

## India beats recession in Q3FY21; FY21 GDP growth revised lower to -8%

The Indian economy moved back into the expansion zone in Q3FY21 after contracting on a YoY basis in the previous two quarters, even as GDP growth came in at a lower-than-expected 0.4% YoY (Consensus estimate: 0.6%) vs. a 7.3% YoY contraction in 2QFY21. The expansion was primarily led by a robust recovery in investments (+2.6% YoY), partly attributed to strong capital spending by the Centre as well as States, even as consumption—private and interestingly, public—contracted for yet another quarter, despite a strong festive season, possibly reflecting weaker demand for services.

By economic activity, Gross Value Added (GVA) grew by a much better 1% YoY in Q3FY21, led by a strong rebound in Industrial sector (+2.7% YoY) as business activity picked up in line with easing restrictions and steady growth in Agriculture sector (+3.9% YoY). Services, on the other hand, contracted for yet another quarter, largely owing to continued restrictions on travel, transport, physical schooling, and other services. The subdued GDP print for Q3FY21 as compared to GVA is a consequence of lower tax collections and higher subsidy payments<sup>1</sup>.

**The CSO's Second Advance** Estimate (AE) for FY21 GDP growth has been revised lower to -8% vs. 7.7% estimated in January—bringing it in-line with our estimate and implying a 1.1% YoY contraction in Q4FY21. Excluding discrepancies, GDP growth in Q4FY21 works out to be 5.7%, primarily attributed to a strong growth in Government consumption—**visible in the Centre's** revised fiscal balances for FY21. GVA growth for FY21, however, has been revised upwards from -7.2% to -6.5%, translating into a 2.5% YoY growth in Q4FY21. This huge divergence in GDP and GVA growth revisions reflects a sharp jump in subsidy pay-outs in the last quarter of the fiscal.

Barring a few high-frequency indicators including passenger vehicle sales, petroleum consumption, and coal offtake that have slowed down in January, the broader pace of economic recovery has remained fairly steady, with **FY22's** fiscal impulse via higher capital expenditure expected to provide an added impetus. Continued surge in COVID-19 infections as seen in the recent past and a slower vaccination drive are key downside risks to the ongoing economic recovery. We maintain our FY21/FY22 GDP growth estimate at -8%/+9.5%.

- Q2FY21 GDP growth turns positive but surprises on the downside: After contracting over the previous two quarters, the Indian economy expectedly entered into expansion zone in the third quarter of the current fiscal. That said, the pace of recovery surprised on the downside, with GDP growth in Q3FY21 coming in at a lower-than-expected 0.4% (Consensus estimate: 0.6%) vs. a 7.3% contraction in the previous quarter. The expansion was primarily led by a strong rebound in investments, partly compensating for continued contraction in consumption as well as exports. The GVA in Q3FY21 rose by a much higher 1%, largely led by a resilient Agriculture sector and a strong growth in Industrial sector, partly offset by continued contraction in Services GVA. Nominal GDP contracted by 4.0% YoY vs. 22.6% contraction in the previous quarter. The subdued GDP print for Q3FY21 as compared to GVA is owing to lower tax collections and higher subsidy payments
- A sharp rebound in investments drive GDP growth for yet another quarter: Gross Fixed Capital Formation (GFCF)—a reflection of investment demand in the economy—grew by a relatively strong 2.6% in Q3FY21, thereby driving the overall GDP growth for yet another quarter. This is essentially led by strong capital expenditure by the Centre as well as States, even as private investments have remained muted as reflected in lacklustre credit offtake and a sharp drop in new project announcements (-81.6% YoY) by the private sector in Q3FY21. Consumption—public as well as private—continued to contract, declining by 1.1% and 2.4% YoY respectively. This was despite a strong festive season and high pent-up demand, possibly reflecting weaker demand for contact-intensive services

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*India's GDP growth in Q3FY21 came in at a lower-than-expected 0.4% YoY while GVA rose by a much higher 1%.*

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*GDP expansion in Q3 was primarily led by investments even as consumption contracted for yet another quarter*

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<sup>1</sup> GDP = GVA + taxes on products – subsidies on products.

(transport, recreation) and lower spending on education and other social services. Government consumption, however, is expected to shoot up by a huge 29.2% YoY in Q4FY21 despite an unfavourable base—reflected in a strong 109.5% YoY growth in Government's revenue spending in the last quarter of the fiscal as per the revised fiscal balances for FY21. Rising COVID-19 infections and renewed restrictions globally hurt India's exports growth—down 4.6% YoY in Q3FY21, even as imports also fell by a similar rate, leading to a sharp rise in trade deficit following a trade surplus in the previous two quarters.

- Sector-wise, Agri, Construction and Manufacturing led the GVA improvement: By economic activity, the recovery was primarily led by a strong rebound in Industrial sector (+2.7% YoY) as business activity picked up in line with easing restrictions and steady growth in Agriculture sector (+3.9% YoY). Within Industrial sector, while Manufacturing registered a modest 1.6% YoY growth following a YoY drop in the previous five quarters—reflected in better-than-expected corporate earnings, Construction and Electricity sectors rose by a strong 6.2% and 7.3% YoY respectively. Growth in these three sectors is expected to improve further in Q4. Mining sector, on the other hand, continued to contract for the 11<sup>th</sup> consecutive quarter, down 5.9% YoY and the trend is expected to continue in Q4. Services sector declined by 1.0% YoY in Q3FY21, largely owing to continued restrictions on travel, transport, physical schooling, and other services, partly offset by strong growth in financial, real estate and business services. Amidst ongoing vaccination drive and easing restrictions on some of these contact-intensive sectors, Services sector is expected to do much better in the last quarter of the fiscal.
- FY21 GDP growth revised downwards: The CSO's Second Advance Estimate (AE) for FY21 GDP growth has been revised lower to -8% vs. 7.7% estimated in January—in-line with our estimate, implying a 1.1% YoY contraction in Q4FY21. Excluding discrepancies, GDP growth in Q4FY21 works out to be 5.7%, primarily attributed to a strong growth in Government consumption—visible in the Centre's revised fiscal balances for FY21. GVA growth for FY21, however, has been revised upwards from -7.2% to -6.5%, translating into a 2.5% YoY growth in the last quarter of the fiscal. This huge divergence in GDP and GVA growth revisions reflects a sharp jump in subsidy pay-outs in the last quarter of the fiscal.
- Maintain FY21/FY22 GDP growth estimate at -8%/9.5%: Continued normalisation of business/economic activities, declining COVID-19 cases and a strong festive season has supported economic growth in the last quarter. Barring a few high-frequency indicators including passenger vehicle sales, petroleum consumption, and coal offtake that have slowed down in January, the broader pace of economic recovery has remained fairly steady. The Government's strong fiscal impulse via higher capital expenditure is expected to provide an added impetus. Continued surge in COVID-19 infections as seen in the recent past, slowdown in consumption demand and a slower vaccination drive are key downside risks to the ongoing economic recovery. We maintain our FY21 and FY22 GDP growth estimates at -8% and +9.5% respectively.

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*Q3FY21 GVA rose by a much higher 1% YoY, led by a strong rebound in Industrial sector and steady growth in Agriculture sector.*

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*The huge divergence in GDP and GVA growth revisions reflects a sharp jump in subsidy pay-outs in the last quarter of the fiscal.*

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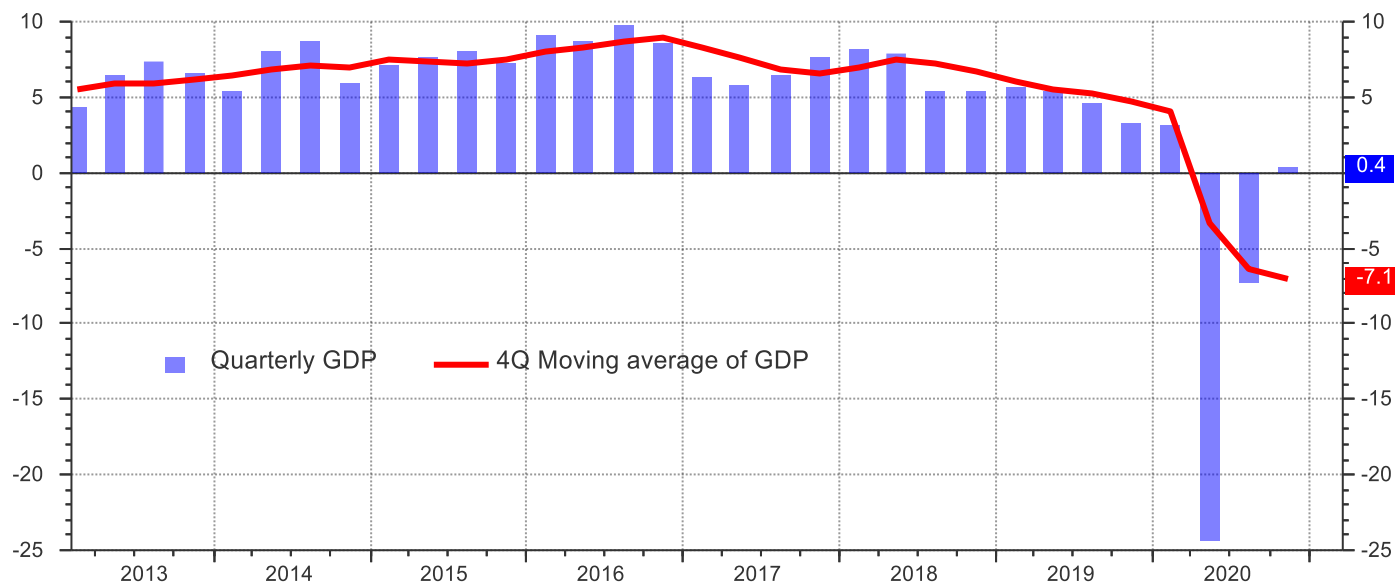
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*Maintain FY21/FY22 GDP growth estimate at -8%/9.5%; key downside risks include surge in COVID-19 cases, deterioration in consumption demand and a slower vaccination drive.*

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Figure 1: India enters expansion zone with a 0.4% YoY GDP growth in Q3FY21

Indian economy moved back into the expansion zone in Q3FY21 after contracting on a YoY basis in the previous two quarters, with GDP growth at 0.4%—a tad lower than market expectations.



Source: Refinitiv Datastream, NSE

Figure 2: Quarterly growth trend (2011-12=100) (%YoY)

	FY19				FY20				FY21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4*
Gross Domestic Product (GDP)	7.9	5.3	5.4	6.6	5.4	4.6	3.3	3.0	-24.4	-7.3	0.4	-1.1
Private Consumption (PFCE)	6.4	8.4	6.8	5.9	7.6	6.5	6.4	2.0	-26.3	-11.3	-2.4	3.1
Government Consumption (GFCE)	6.3	7.8	3.2	8.2	1.8	9.6	8.9	12.1	12.8	-24.0	-1.1	29.2
Gross Capital Formation (GCF)	11.9	12.4	12.5	6.0	9.8	0.8	-0.4	-0.7	-46.8	-7.8	2.1	2.4
Gross Fixed Capital Formation (GFCF)	13.5	12.0	12.1	5.0	13.3	3.9	2.4	2.5	-46.4	-6.8	2.6	2.8
Net trade	-15.6	57.7	-6.7	-60.5	47.5	-3.9	-20.6	92.4	-120.3	-106.4	-4.3	-8.9
Exports	9.5	12.6	15.7	11.7	3.0	-1.3	-5.4	-8.8	-22.0	-2.1	-4.6	-3.7
Imports	5.0	17.9	12.0	0.6	9.4	-1.7	-7.5	-2.7	-41.1	-18.2	-4.6	-4.3
Gross Value Added (GVA)	6.7	5.6	5.3	4.7	5.0	4.6	3.4	3.7	-22.4	-7.3	1.0	2.5
Agriculture	5.7	5.6	2.6	0.2	3.3	3.5	3.4	6.8	3.3	3.0	3.9	1.9
Industry	7.3	5.0	5.0	2.3	1.7	-1.8	-2.6	-2.2	-35.9	-3.0	2.7	3.6
Mining and Quarrying	-12.2	-8.7	-7.3	-10.5	-1.3	-5.2	-3.6	-0.9	-18.0	-7.6	-5.9	-5.5
Manufacturing	11.2	6.1	5.6	2.5	0.6	-3.0	-2.9	-4.2	-35.9	-1.5	1.6	2.3
Electricity	7.2	9.2	8.7	4.6	6.9	1.7	-3.1	2.6	-9.9	2.3	7.3	8.9
Construction	6.8	5.6	7.0	6.9	3.7	1.0	-1.3	0.7	-49.4	-7.2	6.2	8.4
Services	6.6	5.9	6.5	7.6	7.2	8.2	7.0	6.4	-21.4	-11.3	-1.0	2.0
Trade, Hotels, Transport, Storage, Comm.	11.3	9.7	9.7	8.9	6.2	6.8	7.0	5.7	-47.6	-15.3	-7.7	-2.9
Fin. Svcs, Real Estate & Business Svcs.	3.0	3.3	4.5	6.6	8.8	8.9	5.5	4.9	-5.4	-9.5	6.6	6.9
Community, Social & Personal Svcs.	6.1	5.9	4.7	6.9	5.6	8.8	8.9	9.6	-9.7	-9.3	-1.5	3.2

Source: CSO. \* Implied growth figures from FY21 Second Advance estimate.

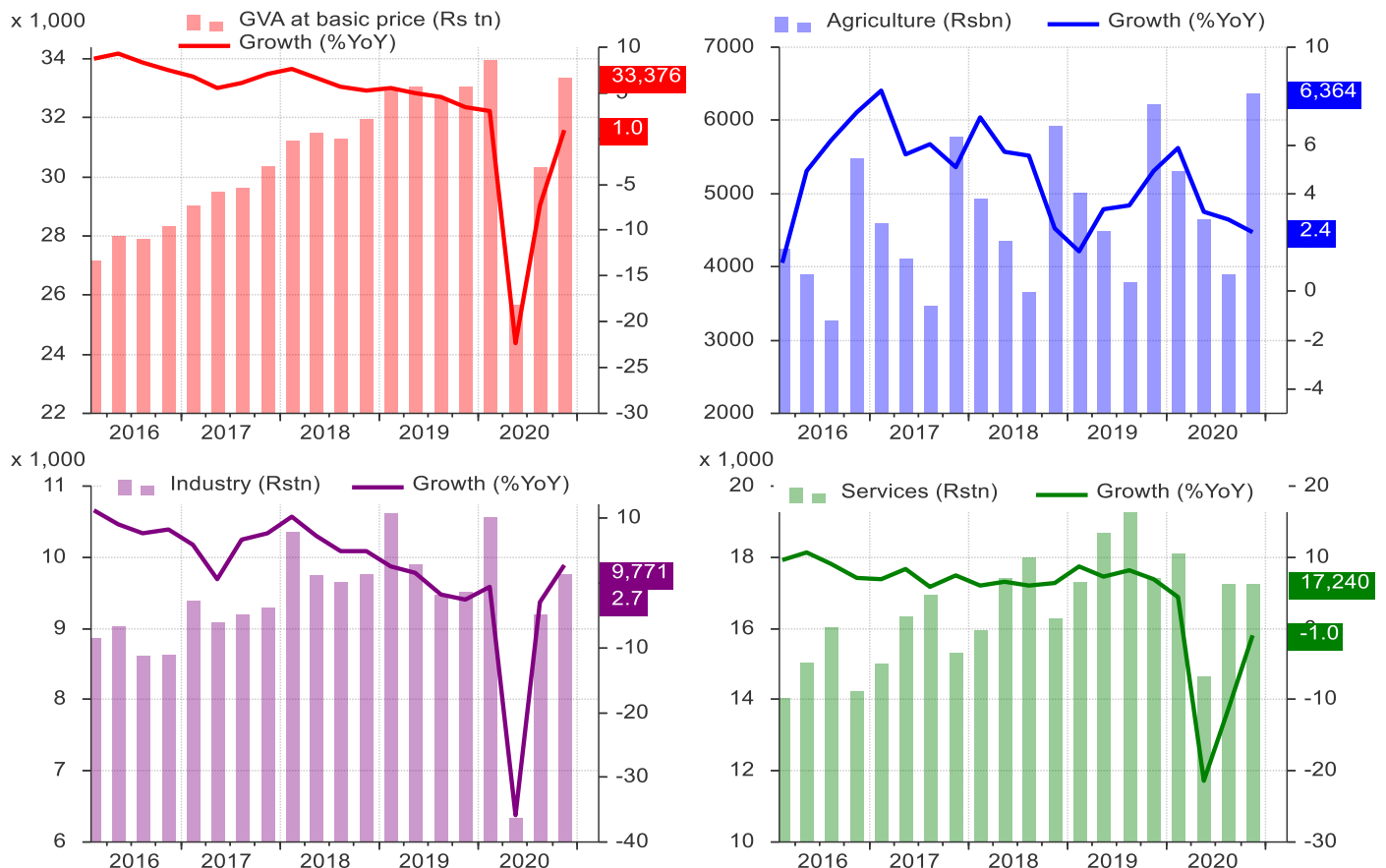
**Figure 3: FY21 GDP growth revised downwards to -8%; GVA revised upwards to -6.5%**

	FY19		FY20		FY21	
	Old	Revised	Old	Revised	1 <sup>st</sup> AE	2 <sup>nd</sup> AE
Gross Domestic Product (GDP)	6.1	6.5	4.2	4.0	-7.7	-8.0
Private Consumption	7.2	7.6	5.3	5.5	-9.5	-9.0
Government Consumption	10.1	6.3	11.8	7.9	5.8	2.9
Gross capital formation	9.5	9.5	-2.0	-2.0	-15.3	-8.3
Gross Fixed Capital Formation	9.8	9.9	-2.8	5.4	-14.5	-12.4
Net trade of goods & services	-11.8	-11.8	-29.2	16.8	-136.3	-72.5
Exports of goods & services	12.3	12.3	-3.6	-3.3	-8.3	-8.1
Imports of goods & services	8.6	8.6	-6.8	-0.8	-20.5	-17.6
Gross Value Added (GVA)	6.0	5.9	3.9	4.1	-7.2	-6.5
Agriculture	2.4	2.6	4.0	4.3	3.4	3.0
Industry	4.9	5.3	0.9	-1.2	-9.6	-8.2
Mining and Quarrying	-5.8	0.3	3.1	-2.5	-12.4	-9.2
Manufacturing	5.7	5.3	0.0	-2.4	-9.4	-8.4
Electricity	8.2	8.0	4.1	2.1	2.7	1.8
Construction	6.1	6.3	1.3	1.0	-12.6	-10.3
Services	7.7	7.2	5.5	7.2	-8.8	-8.1
Trade, Hotels, Transport, Storage, Comm.	7.7	7.1	3.6	6.4	-21.4	-18.0
Fin. Svcs, Real Estate & Business Svcs.	6.8	7.2	4.6	7.3	-0.8	-1.4
Community, Social & Personal Svcs.	9.4	7.4	10.0	8.3	-3.7	-4.1

Source: CSO.

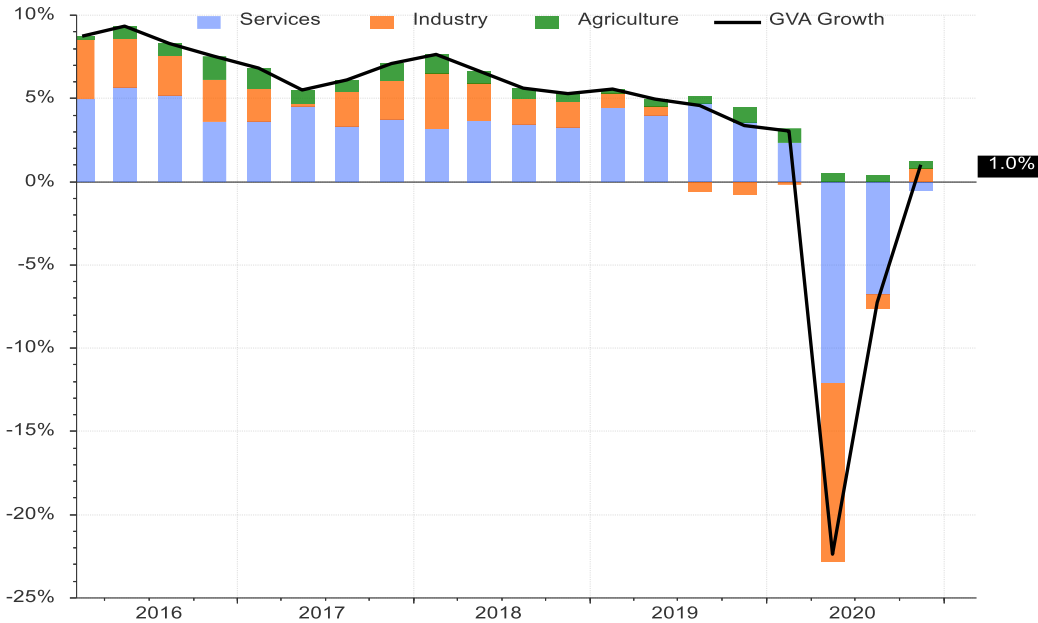
**Figure 4: Gross value added (GVA) across sectors**

GVA grew by a much better 1% YoY in Q3FY21, led by a strong rebound in Industrial sector (+2.7% YoY) and steady growth in Agriculture sector (+3.9% YoY), partly offset by continued contraction in the Services sector.



Source: Refinitiv Datastream, NSE

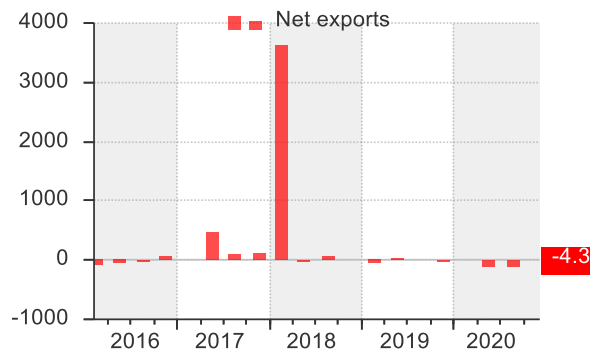
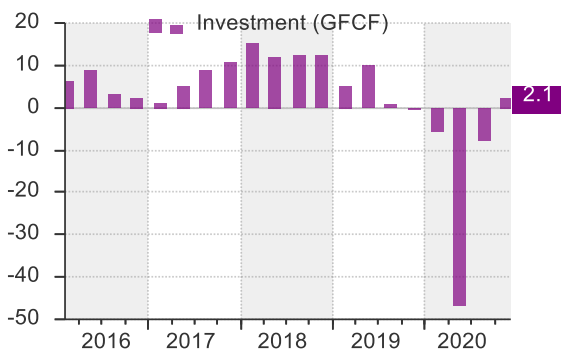
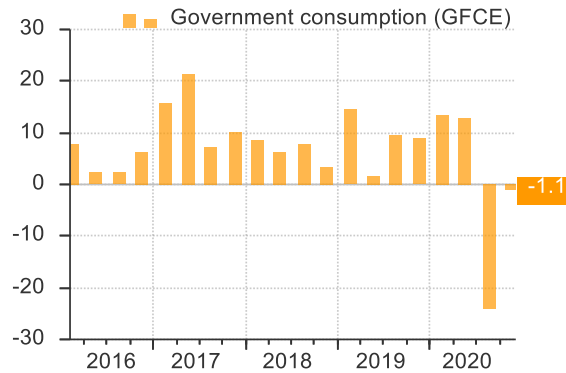
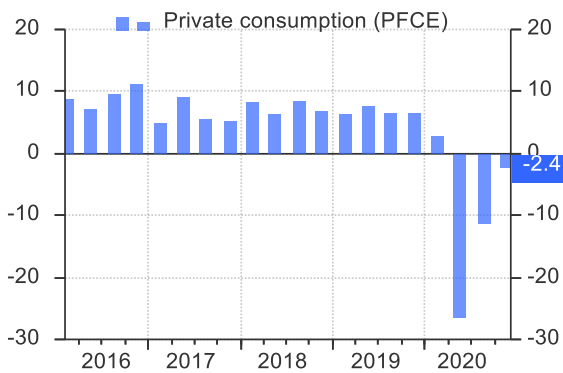
Figure 5: India GVA sector share of growth (%)



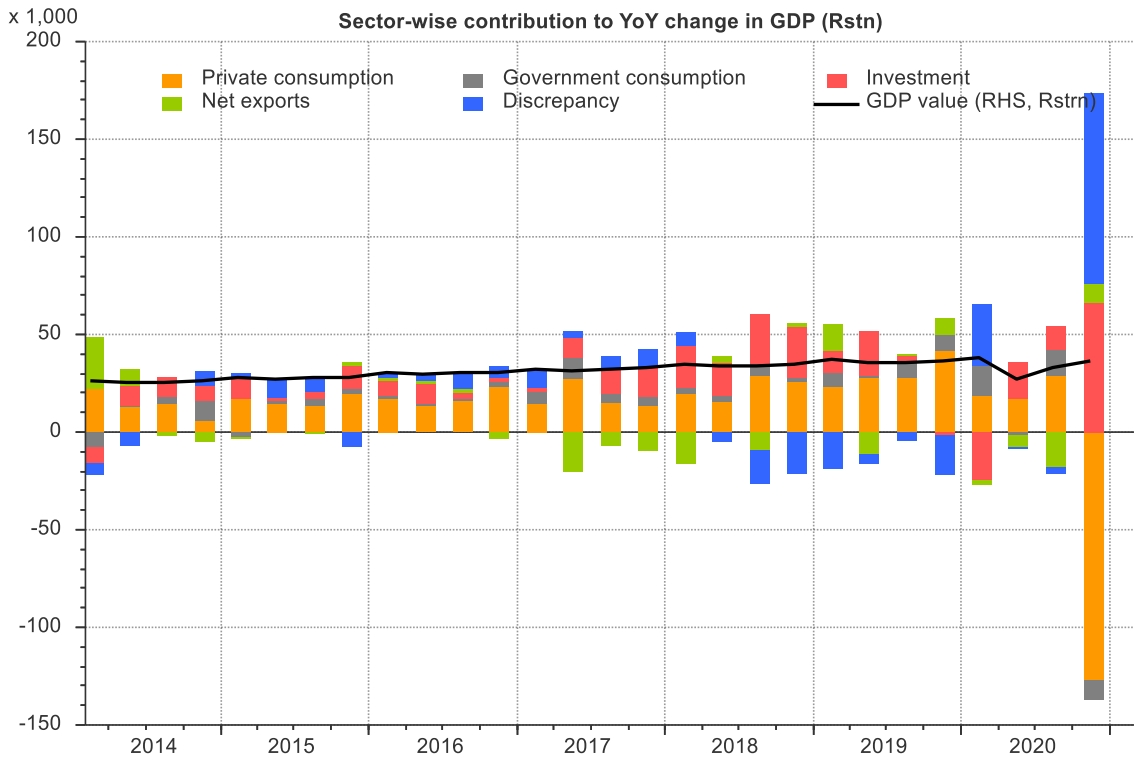
Source: Refinitiv Datastream, NSE

Figure 6: Quarterly GDP growth by sectors (%YoY)

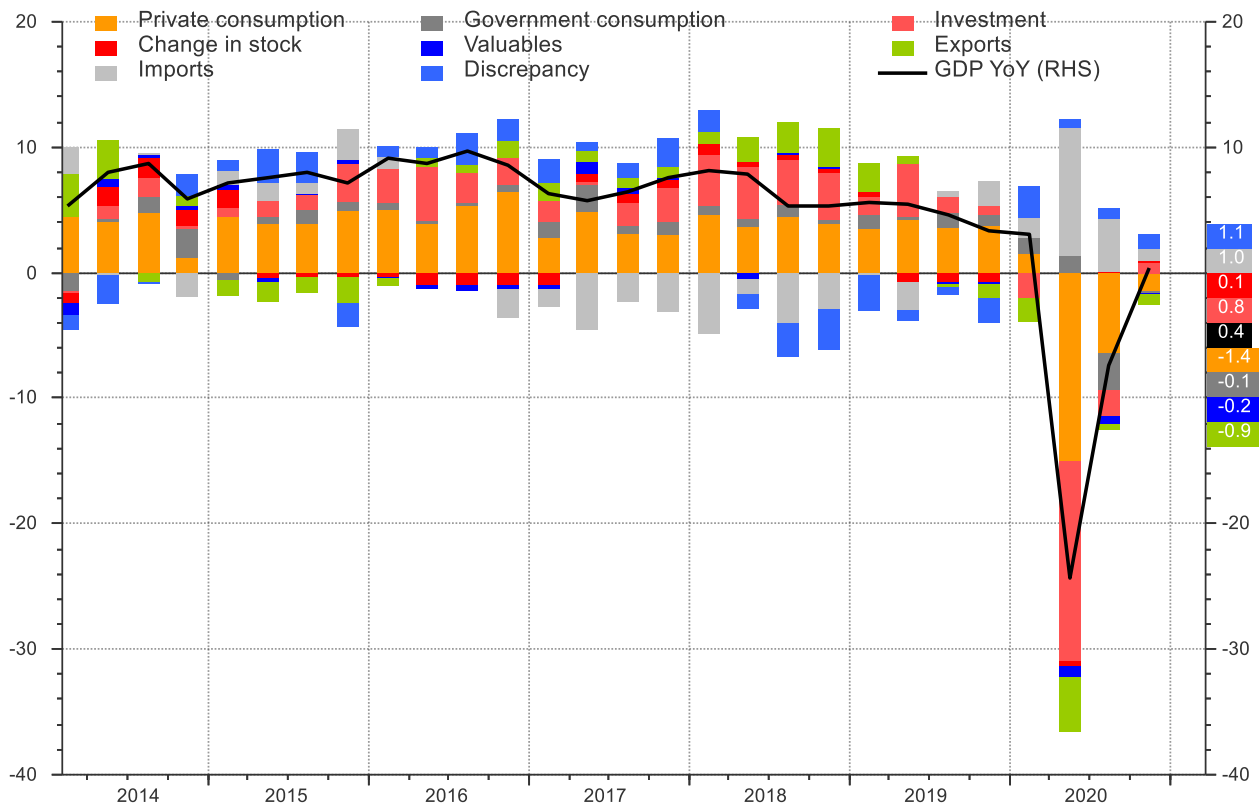
Gross Fixed Capital Formation (GFCF)—a reflection of investment demand in the economy—grew by a relatively strong 2.6% in Q3FY21, thereby driving the overall GDP growth for yet another quarter. Consumption—public as well as private—continued to contract, declining by 1.1% and 2.4% YoY respectively. Rising COVID-19 infections and renewed restrictions globally hurt India’s exports growth—down 4.6% YoY in Q3FY21, even as imports also fell by a similar rate, leading to a sharp rise in trade deficit following a trade surplus in the previous two quarters.



Source: Refinitiv Datastream, NSE

**Figure 7: Sector-wise contribution to YoY change in quarterly GDP (Rstrn)**


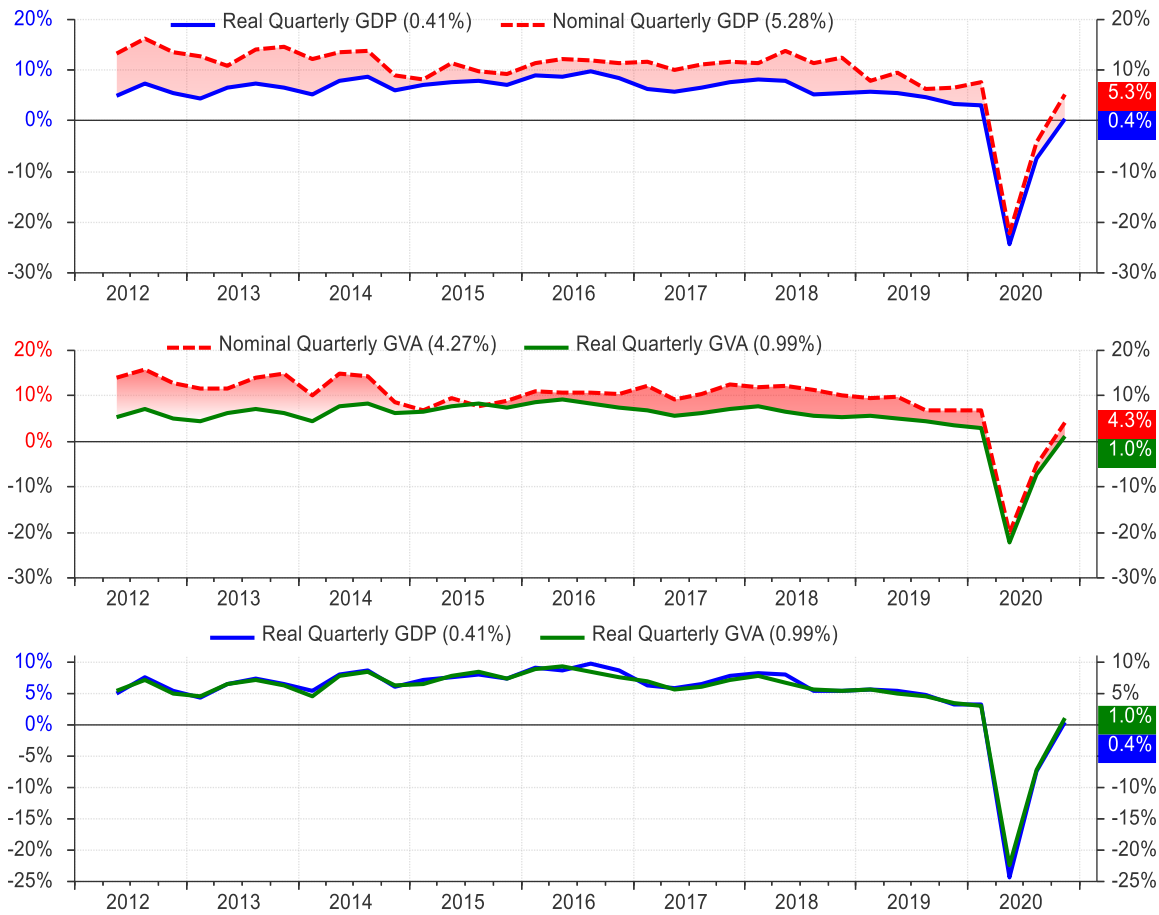
Source: Refinitiv Datastream, NSE

**Figure 8: India GDP sector share of growth (%)**


Source: Refinitiv Datastream, NSE

Figure 9: Nominal vs. real GDP and GVA growth

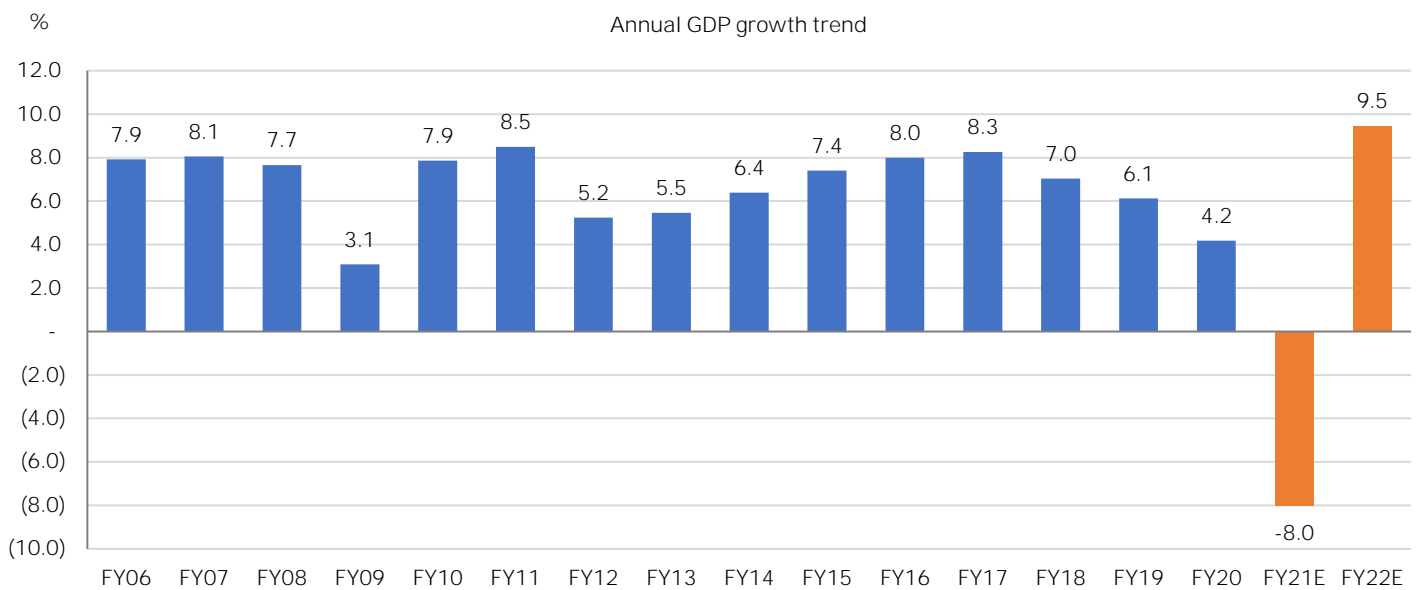
### India GDP, GVA: Nominal and Real Growth



Source: Refinitiv Datastream, NSE

Figure 10: Annual GDP growth trend: Maintain expectations of FY21/FY22 GDP growth at -8%/9.5%

### Annual GDP growth trend



Source: CSO, CMIE Economic Outlook, NSE.

Economic Policy &amp; Research, NSE

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