effect, which is a cause of concern as there can be a drag on growth in the near-term. However, this is likely to be offset to some extent by the continued strength in services exports. Overall, we expect GDP growth in the range of 7.4%-7.6% in FY26.

Table 1: Q2 FY26 GDP growth at 8.2%

Sectors (% YoY)	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26
Agriculture, forestry and fishing	4.1	6.6	5.4	3.7	3.5
Mining and quarrying	-0.4	1.3	2.5	-3.1	-0.04
Manufacturing	2.2	3.6	4.8	7.7	9.1
Electricity, gas, water supply and other utility services	3.0	5.1	5.4	0.5	4.4
Construction	8.4	7.9	10.8	7.6	7.2
Trade, hotels, transport, communication & services related to broadcasting	6.1	6.7	6.0	8.6	7.4
Financial, real estate & professional services	7.2	7.1	7.8	9.5	10.2
Public administration and Defence	8.9	8.9	8.7	9.8	9.7
GVA at basic prices	**5.8**	**6.5**	**6.8**	**7.6**	**8.1**
GDP	**5.6**	**6.4**	**7.4**	**7.8**	**8.2**

Source: CEIC, Bank of Baroda Research

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