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India's 7.8% Growth: Investment Strengthens, Inflation Tests the Outlook

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ABSTRACT

India has begun FY2026–27 with stronger-than-expected economic momentum, as real GDP grew 7.8% in Q1, while real GVA expanded 8.2%. This article examines both the strength of the recovery and the debate surrounding the revised National Accounts series based on the 2022–23 base year, highlighting the importance of like-for-like comparisons. The evidence points to a broadening growth cycle: investment emerged as the strongest incremental driver, with gross fixed capital formation rising 11.9% and its share of GDP increasing to 34.3%; manufacturing and services also remained robust, while private consumption grew 7.1%. However, the outlook is not without risks. Rising GDP and GVA deflators, negative manufacturing price growth, strong credit expansion and potential energy-price pressures could complicate the inflation outlook and monetary policy. The article argues that India's central challenge is to sustain 7%+ growth while preserving price stability, investment momentum and broader macroeconomic balance over the coming quarters and years.

KEY TAKEAWAYS

- India's economy grew 7.8% in Q1 FY2026–27, exceeding expectations
- Investment emerged as a major driver, with GFCF growing 11.9%
- Services and manufacturing provided broad-based support to growth
- Sustaining rapid growth while containing inflation is the next policy challenge

About *InsPIRE Economic Perspectives*

InsPIRE Economic Perspectives seeks to contribute to economic literature by providing independent, evidence-based and policy-relevant analysis of contemporary economic developments in India and the global economy. It aims to go beyond reporting headline numbers by examining the underlying drivers, structural changes, emerging opportunities and risks that shape economic outcomes. The publication will bring together macroeconomic evidence, sectoral trends, empirical insights and policy perspectives to interpret developments in a clear and accessible manner. Particular emphasis will be placed on connecting data with economic reasoning, critically assessing prevailing narratives, and identifying the implications of policy choices for growth, investment, employment, inflation and broader economic well-being. Through periodic analytical contributions, *InsPIRE Economic Perspectives* intends to serve as a bridge between economic research, public policy and informed public discourse, while contributing to a deeper and more nuanced understanding of the forces shaping India's economic transformation.

Executive Perspective

India's 7.8% real GDP growth in Q1 FY2026–27 marks a strong beginning to the new financial year and points to considerable resilience in domestic economic activity. The expansion is supported by an 8.2% rise in real GVA, robust services, improving manufacturing performance and, importantly, an 11.9% increase in gross fixed capital formation. The composition of growth therefore matters as much as the headline rate: investment is beginning to play a more prominent role alongside the established strength of services and private consumption.

At the same time, the interpretation of the latest GDP numbers has been clouded by comparisons between the old and revised National Accounts series. The introduction of the 2022–23 base year, updated deflators and improved data sources has resulted in revisions to historical estimates. A meaningful assessment consequently requires like-for-like comparisons within the revised series rather than mixing estimates produced under different methodologies. Viewed in this manner, the latest data present a broadly coherent picture of economic expansion, corroborated by sectoral performance and several high-frequency indicators.

The more important question now is whether this momentum can be sustained. Rising deflators, strong credit growth and potential energy-price pressures could intensify inflationary risks, while global trade uncertainty, weather conditions and geopolitical developments remain significant external and domestic challenges. The central economic policy challenge is therefore shifting from generating growth to sustaining growth above 7% without allowing inflation and other macroeconomic pressures to undermine the investment cycle.

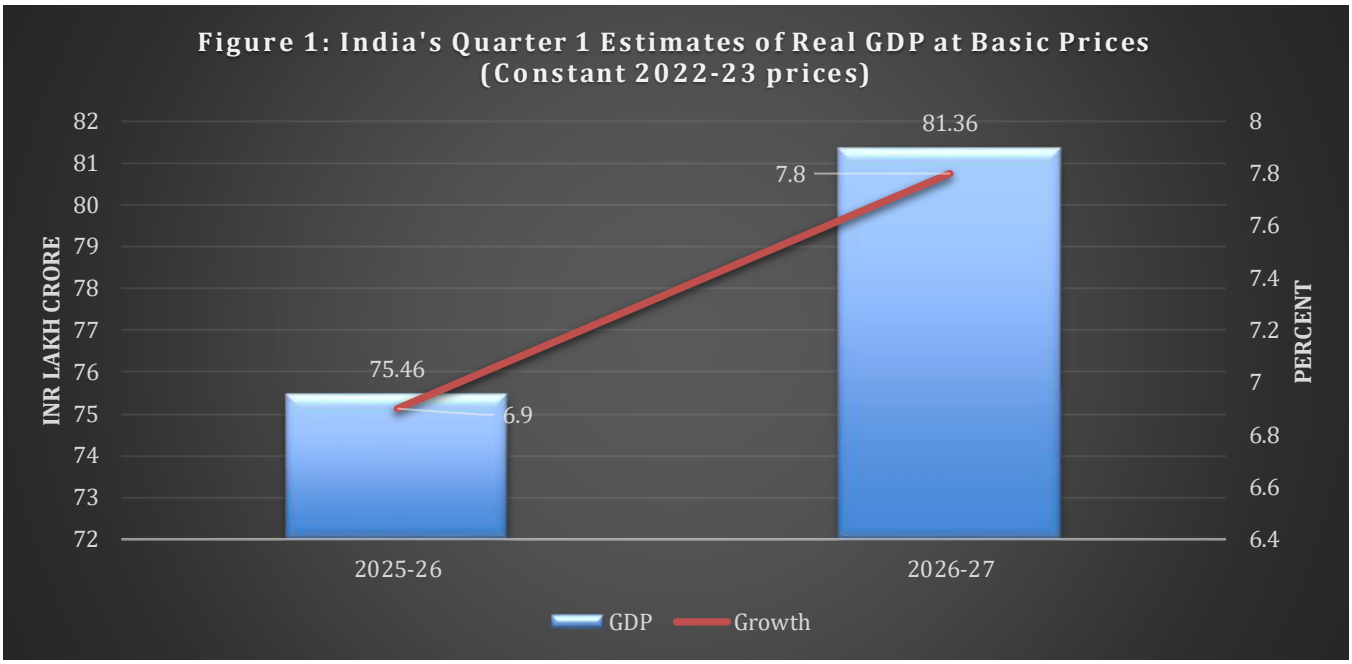
1. A Strong Start to FY2026–27

India has begun FY2026–27 on a strong footing. Real GDP grew 7.8% in Q1 FY2026–27[1], compared with 6.9% in the corresponding quarter of the previous year. The outcome was significantly above the Reserve Bank of India's 7% projection and the 7.4% median forecast in a *Mint* poll. Real GVA performed even better, expanding by 8.2%, while nominal GDP increased by 10.3%. Figure 1 presents the Q1 comparison of real GDP and growth.

The significance of the Q1 performance, however, goes beyond the headline GDP number. Growth was relatively broad-based. Services remained exceptionally strong, manufacturing accelerated, investment expanded sharply, private consumption remained resilient and exports increased. This suggests that the Indian economy is becoming less dependent on any single engine of growth.

This resilience is particularly noteworthy because the quarter unfolded amid considerable uncertainty, including geopolitical tensions in West Asia, concerns over energy prices, global trade and tariff uncertainties and an unsettled monsoon. Yet the domestic economy maintained strong momentum.

[1] Press Note on Quarterly Estimates of Gross Domestic Product for the First Quarter (April-June) of 2026-27, National Statistics Office (NSO), Ministry of Statistics and Programme Implementation (MoSPI), Government of India (GoI), 31 August 2026.



Source: National Statistics Office (NSO), Ministry of Statistics and Programme Implementation (MoSPI), Government of India (GoI)

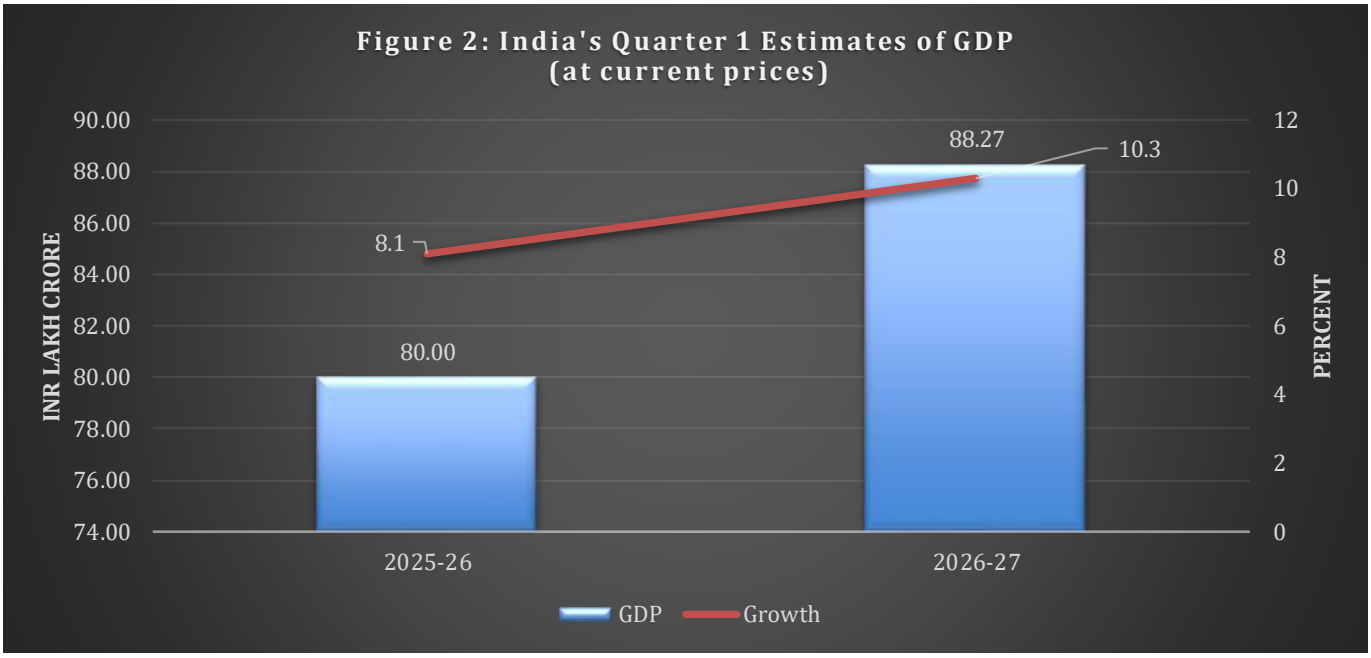
2. The GDP Debate: Why Comparability Matters

The release of the new GDP estimates has generated considerable debate, particularly over the credibility of the revised National Accounts series. At the heart of the controversy is a comparison that produces a very different picture of India's growth.

Q1 FY2026–27 nominal GDP is estimated at ₹88.27 lakh crore. If this is compared with the earlier Q1 FY2025–26 nominal GDP estimate of approximately ₹86.1 lakh crore, calculated under the previous National Accounts series, nominal growth appears to be only about 2.6%. Some commentators have subsequently suggested that real growth could even have been negative. Such a comparison, however, mixes two different statistical yardsticks.

India has shifted from the earlier 2011–12 base year to 2022–23 for the National Accounts. The change involves much more than updating the reference year. The new series incorporates an updated Producer Price Index, a revised Index of Industrial Production, a Banking Services Price Index and additional administrative data. It also makes greater use of GST returns, e-way bills and the Public Financial Management System, alongside the Annual Survey of Unincorporated Sector Enterprises and the Periodic Labour Force Survey. These changes are intended to improve the measurement of an economy that has undergone substantial structural transformation, including the expansion of e-commerce, digital payments, gig work and green energy.

The statistical principle is straightforward: growth should be calculated by comparing like with like. The latest Q1 FY2026–27 estimate should therefore be compared with the revised Q1 FY2025–26 estimate produced under the same 2022–23-based methodology. On this basis, Q1 FY2025–26 nominal GDP is approximately ₹80 lakh crore, compared with ₹88.27 lakh crore in Q1 FY2026–27. The resulting nominal growth rate is 10.3%, rather than 2.6%, as shown in Figure 2.

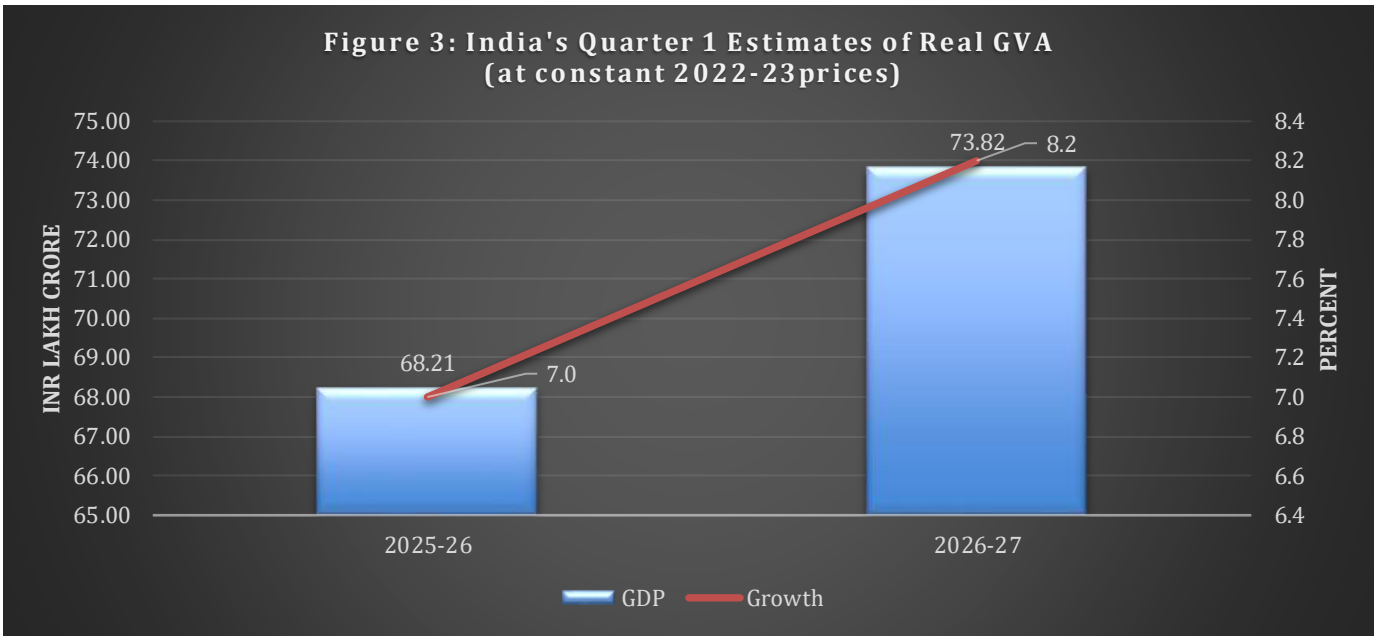


Source: NSO , MoSPI, GoI

The distinction is fundamental. The 2.6% figure is not an alternative GDP estimate generated from the same statistical framework. It results from combining the latest observation from the new series with an unrevised historical observation from the old series. There is also an important counterpoint to the argument that the new methodology was designed to produce a higher growth rate. The 2022–23-based series has generated lower GDP estimates than the previous series for the last two years. A smaller nominal GDP base can, in fact, make fiscal deficit and debt targets more difficult to achieve. The appropriate focus, therefore, should be on the internal consistency of the new methodology and its ability to explain developments in the wider economy.

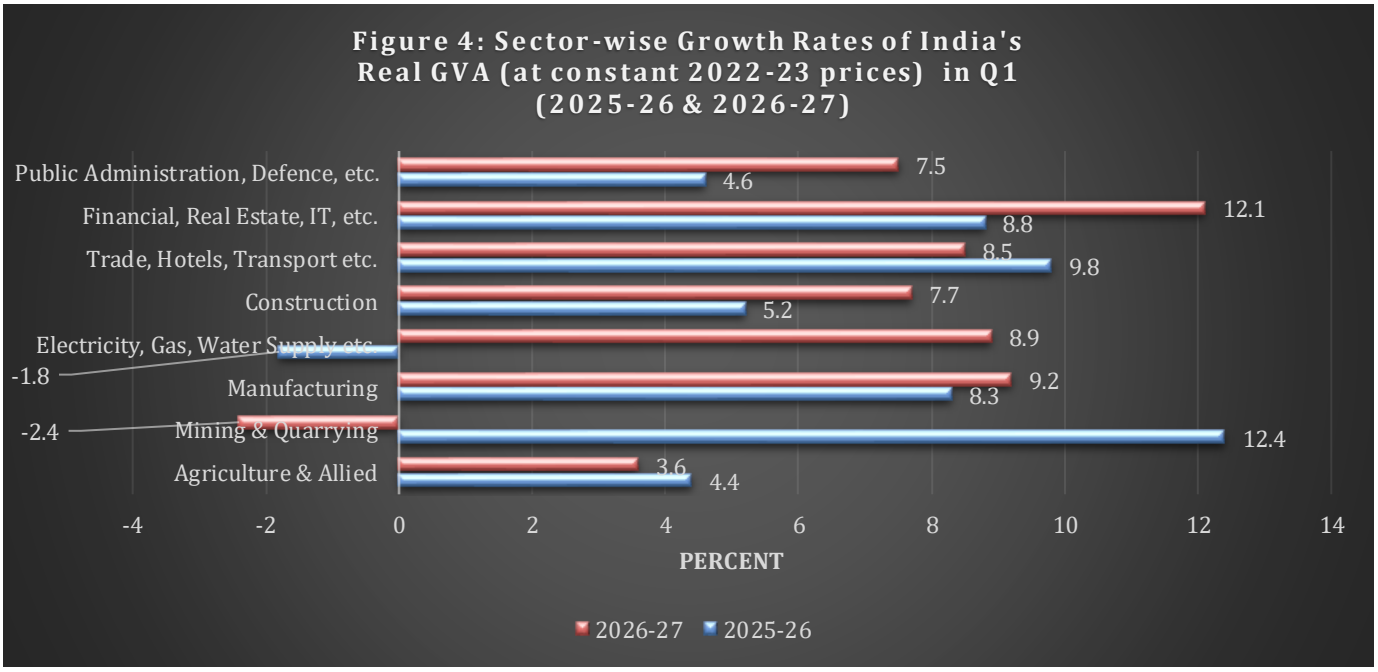
3. The Underlying Economy Broadly Supports the Headline

The broader economic evidence provides considerable support for the Q1 growth estimate. Real GVA increased by 8.2%, compared with 7% a year earlier. Figure 3 illustrates the increase in real GVA between Q1 FY2025–26 and Q1 FY2026–27.



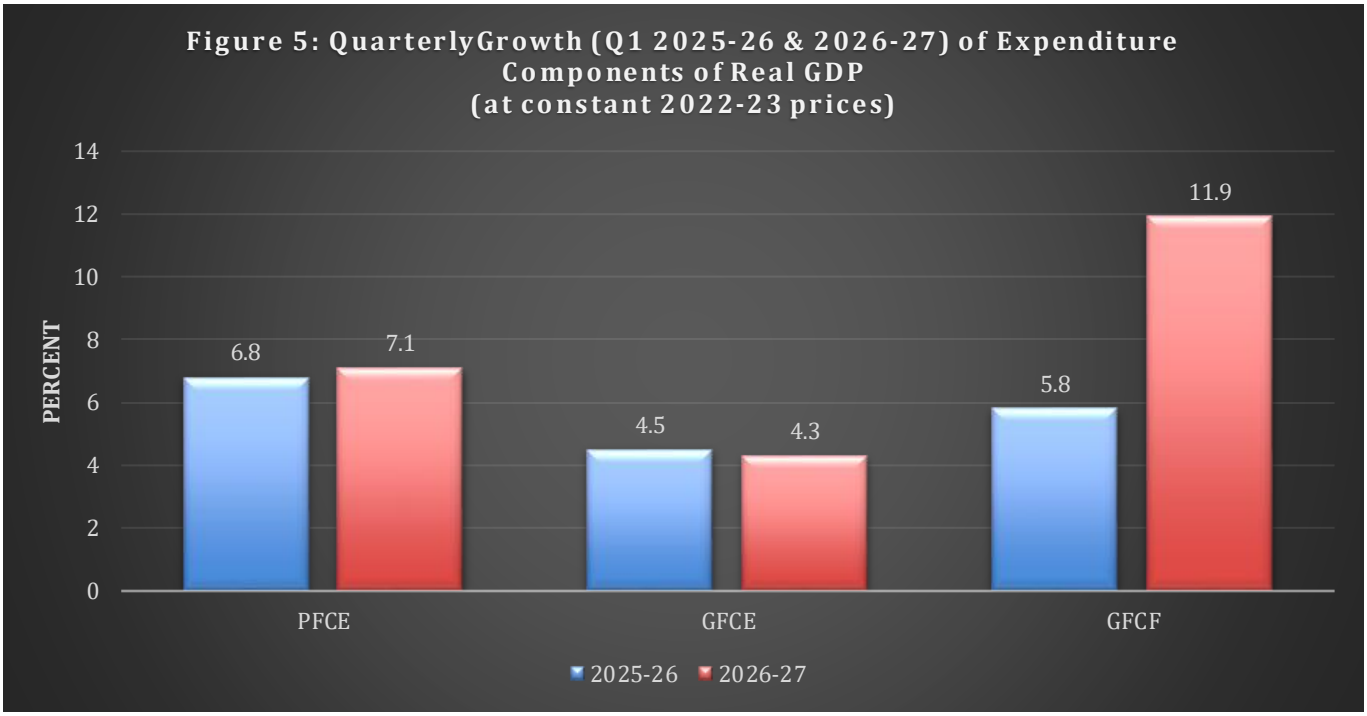
Source: NSO , MoSPI, GoI

The sectoral composition is also encouraging. Services grew by 10%, manufacturing by 9.2%, construction by 7.7% and agriculture and allied activities by 3.6%. Financial, real estate, IT and professional services expanded by an especially strong 12.1%. The sectoral growth profile is presented in Figure 4.



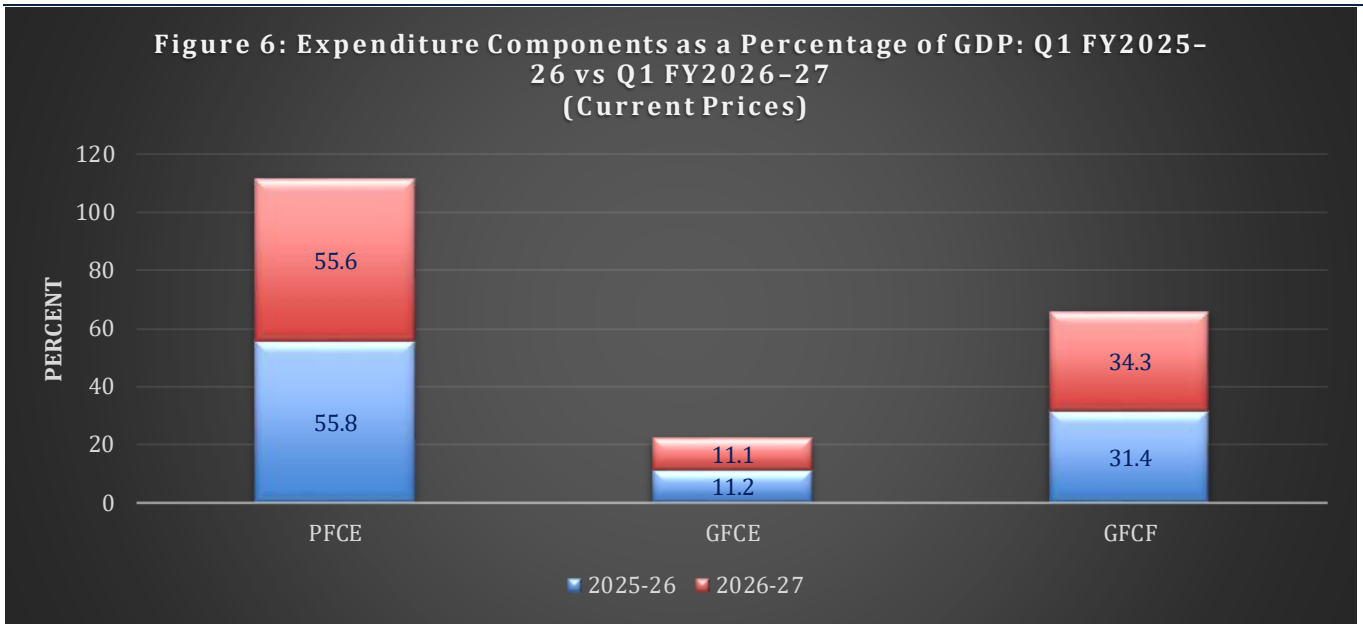
Source: NSO , MoSPI, GoI

The expenditure side is equally revealing. Real gross fixed capital formation (GFCF) grew by **11.9%**, private final consumption expenditure (PFCE) by 7.1%, government final consumption expenditure (GFCE) by 4.3% and exports by 12%. Figure 5 compares the growth of the principal expenditure components in Q1 FY2025–26 and Q1 FY2026–27.



Source: NSO , MoSPI, GoI

Investment is particularly noteworthy. At current prices, GFCF accounted for 34.3% of GDP in Q1 FY2026–27, compared with 31.4% a year earlier. The corresponding shares of private and government consumption were 55.6% and 11.1%, respectively. Figure 6 shows this changing composition of GDP.



Source: NSO , MoSPI, GoI

High-frequency indicators provide an additional cross-check. Bank credit grew 16.5% year-on-year, automobile retail sales increased 18.27% during April–July 2026, while two-wheelers and tractors recorded double-digit growth. GST collections, industrial production, steel and cement output, exports and FDI also remained supportive. These indicators cannot substitute for the National Accounts, but their broad direction is difficult to reconcile with an economy experiencing only 2.6% nominal growth.

4. Investment Is Emerging as the Central Growth Engine

The most consequential feature of the Q1 data may not be the 7.8% GDP growth, but the 11.9% increase in GFCF. Investment growth was only 5.8% in the corresponding quarter of the previous year. Its acceleration into double digits suggests that the expansion is increasingly being supported by the creation of productive capacity rather than by consumption alone.

The shift is even more evident in the composition of GDP. The investment share rose from 31.4% to 34.3%, while the share of private consumption edged down marginally from 55.8% to 55.6% (Figure 6). This is economically significant. Sustained investment can expand productive capacity, improve productivity and create the basis for higher future incomes. The combination of stronger investment with 9.2% manufacturing growth and 7.7% construction growth provides a potentially more durable foundation for expansion than a recovery driven predominantly by consumption.

Government capital expenditure appears to be playing an important role, while private investment is gaining traction in areas such as data centres, power and metals. The continuation of double-digit investment growth therefore deserves close attention in the quarters ahead.

5. Services Remain the Anchor, While Manufacturing Gains Ground

Services continue to constitute the principal pillar of India's growth. The tertiary sector expanded by 10%, led by financial, real estate, IT and professional services, which grew 12.1%. Trade, hotels, transport, communication and related services expanded by 8.5% (Figure 4).

Yet manufacturing may be more important from a medium-term structural perspective. Manufacturing growth accelerated from 8.3% to 9.2%. Electricity and utilities grew 8.9%, while construction expanded 7.7%. Overall, the secondary sector grew 8.6%. Taken together with the strong investment numbers, these developments point towards a strengthening industrial cycle.

There is, nevertheless, an important weakness. Mining and quarrying contracted by 2.4%, reversing the exceptionally strong growth recorded a year earlier. Given the importance of energy and commodities to industrial activity, disruptions in supply could have wider consequences for production and costs.

6. Consumption Remains Resilient—but Investment Is Doing More of the Incremental Work

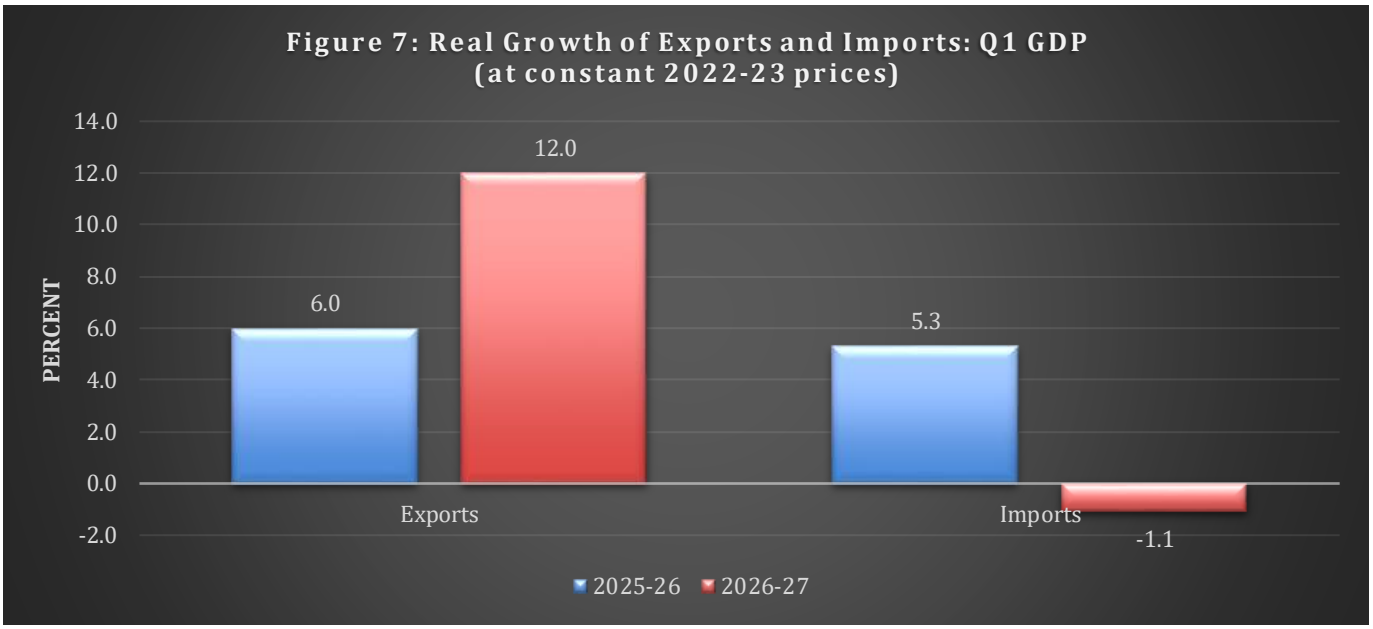
Private consumption remains an important source of stability. Real PFCE grew 7.1%, only moderately below the 7.5% recorded in Q4 FY2025–26. Government consumption grew by 4.3%. Figure 5 highlights the relative performance of consumption and investment.

The composition of growth is therefore evolving. Consumption continues to provide a strong demand floor, but investment is becoming a more important source of incremental growth. This is potentially a healthier configuration if investment eventually translates into employment, incomes and higher household spending, creating a virtuous interaction between supply and demand.

The challenge is to ensure that the investment cycle remains broad-based and generates sufficient employment and income opportunities to sustain consumption over the medium term.

7. Exports Are Encouraging, but Imports Require Caution

The external sector also contributed positively. Real exports grew by 12%, while real imports declined by 1.1% (Figure 7). The import contraction, however, requires careful interpretation. The West Asia crisis and associated policy responses, including restrictions on gold imports and only partial transmission of higher energy prices, influenced the composition of expenditure. The decline in real imports should therefore not automatically be interpreted as evidence of a major improvement in external competitiveness. At the same time, India's ability to maintain domestic economic activity despite a difficult external environment is itself a sign of greater resilience.



Source: NSO , MoSPI, GoI

8. The Emerging Concern: Inflation

The principal risk to the current growth configuration is inflation. SBI Research[2] estimates that the GDP deflator increased to 2.3% from 1.1% a year earlier, while the GVA deflator rose to 3.0% from 1.1%. The increase was particularly pronounced in agriculture and industry.

The manufacturing data warrant particular attention. Despite real manufacturing growth of 9.2%, the manufacturing deflator turned negative at -1.4%. One possible interpretation is that input costs are rising faster than manufacturers' selling prices.

Crude oil is particularly important because it feeds into petroleum products and a wide range of intermediate inputs. If companies are unable to pass higher input costs on to consumers, profit margins could come under pressure. Persistent margin compression could, in turn, weaken the investment cycle. It can affect corporate profitability, investment decisions and ultimately the sustainability of growth.

9. The RBI Faces a More Difficult Policy Trade-off

The monetary policy environment is consequently becoming more complicated. On the one hand, the economy is growing at 7.8%, investment is accelerating, manufacturing and services are expanding rapidly and credit growth is strong. Scheduled commercial bank credit grew 18.3% in the fortnight ending August 15, while deposits increased 14.7%. Industry and personal loans accounted for around 64% of incremental credit growth during April–July. On the other hand, stronger price pressures and the possibility of higher energy costs could complicate the inflation outlook.

[2] SBI Research Ecowrap, Issue No. 22 FY27, 31 Aug. 2026

If inflation broadens and credit growth remains strong, monetary policy may eventually need to become less accommodative. The possibility of a shallow, front-loaded rate increase should therefore not be dismissed. This should not be interpreted as evidence that the economy is overheating. Rather, the policy challenge is changing. When growth was weaker, supporting demand was the principal concern. With growth now stronger, preserving price and financial stability becomes increasingly important.

10. Can India Sustain 7% Growth?

The Q1 performance has already led to a more optimistic growth outlook. SBI Research has raised its FY2026–27 growth forecast from 6.6% to 7.3%, projecting growth of 7.3% in Q2, 7.2% in Q3 and 6.9% in Q4. The expected moderation is viewed as normalization following an unusually strong first quarter rather than a loss of momentum.

There are substantial grounds for optimism. Investment is accelerating, manufacturing is strengthening, services remain robust, credit growth is healthy, consumption is resilient and exports are expanding. But the risks are equally evident: crude oil prices, geopolitical tensions, global trade uncertainty, weather-related agricultural weakness and tighter global financial conditions could all affect the trajectory. Moreover, some high-frequency indicators, including manufacturing PMI, GST e-way bills, automobile sales and fuel consumption, have already shown signs of moderation.

The key question is therefore not whether India can record another strong quarter. It is whether the economy can establish a sustained 7% or higher growth trajectory.

11. Conclusion: Stronger Foundations, but a More Demanding Next Phase

The Q1 FY2026–27 GDP numbers provide a broadly encouraging picture of the Indian economy. The **7**.8% real GDP growth is supported by strong GVA growth, accelerating investment, robust services, improving manufacturing performance, resilient private consumption and expanding exports. More importantly, the composition of growth is becoming more favourable. Investment has emerged as a stronger incremental driver, with GFCF growing 11.9% and its share of GDP rising to 34.3% (Figures 5 and 6). Manufacturing is strengthening alongside construction, while services continue to provide the principal anchor.

The controversy surrounding the GDP numbers should not obscure this broader economic story. Statistical revisions are an inherent part of national accounting, particularly when methodologies, base years and data sources are updated. The appropriate test is whether the estimates are internally consistent and broadly supported by independent indicators. The evidence from Q1 provides considerable reassurance on this count.

Yet resilience should not be mistaken for immunity. Higher energy prices can feed into inflation; weather shocks can weaken agriculture; global trade tensions can affect exports and investment; tighter

international financial conditions can raise financing costs; and persistent domestic price pressures could eventually constrain monetary policy.

India therefore enters the next phase of its growth cycle with an unusual combination of strength and vulnerability. The strength lies in the increasingly diversified nature of growth and, particularly, in the emergence of investment and manufacturing as stronger contributors. The vulnerability lies in whether rising costs and external shocks can be absorbed without undermining corporate margins, investment and price stability.

The real significance of the 7.8% Q1 growth rate will ultimately be determined not by the number itself, but by what follows. If investment remains strong, manufacturing continues to deepen, services retain their momentum and consumption expands alongside rising incomes, India could be entering a more durable phase of growth. But sustaining that trajectory will require careful macroeconomic management. The challenge is to sustain rapid growth while preserving price stability, investment momentum and macroeconomic balance. That is the more demanding test that lies beyond 7.8%.

BOTTOM LINE

India's 7.8% growth reflects a resilient and increasingly investment-led economy, but sustaining this momentum will require careful management of inflation and external risks. The real test is whether strong growth can be maintained without compromising macroeconomic stability.

About *InsPIRE Economic Perspectives*

InsPIRE Economic Perspectives is an analytical publication of the Institute for Pioneering Insightful Research Pvt. Ltd. (InsPIRE) dedicated to understanding the forces shaping India's economy and the wider global economic landscape.

The publication seeks to go beyond headline statistics and conventional narratives by examining what the data reveal, why economic developments matter, and what they imply for policy and the future. Each issue brings together evidence, economic reasoning and informed interpretation to explore contemporary questions relating to growth, investment, employment, inflation, productivity, structural transformation and macroeconomic stability.

InsPIRE Economic Perspectives aims to contribute to economic literature and public discourse by presenting independent, rigorous and accessible perspectives that connect research with policy and practice. Its objective is not merely to describe economic change, but to encourage deeper thinking about the choices and challenges that will shape India's economic progress.

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