

# India Flash

## Q4 GDP slows sharply on limited fiscal support, leaves room for policy easing in March

India's real GDP growth slowed sharply in 4Q12 to 4.5% y/y (BBVA: 5.6%, Consensus: 4.9%), down from 5.3% in Q3 and its lowest growth since March 2009, as decelerating services growth and weak agriculture offset a pickup in industrial activity. The Q4 outturn brings India's full year GDP growth to a decade-low 5.2% y/y (BBVA: 5.4%) in 2012. Looking ahead, although sequential consumption and investment indicators suggest a gradual recovery, waning fiscal support and a high trade deficit present downside risks to our 2013 growth projection of 6.5% y/y. Moderating inflation and credible budgetary steps towards fiscal consolidation (see yesterday's **Budget Flash**) should provide room for a 25bps rate cut (to 7.5%) by the RBI on March 19<sup>th</sup>, followed by a further 50bps in easing in 2013.

- **Fiscal prudence drags service sector growth to a multi-year low.** Service sector growth decelerated to a decade low of 6.1% y/y in 4Q12, driven by sharp cuts in government spending given the need to reduce India's high fiscal deficit. Going forward, we expect increased capital spending to support growth in 2013.
- **Industrial growth improves, operating environment to improve going ahead:** Easing financial conditions and renewed policy efforts led to a pick up in manufacturing activity in Q4. With reform momentum gaining traction and interest rates heading lower, we expect the environment to turn favorable for domestic private investments going forward. New policies in India's FY14 budget should bode well for medium term industrial growth. Reassuringly, India's February PMI, released today, jumped to 54.2 from 53.2 in January.
- **Declining exports remaining a concern, India will resist aggressive policy easing.** Exports contracted by -2.1% y/y in 4Q12, the first decline in three years, raising concerns over India's rising current account deficit (5.3% of GDP). A high CAD poses a key risk to India's growth in 2013 as it limits the RBI's ability to ease aggressively.

Chart 1  
**India's 4Q12 GDP growth decelerates to 4.5%/y**

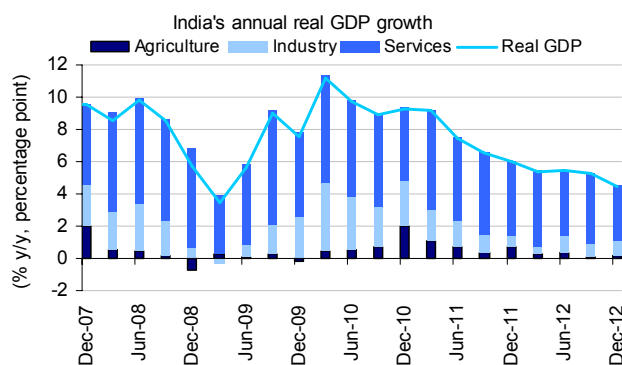
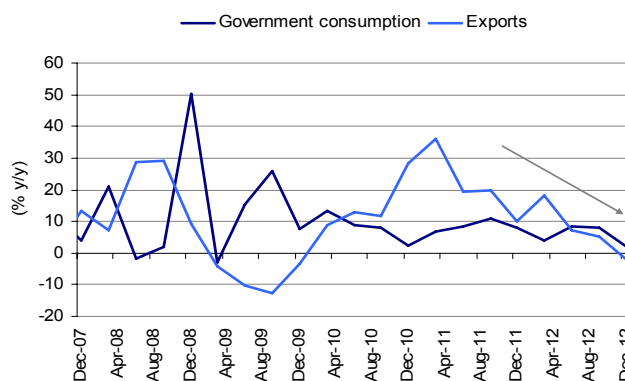


Chart 2  
**Limited fiscal support, declining exports drag Q4 GDP**



Sumedh Deorukhkar  
sumedh.deorukhkar@bbva.com  
+91 2226598581

Stephen Schwartz  
stephen.schwartz@bbva.com.hk  
+852 2582 3218

