

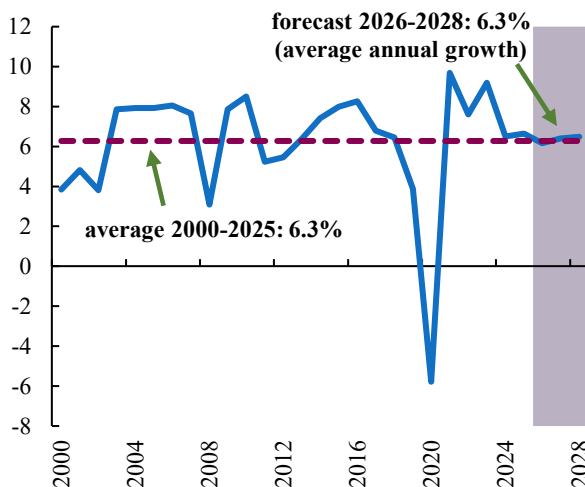
India’s growth outlook remains strong in spite of headwinds

India is one of the fastest growing economies in the world, and rapidly transforming into an engine of global growth. During the 2000-2025, which includes the volatile years of the Global Financial Crisis and the Covid-pandemic, the average growth rate for the South-Asian giant was 6.3%. This sustained performance pushed India to become the fifth economy in the world, representing 8.5% of the world economy.

Real GDP expanded over 7% in FY2025–26, cementing India’s position as the world’s fastest-growing major economy for the fourth consecutive year. Given the size of the Indian economy, a 7% growth rate adds 0.6 percentage points (p.p.) to global growth. This implies that India accounts for an important share of the 3.0% global growth expected in 2026.

India enters the fiscal year (FY) 2026–27 with a robust growth outlook, with high-frequency indicators pointing to sustained momentum. Yet this moment of strength is most recently confronted with the escalating conflict in the Middle East, introducing uncertainty into India’s macroeconomic outlook. In our view, India’s growth performance will remain robust in spite of the headwinds. In this, article we discuss three key factors that support India’s growth momentum.

Real GDP Growth in India
 (% , year-over-year, annual)



Source: IMF World Economic Outlook, QNB Economics

First, private consumption remains the central pillar of India’s growth model, acting as a stabilising factor amid an uncertain global backdrop. Household spending, which accounts for more than 60% of GDP, has continued to expand at a solid pace, supported by a combination of improving labour market conditions and lower inflation, resulting in rising real incomes. High-frequency indicators, including vehicle sales and retail activity, point to continued resilience in consumption despite some moderation. As a result, private consumption is expected to remain the main anchor of growth in FY2026–27, underpinning overall economic resilience.

Total Investment in GDP in India
 (as % of GDP, annual)



Source: Haver Analytics, QNB Economics

Second, public infrastructure spending and the gradual recovery of private sector capex are strengthening the role of investment supporting India’s positive growth outlook. As a share of GDP, investment has recovered from the low reached in the aftermath of the Global Financial Crisis and during the Covid-pandemic, and is expected to remain above 30% in the medium term.

On the public side, the government continues to prioritise capital expenditure, with infrastructure spending running at around 3–3.5% of GDP and expected to grow at double-digit rates in FY2026–27. This not only provides a direct boost to aggregate demand, but also generates strong “crowding-in” effects stimulating additional private investment by

improving connectivity, lowering logistics costs, and enhancing overall productivity. At the same time, private investment is gaining traction, with fixed investment growth projected at around 6–7% in 2026, supported by improving corporate balance sheets and credit growth. As a result, the combination of a public infrastructure push and a emerging private investment recovery is expected to play a key role in sustaining India’s medium-term growth momentum.

Third, a benign inflation environment and a supportive monetary policy stance underpin India’s growth dynamics. Headline inflation has averaged less than 3% in 2025–26, remaining well below the Reserve Bank of India’s 4% target midpoint and comfortably within its 2–6% tolerance band. This favourable inflation backdrop provided the space for the RBI to implement a cumulative 125 basis points of rate cuts in 2025, bringing the policy interest rate

down to 5.25%, its lowest level since 2022. Although the central bank has paused easing in recent meetings to assess emerging risks, monetary conditions remain broadly accommodative, with lending rates still adjusting downward and credit growth strengthening. As a result, the combination of low inflation and still-supportive monetary conditions continues to act as a key backing of domestic demand.

All in all, India enters FY2026–27 with strong growth momentum, supported by resilient domestic demand, a sustained investment push, and accommodative monetary conditions. Although external risks – particularly from energy prices and geopolitics – may weigh on the outlook, solid domestic fundamentals are expected to keep growth above 6%, reinforcing India’s position as one of the fastest-growing major economies globally.

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