

GDP Preview Q4 FY26: GDP Growth Projected Between 6.8-7%



June 01, 2026 | Economics

Q4 FY26 Saw Turbulent External Environment

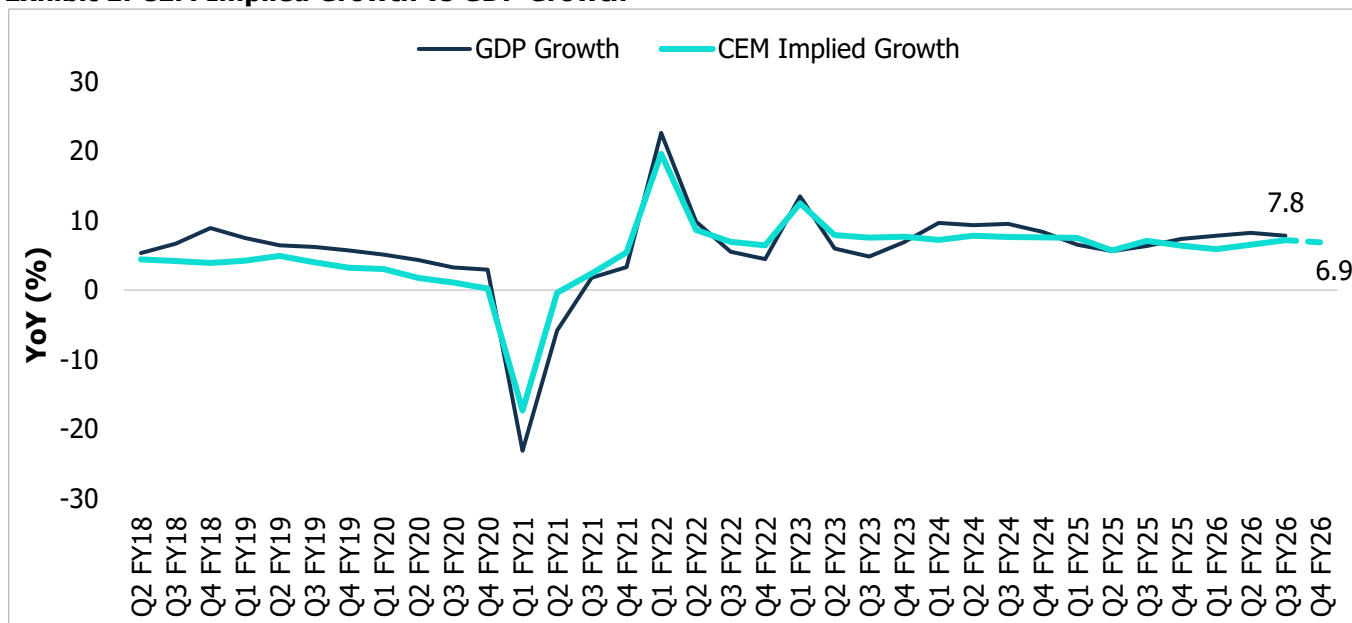
Q4 FY26 began on a positive note, supported by progress on the global trade front, including developments related to the India–EU trade agreement. In addition, the United States and India eased bilateral trade frictions by agreeing to a framework for an interim reciprocal trade agreement, reducing tariff rates from 50% to 18%. However, the improvement in the external environment was short-lived as geopolitical tensions in the West Asia escalated towards the end of February. The intensification of the West Asia conflict and the subsequent disruption in the Strait of Hormuz led to a sharp rise in global energy prices. Given India’s significant dependence on the strait for energy imports, the conflict adversely impacted the domestic economy. India’s total oil and gas import dependency is estimated to be around 4.2% of its GDP (2024). Of this, reliance on the West Asia is estimated at about 2%.

Having said that, despite the conflict, Q4FY26 remained partially insulated from the adverse effects of the crisis, as the first two months of the quarter were relatively unaffected. In addition, companies likely relied on existing inventories to cushion the impact of rising input costs. Moreover, the government and OMCs absorbed a major portion of the increase in energy prices before the pass-through to consumers began in Q1FY27. All these factors are likely to limit downside risk to growth momentum in the fourth quarter.

CareEdge Economic Meter Projects GDP growth between 6.8-7%

CareEdge Economic Meter (CEM), which is based on 40+ high-frequency indicators, projects Q4 FY26 GDP growth between 6.8% and 7.0%. The GVA growth for Q4 FY26 is projected at 7.2%.

Exhibit 1: CEM Implied Growth vs GDP Growth



Source: CareEdge. CareEdge Economic Meter (CEM) is a factor-based index that covers 40 high-frequency economic indicators to track the state of the economy in real time.

Sectoral Performance:

- Agricultural:** We expect agricultural growth to improve marginally from 1.4% in Q3FY26 to 1.6% in Q4FY26, despite the high base effect from the previous year. High-frequency indicators such as domestic tractor sales and agricultural credit growth have shown encouraging trends. During Q4FY26, domestic tractor sales increased by 35% YoY, compared with 23.2% growth in Q3FY26, while agricultural credit growth improved to 13.1% from 9.9% in the previous quarter. However, exports of agricultural and marine products contracted by 6.3% in Q4. Agricultural exports were initially affected by higher tariffs during the trade tensions with the United States in January. Although exports witnessed some improvement in February, escalating tensions in West Asia adversely affected export momentum again in March, given that the West Asia remains a key market for India's agricultural exports.
- Manufacturing Sector:** We expect manufacturing growth to moderate sharply to 8.7% in Q4FY26 from 9.7% in Q3FY26. Similar to agricultural exports, manufacturing exports were initially affected by trade tensions and subsequently by the geopolitical conflict in West Asia. Non-petroleum, non-agricultural exports contracted by 0.7% in Q4FY26, compared with a growth of 3.2% in the previous quarter. Several high-frequency indicators also point towards moderation in manufacturing activity. Growth in the Index of Industrial Production (IIP) manufacturing eased to 5.1% in Q4FY26 from 6.3% in Q3FY26. Likewise, passenger vehicle sales moderated to 13.1% from 20.5%, while passenger vehicle production slowed to 8.1% from 18.3%. Cement production growth also softened to 8.2% from 11.2% in the previous quarter.

Although GST collections showed some improvement at 2.3% compared with 0.7% in Q3FY26, the pace of growth remained modest, partly reflecting the impact of tax cuts announced in the previous quarter. In contrast, domestic steel production growth improved to 8.9% from 7.6%, largely supported by safeguard duties imposed by the government.

- Mining and Utilities:** Mining and utilities are expected to register an improvement in growth during Q4FY26. Growth in the mining and quarrying sector is projected to rise to 5.1% in Q4FY26 from 4.7% in Q3FY26. Similarly, growth in electricity, gas, water supply, and other utility services is expected to accelerate to 2.1% from 1.5% in the previous quarter. The improvement is also reflected in high-frequency indicators. Growth in IIP mining increased to 4.3% in Q4FY26 from 3.8% in Q3FY26, while the contraction in electricity generation moderated to -0.2% from -4.0% during the same period.
- Construction:** High-frequency indicators for the construction sector presented a mixed picture during Q4FY26. Overall, construction growth is expected to moderate to 5.8% from 6.6% in Q3FY26, largely due to an adverse base effect from the previous year. During the first two months of the quarter, central government capital expenditure growth improved, expanding by a modest 11.7% compared with a contraction of 23.4% in Q3FY26. In contrast, capital expenditure by major states contracted by 1.7% in Q4FY26, compared with a growth of 18.1% in the previous quarter. Other high-frequency indicators also suggest some moderation in momentum. Growth in bitumen consumption eased to 6.9% from 11.5% in Q3FY26, while growth in the IIP infrastructure and construction goods segment moderated marginally to 10.7% from 11.0% during the same period.
- Services Sector:** We expect the services sector growth to slow to 8.5% in Q4 from 9.5% in Q3. Within the services sector, indicators relating to trade, hotels, transport, communication, broadcasting, and public administration presented a mixed picture, while Financial, Real Estate and Professional Services (FREPS) showed broad-based improvement. The momentum in the FREPS segment was supported by stronger non-food credit growth, which increased to 18.4% from 15.7% in the previous quarter, along with an improvement in services exports growth to 8.9% from 7.5%. In addition, robust growth in insurance premium collections further points towards sustained strength in the sector.

However, within the Trade, Hotels, Transport, Communication and Services Related to Broadcasting segment, several high-frequency indicators pointed towards moderation in activity. Indicators such as toll collections, domestic air passenger traffic, e-way bill collections, and international air cargo traffic exhibited slower growth during the quarter. The sector was likely affected by weakening export momentum and lower travel activity amid escalating geopolitical tensions. In addition, energy shortages — particularly disruptions in the availability of LPG cylinders — are also likely to have adversely impacted the restaurant and hospitality industry. Regarding public administration, central government revenue expenditure contracted by 2.3% during the first two months of the quarter, while revenue expenditure by major states expanded by 9.6% during the same period.

Expenditure Side:

On the expenditure side, GDP growth is expected to moderate due to slower growth in private final consumption expenditure (PFCE), investment activity, and exports. Growth in PFCE is likely to ease to around 7.0% in Q4FY26 from 8.7% in Q3FY26. The moderation in demand appears to be primarily driven by weaker urban consumption, while rural demand is expected to remain relatively resilient during the quarter. A slowdown in the IT sector hiring is likely to have weighed on urban consumption sentiment, whereas favourable agricultural performance is expected to support rural consumption demand.

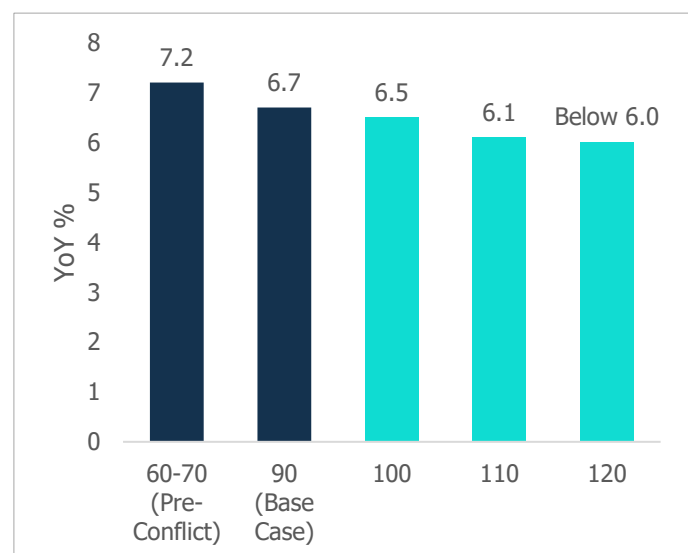
Investment activity is also likely to witness some moderation. The sharp contraction in central government capital expenditure by 23.4% in Q3FY26, followed by only modest growth of 11.7% during the first two months of Q4FY26, is expected to weigh on overall capital formation. In addition, heightened global risk-off sentiment amid geopolitical uncertainty is likely to have adversely impacted private sector capital expenditure as well. Apart from these factors, the slowdown in overall export growth to 2.0% in Q4FY26 is likely to have weighed on net exports, particularly as import growth remained relatively stable at 7.4%. The widening gap between export and import growth suggests a deterioration in the contribution of external demand to overall GDP growth during the quarter.

Outlook

Although growth moderated in Q4, the economy remained partially shielded from the adverse effects of geopolitical tensions. However, growth momentum is expected to weaken further in Q1 FY27 as the impact of the West Asia crisis gradually transmits across sectors of the economy. In addition, the possibility of El Niño conditions poses downside risks, particularly for the agricultural sector, which is already grappling with elevated fertiliser and other input costs. The India Meteorological Department (IMD) has revised its rainfall forecast downward to 90% of the long-period average in May, compared with its earlier estimate of 92% in April.

At the same time, the gradual pass-through of higher energy prices to consumers, coupled with the risk of elevated inflation weighing on real income growth, could dampen consumption demand. We expect GDP growth at 6.7% in FY27, assuming an early resolution of the West Asia crisis with crude oil price averaging USD 90/bbl.

Exhibit 2: CareEdge Growth Outlook in FY27



Source: CareEdge Projections

However, if the geopolitical conflict persists for a longer period and average crude prices rise to around USD 110/bbl, growth could slow further and move closer to 6% in FY27.

List of High Frequency Indicators							
			Q4 FY25	Q1 FY26	Q2 FY26	Q3 FY26	Q4 FY26
Agriculture	Domestic Tractor Sales	YoY	17.3%	9.2%	30.7%	23.2%	34.9%
	Agricultural Credit	YoY	11.3%	7.8%	8.0%	9.9%	13.1%
	Agriculture & Marine Products Export	YoY	7.4%	6.5%	11.9%	-0.5%	-6.3%
	Govt. expenditure on Agri and Allied Sectors	YoY	2.5%	11.8%	18.7%	6.2%	1.5%
Manufacturing	Infrastructure Industries: Steel Production	YoY	6.8%	7.2%	14.8%	7.6%	8.9%
	Infrastructure Industries: Cement Production	YoY	12.4%	8.0%	7.3%	11.2%	8.2%
	Pig and Sponge Iron Production	YoY	8.0%	9.9%	7.9%	2.5%	8.7%
	Gross GST Collections	YoY	10.4%	11.8%	7.7%	0.7%	2.3%
	IIP Manufacturing	YoY	4.2%	3.3%	5.1%	6.3%	5.1%
	Passenger Vehicle Production	YoY	6.4%	4.9%	3.8%	18.3%	8.1%
	Passenger Vehicle Sales	YoY	2.3%	-1.4%	-1.5%	20.5%	13.1%
	Two-Wheeler Sales	YoY	1.4%	-6.2%	7.4%	16.9%	26.4%
	Non-POL Non-Agri Exports	YoY	2.5%	5.2%	8.3%	3.2%	-0.7%
	Electronics Exports	YoY	43.0%	49.0%	37.8%	25.4%	2.2%
Construction	Central Government Capex	YoY	33.4%	52.0%	30.7%	-23.4%	11.7%
	State Capex	YoY	20.5%	31.1%	3.7%	18.1%	-1.7%
	Finished Steel Consumption	YoY	11.6%	7.9%	8.8%	4.6%	10.4%
	Bitumen Consumption	YoY	-3.8%	-4.0%	17.2%	11.5%	6.9%
	IIP: Infra and Construction Goods	YoY	8.1%	6.0%	11.6%	11.0%	10.7%
Mining and Quarrying	IIP Mining	YoY	2.4%	-3.0%	-0.5%	3.8%	4.3%
	Coal Production	YoY	2.6%	-0.2%	-1.3%	-0.7%	0.2%
Utilities	Electricity Generation	YoY	2.0%	-5.5%	0.3%	-4.0%	-0.2%
	Electricity Demand	YoY	3.2%	-1.5%	3.3%	-0.3%	1.9%
Trade, Hotels, Transport, Communication and Services Related to Broadcasting	Domestic Air Passenger Traffic	YoY	12.0%	5.3%	-1.9%	1.7%	0.6%
	Toll Collection	YoY	17.2%	19.7%	17.5%	12.2%	6.7%
	Petrol Consumption	YoY	5.8%	7.1%	6.4%	5.7%	6.7%
	ATF Consumption	YoY	6.5%	3.9%	-2.0%	2.5%	3.4%
	Diesel Consumption	YoY	1.2%	2.6%	3.3%	3.3%	5.3%
	E-way Bill Collections	YoY	19.4%	20.5%	23.1%	19.4%	15.7%
	Domestic Air Cargo Traffic	YoY	3.5%	6.6%	4.9%	6.8%	12.5%
	International Air Cargo Traffic	YoY	1.5%	4.7%	3.6%	7.3%	5.7%
Financial, Real Estate, and Professional Services	Port Cargo Traffic	YoY	3.7%	5.9%	5.2%	7.6%	7.6%
	Services Export	YoY	14.2%	10.1%	8.7%	7.5%	8.9%
	Stamp Duty Collections	YoY	6.7%	18.8%	2.6%	16.1%	15.1%
	Non-Food Credit	YoY	12.2%	10.4%	13.3%	15.7%	18.4%
	Industrial Credit	YoY	7.8%	5.7%	7.1%	12.5%	15.2%
	Retail Credit	YoY	14.1%	14.3%	20.1%	21.7%	23.2%
	Life Insurance: First Year Premium	YoY	-4.3%	4.3%	10.7%	24.9%	21.7%
Public Admin.	Non-Life: Gross Direct Premium	YoY	1.5%	8.8%	5.8%	11.4%	11.4%
	Central Government Revex	YoY	-5.1%	20.0%	-14.6%	2.4%	-2.3%
	State Government Revex	YoY	7.1%	11.3%	7.8%	4.3%	9.6%

Source: CEIC, CareEdge. Data for Public Finances is till Feb 2026.

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