

## India's Economic Growth in Q3 FY21

February 26, 2021 | Economics

The Indian economy emerged from recession and returned to growth in the quarter of October-December'20, following two successive quarters of contraction in growth. The Indian economy grew by 0.4% in the third quarter of FY21, which is a sharp improvement from the negative growth of 24.4% and 7.3% in the preceding two quarters. CARE Ratings estimate for GDP growth for the quarter was in the range of -0.5% to -1.5%.

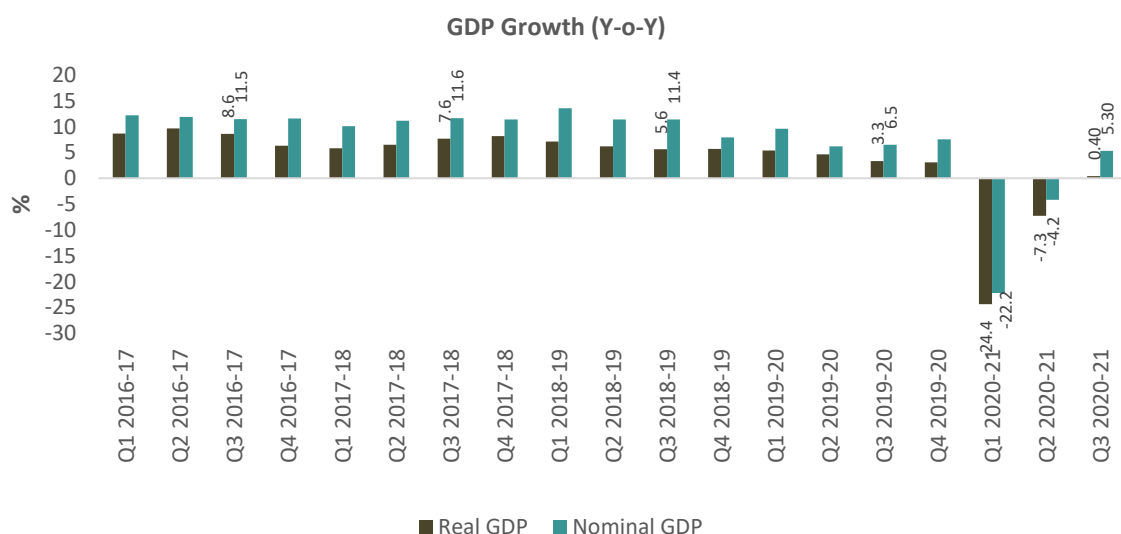
India is one of the select few economies that have witnessed positive year-on-year growth in the three month period October-December'20.

This gives credence to the general expectation of a quick revival in the domestic economy and this has led to the government revising upwards its growth estimate for gross value added for FY21 from -7.2% (first advance estimate) to -6.5% (second advance estimate). The GDP estimate for FY21 however has been revised downwards from the earlier estimate of -7.7% to -8.0%. This is due to the lower incidence of taxes as well as higher subsidies which has been revised downwards from -13% to -23%. There has also been a downward revision in the Q1 FY21 GDP (from -23.9% to -24.4%) and upward revision in that of Q2 FY21 (from -7.5% to -7.3%)

The unlocking of the economy with the steady decline in Covid-19 infection during the period (Oct-Dec) boosted consumption and activity across sectors. The gains in the Indian economy during the October-December'20 period were driven by growth in agriculture, manufacturing, electricity, gas, water & utility services, construction and financial, real estate and professional services.

Both consumption (private and government) and investments have recorded a growth (y-o-y) during Q3 FY21, reversing the decline of the preceding two quarters.

Despite the improvements, the growth rates are notably lower than that a year ago. The real GDP growth in Q3 FY21 at 0.4% is notably lower than the 3.3% growth of Q3 FY20.



Source: MOSPI

## Sector-wise performance in Q3 2020-21 (year-on-year)

- The agriculture and industrial sector witnessed growth, while the contact intensive services sectors registered negative growth.
- The industrial sector has witnessed a growth of 2.7% aided by the growth in manufacturing (1.6%), electricity, gas, water & utility services (7.3%) and construction (6.2%). Manufacturing sector output returned to growth after a gap of four quarters while that a construction turned positive after three quarters, reflective of the higher levels of activity in these segments with the unlocking process. The favourable base effect has also aided the growth in these segments
- Agriculture sector grew by 3.9% in Q3 FY21 over the 3% growth of year ago.
- The contraction in the services sector eased from an average 16% in the preceding two quarters to -1.0% during October-December'20
- The core GVA growth, which excludes the agriculture and government sector was 0.7 % in Q3 FY21 against the 1.0% growth in overall GVA, indicating the higher contribution of the industrial and services segment in the improvements in the GVA.
- The trade, hotel and transport segment registered the highest contraction amongst the sectors during October-December at (-)7.7%.
- Public administration, defence and other services saw growth contract by -1.5% in Q3 FY21. There was however an improvement from the contraction of over 9% in the preceding two quarters reflective of the higher spending being undertaken by the government during the quarter gone by.

### Sectoral Growth (at constant prices)- YoY (% change)

	Q3 FY17	Q3 FY18	Q3FY19	Q3 FY20	Q3 FY21
<b>Agriculture, forestry &amp; fishing</b>	<b>7.4</b>	<b>5.1</b>	<b>2.0</b>	<b>3.4</b>	<b>3.9</b>
<b>Industry</b>	<b>8.2</b>	<b>7.7</b>	<b>5.0</b>	<b>-2.5</b>	<b>2.7</b>
Mining & quarrying	9.1	4.7	-4.4	-3.5	-5.9
Manufacturing	8.3	9.3	5.2	-2.9	1.6
Electricity, gas ,water supply & other utility services	10.2	10.1	9.5	-3.1	7.3
Construction	7.4	4.7	6.6	-1.3	6.2
<b>Services</b>	<b>7.2</b>	<b>7.5</b>	<b>7.4</b>	<b>6.0</b>	<b>-1.0</b>
Trade, hotels, transport, communication & broadcasting	7.9	8.2	7.8	7.0	-7.7
Financial, real estate & professional services	5.2	5.7	6.5	5.5	6.6
Public administration, defence and other services	9.1	8.9	8.1	8.9	-1.5
<b>GVA at Basic Price</b>	<b>7.5</b>	<b>7.1</b>	<b>5.6</b>	<b>3.4</b>	<b>1.0</b>
<b>Core GVA(excluding agri &amp; public administration)</b>	<b>7.3</b>	<b>7.3</b>	<b>6.2</b>	<b>2.3</b>	<b>0.7</b>

Source: MOSPI

### Consumption and Investments (y-o-y growth )

- There has been a pick- up in consumption – both government and private consumption in the October-December period.
- Private consumption which is driver of the economy (accounting for 60% of the GDP) witnessed a growth of 1% in Q3 FY21 Although significantly lower than the 11% growth in Q3 FY20, it is a notable improvement form the growth of (-)25% in Q1 FY21 and (-)8% in Q2 FY21.
- Government consumption too witnessed an improvement, growing by nearly 7% in Q3 FY21 from year ago.
- Investment's too have picked up, registering year-on-year growth after a gap of three quarters . Investments measured as Gross Fixed Capital Formation (GCFC) grew by of 6% in Q3 FY21 v/s the 1.4% growth in Q3 FY20.

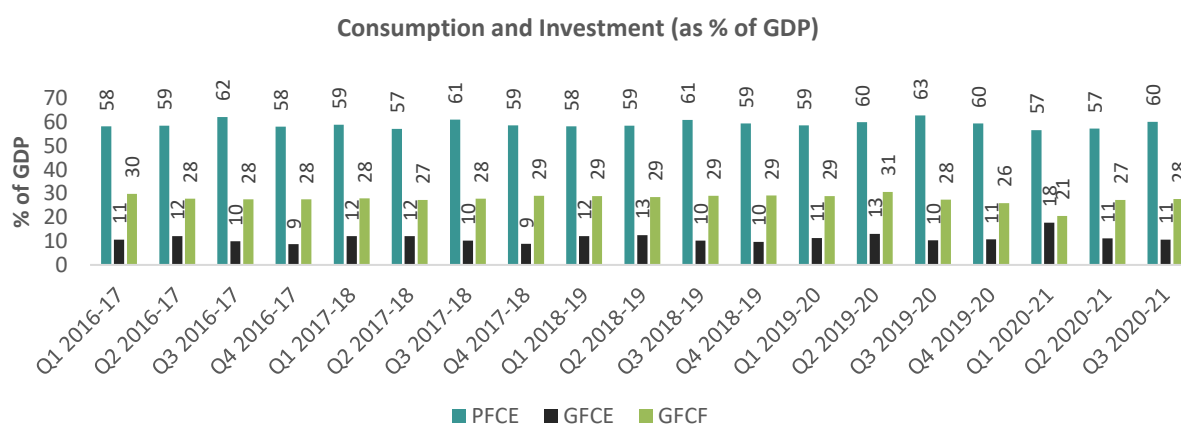
## Growth in Expenditure of GDP (current prices) – YoY (% change)

	Q3 FY17	Q3 FY18	Q3FY19	Q3 FY20	Q3 FY21
GFCE	10.0	15.4	6.9	14.0	7.24
PFCE	14.9	9.8	10.8	11.0	1.03
GFCF	7.9	14.8	16.7	1.4	5.91
Exports	9.7	9.9	20.3	-2.0	8.38
Imports	11.8	14.4	22.2	-10.2	-1.96
GDP (at current prices)	11.5	11.6	12.5	6.5	5.3

Source: MOSPI

- The rate of consumption increased to 60% of GDP in Q3 FY2, a 3% increase from the preceding two quarters.
- As a percentage of GDP, investments (as measured by the Gross Fixed Capital Formation) at 28% in Q3 FY21 was at the highest rate in five quarters.

### Consumption and Investments: Rates of GDP (%)



Source: MOSPI

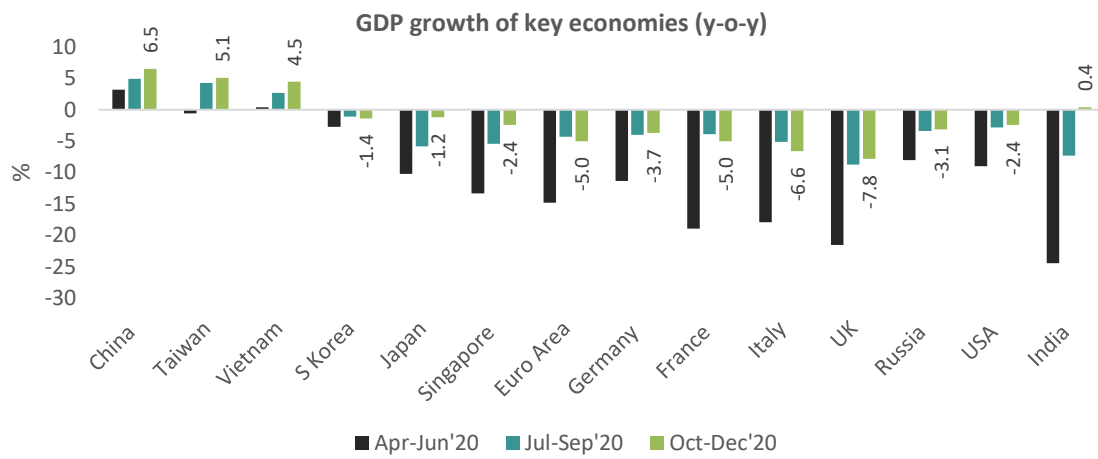
### How does India's economy compare with other key economies during October- December'20?

India belongs to the select club of economies along with China, Taiwan and Vietnam that have witnessed positive year-on-year growth in the three months of October-December'20.

There has been a faster than expected pickup in the global economies from the pandemic induced slump. Although most economies still continue to witness a contraction in economic growth from year ago period, there has nevertheless been a progressive strengthening in most economies in the last two quarters of 2020.

Fiscal support and easy financing conditions has been supporting recovery across economies. There has also been a pickup in exports as well as consumer spending associated with the easing of pandemic restriction in various regions. Higher construction activity and industrial production has been boosting economic growth in advanced economies (US, Germany, China).

Even regions viz. in the Euro Area and North America, which have had continued and stricter lockdown measures, have witnessed better than expected economic growth in the last quarter of 2020 indicating that the pandemic restriction have been less economically disruptive.



Source: Trading Economics and MOSPI

### CARE Ratings View:

The pace of commercial and business activity in the domestic activity is expected to gather pace on the back of vaccination driven optimism and policy support.

Although there is the vaccination driven optimism regarding the revival of commercial and business activity, domestic economic growth continues to be underscored by uncertainty given the resurgence in Covid infections across states that has raised the spectre of fresh pandemic restriction just as the economy is in the throes of recovery.

We expect the Q4 GVA to grow by 1.5% to 2% in Q4.

For FY21 as a whole we retain our earlier estimate and expect India's GDP to contract by -7.7% to -7.8%.

#### Contact:

**Madan Sabnavis**  
**Author: Kavita Chacko**  
**Mradul Mishra**

Chief Economist  
 Senior Economist  
 (Media Contact)

madan.sabnavis@careratings.com +91-22-6837 4433  
 Kavita.chacko@careratings.com +91-22-6837 4426  
 mradul.mishra@careratings.com +91-22-6754 3573

*Disclaimer: This report is prepared by CARE Ratings Limited. CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis / inferences / views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no financial liability whatsoever to the user of this report*

#### CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road,  
 Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
 Tel. : +91-22-6754 3456 | CIN: L67190MH1993PLC071691

Connect :

