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Complete Investment Banking Solutions

INDIA: Q2FY26 GDP UPDATE

From Capex to Consumption: How Policy Initiatives Sparked a GDP Beat

28 NOVEMBER 2025

EXECUTIVE SUMMARY

Real GDP shows sharp recovery in Q2FY26, grew by 8.2% y/y

India's real GDP picked pace to grow 8.2% in Q2FY26 compared with 5.6% for same quarter last year. The number significantly exceeded street expectations of ~7.3% growth and is partially helped by lower GDP deflator also. Private consumption growth is gaining traction with growth of 7.9% in Q2. Rural consumption remains resilient and urban consumption is gaining traction helped by GST rate rationalisation and we expect consumption demand to remain resilient in coming quarters. Nominal GDP for the quarter grew by 8.8%

Capital formation growth is in-line with GDP growth

Real GFCF increased by 7.3% y/y in Q2FY26. Despite private capex remains in selective sectors amid trade and tariff uncertainty, the GFCF growth has surprised, helped by government capex and buoyant construction and manufacturing activity. The share of GFCF in GDP appears to be peaking in real terms as consumption is gaining traction.

Pickup in agriculture, manufacturing and services growth boost GVA growth

Real GVA also witnessed a growth of 8.1% in Q2FY26. Services GVA grew by 9.2% in Q2FY26, a healthy pace supported by continued strength in both public admin, defence and other services, and financial services, despite both having a strong base. Secondary sector growth of 8.1% surprised positively. Construction, continued to grow handsomely (at 7.2%) despite being on a high base of the past three years. Even as the share of agriculture in GVA continues to decline secularly, it posted a decent 3.5% growth in Q2 helped by strong food crop production.

Stable CAD amidst volatile exports and flows

While the additional 25% tariff by US could temporarily weigh on goods exports, however stable global growth would partially offset goods trade deficit due to services export and remittances. In the interim, subdued commodity prices, ample forex reserves, and prudent external account management should continue to anchor balance of payments stability. With global headwinds intensifying, foreign flows—both FDI and FII—would remain volatile, a trend we are watching with keen interest

India ready to be the fastest growing major economy for yet another year in FY26

FY26 could see PFCE rise helped by a much-needed tax break given to the middle class through income tax and GST rate rationalization. Rural prosperity helped by an above-normal rainfall besides growth inducing measures by government. With inflation remaining under control, the RBI's monetary stance has created room to sustain liquidity support. This stance must continue to be leveraged to meet investment demand, while ensuring financial stability remains intact

FY26 GDP growth would be better than last year driven by Consumption, Services sector

An above normal monsoon, buoyancy in services sector, GST rates rationalisation and strong construction activity have accelerated growth momentum despite trade tariff uncertainty and selective private sector capex. The risks remain evenly balanced as we expect FY26 real GDP growth to be > 7% with slight moderation in H2. Nominal GDP will remain challenged in FY26 as inflation sinks, and we expect ~8.5% y/y figure to register.

GALLOPING REAL GROWTH BOOSTED BY POLICY INITIATIVES

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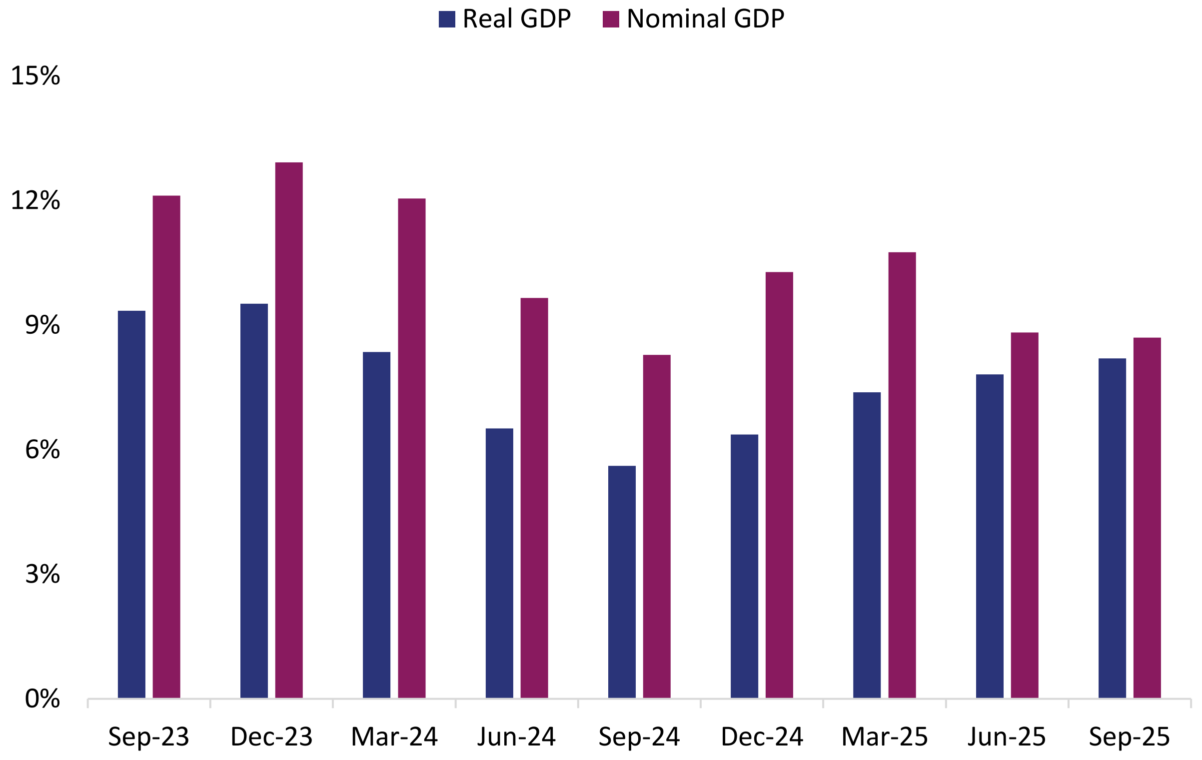
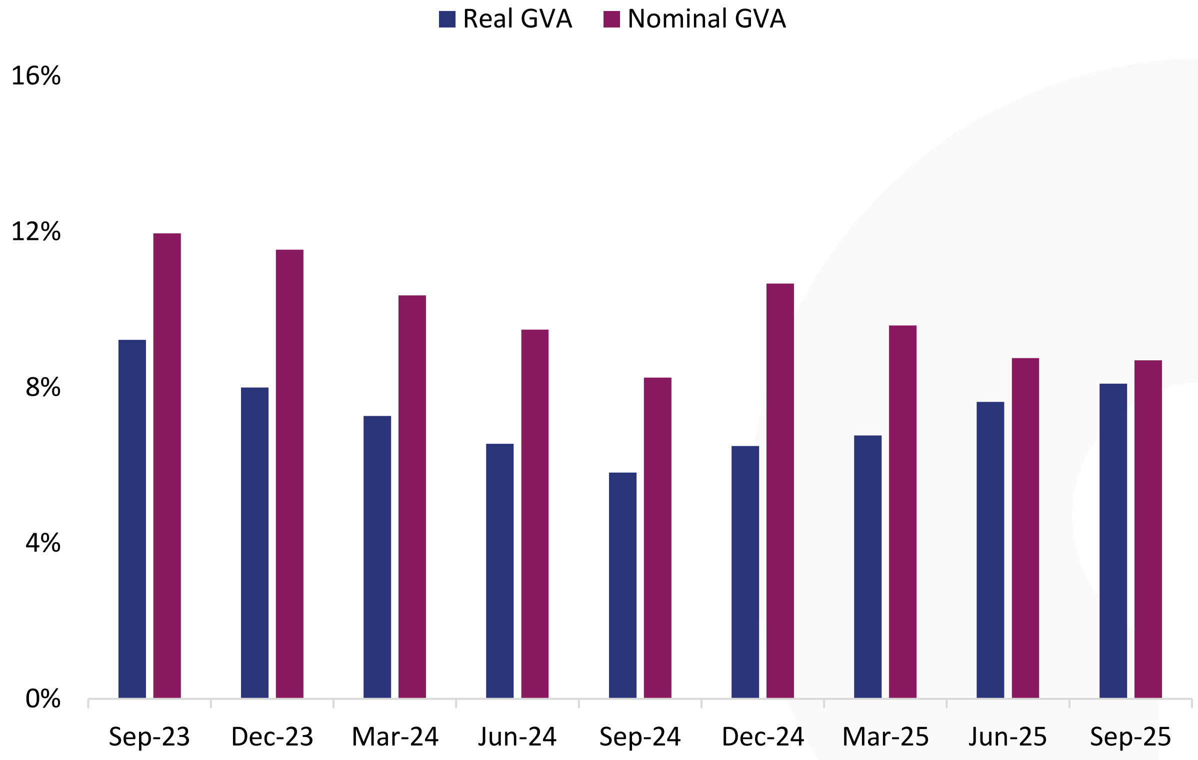
QUARTERLY REAL AND NOMINAL GDP (% Y/Y)



QUARTERLY REAL AND NOMINAL GVA (% Y/Y)



- Real GDP climbed to a 7-quarter high clip of 8.2% y/y in Q2FY26, ahead of market expectations, driven by surge in consumption and government capex which offset impact of US tariffs
- Real GVA grew 8.1% y/y in Q2FY26, as a resurgent manufacturing aided industry growth supports services momentum, which continues to drive domestic growth.
- *The risks remain evenly balanced as we expect FY26 real GDP growth to be > 7% with slight moderation in H2. Nominal GDP will remain challenged in FY26 as inflation sinks, and we expect ~8.5% y/y figure to register.*

INDUSTRY AND SERVICES PROVIDES GROWTH MOMENTUM

REAL GVA SECTORAL BREAK UP

Change (% y/y)	Q2FY26	Q1FY26	Q4FY25	Q3FY25	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24
GVA	**8.1**	**7.6**	**6.8**	**6.5**	**5.8**	**6.5**	**7.3**	**8.0**	**9.2**
Agriculture and allied	**3.5**	**3.7**	**5.4**	**6.6**	**4.1**	**1.5**	**0.9**	**1.5**	**3.7**
Industry	**7.7**	**6.3**	**6.5**	**4.8**	**3.8**	**8.5**	**9.5**	**11.8**	**15.1**
Mining and quarrying	0.0	-3.1	2.5	1.3	-0.4	6.6	0.8	4.7	4.1
Manufacturing	9.1	7.7	4.8	3.6	2.2	7.6	11.3	14.0	17.0
Electricity, gas & water supply	4.4	0.5	5.4	5.1	3.0	10.2	8.8	10.1	11.7
Construction	7.2	7.6	10.8	7.9	8.4	10.1	8.7	10.0	14.6
Services	**9.2**	**9.3**	**7.3**	**7.4**	**7.2**	**6.8**	**7.8**	**8.3**	**7.5**
Trade, hotel, transport & comm.	7.4	8.6	6.0	6.7	6.1	5.4	6.2	8.0	5.4
Finance, real estate and prof serv.	10.2	9.5	7.8	7.1	7.2	6.6	9.0	8.4	8.3
Public admin., defence & Other svcs	9.7	9.8	8.7	8.9	8.9	9.0	8.7	8.4	8.9

- Services continue to remain the main engine of growth, with public spending and exuberant financial sector maintaining momentum despite high base. Acceleration in trade, transport and communications is reflective of strong demand aided by GST rationalization and festive season

- Industrial pick up was driven by resurgent manufacturing, as corroborated by HFIs, despite monsoons raining on mining and power parade. Union’s focus on capex aided construction growth in Q2FY26 on a relatively higher base.

- Agriculture grew at a robust pace of 3.5% y/y in Q2FY26, supported by good kharif sowing and favourable monsoon conditions.

Source: CEIC, SBICAPS

GOVERNMENT CAPEX SUPPLEMENTS POLICY AUGMENTED CONSUMPTION

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REAL EXPENDITURE COMPONENTS

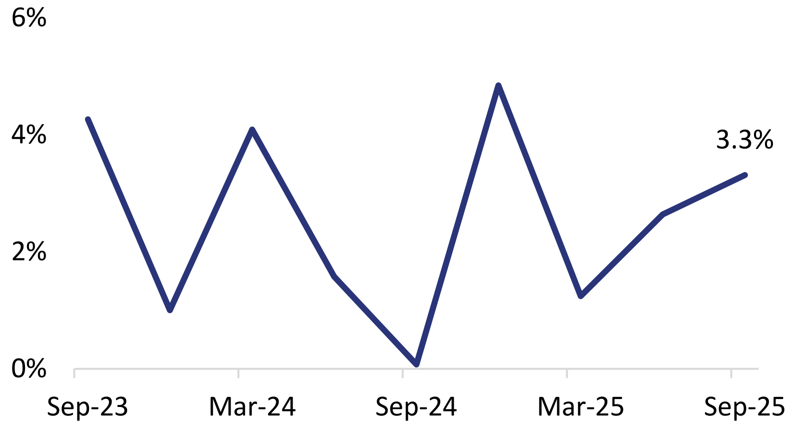
Change (% y/y)	Q2FY26	Q1FY26	Q4FY25	Q3FY25	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24
GDP	8.2	7.8	7.4	6.4	5.6	6.5	8.4	9.5	9.3
Private final consumption exp. (PFCE)	**7.9**	**7.0**	**6.0**	**8.1**	**6.4**	**8.3**	**6.2**	**5.7**	**3.0**
Govt. final consumption exp. (GFCE)	**-2.7**	**7.4**	**-1.8**	**9.3**	**4.3**	**-0.3**	**6.6**	**2.3**	**20.1**
Gross capital formation (GCF)	**5.1**	**7.3**	**7.8**	**4.9**	**7.7**	**6.2**	**9.1**	**12.4**	**11.9**
Gross fixed capital formation (GFCF)	7.3	7.8	9.4	5.2	6.7	6.7	6.0	9.3	11.7
Exports	**5.6**	**6.3**	**3.9**	**10.8**	**3.0**	**8.3**	**7.7**	**3.0**	**4.6**
Imports	**12.8**	**10.9**	**-12.7**	**-2.1**	**1.0**	**-1.6**	**11.4**	**11.3**	**14.3**

- PFCE, accounting for 57% of real GDP, rose at a robust pace, driven by rural demand, wage growth and benign inflation, aided by GST rate rationalization on mass consumption items. Festive demand and income tax reliefs boosted sentiments, despite GST-related purchase deferments.
- Strong growth in gross fixed capital formation is underpinned by government expenditure in roads, defence and railways and tepid rise in private capex intent.
- Net imports shaved off from real GDP as elevated imports due to strong domestic demand, especially in precious metals, trumped a slowdown in exports due to trade deal uncertainty. Notably, services exports cushioned much of the merchandise trade impact.

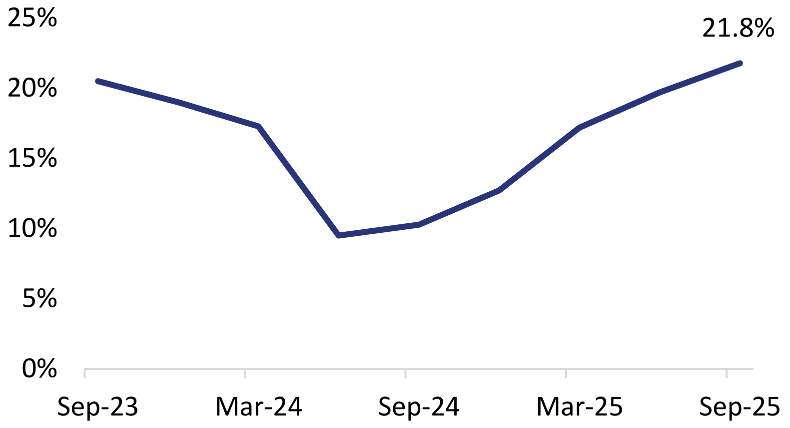
Source: CEIC, SBICAPS

MAJOR INDICATORS SHOWED UPTICK IN MOMEMTUM DURING Q2

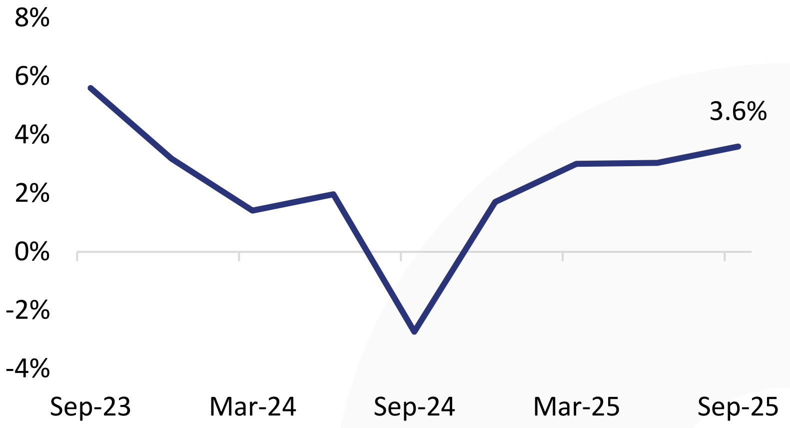
DIESEL CONSUMPTION



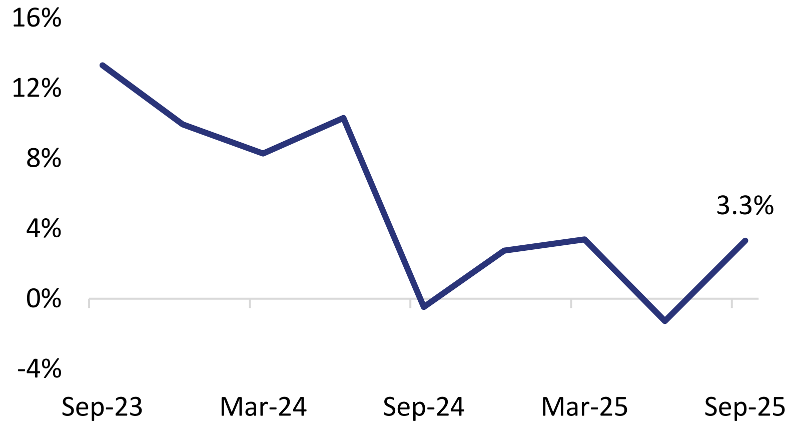
FASTAG COLLECTIONS



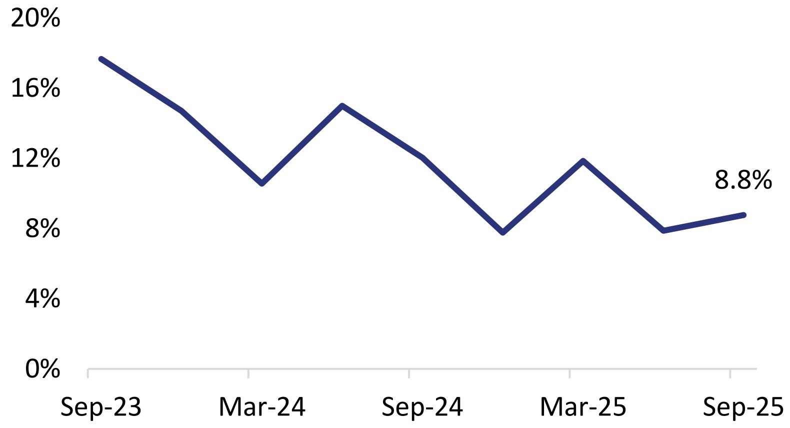
CV RETAIL SALES



ELECTRICITY SUPPLY



FINISHED STEEL CONSUMPTION



Note: All charts show y/y growth in quarterly values

PICKUP IN Q3 POST FESTIVE SEASON TO NOURISH THE ECONOMY

INDICATOR	OCT'24	NOV'24	DEC'24	JAN'25	FEB'25	MAR'25	APR'25	MAY'25	JUN'25	JUL'25	AUG'25	SEP'25	OCT'25
INDUSTRY													
Manufacturing PMI	57.5	56.5	56.4	57.7	56.3	58.1	58.2	57.6	58.4	59.1	59.3	57.7	59.2
IIP (%y/y)	3.7%	5.0%	3.7%	5.2%	2.7%	3.9%	2.6%	1.9%	1.5%	4.3%	4.1%	4.0%	
Eight Core (%y/y)	3.8%	5.8%	5.1%	5.1%	3.4%	4.5%	1.0%	1.2%	2.2%	3.7%	6.5%	3.3%	0.0%
Finished Steel Consumption (%y/y)	9.1%	8.3%	5.2%	10.9%	10.9%	13.6%	6.0%	8.1%	9.3%	7.3%	10.0%	8.9%	2.4%
2W Retail Sales (%y/y)	37.0%	15.8%	-17.6%	4.2%	-6.3%	-1.8%	2.3%	7.3%	4.7%	-6.5%	2.2%	6.5%	51.8%
PV Retail Sales (%y/y)	37.1%	-13.7%	-2.0%	15.5%	-10.3%	6.3%	1.6%	-3.1%	2.5%	-0.8%	0.9%	5.8%	11.3%
SERVICES/CONSUMPTION													
Services PMI	58.5	58.4	59.3	56.5	59	58.5	58.7	58.8	60.4	60.5	62.9	60.9	58.9
Petrol Consumption (%y/y)	8.7%	9.6%	11.1%	6.7%	5.0%	5.7%	5.0%	9.2%	6.8%	5.9%	5.5%	8.0%	7.4%
Diesel Consumption (%y/y)	0.1%	8.5%	5.9%	4.2%	-1.3%	0.9%	4.2%	2.1%	1.5%	2.4%	1.2%	6.6%	-0.3%
Railway Freight Volume (%y/y)	1.4%	1.4%	1.7%	-1.6%	-3.0%	3.0%	3.6%	2.7%	0.9%	0.0%	8.5%	-0.8%	4.7%
Port Cargo Volume (%y/y)	-3.4%	-5.0%	3.4%	6.2%	7.4%	13.3%	7.0%	4.4%	5.5%	4.0%	2.5%	11.5%	12.0%
Electricity supply (% y/y)	0.8%	3.8%	5.2%	2.3%	-0.7%	6.4%	1.6%	-5.3%	-2.0%	1.6%	3.9%	3.0%	-5.9%
Total Airport Footfall (%y/y)	9.8%	13.2%	10.5%	13.5%	11.2%	9.3%	10.3%	3.0%	3.7%	-1.0%	1.0%	-0.7%	4.1%
Fastag revenues (%y/y)	10.4%	14.5%	13.3%	19.0%	18.3%	14.5%	21.6%	20.0%	17.5%	19.6%	25.7%	20.0%	9.3%
UPI transactions (%y/y)	37.0%	23.9%	27.5%	27.5%	20.2%	25.2%	21.9%	23.0%	19.8%	21.5%	20.6%	20.6%	16.1%
Gross GST Revenues (%y/y)	8.9%	8.5%	7.3%	12.3%	9.1%	9.9%	12.6%	16.4%	6.2%	7.5%	6.5%	9.1%	4.6%

Source: S&P Global, FADA, CEIC, SBICAPS

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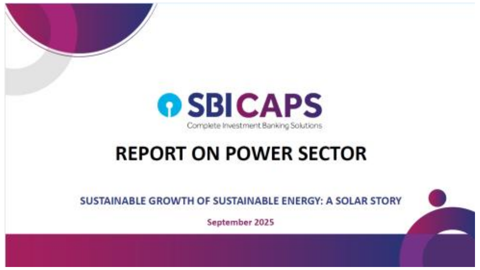

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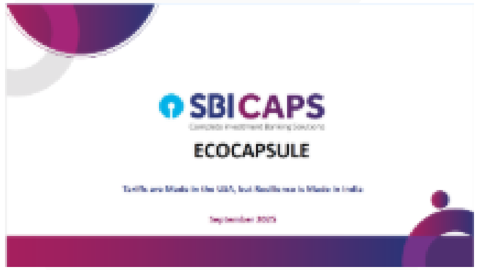

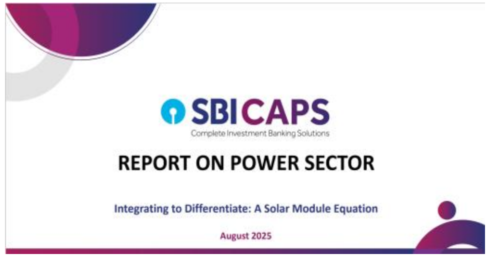

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