India Emerged Out of Technical Recession

Why in News

The Indian economy has emerged out of **technical recession** as it **grew at 0.4% in the third (October-December) quarter of 2020-21** with improvement in manufacturing, construction and agriculture.

- The **Gross Domestic Product (GDP)** had contracted by 24.4% and 7.3% in the April-June and July-September quarters, respectively, marking a technical recession in the aftermath of the Covid-19 pandemic.
- A **technical recession** is when a country **faces a continuous decline** for two consecutive quarters in the GDP.

Key Points

- **Growth Projections:**
  - For the **full fiscal year (2020-21),** the **National Statistical Office (NSO)** has projected **a contraction of 8%,** higher than the forecasts of the **Economic Survey** (7.7%) and the **Reserve Bank of India** (7.5%).
  - The **real GDP growth estimate for the third quarter (2020-21) is at 0.4%.** In the **corresponding quarter last year,** the economy **had grown 3.3%.**
  - For the April-June quarter (Q1) and July-September (Q2), the contraction numbers were revised from 23.9% to 24.4% and 7.5% to 7.3%, respectively.
- **Growth Across Major Sectors:**
  - **Industries and Services Sector:**
    - With improved performance of manufacturing, electricity and construction, **industry recorded a growth rate of 2.6% in the third quarter** against the contraction in the first two.
    - However, **services,** with the largest share in GDP at 57%, **still remained in the contraction zone with a 0.9%** fall year-on-year.
      - **Financial, real estate and professional services grew 6.6% as against 9.5% contraction** in the previous quarter and 5.5% growth in the corresponding period last year.
      - **Mining, trade, hotels, transport, communication and broadcasting services and public administration services continued to stay in the negative territory** in the third quarter registering a contraction of 5.9 %, 7.7%, and 1.5%, respectively.
  - **Cores Sector Output:**
    - India's eight core sectors **recorded a meagre 0.1% rise in output** in January 2021, propped up by a 5.1% rise in electricity, 2.7% growth in fertilizers and 2.6% growth in steel production, even as the other five sectors contracted.
    - Coal, crude oil, natural gas, refinery products, and cement recorded negative growth in January.

        - The **eight core industries constitute 40.27% of the** Index of Industrial Production.
    - **Agriculture:**
        - Growth in agriculture **jumped 3.9% in October-December** compared with 3% growth in July-September and 3.4% growth during the corresponding quarter last year.
- **Reasons:**
    - **New Investment:**
        - The positive momentum seen in investment demand **(Gross Fixed Capital Formation - GFCF)** as it **grew by 2.6%** in the third quarter after being in doldrums for several quarters now.
            - **GFCF:** It is essentially net investment. It is a component of the Expenditure method of calculating GDP.
        - This is the result of unrelenting efforts of the government to go all-out to revive investments under the ambit of the various measures which formed a part of the **Atma Nirbhar Bharat** package.
        - Going forward, the growth stimuli available from the **Union Budget 2021-22** and the additional measures including the **Production-Linked Incentive (PLI)** will lead to a strong growth path over the recovery horizon.
    - **Increase in Centre's Capital Expenditure:**
        - The resurgence of **Government Final Consumption Expenditure (GFCE)** in Q3 and Centre's capital expenditure increased year-on-year by 129% in October, 249% in November and 62% in December.
            - **GFCE** is an aggregate transaction amount on a country's national income accounts representing government expenditure on goods and services that are used for the direct satisfaction of individual needs (individual consumption) or collective needs of members of the community.
    - **V-shaped recovery:**
        - The Q3 GDP numbers showed the success of the government's initial policy of **"lives over livelihood".** "The **sharp V- shaped recovery** has been driven by rebounds in both **Private Final Consumption Expenditure (PFCE) and Gross Fixed Capital Formation (GFCF)** as a combination of astute handling of the lockdown and a calibrated fiscal stimulus.
            - **PFCE:** It is defined as the expenditure incurred by the resident households and non-profit institutions serving households (NPISH) on final consumption of goods and services, whether made within or outside the economic territory.
- **Other Economic Indicators:**
    - **Domestic Consumption:** Disaggregated data show that **domestic consumption continued to contract,** at 58.6% of GDP in Q3, as against 60.2% during the corresponding period of last fiscal.
    - **Government Spending:** Government spending, as reflected by the GFCE, dipped a tad to 9.8% of GDP in Q3 from 10% during Q2.
    - **GVA Estimates:** The growth rate in terms of gross value added (GVA) — which is **GDP minus net product taxes,** and reflects growth in supply — is seen **contracting 6.5% in 2020-21** as against earlier estimates of 7.2% and 3.9% in the previous year.
    - **GDP in Nominal Terms:** It **factors in inflation,** and is estimated at (-) 3.8% in 2020-21.

Source:TH