

FY21 GDP

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Strong rebound on the cards

India's GDP growth is estimated to contract by 7.7% in FY21 (4.2% in FY20) led by 9.5% decline in consumption and 14.5% dip in investment spending. Recent high frequency indicators show rapid improvement in economic activity. This not only builds a case for an upgrade to FY21 estimates but also sets the base for a double digit growth in FY22, led by domestic consumption and investment (public infra and PLI linked manufacturing). We expect GVA and GDP growth to rebound to 10% and 10.5% respectively in FY22.

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GDP growth to decline by 7.7% in FY21: India's GDP growth in FY21 is estimated to contract by 7.7%—a record low, versus 4.2% in FY20. The dip in growth is led by sharp deceleration in investment demand (14.5% dip in FY21 versus 2.8% contraction in FY20) and private consumption (9.5% decline in FY21 versus 5.3% increase in FY20). Exports too are expected to decline by 8.3% in FY21 versus a decline of 3.6% in FY20 due to weakness in global demand. Imports are estimated to contract by 20.5% (6.8% decline in FY20). Only government spending contributed to growth at 5.8% (11.8% in FY20).

Services and industry dragging GVA in FY21: GVA is expected to contract by 7.2% in FY21 compared with an increase of 3.9% in FY20, led by 9.6% dip in industry and 8.8% decline in services. Within industry, mining, manufacturing and construction are expected to contract sharply by 12.4%, 9.4% and 12.6% respectively. Electricity output is likely to expand by 2.7% (4.1% in FY20). Within services, sharp contraction will be visible in trade, hotels, transport and communication services at 21.4% against 3.6% growth in FY20. Public administration and defence services is estimated to decline by 3.7% in FY21 compared with an increase of 9.9% in FY20. Real estate and financial services too will contract, albeit at a moderate pace of 0.8% (4.4% growth in FY20).

FY22 growth in double digits: FY21 estimates are based on data available till Sep'20-Dec'20. High frequency indicators such as GST collections, petroleum sales, manufacturing PMI and E-way bills have shown an upturn recently indicating India's growth recovery has continued. This implies there is room for upgrade to the above estimates. We expect GVA and GDP growth to improve to 10% and 10.5% in FY22 on the back of normalization in economic activity given India's Covid-19 curve continues to flatten. Vaccination program to be kick started this month is the biggest tailwind to India's growth.

KEY HIGHLIGHTS

- GDP growth expected to contract by 7.7% in FY21 led by a sharp drop in investment and consumption.
- GVA growth to dip by 7.2% in FY21 versus 3.9% growth in FY20 led by 9.6% contraction in industry.
- GVA and GDP growth estimates at 10% and 10.5% respectively in FY22.

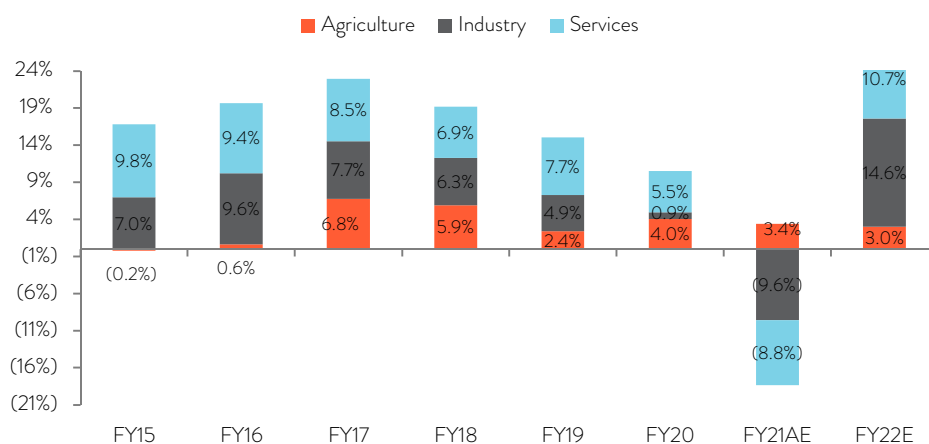


FIG 1 – GDP GROWTH TO CONTRACT BY 7.7% IN FY21



Source: CEIC, Bank of Baroda Research | AE - Advance Estimates | E - Bank of Baroda Estimates

FIG 2 – REBOUND IN INDUSTRY AND SERVICES TO DRIVE GROWTH IN FY22



Source: CEIC, Bank of Baroda Research | AE - Advance Estimates | E - Bank of Baroda Estimates

FIG 3 – GVA AND GDP GROWTH AT 10% AND 10.5% IN FY22

Weight (%)	FY18	FY19	FY20	FY21AE	FY22E
Agriculture, forestry and fishing	5.9	2.4	4.0	3.4	3.0
Industry	6.3	4.9	0.9	(9.6)	14.6
Mining and quarrying	4.9	(5.8)	3.1	(12.4)	7.8
Manufacturing	6.6	5.7	0.0	(9.4)	16.5
Electricity, gas, water supply and other utility services	11.2	8.2	4.1	2.7	6.0
Construction	5.0	6.1	1.3	(12.6)	15.8
Services	6.9	7.7	5.5	(8.8)	10.5
Trade, hotels, transport, communication & services related to broadcasting	7.6	7.7	3.6	(21.4)	20.1
Financial, real estate & professional services	4.7	6.8	4.4	(0.8)	5.5
Public administration and defence	9.9	9.4	9.9	(3.7)	8.5
GVA at basic prices	6.6	6.0	3.9	(7.2)	10.0
GDP	7.0	6.1	4.2	(7.7)	10.5

Source: CEIC, Bank of Baroda Research | AE - Advance Estimates | E - Bank of Baroda Estimates

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