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India

Solid 2Q26 GDP growth

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- 2Q26 GDP growth surprised to the upside at 7.8% YoY from an upwardly revised 8.6% in 1Q26, driven by investments and exports.

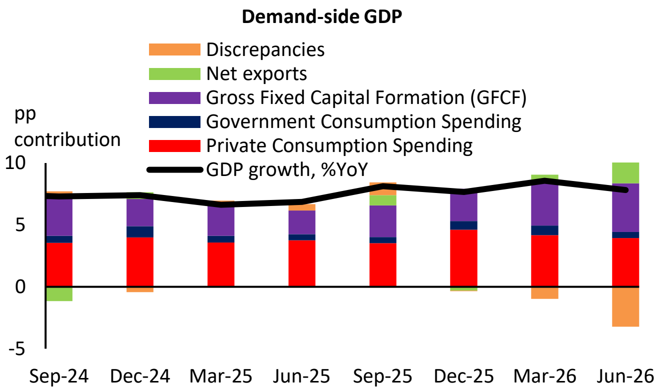
- Gross value-added growth was also resilient at 8.2% YoY from an upwardly revised 8.7% in 1Q26 supported by stronger manufacturing and utilities sector growth, while services sector growth remained double digits.

- We revise our FY27 (i.e. year ending March 2027) GDP growth forecast higher to 7.2% from 6.4%, previously. This further strengthens our view that the Reserve Bank of India (RBI) will raise its policy rate by a cumulative 50bp in FY27.

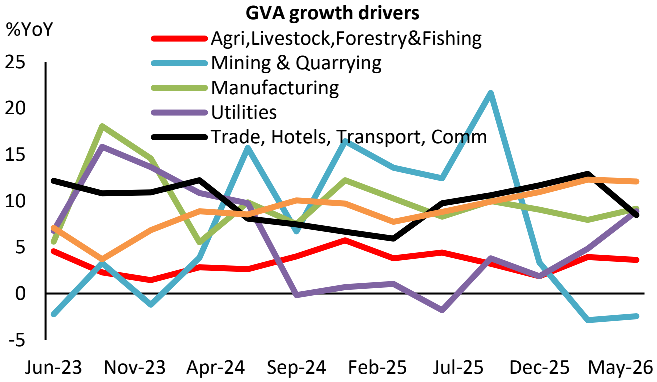
India's 2Q26 GDP growth surprised significantly on the upside at 7.8% YoY compared to an upwardly revised 8.6% in 1Q26 (Consensus & OCBC: 7.3%). The upside surprise mirrors the resilience seen across Southeast Asia (see *ASEAN-5: Mixed 2Q26 growth outturns but regional resilience endures*, 19 August 2026).

Growth was driven by investment spending, up 11.9%YoY in 2Q26 from 10.5% in 1Q26, and exports up 12% YoY versus 3.9% in 1Q26. Private consumption was resilient, albeit with growth easing modestly to 7.1% YoY from 7.5% in 1Q26 while government spending growth slowed to 4.3% YoY from 7.7% in 1Q26. The contribution of domestic final demand to headline GDP growth at 8.4 percentage points (pp) was broadly similar to 8.3pp in 1Q26. The contribution of net exports jumped to 3pp from 0.7pp in 1Q26 as export growth was higher while import growth fell to -1.1% YoY from 0.8% in 1Q26. Inventory destocking shaved off 0.3pp while discrepancies remained large at -3.2pp.

On the supply-side, Gross Value Added (GVA) growth also surprised to the upside at 8.2% YoY in 2Q26 versus 8.7% in 1Q26 (Consensus & OCBC: 7.3%). This was mainly driven by manufacturing (9.2% YoY from 7.9% in 1Q26) and utilities (8.9% from 4.8%) sectors while services sector growth remained in double-digits at 10% versus 11.5% in 1Q26. Growth in the financial, real estate and professional services sector remained robust at 12.1% in 2Q26 versus 12.3% in 1Q26.



Source: CEIC; OCBC Group Research.

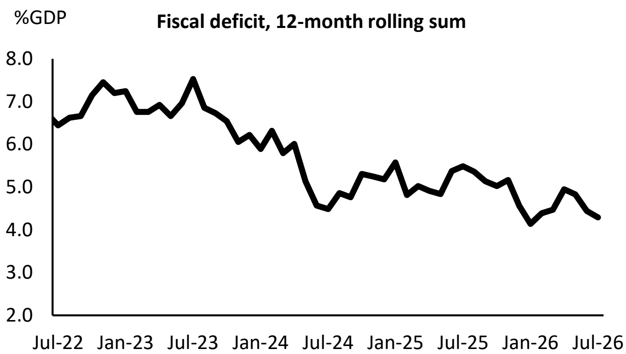


Source: CEIC; OCBC Group Research.

We had largely expected GDP growth to remain resilient in FY27. However, the upside surprise to 2Q26 GDP growth and the broader strength in investment spending has led us to revise our FY27 GDP growth forecast to 7.2% from 6.4%, previously. Indeed, early indicators point to continued economic momentum in July, including government spending, which improved to 18.5% YoY in July, with capex up 53.7% YoY (June: 66%). Government revenue growth also improved to 67.4% YoY in July versus 58.6% in June, with the fiscal deficit narrowing to 4.3% of GDP on a 12-month rolling sum basis. On the supply side, July industrial production came in at a stronger-than-expected 6.7% YoY, although this was lower than 8.8% in June.

The strength in the growth outlook adds credence to our call for monetary policy tightening from RBI. Our forecast remains for a cumulative 50bp of rate hikes in FY27. The vulnerabilities on the external front persist, with the current account deficit widening to

USD3.5bn in 2Q26 from a surplus of USD7.1bn in 1Q26 and the balance of payments recorded a deficit of USD8.1bn. While non-rate measures, such as the FCNR-B scheme has been successful in attracting inflows, the demand for foreign currency remains elevated (see *India: Current state of play: Conditions becoming ripe for rate hikes*, 24 August 2026), suggesting that external funding pressures are likely to persist. Importantly, price pressures are also building which will further support monetary policy tightening.



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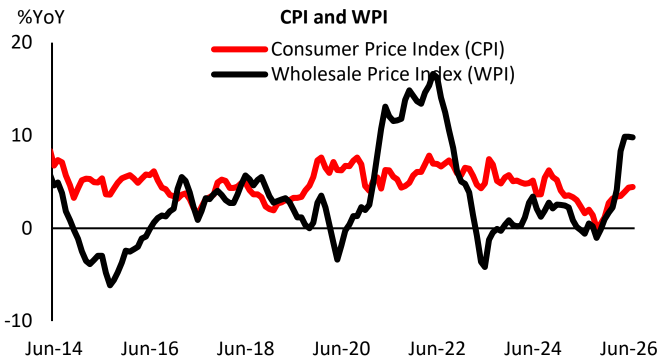

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