

**FY26GDP GROWTH REVISED TO 7.6%...Q3 FY26 AT 7.5%-7.7% & Q4 AT 7%...MSME CREDIT GROWTH IN FY26 TO CROSS RS 6 LAKH CRORES.... ~5.5 TIMES HIGHER THAN CUMULATIVE 16 YEAR AVERAGE..GDP GROWTH IS LARGELY DOMESTIC DRIVEN..FY26 WOULD SEE NOMINAL GROWTH TOUCHING \$4.1 TRILLION...**

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**The India story appears to take new, bigger and bolder dimensions. All with alluring connotations.**

The growth juggernaut, represented in a 6-quarter high of 8.2% for Q2 FY26, vindicates this. Nominal GDP grew by 8.7% in Q2 FY26 higher than 8.3% growth that took place in Q2 FY25. The gap between real and nominal GDP, which was as large as 12 percentage points in Q1 FY23 is now at 0.5 percentage points in Q2 FY26. **Core GVA (Overall GVA ex Agriculture and Public Finance) registered a growth of 8.5% yoy in Q2 FY26 compared to a lower 5.6% yoy in Q2 FY25.** Agriculture sector grew by 3.5% while industry sector witnessed a high growth of 7.7% compared to 3.8% in Q2FY25. **India's manufacturing sector showed impressive growth in Q2FY26, growing by 9.1% YoY, compared to a mere growth of 2.2% in Q2FY25.** Services sector too clocked stellar performance alongside, growing by 9.2% due to 10.2% growth in 'Financial, real estate & professional service' sector' and 9.7% growth in 'trade, hotels, transport, communication, etc.' sector. **With 8.0% real GDP growth in H1 FY26, the overall growth for full fiscal would be approximately 7.6% (Assuming 7.5%-7.7% in Q3 and 7% in Q4).**

**The expenditure side trends show robust demand trend supported by the following factors-**

**First,** a broad deceleration in prices is reflected in contractionary trends in GDP deflators and

**Second,** good performance in labour intensive sectors such as agriculture, manufacturing, construction and services such as personal and financial services. The growth in change in stock also suggests strong demand trends.

**Third,** other components such as valuables have continued to contract. Valuables contracted by 22.7% yoy owing to higher base as Q2 FY25 registered sharp growth owing to high investment demand for gold due to rising prices. The sharp growth in imports was driven by capital goods, rare earth and chemicals imports that were absorbed in capital formation during the year.

**Thus, the overall trends suggests that GDP growth is domestic driven, supported by services exports and driven by low inflation and value-add expansion in labour intensive sectors.**

The slowdown in nominal GDP growth has been cited by many as a precursor to low earnings growth. However, through tests runs, positive correlation between Nifty returns and GDP growth though has been established, the link is not always perfectly synchronized in the short term, as market performance is influenced by many factors beyond GDP, such as investor sentiment, corporate earnings, and global economic conditions. In the long term, However, market growth and earnings tend to converge, suggesting that strong economic growth can lead to sustained stock market returns.

**However, perhaps the MSME incremental credit growth numbers are the glaring revelations for interpreting this GDP numbers. Take these numbers. From FY2009 to FY2025 incremental MSME credit growth stood at Rs 19.87 lakh crore. That entails annual average growth of Rs 1.17 lakh crore during this period. The same has clocked growth of Rs 3.74 lakh cr during the period April-October 2015 (first 7 months of FY26). Extrapolating these numbers, we believe for FY26, the MSME credit growth should come around Rs 6.4 lakh crore as second half is more credit productive for the banking system. Thus the annual growth in FY 26 could be ~5.5 times of previous 16 years average figure of Rs 1.17 lakh crore. Thus going by the resounding growth in MSMEs, the GDP growth seems to be finally entwined for the masses.**

**With the increase in credit during Q3FY26, amid GST rationalisation, we expect GDP growth will be 7.5-7.7% in Q3 and 7.0-7.1% in Q4FY26. With 7.6% real GDP growth for FY26, our GDP is likely to cross \$4 trillion by March'26 and for FY27 GDP is expected to be around \$4.4 trillion. Thus India is on the right track to reach \$5 trillion by March'29.**

**With a strong GDP growth and a minimal inflation, it is now for the RBI to communicate to the broader markets the rate trajectory in next week MPC as also continuing with the neutral stance.**

## GDP EXPANDS BY 8.2% IN FY26

- ◆ India's economy grew 6-quarter high by 8.2% in Q2 FY26 as compared to 5.6% growth recorded in Q2 FY25. The GVA grew by 8.1%.
- ◆ Nominal GDP grew by 8.7% in Q2 FY26 higher than the 8.3% growth occurred in Q2 FY25. The gap between real and nominal GDP, which was as large as 12 percentage points in Q1 FY23, dropped sharply to 0.5 percentage points in Q2 FY26.
- ◆ Core GVA (Overall GVA ex Agriculture and Public Finance) registered a growth of 8.5% yoy in Q2 FY26 compared to a lower 5.6% yoy in Q2 FY25.
- ◆ Agriculture sector grew by 3.5% while industry sector witnessed a high growth of 7.7% compared to 3.8% in Q2FY25.
- ◆ India's manufacturing sector showed impressive growth in Q2FY26, growing by 9.1% YoY, compared to a mere growth of 2.2% in Q2FY25.
- ◆ Services sector shows stellar performance alongside manufacturing and grew by 9.2% due to 10.2% in 'Financial, real estate & professional service' sector' and 9.7% growth in 'trade, hotels, transport, communication, etc.' sector.
- ◆ **With 8.0% real GDP growth in H1 FY26, the overall growth for full fiscal would be approximately 7.6% (Assuming 7.5%-7.7% in Q3 and 7% in Q4)**

## GDP DEFLATOR

- ◆ GDP deflator declined to 0.5% yoy in Q2 FY26 compared to 2.5% yoy in Q2 FY25. Growth in GDP deflator for agriculture has declined to -1.7% yoy in Q2 from -0.5% yoy in the previous quarter.
- ◆ For industry GDP deflator increased to 0.7% yoy compared to 0.6% yoy in Q2 FY25, with manufacturing registering higher deflator growth.
- ◆ Meanwhile, growth in services deflator moderated to 1.2% yoy in Q2 from 2.8% yoy in Q2 FY25.

## EXPENDITURE SIDE STORY

- ◆ The Q2 demand is a story anchored in private consumption that registered a growth of 7.9%, capital formation registered a growth of 7.3%. The exports also registered growth of 5.6%, which is a sequential slowdown but improvement on yoy basis indicating mixed pictures on external demand. However, H1 figures show exports held up during FY26 despite the headwinds. Front loading of exports against the backdrop of US tariffs supported higher exports growth.

| GVA and GDP at Constant Price by Economic Activity (YoY%)                  |      |      |     |      |        |      |      |
|--|------|------|-----|------|--------|------|------|
| Sectors  | FY25 |      |     |      |        | FY26 |      |
|  | Q1   | Q2   | Q3  | Q4   | Annual | Q1   | Q2   |
| Agriculture  | 1.5  | 4.1  | 6.6 | 5.4  | 4.6    | 3.7  | 3.5  |
| Industry   | 8.5  | 3.8  | 4.8 | 6.5  | 5.9    | 6.3  | 7.7  |
| Mining & quarrying   | 6.6  | -0.4 | 1.3 | 2.5  | 2.7    | -3.1 | 0.0  |
| Manufacturing  | 7.6  | 2.2  | 3.6 | 4.8  | 4.5    | 7.7  | 9.1  |
| Electricity, gas, water supply & other utility services                    | 10.2 | 3.0  | 5.1 | 5.4  | 5.9    | 0.5  | 4.4  |
| Construction   | 10.1 | 8.4  | 7.9 | 10.8 | 9.4    | 7.6  | 7.2  |
| Services   | 6.8  | 7.2  | 7.4 | 7.3  | 7.2    | 9.3  | 9.2  |
| Trade, hotels, transport, communication & services related to broadcasting | 5.4  | 6.1  | 6.7 | 6.0  | 6.1    | 8.6  | 7.4  |
| Financial, real estate & professional service                              | 6.6  | 7.2  | 7.1 | 7.8  | 7.2    | 9.5  | 10.2 |
| Public administration, defence and Other Services                          | 9.0  | 8.9  | 8.9 | 8.7  | 8.9    | 9.8  | 9.7  |
| Total GVA at Basic Price   | 6.5  | 5.8  | 6.5 | 6.8  | 6.4    | 7.6  | 8.1  |
| GDP  | 6.5  | 5.6  | 6.4 | 7.4  | 6.5    | 7.8  | 8.2  |

Source: NSO, MOSPI & SBI Research

| GVA and GDP at Current Price by Economic Activity (YoY%)                   |      |      |      |      |        |       |      |
|--|------|------|------|------|--------|-------|------|
| Sectors  | FY25 |      |      |      |        | FY26  |      |
|  | Q1   | Q2   | Q3   | Q4   | Annual | Q1    | Q2   |
| Agriculture  | 7.5  | 7.6  | 15.7 | 8.7  | 10.4   | 3.2   | 1.8  |
| Industry   | 9.4  | 4.3  | 5.4  | 8.1  | 6.9    | 6.8   | 8.5  |
| Mining & quarrying   | 11.8 | -1.7 | -4.3 | -0.1 | 1.6    | -10.1 | -4.3 |
| Manufacturing  | 8.4  | 3.4  | 5.6  | 7.8  | 6.3    | 10.1  | 11.7 |
| Electricity, gas, water supply & other utility services                    | 7.1  | 2.4  | 5.1  | 6.4  | 5.3    | 2.1   | 3.7  |
| Construction   | 11.1 | 8.0  | 7.3  | 10.9 | 9.4    | 7.1   | 6.9  |
| Services   | 10.1 | 10.3 | 11.2 | 10.8 | 10.6   | 11.3  | 10.6 |
| Trade, hotels, transport, communication & services related to broadcasting | 7.7  | 8.6  | 10.0 | 9.0  | 8.9    | 9.4   | 6.8  |
| Financial, real estate & professional service                              | 9.7  | 9.8  | 10.6 | 10.9 | 10.2   | 11.0  | 11.5 |
| Public administration, defence and Other Services                          | 13.6 | 12.9 | 13.8 | 13.1 | 13.4   | 13.8  | 13.2 |
| Total GVA at Basic Price   | 9.5  | 8.3  | 10.7 | 9.6  | 9.5    | 8.8   | 8.7  |
| GDP  | 9.7  | 8.3  | 10.3 | 10.8 | 9.8    | 8.8   | 8.7  |

Source: NSO, MOSPI & SBI Research

| Growth in Sectoral Deflator(%)   |      |      |      |      |        |      |      |
|--|------|------|------|------|--------|------|------|
| Sectors  | FY25 |      |      |      |        | FY26 |      |
|  | Q1   | Q2   | Q3   | Q4   | Annual | Q1   | Q2   |
| Agriculture  | 5.9  | 3.4  | 8.5  | 3.2  | 5.5    | -0.5 | -1.7 |
| Industry   | 0.8  | 0.6  | 0.5  | 1.5  | 0.9    | 0.5  | 0.7  |
| Mining & quarrying   | 4.9  | -1.3 | -5.5 | -2.6 | -1.1   | -7.2 | -4.3 |
| Manufacturing  | 0.7  | 1.2  | 1.9  | 2.9  | 1.7    | 2.2  | 2.3  |
| Electricity, gas, water supply & other utility services                    | -2.8 | -0.5 | 0.1  | 0.9  | -0.6   | 1.6  | -0.6 |
| Construction   | 0.9  | -0.3 | -0.6 | 0.1  | 0.0    | -0.4 | -0.3 |
| Services   | 3.1  | 2.8  | 3.6  | 3.2  | 3.2    | 1.9  | 1.2  |
| Trade, hotels, transport, communication & services related to broadcasting | 2.2  | 2.4  | 3.0  | 2.8  | 2.6    | 0.7  | -0.5 |
| Financial, real estate & professional service                              | 2.8  | 2.4  | 3.3  | 2.8  | 2.8    | 1.4  | 1.2  |
| Public administration, defence and Other Services                          | 4.2  | 3.7  | 4.6  | 4.0  | 4.1    | 3.7  | 3.2  |
| Total GVA at Basic Price   | 2.8  | 2.3  | 3.9  | 2.6  | 2.9    | 1.0  | 0.6  |
| GDP  | 3.0  | 2.5  | 3.7  | 3.1  | 3.1    | 0.9  | 0.5  |

Source: NSO, MOSPI & SBI Research

- ◆ The expenditure side trends show robust demand trend supported by two factors. First, a broad deceleration in prices is reflected in contractionary trends in GDP deflators and second good performance in labour intensive sectors such as agriculture, manufacturing, construction and services such as personal and financial services. The growth in change in stock also suggests strong demand trends.
- ◆ Other components such as valuables have continued to contract. Valuables contracted by 22.7% yoy owing to higher base as Q2 FY25 registered sharp growth owing to high investment demand for gold due to rising prices. The sharp growth in imports was riven by capital goods, rare earth and chemicals imports that were absorbed in capital formation during the year.
- ◆ **The overall trends suggest that GDP growth is domestic driven, supported by services exports and driven by low inflation and value-add expansion in labour intensive sector.**

#### LINKAGE BETWEEN NOMINAL GDP & EARNINGS GROWTH

- ◆ To test the linkage between GDP and earning growth we have taken nominal GDP YoY Growth and Nifty50 index YoY growth data for the period Q1FY13 to Q2FY26. Till Q1FY23, both move in the same direction but there after indicate a divergence in trend.
- ◆ To test statistically, we have calculated the correlation between GDP and Nifty50 Returns. The results indicate that there is a positive correlation between both for the period Q1FY13-Q2FY26 and Q1FY21-Q2FY26. While there is a negative correlation during the recent period Q1FY23-Q2FY26.
- ◆ Thus, positive correlation between Nifty returns and GDP growth, meaning that as the Indian economy's GDP grows, the Nifty index tends to rise as well. However, the link is not always perfectly synchronized in the short term, as market performance is influenced by many factors beyond GDP, such as investor sentiment, corporate earnings, and global economic conditions. In the long term, however, market growth and earnings tend to converge, suggesting that strong economic growth can lead to sustained market returns.

#### GDP Expenditure Side (y-o-y, constant price)

| Expenditures of GDP                      | FY25       |            |            |            |            | FY26       |            |
|--|------------|------------|------------|------------|------------|------------|------------|
|  | Q1         | Q2         | Q3         | Q4         | Annual     | Q1         | Q2         |
| Total final consumption expenditure      | 7.0        | 6.1        | 8.3        | 4.7        | 6.5        | 7.1        | 6.5        |
| Private final consumption expenditure    | 8.3        | 6.4        | 8.1        | 6.0        | 7.2        | 7.0        | 7.9        |
| Government final consumption expenditure | -0.3       | 4.3        | 9.3        | -1.8       | 2.3        | 7.4        | -2.7       |
| Gross fixed capital formation            | 6.7        | 6.7        | 5.2        | 9.4        | 7.1        | 7.8        | 7.3        |
| Change in Stocks                         | 7.5        | 2.1        | 3.5        | 4.8        | 4.5        | 5.9        | 7.4        |
| Valuables                                | -23.1      | 25.8       | -0.5       | -29.8      | 0.6        | -22.5      | -22.7      |
| Exports                                  | 8.3        | 3.0        | 10.8       | 3.9        | 6.3        | 6.3        | 5.6        |
| Less Imports                             | -1.6       | 1.0        | -2.1       | -12.7      | -3.7       | 10.9       | 12.8       |
| Discrepancies*                           | 0.8        | -0.5       | -3.1       | -3.1       | -1.6       | 2.3        | 3.3        |
| <b>GDP At Market Price</b>               | <b>6.5</b> | <b>5.6</b> | <b>6.4</b> | <b>7.4</b> | <b>6.5</b> | <b>7.8</b> | <b>8.2</b> |

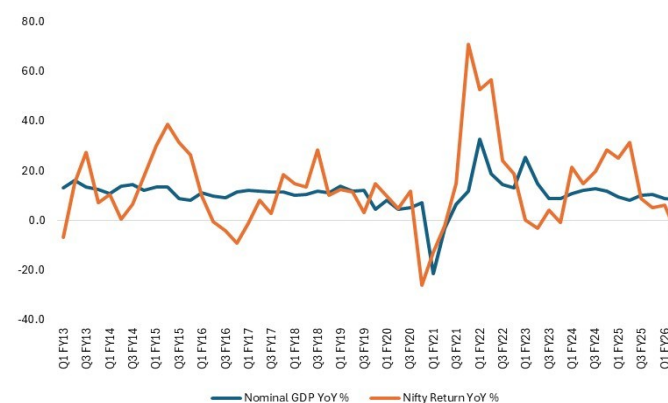
Source: MoSPI, SBI Research

#### Correlation Coefficient (r) between GDP and Nifty50

| Period        | 'r'   |
|---------------|-------|
| Q1FY13-Q2FY26 | 0.40  |
| Q1FY21-Q2FY26 | 0.50  |
| Q1FY23-Q2FY26 | -0.23 |

Source: SBI Research

#### Movement of Nominal GDP (YoY %) growth vs Nifty50 Return (YoY)

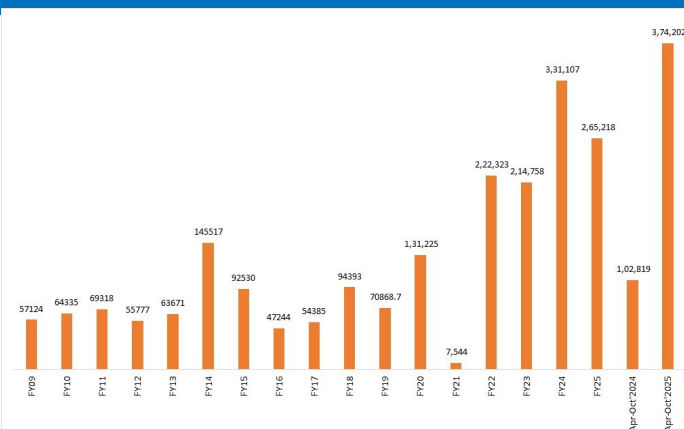


Source: SBI Research, Bloomberg, NSE, MOSPI

## FLOW OF CREDIT TO COMMERCIAL SECTOR

- Indian banking system are now positioned as a sound and well capitalised sector to support growth. In the current year, the credit growth of SCBs is slowly picking up and grew by 11.3% YoY, (last year 11.8%) for the fortnight ended 31 Oct'2025, while deposits growth remains at 9.7% (last year: 11.7%).
- The sector-wise incremental credit growth for October 2025, indicate that credit growth has increased across the sectors, expect Agri & Allied sector. Agri & Allied sector grew by 8.9% (Last year: 15.5%), industry by 10.0% (Last year: 8.1%), Services by 13.0% (Last year: 12.5%) and personal loans by 14.0% (Last year 12.9%).
- Credit to 'Micro and Small' and 'Medium' industries continued to expand in double-digits. Among major industries, outstanding credit to 'all engineering', 'infrastructure', 'construction', 'textiles' and 'vehicles, vehicle parts and transport equipment' recorded buoyant y-o-y growth. Loans against gold jewellery increased by 128.5% YoY to Rs 3.37 lakh crore.
- By looking at the trend growth, deposits may grow by 10-11% and credit by 11-12% for SCBs during FY26.
- The resource flows to commercial sector indicate that the share of bank funding hold ~55% during Apr-Oct'25, compared to 60% in Apr-Oct'24, which is mainly due to the Rs 2.2 lakh crore flows from 'Corporate Bonds by Non-Financial Entities', compared to last year Rs 39,201 crore during Apr-Oct'2024.
- In our earlier estimate, granger causality test results confirmed that there is one way causal relationship between GDP and ASCB credit, with increase in credit leading to higher GDP. **So, with the increase in credit during Q3FY26, amid GST rationalisation, we expect GDP growth will be 7.5-7.7% and 7.0-7.1% in Q4FY26.**

## "Micro and Small Enterprises" Incremental Credit Growth under the priority sector (Rs crore)



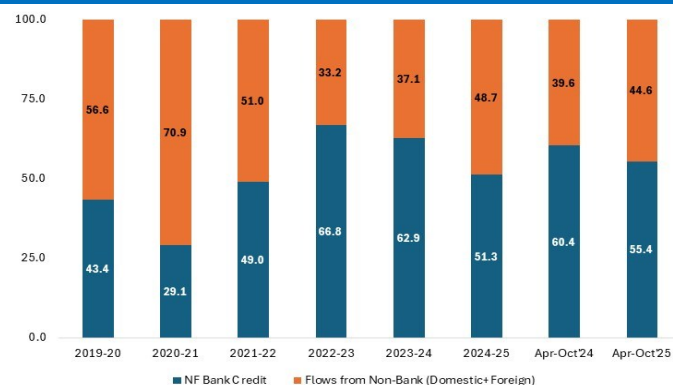
Source: SBI Research

## ASCBs Sector-Wise Credit Flow (Rs bn): Oct 2025

| Sectors                      | FY25 (Apr-Oct-24) |            | MoM         |             | FY26 (Apr-Oct-25) |            | YoY %       |             |
|------------------------------|-------------------|------------|-------------|-------------|-------------------|------------|-------------|-------------|
|                              | Rs bn             | %          | Sep-25      | Oct-25      | Rs bn             | %          | Oct-24      | Oct-25      |
| Agri. & Allied               | 1343              | 6.5        | 369         | 410         | 1155              | 5.1        | 15.5        | 8.9         |
| Industry                     | 1299              | 3.5        | 785         | 1122        | 2070              | 5.2        | 8.1         | 10.0        |
| MSE (Priority)               | 1028              | 5.2        | 99          | 935         | 3742              | 16.7       | 12.3        | 25.8        |
| Infrastructure               | 25                | 0.2        | 144         | 425         | 267               | 2.0        | 2.3         | 4.6         |
| Services                     | 1821              | 4.0        | 815         | 1259        | 2517              | 4.9        | 12.5        | 13.0        |
| NBFCs                        | 129               | 0.8        | 148         | 1144        | 685               | 4.2        | 6.0         | 10.9        |
| Personal Loans               | 3181              | 5.9        | 409         | 2017        | 4842              | 8.1        | 12.9        | 14.0        |
| Housing (Including Priority) | 1531              | 5.6        | 241         | 546         | 1770              | 5.9        | 12.1        | 11.0        |
| Other Personal Loans         | 433               | 3.0        | 120         | 622         | 819               | 5.3        | 10.4        | 9.9         |
| <b>Gross Bank Credit</b>     | <b>9874</b>       | <b>6.0</b> | <b>2579</b> | <b>4876</b> | <b>11465</b>      | <b>6.3</b> | <b>11.8</b> | <b>11.3</b> |

Source: RBI, SBI Research

## Credit to Commercial Sector in India



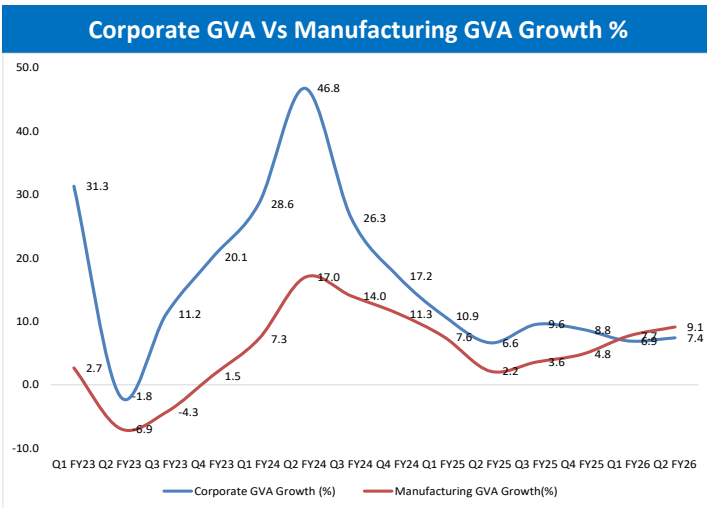
Source: SBI Research, Bloomberg, NSE, MOSPI

**CORPORATE RESULT Q2FY26 - EBIDTA GREW NEAR DOUBLE DIGIT, FROM NEGATIVE A YEAR AGO**

- ◆ Around 4000 Corporate in the listed space reported revenue growth of 6.8% while EBIDTA and profit after tax (PAT) growth of around 7.7% and 33% respectively in Q2FY26 as compared to Q2FY25.
- ◆ Further, Corporate ex BFSI represented by more than 3500 listed entities reported revenue and EBIDTA growth of 6.8% and 9.6% respectively, in Q2FY25 as compared to -1.5% growth in Q2FY25.
- ◆ Major sectors that contributed to the growth include Aerospace and Defence, Automobiles, Capital goods, Cement, Diamond, Gem and Jewellery, Fertilisers, Non-Ferro Metals, Steel, etc. Overall EBIDTA margin also improved by 41 bps i.e. from 14.4% in Q2FY25 to 14.81% in Q2FY26. Q2FY26 result was mainly driven by strong performance in commodity-oriented sectors and improved consumption supported by tax and GST rationalisation.
- ◆ New investment announcements also improved by around 80% in first half of FY26 to Rs 35.8 trillion powered by private investment announcements which contributes more than 70% of the new announcements. Capacity utilisation remained strong at 74.1 in June'25 though it moderated from 77.7 in Mar'25.

| Corporate Results Key Parameters |             |        |        |                 |                |        |     |  |
|----------------------------------|-------------|--------|--------|-----------------|----------------|--------|-----|--|
| Qtr.                             | Rs in crore |        |        | EBIDTA Margin % | Growth % (YoY) |        |     |  |
|                                  | Net Sales   | EBIDTA | PAT    |                 | Net Sales      | EBIDTA | PAT |  |
| 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  |  |
| Q2FY26                           | 2514790     | 372550 | 321003 | 14.81%          | 6.8            | 9.6    | 50  |  |

Source: SBI Research; Cline; around 3500 listed entities ex BFSI; higher number in PAT growth is due to one-time exceptional gain recorded by an automobile company, excluding which PAT growth for Q2FY26 would be around 10%



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