

## Q4FY20 GDP

29 May 2020

### FY20 GDP growth drops; Q4 surprises positively

India's FY20 growth slipped to 4.2% from 6.1% due to lower consumption and investment demand. Growth for Q4 moderated to 3.1% from 4.1% in Q3. Agriculture did well. Government spending held up with fiscal deficit at 4.6% of GDP in FY20. The start to the year has been much worse with cement, steel and electricity output contracting by 84%, 86% and 23% respectively. We expect GDP to decline by 4.7% in FY21 led by private consumption and investment demand. We expect RBI to reduce rate by 25bps in next policy.

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**Q4 growth slips to 3.1%:** GDP growth in Q4FY20 fell to 3.1%, higher than our estimate of 1.6%, from 4.1% in Q3. The positive surprise is due to Centre maintaining its spending by increasing fiscal deficit to 4.6% of GDP (FY20RE at 3.8%). Even so, consumption demand dipped to 2.7% in Q4 from 6.6% in Q3 and investment contracted by 6.5% in Q4 versus a decline of 5.2% in Q3. GVA growth was also lower at 3% in Q4 as against 3.5% in Q3. Manufacturing at (-) 1.4% (-0.8% in Q3), construction at (-) 2.2% (0% in Q3), Trade, hotels etc at 2.6% (4.3% in Q3) and financial, real estate etc. at 2.4% (3.3% in Q3) led the decline. Agriculture, mining and electricity did better in Q4.

**FY20 growth at 4.2%:** GDP growth in FY20 is now estimated to have increased by 4.2% compared with 6.1% in FY19, lowest since FY09. The decline is led by investment demand at (-) 2.8% from an increase of 9.8%. Even consumption has slipped to 5.3% in FY20 from 7.2% in FY19. Data for growth in previous three quarters (Apr'19-Dec'19) has been revised lower to 4.6% from 5.1% led by large downward revisions in financial services, real estate etc. (200bps) and trade, hotels etc. (180bps). Only agriculture sector and government spending has held up in the year.

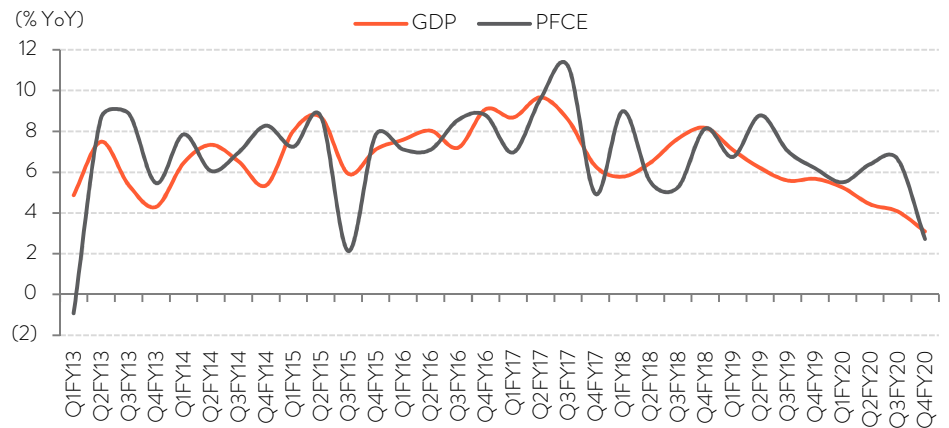
**Outlook for FY21:** We expect GDP to contract by 4.7% in FY21 led by sharp decline in private consumption and investment demand. Only agriculture and public spending (general government deficit at 10%) will hold up. The extent of impact in Apr'20 when there was complete lockdown shows exports contracting by 60%, steel output by 84%, cement by 86% and electricity by 23%. These numbers will see a gradual improvement in the months ahead. Thus maximum impact will be felt in Q1 when growth will contract by more than 20% before returning to positive trajectory in Q3. However, discretionary demand will take longer to revive as consumer confidence will take time to recover.

#### KEY HIGHLIGHTS

- GDP growth slipped down to 3.1% in Q4FY20 led by private consumption and investment.
- GVA growth decelerated to 3% in Q4FY20 led by manufacturing and private services.
- Agriculture and government spending to support growth in the near-term.

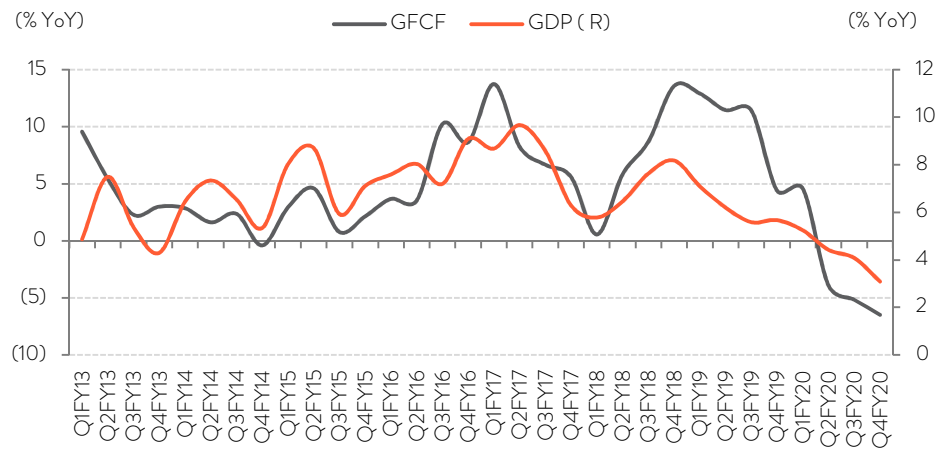


**FIG 1 – GDP GROWTH DECELERATES IN Q4 LED BY PRIVATE CONSUMPTION**



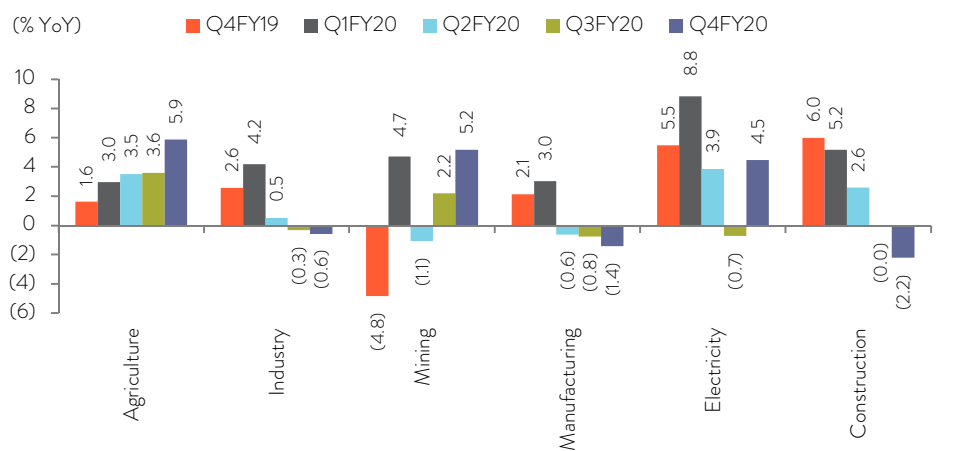
Source: CEIC, Bank of Baroda Research

**FIG 2 – ...AND INVESTMENT DEMAND**



Source: CEIC, Bank of Baroda Research

**FIG 3 – SHARP CONTRACTION IN MANUFACTURING AND CONSTRUCTION**



Source: CEIC, Bank of Baroda Research

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