1 September 2026

Q1 GDP Print Reinforces Growth Resilience; Robust Economic Activity Gives the RBI Flexibility to Focus on Inflation Control

- The Indian economy weathered the global energy-supply shock better than initially feared, with real GDP growth surprising on the upside at 7.8% YoY in Q1 FY27, although it moderated from 8.6% in Q4 FY26. Growth was supported by resilient domestic demand and a higher contribution from net exports.
- Private consumption grew 7.1% YoY in Q1, moderating slightly from 7.5% in the previous quarter, but remained resilient, likely supported by last year's tax relief and monetary policy easing, as well as the fuel excise-duty cut and limited pass-through of higher energy costs in FY27 so far.
- Going ahead, a sustained improvement in labour-market conditions will be key for a durable consumption recovery, while softer employment conditions, rising inflation, and monsoon-related risks to rural incomes remain near-term constraints.
- Investment momentum strengthened further in Q1, supported by strong central government capex and likely resilience in private capex. However, government capex growth is expected to moderate over the remainder of FY27 following strong front-loading in Q1, which could weigh on investment growth.
- Private capex appears to have held up despite the adverse external environment, but near-term caution could persist amid renewed geopolitical uncertainty and elevated energy prices.
- Net exports provided a significant boost to Q1 real GDP growth, supported by a robust recovery in exports and a contraction in imports. While export momentum is expected to remain supportive, geopolitical risks and related disruptions to trade routes continue to pose headwinds to the external-trade outlook.
- Real GVA growth remained robust at 8.2% YoY in Q1 FY27, moderating from 8.7% in the previous quarter, supported by an acceleration in manufacturing and electricity & other utilities, and sustained double-digit growth in services offset by moderation in agriculture and construction and weakness in mining.
- FY24–26 real GDP growth has been revised up by 10 bps each to 7.3% in FY24, 7.2% in FY25 and 7.8% in FY26, reflecting updated methodology and data sources, including the use of the new Output Producer Price Index, Banking Services Price Index, updated IIP series and administrative data sources.
- The strong Q1 outturn raises an upside bias to our 6.7% FY27 real GDP growth forecast, with growth in FY27 now expected to exceed 7%. However, hardening inflation could increase the GDP deflator drag, while elevated crude oil prices and geopolitical risks remain key downside risks.
- We retain our expectation of 50–75 bps of cumulative repo rate hikes beginning late FY27, as resilient growth alongside broadening inflation pressures, elevated crude oil prices and persistent geopolitical risks warrant a shift towards tighter monetary policy, with the cycle potentially extending into FY28.

Pramod Chowdhary
Chief Economist
pramod.chowdhary1@dmifinance.in

Nihal Kumar
Economist
nihal.kumar@dmifinance.in

Shantanu Sharma
Economist
shantanu.sharma@dmifinance.in

www.dmifinance.in

+91 11 4120 4444

DMI Finance Private Limited
Express Building, 9-10, 3rd Floor,
Bahadur Shah Zafar Marg,
Delhi – 110002.

Strong Q1 FY27 Real GDP Growth Surprises at 7.8%

Real GDP growth remained robust at 7.8% YoY in Q1 FY27, above our expectation of 7.4%, although moderating from the upward-revised 8.6% in Q4 FY26 (from 7.8% earlier). Growth also accelerated sharply from 6.9% in Q1 FY26, supported by a favourable base, resilient private consumption, a pickup in investment and a higher contribution from net exports. Notably, real GDP growth was lower than real GVA growth, as growth in net taxes on products decelerated sharply in Q1, reflecting muted indirect-tax collections and higher subsidies.

Private consumption expenditure grew 7.1% YoY, moderating slightly from 7.5% in the previous quarter but remaining resilient, likely supported by last year's tax relief, monetary policy easing, and the fuel excise-duty cut and limited pass-through of higher energy costs in FY27 so far. Going ahead, a sustained improvement in labour-market conditions will be key for a durable recovery, while softer employment conditions, rising inflation, and monsoon-related risks to rural incomes remain near-term constraints.

India's GDP Estimates at Constant Prices

(GDP Constant Prices)	% YoY				
	Q1-FY26	Q2-FY26	Q3-FY26	Q4-FY26	Q1-FY27
Private Consumption Expenditure	**6.8**	**6.4**	**8.0**	**7.5**	**7.1**
Government Consumption Expenditure	**4.5**	**4.4**	**7.0**	**7.7**	**4.3**
Gross Fixed Capital Formation	5.8	7.2	8.3	10.5	11.9
Exports	6.0	9.7	6.2	3.9	12.0
Less Imports	5.3	5.0	7.0	0.8	-1.1
Real GDP	**6.9**	**8.1**	**7.7**	**8.6**	**7.8**

Source: MOSPI

Investment momentum strengthened further, with gross fixed capital formation growth accelerating to 11.9% YoY, from 10.5% in Q4 FY26 and 5.8% in Q1 FY26. The pickup was supported by strong central government capex and likely resilience in private capex. However, government capex growth is expected to moderate over the remainder of FY27 following strong front-loading in Q1, which could weigh on investment growth. Private capex appears to have held up despite the adverse external environment, but near-term caution could persist amid renewed geopolitical uncertainty and elevated energy prices.

The external sector provided a significant boost in Q1, with exports rebounding sharply to 12.0% YoY, while imports contracted 1.1%. Resilient services exports and stronger-than-expected merchandise exports supported Q1 FY27 real GDP growth, with the net-exports contribution rising to ~3 percentage points (pp) from ~0.7pp in the previous quarter. While export momentum is expected to remain supportive, geopolitical risks and related disruptions to trade routes continue to pose headwinds to the external-trade outlook. Government consumption expenditure moderated to sharply 4.3% YoY in Q1 from 7.7% in the previous quarter, and it is likely to remain subdued in the remainder of FY27 given the possible need to curtail expenditure to meet the budget-deficit target.

Acceleration in Manufacturing and Sustained Services Momentum Support Real GVA Growth in Q1 FY27

Real GVA growth remained robust at 8.2% YoY in Q1 FY27, though it moderated from the upward-revised 8.7% in the previous quarter (from 7.9% earlier). Growth in Q1 was supported by an acceleration in manufacturing, electricity, gas, water supply and other utility services, along with continued double-digit growth in services. This was offset by the contraction in mining and quarrying and moderation in agriculture and construction.

India's GVA Estimates at Constant Prices

(GVA Constant Prices)	% YoY				
	Q1-FY26	Q2-FY26	Q3-FY26	Q4-FY26	Q1-FY27
Agriculture, Forestry & Fishing	**4.4**	**3.2**	**1.9**	**3.9**	**3.6**
Mining & Quarrying	12.4	21.6	3.3	-2.9	-2.4
Secondary Sector	**6.1**	**8.7**	**7.7**	**7.9**	**8.6**
Manufacturing	8.3	10.0	9.0	7.9	9.2
Electricity and Other Utility Services	-1.8	3.8	1.9	4.8	8.9
Construction	5.2	7.8	7.0	8.7	7.7
Services Sector	**8.0**	**9.1**	**10.1**	**11.5**	**10.0**
Trade, Hotels, Transport, Communication etc	9.8	10.6	11.7	12.9	8.5
Financial, Real Estate & Professional Services	8.8	9.9	10.9	12.3	12.1
Public Administration, Defence and Other Services	4.6	5.7	6.6	8.0	7.5
Real GVA	**7.0**	**8.3**	**7.6**	**8.7**	**8.2**

Source: MOSPI

Agriculture and allied sector growth moderated but remained healthy at 3.6% YoY in Q1 FY27, from 3.9% in the previous quarter, possibly reflecting a higher base and the impact of heatwaves on crop yields, partly offset by higher production in allied activities, notably fishery. Going ahead, downside risks to agricultural activity have eased, with the cumulative rainfall deficit narrowing from around 40% below normal at end-June to around 14% below normal by end-August. However, the outlook remains vulnerable due to uneven rainfall, below-normal reservoir levels and lagging crop sowing.

Industrial activity remained resilient in Q1 FY27 despite energy-supply disruptions. Manufacturing growth accelerated to 9.2% YoY in Q1 from 7.9% in Q4 FY26, likely aided by supportive domestic demand, an ongoing export recovery and pre-stocking amid energy-supply uncertainty. Q1 FY27 results of listed non-financial corporates also corroborate this, pointing to a stronger nominal sales momentum along with signs of margin pressure. However, forward-looking indicators such as the Manufacturing PMI point to an emerging loss of momentum. Additionally, the build-up of precautionary inventories amid Middle East supply risks raises the possibility of softer production in the coming months if stocks are not absorbed.

Meanwhile, the electricity, gas, water supply and other utility services segment surged to an eight-quarter high of 8.9% YoY, from 4.8% in Q4 FY26, reflecting higher power demand. The deficient early monsoon may also have provided mechanical support by limiting weather-related disruptions and further boosting electricity demand.

Construction growth remained robust at 7.7% YoY, albeit moderating from 8.7% in the previous quarter, likely supported by the front-loading of central government capital expenditure in Q1. Mining and quarrying remained weak, contracting by 2.4%, though the contraction narrowed marginally from the previous quarter.

The services sector maintained double-digit growth for the third consecutive quarter, expanding by 10.0% YoY in Q1 FY27, compared with 11.5% in Q4 FY26. Growth was supported by Financial, Real Estate and Professional Services, which stayed elevated at 12.1% YoY, compared with 12.3% in Q4 FY26, helped by strong banking and NBFC credit growth and resilient services demand. This sustained strength helped partly offset moderation in other services segments.

Trade, Hotels, Transport, Communication and Services related to Broadcasting, Storage moderated sharply to 8.5% YoY in Q1 FY27 from 12.9% in the previous quarter, as trade-route and energy-supply disruptions appeared to weigh more visibly on the sector. A further normalisation of geopolitical and trade-route uncertainties could support a recovery in this segment, though the evolving geopolitical situation continues to pose risks. Meanwhile, Public Administration, Defence and Other Services also moderated to 7.5% YoY in Q1 FY27 from 8.0% in Q4 FY26. Forward-looking indicators such as PMI point to some moderation in services-sector momentum; however, we expect growth to remain broadly resilient.

A Shift to Double Deflation Approach in Manufacturing Limits Rise in GDP Price Deflator; FY24–26 Growth Revised Upwards

Nominal GDP growth rose to 10.3% YoY in Q1 FY27 from 9.2% in the previous quarter, driven by the GDP deflator, which rose to 2.3% from 0.6% in Q4 FY26—though this was significantly below expectations.

The lower-than-expected GDP deflator partly reflects the National Accounts Statistics' adoption of the Double Deflation approach for manufacturing GVA. Under this framework, Output and Intermediate Consumption are deflated independently using granular PPI, with real GVA derived as their difference.

Manufacturing is inherently input-output sensitive, making its real GVA highly vulnerable to shifts in the volume and cost of raw materials. Under the double-deflation framework, the implicit price deflator for manufacturing GVA turned negative (at -1.4% vs. +1.8% in Q4 FY26) as input prices rose faster than output prices due to supply-side shocks and shifting margin pressures. As companies pass on the input cost built up, output prices are expected to rise in the coming quarters, which should support pick in nominal GDP growth.

The data release also incorporates upward revisions to FY24–26 real GDP growth of 10 bps each to 7.3% in FY24, 7.2% in FY25 and 7.8% in FY26, reflecting updated methodology and data sources, including the use of the new Output Producer Price Index, Banking Services Price Index, updated IIP series and administrative data sources.

FY27 Full-Year Growth Likely to Exceed 7%; 50–75 bps of Cumulative Repo Rate Hikes Expected

The strong Q1 outturn creates an upside bias to our FY27 real GDP growth forecast of 6.7%, with FY27 economic growth now expected to exceed 7%. We expect economic activity to remain robust in the remainder of FY27 though unfavourable base effect, lower fiscal impulse, pick-up in deflator and likely impact of uneven monsoon rainfall on rural income will limit the acceleration. Geopolitical developments and associated risk of disruption to trade routes and resurgences in crude oil prices continue to pose headwinds to economic outlook.

Overall, continued robust economic activity should give the RBI more leeway to focus on controlling inflation through monetary policy tightening. Retail food-price pressures, elevated WPI inflation, broader inflation diffusion and sticky household inflation expectations and geopolitical developments keep risks to the inflation outlook tilted upward. With economic activity showing resilience and inflation pressures rising, we continue to expect the RBI to begin tightening monetary policy in FY27, with the cumulative cycle potentially extending into FY28. Accordingly, we continue to expect cumulative policy-rate hikes of 50–75 bps in the upcoming tightening cycle, likely beginning in December 2026 or February 2027 though we do not rule out policy action as early as the October meeting.

DISCLAIMER

This research report/material (the “Report”) is for the personal information of the authorised recipient(s) and is not for public distribution and should not be reproduced or redistributed to any other person or in any form without DMI’s prior permission.

In the preparation of this Report, DMI has used information that is publicly available as well as data gathered from third party sources. Information gathered and material used in this Report is believed to have been obtained from reliable sources. DMI, however makes no warranty, representation or undertaking, whether expressed or implied, that such information is accurate, complete or up to date or current as of the date of reading of the Report, nor does it assume any legal liability, whether direct or indirect or responsibility for the accuracy, completeness, currency or usefulness of any information in this Report. Additionally, no third party will assume any direct or indirect liability. It is the responsibility of the user or recipient of this Report to make its/his/her own decisions or enquiries about the accuracy, currency, reliability and correctness of information found in this Report.

Any statement expressed as recommendation in this Report is general in nature and should be construed strictly as current opinion of DMI as of the date of the Report and may be subject to change from time to time without prior intimation or notice. The readers of this Report should carefully read, understand and investigate or enquire (either with or without professional advisors) into the risks arising out of or attached to taking any decisions based on the information or opinions contained in this Report. DMI or its officers, directors, personnel and employees, including persons involved in the preparation or issuance of this Report may have potential conflict of interest with respect to any recommendation and related information and opinions.

Neither DMI nor any of its officers, directors, personnel and employees shall be liable for any loss, claim, damage of whatsoever any nature, including but not limited to, direct, indirect, punitive, special, exemplary, consequential, as also any loss of profit in any way arising from the use of this Report or the information therein or reliance of opinions contained in this Report, in any manner.

No part of this Report may be duplicated or copied in whole or in part in any form and or redistributed without the prior written consent of DMI. Any reproduction, adaptation, distribution or dissemination of the information available in this Report for commercial purpose or use is strictly prohibited unless prior written authorization is obtained from DMI. The Report has been prepared in India and the Report shall be subject only to Indian laws. Any foreign reader(s) or foreign recipient(s) of this Report are requested to kindly take note of this fact. Any disputes relating to the Report shall be subject to jurisdiction of Republic of India only.