SBI RESEARCH
ECOWRAP

Q1 GDP GROWTH AT 7.8% (ON AN UNCHANGED BASE OF Q1 FY26, GDP GROWTH AT 8%/ SBI AT 8%): FY27 SBI GDP GROWTH FORECAST IS NOW REVISED TO 7.3% FROM EARLIER 6.6%: FRONTLOADED RATE DECISION NEXT?

Issue No. 22, FY27
Date: 31 Aug 2026

Economy stayed course, buoyed and riding on the wings of innate antifragile resilience, clocking a Q1 growth that, at 7.8%, came close on the heels of SBI Research's call of ~8% (on lighter note, on an unchanged base , it grew by 8.0% as projected!). While this is way better than 6.9% growth recorded in Q1'FY26, the sweetener has been the homogeneity in sectoral endurance being all pervasive, with a dampener being Mining & Quarrying degrowth. The strong GVA growth at 8.2% as against last year's growth of 7.0%, indicate supply side robustness of the economy and signal for better growth numbers going forward also.

We now revise our FY27 growth forecast to 7.3% from earlier 6.6%. Our forecasts point to real GDP growth of 7.3% in Q2, 7.2% in Q3 and 6.9% in Q4 FY27, with momentum supported by accelerating high-frequency indicators, including industrial production, services activity, credit demand and investment spending, alongside resilient consumption. The gradual moderation reflects normalization from Q1's strong 7.8% base rather than a loss of underlying momentum, with domestic demand remaining the key growth anchor.

Basis MoSPI revisions, interestingly, the updated annual GDP for FY25 is now exactly 7.2%, matching exactly the number given by RBI in Oct'24 policy! Some perpetually vocal sections at that point of time critical of RBI need some kind of introspection perhaps now. The quarterly revisions for FY26 are also quite diverse. While nominal growth and real growth rates are revised downwards for Q2 & Q3, the Q4 witnessed whopping 72 bps upwards revision in real GDP growth. Coming back to Q1 numbers, Services sector remains the star performer of Q1, growing by 10.0% , led by 12.1% growth in 'Financial, real estate & professional service sector' and 8.5% growth in 'trade, hotels, transport, communication, etc.' sector. Agriculture sector grew a tad lower at 3.6% while industry sector grew impressively at 7.7% and manufacturing sector again showed strong growth of 9.2% YoY (8.3%).

The impact of changes in export and imports prices had an impact on GDP deflator. The contribution of different expenditure items to GDP deflator shows that capital formation and exports have contributed the most to the deflator. Output price pressures strengthened in Q1 FY27, with the GDP deflator rising to 2.3% from 1.1% in Q1 FY26, while the GVA deflator at basic prices increased sharply to 3.0% from 1.1%. The acceleration was led by agriculture and industry, with their deflators rising from 0.3% to 3.8% and -0.3% to 3.9%, respectively. In contrast, services remained relatively stable, with its deflator moving from 2.1% to 2.4%. **Manufacturing deflator turned negative at –1.4% in Q1 FY27. This apparent divergence suggests that input prices were rising faster than manufacturers' output prices. Juxtaposing this with oil prices reveal that higher crude prices feed into the cost of petroleum products and other intermediate inputs; however, if manufacturers are unable to fully pass these higher costs on to final prices, the input–output price differential compresses value added. If this continues then the manufacturing deflator is likely to be in negative territory.**

Meanwhile, the FY27 Budget has pegged the fiscal deficit at Rs 16.96 lakh crore, equivalent to 4.5% of GDP on the new GDP base, while the Centre's debt is budgeted at 57.4% of GDP. **However, if nominal GDP expands by the assumed 10%, the fiscal deficit will stand around 4.6%, higher than the budgeted numbers. Also, assuming a 10% nominal GDP growth, the debt to GDP ratio should stand at 57.1% .**

That brings us to an important question to ponder; Credit growth globally has been showing robust uptick across jurisdictions, led more so across Asian EMs (ex-China and AI led economies viz. Japan/Taiwan largely), moving firmly beyond a sidekick of capital markets vagaries which may sooner (than later) necessitate rate actions from the Central Banks, a normalization act counter intuitive to likely generalization setting in price prints. **This, we believe, may up the ante for the Mint Street to actively pursue the virtues of a shallow yet front loaded rate hike, a cautious ovation to the resilience put to West Asia crisis by the local economy. With the growth rate at 7.8%, the chances of an imminent increase in output prices looks possible. This has already happened in select sectors like handsets, consumer goods, and metal items. Also, a rate hike would somehow align and vindicate with RBI MPC minutes giving much needed clarity to markets.**

GDP GREW BY 7.8% IN Q1 FY27 (8.0% UNCHANGED BASE OF Q1 FY26)

- India's economy grew by 7.8% in Q1 FY27 as compared to 6.9% growth recorded in Q1 FY26. Except Mining & Quarrying, all other sectors exhibited excellent growth. The strong GVA growth at 8.2% as against last year's growth of 7.0%, indicate supply side robustness of the economy and signal for better growth numbers going forward also.
- Nominal GDP grew by 10.3% in Q1 FY27 much higher than the 8.1% growth occurred in Q1 FY26. The gap between real and nominal GDP, which was merely 20 bps in Q1 FY26 has increased to 250 bps in Q1 FY27.
- **Core GVA (overall GVA ex Agriculture and Public Finance) registered a growth of 9.5% yoy in Q1 FY27 compared to 8.1% yoy in Q1 FY26.**
- Agriculture sector grew by 3.6% while industry sector grew impressively at 7.7% despite the negative growth in Mining and Quarrying (-2.4%). India's manufacturing sector again showed strong growth in Q1 FY27, growing by 9.2% YoY, compared to last year growth of 8.3%.
- **Services sector is the star performer of Q1 and grew by 10.0% due to 12.1% growth in 'Financial, real estate & professional service sector' and 8.5% growth in 'trade, hotels, transport, communication, etc.' sector.**

UPDATION IN GDP GROWTH

- **MoSPI has also released the "National Accounts Statistics – 2026" for the base year 2022-23. The yearly numbers are revised both in constant and current prices and the updated numbers show a slightly stronger real economy but lower nominal growth.**
- The updates are based on three accounts: (i) Producer Price Index replaces the older WPI in relevant areas and provides a wider commodity basket, updated weights and better mapping of prices to economic activities, (ii) Inclusion of new IIP series with broader item and quotation coverage, and (iii) Banking Services Price Index: is intended to better capture the actual physical volume and transactional activity of banking services over time.
- The quarterly revisions for FY26 are quite diverse. While nominal growth and real growth rates are revised downwards for Q2 & Q3, the Q4 witnessed whopping 72 bps upwards revision in real GDP growth, and Q1 observed 51 bps decline in nominal GDP growth.

GVA at Basic Price by Economic Activity (%)

Sectors	FY26				FY27
	Q1	Q2	Q3	Q4	Q1
Agriculture	4.4	3.2	1.9	3.9	3.6
Industry	6.6	9.4	7.4	7.1	7.7
Mining & quarrying	12.4	21.6	3.3	-2.9	-2.4
Manufacturing	8.3	10.0	9.0	7.9	9.2
Electricity, gas, water supply & other utility services	-1.8	3.8	1.9	4.8	8.9
Construction	5.2	7.8	7.0	8.7	7.7
Services	8.0	9.1	10.1	11.5	10.0
Trade, hotels, transport, communication & services related to broadcasting	9.8	10.6	11.7	12.9	8.5
Financial, real estate & professional service	8.8	9.9	10.9	12.3	12.1
Public administration, defence and Other Services	4.6	5.7	6.6	8.0	7.5
Total GVA at Basic Price	7.0	8.3	7.6	8.7	8.2
GDP	**6.9**	**8.1**	**7.7**	**8.6**	**7.8**

Source: NSO,SBI Research

Revision in GDP Growth

FY	At Current Prices			At Constant Prices		
	Earlier	Updated	Change in bps	Earlier	Updated	Change in bps
FY24	11.0%	11.1%	10	7.2%	7.3%	10
FY25	9.7%	9.4%	-30	7.1%	7.2%	10
FY26	8.9%	8.6%	-30	7.7%	7.8%	10
Q1 FY26	8.6%	8.1%	-51	6.8%	6.9%	4
Q2 FY26	8.6%	8.4%	-18	8.3%	8.1%	-23
Q3 FY26	9.2%	8.7%	-50	8.0%	7.7%	-31
Q4 FY26	9.1%	9.2%	4	7.8%	8.6%	72

Source: MOSPI

A very few examples of how SBI Research almost correctly predict key macro data

Q1 FY27 real GDP growth at 8%	SB Research is the first to highlight that Q1 FY27 growth may reach 8% mark. On an unchanged base of Q1 FY26, it grew by 8.0% only!
Jumbo rate cut call	SBI Research accurately anticipated and advocated for a "jumbo" 50 bps repo rate cut ahead of the RBI's June 2025 MPC meeting
Challenge structural inflation arguments made by former RBI DG Viral Acharya	SBI Research stating that India's retail inflation would sharply descend towards 2% or below due to plunging food and commodity prices.
Demonetisation (2016)	SBI Research projected that demonetisation would cause a net seigniorage loss to RBI alongside increased currency printing costs.
September 2017 Ecowrap on structural slowdown	SBI Research explicitly warned that the downward trajectory of India's GDP growth was structural in nature and "for real," rather than a merely transient or technical cyclical phase.

EXPENDITURE SIDE GDP

- The interpretation of the Q1 FY27 figures is rather challenging given the situation in West Asia from Feb 2026. The Indian macroeconomic response to war in West Asia includes measure that have direct bearing on GDP estimates.
- The most important being the curbs on import of gold that impacted the valuables component of the demand. Even though the real growth in valuables declined by 18.1% in Q1 FY27, in nominal terms they registered a growth of 34%, indicating the impact of price on nominal figures despite the curbs. Similar is the situation with imports, which declined by 1.1% in Q1FY27, while the nominal figures increased by 30.9%. These adjustments may inflate the overall real GDP growth.
- Another aspect of the policy measures is that the transmission of energy prices was partial, and this reflects output prices. Hence, how has the war impacted demand activity needs cautious reading.
- With these saves, the demand conditions show robust trends. On y-o-y basis, the demand has improved to 6.7% in Q1FY27 from 6.4% in previous years. Private consumption and investments remain the mainstay of demand in Q1, growing by 7.1% and capital formation doubled to 11.9% from Q1FY26. Imports have contracted while exports have surged by 12% Q1FY27, twice the rate of growth in Q1 FY26.

GDP ESTIMATE REVISED UPWARD TO 7.3% FOR FY27

- Our forecasts point to real GDP growth of 7.3% in Q2, 7.2% in Q3 and 6.9% in Q4 FY27. Momentum is supported by accelerating high-frequency indicators, including industrial production, services activity, credit demand and investment spending, alongside resilient consumption. The gradual moderation reflects normalization from Q1's strong 7.8% base rather than a loss of underlying momentum, with domestic demand remaining the key growth anchor.
- **As per unchanged base of Q1FY26, real GDP growth for Q1FY27 is at 8.0%, exactly in line with our estimate.** However, with the latest revision incorporated in the National Accounts Statistics (NAS) release, Q1FY27 growth estimate is now at 7.8%.

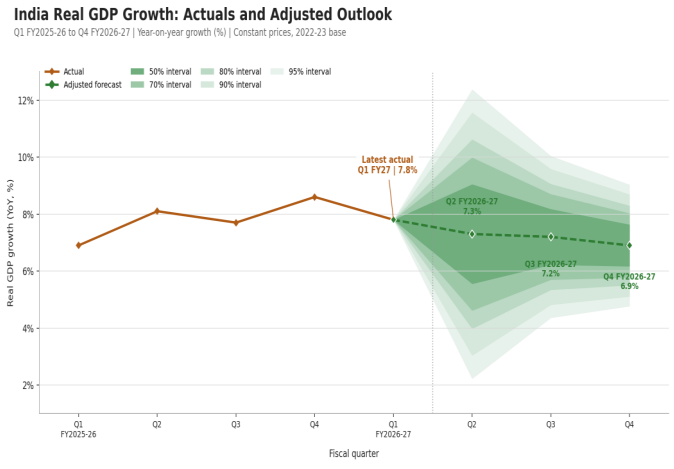
Quarterly Estimates (%Y-o-Y) of Expenditures on GDP at Basic Price

Sector	FY26				FY27
	Q1 FY26	Q2 FY26	Q3 FY26	Q4 FY26	Q1 FY27
Total final consumption expenditure	6.4	6.0	7.9	7.5	6.7
Private final consumption expenditure	6.8	6.4	8.0	7.5	7.1
Government final consumption expenditure	4.5	4.4	7.0	7.7	4.3
Gross fixed capital formation	5.8	7.2	8.3	10.5	11.9
Change in Stocks	27.4	12.5	9.4	12.3	-13.9
Valuables	-28.9	-28.4	-2.8	45.8	-18.6
Exports	6.0	9.7	6.2	3.9	12.0
Less Imports	5.3	5.0	7.0	0.8	-1.1
Discrepancies*	1.8	0.4	0.2	-1.4	-1.3
GDP	**6.9**	**8.1**	**7.7**	**8.6**	**7.8**

Source: MoSPI; SBI Research, *share in GDP

RATE ACTION ON THE CARDS?

- Credit growth globally has been showing robust uptick across jurisdictions, led more so across Asian EMs (ex-China and AI led economies viz. Japan/ Taiwan largely), moving firmly beyond a sidekick of capital markets vagaries which may sooner (than later) necessitate rate actions from the Central Banks, a normalization act counter intuitive to likely generalization setting in price prints. **This, we believe, may up the ante for the Mint Street to actively pursue the virtues of a shallow yet front loaded rate hike, a cautious ovation to the resilience put to West Asia crisis by the local economy.**



DEFLATOR TRENDS

- The impact of changes in export and imports prices had an impact on GDP deflator. The contribution of different expenditure items to GDP deflator shows that capital formation and exports have contributed the most to the deflator.
- Output price pressures strengthened in Q1 FY27, with the GDP deflator rising to 2.3% from 1.1% in Q1 FY26, while the GVA deflator at basic prices increased sharply to 3.0% from 1.1%.
- The acceleration was led by agriculture and industry, with their deflators rising from 0.3% to 3.8% and -0.3% to 3.9%, respectively. In contrast, services remained relatively stable, with its deflator moving from 2.1% to 2.4%.
- **Manufacturing deflator turned negative at –1.4% in Q1 FY27. This apparent divergence suggests that input prices were rising faster than manufacturers' output prices. Juxtaposing this with oil prices reveal that higher crude prices feed into the cost of petroleum products and other intermediate inputs; however, if manufacturers are unable to fully pass these higher costs on to final prices, the input–output price differential compresses value added. If this continues then the manufacturing deflator is likely to be in negative territory.**

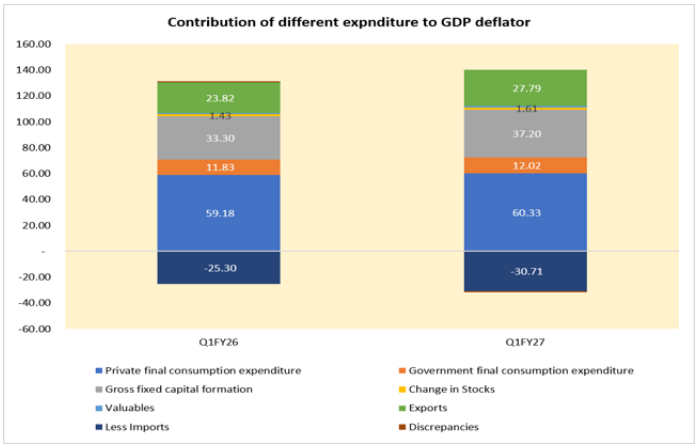
FY27 FISCAL MATH

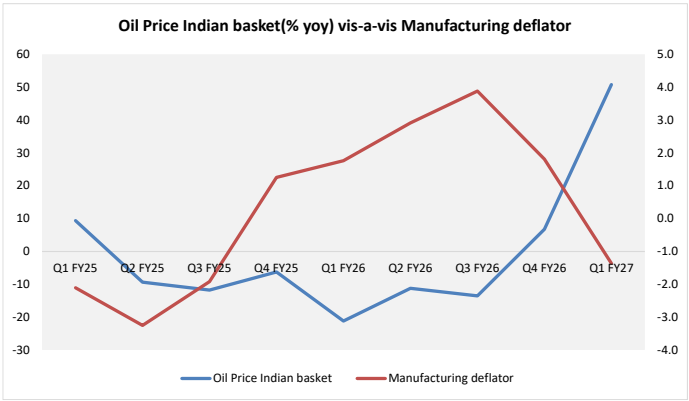
- The FY27 Budget has pegged the fiscal deficit at Rs16.96 lakh crore, equivalent to 4.5% of GDP on the new GDP base, while the Centre's debt is budgeted at 57.4% of GDP. However, if nominal GDP expands by the assumed 10%, the fiscal deficit will stand around 4.6%. The debt to GDP ratio assuming a 10% nominal GDP growth will stand at 57.1%.

Sector-wise Deflator Growth

Deflator (%)-Industry	FY26				FY27
	Q1 FY26	Q2 FY26	Q3 FY26	Q4 FY26	Q1 FY27
1. Agriculture, forestry & fishing	0.3	-0.6	-2.0	-0.4	3.8
2. Industry	-0.3	0.8	1.5	2.0	3.9
2.1 mining & quarrying	-14.1	-8.7	-0.8	9.5	25.3
2.2 Manufacturing	1.8	2.9	3.9	1.8	-1.4
2.3 Electricity, gas, water supply & other utility services	3.2	0.5	-3.3	-1.6	0.8
2.4 Construction	-0.5	-0.5	-0.4	1.8	8.2
3. Services	2.1	1.2	0.8	1.4	2.4
3.1. trade, hotels, transport, communication & services related to broadcasting	1.1	0.4	0.4	1.9	5.1
3.2. financing, insurance, real estate & bus. Services	1.7	0.5	-0.1	0.2	0.5
3.3. Public administration, defence and Other Services	3.8	3.5	3.4	3.5	3.3
Total GVA at Basic Price	**1.1**	**0.8**	**0.4**	**1.2**	**3.0**
GDP	**1.1**	**0.3**	**1.0**	**0.6**	**2.3**

Source: MoSPI, SBI Research





Fiscal Deficit Estimation

	FY27(BE)
FD (BE)	16.95
FD (New base)	4.5
Revised FD post West Asia Crisis Rs lakh Cr	17.35
Revised FD post West Asia Crisis as % of GDP(BE)	4.6
Revised FD post West Asia Crisis as % of GDP (10.5 % Growth)	4.5
Central GOV Debt (New base)	57.5
Central GOV Debt (at 10.5 % GDP growth and post west Asia crisis)	57.3

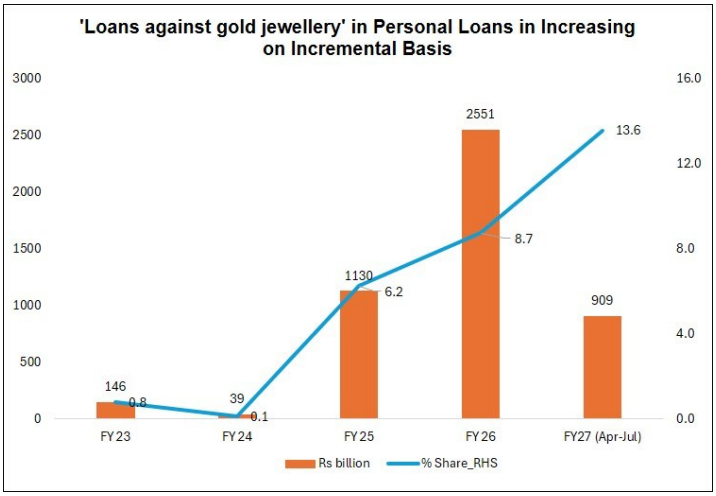
ASCB CREDIT GROWTH IS IMPROVING

- SCBs credit grew by 18.3% for the fortnight ended 15 Aug 2026, compared to last year growth of 10.2%, while aggregate deposits grew by 14.7%, compared to last year growth of 10.0%.
- The sectoral incremental credit growth data during Apr-July 2026 indicates that 'industry and personal loans' has contributed ~64% of the incremental credit growth.
- Among personal loans, 37% (Rs 909 bn out of Rs 2436 bn) is contributed by 'loans against gold jewellery' alone.
- Going forward, in FY27, aggregate deposit is estimated to grow by 14.5%-15%, while credit growth is expected at 15-16%.

ASCBs Sector-Wise Credit Flow (Rs bn): June FY27

Sectors	FY26 (Apr-July-25)		FY27 (Apr-July-26)		YoY %	
	Rs bn	%	Rs bn	%	FY26	FY27
Agri. & Allied	**268**	**1.2**	**624**	**2.4**	**7.3**	**17.0**
Industry	**166**	**0.4**	**2165**	**4.7**	**6.5**	**20.0**
MSE (Priority)	2497	11.1	1910	6.6	24.5	24.1
Infrastructure	81	0.6	227	1.5	3.4	10.2
Services	**-531**	**-1.0**	**1355**	**2.2**	**10.2**	**22.9**
NBFCs	-667	-4.1	578	2.8	3.0	35.7
Personal Loans	**2084**	**3.5**	**2436**	**3.5**	**11.9**	**16.2**
Housing (Including Priority)	707	2.3	725	2.2	9.6	11.3
Other Personal Loans	202	1.3	524	3.0	7.6	14.7
Loans against gold jewellery	873	42.3	909	19.7	136.4	88.1
Gross Bank Credit	**1000**	**0.5**	**7167**	**3.4**	**10.0**	**19.3**

Source: RBI, SBI Research



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