

Q1 GDP GROWTH SURPRISES AT 7.8%: FY26 GDP GROWTH MAY BE CLOSER TO 6.5%...TRADE-OFFS OF GST RATIONALISATION PERMEATE MUCH BEYOND INSTANT CONSUMPTION BASED GRATIFICATION AS HISTORY TELLS US

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The robust GDP numbers for Q1, pleasantly higher than estimated consensus note, is a tight hit on the rhetoric mimicking dead economy jibe...Indian economy is alive and kicking well, largely unfettered by noise.

India's Q1GDP growth came in at 7.8%, almost ~100 basis points more than consensus. Nominal GDP growth came in at 8.8%. Core GVA (Overall GVA ex Agriculture and Public Finance) registered a growth of 8.0% yoy in Q1 FY26 compared to 7.1% yoy in Q1 FY25, indicating that the private sector growth momentum.

Manufacturing and Services sector are the star performers of Q1 and grew by 7.7% and 9.3% respectively. The incremental share of services sector in Q1 FY26 increased to whopping 68% and that of Manufacturing at 17%. This indicate that almost 85% of the growth is GVA is due to these 2 sectors. What are the plausible reasons for such?

Firstly, if we look the item-wise IIP basket, more than 50% items registered a significant higher growth during Q1 ranging from as high as ~194% -53%. This possibly indicates that production of many items have been frontloaded in lieu of uncertainty.

Secondly, the high frequency indicators for the tourism sectors (Railways, Air, Hotel Occupancy) all show strong demand trends in the Q1FY26 which has propelled the overall growth numbers in the service sector.

Thirdly, there has been an increasing momentum in housing loans disbursement following the rate adjustment by RBI beginning February 2025, even though in incremental terms it is marginally lower than last year.

Meanwhile, consumption and investment both remained strong. Centre's Capex in Q1 FY26 is 24.5% of the budgeted amount. States have also witnessed a rise in capex as % of the Budget estimates. Among the 19 states, 11 states have witnessed rise in state expenditures as % of budget estimates. Both the Centre and the States have increasingly frontloaded their capital expenditure.

Separately, the strong growth in private consumption at 7% begs the question of a GST cut. However, as past experience shows, GST rates have been rationalized from time to time as in July 2018 and October 2019. In fact, the fear of decline in growth due to GST rationalisation is rather unfounded. Trends indicate that while a cut in GST rates may lead to approx. 3 -4% m-o-m decline in revenue immediately (Rs 5,000 crore on a monthly basis/ annualized basis the loss could be around Rs 60,000 crores) but in the longer run revenue rises in the range of 5-6% m-o-m. This in the past had translated into a revenue gain of Rs 1trillion. The vision of Honourable PM of a clutter free GST regime in the form of rate rationalisation has long term benefits for overall economy. Thus, the arguments of GST rate rationalisation is in a larger interest and not strictly related to invigorating consumption growth as many would believe so.

GDP GREW BY 7.8% IN Q1 FY26

- ♦ India's economy grew by 5-quarters high to 7.8% in Q1 FY26 as compared to 6.5% growth recorded in Q1 FY25. The more than expected growth is broad based (except Mining and Electricity,). The GVA grew by 7.6%.
- ♦ Nominal GDP grew by 8.8% in Q1 FY26 much lower than the 9.7% growth occurred in Q1 FY25. The gap between real and nominal GDP, which was as large as 12 percentage points in Q1 FY23, dropped sharply to 1.0 percentage points in Q1 FY26
- ♦ Core GVA (Overall GVA ex Agriculture and Public Finance) registered a growth of 8.0% yoy in Q1 FY26 compared to 7.1% yoy in Q1 FY25.

GVA at Basic Price by Economic Activity (%)					
Sectors	FY25				FY26
	Q1	Q2	Q3	Q4	Q1
Agriculture	1.5	4.1	6.6	5.4	3.7
Industry	8.5	3.8	4.8	6.5	6.3
Mining & quarrying	6.6	-0.4	1.3	2.5	-3.1
Manufacturing	7.6	2.2	3.6	4.8	7.7
Electricity, gas, water supply & other utility services	10.2	3.0	5.1	5.4	0.5
Construction	10.1	8.4	7.9	10.8	7.6
Services	6.8	7.2	7.4	7.3	9.3
Trade, hotels, transport, communication & services related to broadcasting	5.4	6.1	6.7	6.0	8.6
Financial, real estate & professional service	6.6	7.2	7.1	7.8	9.5
Public administration, defence and Other Services	9.0	8.9	8.9	8.7	9.8
Total GVA at Basic Price	6.5	5.8	6.5	6.8	7.6
GDP	6.5	5.6	6.4	7.4	7.8

Source: NSO,SBI Research

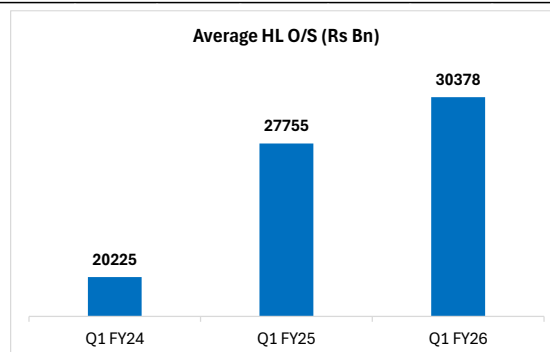
- ♦ Agriculture sector grew by 3.7% while industry sector remain submissive at 6.3% due to negative growth in Mining (-3.1%) and almost negligible growth in Electricity, Gas, Water Supply & Other Utility Services (0.5%).
- ♦ India's manufacturing sector showed strong growth (5 quarter high) in Q1FY26, growing by 7.7% YoY, compared to last year growth of 7.6%. If we look the item-wise IIP basket, more than 50% items registered a growth during Q1.
- ♦ Services sector is the star performer of Q1 and grew by 9.3% due to 9.5% in 'Financial, real estate & professional service' sector' and only 8.6% growth in 'trade, hotels, transport, communication, etc.' sector. The incremental share of services sector in Q1 FY26 has increased to whopping 68% as compared to 58% share in Q1 FY25. This indicate that almost two-third growth in overall GVA is primarily due to services sector. In services sector also, the share of Trade, hotel and Financial real estate has increased by 5-6 percentage points each.
- ♦ We believe that growth in real estate (as evident from increasing Housing loan outstanding) is one of the reasons for such a robust growth in Q1 FY26.

CENTRE AND STATES' CAPITAL EXPENDITURE IS AT BRIGHTER SIDE IN Q1 FY26

- ♦ Centre's Capex in Q1 FY26 is 24.5% of the budgeted amount which is 8.2% higher than Q1 FY25 estimates (16.3%).
- ♦ States have also witnessed a rise in Capex as % of the Budget estimates. States' overall share in Q1 FY26 stands at 10.8% higher than 9.8% as compared to Q1 FY25. Among the 19 states, 11 states have witnessed rise in state expenditures as % of budget estimates. States such as Karnataka (-0.8%), Maharashtra(-0.7%), Rajasthan (-1%), Tamil Nadu(-3.3%) , West Bengal (-2.6%) have witnessed a decline.
- ♦ Both the Centre and the States have increasingly frontloaded their capital expenditure. This shows stronger intent to push growth through improved implementation capacity, and a focus on infrastructure-led recovery. Private investment, therefore, must catch up to sustain the momentum and translate public spending into durable growth.

Arithmetic of Services Sector							
in Rs crore	Levels			Incremental Growth		Incremental Share	
	Q1 FY24	Q1 FY25	Q1 FY26	FY25 over FY24	FY26 over FY25	FY25 over FY24	FY26 over FY25
Services	21,78,681	23,26,433	25,42,237	1,47,752	2,15,804	58%	68%
Of which , Trade, hotels, transport, communication & services related to broadcasting	6,53,847	6,89,172	7,48,348	35,325	59,176	14%	19%
Financial, real estate & professional service	10,55,657	11,25,793	12,32,476	70,136	1,06,683	28%	34%
Public administration, defence and Other Services	4,69,176	5,11,468	5,61,413	42,292	49,945	17%	16%
Total GVA at Basic Price	38,92,452	41,47,331	44,63,834	2,54,879	3,16,503	100%	100%

Source: NSO; SBI Research



Top 15 Item-wise IIP Index Growth (YoY%)		
Item groups 2011-12	Q1FY24	Q1FY25
End facing connector for optical fibres and cables	72.45	193.77
API & formulations of hypo-lipidemic agents incl. anti-hypertriglyceridemics (e.g. simvastatin, atorvastatin, etc); anti-hypertensive	8.21	126.40
Harvesters and threshers	16.43	116.18
Anti-retroviral drugs for HIV treatment	5.67	113.33
Fruit Pulp (especially of mango & orange)	-50.59	112.37
X-ray equipment	-45.28	103.54
Bodies of trucks, lorries and trailers	-25.08	102.90
Cottonseed Oil	-33.32	95.57
Compound rubber for rubber-dipped fabrics	-14.06	80.96
Pistols and guns	-57.42	77.63
Hair dye	-70.60	68.94
Conveyors- non-roller type	-10.23	62.08
Transformers (Small)	33.16	54.77
Creams and lotions for topical application	47.32	53.64
UPS in Solid State Drives	83.33	52.63

States Expenditure as % of Budgeted estimates					
State	Capital Expenditure		State	Capital Expenditure	
	Q1 FY26	Q1 FY25		Q1 FY26	Q1 FY25
Andhra Pradesh	14.9	5.0	Maharashtra	3.5	4.2
Assam	31.4	12.0	Odisha	10.6	10.7
Chhattisgarh	4.4	5.7	Punjab	12.8	11.5
Gujarat	15.3	11.7	Rajasthan	11.4	12.5
Haryana	30.5	14.9	Tamil Nadu	7.3	10.6
Himachal Pradesh	20.4	12.1	Telangana	13.0	18.1
Jharkhand	14.2	8.0	Uttar Pradesh	7.5	5.4
Karnataka	7.5	8.3	Uttarakhand	5.6	4.9
Kerala	20.9	17.9	West Bengal	4.8	7.4
Madhya Pradesh	20.9	19.8	States total	10.8	9.8
Central Government				24.5	16.3

Source: SBI Research, CAG, CGA

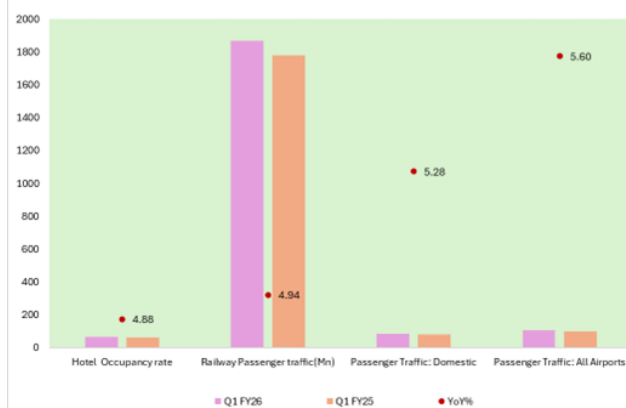
EXPENDITURE SIDE GDP

- ◆ The Q1GDP growth from the expenditure side was driven by three heads – the private consumption, government consumption and capital formation. Private consumption in real terms grew by 7% in Q1, government consumption by 7.4% and capital formation by 7.8%.
- ◆ The growth in government consumption was influenced by the base effect as Q1 FY25 had negative growth. This implies overall growth was scaled up by 70 bps. The revival in capital goods is also matched by growth seen in IIP capital goods and correlates with ongoing thrust to capex in budget which also may explain the growth in government expenditure.
- ◆ The private consumption growth slowed by 100 bps vis-à-vis the last quarter but was still robust due to strong growth in services and agriculture. The possible source of private demand was for tourism as reflected in 8.6% growth in Trade, Hotels, Transport, Communication & Services. The high frequency indicators for the tourism sectors show strong demand trends in the Q1FY26 which has propelled the overall growth numbers.

ASCB CREDIT GROWTH IS IMPROVING

- ◆ For the week ended 08 Aug 2024, SCBs credit grew by 10.2% (last year 13.6%) and deposits grew by 10.1% (last year 10.9%). While on YTD basis, deposits grew by 4.0% or Rs 8.9 lakh crore (last year 4.2% or Rs 8.5 lakh crore) and credit grew by 2.0% YTD or Rs 3.6 lakh crore (last year 2.7% or Rs 4.48 lakh crore).
- ◆ The sector-wise credit growth for July 2025 indicates a slowdown in credit to Services. Credit growth to agriculture and allied activities declined to 7.3% (last year 18.1%), Industry by 6.0% (10.2%), services moderated substantially to 10.6% (14.5%) and Personal loans growth reduced to 11.9% (13.9%).
- ◆ Personal loans continued to grow faster than overall credit, gradually increasing their share to 32.0 per cent of total credit by June 2025; within personal loans, housing loans accounted for more than the half.
- ◆ In line with monetary policy actions, the WALR on outstanding credit declined by 39 bps during April–June 2025, with reductions observed across all major sectors. The share of loans bearing interest rates below 9% increased to 54.1% in June 2025, from 43.2% in the previous year, with easing of policy rates.
- ◆ Going forward, we expect demand for credit may increase in the upcoming festive seasons.

High frequency indicators of tourism sector



Source: SBI Research

GDP by Expenditure Side at constant price(YoY %)					
Levels	FY25				FY26
	Q1	Q2	Q3	Q4	Q1
Total final consumption expenditure	7.0	6.1	8.3	4.7	7.1
Private final consumption expenditure	8.3	6.4	8.1	6.0	7.0
Government final consumption expenditure	-0.3	4.3	9.3	-1.8	7.4
Gross fixed capital formation	6.7	6.7	5.2	9.4	7.8
Change in Stocks	7.5	2.1	3.5	4.8	5.9
Valuables	-23.1	25.8	-0.5	-29.8	-22.5
Exports	8.3	3.0	10.8	3.9	6.3
Less Imports	-1.6	1.0	-2.1	-12.7	10.9
Discrepancies	0.8	-0.5	-3.1	-3	2.3
GDP At Market Price	6.5	5.6	6.4	7.4	7.8

Source: NSO,SBI Research, *share in GDP

ASCBs Sector-Wise Credit Flow (Rs bn): July 2025						
Sectors	FY25 (Apr-Jul-24)		FY26 (Apr-Jul-25)		YoY %	
	Rs bn	%	Rs bn	%	Jul-24	Jul-25
Agri. & Allied	851	4.1	268	1.2	18.1	7.3
Industry	717	2.0	106	0.3	10.2	6.0
MSE (Priority)	244	1.2	2486	11.1	14.3	24.5
Infrastructure	-30	-0.2	29	0.2	3.8	1.9
Services	317	0.7	-475	-0.9	14.5	10.6
NBFCs	-192	-1.2	-672	-4.1	12.7	2.6
Personal Loans	1764	3.3	2087	3.5	14	11.9
Housing (Including Priority)	914	3.4	707	2.3	12.8	9.6
Other Personal Loans	183	1.3	223	1.5	12.7	8.1
Gross Bank Credit	3826	2.3	2579	1.4	13.6	10.0

Source: RBI, SBI Research

CORPORATE RESULT Q1FY26

- ◆ Listed corporates in Q1FY26 ex BFSI represented by around 3500 listed entities shows revenue growth of 3.4% while EBIDTA grew by 8.5% as compared to 4.6% and 6.4% respectively in previous quarter. Interestingly, overall corporate represented by around 4300 listed entities reported EBIDTA growth of 6.7% and PAT growth of 12% suggesting manufacturing sector reported better growth in Q1FY26.
- ◆ However, Indian Inc. reported margin improvement of 97 bps and 77 bps respectively over previous quarter and same quarter previous year. Aggregate margin improved to eight quarters high to 15.74% in Q1FY26.
- ◆ Given the fresh resumption of US tariffs on Indian exports, tariff affected sectors such as Textile, Gems and Jewellery, leathers, Chemicals, Agriculture, Auto Components, etc. will be the key monitorable in the coming quarters. However, GST 2.0 coupled with festival demand could negate some impact in Q3 onwards.

Corporate Results Key Parameters							
Qtr.	Rs in crore			EBIDTA Margin %	Growth % (YoY)		
	Net Sales	EBIDTA	PAT		Net Sales	EBIDTA	PAT
Q1FY22	1399820	247137	127880	17.65%	65	179	13063
Q2FY22	1632594	269390	175014	16.50%	38	35	56
Q3FY22	1808870	275784	162656	15.25%	32	18	28
Q4FY22	2046203	292821	199703	14.31%	26	7	15
Q1FY23	2199295	277100	151011	12.60%	51	7	11
Q2FY23	2180132	234263	136543	10.75%	28	-14	-23
Q3FY23	2177015	266074	145126	12.22%	15	-9	-16
Q4FY23	2229585	291331	193157	13.07%	9	-1	-3
Q1FY24	2151039	340062	200978	15.81%	-2	23	33
Q2FY24	2211514	336026	196940	15.19%	-0.3	41	42
Q3FY24	2247976	336131	206027	14.95%	3.3	26	42
Q4FY24	2385547	339853	203521	14.25%	5.2	14	3
Q1FY25	2298623	344305	211099	14.97%	5.7	-1	3
Q2FY25	2297890	330977	208657	14.40%	3.9	-1.5	6
Q3FY25	2406526	357329	227840	14.84%	5.4	5.2	9
Q4FY25	2544052	375805	262043	14.77%	4.6	6.4	23
Q1FY26	2429764	382452	247533	15.74%	3.4	8.5	14

Source: SBI Research; C/line; around 3500 listed entities ex BFSI

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