Q3 FY26 GDP could be more than 8.0%

Nowcasted Q3FY26 real GDP growth at 8.1%..However, given significant methodological changes and new data series to be released it is difficult to predict the extent of revision

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Executive Summary

- Despite global headwinds, the Indian economy has maintained strong growth momentum. As per the first advance estimate, GDP is estimated to growth at 7.4% in FY26, with growth largely driven by domestic demand. As per the latest Economic Survey, India's potential GDP is estimated to be around 7% and estimated to grow in the range of 6.8-7.2% during FY27
- The second advance estimates of GDP for FY26, incorporating additional data and revisions, are scheduled to be released on February 27, 2026. So, all the previous quarterly numbers of Q1 and Q2 are expected to change with the base revision to 2022-23
- High-frequency activity data indicates resilient economic activity in 3QFY26. Rural consumption remains strong, driven by positive signals from farm and non-farm activity. Supported by fiscal stimulus, urban consumption shows a consistent uptick since the last festive season
- **Overall, we expect Q3FY26 real GDP growth of closer to 8.1%. Given significant methodological changes, it is difficult to predict the direction of revision**

India’s New Base 2022-23 GDP is expected to provide better estimate

- India is updating its GDP base year from 2011-12 to 2022-23, with the new series scheduled for release on February 27, 2026
- This revision, along with an updated CPI base (2024), aims to better reflect the current economic structure, including increased digital commerce and service
- The overhaul includes better measurement of the informal sector and new data sources like GST, potentially placing India as the world's fourth-largest economy
- The new methodology will incorporate more granular data, including GST records, e-Vahan (vehicle registrations), and information on natural gas consumption, as per The Economic Times.
- The update promises improved measurement of the informal economy using quarterly QBUSE bulletins

- The **Second Advance Estimates of GDP for 2025-26 along with past 3 financial years’ GDP estimates as well as Quarterly GDP estimates as per the new base 2022-23 will be released on 27 Feb 2026**

India's New Base 2022-23 GDP: Methodological Improvements

2011-12 base	2022-23 base
1. Segregation of activities : in case of 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 and consequently the value added by each business activity of the enterprise
2. Use of multipliers at disaggregated level: Multiplier, based on Paid-up Capital (PUC), was used to derive the estimates of the non-reporting companies at overall level	• Multipliers at disaggregated level are being used to account for the differences in capital intensity (measured by GVA to PUC ratio) across industries and size classes
3. General Government Sector:	• Imputation of housing services provided by government • Coverage of autonomous institutes and local bodies has also been enhanced in case of General Government
4. Household Sector: Indicator-based extrapolation approach	• Use of Annual Survey of Unincorporated Sector Enterprises and Periodic Labour Force Survey on annual basis
5. Updated Rates and Ratios:	• Updated rates and ratios are being used in the new series on the basis of different studies
6.Use of New Data Sources:	• New data sources like GST data for Quarterly National Accounts, regional allocation and corroboration of annual estimates, use of Public Financial Management System data for timely and updated estimates in case of Government sector, use of e-vahan data in production and consumption of land transport services are included
7. Private Final Consumption Expenditure (PFCE :	• Enhanced use of Household Consumer Expenditure Survey • Direct estimation based on production and other data sources • Commodity flow approach. Also, latest relevant standard i.e. COICOP 2018 has also been adopted in compilation of PFCE
8. Quarterly National Accounts (QNA): pro-rata method was used for benchmarking in case of Quarterly National Accounts	• Denton-proportional Benchmarking Method is being used to eliminate artificial discontinuities in the QNA series as well as to preserve the movement of the indicators. This also aligns QNA estimates with the annual national accounts estimates

Source: MOSPI

India's New Base 2022-23 GDP: Moving away from single deflator

Methodology	2022-23 base
• **Transition to Double Deflation and Volume/Single Extrapolation**:	• Double deflation is adopted for various industries under the manufacturing sector • Under the double deflation, output and intermediate consumption are separately deflated by concerned price indices to derive Value Added at constant prices • Wherever double deflation is not feasible due to data constraint, the Volume extrapolation and Single extrapolation is applied through reliable indicators
• **Use of Specific and Disaggregated Deflators**	• The price Indices and Indicators at granular level rather than the broad level is considered while compiling the constant price estimates • For example, Unit Value Indices (UVI) at commodity-group level rather than the aggregate level are used for the constant price estimates of export and import of goods
• **Updated series of Deflator**:	• New series of CPI (Base = 2024) and UVI (Base: 2022-23) are considered in the new series. Also, the updated series of WPI (Base: 2022-23) or PPI, whenever available, will be used in the new series

Source: MOSPI

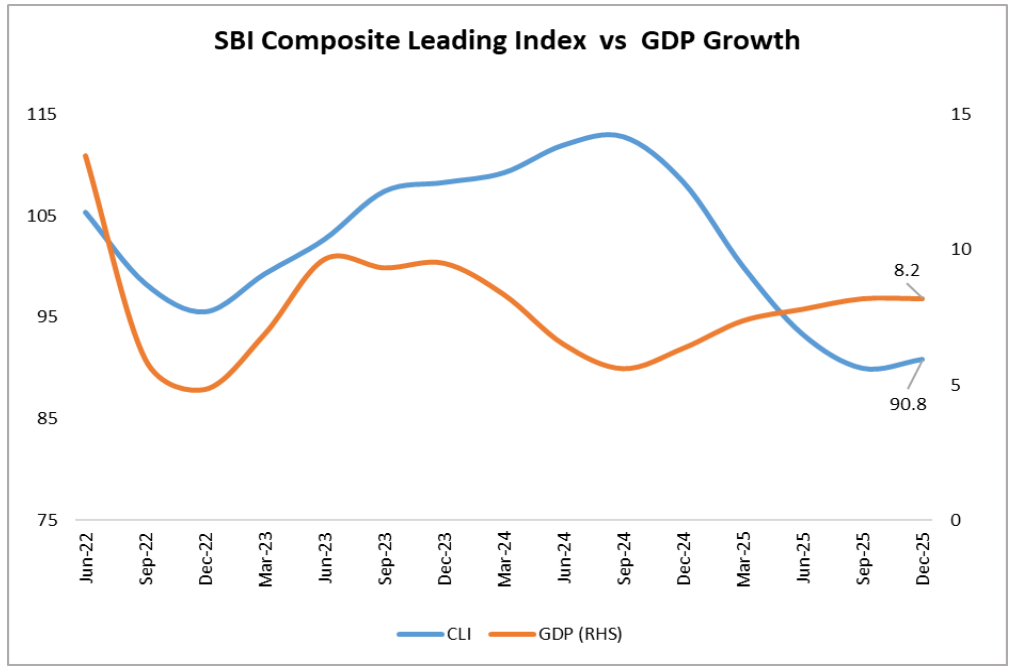
Global uncertainty remains with New Tariff of 15%

- The global economic environment is characterized by high uncertainty, with growth projected at 3.3% both in 2025 and 2026 but remain uneven elsewhere due to geopolitical tensions, high debt, and structural shifts like digitalization and decarbonization
- On February 20, 2026, the **US Supreme Court issued a landmark decision that invalidated the POTUS/Administration's use of imposing tariffs under the International Emergency Economic Powers Act (IEEPA), 1977**. The act had never before been used by a President to impose tariffs and does not find much footing in peacetime….
- However, the executive has quickly invoked Section 122 of the 1974 Trade Act to impose new 10% global tariff on all imports to US for 150 days (note: this will be the first time Section 122 authority has ever been used). This temporary measure will start from 24 Feb 2026 and ends in July should the Congress not ratify the imposition. **Later, the President has further increased this to 15% (the maximum possible allowed)**
- Under the trade Act, President can impose temporary import surcharges (up to 15%) or quotas to fix US balance of payment issues. It lasts up to 150 days max, unless Congress extends via legislation
- The new 10% tariff has exemptions, including goods from Canada and Mexico that comply with the USMCA, as well as specific, already-in-place national security tariffs
- It is expected that during this time, the Administration would complete investigations and levy tariffs using Section 301 and Section 232

Aggregating Leading Indicators showing an upward Trend

- We track 50 leading indicators in consumption and demand, Agri, Industry, service and other indicators, which indicate significant jump in Q3 FY26 growth (as compared to Q4 FY25). The % of indicators showing acceleration has increased to 87% in Q3, compared to 80% in Q2
- GDP Growth as per SBI composite leading indicator (CLI) based on monthly data shows an upward momentum

Mapping of Leading Indicators with GDP Growth			
Year	Quarter	GDP Growth (%)	% of indicators showing acceleration
			Overall
FY25	Q1 FY25	6.5	78
	Q2 FY25	5.6	71
	Q3 FY25	6.4	74
	Q4 FY25	7.4	72
FY26	Q1 FY26	7.8	70
	Q2 FY26	8.2	80
	Q3 FY26	8.0 to 8.1	87
	FY26 (P)	7.7 to 7.8(SBI)	7.4 (AE NSO)
Source: SBI Research			



$$\%\ of\ indicators\ showing\ acceleration = \frac{No\ of\ indicators\ showing\ high\ and\ moderate\ growth}{Total\ no\ of\ indicators}$$

GDP estimates using Dynamic Factor Model

- Confronted with a panel of 41 high frequency indicators, **we utilized the LASSO** (Least Absolute Shrinkage and Selection Operator), a powerful machine learning technique. By applying LASSO, we were able to identify the most salient indicators, approximately 20 core economic indicators that exhibited the strongest predictive relationship with the underlying state of the economy

$$\hat{\beta} = \arg\min \left\{ \sum_{t=1}^{T} \left(PC_t - \sum_{j=1}^{p} \beta_i x_{it} \right)^2 + \gamma \sum_{i=1}^{P} \beta_i \right\}$$

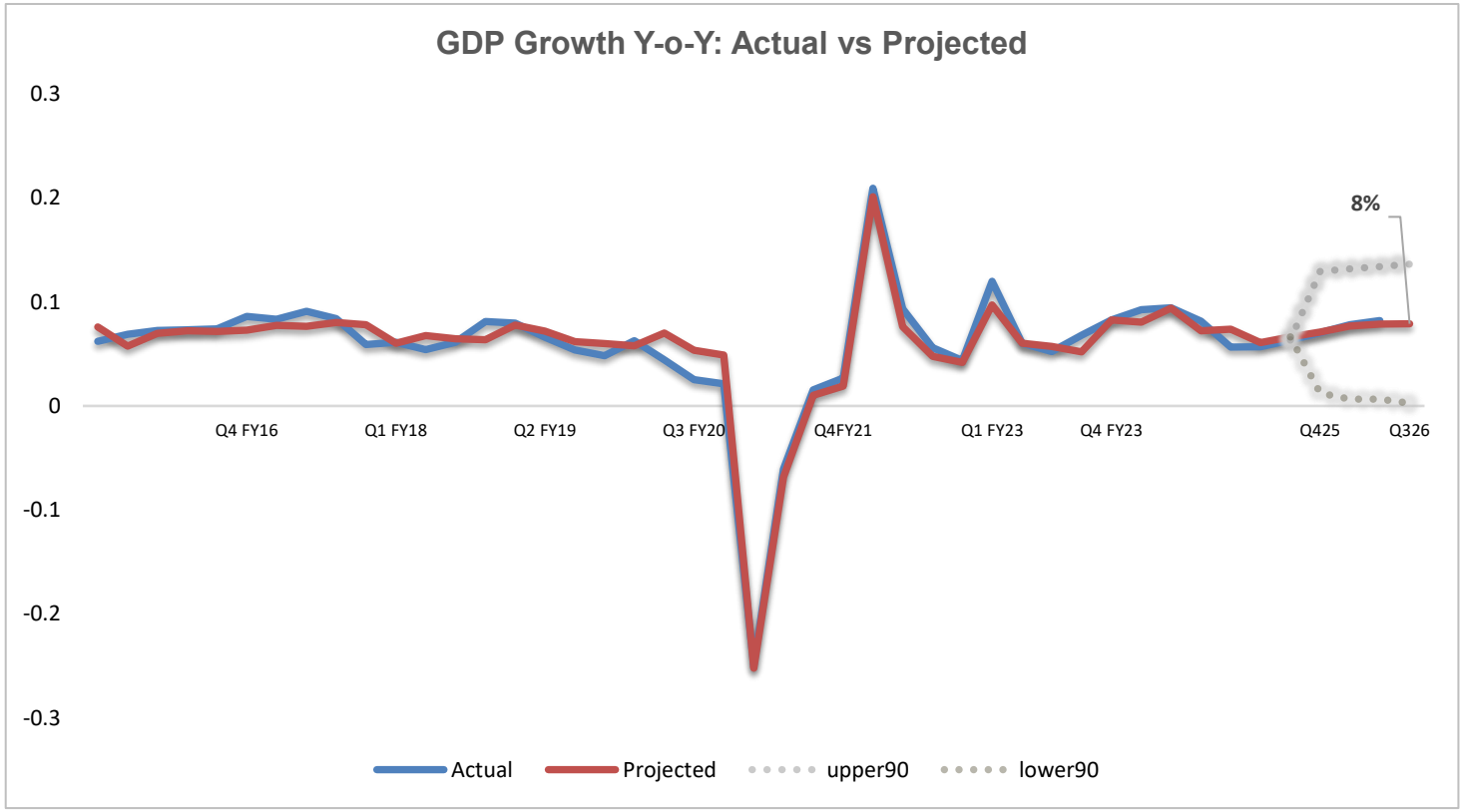
- We then **employed a Dynamic Factor Model with an Autoregressive factor (DFM-AR).** This state-space model is designed to summarize the shared co-movement among our 20 indicators into a single, unobserved (latent) variable, which we call the "dynamic factor." This factor serves as a comprehensive, high-frequency index of real economic momentum, capturing the single story told by the diverse movements of industrial production, sentiment, trade, and other variables

$$y_{it} = \gamma_{i f_t + e_i, t}$$

- Since the economy reacts asymmetrically to negative shocks compared to positive ones, our final model explicitly captures this by allowing the impact of the dynamic factor to be different during "bad states" (economic contractions) versus "good states" (expansions). Furthermore, we adopted a "general-to-specific" methodology, rigorously testing various lag structures and using information criteria (AIC/BIC) to trim insignificant predictors, resulting in a final, parsimonious model that is both statistically powerful and economically intuitive

Model Results show a GDP growth at 8.0+% during Q3F26

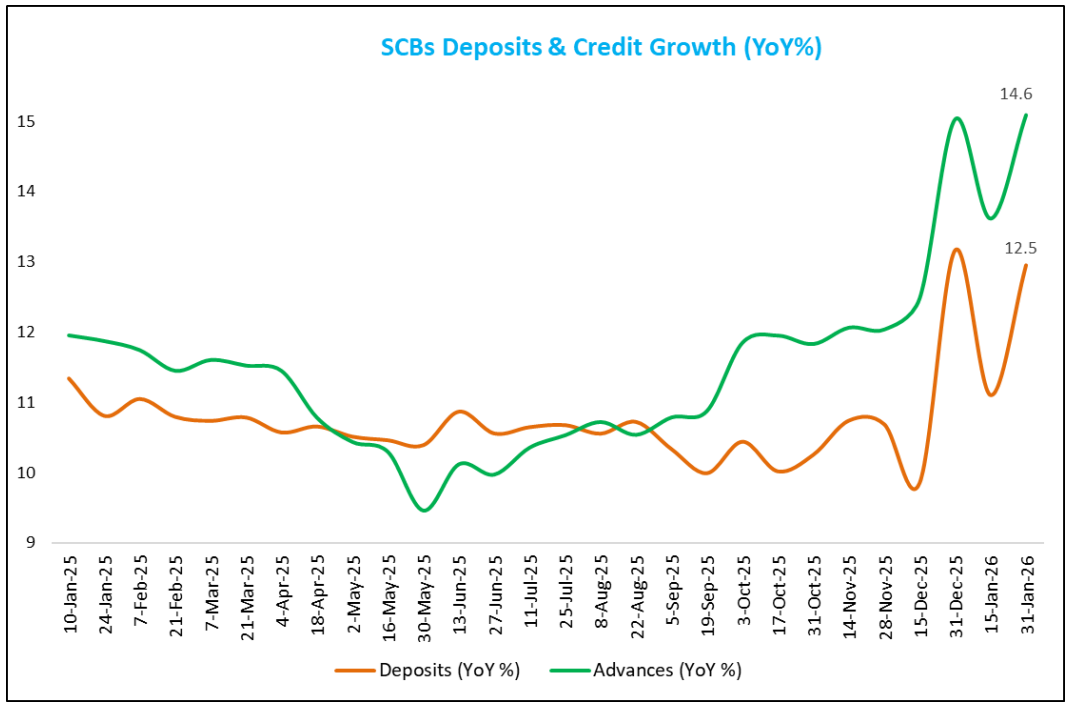
- **Based on the estimated model, we obtain a nowcast of real GDP growth at 8.0-8.1 (GVA: 8.0-8.1%) year-on-year for the reference quarter (Q3 FY26)**. The forecast is statistically significant with factor loadings significantly different from zero across all key variables. This implies that the extracted factor meaningfully captures the cyclical dynamics

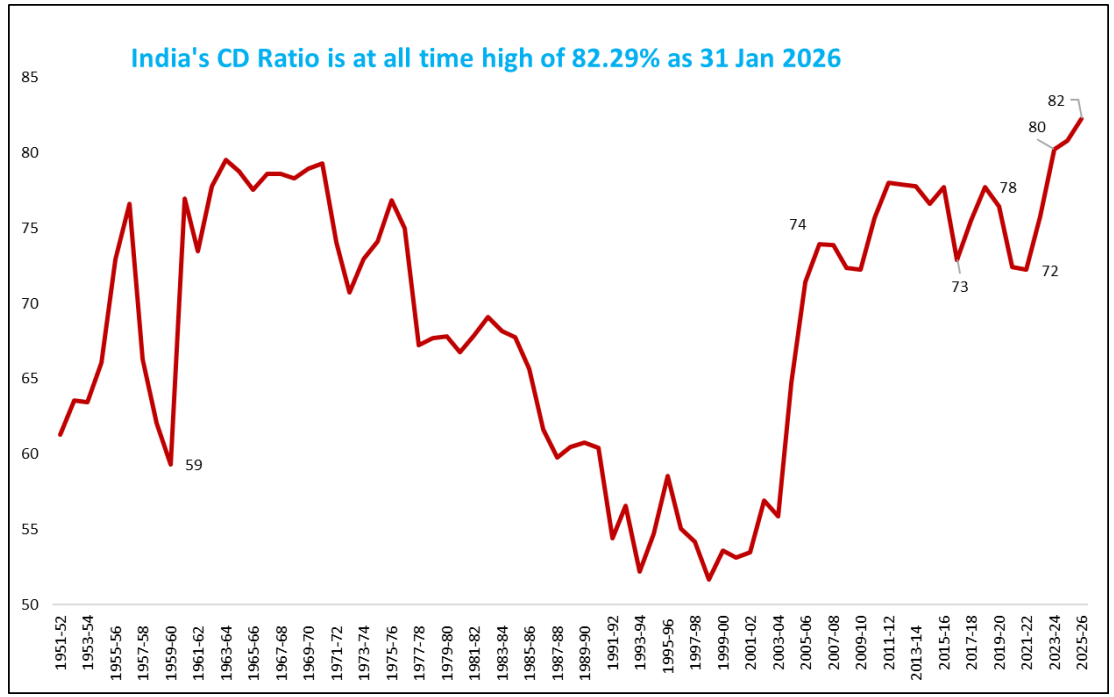


ASCB's Deposits & Credit Growth (YoY %) Continues To Decline

- SCBs deposits growth remains muted compared to Credit growth. Fort the fortnight ended 31 Jan'25, Aggregate deposits grew by 12.5% YoY (Last Year: 10.3%), while credit grew by 14.6% (last year: 11.4%)

- With the rise in CD ratio, the gap between deposits and credit growth has increased but such gaps are nothing new to the banking system





PSBs are Performing Well in Q3FY26

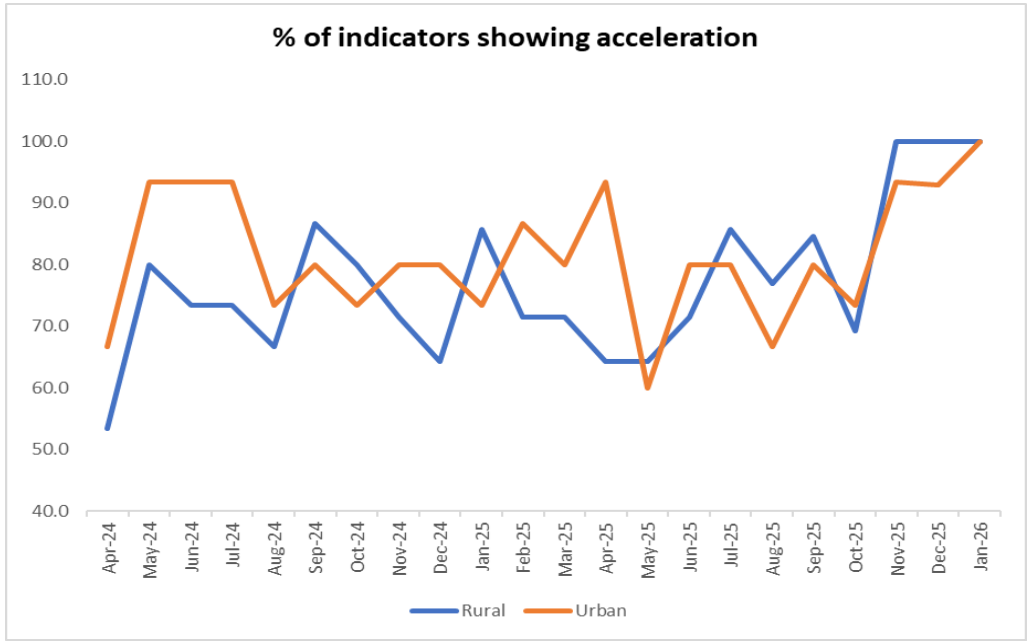
- PSBs are leading in the profitability indicators compared to selected private banks
- 3 PSBs (SBI, BOM, IOB) GNPA is below 2%

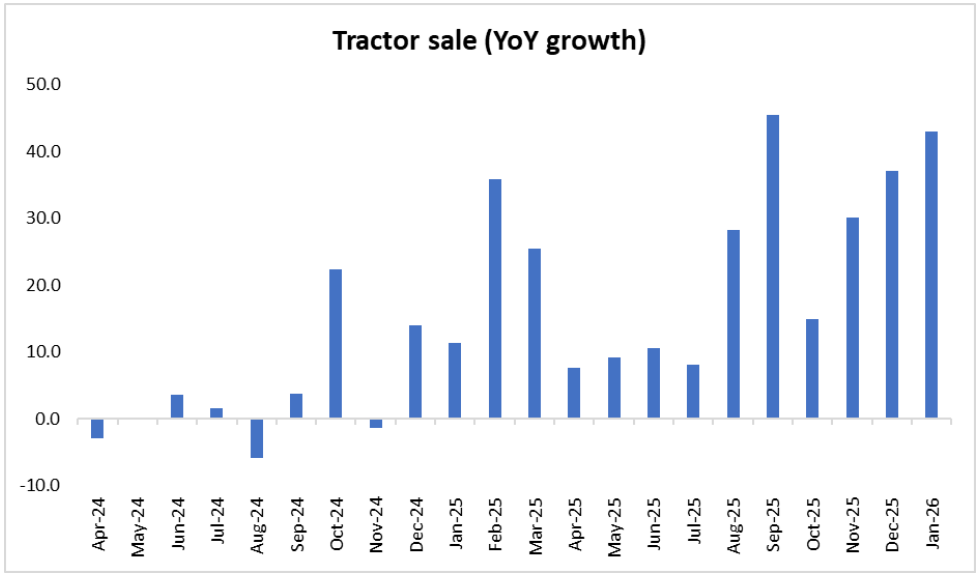
Banks' Financial Results: Q3 FY26														
Bank	Net profit (Rs crore)			Deposits Growth	Credit Growth	Gross NPA(%)			RoA(%)			NIM(%)		
	9M FY25	9M FY26	% YoY	YoY%	YoY%	Q3FY25	Q2FY26	Q3FY26	Q3FY25	Q2FY26	Q3FY26	Q3FY25	Q2FY26	Q3FY26
SBI	52258	60348	15.5	9.0	15.1	2.07	1.73	1.57	1.04	1.17	1.19	3.01	2.97	2.99
BOB	14533	14405	-0.9	10.3	14.7	2.43	2.16	2.04	1.15	1.07	1.09	3.04	2.96	2.79
UBI	13002	13381	2.9	3.4	7.1	3.85	3.29	3.06	1.30	1.16	1.35	2.91	2.67	2.76
Canara Bank	12024	14681	22.1	12.9	13.6	3.34	2.35	2.08	1.03	1.10	1.16	2.71	2.50	2.45
PNB	12063	11679	-3.2	8.5	10.9	4.09	3.45	3.19	1.03	1.05	1.06	2.93	2.60	2.52
Indian Bank	7962	9053	13.7	12.6	14.2	3.26	2.60	2.23	1.39	1.32	1.30	3.45	3.23	3.28
BOI	6593	7511	13.9	11.6	13.6	3.69	2.54	2.26	0.96	0.91	0.96	2.80	2.41	2.57
BOM	4027	5005	24.3	15.3	19.6	1.80	1.72	1.60	1.78	1.82	1.86	3.98	3.85	3.86
CBI	2752	3644	32.4	13.2	27.9	3.86	3.01	2.70	0.86	1.01	1.01	3.45	2.89	2.96
IOB	2284	3703	62.1	14.5	24.1	2.55	1.83	1.54	0.93	1.20	1.28	3.33	3.21	3.32
UCO Bank	1793	1967	9.7	10.6	16.7	2.91	2.56	2.41	0.79	0.71	0.83	3.17	2.90	3.08
P & S Bank	703	900	28.0	9.3	15.0	3.83	2.92	2.60	0.73	0.72	0.79	2.78	2.60	2.59
Total PSBs	**129994**	**146277**	**12.5**	**9.7**	**14.3**	**3.14**	**2.51**	**2.27**	**1.08**	**1.10**	**1.16**	**3.13**	**2.90**	**2.93**
HDFC Bank	49731	55450	11.5	11.6	9.8	1.40	1.20	1.20	1.88	1.96	1.92	3.40	3.30	3.40
ICICI Bank	34597	36445	5.3	9.2	11.5	1.96	1.58	1.53	2.36	2.36	2.11	4.25	4.30	4.30
Axis Bank	19256	17385	-9.7	15.0	14.2	1.46	1.46	1.40	1.64	1.23	1.49	3.93	3.73	3.64
Kotak Bank	10168	9981	-1.8	14.6	16.1	1.50	1.39	1.30	2.10	1.88	1.89	4.93	4.54	4.54
Indusind Bank	4904	295	-94.0	-3.8	-13.5	2.25	3.60	3.56	1.03	-0.33	0.10	3.93	3.32	3.52
IDBI Bank	5464	7570	38.5	9.0	15.5	3.57	2.65	2.57	1.83	3.55	1.99	4.75	3.70	3.63
Yes Bank	1668	2407	44.3	5.5	5.2	1.60	1.60	1.50	0.60	0.60	0.90	2.40	2.50	2.60
RBL Bank	627	593	-5.4	12.1	14.0	2.92	2.32	1.88	0.09	0.48	0.55	4.90	4.51	4.63
Total Major Pvt. Banks	**126415**	**130126**	**2.9**	**10.3**	**9.4**	**2.14**	**1.98**	**1.87**	**1.44**	**1.47**	**1.37**	**4.06**	**3.74**	**3.78**

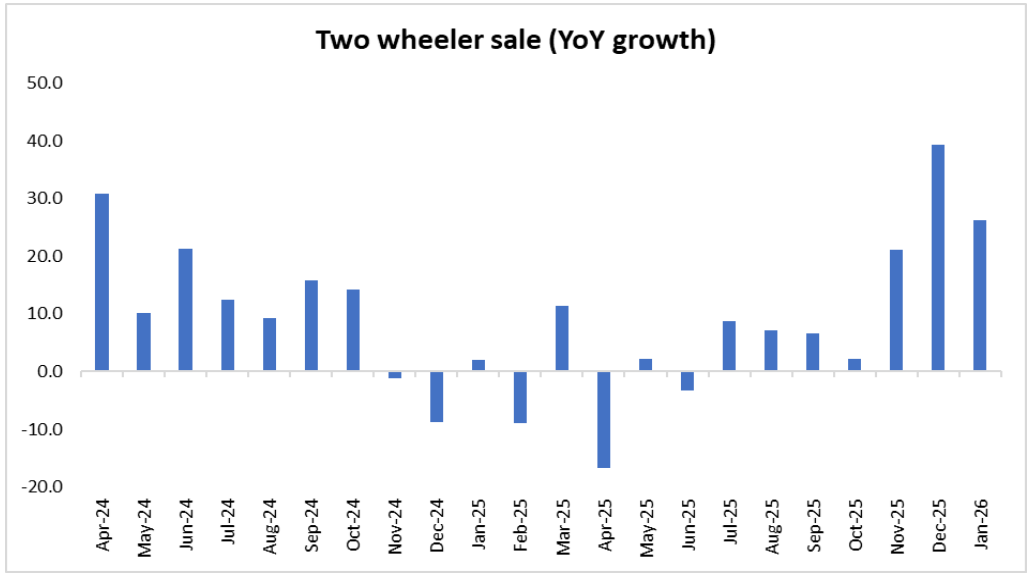
Source: SBI Research; Banks' analyst presentations

Rural consumption has picked up in Q3 FY26

- % of indicators showing acceleration is picked up for Rural and Urban consumption indicators







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