

GDP contracts by 7.3% in 2020-21, 1.6% growth recorded in Q4

- ❖ India's GDP at market prices contracted by 7.3% in 2020-21, vis-à-vis the advance estimate of (-)8.0% put out in February this year. Strict nationwide lockdown in the first wave of the coronavirus pandemic sent shockwaves through the economy with both demand and supply sides facing the brunt. However, the economy noted a faster than anticipated turnaround with restrictions easing since June 2020 and manufacturing and industrial activities noting some recovery over the year. However, services sector, majorly contact intensive services, bore maximum brunt of the pandemic induced lockdown.
- ❖ Private consumption expenditure contracted by 9.1% during the year. With states closing borders amidst the nationwide lockdown, supply chains were hit hard, creating a temporary glitch in production and distribution of both essential/non-essential commodities. Moreover, the consumption of non-essential goods was completely stalled. This also impacted private investments as companies were operating at excess capacity and amid acute liquidity constraints.
- ❖ GVA at basic prices also reported contraction to the tune of 6.2% in 2020-21. With rural economy remaining largely unharmed by the first wave of the pandemic, agriculture and allied sectors was the best performing sector during the year recording a growth of 3.6%. Industry sector, on the other hand, felt the heat with manufacturing sector contracting by 7.2% in 2020-21 despite a favorable base effect. Growth in services sector also noted a decline (by 8.4%) in 2020-21.

Gross Value Added and Gross Domestic Product: % YoY

	2018-19	2019-20	2020-21
Gross Value Added	5.9	4.1	-6.2
Agriculture, forestry and fishing	2.6	4.3	3.6
Industry	5.3	-1.2	-7.0
Mining and quarrying	0.3	-2.5	-8.5
Manufacturing	5.3	-2.4	-7.2
Electricity, gas, water supply and other utility services	8.0	2.1	1.9
Construction	6.3	1.0	-8.6
Services	7.2	7.2	-8.4
Trade, hotels, transport, storage and communication	7.1	6.4	-18.2
Financial services, real estate and professional services	7.2	7.3	-1.5
Public administration, defence and other services	7.4	8.3	-4.6
Gross Domestic Product	6.5	4.0	-7.3
Private Final Consumption Expenditure	7.6	5.6	-9.1
Government Final Consumption Expenditure	6.3	7.9	2.9
Gross Fixed Capital Formation	9.9	5.4	-10.8

GDP and Components (% YoY)

	GDP	PFCE	GFCE	GCF	GFCF	Exports - goods & services	Imports - goods & services
Q4 FY20	3.0	2.0	12.1	-0.7	2.5	-8.8	-2.7
Q1 FY21	-24.4	-26.2	12.7	-47.7	-46.6	-21.9	-40.9
Q2 FY21	-7.4	-11.2	-23.5	-8.0	-8.6	-2.0	-17.9
Q3 FY21	0.5	-2.8	-1.0	3.0	2.6	-3.5	-5.0
Q4 FY21	1.6	2.7	28.3	13.8	10.9	8.8	12.3

❖ India's GDP recorded 1.6% growth in Q4 2020-21 as compared to 0.5% growth noted in the previous quarter. Performance across segments noted a significant improvement.

❖ Private consumption reported 2.7% y-o-y growth after contracting for three consecutive quarters. Government spending, on the other hand, skyrocketed and reported 28.3% growth during the fourth quarter on back of government's focus on ramping up infrastructure creation.

❖ Consequently, capital formation witnessed strong growth during the quarter as well.

Source: CMIE, FICCI Research

Fact Sheet: Gross Domestic Product May 2021



❖ Performance of the external sector is also witnessing an improvement as global economy turns buoyant. Exports rebounded and reported a seven-quarter high growth of 8.8% in Q4 2020-21 as external demand gained momentum amidst greater optimism with administration of vaccines for Covid-19 across the world.

GVA and Components (% YoY)

	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21
GVA	3.7	-22.4	-7.3	1.0	3.7
Agriculture, forestry and fishing	6.8	3.5	3.0	4.5	3.1
Industry	-2.2	-35.8	-3.0	2.9	7.9
Manufacturing	-4.2	-36.0	-1.5	1.7	6.9
Services	6.4	-21.5	-11.4	-1.2	1.5

❖ GVA at basic prices reported 3.7% y-o-y growth in Q4 2020-21 as compared to 1.0% growth noted in the previous quarter.

❖ The agriculture and allied activities sector witnessed some moderation, registering 3.1% growth in Q4 2020-21 vis-à-vis 4.5% growth noted in the previous quarter.

❖ Industrial growth, on the other hand, recovered sharply in the fourth quarter. The sector witnessed 7.9% growth in Q4 2020-21 vis-à-vis 2.9% growth in Q3 2020-21. This came largely on the back of momentum witnessed in construction activity.

❖ Construction registered 14.5% growth in Q4 2020-21 as compared to 6.5% growth registered in Q3 2020-21. Electricity, gas, water supply and other utility services also recorded strong 9.1% growth in Q4 2020-21 vis-à-vis 7.3% growth noted in Q3 2020-21. Manufacturing sector reported an improvement in performance as well during the fourth quarter.

❖ Alongside, services segment also noted positive growth in Q4 after witnessing contraction during the first three quarters of the fiscal year 2020-21. This was largely driven by growth in financial services, real estate & professional services (5.4% growth) and public administration, defence and other services (2.3% growth).

India's GDP Growth Projections: 2021-22: Growth Y-o-Y in %

Agency/ Institution	Month of Release	2021-22
RBI	May, 2021	10.5
United Nation (UN)	May, 2021	7.5
S&P Global Ratings	May, 2021	9.8
Fitch Ratings	May, 2021	9.5
Moody's	May, 2021	9.3
Crisil	May, 2021	8.2
Care Rating	May, 2021	9.2
Goldman Sachs	May, 2021	11.1
Credit Suisse	May, 2021	8.5-9.0
Barclays Securities	May, 2021	10.0

Several agencies have revised India's growth outlook for the year 2021-22 downwards in the month of May 2021 on the back of a devastating second wave of the coronavirus infections. The severe health crisis during the first two months of the current fiscal year made imposition of localized lockdowns across country a necessity to break the infection chain – thereby impacting the overall economic sentiment.

FICCI's Comments

The GDP growth numbers both for the fourth quarter and for the full fiscal year 2020-21 have been a little better than anticipated reflecting recovery gaining traction during Jan-March quarter. The pickup in manufacturing, electricity and construction sectors is particularly telling.

However, we need to take note of the fact that the economic turnaround that India was witnessing earlier this year has been in for a rude shock from the devastating second wave of the Covid-19 pandemic. This time around the rural sector/the tier II and III cities have not been spared. Some of the lead indicators which were on the recovery course have been undermined once again over the past few weeks.

Source: CMIE, FICCI Research



Moreover, even though there was a limited impact on the supply side this year, it is the demand which has taken a greater hit. In fact, our latest Business Confidence Survey released earlier today has once again revealed weak demand arising as a major challenge for businesses. Unlike last time, when households fell back on their savings and helped in quick economic recovery with pent-up demand, this time, savings are depleted as health expenditure has been quite high.

Also, there has been permanent impairment to income for many. We feel that there is an urgent need for boosting demand through Direct Income Support measures. Focus on urban poor, security cover for MSMEs and other high contact-based services will be critical.

Going ahead, it will be important to continue working on a war footing strategizing for the third wave. Vaccination remains the key to return to normalcy and all levers must be pulled on that front. While production is being ramped up, putting in place logistics for large scale distribution and administering of vaccines with precision will be equally important. India's Election Commission has proven its merit in conducting electoral polls in such a diverse country and some learnings from their experience can be drawn and adopted for vaccination as well.