

India 1Q growth surprises: GST reforms may offset tariff headwinds

1Q GVA growth at 7.6% YoY is an 80bp improvement vs. 4QFY25, and nearly 1pp above consensus and our estimates. Growth accelerated and surprised for both services and manufacturing; it slowed in agriculture and construction. As several real-world proxies for volumes in goods and services grew well below 7%, it is likely that issues with deflators and fiscal accounting may have temporarily boosted growth. Nevertheless, with better visibility of growth, as GST rate cuts (post re-stock starting Oct) can amplify the expected pickup in credit growth starting Nov/Dec-25, we retain FY26 growth forecast at 6.7%.

August 29, 2025
Economic Growth

Exhibit 1 - 1QFY26 investment growth at 7.8% YoY, did fiscal accounting help?

	Share of GVA	Real Growth (YoY%)				
		FY23	FY24	FY25	Q1 FY25	Q1 FY26
Agriculture	14%	6.3%	2.7%	4.6%	1.5%	3.7%
Industry	31%	2.5%	10.8%	5.9%	8.5%	6.3%
Manufacturing	17%	-1.7%	12.3%	4.5%	7.6%	7.7%
Construction	9%	9.1%	10.4%	9.4%	10.1%	7.6%
Services	55%	10.3%	9.0%	7.2%	6.8%	9.3%
Financial services etc	24%	10.8%	10.3%	7.2%	6.6%	9.5%
GVA at basic prices		7.2%	8.6%	6.4%	6.5%	7.6%
GDP at market prices		7.6%	9.2%	6.5%	6.5%	7.8%
		Real Growth (YoY%)				
		FY23	FY24	FY25	Q1 FY25	Q1 FY26
Private consumption	56%	7.5%	5.6%	7.2%	8.3%	7.0%
Gov. consumption	9%	4.3%	8.1%	2.3%	-0.3%	7.5%
Gross capital formation	37%	7.6%	10.5%	6.7%	6.2%	7.3%
GFCF	34%	8.4%	8.8%	7.1%	6.7%	7.8%

Source: MOSPI, Axis Bank Research

1Q GDP 1pp better than expected; estimate beset with methodological issues

India's 1QFY26 GDP grew 7.8% YoY (Fig 2), 1pp above consensus and our expectations. The 80bp improvement in GVA growth vs. 4QFY25 (1Q at 7.6% YoY) was due to services (9.3% YoY) and manufacturing (7.7% YoY) both doing better. Manufacturing growth has been accelerating for three consecutive quarters due to base effects (Fig 8). Services growth accelerated sharply (Fig 6, 7) though the real growth may be overstated due to the use of an inappropriate deflator (Fig 12). Weak Agri growth (3.7% YoY) surprised on the downside.

Consumption growth trails investment growth; Pvt consumption up 7% YoY

As expected, investments continued to grow faster than private consumption (Fig 5), but fiscal accounting may have helped in 1Q ([link](#)). Further, aggregates are harder to explain via parallel proxies. In 1Q private consumption, fixed investments and govt. consumption were all reported as growing above 7% (Fig 1), and yet unexplained expenditures (discrepancies) were ~2% of GDP (Fig 11). Growth is well below 7% for nearly all volume proxies for goods (e.g., autos, FMCG, durables) as well as services (Fig 6, 7): goods-related (retail, wholesale), real estate and financial were weak in 1Q; only a few like telecom had strong GVA growth.

We maintain our above consensus FY26 growth forecast at 6.7%

The end to growth downgrades we anticipated in Feb-2025 ([link](#)) may now transition to mild growth upgrades. While a meaningful acceleration in credit growth and thence economic momentum maybe a quarter away, GST rate cuts raise its probability. Slower pace of fiscal consolidation in FY26 and macroprudential ([link](#)) and monetary easing should support growth. 2Q growth may be adversely affected as the channel appears to be reluctant to hold inventory in categories seeing GST rate cuts, but subsequent restocking in 3Q should offset that in FY estimates. While a continuation of 50% tariffs on exports to the US is an overhang, we do not expect it to last long; at 'normal' tariffs, the impact would be insignificant ([link](#)).

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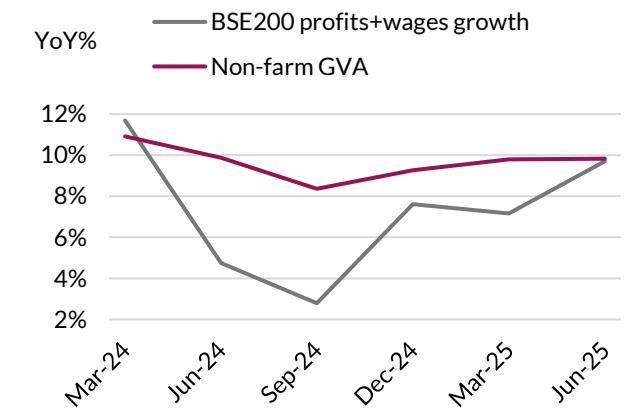
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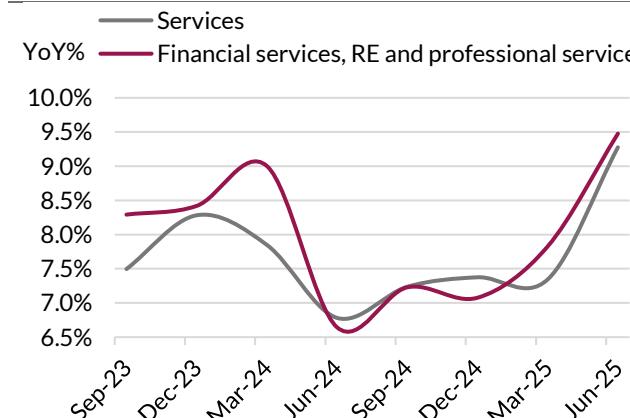
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Exhibit 2 - Quarterly (qtr.) GDP improved to 7.8% YoY...

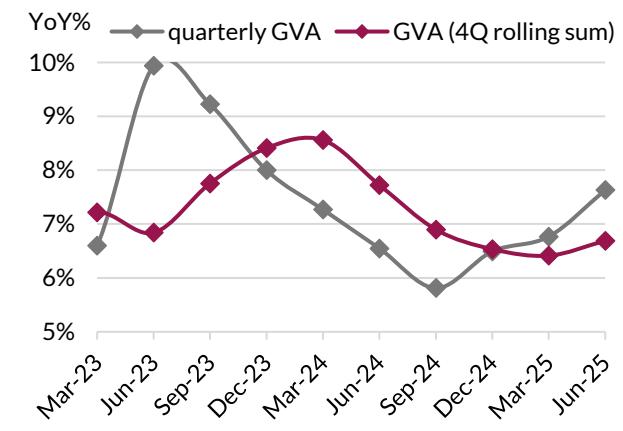

Source: MOSPI, Axis Bank Research

Exhibit 4 - Non-farm nominal GVA growth now similar to BSE200 nominal GVA proxy


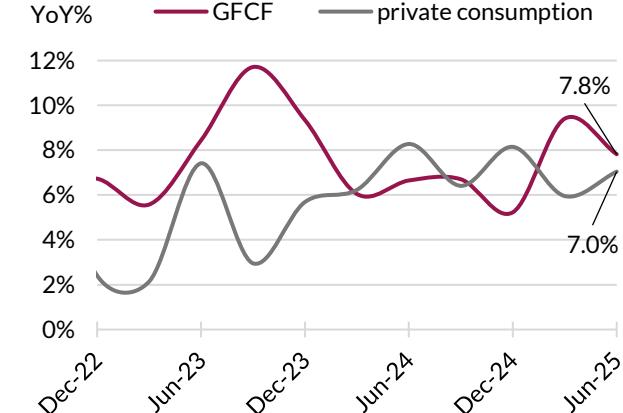
Source: MOSPI, Axis Bank Research

Exhibit 6 - Services GVA growth saw strong acceleration driven not just by financial services


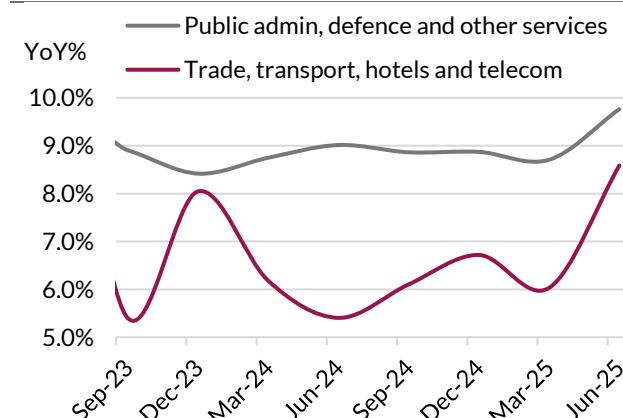
Source: MOSPI, Axis Bank Research

Exhibit 3 - ...with qtr. GVA growth at 7.6%


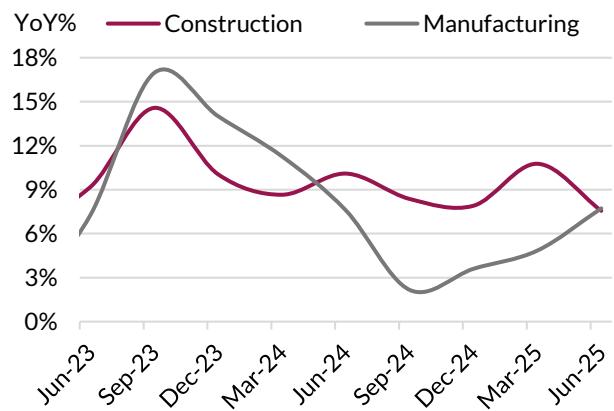
Source: MOSPI, Axis Bank Research

Exhibit 5 - Pvt. consumption/investment grew at 7%/7.8%


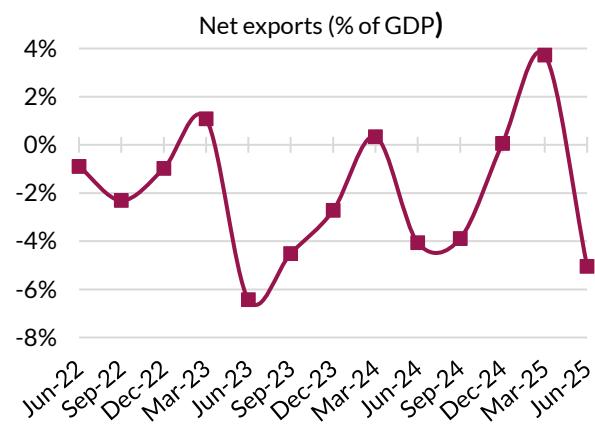
Source: MOSPI, Axis Bank Research

Exhibit 7 - ...but also by other discretionary services and govt. consumption


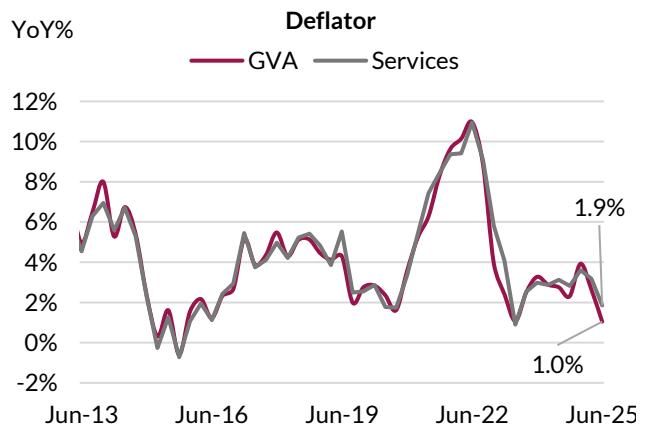
Source: MOSPI, Axis Bank Research

Exhibit 8 - Construction growth slows; manufacturing growth (7.7% YoY) continues to improve as strong base fades


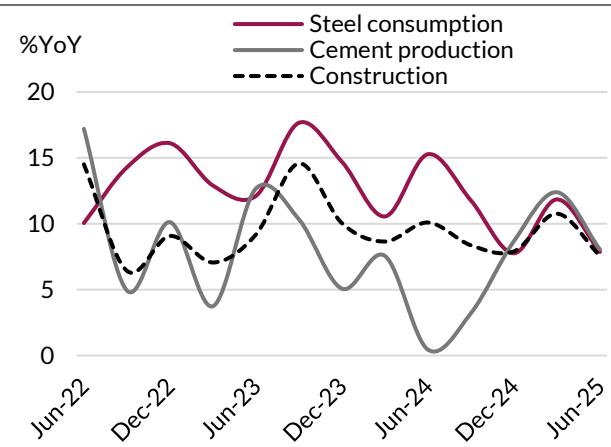
Source: MOSPI, Axis Bank Research

Exhibit 10 - No evidence of exports front-loading


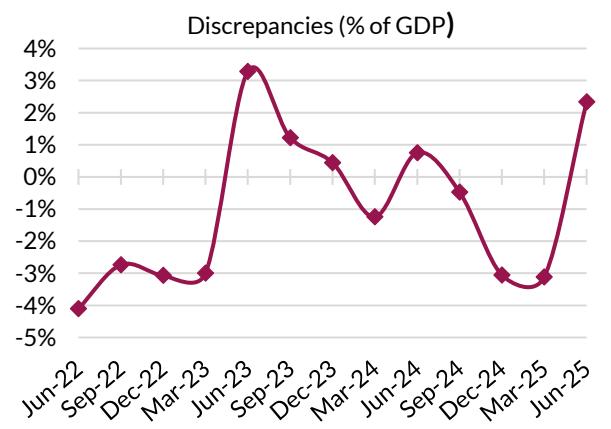
Source: MOSPI, Axis Bank Research

Exhibit 12 - Many services GVA deflated using CPI/WPI (and not 'CPI services') and thus overstating the real growth...


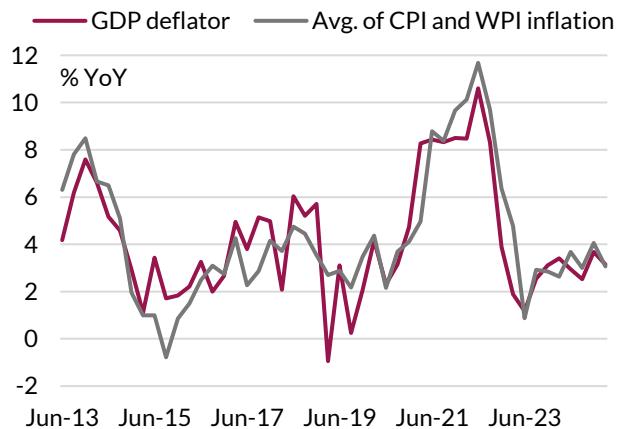
Source: MOSPI, Axis Bank Research

Exhibit 9 - Slowdown in construction growth visible in cement and steel volume growth


Source: MOSPI, Axis Bank Research

Exhibit 11 - Unaccounted expenditures now 2.3% of GDP


Source: MOSPI, Axis Bank Research

Exhibit 13 - ... and weak WPI creating an upward bias to manufacturing growth (use of double deflator preferred)


Source: MOSPI, Axis Bank Research

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