

## **GDP grows 1.6% in Q4, but contracts 7.3% in FY21; experts decode data**



India's economy grew by 1.6 percent in the fourth quarter of 2020-21, restricting the full-year contraction to 7.3 percent, official data showed on Monday.

The fourth quarter growth was better than the 0.5 percent expansion in the previous October-December quarter of 2020-21.

The gross domestic product (GDP) had expanded by 3 per cent in the corresponding January-March period of 2019-20, according to data released by the National Statistical Office (NSO).

Experts weigh in with their views:

### **DK Srivastava, Chief Policy Advisor, EY India**

CSO's provisional estimates for 2020-21 have signalled some positive cheer for the policymakers. The 2020-21 real GDP growth now estimated at (-)7.3 percent has done better than the earlier estimate of (-)8.0 percent as per the second advance estimates. This became possible due to a better than expected performance in 4Q of 2020-21 where the GDP growth turned out to be positive at 1.6 percent as against the earlier estimate of (-)1.1 percent. This turnaround was led by a sharp increase in the growth of gross fixed capital formation (GFCF) at 10.9 percent against an anticipated growth of only 2.8 percent in 4Q of 2020-21. In this quarter, exports also performed better than anticipated, showing a growth of 8.8 percent as against the earlier estimate of (-)3.7 percent.

Examining the performance of the output sectors through the GVA data, annual contraction is marginally lower at (-)6.2 percent in 2020-21 as against (-)6.5 percent estimated earlier. GVA in 4Q of 2020-21 grew by 3.7 percent as against the earlier estimated growth of 2.5 percent. Sectors which largely contributed to this improved growth performance are manufacturing which showed a strong recovery at 6.9 percent and construction with a growth of 14.5 percent. However, growth

in public administration, defence and other services was lower at 2.3 percent as compared to 3.2 percent which was anticipated earlier.

The implication of these numbers for the growth prospects for 2021-22 lies primarily in the implied base effect. With a lower contraction in GDP as well as GVA in 2020-21, the sharp recovery projected for 2021-22 by a number of agencies like the IMF at 12.5 percent and the RBI at 10.5 percent may have to be moderated. These projections were done prior to the impact of the second Covid wave. The combination of Covid's second wave and the revised base effect may imply a lower GDP growth for the Indian economy for 2021-22, which may be in the range of 9-9.5 percent.

**Alok Sheel, RBI Chair, Professor in Macroeconomics, ICRIER** (Indian Council for Research in International Economic Relations).

The provisional estimate of 2020-21 GDP numbers are slightly better than what were expected, but are unlikely to change the big picture. These numbers would need to be counter-balanced by likely downgrades of current GDP growth estimates for 2021-22. The consensus number for this is now down to below 10 percent on account of the severity of the second wave of COVID 19.

It may be recalled that the IMF projection was 12.5 percent in its WEO of April 2021. Thus the overall rebound of the economy through to 2021-22 is likely to be lower, and the output loss greater, than what can be estimated from the WEO April 2021 numbers. In view of this, despite CPI being on the higher side the RBI is unlikely to raise interest rates any time soon, even though the current monetary policy regime primarily targets inflation. Also, greater fiscal support might be required to stabilize growth.

**Rajani Sinha, Chief Economist & National Director – Research, Knight Frank India**

Before we got hit by the second wave of COVID-19, Indian economy had been moving back to normalcy supported by strong pent-up demand and that's getting reflected in the improvement in Q4 FY21 GVA data. There has been a healthy rebound in manufacturing and construction sector, though the YOY growth has also been supported by the low base of last year. The sharp discrepancy in the GDP and GVA growth number is mainly due to large one-time subsidy adjustment and is on expected lines.

The second wave of the pandemic has been more fatal and scarring for the households, and this will be reflected in their spending pattern. Moreover, the unorganized sector and MSME's that are large contributors to the Indian economy, will find it extremely difficult to sustain two waves of the pandemic and the demand destruction in the last one and half years. India's growth trajectory in the next few quarters will be strongly linked to the pace of vaccination and the time taken to control the pandemic. This would have direct bearing on business and consumer sentiments, which in turn will influence the consumption and investment scenario.

**Radhika Rao, Economist at DBS Group Research**

Essence of the 4QFY growth numbers is that the trend benefited from a nearly linear unlocking process from the first COVID wave, with upside surprise concentrated in a modest return in consumption, strong construction rebound, and manufacturing output. Additionally, the accelerated formalisation process also boded well for indirect tax collections and allowed for bunched-up fiscal spending towards late-fiscal year. Trend for the first quarter of 2021, whilst encouraging, is backward looking, in light of the resurgence in the pandemic from March to early-May. Cases have tapered off in recent weeks, however in contrast to last year, the unlocking process won't be linear, as states exercise more discretion, making the unwinding in restrictions more staggered and less predictable. Whilst awaiting a vaccination pivot, normalisation in activity is likely to be more

gradual, and more evident in sequential terms as base effects prop annual comparisons. We maintain our FY22 growth projection at 9.5 percent y-o-y from a revised -7.3 y-o-y in FY21.

**Dr M. Govinda Rao Chief Economic Adviser, Brickwork ratings**

The revised estimates of GDP for FY21 at -7.3 percent and the fourth quarter estimate of 1.6% released by the Ministry of Statistics and Programme Implementation (MOSPI) are more optimistic than what the market had expected. The full-year revised estimate is largely in line with Brickwork Ratings estimate of a contraction of 7.5 percent.

The estimate of 3.7 percent growth in GVA and 1.6 percent growth in GDP in the fourth quarter of FY21 is largely due to a low base, and also reflects a slight improvement in the economic activities. Construction and Manufacturing activities seemed to have picked up faster in the last quarter of FY21 while the services sector continues to suffer the most with Trade, hotels segment estimated to contract by 15.5 percent. The muted growth in public administration is also delaying the growth revival. However, the better than expected GDP estimates provides some comfort to the RBI MPC, which is likely to maintain the repo rate at 4 percent in its upcoming meeting.

**Siddhartha Sanyal, Chief Economist and Head – Research, Bandhan Bank**

The Q4 FY21 GDP growth at 1.6 percent year-on-year came in a tad better than expected, buoyed largely by upside surprises in manufacturing, utilities and construction activities. The full year contraction of 7.3 percent for FY21 GDP was also modestly better than expectation. We recognize that GDP prints for Q1FY22 will also likely come in strong in double digits given the markedly favourable base reflecting last year's abrupt nation-wide lockdown and major loss of economic activities.

The GDP print, though a positive surprise, will likely not materially influence the RBI's monetary policy decision later this week. The central bank looks set to keep all the key policy rates unchanged in June. More importantly, despite emerging signs of higher inflation prints, one expects the MPC to stay decisively growth supportive in the coming months.

**Sreejith Balasubramanian, Economist – Fund Management, IDFC AMC**

India's real GVA for Q4 and full year of FY21 grew better than the advance estimate, with annual manufacturing and construction y-o-y growth rates being 120bps and 170bps better than the Government's February estimate. With the onset of the second wave, the key aspects really are how would household income and consumption shape up, the impact on and thus the contribution from the rural economy this time and investment and lending behaviour. With exports alone insufficient to drive growth in the medium-term, demand visibility and thus a growth-cycle in employment and wages becomes critical.

On the fiscal front, fiscal deficit for FY21 reported earlier today was mildly lower than the revised estimates, although the additional food subsidy outgo was much higher, as tax revenues were better towards the end of the year. This essentially means FY22 gross tax revenue has to grow only 9.5 percent y-o-y versus 16.7 percent budgeted. However, revenue impact of the second wave, any policy response, ambitious disinvestment target, possibility of another wave, etc. are all factors to track.

**Madhavi Arora, Lead Economist, Emkay Global Financial Services**

The better-than-expected growth print partly owes it to healthy corporate results in March quarter of FY21. We admit the situation is still in a flux, and it is too nascent to gauge the true impact of the second wave on macro variables. We believe that the impact is unlikely to be of the same magnitude as last year. Clearly, factors such as better adapted firms and policy response, stable financial

conditions and robust global growth spillovers create growth buffers back home. However, credible vaccine drive remains key. The faster the vaccine traction, the faster would be the delinking between mobility and virus proliferation.

### **Real Estate sector**

#### **Rohit Poddar, Managing Director, Poddar Housing and Development Ltd.**

The positive GDP numbers in the first quarter of FY21, as well as better than expected GDP numbers for the entire year, is a positive surprise. The country has witnessed good economic growth for two quarters consecutively with the unlocking of the economy that led the operations to scale up leading to better revenue generation. The second wave of pandemic may temporarily slower the economic growth in Q1FY'22, however, the nationwide vaccination drive has helped in improving the business sentiment across the country. From a real-estate standpoint, construction has also risen by 14.5 percent owing to the foresight of the first wave and the tailored reforms to keep businesses and construction operational.

#### **Ram Raheja, Director, S Raheja Realty**

The slight pickup in the GDP amidst COVID and lockdown is likely to boost sentiments. The forecast of the future GDP states it may elevate better than the previous quarters. The growth rate swinging back in the positive territory is in line with most estimates, supported by high government spending, reform measures, and progressive unlocking. The improvement in the last two quarters does show some bright picture with the government's focus on improving infrastructure, the construction segment has shown phenomenal improvement. Going forward the steps taken to accelerate the vaccination drive will have major impact on the easing of lockdown and in turn the economy. Real estate will remain an investment of choice given that some uncertainty still persists.

### **Industry bodies**

#### **Sanjay Aggarwal, President, PHD Chamber of Commerce and Industry**

The overall GDP growth rate of FY 2021 at (-) 7.3 percent is very much in line with expectations of PHD Chamber. Meaningful and proactive reforms undertaken by the Government in last many quarters has pulled the economy from the lows of Q1 FY 2021 and resulted in the sharp rebound in the GDP in subsequent quarters of FY 2021.

However, the rapid re-spread of corona cases in 2nd wave of COVID and resultant partial/complete lockdown in many parts of the country have posed severe challenges to double digit economic growth in FY 2022.

At this juncture, the Government has to step up with proactive and calibrated measures to mitigate the daunting impact of Coronavirus on economy, trade and industry, said Sanjay Aggarwal.

A substantial stimulus to create effective strides for futuristic economic growth trajectory and to diminish the daunting impact of second wave of the pandemic coronavirus on trade and industry would be crucial to support the economic momentum in this extremely difficult time

#### **Prof Krupesh Thakkar, CFA, HoD - Financial Markets, ITM B-School**

India's GDP for FY21 is expected to contract by -7.3 percent as per provisional estimates released by NSO, slightly better than the consensus. On other hand, the GDP for Q4FY21 has shown growth of 1.6 percent. The growth has been led by agriculture & allied activities which were less impacted by the pandemic. Going forward, with the prediction of normal monsoon, the expansion should continue.

With lockdown being lifted in Q3 and Q4, the mining sector has revived and quarterly sequential rise has continued. The same trend has been witnessed in the electricity and energy segment. The

rise in GST collections and improvement in profitability of Indian Corporates in Q4FY21 were the early indicators of improvement in the manufacturing segment. Though the improvement in the last two quarters would not be inclusive, it does show some bright picture.

On services, the worst affected segment was hotels, transport and communication services. In extreme, the financial and professional services were not impacted whereas the government services segment seems to be on revival.

Going forward, the near-term outlook might look clouded, with latest locked-down and inflection of spillover impact of global happenings. However, the rebound in private consumption resulting in higher demand coupled with rise in capital formation stirring the investment, India should be on its way to reclaim its spot as the fastest growing economy in the globe.

**Vijay Kalantri, chairman, MVIRDC World Trade Center Mumbai** – a trade facilitating body

As was widely expected, the GDP has contracted 7.3 percent in FY21 from a growth of 4% in the previous year. But the disappointing trend is the fall in the share of exports and imports to the GDP in recent years. The share of goods exports in India's GDP has fallen from the peak of 15 percent in 2014-15 to 11 percent in FY21. During the same period, the share of goods imports in GDP has also fallen from the peak of 22 percent to 15 percent. This shows the declining contribution of foreign trade in India's economy. This also reflects the fact that India is less integrated into the global value chain than before 2014-15. One of the reasons for the fall in contribution of foreign trade to the economic activity could be the rising tariff barriers as the Indian government aims to encourage local manufacturing through hike in import tariff since 2014-15. In 2014-15, India imposed more than 15 percent customs duty on 13.6 percent of all the tariff lines. By 2020-21, the proportion of tariff lines with more than 15 percent customs duty has risen to 25.4 percent because of hike in customs duty on several products during these years. This clearly shows that hike in customs duty has reduced the share of goods imports in our economic activity. But it has also reduced the share of our goods exports to GDP.

In recent months, the government has introduced production-linked incentives for electronics, telecom equipment, computer hardware, medicinal devices and other sectors. We hope that the production linked incentives, which is a more effective tool to promote local manufacturing, instead of just hiking customs duty, will increase the share of India's goods exports to GDP in the coming years.

**Pankaj Bhansali, COO, Eqaro Surety Pvt Ltd**

The growth rate for the Jan-March quarter stood at 1.6 percent, it is a lot better than most expectations. The support mainly came from agriculture and manufacturing, construction, utilities segment. As expected trade, hotel and transport component of the economy delivered a major hit to the growth rate as it faced the most stringent lockdown. The full year FY21 GDP is a positive surprise as it contracted by 7.3 percent versus the CSO's estimate of -8 percent.

The better-than-expected data will provide relief to the central bank as it announces its credit policy later this week. Moving forward the situation is expected to improve with few states relaxing curbs. A prediction of a normal monsoon year by IMD will keep inflation in check. The upcoming festive season will provide a pickup in demand. The consistent high number of vaccination and number of cases coming down is a sentiment booster. Broadly the economic growth rate will see an uptick from Q2FY22 onwards.