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The deceleration and decline of GDP

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The National Statistical Office (NSO) has released the First Advance Estimates (FAE) of National Income for the year 2020 -21 on 7 January 2021 as per the release calendar. There are no surprises in the numbers of the aggregates. GDP growth estimate of -7.7 per cent is broadly in agreement with the real GDP growth projected by Reserve Bank of India (RBI) at -7.5 per cent in its recent Monetary Policy Committee meeting 2 - 4 December 2020. The RBI expects inflation to remain elevated but the implicit GDP deflator shown in the FAE is only 3.5 per cent.

NSO estimates the GDP to contract by 7.7 per cent in 2020-21 compared to 2019-20, a year which showed one of the lowest GDP growth rates of only 4.2 per cent. As GDP is GVA plus Net Taxes on Products, half a percentage point of the contraction in GDP is contributed by the 13 per cent fall in Net Taxes on Products. This is in sharp contrast to the 0.3 percentage point addition to GVA growth contributed by Net Taxes in 2019-20 (Table 1).

Expenditure components of GDP

The National Income identity suggests that Total Income is equal to Total Expenditure. Taking the expenditure components, it is seen that the largest contribution to the contraction of GDP is by Private Final Consumption Expenditure at 70 per cent followed by Gross Fixed Capital Formation (Investment) at 56 per cent. The Government Final Consumption Expenditure continued to increase but contributed only 8 per cent towards GDP growth. The rest of the items such as Exports, Imports, Valuables, Discrepancies etc. account for another 18 per cent. Thus, the contraction of the economy is largely contributed by the large fall in Private Final Consumption Expenditure and Investment (Table 1).

Table 1. Advance estimates of GDP 2020-21 at constant 2011 -12 prices (Rs crore)

Item	2019–20 (PE)	2020–21 (1st AE)	% Change
Gross Value Added (GVA) at			
Basic Prices	1,33,01,120	1,23,39,175	-7.2
Net Taxes on Products	12,64,831	11,00,487	-13
Gross Domestic Product (GDP)	1,45,65,951	1,34,39,662	-7.7
Contribution to Contraction of GDP			**11,26,289 (100)**
Private Final Consumption			
Expenditure (PFCE)	83,25,907	75,37,315	7,88,592 (70.01)
Government Final Consumption			
Expenditure (GFCE)	16,52,367	17,47,876	-95,509 (-8.47)
Gross Fixed Capital Formation (GFCF)	43,34,091	37,07,516	6,26,575 (55.63)

Source: mospi.nic.in

Note: PE-Provisional Estimates; AE – Advance Estimates

Sectoral growth performance

The year 2019-20 recorded one of the worst growth performances over a long period with GVA growing at 3.9 per cent (Table 2). It would have been worse if Agriculture and Public Administration had not shown creditable growth. Already, Manufacturing and Construction were stagnating and Trade, Hotels, and Financial and Real Estate sectors were growing at historically low rates. In 2020-21, Agriculture continued its stellar performance but surprisingly, Public Administration reported negative growth. All other sectors, except Electricity, Gas,,,,, showed large de-growth. In particular, Manufacturing, Construction and Trade, Hotels,…, showed negative growth of 9 to 13 per cent. The overall growth is influenced by these large sectors of the economy.

Focusing on growth rates may create illusions. So, it may be worth looking at the levels of value added. It may be noted that GVA in 2020-21 is about 3 per cent lower than that in 2018-19 (Table 2). Except for Agriculture, Public Administration, Electricity, Gas,…, and Financial, Real Estate & Professional Services, the levels of GVA in 2020-21 are lower than that in 2018-19. If the economy were to grow at 3.5 per cent in 2021-22 then the economy will only reach the level of 2018-19. At 7.5 per cent growth in 2021-22 the level of 2019-20 will be breached. Surpassing 2019-20 GVA level would require a growth rate of over 8 per cent not seen in the last five years.

Table 2. Sectoral growth rates of advance estimates, 2020-21 at constant prices (Rs crore)

Industry	2018 - 19	2019 – 20	2020 – 21	% Change Over Previous Year		% Change Over 2018 - 19
			(1st AE)	2019-20	2020-21	2020-21
Agriculture, Forestry & Fishing	18,72,339	19,48,110	20,13,927	4	3.4	7.6
Mining & Quarrying	3,45,069	3,55,680	3,11,621	3.1	-12.4	-9.7
Manufacturing	23,16,643	23,17,280	20,98,912	0.03	-9.4	-9.4
Electricity, Gas, Water Supply & Other Utility Services	2,96,560	3,08,832	3,17,125	4.1	2.7	6.9
Construction	10,20,314	10,33,276	9,03,243	1.3	-12.6	-11.5
Trade, Hotels, Transport, Communication etc.	24,88,049	25,77,945	20,26,128	3.6	-21.4	-18.6
Financial, Real Estate & Professional Services	27,86,855	29,15,680	28,91,811	4.6	-0.8	3.8
Public Administration, Defence & Other Services	16,77,298	18,44,316	17,76,408	10	-3.7	5.9
GVA at Basic Prices	**1,28,03,128**	**1,33,01,120**	**1,23,39,175**	**3.9**	**-7.2**	**-3.4**

Source: mospi.nic.in
Note: PE – Provisional Estimates; AE – Advance Estimates

GDP deflator and inflation rate

In 2019-20, GDP growth at current prices was at 7.2 per cent compared to the GDP growth at constant prices. This was 3 percentage points higher indicating that the GDP deflator was 3 per cent giving a sense of the price rise in the economy. The deflator was almost in agreement with the CPI inflation rate reported for the year at 3.7 per cent. Surprisingly, the GDP deflator for 2020-21 at 3.5 per cent - the difference between GDP growth at current prices (-7.7%) and constant prices (-4.2%) - is far lower than the CPI inflation rate of 6.9 per cent. This is difficult to understand as many other agencies which have forecast GDP growth rate for 2020-21 have indicated that inflation would be 5 to 6 per cent (Asian Development Bank, Fitch Ratings).

Growth prognosis

The Press Note by NSO provides useful information on some of the main indicators in an Annexure. Using some of the data a growth prognosis is provided. Taking index of sales of commercial vehicles in 2018-19 at 100, the numbers fell to 77 in 2019-20 and 33 in 2020-21. They will have to rise three-fold in 2021-22 to reach the 2018-19 level. As regards private vehicles, the numbers fell to 84 in 2019-20 and further to 63 in 2020-21. They will have to increase by 60 per cent in 2021-22 to reach the level of 2018-19. In the construction sector, a growth of over 25 per cent will be taking the value added to the level of 2018-19. These numbers are almost impossible to achieve looking at the current growth trends in various sectors. Thus, it seems incomes in 2021-22 will be lower than that in 2018-19. They would cross the levels of 2018-19 if the growth in 2022-23 rises sharply. But the historical experience of growth after a pandemic suggests that growth fell after a sharp rise the year after the pandemic. Also, the NSO's Press Note on Index of Industrial Production (IIP) released on 12 January 2021 suggests that the nascent industrial recovery begun in September retreated in November as industrial output shrank 1.9 per cent. So, even the sharp recovery expected in 2021-22 seems to be a mirage.