India: GDP growth stays strong in 3Q22

3Q22 GDP rose at a 6.3%YoY pace, slightly exceeding market expectations and keeping growth for the full year on track to exceed 6%, which would make India one of the fastest-growing economies in Asia

Source: Shutterstock

6.3%YoY

3Q22 GDP

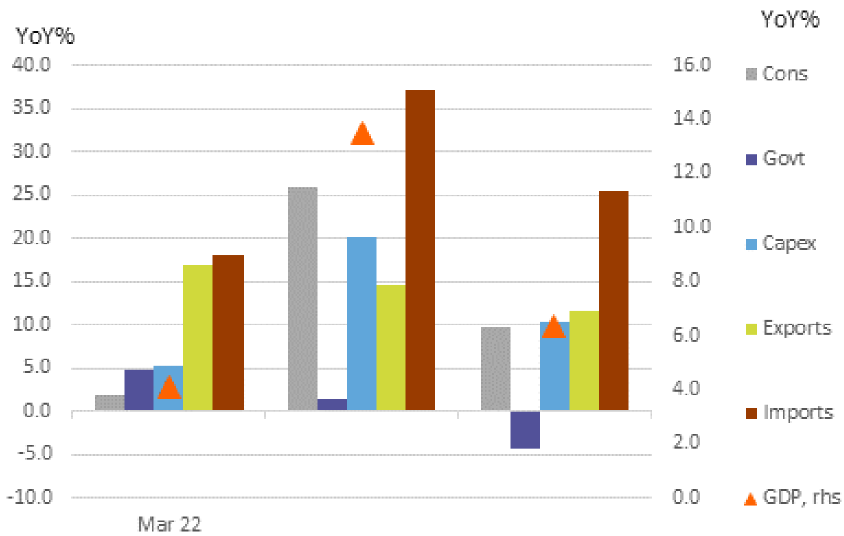
6.2% expected

Higher than expected

2022 growth on track to exceed 6%

Although down from the 13.5%YoY growth rate achieved in 2Q22, that growth rate had been achieved almost entirely through base effects. The 6.3%YoY growth achieved in 3Q22 had a much stronger provenance, deriving from a solid 3.5%QoQ gain from the previous quarter. This means that with only very conservative growth assumptions for the final quarter of this calendar year, India should be on track to exceed 6% growth for the year as a whole and possibly for the fiscal year too.

India GDP by expenditure (YoY%)



Source: CEIC, ING

Outperforming its peers

India is well placed to outperform many of its Asian peers in the short term, given its very low trade dependency on China compared to the rest of the region. It may also be capitalising on some of China's current problems, offering an alternative destination for foreign investment as multinational firms look to spread their supply chain risks while remaining in the region.

Would do even better with broader based industrial growth

The breakdown of GDP by expenditure components shows strength across the board in the main domestic demand components. Consumer spending and capital investment both grew at more than a 10%YoY pace, with only government spending spoiling the picture. Though that in itself may be no bad thing considering the October fiscal deficit figures, which were considerably higher than the same period last year. This suggests that a little government restraint over the end of the year might well be warranted. Export growth was also strong, though overall GDP was pulled down by a large drag from imports, and the net trade contribution dragged the overall GDP growth total down by a massive 4.3 percentage points.

Still, there is little in this GDP breakdown that suggests trouble has been stored up for the final quarter of the year, so we remain optimistic about the eventual tally. About the only cause for complaint with the 3Q22 GDP print was that on a gross value-added basis, the contribution remains heavily concentrated on the service sector, with a small contribution from agriculture, but a drag from industry. India could do with broadening its economic base, as this will also likely lessen the drag from net exports and allow for an even faster rate of growth in the future.

Policy and market implications

There are two main policy implications from this: The first is that with growth holding up well, this provides the Reserve Bank of India more room to manoeuvre to raise policy rates and control inflation. That said, rates have already risen a long way, and inflation shows signs of turning lower, so this is probably a benefit that isn't actually needed.

On the fiscal front, today's October fiscal deficit figures do suggest that fiscal policy might be an area to finesse a little over the turn of the year, and in doing so, might help lessen the inflow of imports too, which could help prop up the INR - though the rupee has had quite a decent day today, declining to 81.43 against the USD.

In short, there is nothing much wrong with Indian GDP growth, and still scope for further improvement with well-targeted policy measures.

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