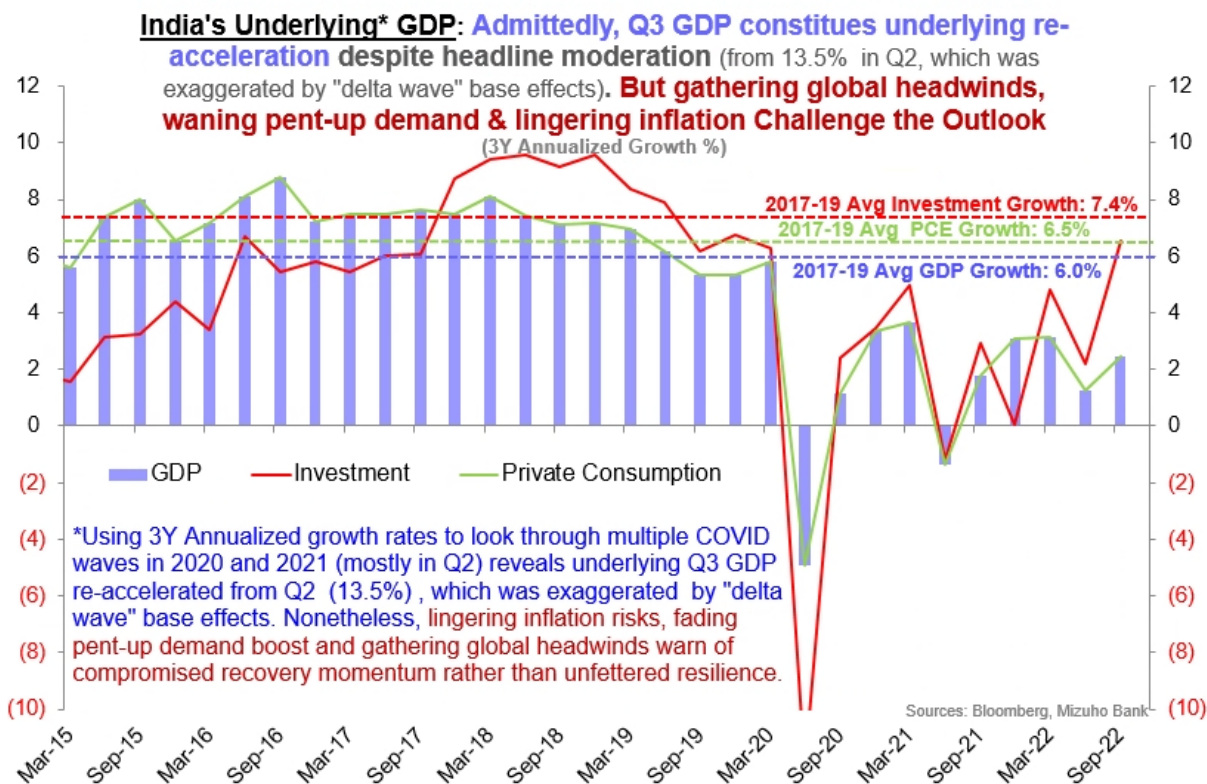


India Growth: Speed Bumps Ahead



	India's GDP Growth; % YoY					% of GDP
	GDP	Pte Consumption	Govt Spending	Investments	Stocks & Valuables	
Q1 2020	2.8	1.7	7.5	-0.4	-43.8	-2.6
Q2 2020	-23.8	-23.7	13.6	-45.3	-97.5	0.2
Q3 2020	-6.6	-8.3	-22.9	-4.5	-30.7	-0.9
Q4 2020	0.7	0.6	-0.3	-0.6	-24.2	-3.3
Q1 2021	2.5	6.5	29.0	10.1	44.4	-4.3
Q2 2021	20.1	14.4	-4.8	62.5	3645.7	-3.0
Q3 2021	8.4	10.5	8.9	14.6	284.8	-4.8
Q4 2021	5.4	7.4	3.0	2.1	156.8	-6.0
Q1 2022	4.1	1.8	4.8	5.1	5.8	-5.0
Q2 2022	13.5	25.9	1.3	20.1	5.7	-8.1
Q3 2022	6.3	9.7	-4.4	10.4	-22.5	-8.6

Sources: Bloomberg, Mizuho Bank

Q3 GDP Consistent with Underlying Acceleration

To be sure, **headline moderation in Q3 growth to 6.3% YoY was not in fact a slowdown** (from 13.5% YoY in Q2, which was exaggerated by “delta wave” soft base from Q2 2021). On the contrary, **underlying growth suggests an acceleration in sequential momentum** once COVID base effects are filtered out. Moreover, the details reveal that the **underlying pick-up in investments is even more pronounced**.

But Encouraging Data is No Reason for Euphoria

This is **however a consolation about how far the recovery has come rather than unbridled cheer about linear acceleration and robust rebound trajectory in growth**. For one, underlying investment growth

pace continues to lag the pre-COVID (3Y) average of 7.4%. And so, as encouraging as the details of data are, with further evidence of recovery required, it is premature for euphoria.

Especially as Warning of Speed Bumps Ahead Emerge ...

In fact, a **confluence of external headwinds and domestic drag factors** in the offing warn of speed bumps in coming quarters, inevitably dimming India's growth outlook into 2023. For the record, we **expect that after hitting just shy of 7% for 2022, India 2023 (FY23-24) growth will slow to 5.3% (5.6%)**. And there is a *non-negligible risk of slipping to sub-5% if worse case geo-political and macro-stability outcomes compound economic challenges, and consequent pain*.

On Gathering Global Headwinds ...

The elephant in the room is the **lagged drag on global aggregate demand from the Fed's most aggressive rate hike cycle in decades**. Moreover, the **Euro-zone and UK tipping into a recession**, while Japan's economy remaining subdued only **reinforce the threat of global demand pullback**. Despite India's relative domestic demand buffer, it is not fully insulated. Crucially, the danger is that *higher rates and capital market volatility may dampen investments; key to growth multipliers*.

Lingering Inflation Drag ...

What's more, *even* the **relative domestic demand buffer** in theory is **compromised by the onslaught of price shocks** across food and energy; pervading supply channels. Point being, lingering inflation shocks could setback consumption more than anticipated.

Waning Pent-Up Demand ...

And this may **become more evident as the pent-up demand post-COVID begins to fade/normalize** at the margin. The wane in pent up demand may be **hastened by price shocks that the economy has had to endure; especially as fiscal buffer is whittled down by twin deficit concerns**.

& Further RBI Tightening

Finally, despite emerging headwinds to growth, the **more pressing price (and rupee) stability mandate of the RBI, sets the stage for more rate hikes** to come through. **More so, in the context of an uncompromisingly hawkish Fed**. And if we are right about *another cumulative 60bp if hikes by early-2023*, the **conspiracy of external and domestic economic drag forces are set to impose binding speed bumps before scope for less impeded economic recovery further out**

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