

India Poised for Robust 6-6.5% GDP Growth in FY26, Driven by Domestic Demand: UBS



India is projected to sustain a healthy real Gross Domestic Product (GDP) growth rate of 6% to 6.5% year-on-year in Fiscal Year 2025-26, according to a recent report by Swiss financial services firm UBS. This optimistic outlook comes despite potential pressures from global tariff dynamics and reflects India's economic resilience, primarily driven by strong domestic demand.

The UBS report, released on Saturday, July 26, 2025, highlights India's lower vulnerability to global trade shocks compared to more export-reliant Asian economies. This is attributed to its relatively lower exposure to goods trade and a robust services export base, which now constitutes approximately 47% of total exports. The projection also anticipates potential relief from softer global crude oil prices, which would positively impact India's import bill and inflation outlook.

India's economic performance in the fourth quarter of FY25, which saw a 7.4% year-on-year growth, surpassed expectations and underscored the strength of domestic consumption and government investment. The Chief Economic Advisor (CEA), Dr. V. Anantha Nageswaran, has expressed confidence in the economy's stability, affirming that India is in a strong position despite challenging global conditions. The International Monetary Fund (IMF) also projects India to remain the fastest-growing major economy globally over the next two years, with growth rates of 6.2% in 2025 and 6.3% in 2026.

UBS expects household consumption growth to become more broad-based, fueled by a projected recovery in rural demand, driven by favorable monsoon forecasts and softening food prices. Urban consumption is also anticipated to strengthen due to policy measures such as income tax relief, easing inflation, and potential interest rate cuts by the Reserve Bank of India (RBI). The RBI has already implemented a cumulative 100 basis point (bps) repo rate cut this calendar year, with the possibility of an additional 25-50 bps easing if inflation remains low and external risks rise.

While capital expenditure growth might see a slight deceleration in FY26 due to global uncertainties and the risk of China offloading excess manufacturing capacity, the report notes that the central government is likely to accelerate its capital expenditure targets, providing a crucial impetus to investment. Furthermore, potential reductions in retail diesel and petrol prices ahead of upcoming state elections could further boost household disposable income, offering additional support to consumption.

The consistent forecast of strong growth by various international agencies reaffirms India's position as a significant global economic engine. The focus now will be on how effectively domestic policies continue to leverage internal demand and manage external headwinds to achieve this sustained growth trajectory.