GDP 1st Advance Estimate FY21

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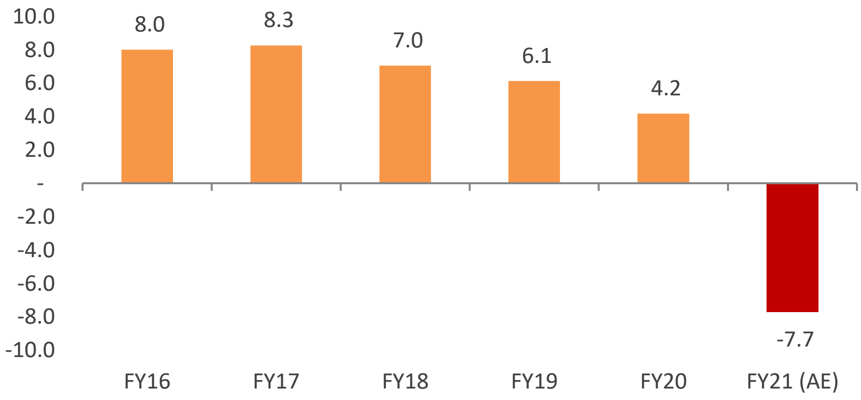
In line with CARE Ratings' expectations, the CSO has estimated a sharp contraction of 7.7% for the Indian economy during FY21 in its release of the first advance estimate of GDP. This estimate is also in line with RBI's estimate of (-)7.5% estimated in December 2020. The Reserve Bank of India had revised upwards its previous forecast (-9.5%), pegging the contraction in the economy at 7.5%. The decline in nominal GDP is at a record low of 4.2% and is pegged at Rs 194.8 lakh crs for the year. After a gradual slowdown witnessed in the Indian economy since FY17, this steep decline is primarily on account of COVID-19 outbreak and the induced lockdowns which stalled economic activity during the first half of the fiscal.

The Indian economy entered a technical recession in the first half of FY21 with GDP plunging by 23.9% in Q1-FY21, 7.5% in Q2-FY21 and cumulatively falling by 15.7% in H1-FY21. This sharp fall can be ascribed to the nation-wide lockdown announced by the government during April-May 2020 to mitigate the outbreak of coronavirus, which brought economic activity to a halt in the first quarter. In the subsequent quarter, there was an impressive recovery from the record decline, indicating economic activity gaining traction. High frequency indicators have shown rapid pace of normalisation in Q3-FY21 supported by pent-up demand and festive demand. This normalisation in economic activity is likely to continue in the last quarter of FY21 amidst moderation in the number of coronavirus cases in the country and considerable optimism on roll-out of the vaccine.

These numbers must be read with caution as the methodology clearly says that these are extrapolations of the existing data on various sectors which could range from 7 - 8 months. Therefore, there is scope for change in these numbers.

Chart 1: Trend of annual GDP growth (%)



Source: MOSPI

Key Highlights:

- Barring agriculture (3.4%) and electricity (2.7%) , all the other sectors are estimated to record a fall in GVA in FY21. Notable fall is expected in trade, hotels, transport, storage and communication (-21.4%), construction (-12.4%) and mining and quarrying (-12.4%).
    - Trade, hotels are contact intensive sectors and have been one of the most widely hit sectors in the economy owing to which decline in GVA of this sector is sharp.
    - Construction, mining and quarrying are sectors which were hit the most during the 2 month nation-wide lockdowns announced by the government. Reverse labour migration and gradual return of migrant laborers is the key reason for the notable fall.
    - The fall in the manufacturing sector by 9.4% is also notable and can be ascribed to subdued consumer demand, low credit-offtake and investment in the sector.
    - Financial services, real estate and professional services are estimated to contract by 0.8% while public administration and other services are expected to decline by 3.7%.
- Barring government expenditure (5.8%), all other components of the GDP are expected to register a sharp decline during FY21, led by consumption (-9.5%) and investment (-14.5%).
    - Private final consumption expenditure is expected to decline by 9.5% during the year primarily led by high unemployment, layoffs, salary reductions and low economic activity.
    - Gross fixed capital formation (also referred to as investment rate) is expected to decline by 14.5% during the year. The investment rate in the economy is pegged at 24.2%, lowest since 1994-95 (23.4%).
    - Exports are expected to decline by 8.3% during the year while imports are projected to fall by 20.5%.

Table 1: Half yearly GDP growth and annual advance estimates

Particulars	FY21 (1st AE)	H1-FY21	H2-FY21
GDP (constant prices)	**-7.7**	**-15.7**	**-0.1**
Private final consumption expenditure	-9.5	-18.9	-0.6
Government expenditure	5.8	-3.9	17.0
Gross fixed capital formation	-14.5	-28.1	-0.8
Export	-8.3	-10.7	-5.8
Imports	-20.5	-29.1	-11.3

Source: MOSPI, CARE Ratings

- Based on the 1st advanced estimates, government expenditure is expected to show a robust growth of 17% in H2-FY21 despite the challenges faced by the government on fiscal consolidation. Government expenditure is projected to be more in H2-FY21 after recording a decline of 3.9% in H1-FY21.
- All other sub-components of GDP are expected to contract by the quantum of decline is significantly lower than H1-FY21 owing to normalization of economic activities.
- Overall GDP in H2-FY21 is estimated to remain at the same levels as that of the corresponding period last year.

Table 2: Half yearly GVA estimates and annual advance estimates

Particulars	1st AE	H1-FY21	H2-FY21
Gross value added	**-7.2**	**-14.9**	**0.3**
Agriculture, forestry and fishing	**3.4**	**3.4**	**3.4**
Industry	**-9.6**	**-20.5**	**1.1**
Mining and quarrying	-12.4	-17.2	-8.3
Manufacturing	-9.4	-19.4	0.5
Electricity, gas, water supply and other utility services	2.7	-1.4	7.1
Construction	-12.6	-30.2	4.4
Services	**-8.8**	**-15.9**	**-1.1**
Trade, hotels, transport, storage and communication	-21.4	-31.5	-12.0
Financial services, real estate and professional services	-0.8	-6.8	7.1
Public administration, defense and other services	-3.7	-11.3	3.3

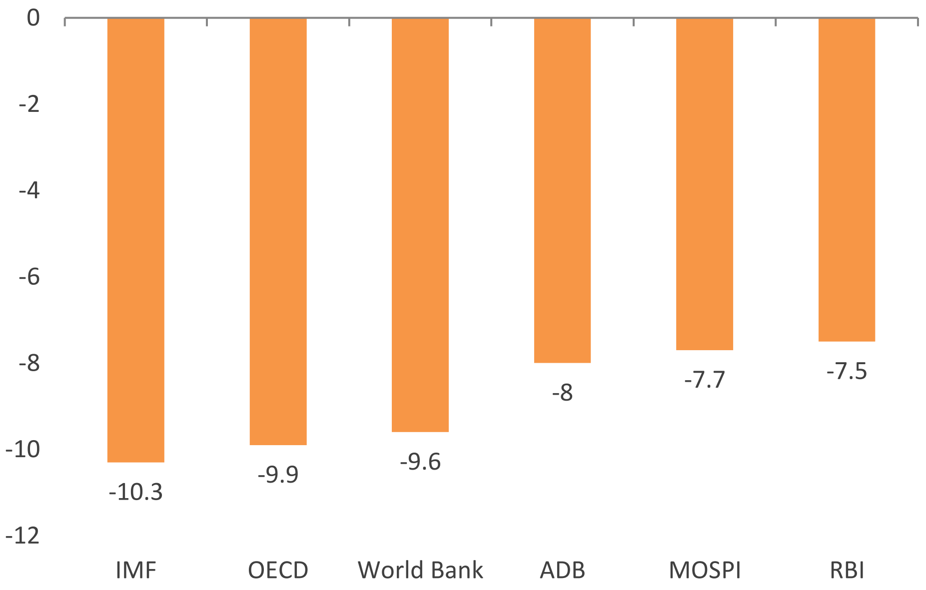
Source: MOSPI, CARE Ratings

- The value addition in all sectors barring trade, hotels, transport, storage and communication (-12%) and mining and quarrying (-8.3%) is estimated to be positive in H2-FY21. Notable growth is expected in case of electricity (7.1%) and financial services (7.1%) during the second half of the year.

GDP estimates by other institutions

The GDP estimates given by MOSPI are in line with the estimates of RBI and ADB. However, multilateral institutions like IMF, World Bank and OECD expect a much sharp decline in GDP during the fiscal. World Bank had pegged its estimates of (-)9.6% for the Indian economy during this week.

Chart 2: GDP estimates by various institutions



Source: IMF, OECD, World Bank, RBI, MOSPI, ADB

CARE Ratings' View:

GDP growth is expected to improve in the remaining two quarters of 2020-21 with the improved pace of pickup in economic activity across most sectors. Positive growth in value addition of most of the sector in H2-FY21 is an encouraging sign for the economy. Consumption demand and investments which is necessary to propel the economy would continue to be tepid and is unlikely to see a noteworthy improvement during the course of the year. Despite the resumption of business activities and announcement of the rollout of the vaccine, demand in the contact intensive sectors is likely to remain subdued for some time due to continued social distancing norms. Additionally, stringent lockdowns in European countries and rising cases of COVID-19 and its new variant globally could adversely impact exports.

The first advance estimates of GDP growth need to be viewed with caution as the first half of FY21 was completely different from the second half and therefore extrapolation of available data has its limitations and possibilities of revisions.

We expect the country's GDP to contract by -7.7% to -7.9% in FY21.

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