

India's Q2 FY26 GDP Surpasses RBI Forecast, Driven by Consumption & Capex

November 26, 2025 • vajiramandravi.com



India's Q2 GDP Latest News

- Economists expect India's Q2 FY26 GDP to surpass the RBI's 7% forecast, potentially reaching 7.3%, slightly below the previous quarter's 7.8% high.
- Growth remains **robust** despite 50% US tariffs introduced in late August.
- Broad-based rural recovery, supported by strong labour markets and good crop output, along with increased urban consumer durable spending following GST cuts, is driving the expansion. Q3 FY26 is also expected to benefit from the GST cuts.

Nominal GDP Growth Slows, Poses Risks to Budget Targets

- April-June GDP data showed **nominal growth** at a three-quarter **low** of 8.8%, below the Finance Ministry's 10.1% Budget assumption.
 - **Nominal growth** refers to the growth of an economic variable without adjusting for inflation.

- In other words, it measures the increase in value at **current prices**, so it includes the effects of rising prices (inflation) along with the actual increase in output or income.
- Economists expect July-September and FY26 nominal growth could fall below 8%, potentially impacting tax collections and raising fiscal deficit and debt-to-GDP ratios, despite strong real growth of 7.8%.
 - **Fiscal deficit** is the gap between the government's total expenditure and its total revenue (excluding borrowings) in a financial year.
 - **Debt-to-GDP ratio** measures a country's total government debt relative to its GDP. It shows the government's ability to repay debt. A higher ratio means debt is growing faster than the economy, which can strain public finances.
- Monitoring nominal GDP is crucial for fiscal planning.

GDP Growth Likely Lags GVA Due to Slower Tax Collections

- In Q2, GDP growth may trail GVA growth, projected at 7.5–8% versus 8% GVA growth.
 - **GDP** (Gross Domestic Product): It measures total value of goods and services produced within a country in a given period. It is calculated as GVA + net indirect taxes (indirect taxes minus subsidies).
 - **GVA (Gross Value Added)** – It measures total value of goods and services produced by all sectors, excluding net indirect taxes. It indicates actual production and sectoral performance.
 - GDP growth can differ from GVA growth if net indirect taxes rise or fall.
- GDP includes net indirect taxes (GST minus subsidies), which fell year-on-year after a 10% rise in Q1.
- Slower growth in these taxes explains why GDP growth may be lower than GVA.

Q2 FY26 Sees Surge in Private Consumption

- Private consumption likely rose by 8% in Q2 FY26, the highest since Q3FY25.
- It was boosted by the late-September GST rate cuts, low retail inflation (1.7%), rural wage growth (~6%), personal income tax cuts, and a 7.8% rise in employee costs of listed companies.
- Growth could have been higher if households had not delayed purchases ahead of the GST rollout. Q1FY26 consumption had risen to 7% from 6% in Q4FY25.

Q2 FY26 Sees Strong Corporate Profits Amid Low Inflation

- Q2 FY26 was the best quarter for companies in two years, with sales up 6% YoY and profits rising 13%, aided by low retail inflation (1.7%) and zero wholesale inflation.
- Limited impact from US tariffs and subdued input costs boosted profitability, supporting value-added growth and likely contributing to GDP growth around 7% for FY26, above the RBI's 6.8% forecast.

Government Capex Surges, Private Investment Shows Early Signs of Revival

- In Q2 FY26, Central government capital expenditure rose 31% YoY to ₹3.06 lakh crore, supporting overall investment.

- Private sector interest also increased, accounting for 71% of fresh investments in H1 FY26 versus 61% last year.
- Q1FY26 gross fixed capital formation grew 7.8%, down from 9.4% in the previous quarter but above 6.7% in Q1FY25.

Source: IE | LM

Source: <https://vajiramandravi.com/current-affairs/indias-q2-fy26-gdp-surpasses-rbi-forecast-driven-by-consumption-capex/>

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