GDP Growth Rate for Q1 FY26 Hits 7.8% – Fastest in Five Quarters

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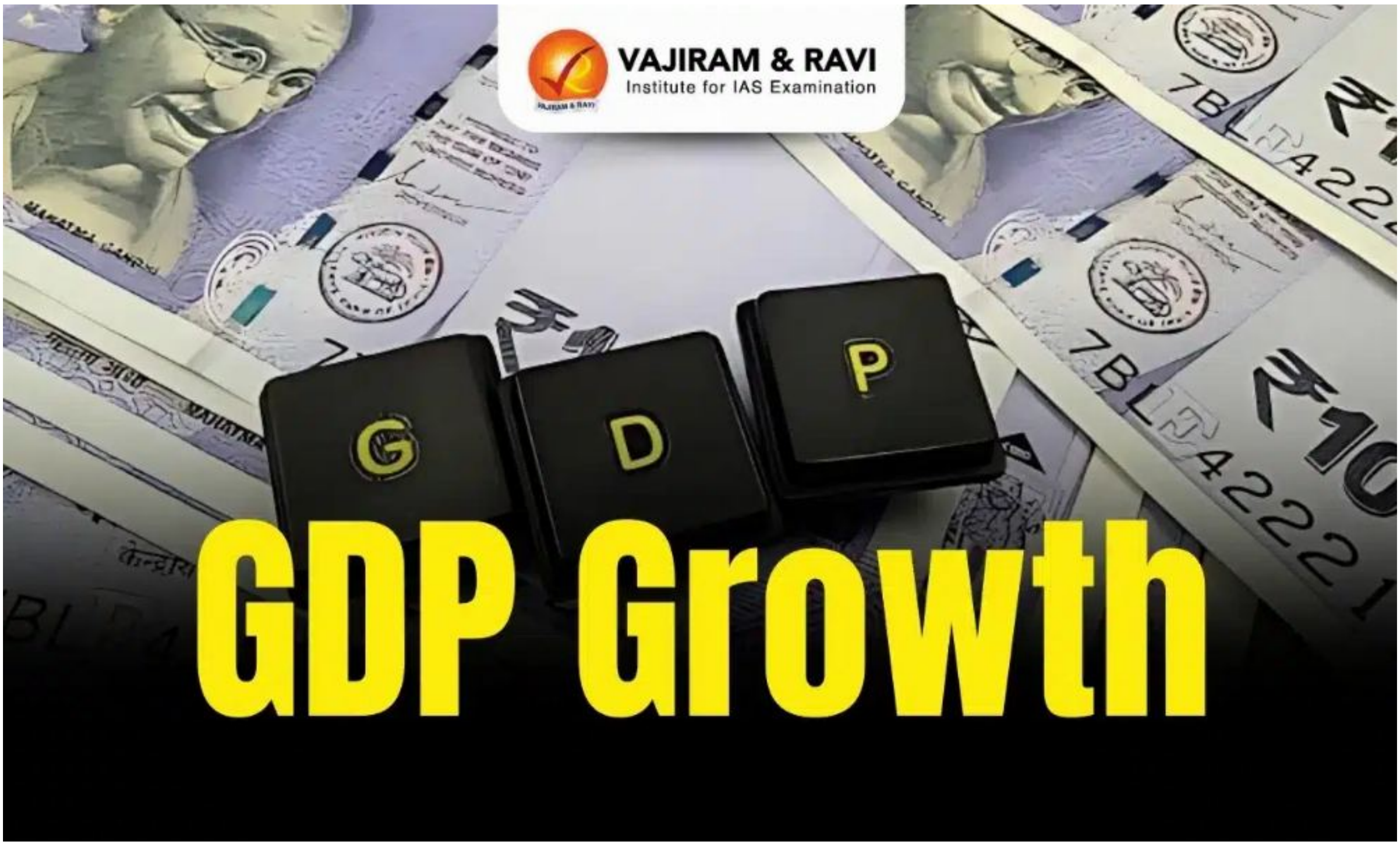

GDP Growth Latest News

- India's GDP grew **7.8% in Q1 FY26**, the fastest in five quarters, driven by strong manufacturing, services, and construction despite US tariff headwinds.

Introduction

- India's economy registered an impressive **7.8% GDP growth in the first quarter of FY26 (April-June 2025)**, its fastest pace in five quarters.
- This surge was fuelled by strong performances in **manufacturing, services, and construction sectors**, consolidating India's position as the **world's fastest-growing large economy**.
- The growth comes at a critical juncture when global trade is under pressure due to the US imposing steep tariffs on Indian goods, testing the resilience of the Indian economy.

Sectoral Performance Driving Growth

- **Manufacturing Momentum**
  - The **manufacturing sector expanded 7.7%**, a significant improvement over the 4.8% recorded in January-March 2025 and slightly above the 7.6% in the same quarter last year.
  - This indicates robust industrial demand despite external trade uncertainties.
- **Construction and Infrastructure**
  - Construction activity maintained a **7.6% growth rate**, though slower than the 10.1% posted in Q1 FY25.
  - Despite moderation, the sector's resilience reflects steady infrastructure investments and housing demand.
- **Services Sector as the Growth Engine**
  - The **services sector grew 9.3%**, its highest in two years. Within this:
  - **Public Administration, Defence & Other Services** surged 9.8%, indicating higher government expenditure.
  - **Financial, Real Estate & Professional Services** grew 9.5%, aided by financial sector expansion.
  - **Trade, Hotels, Transport, and Communication** posted 8.6% growth, reflecting recovery in travel and consumer demand.
- **Agriculture and Utilities**
  - Agriculture grew by **3.7%**, more than double last year's growth of 1.5%, highlighting rural sector strength.
  - However, the **electricity, gas, water supply, and utilities sector slowed sharply to just 0.5%**, partly due to heavy rains reducing power demand.

Global and Domestic Headwinds

- **US Tariff Impact**
  - On **August 27, 2025**, the US imposed a **50% tariff on Indian exports**, including textiles, gems, and engineering goods.
  - While the move raised concerns about export-linked jobs and consumption, India's Chief Economic Advisor emphasised that the impact would be "modest" and demand growth would hold up.
- **GST and Tax Reforms**
  - The government has sought to bolster demand by **lowering indirect tax rates** and pushing for **GST rationalisation**, expected to further stimulate consumption in the festival season.
  - Additionally, direct tax cuts announced in the Union Budget 2025-26 continue to support disposable incomes.

Consumption and Investment Trends

- Private consumption expenditure grew **7%**, slower than the 8.3% in the previous year but an improvement over the previous quarter's 6%.

- Investment demand, measured through **Gross Fixed Capital Formation**, expanded **7.8%**, showing continued corporate and infrastructure investments.
- Government expenditure also rebounded strongly, rising **7.4%**, after contracting in the prior quarter.

Outlook for FY26

- Despite tariff headwinds, policymakers and economists remain confident of India maintaining its growth trajectory:

- The government expects **FY26 GDP growth in the 6.3-6.8% range**, retaining India's global growth leadership.
- Nominal GDP growth stood at **8.8%**, the lowest in three quarters, but still supportive of corporate earnings growth.
- Economists caution that low inflation boosted real GDP growth figures; sustained reforms and export diversification will be critical.

Source: TH | IE
