Initial estimates showcase Q1 FY26 GDP could be at ~6.8%-7.0%

Peak Elasticity of Government Capex to GDP at 1.17 indicating that private investment must complement public investment to take the economy onto an even higher sustainable growth path: Private investors need to hold the baton ***NOW***, going ***GLO-CALLY competitive*** as Apostles of Growth 2.0 world over

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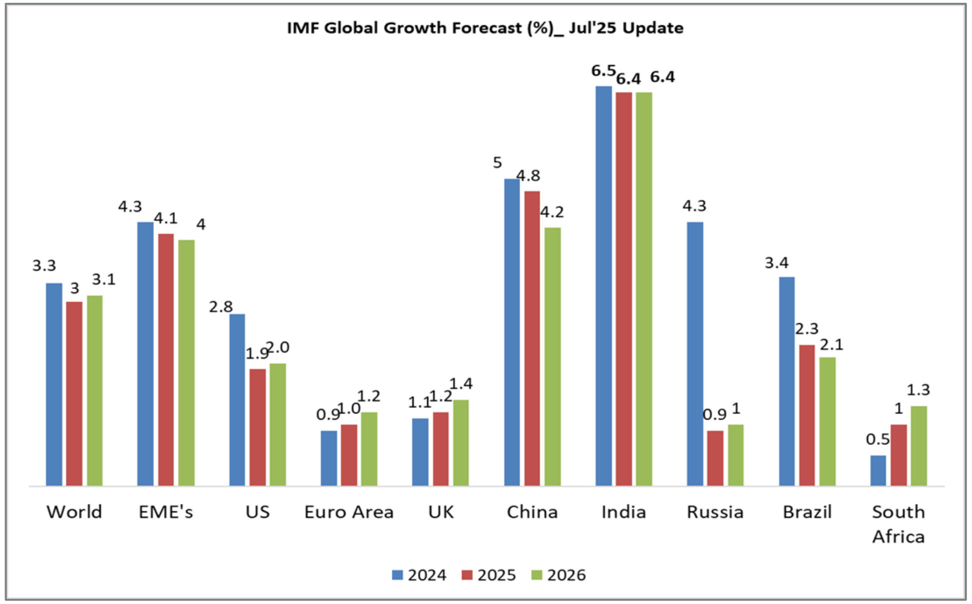
Global activity: So Far…Resilient

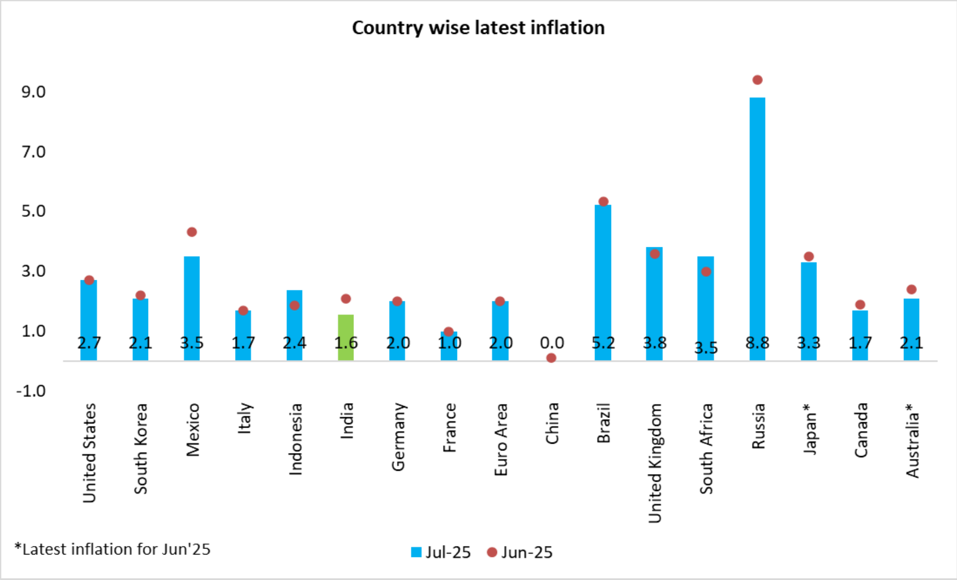
The global economy has continued to hold steady, but the composition of activity points to distortions from tariffs rather than underlying robustness

- IMF has revised upwards the global growth projections; 3% for 2025 & 3.1 % in 2026 reflecting primarily front-loading ahead of tariffs materialization
- The growth in developing economies revised upwards with China by 80 bps to 4.8% and India by 20 bps to 6.4%
- Global trade grew robustly in the first quarter, but high-frequency indicators point to an unwinding of front-loading in the second quarter

Global inflation is showing mixed signs

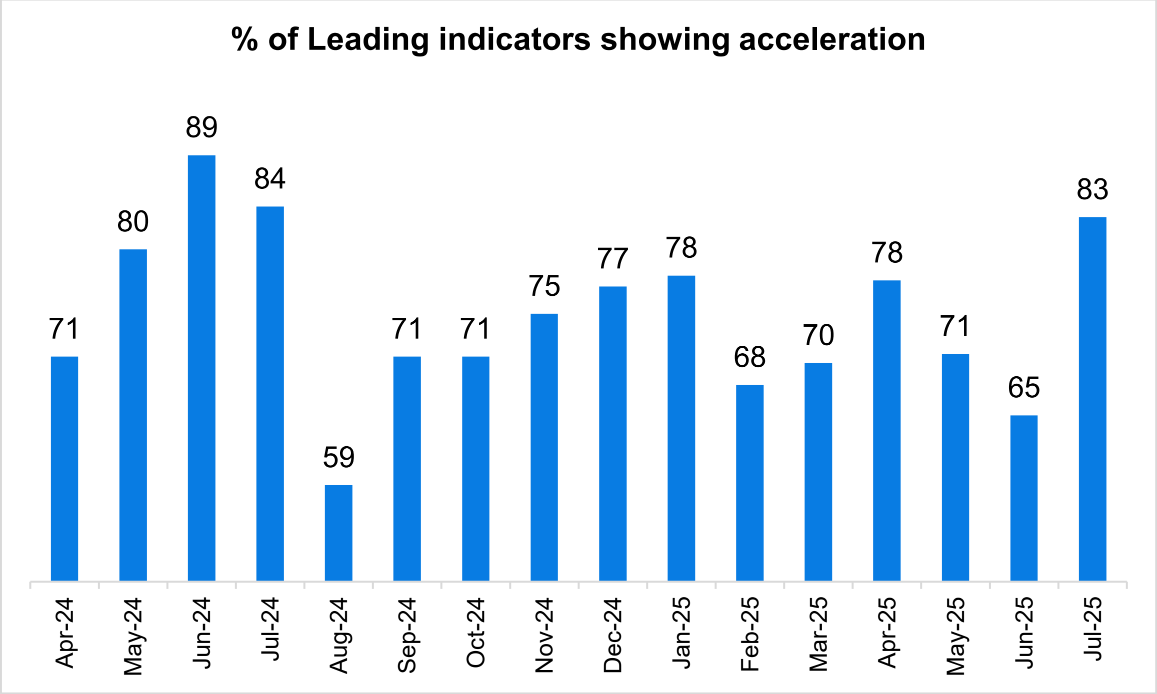
- US inflation is predicted to stay above target
- Downside risks from potentially higher tariffs, elevated uncertainty and geopolitical tensions persist
- Restoring confidence, predictability and sustainability remains priority

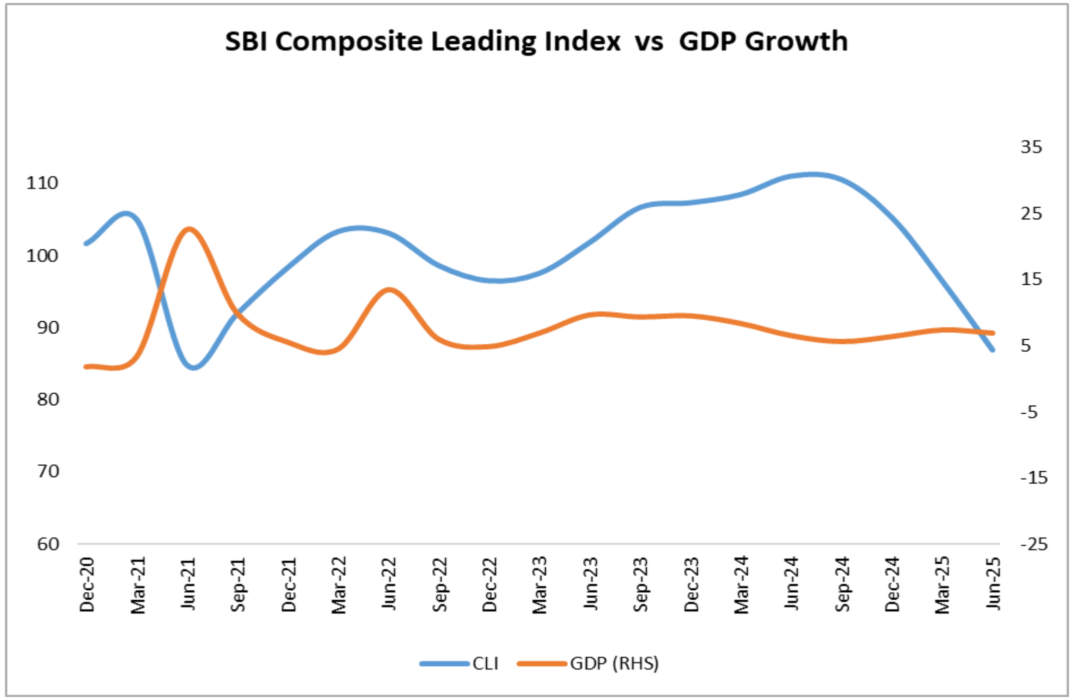




Aggregating Leading Indicators during Q1 were on a declining trend but since recovered

- We track 50 leading indicators in consumption and demand, Agri, Industry, service and other indicators, which indicate a slight moderation in Q1 FY26 growth (as compared to Q4 FY25). The % of indicators showing acceleration has increased to 83% in July from a low of 65% in June
- GDP Growth as per SBI composite leading indicator (CLI) based on monthly data shows a slight downtick in economic activity in Q1





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

GDP estimates using Dynamic Factor Model

- Confronted with a panel of 41 high frequency indicators, **we utilized the LASSO** (Least Absolute Shrinkage and Selection Operator), a powerful machine learning technique. By applying LASSO, we were able to identify the most salient indicators, approximately 20 core economic indicators that exhibited the strongest predictive relationship with the underlying state of the economy

$$\hat{\beta} = \arg\min\left\{\sum_{t=1}^{T}\left(PC_t - \sum_{j=1}^{p}\beta_i x_{it}\right)^2 + \gamma\sum_{i=1}^{P}\beta_i\right\}$$

- We then **employed a Dynamic Factor Model with an Autoregressive factor (DFM-AR).** This state-space model is designed to summarize the shared co-movement among our 20 indicators into a single, unobserved (latent) variable, which we call the "dynamic factor." This factor serves as a comprehensive, high-frequency index of real economic momentum, capturing the single story told by the diverse movements of industrial production, sentiment, trade, and other variables

$$y_{it} = \gamma_{if_t + e_i, t}$$

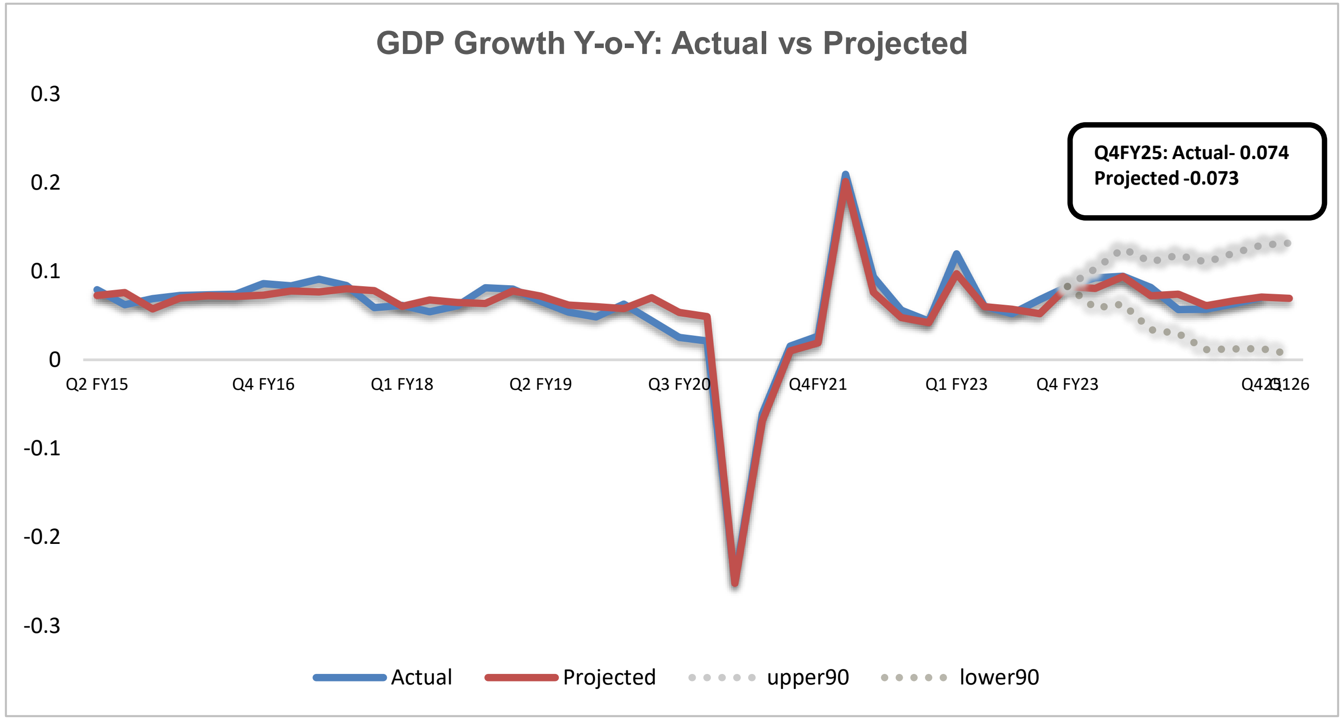
- Since the economy reacts asymmetrically to negative shocks compared to positive ones, our final model explicitly captures this by allowing the impact of the dynamic factor to be different during "bad states" (economic contractions) versus "good states" (expansions). Furthermore, we adopted a "general-to-specific" methodology, rigorously testing various lag structures and using information criteria (AIC/BIC) to trim insignificant predictors, resulting in a final, parsimonious model that is both statistically powerful and economically intuitive

Model Results show a GDP growth at 6.9% during Q1F26

- **Based on the estimated model, we obtain a nowcast of real GDP growth at 6.9% (GVA: 6.5%) year-on-year for the reference quarter (Q1 FY26)**. This estimate reflects the systematic contribution of the latent factor to the observed series and is therefore not driven by idiosyncratic fluctuations in individual indicators. The forecast is statistically consistent with the trajectory inferred from previous quarters, as the factor dynamics ensure temporal persistence and smooth adjustment, thereby anchoring the current projection within the medium-run growth path suggested by the model

Model Results						
GDP_YoY_Growth1	Coefficient	std. err.	Z	P>|z|	95% conf. interval	
GDP_YoY_Growth1						
L1.	0.581	0.117	4.96	0.000	0.351555	0.810485
covid_dummy	-0.355	0.038	-9.33	0.000	-0.43033	-0.28087
factor_in_good_state	0.193	0.027	6.94	0.000	0.138838	0.24804
factor_in_bad_state	-0.051	-0.005	-3.37	0.002	-0.08201	-0.02168
Constant	0.054	0.004	11.5	0.003	0.044868	0.063298
ARMA						
AR L1.	-0.728	0.092	-7.84	0.000	-0.91012	-0.54601

* 0.000 significant at 5% level



Leading Indicators also indicate ~7.0% GDP growth

SBI
The banker to every Indian

Real GDP Projections		
	SBI	RBI
Q1 FY26	6.8-7.0%	6.5%
Q2 FY26	6.5%	6.7%
Q3 FY26	6.3%	6.6%
Q4 FY26	6.1%	6.3%
FY26 P	**6.3%**	**6.5%**

Source: RBI; SBI Research

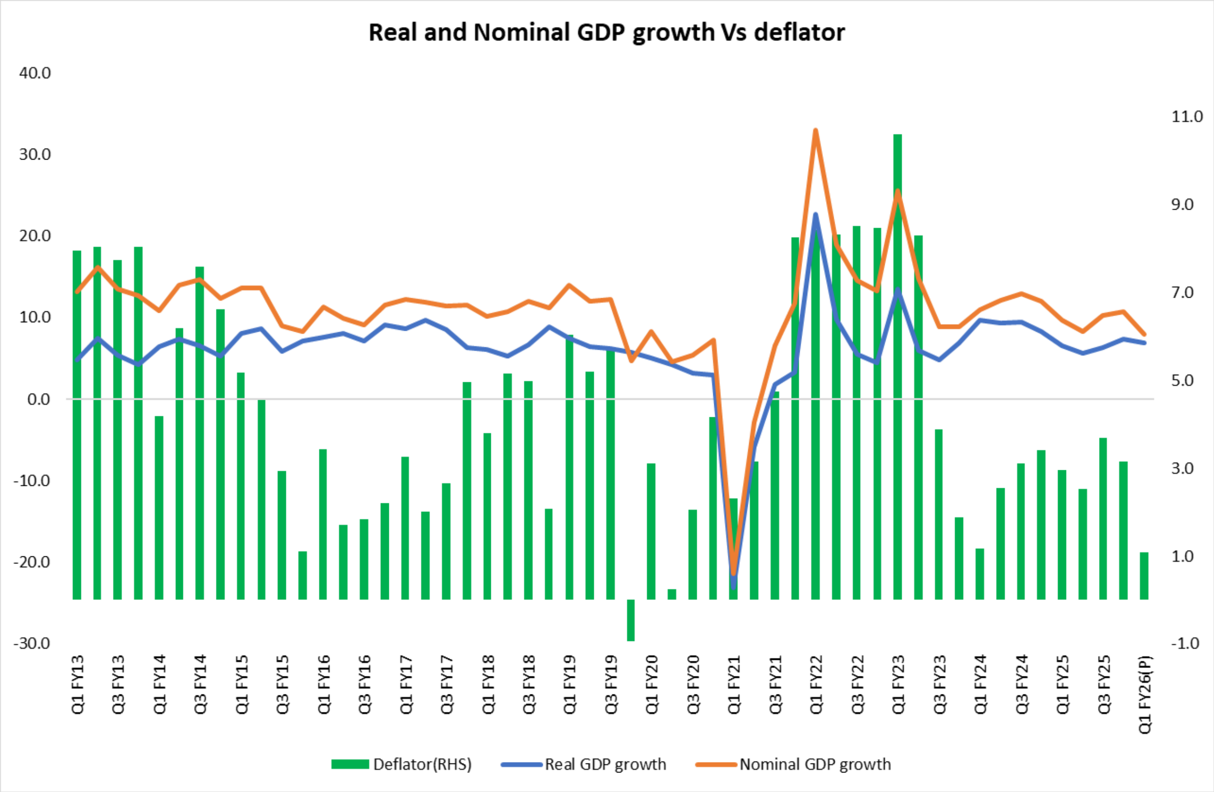
Mapping of Leading Indicators with GDP Growth			
Year	Quarter	GDP Growth (%)	% of indicators showing acceleration
			Overall
FY22	Q1 FY22	22.6	75
	Q2 FY22	9.9	70
	Q3 FY22	5.5	61
	Q4 FY22	4.5	61
FY23	Q1 FY23	13.5	79
	Q2 FY23	6.0	69
	Q3 FY23	4.8	73
	Q4 FY23	6.9	76
FY24	Q1 FY24	9.7	70
	Q2 FY24	9.3	80
	Q3 FY24	9.5	80
	Q4 FY24	8.4	86
FY25	Q1 FY25	6.5	78
	Q2 FY25	5.6	71
	Q3 FY25	6.4	75
	Q4 FY25	7.4	73
FY26	Q1 FY26	6.8-7.0	71

Source: SBI Research

However the Gap between Real & Nominal Growth will significantly narrow in Q1 FY26

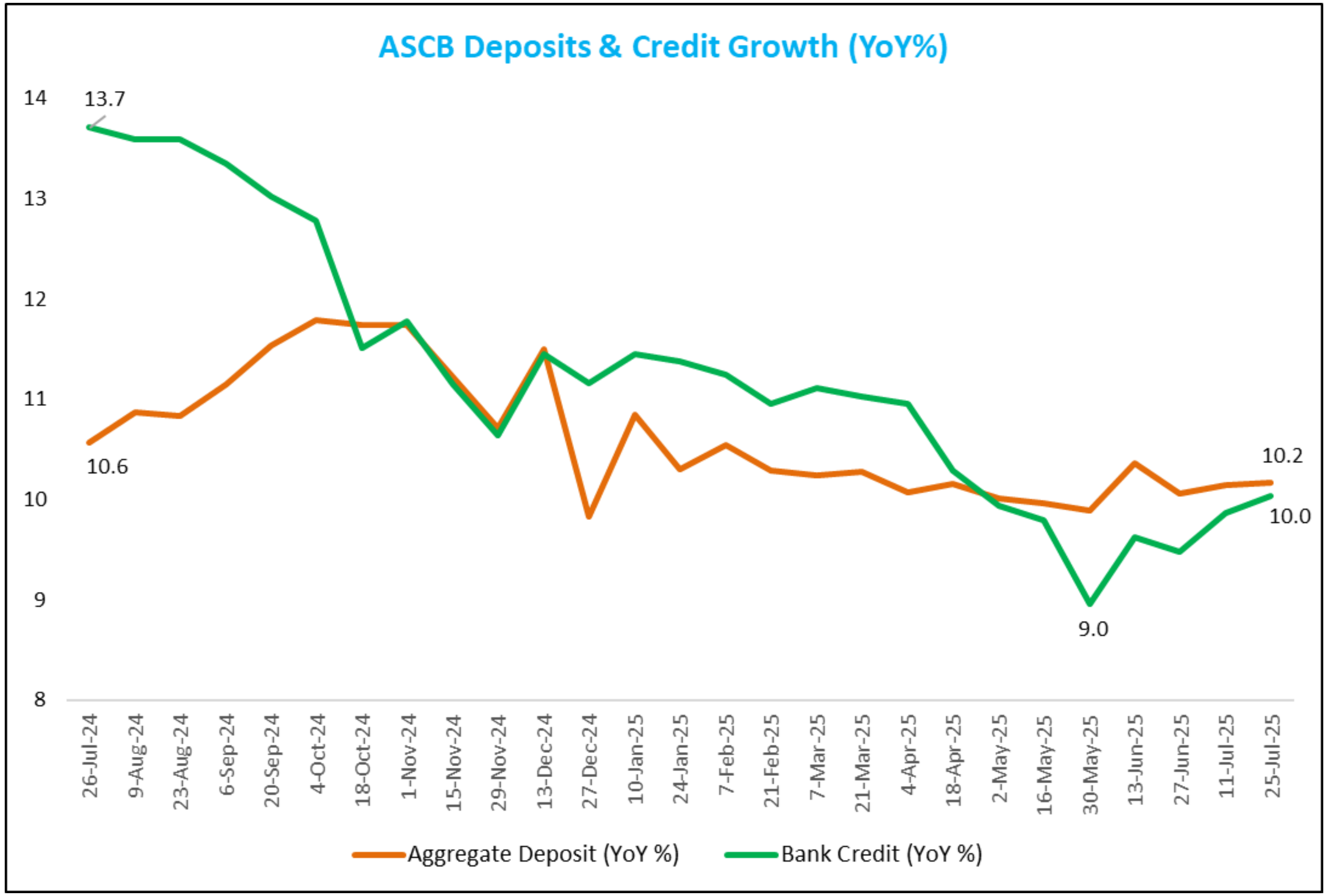
- The gap between real and nominal GDP, which was as large as 12 percentage points in Q1 FY23, dropped sharply to 3.4 percentage points in Q4 FY25

- Going forward, as the inflation is historically low the deflator will be going to reduce and the gap between real and nominal will narrow…This may mask the current deceleration in growth momentum going forward.. Nominal GDP could drop to 8% in Q1



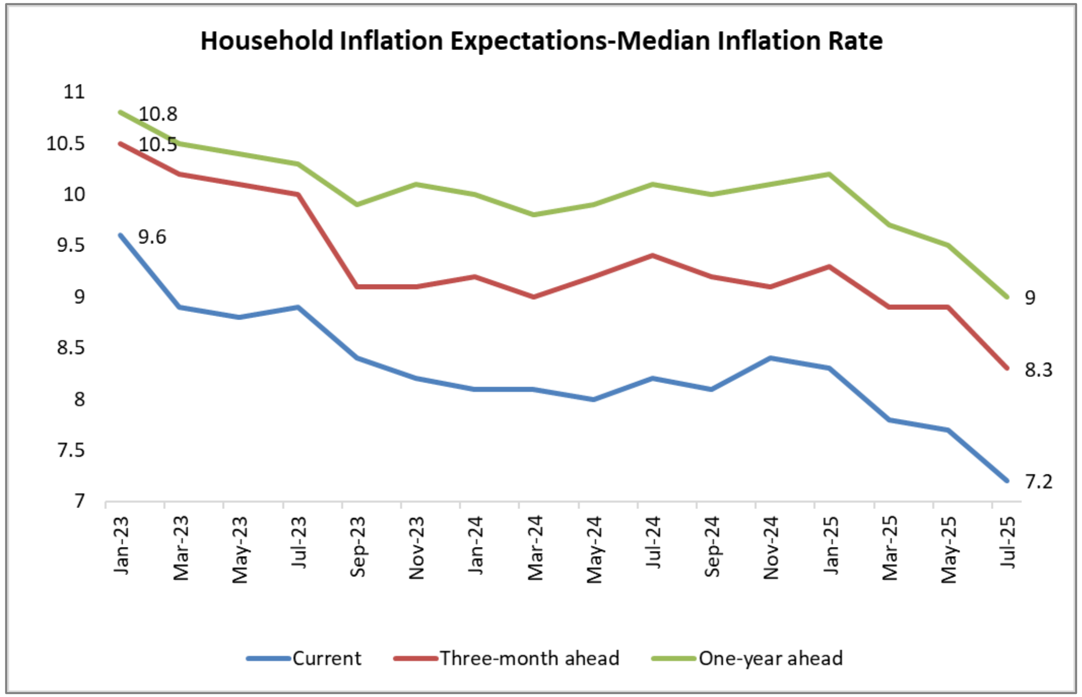
ASCB's Deposits & Credit Growth (YoY %) Continues To Decline

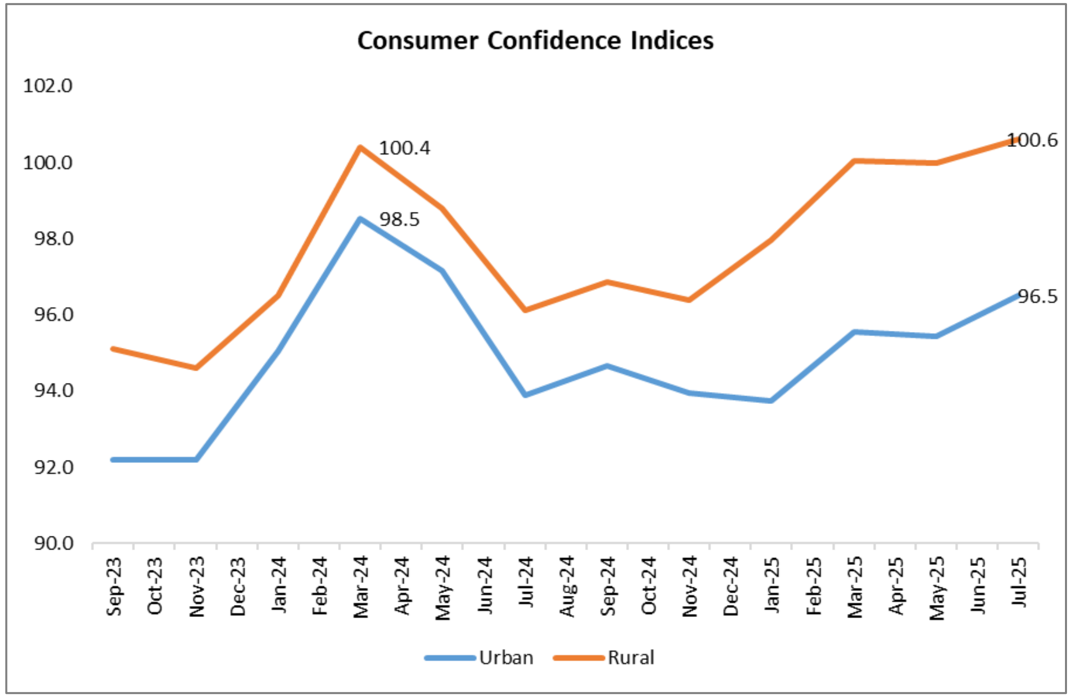
- **SCB's credit growth slowed to 10.0% as on July 25, 2025, compared to last year growth of 13.7% increasing slowly**
- On the other hand, Aggregate deposits grew by 10.2% YoY, compared to last year growth of 10.65% YoY
- The sectoral credit growth for June 2025, indicates credit growth declined across sectors, except SME. SME credit increased YoY by 21.8%, compared to last year's growth of 14.2%
- However, excluding bank credit, resource flow to commercial sector has expanded at 15.6% in Q1FY26. Credit growth to MSME sector was at 21.8% during the same period



Taking cue from RBI surveys….

- Slowdown in current household inflation expectations encourages higher discretionary spending and drives demand-led growth
- Price and inflationary pressures eased across major product groups including food products, non-food items and expenses related to housing
- Owing to improved sentiments across most of the survey parameters, consumer confidence for the current period improved





Monsoon So Far & Foodgrains Production

- After covering entire country nine days ahead of its usual date, the south-west cumulative rainfall during 01 June- 19 Aug at the all-India level stands at 2% above its normal, with disparity across regions
- While, East & North-East India has received 18% less than normal rainfall, North West, Central and South Peninsula have received more than normal rainfall. State wise distribution shows Arunachal Pradesh, Bihar have deficient rainfall while Madhya Pradesh, Rajasthan, Jharkhand have received excess rainfall so far during this monsoon season
- Early onset and timely progress of southwest monsoon have helped to boost kharif sowing to 1040 lakh hectares (as on August 15, 2025), registering 3.7% growth compared to the corresponding period of last year. Among the major crops, rice, coarse cereals, moong, bean and sugarcane showed higher sowing than previous year while oilseeds, sugarcane and cotton recorded lower sowing. Kharif sowing has so far covered 95% of the total normal kharif area

REGION WISE RAINFALL DISTRIBUTION

Region/ State	% Departure from Normal	Region/ State	% Departure from Normal
East & North East India	**-18%**	**Central India**	**6%**
Arunachal Pradesh	-39%	Odisha	-5%
West Bengal	4%	Madhya Pradesh	22%
Jharkhand	26%	Gujarat	3%
Bihar	-26%	Maharashtra	7%
North West India	**12%**	Chhatisgarh	-2%
Uttar Pradesh	0%	**South Peninsula**	**10%**
Uttarakhand	14%	Andhra Pradesh	11%
Delhi	37%	Telangana	16%
Punjab	-6%	Tamilnadu	10%
Rajasthan	38%	Karnataka	16%
Haryana	3.6	Kerala	-12%
All India			**2%**

Corporate Results Q1 FY26 – Top line grew by ~5%, EBIDTA by 6.7%....

- Indian Inc. in Q1FY26, around 4300 listed entities, reported top line growth of 4.7% while EBIDTA grew by around 6.7%, as compared to 11% EBIDTA growth in the previous quarter and around 12% in Q1FY25

- Further, Corporate results, for Q1FY26, ex BFSI represented by around 3500 listed entities shows revenue growth of 3.4% while EBIDTA grew by around 8.5%

- If we see Corporate GVA, which increased by around 10.9% in Q1 FY25 and 8.8% in Q4 FY25, increased by only 6.9% in Q1 FY26, as derived from the results of around 4300 listed entities

- In Q2, we may see affect in revenue and margin pressure in export-oriented tariff affected sectors such as Textile, Gems and Jewellery, leathers, Chemicals, Agriculture, Auto Components, etc.

- Give the fresh resumption of tariffs on Indian exports, we expect that earnings outlook will be negative for the next two quarters. However, GST 2.0 can give fillip to consumption oriented sector and offset the impact

Corporate GVA		
Qtr	No of Companies	Growth (%)
Q1FY23	3856	31.35
Q2FY23	3853	-1.78
Q3FY23	3899	11.23
Q4FY23	3908	20.12
Q1FY24	3958	28.62
Q2FY24	3904	46.79
Q3FY24	3959	26.28
Q4FY24	4162	17.18
Q1FY25	4155	10.90
Q2FY25	4015	6.64
Q3FY25	4077	9.55
Q4FY25	4291	8.76
Q1FY26	4296	6.93

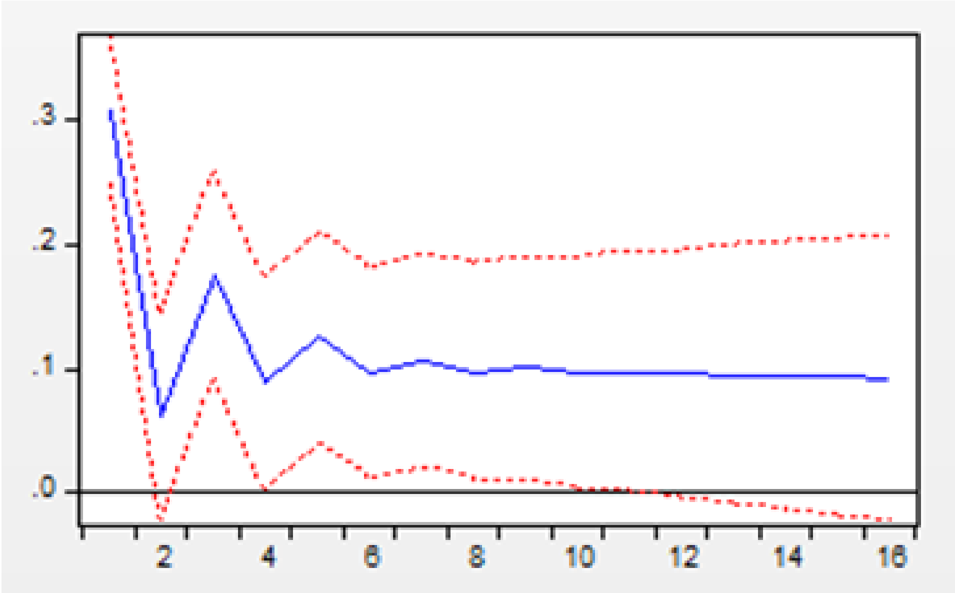
Source: SBI Research; CLIne; listed entities; GVA as measured by EBIDTA+Employee expenses

An
impact analysis of Capital Expenditure

Temporal Persistence and Structural Sustainability of Government Capex…(1/2)

- The impulse response of government capital expenditure to its own structural shock demonstrates strong persistence. The estimated response exhibits an immediate positive jump, followed by short-term oscillations, and subsequently converges to a stable positive level
- Importantly, the response remains above zero throughout the forecast horizon, and the associated confidence bands, while widening over time as expected, do not collapse into insignificance in the medium run. This trajectory indicates that shocks to government capex are not rapidly mean-reverting, consistent with a process characterized by multi-year investment profiles
- **This suggests that government capital expenditure is not a transitory or noise-driven component of fiscal policy but a persistent driver reinforcing its role as a structurally sustainable element in the expenditure composition**

Response of Capex to Capex : Cholesky one standard deviation Innovations +- 2 S.E.

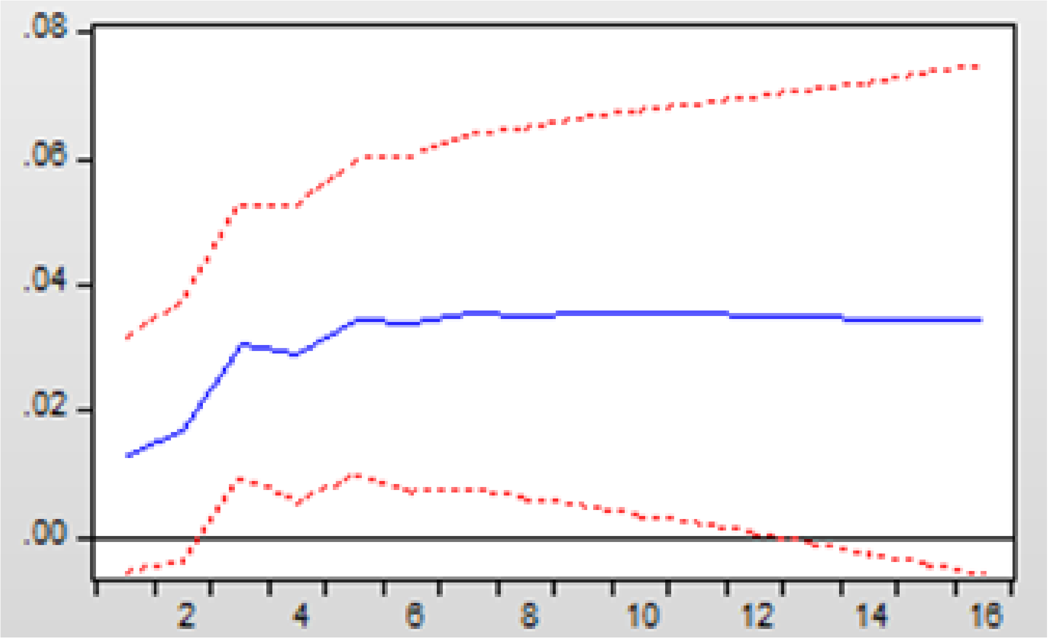


Y axis: Time Periods- in Quarters
X axis: Change in Response variable

VAR Estimation Output		
	LN_GDP	LN_CAPEX
LN_GDP(-1)	0.537	0.322
	(-0.137)	(-0.611)
LN_GDP(-2)	0.218	-0.197
	(-0.136)	-0.61
LN_CAPEX(-1)	0.966	0.153
	(-0.029)	(-0.133)
LN_CAPEX(-2)	0.964	0.48
	(-0.029)	(-0.133)
C	2.808	-10.696
Standard Error in Paranthesis		

- However, the impulse response function where an unexpected, one-standard-deviation shock to government capital expenditure is given generates a statistically robust and persistent expansion in GDP. The dynamic response, which becomes statistically significant after a brief implementation lag as the confidence intervals move entirely above zero, grows to a peak of approximately 3.4%
- **This peak implies an elasticity of 1.17**
  - However, the most profound insight is the effect's persistence; the fact that GDP does not revert to its previous trend provides strong evidence of a permanent supply-side enhancement to the economy's productive capacity
  - **But separately, the somber elasticity at 1.17 implies in the Indian context that perhaps Government capital expenditure has been able to lift the economy to a higher trend. However, the somehow muted presence of private investment is acting as a clear constraint to push the multiplier to ever higher levels**

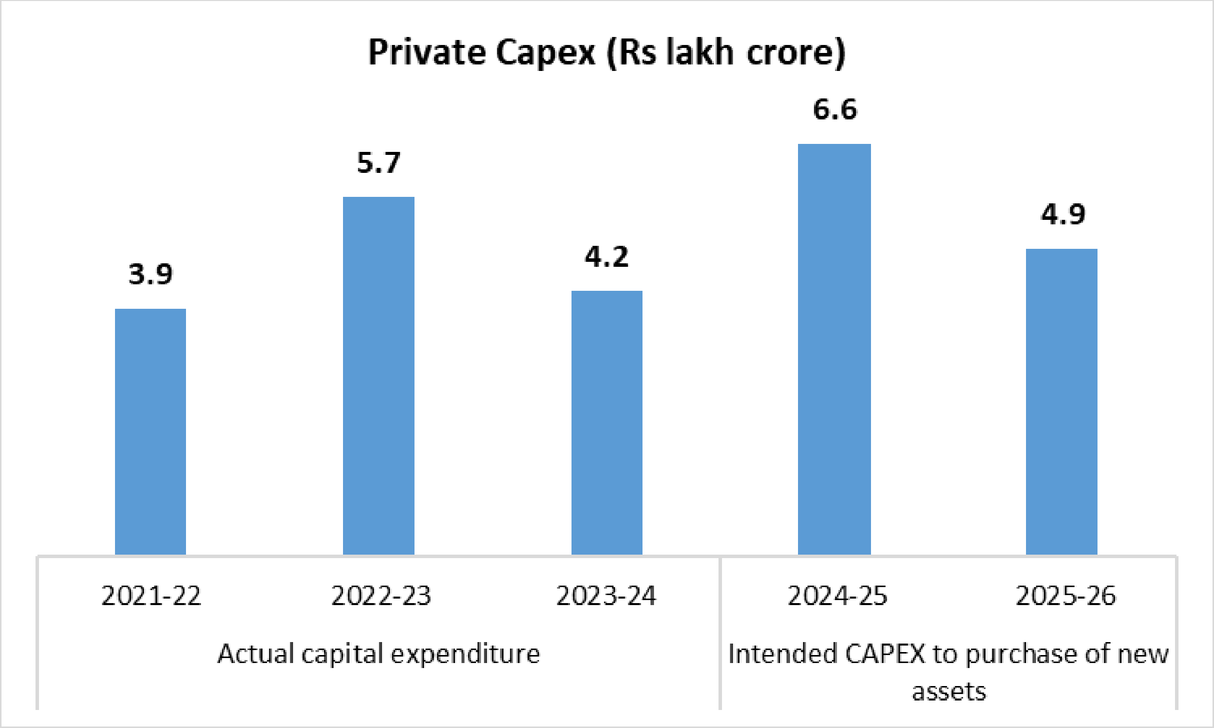
Response of GDP to Capex : Cholesky one standard deviation Innovations +- 2 S.E.



Y axis: Time Periods- in Quarters
X axis: Change in Response variable

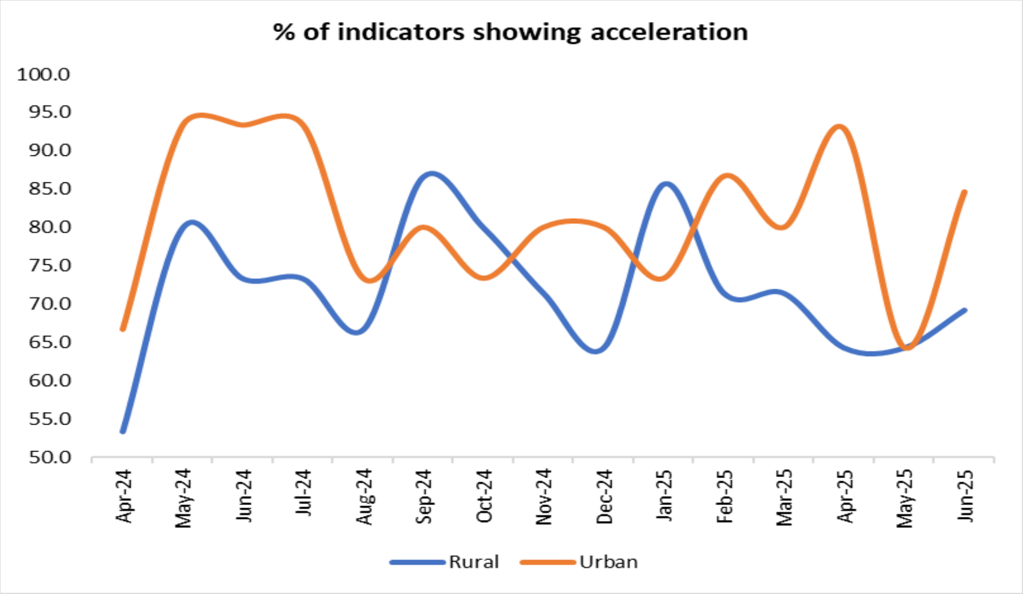
Private Investors must hold the baton now…

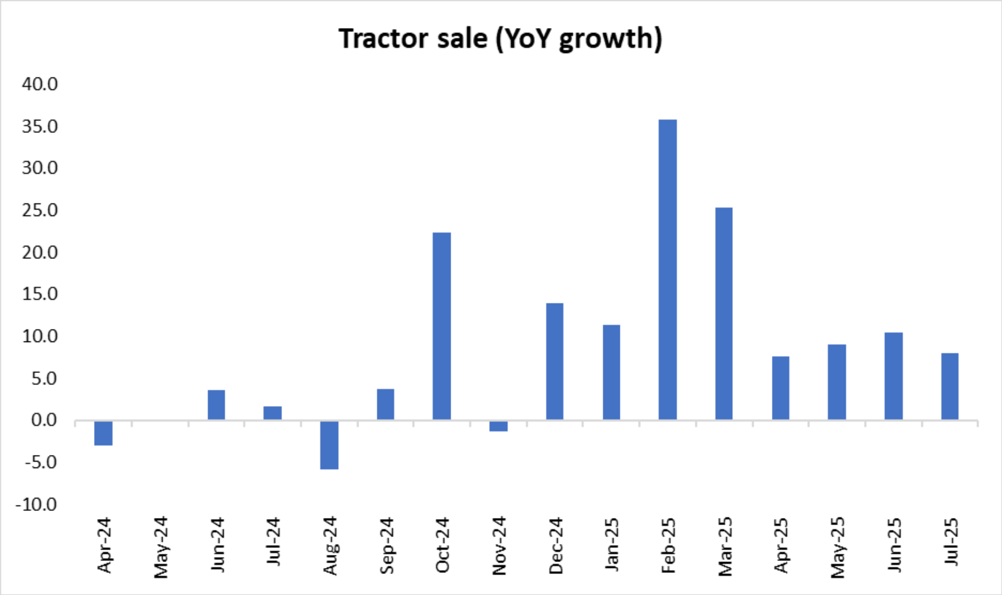
- A major source of concern for sustainable growth is the muted private capex
- Data based on survey of 2170 enterprises (conduced during Apr’25) ranging from Agri, Manufacturing, IT, etc. has indicated that the intended capex for FY26 is significantly lower than the FY25 numbers
- We believe that numbers may further decline as US tariff may significantly impact the capex

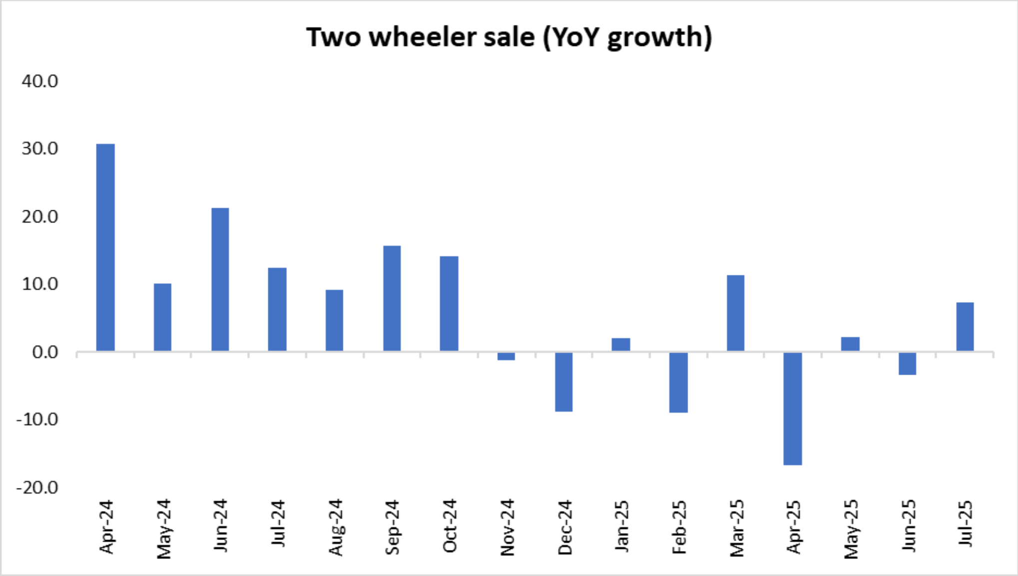


Rural consumption picked up in Jul'25

- % of indicators showing acceleration in Jul'25
- Tractor sales showing positive momentum







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