India’s GDP Growth – Strong Real Expansion Amid Nominal Slowdown and Data Transition

January 8, 2026 • vajiramandravi.com

India’s GDP Growth Latest News

- India’s first advance estimate of GDP for 2025-26, released by the Ministry of Statistics and Programme Implementation (MoSPI), projects a sharp rise in real GDP growth to **7.4%.**
- This is driven mainly by a rebound in **manufacturing** and **resilient services**, despite external shocks such as 50% US tariffs on Indian goods.
- However, nominal GDP growth is projected to slow to 8%, a five-year low, raising fiscal and budgetary implications ahead of the Union Budget 2026-27.

Key Highlights of the First Advance Estimate

- **Real vs nominal GDP growth:**
  - Real GDP growth (2025-26) – 7.4% (up from 6.5% in 2024-25).
  - Nominal GDP growth – 8% (lowest in five years, excluding pandemic year).

    - Gap between real and nominal growth – 60 basis points, lowest since 2011-12.
    - This indicates low inflationary pressures or weak price growth.
- **Size of the Indian economy:**
    - Nominal GDP (2025-26) – ₹357 lakh crore.
    - At an exchange rate of ₹89.89/$, GDP equals $3.97 trillion, just short of the $4-trillion economy milestone.
    - **Significance**: India nearing $4 trillion economy despite global volatility.
- **Sector-wise performance (supply side / GVA):**
    - **Manufacturing**: Growth rebounds to 7% (from 4.5% last year). Despite US tariffs, domestic demand and supply-side resilience remain strong.
    - **Agriculture**: Growth moderates to 3.1% (from 4.6%). This reflects normalisation after a strong previous year.
    - **Construction:** Growth at 7% (down from 9.4%) – still robust due to infrastructure push.
    - **Services:** Strong expansion at 9.1% driven by new-age services, GST rate cuts (in September), and robust services exports.
- **Expenditure-side trends (demand side):**
    - **Private Final Consumption Expenditure (PFCE)**: Growth at 7% in 2025-26 as against 7.2% in 2024-25.
    - **Gross Fixed Capital Formation (Investment)**: It is expected to rise 7.8%, up from 7.1% growth seen last year.
    - **Government Consumption Expenditure**: It makes up less than a tenth of India’s GDP, and is expected to see its growth rate more than double to 5.2% this year from 2.3% in 2024-25. This is led mainly by State government spending.
- **Second-half slowdown:**
    - The first advance estimate implies that GDP growth in October-December 2025 and January-March 2026 will average 6.9%, sharply down from the 7.8% and 8.2% growth rates recorded in the first two quarters.
    - The Reserve Bank of India (RBI), which raised its GDP growth forecast for the year by 50 bps last month to 7.3%, expects the economy to grow by 7% in October-December 2025 and 6.5% in January-March 2026.

Implications for Union Budget 2026-27

- The first advance estimate of GDP for the year is used by the Ministry of Finance for its Budget calculations.
- **The Role of nominal GDP:** Nominal GDP growth is a critical input for tax revenue projections, fiscal deficit targets, and debt-to-GDP ratio. Slower nominal growth may constrain fiscal space, and affect revenue buoyancy.
- **Example:**
    - Budget 2025-26 assumed 10.1% nominal GDP growth to fix the fiscal deficit at 4.4% of GDP.
    - Actual nominal growth (8%) fell short, but the absolute GDP target was met due to revisions.

Major Structural Change – New GDP Series

- **Shift in base year:**
  - This first advance estimate will have a short shelf life because GDP data released February 27 onward will be as per a new series with a base year of **2022-23** as against 2011-12 now.
  - Updating the base year is key to a correct picture of the economy.
- **Shift includes:** New data sources, improved methodologies, and updated benchmarks.
- **Importance**: Reflects structural transformation of the Indian economy.
- **Caution by MoSPI:** Estimates will undergo frequent revisions, users must interpret data carefully.
- **GDP revisions timeline:** The GDP growth figure for 2025-26 will continue to undergo revisions after the second advance estimate is published on February 27, with the final number available only in February 2028.

Challenges Highlighted and Way Ahead

- **Slowing nominal GDP growth**: This indicates fiscal management challenges. Maintain fiscal prudence amid lower nominal growth.
- **Second-half economic slowdown:** Sustain manufacturing momentum through PLI and export diversification. Strengthen investment cycle via public capex and crowding-in private investment.
- **Agricultural growth moderation:** Boost agricultural productivity to stabilise rural demand.
- **External uncertainties (tariffs, global volatility):** Continue structural reforms to support medium-term growth (6.5–7%).
- **Frequent data revisions may affect policy consistency:** Leverage data reforms for evidence-based policymaking.

Conclusion

- The first advance estimate for 2025-26 underscores the **resilience** of the Indian economy, with robust real GDP growth of 7.4% despite global headwinds.
- However, the sharp deceleration in nominal GDP growth raises concerns for fiscal planning and revenue mobilisation.
- As India transitions to a new GDP series with an updated base year, policymakers must balance growth support, **fiscal discipline**, and reform momentum to navigate uncertainties in 2026-27 and beyond.

Source: IE