Economic Research | India

Despite several macro headwinds in FY26, GDP grew 7.7% (+0.6pp YoY)

India's FY26 GDP growth accelerated to 7.7% despite global shocks, as the credit cycle (macroprudential and monetary easing) turned and fiscal headwinds faded. In FY25, GDP grew 7.1% despite significant and simultaneous fiscal and monetary tightening, implying underlying economic momentum is much above 7.1%. In FY27, with nearly no fiscal tightening, and monetary tailwinds, pre-war, we expected real growth to be 7.5%. We have cut FY growth forecast to 6.7%, a one-time effect from the terms-of-trade shock of higher energy prices. We expect the run-rate to improve once oil prices fall.

07 Jun 2026
Economic Growth
India

Exhibit 1- India's FY26 growth showed resilience; FY27 growth under pressure from oil

	Share of GVA	Real Growth (YoY%)					
		FY25	FY26	1Q FY26	2Q FY26	3Q FY26	4Q FY26
Agriculture	18%	4.2%	3.0%	4.4%	2.7%	1.7%	3.6%
Industry	28%	8.3%	8.5%	7.0%	10.3%	9.5%	7.3%
Manufacturing	15%	9.3%	10.7%	10.4%	12.7%	12.8%	7.3%
Construction	8%	7.3%	7.4%	5.3%	8.9%	6.7%	8.4%
Services	54%	7.9%	9.3%	8.0%	9.2%	9.9%	9.9%
Financial services etc	27%	10.0%	10.4%	9.2%	10.3%	11.6%	10.4%
GVA at basic prices		7.3%	7.9%	7.1%	8.6%	8.0%	7.9%
GDP at market prices		7.1%	7.7%	6.8%	8.3%	8.0%	7.8%
	Share of GDP	Real Growth (YoY%)					
		FY25	FY26	1Q FY26	2Q FY26	3Q FY26	4Q FY26
Private consumption	57%	5.8%	7.7%	8.7%	7.2%	8.2%	7.1%
Gov. consumption	11%	6.5%	5.5%	5.8%	6.6%	4.6%	4.9%
Gross capital formation	35%	6.1%	7.7%	4.2%	6.8%	8.1%	11.4%
Investments (GFCF)	32%	6.4%	8.2%	4.9%	8.4%	8.2%	10.8%

Source: MoSPI, Axis Bank Research

FY26 GDP growth accelerated to 7.7% (+0.6pp) despite all macro headwinds

FY26 opened with a 'global trade war', amplified for India by 50% tariffs between Aug-25 and Jan-26, followed by the US-Iran conflict in Mar-26. Despite these shocks, the growth impact remained limited. As highlighted earlier, a strengthening domestic credit cycle—supported by macroprudential easing and an accommodative monetary policy stance—underpinned resilience (link, link). GST reforms also provided an additional boost to growth.

Investment growth leads consumption growth; Pvt consumption up 7.7% YoY

Fixed investment growth in FY26 remained robust at 8.2% YoY. Overall consumption grew 6.8% YoY (Fig 1: private consumption +7.7% vs. 5.8% in FY25), though momentum softened in 4Q amid the war (Fig 5: 5.6% in Mar-25). Given prevailing headwinds and our structural view (link), we continue to expect consumption growth to trail GDP by ~1pp annually.

On the production side (Fig 1), agricultural growth moderated to 3% (vs. 4.2% in FY25), industrial growth was marginally stronger by ~20bps, with robust manufacturing offsetting weaker electricity output (1.7% YoY vs. 2.9% in FY25). Services sector was the key growth driver (9.3% YoY; +1.4pp vs. FY25), led by 'trade, hotels, transport and telecom' (Fig 1, 6–7).

We cut our FY27 growth forecast to 6.7% vs. our-pre-war 7.5% estimate

Pre-war momentum, given strong high-frequency indicators, was of ~8% real GDP growth, supported by easing monetary conditions, and a steady fiscal stance. The war-driven energy price shock creates a meaningful drag — via deteriorating terms of trade and higher import costs — partly absorbed through fiscal channels, but with the remainder weighing on demand (link). This, though, we see as a one-time risk. Additional risks include a weak monsoon which may result in weaker agricultural growth thus dragging output lower by 20-30bps, but for now reservoir and groundwater levels reduce risks this year.

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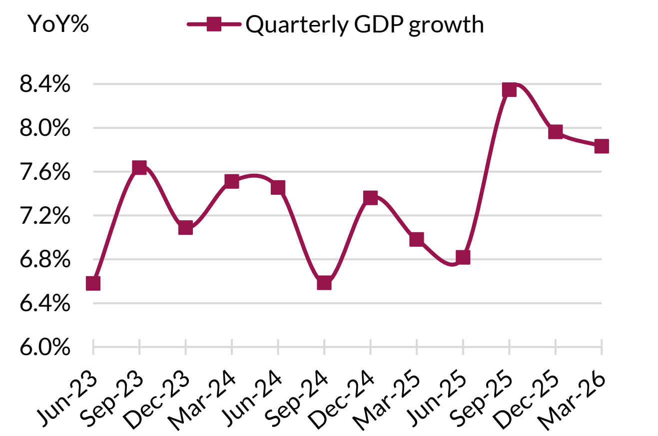
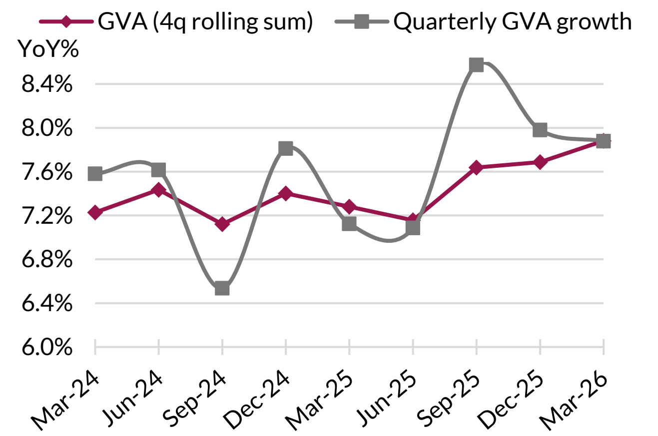
Exhibit 2 – 4QFY26 quarterly GDP grew at 7.8% YoY…



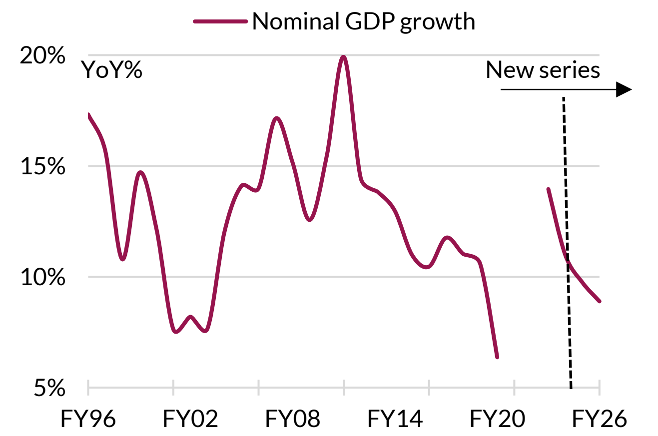
Source: MoSPI, Axis Bank Research

Exhibit 3 – …and quarterly GVA grew at 7.9% YoY



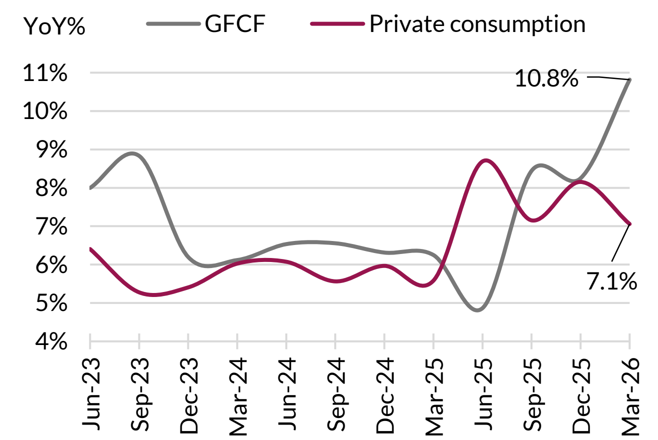
Source: MoSPI, Axis Bank Research

Exhibit 4 – FY26 nominal GDP growth at 8.9%



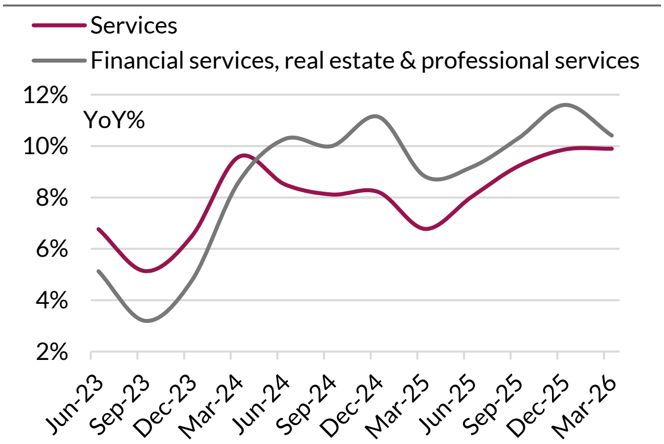
Source: MoSPI, Axis Bank Research

Exhibit 5- Pvt. consumption/investment grew at 7.1%/10.8%



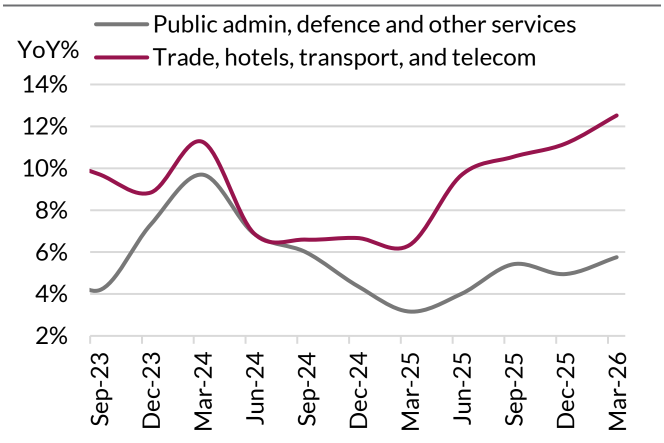
Source: MoSPI, Axis Bank Research

Exhibit 6 – Services GVA growth remained flat with slight deceleration in financial services GVA growth



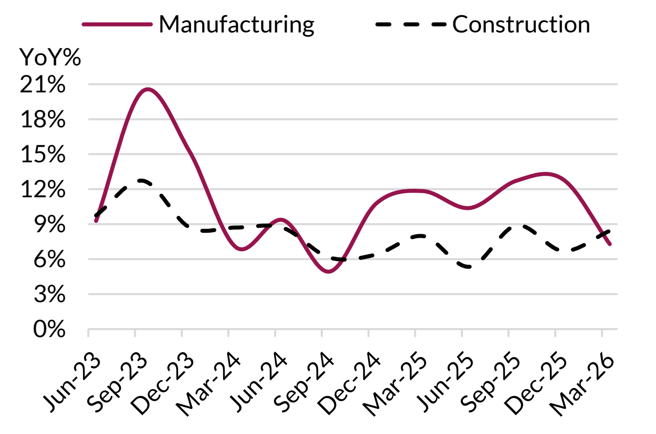
Source: MoSPI, Axis Bank Research

Exhibit 7 – While trade, hotels, transport and telecom grew at 12.5% (with favorable base effect)



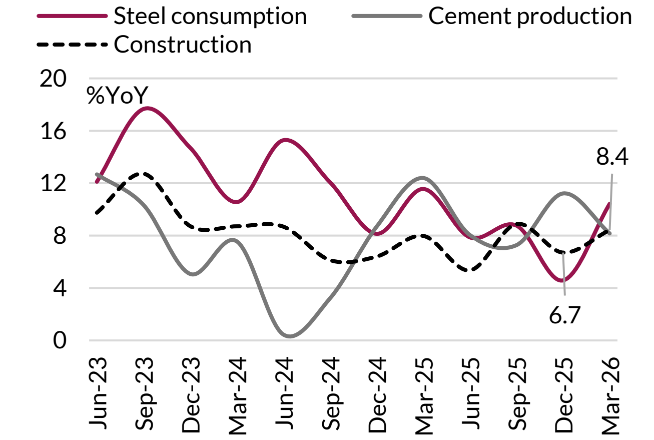
Source: MoSPI, Axis Bank Research

Exhibit 8 – Quarterly manufacturing growth slowed to 7.3% YoY (vs. 12.8% YoY in Dec-25)



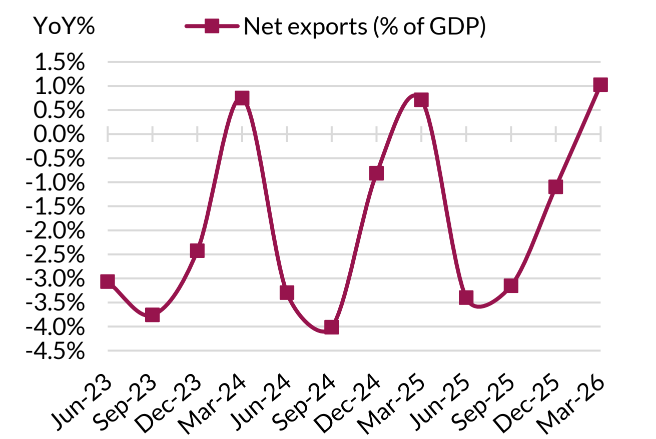
Source: MoSPI, Axis Bank Research

Exhibit 9 – Pickup in construction growth (1.7pp) supported by strong steel volume growth



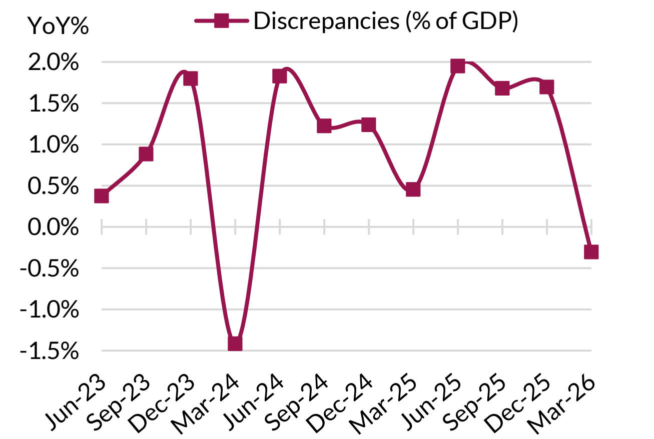
Source: MoSPI, JPC, Axis Bank Research

Exhibit 10 – Usual seasonal improvement in net exports



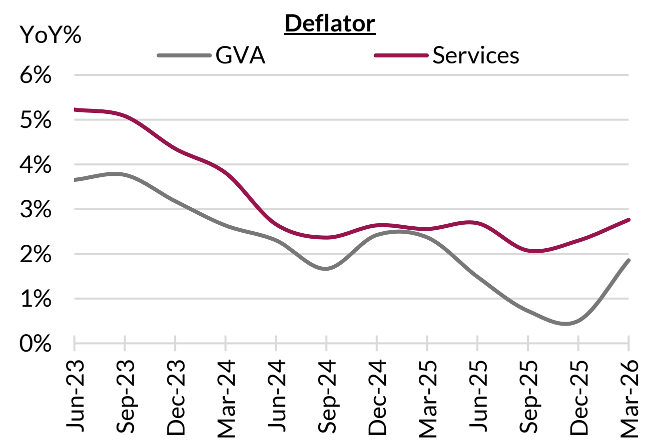
Source: MoSPI, Axis Bank Research

Exhibit 11 – Unaccounted expenditures negligible in Mar-26



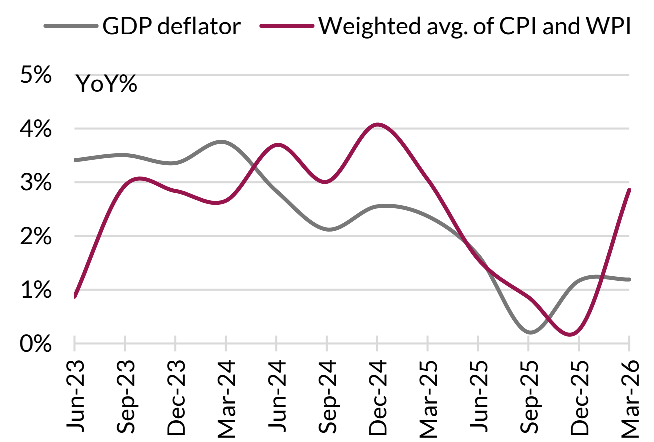
Source: MoSPI, Axis Bank Research

Exhibit 12 – Services inflation higher than overall deflator



Source: MoSPI, Axis Bank Research

Exhibit 13 – We expect FY27 deflator to be >4.5%



Source: MoSPI, Axis Bank Research

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