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Bloomberg

India Enters Recession as Virus Pummels No. 3 Asian Economy



Vrishti Beniwal and Karthikeyan Sundaram

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(Bloomberg) -- India entered an unprecedented recession with the economy contracting in the three months through September due to the lingering effects of lockdowns to contain the Covid-19 outbreak.

Gross domestic product declined 7.5% last quarter from a year ago, the Statistics Ministry said Friday. That was milder than an 8.2% drop forecast by economists in a Bloomberg survey, and a marked improvement from a record 24% contraction the previous quarter.

Prime Minister Narendra Modi imposed one of the world's strictest lockdowns in March, sapping demand for non-essential goods and



Financial and real estate services -- among the biggest component of India's dominant services sector -- shrank 8.1% last quarter from a year ago, while trade, hotels, transport and communication declined 15.6%. Manufacturing gained 0.6%, electricity and gas expanded 4.4% and agriculture grew 3.4%.

"The GDP is more or less in the expected direction, though better than expected," said Madan Sabnavis, chief economist at Care Ratings Ltd. "The fact that we are in the negative zone and will be so in the next quarter too is indicative of the tough times ahead."

Sovereign bonds declined Friday ahead of the data, with the yield on benchmark 10-year bonds rising 4 basis points to 5.9%, while the rupee declined 0.2% to 74.04 a dollar.

Krishnamurthy Subramanian, the government's chief economic adviser, told reporters the numbers were "quite encouraging" given the pandemic and compared with the previous quarter's performance.

The government and the central bank have each worked to support the economy, with total stimulus reaching around 30 trillion rupees (\$405 billion), or 15% of GDP. The Reserve Bank of India, which has cut interest rates by 115 basis points this year, is due to review monetary policy next week, with the stance expected to remain accommodative for the near future.

Looking Up

For now, the stimulus, along with festival season demand, has helped spur activity in the economy, helping slowly replace concern about the depth of India's recession with optimism that a recovery is taking hold.

A slew of indicators from car sales to services sector activity notched higher in October, while alternative data signal robust demand in an economy that's primarily driven by domestic consumption.

"Today's GDP print increases our confidence that recovery is gaining pace," said Garima Kapoor, an economist at Elara Securities India Pvt. "While during initial period of unlocking, rural economy's buoyancy was supportive, urban demand too has begun to normalize in pre-festive period."

(Updates with economist comment in fifth paragraph)

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