

## Q4 FY26 GDP could be healthy ~7.2% & ~6.6% in FY27

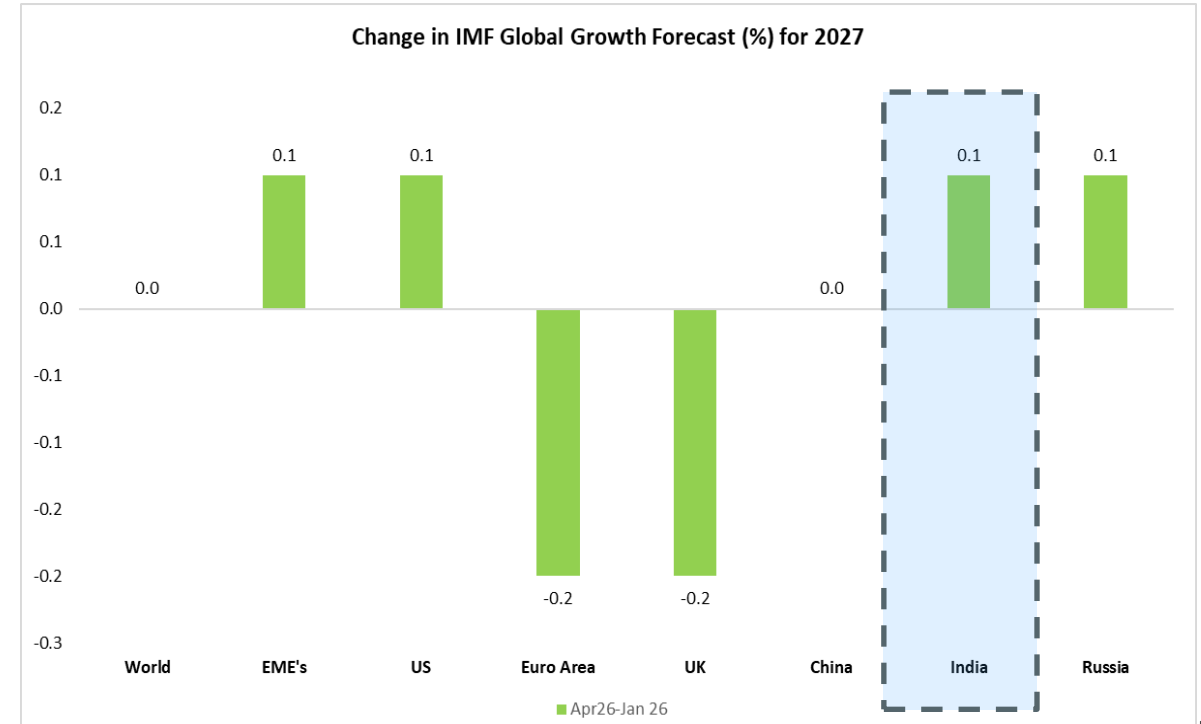
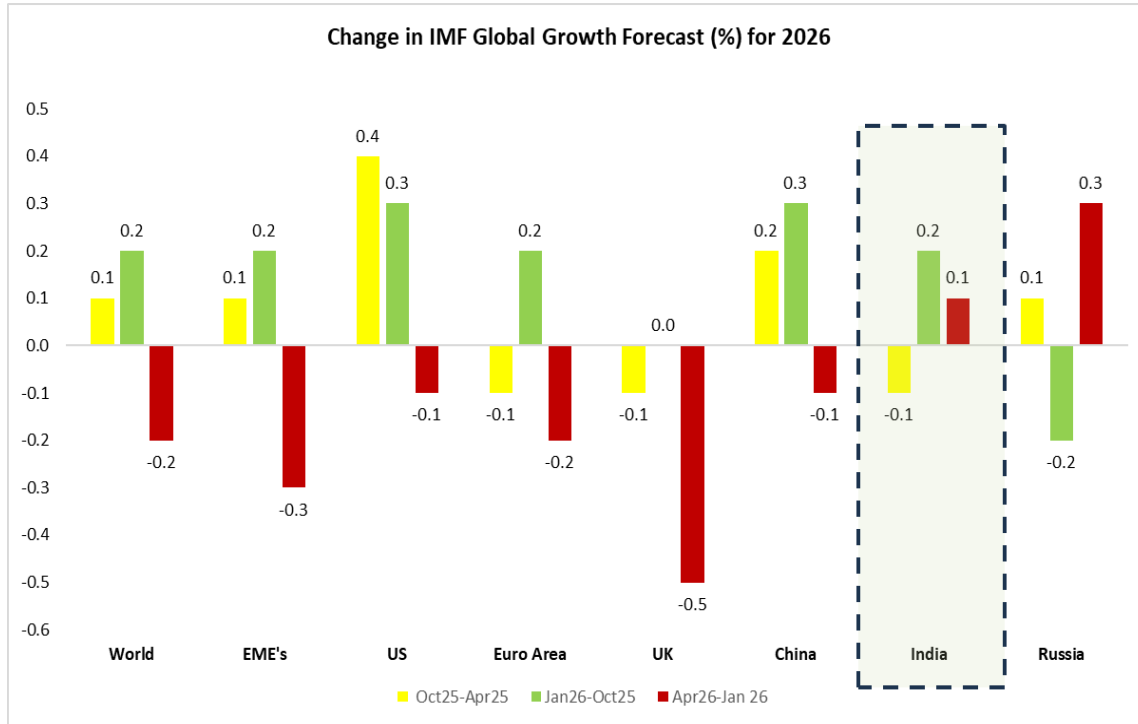
**Growth continue to be robust...** Nowcasted FY27 real GDP growth at 6.6%.. **There is now a felt need to put in place a comprehensive package to address Balance of Payments** and off course India needs to rededicate towards AI led productivity gains competitiveness, global value chain integration through a set of well crafted AI policies in areas like Healthcare and Agriculture that also could benefit the masses immensely

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- Despite global headwinds, the Indian economy has maintained strong growth momentum. High-frequency activity data indicates resilient economic activity, with minor decline in Q4. Rural consumption remains strong, driven by positive signals from farm and non-farm activity. Supported by fiscal stimulus, urban consumption shows a consistent uptick since the last festive season
- **Overall, we expect Q4FY26 real GDP growth of closer to 7.2% and nowcasted full year 2026-27 GDP growth rate of 6.6%. FY26 GDP growth is likely to be at 7.5%**
- **Rupee, weakened much in recent period through clouds on external macros, as also unabated speculative forces, needs structural changes on BoP front stream lining the guard rails of import substitution, export competitiveness, integration in global value chain**
- A Resurgent Indian Diaspora Bond has to be calibrated suitably across Corpus (a smaller corpus may entice higher demands while signaling no panic vis-à-vis a higher corpus target), yield (optimal from deployment angle too), tenor (no Hot money) and tax friendly treatment for investors upon maturity to ensure it does not end in a catch-22 situation
- **High time for the country to rededicate towards AI led productivity gains, competitiveness and global value chain integration**

# Global economy growth to slow in 2026 but Outlook is clouded

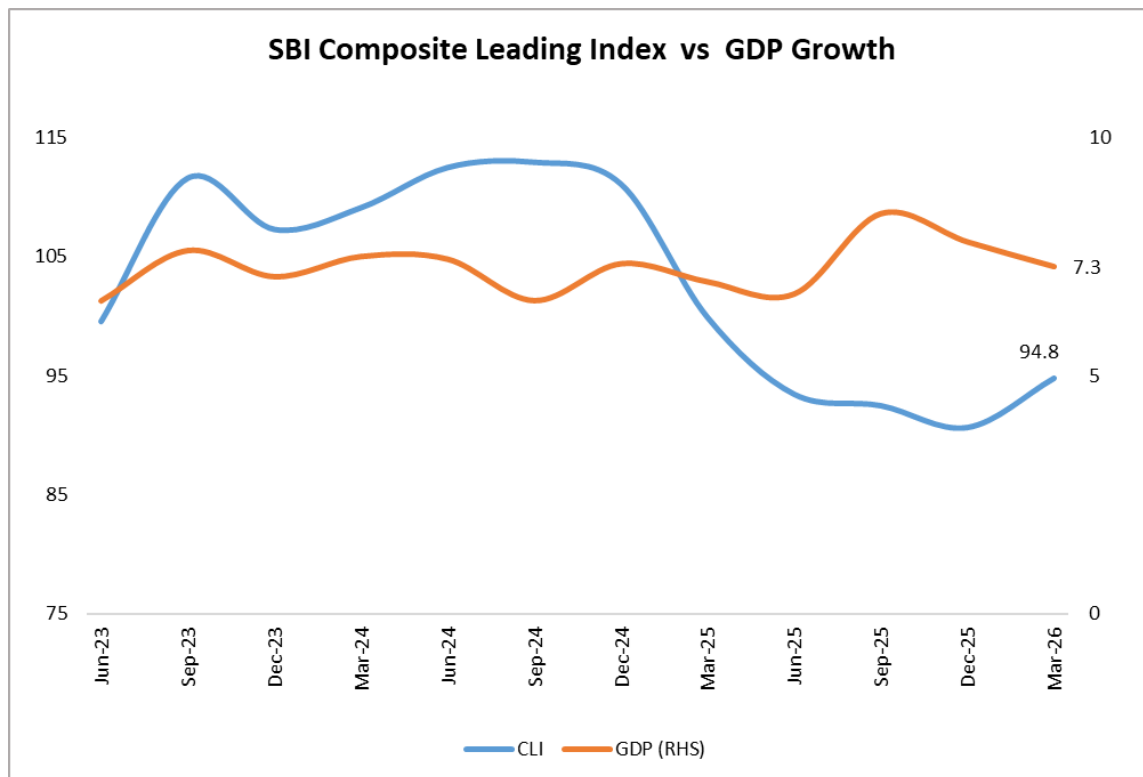
- IMF in its latest WEO has revised downward world growth forecast by 20 bps to 3.1% for 2026 and 3.2% for 2027, driven by escalating Middle East conflicts causing supply chain disruptions
- Contrary to the global trend, the IMF slightly increased India's growth projection to 6.5% for 2026-27, driven by strong domestic demand



Country	Forecasted GDP Growth in 2026		Remarks
	April-2026	Jan-2026	
US	2.3	2.4	Growth supported by AI but still moderating
Euro Area	1.1	1.3	Faces near term slowdown from energy shocks, then gradual recovery
Japan	0.7	0.7	Fiscal stimulus will partly offset energy drag
China	4.4	4.5	Exports strong but property slump weighs on domestic demand
India	6.5	6.4	Energy dependence slows activities a bit
Russia	1.1	0.8	Growth soft but higher energy prices provide a lift
Brazil	1.9	1.6	Modest growth amid policy uncertainty and higher input costs
<b>World</b>	<b>3.1</b>	<b>3.3</b>	Global economy is again disrupted, this time with the outbreak of war in the Middle East. Rising commodity prices, firmer inflation expectations, and tighter financial conditions are testing the recent resilience

# Aggregating Leading Indicators showing minor downward trend

- We track 50 leading indicators in consumption and demand, Agri, Industry, service and other indicators, which indicate slowdown in Q4 FY26 growth (as compared to Q3 FY26). The % of indicators showing acceleration is 85% in Q4, compared to 83% in Q3

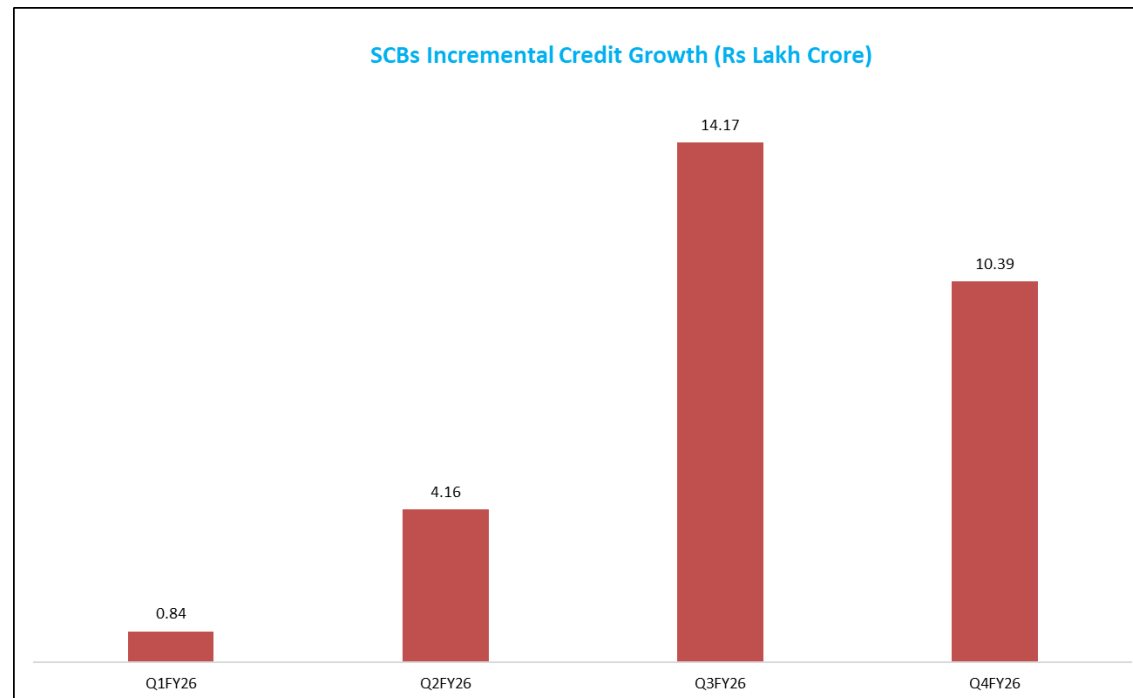


Mapping of Leading Indicators with GDP Growth			
Year	Quarter	GDP Growth (%) (Base: 2022-23)	% of indicators showing acceleration
FY24	Q1 FY24	6.6	70
	Q2 FY24	7.6	80
	Q3 FY24	7.1	80
	Q4 FY24	7.5	86
	<b>Full FY</b>	<b>7.2</b>	-
FY25	Q1 FY25	7.5	78
	Q2 FY25	6.6	71
	Q3 FY25	7.4	74
	Q4 FY25	7.0	72
	<b>Full FY</b>	<b>7.1</b>	-
FY26	Q1 FY26	6.7	70
	Q2 FY26	8.4	78
	Q3 FY26	7.8	83
	Q4 FY26 (P)	7.2* (AE 7.3)	85
	<b>Full FY</b>	<b>7.5* (AE: 7.6)</b>	-
FY27 (P)	<b>Full FY</b>	<b>6.6</b>	-

Source: SBI Research \*SBI Projections

$$\% \text{ of indicators showing acceleration} = \frac{\text{No of indicators showing high and moderate growth}}{\text{Total no of indicators}}$$

- ❑ Growth in bank credit of SCBs accelerated to **16.1% in FY26**, up from 11.0% in FY25. While the total incremental credit growth was Rs 29.5 lakh crore: H1 credit growth was only Rs 5 lakh crore, H2 was Rs 24.5 lakh crore
- ❑ With the consumption boost by Government through GST, **credit continued to grow in H2FY26. The same trend is continuing now, and credit grew by 16% as of 30 April 2026**
- ❑ **However, we expect, the credit growth will remain robust during the H1FY27 and will decline in H2 with high base effect. The full year, credit growth is expected at 13-14%**
- ❑ Domestic consumption is expected to hold GDP growth upwards, despite external crisis, especially West Asia crisis....



# Nowcast and Forecast Methodology to Estimate GDP

- ❑ Our model uses 54 high frequency indicators across agriculture, industry and services and used a Dynamic Factor model with time varying parameters for nowcasting. This allows us to capture the dynamic changes in the inputs
- ❑ For forecasting, we have used Autoregressive equations from the underlying bridge equation

Block	No. series	Examples
Autos	3	Commercial vehicle domestic, Passenger vehicle sale, Tractor sales(D)
External global	6	Baltic Dry Index, Crude prices, Foreign Exchange Rate, US Industrial Production, US PMI Mfg.
Financial	6	Aggregate Bank Credit, Agri credit, Broad Money (M3), Deposit, FDI Inflows
Fiscal	4	Capex monthly, Gross taxes, Revenue Expenditure less Interest Payment
Other	2	Fertilizers WHOLESale, Fuel consumption-Petroleum coke
Prices	6	CPI All, CPI non-food, WPI All, WPI Food, WPI Manufactured products
Production industry	10	Cement production, Coal, Crude oil, Natural Gas, Power supply
Services transport	12	Airport cargo, Export/Import of Goods & Services, Foreign Investment, Freight Traffic
Survey uncertainty	5	PMI Mfg., PMI Serv., CEIC Leading Indicator, Economic Policy Uncertainty Index, SBI Composite Index

To estimate GDP, we have a **two-stage model**

- A monthly Dynamic Factor Model (DFM), which extracts the common macro signal from the high-frequency indicator panel; and separate quarterly Time-Varying Parameter (TVP) bridge equations, which translate that factor into nominal and real GDP growth
- The DFM deals with the high-dimensional, mixed-release, ragged-edge information set
- The TVP bridge deals with the fact that the relationship between high-frequency activity and GDP is not fixed over the Indian macro sample
- The framework is therefore transparent enough to audit, flexible enough to handle changing macro relationships, and structured enough to avoid the over-fitting risks that arise in a short quarterly sample
- **Raw indicators are not directly comparable.** Some are nominal rupee values, some are physical volumes, some are prices, and some are diffusion indexes. We apply transformations before estimation. Let  $x_{i,t}$  be raw indicator  $i$  in month  $t$ , and let  $z_{i,t}$  be the transformed series.

$$\text{Positive value or volume series: } z_{i,t} = 100[\log x_{i,t} - \log x_{i,t-12}],$$

$$\text{Signed or lumpy flow series: } z_{i,t} = 100[\operatorname{asinh}(x_{i,t}) - \operatorname{asinh}(x_{i,t-12})],$$

$$\text{PMI series: } z_{i,t} = x_{i,t} - 50,$$

$$\text{Difference-stationary series: } z_{i,t} = x_{i,t} - x_{i,t-1}.$$

The inverse-hyperbolic-sine transformation is used where ordinary logarithms are inappropriate.

- The model forecasts **two quarterly target variables**: nominal GDP at current prices and real GDP at constant prices.
- The pandemic period is too important to discard and too extreme to treat as an ordinary Gaussian innovation. We keep the observations but removes deterministic shock components before estimating the long-run factor and bridge relationships.
- For each transformed monthly indicator  $z_{i,t}$ , the script estimates an auxiliary adjustment of the form

$$z_{i,t} = a_i + \phi_i z_{i,t-1} + \boldsymbol{\gamma}_i' \mathbf{D}_t + u_{i,t},$$

Where,  $\mathbf{D}_t$  contains Shock regressors like pandemic pulses, temporary-change terms and automatically selected additive-outlier pulses.

- The adjusted indicator is

$$\tilde{z}_{i,t} = z_{i,t} - \hat{\boldsymbol{\gamma}}_i' \mathbf{D}_t.$$

- **Shock regressors : The dummy set contains two types of terms:**

1. Pulse dummies for high-stress pandemic months/quarters

2. Temporary-change dummies for gradual normalization after the first COVID wave and second wave. A temporary-change term beginning at  $t_0$  is of the form:

$$TC_t(t_0; \delta) = 1\{t \geq t_0\} \delta^{t-t_0}, \quad 0 < \delta < 1$$

- **Monthly Dynamic Factor Model**

After transformation and shock adjustment, the monthly panel is

$$\tilde{\mathbf{z}}_t = (\tilde{z}_{1,t}, \dots, \tilde{z}_{n,t})'$$

The DFM assumes that this high-dimensional panel is driven by a small number of common factors. In the default specification, one factor is used. This is a deliberate choice: the supervised GDP sample is short, and one broad factor is often more stable than a heavily parameterised factor structure.

The measurement equation is

$$\tilde{\mathbf{z}}_t = \Lambda \mathbf{f}_t + \mathbf{e}_t, \quad \mathbf{e}_t \sim N(\mathbf{0}, \mathbf{R}),$$

Where,  $\mathbf{f}_t$  is the latent factor and  $\Lambda$  is the loading matrix. The state equation is

$$\mathbf{f}_t = \Phi_1 \mathbf{f}_{t-1} + \dots + \Phi_p \mathbf{f}_{t-p} + \mathbf{u}_t, \quad \mathbf{u}_t \sim N(\mathbf{0}, \mathbf{Q}).$$

- **From Monthly Factor to Quarterly GDP**

GDP is quarterly, while the factor is monthly. We aggregate the latent monthly factor within each fiscal quarter:

$$\bar{\mathbf{f}}_q = \frac{1}{3} \sum_{m \in q} \hat{\mathbf{f}}_m.$$

Aggregating the factor rather than every raw indicator keeps the quarterly bridge parsimonious. The bridge receives one coherent macro signal rather than dozens of collinear quarterly aggregates

## Quarterly TVP Bridge Equations

- A fixed-coefficient bridge would assume that the same high-frequency signal has the same GDP implication throughout the sample. The structure of activity, formalisation, tax administration, services intensity and the role of financial conditions have all changed over time. COVID also altered the relationship between mobility, output and expenditure
- The script therefore estimates separate time-varying **bridge equations** for nominal and real GDP. For  $j \in \{N, R\}$ ,

$$g_q^{j,adj} = c_q^j + \boldsymbol{\beta}_q^{j'} \bar{\mathbf{f}}_q + \varepsilon_q^j, \quad \varepsilon_q^j \sim N(0, \sigma_j^2),$$

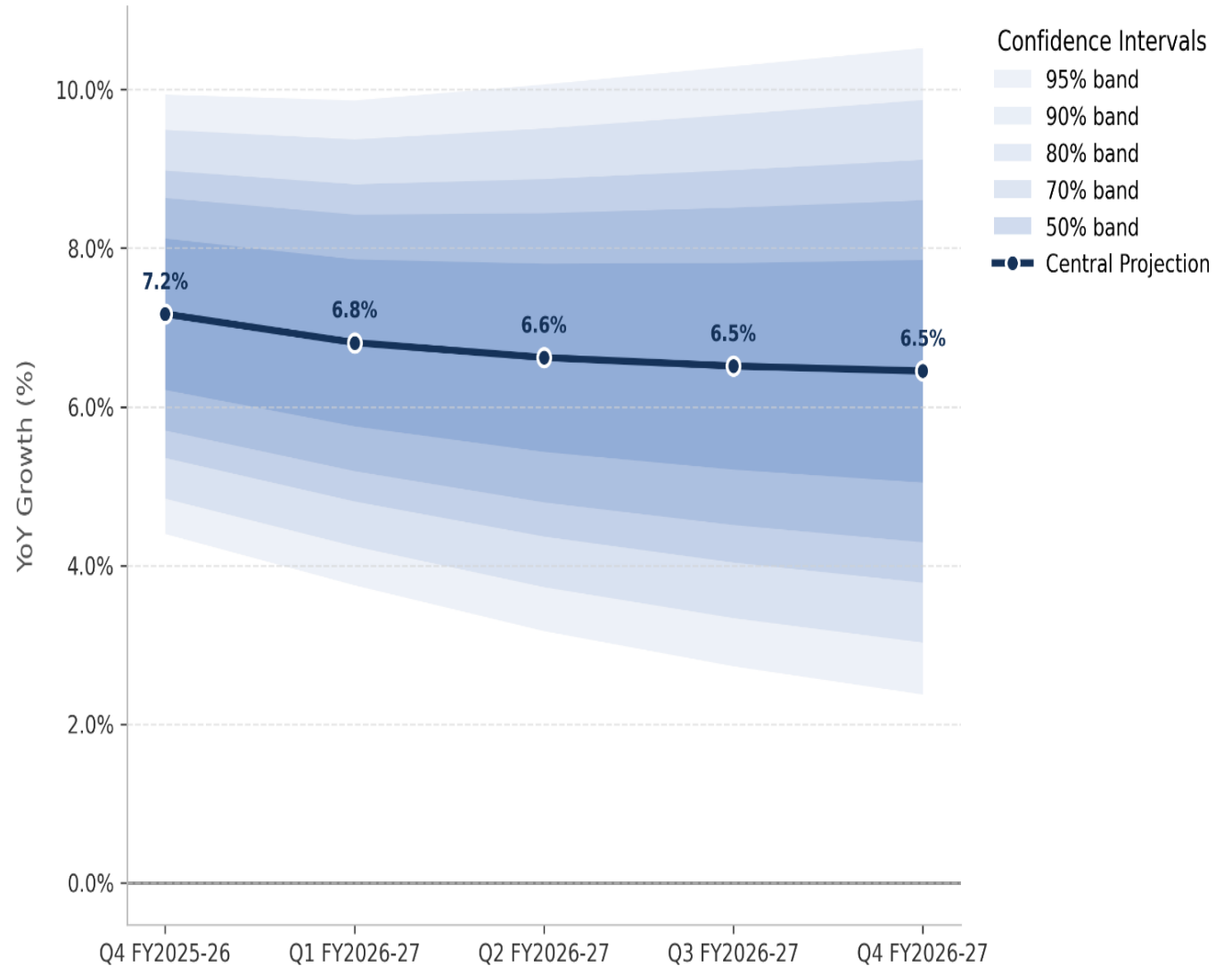
Where,  $g_q^{j,adj}$  is shock-adjusted log year-on-year GDP growth. The factor coefficient evolves as

$$\boldsymbol{\beta}_q^j = \boldsymbol{\beta}_{q-1}^j + \boldsymbol{\eta}_q^j, \quad \boldsymbol{\eta}_q^j \sim N(\mathbf{0}, \mathbf{H}_j)$$

- The TVP form lets the factor-GDP mapping move gradually as the economy changes. Nominal GDP may become more sensitive to prices and fiscal variables in one regime; real GDP may become more sensitive to mobility and services indicators in another. The model lets this sensitivity evolve instead of imposing a single coefficient across all regimes

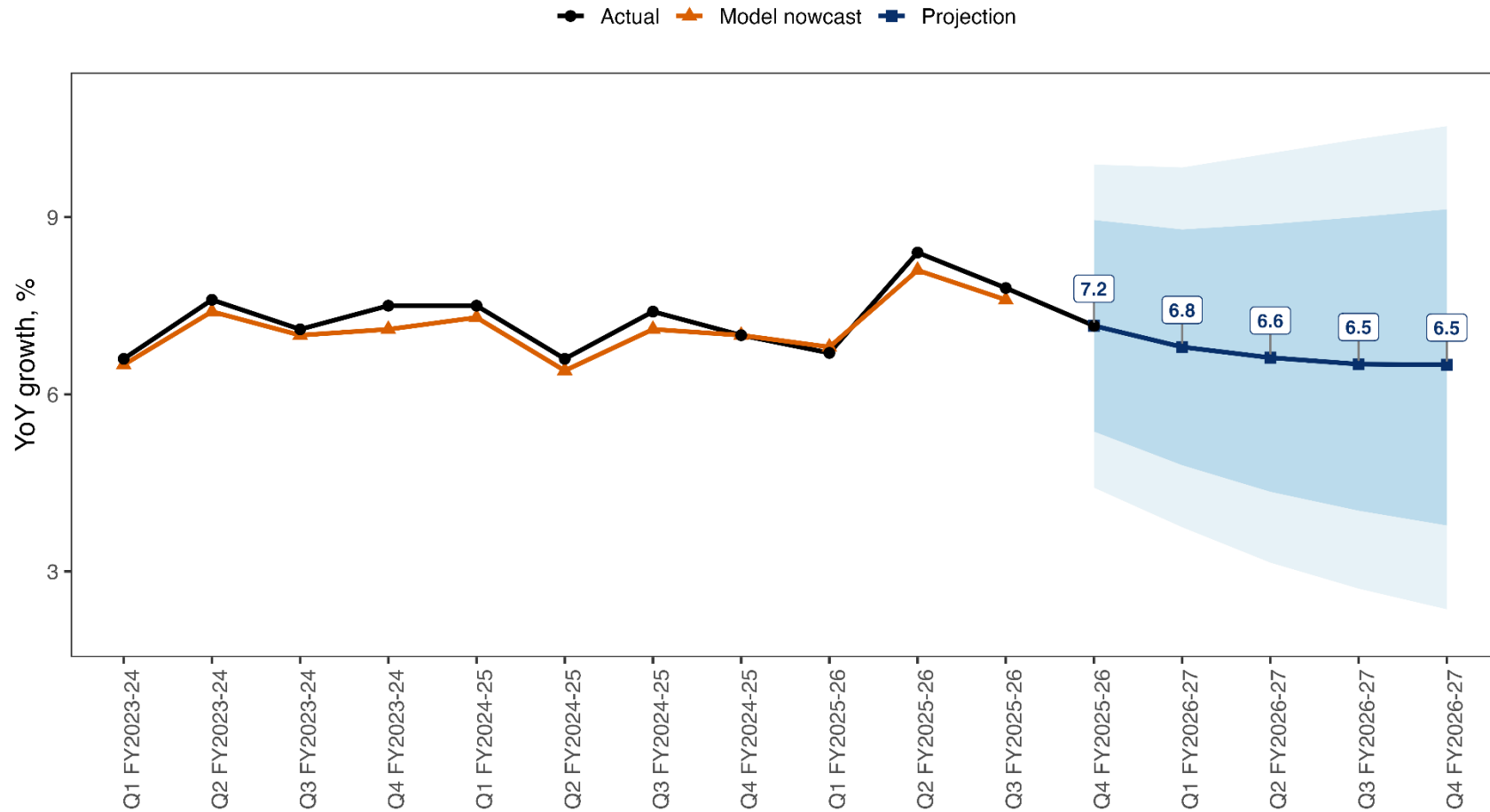
- ❑ We expect that the Nominal GDP growth will be around 12.2% for Q4FY26. **Our real GDP is projected at 7.2% for Q4FY26**
- ❑ The **Real GDP growth for FY27 is projected to be 6.6%** taking into account economic implications of recent geopolitical disturbances.
- ❑ Given the geopolitical uncertainties, FY27 numbers will be revised as more data comes in

### Real GDP YoY Growth: Nowcast & Projection Fan

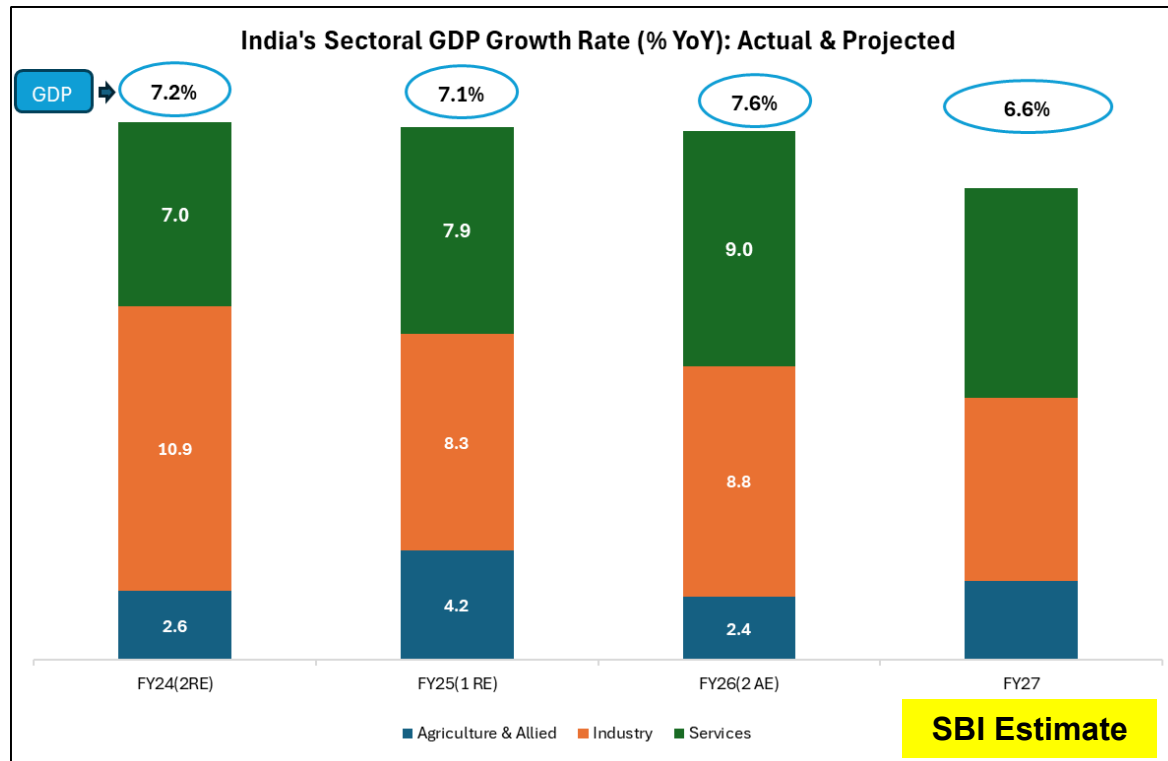


- The back testing for the period FY24-FY25 results shows that the model is predicting the estimates with an average deviation of 19 bps with maximum deviation of 40 bps

### Real GDP: Historical Model Performance and Projection Fan Chart



- India continues to demonstrate resilience with GDP likely to grow in the range of around 6.6%, despite global uncertainties and regional conflicts
- RBI in the first MPC meeting projected that the average inflation at 4.6% and 6.9% GDP growth for FY27, with progressive upgrades in second half of current fiscal
- Further, volatility in crude oil and other commodity prices along-with possible El Niño conditions impart considerable volatility to inflation. However, the near-term food supply prospects have been boosted by robust rabi crop providing some comfort. RBI has also indicated that it will be actively intervening for managing liquidity

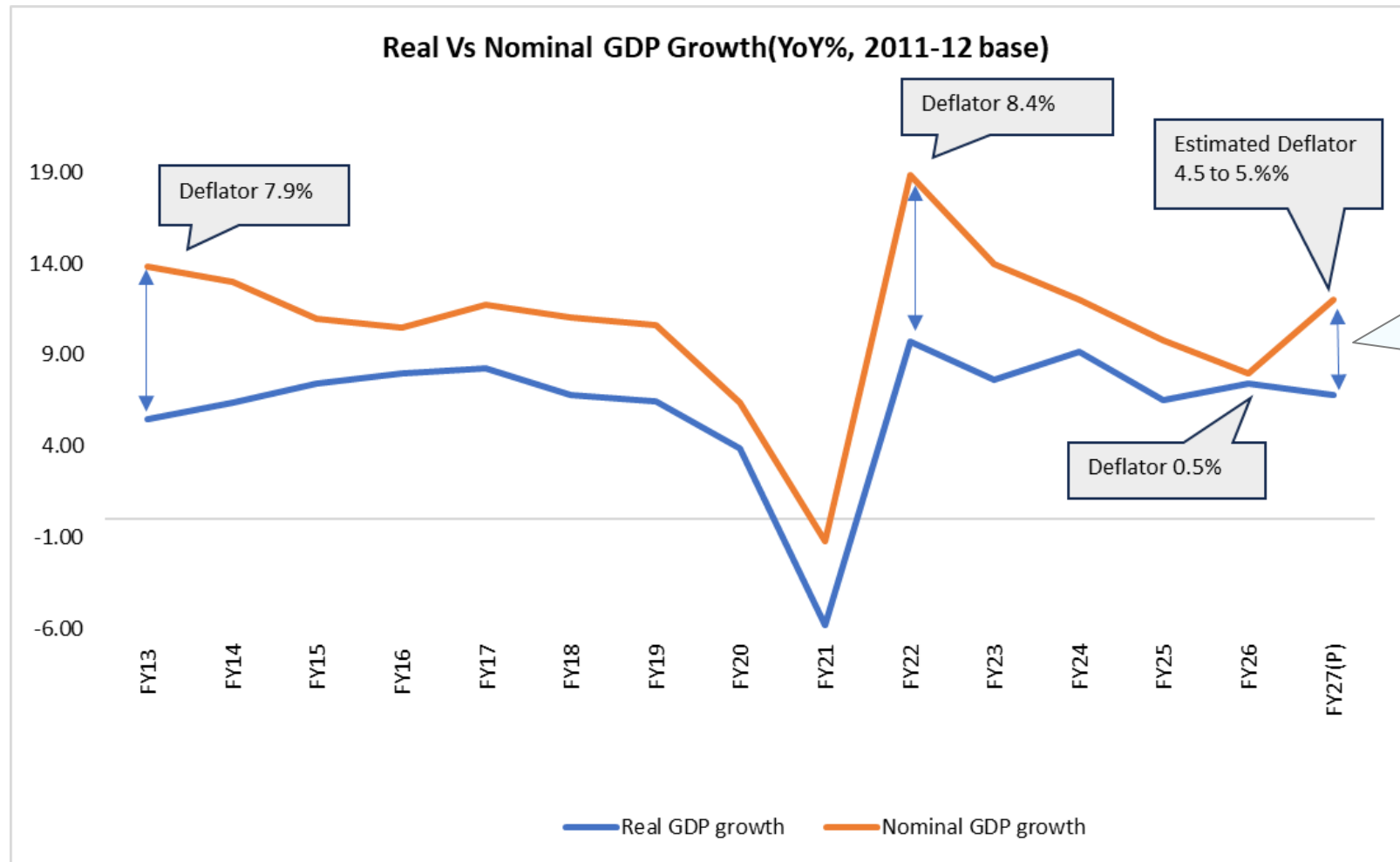


Nowcasted GDP Growth: SBI Estimates		
Fiscal quarter	Real GDP YoY % (SBI)	RBI
<b>Q4 FY26</b>	<b>7.2</b>	<b>7.3 (NSO)</b>
<b>FY26</b>	<b>7.5</b>	<b>7.6 (NSO)</b>
Q1 FY27	6.8	6.8
Q2 FY27	6.6	6.7
Q3 FY27	6.5	7.0
Q4 FY27	6.5	7.2
<b>FY27</b>	<b>6.6</b>	<b>6.9</b>

Source: SBI Research, MOSPI, RBI MPC Report, April 2026

# Nominal GDP growth may be ~11% in FY27 with an upward bias

- ❑ We believe that due to a rise in inflation (~4.5% for FY27, the deflator is estimated at ~4.5%. Taking this into account, our estimates for FY27 nominal GDP is ~11% (P)



The gap between real and nominal GDP growth see-sawed and for FY27 it will widen to 4.5 to 5.0% from merely 0.5% in FY26

\*FY27 data on new Base

# Higher Oil Prices may sacrifice growth by 20-25 bps

- To estimate the impact of the oil price change on macroeconomic variables; Current Account Deficit (CAD) as % of GDP , Real GDP (YoY), and inflation (%) we used the regression model. The model specification as follows:

$$Y_t = \alpha + \beta OilPrice_t + \epsilon_t$$

Where,  $Y_t$  represents the variables namely, CAD, GDP, and inflation.  $OilPrice_t$  is the crude oil price (\$/bbl), and  $\beta$  captures the sensitivity of macroeconomic variable to oil price change

- Our model estimated that for every ~\$10 per bbl increase in crude oil prices may widens the CAD by 35 bps , inflation by 35-40 bps and 20-25 bps in GDP
- As the oil prices is around \$105/barrel (May), the average Oil price will be around \$100/barrel and India's GDP is expected to be ~ 6.6% in FY27**

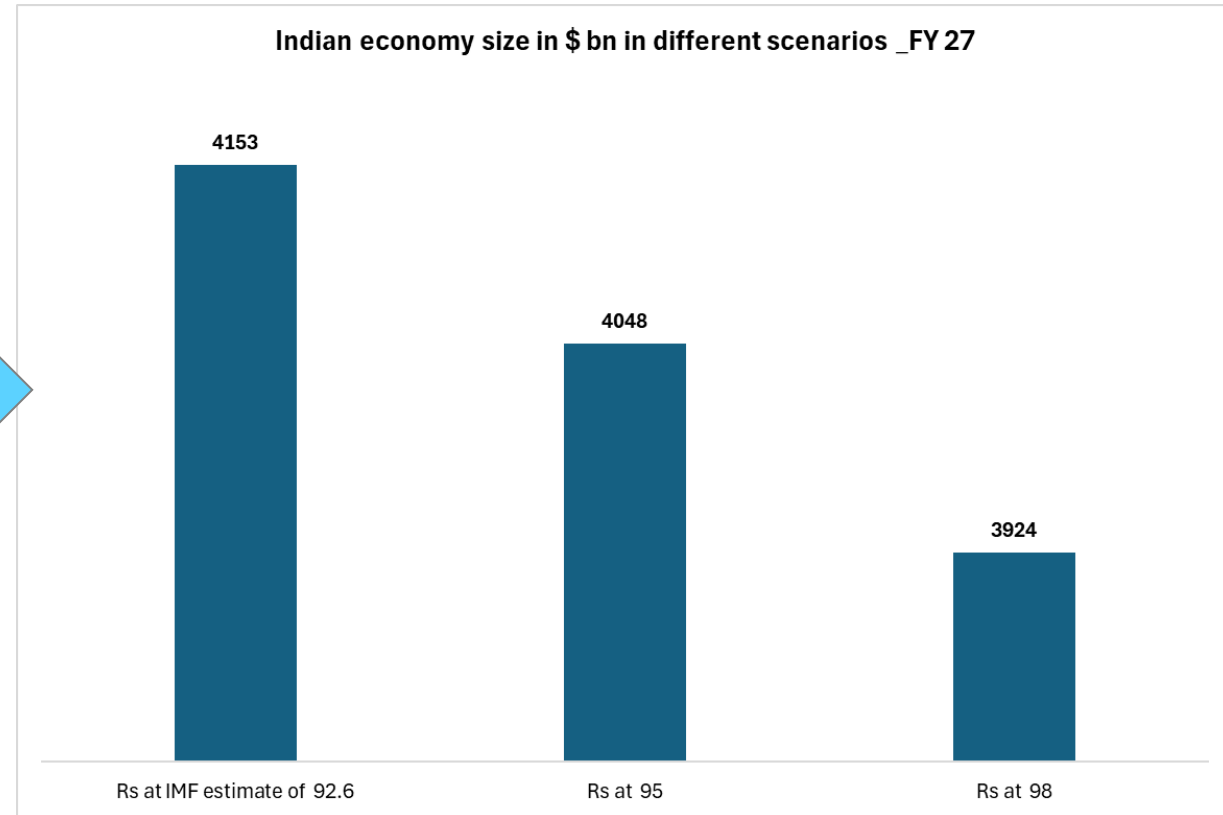
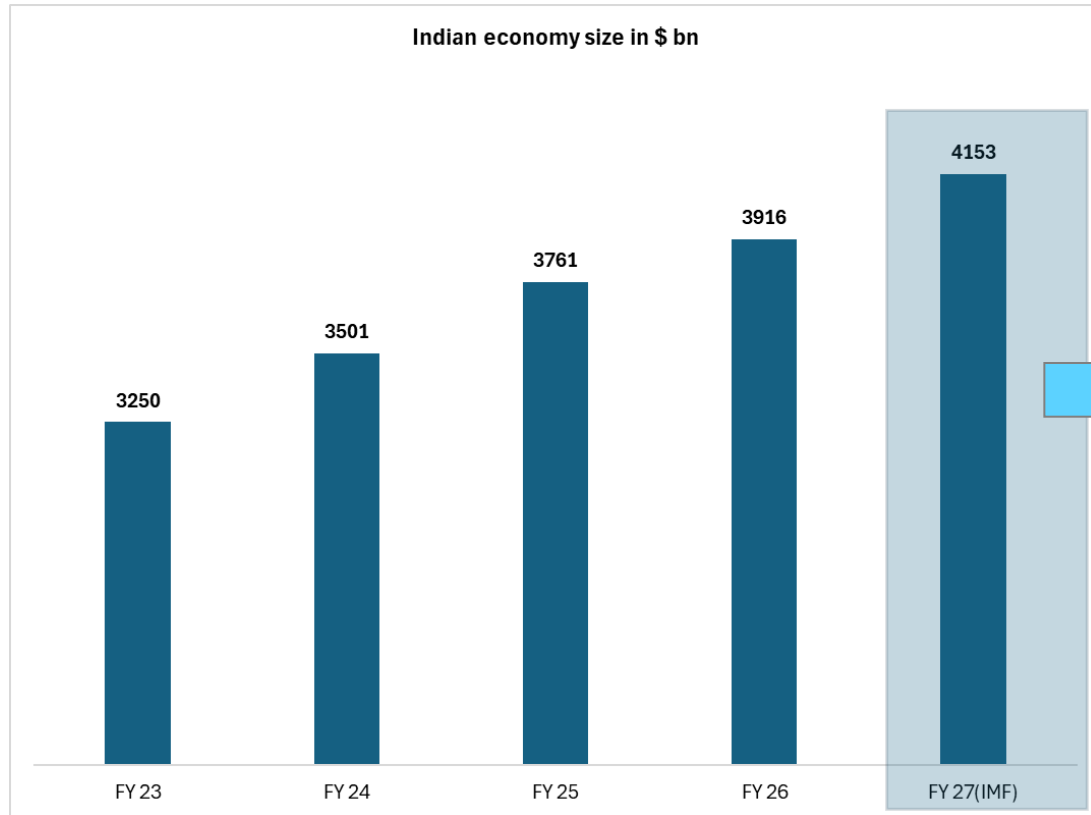
SBI Estimates for impact of oil price hike						
Scenarios	CAD		Inflation		GDP	
	bps	% of GDP	bps	%	bps	Growth FY27 (%)
For every \$10 per bbl increase	30-35	-	35-40	-	(-)20 to (-)25	-
If average price is ~\$90 in FY27	35	-1.4	35	4.4	-20	6.8
<b>If average price is ~\$100 in FY27</b>	<b>57</b>	<b>-1.6</b>	<b>62</b>	<b>4.6</b>	<b>-38</b>	<b>6.6</b>
If average price is ~\$110 in FY27	89	-2.0	97	5.0	-56	6.4
If average price is ~\$120 in FY27	121	-2.3	132	5.3	-76	6.2
If average price is ~\$130 in FY27	153	-2.6	167	5.7	-96	6.0

Source: SBI Research

## **How Currency swings can Impact Economic Imprints.....**

- ❑ The rise of the Greenback, its coming back rather dubious and debatable, in an intense risk-off scenario as geopolitical fragmentations deepen has also altered the nominal growth factored in US\$ for various sovereigns, highlighted best as India continues to hog spotlight as third largest economy in terms of PPP (The Law of One Price) but slides to sixth in terms of nominal GDP (\$ measured) with a sliding rupee unduly weighing on our economic clout and real purchasing power
- ❑ The rapid, though infrequently incessant episodes of slide in rupee, coupled with extreme pangs of volatility, may dampen the confidence of investors and asset allocators across portfolio, SWFs, hedge funds as also on FDI front, whose IRR/RoI calculations are on net-net basis, the hedging cost likely to remain elevated and suppressing real yields upon repatriation
- ❑ **With country's Macro fundamental getting distorted as Brent crude prices hover above \$100, transport and insurance costs spike arbitrarily there is a felt need to put in place measures that alleviate BoP position....**

- ❑ Our regression results indicate that for each Rs depreciation, there will be a 20 to 25 bps degrowth in Nominal GDP in dollar terms (\$48-59 bn knocking off based on underlying GDP base figures)
- ❑ **We have estimated India's economy size in 3-scenario, if \$/INR rate at Rs 95, then the economy size will fall to \$4.04 trillion and the dream to be \$ 5 trillion economy may be achieved in the year FY30**



- ❑ The strain on BoP front has front loaded the question of launching a Bond offering (akin to RIB-1998) or a Deposit mobilization scheme- IMD (2000) or reminiscent of 2013 scheme that successfully countered the gravitational pull exerted on external accounts front
- ❑ **However, factoring the realities of yield curves across DMs (and its complete decoupling from policy rates), any such scheme looks quite a difficult proposition**
- ❑ Basis initial estimates, a 5 year foreign currency deposit sourced at say around 6.5-7.0% yield post hedging cost for the entire tenor, may spike to early double digits at lending table, check mating the very desirability of such funds at the end users' level...in 1998, dollar denominated RIB offered 7.75% compounded semi annually (or, 7.90% per annum) when is when the six-month LIBOR traded at ~5.75% the American CD rate was ~5.23% (per annum)... in 2000, IMD offered US\$ rate of 8.50% when 6M LIBOR was quite volatile and traded around 6.7-6.9%.... as of now, 6 months average Term SOFR is ~3.75%, best CDs trade around 4.0% but Risk Free rate (US10Y) is around 4.4%
- ❑ Also, the fact that in recent scheme of 2013, the super low effective cost of funds across DMs (yields in US were sub-1% for matching durations) had created a 'virtuous' leverage cycle wherein many Financial Institutions outside India had provided loans ballooning own corpus of depositors, with post credit cost (paid to FIs) return of such depositors-investors inching around 8-10%, creating a carry trade like situation.... Such possibility does not exist now

- While a scheme soliciting funds from overseas is definitely workable that may also be designed to showcase the connect with the large diaspora spread globally and driving the innovation bandwagon, it has to be calibrated suitably across Corpus (a smaller corpus may entice higher demands while signaling no panic vis-à-vis a higher corpus target), yield (optimal from deployment angle too), tenor (no Hot money) and tax friendly treatment for investors upon maturity to ensure it does not end in a catch-22 situation
- Administering the scheme through a widely and deeply trusted globally recognized brand, with demonstrated capacity to mop funds at ultra competitive pricing, and with a proxy to sovereign insignia can help the scheme, if carved, to perform optimally, reaching a wider cohort

- ❑ AI has been the biggest theme for drawing investments globally, suite of investors betting heavily on a new world order
- ❑ Most serious estimates currently cluster around:
  - AI adding roughly 0.1%–0.5% to GDP levels annually in AEs economies during 2024–25**
  - But contributing a much larger share of incremental growth in certain sectors (chips, cloud, energy infrastructure, industrial automation).
- ❑ The major drivers of AI led growth in leading jurisdictions signal Hyper scaler led capex, faster enterprise adoption, AI focussed start-ups scaling with robotics, automation and cloud adoption playing pivotal roles
- ❑ While India’s software industry did a yeoman’s job through the 90s to pre-pandemic period in global value chain integration and supporting a bevy of associated infrastructure, it needs to board the AI bus, failing which could result in a ‘SaaSpocalypse’ like moments as coding capabilities look cliché against self training models
- ❑ **High time for the country to rededicate towards AI led productivity gains, competitiveness and global value chain integration through carefully crafted policies**

Economy	Estimated Share of GDP Growth Linked to AI	Primary Drivers
United States	15–35%	Hyperscaler capex, NVIDIA ecosystem, cloud AI, data centres
European Union	5–15%	Industrial AI, enterprise adoption, automation
United Kingdom	10–20%	Fintech, AI services, London AI ecosystem
Germany	8–18%	Industry 4.0, automotive AI, manufacturing optimisation
France	7–15%	AI startups, compute investments, enterprise software
China	20–40%	State-led AI, robotics, semiconductor self-reliance
South Korea	25–45%	HBM memory boom, AI servers, semiconductor exports
India	4-10%	IT services, SaaS, AI-assisted productivity
Taiwan	35–60%	TSMC ecosystem, advanced packaging, AI chips
Indonesia	2–8%	Digitalisation, cloud adoption, fintech

# AI linked growth average from different estimates and can vary based on available information, susceptible to biases and circular nature of investments



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